



We are Bachem. Peptides are our business.

2003 - Key figures

Sales (in CHF m)

1999	98.5
2000	111.4
2001	141.4
2002	149.9
2003	144.6

EBIT² (in CHF m)

1999	49.9
2000	45.7
2001	49.1
2002	48.3
2003	48.4

Net income (in CHF m)

1999	40.1
2000	47.8
2001	37.6
2002	33.5
2003	37.3

	2003	2002	2001	2000	1999
Net cash flow from operating activities (in CHF m)	35.5	37.6	31.4	31.7	44.9
EBITDA ¹ (in CHF m)	60.9	61.6	62.4	55.2	57.3
EBITDA ¹ in % of sales	42.1%	41.1%	44.2%	49.5%	58.2%
EBIT ² in % of sales	33.5%	32.2%	34.7%	41.0%	50.7%
Return on equity (ROE)	11.5%	10.8%	12.4%	17.2%	16.8%
Number of employees (in full-time equivalents)	495	479	468	376	392
Sales per employee (in CHF)	292 196	312 919	302 032	296 335	302 277

¹ Operating income before depreciation and amortization

² Operating income

2003 in brief

- Net income increased by 11.4%, with sales growth of 1.8% in local markets
- EBIT margin increased by 1.3 percentage points to 33.5% despite continued weakness of the US dollar
- Sales growth of New Chemical Entities at 7.4% in local currencies, generics grow by 5.0% in local currencies
- Research ingredients sales decreased by 8.8% in local currencies due to continued economic slump
- Shareholders to participate in favorable development of net income; dividend increase by 10% to CHF 1.10 per share proposed to the Annual General Meeting

Content

1	Bachem - who we are
2	Preface
4	Quality at Bachem – identifying and meeting customer needs
6	Marketing – customer orientation as the basis for success
8	Business Review:
8	New Chemical Entities
10	Generics
12	Research Ingredients
14	Human Resources
14	Safety and Environment
16	Corporate Governance
22	Financial Report
42	Financial Statements of Bachem Holding AG
47	Shareholder Information
48	Contacts

Olivier Cheneval, Bachem Bioscience Inc., King of Prussia, PA, USA

Focusing our US business on three centers of competence – research ingredients at Bachem Bioscience, active pharmaceutical ingredients at Bachem California and immunology products at Peninsula Laboratories – has been completed.



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 520 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.

Dear shareholders

Only towards the end of 2003 were there initial signs of the much anticipated fundamental upswing in world economy, indicating the possibility of a trend change. Despite the growth dynamics of the healthcare market, given the continuously aging population in industrialized countries and novel offers for unmet medical needs in many therapeutic areas, also the healthcare industry was affected and again remained below former double digit growth rates. Our business, which is oriented to healthcare market, reflected modest market developments as well. Sales growth in local markets decreased to 1.8%. In face of the strong negative currency impact of the weakened US dollar by 13.6% as compared to 2002 together with weaker demand for research ingredients, sales in Swiss francs diminished by 3.5%, from CHF 149.9 million to CHF 144.6 million. The dollar weakness also affected the operating result. Nevertheless, we were able to increase EBIT by 0.3% from CHF 48.3 million to CHF 48.4 million, which resulted in an improvement of EBIT margin from 32.2% to 33.5%. Due in large part to a net financial income of CHF 1.7 million, we were able to increase net profit by 11.4%, from CHF 33.5 million to CHF 37.3 million.

Our performance in 2003

The gratifying improvement of EBIT, EBIT margin and net profit, despite the overall economic environment, is a manifestation of our consistent efforts to secure and increase the long-term value of our company for our shareholders, our employees, our customers and our partners even during periods of slow growth. During 2003 we have:

- Taken advantage of business opportunities in the generics business and achieved sales growth of 5.0% in local currencies. Main contributors to this result were peptide generics in the US and non-peptidic generics of Sochinaz, member of the Bachem Group, in Europe.
- Increased sales of New Chemical Entities, the active ingredients of new, mostly patent-protected products by 7.4% in local currencies. At the same time, we have consolidated the number of new projects, prerequisite for future sales, on a high level.
- Continued to build up marketing and logistics in order to serve our customers more efficiently and competitively and to establish Bachem as a business partner of first choice.
- Completed restructuring in the US by focusing responsibilities of our three sites on specific tasks.
- Started expansion of production capacities that show favorably high levels of utilization in order to meet expected future demands.
- Stocked up important products including high turnover generics to assure supply on demand, a key success factor in the market place.
- Improved management of cash and cash equivalents resulting in a significant return on securities and bonds.

Contrasting these achievements is the weakness of our research ingredients business: the strong reluctance in the industry to invest in research and generally weak economic conditions resulted in a sales decrease of 8.8% in local currencies. The negative effect was more pronounced in the US than in Europe.

There were very favorable developments with Pevion Biotech AG, in which Bachem holds a 50% stake. This joint venture with Berna Biotech AG, founded in 2002 and focusing on the development of peptide vaccines, started its first phase I clinical trial with a malaria vaccine at the university hospital of Basel. Results are expected about a year after initiation of the trial.



Corporate Executive Committee Bachem Holding AG
Reto Conrad, CFO, Dr. Rolf Nyfeler, CEO,
Dr. Daniel Erne, CTO

Increase in dividend

We want all of our shareholders – including our employees who hold Bachem shares through our employee participation plans – to participate in the favorable development of the Bachem Group. We therefore propose to the Annual General Meeting to increase the dividend for the business year 2003 by 10%, from CHF 1.00 (including reduction in nominal value by CHF 0.45) to CHF 1.10 per share.

Thanks to our employees

We would like to combine this proposal with our sincere thanks to our employees who have made the achievements possible through their commitment and dedication. Whether in research and development, in production and quality control, in marketing and logistics or in administration, the qualification and motivation of our employees form the basis for customer satisfaction and financial success. For this reason, employees are the focus of this report. Those colleagues who are presented serve as representatives for the about 520 employees at all our sites and stand for the values for which Bachem is known: quality and efficiency in everything we do.

Outlook 2004

Towards the end of last year we saw several indications for a revival in overall economic conditions, and recent announcements of IPOs in the biotech industry after a long drought can be taken as a sign of a new vigor. These are also positive indicators for us. We continue to favorably evaluate the growth opportunities for our active ingredients business. Recent successes with two long-term contracts signed at the end of 2003 support this judgment. Nevertheless, prospects for research ingredients remain insecure, considering the dependence on the overall economic development and specifically the dynamic in the biotechnology industry. We continue to reduce our exposure to these influences given the increasing importance of our active ingredients business.

Structurally we have prepared the ground for improving our long-term market opportunities. The creation of a holding structure in April 2003 allows increased clarity and transparency in the management of the individual Bachem operating companies. We have invested in marketing and logistics in order to more successfully, rapidly and efficiently provide our quality products to the marketplace. We want Bachem to be known for both best product quality and outstanding service.

This also holds true vis-à-vis our shareholders. We want to deliver more than good results. With our reporting we also strive to provide full transparency and good corporate governance fully in compliance with the SWX Swiss Exchange guidelines. Each year we strive to earn your trust and confidence in Bachem. We are confident that we will be able to achieve this objective again for 2004.

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

Dr. Rolf Nyfeler
CEO and Chairman of the
Corporate Executive Committee

Quality at Bachem – identifying and meeting customer needs

As a worldwide operating specialist for the production of peptides and selected non-peptidic active pharmaceutical ingredients, we want to maintain and extend our leadership position. Prerequisite for doing so is the quality of our products together with our ability to recognize customer needs early on and develop tailor-made solutions.

Quality management – dedicated to highest standards

Whether in research or in the manufacturing of pharmaceuticals, our clients must be able to rely on the quality of our products. For that purpose we have built up a quality control management system that covers the entire process, from incoming materials for production and packaging to delivery of the final product. Quality assurance at Bachem is fundamental in our overall management and production, and test reports or quality certificates for us are an integral part of the final product that is delivered to our customers.

Aligned with the importance we attribute to quality, about 20 percent of Bachem employees work in quality assurance and quality control. The managers responsible for this function are members of the local management teams. Quality is represented also at the corporate executive committee level by Daniel Erne. The function is comprised of quality control, quality assurance and regulatory affairs.

Quality control – testing all incoming and outgoing goods

The quality control group at our main site in Bubendorf alone conducts tens of thousands of tests per year. Each lot of incoming raw materials or goods and finished products undergoes up to 20 tests in order to assure identity, content and purity. Because highest levels of reliability are required to assess identity, we always conduct several tests. Once identity has been assured, content – mostly on the basis of two tests – and purity – usually several tests – are assessed. Purity assessments comprise tests on residuals of other substances from the production process or on the microbial load that can be tested by our in-house microbiology group. Only after identity, content and purity have been tested are materials released for further processing or sales.

Peptides are often highly active and therefore sometimes produced in small amounts only. Testing very small quantities of active peptides

is a real challenge and requires particular skillfulness and sensitive equipment. Today the tests primarily serve to confirm quality, as production processes are designed in a way that the right result is guaranteed, provided adherence to all manufacturing instructions. Active pharmaceutical ingredients are manufactured according to cGMP, the current good manufacturing practice as defined by authorities, to ensure compliance with highly stringent guidelines for processes and the properties of the final product. For each and every lot, we document in detail which materials have been processed by which methods in which equipment by which employee. It must be possible to examine each step of the production process even ten years after the manufacture of a product.

Quality assurance – programming success

This is where quality assurance becomes important. Production and test protocols are developed and administered, and information on materials, machines, employees, etc. is documented. In addition to defined standards and documentation, training plays an important role to assure that employees in all areas are aware of latest know how and their respective responsibilities. The objective of this quality management approach is to avoid mistakes and design systems in a way that any error, should they ever occur, can be detected and corrected.

Regulatory affairs – take advantage of experience for customers' benefit

Once a customer intends to test an active ingredient in man or to submit an application for marketing authorization, comprehensive documentation on the active ingredient and its manufacture must be provided, in addition to preclinical and clinical data on effectiveness and side effects. As part of our quality management, we offer customers our support for this task. Bachem has already compiled 65 national drug master files in Europe as part of registration files and another 35 in the US. Additionally, several technical documentations have been deposited for development projects. In this context, Bachem is regularly inspected and tested by regulatory authorities, including the US Food and Drug Administration (FDA). The quality of our work here is also the basis of trust. Following its latest inspection, for instance, the FDA approved four client products without another audit of our production facilities.



