

BACHEM ANNUAL REPORT 2019

**TOGETHER
WE LEAD**

WE LEAD
TOGETHER

BACHEM

Bachem is a listed technology-based company focused on peptide chemistry. The company provides a full range of services to the pharma and biotech industries. It specializes in the development of innovative, efficient manufacturing processes and the reliable production of peptide-based active pharmaceutical ingredients. A comprehensive catalog of biochemicals and exclusive custom syntheses for research labs complete the service portfolio. Headquartered in Switzerland with subsidiaries in Europe, the US and Asia, the group has a global reach with more experience and know-how than any other company in the industry. Towards its customers, Bachem shows total commitment to quality, innovation and partnership. **Bachem. Pioneering Partner for Peptides**

TOGETHER WE LEAD

Bachem's leadership claim is based on an experienced team of experts and the uniform vision of shared achievement, building new things together, creating partnership-based values, and becoming even more successful through networking. Inspired by the ambition of unlocking all possible potential, partnership-based relationships are cultivated with all stakeholder groups. In this way, goals are achieved together that would be inconceivable for the individual alone. "Together we lead"

BACHEM SPRING SYMPOSIUM

Bachem's traditional Spring Symposium under the headline "Antimicrobial Peptides: Resistance is Futile" took place in the Hotel Victoria in Basel on April 4, 2019. Page 14

INTERVIEW DR. GÜNTHER LOIDL

Innovative strength has been a cornerstone of Bachem's business success since the founding nearly 50 years ago. Page 37

TOGETHER WE LEAD

Setting the course together, pursuing the goal with passion and drive, creating unique outcomes... Page 27

BROADENED PRODUCT PORTFOLIO

The product portfolio for both the Torrance and Vista sites in California has been broadened by effectively capturing new projects. Page 38

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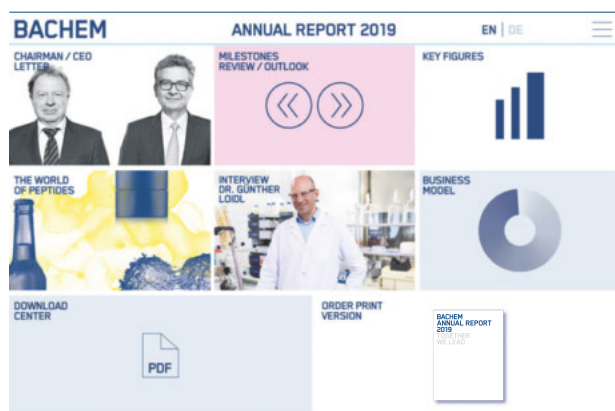
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THE WORLD OF PEPTIDES

WHAT ARE PEPTIDES?

Peptides are chains of 2 to about 100 amino acids. Longer chains are called proteins. Peptides are organic compounds made up of natural amino acids in living organisms. Originally isolated from biological sources, they are synthesized chemically today. The biological properties of peptides depend on the number of amino acids involved and their position in the chain. The 20 natural α -amino acids are sufficient to form the basis for an unimaginably large number of peptides, each with their own distinctive physical, chemical and biological properties.

WHAT ARE PEPTIDES USED FOR?

Peptides are mainly used as highly active and highly specific drug substances. In keeping with the diversity of their biological functions, they are used in an extensive range of therapeutic areas. Oncology, diabetes and obesity are three prominent examples

of therapeutic areas in which peptides generate billions of dollars in revenues. Peptides are much in demand in the treatment of cardiovascular and neurodegenerative diseases, renal failure, as antibiotics, in vaccines and in drugs for rare diseases (orphan drugs).

AVAILABLE DOSAGE FORMS

Peptides taken orally would undergo rapid breakdown in the digestive system and would therefore be unlikely to reach their target organs. Peptide-based drugs are usually administered by the parenteral route for that reason. In addition to conventional injections, implants with durations of action ranging from a matter of days to months and nasally delivered drugs are increasingly becoming available. Research and development activities are ongoing on sublingual and transdermal dosage forms and drug delivery using nanoparticles for transport.

COSMETICS

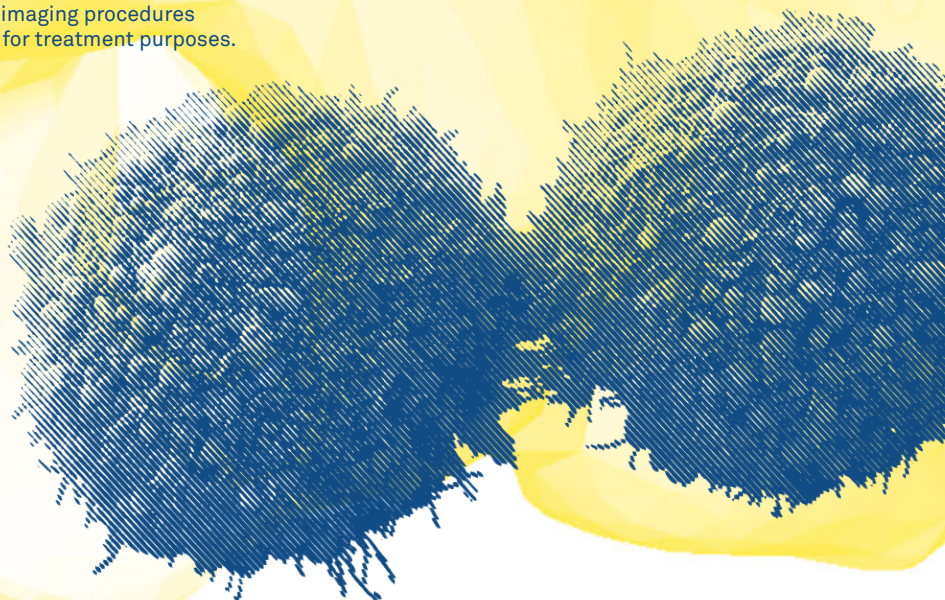
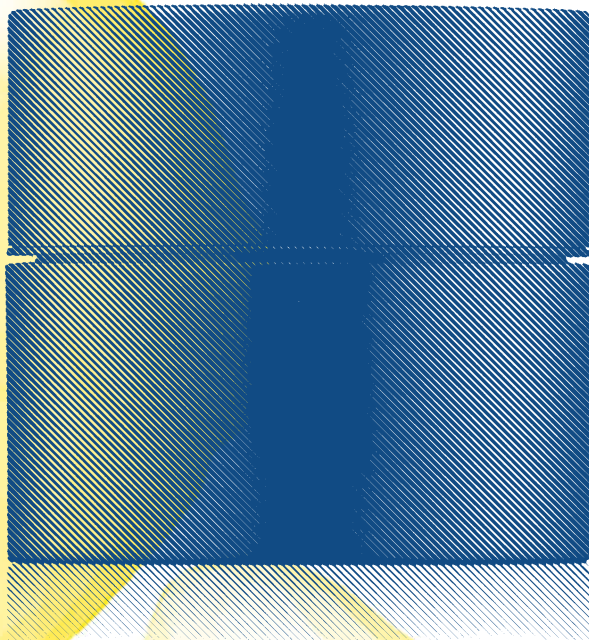
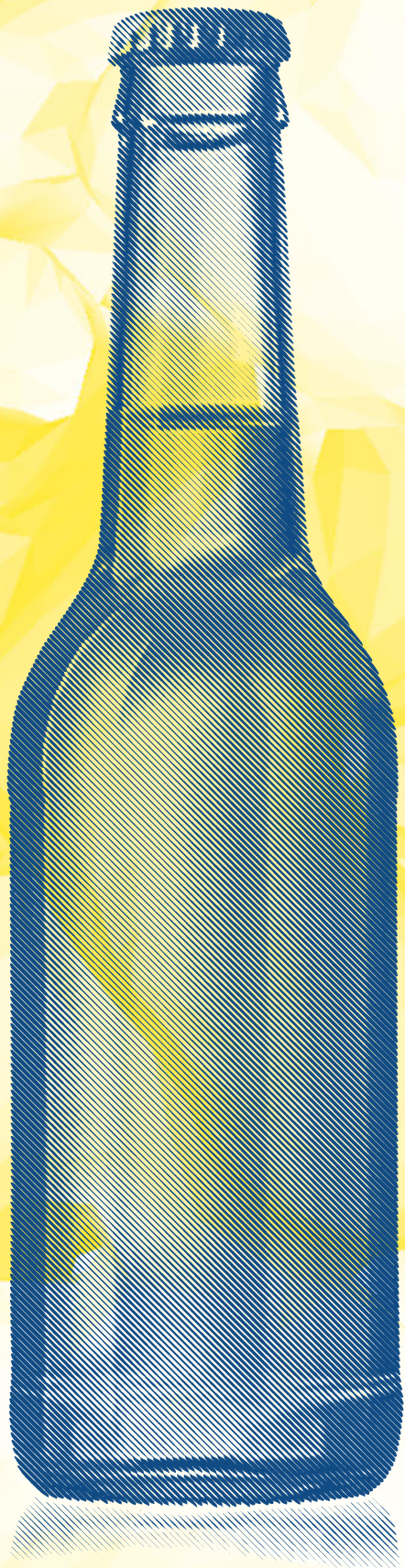
Peptide-based agents are used in top-end personal care products, for example as ingredients in anti-aging products that promise to reduce wrinkles.

NUTRITION PRODUCTS

The artificial sweetener aspartame is a dipeptide that is 200 times sweeter than table sugar. It is an important agent in diabetology.

CANCER THERAPIES

Peptides are useful in oncology both in diagnostic imaging procedures and for treatment purposes.



LETTER TO SHAREHOLDERS

Dear Shareholders,


As the “Pioneering Partner for Peptides,” Bachem is the clear market leader in the field of peptides. Our aim is to hold and expand this position through top quality and innovation. In a constantly challenging market and competitive environment, Bachem again achieved its sales and profit growth targets in fiscal year 2019. We systematically invested in future growth and created new jobs at all of our locations worldwide.

Sales growth for the year as a whole was 11.0%. Sales of active pharmaceutical ingredients (APIs) continued to develop encouragingly. This product category consists of new chemical entities (NCEs) and generics and saw growth of roughly 10%. In 2019 Bachem again succeeded in significantly increasing operating profit, which gained 13.8% over the previous year. The EBIT margin reached 19.9%. Bolstered by the one-time effect of the Swiss tax reform, net profit rose by 16.1% despite negative currency effects.

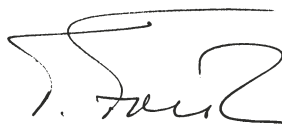
As a worthwhile complement to the core peptides business, Bachem achieved initial success in the newly entered field of oligonucleotide APIs in 2019 – an area we first entered the year before. We are confident that in the coming years we will be able to build an oligonucleotide project portfolio on a par with the peptide pipeline, thus creating a second pillar for the Bachem Group in the medium term.

Based on the company’s strong market positioning and increasing demand, the Board of Directors and the Corporate Executive Committee are expecting Bachem to break through the 500 million CHF sales barrier over the next four to five years. Priority will continue to be given to profit growth over sales growth. We are striving to achieve a sustainable EBITDA margin of 30% by 2021. We intend to further improve earnings, not least thanks to efficiency enhancements through implementation of new digitalization and automation projects. In order to facilitate the targeted growth, we will be investing some 300 million CHF in our various locations over the next five years, of which more than half will be channeled into further capacity expansion, and will create additional jobs.

Based on the results we have achieved, our continuing good prospects and financial stability, the Board of Directors will propose at the Annual General Meeting that the dividend be raised from 2.75 CHF to 3.00 CHF per share.



Dr. Kuno Sommer
Chairman of the
Board of Directors



Dr. Thomas Fröh
CEO and Chairman of the
Corporate Executive Committee



Dr. Kuno Sommer



Dr. Thomas Früh

CORPORATE EXECUTIVE COMMITTEE



**Dr. Thomas Früh,
Chief Executive Officer (CEO)**

«The increase in demand for peptides is set to continue. Thanks to a strong team of highly-qualified and motivated employees, we are ideally equipped to tackle the challenges that lie ahead.»

**Stephan Schindler,
Chief Financial Officer (CFO)**

«Retaining our leadership position also means exploiting existing and new potential with passion, constantly seeking to improve, and – thanks to team-based partnerships – delivering successes that would be unattainable by any single individual.»





Thomas Meier,
Chief Operations Officer (COO)

«Our business is developing in an outstanding way because we have clear and ambitious targets, and because we pursue and successfully implement these together as a team.»

Dr. Anne-Kathrin Stoller,
Chief Marketing Officer (CMO)

«Enabling our customers to bring new innovative treatments to patients, is the motivation that drives us every day.»

Dr. Günther Loidl,
Chief Technology Officer (CTO)

«We advocate innovation and continually improve ourselves in all areas of the company. This is how we cement our technology leadership and guarantee our ability to offer customers the best solutions.»



2019 IN BRIEF

EBIT
(IN MCHF)

62.4

Operating result (EBIT) increased by 13.8% in CHF

NET INCOME

+16.1%

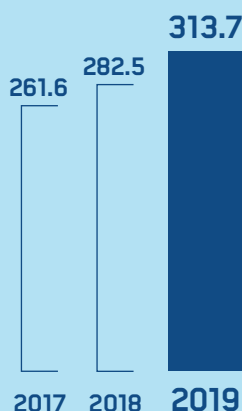
Significant increase in net income to 54.2 million CHF

OPERATING CASH FLOW
(IN MCHF)

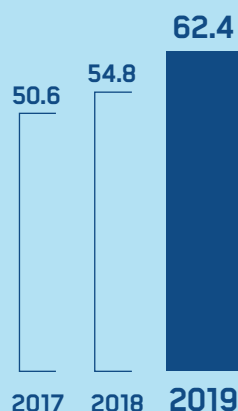
64.3

Cash flow from operating activities more than doubled

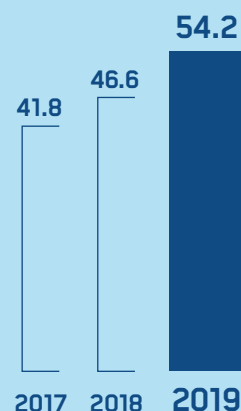
SALES
(IN MCHF)



EBIT
(IN MCHF)



NET INCOME
(IN MCHF)



	2019	2018	CHANGES IN %	
			CHF	LC
SALES (IN MCHF)	313.7	282.5	+11.0	+10.8
EBITDA (IN MCHF)	87.2	77.9	+12.0	+12.3
EBITDA IN % OF SALES	27.8	27.6		
EBIT (IN MCHF)	62.4	54.8	+13.8	+14.3
EBIT IN % OF SALES	19.9	19.4		
NET INCOME (IN MCHF)	54.2	46.6	+16.1	
NET INCOME IN % OF SALES	17.3	16.5		
EARNINGS PER SHARE (EPS – IN CHF)	3.91	3.43	+14.0	
CASH FLOW FROM OPERATING ACTIVITIES (IN MCHF)	64.3	25.8	+149.3	
RETURN ON EQUITY (IN %)	13.0	12.3		
NUMBER OF EMPLOYEES (IN FULL-TIME EQUIVALENTS)	1 209	1 097		
SALES PER EMPLOYEE ¹ (IN CHF)	282 000	271 000		

¹ Basis: average full-time equivalents excluding apprentices.

SETTING NEW RECORDS

Following a strong first half of 2019, Bachem had already laid solid foundations for a very successful full fiscal year. With its record second semester, the company exceeded the prior year results by a significant margin. Profitability recorded a disproportionate increase, while EBIT and net profit both rose substantially. In addition to the strong increase in operating cash flow, the exceptionally successful reporting year saw a capital increase to bolster the balance sheet and a 36% rise in the share price – all of which resulted in the company setting new records.

RECORD SALES

In the second half of the year, the Group surpassed the record sales figure of the prior year period by some 8 million CHF. At 179.2 million CHF, Bachem set a new benchmark for sales in a single semester, increasing sales for the year as a whole for the ninth successive year to a new record level of 313.7 million CHF. Compared to the previous year's figure, this represents an increase of 31.2 million CHF or 11.0%.

INCREASED PROFITABILITY

Bachem's operating profit (EBIT) rose by 13.8% to 62.4 million CHF during the period under review. Moreover, Bachem reported an EBIT margin of 19.9% (previous year: 19.4%). Operating profit before depreciation and amortization (EBITDA) amounted to 87.2 million CHF (previous year: 77.9 million CHF). This corresponds to an EBITDA margin of 27.8% (previous year: 27.6%).

INCREASED NET INCOME

With net income of 54.2 million CHF, the company easily surpassed the previous year's result by 7.5 million CHF (+16.1%), despite the negative foreign currency impact.

NEW JOBS

Bachem's strong business performance and very high capacity utilization enabled the company to create a total of 117 new jobs by the end of 2019. As of December 31, 2019, the Bachem Group employed a total of 1,257 people in 1,209 full-time equivalent positions.

HIGHER DIVIDEND

The Board of Directors will propose an increased dividend of 3.00 CHF per share at the Annual General Meeting in April 2020 (previous year: 2.75 CHF). Half of the distribution will come from capital contribution reserves.



RECORD YEAR POINTS TO INCREASING GROWTH DYNAMICS

SUCCESSFUL CAPITAL INCREASE

Bachem successfully carried out a capital increase during the first half of 2019, issuing 400 000 new shares at an issue price of 120.00 CHF each. The subscription ratio amounted to 34:1, i.e. 34 existing shares or subscription rights gave the holder the right to acquire one new share during the subscription period against payment of the subscription price. Although the issue price was higher than the stock market price when the capital increase was announced, the take-up ratio of existing shareholders nonetheless amounted to some 85%. Major shareholder Dr. h.c. Peter Grogg and Ingro Finanz AG also participated fully in the capital increase. Thanks to this issuance of new shares, Bachem Holding AG raised the gross sum of 48 million CHF, which was wholly channeled into financing the company's growth strategy and further strengthening the balance sheet structure.

LIGHTNING START FOR OLIGONUCLEOTIDES

Based on promising market analyses and specific customer inquiries, Bachem started to position herself as a supplier for the development and production of oligonucleotides as drug substances. It quickly became apparent that both demand and interest for the new offering were even greater

than originally anticipated. Bachem got off to what can only be described as a lightning start to its entry into this market segment. The new team of specialists had barely become operationally ready and the necessary certification had only just been obtained for the additionally required equipment when the first customer orders were ripe for execution. Assuming this momentum persists, management is expecting rapid expansion of its market share and an increasing sales contribution.

NORTH AMERICA EXHIBITS STRONG GROWTH

In North America, sales recorded growth of around 30% in 2019, following on from growth of almost 37% the previous year. This region increased sales by some 36 million CHF in 2019, achieving a new annual sales record of more than 155 million CHF. The main reason for these extremely pleasing

sales figures was once again the very good development of key NCE and generics projects. Bachem was able to successfully support a number of different products simultaneously in their submission or approval. This was particularly true of generics, which were successfully brought to market with innovative new dosage forms. In a parallel development, Bachem also increased the sales of existing products.

FOUNDATIONS LAID FOR EXPANSION OF PRODUCTION CAPACITY

In November 2019, the traditional ground-breaking ceremony kicked off the next company expansion project at the Bubendorf site in Switzerland. The building of an extension adjoining the company's largest existing production building will create additional space for capacity expansion. The transfer of production-related but not front-line manufacturing activities to the newbuild will free up additional space in the production building for the new manufacturing facilities needed for the company's further growth. This will have the effect of optimally utilizing the existing infrastructure while at the same time supporting compliance with industrial hygiene regulations. This building project is the first step in the planned development of the site and the significant expansion of production capacity.

155.1 million CHF

record sales
for North America



"TOGETHER WE LEAD" AS FOUNDATION FOR A SUCCESSFUL FUTURE

Given the excellent results and the promising market outlook, Bachem is currently in the midst of a dynamic growth phase. The company is creating new jobs and expanding the capacity on an ongoing basis so that it can seize these growth opportunities. The associated challenges require close coordination between all specialist areas and partnership-based collaboration with all stakeholder groups. The aim is to lead the company into a successful future together.

APPROVALS

Following a number of successful approvals in the reporting period and given the broad project portfolio, the company is anticipating being able to provide successful support to the customers over the next few years too in their submission and market launch of new NCEs and generics. Further approvals could be issued as soon as next year.

OLIGONUCLEOTIDES

The momentum accompanying the company's entry into the oligonucleotide market is promising. The demand for producers of drug substances is much greater than the existing supply. Bachem is anticipating growing interest in oligonucleotide-based drugs and an increasing number of the corresponding development projects. The Group will continue to work on the build-up of its project portfolio, with further investment in the corresponding facilities. Bachem will be offering capacity for the production of commercial drug substance quantities from 2021 onward. In the medium term, the company is seeking to achieve a market position in the "Top 3" of oligonucleotide CDMOs. This new product category is to be expanded to become a parallel mainstay of our business alongside peptides.

CAPACITY EXPANSION

The company is expecting sales in excess of 500 million CHF in four to five years' time. To facilitate this growth, Bachem will be investing around 300 million CHF over the next five years. More than half of this sum will be channeled into capacity expansion.

500
million CHF
sales in
4–5 years

BACHEM SPRING SYMPOSIUM 2019

Bachem's traditional Spring Symposium under the headline "Antimicrobial Peptides: Resistance is Futile" took place in the Hotel Victoria in Basel on April 4, 2019. With the annual Spring Symposium Bachem continues a long tradition of bringing together international scientists and to contribute to the development of peptide based active ingredients.

Dr. Anne-Kathrin Stoller, Chief Marketing Officer at Bachem, welcomed numerous international guests from the industrial as well as from the academic sector and gave the introductory speech. Prof. Dr. Helma Wennemers (ETH Zurich, Switzerland) moderated the event.

Resistances of bacterial strains against classical antibiotics are a growing threat to public health. Scientists all over the world are doing research to overcome this threat. One approach is the use of antimicrobial peptides (AMP). The lectures gave an insight to current research with AMPs, examples for such in development and clinical or preclinical phases and the challenges in GMP manufacture.

One of the challenges with AMPs is that their antimicrobial activity frequently comes along with hemolytic activity. Prof. Dr. Kai Hilpert (St. George's University in London, United Kingdom) is progressing his work by building up peptide screening libraries to find compounds with the first activity but lacking the latter one. He showed that AMPs have modes of action which are different from those of classical antibiotics.

