



Bachem AG Annual Report

2 0 0 2



Content

1	Bachem - Who We Are
2	Preface P. Grogg and R. Nyfeler
4	Research at Bachem
6	Engagement for Innovative Start-ups
8	Business Review:
8	New Chemical Entities
11	Generics
12	Research Ingredients
14	Human Resources
15	Safety and Environmental Protection
16	Corporate Governance
20	Financial Review and Consolidated Financial Statements
40	Financial Statements of Bachem AG
45	Contacts

2002 in Brief

Continued sales growth in local markets with increase of 9.8%; weakness of US dollar puts pressure on EBITDA and net profit, EBITDA margin still at an excellent 41.1%.



Sales in North America increased by 23.2% in local currencies; important US market already contributes over one third of total sales.

Key Figures

	2002	2001	2000	1999	1998
Net cash flow from operating activities (in CHF m)	37.6	31.4	31.7	44.9	37.3
EBITDA ¹ (in CHF m)	61.6	62.4	55.2	57.3	49.9
EBITDA ¹ in % of sales	41.1%	44.2%	49.5%	58.2%	52.0%
EBIT ² in % of sales	32.2%	34.7%	41.0%	50.7%	44.9%
Return on equity (ROE)	10.8%	12.4%	17.2%	16.8%	16.4%
Number of employees (in full-time equivalents)	479	468	376	392	331
Sales per employee (in CHF)	312 919	302 032	296 335	302 277	289 940

¹ Operating income before depreciation and amortization

² Operating income

Bachem - Who We Are

Bachem is an independent, technology-based company, specialized in the production of innovative biochemicals for research purposes and pharmaceutical compounds for the pharma and biotech industries, as well as in the development of optimal manufacturing processes. Complementary services are geared to support customers from dedicated syntheses of defined target structures up to the registration of new compounds.

With headquarters in Bubendorf, Switzerland, and affiliates in Europe and the US, Bachem works on a global scale and holds a leading position in its field. Facilities in Switzerland and in the US, approved by international regulatory authorities and

suitable also for the large scale production of active ingredients, make Bachem a partner for all major pharmaceutical companies. Based on its dedication to research, Bachem also offers opportunities to innovative technology partners for collaborations on future active substances.

The company employs approximately 500 motivated and qualified people worldwide. In its activities, Bachem is committed to its customers, employees and shareholders, as well as to the environment and society as a whole. Bachem's contribution to the development and production of pharmaceutical compounds benefits these constituencies and contributes to secure the long-term future of the company.



Active ingredients business continues dynamic double digit growth for both NCEs and generics; slightly lower sales in research ingredients business.



Shareholders merit increased participation in Bachem's success; payment of CHF 1.00 (dividend of CHF 0.55, reduction in nominal value of CHF 0.45) proposed to the Annual General Meeting.

1

Sales (in CHF m)

EBIT² (in CHF m)

Net profit (in CHF m)

1998	96.0	1998	43.1	1998	32.4
1999	98.5	1999	49.9	1999	40.1
2000	111.4	2000	45.7	2000	47.8
2001	141.4	2001	49.1	2001	37.6
2002	149.9	2002	48.3	2002	33.5

Preface

Dear shareholders

A year ago we were optimistic about the future, based on first successes following the acquisition of Sochinaz, the number and quality of new projects with partners in the biotech and pharmaceutical industries and the momentum from the research market despite some uncertainty regarding the economic and political developments. Today we look back on a year characterized by a clear exacerbation of prevailing problems, global economic weakening and increasing political conflicts with potential for further escalation.

Taking these circumstances into account, we consider ourselves fortunate to have remained on course and successfully met most of our objectives. We again achieved almost double digit sales growth of 9.8 percent in local markets, due completely to internal growth, an expression of the strength of our company and our emphasis on the healthcare market. Considering the overall environment, this is an excellent result.

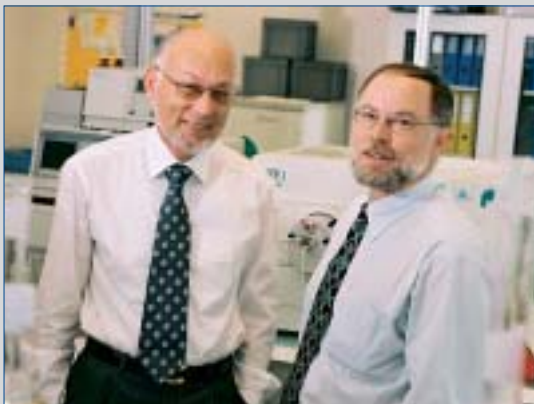
Nevertheless, we could not fully escape the consequences of the world economy. Due to the marked weakness of the US dollar, sales in Swiss francs (CHF) grew by only 6.0 percent to CHF 149.9 million. Sales growth of 23.2 percent in North America translated into an increase of only 13.7 percent in CHF. Importantly, the US market already

accounts for over one third of total Bachem sales: given that a major portion of cost is located in Switzerland, operating income and net income have been substantially affected by the development of currency exchange rates. The operating income decreased slightly by 1.7 percent to CHF 48.3 million. Net profit was CHF 33.5 million, 11 percent down as compared to 2001. Although EBIT margin was also slightly down, at 32.2 percent it represents excellent profitability and is a top result compared to industry standards. Income from securities was positive despite the difficult conditions on the financial markets; however, the significant weakness of the US dollar had a negative impact and resulted in a net financial loss overall.

Further expansion of business base

Notwithstanding unfavorable general economic conditions and short-term negative impact on results, we continue systematically to pursue our strategy of building a broader base for future growth. We continued to increase the number of projects in the development stages with partners in the biotech and pharmaceutical industries, and, with well over 100 projects in 2002 (compared to about 80 projects in 2001), we protect ourselves against failure of any indi-

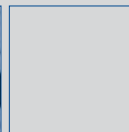
2



Dr. h.c. Peter Grogg
Chairman of the Board

Dr. Rolf Nyfeler

CEO and Chairman of the Corporate Executive Committee



vidual projects. This increase was achieved despite some reluctance on the part of biotech companies to invest for the time being. While having numerous projects in early stages of development helps to spread risk, we are aware that projects in this phase do not yield margins comparable to those of more mature projects.

Broadening of our range of products has paid off: the non-peptidic active ingredients business – primarily products sold in Europe provided by our 2001 Sochinaz acquisition – developed particularly well and contributed to the overall increase in the share of the active ingredients business to 76.5 percent of total sales. Sales of immunological products were also encouraging. Advances in these markets and substantial growth for peptide active ingredients in the USA compensated for slightly weaker results in peptide active ingredients and catalogue products in Europe. Adjustments within the portfolio resulted in shifting margins, however, and the success of non-peptidic active ingredients in particular was related to slightly dampening effects on margins.

To further support the expansion of our business, we continued development of our organization. The focusing of our affiliates in the USA has been mostly completed, and a new distribution structure for Europe was put in place January 1, 2003, to centralize logistics for continental Europe. At the same time, the marketing and sales function has been expanded at the headquarters site. We expect these measures to positively impact further business development midterm.

Support of collaborators and shareholders

In view of the difficult conditions in our business environment, we are especially grateful for the ongoing loyalty of our employees and shareholders. Because the dedication of employees is essential to Bachem's ongoing development, employee participation in the company and its success remains a priority. Therefore, we continued our employee share and option programs, and approximately one third of our employees have been Bachem shareholders by the

end of 2002. In appreciation of all shareholders, we intend to increase opportunity to further participate in the success of our company by increasing the payout. We propose to the Annual General Meeting the payment of CHF 1.00 per share – as a combination of a dividend of CHF 0.55 and a reduction in nominal value of our shares of CHF 0.45 – to demonstrate our optimism for the future development of the company's profitability.

Outlook

We are convinced that the fundamental dynamics underlying our business are characterized by robust and continuous growth. Scientific and technical progress allow for the development of diverse new products for a healthcare market with growing demand. As an expert in peptides, we want to contribute to advancements and further strengthen our market position, particularly given the time delays and additional costs – for us and our customers – caused by increasing requirements of regulatory authorities.

Our priority continues to be securing our long-term growth options. In addition to a broad range of new projects, partnerships play an important role. In January 2003, for example, the successful collaboration with AstraZeneca for manufacturing of their active ingredient goserelin was extended another five years.

With continuous strengthening of our market position in established businesses and achieving appropriate margins, we are ready to take targeted steps to further broaden our activities and stay on our growth track. We look forward to your accompanying us on this path.



Dr. h.c. Peter Grogg



Dr. Rolf Nyfeler

Research at Bachem

New discoveries in the field of life science research and Bachem's development as a technology-oriented company are intrinsically linked. Because latest research plays an integral role in securing Bachem's future, the company pursues three strategies: internal research projects, collaboration with and support of external research institutions, and targeted investment in innovative start-up companies.

Internal research projects at Bachem are primarily aimed at achieving results of mid- to long-term commercial benefit and form the development and implementation of new technologies with market potential. The increasing interest in longer, complex peptides such as proteins of up to 100 amino acids is an example for this approach. The synthetic access to these molecules allows for substantially larger possibilities to vary structures, unlike biotechnological procedures, thus permitting identification of products with tailored properties and the opportunity to achieve patent protection for the structure.

There is an increasing trend in the pharmaceutical industry towards selective and highly active medicines, and

ongoing research into proteomics will continue to generate more and more knowledge about proteins. Increased interest in long peptides and proteins is a logical evolution, as efficient synthesis of these products requires further development of technologies applied thus far. We have started these developments initially as research projects in order to establish the fundamentals of this challenging task.

In 2002 we issued a first publication about our research projects related to process developments on the synthesis of proteins. The methodology described relates to the chemical transformation of unprotected peptide fragments, which has been successfully applied in model peptides and is currently being tested for application in larger systems. With contributions of this kind, Bachem supports further progress in the field of chemical peptide synthesis. Growing knowledge about improved methods for generating complex compounds, together with the keen interest in using these highly specific products for therapeutic purposes, is expected to result in increased future demands.

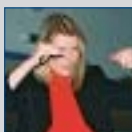
4



Collaborations with external research institutions include the University of California and the University of Basel. In our collaboration with the University of California Irvine, we focus on the area of peptide toxins to develop new active peptide compounds for the treatment of multiple sclerosis and other diseases. Work on the project is conducted at Bachem Bioscience, Inc. in Philadelphia. In Basel, Bachem has sponsored the Bachem professorship for peptide chemistry since 1999, both to support research and to foster young talent in peptide chemistry.



Dr. Helma Wennemers



Bachem professorship for peptide chemistry

Following her studies of chemistry at the University of Frankfurt am Main, Helma Wennemers completed her PhD studies at Columbia University in New York and then spent two years as a post doc at Nagoya University in Japan. Since 1999, she holds the Bachem professorship for peptide chemistry at Basel University. "Thanks to this assistant professorship, I was financially independent in my activities and could immediately set up my own research team," she says. Today, Helma Wennemers works together with her five doctoral students on three key themes: the molecular recognition of peptides; the selective cleavage of peptides; and the identification of small catalytically active peptides. In addition, she is involved in teaching and fostering the study of peptide chemistry at Basel University. The focus of her work is on the fundamentals of potential technologies and products for the future, rather than on an immediate industrial application. "This form of science sponsoring is ideal for young researchers," she says, "I urge other companies to follow this fine example."