Dr. Ulrich Korell and Isabelle Schubnell, Bachem Bubendorf, Switzerland

Ulrich Korell, head of quality assurance and control, is personally responsible vis-à-vis customers and authorities for each lot of active ingredients delivered by Bachem.

Seven points to document
for GMP production

- 1 Who (name, signature)
- 2 When
- 3 What
- 4 How
- 5 Where (location)
- 6 With what (machinery, equipment)
- 7 Why (in case of deviations/decisions)

Hans Peter Misteli and Madhuri Sharma, Bachem Bubendorf, Switzerland

With the introduction of key account management, Bachem strengthens the relationship with important customers and assures that their needs are recognized early on and appropriate solutions are provided.



Marketing – customer orientation as the basis for success

In their purchasing decisions, our customers increasingly take additional factors into account, going beyond quality and price. This is where marketing serves as an important interface with our customers and plays an integral role in identifying needs and developing customer-oriented offers. Bachem has significantly increased its efforts in this domain.

Key account management – a big step towards the client

We have built up a team of experts that systematically is in contact with our key customers in order to learn what they need and, on this basis, offer new ideas and solutions. The job of our key account managers is not geared at short term sales success, but rather at long-term partnerships and project collaborations that might lead from initial test syntheses to non-GMP projects and up to GMP projects for clinical trials and larger scale production of active ingredients for marketed products. Part of this “developmental marketing” is our ability to identify trends on the basis of our research ingredients activities and therefore provide insight on interesting new directions in product development that we can discuss with our partners in universities and our key customers.

The success of key account management is based on the qualifications of the people, their knowledge and expertise as well as their personality. Through ongoing and continuous contact with the customer they build trust, trust in themselves as in Bachem. Accordingly, contacts have to be rather frequent. In some countries we have significantly increased the number of customer visits in 2003. Adding to this are visits of our customers at our production sites, an important prerequisite for a first contract. These contacts are complemented by our presence at fairs and exhibitions. Particularly at customer fairs in the US we only have a chance to participate if we stay in touch at all levels from the CEO to researchers and the purchasing department.

Improved logistics – easing order and supply

Readiness to deliver in many areas of our business is a competitive advantage. However, this does not just mean to get goods on their way to the customer as quickly as possible. It is as important for the customer to receive it without delay and any complications. As part of our new marketing strategy this consideration resulted in a complete re-engineering of our logistics chain in Europe. While in the past the customer was in charge of import declarations and customs duty, the new system with the handling of all orders via Bachem Distribution Services in Germany relieves recipients of our products from all paper work. At the same time delivery times were reduced. For orders coming in by 2:30 p.m. at the latest, 86% of deliveries arrive at our customers next day already. And here as well it was Bachem employees who managed, in collaboration with authorities and logistics companies, to achieve what many held impossible to achieve.

In the US as a matter of course orders are fulfilled within one working day. In order to do so, the most important products are held in stock, for important generics, as in Europe, also in larger quantities. Quotes for simple projects are submitted the same day the request comes in, for more complex projects we strive to provide an answer within 48 hours. These examples demonstrate our orientation towards customer needs and our dedication to be first class not only in terms of product quality.

Bachem – building and supporting our brand

All our marketing efforts are geared to strengthen the reputation of the company and trust in our performance for continued success. In our markets and with our clients we want to be anchored as a brand. And also in terms of marketing communication we want to meet the needs of our customers. Complementing personal contacts, we provide information through our website, by means of regular e-mail updates and also by providing classical print products on our products, services and the company as a whole. These efforts pay off. Increasingly we get inquiries, not only by our customers but also from other market partners, inquiries that extend beyond our products and include also questions on how we are doing business – the best sign that we are on the right track.



Business Review

The Bachem Group's business operations comprise three main areas, namely the production of New Chemical Entities, generic active ingredients for the biotech and pharmaceutical industry, and chemicals for research.

New Chemical Entities

New Chemical Entities (NCEs) are patent-protected pharmaceutical active ingredients that may only be manufactured and used by the patent holder or a partner authorized to do so by the patent holder. The majority of diagnostic and therapeutic NCEs manufactured by Bachem exclusively for biotech and pharmaceutical companies are still in the process of clinical trials, while some are already approved for sale as medicines on the pharmaceutical market. The quantities of products supplied vary widely and depend both on the medical indication and also on the status of the project. Demand generally increases in step with the progress of clinical development work, reaching its first high spot after a successful launch onto the market, possibly with some time lag, after which it achieves a certain constancy.

Projects in the early stage of clinical trials are by their very nature volatile, because it is not yet possible to predict whether and, if so, when they will reach the market. The likelihood of a successful approval procedure increases with every successfully completed phase of clinical development. Regardless of our customer's stage of product development, Bachem always manufactures the desired active substances in accordance with the current rules of good manufacturing practice (cGMP) in the required quantity and quality. Since even the supply of very small quantities for trial purposes has a commercial value, Bachem is not exposed to the risk of drug development but, through its collaboration in the development process, performs important preliminary work for consideration as a production partner in the event of success.

With about 100 development products, Bachem managed to keep the number of projects handled in 2003 at a very good level. This forms the basis and precondition for our future sales. But not all our customers' projects lead to marketable medicines with the potential

for increasing volume sales of the active substances that we produce. If a customer stops a development project owing to unsatisfactory results in clinical studies, or because of a change in the strategic focus of research or as a result of the pipeline being pruned back, e.g. in the wake of a merger, then this results in a corresponding loss of sales potential for us. In this respect, it is very important to have a diversified project portfolio and an adequate number of projects in different indication areas and with different clients.

With projects in the early phase of development, it is crucial to define efficient methods of manufacture and provide the small quantities required on time. On the other hand, in the case of medicines already launched into the market, we also have to be able to deliver substantially higher quantities on time according to the processes that have been developed. Thanks to the large capacity available at the Group company Sochinaz, which can produce substances by the ton, Bachem is also able to manufacture large quantities of peptides and intermediates if required.

In 2003, Bachem increased its sales of NCEs in local currency terms by a gratifying 7.4%, which roughly matched the growth of the pharmaceuticals market. The most important indication areas remain cancer and diabetes. Bachem has amongst other things concluded supplier agreements over several years with AstraZeneca for goserelin (Zoladex for the treatment of prostate and breast cancer and also endometriosis) and with Amylin Pharmaceuticals for pramlintide (Symlin, types I & II diabetes) and exenidin-4 (exenatide, type II diabetes). The two diabetes products are still in Phase III clinical trials. Bachem is also active in other interesting areas which are growing in importance, such as viral diseases (HIV, hepatitis) and obesity, as well as in the field of peptide vaccines through its joint venture Pevion Biotech.

New impetus for therapeutically active peptides is to be expected from progress in proteome research. There are very many proteins still waiting to be discovered and their function in the human body understood. Peptide structures derived from these proteins will undoubtedly be studied in the next few years as new lead compounds for the treatment of disease, which will open up new market opportunities.



Nebih Hyseni, Bachem Bubendorf, Switzerland

Bachem Bubendorf is the largest production center for peptides. Here a lot of new, tried and tested active pharmaceutical ingredients are manufactured from the milligram to kilogram quantities for some of the world's leading pharmaceutical and biotech companies.



Guillaume Grand-Pierre, Sochinaz Vionnaz, Switzerland

At Sochinaz, active pharmaceutical ingredients and intermediates are produced in large quantities, up to the ton range, in accordance with good manufacturing practice (cGMP).



Business Review

Generics

Bachem produces generic active ingredients for the biotech and pharmaceutical industry both on the basis of peptides at its sites in Bubendorf, Switzerland, and Torrance, California, USA, and also on the basis of small organic molecules in the Group Company Sochinaz SA in Vionnaz, Switzerland. Sales of generics in local currency terms increased by 5.0% over the previous year, especially due to increases in peptide generics in the USA and in non-peptide generics in Europe. Generics have become an important contributor to Bachem sales, accounting for approximately half of active ingredients sales. Of the 20 strongest-selling products of the Group, 11 are currently generics. Setbacks during clinical trials of generics are much rarer than with NCEs, since the pharmacological principle in the case of a generic active ingredient is no longer in question and possible side effects have already been identified.

Many of the older peptide medicines have in the meantime become generics. Since peptides are not easy to administer, and an oral dosage form has yet to become established, new and technologically sophisticated forms such as nasal sprays and long-term depot forms represent a challenge and at the same time an interesting opportunity for innovative companies in the biotech sector. With well-known and accepted active ingredients, new patent protection can be obtained for a medicine through the development of a new dosage form. Owing to their high degree of specificity and efficacy, the daily dose of peptides is very low and often in the range of a few micrograms. In addition, their manufacture, purification and characterization are complex processes and require a great deal of know-how. Thanks to these two factors, pressure on the price of generic peptides remains moderate, and generic peptides are interesting for the manufacturers of active substances and for the pharmaceutical industry. Possible scale effects in manufacture, resulting from a broader customer base for a given product, allow reasonable margins to be achieved.

Bachem manufactures various peptide generics, including leuprolide (prostate and breast cancer), calcitonin (osteoporosis and Paget's disease), glucagon (hypoglycemia) and octreotide (acromegaly and tumor therapy). The patent protection for goserelin has also expired in the meantime. In contrast to NCEs, which are produced exclusively and according to the needs of the customer, generics usually have

to be available for delivery off the shelf at short notice. Readiness for delivery is therefore a crucial factor, as it is in a similar way with research ingredients. In the case of substances for which there is a monograph in the European Pharmacopoeia, it is possible to apply for a Certificate of Suitability (CEP) from the European Directorate for the Quality of Medicines (EDQM, Strasbourg) for the manufacture of the active ingredient. These certificates are recognized by the 31 signatory states of the European Pharmacopoeia Convention and by the EU. The CEP serves as proof that the substance complies with the relevant monograph. Possession of a CEP substantially reduces the registration costs for the pharmaceutical company and the time to regulatory approval. In 2003, Bachem was granted one CEP each for the peptides leuprolide and goserelin.

