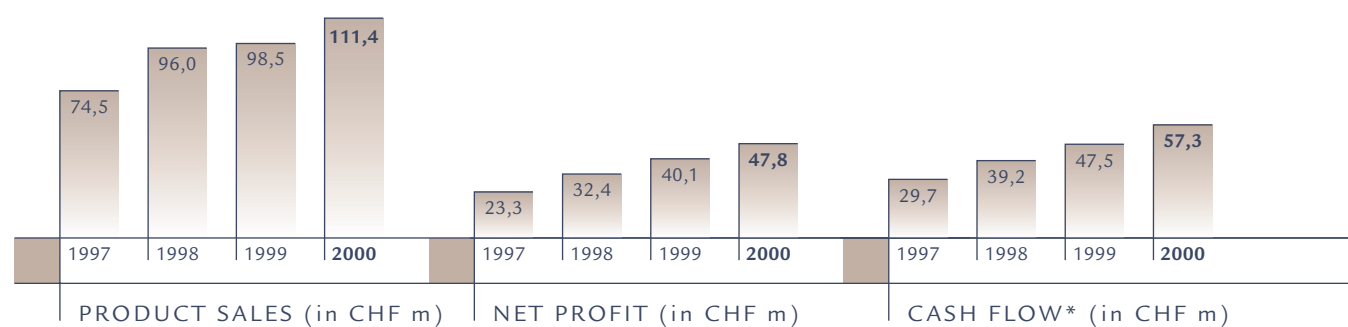


## 2000 IN BRIEF

- Sales surpass the CHF 100 million threshold for the first time ever
- Redirection of US business delivers first results
- Build up of immunology business progresses according to schedule
- Rolf Nyfeler named new head of the corporate management committee as of 1 January 2001.

## Key Figures for the Bachem Group



	2000	1999	1998	1997
Equity (in CHF m)	277.9	238.6	197.9	92.1
Total liabilities and equity (in Mio. CHF)	315.8	283.2	232.8	149.7
Number of employees (in full-time positions)	376	392	331	299
Sales per employee (in CHF)	296,335	302,277	289,940	249,275
Dividend per share (in CHF)	15**	13	10	7

\* Cash flow = Profit after taxes plus depreciations and amortisations

\*\* Proposal to the general meeting



Dr. h. c. Peter Grogg *Chairman of the Board and CEO*

Dr. Rolf Nyfeler *Chairman of the Management Committee and COO*

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## Management letter

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### SUCCESSFUL START IN THE NEW MILLENIUM

During the year 2000, Bachem has again achieved a series of important milestones. Our target to clearly surpass the CHF 100 million threshold was reached with sales of CHF 111.4 million. The cash flow increased by 20.6% to CHF 57.3 million and the net profit by 19.4% to CHF 47.8 million respectively. The integration of the Pensinsula group, acquired during 1999, has proceeded according to plan. In the important US market, the redirection of our local organization has brought about its first promising results. We have also completed another stage in the expansion of our production facilities at our Bubendorf headquarters, providing us with the necessary capacity to take advantage of further market growth. Finally, with the broadening of our corporate management, we have set the foundation for the further development of our company.

The results achieved during 2000 can be considered extremely positive, given the modest market dynamics for bulk peptides, the increased cost brought about by the integration of Peninsula Inc. and the new formation of our US companies. The net profit allows us, to propose an increase in dividend payment from CHF 13.00 to CHF 15.00 per share to the Annual General Meeting.

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## NEW DYNAMICS BROADEN PERSPECTIVES

The market for peptide-based products is currently undergoing a paradigm shift. With the decoding of the human genome and current developments in genomics and proteomics, the search for the causes of diseases and for new therapeutic approaches has become ever more targeted. Not only global, research-based, healthcare companies are active in this field. An increasing number of smaller start-up companies are also looking for opportunities to launch successful projects through focused research. Peptides play a key role in many of these projects. The increasing demand for our research peptides is indicative of this new dynamic in our industry.

For Bachem, this does not just mean that we will continue doing what we have successfully done for the past almost 30 years: synthesize and manufacture peptides. It will also be increasingly important for us to promote technological progress, through projects, partnerships and by participating in other companies, such as our involvement with Polyphor. Such an approach not only stimulates our research peptide business, but also allows us to participate in the development of innovative young companies, thereby identifying opportunities for new peptide-based pharmaceuticals. This broadens our field of activities. Small, research-oriented companies find in us a partner who promotes leading-edge technology and has the know-how in the synthesis of new peptides. For large pharmaceutical companies that focus on product development and marketing, we are a reliable supplier of the peptide quantities they need, up to and including the successful marketing of a drug in the global market.

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## SETTING THE COURSE FOR THE FUTURE

With the appointments of Rolf Nyfeler as Chief Operating Officer and Chairman of the Group Management and of Thomas Früh as his successor in charge of headquarters operations, the top management team has been strengthened. Along with pursuing important strategic tasks, which will remain the responsibility of Peter Grogg as CEO, management will address the expansion of our operational activities on the international scale. Preliminary agreements in China have already been signed, and the reorganization of our marketing activities will deliver a stronger market presence in other important markets.

At the same time, we have begun focusing our production sites' activities as part of the globalization of our manufacturing strategy. The objective is to meet market needs as well as to optimize internal efficiency. With the largest investment in Bachem's history, we have, in addition, completed the new, state-of-the-art GMP (good manufacturing practice) production facility at our headquarters site in Bubendorf, Switzerland. Strategy, structure and financial as well as personal resources, thus, are all in place to accomplish the next phase in Bachem's development.

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## PROSPECTS AND GRATITUDE

Despite the enthusiasm and optimism for the life sciences, we must remember that development projects may not yield success as quickly as desired. Also, market variations and the trend toward just in time production might cause delays for certain orders of bulk peptides as pharmaceutical ingredients. Therefore, we do not expect the upward trend in the peptide market to be continuously steep. Rather, the underlying dynamic of our business is characterized by clear and strong growth signals. As in the year 2000, we expect that this current year will also bring further growth and expansion of our activities.

This positive outlook is also based on our faith in our employees around the globe. As we owe last year's success to their efforts, we will also build on their competence and experience for 2001. We are grateful for the mutual trust that characterizes our collaboration with them, as well as our relationship with our customers, business partners and shareholders.



Dr. h. c. Peter Grogg  
*Bubendorf April 2001*



Dr. Rolf Nyfeler



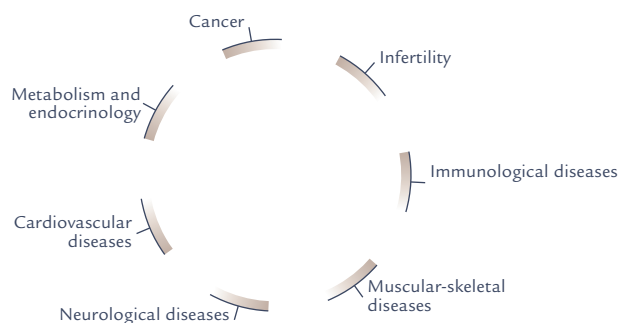
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## Peptides: a promising future

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Peptides play a major role in sustaining life, supporting such important bodily functions as growth, hormonal secretion, and the regulation of the sugar and bone metabolism and various neurological processes. While we already have a basic understanding of these physiological functions, much information about metabolic processes and the diseases related to their malfunction remains unknown. – Peptides will be at the center of this discovery.

Over the next few years, the number of peptides that will be tested and brought to market, whether as drugs or for other industrial uses, is expected to increase substantially. Given the advances in this field, we anticipate double-digit growth for our industry in the next 10 to 20 years. While fluctuations in the growth rate must be accounted for, due to uncertainties connected with the development process of a drug until its registration and market introduction, the growth rate over the long-term points decidedly upward for the peptide industry.



## POTENTIAL APPLICATIONS OF THERAPEUTIC PEPTIDES

### PEPTIDES:

#### LEAD COMPOUNDS FOR NEW DRUGS

Compared to the past, when the discovery of new active substances required huge investments over a long period of time, we have now entered an era in which lead compounds are becoming abundantly available to both large and small companies alike. Combinatorial chemistry has spawned the creation of vast libraries containing millions of molecules, from which molecules with the specific desired properties can be selected. Some libraries are dedicated solely to certain peptides. The bottleneck for drug development has changed; rather than having a lack of available lead compounds, the challenge is now to select the most appropriate drug candidates.