With the lead compound Aspidasept®, Prof. Dr. Klaus Brandenburg (Forschungszentrum Borstel, Germany) described an approach to overcome sepsis as complication after treatment with antibiotics. The release of bacterial toxins after treatment with

antibiotics leads to the release of cytokines in the immune cascade, which again lead to sepsis. The target of Aspidasept® is not killing of bacteria, but the neutralization of the inflammation-inducing bacterial toxins.

In his very enthusiastic talk about their unique mode of action compound OMN6, Dr. Niv Bachnoff (Omnix Medical Ltd., Israel) presented promising results about antimicrobial activity against the multidrug resistant *Acinetobacter baumannii* without cytotoxic, hemolytic or other adverse effects.

Dr. Daniel Knappe (EnBiotix GmbH, Germany) presented linear peptide antibiotics (LPA) as novel highly potent and safe therapeutics with a unique intracellular mode of action. They can freely enter bacteria, bind to ribosomes within the cells and inhibit protein translation. Protein synthesis, crucial for the cell, is inhibited.

Dr. Daniel Obrecht (Polyphor AG, Switzerland) described the mechanism of outer membrane protein targeting antibiotics with Murepavadin as the first member of this class. This compound is in late stage development for the treatment of *Pseudomonas aeruginosa* infections. It is pathogen specific and has a low resistance potential.

It was interesting to see the manufacturing challenges for Murepavadin, described by Dr. Stefan Eissler (Bachem AG, Switzerland), and the way Bachem successfully developed a scalable, safe and commercially viable GMP manufacturing process. Bachem has been able to prove its expertise and the "Pioneering Partner" approach in this project.

The lively questions and answers after each talk have been continued during the aperitif and dinner, which had been offered in Hotel Victoria's top floor dining room with a great view over Basel.



As market leader, Bachem offers peptides – and now also oligonucleotides – globally for a whole spectrum of different applications. Its core focus areas are therapeutic applications and clinical development. In addition to their use in basic research, peptides and oligonucleotides are also widely used in diagnostic and cosmetic applications.

Bachem's world becoming even more multi-faceted

Bachem is expanding its portfolio: In addition to the existing peptide offering, it is now also expanding its capacities in the area of oligonucleotides. Both these molecule classes have been a focus of the world's leading research institutions for many years. Whereas peptides have been an established component in the medications market for decades, oligonucleotides have only recently made the breakthrough as successful therapeutic agents. However, the clinical pipeline for both substance classes would suggest that further exciting new developments and products can be expected in both areas.

Bachem's customers in the field of basic research are mainly universities, institutes, and the research departments of pharma companies. The primary objective in this segment is speed and availability – the new ideas of today should be implemented in the laboratories of tomorrow. With its catalog of products and its online shop in particular, Bachem is ideally positioned to achieve this goal. A substantial proportion of the more than 5 500 products are in stock and can be delivered within one to two days. Every year, Bachem supplements its catalog with new, innovative products emerging from the latest key areas of research.

If, despite this broad portfolio, a product is not included in the catalog, Bachem can rapidly offer this as a custom synthesis option. Every year, Bachem's site in the UK produces several hundred peptides by custom synthesis. Short delivery times and competitive prices are important factors here too. There are many competitors in the field of non-GMP (GMP = Good Manufacturing Practice) custom synthesis, including increasingly from Asia. Even some universities offer custom synthesis services. In this competitive market environment, Bachem focuses on technically sophisticated high-quality products such as diagnostic and cosmetic peptides.

Active ingredients in drugs constitute the largest area of application at Bachem. As well as producing approved active pharmaceutical ingredients (APIs), Bachem also supports numerous new chemical entity (NCE) customers in their clinical development with products and services. The main customers here are small and large pharma and biotech companies in the US, Europe

and Asia, for whom intensive technical and regulatory exchanges of expertise are of particular importance. Bachem typically works closely with customers over many years with a view to bringing a new drug to market. This requires extensive experience in the development of new drug substances. Globally, only a small number of providers meet these requirements, and the barriers for new market entrants are high.

Bachem has traditionally also manufactured generics, i.e. drug substances whose patent protection has expired. Customers in this sector are typically generics companies. Increasingly appearing on the scene are companies that work on new applications for such generics – innovative formulations or additional therapeutic areas, for example. In 2019, Bachem successfully supported three clients in obtaining regulatory approval for established products in new formulations. Here too, the products are extremely sophisticated and often developed in close partnership with customers. Customers above all value Bachem's regulatory expertise, reliability, and long-standing experience in this area.

Bachem Group's operating results in 2019

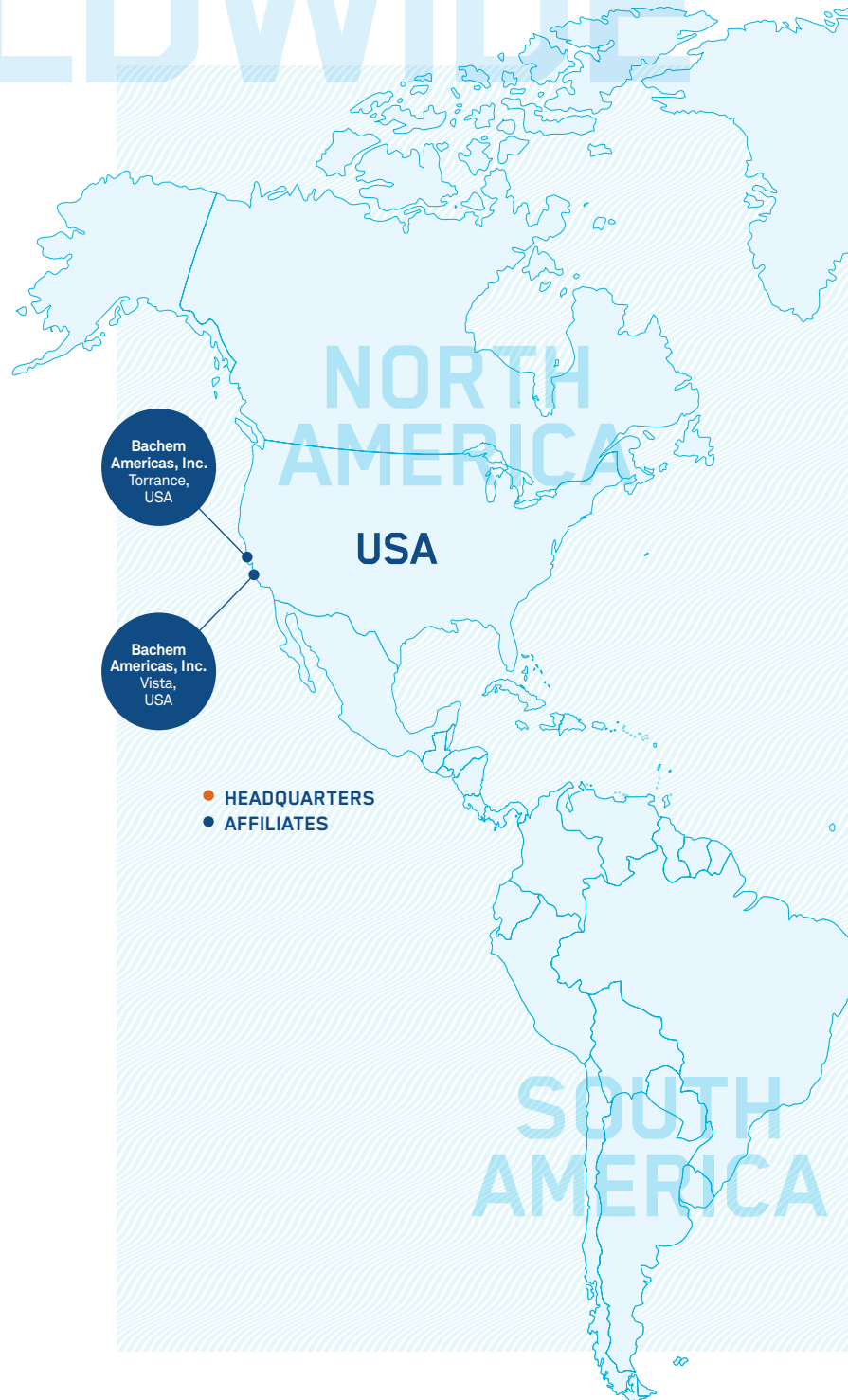
The Bachem Group generated sales of 313.7 million CHF in 2019, an 11.0% increase in Swiss francs. Once again, growth was first and foremost generated in the American market. Whereas sales in North America rose by 30.3% to 155.1 million CHF, sales in Europe/Asia remained stable at 158.6 million CHF. Once again, NCE and generics projects – which are so important in the US – developed very well. A number of projects were successfully supported in the process of obtaining approval, while other projects are on the verge of submission. Following the various project postponements and delivery delays on the customer side in Europe and Asia in 2018, a number of new projects successfully got under way in 2019. However, most of these projects are still at an early stage and will therefore only make significant sales contributions over the coming years. In the NCE environment there was evidence of unbroken global momentum.

PIONEERING PARTNER FOR PEPTIDES

BACHEM HAS BEEN A PIONEER IN THE FIELD OF PEPTIDES SINCE NEARLY 50 YEARS. IT HAS BUILT LONG-TERM CUSTOMER RELATIONSHIPS THAT ARE IMBUED WITH A STRONG SENSE OF TRUST. BACHEM IS RECEPTIVE TO INDIVIDUAL NEEDS AND IS A COMPETENT, RELIABLE PARTNER.

Bachem sells its products worldwide for use in research & development, cosmetics, diagnostics, medicines, and other application areas. As in previous years, drug substances for pharmaceutical and biotechnology companies accounted for the bulk of Bachem Group sales in 2019. From a geographical perspective, the USA, Europe and Japan remained the most important markets.

Bachem addresses the global market through two regional segments of North America and Europe/Asia, based on sales recorded by the Group's subsidiaries. Sales to customers in North and South America are reported under the North America segment. Sales to customers in Europe, Asia and the rest of the world are all accumulated under the Europe/Asia segment. Asia accounted for just under 10% of group sales in 2019. The key market in Asia remains Japan, where the Tokyo branch has successfully positioned itself.



BACHEM OPERATES SEVEN CENTERS OF EXCELLENCE IN SWITZERLAND, THE UK, GERMANY, THE US AND ASIA THAT ARE FOCUSED ON THE PRODUCTION OF ACTIVE PHARMACEUTICAL INGREDIENTS, CUSTOM SYNTHESIS PRODUCTS AND CATALOG PEPTIDES.

BACHEM HOLDING AG
Bubendorf, Switzerland

BACHEM AG
Bubendorf,
Switzerland

BACHEM DISTRIBUTION SERVICES GMBH
Weil am Rhein,
Germany

BACHEM AMERICAS, INC.
Torrance,
USA

BACHEM JAPAN K.K.
Tokyo,
Japan

BACHEM SA
Succursale Vionnaz
Vionnaz, Switzerland

BACHEM (UK) LTD.
St. Helens,
Great Britain

BACHEM AMERICAS, INC.
Vista,
USA



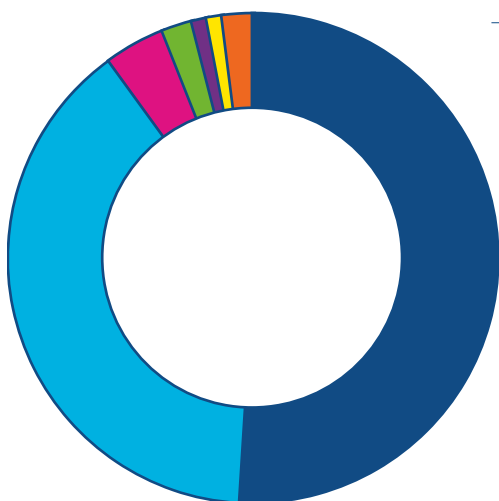
The research chemicals business expanded by 24% compared to the prior year. In the area of catalog sales, growth was driven by sales in the bulk business in particular. In the area of custom synthesis, the business with cosmetic and diagnostic products developed very well. However, the main growth here resulted from custom syntheses in connection with NCE development projects, as the market required significant quantities for toxicology studies.

Once again, Bachem generated growth primarily through drug substances in 2019. Whereas the NCE business developed steadily, sales of generics recorded a strong rise. On the one hand, increases were generated with existing products thanks to a very favorable market environment. On the other, Bachem was able to support clients in their market launches of established molecules with innovative new dosage forms.

As in the previous year, sales in Asia remained at a stable level. In a positive market environment, regional shifts and postponements of projects meant that this market dynamics could not be fully translated into sales figures. Above all, Bachem was able to identify and realize new projects in Japan, South Korea, China, and Taiwan.

The outlook remains promising for fiscal 2020: In addition to a well-filled order book, new NCE and generics projects are appearing on the horizon. Bachem therefore expects to be able to support customers in the submission of their projects in 2020, too.

CUSTOMER SEGMENTATION



PHARMA

51%

BIOTECH

39%

DISTRIBUTORS

4%

ACADEMIA

2%

DIAGNOSTICS

1%

COSMETICS

1%

OTHER

2%

The key to future growth lies in having innovative drug substances approved for new medicines and in opening up new therapy or application areas for existing products. Bachem is committed to driving forward and expanding its development project pipeline. As a partner to its customers, Bachem works together with them on new, successful market authorizations and promotes flexibility and creativity in the project teams.

BACHEM PRODUCT LINES

RESEARCH CHEMICALS

Bachem's Research Chemicals are mainly used to make peptides and to advance biochemical knowledge. The new online catalog provides enhanced search functionality and a unique shopping experience. The catalog is being continually updated with new and innovative products.

NEW CHEMICAL ENTITIES (NCES)

There are a large number of peptide drug candidates in clinical development. Furthermore, over 70 peptides have already been approved as a treatment for various diseases. Bachem is pursuing the largest number of peptide projects worldwide.

GENERICS

After a drug loses its patent protection, generic copies are produced. Peptide-based pharmaceuticals are somewhat different in this regard because a generic peptide will usually not have the same formulation as the innovator product. It must therefore be navigated through a demanding approval pathway, and generic drug makers turn to Bachem for support during this process.

Catalog

In the catalog business, aside from rapid availability and competitive prices, the product portfolio plays a decisive role. Every year, Bachem supplements its catalog with new, innovative products emerging from the latest areas of research. Intensive regular exchanges with leading researchers and key opinion leaders at various conferences and symposia ensure that Bachem is able to support cutting-edge research all over the world with the right products.

Custom synthesis

In custom synthesis, the customer defines the product or sequence. What sets Bachem apart from its competitors is its flexibility, technical expertise, and exceptional quality awareness. Focusing on demanding customer segments – diagnostic and cosmetic companies, for example – has proved effective in recent years and will continue to offer further potential for growth in future.

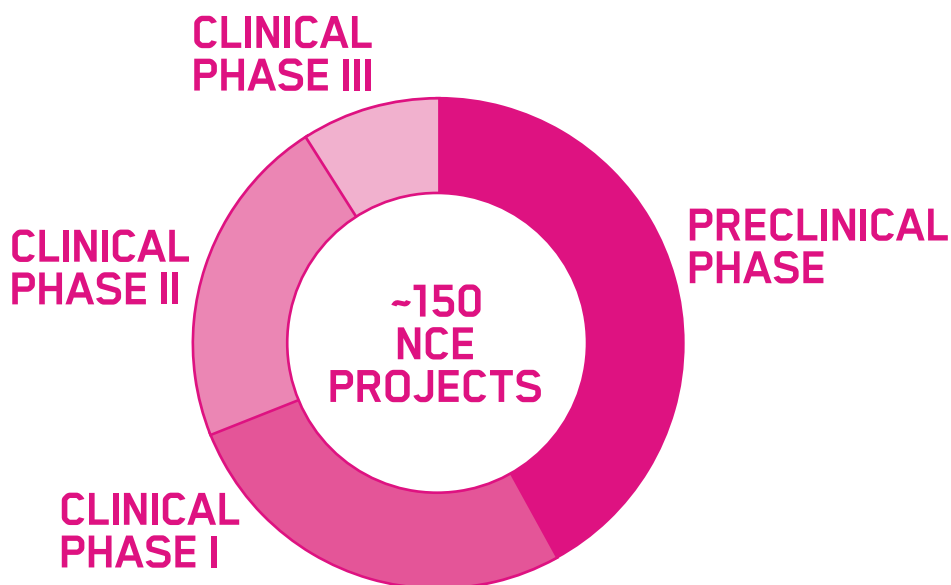
APIs & Services

Drug substances or APIs (Active Pharmaceutical Ingredients) are the largest application area for peptides at Bachem. These can be products with market approval or

products that are still in development. The priority for products with market approval is cost-effective and reliable production. Close coordination with customers' needs and careful long-term planning are crucially important. Long-term supply contracts often regulate prices, purchase volumes and other obligations, thus providing security for both parties.

As well as producing approved drug substances, Bachem also supports numerous new chemical entity (NCE) customers in their clinical development with products and services. Customers, particularly pharmaceutical and biotechnology companies, can have widely differing expectations. Whereas smaller companies prefer to rely on the experience and recommendations of Bachem, large pharmaceutical companies, for example, have very precise ideas about drug development and proceed according to their own internal guidelines. A high degree of flexibility and service readiness is essential for the optimal management of a broad portfolio of projects for a wide variety of customers. Thanks to many years of work in the field of NCE development and the breadth of its project pipeline, Bachem has accumulated a wealth of experience with different customers,

OUR PIPELINE OF CUSTOMER NCE PROJECTS



development strategies, molecule classes, therapeutic areas, or authorities. Bachem brings this experience to its development projects so that customers, too, can benefit.

Just a few years ago, customers were often only marginally involved in the details of the technical development activities. Today, Bachem cooperates very closely with most of its customers, particularly on development projects. Intensive project management with highly effective and experienced project managers is the key to successful development in Chemistry Manufacturing and Controls (CMC). The teams work together to identify risks and define relevant measures at an early stage. This can typically involve targeted process developments ("work packages") or the development of analytical tests. Nowadays, joint project meetings and regular phone conferences are the rule. On some projects, customers are also represented by technical experts on site when it comes to important steps. A joint Steering Committee that makes important decisions and supports the resolution of conflicts is also appointed on many projects.

The growth in 2019 resulted from the expanding NCE pipeline and new market approvals. A solid and growing NCE pipeline is contributing directly to the increase in sales. At the same time, it is also the prerequisite for achieving further approvals together with our customers. These approvals are the key to new therapies and the foundation for future growth.

Quality Strategy

The quest for the perfect solution. Continuous improvement thanks to creativity and the ability to adapt. Always seeing what has been achieved and the current challenge as a starting point and incentive for the next development.

Doing this requires a specific mindset: namely, that of an entrepreneur who always wants to offer his partners the best possible quality. With 100% reliability, no exceptions. Steadfastly convinced of doing the right thing.

We at Bachem have lived this commitment to quality from the very outset. Embedded as a strategy, established as a Company-wide initiative, it shapes our day-to-day activities over the long term. Our well-established position as market leader in the production of active ingredients is a result of this consistent focus and, of course, the requirements and appreciation of our customers: **Quality Matters.**



As the “Pioneering Partner for Peptides,” Bachem focuses unerringly on know-how and innovation, quality, close collaboration with customers and continuous employee training and development. Bachem’s stated goal is to be the partner of choice for successful implementation of peptide projects of whatever kind.

Know-how and innovation

Know-how and innovation form the cornerstones of Bachem’s success. Building on this foundation, Bachem offers its customers optimal support in the pursuit of groundbreaking discoveries that further scientific advances, particularly in the field of medicine. It is therefore important for Bachem to attract top scientists across all relevant disciplines. It does so by fostering a corporate culture and work environment that inspire and motivate employees to contribute knowledge and ideas to decision-making processes and thereby actively shape and steer the projects they are working on.

Quality

Bachem’s commitment to quality is a key factor for its success. Adherence to high quality standards lays the groundwork for top performance and new developments. This commitment to quality is a basic business principle at Bachem, deeply rooted in its drive to always offer customers the best. Diligence, flexibility, creativity and reliability are expressions of Bachem’s appreciation of its customers and their needs.

“Bachem’s consistent focus on the needs of customers lays the groundwork for sustainable, profitable growth.”

Collaboration with customers

Collaboration based on mutual trust and the forthright sharing of information enable knowledge, experience and resources to be pooled in the quest to achieve a new goal together. Of utmost importance for Bachem is knowing exactly what the customer needs and wants. Close contact with customers and a sound awareness of their challenges allow Bachem to create customized solutions. They are also the wellspring for superior efficiency and true value for both sides of this collaboration.

Employee training and development

Highly qualified employees at all levels of the organization who are specialists in their respective fields are another key factor for success at Bachem. Their willingness to take advantage of training opportunities and accept new challenges secures the company's knowledge advantage and bolsters its market leadership in peptides.

“Bachem's vision is to be the undisputed leader in the peptides business. Adherence to the most demanding of quality standards and a high level of innovation help the company to stay ahead of the competition.”

Key strategic growth drivers are:

- Focus on strengths in the core business of peptides
- Generate strong organic growth through a consistent focus on customer needs
- Seize opportunities arising from industry consolidation

Bachem's strengths

- Global market leader in peptides
- Excellent reputation for quality and reliability
- Superior know-how and unrivalled experience in peptides
- Extensive range of services with a high degree of vertical integration
- Strong product and project pipeline
- Largest portfolio of peptide generics in the industry

BACHEM'S 360° BUSINESS MODEL

is the expression of a business philosophy that is totally focused on client needs. Through vertical integration and full utilization of synergies, Bachem is best able to offer its unique expertise and experience in peptide chemistry to benefit client projects in all stages of development. **Bachem. Pioneering Partner for Peptides**



RESEARCH

Bachem offers the world's largest collection of amino acid derivatives which are used by customers interested in manufacturing peptides. Also solid phase supports for peptide synthesis are available. Other essential product lines are bioactive peptides, enzyme substrates and inhibitors as well as some organic molecules. New products are added to maintain an innovative touch. Strong emphasis is placed on quality.

PRECLINICAL DEVELOPMENT

During preclinical development, lead finding and lead optimization require large panels of peptides. These are generated as custom synthesized molecules for customers around the world. Frequent consultation with Bachem experts allows further refining of target compounds. As such, a clear partnering aspect is required to come up with pioneering concepts and molecules to bring into clinical development.

CLINICAL DEVELOPMENT

When clients have selected their lead compound, they commence clinical trials. It is a decade-long process to approval of the drug. During this time, there is a close collaboration to learn more about the product. Each production step is scrutinized and manufacturing reproducibility strived for. Scale-up and full control of the process is targeted. Validation and control of the process is the end result of an intense partnership.

