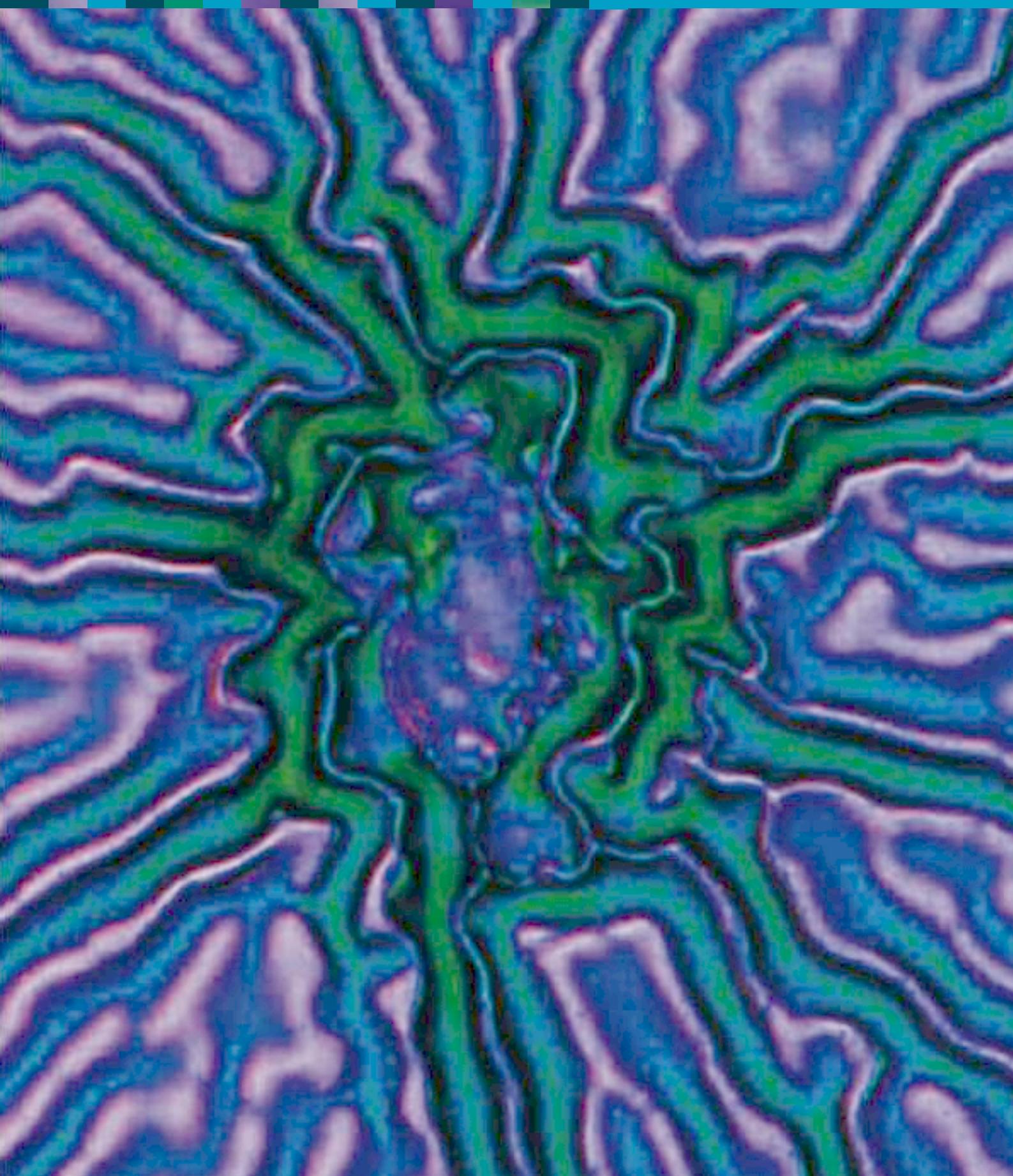


We are Bachem. Peptides are our business.

BACHEM

Bachem AG Annual Report 2001

GROWING WITH NEW OPPORTUNITIES



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.

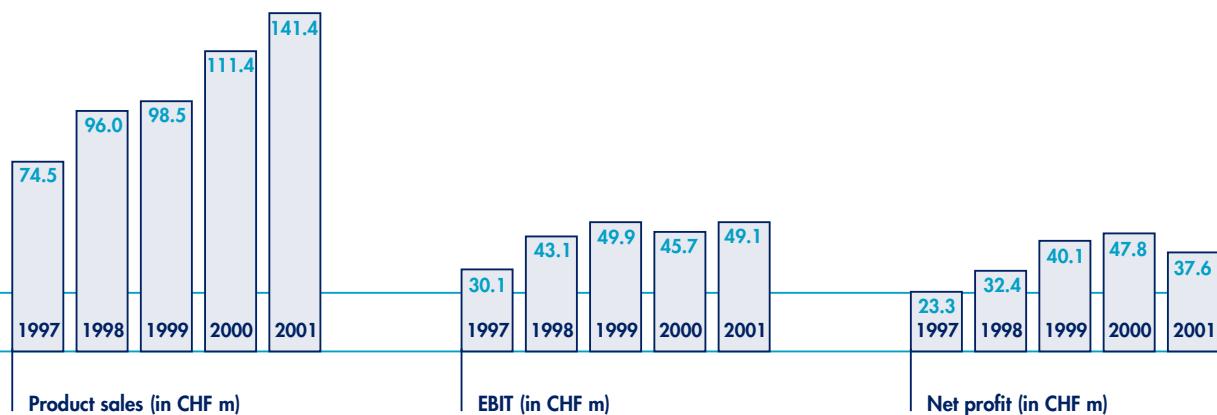
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The cover shows a microscopic picture of a Bachem-produced peptide in polarized light.

- Sales grow by 26.9% to CHF 141.4 million, EBITDA reaches 44.2% of sales
- Successful integration of Sochinaz SA, acquired per January 1, 2001
- US business continues to develop favorably
- New partnerships provide additional future prospects

KEY FIGURES FOR THE BACHEM GROUP



	2001	2000	1999	1998	1997
Net cash flow from operating activities (in CHF m)	31.4	31.7	44.9	37.3	30.6
EBITDA (in CHF m)	62.4	55.2	57.3	49.9	36.5
EBITDA in % of sales	44.2%	49.5%	58.2%	52.0%	49.0%
EBIT in % of sales	34.7%	41.0%	50.7%	44.9%	40.3%
ROE	12.4%	17.2%	16.8%	16.4%	25.2%
Number of employees (in full-time equivalents)	468	376	392	331	299
Sales per employee (in CHF)	302 032	296 335	302 277	289 940	249 275



Dr. h.c. Peter Grogg
Chairman of the Board and CEO
Dr. Rolf Nyfeler
COO and Chairman of the Corporate
Executive Committee



Dear Shareholders,

2001 was an eventful year for Bachem. Never before in the 30 years of the company's existence have we taken as many and as important steps for shaping the future of our business. The acquisition of Sochinaz (a specialized company for the production of active pharmaceutical ingredients), the agreement with Berna Biotech to form a joint venture for the development and production of vaccines, and a cooperation agreement with Theratechnologies, as well as the implementation of the new management structures, are all geared to build on our existing strengths and broaden our field of activities.

At the same time, we furthered current business. With a sales increase of 26.9%, we have achieved a record level turnover of CHF 141.4 million. While a good share of this increase is due to the acquisition of Sochinaz, the efforts in our core business activities, specifically in the US, also contributed to the positive result. The operating income (EBIT) increased by 7.4%, from CHF 45.7 million to CHF 49.1 million, and EBITDA rose by 13.1%, from CHF 55.2 million to CHF 62.4 million and representing 44% of sales.

Already in the year of acquisition Sochinaz contributed positively to the operating income, although attributable to the lower margin that is inherent in the Sochinaz business, the overall EBIT margin was slightly diminished. Depreciation and amortization of goodwill increased by 40.7% to CHF 13.3 million, which resulted in a decrease of the EBIT margin for the Bachem Group from 41% to 35%.

In line with expectations, net income decreased, reaching CHF 37.6 million as compared to CHF 47.8 million in 2000. The once-off favorable tax effect in

2000 and the unsatisfactory financial result in 2001 caused this decrease. Nevertheless, an unchanged dividend of CHF 0.75 per share is proposed to the Annual General Meeting.

Positive results in an uncertain environment

Achievements are quite satisfactory, considering the challenges in the current market environment for fine chemicals and biotech products. Global economic difficulties, exacerbated by the tragic events of September 11, 2001, did not leave our industry unaffected. Our research ingredients business showed short-term losses that negatively impacted sales and profit. Increased demand in the area of proteomics was complemented by additional impetus from our immunology business acquired from Peninsula and additional demand for our custom synthesis business that promises opportunities for potential future pharmaceutical compounds.

Our active pharmaceutical ingredients business, particularly the Sochinaz generics business, has developed favorably and shows attractive growth rates. The acquisition not only allowed Bachem to diversify its offer of generics, but also provided new growth options in the important US market where Sochinaz products can now be made available.

Growing with new opportunities

The strategic direction of Bachem will continue to be targeted towards systematic implementations that complement and broaden the core business, which is to develop and produce therapeutically active peptides and their building blocks. The acquisition of Sochinaz secured the

manufacturing capacities required for independent, large-scale production on all levels. In addition, the core business of Sochinaz already represents an expansion into additional segments for the production of active pharmaceutical ingredients.

The joint venture with Berna Biotech – under the name Pevion – for the manufacturing of vaccines on the basis of peptides is an initial step in extending the value chain of Bachem's activities. Bachem not only gains access to additional business by producing the necessary peptides, but also there is a direct benefit from the business success of the new company. A cooperation agreement with Theratechnologies guarantees exclusivity to Bachem for the production of potentially promising pharmaceuticals, and the research ingredients business continuously offers new opportunities as scientific knowledge progresses.