Sochinaz SA, which belongs to the Bachem Group, produces almost exclusively non-peptide generic substances. The most important products are carbidopa and pergolide (both for the treatment of Parkinson's disease), propofol and midazolam (both anesthetics), trimetazidine (a coronary vasodilator) and xipamide (for the treatment of arterial hypertension). Considerable attention is paid at Sochinaz to the selection of products. There are thus always a number of potential new products under evaluation, the aim being to establish one new product on the market every year. As with the peptides, competent regulatory handling of the product is essential. Where possible, applications for Certificates of Suitability are also submitted for non-peptide generics. In 2003, Sochinaz was granted a CEP for pergolide mesylate.

In 2003, Sochinaz continued to develop well in a competitive environment and produced at the limits of its capacity. For this reason, increases in capacity at Sochinaz are planned and will be realized in the course of 2004.

Generics, too, are subject to the strict principles of good manufacturing practice (cGMP). Customers and regulatory authorities undertake regular on-site inspections to ensure that the relevant guidelines are being observed. The three production centers of the Bachem Group which manufacture pharmaceutical active ingredients under cGMP conditions satisfy regulatory requirements in full.

Mustaqim Syed, Bachem California, Torrance, USA

Research chemicals are mostly required in small quantities and are produced in laboratories.



Business Review

Research Ingredients

Our range of research ingredients covers the catalogue business and custom synthesis. We offer scientists at universities, in hospitals and in the research labs of the biotech and pharmaceutical industry a wide range of more than 8800 products which our customers use to advantage for biochemical and medical research projects. Last year, we added 100 new products to our selection, as well as numerous products not previously in our product range, but ordered by our customers in the context of contract synthesis.

The sales of research ingredients fell in local currency terms by 8.8% in 2003, which was offset by a positive development in the sales of active ingredients, the proportion of sales accounted for by research ingredients fell from 23.5% in 2002 to 20.7% in 2003. The pressure to cut costs was acutely felt in the USA, especially in the field of custom synthesis.

The reasons for this sales decline can be found in the business environment, where the sluggishness of the economy and investor restraint led to decreases in research spending and cost-cutting measures among customers. In some cases, customers themselves are carrying out small-scale syntheses again, especially when yield and quality are of secondary importance.

The more challenging projects continue to be contracted out, and precisely here Bachem continues to show clear competitive advantages with its extensive experience in the manufacture of extremely complex molecules.

The principle indication areas for our peptides did not substantially change in 2003. Important areas of research focus remain Alzheimer's disease and multiple sclerosis, diabetes, osteoporosis and obesity. In these indications, our peptide sales increased in the last year. We expect new momentum for the future to come from proteome research or, more broadly, from system biology. Of course, the strength of this momentum will be influenced by economic factors. A greater willingness of biotech companies to invest or new initial public offerings (IPOs) in this sector will undoubtedly also have a

positive influence on the demand for peptides. In principle it can be said that economic influences are felt more strongly and sooner in the USA than in Europe. This assumption, which is based on a relatively short-term approach to business in the USA, is confirmed on the basis of stable sales in the peptide catalogue business in Europe and Australasia in contrast to a decline in sales in the USA.

With the majority of enzyme substrates and inhibitors, we recorded ongoing increases in sales. By contrast, the market for amino acid derivatives in recent years has shown a marked change. The standard building blocks, which are used especially in solid-phase synthesis, are increasingly being manufactured by Asian suppliers. The market segment of special amino acids and their derivatives, which we can cover extremely well on the basis of our diversified range, is not affected by this trend. For this reason, in 2003 we compiled for the first time a special catalogue for our range of "building blocks".

Our high level of readiness for delivery of catalogue products from stock is essential for a rapid availability of products in the research business. The new distribution organization in Europe made a further contribution to reduce delivery times through a more rapid handling process, in order to better serve our customers.

The catalogue and custom synthesis business also makes an important contribution to the business of the Bachem Group beyond the sale of products and services. It is also of major importance for the development of efficient manufacturing processes in the context of active ingredient production. The continuous expansion of our synthesis know-how in relation to new products and more efficient processes not only allows rapid access to complex structures, but in particular also satisfies the preconditions for increases in productivity. Activities focused on the research market, originally conceived as an extension of the catalogue range and as a measure to strengthen customer relations through focused problem solutions, thus have a substantial influence in the longer term on the overall performance of the company. Together with our steady expansion of services, we can continuously develop our fully integrated range and thus maintain our competitive advantage.

Human Resources

The number of Bachem Group employees increased by 16 in 2003, to a total of 495 full-time equivalent jobs as a result of demand for additional employees in Switzerland. At the main site in Bubendorf, Switzerland, expansion in production as well as in research and development resulted in the creation of ten new full-time jobs: eight new jobs were created at Sochinaz SA in Vionnaz, Switzerland, primarily in production in order to meet order demand. In the US, the number of employees went down slightly by three full-time equivalent jobs net as a result of different trends for our three sites. While staff numbers were reduced at both Peninsula Laboratories and Bachem Bioscience by nine and two respectively, we created eight new jobs at Torrance in order to establish the centers of competence in the US, as announced last year. With the reduction of staff at Peninsula Laboratories the restructuring in the US was completed in the course of 2003.

The manufacture of highly complex molecules is a demanding task for all of our employees. Accordingly, employees of the Bachem Group are highly educated, with about 25 percent of our people holding university degrees.

In order to secure continuous high levels of performance, leadership training is of particular importance. In 2003, Bachem has taken particular efforts in this respect. At our Bubendorf site, 60 employees attended management courses and another 22 did so in Vionnaz. Topics addressed were, among others, success factors in management functions, vision and strategy of the company and communication behavior in team situations. These training and further education measures support organizational development significantly. They also contribute to improve cross-functional contacts within the organization, helping to further develop internal communication and interaction between different departments. Given the positive results, we intend to run further training sessions during 2004 and 2005.

At our headquarters site in Bubendorf, Bachem also engages in educational programs for apprentices. Currently, Bachem is training 17 apprentices for future work as lab assistants, and, as part of this effort, we run our own training lab. In addition, we train commercial apprentices: one in informatics and, as of 2004, one new apprentice as logistics assistant.

Safety and Environment

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 key indicators as defined in this program and using them as a management tool. Environmental performance indicators have not changed fundamentally as compared to the previous reporting period. Due to a further reduction of fuel consumption, total energy consumption was reduced by 7%. This also resulted in a further reduction of CO₂ and NO_x, both already at a low level. Total SO₂ emissions remained constant, as the favorable effect of reductions in fuel consumption was compensated by a clear increase in production-related SO₂ emissions. Despite an increase in solvents consumptions due to a higher production volume in solid phase synthesis, VOC emissions (emissions of solvents to air) and TOC emissions (residual organic compounds in waste water) remained constant as compared to the previous year. Relating overall resource consumption and emissions to the number of employees, most 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.

We are aware that our employees contribute essentially to the success of Bachem. As part of our systematic efforts in the field of occupational health, we therefore place high importance on providing as healthy and safe a working environment as possible. In addition to technical measures, this also includes prevention campaigns and employee training in order to heighten staff awareness of all safety issues. In 2003, accident frequency slightly increased, from 3.6 to 3.9 per 100 staff members, as compared to the previous year, when the rate had shown a significant reduction. There was also a slight increase in accident-related lost working days, from 0.20 to 0.27 per employee per year, although no serious accidents were reported in 2003. In comparison to the industry average, accident rate and severity are still at a low level.

Number of full-time equivalent jobs

USA	122
Vionnaz	89
Bubendorf	268
Other Europe	16
Total	495

The number of full- and part-time employees totaled 522 at the end of 2003. Most employees work in our labs and production units, a reflection of Bachem's strong technological emphasis.

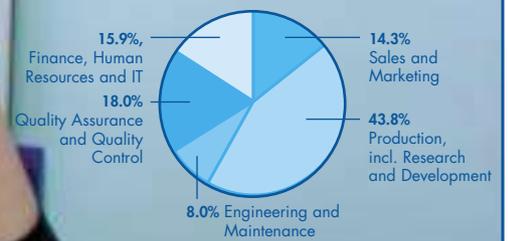


Romina Di Marco, Bachem Bubendorf, Switzerland

The human resource function takes care of all employee-related matters, with responsibility for recruiting the right people and overseeing their continuous training and further education. In 2003, ten new full-time positions were created in Bubendorf.

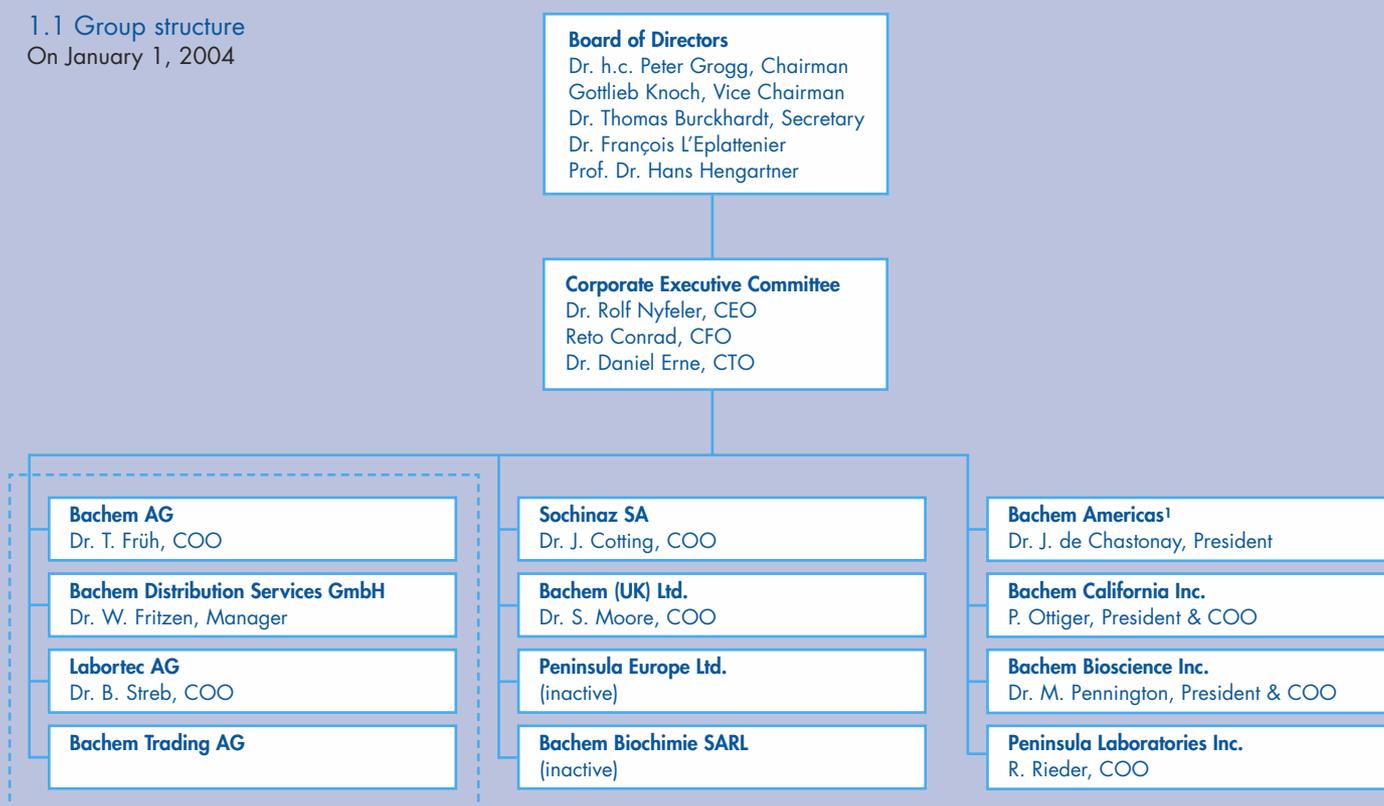


Employees by activities



1. Group structure and shareholders Bachem Holding AG

1.1 Group structure On January 1, 2004



¹ Marketing organization for North and South America

All participations are held at 100%. Further participations without majority share are listed on page 44.

