



Bachem. Leading beyond Peptides

**DEDICATION TO SERVICE
AND PARTNERSHIP**



**BACHEM
ANNUAL REPORT 2005**

BACHEM AT A GLANCE

2005 IN BRIEF

- STRONG SECOND HALF DRIVES TOTAL 2005 SALES TO RECORD LEVEL
- OPERATING INCOME GROWS OVER-PROPORTIONALLY AT 13.4%
- NET INCOME SOARS BY 27.7% AND REACHES CHF 39.2 MILLION
- ACTIVE PHARMACEUTICAL INGREDIENTS BUSINESS FURTHER GAINS IN IMPORTANCE
- NORTH-AMERICAN MARKET REMAINS PRIMARY GROWTH DRIVER
- COMPLETION OF INVESTMENTS EXPANDING BUSINESS OPPORTUNITIES AND HIGH LEVEL OF PURCHASE ORDERS PROMISE CONTINUED DYNAMIC GROWTH FOR 2006



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KEY FIGURES 2005

	2005	2004	Change %
Sales (in CHF m)	153.7	147.8	3.9%
EBIT (in CHF m)	47.0	41.5 *	13.4%
EBIT in % of sales	30.6%	28.1% *	
Net income (in CHF m)	39.2	30.7 *	27.7%
Net income in % of sales	25.5%	20.8% *	
Earnings per share (EPS – in CHF)	2.98	2.33 *	27.9%
Cash flow from operating activities (in CHF m)	27.4	51.2 *	-46.4%
Return on equity (ROE)	11.1%	9.3% *	
Number of employees in full-time equivalents	540	512	
Sales per employee (in CHF)	292 000	291 000	

*restated

Sales (in CHF m)

2001	141.4
2002	149.9
2003	144.6
2004	147.8
2005	153.7

EBIT (in CHF m)

2001	49.1
2002	48.3
2003	48.4
2004	41.5*
2005	47.0

Net income (in CHF m)

2001	37.6
2002	33.5
2003	37.3
2004	30.7*
2005	39.2

*restated

PREFACE



- SALES REACHED CHF 153.7 MILLION, REPRESENTING THE HIGHEST TURNOVER IN THE HISTORY OF OUR COMPANY
- OPERATING INCOME GREW OVER-PROPORTIONALLY AND THE EBIT-MARGIN AT 30.6 PERCENT AGAIN EXCEEDED THE MINIMAL LONG-TERM MARGIN TARGET
- NET INCOME ROSE BY 27.7 PERCENT AND OUR NET INCOME MARGIN IS NOW 25.5 PERCENT – A TOP RESULT IN SWITZERLAND BUT ALSO INTERNATIONALLY
- PURCHASE ORDERS ARE AT A HISTORIC HIGH, PROMISING FUTURE GROWTH



left: Dr. Rolf Nyfeler
right: Dr. h.c. Peter Grogg

Dear shareholders

For the business year 2005 we can report a number of excellent results.

Sales and markets

Following a sluggish start, business gained momentum in the second part of the year and allowed us to conclude 2005 with record sales. This success is the result of persistent investments in our portfolio of products and services. With an increase of 3.9 percent in Swiss francs as compared to 2004 (3.4 percent in local currencies), our company achieved sales of CHF 153.7 million, the highest ever in the history of Bachem. This excellent result further underpins our leading position in the peptide market.

In line with expectations, sales in the second half of the year increased significantly compared to the corresponding period in 2004. Sales growth in Swiss francs was 14.1 percent and 12.1 percent in local currencies. Second half sales in 2005, compared to the first six months of the year, increased even more significantly by 17.8 percent in Swiss

francs and by 14.1 percent in local currencies, respectively.

The dynamic growth of our business was primarily driven by the progressive development of our pharmaceutical ingredients business. Sales of active pharmaceutical ingredients increased by 7.3 percent in Swiss francs – respectively by 6.4 percent in local currencies - compared to 2004. Major contributors were generic peptides, most of which are offered in innovative application forms by our customers.

Geographically, developments continued to be driven by markets on the American continent. Recording a sales increase of 13.4 percent in local currencies, the sales share of this region has further grown contributing 40.4 percent of total Bachem sales compared to 36.6 percent for the twelve preceding months.

Operating income, net income and dividends

Despite continuing price pressure on non-peptide generics and advance investments into the expansion of our production



capacity, the operating result increased over-proportionally, growing by 13.4 percent in Swiss francs (12.6 percent in local currencies) to CHF 47.0 million. The EBIT-margin rose accordingly by 2.5 percentage points to 30.6 percent, exceeding again the minimal long-term target of 30 percent. For the first time, share-based payments have been accounted for in the income statement, in line with the latest accounting standards.

After some years of US dollar weakness, the change in exchange rate impacted positively on our performance. We also recorded gratifying financial results and achieved a net income increase of 27.7 percent, despite higher costs for associates and joint ventures. Accordingly, the net income margin reached 25.5 percent. This performance places us among the top tier Swiss and international companies.

In view of these results, the Board proposes to the Annual General Meeting an increase in dividend from CHF 1.20 to CHF 1.50. This proposal is guided by the objective that shareholders should participate in the company's success, in line with free available earnings.

Important advances in 2005

Last year was marked by further steps to expand our entrepreneurial opportunities:

We have entered new agreements for the production of potential pharmaceutical compounds in various phases of development, thus keeping the number of projects at a high level. The support we provide to our partners in clinical development presents a sound basis on which to be assigned production of bulk compounds once a product has been successfully registered.

Expansion of production capacity for the cGMP manufacture of peptide active ingredients in the US has begun and will be completed by mid 2006. In the course of the business year this new capacity will allow us to better address market needs. At our affiliate Sochinaz in Vionnaz, Switzerland, a new lab for manufacturing cytotoxic compounds was completed at the end of 2005. It offers opportunities for the production of a new category of interesting compounds to be manufactured according to very specific safety requirements.

In addition, our new offer for the development and production of formulations for active pharmaceutical ingredients for use in clinical trials has helped to further expand our range of services.

The number of employees increased from 543 at the end of 2004 to 572 at the end of 2005. New jobs have been created specifically as part of capacity expansion in the US and at our headquarters site in Switzerland.

Service and partnership

Technical know-how and understanding of markets and products are the cornerstones of our business. The success and sustainable development of our company are, however, based on our business strategy and vision. We want to offer more than just new products and therefore build on partnership. In this respect, our employees have achieved outstanding results again in 2005 and we would like to thank all of them for their enthusiasm and motivation in terms of providing optimal service to our customers. We also extend thanks to our customers many of whom have supported us for a number of years; others have placed their trust in us based on first experiences

and have made us their partner of choice for the future. For us, it is important to contribute to the success of our customers – both established and new – by continuously improving our performance.

Outlook to 2006

The last year has demonstrated, once again, that we hold a unique position as a partner for research organizations and enterprises in the biopharmaceutical as well as biotech industries. This status results from our competence in the development and manufacture of small, medium and large amounts of active ingredients, as well as from our broad spectrum of services. Hence, our purchase orders for 2006 are at a record level. Our broad portfolio and increased production capacity are opening up additional market opportunities. We are also confident that the developments during the second half of 2005 will result in further dynamic growth of sales and operating income. Accordingly, in line with our dividend policy, we expect to offer you, dear shareholders, an appropriate return on your investment in Bachem over the next year. We will do our utmost to continue the success story of our company and we appreciate your continued support in this endeavor.

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

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

DEDICATION TO SERVICE AND PARTNERSHIP WITH OUR CUSTOMERS

The core of Bachem’s business is manufacturing peptide active ingredients for drugs on behalf of pharmaceutical and biotech companies. The road from first contact with a potential customer to a long-term supply agreement for the active ingredient of a successful drug is a very long one – and there is no simple formula for success.

Early commitment as the basis of a lasting partnership

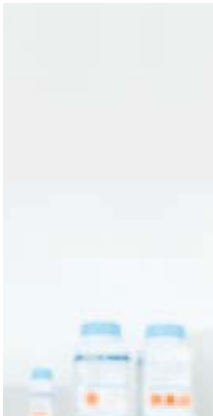
New ideas on so-called disease targets and leads for new structures of active ingredients stand at the beginning of many product developments in the biopharmaceutical industry. They give rise to approaches for new biological or chemical lead structures, increasingly in the form of complex amino acid chains, our peptides. In order to be considered as a business partner at this early stage, Bachem offers one of the most comprehensive catalogs of rapidly available peptides and biochemicals in the industry. Year after year some 90,000 catalogs with almost 9,000 different products – trend upward – go to industrial enterprises and research institutes. In addition, specialty catalogs are produced for specific customer segments.

Custom synthesis is also an important service, allowing the feasibility, cost and amount of time needed for producing a new ingredient to be determined early on together with the customer. The customer’s requirements are checked, and the first miniscule quantities of the desired ingredient are manufactured. At this stage it is not just the ability to produce the target ingredient on time and at the right price that counts. Crucial also to a long-term cooperation is that right at the outset of a project questions are addressed as to the stability and solubility of the ingredient as well as to the manufacturing process compliant with the rules of good manufacturing practice (cGMP) regarding possible future use as an active ingredient in a medicine. Thus an indicative stability check is a service that reveals at an early stage whether a new drug might require special storage conditions. The prospects for a continuing business partnership are very positive particularly when satisfactory solutions for complex products are developed in this early phase.

Know-how and technical expertise benefit the customer

As a specialist manufacturer of peptides, Bachem can boast of 35 years of experience in dealing with these complex structures. Today the company has the largest team of peptide chemists working in an industrial enterprise anywhere in the world. Thanks to this expertise, we can offer customers more than just the production of a specific structure. In analyzing different synthesis pathways, we consider from the outset, for example, whether this approach is also suitable for manufacturing commercial quantities, i.e. whether upscaling will make sense from a technical and commercial point of view. Further, our experts can make an early assessment of the solubility characteristics of an ingredient, which is an important criterion in determining whether and how an active compound can be applied one day. In addition, Bachem’s fund of know-how enables it to advise customers on special questions, such as the required purity of an ingredient.

Our profound knowledge of the world of peptides also makes us leaders in the area of analytical methods. This applies not least to the analysis of raw materials used, whose quality can be decisive for a high degree of purity required in end-products. But we not only know which methods are suitable for determining the purity and stability of a peptide, and which will be accepted by the licensing authorities. We also develop and validate new analytical methods, herewith setting industry standards. Here we do not limit ourselves just to analyzing active ingredients, but also study their interaction with packaging materials or with the materials that they might come into contact with during the further course of their use.



The most important peptide-based drugs on the market

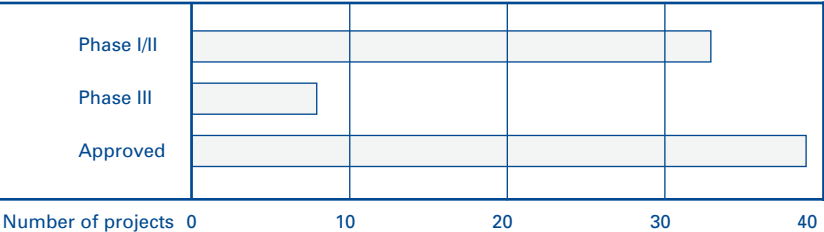
Peptide	Tradename	Indication
Leuprolide	Lupron et al.	Cancer
Calcitonin	Miacalcic et al.	Osteoporosis, Paget’s
Goserelin	Zoladex	Cancer
Octreotide	Sandostatin	Acromegaly, GI-tumors
Triptorelin	Decapeptyl	Cancer
Desmopressin	Minirin et al.	Bedwetting
Glucagon	Glucagon Ito et al.	Hypoglycemia
Somatostatin	Stilamin et al.	Acromegaly, GI-tumors
GRF	Geref et al.	Growth deficiencies
Enfuvirtide	Fuzeon	AIDS
Pramlintide	Symlin	Diabetes
Exenatide	Byetta	Diabetes



IN THE LABORATORY OUR DEVELOPMENT TEAMS BEGIN TO WORK OUT OPTIMAL SYNTHESIS PATHWAYS FOR MANUFACTURING OUR CUSTOMERS' PROSPECTIVE PRODUCTS IN QUANTITIES RANGING FROM MILLIGRAM TO KILOGRAM SCALE.



Most important active pharmaceutical ingredients by development phase



cGMP – good manufacturing practice in conformity with regulatory requirements

The goal of every development project for an active pharmaceutical ingredient is the initiation of clinical trials and ultimately approval of the drug for marketing. As soon as a medicine is used with people, its active ingredient must be produced in accordance with strictly defined rules of good manufacturing practice – according to the so-called cGMP standard – which is defined and controlled by the authorities. Bachem meets these requirements both at its two Swiss sites in Bubendorf and Vionnaz, and at its plant in California. Domestic and international authorities, including Swiss Medic and the US American FDA, regularly inspect our plants. Customers or prospective customers also carry out audits so that they can satisfy themselves that Bachem fulfills these official requirements and its own internal quality standards. Such audits are an important part of building up trust and form the basis of longer-term customer relations.



This is not just a matter of complying with the authorities' guidelines or of fulfilling the customers' requirements. Equally important is to stand by the customer with the relevant know-how and continuous documentation when it comes to technical questions about manufacturing his product. A prompt response and appropriate answers are of great importance especially with questions relating to approval procedures. Ever increasing requirements mean that this service is no longer limited only to first registration. More and more often the authorities also have inquiries concerning already approved products because new and more stringent guidelines are issued regarding production and documentation.

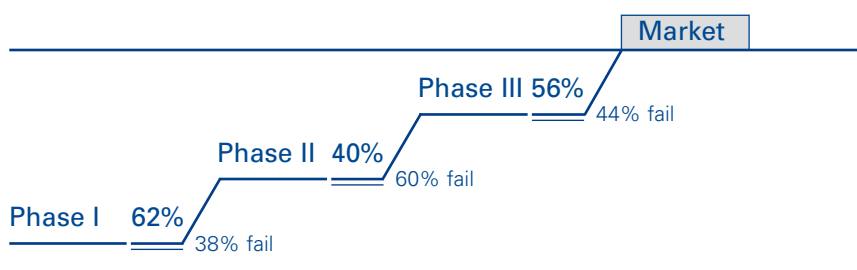
Bachem also has extensive experience in the matter of registration and contact with the authorities. This results from supporting dozens of applications for approval by the European licensing authority, the EMEA, by the authorities in individual European countries, and by those in Japan, Australia, Canada and the USA. In addition, we have carried out registrations in emerging markets, such as Argentina, Brazil and India.

Actively addressing customer requirements

No matter how exacting production might be in many cases, Bachem has been concerned since the outset to supply more than "just" good products. Accordingly, we offer a fully integrated range of services, from feasibility studies, through custom synthesis and registration support, to the production of active ingredients consistent with cGMP. Over and over again new requirements lead to innovative strategies. So that we could meet larger capacity requirements, Sochinaz was integrated into the company some years ago, a unit offering non-peptide generics which was already doing business on its own account. Recently, with a view to fulfilling customer requests, a laboratory was set up on its premises that allows to manufacture cytotoxic compounds under particularly stringent safety conditions.