Increasing demands on organization and employees

Continuing growth and increasing complexity of the company pose new challenges to management and staff. The total number of employees has reached 468 full-time equivalents with the acquisition of Sochinaz. First and foremost, we would like to thank them all, as it is their efforts and performance that made possible Bachem's success last year. As an acknowledgement for the key role of our employees, the share participation program will be complemented step by step by an option program to further strengthen and allow employees' direct participation in the company's success.

At the same time, we have taken measures to adapt management structures to the needs of the company's growth, as well as to increase transparency of management structures both internally and externally. A Corporate Executive Committee has been established, which is accountable to the Board, and those responsible for the individual operational units report to this committee. Societal and environmental concerns are considered at all levels of the organization. Bachem considers itself a member of the communities where we live and work, and recently we invited community members to an open day at our headquarters site to join us in celebrating our thirtieth anniversary.

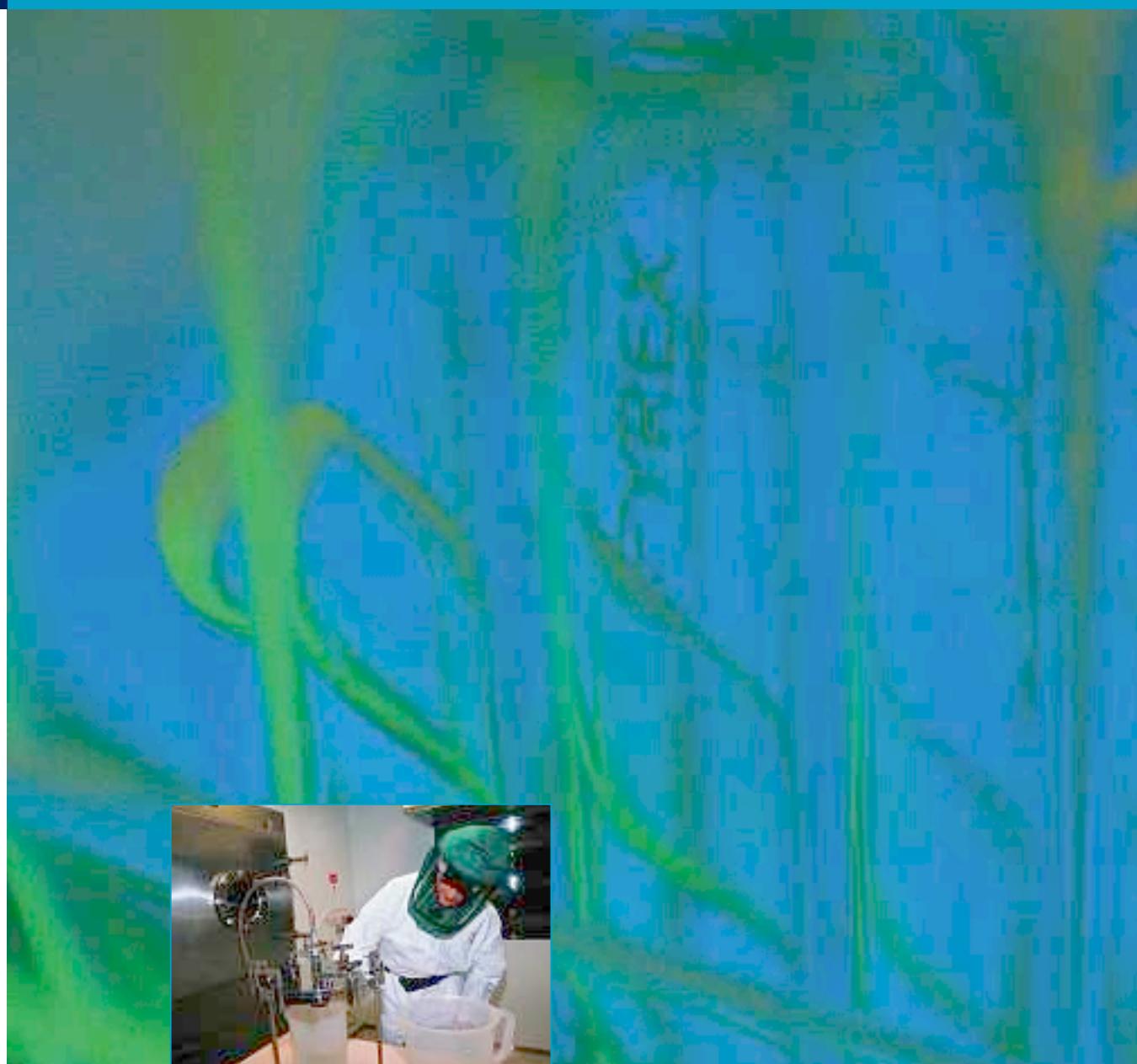
Outlook

Thirty years of success at Bachem represent both an opportunity and an obligation to carefully plan the long-term future of the company. We want to build on our core business: the production of peptides for research purposes and as active pharmaceuticals ingredients remains in the focus of our activities. In many cases, Bachem becomes both partner and conduit between the smaller research institutions we help on their way to new products, and large pharmaceutical companies who are expert in the global introduction and marketing of new drugs. In this role we intend to address partners in both directions to actively participate in the value-adding process of bringing innovative pharmaceuticals to market. Cooperation on the research side offers opportunities to identify promising compounds early on and participate in their manufacture. Agreements with major pharmaceutical companies allow us to contribute production expertise and capacities.

Given the developments in 2001, we are optimistic that Bachem will remain on a growth track in 2002. The recent surges in the research ingredients market, together with first Sochinaz successes and the quantity and quality of partnering projects, promise a continuous expansion of our business in 2002 as we strive to meet expectations of our shareholders and employees. Thank you for your trust.

Dr. h.c. Peter Grogg
Bubendorf, April 2002

Dr. Rolf Nyfeler



Bachem worldwide

Products of the Bachem Group are distributed in about 50 countries around the globe. While the American continent is served from offices in the US and Bachem affiliates in Germany, France and the UK are in charge of their local markets, the headquarters site in Bubendorf, Switzerland, works on the Swiss market and on all other international business.

Introduction

In 2001 sales of the Bachem Group increased by 26.9% to CHF 141.4 million. The acquisition of Sochinaz contributed significantly. With its portfolio of generic pharmaceutical compounds, the sales share clearly shifted in favor of active pharmaceutical ingredients, that now account for almost three quarters of sales of the Bachem Group. Research ingredients now comprise about one quarter of total sales.

Considering the strong geographic focus of Sochinaz on the European markets, this region also showed the highest growth rates of Group sales in 2001. The US business also developed favorably, particularly in the area of research ingredients.

The Bachem portfolio comprises three key areas: active ingredients for new, patent-protected pharmaceuticals from their development phase up to their global marketing, and generics, both product groups requiring production according to the rules of "good manufacturing practice" (GMP). The third business area is research ingredients, which comprises the catalog business including immunology products and non-GMP custom synthesis. Here products are manufactured only in small quantities.

The core business of the Bachem Group remains the production of peptides and amino-acid building blocks for research and the pharmaceutical industry. With the acquisition of Sochinaz, Bachem has taken another step towards implementing its broadened strategic direction that had begun with the acquisition of Peninsula Laboratories Inc. and the participation in Polyphor Ltd.: to extend the value-adding chain by focused backward and forward integration, as well as diversification in related business areas in life sciences utilizing synergy potentials.

Sochinaz, with its single reactor capacities of up to ten times the volume of previous Bachem production

facilities, opens new opportunities for the cost-effective production of building blocks and intermediates for peptide synthesis. Thus, Bachem is prepared for future increased demand for amino acid building blocks and peptide active ingredients. Primarily, however, Sochinaz is positioned optimally as a manufacturer of generics and exclusive pharmaceutical compounds and allows diversification into a related, non-peptide field of business.

Following the concept of forward integration, Bachem is committed to alliances, cooperation with and participation in companies with promising projects, especially those that target the discovery of new peptide compounds and the development of new application forms for peptides to extend Bachem's role beyond the mere production of active ingredients. The foundation of Pevion Biotech AG, a joint venture between Berna Biotech and Bachem announced in 2001, is a concrete example of this strategy. Pevion Biotech will develop therapeutic and prophylactic vaccines that are based on peptides and Berna Biotech's exclusively out-licensed virosome technology. This approach ideally combines core competencies of both partner companies. Bachem will not only be the exclusive provider of peptides for the future vaccines, but will also directly participate in Pevion Biotech's success.