During 2003, the Group structure was changed by the creation of a holding company. For this purpose the existing Bachem AG has been transferred into Bachem Holding AG. At the same time, the operating units of the company have been separated and, as a non-cash contribution, brought into the newly founded Bachem AG, a 100% affiliate of Bachem Holding AG. The new structure has several advantages, such as: improved ability to measure and compare operating performance of different Bachem companies; adjusted legal and management structure; and, consequently, increased transparency and – on a long-term – tax optimization.

Bachem Holding AG, headquartered in Bubendorf, Switzerland, is listed at the SWX Swiss Exchange in Zurich (valor number: 1 253 020, ISIN: CH0012530207). Market capitalization at December 31, 2003 was CHF 862 920 000. No other Bachem companies are listed.

1.2 Significant shareholders

Shareholders with more than five percent of voting rights (December 31, 2003) are listed on page 44. There are no shareholders' agreements.

1.3 Cross shareholdings

There are no cross shareholdings with other companies.

2. Capital structure

2.1 Capital

At December 31, 2003, the nominal share capital of Bachem Holding AG was CHF 680 000.

2.2 Authorized and conditional share capital in particular

Bachem does not have any conditional and authorized capital outstanding.

2.3 Changes in capital

In 2003, nominal share capital was reduced by means of a nominal value reduction (from CHF 0.50 to CHF 0.05 per share) from CHF 6 800 000 to CHF 680 000. In 2002, nominal share capital had remained unchanged. In 2001, shares were split in a ratio of 1:20 (reduction of nominal value per share from CHF 10 to CHF 0.50 and increase of number of shares from 680 000 to 13.6 million). This transaction remained without impact on nominal share capital. Changes for other items listed under equity for the years 2003, 2002 and 2001 are listed on page 27.

2.4 Shares and participation certificates

At December 31, 2003, Bachem Holding AG had issued 6 802 000 registered shares A and 6 798 000 registered shares B at a nominal value of CHF 0.05, all fully paid in. Registered shares B, but 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 differences regarding rights to dividends

and voting rights. Each registered share carries one vote at the Annual General Meeting of the company, provided the shareholder has been recorded in the company's share register (see item 2.6). All shares are fully entitled to dividends. There are no participation certificates.

2.5 Profit sharing certificates

Bachem has not issued any profit sharing certificates

2.6 Limitations of transferability and nominee registrations

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 and own benefit. There are no further registration restrictions (e.g. percentage limitation). 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. During the reporting period no nominees with voting rights have been registered nor have been any other exceptions to entering the share register been granted by the Board.

2.7 Convertible bonds and warrants/options

The company has not issued any convertible bonds. The only options the company has issued are for its employee compensation plan as described in note 23 to the consolidated financial statements on page 39.

3. Board of Directors

3.1 Members of the Board of Directors

The Board of Directors is comprised of non-executive members only. The only member of the Board of Directors who held an executive position in the Bachem Group during the past three years was Peter Grogg.

	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 Holding AG Management board member of the Swiss Association for Chemical Industry and of the Basel Chamber of Commerce	1971	2006
Gottlieb Knoch (1942), MBA, Vice-Chairman, Swiss Graduate Chemist ETH Main seats held on other boards: Rothschild Bank AG	1985	2006
Thomas Burckhardt (1950), Dr. iur., LL.M., Secretary, Swiss Lawyer	1997	2006
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, Novimmune SA, Schweizerhall Holding AG, Member of the Scientific Advisory Boards of Lombard Odier Darier Hentsch & Cie. and of Aravis Venture Associates AG	1997	2006
Hans Hengartner (1944)¹, Prof. Dr. sc. nat. ETH, Member, Swiss Head of the Department of Biology at ETH Zurich	2003	2006

¹ Members of the Compensation Committee

3.2 Other activities and vested interests

Other activities are listed in above table.

3.3 Cross involvements

There are no cross involvements among the members of the Board of Directors and Boards of other listed companies.

3.4 Elections and terms of office

Members of the Board are elected by the shareholders' meeting for a period of three years. Re-election is permitted. Elections are conducted as total renewal. For information concerning first election and remaining term of office, see item 3.1.

3.5 Internal organizational structure

During 2003, the Board of Directors held five half-day and one full-day meeting. Meetings are prepared by the Chairman and by committees of various compositions. Decisions are taken by the full Board. The Board can decide when more than half of its members are present. It decides by majority of votes. In case of a tie, the vote of the Chairman decides.

In matters of employee participation plans, the Board is supported by the Compensation Committee (see item 3.1), which defines the individual allotment of options. In 2003, the Compensation Committee met once.

It has been purposely decided that no further company Board Committees, e.g. an Audit Committee, are elected in view of the size of the Board of Directors with its five members. The respective tasks are dealt with by the full Board as part of its regular meetings.

3.6 Definition of areas of responsibility

The Board of Directors exercises its responsibilities as set out by law or in the Articles of Incorporation. These include the ultimate directing of the company, determining the Group's guidelines, strategic planning of corporate and business policies for the Bachem Group, as well as setting necessary directives for corporate management. The Board also defines compensation for members of the Corporate Executive Committee and for COOs of operating group companies. Further, the Board is in charge of the consolidated financial statements of the Bachem Group, as well as the financial statements of Bachem Hol-

ding AG, including reports of the external auditors. It also assesses whether recommendations of the auditors have been implemented. The detailed tasks of the Board of Directors are described in the organization regulations.

3.7 Information and control instruments vis-à-vis the Corporate Executive Committee

The Corporate Executive Committee regularly attends meetings of the Board in order to assure the ongoing and appropriate flow of information. Further, the Board is informed periodically about the most important key figures. The Chairman regularly meets members of the Corporate Executive Committee for discussions of business development, status of projects and important events.

4. Corporate Executive Committee

4.1 Members of the Corporate Executive Committee

Rolf Nyfeler (1950), Dr. phil. II, CEO, Swiss

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 1, 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.

since
2000

Reto Conrad (1966), lic. oec. HSG, CFO, Swiss

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.

2001

Daniel Erne (1952), Dr. sc. nat. ETH, CTO, Swiss

Daniel Erne joined Bachem AG in 1987 as Head Quality Control. Since 1997 he is a Member of the Corporate Executive Committee of the Bachem Group responsible for Quality Assurance and Regulatory Affairs. He received his education as a chemist at the Swiss Federal Institute of Technology in Zurich (ETHZ), then became a research fellow at the University of Utah, Salt Lake City, and at ETHZ before joining Bachem AG.

1997

4.2 Other activities and vested interests

No member of the Corporate Executive Committee exercises any other activity or has any vested interests.

4.3 Management contracts

Bachem has not entered into any management contracts.

compensation, meeting fees and free shares. The members of the Corporate Executive Committee receive, in addition to their base salary, free shares and options. The additional variable part of compensation is subject to business success as well as meeting personal objectives.

5. Compensation, shareholdings and loans

5.1 Content and method of the compensation and the shareholding programs

Compensation and shareholding programs are defined by the Board of Directors. Members of the Board of Directors receive a base

5.2 Compensation for members of the Board of Directors and the Corporate Executive Committee

Total compensation for the five non-executive members of the Board amounted to CHF 301 050 in 2003. Compensation for the three members of the Corporate Executive Committee for the business year totaled CHF 853 400. No severance payments were made.

5.3 Compensation for former members of the Board of Directors and the Corporate Executive Committee

No payments were made to any former members of the Board of Directors or of the Corporate Executive Committee.

5.4 Share and option allotment in the year under review

The five members of the Board of Directors in 2003 were allotted a total of 1 500 shares. The three members of the Corporate Executive Committee during the reporting year received a total of 300 shares and 1 200 options.

5.5 Share ownership

For the number of shares held by the members of the Board and of the Corporate Executive Committee at December 31, 2003, see table below.

5.6 Options

For the number of options held by the members of the Corporate Executive Committee at December 31, 2003, see table below. Members of the Board did not hold any options.

	Number of shares	Number of options	Year of allocation	Exercise price	Vesting dates of options	Expiry dates
Board of Directors (5 members)	8 770 353	0				
Corporate Executive Committee (3 members)	92 490	800	2001	80.00	30.09.04	30.09.05
		800	2001	80.00	30.09.05	30.09.06
		800	2001	80.00	30.09.06	30.09.07
		400	2002	80.00	20.10.05	20.10.06
		400	2002	80.00	20.10.06	20.10.07
		1200	2002	80.00	20.10.07	20.10.08
		1200	2003	60.30	30.11.08	30.11.09
Total	8 862 843	5 600				

One option entitles to purchase one Bachem Holding AG share at the respective exercise price upon vesting.

5.7 Additional fees and remuneration

One Board member received fees of CHF 18 140 as a compensation for legal services.

5.8 Loans to members of governing bodies

There were no loans granted to members of the Board of Directors or of the Corporate Executive Committee.