PEPTIDE DRUGS

The responsibility to manufacture sufficient drug substance rests on the shoulders of the Contract Manufacturing Organization. This can only be done by being extremely reliable and also by coordinating activities closely with our partners. Forecasting the quantity needed is extremely difficult, especially for new drugs where the commercial success has not been proven. Hence, responsiveness to customer needs becomes paramount.



**TOGETHER
WE LEAD**



**ACHIEVING
THINGS
TOGETHER**

The background of the page features a large, abstract graphic. It consists of several overlapping curved shapes in two colors: a vibrant orange and a bright blue. The shapes are arranged in a way that creates a sense of movement and depth, with some areas appearing to be in front of others. The overall effect is modern and dynamic.

TOGETHER WE LEAD

Setting the course together, pursuing the goal with passion and drive, creating unique outcomes, and establishing something pioneering, meaningful, and of lasting benefit from both a commercial and social perspective. For Bachem, “Together we lead” embodies this attitude and a determination to lead together, and to act successfully through shared commitment and with pooled resources while at the same time thinking and acting in a holistic and partnership-based way. Leading through passion.

An abstract graphic design featuring a bright yellow background. A large, solid blue circle is positioned on the right side, partially overlapping the yellow area. The text "CREATING NEW THINGS TOGETHER" is written in a bold, white, sans-serif font, stacked in four lines. The text is positioned on the left side, with the words "NEW THINGS" and "TOGETHER" partially overlapping the blue circle. The overall composition is clean and modern.

CREATING
NEW
THINGS
TOGETHER



TOGETHER WE LEAD

Generating enthusiasm for shared projects and tackling and mastering challenges as a team are key success factors. Accordingly, all areas and disciplines work toward shared targets and connect seamlessly in order to offer the customer bespoke solutions, products, and services. The final result of this approach is what showcases Bachem's competitiveness and its uniqueness. Underpinning all this is the conviction that "the whole is greater than the sum of the parts." Leading through teamwork.



CREATING PARTNER- SHIP- BASED VALUES



TOGETHER WE LEAD

Seeing and presenting herself as a “Pioneering Partner” is both an ambition and an obligation for Bachem. This means dedicating ourselves to our customers with enthusiasm and total dedication day in, day out, actively seeking exchanges of views, listening, and being prepared to go the necessary extra mile to deliver the best possible solution. In addition, “quality matters” means acting both with and for the customer in a forward-looking, circumspect, reliable, and sustainable way. Leading through partnership.

The background features a dynamic composition of overlapping geometric shapes in two primary colors: a vibrant pink and a bright cyan blue. A large, light blue shape with rounded corners and a diagonal cutout occupies the upper right portion. A large, solid pink shape is positioned in the lower left, partially overlapping the blue shape. The text 'NET-WORKED PROGRESS' is rendered in a bold, white, sans-serif font, stacked in three lines and positioned in the lower left area, overlapping the pink background.

**NET-
WORKED
PROGRESS**



TOGETHER WE LEAD

Those who want to be and remain the best – and those who want to lead the way – need to foster multiple joint undertakings, networks, and partnerships. Inspiring exchanges with researchers and in-depth dialog with industry experts are crucial if the latest trends are to be identified at an early stage and key developments anticipated. A strategically oriented, stable and secure network of suppliers and partners – thanks to which Bachem can guarantee the ultimate quality throughout the entire value creation process – is proving a solid basis for lasting success. Leading through networking.

INTERVIEW
DR. GÜNTHER LOIDL



Innovative strength has been a cornerstone of Bachem's business success since the founding nearly 50 years ago. A new innovation management system will further heighten the importance of innovation in the future.

What does «innovation management» mean to you?

Dr. Günther Loidl: Bachem Innovation Management is part of a comprehensive approach spanning every business unit. In accordance with the corporate strategy, we are generating the necessary space and implementing lean structures and processes to improve the flow of new ideas within the organization. The most important basis for innovation is a corporate culture which is positive and open to change.

How is Bachem strengthening its innovation culture? What elements need to be in place?

GL: Each and every Bachem employee is allowed and encouraged to be innovative. We want to get our employees excited about innovation and raise awareness of the importance of innovation for our future success. We will open up the space

where ideas can be generated and provide the necessary resources to support their implementation. We recognize the best suggestions, implement improvements, and celebrate important advances together. We clearly communicate our goals and empower our employees through coaching and mentoring along with focused education and training.

Do you innovate strategically, following a roadmap? How does that work?

GL: Our innovation management system is built on three pillars. A strategic team continually collects ideas for improvements in our production technology. The key areas here are chemical know-how, automation of our production processes, and developing and improving machinery and equipment. At the same time, we continually analyze our business processes and implement digital solutions in a focused way along the entire value chain. The third element consists of a broad initiative to promote continual improvements in all business units and across all hierarchy levels.

Where do you find innovation triggers? Do you work on an interdisciplinary basis?

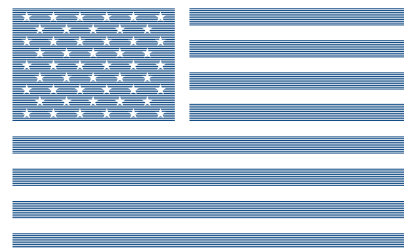
GL: A number of very valuable improvements in recent years have been based on ideas from our employees. Our technology scouting program also conducts strategic searches outside the organization. We often get key ideas from our customers. The legal and regulatory environment is also an important driver. And finally, we collaborate with academic groups on breakthrough solutions such as using artificial intelligence to identify optimization potential in production processes.

Can you give us some examples of recent strategically important Bachem innovations?

GL: Since many of our active ingredients are highly biologically active, developing sealed trays for product containment during freeze-drying was a very important win for protecting our employees' health. We are currently developing a fully automated peptide synthesis system in-house. This will enable us to expand production capacity while also cutting costs. We protect intellectual property such as production processes with a strong and properly focused patent portfolio.

How do you see things developing around the world as a whole? Who will be tomorrow's innovation leaders?

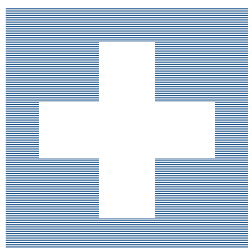
GL: The successful businesses in the future will be those that spot global trends early and develop effective and efficient solutions across disciplines. Digitalization and artificial intelligence are opening up new opportunities in data collection and analysis, which will facilitate better decision-making and enhance entrepreneurial agility. At the same time, the human factor is becoming an evermore important focus of our thinking and interaction with our customers and partners. In our industry in particular, the goal of all innovation is to better serve the customer. ●



BROADENED PRODUCT PORTFOLIO

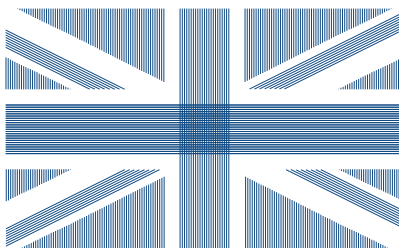
The product portfolio for both the Torrance and Vista sites in California has been broadened by effectively capturing new projects. With a clear focus on GMP compliance and utilization of Bachem's robust Chemistry Manufacturing and Control (CMC) development approach, the sites have successfully delivered these new projects, fulfilling customer expectations in an increasingly demanding and dynamic US market for NCE products. Also to meet the growing expectations of both customers and regulatory authorities, 2019 saw the introduction of a harmonized industrial hygiene program at both manufacturing sites. With growth of the expanding NCE product portfolio, investments have been initiated in Torrance to increase capacity within the existing manufacturing footprint via automation for increased output and efficiency. Operational Excellence improvements and optimized production planning have provided streamlined processes, optimized utilization and lowered manufacturing costs.

PROGRESS REPORTS



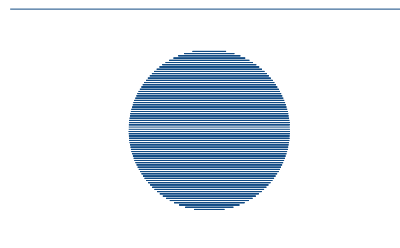
EXCELLENT CAPACITY UTILIZATION AND CAPACITY EXPANSION

The Swiss manufacturing sites in Bubendorf and Vionnaz enjoyed an excellent capacity utilization, especially in the second half of 2019. New Chemical Entities and Generic manufacturing was at a record level. To keep pace with demand, shift work schedules were extended at the Bachem Bubendorf and Vionnaz sites. It was very rewarding to see that both sites were substantially contributing to the excellent results. In Bubendorf, oligonucleotide manufacturing infrastructure was installed and the first oligonucleotides were successfully manufactured. Also, state-of-the-art Laboratory Information Management System (LIMS) was introduced, rollout of the LIMS to other manufacturing sites is in preparation. In November, the ground-breaking ceremony for the extension of the GMP manufacturing building to add state-of-the-art manufacturing space and equipment for operations took place in Bubendorf. And at the Bachem Vionnaz site, additional large scale equipment is added to make optimal use of the existing buildings and infrastructure.



CONTINUED FOCUS ON PEPTIDES FOR IN VITRO DIAGNOSTICS

Successful transition to the current version of ISO 13485 standard continues to benefit all customers, specifically those using Bachem peptides in their in vitro diagnostic kits. Further investment in state-of-the-art manufacturing technology increased capacity and reduced delivery times. The introduction of a new fully automated powder dispensing system enabled accurate and efficient aliquoting of finished products including peptide sets with short lead times and full compliance. Implementation of lean manufacturing principles across the site has resulted in significant efficiencies with benefits that will continue to be realized in future years. Together with previous expansion, the Bachem St. Helens Center of Excellence is ideally positioned to continue to fully support all customers in the research chemicals sector.



GAINING MORE GROUND IN ASIA

Our highly motivated team continued to serve the local Asian markets in 2019 at their second year into Japan. In April 2019, Bachem Japan K.K. moved from Shinagawa to new offices in the well known Nihonbashi area. Nihonbashi is a business district of Chuo, Tokyo, which grew up around the bridge of the same name. Nihonbashi is also the home of major pharmaceutical companies' headquarters so Bachem is well positioned there in direct proximity to customers. Our team will continue to expand our business and keep an excellent network in the industry. For this reason, we also expanded our team in Tokyo by adding an additional Business Development Manager. We strive to keep our number one position in Japan and continue to strengthen our position for the rest of Asian countries such as South Korea, Taiwan, and China.

SUSTAINABILITY, CORPORATE GOVERNANCE, COMPENSATION REPORT

A highly qualified and motivated workforce is the backbone of a successful organization. Bachem Group boasts the world's largest workforce of qualified specialists devoted to the field of peptide chemistry.

Our employees

A highly qualified and motivated workforce is the backbone of a successful organization. Bachem Group boasts the world's largest workforce of qualified specialists devoted to the field of peptide chemistry. The organization employed 1 257 people at the end of the year (previous year: 1 140) in 1 208.7 full-time equivalent positions (previous year: 1 097.3). Of these, 866 (corresponding to 820.2 full-time equivalent positions) were working in Europe at Bachem AG sites in Bubendorf and Vionnaz and 41 for Bachem (UK) Ltd in St. Helens (UK). Bachem Americas Inc. employed 334 people at the sites in Torrance and Vista, California. 3 people were working for Bachem Japan K.K.. Bachem Holding AG employed 13 people. Employee turnover at Group level was 11.1% (previous year: 11.1%).

The Bachem Group is fully committed to ensuring equality of opportunity for all staff, irrespective of age, sex, religion, ethnic background or nationality. In particular, this equality of opportunity applies unconditionally with regard to the terms of employment, the principle of equal pay for equal work, performance incentives and the Group's professional development and promotion policies.

High level of education

Bachem Group is the world leader in its core business of manufacturing peptides as research chemicals and active pharmaceutical ingredients. Its claim to be a "Pioneering Partner for Peptides" is predicated on very high educational attainment of workforce members at every level and high subject area specialization. The growing complexity of the products the company manufactures and the services it is expected to provide, and, more so, the increasing requirements of customers and official bodies in terms of production and regulatory processes, call for a highly qualified workforce throughout the organization. At Bachem Group, 29% of the employees have earned a degree from a university and another 21% have earned a degree from a university of applied science. Over 40% of Bachem employees worldwide have completed a vocational apprenticeship, as have 55% of its employees in Switzerland.

Vocational training

Vocational apprenticeship training has a high priority at Bachem AG's Swiss sites in Bubendorf and Vionnaz. Our dual system of education provides young school leavers with an excellent opportunity to gain specific vocational training once they finish their compulsory schooling and strive to enter the working population. Apprentices acquire theoretical knowledge and general education at a vocational school and gain practical experience working at the company. In providing these apprenticeships, Bachem is both discharging part of its social responsibility towards society and also making an important contribution to the maintenance of non-academic professional training in Switzerland.

At the Bubendorf site, Bachem operates a teaching laboratory with two full-time instructors specifically for the practical instruction and training of qualified chemical lab technicians. At the two Swiss locations operated by Bachem AG, 42 young people were enrolled in three- or four-year vocational apprenticeship programs as of the end of the year; this represented 3.5% of the workforce. The apprentices were pursuing qualifications as chemical lab technicians (29), office administration staff (5), IT technicians (2), logistics specialists (4) and polymechanics (2). In the year under review, 14 apprentices successfully completed their vocational training, and 10 were offered permanent employment contracts.

PERSONNEL		2019		2018	
		FTE	%	FTE	%
EMPLOYEE DISTRIBUTION BY JOB CATEGORY					
MARKETING AND SALES		91.1	7.5	86.5	7.9
ADMINISTRATION		99.8	8.3	103.1	9.4
SUPPLY CHAIN		56.1	4.6	56.1	5.1
ENGINEERING AND SERVICES		155.4	12.9	141.3	12.9
QUALITY ASSURANCE AND REGULATORY AFFAIRS		298.8	24.7	284.8	25.9
RESEARCH/DEVELOPMENT AND PRODUCTION		507.5	42.0	425.5	38.8
GEOGRAPHIC DISTRIBUTION					
EUROPE		872.6	72.2	772.4	70.4
USA		333.1	27.6	322.9	29.4
ASIA		3.0	0.2	2.0	0.2
EMPLOYEE DISTRIBUTION BY GENDER					
WORKFORCE (TOTAL)	WOMEN	367.9	30.4	349.7	31.9
	MEN	840.8	69.6	747.6	68.1
UPPER MANAGEMENT	WOMEN	17.0	21.3	15.0	20.3
	MEN	62.8	78.7	58.8	79.7
REGIONAL EXECUTIVE COMMITTEES	WOMEN	5.0	14.7	5.0	17.2
	MEN	29.0	85.3	24.0	82.8
CORPORATE EXECUTIVE COMMITTEE	WOMEN	1.0	20.0	1.0	20.0
	MEN	4.0	80.0	4.0	80.0
BOARD OF DIRECTORS	WOMEN	2.0	33.3	2.0	33.3
	MEN	4.0	66.7	4.0	66.7
EMPLOYEE DISTRIBUTION BY AGE					
AGE < 26		128.2	10.6	120.6	11.0
AGE 26-35		351.0	29.1	314.7	28.7
AGE 36-45		310.8	25.7	276.8	25.2
AGE 46-55		262.3	21.7	251.2	22.9
AGE 56-65		150.4	12.4	130.3	11.9
AGE 65		6.0	0.5	3.7	0.3

Employee education

In addition to the professional qualifications of its workforce acquired through a vocational apprenticeship or university degree program, the company attaches great importance to providing employees with training and continuing education. The high level of specialization and increasingly tough requirements pertaining to quality and operating procedures call for additional specialist expertise. Bachem provides opportunities for continual professional development to employees as appropriate through internal programs and external providers. Bachem Group specialists meet periodically for international seminars or to share information. Seminar topics cover the entire spectrum of Group activities, including research and development, production, quality assurance and regulatory affairs, finance, marketing and sales. In addition to technical know-how, special attention is accorded to continual management training. Level-specific courses on topics including self-development and leadership were provided in the period under review.

Ethics and integrity

For the Bachem Group, ethically correct behavior and integrity are essential prerequisites for lasting business success. The professional and personal integrity of our employees is a prerequisite for meeting the high-quality standards of all stakeholders. Our principles of ethical behavior and integrity are binding on all staff, are set down in writing, and are applied without exception. This

applies in particular to staff with customer- or supplier-facing roles, such as sales and procurement staff.

Responsible Care

Bachem is committed to achieving ongoing, lasting improvements in safety, protection for employee health and the environment (EHS). To this end the company continually develops and implements new approaches for enhancing employees' safety and environmental awareness, sometimes in collaboration with external partners. The company provides funding and internal resources at all locations.

Protecting human health and the environment and the safety of employees and the surrounding communities are fundamental concerns for the chemical industry. To live up to its social responsibility, Bachem has upheld its commitment to the Responsible Care program for over two decades. This initiative, the only one of its kind in the world, drives continual improvement in the health, safety and environmental performance of chemical companies with global operations, often going well beyond what the law requires. Responsible Care promotes responsible handling of resources and risks, making a key contribution to sustainability.

Right from the initial conceptual design of new plant and production processes, top priority is given to the consideration of safety-related and ecological issues, with input from personnel and external advisors.

RESPONSIBLE CARE KEY FIGURES

	2019	2018	2017	2016	2015
PERSON ACCIDENTS, NUMBER/100 EMPLOYEES	1.3	1.7	2.2	1.3	1.5
LOST WORKING DAYS, NUMBER/EMPLOYEE	0.1	0.1	0.1	0.1	0.1
HEALTH SAFETY ENVIRONMENT STAFF, NUMBER	10.5	9.5	9.5	9	8
TOTAL STAFF, NUMBER	1 200	1 056	1 026	939	750
ENVIRONMENT KEY FIGURES					
TOTAL ENERGY CONSUMPTION, GJ/EMPLOYEE	126	135	129	125	148
CO ₂ , T/EMPLOYEE	4	4	4	4	4
NO _x , KG/EMPLOYEE	4	4	4	4	4
SO ₂ , KG/EMPLOYEE	0.4	0.4	0.6	0.5	1
VOC, KG/EMPLOYEE	16	18	21	26	31
TOC, KG/EMPLOYEE	3	2	2	4	4
HAZARDOUS WASTE DISPOSED OF, KG/EMPLOYEE	7 470	9 965	7 080	6 262	6 544
TOTAL WATER CONSUMPTION, M ³ /EMPLOYEE	106	93	107	121	126

Annually recorded key parameters measure the performance and development of the company and help guide the management in continuously identifying and implementing effective and efficient improvement measures. Bachem collects relevant data at its four biggest locations, Bachem AG in Bubendorf and Vionnaz and Bachem Americas Inc. in Torrance and Vista.

Workplace hygiene

Workplace hygiene is a basic requirement for safe handling of active substances, making it an integral element of employee health and safety protection at Bachem. Bachem's strategy for achieving optimum workplace hygiene consists of three interlinked components: personnel hygiene, a basic hygiene concept and control banding.

The approach is based on universal principles of personnel hygiene, such as employee apparel and personal care. In addition, the basic hygiene concept seeks to prevent the release of active substances and their subsequent dispersal by deploying technical measures such as use of closed transfer systems and physical separation of individual pieces of production equipment. Organizational measures address analysis and optimization of personnel and material flows, specifications for cleaning procedures – even for non product-contact surfaces – as well as waste disposal. Bachem provides personal safety equipment and regular training in its use, and enforces application in line with regulations.

The purpose of control banding is to monitor active substance concentrations in the manufacturing environment and hold them to levels low enough to reliably prevent absorption of an effective dose during work processes. Active substances are classified into “control bands” based on what is known about their physiochemical properties and biological effects. Depending on the consistency of the substance, the production process and the quantity being produced, measures are set forth based on the risk level of each control band to ensure that concentrations are kept within the specified limits. Specifications derived from control banding techniques are also used in the planning of construction projects.

Environmental parameters

Thanks to a very satisfactory order book, the number of employees at the Bachem Group's four largest production sites rose to 1 200, an increase of 14% since 2018 (1 056 employees). Production capacity was also expanded through the commissioning of major facilities, increased automation and the expansion of shift working. Despite the resulting sharp increase in output, Bachem again succeeded in improving many of the environmental parameters measured. VOC emissions were reduced to 16 kg per employee, and the volume of special waste disposed of per employee was reduced by 25% to 7 470 kg. Total water consumption per employee recorded a rise from the previous year's figure to 106 m³ (Swiss chemical industry: 4 870 m³ per employee). The energy consumption per employee recorded a slight year-on-year decline to 126 GJ per employee, and remains well below the Swiss chemical industry's reference value of 303 GJ per employee. The Bachem Group has very good environmental figures to show, with a comparatively low environmental impact as well as a level of resource consumption relative to economic output that is well below the Swiss chemical industry average.

Occupational safety

The number of staff assigned to EHS increased further from 9.5 to 10.5 full-time equivalent positions. A welcome result was a 24% decline in the number of work-related injuries, from 1.7 to 1.3 per 100 employees. With only 0.1 lost workday per employee, Bachem maintained its excellent safety performance. Once again, non-work-related accidents were significantly more frequent than occupational injuries and resulted in far more absences from work. The number of non-occupational injuries per 100 employees was comparable with that in 2018, as was the resulting lost workdays per employee. The main risks of non-occupational accidents involved slips, trips and falls, along with sports-related injuries. Because heightened risk awareness among employees during their leisure time has been shown to reduce the frequency of accidents in the workplace as well, Bachem takes a comprehensive approach to employee safety training.

Health management

The Corporate Health Management (CHM) strategy promoting employee health was again given high priority in the year under review. CHM involves the development of corporate structures and processes specifically designed to promote employee health, performance and motivation. Bachem's corporate health management exceeds the minimum healthcare standards required by law. Among other things, issues addressed by Bachem's CHM program include "people in organizations" and "work-life balance."

Ethics and integrity

Bachem does not grant any advantage or concession if it is

- not in line with local law or custom
- not properly accounted for and financially registered

Bachem does not give nor request nor accept

- any illegal rebate
- any kickback payments
- any "unofficial" payments
- any form of improper gift or favor

Bachem employees

- do not encourage or solicit gifts or personal advantages of any kind from any third party
- avoid situations where their personal interests may conflict with the interests of Bachem
- will inform the responsible line manager if any unsolicited conflict of interest arises

Corporate governance encompasses all of the principles aimed at safeguarding sustainable company interests. While maintaining decision-making capability and efficiency at the highest level of a company, these principles are intended to guarantee transparency and a healthy balance of management and control.