Engagement for Innovative Start-ups

In addition to internal research efforts and collaborations with scientific institutions, support of innovative start-up companies constitutes our third research strategy. By establishing alliances and cooperation with emerging companies focused on research of new compounds or development of new pharmaceuticals with limited capital and risk, we are able to not only help pave the way to new markets for our peptides but also to indirectly participate in any success these companies might have in the marketplace. This serves to further extend the value chain, from the manufacture of peptides as active ingredients for medicines to include their formulation and application, as well. In this area, Bachem focuses on projects where we can make a significant contribution based on our expertise – especially in the synthesis of peptides – and that do not put us in direct competition with current or future customers.

The participation in Polyphor in 1999 was a first step in this direction. As a second step, in early 2002, we found-

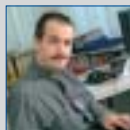
ed Pevion Biotech AG as a joint venture with Berna Biotech AG. Pevion develops therapeutic and prophylactic peptide vaccines on the basis of the virosome technology licensed from Berna. Both partners have committed to an upfront investment of CHF 10 million to allow Pevion a period of at least three years to develop projects up to early clinical stages. Today the company consists of a small team of six experts, and the current project portfolio comprises therapeutic vaccines against malaria, melanoma (malignant skin cancer), hepatitis C and Alzheimer's disease, all of which are indications with substantial potential.

The joint venture is an ideal combination of the respective strengths of both partners: Bachem's knowledge about the synthesis of highly complex peptides and Berna's knowledge in the development of vaccines, particularly in the virosome technology. Bachem is the exclusive provider of peptides required, as well as a direct participant in the future financial success of this joint venture.

6



Dr. Rinaldo Zurbriggen



Pevion Biotech: Vaccines for the future

Rinaldo Zurbriggen is Chief Scientific Officer of Pevion Biotech. "What makes us different from other start-ups," he says, "is our ability to focus on products from the outset given that we are technologically rooted in two experienced companies. On the one side, Berna has a lot of experience in the development and manufacture of vaccines; on the other hand, we can rely on the technical competence of Bachem in producing peptides." Production capabilities of peptide antigens have already been scaled up for a new malaria vaccine, and Bachem is ready to manufacture these peptides in accordance with GMP. "Peptidomimetics are a new class of molecules with a special three-dimensional structure that mimic the natural conformation of the antigen. In addition, these mimetics are coupled to lipids," explains Zurbriggen. "This was also a challenge for Bachem: although it took some time to develop, production is now fully under control." Pevion also benefits from Bachem's production experience, particularly in estimating feasibility and production cost. Collaboration already has proven successful for Zurbriggen: "We have already achieved one of our most important objectives: in our second year of existence, we are set to enter clinical phase I with one of our projects."



Given their inherent specificity, peptides have been potential vaccine candidates for years. Thus far, however, no mechanisms were available to administer peptides in a way that resulted in adequate immunization in the body. In combination with the virosome technology platform, there are now new chances that peptides can be used as vaccines. The experts of Pevion work together with various Swiss and other European universities of worldwide reputation in their respective fields of expertise. In order to protect intellectual property resulting from their work, Pevion is consistently building its own strong patent portfolio.

Business Review

Bachem's business activities comprise three main areas: the production of new chemical entities (NCEs), generics and research ingredients.

New Chemical Entities

New chemical entities (NCEs) are patent-protected pharmaceutical compounds that may be produced only by the patent holder or any company authorized for their production or usage. Bachem manufactures NCEs for diagnostic or therapeutic purposes in most cases exclusively on behalf of biotech or pharmaceutical companies. NCEs undergo a rigorous routine of preclinical and clinical studies, from discovery up to potential market launch. In early development phases, these compounds are requested only in small quantities. As development progresses, the amounts required increase. Following the market launch, the amounts can reach some tens of kilos per year for highly active peptide compounds.

Important stimuli for new pharmaceutical peptides result from proteomics research, as questions relating to the functioning of proteins have resulted from the insights of genome research. Indication areas for peptides are as diverse in their functioning as hormones in the human

body. Therapies against cancer and diabetes are currently in the forefront of interest. During 2002 Bachem announced the renewal of a long-term supply agreement with AstraZeneca for goserelin (Zoladex for the treatment of prostate and breast cancer and endometriosis), a collaboration with Debiopharm SA and the registration of triptorelin pamoate (Trelstar LA, prostate cancer and endometriosis), as well as a supply contract with Amylin Pharmaceuticals, Inc. for pramlintide (Symlin, diabetes) and AC2993 (Exendin-4, diabetes), both of which currently are in phase III of clinical development.

The number of projects with new peptides is continuously growing, both in Europe and in the USA. In terms of 2002 sales, projects in the USA in particular had some impact. Compounds well known for quite some time – such as growth hormone releasing hormone and glucagon-like peptide – are enjoying renewed interest given chemical modifications for therapeutic purposes.

8



Sales share of top five Bachem products

2000	[Bar chart showing sales share of top five products for 2000]				37%
2001	[Bar chart showing sales share of top five products for 2001]				31%
2002	[Bar chart showing sales share of top five products for 2002]				31%
%	10	20	30	40	



Bachem is involved in an increasing number of projects on new medicines, which already exceed 100 NCEs. This helps to reduce the dependency on the success of an individual compound while increasing the likelihood of involvement in the larger scale manufacture of future marketable products. The continued expansion of our product range also results in a stabilizing sales share of our top five products.



John Grove



New medicines for the treatment of diabetes

"I first became acquainted with Bachem when I joined Amylin two and a half years ago," says John Grove, Senior Director Manufacturing at Amylin Pharmaceuticals, Inc., "and I work very closely with the Bachem people in Torrance, California." Amylin is engaged in the discovery, development and commercialization of potential medicines for the treatment of diabetes and other metabolic disorders. Bachem provides active ingredients for Symlin, Amylin's lead drug candidate targeted as a treatment for people with diabetes who use insulin, as well as for other development candidates. "My experience in working with the people at Bachem has been very good," Grove says. "Bachem is very responsive to Amylin's requirements, and I like their customer service attitude."





10

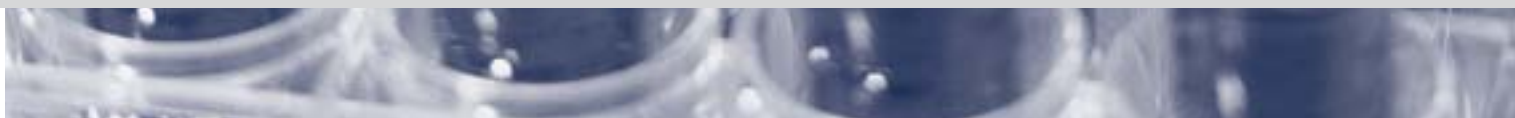


Michael R. Duncan

Innovative drug delivery system for leuprolide

With Atrix Laboratories' innovative drug delivery system, a liquid form of leuprolide acetate – a therapeutic peptide used in the treatment of prostate cancer – can be injected subcutaneously, where it solidifies to optimally deliver a dose at a controlled rate over the specified therapeutic period of time.

Six years ago, Atrix was sourcing leuprolide acetate for use in conjunction with its drug delivery system. As Michael Duncan, Vice President of Technical Operations at Atrix recalls, "out of several companies, we chose Bachem as the primary provider of this peptide because of their ability to provide outstanding quality, as well as technical and regulatory support." At that time, the drug was still in the development and registration phase. "Because the regulatory authorities ask numerous technical questions at each step of the filling process, expert technical support is vital," explains Duncan. "Bachem rapidly responds to us with the precise technical answers we need. In May 2002, the new drug one-month Eligard, was launched in the US, and by February 2003 additional dosage forms were approved (Eligard three-month and Eligard four-month products). "Bachem delivers product on time every time, informing us at every stage of delivery," Duncan observes. "The product is pure and regulatory compliance is high. Bachem is easy to work with and has been an excellent partner."



Business Review

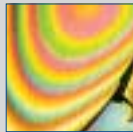
Generics

Generics are pharmaceuticals with active ingredients that are no longer patent protected. The business of generic active ingredients has become an important component of Bachem sales: most therapeutic peptides marketed today are no longer patent protected; as a specialist manufacturer for peptides, Bachem is in a position to provide quality active ingredients in the required quantities; and Sochinaz SA, acquired in 2001 as part of our strategic expansion activities, primarily manufactures non-peptidic generics.

Peptidic generics are of particular interest to biotech and pharma companies because new dosage forms – such as long-acting depot formulations or nasal sprays – can be developed, patent protected and approved for exclusive marketing. Because of high biologic level of activity, peptides are applied in small dosages and production requires a high degree of technological know how. Therefore price pressure is lower as compared to conventional active ingredients subsequent to their patent expiry. Bachem produces more than 20 generic peptides, including calcitonin and

glucagon, which continue to develop very well. There is intense demand for Eligard, produced by Atrix Laboratories, Inc. on the basis of generic leuprolide. First approved in 2001 for the treatment of prostate cancer, Eligard was also recently approved for its four-month formulation. Leuprolide has now become one of the top five Bachem products.

Building on their strength in producing non-peptidic generics, Sochinaz has developed above industry average and increased its position in a competitive market. This is the result of an optimal mix between selection of the right products, targeted procurement of raw materials at a good price, strict quality criteria, prompt order fulfillment and appropriate marketing efforts. Although the business of producing small organic molecules does not allow for the same margins as peptide chemistry, Sochinaz achieved above-average results as compared to the industry. The most important generics produced by Sochinaz today are carbidopa and pergolide (for the treatment of Parkinson's disease), propofol (anesthetic) and trimetazidine (coronary vasodilator).



In order to be successful in the generics market, quality and service are of paramount importance. Accordingly, the right selection of generics plays an important role: Bachem has the ability to provide highest quality active ingredients off the shelf, with perfect documentation available in time, as well as services. Pre-sales services are considered as an investment in future business. Bachem successfully applied for the certification of several generic active ingredients for use in Europe at the European Pharmacopoe Commission and received Certificates of Suitability for peptidic and non-peptidic compounds. The portfolio will be continuously broadened.

Business Review

Research Ingredients

The research ingredients business contributed about one fourth of total Bachem sales in 2002, with products that are produced in small quantities and sold through catalogues and the Internet to a growing number of customers worldwide. The range of products is highly diversified, comprised of peptides, immunological kits, and other biochemicals primarily targeted at applications in medical and biochemical research. Given the current market in the biotech industry, there is some reluctance for new investments and ongoing research is subject to cost saving measures. As a result, business with biochemicals and peptides in the European market was slightly down as compared to the previous reporting period. Nevertheless, we achieved record sales in 2002 for individual products, such as peptide YY (3-36), for which new findings on its relation to regulation of nutrition intake were published in 2002.

Antibody-based products, manufactured for use in immunological research, were also very successful. Issuing a special catalog on immuno-chemicals contributed to a significant increase in demand, and we will continue this

strategy of providing an overview on specific product groups in specialized catalogues. Next is a catalog providing a full overview about our broad range of building blocks for peptide synthesis.