5.9 Highest total compensation

The highest total compensation paid to a member of the Board of Directors during the year under review was CHF 176 250 (including 300 shares).

6. Shareholders' participation

6.1 Voting rights and representation restrictions

All shareholders recorded in the share register (see item 2.6) are entitled to attend and vote at the Annual General Meetings. Representatives have to be shareholders and to be authorized in writing unless they are the shareholder's legal representative. For organizational reasons, subsequent to closing the share register (see item 6.5) no further registrations can be executed. Shareholders selling their shares prior to the Annual General Meeting are no longer entitled to vote. Exceptions may be authorized by the Board of Directors.

6.2 Statutory quorums

The Annual General Meeting passes resolutions and makes elections, if not otherwise required by law (Swiss Code of Obligations, article 704), with a simple majority of the votes represented. For the calculation of the simple majority, abstentions and empty votes are not considered.

6.3 Convocation of the general meetings of shareholders

An ordinary Annual General Meeting is held within six months after the end of the company's business year. Extraordinary general meetings may be convened by the Board of Directors, by the statutory auditors or by one or more individual shareholders representing a minimum of ten percent of share capital.

The convocation of the Annual General Meeting is due at least 20 days prior to the meeting by publication in the Swiss Commercial Gazette and a minimum of one daily newspaper with national circulation. The meeting can also be convened by letter to all registered shareholders.

6.4 Agenda

Shareholders may demand that an item be included in the agenda. Such a demand must be made in writing and shall specify the proposals. Shareholders holding in total at least ten percent of the share capital may request an extraordinary general meeting.

6.5 Inscriptions into the share register

The share register is usually closed ten days before the Annual General Meeting. The Board of Directors approves on request exceptions for late permission. The effective date of closure is published in time in the financial calendar on the company's website at www.bachem.com.

7. Changes of control and defense measures

7.1 Duty to make an offer

The Articles of Incorporation of Bachem Holding 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).

7.2 Clauses on changes of control

Neither any member of the Board of Directors nor any member of the Corporate Executive Committee have a contractual agreement in case of change of control.

8. Auditors

8.1 Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG, Basel, are Group auditors since 1995 and statutory auditors of Bachem Holding AG (formerly Bachem AG) since 1998. Hanspeter Plozza is lead auditor since the business year 1997. Auditors are elected by the Annual General Meeting on an annual basis.

8.2 Auditing fees

Auditing fees of PricewaterhouseCoopers for the Bachem Group amounted to CHF 145 000 for the business year 2003. Fees for audit services on other Bachem companies by other auditors totaled CHF 60 000.

8.3 Additional fees

During 2003, PricewaterhouseCoopers charged additional fees of CHF 292 000 for various projects.

8.4 Supervisory and control instruments vis-à-vis the auditors

The Board of Directors is responsible for the evaluation of the external audits. For this purpose, the external auditors prepare a report for the attention of the Board of Directors. The external auditors meet with the Board of Directors at least once a year. During this meeting the management letters concerning the individual companies and the consolidated financial statements that are summarized in the audit report, are discussed. Further the external auditors provide an overview on all audits and reviews conducted as well as on current trends in the International Financial Reporting Standards (IFRS).

9. Information policy

The 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 site (www.bachem.com), press releases, presentation of the financial statements for media and analysts as well as the Annual General Meeting. Shareholders are in addition informed on important matters by letter. 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.

Financial Report

Despite continued difficult market conditions, the Bachem Group increased sales in 2003 by 1.8% in local currencies. In view of the strong depreciation of the US dollar, sales in Swiss francs decreased by 3.5%. The average US dollar exchange rate relevant for the consolidation of local results fell by 13.6%, as compared to the previous year. The increase of the Euro by 3.6% could only compensate for the dollar weakness to a minor extent.

in CHF million	2003	Change in local currencies	Change in CHF	Sales share
Active pharmaceutical ingredients	114.7	+5.1%	0.0%	79.3%
Research ingredients	29.9	-8.8%	-15.0%	20.7%
Total	144.6	+1.8%	-3.5%	100.0%

Sales developments of the individual business segments are commented in the business review section of this report.

Geographically, sales developed as follows:

in CHF million	2003	Change in local currencies	Change in CHF	Sales share
Europe	93.2	+2.2%	+2.3%	64.5%
USA	51.4	+1.3%	-12.5%	35.5%
Total	144.6	+1.8%	-3.5%	100.0%

In the business year 2003, growth in local markets was distributed fairly equally across the geographic segments. However, we were confronted with opposing trends within the geographic segments. In Europe, non-peptidic generics and NCEs particularly contributed to growth, while peptide generics showed strong growth in the US. Sales of research ingredients decreased in both markets, however, the US business was particularly affected where the custom synthesis business suffered from significant price pressure.

Operating result

Because of the exchange rate development described above, the operating result before depreciation and amortization (EBITDA) slightly decreased by 1.2% in Swiss francs, from CHF 61.6 million in 2002 to CHF 60.9 million in the reporting period. In local currencies, however, EBITDA increased by 2.7%, which is over proportionally as compared to sales. This resulted in an increase of EBITDA margin by one percentage point to 42.1%. In the reporting year, increase of inventories has doubled as compared to 2002. This is a result of stocking up several generics for which there is continued high demand, as well as increased inventories in the US for products manufactured in Europe. These planned inventory increases are considered necessary in order to meet imminent delivery requirements that are characteristic for the generics and catalogue product businesses. Material cost increased slightly during the reporting period by a currency adjusted 3.4% reflecting the increased production to meet higher stock targets. Personnel cost, the most important cost factor in the income statement, was at CHF 48.5 million for 2003, up 3.1% currency adjusted as compared to 2002, and reflects both general salary increases as well as an additional 16 full-time equivalent jobs in the Bachem Group. General operating cost also increased during the reporting period by a currency adjusted 14.9%. This results primarily from a gain reported under this item in 2002 of CHF 0.5 million from the sale of a building in San Diego, California, USA, without any corresponding income in 2003. Further contributing to this result were a once off extraordinary cost for the foundation of Bachem Holding AG, the completion of the restructuring of Peninsula Laboratories Inc. and the settlement of a lawsuit in the US, totaling to CHF 1.4 million. Depreciations decreased by 4.4%, currency adjusted, as a result of delays of new investments at a time when former investment projects had been completely written off. For all of these reasons, EBIT grew by 4.7% currency adjusted, resulting in a satisfying increase of EBIT margin from 32.2% to 33.5%.

Financial results

Thanks to the favorable development of the stock markets, as compared to the previous reporting period, realized income from securities almost doubled to CHF 0.7 million. Considering the strict risk management regarding foreign currency exposure, translation effects that had resulted in a loss of CHF 5.3 million for 2002 were reduced to CHF 0.8 million, even despite the strong depreciation of the US dollar as described above. Overall this resulted in a net financial result of plus CHF 1.7 million in 2003, as compared to net loss of CHF 2.9 million in 2002.

Tax rate

Tax rate was reduced from 25.1% to 23.1% during the reporting period, as a result of slowed growth as compared to the previous year and lower income before tax in the US. On the other side, a number of additional individual measures led to the reduction of the tax rate, including the formation of Bachem Holding AG.

Investments

During the reporting period, investments significantly fell once again, to CHF 10.1 million as compared to CHF 12.2 million in 2002, resulting from delays of individual capacity expansion projects because of late authority approvals. Investments are divided as follows:

in CHF million	2003	2002
Land	0.1	1.2
Buildings	2.9	2.6
Assets under construction	1.7	0
Installations	1.4	2.8
Laboratory equipment	2.2	3.5
Other	0.7	1.0
Investments in tangible fixed assets	9.0	11.1
Intangible assets (without goodwill)	1.1	1.1
Total investments	10.1	12.2

Important investment projects included the reconstruction of a Bubendorf production unit that was scaled up to meet the latest requirements for even more stringent production processes according to cGMP. We commenced expansion of a production building at Sochinaz, which will include the installation of a high pressure reactor to significantly increase production capacities at Sochinaz and eliminate the current bottleneck. The new production unit is scheduled to be operational by the end of 2004. At Bachem UK, construction of a new building began in autumn 2003 as the final phase of establishing this unit as competence center for custom synthesis by mid 2004.

Consolidated Income Statements

for the years ended December 31

	Notes	2003 000 CHF	2002 000 CHF
Sales	3/4	144 637	149 888
Other income		240	1 069
Cost of materials		-24 878	-26 433
Changes in inventories		8 409	3 971
Staff cost		-48 498	-49 235
Depreciation and amortization expense	3/5/6	-12 432	-13 309
Other operating expenses		-19 057	-17 694
Operating income	3	48 421	48 257
Result from associated companies	3/7	-1 546	-715
Financial income, net	3/8	1 666	-2 857
Income before taxes		48 541	44 685
Income taxes	3/9	-11 236	-11 195
Net income	3	37 305	33 490
Earnings per share (CHF)	10	2.82	2.51
Diluted earnings per share (CHF)	10	2.81	2.51

Consolidated Balance Sheets

at December 31, 2003 and 2002

Assets	Notes	December 31, 2003 000 CHF	December 31, 2002 000 CHF
Cash and cash equivalents		83 717	86 385
Marketable securities	11	45 156	36 251
Trade and other receivables	12	34 614	28 773
Inventories	13	56 136	48 957
Total current assets		219 623	200 366
Tangible fixed assets	5	109 729	110 588
Intangible assets	6	18 550	22 663
Associated companies	7	739	2 285
Prepaid pension fund contributions	14	537	702
Deferred tax assets	19	1 370	3 098
Other financial assets	15	5 442	4 292
Total long-term assets		136 367	143 628
Total assets	3	355 990	343 994
Liabilities and equity			
Trade payables		7 020	7 697
Short-term financial debts	16	0	2 164
Other short-term liabilities	17	5 690	5 264
Provisions	18	1 396	1 117
Total short-term liabilities		14 106	16 242
Deferred tax liabilities	19	17 467	16 443
Defined benefit plan liabilities	14	324	543
Total long-term liabilities		17 791	16 986
Total liabilities	3	31 897	33 228
Share capital		680	6 800
Retained earnings		265 797	235 548
Share premium		85 839	85 839
Own shares		-12 588	-4 821
Fair value reserves		-1 667	-4 620
Cumulative translation differences		-13 968	-7 980
Total equity		324 093	310 766
Total liabilities and equity		355 990	343 994