1 Group structure and shareholders

BACHEM HOLDING AG

BOARD OF DIRECTORS

CORPORATE EXECUTIVE COMMITTEE

BACHEM AG

**BACHEM
AMERICAS,
INC.**

**BACHEM
DISTRIBUTION
SERVICES GMBH**

**PENINSULA
LABORATORIES,
LLC**

BACHEM (UK) LTD

BACHEM JAPAN K.K.

1.1 Group structure

Bachem Holding AG, headquartered in Bubendorf, Switzerland, is listed at the SIX Swiss Exchange in Zurich (valor number: 1 253 020, ISIN: CH0012530207, SIX: BANB, Reuters: BANB.S, Bloomberg: BANB SW). Market capitalization at December 31, 2019, was 2 167 000 kCHF. No other Bachem companies are listed.

All consolidated companies are listed in note 23 on page 92 of the notes to the consolidated financial statements including company name, location, registered capital, and participation.

1.2 Significant shareholders

Shareholders with more than 3% of voting rights on December 31, 2019, are listed in note 8 on page 102 of the notes to the financial statements of Bachem Holding AG. There were no new disclosure notifications made in the reporting year. 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, 2019, the nominal share capital of Bachem Holding AG was 700 kCHF.

2.2 Authorized and conditional capital in particular

Bachem does not have any conditional or authorized capital outstanding.

2.3 Changes in capital

In the year 2019, the share capital was increased. Details are disclosed in the notes to the consolidated financial statements in note 20 on page 91. In the years 2017 and 2018, the share capital remained unchanged. All changes in equity for the years 2019 and 2018 are listed on page 71 of the consolidated financial statements. Changes for 2017 are reported on page 73 of the Annual Report 2018.

2.4 Shares and participation certificates

At December 31, 2019, Bachem Holding AG had 7 002 059 registered shares A and 6 997 941 registered shares B at a nominal value of CHF 0.05 issued, 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 Dividend-right certificates

Bachem has not issued any dividend-right certificates.

2.6 Limitations on 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 there any other exceptions to entering the share register been granted by the Board.

2.7 Convertible bonds and options

The Company has not issued any convertible bonds or options.

3 Board of Directors

3.1 Members of the Board of Directors

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

Kuno Sommer¹ (1956), Ph.D. in Business Administration, Chairman, Swiss. Since 2012, elected until 2020.



Dr. Kuno Sommer worked for Roche from 1986 to 1999 in various functions, including four

years in the USA. He was ultimately a member of the Executive Committee of Roche, responsible for the Flavors and Fragrances division, today Givaudan. From 2000 to 2006, he was CEO of Berna Biotech. Kuno Sommer is Vice-Chairman of the Board of Polyphor AG, Chairman of the Board of Sunstar-Holding AG, of PDS Pathology Data Systems AG, of Kenta Biotech AG and of TargImmune Therapeutics AG.

Nicole Grogg Hötzer² (1973), Graduate Biologist, Vice-Chairwoman, Swiss. Since 2011, elected until 2020.



Nicole Grogg Hötzer graduated in biology at Basel University in 1999. Afterwards, she worked in various positions in the field of regulatory

affairs until 2009. In 2002, Nicole Grogg Hötzer began her postgraduate studies in business administration at the University of Applied Sciences Basel, which she completed successfully in 2004. Nicole Grogg Hötzer is Vice-Chairwoman of the Board of Directors of Ingro Finanz AG, of Hotel Bad Schauenburg AG and of Sunstar-Holding AG as well as member of the Board of Directors of MFC Beteiligungs AG and of Breiten Immobilien AG.

Jürgen Brokatzky-Geiger^{1,2} (1952), Dr. rer. nat., Member, German.



Since 2009, elected until 2020.

Dr. Jürgen Brokatzky-Geiger graduated with a Ph.D. in chemistry from the University of Freiburg, Germany, in 1982. He joined Ciba-

Geigy Ltd. in 1983 as a Laboratory Head in the Pharmaceuticals Division. After a job rotation in the United States, he held positions of increasing responsibility in Research and Development (R&D), including Group Leader of Process R&D, Head of Process R&D, and Head of Process Development and Pilot Plant Operations. During the merger of Ciba-Geigy and Sandoz in 1996, Jürgen Brokatzky-Geiger was appointed Integration Officer of Technical Operations. He later became the Head of Chemical and Analytical Development and served as the Global Head of Technical R&D from 1999 to August 2003. From September 2003 to February 2014, he was appointed as Global Head of Human Resources and member of the Executive Committee of Novartis. Until his retirement at the end of October 2017, Dr. Jürgen Brokatzky-Geiger was Global Head of Corporate Responsibility of Novartis.

Thomas Burckhardt (1950), Dr. iur., LL.M., Secretary, Swiss.



Since 1997, elected until 2020.

Thomas Burckhardt studied at the universities of Basel, Geneva and Munich and was awarded his doctorate in 1978 in Basel. Since 1975,

he is admitted to the bar and in 1979, he received the degree of a Master of Laws (LL.M.) at Harvard Law School (Cambridge, Massachusetts, USA). Since 1980, he is practicing law in Zurich and Basel and since 1987, he is a partner at Simonius & Partner in Basel. Thomas Burckhardt further is Honorary Consul-General of the Kingdom of Thailand in Basel. Other important Board memberships: MFC Beteiligungs AG and Stiftung FOCUS Basel.

Rolf Nyfeler^{1,2} (1950), Dr. phil. II, Member, Swiss. Since 2012, elected until 2020.



Rolf Nyfeler studied chemistry at Basel University and was awarded his doctorate in 1979. Afterwards, he deepened his knowledge

with postdoc stays at the Max-Planck-Institute in Martinsried and at the University of California in San Diego. Rolf Nyfeler joined Bachem in 1982. For many years, he was responsible for Research and Development in Bubendorf. Then, after spending some time as Head of Production in the subsidiary in California, he became COO of the parent company in 1998. From 2002 to 2012, he was CEO of the Bachem Group and Chairman of the Corporate Executive Committee.

Helma Wennemers (1969), Prof. Dr., Member, German.



Since 2014, elected until 2020.

Helma Wennemers graduated with a diploma degree in chemistry from Johann Wolfgang Goethe-University in Frankfurt in 1993.

Three years later, she earned a doctorate degree from Columbia University, New York. She then pursued post-doctoral studies at Nagoya University before accepting the "Bachem-Stiftungs-Assistenzprofessur" at the University of Basel in 1999, where she became Associate Professor in 2003. Since 2011, she is Professor at the Laboratory of Organic Chemistry at ETH Zurich. Helma Wennemers' research has been recognized by several awards including the "Inhoffen Medal" (2017), the "Pedler Award" (2016), and the "Leonidas Zervas Award" (2010). She has also been awarded with numerous honorary lectureships such as the "Calvin Lecture" of UC Berkeley (2017), "The Chemical Record Lectureship" (2017), the "David Ginsburg Lectureship" at the Technion in Haifa (2010) and she was named "Fellow of the Royal Society of Chemistry" (2013).

¹ Member of the Compensation Committee

² Member of the Investment Committee

3.2 Other activities and vested interests

Other activities of the members of the Board of Directors are described in the paragraph above.

3.3 Number of permitted activities

No member of the Board of Directors may hold more than ten other mandates, of which no more than three may be board memberships in other listed corporations. A mandate as chair of the Board of Directors counts as two mandates. The following mandates are not subject to the aforementioned limitations:

- Mandates in companies that are controlled by the Company or that control the Company
- Mandates held at the request of the Company or a company controlled by it
- Mandates in associations, charitable foundations, family foundations and trusts, and employee assistance foundations

Mandates are defined as roles and responsibilities in the supreme governing body of a legal entity that is required to be entered in an official commercial register or a comparable foreign register. Mandates in different legal entities controlled by the same body or entity or that have the same beneficial owners are deemed to be a single mandate.

3.4 Elections and terms of office

The members of the Board of Directors and its chair and the members of the Compensation Committee and the committee chair are elected by shareholders at the Annual General Meeting for a one-year term of office. Reelection is permitted. Elections are individual. 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 2019, the Board of Directors held four full-day meetings as well as one full-day strategy conference. The Corporate Executive Committee attends generally the Board meetings (see item 3.7). All meetings were attended by all Board and Corporate Executive Committee members. If necessary, additional persons will attend Board meetings as guests to discuss specific items on the agenda. During 2019, one Board meeting was attended by a total of two guest persons. In addition, one regional executive manager took part in the strategy conference. In 2019, no external consultants were called in.

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 of Directors has established a Compensation Committee (committee members are listed in section 3.1). The Compensation Committee assists the Board of Directors in formulating and periodically reviewing Bachem's compensation strategy and guidelines as well as the performance criteria used to determine the total compensation paid to each member of the Corporate Executive Committee and helps to prepare the proposals of the Board of Directors to the Annual General Meeting regarding the compensation paid to members of the Board of Directors and of the Corporate Executive Committee. The committee also files motions asking the Board of Directors to establish or change the variable compensation and employee stock ownership plans based on personal performance and/or Company earnings. All proposals put forth by the Compensation Committee shall be subject to approval by the full Board of Directors. The Compensation Committee held one one-hour meeting during the year under review.

The Board of Directors has established an Investment Committee (committee members are listed in item 3.1). The Investment Committee supports the Board of Directors in its function as the ultimate supervisory body and in the exercise of its financial powers and duties, particularly with respect to capital expenditure decisions. It examines the annual capital investment budget and the multi-year capital investment plans of the Corporate Executive Committee and the pertinent reports addressed to the Board of Directors. Furthermore, the Investment Committee evaluates and determines the level of detail required for individual capital investment proposals. The Investment Committee held three half-day meetings and one telephone conference during the year under review.

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 mid-term planning, as well as the consolidated annual results. Furthermore, 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 performed by the full Board since considering the size of the Board with its six members, the Board of Directors has renounced the formation of additional firm committees.

Since 2012, Dr. h.c. Peter Grogg, the founder, majority shareholder, CEO and Chairman of the Bachem Group for many years, is Honorary Chairman of the Bachem Holding AG. According to the bylaws, the Honorary Chairman does not execute any institutional function, but is allowed to take part at the Board meetings as an advisory guest with no voting rights.

3.6 Definition of areas of responsibility

Pursuant to the Swiss Code of Obligations and the Articles of Incorporation of the Company, the Board of Directors has in particular the following non-transferable and inalienable duties:

- Overall management of the Company and the issuing of all necessary directives
- Determining the Company's organization in the Organization Regulations
- Establishing the Company's policies and procedures regarding accounting, financial controls and financial planning
- Appointment and dismissal of the persons entrusted with managing and representing the Company
- Overall supervision of the persons entrusted with managing the Company, in particular with regard to compliance with the law, the Articles of Incorporation, operational regulations and the directives or instructions that have been issued
- Compilation of an annual report, consisting of the annual financial statements and, if necessary, consolidated annual financial statements, a compensation report and a financial review, in full compliance with all applicable legal requirements
- Preparations for the Annual General Meeting and the implementation of its resolutions
- Determination of details regarding the payment of dividends

- Establishment and closure of business offices and subsidiaries
- Notification of the court in the event the Company becomes over-indebted

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 CFO, the CTO, the CMO, and the COO (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 the regional COOs (see item 3.5). Furthermore, 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 generally 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. Furthermore, the Board is informed about the most important key figures. The management information system (MIS) at Bachem is structured as follows: Each individual Group company prepares a monthly report including balance sheets, income statements and other operating key figures, as well as comments. On a monthly basis, balance sheets, income statements, cash flow statements and statements of changes in equity, as well as various key figures of the Group and the subsidiaries are prepared and consolidated.

Budgets are controlled several times a year and compared to latest estimates per subsidiary 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. He receives all minutes of Corporate Executive Committee meetings, which are also available to the other members of the Board, if required.

Additional aspects of the information and control instruments are the internal control system (ICS) and the risk management system, which is described on page 77 under the title risk assessment. Due to its size, the Bachem Group does not carry out its own internal audit.

4 Corporate Executive Committee

4.1 Members of the Corporate Executive Committee

Thomas Fröh (1957), Dr. chem. ETH, CEO, Swiss. Since 2012.



Thomas Fröh joined Bachem in 1997. He was first COO of the Bachem Group Company in Pennsylvania and became COO of Bachem AG in 2001. Since April 1, 2012, he is CEO of Bachem

Holding AG and Chairman of the Corporate Executive Committee. He completed his education as a chemist at the Swiss Federal Institute of Technology in Zurich (ETHZ) and then was a research fellow at Harvard University in Cambridge. Before he joined Bachem, he held various research and development positions at Ciba-Geigy and Novartis. Thomas Fröh is Vice-Chairman of the Board of Directors of Dottikon ES Holding AG, Vice President of the business association scienceindustries, Board member of the Chamber of Commerce of both Basel and President of the Board of the foundation SimplyScience.

Günther Loidl (1970), Dr. rer. nat., CTO, German. Since 2015.



Günther Loidl joined Bachem in 2000. He held several functions in Research and Development (R&D) and Active Pharmaceutical Ingredient Manufacturing and became Vice President R&D

in 2012. Since 2015, he is CTO of the Bachem Group and a member of the Corporate Executive Committee. He studied chemistry in Regensburg (Germany) and Leeds (UK) and obtained his doctorate under the supervision of Prof. Dr. Luis Moroder at the Max Planck Institute of Biochemistry in Martinsried (Germany).

Thomas Meier (1968), degree in Chemistry and as Industrial Engineer, COO, Swiss. Since 2019.



Thomas Meier joined Bachem AG in 1993 as Team Head, Active Pharmaceutical Ingredients. From 2001 to 2004, he headed up peptide manu-

facturing at Peninsula Laboratories, Inc., in San Carlos, California. On his return to Switzerland, he was in charge of solid-phase

peptide manufacturing for Bachem AG in Bubendorf. He assumed overall responsibility for production at the Bubendorf site in 2013, and was appointed COO Europe in August 2017, with responsibility for all production sites in Switzerland, Germany and the UK.

He was appointed COO of the Bachem Group and member of the Corporate Executive Committee effective January 1, 2019. After an apprenticeship as chemical laboratory technician at the ETH in Zurich, Thomas Meier obtained a degree in chemistry from the ZHAW School of Engineering. Parallel to working, he obtained a degree as Industrial Engineer STA (Swiss Technical Association) and completed the Advanced Management Program at INSEAD Business School, Fontainebleau/Paris.

Stephan Schindler (1964), business economist HWV, EMBA,



CFO, Swiss. Since 2009.

Stephan Schindler joined Bachem Holding AG as CFO and member of the Corporate Executive Committee in 2009. In 1991, he assumed

a first management position in informatics as Head of Information Center at Patria Insurances in Basel. In parallel, he persistently pursued his extra occupational studies in business economics, finance and control. After his graduation in 1995, he joined F. Hoffmann-La Roche Ltd in Basel where he assumed various positions in Corporate Finance. With the unbundling of the division in 2001, he took over the accounting & reporting department at Roche Vitamins Ltd. Until 2009, he was Head Finance & Control Switzerland at DSM Nutritional Products Ltd, Kaiseraugst. Stephan Schindler holds a degree of International Executive MBA Zurich/ Boston. Furthermore, he is a member of the Board of Directors of Arcondis (Holding) AG and a Board member of Columna Collective Foundation – Client Invest, Winterthur.

Anne-Kathrin Stoller (1974), Dr. phil. nat., CMO, German.



Since 2018.

Anne-Kathrin Stoller joined Bachem AG in Bubendorf in 2006 and headed the Business Development Unit from 2008 to 2010.

Subsequently, she was responsible for the Business Development & Sales Department, first locally and finally for the entire region Europe. Serving as Vice President and Department Head she was also a member of the local management team in Bubendorf. Since January 1, 2018, she is CMO of the Bachem Group and member of the Corporate Executive Committee. Anne-Kathrin Stoller studied chemistry in Hannover (Germany) and Cambridge (UK). After obtaining her doctorate under the supervision of Prof. Dr. Bernd Giese at the University of Basel (Switzerland), she started her career in the sales team of ExxonMobil Chemical.

4.2 Other activities and vested interests

Other activities of the members of the Executive Committee are described in the paragraph above.

4.3 Number of permitted activities

A member of the Corporate Executive Committee cannot hold more than five other mandates, barring approval by the Board of Directors. No member of the Corporate Executive Committee may chair the Board of Directors of a listed company. The following mandates are not subject to the aforementioned limitations:

- Mandates in companies that are controlled by the Company or that control the Company
- Mandates held at the request of the Company or a company controlled by it
- Mandates in associations, charitable foundations, family foundations and trusts, and employee assistance foundations

Mandates are defined as roles and responsibilities in the supreme governing body of a legal entity that is required to be entered in an official commercial register or a comparable foreign register. Mandates in different legal entities controlled by the same body or entity or that have the same beneficial owners are deemed to be a single mandate.

4.4 Management contracts

Bachem has not entered into any management contracts.

5 Compensation, shareholdings and loans

For details of the remuneration of the Board of Directors and the Corporate Executive Committee as well as the employee share plans of the Bachem Group, please refer to the compensation report starting on page 54 of this Annual Report.

Details of the shares held by the Board of Directors and the Corporate Executive Committee can be found in the notes to the financial statements of Bachem Holding AG on page 103.

6 Shareholders' participation rights

6.1 Voting rights restrictions and representation

Shareholders duly registered with voting rights in the share register on the day the invitations to a general meeting are sent out are entitled to vote, as are any proxies appointed in writing by said shareholders. Legal representatives require no such written authorization. Proxies must be shareholders of the Company, unless

they are serving in the capacity of legal representative. Representation by Company proxy or by a custodian bank is no longer permitted. Every shareholder duly registered in the share register can be represented at a general meeting by the independent proxy or by another shareholder. Shareholders can participate in the proposals and elections at a General Meeting by transmitting powers of attorney and specific instructions to the independent proxy in advance electronically. The Board of Directors can adopt and publish rules regarding participation in and representation at general meetings of shareholders.

6.2 Quorums required by the Articles of Incorporation

The Annual General Meeting passes resolutions and holds 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, the statutory auditors or one or more individual shareholders representing a minimum of 10% of share capital.

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

6.4 Inclusion of items on the 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 Entries in 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: www.bachem.com/financial_calendar

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 article 135 and 163 of the Federal Financial Markets Infrastructure Act (FinfraG) (Opting Out).

7.2 Clauses on changes of control

Neither members of the Board of Directors nor members 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

Mazars AG, Zurich, has been statutory auditor of the Bachem Group and the Bachem Holding AG since 2019. Cyprian Bumann has been lead auditor since the business year 2019. The rotation period of the lead auditor is based on the maximum statutory length for Swiss companies of seven years (Swiss Code of Obligations, article 730a, paragraph 2). Auditors are elected by the Annual General Meeting on an annual basis.

8.2 Auditing fees

Auditing fees of Mazars for the Bachem Group amounted to 158 kCHF for the business year 2019. Fees for audit services on Bachem companies by other auditors totaled 13 kCHF.

8.3 Additional fees

Apart from the audit services, Mazars did not provide any additional services during the reporting year. Additional services, mainly in the area of tax consulting, conducted by other auditors amounted to 1 kCHF.

8.4 Information instruments pertaining to the external audit

The Board of Directors is responsible for the evaluation of the external auditors and determines the audit scope and plan on an annual basis. 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 conducted as well as on current trends in Swiss GAAP FER and other relevant laws and standards. In 2019, the external auditors attended one Board of Directors meeting. The performance assessment of the external auditor and the audit fees is made based on the independency and objectivity of the external auditors, the presented reports, the shown technical and operational competences, the involved resources, as well as the open and effective communication and coordination with internal staff.

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-year report, the website (www.bachem.com), press releases, the 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 listed on the SIX Swiss Exchange, Bachem is obliged to publish information that is relevant to its share price (obligation to disclose potentially price-sensitive facts, art. 53 of the "Listing Rules"). These rules can be viewed under: www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/listing-rules/03_01-LR_en.pdf. For specific questions regarding Bachem, contact our investor relations responsible, Stephan Schindler, CFO, phone +41 58 595 2021, ir@bachem.com.

The compensation report contains information on the compensation of the members of the Board of Directors and the Corporate Executive Committee. It substantially adheres to the provisions set forth in Bachem's Articles of Incorporation, the transparency requirements of the Swiss Code of Obligations as specified in Art. 663b^{bis} and Art. 663c OR, and the Ordinance Against Excessive Compensation in Listed Companies (OAEC) Articles 14–16 and 20.

Basic compensation policy

The steadfast focus on peptides, adherence to the most stringent of quality standards and a distinctive capacity for innovation attest to the skills and many years of experience that Bachem employees possess. In acknowledgment thereof, the central objectives of Bachem's compensation policy are to ensure a sustainable, positive business development and to recruit and retain the best specialists. The compensation system is rooted in the principles of transparency, performance-oriented pay, and lasting value creation. It is aimed to attract, incentivize and retain employees committed to the successful development of the company by offering comprehensive pay packages competitive with peer market practice. Besides the requisite skills and knowledge, a high level of motivation and strong commitment are expected in return.

The foundation for Bachem's compensation model is provided by the binding, Group-wide Bachem Incentive Plan. It sets the overall compensation mechanisms for all employees at Bachem Group, including the members of the Corporate Executive Committee.

The basic principles underlying the system of compensation described in the Bachem Incentive Plan are:

- Total compensation is understood as compensation for total performance
- Total compensation and total performance are focused on sustainable corporate success and therefore further the long-term interests of all stakeholders
- Targets and objectives pertinent to the expected total performance are assigned and/or agreed upon
- The subsequent assessment of total performance takes into consideration internal and individual factors as well as general and external forces and factors of consequence
- All employees have a stake in the company's success within the scope of their roles and responsibilities
- All employees are assigned individual, mutually agreed upon objectives that have a positive impact on the company
- Senior management receives part of its total compensation in the form of blocked company shares

The Bachem Incentive Plan is not utilized to determine the compensation paid to the (non-executive) members of the Board of Directors. To ensure true independence, neither performance-oriented nor individual objectives are applied in setting the overall compensation of the members of the Board of Directors.

Management and control of compensation

The remuneration and share-based payment plans offered to the Board of Directors and the Corporate Executive Committee are determined annually by the Board of Directors acting on a proposal by the Compensation Committee, which shall consist of three members of the Board of Directors. Compensation shall be determined in compliance with all applicable legal, statutory and contractual requirements and, at the Board's own discretion, subject to subsequent approval by the General Meeting.