In the case of peptide active ingredients, it emerged that some of our biotechnology customers had interesting ideas for new products, but that they partially lacked experience in formulating and supplying them in a form suitable for administering to patients. Here Bachem was able to capitalize on its many years

Chances of success in pharmaceutical development



I. Kola and J. Landis, Nature Rev. Drug Disc. 3, 711 (2004)

of experience, not only supplying these customers with the peptide they required, but providing formulations manufactured in accordance with cGMP for use in clinical trials. Since 2005 our newest service has been to offer ready-made formulations. Meanwhile we have supplied vials to the first customers in this area, manufacturing them under aseptic conditions.

Working closely with the customer

For some years Bachem has intensified its efforts to actively foster its customer relations. We systematically sift through the relevant literature and examine new patents and research databases so that we can identify candidates for a targeted acquisition. We also establish contacts with potential partners by attending bio-partnering events and other trade fairs. In organizational terms, this increased proactive focus on new customers has led to an expansion of our global sales team. During first contact this team seeks to identify the needs of the potential customers and – if they are interested – to put them in touch with the relevant specialists at Bachem.



During subsequent contact we consider it important to establish direct dialog between prospective customers and our experts so that they can find out at first hand the know-how we can offer, and can learn how Bachem with its wide range of products and services can help solve the customers' problems. At the same time we build on Bachem's unique strength of being able at an early stage to gain access to interesting projects through our offering of research chemicals and custom syntheses.

Long-term partnerships

Rigorously focusing on what the customer requires pays off in the end – both for Bachem and for its customers. Our customers benefit from continuity in the supplier relation, from know-how acquired and made available right across the development process, from a solid and dependable cooperation, and from support in all matters relating to the active ingredient and its manufacture. For our part, we profit from long-term contracts and agreements that do not concentrate first and foremost on price considerations, but which involve Bachem's entire range of services. It is a winning formula with many success stories: for example, the business relationship with a biotechnology company for which Bachem supported a development and registration process that lasted over ten years, and to which we now supply the active ingredient for the meanwhile licensed product. Or the almost 20-year-long cooperation with a large-scale enterprise for which today we are the sole supplier of one particular pharmaceutical compound. Not least for these reasons Bachem enjoys an excellent reputation in the marketplace. And frequently the best compliment comes from long-standing customers: recommending Bachem to a new customer.

THE SPECTRUM OF SERVICES FOR OUR CUSTOMERS RANGES FROM SYNTHESIS DEVELOPMENT AND THE MANUFACTURE OF ACTIVE INGREDIENTS TO SUPPORT WITH REGISTRATION AND THE PRODUCTION OF TRIAL SAMPLES FOR CLINICAL STUDIES

BUSINESS REVIEW 2005

2005 saw a positive sales trend in both sub-areas of our ingredients business, generics and new chemical entities (NCEs). Peptide generics continued the pleasant trend of recent years, while NCEs allowed us to profit from positive registration decisions in the year under review.

By contrast, our research chemicals posted a decline in sales. While our catalog business slipped back only slightly, price pressure increased on our custom synthesis business. However, this business remains important to us and repeatedly gives us access to interesting active ingredient projects at a very early stage of development.

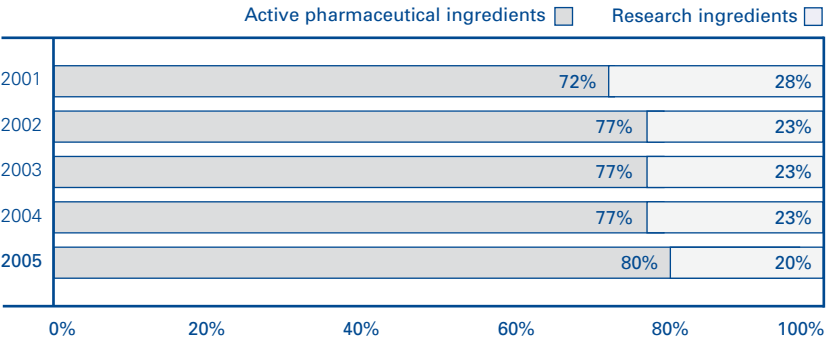
In line with the overall business trend, sales of active ingredients as a proportion of total turnover increased from 77% to 80%. Given the comparatively high growth potential for active ingredients, we assume that this proportion will further increase in the years ahead.

As in the previous year, the twenty top-selling products of the Bachem Group comprised exclusively active ingredients. Compared with the year-back level, the proportion of generics rose slightly. The risk distribution of the Top 10, i.e. the ten leading products as a proportion of overall sales, remained unchanged relative to that of the previous year, at 51%.

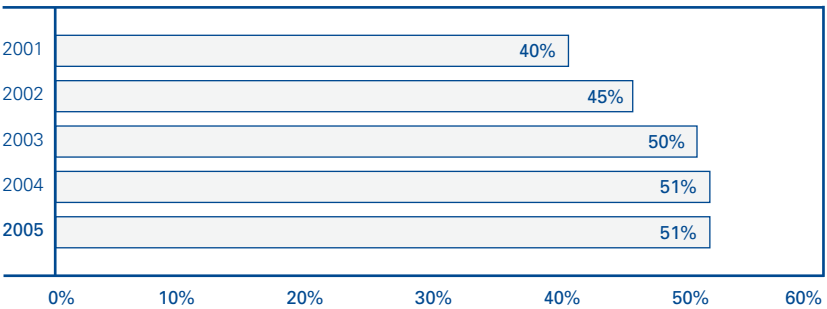
NCE sales are beginning to reflect the success of our investment in marketing in recent years. We expect them to make a growing contribution to sales in future. The expansion of our services to include the development and implementation of formulation will unlock further potential.



Sales share by business segment



Sales share of the Top 10 products





New chemical entities

Bachem manufactures new active ingredients for the biotech and pharmaceutical industry that are either in clinical development or have already been officially approved on the pharmaceutical market. These so-called new chemical entities (NCEs) are protected by patent and may only be manufactured on behalf either of the patent holder or of a licensee. Such compounds must be produced and analyzed at an early stage of their clinical development in accordance with the rules of good manufacturing practice, of the cGMP guidelines for producing active

ingredients. Bachem offers its services for pharmaceutical manufacturing from the early preclinical phase onwards. We offer them at such an early stage so that an optimal basis can be created for a reliable partnership with the customer right up to market approval and beyond, for a change of manufacturer during the development process is always associated, from a regulatory point of view, with a substantial increase in the work and time required, and hence cost.

The same laws apply to the chances of success of new peptide active ingredients as apply to all other new pharmaceutical compounds – only a handful successfully navigate the lengthy development process, finally to be registered and go productive (see graph on page 6). Given that these projects offer the most interesting prospects of sustained growth, Bachem's portfolio shows a very broad risk spreading, with over 100 projects. The diversification is very marked regarding both customers and medical indications. The suspension of projects, progression to new development phases, and new attempts for drug development all lead to a tremendous dynamism and drive in our portfolio. Unlike some of its customers, Bachem is not dependent on receiving a positive decision for registering a single product because the supply

of development compounds also contributes to the Group's success.

Thus for the first time a product still at an early stage of development managed to get into Bachem's Top 10. In 2005 the most important registrations of products whose active ingredient is supplied by Bachem related to the diabetes drugs of Amylin Pharmaceuticals, Symmlin and Byetta. A decision by the relevant authorities on further products from other customers is pending.

In the interests of extending the value-added chain in the manufacture of active ingredients, Bachem now offers not only to produce bulk compounds for its customers but also to formulate for them mostly sterile, cGMP-compliant active ingredients for clinical trial samples. This includes both testing the compound for its tolerance of excipients and container, and also carrying out relevant tests on the long-term stability of the finished medicine. Such services reinforce Bachem's claim to be a high-grade partner to the biotech and pharmaceutical industry from development to launch in the marketplace and beyond.



BACHEM SUPPORTS ITS CUSTOMERS BY SUPPLYING KNOW-HOW AND NEW ACTIVE INGREDIENTS FROM THE EARLY DEVELOPMENT PHASES TO MARKET LAUNCH AND BEYOND.

Generics

Bachem supplies both peptide and organic active ingredients whose patent protection has lapsed. During the past year peptide generics once again made a significant contribution to sales growth. Despite a slight decline in sales of organic generics, we managed to post a sales increase of almost 8% for generic compounds as a whole. Thus generics as a proportion of active ingredient turnover have risen to just under 75%.

Interest in peptide generics remains high. Opportunities for growth with

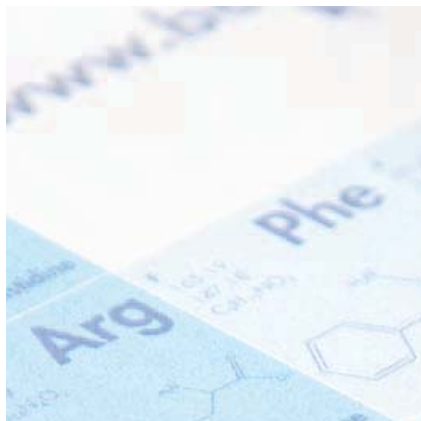
these compounds lie especially with new innovative forms of delivery, such as sustained release depots, for which our customers can apply for patent protection, giving them a potential similar to that of NCEs. However, new delivery forms require fresh approval tests along with the risks associated with them.

Manufacturing peptides is complex and expensive. This is why there has been only moderate downward pressure on the prices of peptide generics. By contrast, the pressure on the prices of organic generics continues, such as are produced in our group company Sochinaz. So far we have not yet been able to fully utilize the additional productive capacity created there, while measures taken to boost efficiency in the manufacturing processes will only take effect in the current year owing to time-consuming re-registrations.

In 2005, as a result of long-standing business relations between partners, we were able to conclude two long-term supply agreements. We signed an agreement with Debio Recherche Pharmaceutique of Martigny, Switzerland, to supply guaranteed quantities of the active ingredient triptorelin pamoate at fixed terms. Triptorelin pamoate is needed for Debio's drug Decapeptyl (Trelstar in the USA), which is used for treating, among other indications, prostate cancer. And then, following successful re-registration, we were able to conclude a long-term agreement with Swedish Orphan in Stockholm to supply nitisinone. Nitisinone, a small organic molecule, is the active ingredient in the medicine Orfadin, which is used for treating a rare hereditary disease. The signing of these agreements underscores the importance of generics and of the promise that they hold for our company.

WE SEE OURSELVES NOT ONLY AS A SUPPLIER OF ACTIVE INGREDIENTS BUT ALSO AS A PARTNER TO OUR CUSTOMERS, SUPPORTING THEM IN ALL MATTERS ASSOCIATED WITH THE MANUFACTURE OF ACTIVE INGREDIENTS.

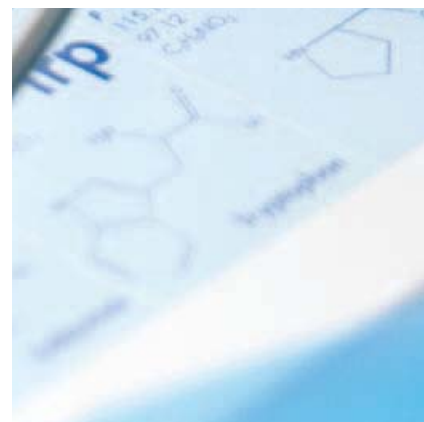




Research chemicals

In the business segment research chemicals we offer exclusive custom syntheses and products that are marketed through our catalogs. In 2005, as in previous years, we were able to expand our range of products to now almost 9,000 items. A modest decline in sales of research chemicals, accounting for 20% of the Group's overall turnover, can be attributed to the market environment, which remains difficult. Cost-cutting measures and the need to concentrate resources on projects already established with our customers in industry and research lead to a focus that leaves little scope for new research projects – with a corresponding effect on our catalog and custom synthesis business.

On the other hand, the number of scientific publications in the peptide sector is growing rapidly. The deployment of a multiplicity of technologies is bringing to light not only new sequences but also modified peptides and bioactive segments of proteins. In the medium term these new discoveries will give fresh impetus to the research market. In particular, structures are constantly being identified that are of relevance to the pharmaceutical industry. Two examples of recently discovered peptides with different structures and functions are obestatin and plectasin. Promising studies have been presented for the linear peptide obestatin, suggesting that it could be used for treating obesity. The peptide plectasin, which is fixed in its structure, destroys resistant strains of bacteria and could, therefore, be promoted to a promising candidate for developing a selective peptide antibiotic.

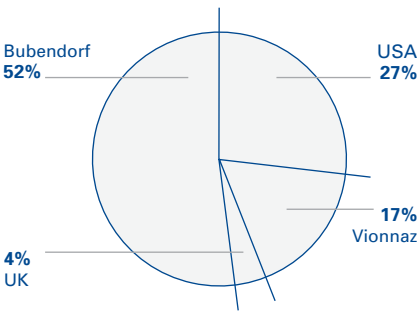


CONSTANT TECHNOLOGICAL PROGRESS AND MANY NEW DISCOVERIES ARISING FROM IT MEAN THAT GROWTH PROSPECTS FOR THE PEPTIDE RESEARCH MARKET REMAIN POSITIVE.

Technological progress encourages the discovery especially of complex molecules, which often turn out to be highly potent and selective, thus justifying an elaborate and costly manufacturing process. The development of efficient synthesis procedures and later sophisticated active ingredient production under cGMP conditions could be decisive for any further development and hence market success of these molecules. Bachem is very well known in this environment for its multi-faceted experience and quality awareness, and so is optimally positioned to be able to profit from this trend.

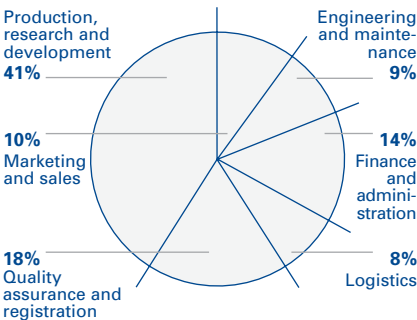
HUMAN RESOURCES

Full-time equivalents by location



The members of staff form the backbone of every successful enterprise, and the Bachem Group is no exception. It can count on a workforce that is both highly qualified and singularly motivated. At the end of the year under review 572 people were employed globally by the Group in 540 full-time equivalent positions, representing an increase of 29 personnel or 28 full-time equivalents as compared to the year-back level. Alongside a slight rise in the number of staff at Bachem AG in Switzerland, it is especially Bachem California Inc. that has grown, gaining 21 full-time equivalents positions. This underscores the markedly stronger growth dynamics in the American as opposed to the European market, and reflects Bachem's expansion of its business activities particularly in the USA. Research, development and production have the largest number of employees, accounting for 41 % of the workforce. Together with the area of quality assurance/registration, these sections posted an increase in the number of personnel of 5%.