In addition to as broad a range of products as possible, custom synthesis of peptides plays an important role for Bachem's business development in the research sector. Ideas for new products are generated through intense interaction and communication with our customers, and challenges that arise in the development and implementation of new production procedures serve to further broaden our knowledge base. Addressing those questions and challenges also contributes to finding optimal solutions for efficient, larger scale production of pharmaceutical compounds. Our ability to successfully meet new and difficult challenges, together with our long-lasting presence and experience in the research field, help to build customer trust, which is the best basis to continuously expand our project portfolio for the development of new active ingredients.

12



Prof. Dr. John A. Robinson



Research for new structures

John Robinson is professor of organic chemistry at the University of Zurich, Switzerland. In the course of his chemical biology research, peptides captured his interest as a class of natural products that provide a starting point for the development of new biologically active molecules. His research focuses on making molecules that mimic surface epitopes on peptides and proteins; molecules that can be used in drug research or in the development of vaccines. Professor Robinson relies on companies like Bachem to provide him with a wide range of new amino acid building blocks for creating and modeling new molecular scaffolds. Once he has successfully discovered lead compounds, he again relies on industry to develop them further, and turn them into products. "The collaboration is a marriage of expertise," said Robinson, "and Bachem's expertise in converting leads into real products is world class".



Fundamental efforts in the fields of genome research and proteomics ensure the sustainable development of Bachem's core business, the production of peptides. This trend in our established market, as well as the targeted development of new dosage forms, will support demand for both research ingredients in small quantities and peptide active ingredients at larger scale.

Number of catalog products	
1998	6 972
1999	7 131
2000	7 017
2001	7 369
2002	8 454
2003	8 794

Human Resources

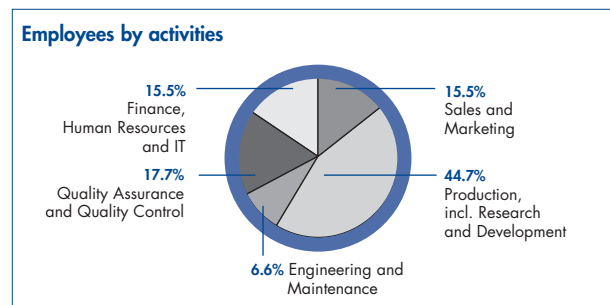
The number of Bachem Group employees increased by 11 in 2002, to a total of 479 full-time equivalent jobs or 505 employees. Staff numbers in the United States decreased by 17.5 full-time equivalent jobs, taking advantage of synergy effects from the transfer of peptide production from Peninsula to Bachem California in Torrance. At the same time, numbers at the main site in Bubendorf, Switzerland, increased by 23.4 largely as a result of reorganizing and centralizing distribution in continental Europe.

Number of full-time equivalent jobs	
USA	125
Vionnaz	81
Bubendorf	254
other Europe	19
Total	479

Also capacities in production and quality control have been strengthened, and in addition, five full-time equivalent jobs were created at Sochinaz in Vionnaz. Most employees work in our labs and production units, a reflection of Bachem's strong technological emphasis.

The manufacture of highly complex molecules is a demanding task for all of our employees. Accordingly,

employees of the Bachem Group have rather high educational standards. More than a quarter of our people hold a university degree. The availability of highly qualified experts is also an important factor for the future development of the Group. For this reason Bachem also engages in educational programs for apprentices, particularly at our headquarters site in Bubendorf. Currently Bachem is training 18 apprentices for future work as lab assistants and as part of this effort, we are running our own training lab. Along the two trainers in this lab, several other experienced and qualified members from our labs and production support the training program. In addition we also train two commercial apprentices and as of 2003 one apprentice in informatics.



14



Jude Ramlochan



Supporting success of the company

Human resources must have an integral role in management in order for a company to successfully compete in today's intense environment. In her capacity of Human Resources Director, Jude Ramlochan fulfills that important role in the Bachem California organization. Her responsibilities include payroll and benefit administration, establishing policies and procedures, management training, organizing company events and dealing with the daily welfare of the employees. She is also a member of both the Executive and Safety Committees, which further underscores the importance of the human resources function in the growth and development of the company.

Key attitudes, such as mutual respect, and the belief that employees should contribute more value to the organization than they cost, guide the organization in selecting and hiring appropriately qualified individuals to fill key functions. Regardless of professional challenges, Jude Ramlochan does her utmost to treat everyone equally, with dignity and courtesy. "I thoroughly enjoy my role at Bachem, and the respect and support shared amongst my colleagues make my job very rewarding," she says. "Ultimately it is our employees who make the difference in our being successful as an organization."

Safety and Environmental Protection

Our largest production site is located in Bubendorf, Switzerland, and has been committed to the Responsible Care program of the Swiss Association of the Chemical Industry since 1991. For years Bachem has been documenting the key indicators defined in this program and using them as a management tool.

Environmental indicators for resource consumption of energy and cooling water show an increase related to the expansion of production capacities. Emissions of sulphur dioxide decreased significantly while those of carbon dioxide show a slight reduction, due to reduced fuel consumption and the usage of extra light fuel oil with reduced sulphur content. Nitrogen oxide, VOC and TOC have increased in absolute terms as a result of higher production volumes, as has the amount of special waste disposed. In relation to the number of employees, most resource consumption and emissions indicators are far below the average of the Swiss chemical industry. Only the above average value for VOC emissions has remained unchanged, and measures to reduce VOC emissions have been launched.

Specific efforts were undertaken in the area of occupational health and safety. In Bubendorf, a systematic risk assessment for all workplaces was completed and showed no major risks. During 2002, 3.6 accidents per 100 staff members and 0.2 lost working days per employee were reported. This is a clear reduction as compared to the previous year and also a good result as compared to the industry average.

Ongoing training of our employees is an important prerequisite in order to continuously improve our performance in the areas of health and environmental protection. In 2002 most of our production sites held training programs, and our Vionnaz plant of Sochinaz SA conducted a safety training day in order to increase employee awareness of various safety aspects.



Dr. Rolf Klaus



Good ratings for risk management

The most significant Bachem site is in Bubendorf, Switzerland, where not only the greatest number of employees are located, but also the largest development and production facilities. The safety inspector of the Canton of Basel-Landschaft supervises the legal obligations of Bachem. Chief Inspector Dr. Rolf Klaus notes, "Even though Bachem is a medium-sized company, it must address the same questions as large corporations, with the notable difference that the big companies have more personnel resources. Compared to companies of its size, Bachem does well." Bachem is regularly certified by the Cantonal Directorate for Construction and Environment, "which is something not granted to every company," says Dr. Klaus. He points out that Bachem must take full responsibility for protecting neighborhood and environment from any serious impact of its activities, and he takes two aspects into account for his regular safety controls: the state of facilities and the human factor. "Bachem's machinery is state of the art," says Dr. Klaus, "and Bachem meets pharmaceutical industry standards for good manufacturing practice, including the US FDA." The human factor is more difficult to assess. "What I see," he observes, "is that Bachem hires qualified people and invests in training and further education. Finally it is a question of management in the company and on the shop floor to repeatedly assure that everyone knows about potential risks and behaves accordingly."

Corporate Governance

Important shareholders

Shareholders with more than five percent of voting rights (December 31, 2002) are mentioned on page 42.

Capital structure

Share capital

At December 31, 2002, the nominal share capital of Bachem AG was CHF 6 800 000. It remained unchanged over the past three years.

Shares

At December 31, 2002, Bachem AG had issued 6 802 000 registered shares A and 6 798 000 registered shares B at a nominal value of CHF 0.50, all fully paid in. Registered shares B, and not registered shares A, are considered for trade at the stock exchange. Otherwise both types of shares have the same rights, and there are particularly no differ-

ences regarding rights to dividends and voting rights. At December 31, 2002, Bachem held 289 287 shares in treasury, equal to 2.1 percent of share capital.

Options

Some members of senior management are eligible to an option plan, as described on page 38.

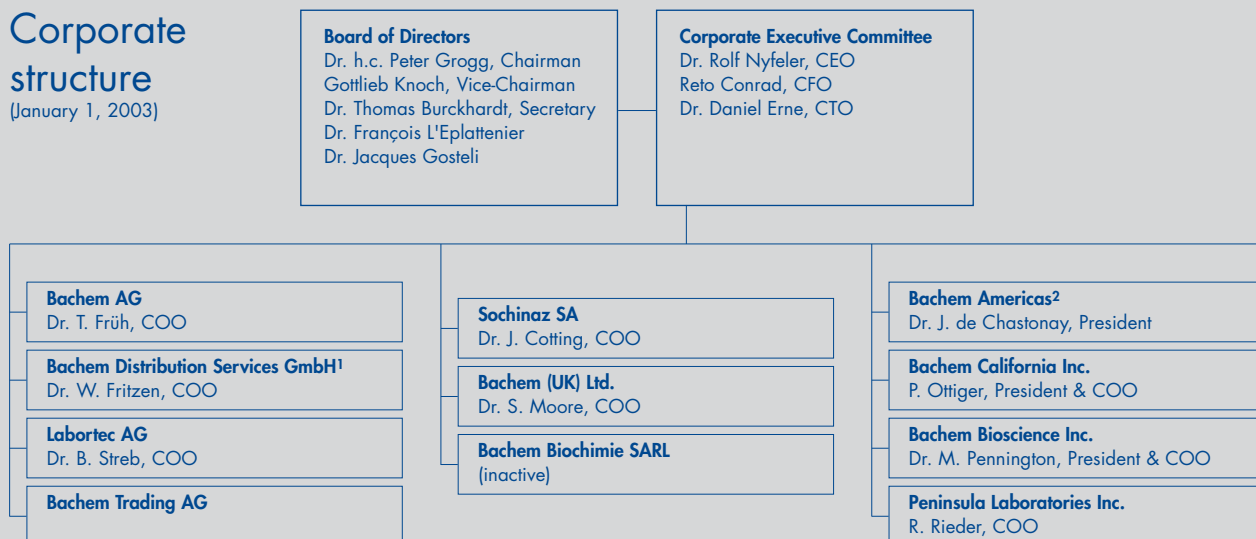
Transferability and Nominee entries

Registered shares of Bachem can be transferred without restriction. Registration in the share register of Bachem requires the proof of purchase of shares on own account or own benefit. The registration of nominees without voting rights is permitted, nominee registrations including voting rights have to be approved on request by the Board of Directors on a case by case basis.

16

Corporate structure

(January 1, 2003)



The investments of Bachem AG and more supplementary information about subsidiaries are illustrated on page 37 (consolidated companies, December 31, 2002) respectively on page 42.

¹ formerly Bachem Biochemica GmbH

² Marketing unit of the Bachem companies for the Americas

Board of Directors:

Composition

The Board of Directors consists of the Chairman and four independent, external members. They are elected by the Annual General Meeting for a period of three years. Re-election is permitted.

Competences

The Board exercises its responsibilities as set out in the Swiss Code of Obligations and the Articles of Incorporation of Bachem. This includes the ultimate direction of the Group, the determination of the Group's guiding principles, strategic planning of the corporate and business policies of the Bachem Group, as well as the necessary instructions to the Corporate Executive Committee. The Board also defines compensation for the members of the Corporate Executive Committee, as well as the Chief Operating Officers of affiliate companies. Further, the Board deals with the consolidated financial statements of the Bachem Group and the financial statements of Bachem AG, including the corresponding reports of the external auditors. It also supervises the implementation of recommendations. The Board meets with the lead auditor once a year. Both

Board and Corporate Executive Committee have access to a comprehensive management information system.