The General Meeting shall cast a prospective vote on and set with binding force the aggregate compensation of the Board of Directors for the period extending to the close of the next Annual General Meeting.

The resolutions of the Board of Directors on the maximum aggregate amount of fixed and variable compensation of the Corporate Executive Committee for the next fiscal year will also be submitted for approval at the Annual General Meeting. If a new individual is appointed to the Corporate Executive Committee or an existing Corporate Executive Committee member is promoted after the aggregate amount of compensation for the period has been approved, the Board of Directors shall be entitled to provide an additional amount of compensation should the approved amount of aggregate compensation not be sufficient. The additional compensation provided per member of the Corporate Executive Committee shall not exceed 25% of the aggregate amount approved by the General Meeting.

The Compensation Committee supports the Board of Directors in determining and periodically reviewing the compensation strategy and guidelines as well as in formulating the resolutions to be submitted for approval at the General Meeting. Furthermore, the Compensation Committee submits proposals to the Board of Directors regarding key performance criteria to be used in setting individual total compensation for the members of the Corporate Executive Committee. The Committee shall also submit proposals to the Board of Directors for

establishing or revising individual performance- and/or profit-based variable compensation and stock award plans.

Based on the guidelines approved by the full Board of Directors, the Compensation Committee measures the extent to which the financial and non-financial targets of the members of the Corporate Executive Committee have been achieved and makes specific recommendations regarding compensation. These recommendations and the proposals for the compensation of the members of the Board of Directors are presented to the Board of Directors for review and approval.

The Compensation Committee meets as often as necessary to carry out its responsibilities, but at least once every year. It held one one-hour meeting in 2019. No external specialists were called in during the period under review.

The Board of Directors discloses the actual compensation paid to members of the Board of Directors and the Corporate Executive Committee in the compensation report. This report is audited annually by the auditors.

Compensation of the Board of Directors

Compensation paid to the (non-executive) members of the Board of Directors consists of a fixed base fee set independently of the operating results, meeting fees, and an appropriate amount of unrestricted company shares.

The amount of the base fee is determined by the given roles and responsibilities and the associated requirements in terms of time and tasks assigned. In 2019, a gross amount of 30 kCHF per quarter was set for the Chairman and 9 kCHF per quarter for the other members of the Board of Directors. For the year under review, every member of the Board of Directors was awarded 300 BANB shares. Meeting fees amounted to 1200 CHF per day and per meeting participant.

The company may assign individual members additional tasks that go beyond the nature and scope of their given mandate. Compensation of such work shall be paid separately as invoiced. Legal counsel obtained by Thomas Burckhardt, Secretary and member of the Board of Directors, is cited in this regard, for which an invoice of 7 kCHF was issued by law firm and notary office Simonius & Partner.

In congruence with the company's compensation philosophy, there are no agreements between Bachem and the members of the Board of Directors granting entitlement to severance payments, any other benefits on separation from service or loans and borrowings.

Compensation of the Corporate Executive Committee

Compensation of members of the Corporate Executive Committee consists of fixed and variable elements. The short-term variable compensation elements are based on performance metrics that primarily reflect

the company's bottom-line results. Variable compensation is paid both in cash and as blocked company shares. During the first three years after grant, the shares have full voting and dividend rights commencing on the date of grant, but they may not be sold during this time. By imposing a minimum holding period, Bachem adds a long-term perspective to the variable compensation component so as to direct the actions and behavior of Corporate Executive Committee members toward sustainable corporate development.

OVERVIEW OF DUTIES AND RESPONSIBILITIES

BODY/FUNCTION	DUTIES AND RESPONSIBILITIES
ANNUAL GENERAL MEETING	<ul style="list-style-type: none"> – Elect and remove the members of the Board of Directors and the Compensation Committee – Prospectively set the aggregate amount of annual compensation of the Board of Directors – Prospectively approve the maximum aggregate amount of fixed and variable compensation of the Corporate Executive Committee
BOARD OF DIRECTORS	<ul style="list-style-type: none"> – Determine and periodically review Bachem's compensation policy and guidelines – Submit proposals at the General Meeting regarding compensation of members of the Board of Directors and Corporate Executive Committee – Set performance targets and objectives for short- and long-term variable compensation components within the overall compensation of the Corporate Executive Committee members and determine target achievement levels – Establish performance-based variable compensation and stock award plans – Prepare the compensation report
COMPENSATION COMMITTEE	<ul style="list-style-type: none"> – Support the Board of Directors in setting and periodically reviewing Bachem's compensation policy and guidelines – Submit proposals to the Board of Directors on the compensation of the members of the Board of Directors – Support the Board of Directors in determining the key financial and non-financial performance criteria used to set the individual total compensation of the members of the Corporate Executive Committee – Submit proposals to the Board of Directors for establishing or revising performance- and/or profit-based variable compensation and stock award plans – Preparing proposals put to the General Meeting regarding compensation of members of the Board of Directors and Corporate Executive Committee
AUDITORS	<ul style="list-style-type: none"> – Audit of quantitative information on compensations, loans and borrowings in the compensation report (acc. to Art. 17 OAEC)

Total compensation (TC) paid to members of the Corporate Executive Committee consists of a guaranteed base salary (BS) specified by contract and a variable component (IP) as detailed in the “Bachem Incentive Plan,” which is applicable throughout the Group. The achievement scores are weighted with a factor (TF) in the compensation equation.

Total compensation: $TC = BS + IP$

Variable compensation: $IP = BS \times 0.69 \times TF$

Factor: $TF = PTI \times 0.2 + GTI \times 0.8$

Variable compensation is calculated by multiplying 69% of the base salary by a factor derived from the weighted achievement scores for the Bachem Group financial targets (Group Target Incentives/GTI), which are typically based on sales and profits, and with respect to three to five individual objectives (Personal Target Incentives/PTI). The Board of Directors assesses the overall achievement scores with respect to Group-wide and individual targets based on a proposal by the Compensation Committee. The achievement of individual objectives is divided into four achievement levels: 0%, 80%, 100% and 120%.

30% of variable compensation will be paid out as company shares. These shares will be blocked for three years after grant and disclosed in the compensation report at discounted value in accordance with applicable tax laws. The aforementioned proportion of variable

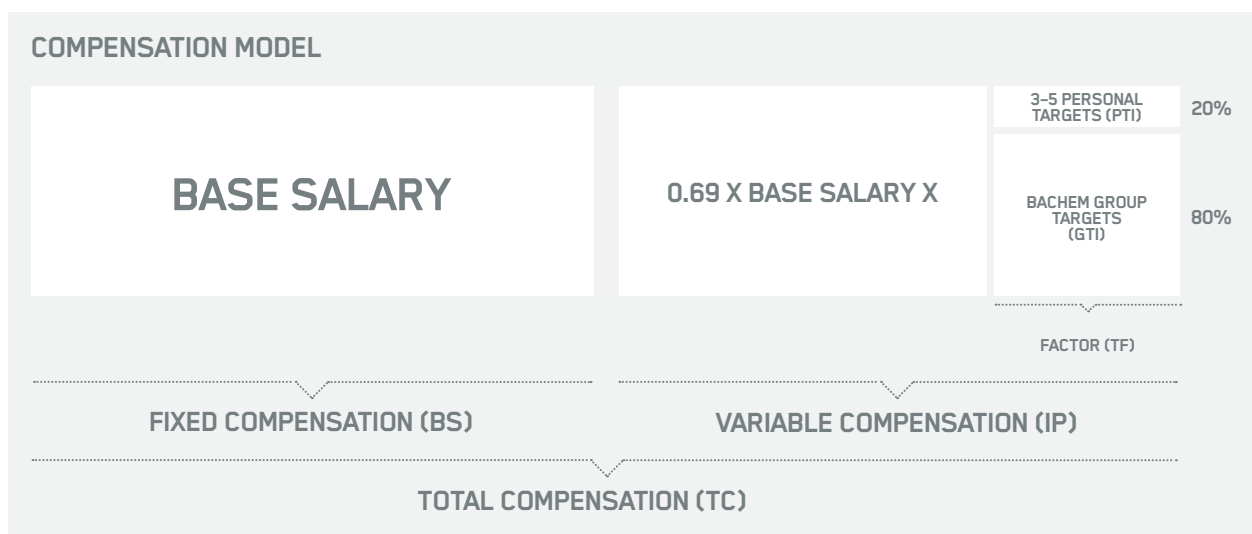
compensation is converted into a specific number of awarded shares using the average daily closing price for the corresponding fiscal year.

The Group targets set for the 2019 fiscal year were achieved in full and in some cases exceeded. In view of the assessment of the total performance, the Board of Directors has set the Group Target Incentive rate at 110% as proposed by the Compensation Committee. In the year under review, the variable compensation of the Corporate Executive Committee members based on tax values therefore corresponded in total to approximately 70% of base salary.

In congruence with the company's compensation philosophy, there are no agreements between Bachem and the members of the Corporate Executive Committee granting entitlement to severance payments, any other benefits on separation from service or loans and borrowings.

The shares held by the Board of Directors and the Corporate Executive Board are detailed in note 9 on page 103 of the notes to the consolidated financial statements of Bachem Holding AG.

Further information on Bachem Group's share plans is given in the notes to the consolidated financial statements on pages 76, 77 and 92.



Compensations to the Board of Directors and the Corporate Executive Committee

The compensations to the Board of Directors and the Corporate Executive Committee are based on tax values and are composed of as follows:

2019 in 1 000 CHF	Fix salaries, fees	Variable salaries	Share- based payments	Pension plan contri- bution	Other social security expenses	Total
Kuno Sommer (Chairman)	126		47		12	185
Nicole Grogg Hötzer (Vice-Chairwoman)	44		47		6	97
Jürgen Brokatzy-Geiger (Member)	44		47		5	96
Thomas Burckhardt (Secretary)	42		47		5	94
Rolf Nyfeler (Member)	44		47		5	96
Helma Wennemers (Member)	41		47		6	94
Total Board of Directors	341	0	282	0	39	662
Thomas Früh (CEO)	289	151	54	65	34	593
Rest of the Corporate Executive Committee	812	416	149	157	107	1 641
Total Corporate Executive Committee	1 101	567	203	222	141	2 234
Total	1 442	567	485	222	180	2 896

2018 in 1 000 CHF	Fix salaries, fees	Variable salaries	Share- based payments	Pension plan contri- bution	Other social security expenses	Total
Kuno Sommer (Chairman)	126		36		13	175
Nicole Grogg Hötzer (Vice-Chairwoman)	43		36		6	85
Jürgen Brokatzy-Geiger (Member)	43		36		4	83
Thomas Burckhardt (Secretary)	42		36		4	82
Rolf Nyfeler (Member)	43		36		4	83
Helma Wennemers (Member)	42		36		6	84
Total Board of Directors	339	0	216	0	37	592
Thomas Früh (CEO)	280	135	49	60	35	559
Rest of the Corporate Executive Committee	803	387	139	142	92	1 563
Total Corporate Executive Committee	1 083	522	188	202	127	2 122
Total	1 422	522	404	202	164	2 714

Lump-sum allowances to the Board of Directors and the Corporate Executive Committee are not part of the compensations, since they compensate for expenses.

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

We have audited the compensation report of Bachem Holding AG for the year ended December 31, 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained on page 58 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's Responsibilities

Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report for the year ended December 31, 2019 of Bachem Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

Other Matter

The compensation report of Bachem Holding AG for the year ended December 31, 2018 was audited by another auditor who expressed an unmodified opinion on that compensation report on February 20, 2019.

Zurich, February 19, 2020

MAZARS AG

Cyprian Bumann
Licensed Audit Expert
Auditor in Charge

Roger Leu
Licensed Audit Expert

BACHEM FINANCIAL REPORT 2019

A large, light blue, stylized number '8' serves as a background graphic, spanning most of the page. It has a textured, wavy appearance. The text 'BACHEM FINANCIAL REPORT 2019' is positioned in the top left corner in a bold, dark blue, sans-serif font.

FIVE REASONS TO INVEST

REASON 1

BACHEM IS THE MOST ROBUST AND SUSTAINED SUPPLIER IN THE INDUSTRY SINCE NEARLY 50 YEARS.

REASON 2

ALL STAGES OF DRUG DEVELOPMENT (PRE-CLINICAL RESEARCH, CLINICAL PHASES I-III AND AFTER COMMERCIAL LAUNCH) ARE SUPPORTED BY BACHEM'S API PRODUCTION AND SERVICES.

REASON 3

BACHEM IS UNIQUE IN ITS ABILITY TO PRODUCE LONG-CHAIN AND COMPLEX PEPTIDES IN LARGE QUANTITIES FOR COMMERCIAL APPLICATIONS.

REASON 4

HIGHEST INDUSTRY STANDARDS FOR QUALITY ASSURANCE, CONTROL AND REGULATORY COMPLIANCE ARE PART OF BACHEM'S "QUALITY MATTERS" COMMITMENT.

REASON 5

EXCELLENT PROJECT MANAGEMENT RECORD WITH THE WORLD'S BEST PHARMACEUTICAL AND BIOTECHNOLOGY COMPANIES – THE BEST WORK WITH THE BEST.

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Stephan Schindler, CFO



New sales record

Following a strong first semester of 2019, Bachem had already laid solid foundations for a very successful full fiscal year. In the second half of the year, the Group surpassed the record sales figure of the prior year period by some 8 million CHF. At 179.2 million CHF, Bachem set a new record for sales in a single semester, increasing sales for the year as a whole for the ninth successive year to a new record level of 313.7 million CHF. Compared to the previous year's figure, this represents an increase of 31.2 million CHF or 11.0%. Exchange rate movements enhanced the impressive result, with a moderately positive impact on the translation of sales gains in local currencies (LC) of 10.8%.

Generics sales impress

Generics sales amounted to 137.4 million CHF. With a share of more than 40% of total sales, they confirmed their position as a solid foundation in the Group's product portfolio and impressed with excellent growth figures. Compared to the prior year period, sales of generics rose by 23.6 million CHF (+21.2% in LC). Both regions, Europe/Asia and North America, developed very positively. The drivers of this growth were sales increases with existing products in a challenging – but, for Bachem, advantageous – market environment, and approvals of generics with innovative new dosage forms. The existing sale agreements as well as close, long-standing customer relationships proved a reliable basis for the continuing stability of this product group and the realization of existing growth potential.

Research chemicals perform convincingly

Bachem's Competence Center for Custom Synthesis in St. Helens, UK, once again confirmed its globally strong position in research chemicals. Catalog products and custom synthesis performed well in the face of a challenging, highly competitive market environment. The business with cosmetics and diagnostics developed very strongly in 2019, benefiting from customer relationships successfully built up over many years. Unlike in the previous year, periodic large orders involving catalog bulk products and custom synthesis relating to NCE drug substance development provided an additional growth stimulus of more than 24%.

New Chemical Entities proving stable

After a successful start to the fiscal year, expectations were high for the second half. All indications pointed to double-digit growth compared to the prior year. However, Bachem was unable to achieve this objective due to unforeseen project delays on the customer side. NCE sales in 2019 were broadly in line with the previous year, although there were significant regional differences here. In Europe/Asia, sales in LC were some 44% down on the previous year, whereas in North America they gained about 21% in 2019 after already having risen by more than 60% the previous year. Once again, the cross-period project delays and postponements that are typical of NCE drug substance developments impacted on sales results. Moreover, Bachem also generated sales in connection with NCE in the custom synthesis and services areas in the reporting period. When these sales are included, the Group recorded a solid growth of 6.6%.

Promising project portfolio

Bachem continued the successful development of its project portfolio in fiscal 2019. At the year-end, Group companies in Europe, North America and Asia were working with customers on some 150 NCE projects in all stages of development. The large number of projects in clinical stages II and III is important and remains highly promising. These projects will serve as an outstanding foundation for Bachem's future success. Following the gratifying approvals in the reporting year, Bachem is expecting to be able to support clients in the successful submission of new NCE and generics over the coming years too.

Sales breakdown by product category

The API product category once again delivered strong growth in 2019. This is a key category for the growth of the Group as a whole. Research chemicals also performed strongly at operating level, benefiting additionally from the intermittent occurrence of bulk sales and custom syntheses in connection with toxicology studies for NCE development projects.

in million CHF	2019	Change in local currency	Change in CHF	As % of total sales
API Products	276.6	+ 9.3%	+ 9.5%	88.2%
Research Chemicals	37.1	+ 23.6%	+ 24.4%	11.8%
Total net sales	313.7	+ 10.8%	+ 11.0%	100.0%

In keeping with this development, the sales proportions – 88.2% for APIs and 11.8% for research chemicals – temporarily shifted away from APIs. Given its targeted growth in the API product category, Bachem is expecting research chemical sales as a proportion of total sales to decline slightly in the future.

Geographical breakdown

Geographically, overall sales performance in the North America region was extremely pleasing. This region increased sales by some 36 million CHF in 2019, achieving a new annual sales record of more than 155 million CHF. Thanks to this impressive performance, the proportion of sales accounted for by North America rose once again, almost drawing level with that of Europe/Asia. By contrast, this very balanced picture did not match the weighting by region of product origin. Here it was the production locations in Switzerland that once again dominated.

in million CHF	2019	Change in local currency	Change in CHF	As % of total sales
Europe/Asia	158.6	– 2.2%	– 3.0%	50.5%
North America	155.1	+ 29.0%	+ 30.3%	49.5%
Total net sales	313.7	+ 10.8%	+ 11.0%	100.0%

Excellent order backlog

The demand for peptide-based drug substances remains strong, as evidenced by the excellent order backlog. In a persistently challenging market environment, Bachem managed to further strengthen its lead over the competition in 2019. Thanks to the broad-based project portfolio, the Group exceeded its growth target of 6–10%, despite a number of project delays and postponements. The efficient use and utilization of free resources, invest-

ment in additional capacities, and the ongoing optimization of operating processes, including their automation, provide an outstanding basis for further growth.

Disproportionately high increase in EBIT

Bachem's operating profit (EBIT) grew by 13.8% to 62.4 million CHF during the period under review. Moreover, Bachem reported an EBIT margin of 19.9% (previous year: 19.4%). Operating profit before depreciation and amortization (EBITDA) came to 87.2 million CHF (previous year: 77.9 million CHF). This corresponds to an EBITDA margin of 27.8% (previous year: 27.6%).

Marginal currency impact

In the income statement, the exchange rate trends of the US dollar, the euro, the British pound and the Japanese yen against the Swiss franc had a marginal aggregate impact on performance in Swiss francs at EBIT level. For 2019 as a whole, Bachem recorded a slightly positive currency effect on sales (+0.7 million CHF), and a slightly negative effect on EBIT (–0.3 million CHF).

Sharp rise in gross profit

The costs of goods sold in the year under review totaled 221.2 million CHF, or a stable 70.5% of sales. Further improvements in capacity planning and cost absorption, together with the ramping-up of "Operational Excellence" and process automation, give Bachem additional potential for a further increase in profitability in response to rising personnel costs and the increasing workload to implement regulatory requirements. Overall, Bachem managed to stabilize its gross profit margin at a high 29.5% in 2019, while at the same time significantly increasing nominal gross profit by 9.2 million CHF (+11.1%).

Quality and partnership matter

The know-how and experience of our people are crucial to the Bachem Group's success. Every day, Bachem's qualified and experienced specialists commit themselves and their profound knowledge to the implementation of the company's high standards of quality and partnership.

Additional job creation

Bachem's strong business performance and very high capacity utilization enabled the company to create a total of 117 new jobs by the end of 2019. As of December 31, 2019, the Bachem Group employed a total of 1257 people in 1209 full-time equivalent positions.

Higher staff costs

In addition to the newly created jobs in the reporting year, pay increases and the increase in headcount in the previous year had the effect of increasing staff costs. Total personnel expenses for the period amounted to 145.9 million CHF (previous year: 134.9 million CHF).

Marketing & sales strengthened

At 15.8 million CHF, marketing and sales costs saw a significant rise on the previous year (13.9 million CHF). As a percentage of total sales, these expenses increased slightly to 5.0% (previous year: 4.9%). The main causes of the rise in expenses were the expansion of the new Tokyo subsidiary, strategic hiring in the sales organization, and higher IT expenses. The company once again exhibited successfully at all major trade shows, showcasing an extensive, ambitious project portfolio. In addition, new jobs and activities in connection with the build-up of the oligonucleotides product area contributed to the increase in expenses.

High capacity utilization in research & development

In research and development (R&D), the Group recorded expenses of 1.7 million CHF, unchanged on the previous year. This amount includes amortization of previously capitalized development costs for new generics amounting to a total of 69 kCHF. As a result, this item remains slightly below the projected typical yearly outlay of roughly 2 million CHF. The main factors here were the relevant departments' very high capacity utilization and the prioritization of customer orders at the expense of internal projects. In 2019, as in previous periods, Bachem directly recognized costs incurred at production units for process optimization and scale-ups, along with development costs for new generic samples, in the cost of goods sold.

General administration costs slightly lower

Administration costs totaled 13.6 million CHF in 2019, a decline of 0.3 million CHF (–2.3%) on the previous year. Accordingly, costs as a proportion of sales declined to 4.3% (previous year: 4.9%). The Corporate Executive Committee is reviewing the development of administra-

tion costs on an ongoing basis, and does not see the decline in the reporting year as indicative of a general downtrend in costs. Rather, the company's growth is leading to higher demands – and hence rising expenses – in the Finance, HR, and IT areas. These costs are passed on and reported internally according to the areas where they were incurred.

Higher depreciation and amortization

At 24.9 million CHF, regular depreciation and amortization was 1.8 million CHF higher than the prior year figure. This was due primarily to the commissioning of new production capacity at all locations in Switzerland, the UK, and the US. No impairments were recognized during the period under review.

Sharp increase in net income

In contrast to the slight tailwind in the prior year, currency translation effects had a significantly negative impact on net income in the year under review. The valuation at the balance sheet date of USD loans granted to subsidiaries by the holding company was the major factor here. Overall, exchange rate movements resulted in a consolidated exchange rate loss of 1.6 million CHF (previous year: gain of 0.4 million CHF). With net income of 54.2 million CHF, the company easily surpassed the previous year's result by 7.5 million CHF (+16.1%), despite the negative foreign currency impact.

Slightly lower interest expense

Against a backdrop of persistently low interest rates and a reduced funding requirement due to the capital increase implemented in the first semester of 2019, interest expense declined to 0.4 million CHF (previous year: 0.5 million CHF).