OPERATIONAL REVIEW



Pharmaceutical compounds: New Chemical Entities

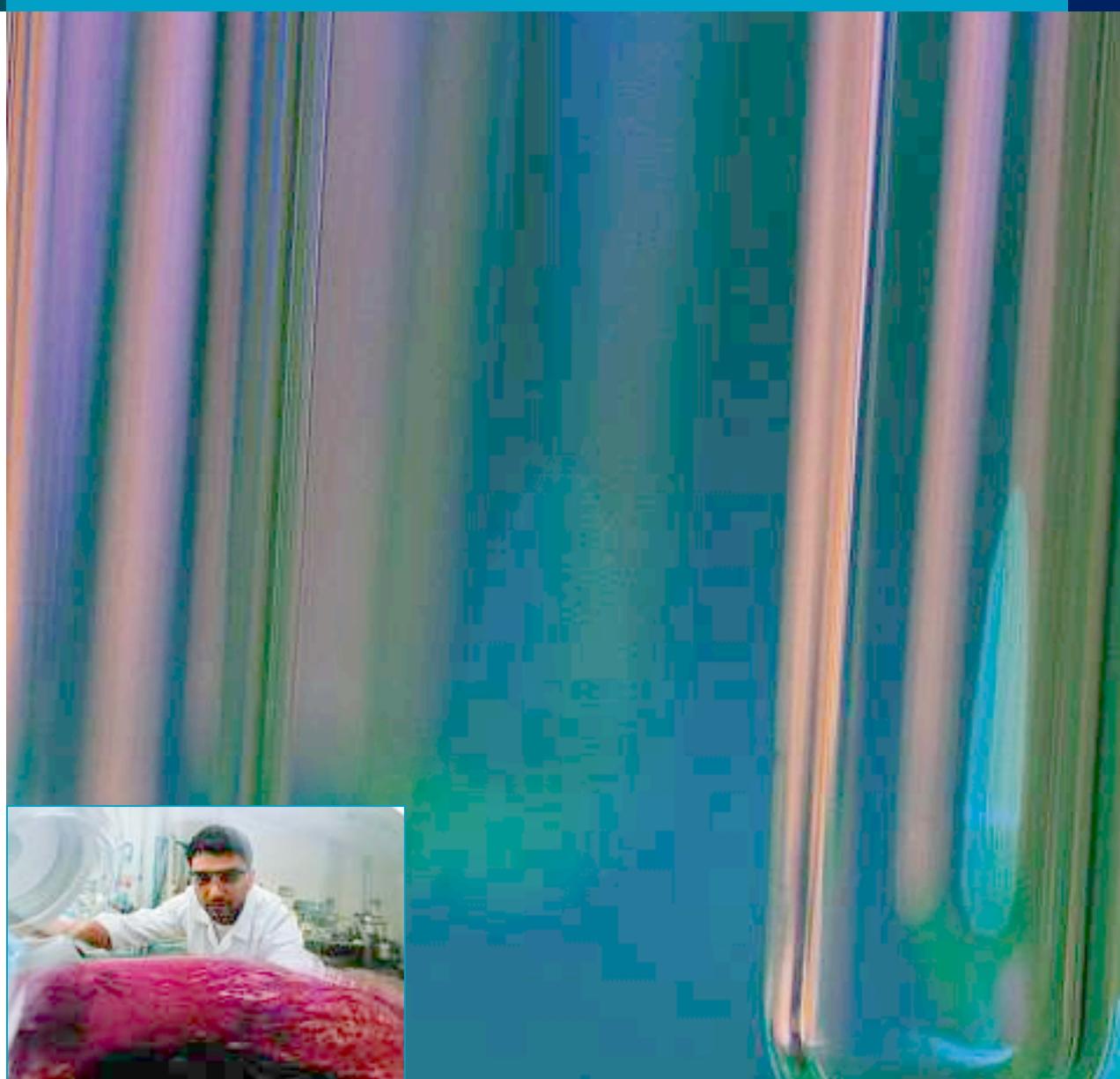
New Chemical Entities are compounds that are patent-protected and therefore may only be produced and marketed by the company that made the discovery or by enterprises authorized by the originating firm. Such compounds undergo a rigorous and comprehensive development process before any application for registration as a pharmaceutical can be submitted. As a result, initial volume demand is fairly low, while production at large scale becomes necessary once a compound has been cleared for market introduction.

Bachem supplies biotechnology and pharmaceutical companies with a substantial number of new, proprietary peptide compounds for pharmaceuticals and diagnostics. While about 20 such products have already received market approval worldwide, the majority is still in clinical development. Currently Bachem is involved in more than 80 projects to test novel peptides regarding their suitability for a variety of therapeutic and diagnostic applications. These compounds undergo the different phases of pre-clinical and clinical development, which take up to several years for each project. Throughout the process, Bachem supplies the amounts of peptides necessary to conduct the various tests. The broad range of projects is of paramount importance to Bachem, as typically not all products are successful in the development process, either failing to fulfill expectations or meet regulatory requirements of health authorities. In contrast to companies that focus their development efforts on a few products and thus making their future dependent on the outcome of each project Bachem is very diversified in the production of test compounds in clinical development. As a result Bachem is much less vulnerable to failures in development of individual compounds or negative decisions regarding their marketing approval. Successful market approval is also the desired objective for the manufacturer of a development compound, as usually far greater amounts of the compound are required once a product is approved, and longer-term supply contracts can be negotiated with the pharmaceutical company. While the demand for diagnostic products

following their launch remains relatively modest, demand for therapeutic peptides, depending on the indication area, can easily reach tens of kilos per year and more, representing sales of up to several million Swiss francs per project.

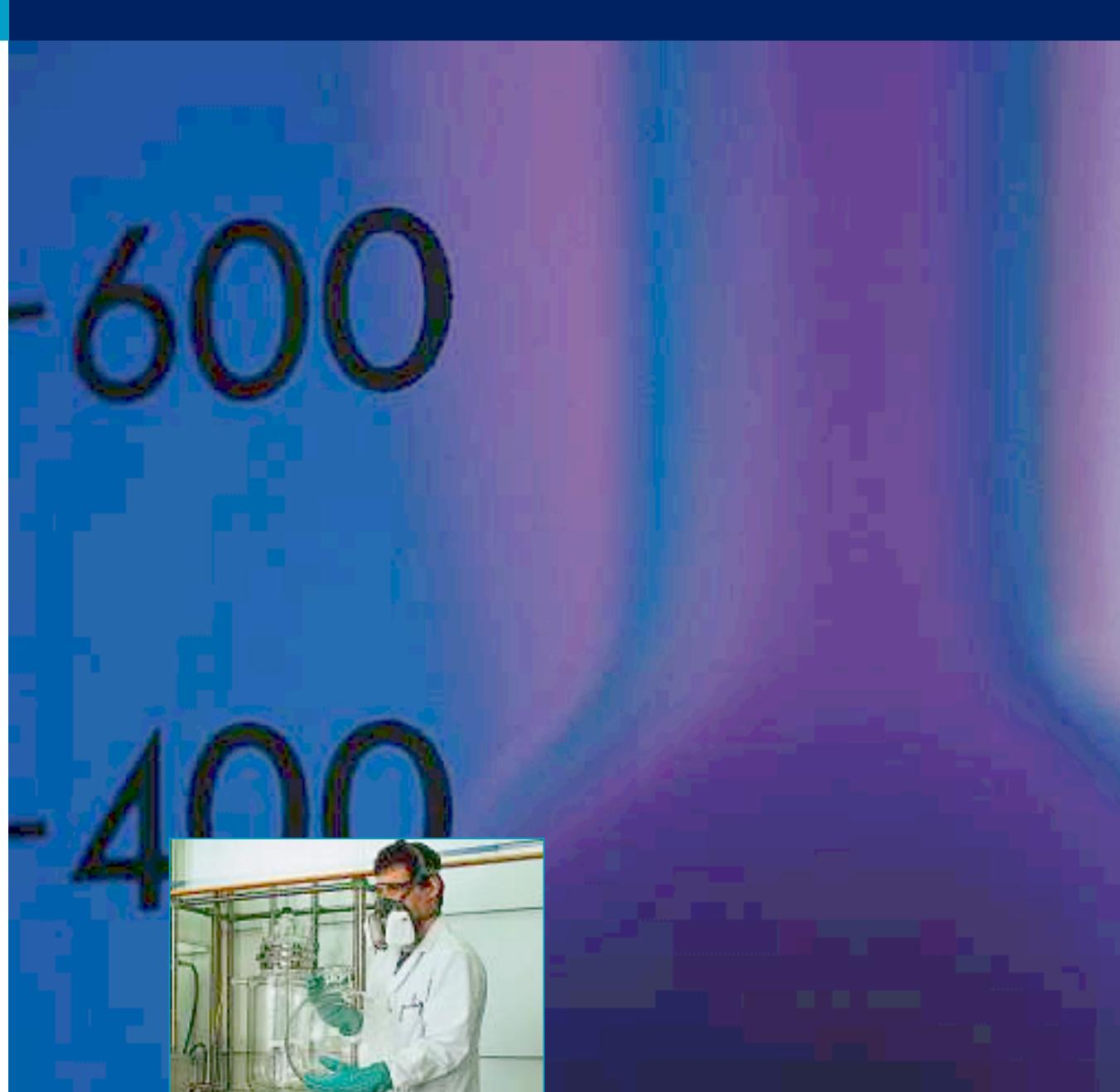
Not only is Bachem involved in a substantial number of projects, but also these projects cover a wide range of therapeutic areas, such as diabetes, cancer, AIDS, Alzheimer's disease, asthma, hepatitis, reproductive disorders and others. One interesting example is Bachem's collaboration with Theratechnologies for the development and production of ThGRF. A peptide that releases growth hormone, ThGRF is in clinical studies for such diverse indications as the treatment of muscle wasting observed in chronic obstructive pulmonary disease and hip fractures, and in the treatment of immune dysfunction and sleep disorders. Together, Bachem and Theratechnologies will work to develop a production process for larger amounts of ThGRF as initially required for clinical studies, and, more importantly, for amounts needed for the commercialization of the product following market approval. This process must comply with the stringent requirements of authorities concerning GMP for the production, analysis, storage and transport of pharmaceuticals and, at the same time, allow for the cost-effective production of the compound.

The substantial number of projects, their wide range of indication areas and the potential to deliver large volumes of compounds offer interesting prospects for the future growth of the Bachem Group.



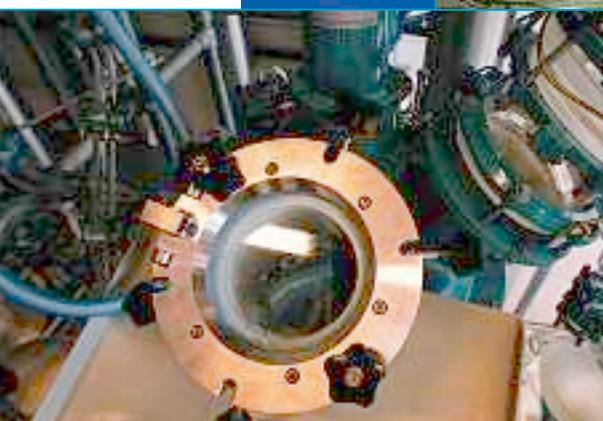
Sea anemone toxin: new compounds for multiple sclerosis

ShK, a peptide derived from the toxin of *Stichodactyla helianthus*, a sea anemone, has proven to be a promising candidate for the treatment of multiple sclerosis (MS). As research at the University of California Irvine and at the University of Marseilles in cooperation with Bachem has shown, this peptide halts and may reverse the paralysis seen in an experimental form of MS. The project is supported by the National Institute of Health (NIH) and the National Multiple Sclerosis Society, among others. Bachem participates in the success of the project both by producing this complex peptide and related analogs, and as co-owner of a patent on ShK toxins and their application.