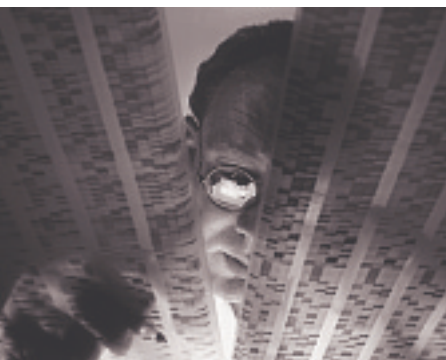
In addition, the Human Genome Project and the deciphering of the human genetic code have initiated a medical revolution. Understanding the human genetic code opens up a deeper understanding of biological structures. This in turn allows for new deductive strategies to diagnose and treat diseases, thereby offering opportunities for a broader and more systematic use of peptides. Where peptides show therapeutic activity, they can be further developed into drugs.

With these new technological opportunities and scientific advances, even more companies will be using peptides in research and development, leading to an increased demand in the number and volume of substances supplied to the market.

### NEW APPLICATION SYSTEMS: FOR BROADER PEPTIDE APPLICATION

The enormous improvements in drug delivery systems constitute another medical revolution that will increase the number of peptide drugs brought to market over the next decades. The challenge in application is to deliver the peptides to the right target area in such a way that they will unleash their effect in precisely the right place at precisely the right time.

The converging of computer technology, biosensors and drug delivery devices to optimize the uptake of peptide drugs is already showing great promise for treating diabetes. Inhalation of Calcitonin, a popular peptide drug for osteoporosis, has largely replaced frequent injections. Depot injections or drug delivery implants have now been





approved to deliver peptide drugs for prostate cancer or endometriosis in a time release manner. The drug is administered quarterly or even annually, as opposed to weekly or daily injections.

Progress is also being made in developing peptide drugs for oral application, a strategy that had been hindered, for a long time, by the propensity of peptides to break down in the stomach. Certain peptides have even proved useful as drug delivery systems themselves, channeling an active ingredient through the skin, for example, or delivering it directly to certain cancer cells, which they can target by means of unique surface structures. Such methods diminish side effects associated with systemic drug delivery.

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#### PEPTIDE PRODUCTION: A JOB FOR SPECIALISTS

Producing a given amount of a specific peptide that fulfills all criteria regarding purity, quality and cost-effectiveness requires vast experience. Given the specialized equipment and know-how needed, the trend to outsource peptide production will continue among big pharmaceutical and biotechnology companies as well as among pharmaceutical start-up-firms.

Specialists are best suited to produce the many varieties of peptides in the small amounts needed for drug testing and development. Given the activity of peptides even in small doses, specific know-how is also called for to produce active substances for marketable products. Even pharmaceuticals that are successfully sold worldwide require only a few kilograms of peptides. Specialists are better equipped to scale-up production more efficiently than traditional chemical manufacturers.

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#### BACHEM:

##### A LEADER IN PEPTIDE PRODUCTION

With 30 years of experience in research, development and production Bachem is the worldwide leading manufacturer of peptides. The company employs over 370 people at its headquarters in Switzerland and its affiliates in Germany, France, the UK and the US and is the world's largest employer of peptide chemists. Bachem has five production sites in Switzerland, the UK and the US. In order to meet global demand, each of these sites is specialized to manufacture specific products for worldwide distribution. Three of the sites are equipped in conformity with cGMP (current Good Manufacturing Practice) requirements and have been inspected and approved according to cGMP standards. To meet future demand, a new production site complying with latest cGMP regulations will be opened at our headquarters in Switzerland in the spring of 2001.

*During 2000, the number of catalogue products for research continued to increase substantially.*



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## Operational review

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During the 2000 business year, sales of the Bachem Group exceeded the 100 million Swiss francs mark for the first time in its nearly thirty-year history. Turnover grew by 13.1% to 111.4 million Swiss francs. This significant increase corresponds with the anticipated longer-term trend of double-digit sales growth for the peptide market. Throughout the year, the business showed continuous development with first-half sales marginally higher than second-half sales.

Expanding our immunology products activities with the acquisition of the Peninsula Group contributed significantly to sales growth, while a new marketing and sales organization in the USA brought substantial new business, specifically for our catalogue products, already in its first year.

The UK production site, acquired as part of the Peninsula Group, helped expand and strengthen our position in the custom synthesis segment. By promoting this service, we expect to bring about a positive impact for our catalogue business by acquiring a selection of interesting new products as well as access to new development projects.



*Workplace safety is a high priority at all Bachem sites.*



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## STRONG GROWTH OF THE CATALOGUE BUSINESS

By acquiring the Peninsula Group, we have substantially expanded our catalogue product range, particularly in the field of immunology, to offer many new antibodies and specialized diagnostic kits. The integration of Peninsula's and Bachem's catalogue product range has broadened our offer by over 1000 new compounds, for a total of over 8000 substances available for delivery at short notice.

With the increased sales that have come from the Peninsula acquisition and from the successful implementation of our marketing strategy, our catalogue business now represents well over 30% of our business.

New momentum for our catalogue business will continue to be generated by the rapid developments in biotechnology, frequently cited as a key technology for the 21st century, and specifically by the ongoing research on the vast amount of information yielded by the deciphering of the human genome. Among our bestsellers, amyloid peptides, used in research on Alzheimers' disease, continue to be of particular importance.

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## BULK PEPTIDES BUSINESS CONSOLIDATED ON HIGH LEVEL

In the sale of peptides for pharmaceutical active ingredients, we have defended our position despite a difficult market environment. Pharmaceutical company mergers and delays in the new drug registrations have postponed planned deliveries. This also affected growth opportunities in new peptide applications for medicinal products and nutraceuticals. Future prospects for this business, however, are well intact.



Through marketing initiatives of Bachem Americas for bulk peptides, we have acquired a number of promising new clients and projects that have not yet impacted the sales results of the reporting year.

The generics business is back on its growth track following advances in new application forms such as depot injections and other progressive projects in this field. Further opportunities in the generics market are evolving in China, where we have successfully made initial contacts during 2000.

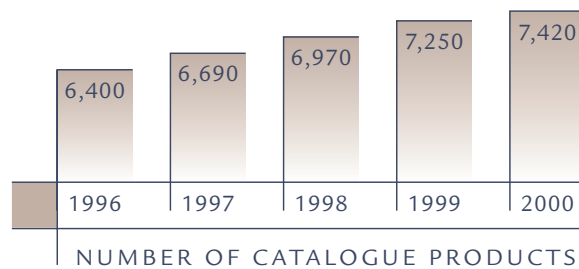
We have successfully expanded our production capacity with the completion of our new manufacturing facility at the end of last year. With our current capacity, we will be able to meet all market and customer demand for large quantities of bulk peptides.

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## FURTHER PROGRESS REGARDING SAFETY AND ENVIRONMENT

The continuous expansion of our production capacity is consistently accompanied by the necessary environmental protection measures. During 2000, we again received envi-





ronmental certification from the authority in charge for our headquarters and major production site in Bubendorf, Switzerland.

By applying modern tools of risk and event assessment, we have continually improved workers' safety, resulting in a rating for our headquarters site that is superior to the industry average from an insurance perspective. As part of accident prevention, new and standardized emergency plans have been established and the necessary adjustments for increased production capacity have been implemented.

With the opening of new facilities, currently used only to partial capacity, energy consumption has increased compared to previous years. However, Bachem's overall energy consumption is far below industry average compared to value added. An important future task is to secure waste disposal to correspond with our increased production capacities. We also need to develop the organization of workers' safety in line with the growing structure of our company to ensure and further improve our high safety and environmental standards.

choose. In addition to this program, employees also participate in the company's success through bonus payments related to the company's performance. These rewards are an acknowledgement of employee efforts and a basis for long-term partnership with our highly-qualified staff.

#### EMPLOYEES PARTICIPATE IN OUR SUCCESS

The integration of the Peninsula Group, acquired in late 1999, and the subsequent restructuring and closing of a production site in the USA resulted in a modest reduction of staff during 2000. At year's end the number of global employees as expressed in FTEs (full time employments) was 376 as compared to 392 a year ago.