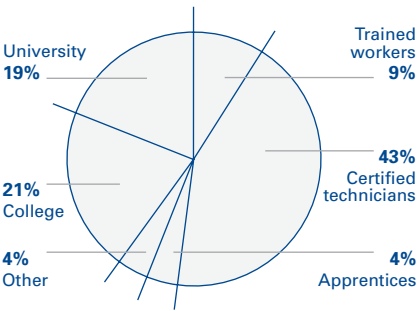
Employees by activities

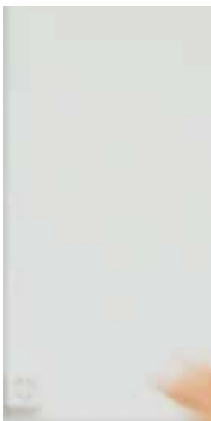
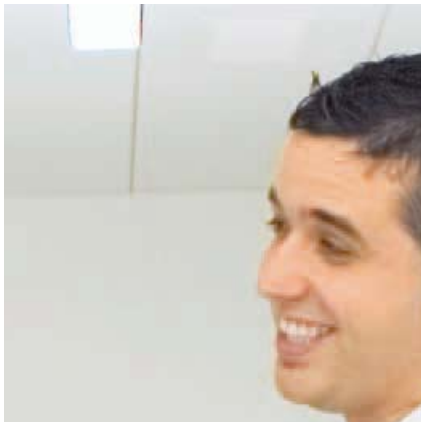


The great scientific and technical demands made of our staff are reflected in the high level of their education and training. Thus 40% of the Group's workforce are college or university graduates. Well-trained personnel at every level and in every Group company is a prerequisite for success. At Bachem AG we are currently training 24 apprentices to become lab assistants, commercial employees, IT specialists and logistics technicians. This training not only ensures that we have skilled and qualified "new blood" in the company's workforce, but allows us to fulfill our social responsibilities in the labor market. Skilled personnel trained elsewhere are also carefully familiarized with our special area, thus developing into proven specialists. Our expertise in our everyday work and our profound experience in our area are qualities that our customers appreciate over and over again.

We attach great importance to the ongoing further training of our workforce. Much specialist knowledge is not taught in colleges and universities or vocational programs and is therefore in demand in relevant courses. This applies also to management training, which we offer to our executives consistent with their level. All these factors, along with the good working climate in our companies, help keep the fluctuation rate low. In the year under review staff turnover across the Bachem Group was 12%, the same as a year back.

Employees by education





**WE SET STORE BY THE TECHNICAL
EXPERTISE AND WILLINGNESS TO
SERVE OF ALL OUR STAFF SO THAT WE
CAN OFFER OUR CUSTOMERS MORE
THAN JUST QUALITY PRODUCTS.**

SAFETY AND ENVIRONMENT



SAFETY IN THE WORKPLACE HAS A HIGH PRIORITY FOR US AT ALL OUR SITES TO PROTECT THE HEALTH OF OUR EMPLOYEES AND AVOID THE POSSIBLE ENVIRONMENTAL CONSEQUENCES OF ACCIDENTS.

The objective of the chemical industry's Responsible Care Program, which Bachem AG – as the largest production site in the Bachem Group – has voluntarily subscribed to for more than 10 years, is to continually improve safety, health and environmental protection measures. Standardized indicators enable management to assess the progress made in this area and at the same time to see how we measure up compared to the industry average. Steps taken in the year under review range from simple enhancements of everyday work sequences, through safety-related training, to improvements in technical facilities and equipment.

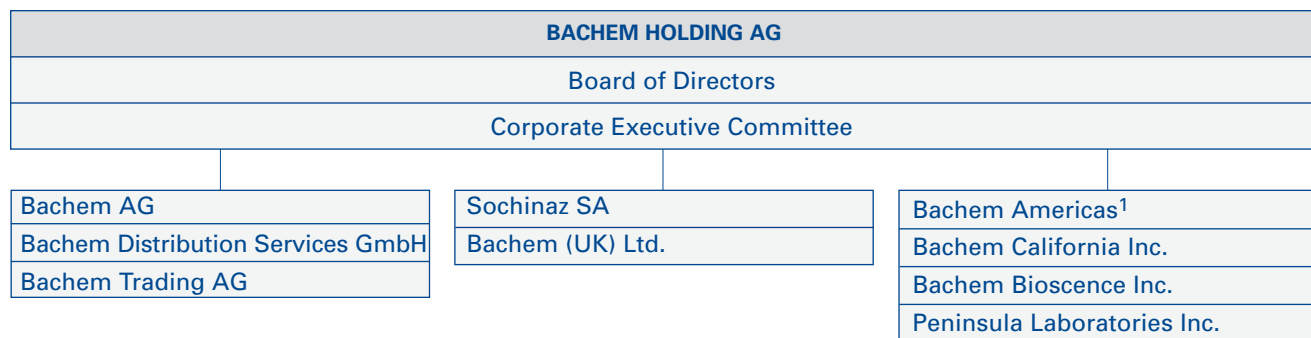
Key environmental protection data for the year under review are mixed. Cold weather and an increase in the heated cubage resulting from the use of additional rooms caused a rise in our consumption of heating oil, which in turn led to higher carbon dioxide emissions. By contrast, emissions of nitrogen oxide and sulfur dioxide did not go up because emissions from production were down on those for the previous year. Despite a production-related hike in the use of organic solvents (+4.3%), the further improved construction of our low-temperature condensers led to lower emissions of volatile organic compounds (VOCs) as compared to 2004 levels. However, the quantity of solvent disposed rose by 6.3%. Total water consumption remained practically unchanged. In terms of the number of our employees, all the environmental protection indicators collected clearly lie below the average values for the chemical industry in Switzerland. Bachem continues to supply its business services with below-average impact on the environment, i.e. enjoys above-average "green" credentials.

Safety at work is assessed by measuring the frequency and gravity of accidents in the business. Both indicators improved in 2005 as compared to the previous year, namely 3.9 accidents (2004: 4.5) per 100 employees with 0.39 days lost (2004: 0.55) per employee. Continual training in matters of work hygiene and work safety not only help drive down the number of accidents but can also lessen the consequences of such incidents.



CORPORATE GOVERNANCE

1. Group structure and shareholders



¹Marketing organization for North and South America

1.1. Group structure

All participations are listed on page 48 including company, location and participation.

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 noncash contribution, brought into the newly founded Bachem AG, a 100% affiliate of Bachem Holding AG. This 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, 2005 was CHF 1 026 800 000. No other Bachem companies are listed.

1.2. Major shareholders

Shareholders with more than five percent of voting rights (December 31, 2005) are listed on page 55. 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, 2005, 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 2005 and 2004 respectively, share capital remained unchanged. 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. Changes in equity for the years 2005 and 2004 are listed on page 27. Changes for 2003 are reported on page 27 of the annual report 2004.

2.4. Shares and participation certificates

At December 31, 2005, 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

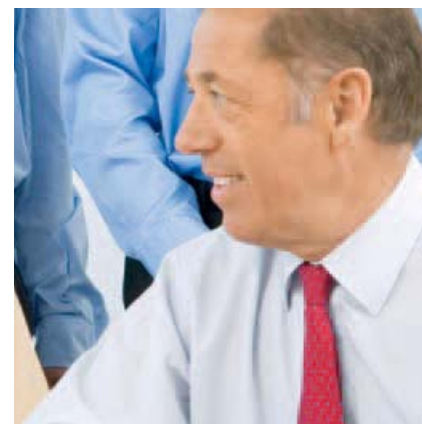
The company has not issued any convertible bonds. The only options the company has issued are for its employee compensation plan as described in note 23 to the consolidated financial statements on page 49.

3. Board of Directors

3.1 Members of the Board of Directors

The Board of Directors is comprised of non-executive members only.

from left to right, seated: François L'Eplattenier, Peter Grogg, Gottlieb Knoch; standing: Thomas Burckhardt, Hans Hengartner



Peter Grogg (1942)*

Dr. h.c., Chairman, Swiss
since 1971, elected until 2006

In 1957 Peter Grogg started his career with an apprenticeship as lab assistant at Ciba AG in Basel. In 1964 he moved to the University of Washington where he pursued research projects for two years. Subsequently he stayed in the US for another five years. Initially he was head of a peptide group at Cyclo Chemical Corporation, Los Angeles, later he became employee and partner of Fox Chemical Corporation, Los Angeles. In 1971 he returned to Switzerland and founded Bachem AG. Until April 2002, he successfully led the Bachem Group as its CEO. Peter Grogg is member of the management board of the Swiss Association of the Chemical Industry and of the Basel Chamber of Commerce. Other important board memberships: Berna Biotech AG (until February 2006), Dottikon ES Holding AG

Gottlieb Knoch (1942)*

Graduate Chemist ETH, MBA, Vice-Chairman, Swiss
since 1985, elected until 2006

Gottlieb Knoch holds a diploma of chemistry of ETH Zurich and an MBA of Stanford University. Among other assignments he worked for McKinsey & Co in Zurich, Saurer AG in Arbon and Tecan AG in Männedorf. In addition, he has assumed the function of a "business angel" helping innovative start-ups with advice and support. Other important board memberships: Rothschild Bank AG

Thomas Burckhardt (1950)

Dr. iur., LL.M., Secretary of the Board, Swiss
since 1997, elected until 2006

Thomas Burckhardt studied at the Universities of Basel, Geneva and Munich and was awarded his doctorate in 1978 in Basel. Since 1975 he is licensed attorney and in 1979 received a Master of Law (LL.M.) at Harvard Law School (Cambridge, Massachusetts, US). Since 1980 he practices as lawyer in Zurich and Basel and since 1987 is an associate at Simonius Pfrommer & Partner. Thomas Burckhardt further is deputy judge at the appeal court of Basel city, honorary consul of the Kingdom of Thailand in Basel as well as president of a charitable association for the young ("Jugendfürsorge"). Other important board memberships: CMA CGM Agency AG, KD Triton AG, Viking River Cruises AG

François L'Eplattenier (1939)*

Dr. sc. techn. ETH, Dr. h.c., Member, Swiss
since 1997, elected until 2006

François L'Eplattenier holds a doctorate in chemistry of ETH Zurich. He held various research positions at former Ciba-Geigy AG before he became head of central research and later head of research and development of the plastics, pigments and additives division. In 1988 he became member of the executive committee of Ciba-Geigy AG responsible for research and development. Since 1996 he is President of the Novartis Venture Fund. Important board memberships: Centre Suisse d'Electronique et Microtechnique, Cytos Biotechnology AG, Gene Data AG, NovImmune SA, Schweizerhall Holding AG

Hans Hengartner (1944)

Prof. Dr. sc. nat. ETH, Member, Swiss
since 2003, elected until 2006

Hans Hengartner studied biochemistry and molecular biology at ETH Zurich and holds a doctorate in natural sciences from ETH Zurich. He is currently Co-Director of the Institute for Experimental Immunology at the University Hospital of Zurich. He is also ordinary professor for immunology at the medical faculty of the University of Zurich and at the department of biology of ETH Zurich. From 2000 to 2005 Hans Hengartner was in charge of the department of biology at ETH Zurich.

* Member of the Compensation Committee

CORPORATE GOVERNANCE

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 individually. All elections and motions at the Annual General Meeting are taken by open vote unless requested otherwise by the majority of votes. For information concerning first election and remaining term of office, see item 3.1.

3.5. Internal organizational Structure

During 2005, the Board of Directors held five half-day and one full day meeting. The Corporate Executive Committee attends all Board meetings (see item 3.6). All meetings were attended by all Board and Corporate Executive Committee members. 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.

The Board constitutes a Compensation Committee (see item 3.1) that annually submits proposals regarding annual compensation of its members, the individual members of the Corporate Executive Committee as well as of Chief Operating Officers (COOs) of group companies. The Compensation Committee also proposes employee participation schemes. In the frame of approved programs, it also submits proposals concerning allocation of shares and share options to members of the Board, members of the Corporate Executive Committee as well as Chief Operating Officers (COOs) of group companies. Approvals of proposals of the Compensation Committee are granted by the full Board. In 2005, the Compensation Committee met three times.

The Audit Committee evaluates in particular the following tasks of the Corporate Executive Committee: The appropriateness and adequacy of the corporate financial and control systems, the financial part of the annual budget and the consolidated annual results. Further the Audit Committee on behalf of the Board receives, analyzes and evaluates the audit reports of the Group and statutory auditors. The tasks of the Audit Committee as described in the organization regulations currently are looked after by the full Board since considering the size of the Board with its five members the Board of Directors has renounced the formation of additional firm committees.

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. Per definition in its organization regulations the Board has delegated the management of ongoing operations to the Corporate Executive Committee under the leadership of the CEO. The Corporate Executive Committee is composed of the CEO, the CTO and the CFO (see item 4.1). The CEO in particular is responsible for the overall operational leadership.

Based on the proposal of the Compensation Committee, the Board defines compensation for members of the Corporate Executive Committee and for COOs of operating group companies (see item 3.5). Further, the Board is in charge of the consolidated financial statements of the Bachem Group, as well as the financial statements of Bachem Holding 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.

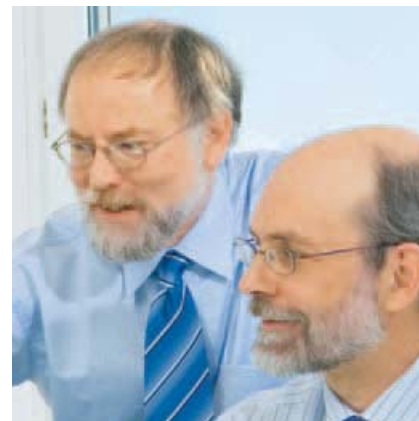
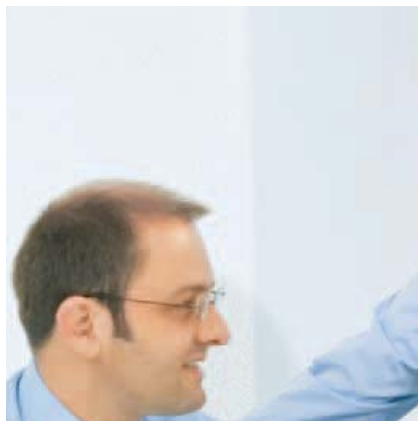
3.7. Information and control instruments vis-à-vis the Corporate Executive Committee

The Corporate Executive Committee attends the meetings of the Board in order to provide updates about the ongoing business, important events within the Group and about the execution of tasks delegated to the Corporate Executive Committee. Further, the Board is informed about the most important key figures. The management information system (MIS) at Bachem is structured as follows: On a monthly basis each individual group company prepares a report including balance sheets, income statements and other operating key figures as well as comments. On a quarterly basis, balance sheets, income statements, cash flow statements and statements of changes in equity as well as various key figures of the affiliates are prepared and consolidated. Budgets are controlled on a quarterly basis and compared to latest estimates per affiliate and for the consolidated results. On the occasion of the Board meetings financial reports are discussed with the Corporate Executive Committee. Extraordinary events and important decisions are immediately brought to the attention of all Board members. In addition, 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

from left to right:
Michael Hüsler, Rolf Nyfeler, Daniel Erne



Rolf Nyfeler (1950)

Dr. phil. II, CEO, Swiss
since 2000

Rolf Nyfeler joined Bachem in 1982. He was responsible for Research and Development for some time and became COO of the Parent Company in 1998, after a commitment as Head of Production in the subsidiary in California. Since May 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.