Tax rate impacted by one-time effects

The net income figure reflects income taxes of 6.2 million CHF (previous year: 8.0 million CHF). Due to tax credits and allowances, as well as one-time effects, the Group's resulting tax rate was 10.3% (previous year: 14.6%). The adjustment of the deferred tax rate as a result of the Swiss tax reform had a major impact here. Bachem is currently anticipating a future Group tax rate of 15–18%.

Cash flow from operating activities more than doubles

Cash flow from operating activities before changes in net current assets was 80.8 million CHF in fiscal 2019,

which is equivalent to an increase of 7.5 million CHF (+10.3%) over the previous year. At the same time, cash flow-relevant capital held in net current assets increased by a total of 16.5 million CHF. The primary driver of this development was the growth-related increase in inventories of 24.4 million CHF. In addition to stocking up on semi-finished and finished goods as well as work in progress, Bachem also increased its buffer inventories of the raw materials that are crucial to production. The other positions related to the cash flow relevant increase in trade receivables along with other current receivables, prepaid expenses and accrued income amounting to 4.2 million CHF, and the increase in trade payables along with other current liabilities, accrued expenses and deferred income of 12.1 million CHF. Cash flow from operating activities recorded a year-on-year rise of 38.5 million CHF (+149.3%) to 64.3 million CHF.

Growth-focused investment

The Group continued to pursue its growth strategy in 2019, with cash flow-relevant investments in property, plant and equipment of approximately 28.8 million CHF. Together with investments in intangible assets, the resulting cash flow from investing activities came to –30.6 million CHF. In addition to capacity expansion and substitute procurement, the company continues to focus above all on automation, compliance, and safety and environmental protection.

Successful capital increase

Bachem successfully carried out a capital increase during the first half of 2019, issuing 400 000 new shares at an issue price of 120.00 CHF each. Net of all costs, the transaction resulted in cash flow from capital increase in the amount of 47.1 million CHF. The new funds will be used to redeem financial liabilities. In the first half of the year, Bachem repaid loans amounting to 150.0 million CHF that had been taken out the previous year. By year-end, the company had raised loans from five banks totaling 106.8 million CHF, of which 60.0 million CHF has a term of three years. With the dividend held at CHF 2.75 per share, the payout of 27.4 million CHF under the heading of financing activities remained broadly at the previous year's level. Of this total, dividends in the amount of 10.0 million CHF remained outstanding for a short time as a loan to Ingro Finanz AG, but had been repaid by mid-year. Consequently, only loan liabilities owed to third parties of 106.8 million CHF existed on the reporting date of December 31, 2019. The significant reduction in total loan liabilities is also reflected in cash

flow from financing activities, which amounted to –34.3 million CHF.

Cash and cash equivalents of 21.4 million CHF

Cash and cash equivalents in the consolidated cash flow statement decreased by 0.9 million CHF. Total cash holdings as defined in the cash flow statement amounted to 21.4 million CHF at year-end.

Extremely robust capital base

As a result of the capital increase mentioned above and the reduction in financial liabilities, Bachem reported a very solid equity ratio of 69.2% as per December 31, 2019 – a significantly higher figure than at the end of 2018 (62.5%), and one that provides the Group with an extremely robust capital base. This will serve as a guarantee of independence and flexibility going forward, as the Group pursues its strategic goals while adhering to its own priorities and values.

Share price surges

During the 2019 fiscal year, the price of Bachem shares (BANB) traded on SIX Swiss Exchange rose by more than 36%, from 113.60 CHF to 154.80 CHF. In other words, Bachem shares once again outperformed both the SMI (+26.0%) and the SPI (+30.6%). The highest closing price during the year was 158.60 CHF on December 23, 2019, while the lowest closing price was 107.20 CHF on February 21, 2019.

Planned dividend increase

Bachem's earnings per share (EPS) rose from 3.43 CHF to 3.91 CHF during the fiscal year. The Board of Directors will propose an increased dividend of 3.00 CHF per share to the Annual General Meeting in April 2020 (previous year: 2.75 CHF). Half of the distribution will come from the reserves from capital contribution.

CONSOLIDATED INCOME STATEMENT

For the years ended December 31

in 1000 CHF	Notes	2019	2018
Net sales	1/2	313 715	282 500
Cost of goods sold		- 221 238	- 199 272
Gross profit		92 477	83 228
Other income		916	1 104
Marketing and sales costs		- 15 794	- 13 922
Research and development costs		- 1 655	- 1 691
General administrative costs		- 13 584	- 13 910
Operating income (EBIT)	2	62 360	54 809
Financial income	5	98	442
Financial expenses	6	- 2 088	- 614
Ordinary income before taxes		60 370	54 637
Income taxes	7	- 6 206	- 7 993
Net income¹		54 164	46 644
Earnings per share (CHF)	8	3.91	3.43

¹ The net income is completely attributable to the equity holders of the parent.

The notes on pages 72 to 94 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At December 31, 2019 and 2018

in 1000 CHF	Notes	Dec. 31, 2019	Dec. 31, 2018
Assets			
Cash and cash equivalents		21 431	22 302
Trade receivables	9	83 949	81 385
Other current receivables	10	2 782	2 658
Prepaid expenses and accrued income	11	2 979	2 145
Current income tax asset		844	1 284
Inventories	12	219 174	195 608
Total current assets		331 159	305 382
Property, plant and equipment	13	296 602	289 795
Intangible assets	14	13 458	13 523
Assets from employer contribution reserve	4	320	320
Deferred tax assets		5 605	5 680
Total non-current assets		315 985	309 318
Total assets		647 144	614 700
Liabilities and equity			
Trade payables	15	18 189	9 902
Other current liabilities	16	17 504	13 553
Accrued expenses and deferred income	17	19 395	17 921
Current income tax liabilities		2 345	2 791
Current financial liabilities	18	46 917	150 176
Total current liabilities		104 350	194 343
Non-current financial liabilities	18	60 184	284
Deferred tax liabilities	7	34 792	35 861
Total non-current liabilities		94 976	36 145
Total liabilities		199 326	230 488
Share capital	20	700	680
Retained earnings		403 205	386 418
Share premium		79 039	30 861
Own shares		- 1	- 1
Cumulative translation differences		- 35 125	- 33 746
Total capital and reserves attributable to the equity holders of the company		447 818	384 212
Total liabilities and equity		647 144	614 700

The notes on pages 72 to 94 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the years ended December 31

in 1000 CHF	Notes	2019	2018
Cash flow from operating activities			
Net income		54 164	46 644
Adjustments for:			
Income taxes	7	6 206	7 993
Depreciation and amortization	2/13/14	24 888	23 065
Financial income	5	-98	-442
Financial expenses	6	2 088	614
Share based payments	21	1 032	641
Loss on sale of property, plant and equipment		52	0
Income taxes paid		-7 074	-5 322
Other non-cash items		-443	105
Cash flow from operating activities before changes in net current assets		80 815	73 298
Change in trade receivables		-3 323	-26 011
Change in other current receivables, prepaid expenses and accrued income		-908	-617
Change in inventories		-24 391	-22 494
Change in trade payables		8 289	-1 601
Change in other current liabilities, accrued expenses and deferred income		3 785	3 201
Cash flow from operating activities		64 267	25 776
Cash flow from investing activities			
Investments in property, plant and equipment		-28 794	-33 839
Sales of property, plant and equipment		24	21
Investments in intangible assets		-1 795	-4 163
Interest received		7	7
Other financial payments and proceeds		-87	-149
Cash flow from investing activities		-30 645	-38 123
Cash flow from financing activities			
Capital increase	20	47 103	0
Dividends paid	22	-27 377	-27 359
Increase in financial liabilities		106 800	140 000
Repayment of financial liabilities		-160 180	-94 783
Interest paid		-626	-343
Cash flow from financing activities		-34 280	17 515
Net effect of currency translation on cash and cash equivalents		-213	-149
Net change in cash and cash equivalents		-871	5 019
Cash and cash equivalents at the beginning of the year		22 302	17 283
Cash and cash equivalents at the end of the year		21 431	22 302
Net change in cash and cash equivalents		-871	5 019

The notes on pages 72 to 94 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

2019 in 1000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Cumulative translation differences	Total
Balance at January 1		680	386 418	30 861	- 1	- 33 746	384 212
Capital increase	20	20		47 980			48 000
Transaction costs of the capital increase (net of tax)	20			- 827			- 827
Net income according to income statement			54 164				54 164
Dividends	22		- 37 377				- 37 377
Transactions with own shares (net of tax)				- 7			- 7
Share based payments	21			1 032			1 032
Cumulative translation differences						- 1 379	- 1 379
Balance at December 31		700	403 205	79 039	- 1	- 35 125	447 818

2018 in 1000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Cumulative translation differences	Total
Balance at January 1		680	377 133	30 227	- 1	- 33 867	374 172
Net income according to income statement			46 644				46 644
Dividends	22		- 37 359				- 37 359
Transactions with own shares (net of tax)				- 7			- 7
Share based payments	21			641			641
Cumulative translation differences						121	121
Balance at December 31		680	386 418	30 861	- 1	- 33 746	384 212

Goodwill in the amount of 1 352 kCHF is offset in retained earnings.

As of December 31, 2019, the accumulated non-distributable reserves amount to 12 640 kCHF (previous year: 12 636 kCHF).

The notes on pages 72 to 94 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

Business activities

Bachem is a listed technology-based company focused on peptide chemistry. The company provides a full range of services to the pharma and biotech industries. It specializes in the development of innovative, efficient manufacturing processes and the reliable production of peptide-based active pharmaceutical ingredients. A comprehensive catalog of biochemicals and exclusive custom syntheses for research labs complete the service portfolio. Headquartered in Switzerland with subsidiaries in Europe, the US and Asia, the Group has a global reach with more experience and know-how than any other company in the industry. Towards its customers, Bachem shows total commitment to quality, innovation and partnership.

Approval of the consolidated financial statements

The consolidated financial statements have been accepted by the Board of Directors of Bachem Holding AG on February 19, 2020, to be presented for approval by the Annual General Meeting on April 22, 2020.

Accounting policies

Principles of consolidation

The financial reporting of the Bachem Group is in accordance with all Swiss Accounting and Reporting Recommendations (Swiss GAAP FER), the accounting and valuation policies as set out below, and the provisions of Swiss law. The consolidated financial statements are based on historical costs, except for the revaluation of financial assets and liabilities at fair value.

The financial statements of the companies on which the consolidated accounts are based are drawn up in accordance with standard principles applied throughout the Group in the preparation of financial statements. The annual reporting period for the individual companies of the Group ends on December 31.

All material cost and income items are recognized on an accrual basis. All internal transactions within the Group such as expenses and income, receivables and liabilities and unrealized profits are eliminated in the process of consolidation.

Acquired companies are consolidated according to the purchase method. Companies which are acquired or sold during the financial year are included in the consolidated accounts from the date of acquisition or up to the date of sale. Unless otherwise indicated, all figures included in these financial statements and in the notes thereto are rounded to the nearest CHF 1000.

Changes in accounting policies

For the reporting year 2019, no changes in accounting policies became effective.

Scope of consolidation

The consolidated financial statements of Bachem comprise the financial statements of Bachem Holding AG and all companies in Switzerland and abroad that are controlled by Bachem Holding AG (with over 50% of the voting rights being held). The full list of the consolidated companies is to be found under note 23.

Investments in subsidiaries

If the Bachem Group directly or indirectly has a voting majority in a company, or if it directly or indirectly controls a company in any other way, then the full amount of the assets and liabilities, expenses and income of the company in question is included in the consolidated financial statements. Minority interests in the income of companies that do not form part of the Group, and minority interests in the equity of subsidiaries, are shown separately.

Internal transactions and balances between Group companies are eliminated. Inter-company profits from inventories and deliveries within Group companies that have not yet been realized through sales to third parties are eliminated.

Investments in associates

Investments in associated companies where the possibility of significant influence on business policy exists are reported according to the equity method and initially recognized at acquisition value. Following acquisition, changes in the level of participation and any value impairments are taken into account. The share in the profit and the dilutive effect of these associated companies are recognized in the income statement.

Currency translation

The individual companies of the Group draw up their financial statements in local currencies. Transactions in other currencies are recorded by the companies using the exchange rate applicable on the transaction date. Foreign currency profits and losses arising from the processing of such transactions and from the translation of financial assets or liabilities in foreign currencies are recognized in the income statement, except in the case of long-term loans provided to companies of the Group as equity loans, for which foreign currency gains are recorded directly in equity.

The consolidated financial statements are drawn up in Swiss francs. The translation into Swiss francs of the assets and liabilities as set out in the local balance sheets is performed at the exchange rate on the period-end date.

The translation of the income statement and the cash flow statement is undertaken at the weighted average exchange rate for the reporting year. The currency-related translation differences arising from the translation of the balance sheet and income statement are allocated directly to equity. In the event of the sale of a foreign business unit, these exchange rate differences are recorded in the income statement as part of the profit or loss arising from the sale.

The following exchange rates were used for foreign currency translation:

	Income statement average rates		Balance sheet year-end rates	
	2019	2018	2019	2018
in CHF				
USD	0.99	0.98	0.97	0.98
EUR	1.11	1.15	1.09	1.13
GBP	1.27	1.31	1.28	1.25
JPY (100)	0.91	0.89	0.89	0.89

Revenue recognition

Sale of products

The reported net sales correspond to the invoiced product deliveries to third parties after deducting sales tax, discounts and other sales deductions. Sales are generally recorded on the delivery date, although to some extent the ownership-related transfer of the risks and rewards to the buyer does not take place until after that date. This simplified procedure has no material effect on the consolidated financial statements. Inter-company sales are eliminated.

Sale of services

Revenue from the sale of services is booked in the accounting period in which the services were rendered.

Interest and dividend income

Interest income is recorded on a pro rata basis. Dividend income is booked on the date on which the legal entitlement to payment arises.

Segment information

Segment information is based on the information used by the Corporate Executive Committee for managing the business. The business segments have been derived from the organizational structure and the internal reporting.

In addition to the business segments Europe/Asia and North America, which are identified on the basis of geographical territory, a column entitled "Corporate and eliminations" is provided in the segment reporting. This column does not represent a separate business segment, and in addition to the corporate activities includes the eliminations necessary for the reporting of the consolidated amounts.

The Group management measures the performance of the segments on the basis of the operating profit (EBIT).

For the two segments "Europe/Asia" and "North America," products and services in the fields of active pharmaceutical ingredients (APIs) and research chemicals (incl. custom synthesis) form the basis for sales.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, credit balances at banks and financial investments with a residual term of not more than three months after the balance sheet date.

The cash flow statement is based on the sum of cash and cash equivalents as defined above.

Financial assets

Securities classified as current assets are carried at actual values. In the case of listed securities, this corresponds to the stock exchange price on the balance sheet date. Unlisted securities classified as current assets are carried at acquisition cost less any value adjustments.

Financial assets classified as non-current assets are generally carried at cost less impairment, if any.

Changes in the carrying amount are recognized in the income statement.

Derivative financial instruments and hedging transactions

Derivative financial instruments are initially recognized on the date of conclusion of the contract at fair value, and the transaction costs are expensed in the income statement. Subsequent measurement is also based on fair value. Bachem uses derivative financial instruments primarily to hedge exchange rate risks. However, it does not apply hedge accounting in this context. Instead, gains and losses arising from changes in the value are taken directly to the income statement.

Trade and other receivables

Trade receivables and other receivables are recognized at the nominal value less an allowance for impaired receivables. A provision is formed when there is objective evidence that not all receivables will be collected. The impairment loss corresponds to the difference between the carrying amount of the receivable in question and the estimated net payment from customers and is recorded as a deduction in net sales.

Inventories

The inventories comprise raw materials (including supplies and consumables), work in progress as well as semi-finished and finished goods. They are measured at acquisition cost or Group production cost or (if lower) at net realizable value. Production costs comprise all production costs and an appropriate proportion of production overheads. Inventories are measured at weighted average cost. For slow-moving inventory items and for inventories with a lower net realizable value, an appropriate valuation provision is made. Net realizable value is the estimated selling price in the ordinary course of business, less the variable costs necessary to make the sale.

Property, plant and equipment and depreciation

Property, plant and equipment are shown at net book value, after deduction of accumulated depreciation. They are measured at acquisition or manufacturing cost and depreciated on a straight-line basis over the estimated useful life of the asset, except for land, which is not depreciated. Government grants effect a reduction in acquisition or production costs. Property, plant and equipment that is withdrawn from use or sold is derecognized from the property, plant and equipment at the corresponding acquisition or production cost less accumulated depreciation. The gain or loss on disposal of property, plant and equipment is recognized in the income statement.

The estimated useful lives of the main types of property, plant and equipment to be depreciated are given below:

Buildings	20 to 40 years
Installations	10 to 20 years
Laboratory equipment	5 to 20 years
Others	3 to 10 years

The depreciation rates reflect the expected economic useful life of the asset in question. Maintenance costs are charged to expense as incurred. Additional costs which extend the estimated useful life of an asset and lead to future economic benefit are capitalized, provided that a reliable determination of these costs is possible. All other costs for repair and maintenance are recorded as expenses in the income statement.

An asset is tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In this case, Bachem estimates the future projected cash flows that will result from the use of the asset and its possible disposal. If the total amount of these projected cash flows is less than the carrying amount of the asset, an impairment loss in the amount of the difference between the carrying amount and the net realizable value is recognized.

Leases

Finance leases which, from a business point of view, are purchases of assets through long-term financing agreements, are capitalized as fixed assets at the purchase price and depreciated over the useful life of the asset if the leased asset is transferred to the lessee at the end of the lease term. If there is no reasonable certainty that the leased assets will be transferred into the ownership of the lessee at the end of the lease term, they are valued at the present value of the future lease payments or at the lower of acquisition cost or net fair value and depreciated over the term of the lease agreement or over the economic useful life if shorter. The corresponding liabilities are included in current or non-current financial liabilities depending on the lease term. With finance leases, depreciation expenses as well as financial expenses are recognized in the income statement in each accounting period. Operating lease payments are recognized as expenses in the income statement on a straight-line basis over the lease term.

Intangible assets

Goodwill

The difference between the price paid for an acquired company and the fair value of the net identifiable assets acquired (goodwill) on the date of acquisition is offset against retained earnings. The effects on the income statement of a theoretical capitalization and ordinary amortization as well as any impairment over a useful life of five years are disclosed in the notes.

In the event of the sale of a subsidiary, any goodwill acquired at an earlier date and offset against equity is accounted for at initial cost in order to determine the gain or loss in the income statement.

Patents and licenses

Patents and licenses that have been acquired are shown at their historical acquisition cost less accumulated amortization and impairment, if any. Amortization is on a straight-line basis over 3 to 5 years, based on their useful lives. Current costs for patents and licenses are expensed in the income statement as incurred. Patents and licenses are tested for impairment whenever there are indications of impairment.

Brands

Acquired brands are carried at historical cost less impairment, if any. The amortization period is 20 years.

Software

Software is shown at acquisition or production cost plus the software implementation costs, less accumulated amortization and impairment, if any, and is amortized on a straight-line basis over the estimated useful life of 3 to 5 years. Software is tested for impairment whenever there are indications of impairment. Costs related to the development or maintenance of IT systems are expensed in the income statement. Costs related to IT projects will be capitalized only if an intangible asset can be identified and completed which will provide a future economic benefit over several years; capitalized software development costs are amortized on a straight-line basis over an estimated useful life of 3 to 5 years.

Research and development costs

Research costs are taken directly to the income statement when incurred. Development costs are capitalized as intangible assets only if an intangible asset can be identified and completed which will provide a future economic benefit over several years, and if the cost of this asset can be reliably determined. Capitalized development costs are amortized on a straight-line basis over an estimated useful life of 5 to 8 years. The corresponding amortization is recognized in the income statement as research and development costs. In addition, capitalized development costs are tested for impairment on a regular basis and an impairment loss will be recognized if there are indications of impairment. In particular, development costs in connection with the process development of new generics are capitalized according to the progress made in the project in question, since all cumulative criteria for capitalization are met.

Financial liabilities

Financial liabilities comprise loans, borrowings and finance lease liabilities.

Initially, financial liabilities are measured at fair value net of transaction costs incurred and, subsequently, they are stated at amortized costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the liability using the effective interest method.

The total or partial amount of a financial liability which is due or scheduled for repayment in the following 12 months is shown under current liabilities.

Taxes

Income taxes include both current and deferred taxes. Income taxes are shown in the income statement, except to the extent that they relate to items recognized directly in equity. Current taxes comprise the income tax expected to be paid for the current reporting year and the balancing adjustment in respect of income tax assets and liabilities from previous years. If no distribution of profits is planned, withholding taxes and other taxes on possible subsequent distributions are not taken into account, as retained profits are ordinarily reinvested.

Deferred taxes are determined on the basis of temporary differences between the tax basis of assets and liabilities and their carrying amounts in the balance sheets of the Group companies prepared for consolidation purposes (comprehensive liability method). Deferred tax assets and liabilities at Group level, calculated on the basis of the applicable local tax rates, are reported as non-current assets and non-current liabilities, respectively.

Deferred tax assets for tax loss carry-forwards have only been recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Changes to tax laws or tax rates that have been enacted at the balance sheet date are considered when determining the applicable tax rates, insofar as they are likely to be applicable when the deferred tax assets or liabilities are realized.

Pension benefit obligations

The pension and retirement benefits for employees are based on the regulations and practices in the respective countries in which Bachem is represented.

The actual economic effects of employee pension plans on the Group are calculated at the balance sheet date. An economic obligation is recognized as a liability if the conditions for the formation of a provision are met. An economic benefit is capitalized if it can be utilized for the future Group contributions to employee pension plans. Disposable employer contribution reserves are capitalized. The economic effects of pension plan funding surpluses and shortfalls, and changes in employer contribution reserves, if any, are recognized in the income statement together with the accrued contributions for the same period.

Employee compensation (share based payments)

The Board of Directors passes, depending on the course of business, a resolution to grant all employees a variable share of company profits as part of their annual compensation. The amount of this variable pay depends on the level of fulfilment of individual personal objectives and on the attainment of financial targets by the local Group companies and the Bachem Group. The aggregate amount of variable pay awarded is recognized as accrued staff costs at the end of the year and paid out after the beginning of the following year.