Production at Sochinaz

With a current reactor capacity of 70 m³, Sochinaz produced over 200 tons of various active pharmaceutical ingredients in 2001. The production facilities fully comply with the latest GMP requirements. Most installations have been designed as multipurpose units. The large variety of equipment allows the realization of almost any synthesis, including enzymatic, chiral and electrochemical reactions. In addition a special lab for the production of highly potent active ingredients in dedicated units was recently inaugurated.



Pharmaceutical compounds: Generics

Generics are pharmaceuticals or their active ingredients that are no longer patent protected. The manufacturer of such a compound benefits from a widening of the customer base and an overall market expansion for the product. While this also results in increasing competition since the market opens for additional manufacturers, this does usually not result in price erosion for peptide compounds.

Many of the currently registered peptide pharmaceuticals are generics. The business is stimulated by new application forms that can be patented and therefore extend the protection of a drug for the pharmaceutical company. For instance, calcitonin, a peptide compound for the treatment of osteoporosis, showed a significant increase in demand due to the development of a nasal application form by Novartis.

Many biotechnology companies work on such developments. Application forms can be nasal, transdermal, depot formulations or, possibly in the future, oral. The Food and Drug Administration (FDA), the US regulatory authority for the registration of pharmaceuticals, recently approved a monthly depot formulation of the peptide compound leuprolide, a product under the name Eligard® from Atrix Laboratories in the US that is used in the treatment of prostate cancer.

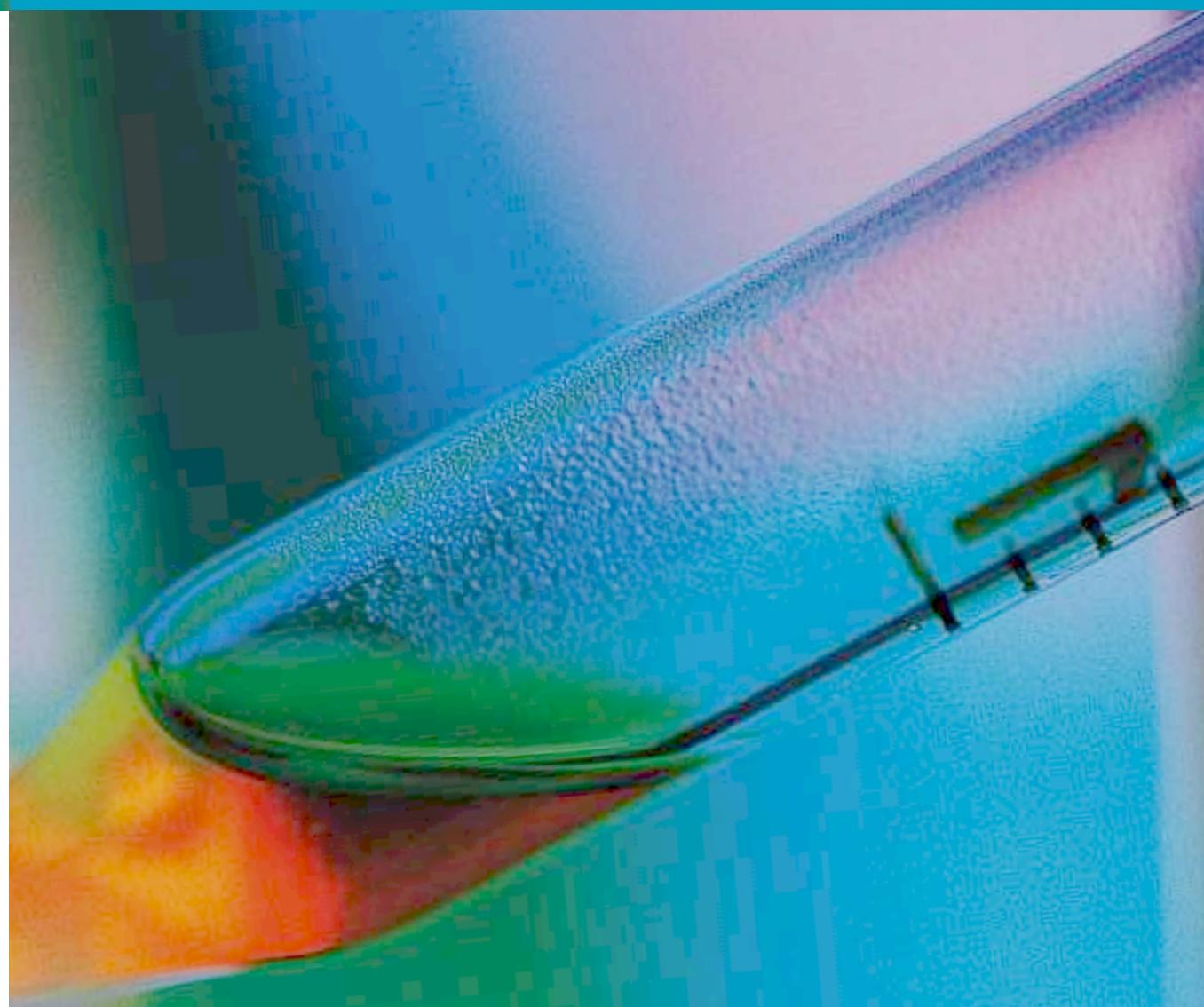
The two mentioned peptides, calcitonin and leuprolide, are part of Bachem's offer of peptide generics. Globally, Bachem is the biggest independent manufacturer of peptide compounds. The generics franchise comprises more than 20 peptides that are produced in quantities of up to several tens of kilos per year.

Bachem's non-peptide generic compounds business, so far rather small, has been significantly increased through the acquisition of Sochinaz. Since its foundation in 1973, Sochinaz has focused on the synthesis of advanced intermediaries and active ingredients and has

been acknowledged as a trustworthy and reliable partner by pharmaceutical companies. For many years Sochinaz has diversified its activities in the increasingly dynamic generics business, and several generics have been launched that show good growth and a positive contribution to operating results.

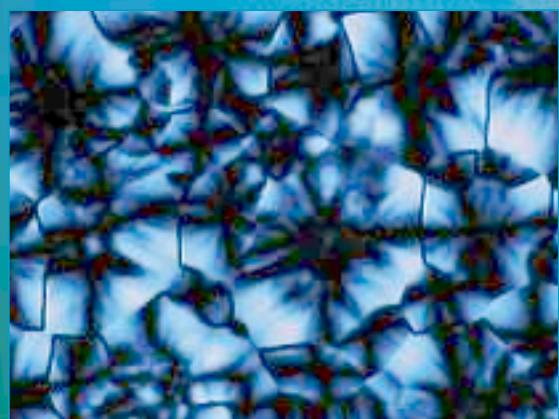
The most important Sochinaz products are carbidopa and pergolide mesylate for the treatment of Parkinson's disease, propofol, an anesthetic, and trimetazidine, a coronary vasodilator, and Sochinaz has established a leading market position for all of these products. Carbidopa, propofol and trimetazidine today are produced at the scale of tons in order to meet market demand, while pergolide mesylate is comparable to a peptide drug with a global market volume of only a few tens of kilos annually. For the production of pergolide mesylate, which is a highly potent active ingredient, Sochinaz built a special lab that will be available for use by the entire Bachem Group for such purposes.

A number of new generics are currently under evaluation at Sochinaz, and it is planned to launch one or two new generics per year in the future. The generics business has become an important pillar for the future growth of the Bachem Group. This is due in part to the attractive offer of Sochinaz, as well as to interesting developments in the field of new application forms for peptides.



Research activities in the Bachem Group

Primarily, research projects within the Bachem Group have the objective of improving methods of synthesis and optimizing production processes. New building blocks are developed, for some of which patent applications are submitted. A current project – chemical ligation for the preparation of proteins – deals with the chemical synthesis of proteins for the research market for the time being, with a particular focus on modified proteins that are not accessible by means of conventional recombinant methods.



Research ingredients

Research ingredients are peptides or other biochemical substances that are typically applied in milligram amounts for test purposes by scientific or industrial research institutions. In addition to providing as comprehensive a range of compounds as possible for routine or experimental use, Bachem also offers customers the development of efficient routes of synthesis for amino acid sequences as part of its services in this field.

To a large extent, biochemical and medical research depends on easy availability of a wide range of research ingredients. Bachem is the leading supplier of peptides and amino acid building blocks for university and industrial pharmaceutical research, currently offering more than 8400 ingredients via product catalog or the Internet. More than 95% of these products can be delivered off the shelf. Most catalog products from Bachem and Peninsula were aligned in 2001. By issuing a separate immunology product catalog, the Bachem Group has succeeded in stimulating its immunology business. For certain research purposes, providing diagnostic kits in addition to the active compound has proven to be particularly useful, to measure concentration levels of the active ingredient, for instance. One of Bachem's strengths is to provide immunological kits in parallel with its range of biologically active peptides. Part of this strategy is the development of a kit for determining ghrelin, which, amongst others, is used in research on obesity.