Meetings

The Board of Directors held four half-day meetings in 2002, in which the Corporate Executive Committee also took part.

Quorum

The Board of Directors constitutes a quorum and can pass resolutions when the majority of its members is present. Resolutions are decided with a majority vote. When voting is equally split, the Chairman has the deciding vote.

Committee

The Compensation Committee consists of three members of the Board of Directors and supports the Board of Directors regarding employee share participation plans. The Committee is quorate and can pass resolutions when the majority of its members is present. Resolutions are decided with a majority vote. In 2002 one meeting was held.

Board of Directors

	since	elected until
Peter Grogg (1942)¹, Dr. h.c., Chairman, Swiss Until April 30, 2002 CEO of the Bachem Group Main seats held on other boards: Berna Biotech AG, GABA International AG Management board member of the Swiss Association for Chemical Industry and of the Basel Chamber of Commerce	1971	2003
Gottlieb Knoch (1942), MBA, Vice-Chairman, Swiss Graduate Chemist ETH Main seats held on other boards: Disetronic AG, Rothschild Bank AG	1985	2003
Thomas Burckhardt (1950), Dr. iur., LL.M., Secretary, Swiss Lawyer	1997	2003
François L'Eplattenier (1939)¹, Dr. sc. techn. ETH, Member, Swiss President Novartis Venture Fund Main seats held on other boards: Centre Suisse d'Electronique et de Microtechnique, Cytos Biotechnology AG, Gene Data AG, Schweizerhall Holding AG, Member of the Scientific Advisory Boards of Lombard Odier Darier Hentsch & Cie. and of Aravis Venture Associates AG	1997	2003
Jacques Gosteli (1933)¹, Dr. sc. techn. ETH, Member, Swiss Until 1998 management member of Bachem AG	1997	2003

¹ Members of the Compensation Committee

Corporate Governance

Remuneration of Board of Directors and Corporate Executive Committee

In 2002 CHF 107 400 were paid out in fees and 1 200 shares were allocated to the four non-executive members of the Board. The remuneration of the Members of the Board takes the form of a fixed payment. Throughout 2002, the sum of CHF 1 065 600 was paid in remuneration and 600 shares as well as 2 000 options were allocated to the executive member of the Board (until April 30, 2002) and to the three members of the Corporate Executive Committee. The variable proportion depends on business success as well as the individual achievement of objectives of each. The remuneration for the member of the Board with the highest sum was CHF 265 000 and 300 shares.

No agreements are in place on termination pay nor any long-term contracts of employment with members of the Board of Directors, with members of the Corporate Executive Committee or with the management of subsidiaries. For the Corporate Executive Committee and for other members of the management a share and option plan exists. An option entitles after expiration of blocking period to purchase one Bachem share.

Dividend policy

The target for the long-term annual payout ratio is approximately one third of Group net income.

Rights of involvement and protective rights for shareholders

Shareholders in Swiss companies have extended rights of involvement and protective rights. The protective rights include, among others, rights of inspection and information (Swiss Code of Obligations: OR 696, 697), the right to special examination, the right to convene a general meeting (OR 699/III), the right to raise issues, the right to appeal (OR 706 ff.), the right to petition responsibility (OR 752 ff.). The right of involvement includes, above all, the right to participate in annual general meetings, the right to express opinions and voting rights (OR 694). The articles of the Swiss Code of Obligations are available under www.admin.ch. All shareholders entered on the share register with voting rights will be admitted to an annual general meeting and entitled to vote. Deputies have to be shareholders and authorized in written form, unless it is a statutory agent. For administrative reasons, no new entries will be made after publication of the invitations until the day of an annual general meeting. Shareholders who dispose of their shares before an annual general meeting are not entitled to vote.

18

Corporate Executive Committee

	since
Rolf Nyfeler (1950), Dr. phil. II, CEO, Swiss	2000
Rolf Nyfeler joined Bachem in 1982. He was responsible for Research and Development for some time and became COO of the Parent Company in 1998, after a commitment as Head of Production in the subsidiary in California. Since May 2002, he is CEO of the Bachem Group and Chairman of the Corporate Executive Committee. He completed his education as a chemist at the Universities of Basel and San Diego and at the Max Planck Institute in Martinsried.	
Reto Conrad (1966), lic. oec. HSG, CFO, Swiss	2001
Reto Conrad joined Bachem in 2001 as Chief Financial Officer and Member of the Corporate Executive Committee. He is responsible for all finance activities of the Bachem Group. He is a Swiss Certified Public Accountant and has a Master degree in Business Administration from the University of St. Gallen (HSG). Prior to joining Bachem, he worked nine years in various functions of the business assurance sector at PricewaterhouseCoopers in Basel and San Francisco, after first working two years as a Controller at UBS in Basel.	
Daniel Erne (1952), Dr. sc. nat. ETH, CTO, Swiss	1997
Daniel Erne joined Bachem in 1987. He received his education as a chemist at the Swiss Federal Institute of Technology (ETHZ), then became a research fellow at the University of Utah, Salt Lake City, and at ETHZ before joining Bachem AG as Head Quality Control and later Quality Assurance and Regulatory Affairs. Since 1997 he is a Member of the Corporate Executive Committee of the Bachem Group.	

Change of control and defensive measures

The Articles of Incorporation of Bachem AG do not envisage a duty to submit a public purchase offer according to art. 32, paragraph 1 of the federal law governing stock markets and stock dealing (BEHG) (Opting Out).

Statutory auditors

Since 1995 the group auditors and since 1998 the statutory auditors of Bachem AG have been PricewaterhouseCoopers AG, Basel. Hanspeter Plozza acts as auditor in charge since the financial year 1997. The statutory auditors are elected for one year at a time by the annual general meeting. The external statutory auditors carry out their work within the legislative framework and according to the principles of their profession, as circumstances require. Corporate Executive Committee and Board of Directors are regularly informed of findings and proposals for improvements. PricewaterhouseCoopers fees for the financial year 2002 amounted to CHF 153 000 for auditing and CHF 50 000 for other services. Additional fees for audit services performed by other auditors amounted to CHF 66 000.

Information policy

Bachem Group has an open and up-to-date information policy that treats all target groups of the capital investment market equally. The most important information tools are the annual report and the half-yearly report, the web page www.bachem.com, press releases, presentation of the financial statements for media and analysts as well as the annual general meeting. As a company quoted on the SWX Swiss Exchange, Bachem is obliged to publish information that is relevant to its share price (ad hoc publicity, art. 72 of rules governing quoted companies "Kotierungsreglement"). These rules can be viewed under www.swx.com. For specific questions regarding Bachem, contact our investor relations responsible, Reto Conrad, CFO, phone +41 61 935 2333, reto.conrad@bachem.com.

Salaries / fees and allotment 2002

	Number of people	Salaries fees ¹ CHF	Allocated shares	Allocated options ²
Non-executive Members of the Board of Directors	4	1 07 400	1 200	0
Executive Member of the Board of Directors (until April 30, 2002) and Corporate Executive Committee	4	1 065 600	600	2 000
Total	8	1 173 000	1 800	2 000

As of December 31, 2002, Members of the Board of Directors and the Corporate Executive Committee held the numbers of shares and options given below:

	Number of shares	Number of options ²	Vesting dates of options	Expiry dates
Executive Member of the Board of Directors (until April 30, 2002) and non-executive Members of the Board of Directors	8 877 753	0		
Corporate Executive Committee	95 790	4 400		
		800	30.09.04	30.09.05
		800	30.09.05	30.09.06
		400	20.10.05	20.10.06
		800	30.09.06	30.09.07
		400	20.10.06	20.10.07
		1 200	20.10.07	20.10.08
Total	8 973 543	4 400		

¹ without allocated shares and options ² exercise price CHF 80.00

Financial Review

Sales

The Bachem Group increased sales in local currencies in 2002 by 9.8% despite difficult market conditions. As a consequence of the continuing weakness of the US dollar, sales growth in Swiss francs amounted to only 6.0%. The overall satisfactory increase results exclusively from internal growth and is in line with the long-term growth objectives for the Bachem Group. High growth in the US market in particular has contributed to this favorable result.

The pharmaceuticals active ingredients business had another excellent year with double digit sales growth for both NCEs and generics, while sales of research ingredients were slightly lower, reflecting the current restraints in the research sector.

in CHF m	2002	2001	Change LC	Change CHF
Active pharmaceutical ingredients (incl. building blocks)	114.7	102.3	17.3%	12.2%
Research ingredients (incl. custom synthesis)	35.2	39.1	-3.8%	-10.0%

Operating result

The operating result before depreciation and amortization (EBITDA) slightly decreased by 1.4%, and EBITDA margin fell by 3.1 percentage points. Nevertheless, at 41.1% it is an excellent result as compared to the overall industry. The decrease is particularly due to the fall of the US dollar by 17.4%. At constant exchange rates, the EBITDA shows a calculated increase of 1.1%. Also the addition of younger products to our product portfolio had a dampening effect on the margins, as those products have lower margins initially with high potential for eventual growth and economies of scale. A clear increase was recorded for material cost, due in part to new products, as well as to strong growth of non-peptidic active ingredients with a higher share of material cost. Personnel cost has grown proportionally to sales. In addition to once-off expenses in the context of restructuring measures in Europe and the USA, this development results from expansions in various functions. Personnel cost per employee slightly increased from CHF 100 000 to CHF 103 000, while sales per employee were

increased from CHF 302 000 to CHF 313 000 during 2002. Depreciation remained essentially unchanged, which resulted in an EBIT of CHF 48.3 million (-1.7%) and an EBIT-margin of 32.2% (previous year: 34.7%). At constant exchange rates, the EBIT shows a calculated increase of 1.0%.

Financial result

Despite a further weakening of the US dollar during the second half of 2002, the currency result in the second half of 2002 fell by only CHF 1.3 million to CHF 5.3 million for the full year, the effect of increased currency hedging measures. However, these measures were not sufficient to cover the full US dollar income resulting from the strong sales increase in North America. Income from securities was very satisfactory: we achieved a net income of CHF 1 650 000 in 2002.

Taxes

The tax rate increased to 25% during the reporting period as a consequence of the positive income development in the USA with its higher tax rates. In the two previous years, extraordinary effects had resulted in lower tax rates.

Net income

The weakness of the US dollar had a negative impact on net income for 2002, with a currency loss of CHF 5.3 million and a currency effect from translation on EBIT of about CHF 1.3 million. At constant exchange rates, this translates into a calculated increase of net income by 6.6%.

Investments

As a result of completion of the expansion program in Bubendorf, investments fell to CHF 12.2 million in 2002 as compared to 2001. At the same time, an opportunity to purchase a building in close proximity to our production site in Torrance, California, occurred on short notice, and the acquisition allows for future expansion of the Torrance site. We can further reduce the risk of currency fluctuations by producing in the US as much product sold in North America as possible. An asset no longer required in San Diego was sold with a book profit of CHF 513 000.