Michael Hüsler (1972)

lic. rer. pol., CFO, Swiss
since 2005

Michael Hüsler joined Bachem Holding AG as CFO and Member of the Corporate Executive Committee in July 2005. He is responsible for all finance activities of the Bachem Group. He holds a Master degree in Business Administration from the University of Basel. After completing his studies in 1997 he worked at PricewaterhouseCoopers in the audit department. From the end of 2000 to June 2005 Michael Hüsler worked as Corporate Controller and from 2002 on as Head of Corporate Controlling at Straumann Holding AG and was responsible for Corporate Financial Accounting and Corporate Planning and Reporting. In addition he successfully completed the education to a Certified IFRS Accountant in 2004 g.

Daniel Erne (1952)

Dr. sc. nat. ETH, CTO, Swiss
since 1997

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.

4.2. Other activities and vested interest

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.

CORPORATE GOVERNANCE

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 based on a proposal of the Compensation Committee. Members of the Board of Directors receive a base 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 to meeting personal objectives.

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 281 000 in 2005. Compensation for the members of the Corporate Executive Committee for the business year totaled CHF 836 000. 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 grant in the year under review

The five members of the Board of Directors were granted a total of 1 500 shares in 2005. The members of the Corporate Executive Committee received a total of 300 free shares during the

reporting year. During 2005, no options were granted since a new option plan has been introduced, allocating options on January 1 every year, with January 1, 2006 being the first time of issuance. Each member of the Corporate Executive Committee is entitled to 500 options per year. Each third of the options has a holding period of one, two and three years, respectively, and a vesting period of three, four and five years, respectively. Each option represents the right to acquire one share.

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, 2005, see table "Ownership of shares and options".

5.6. Options

For the number of options held by the members of the Corporate Executive Committee at December 31, 2005, see table "Ownership of shares and options". Members of the Board of Directors did not hold any options.

5.7. Additional fees and remuneration

One member of the Board of Directors received fees of CHF 14 264 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 183 000 (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 to these regulations 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

Ownership of shares and options	Number of shares	Number of options	Year of allocation	Exercise price	Vesting date of options	Expiry dates
Board of Directors (5 members)	8 812 853	0				
Corporate Executive Committee (3 members)	93 142	800	2001	80.00	30.09.05	30.09.06
		800	2001	80.00	30.09.06	30.09.07
		800	2002	80.00	20.10.07	20.10.08
		800	2003	60.30	30.11.08	30.11.09
Total	8 905 995	3 200				

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

convened by letter to all registered shareholders.

6.4. Agenda

Shareholders may demand that an item be included in the agenda. Related regulations are included in the Articles of Incorporation and conform with the law. Any demands must be made in writing and shall specify the proposals.

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. Gerd Tritschler is lead auditor since the business year 2004. 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 141 000 for the business year 2005. Fees for audit services on other Bachem companies by other auditors totaled CHF 92 000.

8.3. Additional fees

During 2005, PricewaterhouseCoopers charged additional fees of CHF 129 000 for various projects. Additional projects conducted by other auditors amounted to fees of CHF 21 000.

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, Michael Hüsler, CFO, phone +41 61 935 2333, IR@bachem.com.

FINANCIAL REPORT

Strong second half drives record sales

The Bachem Group (SWX: BANB) recorded its highest turnover ever in 2005, with sales totaling CHF 153.7 million, representing a growth of 3.9% in CHF – or 3.4% in local currencies – compared to 2004. This performance can be attributed to the positive business trend in the second half year. For the first time in a number of years sales growth benefited again from a favorable currency effect, brought about primarily by a rise in the US dollar against the Swiss franc. The Euro remained unchanged relative to the Swiss franc.

During the second half of 2005, sales significantly increased by 14.1% in CHF and by 12.1% in local currencies as compared to the corresponding period of 2004. In comparison to the first six months of 2005, sales increased by 17.8% in CHF and 14.1% in local currencies, respectively. The fourth quarter of 2005 proved to be particularly strong.

Compared to the 2004 level, sales of active pharmaceutical ingredients (APIs) increased by 7.3% in CHF or 6.4% in local currencies. Especially the peptide generics but also to a lesser extent the new chemical entities contributed to this growth. However, sales of research ingredients were down by 7.5% in CHF or 7.0% in local currencies. The reasons for this lie both in slight losses in our catalog product business and in difficult market conditions in the custom synthesis area. Sales for the two business segments active pharmaceutical ingredients and research ingredients developed as follows:

in CHF million	2005	Change in CHF	Change in local currencies	Sales share
Active pharmaceutical ingredients (APIs)	122.7	+7.3%	+6.4%	79.8%
Research ingredients	31.0	-7.5%	-7.0%	20.2%
Bachem Group	153.7	+3.9%	+3.4%	100.0%

From a geographical perspective, the North and South American markets posted particularly dynamic sales figures, up by 13.4% in local currencies. This encouraging result was achieved despite delays in expanding our infrastructure, caused by tardy building permits in the USA. This region's share of the Group's overall turnover rose further to 40.4%, compared to 36.6% in 2004. By contrast, Europe and the other regions saw sales slip by 2.4% in local currencies. In the areas of activity important to the company, North America continues to show greater potential for innovation than Europe. In addition, there was continued competitive pressure in the field of non-peptide generics. Sales can be broken down by geographical segments as follows:

in CHF million	2005	Change in CHF	Change in local currencies	Sales share
Europe/Rest of world	91.6	-2.3%	-2.4%	59.6%
North/South America	62.1	+14.8%	+13.4%	40.4%
Bachem Group	153.7	+3.9%	+3.4%	100.0%

Over-proportional rise in operating income

Operating income increased by 13.4%, from CHF 41.5 million to CHF 47.0 million, relative to the year-back level. As a result, the EBIT margin improved from 28.1% to 30.6%, lying again within the target of 30% to 35%.

The gross cost of materials increased by 7.1% to CHF 28.2 million. Staff costs also rose by 9.1% to CHF 55.3 million. However, a majority of these higher costs is accounted for by an inventory change in work in progress and finished products, with the result that net materials and staff costs as a proportion of turnover actually end up lying in the previous year's range. For the first time personnel costs contain the cost for share-based payments. For the financial year 2005 this amounted to CHF 0.8 million. The year-back values were restated accordingly. Staff costs for 2004 likewise contain CHF 0.8 million share-based payments.

In 2005 28 new full-time equivalent jobs were created. The number of full-time positions rose from 512 to 540. 21 of these new positions are attributed to the build-up of resources at Bachem California. 7 new full-time jobs were created at Bachem AG, Switzerland. At our other sites staff numbers remained unchanged.

Finally, other costs rose almost proportionally to sales by 4.1% to CHF 22.8 million. Depreciation and amortization amounted to CHF 8.3 million. EBITDA increased by CHF 1.5 million from CHF 53.8 million to CHF 55.3 million. In consequence, the EBITDA margin decreased slightly from 36.4% to 36.0%.

Net profit soars by 27.7%

On the basis of a markedly improved operating income, a very good financial result, and a lower tax rate, Bachem was able in 2005 to increase its net profit by 27.7% from CHF 30.7 million to CHF 39.2 million. The net profit margin is 25.5%, compared to 20.8% for the previous year.

For the first time our investment in Polyphor AG was recognized using the equity method. The proportional result is included in the item "Result from Associates and Joint Ven-

tures", which also shows Pevion Biotech AG's proportion of the result. In 2005 these two companies' share in the loss amounted to CHF 3.3 million. The year-back value was likewise restated to include our share of the loss in Polyphor AG, and amounted to CHF 3.0 million.

The net financial result in 2005 was CHF 5.6 million, comprising CHF 4.9 million financial income, CHF 0.9 million financial expense, and CHF 1.6 million foreign exchange result. The financial income comprises CHF 1.3 million interest income, CHF 3.1 million gains on sale of securities, and CHF 0.5 million dividend income.

The tax rate decreased in 2005, amounting to 20.5%. Some more major, one-off, positive and negative factors influenced the tax rate, although the positive effects predominated. The Group's total tax expense was CHF 10.1 million, compared to CHF 9.7 million in 2004.

As a result, earnings per share improved from CHF 2.33 in 2004 to CHF 2.98 in 2005.

Cash flow and investments

The cash flow from operating activities amounted to CHF 27.4 million, corresponding to 17.8% of turnover.

In 2005, investments in fixed and intangible assets totaled CHF 20.9 million, which equates to 13.6% of turnover. The expansion of production capacities at Sochinaz at a cost of CHF 2.5 million was completed in the first half of the year under review. During the second half of the year, expansion of the laboratory for the manufacture of cytotoxic and cytostatic ingredients was also successfully concluded. Altogether CHF 4.0 million was invested in this lab. The planned expansion of production capacity in the USA is due to be finished mid-2006. In 2005, out of a total of approximately USD 9.0 million earmarked for the project, USD 2.8 million was invested. The remaining investment covers increases in capacity, expenditure on renewal and replacement, and a considerable amount was spent on meeting more stringent compliance requirements.

In the financial year 2005, another CHF 2.0 million was invested in Pevion Biotech AG. In line with the existing agreement, Bachem will invest a further tranche of CHF 2.0 million in Pevion.

In the area of financing activity, CHF 15.8 million was paid out in dividends.

All these activities caused liquid funds as defined in the cash flow statement to drop by CHF 16.9 million to CHF 76.4 million.

Bachem remains on a very solid financial basis

In net current assets, a marked hike in trade accounts receivable of CHF 20.1 million to CHF 28.1 million stands out. This rise is attributed to high sales in the fourth quarter of 2005 and particularly in December, and does not represent any increased risk, but is a consequence of the course of business. Inventory also went up by CHF 12.7 million to CHF 74.3 million. Raw materials increased by CHF 2.5 million and work in process and finished goods by CHF 7.9 million. This rise derives, on the one hand, from a higher volume of goods in process, and, on the other, from a strategic increase in the inventory in the area of peptide and non-peptide generics so as to improve readiness for delivery. The remaining part of the rise in value of goods can mainly be attributed to currency effects.

The Group's equity ratio rose slightly compared to the year-back level. With a capital ratio of 90.7%, Bachem remains on a very solid financial basis. This is also reflected in the figure of CHF 134.0 million in cash and cash equivalents, marketable securities and other financial assets. The bulk of these funds can be designated as non-operating. Bachem will continue to retain this strategic reserve, but does not plan to build it up any further.

In the financial year 2005, Bachem was able to raise all profitability figures. Return on Equity (ROE) improved from 9.3% to 11.1%, Return on Assets (ROA) from 8.4% to 10.1%, and Return on Capital Employed (ROCE) from 12.6% to 13.4%.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statements

for the years ended December 31

	Notes	2005 000 CHF	2004* 000 CHF
Sales	1/2	153 656	147 828
Other income		111	30
Cost of materials		-28 216	-26 342
Changes in inventories		7 854	4 784
Staff cost	7	-55 275	-50 650
Depreciation and amortization	1/3/4	-8 337	-12 298
General administration and other operating expenses	8	- 22 785	-21 883
Operating income		47 008	41 469
Result from associates and joint ventures	1/6	-3 321	-2 977
Financial income, net	9	5 631	1 945
Income before taxes		49 318	40 437
Income taxes	10	-10 086	-9 727
Net income**		39 232	30 710
Basic earnings per share (CHF)	11	2.98	2.33
Diluted earnings per share (CHF)	11	2.98	2.33

* restated

** net income completely attributable to the equity holders of the parent

The notes on pages 28 to 51 are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

at December 31, 2005 and 2004

	Notes	December 31, 2005 000 CHF	December 31, 2004* 000 CHF
Assets			
Cash and cash equivalents	12	76 351	93 281
Marketable securities	13	47 685	40 742
Other financial assets	13	10 000	0
Trade and other receivables	14	34 116	25 214
Current tax assets		1 646	3 496
Inventories	15	74 294	61 613
Total current assets		244 092	224 346
Property, plant and equipment	3	141 530	125 399
Intangible assets	4	15 092	15 159
Associates and joint ventures	6	3 241	4 562
Defined benefit plan asset	16	521	530
Deferred tax assets	17	3 735	1 654
Total non-current assets		164 119	147 304
Total assets		408 211	371 650
Liabilities and equity			
Trade payables		8 559	12 925
Other current liabilities	18	4 957	3 950
Current tax liabilities		1 922	235
Provisions	19	243	909
Total current liabilities		15 681	18 019
Deferred tax liabilities	17	22 303	19 675
Provisions	19	0	136
Total non-current liabilities		22 303	19 811
Total liabilities		37 984	37 830
Share capital	20	680	680
Retained earnings		303 517	279 711
Share premium		88 018	87 217
Own shares		-15 930	-14 814
Fair value reserves		5 002	-1 084
Cumulative translation differences		-11 060	-17 890
Total capital and reserves attributable to the equity holders of the Company		370 227	333 820
Total liabilities and equity		408 211	371 650

* restated

The notes on page 28 to 51 are an integral part of the consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Cash Flow Statements

for the years ended December 31

	Notes	2005 000 CHF	2004* 000 CHF
Cash flow from operating activities			
Net income		39 232	30 710
Adjustments for:			
Taxes	10	10 086	9 727
Depreciation and amortization	3/4	8 337	12 298
Financial income, net	9	-5 631	-1 945
Result from associates and joint ventures	1/6	3 321	2 977
Share-based payments	23	801	776
Income taxes paid		-6 639	-8 173
Change in net current assets		-21 568	2 692
Other non-cash items		-516	2 111
Cash flow from operating activities		27 423	51 173
Cash flow provided by/(used for) investing activities			
Investments in property, plant and equipment	1/3	-20 043	-24 676
Investments in intangible assets	1/4	-895	-1 903
Investments in other financial assets	13	-10 000	0
Investments in associates and joint ventures	6	-2 000	-4 125
Purchases of marketable securities		-27 407	-23 835
Sales of marketable securities		29 935	28 259
Interest received		1 070	806
Dividends received	9	457	716
Other financial receipts	9	167	240
Other financial expenses		-412	-462
Cash flow provided by/(used for) investing activities		-29 128	-24 980
Cash flow provided by/(used for) financing activities			
Additions own shares		-3 001	-5 676
Disposals own shares		2 308	4 306
Dividends paid	25	-15 849	-14 575
Cash flow provided by/(used for) financing activities		-16 542	-15 945
Net effect of currency translation on cash and cash equivalents		1 317	-684
Net change in cash and cash equivalents		-16 930	9 564
Cash and cash equivalents at the beginning of the year	12	93 281	83 717
Cash and cash equivalents at the end of the year	12	76 351	93 281
Net change in cash and cash equivalents		-16 930	9 564

* restated

The notes on pages 28 to 51 are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Equity

for the years ended December 31

	Notes	Share capital 000 CHF	Retained earnings 000 CHF	Share premium 000 CHF	Own shares 000 CHF	Fair value reserves 000 CHF	Deferred taxes on fair value reserves 000 CHF	Cumulative translation differences 000 CHF	Total 2005 000 CHF
Balance January 1, 2005		680	279 711	87 217	-14 814	-1 193	109	-17 890	333 820
Cumulative translation differences								6 830	6 830
Change in fair value reserve						6 639	-553		6 086
Net income/(expense) recognized directly in equity		0	0	0	0	6 639	-553	6 830	12 916
Net income			39 232						39 232
Total recognized income and expense for the period		0	39 232	0	0	6 639	-553	6 830	52 148
Dividends paid	25		-15 849						-15 849
Transactions with own shares			423		-1 116				-693
Share-based payments	23			801					801
Balance December 31, 2005		680	303 517	88 018	-15 930	5 446	-444	-11 060	370 227

	Notes	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 2004 000 CHF
Balance January 1, 2004		680	265 797	85 839	-12 588	-1 827	160	-13 968	324 093
Effect of IFRS 2	23		-602	602					0
Restatement associates	6		-2 475						-2 475
Restated Balance January 1, 2004		680	262 720	86 441	-12 588	-1 827	160	-13 968	321 618
Cumulative translation differences								-3 922	-3 922
Change in fair value reserve						634	-51		583
Net income/(expense) recognized directly in equity		0	0	0	0	634	-51	-3 922	-3 339
Net income			30 710						30 710
Total recognized income and expense for the period		0	30 710	0	0	634	-51	-3 922	27 371
Dividends paid	25		-14 575						-14 575
Transactions with own shares			856		-2 226				-1 370
Share-based payments	23			776					776
Balance December 31, 2004		680	279 711	87 217	-14 814	-1 193	109	-17 890	333 820

The notes on pages 28 to 51 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

Business activities

Bachem, based in Bubendorf in the Canton of Baselland, Switzerland, is an independent, technology-based group that employs 540 people (FTE) and specializes in the development of manufacturing processes for the production of innovative biochemical and pharmaceutical 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.