The research ingredients business represents approximately 28% of sales and developed favorably in 2001, with a significant increase in sales and the number of custom synthesis projects. This is of particular importance to Bachem as such custom syntheses potentially lead to substantial future projects for the supply of pharmaceutical compounds. With increasingly growing interest in customer-specific peptide syntheses, the opportunities for peptides as active pharmaceutical ingredients are considered very promising. The production of such a wide variety of products allows the continuous development of production knowledge. At the same time, this business is ideal for Bachem to continue to build its reputation for quality, service and innovation. Production knowledge and reputation are indispensable prerequisites for successful performance in the market for pharmaceutical compounds.



Employees, Safety and Environment

Synchronous with the growth of the company, the number of employees is increasing as new sites are added and production capacities expanded. Bachem wants to responsibly meet the new challenges that arise from these developments. All aspects of employee relationships are covered under "Human Resources," and safety and environmental protection deal in very concrete terms with safety issues both for our employees and our environment.

Human Resources

Achieving the ambitious objectives of the Bachem Group depends to a large extent on the motivation, dedication and education of employees at all company sites.

The number of Bachem Group employees increased in 2001 from 376 to 468 full time equivalent jobs, mainly due to the acquisition of Sochinaz, which employs approximately 80 people. Including part-time employees, the Bachem Group staff is currently about 500.

The production of highly complex molecules demands a sufficient number of highly trained employees. Accordingly, the Bachem staff shows a high level of education, with more than a quarter of all employees holding a university degree. The availability of very well qualified people is a prerequisite for each individual production site. At its headquarters site in Bubendorf, Switzerland, which employs about half of the total worldwide staff, Bachem also emphasizes the education of apprentices, specifically certified laboratory technicians.

About two-thirds of all employees work in the laboratories and production, which illustrates the orientation of Bachem activities towards technology. Nearly 20% of staff work in sales, marketing and customer services, and fewer than 10% in administration.

In view of continuing growth of the Bachem Group, experience and knowledge management are of increasing importance. The Bachem exchange program allows qualified employees to spend a year at another production site of the Group, both to gain new practical knowledge and to improve mutual understanding.

Employees of the Bachem Group not only participate in the company's success but also in its share capital. In addition to the already existing share participation program, an option program was launched in 2001 that will be implemented incrementally.

Safety and environmental protection

In 2001, Bachem continued its efforts for environmental protection and safety, with all required training for employees conducted according to schedule.

The implementation of regulation ASA 6508 for occupational safety in Switzerland was achieved on the basis of an individual solution, and the ASA site audit certified a high safety standard and good safety culture. At other sites, cooperation with local authorities proceeded very constructively and on a basis of mutual trust.

The newly opened facilities at the Bubendorf production site successfully passed the acceptance review of occupational health and fire protection authorities. Energy consumption and cost increase related to the new facilities will be minimized, and a concept study on wastewater management has shown that wastewater treatment and disposal can be managed economically and environmentally compatible as the planned expansion of production capacities continues. VOC emissions were reduced in 2001 as compared to 2000 due to primary measures.

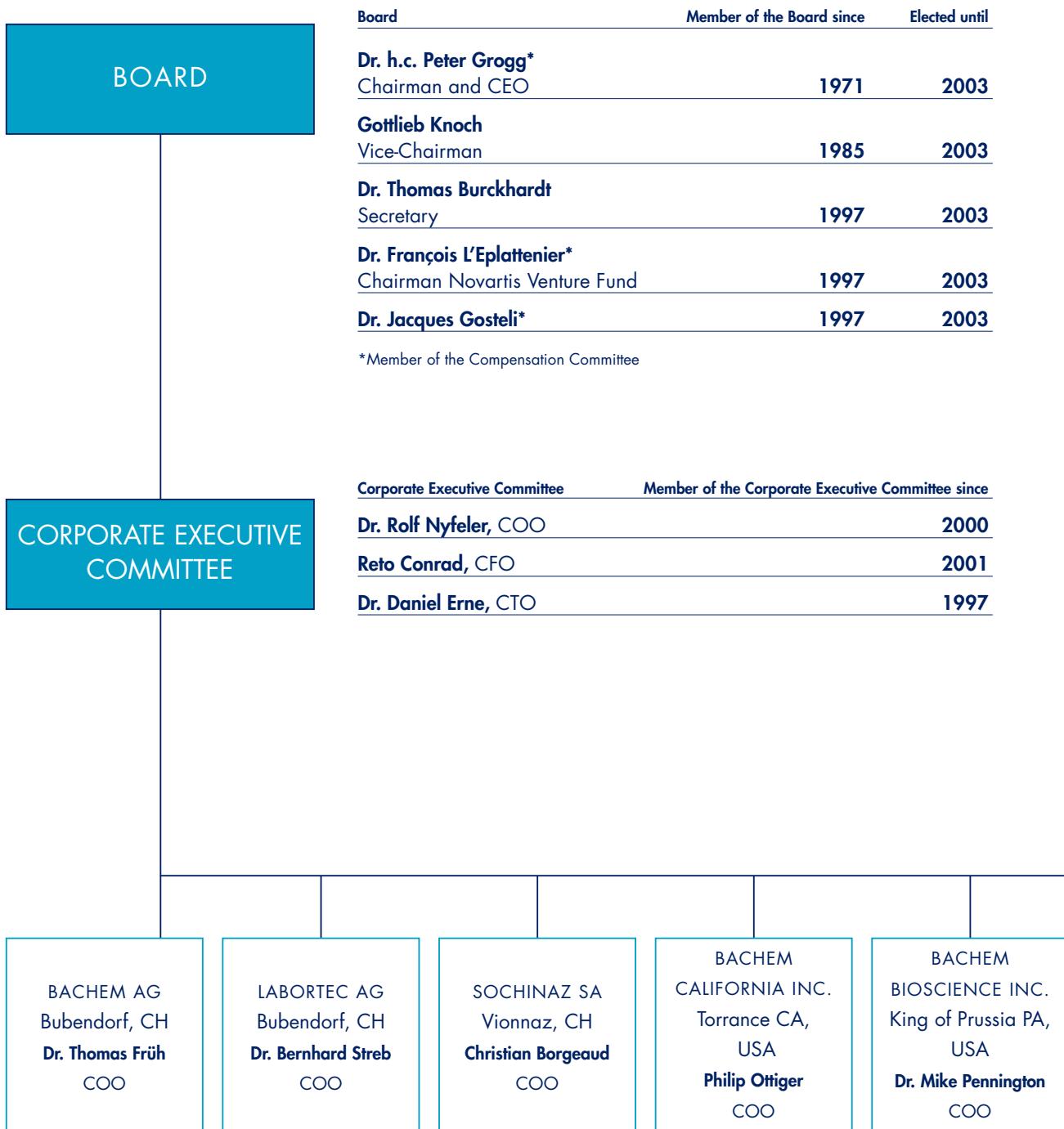
Following the integration of Sochinaz into the Bachem Group, cooperation in the area of safety and environmental affairs was initiated and useful synergies have already been identified.



Careful use of energy

In 2001, total CO₂ emissions of Bachem AG resulting from the use of fossil fuels amounted to 634 tonnes, which translates to CO₂ values per employee of about one-sixth that of the pharmaceutical chemical industry average in Switzerland. Total energy consumption is similarly favorable. Bachem AG in general achieves high economic performance with lower environmental impact as compared to industry norms.

MANAGEMENT AND CONTROL OF THE BACHEM GROUP



The Board of Directors of Bachem AG consists of a full-time chairman and four external and independent board members. During 2001, the Board convened for four half-day meetings. The Board fulfills its legal and statutory obligations comprising in particular the overall management of the Group, the definition of Group guidelines, strategic planning of corporate and business policies of the Group, as well as instructing the Corporate Executive Committee. The Board is also responsible for the compensation of members of the Corporate

Executive Committee and the COOs of Group companies. The Board has formed a Compensation Committee, constituted by three of its members, for the definition of distribution of share options. The Board oversees the Bachem Group accounts and the financial statements of Bachem AG and reviews the reports of the external auditors. It also assesses whether recommendations have been implemented. Board decisions are made on a majority basis, with the Chairman's vote deciding, when necessary.

Operatively the Bachem Group is organized as a virtual holding company. The Board nominates a Corporate Executive Committee, which is delegated with operational management of the Group. The Corporate Executive Committee currently consists of the Chairman and two members. Each Group company is under the direction of a management team that is responsible for operational activities and reports to the Corporate Executive Committee. No agreements on departure compensations

have been made for any member of the Board, the Corporate Executive Committee or any COO.

As representatives of the Bachem Group, Thomas Früh (COO Bachem AG) is a Board member of Polyphor AG, Allschwil, Switzerland, and both Peter Grogg and Daniel Erne are Board members of Pevion Biotech AG (founded in January 2002), Bern, Switzerland.

PENINSULA LABORATORIES INC. San Carlos CA, USA Dr. Paul Ladden COO	BACHEM AMERICAS* Torrance CA, USA Dr. José de Chastonay President	BACHEM (UK) LTD St. Helens, UK Dr. Stanley Moore COO	BACHEM BIOCHEMICA GMBH Heidelberg, Germany Hans Niedderer COO	BACHEM BIOCHIMIE SARL Voisins-le-Bretonneux, France Philippe Woelfle COO
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*Marketing unit of the Bachem companies for the Americas



Sales

The Bachem Group increased sales again in 2001, by a significant 26.9%. Considering the trend over five years, this contributes to an average annual growth rate of 20.6%. In local currencies, growth was a remarkable 27.3% for 2001. Main contributors to this excellent result have been the acquisition of Sochinaz, effective January 1, 2001, and the favorable development of the American business. In Europe, Bachem managed to strengthen its leadership position despite the difficult market environment.