Shareholder Information

Share information		2002	2001	2000	1999	1998
Registered shares, nominal value CHF 0.50		13 600 000	13 600 000	13 600 000	13 600 000	13 600 000
Average number of outstanding shares		13 324 757	13 347 000	13 345 340	13 311 520	12 706 520
Dividend per share	CHF	0.55 ¹	0.75	0.75	0.65	0.50
Share price nominal share	high	CHF 105	145	200	130	114
	low	CHF 59	58	119	98	68
	year end	CHF 65	95	140	128	100
Dividend yield	high	1.7% ²	1.3%	0.6%	0.7%	0.7%
	low	1.0% ²	0.5%	0.4%	0.5%	0.4%
Group income per share	CHF	2.51	2.82	3.59	3.01	2.55
Net cash flow from operating activities						
per share	CHF	2.83	2.35	2.38	3.37	2.93
Group equity per share	CHF	23.32	22.79	20.82	17.89	15.57
Price / earning ratio (year end)		25.90	33.69	39.00	42.52	39.22
Market capitalization at year end	CHF m	884	1 292	1 904	1 741	1 360

¹ without consideration of nominal value reduction of CHF 0.45 per share as proposed to the Annual General Meeting

² including nominal value reduction of CHF 0.45 per share

Bachem registered shares are traded at the Swiss Exchange (SWX).

Valor number: 1 253 020 SWX: BANB Reuters: BAMZn

The shares of the Bachem Group were split 1:20 as of June 29, 2001.

Financial Calendar 2002/2003

Annual General Meeting (business year 2002)	May 14, 2003
Payout date for dividend	May 20, 2003
Payout date for nominal value reduction	July 31, 2003
Half year results 2003	August 2003
Full year sales 2003	January 2004
Full year results 2003	April 2004
Annual General Meeting (business year 2003)	May 12, 2004

Consolidated Income Statements

for the years ended December 31

	Notes	2002 000 CHF	2001 000 CHF
Sales	4/5	149 888	141 351
Other income		1 069	1 179
Cost of materials		-26 433	-21 309
Changes in inventories		3 971	6 291
Staff cost		-49 235	-46 126
Depreciation and amortization expense	4/6/7	-13 309	-13 312
Other operating expenses		-17 694	-18 972
Operating income	4	48 257	49 102
Result from associated companies	8	-715	0
Financial income, net	9	-2 857	-1 583
Income before taxes		44 685	47 519
Income taxes	10	-11 195	-9 900
Net income		33 490	37 619
Earnings per share (CHF)	11	2.51	2.82
Diluted earnings per share (CHF)	11	2.51	2.82

Consolidated Balance Sheets

at December 31, 2002 and 2001

Assets	Notes	December 31, 2002 000 CHF	December 31, 2001 000 CHF
Cash and cash equivalents		86 385	64 727
Marketable securities	12	36 251	50 999
Trade and other receivables	13	28 773	28 735
Inventories	14	48 957	48 823
Total current assets		200 366	193 284
Tangible fixed assets	6	110 588	117 565
Intangible assets	7	22 663	25 886
Associated companies	8	2 285	0
Prepaid pension fund contributions	15	702	619
Deferred tax assets	21	3 098	1 162
Other financial assets	16	4 292	4 322
Total long-term assets		143 628	149 554
Total assets	4	343 994	342 838
Liabilities and equity			
Trade payables		7 697	9 002
Short-term financial debts	17	2 164	1 572
Income tax payables		0	3 303
Other short-term liabilities	18	5 264	5 300
Provisions	19	1 117	2 307
Total short-term liabilities		16 242	21 484
Financial debts	20	0	2 164
Deferred tax liabilities	21	16 443	15 041
Defined benefit plan liabilities	15	543	0
Total long-term liabilities		16 986	17 205
Total liabilities	4	33 228	38 689
Share capital		6 800	6 800
Retained earnings		235 548	211 047
Share premium		85 839	85 839
Own shares		-4 821	-1 887
Fair value reserves		-4 620	-464
Cumulative translation differences		-7 980	2 814
Total equity		310 766	304 149
Total liabilities and equity		343 994	342 838

Consolidated Cash Flow Statements

for the years ended December 31

	Notes	2002 000 CHF	2001 000 CHF
Cash flow from operating activities			
Net income		33 490	37 619
Reversal of non-cash items:			
Income taxes	10	11 195	9 900
Depreciation and amortization expense	4/6/7	13 309	13 312
Financial income, net	9	2 857	1 583
Gains on sale of tangible fixed assets		-513	0
Result from associated companies	8	715	0
Income taxes paid		-15 924	-12 762
Change in net current assets		-4 700	-19 605
Other operating cash flow items		-2 785	1 352
Cash flow from operating activities		37 644	31 399
Cash flow provided by/(used for) investing activities			
Investment in tangible fixed assets	6	-11 099	-14 393
Investment in intangible assets	7	-1 710	-784
Proceeds from sales of tangible fixed assets		3 517	62
Acquisition of subsidiaries	3	0	-33 105
Investment in financial assets	8/16	-3 000	-2 530
Change in marketable securities		9 509	7 469
Interest and other financial receipts		2 885	1 922
Cash flow provided by/(used for) investing activities		102	-41 359
Cash flow provided by/(used for) financing activities			
Change in own shares		-1 892	-1 568
Change in financial debts		-1 572	871
Interest and other financial payments		-827	-277
Dividends paid		-10 031	-10 020
Cash flow provided by/(used for) financing activities		-14 322	-10 994
Net effect of currency translation on cash and cash equivalents		-1 766	399
Net change in cash and cash equivalents		21 658	-20 555
Cash and cash equivalents at the beginning of the year		64 727	85 282
Cash and cash equivalents at the end of the year		86 385	64 727
Movements in 2002 and 2001, respectively		21 658	-20 555

Consolidated Statements of Shareholders' Equity

for the years ended December 31

	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 2001 000 CHF
Balance January 1, 2001	6 800	183 448	85 839	-319	0	2 143	277 911
Effect of introduction IAS 39	0	0	0	0	5 020	0	5 020
Net income	0	37 619	0	0	0	0	37 619
Dividends paid	0	-10 020	0	0	0	0	-10 020
Transactions with own shares	0	0	0	-1 568	0	0	-1 568
Cumulative translation differences	0	0	0	0	0	671	671
Change of fair value reserves	0	0	0	0	-5 484	0	-5 484
Balance December 31, 2001	6 800	211 047	85 839	-1 887	-464	2 814	304 149

	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 2002 000 CHF
Balance January 1, 2002	6 800	211 047	85 839	-1 887	-464	2 814	304 149
Net income	0	33 490	0	0	0	0	33 490
Dividends paid	0	-10 031	0	0	0	0	-10 031
Transactions with own shares	0	1 042	0	-2 934	0	0	-1 892
Cumulative translation differences	0	0	0	0	0	-10 794	-10 794
Change of fair value reserves	0	0	0	0	-4 156	0	-4 156
Balance December 31, 2002	6 800	235 548	85 839	-4 821	-4 620	-7 980	310 766

For transactions with own shares, see page 42, Notes to the Financial Statements of Bachem AG. The shares of Bachem AG were split 1:20 as of June 29, 2001. The nominal value after the split is CHF 0.50. 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. 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 (see Notes to the Financial Statements of Bachem AG).

Notes to the Consolidated Financial Statements

1. Accounting Policies for the Bachem Group

Business activity

The Bachem Group is an independent, technology-based company specializing in the development of manufacturing processes for the production of innovative biochemical and pharmaceutical compounds. With its headquarter in Bubendorf (Switzerland) and affiliates in Europe and the US, the Group works on a global scale and holds a leading position in its field.

Principles of consolidation

The financial statements of the Bachem Group are prepared in accordance with the standards formulated by the International Accounting Standards Board (IASB) and its predecessor organization the International Accounting Standards Committee (IASC). The consolidated financial statements have been approved by the Board of Directors of Bachem AG on April 1, 2003.

Scope of consolidation

The financial statements include all companies which Bachem AG directly or indirectly controls (over 50% of voting interest). The companies included in the consolidation are listed in this annual report. The financial statements of the companies included in the consolidation are prepared using uniform accounting policies. Intercompany transactions, including unrealized gross profits from internal group transactions and intercompany receivables and payables, have been eliminated. The annual closing date of the individual financial statements is December 31.

Exchange rate differences

The consolidated financial statements of the group are expressed in Swiss francs. In the local accounts, transactions in foreign currencies are translated at the exchange rate prevailing on the transaction date and the resulting foreign exchange transaction gains and losses are recognized in the local income statement. Assets and liabilities of the consolidated group companies are translated using the year end exchange rates that prevailed at the balance sheet date while income, expenses and cash flows are translated into Swiss francs using the respective yearly average exchange rate. Translation differences arising from movements in the exchange rates used to translate the financial statements of the consolidated group companies are allocated to equity.

Recognition of income

Sales are recognized on delivery or on providing services and are reported net of sales taxes and rebates.

Cash and cash equivalents

This includes petty cash, bank balances and short-term deposits with original maturities of three months or less.

Marketable securities

Marketable securities are classified as either "held-for-trading" (mainly derivatives) or "available-for-sale" (mainly marketable securities). All investments are initially recorded at cost, including transaction cost. All purchases are recognized on the settlement date. Held-for-trading investments are subsequently carried at fair value, with all changes in fair value recorded as financial income (expense) in the period in which they arise. Available-for-sale investments are subsequently carried at fair value, with all changes in fair value recorded in equity. When the available-for-sale investments are sold, impaired or otherwise disposed of, the cumulative gains and losses previously recognized in equity are included in financial income (expense) for the current period.

Trade receivables

The reported values represent the invoiced amounts, less adjustments for doubtful accounts.

Other receivables

This position includes other receivables from third parties, loans to employees, other loans with a maturity of less than 12 months, prepaid expenses for goods and services not yet received as well as income from the current year that will not be received until the following year.

Inventories

Inventories include raw materials, spare parts, work-in-progress and finished goods. They are stated at the lower of acquisition or manufacturing cost and net realizable market value. Manufacturing cost includes all related production cost. Provisions are made for inventories which are slow moving.

Tangible fixed assets and depreciation

Tangible fixed assets (property, plant and equipment) are reported at cost of acquisition or production cost and depreciated on a straight-line basis to the income statement (exclusive land), over the following estimated useful lives:

Buildings	20 to 50 years
Installations	10 to 20 years
Laboratory equipment	10 to 20 years
Computer hardware	3 to 5 years
Vehicles	5 to 7 years

The depreciation rates reflect the economic useful life of the respective assets. Maintenance expense is recognized in the income statement. Expenses that extend the estimated useful life of tangible fixed assets are capitalized. Financing expenses for facilities under construction are not capitalized.

Intangible assets

Intangible assets such as patents and licenses are charged directly to the income statement. In the case of business combinations, the excess of the purchase price over the fair value of net identifiable assets acquired is recorded as goodwill in the balance sheet. Goodwill is amortized to income on a straight-line basis over its useful life. The amortization period is determined at the time of the acquisition, based upon the particular circumstances, and ranges from 5 to 20 years. Software is amortized on a straight-line basis over its expected useful life, usually between 3 and 5 years.

Associated companies

Associated companies and joint ventures are accounted for by the equity method.