Consolidated Cash Flow Statements

for the years ended December 31

	Notes	2003 000 CHF	2002 000 CHF
Cash flow from operating activities			
Net income		37 305	33 490
Reversal of non-cash items:			
Income taxes	9	11 236	11 195
Depreciation and amortization expense	3/5/6	12 432	13 309
Financial income, net	3/8	-1 666	2 857
Loss/Gain on sale of tangible fixed assets		6	-513
Result from associated companies	3/7	1 546	715
Income taxes paid		-11 707	-15 924
Change in net current assets		-13 469	-4 700
Other operating cash flow items		-177	-2 785
Cash flow from operating activities		35 506	37 644
Cash flow provided by/(used for) investing activities			
Investment in tangible fixed assets	5	-9 039	-11 099
Investment in intangible assets	6	-1 043	-1 710
Proceeds from sales of tangible fixed assets		39	3 517
Investment in financial assets	7/15	-1 125	-3 000
Change in marketable securities		-4 975	9 509
Interest and other financial receipts		2 101	2 885
Cash flow provided by/(used for) investing activities		-14 042	102
Cash flow provided by/(used for) financing activities			
Change in own shares		-7 571	-1 892
Change in financial debts		-2 164	-1 572
Interest and other financial payments		-486	-827
Nominal value reduction		-6 120	0
Dividends paid		-7 252	-10 031
Cash flow provided by/(used for) financing activities		-23 593	-14 322
Net effect of currency translation on cash and cash equivalents		-539	-1 766
Net change in cash and cash equivalents		-2 668	21 658
Cash and cash equivalents at the beginning of the year		86 385	64 727
Cash and cash equivalents at the end of the year		83 717	86 385
Net change in cash and cash equivalents		-2 668	21 658

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	Deferred taxes on fair value reserves 000 CHF	Cumulative translation differences 000 CHF	Total 2003 000 CHF
Balance January 1, 2003	6 800	235 548	85 839	-4 821	-5 959	1 339	-7 980	310 766
Net income	0	37 305	0	0	0	0	0	37 305
Dividends paid	0	-7 252	0	0	0	0	0	-7 252
Transactions with own shares	0	196	0	-7 767	0	0	0	-7 571
Nominal value reduction	-6 120	0	0	0	0	0	0	-6 120
Cumulative translation differences	0	0	0	0	0	0	-5 988	-5 988
Change of fair value reserves	0	0	0	0	4 132	-1 179	0	2 953
Balance December 31, 2003	680	265 797	85 839	-12 588	-1 827	160	-13 968	324 093

	Share capital 000 CHF	Retained earnings 000 CHF	Share premium 000 CHF	Own shares 000 CHF	Fair value reserves 000 CHF	Deferred taxes on fair value reserves 000 CHF	Cumulative translation differences 000 CHF	Total 2002 000 CHF
Balance January 1, 2002	6 800	211 047	85 839	-1 887	-613	149	2 814	304 149
Net income	0	33 490	0	0	0	0	0	33 490
Dividends paid	0	-10 031	0	0	0	0	0	-10 031
Transactions with own shares	0	1 042	0	-2 934	0	0	0	-1 892
Cumulative translation differences	0	0	0	0	0	0	-10 794	-10 794
Change of fair value reserves	0	0	0	0	-5 346	1 190	0	-4 156
Balance December 31, 2002	6 800	235 548	85 839	-4 821	-5 959	1 339	-7 980	310 766

	Share capital 000 CHF	Retained earnings 000 CHF	Share premium 000 CHF	Own shares 000 CHF	Fair value reserves 000 CHF	Deferred taxes on fair value reserves 000 CHF	Cumulative translation differences 000 CHF	Total 2001 000 CHF
Balance January 1, 2001	6 800	183 448	85 839	-319	0	0	2 143	277 911
Effect of introduction of IAS 39	0	0	0	0	6 440	-1 420	0	5 020
Net income	0	37 619	0	0	0	0	0	37 619
Dividends paid	0	-10 020	0	0	0	0	0	-10 020
Transactions with own shares	0	0	0	-1 568	0	0	0	-1 568
Cumulative translation differences	0	0	0	0	0	0	671	671
Change of fair value reserves	0	0	0	0	-7 053	1 569	0	-5 484
Balance December 31, 2001	6 800	211 047	85 839	-1 887	-613	149	2 814	304 149

For transactions with own shares, see page 44, Notes to the Financial Statements of Bachem Holding AG. The shares of Bachem Holding AG were split 1:20 as of June 29, 2001. In addition the share capital was reduced in 2003 to CHF 680 000. The new nominal value per share is CHF 0.05. The share capital is divided into 6 802 000 shares Bachem A (50.01% of share capital) and 6 798 000 shares B (49.99% of share capital). The shares Bachem B are traded at the Swiss Exchange (SWX) under valor number 1 253 020. All shares are registered shares. Except for the registration of Bachem B shares, there are no further differences between the two share categories. The shares A are wholly owned by Ingro Finanz AG (see Notes to the Financial Statements of Bachem Holding AG).

1. Accounting Policies for the Bachem Group

Business activity

Bachem 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 International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB) and its predecessor organizations. The consolidated financial statements have been approved by the Board of Directors of Bachem Holding AG on March 30, 2004.

Scope of consolidation

The financial statements include all companies which Bachem Holding 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 income and expenses, 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.

Regional segment information

The primary segmentation is based on the geographical information by the location of the assets and is separated in the two segments Europe/Rest of World and North/South America.

Business segment information

The secondary segmentation is based on the two business segments active pharmaceutical ingredients and research ingredients (incl. custom synthesis). 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.

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

Accounts receivable are carried at the original invoice amount less allowance made for doubtful accounts. An allowance is recorded for the difference between the carrying amount and the recoverable amount where there is objective evidence that the Group will not be able to collect all amounts due.

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 useful lives 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 assets under construction are not capitalized.

Intangible assets

Intangible assets such as patents and licences 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/joint ventures

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 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 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.

Defined benefit pension plans

The defined benefit obligation of the material defined benefit pension plans are calculated regularly, at least every two years by an independent actuary using the projected unit credit method. The defined benefit obligation is equal to the present value of all estimated future cash flows. Plan assets are valued at fair market values. Actuarial gains and losses are charged or credited to income over the service lives of the related employees if they exceed a corridor of +/- 10%. 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.

Employee share participations plans

The shares and options granted within the employee shares participations plans are recorded in equity and not in staff cost for the consolidated financial statements.

Own shares

Own shares are valued at acquisition cost and are deducted from equity.

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		Balance sheet	
	average	2002	year end	2002
	rates 2003	CHF	rates 2003	CHF
1 US Dollar	1.3451	1.5575	1.2423	1.3875
1 English Pound	2.1973	2.3342	2.2087	2.2254
1 Euro	1.5206	1.4673	1.5593	1.4542

3. Segment information (regions)	Europe/ Rest of World	2002	North/ South America	2002	Eliminations	2002	Consolidated values	2002
	2003	000 CHF	000 CHF	2003	000 CHF	000 CHF	2003	000 CHF
Sales third parties	93 234	91 142	51 403	58 746				
Sales intercompany	29 296	26 541	3 942	3 866	33 238	30 407		
Total sales	122 530	117 683	55 345	62 612	33 238	30 407	144 637	149 888
Operating income	40 066	37 664	12 955	15 403	4 600	4 810	48 421	48 257
Result from associated companies	-1 546	-715	0	0	0	0	-1 546	-715
Financial income, net	5 302	-814	-1 480	-715	2 156	1 328	1 666	-2 857
Income taxes	-7 013	-5 204	-4 182	-5 165	41	826	-11 236	-11 195
Net income	36 809	30 931	7 293	9 523	6 797	6 964	37 305	33 490

Other information

Assets	514 815	363 885	70 633	70 635	229 458	90 526	355 990	343 994
Liabilities	33 166	27 982	14 117	14 957	15 386	9 711	31 897	33 228
Investments	8 802	8 565	1 280	4 244			10 082	12 809
Depreciations and amortizations	10 615	10 752	1 817	2 557			12 432	13 309

The primary segment information is based by the location of assets. Segment information based by the location of customers would not result in material changes.

Notes to the Consolidated Financial Statements

4. Segment information (business segments)	2003 in %	2002 in %	2003 000 CHF	2002 000 CHF
Active pharmaceutical ingredients	79.3%	76.5%	114 704	114 652
Research chemicals (incl. custom synthesis)	20.7%	23.5%	29 933	35 236
Total sales	100.0%	100.0%	144 637	149 888

5. Tangible fixed assets	Land 000 CHF	Buildings 000 CHF	Assets under construction 000 CHF	Installations 000 CHF	Laboratory equipment 000 CHF	Other 000 CHF	Total 2003 000 CHF	Total 2002 000 CHF
Cost at January 1	11 287	84 108	33	46 049	51 765	9 717	202 959	208 002
Additions	127	2 932	1 667	1 438	2 157	718	9 039	11 099
Disposals	0	-1	0	-5 682	-6 894	-958	-13 535	-4 068
Transfers	0	0	-32	0	0	32	0	0
Translation effects	-628	-1 939	-13	-495	-1 619	-296	-4 990	-12 074
Cost at December 31	10 786	85 100	1 655	41 310	45 409	9 213	193 473	202 959
Accumulated depreciation at January 1	0	15 810	0	35 704	32 916	7 941	92 371	90 437
Depreciation	0	2 328	0	2 099	2 265	589	7 281	8 384
Cumulative depreciation								
on disposals	0	0	0	-5 672	-6 860	-958	-13 490	-1 064
Translation effects	0	-514	0	-351	-1 325	-228	-2 418	-6 560
Other	0	0	0	0	0	0	0	1 174
Accumulated depreciation at December 31	0	17 624	0	31 780	26 996	7 344	83 744	92 371
Net book value at December 31	10 786	67 476	1 655	9 530	18 413	1 869	109 729	110 588

At December 31, 2003, buildings of Peninsula Laboratories Inc. were held under operating leases. The future minimum lease payments under uncancelable operating leases are:

No later than a year:	CHF	45 000
Total rents recognized in the income statement 2003:	CHF	465 000

	Goodwill 000 CHF	Other- intangible assets 000 CHF	Total 2003 000 CHF	Total 2002 000 CHF
6. Intangible assets				
Cost at January 1	41 886	4 799	46 685	45 067
Additions	0	1 043	1 043	1 710 ¹
Translation effects	0	-43	-43	-92
Cost at December 31	41 886	5 799	47 685	46 685
Accumulated depreciation at January 1				
Depreciation	4 196	955	5 151	4 925
Translation effects	0	-38	-38	-84
Accumulated depreciation at December 31	25 837	3 298	29 135	24 022
Net book value at December 31	16 049	2 501	18 550	22 663

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 prior year. 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.