Following the integration of Peninsula, new staff were enrolled in the Bachem employee participation scheme. All permanent staff employed by companies of the Bachem Group are now entitled to a certain number of free Bachem AG registered shares every three years to handle as they



*Following the integration of Peninsula, more than 370 people currently work at Bachem worldwide.*



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## Comments on the financial results

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### INTRODUCTION OF NEW SOFTWARE AT BACHEM GROUP

The consolidated accounts of the Bachem Group per December 31, 2000, have been prepared using a new software for the first time. This results in minor movements within certain groups of items and the restructuring of individual positions. Explanations for relevant shifts can be found in the notes to balance sheets and income statements.

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### RESTATEMENT ON THE ACQUISITION OF THE PENINSULA GROUP

Following the acquisition of the Peninsula Group, several adjustments to the financial figures were required. Also provisions were adjusted to the new situation. The consequences of restatements are presented in detail in note 2. The restructuring process at Peninsula Laboratories Inc. in San Carlos proceeds according to plan and should be completed by the end of 2001.

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### THE NEW COMPANY IN THE UK

At November 1, 2000, Peninsula Laboratories Europe Ltd., previously a 100% affiliate of Peninsula Laboratories Inc., San Carlos, USA, was purchased by Bachem (UK) Ltd. Subsequently, assets and liabilities of both companies were



#### SHARE PRICE DEVELOPMENT

Issuing price at June 18, 1998 CHF 1135

consolidated into the new Bachem (UK) Ltd. The new company is both producer of research peptides and responsible for Bachem marketing activities in the UK and Ireland.

#### CASH FLOW

The introduction of the new consolidation software had a substantial impact on the calculation of cash flows. This resulted in a complete redesign of the cashflow statement. Comparability to the previous year is limited due to partly new groupings of line items. The new reporting format has been implemented to allow for considerations of future developments at Bachem. Limitations of comparability are restricted to the year of changeover.

#### INVESTMENTS

Completion of construction work on the new manufacturing building at our Bubendorf site resulted in another major investment of more than CHF 20 million in assets during the reporting period. With construction completed, this amount will be significantly lower for the following years.

#### TAXES

Due to a change of the taxation system in the canton of Baselland, relevant for our Bubendorf site, taxes decreased to approximately CHF 6 million as reported in the income statement for 2000 and are not representative for the future. This is a once-off effect impacting only the reporting year 2000. The tax rate will increase in the future to return to a level comparable to previous years.

#### INCOME STATEMENT

Despite a sales increase of 13%, the operating result has decreased by 8% to CHF 45,8 million, and the EBIT margin has declined to somewhat over 41%. Although this margin can still be considered as very high, the anticipated reduction due to the Peninsula acquisition and the redirection of our US activities has been greater than expected. We therefore expect improving results in the years to come, bar any further acquisitions. Results also show a marked increase of staff cost by about one-third as compared to 1999. This is a result of not only an increase in staff affected by the acquisition of Peninsula and personnel cost in USD, but also salary levels have increased overall in those countries where we operate. For the future our task will be to improve efficiency to balance this climb in staff cost.

Profit after tax saw another double digit increase to CHF 47.8 million (plus 19.4%), due to the favorable tax environment.

## CONSOLIDATED ANNUAL BALANCE SHEETS

at 31 December 2000 and 1999

<b>Assets</b>	Notes	31.12.2000 000 CHF	31.12.1999 000 CHF
Cash and cash equivalents		85,282	83,056
Securities	4	58,932	46,368
Accounts receivable	5	26,015	25,316
Inventories	6	29,757	26,910
<b>Total current assets</b>		<b>199,986</b>	<b>181,650</b>
Property, plant and equipment	7	93,117	79,019
Intangible assets	8	19,868	20,342
Prepaid pension fund contributions	19	619	604
Other financial assets		69	410
Shareholding associated companies	24	1,720	600
Deferred tax receivables		455	86
<b>Total fixed assets</b>		<b>115,848</b>	<b>101,061</b>
<b>Total assets</b>	16	<b>315,834</b>	<b>282,711</b>
<b>Liabilities and shareholders' equity</b>			
Trade accounts payable		8,570	5,396
Short-term financial debts	9	108	90
Income taxes payable		4,332	14,459
Other short-term liabilities	10	8,973	8,444
Provisions	13	4,125	4,252
<b>Total short-term liabilities</b>		<b>26,108</b>	<b>32,641</b>
Long-term financial debts	11	484	1,088
Deferred tax payables	12	11,331	10,799
<b>Total long-term liabilities</b>		<b>11,815</b>	<b>11,887</b>
<b>Total liabilities</b>		<b>37,923</b>	<b>44,528</b>
Share capital		6,800	6,800
Own shares*		-319	-458
Share premium account		85,839	85,839
Retained earnings		183,448	144,272
Currency translation		2,143	1,730
<b>Total shareholders' equity</b>		<b>277,911</b>	<b>238,183</b>
<b>Total liabilities and shareholders' equity</b>		<b>315,834</b>	<b>282,711</b>

\*To enable a comparison the last year's was adopted to this years division

## CONSOLIDATED INCOME STATEMENTS

for the years ended 31 December 2000 and 1999

	Notes	2000 000 CHF	1999 000 CHF
<b>Sales</b>	16	<b>111,422</b>	98,542
Other income		<b>1,187</b>	1,765
Cost of materials		<b>-10,453</b>	-6,043
Changes in inventories of finished goods and work in progress		<b>3,811</b>	2,989
Staff costs		<b>-37,132</b>	-27,889
Depreciations and amortizations		<b>-9,458</b>	-7,408
Other operating expenses		<b>-13,650</b>	-12,031
<b>Operating results</b>	16	<b>45,727</b>	49,925
Financial income	14	<b>16,460</b>	4,802
Financial expenses	14	<b>-7,835</b>	-1,086
Exchange gains/losses		<b>-413</b>	1,161
<b>Financial income net</b>		<b>8,212</b>	4,877
<b>Profit before taxes</b>		<b>53,939</b>	54,802
Taxes	15	<b>-6,091</b>	-14,737
<b>Profit after taxes</b>		<b>47,848</b>	40,065
<b>Earnings per share (CHF per share)</b>	22	<b>71.71</b>	60.20

## CONSOLIDATED CASH FLOW STATEMENTS

for the years ended 31 December 2000 and 1999

	Notes	2000 000 CHF	1999 000 CHF
<b>Cash flow from/(for) operating activities</b>			
Net income before taxes		53,939	54,802
Depreciations and amortizations		9,459	7,408
Financial income	14	-9,868	-4,802
Financial expenses	14	5,759	1,086
Taxes paid		-11,270	-6,044
Other transactions, not effecting the liquidity		-182	11
Profit/loss on disposal of fixed assets		76	-55
<b>Change of the operational assets and liabilities</b>			
Receivables		-5,562	-6,229
Inventories		-3,225	-1,427
Short-term liabilities		-6,222	4,104
Long-term liabilities		-1,194	-3,965
Securities		-12,565	-11,300
<b>Net cash flow from operating activities</b>		<b>19,145</b>	<b>33,589</b>
<b>Cash flow from/(for) investing activities</b>			
Investments in fixed assets	7	-20,822	-11,093
Investments in intangible assets and financial assets		4,075	-2,757
Acquisition of Peninsula	2	0	-12,740
Investment in associated companies		-1,120	0
Income from financial transactions	14	8,422	4,802
<b>Net cash flow for investing activities</b>		<b>-9,445</b>	<b>-21,788</b>
<b>Cash flow from/(for) financing activities</b>			
Own shares		139	764
Changes of financial liabilities		1,035	-6,132
Dividends paid		-8,672	-6,657
<b>Net cash flow from/(for) financing activities</b>		<b>-7,498</b>	<b>-12,025</b>
Currency translation on cash		18	1,140
<b>Net change in cash and short-term deposits</b>		<b>2,220</b>	<b>916</b>
<b>Liquid funds at the beginning of the year</b>		<b>83,062</b>	<b>82,140</b>
<b>Liquid funds at the end of the year</b>		<b>85,282</b>	<b>83,056</b>
<b>Change for 2000 resp. 1999</b>		<b>2,220</b>	<b>916</b>

Cash flows related to securities are now shown as part of the cash flow from operating activities. The preceeding year was treated equally. To enable a comparison the last year was regrouped.



## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

for the years ended 31 December

	Share-capital 000 CHF	Own shares 000 CHF	Agio 000 CHF	Retained earnings 000 CHF	Currency translations 000 CHF	Total 1999 000 CHF
Balance 1 January 1999	6,800	-1,222	85,839	110,864	-5,151	198,352
Profit	0	0	0	40,065	0	40,065
Capital increase	0	0	0	0	0	0
Dividends	0	0	0	-6,657	0	-6,657
Own shares	0	764	0	0	0	-458
Currency translations	0	0	0	0	6,881	6,881
Balance 31 December 1999	6,800	-458	85,839	144,272	1,730	238,183

	Share capital 000 CHF	Own shares 000 CHF	Agio 000 CHF	Retained earnings 000 CHF	Currency translations 000 CHF	Total 2000 000 CHF
Balance 1 January 2000	6,800	-458	85,839	144,272	1,730	238,183
Profit	0	0	0	47,848	0	47,848
Capital increase	0	0	0	0	0	0
Dividends	0	0	0	-8,672	0	-8,672
Own shares	0	139	0	0	0	139
Currency translations	0	0	0	0	413	413
<b>Balance 31 December 2000</b>	<b>6,800</b>	<b>-319</b>	<b>85,839</b>	<b>183,448</b>	<b>2,143</b>	<b>277,911</b>

For the transactions within the own shares, see page 36, notes of Bachem AG, chapter 3.

In accordance with SIC 16, own shares are carried as negative position in the equity. 1999 was restated accordingly.

All the shares are registered shares with a nominal value of CHF 10. The share capital is divided into 340,100 shares Bachem -A- and 339,900 shares Bachem -B-. The shares Bachem -B- are traded at the Swiss Stock Exchange Zurich (number 893 292).

For additional information visit our homepage [www.bachem.com](http://www.bachem.com) or contact Mr. Jörg Stumpf, Tel. +41-61-935 23 33 (E-Mail: [JStumpf@bachem.com](mailto:JStumpf@bachem.com)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 our headquarters in Bubendorf (Switzerland) and affiliates in Europe and the US, we work on a global scale and hold a leading position in our field.

**Principles of consolidation and disclosures** The financial statements of the Bachem Group are prepared in accordance with the International Accounting Standards (IAS) formulated by the International Accounting Standards Committee (IASC). The consolidated financial statements have been approved by the Board of Directors of Bachem AG on 11 April 2001.

**Consolidated companies** The companies included in the consolidation are listed in this annual report. All companies are taken into account in which Bachem Ltd. controls over 50 % of the voting rights directly or indirectly or otherwise has power to exercise power over the operations. The financial statements of the companies included in the consolidation are prepared using uniform standards for accounting, presentation and valuation. Intercompany income and expenses including unrealised gross profits from internal Group transactions, and intercompany receivables and payables have been eliminated. The annual closing date of the financial statements is 31 December.

**Recognition of income** Sales are recognized upon delivery of products and customer acceptance, if any, or if the performance of services has been invoiced. The sales figures are net of sales tax and rebates.

**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. Income, expenses and cash flows of the consolidated companies have been translated into Swiss Francs using the respective yearly average exchange rate. Assets and liabilities are translated using the year-end exchange rates that prevailed at the balance sheet date, and the resulting foreign exchange transaction gains and losses are recognized in the local profit and loss statement and are allocated to shareholders' equity.

**Assets** Current assets contain all short-term assets with a maturity of less than 12 months. Fixed assets include all long-term assets held for over 12 months.

**Cash and short-term deposits** This includes petty cash, bank balances and demand and term deposits with maturity of three months or less.

**Securities** The position "Securities" includes marketable securities, i.e. investments in securities traded in liquid markets that are readily convertible to cash and not intended to be held permanently. Marketable security portfolios are valued at the lower of acquisition cost or market value. The result is included in the net financial expenses or income of the relevant period.

**Trade accounts receivable** The valuation is based on the invoiced amounts, adjusted for the possibility of doubtful debts. The adjustments for losses are either based on specific receivables or on general estimates of the risk of loss.

**Inventories** Inventories for all raw materials, supplies, spare parts, works-in-progress and finished products are stated either at an average cost that includes related production overheads or at net realizable market value, whichever is lower. Inventories, which are slow-moving or unsaleable inventory are fully or partially written off.

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

**Financial investments** Loans with maturity of over 12 months are reported at their nominal value and adjustments are made to income if the carrying cost exceeds the appropriate proportion of the underlying assets.

**Tangible fixed assets and depreciation** Tangible fixed assets (property, plant and equipment) are valued at historical acquisition cost less accumulated depreciation. All the costs for loan capital are fully charged to the financial expenses. Depreciation is on a straight-line basis and charges reflect the following group guidelines on the estimated useful life:

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

The depreciation reflects the economic useful life of the respective assets. The current maintenance is recognized in the profit and loss statement. The land is valued at acquisition cost.

The value of assets including goodwill and other intangible assets is always analyzed if, based on the circumstances or other occurrences, an overvaluation of the bookvalues seems possible. If such a situation occurs, Bachem will calculate a value, which seems, based on future income, achievable. If this value is, based on the discounted future cash flows, lower than the bookvalue, the difference will be booked as cost in the profit and loss account.

**Intangible assets** Purchased intangible assets such as patents and licenses are charged directly to the income statement. Goodwill, arising when the acquisition cost of an investment is in excess of the fair value of net assets, is capitalized and amortized over a useful period. The amortization period is between 5 and 20 years and is fixed separately in each case, depending on the circumstances.

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

- Liabilities for goods bought from third parties
- Short-term loans from banks or financial parties
- Liabilities due to payroll deductions (social security, income tax deductions, VAT, health and disability insurance and pension contributions)
- Customer prepayments connected to the delivery of goods, services or sales of assets
- Deferred income: either revenues from the previous year that cannot be credited to income until the following year, such as advance receipts of capital interest, rents, premiums; or expenses of the previous year that cannot be paid until the next year, such as mortgage and loan interest owed, rents, salaries, taxes provisions
- Provisions for expected tax liabilities.

**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.

**Provisions** Provisions are made if a legal or other liability can be detected and when the payment of this liability seems likely and if an estimate of this liability is possible.

**Research and development** Laboratory buildings and inventories for research and development are activated and depreciated according to the general accounting policies. Since the criteria for an activation are not met, the other expenses for research and development are fully charged to the income statement.

**Taxes** Taxes are stated according to internal economic criteria. Deferred taxes have been calculated using the comprehensive liability method. Accordingly the results from the timing differences that arise between the recognition of items in the balance sheets of Group companies used for tax purposes and those prepared for consolidation purposes are taken into account. Tax benefits are only taken into account when their realization is likely.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Defined benefit pension plans** The liability in respect of defined benefit pension plans is in all material cases the defined benefit obligation calculated every two years by independent actuaries using the projected unit credit method according to IAS 19. The defined benefit obligation is measured at the present value of the estimated future cash flows. Plan assets are recorded at their fair values. Significant gains or losses arising from experience adjustments, changes in actuarial assumptions, and amendments to pension plans are charged or credited to income over the service lives of the related employees. The charge for such pension plans, representing the net periodic pension cost less employee contributions, is included in the personnel expenses of the various functions where the employees are located.

**Own shares** Own shares are in the balance sheet with their purchase price and according to the interpretations SIC 16, given by the IASC, offset against equity.

**Employee participation** When shares are granted to employees under the employee participation programs, the amount at which the shares were previously included in the company's financial statements, less any contribution from the employees, is charged to personnel expenses. (Details to the programs on page 31 of this report.) Up to now, no options were granted from the employee participation programme based on options.

## 2. Changes in the scope of consolidation

On 31 December 1999 Bachem Ltd. acquired 100 % of Peninsula Laboratories Inc., San Carlos, USA, as well as 100 % of the subsidiary Peninsula Laboratories Europe Ltd., Merseyside, England. For consolidation purposes the assets and the liabilities were taken into consideration. The goodwill has been amortised from 1 January 2000. On 01.11.00 Bachem (UK) Ltd. Saffron Walden and Peninsula Europe Inc. were merged to the new Bachem (UK) Ltd. St. Helens, Merseyside, England.