Financial assets

Financial assets are valued at fair market values as marketable securities. Financial assets which are not traded regularly at a stock exchange are valued at acquisition cost, less any valuation reserves. If parts of those financial assets that are not regularly traded at stock exchanges are sold to independent third parties, the sales price is used as a reference price for the valuation of the remaining financial assets.

Impairment of long-term assets

Long-term assets are reviewed for impairment whenever events or changes in circumstances indicate that the carry-

ing amount of the asset may not be recoverable. When such events or changes in circumstances indicate the asset may not be recoverable, the group estimates the future cash flows expected to result from use of the asset and its eventual disposition. If the sum of such expected discounted future cash flows is less than the carrying amount of the asset, an impairment loss is recognized for the amount by which the asset's net book value exceeds its fair market value.

Short-term liabilities

Short-term liabilities include all liabilities that are due within 12 months.

Long-term liabilities

Long-term liabilities include all known liabilities as per year end, which can reliably be quantified with a due date of at least one year after the date of the balance sheet. All financing cost are included in the income statement of the relevant period.

Research and development

Laboratory buildings and inventories for research and development are capitalized and depreciated according to the respective accounting policies. Since the criteria for a capitalization are not met, the other expenses for research and development are fully charged to the income statement.

Taxes

Taxes on income are accrued in the same periods as the income and expenses to which they relate. Deferred taxes have been calculated using the comprehensive liability method. They are calculated on the temporary differences that arise between the tax base of an asset or liability and its carrying value in the balance sheet of the group companies prepared for consolidation purposes, except for those differences related to investments in subsidiaries where their reversal will not take place in the foreseeable future. Furthermore, withholding or other taxes on eventual distribution of retained earnings of group companies are only taken into account where a dividend has been planned since generally the retained earnings are reinvested. Deferred tax assets are only fully capitalized when it is probable that a benefit will be realized in the foreseeable future.

Notes to the Consolidated Financial Statements

Defined benefit pension plans

The defined benefit obligation of the material defined benefit pension plans are calculated every two years by an independent actuary using the projected unit credit method according to IAS 19. The defined benefit obligation is equal to the present value of all estimated future cash flows. Plan assets are valued at fair market values. Significant gains and losses arising from experience adjustments, changes in actuarial assumptions, and amendments to pension plans are charged or credited to income over the service lives of the related employees. The expenses for such pension plans, representing the net periodic pension cost less employee contributions, are included in the staff cost in the income statement.

Provisions

Provisions are recognized where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated. Provisions are recorded for the estimated ultimate li-

bility that is expected to arise, taking into account foreign currency effects and the time value of money. A contingent liability is recorded where the existence of the obligation will only be confirmed by future events, or where the amount of the obligation cannot be measured with reasonable reliability.

Own shares

Own shares are valued at acquisition cost and are deducted from equity in accordance with the interpretation SIC 16.

Changes in the accounting policies of the Bachem Group

On January, 1 2001 the new standard IAS 39 became effective. It deals with the recognition and measurement of financial instruments. In accordance with the transition arrangements of the Standard, the comparative financial statements 2000 were not restated. The effects of the implementation on the opening balances are shown in the table below:

	January 1, 2001 000 CHF
Marketable securities	6 440
Deferred income taxes	-1 420
Net impact of IAS 39 on the fair value reserve	5 020

In accordance with IAS 39 in 2000 no restatement did take place. No hedge accounting in the sense of IAS 39 has been recorded.

Financial risk management

Financial risk management is governed by Corporate Executive Committee. It monitors foreign exchange risks, interest rate risks, market risks, credit risks and liquidity risks on an ongoing basis and approves the use of financial instruments to reduce certain risks. The Corporate Executive Committee believes that, in order to create the optimum value for the group, it is not desirable to eliminate or mitigate all possible market fluctuations

2. Exchange rates

	Income statement average rate 2002 CHF	2001 CHF	Balance sheet year end rate 2002 CHF	2001 CHF
1 US Dollar	1.5575	1.6879	1.3875	1.6788
1 English Pound	2.3342	2.4291	2.2254	2.4302
1 Euro	1.4673	1.5103	1.4542	1.4809

3. Changes in the scope of consolidation

As of January 1, 2001 the group acquired 100% of shares of Sochinaz SA, Vionnaz, Switzerland. The purchase price of CHF 35 million was fully paid in cash. The goodwill

has been amortized since the same date. The following is a summary of the cash flow impact of the acquisition of Sochinaz SA:

	January 1, 2001 Acquisitions 000 CHF
Tangible fixed assets	-19 756
Inventories	-8 737
Trade and other receivables and other current assets	-5 792
Marketable securities, cash and cash equivalents	-1 895
Short- and long-term financial debts to third parties	5 868
Trade payables and other liabilities	5 302
Net assets acquired	-25 010
Less acquired cash	1 895
Sub-total	-23 115
Goodwill	-9 990
Net cash flow	-33 105

4. Regional segment information

	Europe 2002 000 CHF	2001 000 CHF	Rest of World 2002 000 CHF	2001 000 CHF	Elimi- nations 2002 000 CHF	2001 000 CHF	Consoli- dated values 2002 000 CHF	2001 000 CHF
--	---------------------------	-----------------	-------------------------------------	-----------------	--------------------------------------	-----------------	---	-----------------

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

Sales

Sales third parties	91 142	89 690	58 746	51 661				
Sales intercompany	26 541	29 126	3 866	5 861	30 407	34 987		
Total Sales	117 683	118 816	62 612	57 522	30 407	34 987	149 888	141 351
Operating income	37 664	44 615	15 403	7 796	4 810	3 309	48 257	49 102
Result from associated companies							-715	0
Financial income							4 903	5 644
Financial expense							-2 436	-7 202
Currency result, net							-5 324	-25
Income taxes							-11 195	-9 900
Net income							33 490	37 619

Notes to the Consolidated Financial Statements

4. Regional segment information (continued)

	Europe 2002 000 CHF	2001 000 CHF	Rest of world 2002 000 CHF	2001 000 CHF	Elimi- nations 2002 000 CHF	2001 000 CHF	Consoli- dated values 2002 000 CHF	2001 000 CHF
Other information								
Assets	363 885	352 765	70 635	83 282	90 526	93 209	343 994	342 838
Liabilities	27 982	35 619	14 957	21 223	9 711	18 153	33 228	38 689
Investments	8 565	24 666	4 244	501			12 809	25 167
Depreciation and amortization	10 752	10 160	2 557	3 152			13 309	13 312

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 76.5% to

23.5% during the last year (respectively 72% to 28% in 2001). 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.

6. Tangible fixed assets

	Land 000 CHF	Buildings 000 CHF	Assets in construction 000 CHF	Installa- tions 000 CHF	Laboratory- equipment 000 CHF	Other 000 CHF	Total 2002 000 CHF	Total 2001 000 CHF
Cost at January 1	11 998	88 655	0	43 560	54 246	9 543	208 002	150 620
Changes in the scope of consolidation	0	0	0	0	0	0	0	42 436
Additions	1 218	2 581	37	2 770	3 508	985	11 099	14 393
Disposals	-704	-3 101	0	-14	-123	-126	-4 068	-824
Transfers	0	0	0	1 389	-1 389	0	0	0
Translation effects	-1 225	-4 027	-4	-1 656	-4 477	-685	-12 074	1 377
Cost at December 31	11 287	84 108	33	46 049	51 765	9 717	202 959	208 002
Accumulated depreciation at January 1	0	14 842	0	33 335	34 317	7 943	90 437	57 503
Changes in the scope of consolidation	0	0	0	0	0	0	0	22 681
Depreciation	0	2 810	0	1 912	3 027	635	8 384	8 512
Cumulative depreciation on disposals	0	-860	0	-6	-109	-89	-1 064	-762
Transfers	0	0	0	648	-648	0	0	0
Translation effects	0	-982	0	-1 359	-3 671	-548	-6 560	2 503
Other	0	0	0	1 174	0	0	1 174	0
Accumulated depreciation at December 31	0	15 810	0	35 704	32 916	7 941	92 371	90 437
Net book value at December 31	11 287	68 298	33	10 345	18 849	1 776	110 588	117 565

At December 31, 2002, buildings of Peninsula Laboratories Inc. were held under operating leases. The future minimum lease payments under uncancellable operating leases are:

No later than a year:	CHF	34 000
No later than five years:	CHF	57 000
Total rents recognized in the income statement 2002:	CHF	664 000

7. Intangible assets

	Goodwill 000 CHF	Other in- tangible assets 000 CHF	Total 2002 000 CHF	Total 2001 000 CHF
Cost at January 1	41 295	3 772	45 067	33 793
Additions ¹	591	1 119	1 710	10 774
Disposals	0	0	0	0
Other changes	0	0	0	505
Translation effects	0	-92	-92	-5
Cost at December 31	41 886	4 799	46 685	45 067
Accumulated amortization at January 1	17 445	1 736	19 181	13 925
Amortization	4 196	729	4 925	4 800
Other changes	0	0	0	460
Translation effects	0	-84	-84	-4
Accumulated amortization at December 31	21 641	2 381	24 022	19 181
Net book value at December 31	20 245	2 418	22 663	25 886

¹ In accordance with IAS 22 note 71, goodwill on the acquisition of Sochinaz has been increased from initially CHF 9 990 000 by CHF 591 000 to CHF 10 581 000 during the reporting period. This adjustment is calculated in accordance with Bachem's accounting standards and is related to a shortage in provision for Sochinaz pension plans of this amount at January 1, 2001. The increase in goodwill will be written off over the remaining nine years, i.e. at CHF 66 000 annually up to 2010.

8. Investment in associated companies

On January 7, 2002, Bachem AG and Berna Biotech AG founded Pevion Biotech AG in Bern, each with a 50-percent stake. The new company - based on the know how of the two founding companies - will develop innovative therapeutic and prophylactic vaccines against melanoma, malaria, hepatitis C und Alzheimers' disease, which are based on the virosome technology patented by Berna.

Both of the two partners with a 50-percent stake provided together in a first step CHF 6 million. It is scheduled to rise the starting capital to CHF 20 million.

Pevion Biotech AG is accounted for by the equity method. Valuation as of December 31, 2002: CHF 2.3 million (investments of CHF 3 million less accumulated costs of CHF 0.7 million).

Summary of the financial statement 2002 of Pevion Biotech AG

Income statement 2002	000 CHF	Balance sheet December 31, 2002	000 CHF		000 CHF
Sales	100	Cash and cash equivalents	4 639	Liabilities	567
Operating income	-1 476	Other assets	498	Share capital	2 000
Loss	-1 430			Other equity	2 570
		Assets	5 137	Liabilities and equity	5 137

Notes to the Consolidated Financial Statements

9. Financial income, net	2002 000 CHF	2001 000 CHF
Financial income		
Interest	1 600	2 024
Income from securities	3 295	3 481
Other	8	139
Total	4 903	5 644
Financial expense		
Interest	-182	-260
Loss on securities	-1 645	-6 400
Other	-609	-542
Total	-2 436	-7 202
Currency result, net	-5 324	-25
Financial income, net	-2 857	-1 583

10. Income taxes	2002 000 CHF	2001 000 CHF
Current taxes	10 520	9 839
Deferred taxes	675	61
Total	11 195	9 900

The following elements are the explanation for the difference between the expected group tax rate (the weighted

average rate is based on the earnings before taxes of each affiliated company) and the effective rate:

Tax rate analysis 2002	2002 %	2001 %
Expected tax rate	24.8	23.7
Effect of income taxed at reduced rates	-2.0	-1.7
Effect of disallowed expenditures	0.8	2.0
Other	1.5	-3.2
Effective tax rate	25.1	20.8

Not capitalized tax loss carry-forwards by expiry date:	2002 000 CHF	2001 000 CHF
up to five years	0	0
more than five years	4 342	5 782
Total	4 342	5 782

No deferred tax assets have been capitalized for tax loss carry-forwards.