Approval of the consolidated financial statements

The consolidated financial statements have been accepted by the Board of Directors of Bachem Holding AG on March 14, 2006 to be presented for approval by the Annual General Meeting.

Accounting policies

Principles of consolidation

The consolidated financial statements of the Bachem Group are based on historical cost with exception of the revaluation of certain financial assets and liabilities at fair value. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB), including additionally released standards and interpretations as well as the following valuation and accounting policies and Swiss law.

The financial statements of the companies included in the consolidation are prepared using uniform accounting policies. The annual closing date of the individual financial statements is December 31, with all cost and income items being reported in the period to which they relate. Intercompany income and expenses, including unrealized gross profits from internal Group transactions and intercompany receivables and payables, are eliminated. Acquired companies are consolidated according to the purchase method. Companies acquired or divested in the course of the year are included in the consolidated financial statements as of the date of purchase respectively up to the date of sale. Unless otherwise indicated, all the figures quoted in these annual financial statements and the appendix to the annual financial statements have been rounded up to the nearest CHF 1 000.

Changes to accounting policies

In 2005, Bachem introduced the new standards IFRS 2, Share-based Payment, IFRS 3, Business Combinations and IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, as well as the following revised International Accounting Standards:

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after the Balance Sheet Date
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 31 Interests in Joint Ventures
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earnings per Share
- IAS 36 Impairment of Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Property

The most important implications of their application are as follows:

IFRS 2 Share-based Payment

The most important implication of IFRS 2 for Bachem is the booking of employee shares and options as staff costs over the vesting period. IFRS 2 has been applied to all allocations of shares and options granted from November 7, 2002 onwards. The prior-year figures have been restated in accordance with the transitional provisions. (see note 23)

IFRS 3 Business Combinations

No business combinations took place during the period under review. The main implication of the first-time application of IFRS 3 is the termination of goodwill amortization as of January 1, 2005. In addition, as of January 1, 2005, the cumulative goodwill amortizations were offset against the acquisition costs of the goodwill. (see notes 4 and 5)

IAS 1 Presentation of Financial Statements

This standard has affected the presentation of the consolidated statements of changes in equity.

IAS 28 Investments in associates

The amendment of IAS 28 led to the investment in Polyphor AG, Allschwil to be accounted for using the equity method. Previously, this investment was accounted for as a financial asset. The prior-year figures have been restated accordingly. (see note 6)

IAS 36 Impairment of Assets

The introduction of this standard leads to the annual test of impairment on the cash-generating unit level.

Other standards

The application of other new or revised standards did not result in any major changes to Bachem's accounting policies.

Standards, amendments and interpretations to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

IFRS 7 Financial Instruments

This standard replaces IAS 30 (Disclosures in the Financial Statements of Banks and Similar Financial Institution) and the disclosure requirements in IAS 32 (Financial Instruments: Disclosure and Presentation). This standard is applicable to all entities that have financial instruments and report under IFRS. The new more detailed disclosure regulations contain among others:

- Details to the importance of financial instruments regarding the financial and result situation of the company
- Goals, principles and processes of the risk management for financial instruments
- Based on the internal information of the management quantified information about exposure to risks arising from financial instruments.

The group assessed the impact of IFRS 7 and concluded that the application of this new standard will only influence disclosure. Bachem will apply IFRS 7 from annual periods beginning January 1, 2007.

IAS 1 Presentation of Financial Statements (Amendment)

IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. In the future information concerning entity's goals, principles and processes regarding capital management must be disclosed, as well as quantified information regarding the entity's definition of capital.

The group assessed the impact of the amendment to IAS 1 and concluded that this standard only influences disclosure. Bachem will apply the amendment to IAS 1 from annual periods beginning January 1, 2007.

IAS 19 Employee Benefits (Amendment)

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. In the period of recognition an entity can choose if the actuarial gains and losses of defined benefit plans as well as the changes of asset ceiling should be recognised directly in equity. It also adds new disclosure requirements for defined benefit plans.

Bachem will assess the application of this amendment for January 1, 2006.

IAS 39 Financial Instruments: Recognition and Measurement (Amendment concerning Cash Flow Hedge Accounting of Future Intragroup Transactions)

Hedge accounting is applicable to foreign currency risk of a highly probable future intragroup transaction if the transaction is denominated in a currency other than the entity's functional currency and the foreign currency risk will affect consolidated profit and loss. Intragroup charges are not qualified as underlying transaction of a hedge.

Bachem assessed the impact of the amendment to IAS 39 and concluded that there will be no material impact on the consolidated financial statements.

IAS 39 Financial Instruments: Recognition and Measurement (Amendment concerning Fair Value Option)

This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category.

Bachem will apply this amendment from periods beginning January 1, 2006, if there are any relevant transactions.

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts (Amendments concerning Financial Guarantee Contracts)

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of

- the unamortised balance of the related fees received and deferred, and
- the expenditure required to settle the commitment at the balance sheet date.

Bachem assessed the impact of the amendment to IAS 39 and IFRS 4 and concluded that currently it is not relevant to the Group. If the situation changes, the assessment is going to be updated.

Other standards

The application of other standards, amendments and interpretations to published standards is not relevant to Bachem's operations.

Scope of consolidation

The consolidated financial statements include Bachem Holding AG and all companies in Switzerland and abroad which Bachem Holding AG directly or indirectly controls (over 50% of voting interest). The companies included in the consolidation are listed in Note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Investments in subsidiaries

In cases where the Bachem Group directly or indirectly holds a voting majority or directly or indirectly controls companies in a different way, the assets and liabilities and income and expenses of these companies are fully included in the consolidated financial statements. Third-party minority interests in income and in the equity of subsidiaries are shown separately.

Intercompany transactions and balances between Group companies are eliminated. Supplies are delivered and services provided between Group companies at market prices. Internal profits on inventories and deliveries within Group companies not yet realized via sales to third parties are eliminated.

Investments in associates and joint ventures

Investments in associates and joint ventures whose business policies Bachem may potentially influence to a considerable degree are accounted for using the equity method. They are initially recorded at cost in the balance sheet. Following the acquisition, changes to the percentage interest and any impairment of assets are taken into account. Participation in the result of these associates is recognized as income or expense.

Associates and joint ventures also apply the International Financial Reporting Standards (IFRS). Participations in associates and joint ventures are listed in Note 6.

Currency translation

The functional currency of the individual subsidiaries is the valid local currency (CHF, USD, EUR, GBP). Local transactions in other currencies are recorded by the companies using the exchange rate prevailing on the transaction date. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation of financial assets and liabilities in foreign currencies are recognized in the income statement if they are not reported as qualified hedging transactions for cash flow and as such included in equity.

The consolidated financial statements are expressed in Swiss francs, the functional and presentation currency of the parent company. Assets and liabilities included in local accounts are translated into Swiss francs using the exchange rates prevailing on the balance sheet date. Income, expenses, and cash flows are translated using the respective weighted yearly average exchange rate. Translation differences arising from the translation of balance sheet and income statement are allocated to equity. In the event of the sale of a foreign business unit, these exchange rate differences are recorded as part of the gain or loss arising from the relevant sale in the income statement.

Goodwill and fair value adjustments following the purchase of a foreign business unit are held as assets or liabilities in the reference currency of the parent company for acquisitions up to December 31, 2004. Goodwill and fair value adjustments are therefore translated using historical exchange rates for acquisitions

before December 31, 2004. For acquisitions made after December 31, 2004, goodwill and fair value adjustments are held in the currency of the business unit purchased, and revalued on the balance sheet date.

The following exchange rates were used for foreign currencies:

	Income statement Average rates		Balance sheet Year end rates	
	2005 CHF	2004 CHF	2005 CHF	2004 CHF
USD	1.25	1.24	1.32	1.13
GBP	2.26	2.28	2.27	2.18
EUR	1.55	1.54	1.56	1.54

Revenue recognition

Sale of goods

The reported sales correspond to invoiced product deliveries and services to third parties and is reported net of sales taxes and rebates. Sales are recognized on invoicing of product deliveries. Intercompany sales are eliminated.

Sale of services

Income from the sale of services is reported in the accounting period in which the services were provided.

Licence income

Based on the estimated value of the goods sold under licence, licence income is reported in the same period to which it relates, in accordance with the terms of the underlying agreement.

Interest and dividend income

Interest income is reported on a pro rata basis using the effective interest method. Dividend income is booked at the point at which the legal entitlement to payment arises.

Segment information

Primary segment information

The primary segments are based on the geographical information by the location of the assets and are divided into the two segments Europe and North America. In addition, net sales figures are divided according to the location of customers in the geographical segments Europe/Rest of the World and North/South America.

Secondary segment information

The secondary segments are based on the two business segments active pharmaceutical ingredients and research ingredients (including custom synthesis). Investments and assets cannot be allocated to the business segments since we are using multipurpose equipment that can be used to produce all products.

Cash and cash equivalents

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

The cash flow statements are based on cash and cash equivalents.

Financial assets

Bachem divides its financial assets into the following categories: Financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. Classification depends on the purpose for which the assets were acquired. The management classifies assets as they are acquired and reviews the relevant allocation on an annual basis.

Financial assets at fair value through profit or loss

This category is divided into two sub-categories: Financial assets classified from the beginning as being held for trading, and those designated from the beginning as financial assets at fair value through profit and loss. A financial asset is allocated to this category if it was acquired for short-term sale or was allocated in this way by management. Derivatives also belong to this category if they do not qualify as hedges. Assets in this category are reported as current assets if they are either held for trading or are likely to be realized within 12 months following the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. If their maturity is no later than 12 months after the balance sheet date, they are classified as current assets. Otherwise, they are reported as non-current assets.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and set maturities, which the management intends and is able to hold to maturity.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that were either allocated to this category or cannot be allocated to any of the other categories. They are allocated to non-current assets if the management does not intend to sell them within 12 months following the balance sheet date.

Purchases and sales of financial assets are recognized at the settlement date, i.e. the day on which the assets are transferred. The initial recording of all assets that do not belong to the "Financial assets at fair value through profit and loss" category is carried out at cost including transaction costs. The assets are derecognized as soon as the rights to receive cash flows from the assets expire or are transferred, and Bachem has ceded all risks and opportunities arising from their ownership. Available-for-sale assets and assets recognized at fair

value through profit or loss are subsequently valued at fair value. Loans and receivables, as well as held-to-maturity assets are accounted for at amortized cost using the effective interest method. Realized and unrealized gains and losses resulting from changes in the fair value of assets "at fair value through profit and loss" are booked to the income statement in the period during which they occur. Unrealized gains and losses resulting from the changes in fair value of available-for-sale financial assets are recorded in equity. If available-for-sale assets are sold or affected by impairment, the market value adjustments accumulated in equity are included in the income statement as gains and losses from securities.

The fair values of listed investments are based on current offer prices. For financial investment with no active market and in the case of unlisted securities, Bachem determines fair value using appropriate valuation methods. This includes the use of transactions at usual market conditions, reference to the market prices of other assets that are fundamentally similar, discounted cash-flow analysis and option price models tailored to the specific circumstances of the issuer.

On every balance sheet date, it is determined whether there is objective evidence to suggest that a financial investment or a group of financial investments has/have been affected by impairment. In the case of investments categorized as available for sale, a considerable or sustained decline in the fair value of the security below its acquisition cost is assumed in order to determine whether the security has been affected by impairment. In this case, the cumulative loss – measured as the difference between the purchase price and the current fair value of the financial investment, minus any impairments, which have already been recognized in the income statement – is removed from equity and included in the income statement. Impairment losses on financial investments that have already been recognized in the income statement are not reversed.

Trade and other receivables

These are carried at the original invoice amount less any adjustment for impairment. An impairment occurs when there is objective evidence that it will not be possible to collect all amounts due. Impairment corresponds to the difference between the book value of the receivable and the payment likely to be received from the customer.

Inventories

Inventories include raw materials, spare parts, work-in-progress and finished goods. They are stated at acquisition or manufacturing cost or net realizable value, whichever is the lowest. Manufacturing costs comprise all related production costs including proportionate production overhead costs. Net realizable value is the estimated sales proceeds achievable in normal business, less the necessary variable sales costs. The valuation is based on the weighted average.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Property, plant and equipment

Property, plant and equipment are carried at acquisition costs, less accumulated depreciation. They are valued at acquisition or manufacturing cost and depreciated on a linear basis over their estimated useful lives. This excludes land, which is not depreciated. Financial contributions from third parties (state subsidies) reduce acquisition and manufacturing costs. Property, plant and equipment removed from or sold by the business are booked out of the property, plant and equipment account with the related acquisition or manufacturing costs and the accumulated depreciation. All gains or losses arising from the removal of property, plant and equipment are accounted for in the income statement. The estimated useful lives for the main categories of property, plant and equipment to be depreciated are as follows:

Buildings	20	to	40	years
Installations	10	to	20	years
Laboratory equipment	10	to	20	years
IT hardware	3	to	5	years
Vehicles	5	to	7	years

The depreciation rates reflect the anticipated, economic useful life of the respective assets. Maintenance costs are recognized in the income statement. Additional costs that extend the estimated useful life of property, plant and equipment and lead to future economic benefits are capitalized, if these costs can be reliably estimated. All other costs for repair and maintenance are recognized in the income statement. Borrowing costs for assets under construction are not capitalized.

If certain events or changing circumstances suggest that the actual value of the asset has fallen below its book value, an impairment test is carried out to determine whether this is the case. If so, Bachem estimates the future cash flows that are likely to result from the usage of the property, plant and equipment and its possible sale. If the sum of the anticipated cash flows is lower than the book value of the asset, an impairment to the value of the difference between the book value and the net realizable value is recognized.