7. Investment in associated companies

On January 7, 2002, Bachem Holding AG and Berna Biotech AG founded Pevion Biotech AG in Bern, each with a 50% stake. The new company - based on the know-how of the two founding companies - will develop innovative therapeutic and prophylactic vaccines against Malaria, Hepatitis C, Melanoma und Alzheimer,

which are based on the virosome technology patented by Berna.

Pevion Biotech AG is accounted for by using the equity method. Valuation as of December 31, 2003: CHF 0.7 million (Investments up to now of CHF 3 million less proportional loss of CHF 2.3 million).

Financial statements of Pevion Biotech AG

	2003 000 CHF	2002 000 CHF		December 31, 2003 000 CHF	December 31, 2002 000 CHF
Income statements			Balance sheets		
Sales	197	100	Current assets	1 609	4 771
Staff cost	-1 228	-718	Long-term assets	450	366
Administration cost	-468	-503	Assets	2 059	5 137
Research and development cost	-1 564	-338	Short-term liabilities	552	529
Depreciation expense	-43	-17	Long-term liabilities	29	38
Operating income	-3 106	-1 476	Equity	1 478	4 570
Financial income	14	46	Liabilities and equity	2 059	5 137
Net loss	-3 092	-1 430			

Notes to the Consolidated Financial Statements

8. Financial income, net	2003 000 CHF	2002 000 CHF
Financial income		
Interest income	1 050	1 600
Dividend income	1 114	1 276
Gains of disposal of securities	1 148	2 019
Other	80	8
Total	3 392	4 903
Financial expense		
Interest expense	-67	-182
Loss on disposal of securities	-432	-1 645
Other	-417	-609
Total	-916	-2 436
Currency result, net	-810	-5 324
Financial income, net	1 666	-2 857

9. Income taxes	2003 000 CHF	2002 000 CHF
Current taxes	9 399	10 520
Deferred taxes	1 837	675
Total income taxes	11 236	11 195

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	2003 %	2002 %
Expected tax rate	26.1	24.8
Effect of income taxed at reduced rates	-2.2	-2.0
Effect of disallowed expenditures	0.6	0.8
Effect of utilization of tax losses brought forward from prior periods	-0.6	0.0
Prior year and other items	-0.8	1.5
Effective tax rate	23.1	25.1

No deferred tax assets have been capitalized for tax loss carry-forwards, as the future realization is not assured.

<u>Not capitalized tax loss carry-forwards by expiry date:</u>	2003	2002
	000 CHF	000 CHF
up to five years	47	44
more than five years	3 848	4 298
Total	3 895	4 342

<u>10. Earnings per share (EPS)</u>	2003	2002
Net income (000 CHF)	37 305	33 490
Weighted average number of ordinary shares issued (basic)	13 249 707	13 324 757
Basic earnings per share (CHF)	2.82	2.51
Diluted earnings per share (CHF)	2.81	2.51

As of December 31, 2003, 20 200 options were outstanding. As of December 31, 2002, 16 900 options were outstanding, which did not have a material dilution effect.

<u>11. Marketable securities</u>	2003	2002
	000 CHF	000 CHF
Shares	25 790	15 691
Derivatives	Market/book value	1
	Contract value	1 026
Bonds	19 365	20 554
	Market/book value	45 156
		36 251

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

<u>12. Trade and other receivables</u>	2003	2002
	000 CHF	000 CHF
Trade receivables	28 012	24 472
Provisions for doubtful trade receivables	-1 123	-1 146
Prepaid expenses and accrued income	3 009	2 868
Tax receivables	2 373	1 212
Other receivables	2 343	1 367
Total	34 614	28 773

<u>13. Inventories</u>	2003	2002
	000 CHF	000 CHF
Raw materials	8 895	9 852
Finished products	47 241	39 105
Total	56 136	48 957

Notes to the Consolidated Financial Statements

14. 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 2003 were CHF 847 166 and CHF 1 392 094 in 2002.

In Switzerland Bachem AG and Sochinaz SA are members of so-called "BVG Sammelstiftungen". These funds are considered defined benefit plans for the purpose of the consolidated financial statements. The following is a summary status of these defined benefit plans at December 31, 2003 and 2002:

Proof of the net asset in the balance sheet:	2003 000 CHF	2002 000 CHF
Fair value of plan assets	26 622	25 009
Defined benefit obligations	-30 388	-28 492
Funded status	-3 766	-3 483
Unrecognized actuarial loss	3 979	3 642
Net asset in balance sheet	213	159

The unrecognized actuarial loss of CHF 3 766 067 is outside of the corridor of 10% of the plan assets therefore as of 2003 amortization is required.

Annual cost for pension funds:	2003 000 CHF	2002 000 CHF
Service cost	2 499	2 332
Cost of interest	1 068	1 034
Expected return on assets	-1 000	-946
Employee contributions	-1 123	-1 032
Recognized actuarial loss	127	0
Annual cost for pension funds	1 571	1 388

Development of the net asset in the balance sheet:	2003 000 CHF	2002 000 CHF
Net asset in the balance sheet at January 1	159	619
Addition from the acquisition of Sochinaz ¹	0	-591
Annual cost for pension funds	-1 571	-1 388
Employer contributions	1 625	1 484
Other changes	0	35
Net asset in the balance sheet at December 31	213	159

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 6.

<u>Composition of the net asset in the balance sheet:</u>	2003 000 CHF	2002 000 CHF
Prepaid pension fund contributions	537	702
Defined benefit plan liabilities	-324	-543
Net asset in the balance sheet	213	159

The actual return on assets for 2003 was CHF 1 148 669. In the previous year the actual loss on assets was CHF 1 076 000.

<u>The following assumptions are underlying the actuarial calculations:</u>	2003	2002
Discounting interest rate	3.75%	3.75%
Return on assets	4.00%	4.00%
Expected future increase in salaries	1.50%	1.50%

<u>15. Other financial assets</u>	2003 000 CHF	2002 000 CHF
Polyphor AG	5 375	4 250
Other	67	42
Total	5 442	4 292

		2003	2002
Polyphor AG, Allschwil (Switzerland)	Share capital nom. [CHF]	3 415 000	3 015 000
	Holding rate	28.33%	28.36%
	Voting rights	28.33%	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 interaction. For 2003, the company has

been treated in line with accounting standards for financial assets as participation will fall under 20% in the near future.

In 2003 share capital was increased from CHF 3 015 000 to CHF 3 415 000. Bachem Holding AG subscribed 1 125 registered shares with a nominal value of CHF 100 per share.

<u>16. Short-term financial debts</u>	2003 000 CHF	2002 000 CHF
Current maturity of long-term debt	0	2 164
Total	0	2 164

Notes to the Consolidated Financial Statements

17. Other short-term liabilities	2003 000 CHF	2002 000 CHF
Deferred income and accrued expenses	4 758	1 499
Other short-term liabilities	932	3 765
Total	5 690	5 264

18. Provisions	Provisions fo- restructuring 000 CHF	Provisions for warranties 000 CHF	Total 2003 000 CHF	Total 2002 000 CHF
At January 1	468	649	1 117	2 307
New provisions	498	6	504	310
Dissolved provisions	0	-28	-28	-18
Provisions used during the year	-142	-5	-147	-1 323
Translation effects	-51	1	-50	-159
At December 31	773	623	1 396	1 117
Current part:	773	623	1 396	1 117

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.

19. Deferred taxes		2003 000 CHF	2002 000 CHF
Assets associated with	- inventories	543	553
	- tangible fixed assets	0	672
	- provisions	249	139
	- other accruals	578	1 734
Total		1 370	3 098
Liabilities associated with	- inventories	6 825	6 623
	- tangible fixed and intangible assets	8 392	7 965
	- provisions	1 681	1 530
	- other accruals	569	325
Total		17 467	16 443

20. Contingent liability

There were no material contingent liabilities as per December 31, 2003 as well as per December 31, 2002.

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. Consolidated companies

Company	Country	Participation ¹ 2003	Participation ¹ 2002
Bachem Holding AG, Bubendorf (formerly Bachem AG)	Switzerland	Parent company	Parent company
Bachem AG, Bubendorf ²	Switzerland	100%	
Bachem Trading AG, Bubendorf	Switzerland	100%	100%
Labortec AG, Bubendorf	Switzerland	100%	100%
Sochinaz SA, Vionnaz	Switzerland	100%	100%
Bachem Biochimie SARL, Mulhouse (inactive)	France	100%	100%
Bachem Distribution Services GmbH, Weil am Rhein	Germany	100%	100%
Bachem (UK) Ltd., St. Helens	England	100%	100%
Peninsula Laboratories Europe Ltd., St. Helens (inactive)	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%

¹ direct or indirect

² During 2003, the group's structure was changed by the creation of a holding company. For this purpose the existing Bachem AG has been transferred into Bachem Holding AG. At the same time, the operating units of the company have been separated and, as a non-cash contribution, brought into the newly founded Bachem AG, a 100% affiliate of Bachem Holding AG.

23. Employee share participation plans

The following employee stock grant plans exist:

a) Employee participation scheme 1

All employees of the Bachem Group subsidiaries are periodically granted gratis shares after three whole years of service. The quantity depends on the status and ranges from 20 to 200. The shares are disposable.

b) Employee participation scheme 2

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

c) Share option plan

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

Notes to the Consolidated Financial Statements

Share options outstanding	2003 Number	2002 Number
At January 1	16 900	10 000
Granted options	3 700	6 900
Cancelled options	-400	0
Exercised options	0	0
At December 31	20 200	16 900
Exercisable options	0	0

Vesting dates of outstanding options are as follows:

	Exercise price		
Year 2004	80.00	2 900	3 000
Year 2005	80.00	4 200	4 300
Year 2006	80.00	5 200	5 300
Year 2007	80.00	4 200	4 300
Year 2008	60.30	3 700	0
Total		20 200	16 900

The options expire one year after they become exercisable.

Share capital under the option plans amounts to CHF 1 010.