Operating results

The earnings before interest, tax, depreciation and amortization (EBITDA) during 2001 were increased by 13.1%, from CHF 55.2 million to CHF 62.4 million. Despite the acquisition of Sochinaz SA and its activities in business areas with significantly lower margins, the EBITDA margin declined only modestly, by five percentage points, to 44.2%. Cost of materials in the reporting period more than doubled, reflecting the much more material-intensive production activities of Sochinaz. Staff cost increased by 24.2% due to the acquisition; however, staff cost per employee remained unchanged at slightly less than CHF 100 000 per employee, while sales per employee increased slightly by 2% to CHF 302 000. Operating income (EBIT) grew by 7.4%, from CHF 45.7 million to CHF 49.1 million. This result was achieved despite the increase of depreciation on fixed assets by 45% resulting from the effect of the Sochinaz acquisition and higher depreciation on the new production facility in Bubendorf. The increase in amortization of goodwill is due to the acquisition of Sochinaz.

Financial results

The negative development of the financial markets in 2001 also affected the financial results of the Bachem Group. The net financial loss of CHF 1.6 million can be attributed primarily to lower capital gains and dividends (CHF 7.3 million less than in 2000) and lower interest income of CHF 2.6 million. The result from currency

translations is balanced. In addition, accounting standard IAS 39 was introduced during the reporting year, according to which unrealized gains and losses on marketable securities are recognized over the fair value reserve in the equity.

Taxes

Tax rate increased in the reporting period as expected, from 11.3% to 20.8%. In 2000 the Bachem Group benefited from a once-off effect due to the change in taxation system in the Canton of Basel-Landschaft, Switzerland. The comparable tax rate in 1999 was 26.9%.

Net income

Primarily resulting from the unsatisfactory financial result, net income decreased from CHF 47.8 million to CHF 37.6 million. Despite this reduction, the Board proposes an unchanged dividend as compared to 2000 of CHF 0.75 per nominal share.

Sochinaz acquisition

On January 1, 2001, Bachem acquired 100% of the shares of Sochinaz SA, located in Vionnaz, VS, Switzerland. The purchase price of CHF 35 million was fully paid from liquid funds. At the time of acquisition, Sochinaz had net assets of CHF 25 million, resulting in goodwill of CHF 10 million. This amount is amortized over a period of 10 years in the profit and loss account. According to expectations, Sochinaz developed favorably and contributed positively to the operating result in its first year as part of the Bachem Group (after depreciation of goodwill).

Investments

As compared to 2000, investments significantly reduced from CHF 20.3 million to CHF 14.4 million in 2001. This is particularly due to the completion of the additional production facility at our Bubendorf site in early 2001.

SHARE INFORMATION

		1998	1999	2000	2001
Registered shares, nominal value CHF 0.50		13 600 000	13 600 000	13 600 000	13 600 000
Average number of outstanding shares	CHF	12 706 520	13 311 520	13 345 340	13 347 000
Dividend per share	CHF	0.50	0.65	0.75	0.75
Share price nominal share	high	CHF	114	130	145
	low	CHF	68	98	58
	year end	CHF	100	128	95
Dividend yield	high	%	0.7%	0.7%	0.6% 1.3%
	low	%	0.4%	0.5%	0.4% 0.5%
Group income per share		CHF	2.55	3.01	2.82
Net cash flow from operating activities per share		CHF	2.93	3.37	2.35
Group equity per share		CHF	15.57	17.89	22.79
Price/earning ratio (year end)			39.22	42.52	33.69
Market capitalization at year end	CHF m		1 360	1 741	1 292

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 2001)	May 15, 2002
Half year results 2002	August 2002
Full year sales 2002	January 2003
Full year results 2002	April 2003
Annual General Meeting (business year 2002)	May 14, 2003

CONSOLIDATED INCOME STATEMENTS

for the years ended December 31, 2001 and 2000

	Notes	2001 000 CHF	2000 000 CHF
Sales	16	141 351	111 422
Other income		1 179	1 187
Cost of materials		-21 309	-10 453
Changes in inventories		6 291	3 811
Staff cost		-46 126	-37 132
Depreciation and amortization expense	7/8	-13 312	-9 458
Other operating expenses		-18 972	-13 650
Operating income	16	49 102	45 727
Financial income	14	5 644	16 460
Financial expense	14	-7 202	-7 835
Currency result, net		-25	-413
Financial income, net		-1 583	8 212
Income before taxes		47 519	53 939
Income taxes	15	-9 900	-6 091
Net income		37 619	47 848
Earnings per share (CHF)	22	2.82	3.59



CONSOLIDATED BALANCE SHEETS

at December 31, 2001 and 2000

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Assets	Notes	2001 000 CHF	2000 000 CHF
Cash and cash equivalents		64 727	85 282
Marketable securities	4	50 999	58 932
Trade and other receivables	5	28 735	26 015
Inventories	6	48 823	29 757
Total current assets		193 284	199 986
Tangible fixed assets	7	117 565	93 117
Intangible assets	8	25 886	19 868
Prepaid pension fund contributions	19	619	619
Financial assets*	24	4 322	1 789
Deferred tax assets		1 162	455
Total long-term assets		149 554	115 848
Total assets	16	342 838	315 834
Liabilities and equity			
Trade payables		9 002	8 570
Short-term financial debts	9	0	108
Income tax payables		3 303	4 332
Other short-term liabilities	10	5 300	8 973
Provisions	13	2 307	4 125
Total short-term liabilities		19 912	26 108
Financial debts	11	3 736	484
Deferred tax liabilities	12	15 041	11 331
Total long-term liabilities		18 777	11 815
Total liabilities		38 689	37 923
Share capital		6 800	6 800
Retained earnings		211 047	183 448
Share premium		85 839	85 839
Own shares		-1 887	-319
Fair value reserve		-464	0
Cumulative translation difference		2 814	2 143
Total equity		304 149	277 911
Total liabilities and equity		342 838	315 834

* For comparison, the presentation of 2000 figures has been adjusted to align with 2001 reporting.

CONSOLIDATED CASH FLOW STATEMENTS

for the years ended December 31, 2001 and 2000

	Notes	2001 000 CHF	2000 000 CHF
Cash flow from operating activities			
Net income		37 619	47 848
Reversal of non-cash items:			
Income taxes	15	9 900	6 091
Depreciations and amortizations	7/8	13 312	9 459
Financial income, net		-1 583	-4 109
Gains on sale of tangible and intangible assets		0	76
Income taxes paid		-12 762	-11 270
Change in net current assets		-16 439	-16 203
Other operating cash flow items		1 352	-182
Cash flow from operating activities		31 399	31 710
Cash flow used for investing activities			
Investment in tangible fixed assets	7	-14 393	-20 822
Investment in intangible fixed assets	8	-784	4 075
Proceeds from sales of tangible fixed assets		62	0
Acquisition of subsidiaries	3	-33 105	0
Investment in financial assets	24	-2 530	-1 120
Change in marketable securities		7 469	-12 565
Interest and other financial receipts		1 922	8 518
Cash flow used for investing activities		-41 359	-21 914
Cash flow used for financing activities			
Change in own shares		-1 568	139
Change in financial debts		871	1 035
Interest and other financial payments		-277	-96
Dividends paid		-10 020	-8 672
Cash flow used for financing activities		-10 994	-7 594
Net effect of currency translation on cash and cash equivalents		399	18
Net change in cash and cash equivalents		-20 555	2 220
Cash and cash equivalents at the beginning of the year		85 282	83 062
Cash and cash equivalents at the end of the year		64 727	85 282
Movements in 2001 and 2000, respectively		-20 555	2 220

* For comparison, the presentation of 2000 figures has been adjusted to align with 2001 reporting.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

for the years ending December 31, 2001 and 2000

	Share capital 000 CHF	Retained earnings 000 CHF	Share premium 000 CHF	Own shares 000 CHF	Cumulative translation difference 000 CHF	Total 2000 000 CHF
Balance January 1, 2000	6 800	144 272	85 839	-458	1 730	238 183
Net income	0	47 848	0	0	0	47 848
Dividends paid	0	-8 672	0	0	0	-8 672
Transactions with own shares	0	0	0	139	0	139
Cumulative translation difference	0	0	0	0	413	413
Balance December 31, 2000	6 800	183 448	85 839	-319	2 143	277 911

	Share capital 000 CHF	Retained earnings 000 CHF	Share premium 000 CHF	Own shares 000 CHF	Fair value reserve 000 CHF	Cumulative translation difference 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 of 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 difference	0	0	0	0	0	671	671
Change of fair value reserve	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

For transactions with own shares, see page 38, Notes to the Financial Statements of Bachem AG, note 3. 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- and 6 798 000 shares Bachem -B-. The shares Bachem -B- are traded at the Swiss Exchange (SWX). Except for the registration of Bachem -B- shares, there are no further differences between the two share categories.

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 headquarters 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 and disclosures

The financial statements of the Bachem Group are prepared in accordance with the International Accounting Standards (IAS) formulated by the International Accounting Standards Committee (IASC). The consolidated financial statements have been approved by the board of directors of Bachem AG on April 3, 2002.

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. Inter-company income and expenses, including unrealized gross profits from internal Group transactions and inter-company 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 profit and loss 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 shareholder's 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 consist of equity and debt securities which are traded in liquid markets. See changes in accounting policies.

Trade accounts receivable

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
EDP equipment	3 to 5 years
Vehicles	5 to 7 years

The useful lives reflect the economic useful life of the respective assets. Maintenance expense is recognised in the income statement. Expenses that extend the estimated useful life of a tangible fixed asset 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 live. The amortization period is determined at the time of the acquisition, based upon the particular circumstances, and ranges from 5 to 10 years. Software is amortized on a straight-line basis over its expected useful life, usually between 3 and 5 years.

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. For details see change in accounting policies.

Impairment of long-term assets

Long-term assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying 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 the 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 costs 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 revenues 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 benefits 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 or 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 costs 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 liability 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 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

Financial assets, principally marketable securities and other investments 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 costs. 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. Under the Group's previous accounting policies, marketable securities were valued at the lower of cost and market value. No hedge accounting in the sense of IAS 39 has been recorded.