Based on knowledge acquired after the take over, Peninsula Laboratories Inc., was restated according to IAS 22.

In the following chart all the assets and liabilities of the acquisition of Peninsula, also revised, are itemized:

	1999 Acquisitions revised 000 CHF	1999 Acquisitions 000 CHF
Property, plant and equipment	-8,531	-9,322
Other fixed assets	-40	-35
Inventories	-3,795	-3,255
Accounts receivable and other current assets	-1,899	-1,784
Securities, cash and short-term deposits	-355	-355
Long-term and short-term financial debts, provisions	6,201	4,306
Trade accounts payable and other liabilities	1,166	1,119
<b>Acquired net assets</b>	<b>-7,253</b>	<b>-9,326</b>
Less acquired cash	355	355
<b>Subtotal</b>	<b>-6,898</b>	<b>-8,971</b>
Goodwill	-5,842	-3,769
<b>Net cash flow</b>	<b>-12,740</b>	<b>-12,740</b>

	Income statement average rate 2000 CHF	1999 CHF	Balance sheet year end rate 2000 CHF	1999 CHF
<b>3. Exchange rates</b>				
1 US Dollar	1.6888	1.5027	1.6205	1.5999
1 English Pound	2.6669	2.4309	2.4207	2.5926
100 German Marks	79.6500	81.8300	77.7900	81.9300
100 French Francs	23.7500	24.4000	23.2000	24.4200

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<b>4. Trading investments</b>		<b>2000</b> <b>000 CHF</b>	<b>1999</b> <b>000 CHF</b>
Shares	Purchase cost of shares	<b>33,835</b>	25,161
	Market value of shares	<b>39,178</b>	37,780
Derivatives	Purchase cost of shares	<b>3,951</b>	5,109
	Market value of shares	<b>5,267</b>	5,691
	Contract value of derivatives	<b>10,409</b>	15,464
Bonds	Purchase cost of shares	<b>21,146</b>	16,098
	Market value of shares	<b>21,224</b>	19,626
<b>Total</b>	<b>Purchase cost</b>	<b>58,932</b>	46,368
	<b>Market values</b>	<b>65,669</b>	63,097

<b>5. Accounts receivable</b>		<b>2000</b> <b>000 CHF</b>	<b>1999</b> <b>000 CHF</b>
Trade accounts receivable		<b>22,144</b>	18,994
Provision for doubtful receivables		<b>-497</b>	-169
Prepaid expenses and accrued income		<b>2,324</b>	3,971
Other receivables		<b>2,044</b>	2,520
<b>Total</b>		<b>26,015</b>	25,316

<b>6. Inventories</b>		<b>2000</b> <b>000 CHF</b>	<b>1999</b> <b>000 CHF</b>
Raw materials		<b>3,408</b>	1,647
Finished products		<b>26,349</b>	25,263
<b>Total</b>		<b>29,757</b>	26,910



<b>7. Tangible fixed assets</b>	<b>Land 000 CHF</b>	<b>Buildings 000 CHF</b>	<b>Assets in construction 000 CHF</b>	<b>Installations 000 CHF</b>	<b>Laboratory equipment 000 CHF</b>	<b>Other 000 CHF</b>	<b>Total 2000 000 CHF</b>	<b>Total 1999 000 CHF</b>
Cost at 1 January	10,693	55,079	2,274	8,728	34,286	6,481	<b>117,541</b>	91,988
Adaption to new system*	-284	4	-90	19,945	-17,243	-560	<b>1,772</b>	0
Additions	0	3,041	13,395	350	2,694	821	<b>20,301</b>	11,155
Disposals	-31	0	0	-1,695	-1,354	-78	<b>-3,158</b>	-431
Change in valuation**	0	2	0	-920	15,194	-106	<b>14,170</b>	0
Translation effects	82	298	0	218	-613	9	<b>-6</b>	5,507
Acquisition of Peninsula	0	0	0	0	0	0	<b>0</b>	9,322
<b>Cost at 31 December</b>	<b>10,460</b>	<b>58,424</b>	<b>15,579</b>	<b>26,626</b>	<b>32,964</b>	<b>6,567</b>	<b>150,620</b>	117,541
Accumulated depreciation								
at 1 January	0	10,783	0	4,840	18,269	4,630	<b>38,522</b>	32,455
Adaption to new system*	0	2	0	10,897	-9,122	-5	<b>1,772</b>	0
Depreciation	0	1,391	0	1,423	2,515	530	<b>5,859</b>	4,754
Disposals	0	0	0	-1,370	-1,239	-60	<b>-2,669</b>	-425
Change in valuation**	0	0	0	6,382	8,618	-39	<b>14,961</b>	0
Translation effects	0	19	0	-618	-348	5	<b>-942</b>	1,738
<b>Accumulated depreciation at 31 December</b>	<b>0</b>	<b>12,195</b>	<b>0</b>	<b>21,554</b>	<b>18,693</b>	<b>5,061</b>	<b>57,503</b>	38,522
<b>Book value at 31 December</b>	<b>10,460</b>	<b>46,229</b>	<b>15,579</b>	<b>5,072</b>	<b>14,271</b>	<b>1,506</b>	<b>93,117</b>	79,019

\*due to introduction of a new software

\*\*see Note 2

At 31 December 2000 buildings of Peninsula Laboratories Inc. were leased.

The future payments for these leases are:

Within one year: CHF 552,000

Within five years: CHF 32,000

Cost in 2000: CHF 521,000

The insured value of the assets was CHF138,131,000 at 31 December 2000 and CHF 78,589,608 at 31 December 1999.

The group has no important obligations to buy assets or for assets under construction. At the date of the balance sheet no other buildings than the one by Bachem Bioscience Inc.(see note 11) were pledged.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Goodwill 000 CHF	Other intangible assets 000 CHF	Total 2000 000 CHF	Total 1999 000 CHF
<b>8. Intangible assets</b>				
Cost at 1 January	29,232	1,434	30,666	25,565
Acquisition of Peninsula	0	0	0	3,804
Additions	0	1,094	1,094	1,297
Disposals	0	0	0	0
Change in valuation*	2,073	0	2,073	0
Translation effects	0	-40	-40	0
<b>Cost at 31 December</b>	<b>31,305</b>	<b>2,488</b>	<b>33,793</b>	30,666
Accumulated amortizations at 1 January	10,185	139	10,324	7,734
Amortizations	3,130	470	3,600	2,655
Disposals	0	0	0	0
Translation effects	0	1	1	-65
<b>Accumulated amortizations at 31 December</b>	<b>13,315</b>	<b>610</b>	<b>13,925</b>	10,324
<b>Net book value at 31 December</b>	<b>17,990</b>	<b>1,878</b>	<b>19,868</b>	20,342

\*see Note 2

	2000 000 CHF	1999 000 CHF
<b>9. Short-term financial debts</b>		
Banks	0	40
Current maturity of long-term debts	108	50
<b>Total</b>	<b>108</b>	90

	2000 000 CHF	1999 000 CHF
<b>10. Other short-term liabilities</b>		
Deferred income and accrued expenses	3,623	919
Other short-term liabilities	5,350	7,525
<b>Total</b>	<b>8,973</b>	8,444

<b>11. Long-term financial debts</b>	<b>2000</b> <b>000 CHF</b>	<b>1999</b> <b>000 CHF</b>
Bank loans	<b>0</b>	635
Other long-term liabilities	<b>484</b>	453
<b>Total</b>	<b>484</b>	1,088

The long-term liabilities (inclusive current maturity of long-term debts) are denominated in the following currencies and the interest rate payable is:

	<b>Financial liabilities</b> <b>2000</b> <b>000 CHF</b>	<b>Average interest rate</b> <b>2000</b> <b>%</b>	<b>Financial liabilities</b> <b>1999</b> <b>000 CHF</b>	<b>Average interest rate</b> <b>1999</b> <b>%</b>
US Dollar	<b>68</b>		635	
US Dollar	<b>416</b>	<b>4.00</b>	453	2.00
<b>Total</b>	<b>484</b>		1,088	

Break down by maturity:

	<b>2000</b> <b>000 CHF</b>	<b>1999</b> <b>000 CHF</b>
2001	<b>45</b>	51
2002	<b>45</b>	52
2003	<b>45</b>	53
2004	<b>45</b>	688
2005	<b>45</b>	244
2006 and later	<b>259</b>	
<b>Total</b>	<b>484</b>	1,088

The long-term liabilities in US Dollars, equivalent to CHF 416,000, are a mortgage to a preferential prime rate, which is subsidized by the Government, on a building of Bachem Bioscience Inc. (USA). The building is activated in fixed assets. The mortgage is collateralized by the Company's land and buildings at the purchase costs of CHF 4,505,827.