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 Note 3 to the Financial Statements of Bachem Holding AG.

24. Transactions with related parties

Sales generated in 2003 with associated companies were CHF 329 900 (prior year: CHF 25 000). As of December 31, 2003 receivables from associated companies amounted to CHF 13 500 (December 31, 2002: CHF 0). Further please refer to the section Corporate Governance on pages 16 to 21.

25. Subsequent events

On February 29, 2004 the share capital of Pevion Biotech AG was increased from CHF 2 million to CHF 4 million. Bachem Holding AG subscribed CHF 1 million registered shares with a nominal value of CHF 1 and an agio of CHF 2 per registered share.

As scheduled, on March 26, 2004 the third increase in share capital of Polyphor AG did take place. Bachem Holding AG subscribed 1 125 shares for a counter-value of CHF 1 125 000. The participation rate fell from 28.33% to 28.31%.



Report of the Group auditors to the Annual General Meeting of Bachem Holding 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 24 to 40) of Bachem Holding AG for the year ended December 31, 2003.

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, March 30, 2004

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 Holding AG

Income statements 2003 and 2002	2003 000 CHF	2002 000 CHF
Sales	0	69 097
Sales deduction	0	-438
Income from licenses	8 708	0
Other operating income	0	2 228
Total	8 708	70 887
Cost of materials	0	-5 780
Staff cost	-1 875	-23 632
Depreciation and amortization expense	-7 008	-10 978
Cleaning and maintenance	-49	-225
Administration, sales and marketing cost	-3 272	-2 906
Other operating expenses	0	-3 506
Operating income before interest and taxes	-3 496	23 860
Financial income	9 324	12 366
Financial expense	-688	-7 369
Currency gain	3 417	7 447
Currency loss	-3 842	-13 479
Income before taxes	4 715	22 825
Taxes	-519	-4 281
Net income	4 196	18 544

Income statement and balance sheet for the reporting period are not fully comparable to the previous year. In 2003 the formerly existing Bachem AG has been renamed into Bachem Holding AG. At the same time, the operating units of the company have been separated and, as a non-cash contribution, brought into the newly founded Bachem AG, a 100% affiliate of Bachem Holding AG.

Balance sheets at December 31, 2003 and 2002	December 31, 2003 000 CHF	December 31, 2002 000 CHF
Assets		
Cash and cash equivalents	50 514	73 108
Marketable securities	48 469	32 333
Trade receivables, third parties	0	5 285
Trade receivables, intercompany	0	3 380
Other receivables, third parties	212	3 989
Other receivables, intercompany	1 914	399
Prepaid expenses and accrued income	160	1 028
Inventories	0	4 209
Current assets	101 269	123 731
Investments	123 089	52 479
Tangible fixed assets		
Real estate	0	34 767
Machinery and installations	13	5 153
Intangible assets	2 067	29 629
Long-term assets	125 169	122 028
Total assets	226 438	245 759
Liabilities and equity		
Trade payables, third parties	0	2 079
Trade payables, intercompany	0	406
Other short-term liabilities, third parties	925	1 730
Other short-term liabilities, intercompany	1 131	0
Deferred income and accrued expenses	810	1 196
Provisions	0	7 600
Liabilities	2 866	13 011
Share capital	680	6 800
Legal reserves		
General reserves	89 897	89 897
Reserves for own shares	12 588	4 821
Free reserves	111 082	106 849
Retained earnings	2003 000 CHF	2002 000 CHF
Retained earnings at January 1	5 129	5 837
Net income	4 196	18 544
Equity	223 572	232 748
Total liabilities and equity	226 438	245 759

Income statement and balance sheet for the reporting period are not fully comparable to the previous year. The formerly existing Bachem AG has been renamed into Bachem Holding AG. At the same time,

the operating units of the company have been separated and, as a non-cash contribution, brought into the newly founded Bachem AG, a 100% affiliate of Bachem Holding AG.

Financial Statements of Bachem Holding AG

Notes

1. Investments

Company	Location	Branch	Share capital	
			December 31, 2003	December 31, 2002
Bachem AG	Bubendorf, CH	Production, Sales	CHF 25 000 000	0
Bachem Trading AG	Bubendorf, CH	Sales	CHF 100 000	100 000
Labortec AG	Bubendorf, CH	Production	CHF 100 000	100 000
Sochinaz SA	Vionnaz, CH	Production, Sales	CHF 700 000	700 000
Bachem Biochimie SARL (inactive)	Mulhouse, F	Sales	EUR 75 000	76 225
Bachem Distribution Services GmbH	Weil am Rhein, D	Sales	EUR 128 000	128 000
Bachem (UK) Ltd.	St. Helens, GB	Production, Sales	GBP 2 500	2 500
Peninsula Europe Ltd. (inactive)	St. Helens, GB	Production, Sales	GBP 36 000	36 000
Peninsula Laboratories Inc.	San Carlos CA, USA	Production, Sales	USD 32 000	32 000
Bachem Bioscience Inc.	King of Prussia PA, USA	Production, Sales	USD 3 000 000	3 000 000
Bachem California Inc.	Torrance CA, USA	Production, Sales	USD 3 000	3 000
Pevion Biotech AG	Bern, CH	Production, Sales	CHF 2 000 000	2 000 000
Polyphor AG	Allschwil, CH	Production, Sales	CHF 3 415 000	3 015 000

With the exception of Pevion Biotech AG (held at 50%) and Polyphor AG (held as financial asset) all companies are controlled with 100% of the voting rights either directly or indirectly.

2. Insurance value of tangible fixed assets

	2003 000 CHF	2002 000 CHF
Machinery and equipment	0	60 000
Real estate	0	49 844

3. Own shares

On December 31, 2003 Bachem Holding AG held 411 299 own shares, 200 782 are reserved for trading and 210 517 are reserved for distribution under the employee share participation plans.

Transactions of own shares:	Stock December 31, 2003 [pieces]	Sales [pieces]	Purchases [pieces]	Stock January 1, 2003 [pieces]
	Employee participation scheme at the price of CHF 1.22	110 517	18 200	1 000
Option plan at the price of CHF 0.05	100 000	0	0	100 000
Treasury Stock at the price of CHF 62.00	200 782	31 000	170 212	61 570

4. Important shareholders

	Percent of total share capital December 31, 2003	Percent of total share capital December 31, 2002
Based on the available information the following shareholders own more than 5% of the registered share capital:		
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

Proposal of the Board of Directors for the appropriation of earnings

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

Net income	4 196 081
Retained earnings at January 1	5 128 691
Retained earnings	9 324 772
Withdrawal from free reserves	111 081 653
Available for the Annual General Meeting	120 406 425

Payment of a dividend of CHF 1.10 per registered share for the business year 2003 on 13 201 231 registered shares entitled to a dividend	14 521 354
Transfer to free reserves	100 000 000
Retained earnings to be carried forward	5 885 071

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 12, 2004, 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 2003 and actually totaled CHF 7 251 967.



Report of the statutory auditors to the Annual General Meeting of Bachem Holding AG, Bubendorf

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes/pages 42 to 45) of Bachem Holding AG for the year ended December 31, 2003.

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, March 30, 2004

PricewaterhouseCoopers AG

A handwritten signature in blue ink, consisting of a large, stylized 'H' followed by a smaller 'P' and a horizontal line.

H. Plozza

A handwritten signature in blue ink, consisting of a large, stylized 'S' followed by a horizontal line.

P. Seiler

Share information		2003	2002	2001	2000	1999	1998 ²
Registered shares, nominal value CHF 0.05		13 600 000	13 600 000	13 600 000	13 600 000	13 600 000	13 600 000
Average number of outstanding shares		13 249 707	13 324 757	13 347 000	13 345 340	13 311 520	12 706 520
Dividend per share	CHF	1.10	1.00 ¹	0.75	0.75	0.65	0.50
Share price nominal share	high	CHF 75.00	105	145	200	130	114
	low	CHF 50.10	59	58	119	98	68
	year end	CHF 63.45	65	95	140	128	100
Dividend yield	high	2.0%	1.7% ¹	1.3%	0.6%	0.7%	0.7%
	low	1.3%	1.0% ¹	0.5%	0.4%	0.5%	0.4%
Group income per share	CHF	2.82	2.51	2.82	3.59	3.01	2.55
Net cash flow from operating activities							
per share	CHF	2.68	2.83	2.35	2.38	3.37	2.93
Group equity per share	CHF	24.46	23.32	22.79	20.82	17.89	15.57
Price / earning ratio (year end)		22.5	25.90	33.69	39.00	42.52	39.22
Market capitalization at year end	CHF m	863	884	1 292	1 904	1 741	1 360

¹ including nominal value reduction of CHF 0.45 per share

² Trading of Bachem shares started on June 18, 1998. Issue price: CHF 56.75. Opening price: CHF 67.55.

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

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

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

In 2003, share capital was reduced from CHF 6 800 000 to CHF 680 000 by means of nominal value reduction.

Financial Calendar 2004/2005

Annual General Meeting (business year 2003)	May 12, 2004
Payout date for dividend	May 18, 2004
Half year results 2004	August 2004
Full year sales 2004	January 2005
Full year results 2004	April 2005
Annual General Meeting (business year 2004)	May 11, 2005

Contacts

Investor Relations

Bachem Holding AG
Reto Conrad
Tel.: +41 61 935 2333
Fax: +41 61 935 2324
Email: reto.conrad@bachem.com

Internet
www.bachem.com

Switzerland

Bachem Holding AG
Bachem AG
Bachem Trading AG
Labortec AG

Hauptstrasse 144
CH-4416 Bubendorf
Tel.: +41 61 935 2333
Fax: +41 61 935 2325
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

Germany

Bachem Distribution
Services GmbH
Hegenheimer Strasse 5
79576 Weil am Rhein
Germany
Tel.: +41 61 935 2323
Fax: +41 61 935 2325
Email: sales.ch@bachem.com

USA

Bachem Americas
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.
305 Old County Road
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 Holding AG,
Bubendorf, Switzerland
Design, project management and production:
Com.factory AG, Basel, Switzerland
Print: Birkhäuser+GBC AG, Reinach BL,
Switzerland
Photography: Geri Krischker, Zürich, Switzerland

Front cover: Nadia Delfauro, Sochinaz Vionnaz, Switzerland



Mustapha Sesay and Derick del Rosario
Bachem California, Torrance, USA



We are Bachem. Peptides are our business.