Intangible assets

Goodwill

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 at cost. Goodwill arising before January 1, 2005 was recognized as an asset and amortized until December 31, 2004. Both amortized and newly acquired goodwill is reviewed for impairment as required, but at least once annually. Goodwill is recognized in the balance sheet at acquisition cost minus any impairments.

Other intangible assets

Patents and licenses: Any patents and licenses acquired are recognized in the balance sheet at historic acquisition cost less accumulated amortization and any impairments. They are amortized on a straight-line basis over their useful lives. The ongoing costs of patents and licenses are recognized in the income statement. Patents and licenses are reviewed for impairment if there are indications of a reduction in their value.

Computer software: Computer software is recognized in the balance sheet at acquisition or manufacturing cost plus the cost of installation less accumulated amortization and any impairments. It is amortized on a straight-line basis over its estimated useful life. Computer software is reviewed for impairment if there are indications of a reduction in its value. Expenditure incurred in connection with the development or maintenance of IT systems is recognized as an expense. This does not apply to expenditure in connection with IT projects when it is probable that the associated economic benefits will flow to the company over a period of more than one year and will exceed the costs incurred. Capitalized development costs for computer software are amortized on a straight-line basis over its estimated useful life.

Research and development costs: All research and development expenditure is recognized directly as an expense in the period in which it is incurred, as it cannot be directly attributed to a specific, future or product-related benefit.

Taxes

Taxes on income are accrued in the same period as the revenues and expenses to which they relate. Where no distribution of profits is planned, withholding taxes and other taxes on possible subsequent distributions are not taken into account, as the profits are generally reinvested.

Deferred taxes 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 (comprehensive liability method), with the exception of differences where Bachem is able to control the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future. The Group's deferred tax assets and tax liabilities, calculated using applicable local tax rates, are included in the consolidated balance sheet as non-current assets and non-current liabilities respectively.

Deferred tax assets on tax loss carry-forwards are only recognized to the extent that it is probable that future profits will be available and the tax loss carry-forwards can be utilized.

Changes to tax laws or tax rates issued on the balance sheet date are taken into account in the definition of the applicable tax rate provided that they are likely to be applicable in the period when the deferred tax assets or tax liabilities are realized.

Pension obligations

Pension and retirement benefits in favor of employees are governed by the regulations and practice of the countries in which Bachem is represented. In Switzerland, pension and retirement benefits are governed by the rules of defined benefit plans in accordance with IAS 19 (Employee Benefits). The defined benefit obligation of the material defined benefit pension plans is calculated on a regular basis – 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 recognized at fair market values.

Actuarial gains and losses are charged or credited to profit or loss over the remaining service lives of the related employees if they exceed the corridor of +/- 10%. The expenses for such pension plans, representing the net periodic pension cost less employee contributions, are reported in the income statement under staff costs.

In the other countries pension and benefit plans are provided by defined contribution schemes.

Employee participation (share-based payments)

Depending on business performance, the Board of Directors can decide to pay all employees a share of profits as part of the annual remuneration package; this amount is paid in cash.

Employees of the Bachem Group are entitled to free shares without vesting period after each three full years of service. The number available is dependent on operational function and is between 20 and 200 shares. The shares are freely disposable and are booked over this three year period to staff costs.

The Corporate Executive Committee receives within the scope of the same scheme 100 free shares after each full year of service. These shares are booked to staff cost in the year of granting.

Certain key management employees receive free shares at the time of their employment or promotion. These shares are blocked for five years. The shares are recognized as staff costs over the vesting period at the share price applicable at grant date.

Certain key management employees of the Bachem Group also receive between 150 and 500 free options each year. The options have a term of three to five years and are blocked for one to three years. The value of the options is the fair value at grant date and is determined using well-established valuation methods. The service for share options is booked as staff costs over the vesting period.

Bachem holds own shares to meet the requirements of its share and option plans.

Provisions

Provisions are recognized if a present legal or constructive obligation has arisen as a result of a past event, the outflow of funds to settle this obligation is probable, and the amount of the obligation can be estimated reliably. The provisions recognized represent the best estimate of the ultimate obligation taking into account foreign currency effects and the time value of money.

A contingent liability is disclosed 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, if a future outflow of funds appears unlikely.

Own shares

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

Dividend distribution

Dividends are distributed in the period in which they are approved by the company's shareholders.

Financial risk factors

The Corporate Executive Committee is responsible for financial risk management within the Group. It monitors foreign currency 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, if necessary. 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. Appropriate hedges can be concluded in order to reduce risks. Bachem only works with first-class financial institutions.

Foreign currency risks

Bachem is active internationally and therefore exposed to foreign currency risks based on changes in the exchange rates of various foreign currencies, mainly the US dollar, but also the euro and the British pound. The risks relate to expected future transactions, assets and liabilities recognized in the balance sheet, and net investments in foreign operations.

Credit risks

There are no significant concentrations of credit risks. Bachem has guidelines to minimize its credit risks. Customer creditworthiness is continuously monitored and prepayments requested where necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Liquidity risks

Liquidity management involves maintaining sufficient reserves of cash and cash equivalents and marketable securities. Bachem does not currently have any agreed credit lines. Given its solid financing situation, credits could be negotiated quickly at good conditions if required.

Cash flow and market interest rate risk

Bachem holds significant non-operating cash and cash equivalents and interest-bearing securities that are exposed to changes in market interest rates. However, the risk is limited to the fact that Bachem receives no interest. Since the Group is self-financed apart from short-term, non-interest-bearing liabilities, there is no cash flow interest rate risk from an increase in the rate of interest payable.

Derivative financial instruments and hedging transactions

Derivatives are initially recognized at fair value plus transaction costs on the date on which the derivative contract is entered into and subsequently measured at fair value. The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, on the nature of the item being hedged. The instruments are designated as fair-value hedges, cash flow hedges, hedges of net investments in foreign operations, or derivatives that do not meet the criteria for hedge accounting.

Fair value hedges

Changes in the fair value of derivatives which are designated as fair value hedges and hence meet the hedge accounting criteria are recorded in the income statement along with the changes in the fair value of the hedged asset or liability. Bachem did not hold any items of this kind during the period under review.

Cash flow hedges

The effective portion of changes in the fair value of derivatives which are designated as cash flow hedges and hence meet the hedge accounting criteria are recognized in equity. The ineffective portion of the change in fair value is recognised immediately in the income statement.

Amounts accumulated in equity are transferred to the income statement and recorded as expense or income in the period in which the hedged transaction will affect profit or loss. If, however, the forecast hedged transaction results in the booking of a non-financial asset or a non-financial liability, the gain or loss previously transferred to equity is removed from equity and added to the initial measurement of the acquisition cost of the asset or liability.

When a hedged instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss existing at the time remains in equity and is only recognized in the income statement when the underlying transaction occurs. If the forecast transaction is no longer expected to occur, the cumulative gain or loss that had been reported directly in equity is immediately transferred to the income statement. Bachem did not hold any items of this kind during the period under review.

Net investment hedges

Hedges of net investments in foreign operations are treated as cash flow hedges. Any gain or loss relating to the effective portion is recognized in equity. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement.

If a foreign operation is divested, cumulated gains or losses are charged to the income statement. Bachem did not hold any items of this kind during the period under review.

Derivates which do not meet the criteria for hedge accounting

Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of such derivatives are charged immediately to the income statement.

Related parties

Parties are considered to be related if one party directly or indirectly controls, is controlled by, or is under common control with the other party, if it has an interest in the other party that gives it significant influence over the party, if it has joint control over the party, or if it is an associate or a joint venture. Senior management of the company or close family members are also deemed to be related parties, as are pension plans that exist for the benefit of the company's employees.

Government grants

Government grants are recorded at fair value provided there is a reasonable assurance that the development will take place and that all requirements attached to it will be fulfilled.

Critical accounting estimates and assumptions

Preparation of the financial statements in compliance with IFRS requires the use of certain critical accounting estimates and assumptions. Furthermore, the Corporate Executive Committee is required to exercise judgment in its application of the Group's accounting policies and principles. Estimates and assumptions seldom match the actual outcome or results. Areas which are more complex in nature and call for a higher level of judgment, and areas in which estimates and assumptions are of vital importance for the consolidated financial statements are as follows:

Goodwill

The Group conducts an annual analysis to determine whether a goodwill impairment is required. The underlying valuations are based on estimates (see note 5).

Income taxes

Bachem is required to pay income taxes in a number of countries. Significant judgment is required in determining income tax provisions and in evaluating tax positions. The Group measures the level of tax provisions for adjustments to tax assessments and/or expected tax audits on the basis of estimates of whether and in what amount additional taxes will fall due.

Provisions

The nature of the Group's business activities may necessitate the creation of provisions, the exact level of which is not known at the time the legal or constructive obligation arises. In such cases, management is required to make assumptions and estimates to determine the level of the provisions.

If the final taxation sum in respect of these business transactions deviates from the initial estimated sum, this will have an impact on the actual and deferred taxes in the period in which the final taxation sum is determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Segment Information (Regions)

Primary segment information based on the location of assets	Europe		North America		Eliminations		Consolidated values	
	2005 000 CHF	2004 000 CHF	2005 000 CHF	2004 000 CHF	2005 000 CHF	2004 000 CHF	2005 000 CHF	2004 000 CHF
Sales third parties	91 529	93 721	62 127	54 107	0	0	153 656	147 828
Sales intercompany	27 455	21 351	1 958	2 156	-29 413	-23 507	0	0
Total sales	118 984	115 072	64 085	56 263	-29 413	-23 507	153 656	147 828
Operating income	37 154	34 850	10 606	10 495	-752	-3 876	47 008	41 469
Result from associates and joint ventures	-3 321	-2 977	0	0	0	0	-3 321	-2 977
Financial income, net							5 631	1 945
Income taxes							-10 086	-9 727
Net income							39 232	30 710
Other information							Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Assets	595 179	566 613	77 757	53 282	-264 725	-248 245	408 211	371 650
Liabilities	63 675	57 047	21 100	11 462	-46 791	-30 679	37 984	37 830
Associates and joint ventures	3 241	4 562	0	0	0	0	3 241	4 562
							2005 000 CHF	2004 000 CHF
Investments	14 297	25 548	6 641	1 031			20 938	26 579
Depreciation and amortization	-7 076	-10 755	-1 261	-1 543			-8 337	-12 298
Impairment on current assets	-84	-37	-203	0			-287	-37
Segment information based on the location of customers			Europe/Rest of the world 2005 000 CHF	2004 000 CHF	North/South America 2005 000 CHF	2004 000 CHF	Consolidated values 2005 000 CHF	2004 000 CHF
Sales third parties			84 652	85 445	69 004	62 383	153 656	147 828

Transactions between the segments are performed at arms length, i.e. based on the prices as they are charged to third parties.

2. Segment Information (Business Segments)

	2005 000 CHF	2004 000 CHF	2005 in %	2004 in %	Change in CHF in %	Change in local currencies in %
Research ingredients (incl. custom synthesis)	31 018	33 518	20.2%	22.7%	-7.5%	-7.0%
Active pharmaceutical ingredients (APIs)	122 638	114 310	79.8%	77.3%	7.3%	6.4%
Total sales	153 656	147 828	100.0%	100.0%	3.9%	3.4%

Investments and assets cannot be allocated to the business segments since we are using multi-purpose-equipment which can be used to produce all products.

3. Property, Plant and Equipment

2005	Land 000 CHF	Buildings 000 CHF	Assets under construction 000 CHF	Instal- lations 000 CHF	Laboratory equipment 000 CHF	Other 000 CHF	Total 2005 000 CHF
Cost at January 1	10 951	86 677	15 100	42 733	47 299	9 906	212 666
Additions	359	1 674	8 241	1 961	7 234	574	20 043
Disposals	0	0	0	-36	-193	-20	-249
Reclassifications	0	1 996	-11 959	10 422	-629	170	0
Translation effects	812	2 421	237	464	1 868	348	6 150
Cost at December 31	12 122	92 768	11 619	55 544	55 579	10 978	238 610
Accumulated depreciation at January 1	0	-18 884	0	-33 010	-27 833	-7 540	-87 267
Depreciation	0	-2 380	0	-1 920	-2 288	-790	-7 378
Disposals	0	0	0	36	193	32	261
Reclassifications	0	0	0	-47	172	-125	0
Translation effects	0	-647	0	-278	-1 486	-285	-2 696
Accumulated depreciation at December 31	0	-21 911	0	-35 219	-31 242	-8 708	-97 080
Net book value at December 31	12 122	70 857	11 619	20 325	24 337	2 270	141 530
2004	Land 000 CHF	Buildings 000 CHF	Assets under construction 000 CHF	Instal- lations 000 CHF	Laboratory equipment 000 CHF	Other 000 CHF	Total 2004 000 CHF
Cost at January 1	10 786	85 100	1 655	41 310	45 409	9 213	193 473
Additions *	655	3 793	13 586	1 689	3 615	1 338	24 676
Disposals	0	-725	0	-54	-709	-270	-1 758
Reclassifications	0	0	-97	50	47	-170	-170
Translation effects	-490	-1 491	-44	-262	-1 063	-205	-3 555
Cost at December 31	10 951	86 677	15 100	42 733	47 299	9 906	212 666
Accumulated depreciation at January 1	0	-17 624	0	-31 780	-26 996	-7 344	-83 744
Depreciation	0	-2 362	0	-1 437	-2 416	-659	-6 874
Disposals	0	725	0	54	709	270	1 758
Reclassifications	0	0	0	0	0	30	30
Translation effects	0	377	0	153	870	163	1 563
Accumulated depreciation at December 31	0	-18 884	0	-33 010	-27 833	-7 540	-87 267
Net book value at December 31	10 951	67 793	15 100	9 723	19 466	2 366	125 399

* In 2004, Bachem (UK) Ltd. received government grants of GBP 90 000 respectively CHF 204 840 for the construction of a new production site. This amount was directly deducted from cost. In 2005 there were no government grants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2005 and 2004 no buildings were held under operating lease.

Fire insurance values

	2005 000 CHF	2004 000 CHF
Land/Buildings	81 339	79 847
Other property, plant and equipment	124 330	116 948

4. Intangible Assets

2005

	Goodwill 000 CHF	Other intangible assets 000 CHF	Total 2005 000 CHF
Cost at January 1	11 853	7 822	19 675
Additions	0	895	895
Disposals	0	-13	-13
Translation effects	0	77	77
Cost at December 31	11 853	8 781	20 634
Accumulated amortisation at January 1	0	-4 516	-4 516
Amortisation	0	-959	-959
Translation effects	0	-67	-67
Accumulated amortisation at December 31	0	-5 542	-5 542
Net book value at December 31	11 853	3 239	15 092

2004

	Goodwill 000 CHF	Other intangible assets 000 CHF	Total 2004 000 CHF
Cost at January 1	41 886	5 799	47 685
Additions	0	1 903	1 903
Disposals	0	-5	-5
Transfers	0	170	170
Translation effects	0	-45	-45
Cost at December 31	41 886	7 822	49 708
Accumulated amortisation at January 1	-25 837	-3 298	-29 135
Amortisation	-4 196	-1 228	-5 424
Transfers	0	-30	-30
Translation effects	0	40	40
Accumulated amortisation at December 31	-30 033	-4 516	-34 549
Net book value at December 31	11 853	3 306	15 159

5. Impairment Test for Goodwill

Since January 1, 2005 Bachem applies the new standard IFRS 3 Business Combinations. As a consequence there is no further goodwill amortisation. Instead goodwill has to be tested for impairment at least annually on the cash-generating unit level. In 2004 recognized goodwill amortisation was CHF 4 196 000. The relevant cash-generating units to test impairment are the geographical segment of North America with a goodwill of CHF 5 470 000 and the division non-peptide generics, which consists of Sochinaz SA, with a goodwill of CH 6 383 000. The goodwill equals the book value, which is the result of acquisition cost minus goodwill amortisation recognized before 2005.