<b>12. Deferred tax payables</b>	<b>2000</b> <b>000 CHF</b>	<b>1999</b> <b>000 CHF</b>
Provisions for deferred taxes for		
– Valuation difference inventory	<b>–4,389</b>	–4,174
– Depreciation in fixed assets	<b>–4,888</b>	–4,516
– Provisions	<b>–2,054</b>	–2,109
<b>Total</b>	<b>–11,331</b>	–10,799

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<b>13. Provisions</b>	<b>Provisions for restructuring 000 CHF</b>	<b>Other provisions 000 CHF</b>	<b>Total 2000 000 CHF</b>
At 1 January	3,273	979	<b>4,252</b>
New provisions	1,588	112	<b>1,700</b>
Provisions used during the year	-1,572	-255	<b>-1,827</b>
Translation difference and others	0	0	<b>0</b>
<b>At 31 December</b>	<b>3,289</b>	<b>836</b>	<b>4,125</b>
Current part:	<b>3,289</b>	<b>836</b>	<b>4,125</b>

Provisions for restructuring are formed for planned restructuring projects. These provisions include only expenses coming out of the restructuring projects and no expenses which are connected to the daily activities of the group. The new provisions are mainly in connection with the restatement of the acquisition balance of Peninsula and were charged to goodwill.

<b>14. Financial expenses and income</b>	<b>2000 000 CHF</b>	<b>1999 000 CHF</b>
<b>Financial income</b>		
Interest	<b>4,698</b>	687
Income from securities	<b>10,821</b>	3,971
Other	<b>941</b>	144
<b>Total</b>	<b>16,460</b>	4,802
<b>Financial expenses</b>		
Interest	<b>96</b>	114
Loss on securities	<b>7,158</b>	0
Other	<b>581</b>	972
<b>Total</b>	<b>7,835</b>	1,086

<b>15. Taxes</b>	<b>2000</b> <b>000 CHF</b>	<b>1999</b> <b>000 CHF</b>
Current taxes	<b>5,099</b>	13,719
Deferred taxes	<b>992</b>	1,018
<b>Total</b>	<b>6,091</b>	14,737

#### **Tax rate analysis 2000**

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:

	<b>%</b>
Expected tax rate	28.1
Influences of income, which is taxed to a reduced tax rate	-1.3
Influences of the change of system in the Canton of BL	-14.6
Other	-0.9
<b>Effective tax rate</b>	<b>11.3</b>

Due to the change of system in the tax law of the Canton Baselland, provisions in the amount of CHF 10,868,219 which were not used anymore, were dissolved. This reduction takes place only once and will not influence the next year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<b>16. Regional information (geographical)</b>	<b>Europe 2000 000 CHF</b>	<b>1999 000 CHF</b>	<b>Rest of world 2000 000 CHF</b>	<b>1999 000 CHF</b>	<b>Eliminations 2000 000 CHF</b>	<b>1999 000 CHF</b>	<b>Consolidated values 2000 000 CHF</b>	<b>1999 000 CHF</b>
The primary segmentation is based on the geographical information by the location of the assets.								
<b>Sales</b>								
Sales third parties	67,335	73,804	44,087	24,738				
Sales inter-company	29,059	17,931	7,318	7,424	36,377	25,354		
<b>Total sales</b>	<b>96,394</b>	<b>91,735</b>	<b>51,405</b>	<b>32,162</b>	<b>36,377</b>	<b>25,354</b>	<b>111,422</b>	<b>98,542</b>
<b>Profit</b>								
Operating result	41,134	40,882	4,593	9,044			45,727	49,925
Financial expenses							-7,835	-1,086
Financial income							16,460	4,802
Exchange rate differences							-413	1,161
Income taxes							-6,091	-14,738
<b>Profit</b>							<b>47,848</b>	<b>40,065</b>
<b>Other information</b>								
Assets	246,171	217,021	69,663	65,690			315,834	282,711
Liabilities	25,021	33,959	12,902	10,569			37,923	44,528
Investments	15,047	12,122	6,348	1,791			21,395	13,912
Depreciations and amortizations	6,285	5,262	3,173	2,146			9,458	7,408
Other non-cash flow expenses without depreciations and amortizations	0	0	0	11			0	11

### 17. Information about segmentation (business areas)

The secondary segmentation is based on the business areas.

The relation of the sales to third parties between bulk products on the one hand and catalog products as well as custom syntheses on the other hand was during the last year 65 % to 35%. Investments and assets cannot be separated into the business areas since we are using multipurpose-equipment which can be used to produce all of our products.

### 18. Extraordinary items

No extraordinary items were recorded in the years 1999 and 2000.



## 19. Pension funds

Employee benefits and pension plans are based on the regulations and situations of each country where Bachem is represented.

In countries with defined contribution plans the related costs in 2000 were CHF 605,880 and 1999 CHF 273,257.

In Switzerland Bachem participates in the "BVG Sammelstiftung", which, according to the definition of IAS 19 is considered as a defined benefit plan. The following is a summary status of this defined benefit plan at 31 December 1999:

### Proof of the activated surplus in the balance sheet:

	2000 000 CHF	1999 000 CHF
Discounted value of all claims	14,822	12,748
Assets at market value	15,932	14,085
Surplus	1,111	1,337
Limitation on recognition of surplus due to uncertainty of obtaining future benefits	-492	-733
In financial assets booked prepaid contributions	619	604

From the surplus of CHF 1,111,000 only the net assets of the Bachem pension fund were taken into the balance sheet, since the rest of the surplus is not unlimited available.

### Annual costs for pension funds (ERIS):

	2000 000 CHF	1999 000 CHF
Service costs	1,596	1,141
Costs for interests	478	420
Return on assets	-563	-495
Employee contributions	-607	-577
Change of the not activated surplus	-242	9
Annual costs for pension funds (ERIS)	662	498

The change of the not activated surplus is the change of the surplus yield of pension plans the results of which are not activated.

The effective return on assets were CHF 1,033,000 (1999: CHF 660,495).

### Development of the surplus activated in the balance sheet:

	2000 000 CHF	1999 000 CHF
Surplus at 1 January	604	459
Annual costs for pension funds (ERIS)	-662	-498
Contributions of the company	677	643
Surplus at 31 December	619	604

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. Contingencies

There were no material contingencies at 31 December 2000 or at 31 December 1999.

### 21. Commitments

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

### 22. Earnings per share (EPS)

	2000	1999
Net profit attributable to shareholders (000 CHF)	<b>47,848</b>	40,065
Weighted average number of ordinary shares issued	<b>667,267</b>	666,576
Basic earnings per share (CHF)	<b>71.71</b>	60.20

During 2000 and 1999, there were no instruments outstanding which would significantly dilute the amounts shown above.

### 23. Consolidated companies

Company	Country	Participation*
Bachem Ltd., Bubendorf	Switzerland	Parent company
Bachem Trading AG	Switzerland	100%
Labortec AG, Bubendorf	Switzerland	100%
Bachem Biochimie SARL, Voisins-le-Bretonneux	France	100%
Bachem Biochemica GmbH, Heidelberg	Germany	100%
Bachem (UK) Ltd., Merseyside	England	100%
Peninsula Laboratories Inc., San Carlos	USA	100%
Bachem Bioscience Inc., King of Prussia	USA	100%
Bachem California Inc., Torrance	USA	100%
Peninsula Laboratories Europe Ltd., Merseyside (inactive)	England	100%

\*direct or indirect

### 24. Associated companies

	2000	1999
Polyphor AG, Allschwil (Switzerland)	Share capital nom. [CHF]	1,490,000
	<b>2,079,000</b>	
	Holding rate	23.5%
	<b>27.61%</b>	
	Voting rights	30.0%
	<b>27.61%</b>	
	Purchase price [CHF]	600,000
	<b>1,720,000</b>	

Polyphor AG is a start-up company with an enormous potential in the future. For the year 2000 the company is not consolidated at equity but at cost since the participation will fall in the near future under 20%.