Members of the Corporate Executive Committee, the regional executive managers and the executive managers of larger Group companies receive 25% to 30% of the variable pay in the form of shares. The number of shares that can be granted is calculated on the basis of the average closing prices for the financial year in question. The shares are blocked for a period of three years, but are not subject to any further vesting conditions. The expense is measured at the estimated fair value at the grant date, accrued and booked as an increase in equity (share premium). Any differences between the accrued and actual amounts are corrected in the income statement for the following year.

The members of the Board of Directors receive 300 shares per year. The expense is accrued at the end of the year and booked as an increase in equity (share premium).

Bachem holds own shares to fulfill its obligations under its share plans.

Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

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.

Own shares

Own shares are shown at acquisition cost and deducted from equity. Gains or losses on the sale of own shares are recognized in share premium.

Dividend distribution

Dividends to shareholders are recorded as liabilities at the time the resolution to pay a dividend is made.

Risk assessment

Risks are assessed at Bachem Group during the course of the ordinary board meetings. The Corporate Executive Committee normally takes part in all meetings of the Board of Directors, and is thus fully involved in the risk assessment process. The strategic, operational and financial risks in the various business areas and at the various levels are discussed and, if necessary, measures are defined to minimize risk.

The Corporate Executive Committee meets with the Chief Operating Officers of the individual companies of the Group several times a year in the context of local board meetings, and risks for the respective business units are assessed. The results of these discussions are included in the risk assessment process at Group level.

At the local board meetings, Group-wide risks and their impact on the local entities are also discussed.

For each business area, international meetings take place at least once a year, at which the members of the management discuss area-specific issues and current risks. The Corporate Executive Committee is represented at these international meetings and raises the relevant points in the Group-wide risk assessment process.

Financial risk factors

As a result of its worldwide activities, Bachem is exposed to various financial risks such as currency risks, interest rate risks and liquidity risks. Bachem's general risk management focuses on the unpredictability of developments in the financial markets, and is aimed at reducing the potentially negative effects on its financial performance to a minimum. This includes the occasional use of derivative financial instruments as an economic hedge against financial risks, without applying hedge accounting as such. Bachem works exclusively with first-class financial institutions in this context.

Foreign exchange risk

Bachem is internationally active and is therefore exposed to the foreign exchange risk arising from the fluctuations in the exchange rates of foreign currencies, primarily the US dollar and the euro. The risks relate to expected future transactions, assets and liabilities shown in the balance sheet, and net investments in foreign business operations. If material exchange rate fluctuations are expected, Group Treasury assesses the risks arising from exchange rate fluctuations and if necessary hedges these risks using derivative financial instruments.

Interest rate risk

Interest-bearing securities and cash holdings are exposed to changes in the market interest rates. Changes in market interest rates have an influence on cash flows (cash flow risk) and on the fair value of interest-bearing securities (fair value risk). Interest rate risk is currently not hedged. However, Bachem has the possibility of using financial instruments such as interest rate swaps to hedge some of this exposure.

Price risk

The Group purchases equities, bonds and options for capital management purposes. In accordance with internal investment regulations, only non-operating assets are invested in such securities. Investment guidelines are defined for each asset class.

Investment decisions are taken by an investment committee. Potential investments are carefully screened and analyzed.

Credit risk

Credit risks arise when customers or financial institutions are not able to settle their obligations as agreed. Credit risks can apply to cash and cash equivalents, deposits at financial institutions, and customer receivables. Any financial institution with which Bachem does business must have a minimum rating of "A" from an independent rating agency.

Because of the different customer structures in the various business areas, there are no general credit limits that apply across the Group, but the creditworthiness of each business area's customers is systematically evaluated. In this context, the financial situation, previous experience and/or other factors are taken into consideration and if necessary the customers are required to make prepayments.

Liquidity risk

Liquidity risk is defined as the risk that the Group could not be able to meet its financial obligations on time. Bachem monitors its liquidity by careful liquidity management and maintains an adequate level of liquidity that exceeds its daily and monthly operating funds requirement. This includes maintaining a sufficient reserve of liquid funds and marketable securities. Bachem can also obtain loans under favorable conditions at any time through various framework agreements.

A rolling liquidity plan is drawn up on the basis of expected cash flows and is regularly updated. To ensure that it is able to meet its short-term liabilities, Bachem holds a minimum amount of liquid funds which is continually reviewed and adjusted if necessary.

In note 19, the contractual maturities of financial liabilities are disclosed.

Capital management

In the context of capital management, Bachem ensures that the continuation of the operational activity of the Group is guaranteed and an appropriate return on investment for the shareholders can be achieved. In order to achieve these objectives, Bachem can adjust the dividend payments, repay capital to shareholders, and issue new shares.

Bachem monitors its capital structure on the basis of the equity ratio.

Related parties

Companies and persons are regarded as being related if one of the entities directly or indirectly controls the other entity, is controlled by it, or is subject to joint control with the other entity, if it has an interest in the other entity which gives it a significant influence on the entity, if it has joint control over the entity with another person or if it is an associated company or a joint venture of the entity. The most senior managers of the Group and their close family members are also regarded as related persons, as are providers of pension plans for the benefit of Group employees.

Critical accounting estimates and assumptions

The preparation of the financial statements in accordance with Swiss GAAP FER requires the use of certain critical accounting estimates. In addition, the Corporate Executive Committee is required to exercise its judgment in the application of the Group accounting policies. The estimates and assumptions seldom correspond exactly to the actual results and developments. Explanatory notes are provided in the following, concerning those areas that involve a higher level of judgment and complexity, and the areas in which assumptions and estimates are of particular importance for the consolidated financial statements:

Income taxes

Bachem has to pay income taxes in several countries. Significant judgments are required in accounting for income tax provisions. The definitive amount of tax due is uncertain. The Group measures the amount of the tax assets and liabilities in respect of adjustments to tax assessments and in respect of expected tax audits on the basis of estimates as to whether and in what amount additional taxes will become payable.

Provision for slow-moving inventory items

Bachem's inventory items are characterized by an extremely long shelf life. Nevertheless, due to commercial considerations, a valuation provision for slow-moving inventory items is determined, which takes into account the salability of the corresponding products. This system-supported provision is principally based on historical consumption and for certain products additionally on a coverage analysis.

Capitalized development costs

Development costs for own products are capitalized if the capitalization criteria pursuant to Swiss GAAP FER are fulfilled. Management regularly reviews capitalized development costs for impairment. To this end, discounted cash flow analyses are drawn up that are based on assumptions such as the discount rate and forecasts of future income, costs and capital investments in connection with individual projects. As a result of changes in the economic environment and market conditions, the assumptions used in the calculations may deviate from the actual results. These deviations can have a significant influence on the capitalized development costs in future periods.

1 Net sales

The reported net sales consist of the following:

in 1 000 CHF	2019	2018
Products	287 095	258 249
Services	26 620	24 251
Total net sales	313 715	282 500

in 1 000 CHF	2019	2018
Active pharmaceutical ingredients (APIs)	276 612	252 672
Research chemicals (incl. custom synthesis)	37 103	29 828
Total net sales	313 715	282 500

2 Segment information

The presented values are based on the same valuation principles according to Swiss GAAP FER as used for the whole consolidated financial statements.

in 1 000 CHF	Europe/ Asia	North America	Total segments	Corporate and eliminations	Consolidated values
Sales information 2019					
Net sales third parties	158 564	155 151	313 715	0	313 715
Net sales intersegment	74 208	6 212	80 420	– 80 420	0
Total net sales	232 772	161 363	394 135	– 80 420	313 715
Income information 2019					
Operating income (EBIT)	51 677	17 422	69 099	– 6 739 ¹	62 360
Other information 2019					
Additions in property, plant and equipment and intangible assets	26 158	6 569	32 727	0	32 727
Depreciation and amortization	– 20 625	– 4 249	– 24 874	– 14	– 24 888
Total assets	502 839	171 695	674 534	– 27 390 ²	647 144
Total liabilities	295 743	88 406	384 149	– 184 823 ³	199 326

¹ The amount consists of the operating income from corporate activities of –5 905 kCHF and of eliminations in the value of –834 kCHF.

² The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 271 999 kCHF and of eliminations in the value of –299 389 kCHF.

³ The amount consists of corporate liabilities of 110 509 kCHF and of eliminations in the value of –295 332 kCHF.

in 1 000 CHF	Europe/ Asia	North America	Total segments	Corporate and eliminations	Consolidated values
Sales information 2018					
Net sales third parties	163 439	119 061	282 500	0	282 500
Net sales intersegment	36 366	5 441	41 807	- 41 807	0
Total net sales	199 805	124 502	324 307	- 41 807	282 500
Income information 2018					
Operating income (EBIT)	46 131	14 725	60 856	- 6 047 ¹	54 809
Other information 2018					
Additions in property, plant and equipment and intangible assets	35 243	3 725	38 968	0	38 968
Depreciation and amortization	- 18 696	- 4 129	- 22 825	- 240	- 23 065
Total assets	474 082	147 701	621 783	- 7 083 ²	614 700
Total liabilities	274 528	72 247	346 775	- 116 287 ³	230 488

¹ The amount consists of the operating income from corporate activities of -5 848 kCHF and of eliminations in the value of -199 kCHF.

² The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 266 932 kCHF and of eliminations in the value of -274 015 kCHF.

³ The amount consists of corporate liabilities of 154 133 kCHF and of eliminations in the value of -270 420 kCHF.

Information about geographical areas – net sales third parties		
in 1 000 CHF	2019	2018
Switzerland	23 040	21 968
USA	151 749	115 746
Germany	23 468	24 174
Austria	20 923	14 668
Great Britain	17 601	25 274
Japan	17 038	18 597
Rest of the world	59 896	62 073
Total	313 715	282 500

Net sales are attributed to the individual countries based on the invoice address of the respective customer.

3 Staff costs

in 1 000 CHF	2019	2018
Salaries and wages	- 113 615	- 107 069
Pension expenses	- 7 291	- 6 475
Other social security expenses	- 17 224	- 14 292
Share-based payments	- 1 032	- 641
External staff costs	- 1 642	- 2 104
Other personnel-related costs	- 5 140	- 4 329
Total staff costs	- 145 944	- 134 910

4 Post-employment benefits

Post-employment benefits are based on the regulations and circumstances in each country where Bachem is represented.

The following figures give an overview of the financial position of the pension plans.

Economical benefit/economical obligation and pension expenses in 1 000 CHF	Surplus/deficit	Economical share of the Bachem Group	Change with effect on income statement	Contributions	Pension expenses in staff costs	
	Dec. 31, 2019	Dec. 31, 2019	Dec. 31, 2018	2019	2019	2018
Patronage funds	0	0	0	0	0	0
Plans without surplus/deficit	0	0	0	0	1 095	1 095
Plans with surplus	683	0	0	0	6 196	6 196
Plans with deficit	0	0	0	0	0	0
Plans without own assets	0	0	0	0	0	0
Total	683	0	0	0	7 291	6 475

Employer contribution reserves in 1 000 CHF	Nominal value	Renounced use	Asset according to balance sheet		Change	Result from employer contribution reserves in staff costs	
	Dec. 31, 2019	Dec. 31, 2019	2019	2018	2019	2019	2018
Patronage funds	0	0	0	0	0	0	0
Pension institution	320	0	320	320	0	0	0
Total	320	0	320	320	0	0	0

5 Financial income

in 1 000 CHF	2019	2018
Interest income	94	9
Other financial income	4	2
Foreign exchange result	0	431
Total financial income	98	442

6 Financial expenses

in 1 000 CHF	2019	2018
Interest expenses	- 410	- 470
Other financial expenses	- 85	- 144
Foreign exchange result	- 1 593	0
Total financial expenses	- 2 088	- 614

Other financial expenses mainly include bank charges.

7 Income taxes

in 1 000 CHF	2019	2018
Current taxes	- 7 173	- 5 901
Deferred taxes	967	- 2 092
Total income taxes	- 6 206	- 7 993

The following table shows the difference between the expected Group tax rate (the weighted average tax rate is based on the earnings before taxes of each Group company) and the effective tax rate:

Tax rate reconciliation in %	2019	2018
Expected tax rate	17.6	17.2
Change in tax loss carry-forwards	0.0	0.0
Impact of tax reform Switzerland	- 4.4	0.0
Tax credits and allowances	- 2.9	- 2.9
Non tax deductible expenditures	0.1	0.2
Adjustments for prior periods	- 0.1	0.1
Effective tax rate	10.3	14.6

The expected tax rate has increased compared to the prior year as a consequence of higher profits in countries with higher tax rates.

On May 19, 2019, Swiss voters adopted the Federal Law on Tax Reform and AHV Financing (TRAF). The new regulations on corporate taxation came into force on January 1, 2020, although the reform process at cantonal level had not yet been completed in all cantons relevant to Bachem as of December 31, 2019. Based on the cantonal legislative changes that have already been decided, Bachem has revalued its deferred tax positions. The positive one-time effect from this revaluation of 2.7 million CHF was recognized in the income statement. As soon as the legislative process in all relevant cantons has been completed, the resulting influence will be examined.

At the end of the year, there were deferred tax assets for unused tax loss carry-forwards in the amount of 392 kCHF (2018: 92 kCHF).

Movement of deferred tax liabilities in 1 000 CHF	2019	2018
Deferred tax liabilities at January 1	35 861	34 078
Recognized in income statement	- 1 051	1 811
Currency translation differences	- 18	- 28
Deferred tax liabilities at December 31	34 792	35 861

8 Earnings per share

Earnings per share (EPS) are calculated by dividing net income by the weighted average number of shares outstanding during the reporting period.

Earnings per share	2019	2018
Net income (in 1 000 CHF)	54 164	46 644
Average number of shares outstanding	13 836 379	13 583 637
Earnings per share (in CHF)	3.91	3.43

There are no options, convertible bonds or similar that have a dilutive effect.

9 Trade receivables

in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Trade receivables	84 239	81 696
Provision for impairment of trade receivables	- 290	- 311
Total trade receivables	83 949	81 385

Trade receivables are generally free of interest and due within 30 to 90 days.

The movements on the provision for impairment of trade receivables are as follows:

Movement of provision for impairment of trade receivables in 1 000 CHF	2019	2018
Provision for impairment of trade receivables at January 1	- 311	- 122
Provision for receivables impairment	- 342	- 194
Receivables written off during the year as uncollectable	359	3
Unused amounts reversed	0	0
Currency translation differences	4	2
Provision for impairment of trade receivables at December 31	- 290	- 311

The ageing analysis of trade receivables is as follows:

Ageing analysis in 1 000 CHF	Overdue and not impaired						Overdue and partially impaired	
	Total	Not due	< 31 days	31-60 days	61-90 days	91-180 days	1-180 days	> 180 days
December 31, 2019	84 239	63 437	15 305	4 248	690	228	0	331
December 31, 2018	81 696	72 289	6 494	1 137	347	850	0	579

10 Other current receivables

in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Other receivables	2 782	2 658
Total other current receivables	2 782	2 658

Other receivables contain VAT and withholding tax receivables and other receivables against third parties.

11 Prepaid expenses and deferred income

in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Prepaid expenses and accrued income	2 979	2 145
Total prepaid expenses and accrued income	2 979	2 145

Prepaid expenses and accrued income comprise payments for not yet received services as well as accrued income.

12 Inventories

in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Raw materials	39 962	30 384
Work in progress	22 051	18 002
Semi-finished and finished goods	157 161	147 222
Total inventories	219 174	195 608

The valuation provision in the total amount of 32 475 kCHF (2018: 28 626 kCHF) is included in the above line items. The change as well as the utilization of the provision are included in the cost of goods sold.

13 Property, plant and equipment

2019 in 1 000 CHF	Land and buildings	Installations and laboratory equipment	Other property, plant and equipment	Assets under construction	Total
Cost at January 1	198 057	306 363	19 911	31 759	556 090
Additions	0	0	24	30 024	30 048
Disposals	0	- 324	- 167	0	- 491
Reclassifications	6 346	25 277	3 358	- 34 981	0
Currency translation differences	- 666	- 814	- 62	- 139	- 1 681
Cost at December 31	203 737	330 502	23 064	26 663	583 966
Accumulated at January 1	- 72 986	- 178 920	- 14 389	0	- 266 295
Depreciation	- 4 636	- 16 002	- 1 519	0	- 22 157
Disposals	0	276	138	0	414
Currency translation differences	202	435	37	0	674
Accumulated depreciation at December 31	- 77 420	- 194 211	- 15 733	0	- 287 364
Net book value at December 31	126 317	136 291	7 331	26 663	296 602

2018 in 1 000 CHF	Land and buildings	Installations and laboratory equipment	Other property, plant and equipment	Assets under construction	Total
Cost at January 1	174 387	295 119	18 242	32 756	520 504
Additions	0	0	185	35 210	35 395
Disposals	0	- 165	- 77	0	- 242
Reclassifications	12 257	21 070	2 887	- 36 214	0
Reallocations ¹	11 144	- 9 824	- 1 320	0	0
Currency translation differences	269	163	- 6	7	433
Cost at December 31	198 057	306 363	19 911	31 759	556 090
Accumulated depreciation at January 1	- 59 558	- 171 817	- 14 609	0	- 245 984
Depreciation	- 4 590	- 14 627	- 1 119	0	- 20 336
Disposals	0	141	66	0	207
Reallocations ¹	- 8 680	7 420	1 260	0	0
Currency translation differences	- 158	- 37	13	0	- 182
Accumulated depreciation at December 31	- 72 986	- 178 920	- 14 389	0	- 266 295
Net book value at December 31	125 071	127 443	5 522	31 759	289 795

¹ In connection with the introduction of a new ERP system, some property, plant and equipment have been allocated to new categories.

Bachem does not have any undeveloped land.

The carrying amount of fixed assets under finance lease contracts at year-end 2019 amounted to 287 kCHF (2018: 446 kCHF). Depreciation relating to fixed assets under finance lease amounted to 181 kCHF (2018: 176 kCHF).

No assets were pledged for security of own liabilities in 2019 and 2018. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Present value of finance lease liabilities in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Within 1 year	117	176
Between 1 and 5 years	184	284
More than 5 years	0	0
Present value of finance lease liabilities	301	460

The existing finance lease contracts have been concluded in Switzerland and in the USA in the last 4 years. Their remaining durations are between 1 and 4 years. In all cases, the finance lease contracts are related to office and IT equipment.

Operating lease liabilities – minimum lease payments in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Within 1 year	847	756
Between 1 and 5 years	1 643	1 728
More than 5 years	295	448
Total future minimum operating lease payments	2 785	2 932

There are operating leases for office facilities, vehicles and buildings at the moment. The remaining life of the different contracts is between 1 and 7 years.

The recognized expenses for operating leases in the consolidated income statement 2019 was 1 000 kCHF (2018: 775 kCHF).

14 Intangible assets

2019 in 1 000 CHF	Software	Capitalized development costs	Other intangible assets	Total
Cost at January 1	40 449	2 660	526	43 635
Additions	2 679	0	0	2 679
Disposals	- 128	0	- 480	- 608
Currency translation differences	- 62	0	0	- 62
Cost at December 31	42 938	2 660	46	45 644
Accumulated amortization at January 1	- 27 131	- 2 455	- 526	- 30 112
Amortization	- 2 662	- 69	0	- 2 731
Disposals	128	0	480	608
Currency translation differences	49	0	0	49
Accumulated amortization at December 31	- 29 616	- 2 524	- 46	- 32 186
Net book value at December 31	13 322	136	0	13 458

2018 in 1 000 CHF	Software	Capitalized development costs	Other intangible assets	Total
Cost at January 1	36 857	2 660	526	40 043
Additions	3 573	0	0	3 573
Disposals	- 3	0	0	- 3
Currency translation differences	22	0	0	22
Cost at December 31	40 449	2 660	526	43 635
Accumulated amortization at January 1	- 24 688	- 2 386	- 298	- 27 372
Amortization	- 2 432	- 69	- 228	- 2 729
Disposals	3	0	0	3
Currency translation differences	- 14	0	0	- 14
Accumulated amortization at December 31	- 27 131	- 2 455	- 526	- 30 112
Net book value at December 31	13 318	205	0	13 523

15 Trade payables

in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Trade payables	18 189	9 902
Total trade payables	18 189	9 902

In general, trade payables are free of interest and paid within the given payment terms. The predominant majority of the outstanding trade payables is due within the first 30 days after the balance sheet date.

16 Other current liabilities

in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Other liabilities	14 016	10 839
Prepayments	3 488	2 714
Total other current liabilities	17 504	13 553

Other current liabilities mainly contain of value added tax liabilities, owed social security charges, liabilities from investment projects, prepayments from customers and other liabilities to third parties.

17 Accrued expenses and deferred income

in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Accrued expenses and deferred income	19 395	17 921
Total accrued expenses and deferred income	19 395	17 921

Accrued expenses and deferred income mainly consist of accruals for staff costs.

18 Financial liabilities

in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Loans from related parties	0	10 000
Bank loans	106 800	140 000
Finance lease liabilities	301	460
Total financial liabilities	107 101	150 460
Thereof current financial liabilities	46 917	150 176
Thereof non-current financial liabilities	60 184	284

The loans from related parties (see note 24) and the bank loans were provided as unsecured business loans in CHF and bear an average interest of 0.3% p.a.

The remaining durations of the bank loans is between 1 and 29 months.

Details concerning finance leases are disclosed in note 13.

19 Maturities of financial liabilities

The following tables show the contractual maturities of financial liabilities as per balance sheet date (discounted cash flows):

December 31, 2019 in 1 000 CHF	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Trade payables	11 657	6 532				18 189
Other current liabilities	10 475	4 770	2 259			17 504
Accrued expenses and deferred income	4 502	884	14 009			19 395
Current income tax liabilities	43	1 626	676			2 345
Current financial liabilities	46 813	35	69			46 917
Non-current financial liabilities				60 184	0	60 184

December 31, 2018 in 1 000 CHF	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Trade payables	8 020	1 882				9 902
Other current liabilities	10 007	1 251	2 295			13 553
Accrued expenses and deferred income	3 609	6 592	7 720			17 921
Current income tax liabilities	88	1 500	1 203			2 791
Current financial liabilities	81 015	29	69 132			150 176
Non-current financial liabilities				284	0	284

20 Share capital

The share capital is divided into 7 002 059 shares Bachem A (50.01% of share capital) and 6 997 941 shares Bachem B (49.99% of share capital). The shares Bachem B are traded at the SIX Swiss Exchange in Zurich under valor number 1 253 020. There are no differences between the two share categories except the listing of the Bachem B shares at the SIX Swiss Exchange. All shares are registered shares which are eligible to vote and entitled to dividend. All Bachem A shares are owned by Ingro Finanz AG. The important shareholders are listed in the notes to the financial statements of Bachem Holding AG in note 8 on page 102.