11. Earnings per share (EPS)

	2002	2001
Net income (000 CHF)	33 490	37 619
Weighted average number of ordinary shares issued (basic)	13 324 757	13 347 000
Basic earnings per share (CHF)	2.51	2.82

As of December 31, 2002, 16 900 options were outstanding, which did not have a material dilution effect. As of

December 31, 2001, 10 000 options were outstanding, which also did not have a material dilution effect.

12. Marketable securities

		2002 000 CHF	2001 000 CHF
Shares	Market/book value	15 691	30 737
Derivatives	Market/book value	6	80
	Contract value	1 026	1 896
Bonds	Market/book value	20 554	20 182
Total	Market/book value	36 251	50 999

This position includes marketable securities which are traded in liquid markets.

13. Accounts receivable

	2002 000 CHF	2001 000 CHF
Trade receivables	24 472	22 878
Provisions for doubtful trade receivables	-1 146	-1 425
Prepaid expenses and accrued income	2 868	4 103
Tax receivables	1 212	0
Other receivables	1 367	3 179
Total	28 773	28 735

14. Inventories

	2002 000 CHF	2001 000 CHF
Raw materials	9 852	11 584
Finished products	39 105	37 239
Total	48 957	48 823

Notes to the Consolidated Financial Statements

15. Pension funds

Employee benefits and pension plans are based on the regulations and situations of each country where Bachem is represented. In countries with defined contribution plans, the related costs in 2002 were CHF 1 392 094 and CHF 1 253 100 in 2001.

In Switzerland Bachem is member of a so-called "BVG Sammelstiftung". According to the definition of IAS 19, this fund is considered as a defined benefit plan. The following is a summary status of this defined benefit plan at December 31, 2002:

Proof of the activated surplus in the balance sheet:	2002 000 CHF	2001 000 CHF
Fair value of plan assets	25 009	16 635
Defined benefit obligations	-28 492	-16 931
Funded status	-3 483	-296
Limitation on recognition of surplus due to uncertainty of obtaining future benefits	0	0
Unrecognized actuarial loss	3 642	915
Net asset in balance sheet	159	619

The unrecognized actuarial loss of CHF 3 642 000 is outside of the corridor of 10% of the plan assets. In accordance

with 19 IAS as of 2003 amortization is required.

Annual cost for pension funds (ERIS):	2002 000 CHF	2001 000 CHF
Service cost	2 332	1 393
Cost of interest	1 034	608
Expected return on assets	-946	-637
Employee contributions	-1 032	-700
Change on the non-capitalized surplus	0	58
Annual cost for pension funds (ERIS)	1 388	722

Development of the surplus capitalized in the balance sheet:	2002 000 CHF	2001 000 CHF
Surplus at January 1	619	619
Addition from the acquisition of Sochinaz ¹	-591	0
Annual cost for pension funds (ERIS)	-1 388	-722
Employee contributions	1 484	722
Other changes	35	0
Surplus at December 31	159	619

¹ As calculated in accordance with Bachem's accounting standards to reflect a shortage in provision for Sochinaz pension plans of this amount at January 1, 2001. See also note 7.

Composition of the amount stated in the balance sheet:	2002 000 CHF	2001 000 CHF
Prepaid pension fund contributions	702	619
Defined benefit plan liabilities	-543	0
Total	159	619

The following assumptions are underlying the actuarial calculations:	2002	2001
Discounting interest rate	3.75%	3.75%
Return on assets	4.00%	4.00%
Expected future increase in salaries	1.50%	1.50%

16. Other financial assets	2002 000 CHF	2001 000 CHF
Polyphor AG	4 250	4 250
Other	42	72
Total	4 292	4 322

	2002	2001
Polyphor AG, Allschwil (Switzerland)		
Share capital nom. [CHF]	3 015 000	3 015 000
Holding rate	28.36%	28.36%
Voting rights	28.36%	28.36%

Polyphor is a start-up company with substantial potential for the future. Polyphor is specialized on the synthesis of focused libraries of single compounds of high purity and is involved in research in the field of protein-protein interac-

tion. For 2002, the company has been treated in line with accounting standards for financial assets as participation will fall under 20% in the near future.

17. Short-term financial debts	2002 000 CHF	2001 000 CHF
Banks	0	0
Current maturity of long-term debt	2 164	1 572 ¹
Total	2 164	1 572

¹ In 2001 classified in financial debts

18. Other short-term liabilities	2002 000 CHF	2001 000 CHF
Deferred income and accrued expenses	1 499	1 276
Other short-term liabilities	3 765	4 024
Total	5 264	5 300

Notes to the Consolidated Financial Statements

19. Provisions	Provisions for restructuring 000 CHF	Other provisions 000 CHF	Total 2002 000 CHF	Total 2001 000 CHF
At January 1	1 580	727	2 307	4 125
New provisions	310	0	310	56
Dissolved provisions	0	-18	-18	0
Provisions used during the year	-1 263	-60	-1 323	-1 939
Translation effects	-159	0	-159	65
At December 31	468	649	1 117	2 307
Current part:	468	649	1 117	2 307

Provisions for restructuring are formed for planned restructuring projects. These provisions include only expenses, coming out of the restructuring projects and no expenses which are connected to the daily activities of the

group. The new provisions are mainly in connection with the restructuring of Peninsula Laboratories Inc. and the closure of Bachem Biochimie SARL.

20. Financial debts	2002 000 CHF	2001 000 CHF
Bank loans	0	2 164 ¹
Other long-term financial debts	0	0
Total	0	2 164

¹ Bank loans of the year 2001 (amount: CHF 1 572 000) were transferred to short-term financial debts.

Financial debts are denominated in the following currency and the interest rate payable is:

	Financial debts 2002 000 CHF	Average interest rate 2002 %	Financial debts 2001 000 CHF	Average interest rate 2001 %
CHF	0	0.0	2 164	4.9

Break down by maturity:	2002 000 CHF	2001 000 CHF
2003	0	2 164
Total	0	2 164

21. Deferred taxes

		2002 000 CHF	2001 000 CHF
Assets associated with:	- inventories	553	517
	- tangible fixed assets	672	0
	- provisions	139	0
	- other accruals	1 734	645
Total		3 098	1 162
Liabilities associated with:	- inventories	6 623	5 843
	- tangible fixed and intangible assets	7 965	7 240
	- provisions	1 530	1 526
	- other accruals	325	432
Total		16 443	15 041

22. Contingent liability

There were no material contingent liabilities as per December 31, 2002 as well as per December 31, 2001.

23. Commitments

All commitments, including buy- and sell-commitments of goods, are not above their market value and are according to the normal business terms.

24. Consolidated companies

Company	Country	Participation ¹ 2002	Participation 2001
Bachem AG, Bubendorf	Switzerland	Parent company	Parent company
Bachem Trading AG, Bubendorf	Switzerland	100%	100%
Labortec AG, Bubendorf	Switzerland	100%	100%
Sochinaz SA, Vionnaz	Switzerland	100%	100%
Bachem Biochimie SARL, Voisins le Bretonneux	France	100%	100%
Bachem Distribution Services GmbH, Weil am Rhein ²	Germany	100%	100%
Bachem (UK) Ltd., St. Helens	England	100%	100%
Peninsula Laboratories Inc., San Carlos	USA	100%	100%
Bachem Bioscience Inc., King of Prussia	USA	100%	100%
Bachem California Inc., Torrance	USA	100%	100%
Peninsula Laboratories Europe Ltd., St. Helens (inactive)	England	100%	100%

¹ direct or indirect

² formerly Bachem Biochemica GmbH, Heidelberg

Notes to the Consolidated Financial Statements

25. Employee share participation plans

The following employee stock grant plans exist:

a) Employee participation scheme 1

Based on the actual employee participation scheme (agreement valid since July 1996 respectively abroad since September 28, 1998 backdated to January 1, 1998) all employees of the Bachem Group are granted gratis shares every three years. The quantity depends on the status and ranges from 20 to 200. The shares are not blocked.

b) Employee participation scheme 2

Certain key employees receive gratis shares at the time of their promotion. These shares are blocked for five years.

c) Share option plan

Certain key employees of the Bachem Group receive gratis options. The options granted entitle recipients to acquire one Bachem share with unlimited voting and dividend rights.

Share options outstanding

	2002 Number	2001 Number
Options outstanding at January 1	10 000	0
Granted options	6 900	10 000
Exercised options	0	0
Outstanding December 31	16 900	10 000
Exercisable options	0	0

Vesting dates of outstanding options are as follows:

- year 2004	3 000	3 000
- year 2005	4 300	3 000
- year 2006	5 300	4 000
- year 2007	4 300	0
Total	16 900	10 000

The options usually expire one year after they become exercisable. The exercise price of all options is CHF 80. The group holds own shares in order to meet its obligations under the employee share participation plans. These own shares are deducted from equity. The book value is based on

either cost, for those shares which have been purchased, or on the nominal value for those shares that have been reserved for these purposes at the last capital increase. Changes in stock of Bachem shares are presented in the Notes to the Financial Statements of Bachem AG on page 42.

26. Transactions with related parties

In 2002 as well as in 2001 no material transactions were performed with related parties.

27. Subsequent events

On January 2003 Bachem Biochemica GmbH changed its domicile from Heidelberg, Germany, to Weil am Rhein, Germany. The company was at the same time renamed in Bachem Distribution Services GmbH.

As scheduled, on March 26, 2003 the second increment of share capital of Polyphor AG did take place. Bachem subscribed 1 125 shares for a counter-value of CHF 1 125 000. There was no change in the share of participation.



Report of the group auditors to the general meeting of Bachem AG, Bubendorf

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, cash flow statement, statement of shareholder's equity and notes/pages 22 to 38) of Bachem AG for the year ended December 31, 2002.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

Basel, April 1, 2003

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to be 'H. Plozza'.

H. Plozza

A handwritten signature in black ink, appearing to be 'P. Seiler'.