## **25. Employee participation**

The following employee stock grant plan exists:

a) *Employee participation scheme 1*

Based on the actual employee participation scheme (agreement valid since July 1996 respectively abroad since 28 September 1998 backdated to 1 January 1998 ) all employees of the Bachem Group are entitled to receive shares gratis for each three full years of service (part-time employees for each six years). The quantity depends on the status and the range is from one to ten.

b) *Employee participation scheme 2*

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

c) *Employee participation scheme with options*

The employees of the Bachem group companies are for the first time in 2001 entitled to receive free share options with the right to Bachem shares "B". At 31 December 2000, no options were outstanding.

The company holds own shares in order to meet its obligation under the employee participation programs. These shares are included as negative position in equity. The carrying value of the shares is based either on cost, for those shares which have been purchased, or on the nominal value of shares, for those shares that have been reserved during the last capital increase for these purposes.

For the changes in stock of Bachem shares, please refer to Bachem AG (own shares).

## **26. Transactions with related parties**

Bachem AG granted over two months a credit of CHF 1,000,000 to Ingro AG, a company of the president of the board. The credit, which was granted to normal conditions, was paid back in Fall 2000.

## **27. Subsequent events**

The board of directors will propose at the annual shareholders meeting on 16 May 2001 to split the shares of Bachem 20 to 1. If the proposal is adopted, the split will be put into effect if the Swiss code of obligations is adopted accordingly.

## REPORT OF THE AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS



### **Report of the Group auditors to the general meeting of Bachem Ltd., Bubendorf**

As auditors of the Group, we have audited the consolidated financial statements (balance sheet, income statement, cash flow statement, statement of shareholders' equity and notes) of Bachem Ltd. for the year ended 31 December 2000.

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

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

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

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

Basel, 11 April 2001

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to be 'H. Plozza', with a large, stylized loop at the end.

H. Plozza

A handwritten signature in black ink, appearing to be 'R. Conrad', with a large, stylized loop at the end.

R. Conrad

# BACHEM LTD., BUBENDORF

Balance Sheets at 31 December 2000 and 1999

	31.12.2000 000 CHF	31.12.1999 000 CHF
<b>Assets</b>		
Cash and current deposits	75,028	74,526
Securities	51,230	41,755
Trade accounts receivable, third parties	6,720	12,019
Trade accounts receivable, inter-company	4,719	2,838
Other receivables, third parties	3,144	1,238
Other receivables, inter-company	592	57
Prepaid expenses and accrued income	1,260	530
Inventories	3,045	2,047
<b>Current assets</b>	<b>145,738</b>	<b>135,008</b>
Financial investments		
Permanent holdings	40,707	48,790
Other financial investments inter-company	0	400
Tangible fixed assets		
Real estate	33,620	21,755
Machinery and installations	4,942	4,826
Intangible fixed assets	9,293	2,402
<b>Fixed assets</b>	<b>88,562</b>	<b>78,173</b>
<b>Total assets</b>	<b>234,300</b>	<b>213,182</b>
<b>Liabilities and shareholders' equity</b>		
Trade accounts payable, third parties	4,681	4,240
Trade accounts payable, inter-company	836	1,315
Other short-term liabilities, third parties	2,896	2,710
Other short-term liabilities, inter-company	0	818
Deferred income and accrued expenses	5,413	4,059
Provisions	7,600	7,600
<b>Liabilities</b>	<b>21,426</b>	<b>20,742</b>
Share capital	6,800	6,800
Legal reserves		
General reserves	88,921	87,909
Reserves for own shares	319	458
Other reserves		
Free reserves	78,351	33,212
Profit of the balance sheet		
	2000 000 CHF	1999 000 CHF
Retained earnings	9,389	22,997
Profit of the year	29,094	41,064
<b>Shareholders' equity</b>	<b>212,874</b>	<b>192,439</b>
<b>Total liabilities and shareholders' equity</b>	<b>234,300</b>	<b>213,182</b>

# BACHEM LTD., BUBENDORF

Income statements 2000 and 1999

	2000 000 CHF	1999 000 CHF
Sales	77,130	83,733
Sales deductions	-1,117	-576
Other operating income	2,737	2,132
<b>Total operating income</b>	<b>78,750</b>	<b>85,289</b>
Purchases of materials and goods	-7,008	-10,009
Wages, salaries and employee benefits	-19,606	-18,023
Depreciations and amortizations	-10,260	-6,679
Cleaning and maintenance	-192	-1,058
Administration, sales and marketing costs	-3,317	-2,863
Other operating expenses.	-2,622	-3,443
<b>Operating result before interest and taxes</b>	<b>35,745</b>	<b>43,214</b>
Financial income	14,709	7,256
Financial expenses	-7,644	-993
Exchange rate gains	5,069	1,520
Exchange rate losses	-5,452	-386
<b>Profit before taxes</b>	<b>42,427</b>	<b>50,611</b>
Taxes	-13,333	-9,547
<b>Profit after taxes</b>	<b>29,094</b>	<b>41,064</b>



## BACHEM LTD., BUBENDORF

Notes to the financial statements

### 1. Investments

Company	Location	Branch		Share capital 31.12.2000
Bachem California Inc.	Torrance CA, USA	Production and sales	USD	3,000
Bachem Bioscience Inc.	King of Prussia PA, USA	Production and sales	USD	3,000,00
Bachem Biochemica GmbH	Heidelberg, D	Sales and marketing	DEM	250,000
Bachem Biochimie SARL	Voisins-le-Bretonneux, F	Sales and marketing	FRF	500,000
Bachem (UK) Ltd.	St. Helens, GB	Production and sales	GBP	2,500
Labortec AG	Bubendorf, CH	Production	CHF	100,000
Bachem Trading AG	Bubendorf, CH	Sales	CHF	100,000
Peninsula Laboratories Inc.	San Carlos CA, USA	Production and sales	USD	7,864,000
Peninsula Europe Ltd.	St. Helens, GB	Production and sales	pro memoria	
Polyphor AG	Allschwil, CH	Production and sales	CHF	2,079,000

With the exception of Polyphor AG (shareholding and voting rights of 27.61 %), all the companies are controlled to 100 % of the voting rights either directly or indirectly. There were the following changes during the prior period: there was a capital increase at Polyphor Ltd. and the holding of Bachem Ltd. is now 27.61 %; there were some changes in the equity of Peninsula Laboratories Inc. and as per 01.11.2000 Peninsula Europe Ltd. St. Helens and Bachem (UK) Ltd. Saffron Walden have been merged to Bachem (UK) Ltd. St. Helens.

2. Insurance value of tangible fixed assets	2000 000 CHF	1999 000 CHF
Machinery and installations	63,000	24,089
Real estate	37,473	31,895

### 3. Own shares

At 31 December 2000, Bachem Ltd. possessed 12,240 own shares, which comprised part of the employee participation scheme.

Transactions of own shares:

	Stock 31.12.2000 [pieces]	Sales [pieces]	Purchases [pieces]	Stock 1.1.2000 [pieces]
Employee participation scheme (domestic) at the price of CHF 1.--	6,945	893	62	7,776
Employee participation scheme (foreign) at the price of CHF 888.40	295	155	0	450
Option plan at the price of CHF 10.--	5,000	0	0	5,000

4. Important shareholders	Per cent of total share capital 31.12.2000	Per cent of total share capital 31.12.1999
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Based on the available information the following shareholders own more than five percent of the registered share capital:

P. Grogg (via Ingro Finanz AG)	50.4	50.2
Gottlieb Knoch	8.3	13.7
Family of P. Grogg	6.0	6.0

## APPROPRIATION OF EARNINGS

### Proposal of the Board of Directors for the appropriate of available earnings

The Board of Directors of Bachem Ltd. proposes to appropriate the available earnings	CHF
Profit of the balance sheet	29,093,693
Retained earnings	9,389,318
	<u>38,483,011</u>
as follows:	
Payment of a dividend of CHF 15.- per share*	10,019,700
Transfer to statutory reserves	967,970
Transfer to free reserves	18,000,000
Balance to be carried forward	<u>9,495,341</u>

*Total shares with a right to a dividend	
680,000 at CHF 15.-	CHF 10,200,000
less shares of the employee participation scheme •	
12,020 at CHF 15.-	CHF 180,300
Dividend net	CHF 10,019,700

•The total of shares reserved to the employee participation scheme is calculated as follows: 12,240 shares deducted by 220 shares, which are going to be allocated to employees in connection with the employee participation scheme during Spring 2001.