The impairment respectively the entity's value of the above mentioned cash-generating units North America and Sochinaz was tested on the basis of the discounted cash flow method. The recoverable amount represents the value in use. The basis for the test was Bachem's five-year-plan. This plan was prepared based on the assumptions of the Management that represent its best estimate regarding market growth and market share, as well as the projected costs on the basis of the prior year.

For the two cash-generating units different discount rates, which reflect the specific risk in the respective markets, were applied. The pre-tax discount rate used for North America was 15.7% and for Sochinaz 9.2%. We expect an organic growth for the group between 7.5% and 10% over the next five years. No growth of the cash flows is considered beyond the five-year period.

We assume an above-average growth for the cash-generating unit North America. The margins were calculated with a slight improvement of efficiency. Based on impairment tests, evidence is available that there is no impairment.

6. Associates and Joint Ventures

Polyphor AG, Allschwil

At December 31, 2005 Bachem Group held 26.2% of the shares and votes of Polyphor AG, Allschwil, Switzerland. Until 2004 this investment was classified as a financial asset, because the assumption was that Bachem's share would fall below 20% in the near future. The latest information showed that the share will remain above 20%, therefore as of January 1, 2005 the classification of the investment in Polyphor AG was reclassified to investments in associates and the equity method applied.

As of January 1, 2005 respectively January 1, 2004 as prior year period, the result from associates includes the proportionate loss of the respective year.

Hence the following restatements were made:

Balance Sheet	Dec. 31, 2003 000 CHF	Dec. 31, 2004 000 CHF
Decrease other financial assets	5 375	6 500
Increase associates	2 675	2 900
Decrease deferred tax liabilities	225	306
Decrease retained earnings	2 475	3 294

Income Statement	2004
Increase result from associates	900
Decrease income taxes	81

Effect on earnings per share (EPS) resulting from this restatement:

	2004
Basic earnings per share (CHF)	- 0.06
Diluted earnings per share (CHF)	- 0.06

Valuation as per December 31, 2005: CHF 1 730 000 (investment up to now of CHF 6 500 000 less proportional loss of CHF 4 770 000). There is neither a further commitment for Bachem to increase the investment in Polyphor nor any contingent liabilities resulting from the investment.

Valuation as per December 31, 2004: CHF 2 900 000 (investments up to now of CHF 6 500 000 less proportional loss of CHF 3 600 000).

Pevion Biotech AG, Bern

On January 7, 2002 Bachem Holding AG and Berna Biotech AG founded Pevion Biotech AG in Bern, each with a 50% stake. The company develops innovative therapeutic and prophylactic vaccines against infectious diseases and cancer, which are based on the combination of peptides and the virosome technology. Up to now both partners together invested CHF 16 000 000. It is foreseen to increase the capital up to CHF 20 000 000. This means that Bachem will invest another CHF 2 000 000 into Pevion. There are no further financial or contingent liabilities related to the investment in Pevion.

Pevion Biotech AG is accounted for using the equity method. Valuation as of December 31, 2005: CHF 1 511 000 (investments up to now of CHF 8 000 000 less proportional loss of CHF 6 489 000).

Valuation as of December 31, 2004: CHF 1 660 000 (investments of CHF 6 000 000 less proportional loss of CHF 4 340 000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summarized financial statements of Pevion Biotech AG & Polyphor AG

Income statements

	2005 000 CHF	2004 000 CHF
Income	10 318	9 732
Expenses	-18 075	-16 986
Result	-7 757	-7 254

Balance Sheet

	Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Current assets	11 118	14 494
Non-current assets	4 098	4 664
Assets	15 216	19 158
Liabilities	5 579	5 534
Equity	9 637	13 624
Liabilities and equity	15 216	19 158

7. Staff Cost

	2005 000 CHF	2004 000 CHF
Salaries and wages	-42 781	-40 372
Pension expenses	-3 124	-2 350
Other social security expenses	-5 629	-4 993
Share-based payments	-801	-776
Other personnel related costs	-2 940	-2 159
Total staff cost	-55 275	-50 650

8. General Administration and Other Operating Expenses

	2005 000 CHF	2004 000 CHF
Marketing costs	-2 402	-2 157
General administration costs	-5 868	-5 610
Repair and maintenance	-3 779	-3 647
Waste disposal and safety	-2 223	-1 849
Supplies and utilities	-6 602	-5 714
Other costs	-1 911	-2 906
Total general administration and other operating expenses	-22 785	-21 883

9. Financial Income, net

	2005 000 CHF	2004 000 CHF
Financial income		
Interest income	1 276	806
Dividend income	457	716
Gains on sale of securities	3 050	1 667
Other financial income	167	240
Total financial income	4 950	3 429
Financial expense		
Loss on sale of securities	-165	-312
Loss on fair value measurement of derivatives	-347	0
Other financial expenses	-412	-667
Total financial expense	-924	-979
Foreign exchange result, net	1 605	-505
Financial income, net	5 631	1945

10. Income Taxes

	2005 000 CHF	2004 000 CHF
Current taxes	-9 943	-7 757
Deferred taxes	-143	-1 970
Total income taxes	-10 086	-9 727

The following main elements explain the differences between the expected Group tax rate (the weighted average rate is based on the earnings before taxes of each affiliated company) and the effective tax rate:

	2005 %	2004 %
Tax rate reconciliation		
Expected tax rate	22.6	24.4
Effect of income taxed at reduced rates	-1.1	-1.1
Effect of non tax deductible expenditures	0.1	1.1
Recognition of previously unrecognised tax loss carry forwards	-5.1	0.0
Unrecognized tax losses	1.0	1.0
Adjustments from prior periods recognized in the current period	4.0	-2.5
Adjustments of the applicable tax rates	-0.9	0.0
Other items	-0.1	0.7
Effective tax rate	20.5	23.6

The expected tax rate has decreased as a consequence of higher profits in countries with lower tax rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Earnings per Share

Basic earnings per share are calculated by dividing net income by the weighted average number of outstanding shares during the reporting period minus the average number of own shares held by the Group.

	2005	2004*
Net income (000 CHF)	39 232	30 710
Weighted average number of ordinary shares outstanding	13 183 554	13 204 587
Basic earnings per share (CHF)	2.98	2.33

*restated, see notes 6 and 23

Diluted earnings per share are calculated by adjusting the average number of outstanding shares under the assumption that all obligations of the Group that could result in a dilution would be fulfilled.

	2005	2004*
Net income (000 CHF)	39 232	30 710
Weighted average number of ordinary shares outstanding	13 183 554	13 204 587
Adjustment for dilutive share options	685	498
Weighted average number of ordinary shares for diluted earnings per share	13 184 239	13 205 085
Diluted earnings per share (CHF)	2.98	2.33

*restated, see notes 6 and 23

12 100 options (2004:16 500) were excluded from the calculation of diluted earnings per share as they were not dilutive.

12. Cash and Cash Equivalents

	Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Cash and bank balances		
– CHF	26 626	55 514
– USD	11 060	7 350
– EUR	3 160	3 601
– GBP	740	557
– Other currencies	0	1
Total cash and bank balances	41 585	67 022
Short-term deposits		
– CHF	34 000	20 000
– USD	141	3 413
– EUR	157	2 245
– GBP	468	601
Total short-term deposits	34 766	26 259
Total cash and cash equivalents	76 351	93 281

The weighted average interest rate of cash and cash equivalents was between 1% and 4% per year, depending on the currency.

13. Marketable Securities and Other Financial Assets

		Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Available for sale			
Shares	Fair value	28 636	24 831
Structured products	Fair value	9 045	4 748
	Contract value	10 000	5 000
Bonds	Fair value	9 494	10 859
Total available for sale		47 175	40 438
At fair value through profit or loss			
Derivatives	Fair value	510	304
	Contract value	0	1 383
Total at fair value through profit or loss		510	304
Total marketable securities		47 685	40 742

The position contains assets of marketable, easily realizable securities. The fair value complies with the stock exchange prices at the end of the year.

The position other financial assets contains a CHF 10 000 000 short-term deposit with a duration of more than 3 months.

14. Trade and Other Receivables

		Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Trade receivables		28 849	20 819
Impairment		-714	-686
Total trade receivables		28 135	20 133
Prepaid expenses and accrued income		4 456	3 423
Other receivables		1 525	1 658
Total other receivables		5 981	5 081
Total trade and other receivables		34 116	25 214

The fair value of trade and other receivables complies with the book value. As a result of the high sales in the 4th quarter 2005 trade receivables rose above-average per 31.12.2005. There are considerable receivables with two customers which equal 26.2% and 14.4% of total trade receivables. In 2004 there were also considerable receivables with two customers which came up to 14.2% and 11.7%. The remaining single receivables did not exceed 10% of the total trade receivables.

The recognized impairment of the period accounts for CHF 87 000 (2004: CHF 37 000).

The other receivables include non operating receivables of third parties, loans to employees and other loans with a duration of less than 12 month, prepayments for not yet received goods and services and income, which will not be realised until the following year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Inventories

	Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Raw material	12 879	9 570
Work in progress and finished products	61 415	52 043
Total inventories	74 294	61 613

The high increase of the inventories is allocated to both categories. The increase in raw material and work in progress refers to projects, which will be sales generating in 2006. The inventory of several important products was increased to improve supply readiness for peptide and non-peptide generics.

Within the clean-up of inventories CHF 200 000 was written-off in 2005. In 2004 no write-offs were necessary. In 2005 and as well in 2004 no write-offs were reversed.

16. Post Employment Benefits

Post employment benefits are based on the regulations and circumstances in each country where Bachem is represented. In countries with defined contribution plans, the related costs in 2005 amounted to CHF 980 000 and CHF 623 000 in 2004.

In Switzerland Bachem AG and Sochinaz AG are members of so called "BVG multi-employer plan". These funds are considered defined benefit plans. The defined benefit obligations are estimated on a yearly basis. An independent actuary calculates the estimated obligations at least every two years. The last actuarial calculation was made in 2005. The following is a summary of these defined benefit plans at December 31, 2005 and 2004:

Proof of net asset in the balance sheet:	Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Fair value of plan assets	39 889	30 651
Defined benefit obligations	-46 027	-34 773
Funded status	-6 138	-4 122
Unrecognized actuarial loss	6 659	4 652
Net asset in the balance sheet	521	530

Annual cost for pension funds:	2005 000 CHF	2004 000 CHF
Current service cost	3 306	2 952
Interest cost	1 428	1 140
Expected return on plan assets	-1 226	-1 065
Employee contributions	-1 511	-1 427
Recognized actuarial loss	147	127
Annual cost for pension funds	2 144	1 727

Movement of the net asset in the balance sheet:	2005 000 CHF	2004 000 CHF
Net asset in the balance sheet at January 1	530	213
Annual cost for pension fund	-2 144	-1 727
Employer contributions	2 135	2 044
Net asset in the balance sheet at December 31	521	530

Composition of the net asset in the balance sheet:	Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Defined benefit plan asset	521	530
Net asset in the balance sheet	521	530

The annual cost for pension funds are included in the position staff cost in the income statement.

The actual return on plan assets for 2005 was CHF 2 220 000. In the previous year the actual return on plan assets was CHF 1 493 000.

The pension funds do not hold any shares or other equity instruments of the Bachem Group.

The following assumptions are underlying the actuarial calculations:	2005	2004
Discount rate	3.00%	3.75%
Expected return on plan assets	4.00%	4.00%
Expected future salary increase	2.00%	1.50%
Expected annuity revaluation	0.50%	1.00%
Retirement age (f/m)	64/65	64/65

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Deferred Taxes

The changes of the deferred taxes were as follows:

Deferred tax assets	Receivables 000 CHF	Inventories 000 CHF	Liabilities 000 CHF	Tax loss carry- forwards 000 CHF	Total 000 CHF
Asset on January 1, 2004	10	543	817	0	1 370
Recognized in profit and loss	6	409	6	0	421
Translation effects	0	-64	-73	0	-137
Asset on December 31, 2004	16	888	750	0	1 654
Recognized in profit and loss	-3	-333	-377	2 538	1 825
Translation effects	3	117	108	28	256
Asset on December 31, 2005	16	672	481	2 566	3 735

Deferred tax liabilities	Securities 000 CHF	Receivables 000 CHF	Inventories 000 CHF	Fixed assets 000 CHF	Intangible assets 000 CHF	Liabilities 000 CHF	Total 000 CHF
Liability on January 1, 2004	112	302	6 825	8 212	180	1 681	17 312
Recognized in profit and loss	-4	-60	1 120	1 534	43	-161	2 472
Recognized in equity	-22	0	0	-0	0	0	-22
Translation effects	0	0	-72	-83	0	68	-87
Liability on December 31, 2004	86	242	7 873	9 663	223	1 588	19 675
Recognized in profit and loss	-120	101	891	1 442	34	-379	1 968
Recognized in equity	553	0	0	0	0	0	553
Translation effects	3	-2	0	105	0	1	107
Liability on December 31, 2005	522	341	8 764	11 209	257	1 210	22 303

Tax loss carry-forwards by expiry date:	Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Up to five years	62	46
More than five years	7 549	4 133
Total tax loss carry-forwards	7 611	4 179

In the period under review tax loss carry-forwards of USD 1 951 000 respectively CHF 2 566 000 were recognized which led to a deferred tax income. Deferred taxes were capitalized on the total tax loss carry-forwards, because the company assumed probable future taxable profit to be available and the loss carry-forwards to be utilized. As a consequence there are no tax loss carry-forwards at December 31, 2005, on which no deferred tax assets were recognized (December 31, 2004: CHF 4 179 000).

At December 31, 2005 there were temporary differences on investments in subsidiaries of CHF 73 349 000 on which no deferred taxes were recognized.

18. Other Current Liabilities

	Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Deferred income and accrued expenses	4 319	3 586
Other current liabilities	638	364
Total other current liabilities	4 957	3 950

19. Provisions

	2005 000 CHF	2004 000 CHF
At January 1	1 045	1 396
Additions	19	1 119
Reversals	0	-721
Utilisation	-908	-647
Translation effects	87	-102
At December 31	243	1 045
Current portion	243	909

The provisions at December 31, 2005 exclusively relate to restructuring provisions for Peninsula Laboratories Inc. The restructuring will be completed in 2006.