Financial risk management

Financial risk management is governed by the 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 alter 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 2001 CHF	2000 CHF	Balance sheet year end rate 2001 CHF	2000 CHF
1 US Dollar	1.6879	1.6888	1.6788	1.6205
1 English Pound	2.4291	2.5569	2.4302	2.4207
1 Euro	1.5103	1.5579	1.4809	1.5215

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

On December 31, 1999, Bachem AG acquired 100% of Peninsula Laboratories Inc., San Carlos – USA, as well as 100% of the subsidiary Peninsula Laboratories Europe Ltd., St. Helens (England). For consolidation purposes the assets and the liabilities were taken into consideration. The goodwill has been amortized from January 1, 2000. On November 1, 2000 Bachem (UK) Ltd. Saffron Walden and Peninsula Europe Inc., St.

Helens, were merged to the new Bachem (UK) Ltd., St. Helens, England.

Based on knowledge acquired after the takeover, Peninsula Laboratories Inc., was according to IAS 22 restated. In the following chart all the assets and liabilities of the acquisition of Peninsula, also revised, are itemized:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Changes in the scope of consolidation (continued)

	2000 Acquisitions revised 000 CHF	1999 Acquisitions 000 CHF
Tangible fixed assets	-8 531	-9 322
Other long-term assets	-40	-35
Inventories	-3 795	-3 255
Trade and other receivables and other current assets	-1 899	-1 784
Marketable securities, cash and cash equivalents	-355	-355
Short- and long-term financial debts to third parties, provisions	6 201	4 306
Trade payables and other liabilities	1 166	1 119
Net assets acquired	-7 253	-9 326
Less acquired cash	355	355
Sub-total	-6 898	-8 971
Goodwill	-5 842	-3 769
Net cash flow	-12 740	-12 740

4. Marketable securities

	2001 000 CHF	2000 000 CHF
Shares	Purchase cost of shares	30 737
	Market value of shares	30 737
Derivatives	Purchase cost of derivatives	80
	Market value of derivatives	80
	Contract value of derivatives	1 896
Bonds	Purchase cost of bonds	20 182
	Market value of bonds	20 182
Total	Purchase cost	50 999
	Market values	50 999

Under a securities lending contract, securities in the amount of CHF 2 092 050 were lent to a bank (prior

year CHF 0). All securities can be reclaimed at any time.

5. Accounts receivable

	2001 000 CHF	2000 000 CHF
Trade receivables	22 878	22 144
Provisions for doubtful trade receivables	-1 425	-497
Prepaid expenses and accrued income	4 103	2 324
Other receivables	3 179	2 044
Total	28 735	26 015

	2001 000 CHF	2000 000 CHF						
6. Inventories								
Raw materials	11 584	3 408						
Finished products	37 239	26 349						
Total	48 823	29 757						
7. Tangible fixed assets								
	Land 000 CHF	Buildings 000 CHF	Assets in construction 000 CHF	Installations 000 CHF	Laboratory equipment 000 CHF	Other 000 CHF	Total 2001 000 CHF	Total 2000 000 CHF
Cost at January 1	10 460	58 424	15 579	26 626	32 964	6 567	150 620	117 541
Changes in the scope of consolidation	1 305	10 898	0	26 540	2 309	1 384	42 436	1 772
Additions	0	5 227	0	2 022	6 614	530	14 393	20 301
Disposals	0	0	0	0	-466	-358	-824	-3 158
Other changes	0	13 761	-15 579	-11 808	12 279	1 347	0	14 170
Translation effects	233	345	0	180	546	73	1 377	-6
Cost at December 31	11 998	88 655	0	43 560	54 246	9 543	208 002	150 620
Accumulated depreciation								
at January 1	0	12 195	0	21 554	18 693	5 061	57 503	38 522
Changes in the scope of consolidation	0	0	0	19 782	1 790	1 109	22 681	1 772
Depreciation	0	2 188	0	2 114	3 520	690	8 512	5 859
Cumulative depreciation on disposals	0	0	0	0	-407	-355	-762	-2 669
Other changes	0	295	0	-10 698	9 013	1 390	0	14 961
Translation effects	0	164	0	583	1 708	48	2 503	-942
Accumulated depreciation								
at December 31	0	14 842	0	33 335	34 317	7 943	90 437	57 503
Book value								
at December 31	11 998	73 813	0	10 225	19 929	1 600	117 565	93 117

At December 31, 2001, buildings of Peninsula Laboratories were held under operating leases. The future minimum lease payments under uncancelable operating leases are:

Not later than a year: CHF 461 000
 Not later than five years: CHF 0
 Total rents recognized in the income statement 2001: CHF 744 000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Intangible assets

	Goodwill 000 CHF	Other intangible assets 000 CHF	Total 2001 000 CHF	Total 2000 000 CHF
Cost at January 1	31 305	2 488	33 793	30 666
Additions	9 990	784	10 774	1 094
Disposals	0	0	0	0
Other changes	0	505	505	2 073
Translation effects	0	-5	-5	-40
Cost at December 31	41 295	3 772	45 067	33 793
Accumulated depreciation at January 1	13 315	610	13 925	10 324
Depreciation	4 130	670	4 800	3 600
Other changes	0	460	460	0
Translation effects	0	-4	-4	1
Accumulated depreciation at December 31	17 445	1 736	19 181	13 925
Book value at December 31	23 850	2 036	25 886	19 868

9. Short-term financial debts

	2001 000 CHF	2000 000 CHF
Banks	0	0
Current maturity of long-term debt	0	108
Total	0	108

10. Other short-term liabilities

	2001 000 CHF	2000 000 CHF
Deferred income and accrued expenses	1 276	3 623
Other short-term liabilities	4 024	5 350
Total	5 300	8 973

11. Financial debts

	2001 000 CHF	2000 000 CHF
Bank loans	3 736	0
Other long-term financial debts	0	484
Total	3 736	484

The long-term liabilities (inclusive current maturity of long-term debts) are denominated in the following cur-

rencies and the interest rate payable is:

	Financial liabilities 2001 000 CHF	2001 %	Financial liabilities 2000 000 CHF	2000 %
CHF	3 736	4.6	0	0
USD	0	0	68	0
USD	0	0	416	4.0
Total	3 736	0	484	0

Break down by maturity:

	2001 000 CHF	2000 000 CHF
2002	1 500	45
2003	2 236	45
2004	0	45
2005	0	45
2006 and later	0	259
Total	3 736	439

The bank loans in the amount of CHF 3 736 000 represent the mortgages on buildings at Sochinaz SA. The

buildings used as security for the mortgages have a book value of CHF 10 128 129.

12. Deferred tax liabilities

	2001 000 CHF	2000 000 CHF
Provisions for deferred taxes for		
– Valuation difference inventory	5 843	4 389
– Depreciation on fixed assets	7 240	4 888
– Provisions	1 526	2 054
– Other	432	0
Total	15 041	11 331

13. Provisions

	Provisions for restructuring 000 CHF	Other provisions 000 CHF	Total 2001 000 CHF
At January 1	3 289	836	4 125
New provisions	0	56	56
Provisions used during the year	-1 838	-101	-1 939
Translation effect	129	-64	65
At December 31	1 580	727	2 307
Current part:	1 580	727	2 307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Provisions (continued)

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 restatement of the acquisition balance of Peninsula and were charged to goodwill.

14. Financial income and expense

	2001 000 CHF	2000 000 CHF
Financial income		
Interest	2024	4 698
Income from securities	3 481	10 821
Other	139	941
Total	5 644	16 460
Financial expense		
Financial expense	260	96
Loss on securities	6 400	7 158
Other	542	581
Total	7 202	7 835

15. Income taxes

	2001 000 CHF	2000 000 CHF
Current taxes	9 839	5 099
Deferred taxes	61	992
Total	9 900	6 091

Tax rate analysis 2001

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:

	%
Expected tax rate	23.7
Effect of income taxed at reduced rates	-1.7
Effect of disallowed expenditures	2.0
Other	-3.2
Effective tax rate	20.8

16. Segment information (regions)

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

	Europe 2001 000 CHF	2000 000 CHF	Rest of world 2001 000 CHF	2000 000 CHF	Eliminations 2001 000 CHF	2000 000 CHF	Consolidated values 2001 000 CHF	2000 000 CHF
Sales								
Sales third parties	89 690	67 335	51 661	44 087				
Sales intercompany	29 126	29 059	5 861	7 318	34 987	36 377		
Total sales	118 816	96 394	57 522	51 405	34 987	36 377	141 351	111 422
Operating income	44 615	44 543	7 796	3 850	3 309	2 666	49 102	45 727
Financial expense							-7 202	-7 835
Financial income							5 644	16 460
Currency result, net							-25	-413
Income taxes							-9 900	-6 091
Net income							37 619	47 848
Other information								
Assets	352 765	246 171	83 282	69 663	93 209		342 838	315 834
Liabilities	35 619	25 021	21 223	12 902	18 153		38 689	37 923
Investments	24 666	15 047	501	6 348			25 167	21 395
Depreciations	10 160	6 286	3 152	3 173			13 312	9 459

17. Segment information (business segments)

The secondary segmentation is based on the business segments. The relation of the sales to third parties between bulk products on the one hand and catalog products as well as custom syntheses on the other hand was 72% to 28% during the last year (respectively 65%

to 35% in 2000). 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.

18. Extraordinary items

No extraordinary items were recorded in the years 2000 and 2001.

19. 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 2001 were CHF 722 100 and CHF 605 880 in 2000.

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, 2001:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Pension funds (continued)

Proof of the activated surplus in the balance sheet:

	2001 000 CHF	2000 000 CHF
Fair value of plan assets	16 635	15 933
Defined benefit obligations	-16 931	-14 822
Funded status	-296	1 111
Limitation on recognition of surplus due to uncertainty of obtaining future benefits	0	-492
Unrecognized actuarial loss	915	0
Net asset in balance sheet	619	619

The unrecognized actuarial loss of CHF 915 000 is within the corridor of 10% of the plan assets. Accordingly, no amortization is required. The capitalized pre-

paid pension fund contributions have therefore not changed.