## REPORT OF THE STATUTORY AUDITORS



### **Report of the statutory auditors to the general meeting of Bachem Ltd. Bubendorf**

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Bachem Ltd. for the year ended 31 December 2000.

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

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

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

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

Basel, 11 April 2001

PricewaterhouseCoopers AG

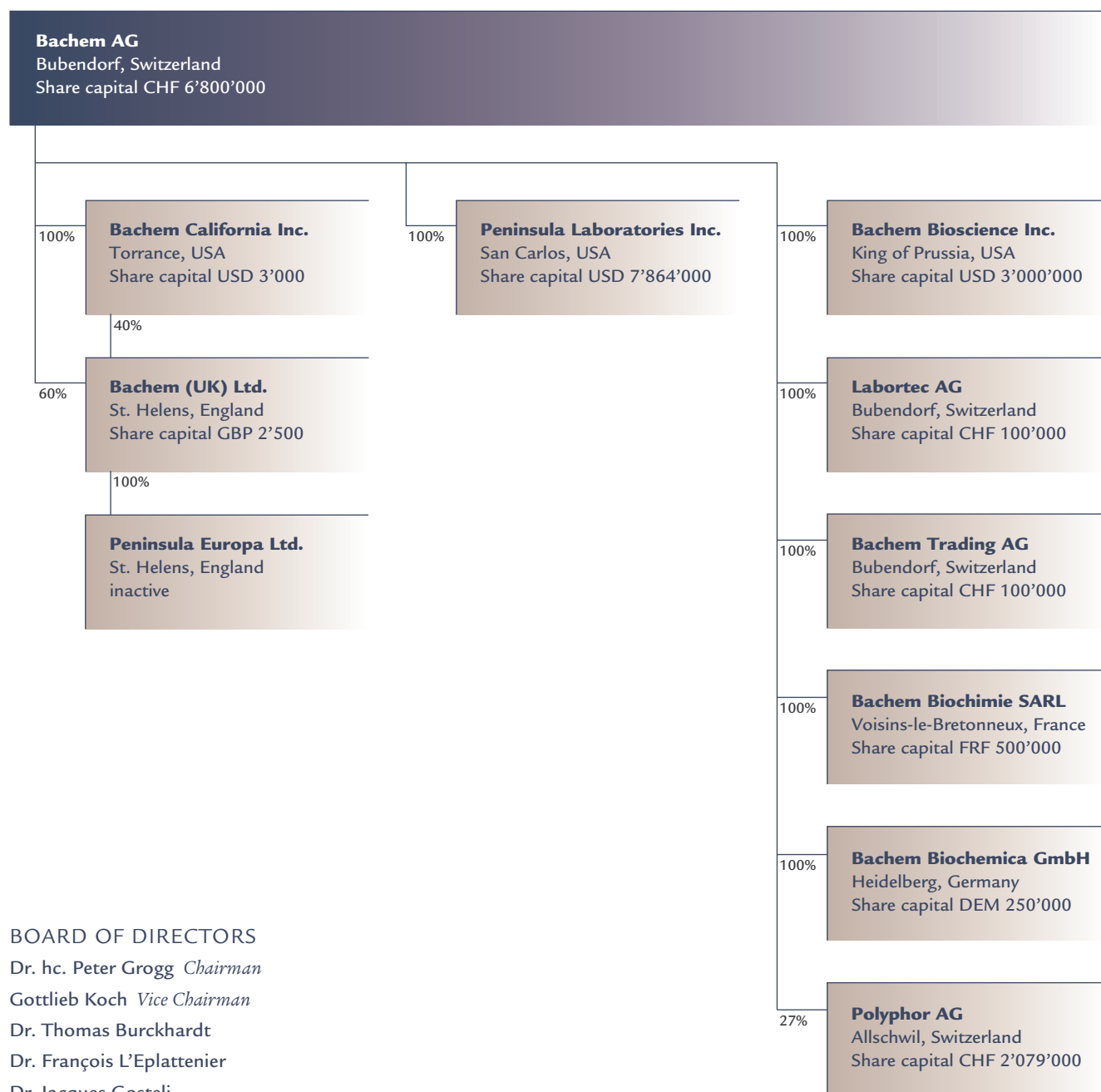
A handwritten signature in black ink, appearing to be 'H. Plozza', with a large, stylized initial 'P'.

H. Plozza

A handwritten signature in black ink, appearing to be 'R. Conrad', with a large, stylized initial 'C'.

R. Conrad

## PARTICIPATIONS OF THE BACHEM GROUP



### BOARD OF DIRECTORS

Dr. hc. Peter Grogg *Chairman*  
 Gottlieb Koch *Vice Chairman*  
 Dr. Thomas Burckhardt  
 Dr. François L'Eplattenier  
 Dr. Jacques Gosteli

### CORPORATE MANAGEMENT COMMITTEE

Dr. Rolf Nyfeler *Chairman*  
 Dr. Daniel Erne *CTO*  
 Jörg Stumpf *CFO*

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## Contact addresses

**Bachem AG**  
Hauptstrasse 144  
CH-4416 Bubendorf  
Schweiz  
Tel.: +41-61-935 23 33  
Fax: +41-61-935 25 49  
E-Mail: sales.ch@bachem.com

**Bachem California Inc.**  
3132 Kashiwa Street  
Torrance, CA 90505 - USA  
Tel.: +1-310-539 4171,  
Tel.: 888-422 2436 (nur aus USA)  
Fax: +1-310-530 1571  
E-Mail: sales@us.bachem.com

**Bachem Bioscience Inc.**  
3700 Horizon Drive  
King of Prussia, PA 19406 - USA  
Tel.: +1-610-239 0300  
Tel.: 800-634 3183 (nur aus USA)  
Fax: +1-610-239 0800  
E-Mail: sales@us.bachem.com

**Peninsula Laboratories Inc.**  
601 Taylor Way  
San Carlos, CA 94070 - USA  
Tel.: +1-650-592 5392  
Fax: +1-650-595 4071

**Bachem Biochemica GmbH**  
Haberstrasse 6  
D-69126 Heidelberg  
Deutschland  
Tel.: +49-6221-3305-0  
Fax: +49-6221-3305-99  
E-Mail: verkauf.de@bachem.com

**Bachem Biochimie SARL**  
136, Avenue Joseph Kessel  
F-78961 Voisins-le-Bretonneux  
Cedex-France  
Tel.: +33-1-30 12 15 95  
Fax: +33-1-30 57 38 82  
E-Mail: vente@fr.bachem.com

**Bachem (UK) Ltd.**  
P.O. Box 62  
17K Westside Industrial Estate  
Jackson Street, St Helens  
Merseyside WA9 3AJ England  
Tel.: +44-1744-61 21 08  
Fax: +44-1744-73 00 64  
E-Mail: Peninsula.Labs@btinternet.com

**Bachem Trading AG**  
Hauptstrasse 144  
CH-4416 Bubendorf  
Schweiz  
Tel.: +41-61-935 23 33  
Fax: +41-61-935 25 49  
E-Mail: sales.ch@bachem.com

**Labortec AG**  
Hauptstrasse 144  
CH-4416 Bubendorf  
Schweiz  
Tel.: +41-61-935 23 33  
Fax: +41-61-935 25 49  
E-Mail: sales.ch@bachem.com

**Polyphor AG**  
Gewerbestrasse 14  
CH-4123 Allschwil  
Schweiz  
Tel.: +41-61-486 98 98  
Fax: +41-61-486 98 99  
E-Mail: info@polyphor.com