P. Seiler

Financial Statements of Bachem AG

Income statements 2002 and 2001

	2002 000 CHF	2001 000 CHF
Sales	69 097	72 609
Sales deduction	-438	-584
Other operating income	2 228	2 094
Total	70 887	74 119
Cost of materials	-5 780	-7 121
Staff cost	-23 632	-20 397
Depreciation and amortization expense	-10 978	-9 664
Cleaning and maintenance	-225	-274
Administration, sales and marketing cost	-2 906	-3 057
Other operating expenses	-3 506	-3 161
Operating income before interest and taxes	23 860	30 445
Financial income	12 366	4 854
Financial expense	-7 369	-8 539
Currency gain	7 447	5 742
Currency loss	-13 479	-5 605
Income before taxes	22 825	26 897
Taxes	-4 281	-5 525
Net income	18 544	21 372

Financial Statement of Bachem AG

Balance sheets at December 31, 2002 and 2001

	December 31, 2002 000 CHF	December 31, 2001 000 CHF
Assets		
Cash and cash equivalents	73 108	48 063
Marketable securities	32 333	46 075
Trade receivables, third parties	5 285	5 420
Trade receivables, intercompany	3 380	6 701
Other receivables, third parties	3 989	1 532
Other receivables, intercompany	399	1 412
Prepaid expenses and accrued income	1 028	1 557
Inventories	4 209	3 589
Current assets	123 731	114 349
Investments	52 479	49 479
Tangible fixed assets		
<i>Real estate</i>	34 767	36 169
<i>Machinery and installations</i>	5 153	5 551
Intangible assets	29 629	34 234
Fixed assets	122 028	125 433
Total assets	245 759	239 782
Liabilities and equity		
Trade payables, third parties	2 079	2 382
Trade payables, intercompany	406	884
Other short-term liabilities, third parties	1 730	3 734
Deferred income and accrued expenses	1 196	956
Provisions	7 600	7 600
Liabilities	13 011	15 556
Share capital	6 800	6 800
Legal reserves		
<i>General reserves</i>	89 897	89 877
<i>Reserves for own shares</i>	4 821	1 887
Free reserves	106 849	94 795
Retained earnings	2002 000 CHF	2001 000 CHF
Retained earnings at January 1	5 837	9 495
Net income	18 544	21 372
Equity	232 748	224 226
Total liabilities and equity	245 759	239 782

Financial Statements of Bachem AG

Notes

1. Investments

Company	Location	Branch		Share capital December 31, 2002
Bachem Trading AG	Bubendorf, CH	Sales	CHF	100 000
Labortec AG	Bubendorf, CH	Production	CHF	100 000
Sochinaz SA	Vionnaz, CH	Production, Sales	CHF	700 000
Bachem Biochimie SARL	Voisins le Bretonneux, F	Sales	EUR	76 225
Bachem Distribution Services GmbH ¹	Weil am Rhein, D	Sales	EUR	128 000
Bachem (UK) Ltd.	St. Helens, GB	Production, Sales	GBP	2 500
Peninsula Laboratories Inc.	San Carlos CA, USA	Production, Sales	USD	32 000
Bachem Bioscience Inc.	King of Prussia PA, USA	Production, Sales	USD	3 000 000
Bachem California Inc.	Torrance CA, USA	Production, Sales	USD	3 000
Peninsula Europe Ltd. (inactive)	St. Helens, GB	Production, Sales	GBP	36 000
Pevion Biotech AG	Bern, CH	Production, sales	CHF	2 000 000
Polyphor AG	Allschwil, CH	Production, Sales	CHF	3 015 000

¹ formerly Bachem Biochemica GmbH, Heidelberg, D

With the exception of Pevion Biotech AG and Polyphor AG all companies are controlled with 100% of the voting rights either directly or indirectly. The capital of Polyphor AG was increased in 2001 from CHF 2 079 000 to CHF

3 015 000 and the participation of Bachem AG increased from 27.6% to 28,4%. Further as of January 1, 2001 Bachem AG acquired 100% of Sochinaz SA.

2. Insurance value of tangible fixed assets

	2002 000 CHF	2001 000 CHF
Machinery and equipment	60 000	60 000
Real estate	49 844	49 844

3. Own shares

On December 31, 2002 Bachem AG held 289 287 own shares, 61 570 are reserved for trading and 227 717 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 December 31, 2002 [pieces]	Sales [pieces]	Purchases [pieces]	Shares January 1, 2002 [pieces]
Employee participation scheme at the price of CHF 1.67	127 717	10 683	2 800	135 600
Option plan at the price of CHF 0.50	100 000	0	0	100 000
Treasury Stock at the price of CHF 74.02	61 570	30 776	66 746	25 600

4. Important shareholders

	Percent of total share capital December 31, 2002	Percent of total share capital December 31, 2001
P. Grogg (via Ingro Finanz AG) ¹	50.5	50.5
G. Knoch	8.6	8.6
Family of P. Grogg	6.0	6.0

¹ in this position all shares A are included

Appropriation of Earnings

Proposal of the Board of Directors for the appropriation of earnings

The Board of Directors of Bachem AG proposes to appropriate the available earnings as follows: CHF

Net income	18 544 173
Retained earnings at January 1	5 836 485
Retained earnings	24 380 658

Payment of a dividend of CHF 0.55 per registered share
for the business year 2002 on 13 176 350

registered shares entitled to a dividend	7 246 993
Transfer to free reserves	12 000 000
Retained earnings to be carried forward	5 133 665

The total amount of dividend mentioned in the proposal of the Board has been calculated on the basis of numbers of shares eligible to a dividend on the day of the Board meeting. The number of shares eligible to a dividend can still change up to the Annual General Meeting on May 14,

2003, depending on the distribution of shares to employees or purchase/sale of own shares. For this reason, dividends paid last year varied from the amount declared in the Annual Report 2002 and actually totaled CHF 10 031 110.

Report of the Statutory Auditors



Report of the statutory auditors to the general meeting of Bachem AG, Bubendorf

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes/pages 40 to 43) of Bachem AG for the year ended December 31, 2002.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Basel, April 1, 2003

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to be 'H. Plozza', written over a horizontal line.

H. Plozza

A handwritten signature in black ink, appearing to be 'P. Seiler', written over a horizontal line.

P. Seiler

Contacts

Investor Relations

Reto Conrad

Tel.: +41 61 935 2333

Fax: +41 61 935 2324

Email: reto.conrad@bachem.com

Internet

www.bachem.com

Switzerland

Bachem AG

Hauptstrasse 144

CH-4416 Bubendorf

Tel.: +41 61 935 2333

Fax: +41 61 931 2549

Email: sales.ch@bachem.com

Bachem Trading AG

Hauptstrasse 144

CH-4416 Bubendorf

Tel.: +41 61 935 2333

Fax: +41 61 931 2549

Email: sales.ch@bachem.com

Labortec AG

Hauptstrasse 144

CH-4416 Bubendorf

Tel.: +41 61 935 2333

Fax: +41 61 931 2549

Email: sales.ch@bachem.com

Sochinaz SA

route du Simplon 22

CH-1895 Vionnaz

Tel.: +41 24 482 4444

Fax: +41 24 482 4445

Email: info@sochinaz.ch

USA

Bachem Americas

Tel.: 1 888 422 2436 (USA only)

Fax: +1 310 530 1571

Bachem California Inc.

3132 Kashiwa Street

Torrance, CA 90505 – USA

Tel.: +1 310 539 4171

1 888 422 2436 (USA only)

Fax: +1 310 530 1571

Email: sales@us.bachem.com

Bachem Bioscience Inc.

3700 Horizon Drive

King of Prussia, PA 19406 – USA

Tel.: +1 610 239 0300

1 800 634 3183 (USA only)

Fax: +1 610 239 0800

Email: sales@us.bachem.com

Peninsula Laboratories Inc.

601 Taylor Way

San Carlos, CA 94070 – USA

Tel.: +1 650 592 5392

Fax: +1 650 595 4069

Email: info@penlabs.com

Great Britain

Bachem (UK) Ltd.

P.O. Box 62

17K Westside Industrial Estate

Jackson Street, St. Helens

Merseyside WA9 3AJ England

Tel.: +44 1744 61 2108

Fax: +44 1744 73 0064

Email: sales.uk@bachem.com

This Annual Report is published
in German and English

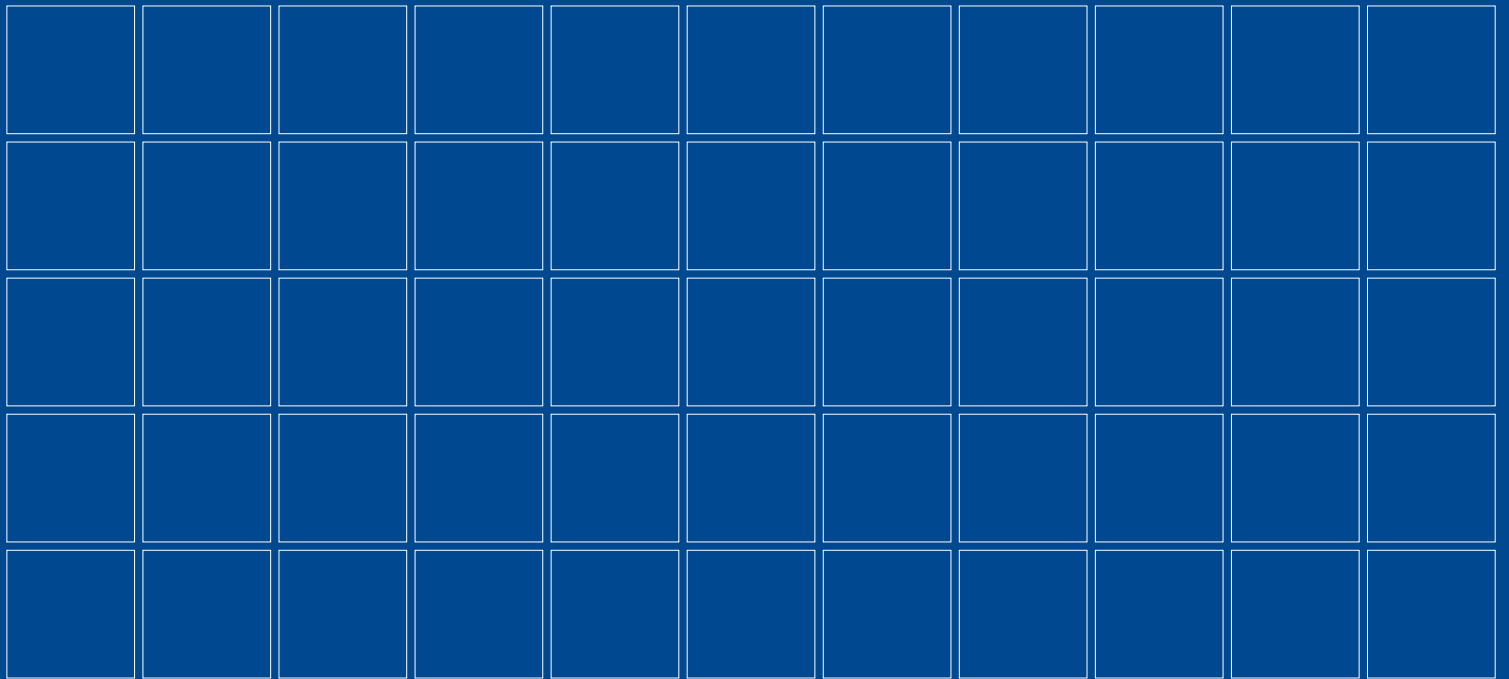
Published by: Bachem AG, Bubendorf,
Switzerland

Project management and production:
Com.factory AG, Basel, Switzerland

Design: Cornelia Reinhard

Print: Birkhäuser+GBC AG, Reinach BL,
Switzerland

Photography: Pino Covino, Basel, Switzerland
Photodisc



We are Bachem. Peptides are our business.