20. Share Capital

The share capital is divided into 6 802 000 shares Bachem -A- (50.01% of share capital) and 6 798 000 shares Bachem -B- (49.99% of share capital). The shares -B- are traded at the Swiss Exchange (SWX) under valor number 1 253 020. All shares are nominal shares. There are no differences between the two share categories except the listing of the -B- shares at the Swiss Exchange (SWX). All -A- shares are owned by Ingro Finanz AG.

Shares Bachem -A-	Dec. 31, 2005	Dec. 31, 2004
Number of shares	6 802 000	6 802 000
Number of fully paid-in shares	6 802 000	6 802 000
Par value per share (in CHF)	0.05	0.05
Shares Bachem -B-		
Number of shares	6 798 000	6 798 000
Number of fully paid-in shares	6 798 000	6 798 000
Par value per share (in CHF)	0.05	0.05
Total number of shares	13 600 000	13 600 000
Total share capital (in CHF)	680 000	680 000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On December 31, 2005 Bachem Holding AG held 421 669 own shares, of which 239 092 are reserved for trading and 182 577 for distribution under the Employee participation plans.

Own shares	Dec. 31, 2004 (number)	Purchases/ backslide of blocked shares (number)	Sales/transfer to employees (number)	Dec. 31, 2005 (number)
Employee participation scheme at the price of CHF 1.22	98 637	900	-16 960	82 577
Option plan at the price of CHF 0.05	100 000	0	0	100 000
Treasury stock at the price of CHF 66.19	227 652	41 460	-30 020	239 092
Total own shares	426 289	42 360	-46 980	421 669

Outstanding shares	Dec. 31, 2005	Dec. 31, 2004
Total number of shares	13 600 000	13 600 000
Number of own shares Bachem -B-	-421 669	-426 289
Total shares outstanding	13 178 331	13 173 711

21. Contingent Liabilities and Other Commitments

Bachem is committed to take a stake of another CHF 2 000 000 in Pevion Biotech AG.

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

There were no material contingencies at December 31, 2004.

22. Consolidated Companies

Company	Country	Equity share * 2005	Equity share * 2004
Bachem Holding AG, Bubendorf	Switzerland	Parent company	Parent company
Bachem AG, Bubendorf	Switzerland	100%	100%
Bachem Trading 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%

* directly oder indirectly

23. Share-based Payment

The following employee participation plans exist:

Employee participation scheme

Employees of the Bachem Group are entitled to free shares without vesting period after each three full years of service. The number available is dependent on the operational function and is between 20 and 200 shares. The shares are freely disposable and are recognized over this three-year period as staff costs.

Corporate Management receives 100 free shares within the same scheme after each full year of service. These shares are recognized as staff costs in the year of granting.

Management share plan

Certain key management employees receive free shares at the time of their employment or promotion. These shares are blocked for five years. The shares are recognized as staff costs over the vesting period at the share price applicable at grant date.

Management share option plan

Certain key management employees of Bachem also receive free options. The number of options is dependent on the function and is between 150 and 500 options. The options have a term of three to five years and are blocked for one to three years. One option entitles to obtain one share of Bachem Holding AG. The value of the options is the fair value at grant

date and is determined using well-established valuation methods. The service for share options is recognized as staff costs over the vesting period. Bachem holds its own shares to meet the requirements of its share and option plans.

The necessary changes in accounting policies with the first time adoption of IFRS 2 were made in accordance with the transitional provisions.

IFRS requires an entity to reflect in its profit or loss and financial positions the effects of share-based payment transactions granted to employees or other parties and shall measure the fair value of the equity instruments granted at grant date. The expense for blocked equity instruments is recorded over the vesting period. So far these payments have been recorded at book value. This results in a difference between book value and fair value at grant date. In accordance with the transitional provisions this difference will be debited to retained earnings and credited to share premium retrospectively for allocations after November 7, 2002. As from January 1, 2005 and January 1, 2004 respectively the personnel expenses contain the fair value of share-based payments at grant date.

The adjustments for the years 2002/2003 and the opening balance as per January 1, 2004 is CHF 602 000. The adjustment for the personnel expenses in 2004 is CHF 776 000. As a result, the adjustment for the opening balance 2005 is 1 378 000. The share-based payments of 2005 are CHF 801 000.

Effect on Earnings per Share (EPS) resulting from this restatement:

	2004
Basic earnings per share (CHF)	-0.06
Diluted earnings per share (CHF)	-0.06

Number of granted shares in 2005 and 2004:

Year	2005 number / CHF	2004 number / CHF
Number of granted shares	16 960	11 880
Average fair value per share at grant date	70.85	63.72

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

No options were granted in 2005 due to an amendment of the option plan. The options will no longer be granted at year end but at January 1 of the following year.

Development of the option scheme:

Share options outstanding	2005 number	2004 number
At January 1	21 500	20 200
Granted options	0	1 300
Cancelled options	-2 400	0
Expired options	-2 800	0
Exercised options	0	0
At December 31	16 300	21 500
Exercisable options	3 700	2 900

The vesting dates of outstanding options are as follows:

Options by expiry date	Exercise price	2005 number	2004 number
Year 2004	80.00	0	2 900
Year 2005	80.00	3 700	4 200
Year 2006	80.00	4 700	5 200
Year 2007	80.00	3 700	4 200
Year 2008	60.30	3 500	3 900
Year 2009	65.33	700	1 100
Total		16 300	21 500

The options expire one year after they become exercisable. The Group holds own shares in order to meet its obligations under the employee 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 the number of Bachem shares outstanding, please refer to Note 20.

24. Related Party Transactions

Pevion Biotech AG, Polyphor AG, the pension fund of the Swiss subsidiaries, and the Board of Directors and Corporate Management of Bachem Holding AG are considered as related parties. The following charts contain an overview of the transactions and assets with related parties.

Transactions	2005 000 CHF	2004 000 CHF
Pevion Biotech AG (delivery of goods)	244	214
Polyphor AG (delivery of goods)	65	38
Pension fund (contribution)	-2 135	-2 044
Total transactions with related parties	-1 826	-1 792

Balances	Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Pevion Biotech AG	0	0
Polyphor AG	7	2
Pension fund	0	0
Total balances with related parties	7	2

Transactions with related parties are performed at arms length. This means in particular that products are sold to related parties at the same prices as to third parties.

Overview of the compensations to the Board of Directors and Corporate Management:

2005	Salaries, fees 000 CHF	Social expenses 000 CHF	Share-based payments 000 CHF	Total 000 CHF
Board of Directors	281	43	104	428
Corporate Management	836	147	188	1 171
Total	1 117	190	292	1 599

2004	Salaries, fees 000 CHF	Social expenses 000 CHF	Share-based payments 000 CHF	Total 000 CHF
Board of Directors	298	45	114	457
Corporate Management	805	141	46	992
Total	1 103	186	160	1 449

25. Dividend Payment

In 2004 a dividend of CHF 15 850 000 respectively CHF 1.20 per share has been distributed (2003: CHF 14 575 000 respectively CHF 1.10 per share).

The Board of Directors will propose a dividend of CHF 1.50 per share, or a total of CHF 19 781 000 on 13 187 221 shares entitled to dividend, to the Annual General Meeting for the year 2005. The number of shares entitled to dividend may change until the Annual General Meeting on May 10, 2006, due to the granting of shares to employees or the purchase/sale of own shares.

26. Events after the Balance Sheet Date

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

REPORT OF THE GROUP AUDITORS



Report of the group auditors to the 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 changes in equity and notes / pages 24 to 51) of Bachem Holding AG for the year ended December 31, 2005.

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 Swiss Auditing Standards 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.

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to read 'G. Tritschler'.

G. Tritschler

A handwritten signature in blue ink, appearing to read 'D. Baumann'.

D. Baumann

Basel, March 14, 2006

FINANCIAL STATEMENTS OF BACHEM HOLDING AG

Income Statements 2005 and 2004

	2005 000 CHF	2004 000 CHF
Income from licenses	10 029	9 585
Total operating income	10 029	9 585
Staff cost	-1 961	-1 965
Depreciation and amortization	-3 346	-5 045
Other operating expenses	-3 140	-2 826
Operating result before interest and taxes	1 582	-251
Financial income	19 495	33 714
Financial expense	-575	-1 409
Foreign exchange gains	1 419	1 205
Foreign exchange losses	-720	-1 270
Income before taxes	21 201	31 989
Taxes	-1 182	-765
Net income	20 019	31 224

FINANCIAL STATEMENTS OF BACHEM HOLDING AG

Balance Sheet at December 31, 2005 and 2004

	Dec. 31, 2005 000 CHF	Dec. 31, 2004 000 CHF
Assets		
Cash and cash equivalents	33 978	43 307
Marketable securities	57 474	54 202
Other receivables, third parties	1 187	1 266
Other receivables, intercompany	12 854	12 201
Prepaid expenses and accrued income	431	168
Total current assets	105 924	111 144
Investments	122 916	124 237
Loans to associated companies	20 044	9 431
Tangible fixed assets	49	9
Intangible assets	210	79
Total non-current assets	143 219	133 756
Total assets	249 143	244 900
Liabilities and Equity		
Other short-term liabilities, third parties	106	75
Other short-term liabilities, intercompany	3 264	4 101
Deferred income and accrued expenses	1 382	503
Total liabilities	4 752	4 679
Share capital	680	680
Legal reserves		
General reserves	89 897	89 897
Reserves for own shares	15 930	14 814
Free reserves	117 659	97 775
Retained earnings	20 225	37 055
Total equity	244 391	240 221
Total liabilities and equity	249 143	244 900

NOTES TO THE FINANCIAL STATEMENTS OF BACHEM HOLDING AG

1. Significant Investments

Company	Location	Branch		Share capital Dec. 31, 2005	Share capital Dec. 31, 2004
Bachem AG	Bubendorf, CH	Production, sales	CHF	25 000 000	25 000 000
Bachem Trading AG	Bubendorf, CH	Sales	CHF	100 000	100 000
Bachem Biochimie SARL (inactive)	Mulhouse, F	Sales	EUR	75 000	75 000
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 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	5 000 000	4 000 000
Polyphor AG	Allschwil, CH	Production, sales	CHF	4 129 200	3 815 000

With the exception of Pevion Biotech AG (held at 50%) and Polyphor AG (held at 26.2%) all companies are controlled with 100% of the voting rights.

2. Own Shares

On December 31, 2005 Bachem Holding AG held 421 669 own shares, thereof 239 092 are reserved for trading and 182 777 are reserved for distribution under the employee participation plans.

Transactions of own shares:

	Dec. 31, 2004 (number)	Purchases/backslide of blocked shares (number)	Sales/transfer to employees (number)	Dec. 31, 2005 (number)
Employee participation scheme at the price of CHF 1.22	98 637	900	-16 960	82 577
Option plan at the price of CHF 0.05	100 000	0	0	100 000
Treasury stock at the price of CHF 66.19	227 652	41 460	-30 020	239 092
Total	426 289	42 360	-46 980	421 669

3. Important Shareholders

Based on the available information the following shareholders own more than 5% of the registered share capital:

	Percentage of total share capital Dec. 31, 2005	Percentage of total share capital Dec. 31, 2004
P. Grogg (via Ingro Finanz AG)*	50.8	50.8
G. Knoch	8.6	8.6
Family of P. Grogg	6.0	6.0

* in this position all shares -A- are included

4. Value Added Tax Group

For value added tax purposes Bachem Holding AG reports as a group to the Federal Tax Authorities. This group includes Bachem AG, Bachem Trading AG, Sochinaz SA and Bachem Holding AG. The entity is solidly liable for all taxes relating to value added tax inclusive interests and possible penalties, during the taxation as a group.

APPROPRIATION OF AVAILABLE EARNINGS

Proposal of the Board of Directors for the Appropriation of the Available Earnings

The Board of Directors of Bachem Holding AG proposes to appropriate the available earnings

Net income	CHF	20 018 970.48
Retained earnings at January 1	CHF	206 081.89
Available for the Annual General Meeting	CHF	20 225 052.37

as follows:

Payment of a dividend of CHF 1.50 per registered share of the business year 2005 on 13 187 221 registered shares entitled to a dividend	CHF	19 780 831.50
Retained earnings to be carried forward	CHF	444 220.87

The total amount of dividend mentioned in the proposal of the Board of Directors 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 10, 2006 depending on the distribution of shares to employees or purchase/sales of own shares. Dividends paid last year totalled CHF 15 849 517.

REPORT OF THE STATUTORY AUDITORS



Report of the statutory auditors to the 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 53 to 55) of Bachem Holding AG for the year ended December 31, 2005.

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 Swiss Auditing Standards, 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.

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to read 'G. Tritschler'.

G. Tritschler

A handwritten signature in blue ink, appearing to read 'D. Baumann'.

D. Baumann

Basel, March 14, 2006

SHAREHOLDER INFORMATION

		2005	2004	2003	2002	2001	
Registered shares, nom. CHF 0.05		13 600 000	13 600 000	13 600 000	13 600 000	13 600 000	
Average number of outstanding shares		13 183 554	13 204 587	13 249 707	13 324 757	13 347 000	
Dividend per share	CHF	1.50 ¹	1.20	1.10	1.00 ²	0.75	
Share price	beginning of the year	CHF	66.00	64.90	62.40	97.00	140.00
	high	CHF	78.00	74.95	75.00	105	145
	low	CHF	65.75	63.50	50.10	59	58
	year end	CHF	75.50	65.45	63.45	65	95
Dividend yield per share	CHF	2.0%	1.8%	1.7%	1.5% ²	0.8%	
Group income per share	CHF	2.98	2.45	2.82	2.51	2.82	
Net cash flow from operating activities per share	CHF	2.08	3.77	2.68	2.83	2.35	
Group equity per share	CHF	28.08	25.53	24.46	23.32	22.79	
Price/earning ratio (year end)		25.34	26.71	22.50	25.90	33.69	
Market capitalization at year end	CHF m	1 027	890	863	884	1 292	

¹ proposal to the Annual General Meeting of May 10, 2006

² including nominal value reduction of CHF 0.45 per share

Bachem registered shares are traded at the Swiss Exchange (SWX). Valor number: 1 253 020

SWX: BANB

Reuters: BAMZn

The shares of 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.

Distribution of shares

Number of shares per shareholder	Number of shareholders Dec. 31, 2005	Number of shareholders Dec. 31, 2004
0-100	1 265	1 440
101-1 000	1 690	1 887
1 001-10 000	246	247
10 001-100 000	45	46
100 001-1 000 000	5	5
1 000 001 and more	2	2
Total shareholders	3 253	3 627

Shareholdings in %	Dec. 31, 2005	Dec. 31, 2004
Major shareholders	65.4%	65.4%
Institutional shareholders	11.3%	13.1%
Private individuals	14.3%	12.3%
Others	1.1%	0.6%
Dispo	7.9%	8.6%

FINANCIAL CALENDAR 2006/2007

Annual General Meeting (business year 2005)	May 10, 2006
Payout date for dividend	May 16, 2006
Half year results 2005	August 2006
Full year sales 2006	January 2007
Full year results 2006	April 2007
Annual General Meeting (business year 2006)	May 9, 2007

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Bachem. Leading beyond Peptides

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 575 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.