Annual cost for pension funds (ERIS):

	2001 000 CHF	2000 000 CHF
Service cost	1 393	1 596
Cost of interest	608	478
Expected return on assets	-637	-563
Employee contributions	-700	-607
Change on the noncapitalized surplus	58	-242
Annual cost for pension funds (ERIS)	722	662

Development of the surplus capitalized in the balance sheet:

	2001 000 CHF	2000 000 CHF
Surplus at January 1	619	604
Annual costs for pension funds (ERIS)	-722	-662
Employee contributions	722	677
Surplus at December 31	619	619

20. Contingent liability

There were no material contingent liabilities as per December 31, 2001 as well as per December 31, 2000.

21. Commitments

All commitments, including buy- and sell-commitments of goods, are not above their market value and are

according to the normal business terms.

22. Earnings per share (EPS)

	2001	2000
Net income attributable to shareholders (000 CHF)	37 619	47 848
Weighted average number of ordinary shares issued (basic)	13 347 000	13 345 340
Basic earnings per share (CHF)	2.82	3.59

22. Earnings per share (EPS) (continued)

As of December 31, 2001 10 000 options were outstanding, which did not have a material dilution effect. In 2000 no instruments were outstanding which had a dilu-

tion effect. As of June 29, 2001, Bachem shares were split 1:20.

23. Consolidated companies

Company	Country	Partici-pation* 2001	2000
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%	0%
Bachem Biochimie SARL, Voisins-le-Bretonneux	France	100%	100%
Bachem Biochemica GmbH, Heidelberg	Germany	100%	100%
Bachem (UK) Ltd., St. Helens	England	100%	100%
Peninsula Laboratories Inc., San Carlos CA	USA	100%	100%
Bachem Bioscience Inc., King of Prussia PA	USA	100%	100%
Bachem California Inc., Torrance CA	USA	100%	100%
Peninsula Laboratories Europe Ltd., St. Helens (inactive)	England	100%	100%

*direct or indirect

24. Financial assets

	2001 000 CHF	2000 000 CHF
Polyphor AG	4 250	1 720
Other financial assets	72	69
Total	4 322	1 789

	2001	2000
Polyphor AG, Allschwil (Switzerland)	Share capital nom. [CHF]	3 015 000
	Holding rate	28.36%
	Voting rights	28.36%

Polyphor AG is a start-up-company with an enormous potential in the future. 2001 the company is not consolidated at equity but included at cost, since the participation will fall in the near future under 20%. In the first half of 2001 the share capital was increased. Indepen-

dent third parities subscribed shares at CHF 1000 per share. If this price was applied to the whole participation the Group holds, a value of CHF 8.6 million resulted.

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 periodically granted gratis shares. The quantity depends on the status and ranges from 20 to 200. The shares vest up to five years.

b) Employee participation scheme 2

The employees of the foreign companies of the Bachem Group are entitled to buy shares at a discount within different periods of time and depending on their status.

c) Share option plan

This year certain managers of the Bachem Group received options gratis. The options granted entitle recipients to acquire one Bachem share with unlimited voting and dividend rights.

Share options outstanding

	2001 Number
Options outstanding at January 1	0
Granted options	10 000
Exercised options	0
Outstanding December 31	10 000
Exercisable options	0
 Vesting dates of outstanding options are as follows:	
– year 2004	3 000
– year 2005	3 000
– year 2006	4 000
Total	10 000

The options usually terminate one year after they become exercisable. 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. For the change in stock of Bachem shares, please refer to the Notes to the Financial Statements of Bachem AG.

26. Transactions with related parties

No material transactions were performed with related parties.

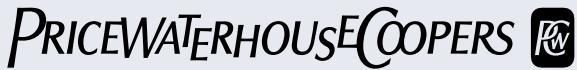
27. Subsequent events

On January 7, 2002, Bachem AG and Berna Biotech AG jointly 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 and shall take over a leading role with these vaccines.

REPORT OF THE AUDITORS OF THE GROUP

35



Report of the Group auditors to the Annual 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 shareholders' equity and notes) of Bachem Ltd. for the year ended December 31, 2001.

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 in accordance with the International Standards on Auditing issued by the International Federation of Accountants (IFAC), 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 Accounting Standards (IAS) and comply with the Swiss law.

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

Basel, April 3, 2002

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read "H. Plozza".

H. Plozza

A handwritten signature in black ink, appearing to read "P. Seiler".

P. Seiler



BACHEM AG, BUBENDORF



Income statements 2001 and 2000

	2001 000 CHF	2000 000 CHF
Sales	72 609	77 130
Sales deduction	-584	-1 117
Other operating income	2 094	2 737
Total	74 119	78 750
Cost of materials	-7 121	-7 008
Staff cost	-20 397	-19 606
Depreciation and amortization expense	-9 664	-10 260
Cleaning and maintenance	-274	-192
Administration, sales and marketing cost	-3 057	-3 317
Other operating expenses	-3 161	-2 622
Operating income before interest and taxes	30 445	35 745
Financial income	4 854	14 709
Financial expense	-8 539	-7 644
Currency gain	5 742	5 069
Currency loss	-5 605	-5 452
Income before taxes	26 897	42 427
Taxes	-5 525	-13 333
Net income	21 372	29 094

BACHEM AG, BUBENDORF

Balance sheets at December 31, 2001 and 2000

	2001 000 CHF	2000 000 CHF
Assets		
Cash and cash equivalents	48 063	75 028
Marketable securities	46 075	51 230
Trade receivables, third parties	5 420	6 720
Trade receivables, intercompany	6 701	4 719
Other receivables, third parties	1 532	3 144
Other receivables, intercompany	1 412	592
Prepaid expenses and accrued income	1 557	1 260
Inventories	3 589	3 045
Current assets	114 349	145 738
Investments	49 479	40 707
Tangible fixed assets		
Real estate	36 169	33 620
Machinery and installations	5 551	4 942
Intangible assets	34 234	9 293
Fixed assets	125 433	88 562
Total assets	239 782	234 300
Liabilities and shareholders' equity		
Trade payables, third parties	2 382	4 681
Trade payables, intercompany	884	836
Other short-term liabilities, third parties	3 734	2 896
Deferred income and accrued expenses	956	5 413
Provisions	7 600	7 600
Liabilities	15 556	21 426
Share capital	6 800	6 800
Legal reserves		
General reserves	89 877	88 921
Reserves for own shares	1 887	319
Free reserves	94 795	78 351
Retained earnings	2001 000 CHF	2000 000 CHF
Retained earnings at January 1	9 495	9 389
Net income of the year	21 372	29 094
Shareholders' equity	224 226	212 874
Total liabilities and shareholders' equity	239 782	234 300

BACHEM AG, BUBENDORF

Notes to the financial statements 2001 and 2000

1. Investments

Company	Location	Branch		Share capital 2001
Bachem Trading AG	Bubendorf, CH	Sales	CHF	100 000
Labortec AG	Bubendorf, CH	Produktion	CHF	100 000
Sochinaz SA	Vionnaz, CH	Production, sales	CHF	700 000
Bachem Biochimie SARL	Voisins-le-Bretonneux, F	Sales	FRF	500 000
Bachem Biochemica GmbH	Heidelberg, D	Sales	DEM	250 000
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. (inaktiv)	St. Helens, GB	Production, sales	GBP	36 000
Polyphor AG	Allschwil, CH	Production, sales	CHF	3015 000

With the exception of Polyphor AG, all the companies are controlled with 100% of the voting rights either directly or indirectly. The capital of Polyphor AG was increased from 2 079 000 and the participation of

Bachem AG increased from 27.6% in prior year to 28.4%. Further as of January 1, 2001 Bachem AG acquired 100% of Sochinaz SA.

2. Insurance value of tangible fixed assets

	2001 000 CHF	2000 000 CHF
Machinery and equipment	60 000	63 000
Real estate	49 844	37 473

3. Own shares

On December 31, 2001 Bachem AG held 261 200 own shares, which 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, 2001 [pieces]	Sales [pieces]	Purchases [pieces]	Shares January 1, 2001 [pieces]
Employee participation scheme (domestic) at the price of CHF 0.05	129 700	11 400	2 200	138 900
Employee participation scheme (foreign) at the price of CHF 44.42	5 900	0	0	5 900
Option plan at the price of CHF 0.50	100 000	0	0	100 000
Treasury Stock at the price of CHF 60.48	25 600	0	25 600	0

4. Important shareholders

	Percent of total share capital 2001	Percent of total share capital 2000
P. Grogg (via Ingro Finanz AG)	50.5	50.4
G. Knoch	8.6	8.3
Family of P. Grogg	6.0	6.0

Based on the available information the following shareholders

own more than five percent of the registered share capital on December 31:

P. Grogg (via Ingro Finanz AG)	50.5	50.4
G. Knoch	8.6	8.3
Family of P. Grogg	6.0	6.0



APPROPRIATION OF EARNINGS

**Proposal of the Board of Directors for the appropriation of available earnings**

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

CHF

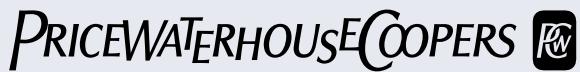
Net income of the balance sheet	21 372 254
Retained earnings at January 1	9 495 341
Retained earnings	30 867 595

Payment of a dividend of CHF 0.75 per registered share

for the business year 2001 on 13 343 962

registered shares entitled to a dividend	10 007 972
Transfer to free reserves	15 000 000
Retained earnings to be carried forward	5 859 623

REPORT OF THE STATUTORY AUDITORS



Report of the statutory auditors to the annual 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) of Bachem AG for the year ended December 31, 2001.

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 the Swiss law and the company's articles of incorporation.

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

Basel, April 3, 2002

PricewaterhouseCoopers AG

H. Plozza

P. Seiler

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