Shares Bachem A	Dec. 31, 2019	Dec. 31, 2018
Number of shares	7 002 059	6 802 000
Number of fully paid-in shares	7 002 059	6 802 000
Par value per share (in CHF)	0.05	0.05
Shares Bachem B		
Number of shares	6 997 941	6 798 000
Number of fully paid-in shares	6 997 941	6 798 000
Par value per share (in CHF)	0.05	0.05
Total number of shares	14 000 000	13 600 000
Total share capital (in CHF)	700 000	680 000

On May 8, 2019, the share capital was increased by 400 000 shares (200 059 registered shares A and 199 941 registered shares B) with a nominal value of 0.05 CHF per share. The placement price per share was 120.00 CHF. The transaction costs of the capital increase amounted to 897 kCHF (before taxes).

On December 31, 2019, Bachem Holding AG held 8 250 own shares, which are reserved for distribution under the employee participation plans.

Own shares	Dec. 31, 2018	Purchases/ backslide of blocked shares	Sales/transfer to employees	Dec. 31, 2019
Number				
Employee participation plans at the price of 0.05 CHF	14 858	0	- 6 608	8 250
Treasury stock	0	0	0	0
Total own shares	14 858	0	- 6 608	8 250

Outstanding shares	Dec. 31, 2019	Dec. 31, 2018
Total number of shares	14 000 000	13 600 000
Number of own shares Bachem B	- 8 250	- 14 858
Total shares outstanding	13 991 750	13 585 142

21 Share-based payment

The employee and management participation plans are described in the accounting policies on pages 76 and 77. The recognized expenses for share-based payments in the reporting period amounted to 1 032 kCHF (2018: 641 kCHF).

In 2019 and 2018, the following number of shares was granted:

Shares granted Number/CHF	2019	2018
Number of granted shares	6 608	6 508
Average fair value per share at grant date in CHF	110.80	128.80

Bachem holds own shares in order to meet its obligations under the employee participation plans. For the change in the number of Bachem shares outstanding, please refer to note 20.

22 Dividend distribution

On April 16, 2019, a dividend of 37 377 kCHF respectively 2.75 CHF per share was distributed for the year 2018 (previous year: 37 359 kCHF respectively 2.75 CHF per share). Of the total dividend in the amount of 37 377 kCHF (previous year: 37 359 kCHF), 27 377 kCHF (previous year: 27 359 kCHF) were paid out and 10 000 kCHF (previous year: 10 000 kCHF) remained as a loan (see note 24).

The Board of Directors will propose a dividend of 3.00 CHF per share or a total of 41 975 kCHF on 13 991 750 shares entitled to dividend, to the Annual General Meeting for the year 2019. The number of shares entitled to dividend may change until the Annual General Meeting on April 22, 2020, due to the granting of shares to employees or the purchase/sale of own shares.

23 Consolidated companies

Consolidated company	Country	Currency	Registered capital	Equity share Dec. 31, 2019	Equity share Dec. 31, 2018
Bachem Holding AG, Bubendorf	Switzerland	CHF	700 000	100%	100%
Bachem AG, Bubendorf	Switzerland	CHF	25 000 000	100%	100%
Bachem Distribution Services GmbH, Weil am Rhein	Germany	EUR	128 000	100%	100%
Bachem (UK) Ltd., St. Helens	England	GBP	2 500	100%	100%
Bachem Americas, Inc., Torrance	USA	USD	3 000	100%	100%
Peninsula Laboratories, LLC, San Carlos	USA	USD	32 000	100%	100%
Bachem Japan K.K., Tokyo	Japan	JPY	10 000 000	100%	100%

24 Related party transactions

Breiten Immobilien AG, Chemoforma AG, Hotel Bad Schauenburg AG, Ingro Finanz AG, MFC Beteiligungs AG, Peninsula Laboratories International, Inc., the pension fund of the Swiss Group Companies, Sunstar Group as well as the Board of Directors, and the Corporate Executive Committee of Bachem Holding AG are considered related parties. The following tables show an overview of the transactions and balances with related parties:

Transactions in 1 000 CHF	2019	2018
Breiten Immobilien AG (lease of business premises)	-450	-298
Breiten Immobilien AG (rendering of services)	16	15
Chemoforma AG (purchase of goods)	0	-2
Hotel Bad Schauenburg AG (seminars)	-9	-21
Ingro Finanz AG (dividend paid out)	-10 752	-10 752
Ingro Finanz AG (dividend converted into loan)	-10 000	-10 000
Ingro Finanz AG (interest paid on loan)	-20	-46
Peninsula Laboratories International, Inc. (sale of goods)	8	1
Pension fund in Switzerland (employer's contribution)	-6 196	-5 670
Sunstar Group (seminars)	-45	0
Total transactions with related parties	-27 448	-26 773

Balances in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Ingro Finanz AG	0	-10 000
Total balances with related parties	0	-10 000

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

25 Theoretical goodwill

Goodwill is offset against retained earnings at the time of purchase of a subsidiary. The theoretical capitalization of goodwill, based on a useful life of 5 years, would have the following impact on the consolidated balance sheet:

Theoretical goodwill in 1 000 CHF	2019	2018
Theoretical cost at January 1	1 352	1 352
Additions from acquisitions	0	0
Theoretical cost at December 31	1 352	1 352
Theoretical accumulated amortization at January 1	- 1 013	- 743
Theoretical amortization	- 270	- 270
Theoretical accumulated amortization at December 31	- 1 283	- 1 013
Theoretical net book value of goodwill at December 31	69	339

Acquisitions are translated into CHF with the exchange rate applicable on their respective transaction dates. As a result of this procedure, no currency adjustments are necessary in the above statement of changes in goodwill.

Had goodwill been capitalized and amortized, the theoretical effect on net income would have been as follows:

in 1 000 CHF	2019	2018
Net income according to income statement	54 164	46 644
Theoretical amortization of goodwill	- 270	- 270
Theoretical net income after amortization of goodwill	53 894	46 374

26 Contingent liabilities and other commitments

There are no contingent liabilities or other commitments at the balance sheet date.

27 Events after the balance sheet date

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Bachem Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2019 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 68 to 94) give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

- Inventory provision

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INVENTORY PROVISION

KEY AUDIT MATTER

Inventories amount to CHF 219.2 million after the deduction of an inventory provision of CHF 32.5 million representing 34% of the total assets.

We consider the valuation of inventories as key audit matter given the magnitude of this balance sheet position and the judgement involved in determining the required product category based inventory provision for slow movers and products with a lower net realizable value.

The inventory provision is determined system based on an item by item basis on historical consumption and additionally for certain products on a days-of-inventory analysis. Additional inventory provisions are recorded on a case by case basis.

Please refer to page 74 (Accounting policies), page 79 (Critical accounting estimates and assumptions) and page 85 (12 Inventories) in the annual report.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We performed the following audit procedures:

- Assessment of the existence and effectiveness of the key controls applied in relation to the determination of the system based and item by item based inventory provision.
- We discussed and assessed the key assumptions made by Bachem in relation to the system based inventory slow-mover provision calculation.
- We tested the system-based calculation of the inventory provision and the completeness and accuracy of the slow-mover report on a sample basis.
- We discussed the requirement for inventory provisions recorded on a case by case basis with Bachem and tested supporting information on a sample basis.
- Further, we assessed Bachem's net realizable value analysis comparing the production costs with the estimated selling price less cost to sell and tested the estimated selling price with sales invoices on a sample basis.

Based on the audit procedures performed, we have addressed the risk of an incorrect inventory provision. We have no audit findings to report.

Other Matter

The consolidated financial statements of Bachem Holding AG for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 20, 2019.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

Zurich, February 19, 2020

MAZARS AG

Cyprian Bumann
Licensed Audit Expert
Auditor in Charge

Roger Leu
Licensed Audit Expert

INCOME STATEMENT

For the years ended December 31

in 1 000 CHF	Notes	2019	2018
Income			
Income from investments	1	23 510	21 661
Income from licenses		24 597	22 476
Interest income	2	3 424	3 398
Other income		16	22
Other financial income	3	0	180
Total income		51 547	47 737
Expenses			
Staff costs		- 3 728	- 3 531
Administration expenses		-6 370	-6 133
Interest expenses	4	- 393	- 446
Other financial expenses	5	- 1 791	- 43
Depreciation and amortization		- 14	- 12
Total expenses		- 12 296	- 10 165
Ordinary net income before taxes		39 251	37 572
Taxes		- 1 592	- 1 595
Net income for the year		37 659	35 977

BALANCE SHEET

At December 31, 2019 and 2018

in 1 000 CHF	Notes	Dec. 31, 2019	Dec. 31, 2018
Assets			
Cash and cash equivalents		490	7 421
Other receivables from third parties		515	763
Other receivables from group companies		5 009	6 913
Prepaid expenses and accrued income from third parties		49	3
Prepaid expenses and accrued income from group companies	1	20 000	18 000
Total current assets		26 063	33 100
Loans to group companies		245 574	233 458
Investments	6	115 397	115 397
Property, plant and equipment		4	7
Intangible assets		37	47
Total non-current assets		361 012	348 909
Total assets		387 075	382 009
Liabilities and equity			
Current interest-bearing liabilities	7	46 800	150 000
Other current liabilities to third parties		238	151
Other current liabilities to group companies		1 215	1 097
Deferred income and accrued expenses		2 661	3 217
Total current liabilities		50 914	154 465
Non-current interest-bearing liabilities	7	60 000	0
Total non-current liabilities		60 000	0
Total liabilities		110 914	154 465
Share capital	11	700	680
Statutory capital reserves			
Reserves from capital contribution	11	50 059	1 745
Other capital reserves		6 334	6 334
Statutory retained earnings		136	136
Voluntary retained earnings		102 669	102 669
Available earnings			
Net income brought forward		78 604	80 004
Net income for the year		37 659	35 977
Own shares	10	0	- 1
Total equity		276 161	227 544
Total liabilities and equity		387 075	382 009

NOTES TO THE FINANCIAL STATEMENTS OF BACHEM HOLDING AG

Accounting policies

General information

These financial statements were prepared in accordance with the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Significant valuation principles that have been applied in the preparation of these financial statements which are not prescribed by law are described below.

Presentation of cash flow statement and additional disclosures in the notes dispensed with

As Bachem Holding AG has prepared consolidated financial statements under a recognized accounting standard (Swiss GAAP FER), it has decided, in accordance with the law, to dispense with the presentation of information on interest-bearing liabilities and audit fees in the notes, a cash flow statement, and an annual review.

Valuation principles

Assets are valued at no more than cost. Liabilities are carried at nominal value.

All assets and liabilities in foreign currencies are translated by applying the exchange rate prevailing on the balance sheet date. Exchange differences are recognized in the income statement.

Earnings and expenses originating in foreign currencies are translated at the exchange rate prevailing on the respective transaction dates.

Income from investments

Income from investments comprises dividends from Group companies and other income from investments as well as management fees from Group companies.

Investments

Investments are shown at historical acquisition costs less impairment, if any. They are usually valued individually unless they are considered to be one economic entity and thus combined into one group.

Own shares

Own shares are recognized in equity as a negative item at cost as per the date of acquisition. Upon subsequent sale, any gain or loss is recognized in capital reserves in equity.

Share-based payments

Part of the variable compensation paid to members of the Corporate Executive Committee and part of the compensation paid to members of the Board of Directors is in the form of Company shares. The acquisition cost of the shares is recorded under personnel expense.

1 Income from investments

in 1 000 CHF	2019	2018
Dividend income	20 000	18 229
Other income from investments	3 510	3 432
Total income from investments	23 510	21 661

On February 7, 2020, the ordinary Annual General Meeting from Bachem AG has decided to distribute a dividend in the amount of 20 000 kCHF for the business year 2019 to its sole shareholder, Bachem Holding AG. Following an economical approach, this entitlement to profits, respectively income from investment has already been recorded by Bachem Holding AG in this year's financial statements 2019 simultaneous to the disclosure of the profit in the books of the 100% subsidiary Bachem AG. The corresponding income is shown in the line dividend income and the corresponding accrual in the line prepaid expenses and accrued income from group companies.

2 Interest income

in 1 000 CHF	2019	2018
Interest income group companies	3 424	3 397
Interest income third parties	0	1
Total interest income	3 424	3 398

3 Other financial income

in 1 000 CHF	2019	2018
Foreign exchange result	0	180
Total other financial income	0	180

4 Interest expenses

in 1 000 CHF	2019	2018
Interest expenses third parties	-373	-412
Interest expenses shareholders	-20	-34
Total interest expenses	-393	-446

5 Other financial expenses

in 1 000 CHF	2019	2018
Bank service charges	– 13	– 43
Transaction costs capital increase	– 897	0
Foreign exchange result	– 881	0
Total other financial expenses	– 1 791	– 43

Further details related to the capital increase are disclosed in note 11.

6 Investments

Company	Location	Capital and voting share Dec. 31, 2019	Capital and voting share Dec. 31, 2018
Bachem AG	Bubendorf, Switzerland	100%	100%
Bachem Distribution Services GmbH	Weil am Rhein, Germany	100%	100%
Bachem (UK) Ltd.	St. Helens, England	100%	100%
Bachem Americas, Inc.	Torrance, USA	100%	100%
Peninsula Laboratories, LLC	San Carlos, USA	100%	100%
Bachem Japan K.K.	Tokyo, Japan	100%	100%

All companies are directly or indirectly held with 100%.

7 Interest-bearing liabilities

in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Bank loans	106 800	140 000
Loans from shareholders	0	10 000
Total interest-bearing liabilities	106 800	150 000
Thereof current bank loans	46 800	150 000
Thereof non-current bank loans	60 000	0

8 Important shareholders

Based on the available information, the following shareholders own more than 3% of the registered share capital:

Percentage of total share capital	Dec. 31, 2019	Dec. 31, 2018
P. Grogg (via Ingro Finanz AG) ¹	55.7	55.5
Family of P. Grogg	5.9	6.1
Total important shareholders	61.6	61.6

¹ In this position, all shares A are included.

9 Ownership of shares and options of the Board of Directors and the Corporate Executive Committee

	Number of free shares	Number of blocked shares	Number of shares total	Shares allocated in reporting period
December 31, 2019				
Kuno Sommer (Chairman)	7 500		7 500	300
Nicole Grogg Hötzer (Vice-Chairwoman)	87 800		87 800	300
Jürgen Brokatzky-Geiger (Member)	3 000		3 000	300
Thomas Burckhardt (Secretary)	1 000		1 000	300
Rolf Nyfeler (Member)	48 700		48 700	300
Helma Wennemers (Member)	1 650		1 650	300
Total Board of Directors	149 650	0	149 650	1 800
Thomas Früh (CEO) ¹	6 009	1 680	7 689	449
Günther Loidl (CTO)	1 197	1 142	2 339	305
Thomas Meier (COO)	1 565	659	2 224	232
Stephan Schindler (CFO)	4 120	1 180	5 300	314
Anne-Kathrin Stoller (CMO)	1 154	650	1 804	300
Total Corporate Executive Committee	14 045	5 311	19 356	1 600
Total	163 695	5 311	169 006	3 400
	Number of free shares	Number of blocked shares	Number of shares total	Shares allocated in reporting period
December 31, 2018				
Kuno Sommer (Chairman)	7 000		7 000	300
Nicole Grogg Hötzer (Vice-Chairwoman)	87 500		87 500	300
Jürgen Brokatzky-Geiger (Member)	2 700		2 700	300
Thomas Burckhardt (Secretary)	20		20	300
Rolf Nyfeler (Member)	51 600		51 600	300
Helma Wennemers (Member)	1 350		1 350	300
Total Board of Directors	150 170	0	150 170	1 800
Thomas Früh (CEO) ¹	4 767	2 473	7 240	466
Alex Fässler (COO) ¹	5 549	1 946	7 495	391
Günther Loidl (CTO)	349	1 685	2 034	317
Stephan Schindler (CFO)	3 097	1 739	4 836	328
Anne-Kathrin Stoller (CMO)	751	702	1 453	128
Total Corporate Executive Committee	14 513	8 545	23 058	1 630
Total	164 683	8 545	173 228	3 430

¹ Ownership of shares incl. related parties.

The shares of the Board of Directors have no blocking period.

10 Own shares

Details to the holding and the changes in own shares are disclosed in the notes 20 and 21 of the consolidated financial statements.

11 Capital increase

On May 8, 2019, the share capital was increased by 400 000 shares (200 059 registered shares A and 199 941 registered shares B) with a nominal value of 0.05 CHF per share. The placement price per share was 120.00 CHF. The transaction costs of the capital increase in the amount of 897 kCHF were recognized in the line other financial expenses in the income statement.

12 Full-time positions

The average number of full-time positions during the reporting and the prior year was below 50.

13 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 and Bachem Holding AG. The entity is solidly liable for all taxes relating to value added tax inclusive interests, during the taxation as a group.

14 Events after the balance sheet date

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

APPROPRIATION OF AVAILABLE EARNINGS

Proposal of the Board of Directors for the appropriation of available earnings and for the appropriation of reserves from capital contribution

Appropriation of available earnings

Net income brought forward at January 1	CHF	78 604 243.19
Net income for the year 2019	CHF	37 658 874.19
Available to the Annual General Meeting	CHF	116 263 117.38
Allocation to the statutory retained earnings	CHF	4 000.00
Dividend payment of 1.50 CHF per registered share for the business year 2019 on 13 991 750 registered shares entitled to dividend	CHF	20 987 625.00
Net income to be carried forward	CHF	95 271 492.38

Appropriation of reserves from capital contribution

Balance before appropriation of reserves from capital contribution	CHF	50 059 346.88
Transfer to free reserves for dividend payment of 1.50 CHF per registered share for the business year 2019 on 13 991 750 registered shares entitled to dividend	CHF	20 987 625.00
Reserves from capital contribution to be carried forward	CHF	29 071 721.88

The total amount of dividend mentioned in the proposal of the Board of Directors has been calculated on the basis of numbers of shares entitled to dividend on the day of the Board meeting. The number of shares entitled to dividend can still change up to the Annual General Meeting on April 22, 2020, depending on the distribution of shares to employees or purchase/sale of own shares.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bachem Holding AG, which comprise the balance sheet as at December 31, 2019, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion the financial statements (pages 98 to 104) as at December 31, 2019 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

- Valuation of investments and loans to group companies

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

VALUATION OF INVESTMENTS AND LOANS TO GROUP COMPANIES

KEY AUDIT MATTER

As of December 31, 2019, the Company reports investments of CHF 115.4 million and loans to group companies of CHF 245.6 million. We consider the valuation of these balance sheet items as key audit matter for the following reasons:

- These items are significant and represent 93% of the total assets.
- The valuation of investments and loans to group companies depends on the financial substance and profitability of the subsidiaries. The impairment test of the investments and loans includes judgement in determining the assumptions on the future performance of the business.

Please refer to page 100 (Accounting policies) and page 102 (6 Investments) in the annual report.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We have performed the following audit procedures:

- For loans to group companies we tested the recoverability of the recognised amounts by comparing them with the debtor's net assets at Swiss GAAP FER book values.
- We assessed the carrying value of the investments individually item-by-item based on the Swiss GAAP FER net asset value, the net profit of the year and the budget.
- We evaluated the underlying budgeting process and the Board of Director's approval.
- We have compared, based on Bachem Holding AG's share price, the market capitalization of the group with the carrying value of the investments and loans to group companies, as they are considered to represent the relevant value of Bachem group.

Based on the audit procedures performed, we have addressed the risk of incorrect valuation of the investments and loans. We have no audit findings to report.

Other Matter

The financial statements of Bachem Holding AG for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 20, 2019.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Zurich, February 19, 2020

MAZARS AG

Cyprian Bumann
Licensed Audit Expert
Auditor in Charge

Roger Leu
Licensed Audit Expert

SHAREHOLDER INFORMATION

		2019	2018	2017	2016	2015
Number of registered shares, nom. 0.05 CHF		14 000 000	13 600 000	13 600 000	13 600 000	13 600 000
Average number of shares outstanding		13 836 379	13 583 637	13 571 842	13 545 983	13 532 178
Dividend per share	CHF	3.00 ¹	2.75	2.75	2.50	2.25
Share price	High	CHF 158.60	160.80	154.00	97.95	53.90
	Low	CHF 107.20	108.20	91.80	49.55	41.80
	Year-end	CHF 154.80	113.60	154.00	90.30	51.90
Dividend yield per share	%	1.9	2.4	1.8	2.8	4.3
Earnings per share (EPS)	CHF	3.91	3.43	3.08	3.04	2.35
Cash flow from operating activities per share	CHF	4.64	1.90	2.69	2.98	4.54
Group equity per share	CHF	32.37	28.28	27.57	26.97	26.11
Price/earnings ratio (year-end)		39.59	33.12	50.00	29.70	22.09
Market capitalization at year-end	MCHF	2 167	1 545	2 094	1 228	706

¹ Proposal to the Annual General Meeting of April 22, 2020

Bachem registered shares are traded at the SIX Swiss Exchange.

Valor number: 1253 020; SIX: BANB; Reuters: BANB.S; Bloomberg: BANB SW.

Distribution of shares

Number of shares per shareholder	Dec. 31, 2019	Dec. 31, 2018
0–100	1 608	1 792
101–1 000	1 873	2 070
1 001–10 000	267	263
10 001–100 000	37	35
100 001–1 000 000	9	8
1 000 001 and more	1	1
Total	3 795	4 169

Shareholdings

in %	Dec. 31, 2019	Dec. 31, 2018
Major shareholders	61.6	61.6
Institutional shareholders	17.6	16.7
Private individuals	10.3	11.7
Dispo	10.5	10.0
Total	100.0	100.0

Events

Annual General Meeting

(business year 2019)

April 22, 2020

Payout Date for Dividend

April 28, 2020

Half-Year Report 2020

August 21, 2020

Annual Report 2020

March 2021

Annual General Meeting

(business year 2020)

April 2021

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Forward-looking statements

Forward-looking statements contained herein are qualified in their entirety and are of only limited validity. Investors are cautioned that all forward-looking statements involve risks and uncertainty. There are certain factors that could cause results to differ materially from those anticipated. This includes as well the timing and strength of new product offerings, pricing strategies of competitors, the Group's ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs, and changes in the political, social and regulatory framework in which the Group operates, or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis.

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