

Peptides –
key for new
medicines

Bachem
Annual Report 2006



As a technology-based biochemicals company, we offer partners from the pharmaceutical and biotechnology industry a comprehensive range of products and services.

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2006 in brief

- Sales at CHF 171.8 million – plus 12.0% in local currencies, plus 11.8% in CHF
- Active pharmaceutical ingredients and research chemicals equally contribute to strong growth
- Operating income grows overproportionately at 18.2%
- Record net income of CHF 46.6 million – up 18.5%
- Increase in dividend to CHF 2.00 and special dividend of CHF 5.00 proposed
- High level of purchase orders and market development promise continued growth in 2007

Peptides are our core business. Our know-how ranges from the first synthesis for research purposes through to production of active ingredients for medicines in conformity with GMP.



Bachem at a glance

Key figures 2006

	2006	2005	Change in %
Sales (in CHF m)	171.8	153.7	11.8%
EBIT (in CHF m)	55.8	47.2 *	18.2%
EBIT in % of sales	32.5%	30.7% *	
Net income (in CHF m)	46.6	39.4 *	18.5%
Net income in % of sales	27.2%	25.6% *	
Earnings per share (EPS – in CHF)	3.54	2.99 *	18.4%
Cash flow from operating activities (in CHF m)	40.2	27.4 *	46.4%
Return on equity (ROE)	12.4%	11.3% *	
Number of employees in full-time equivalents	609	540	
Sales per employee (in CHF)	299 000	292 000	

*restated

Sales (in CHF m)

2002	149.9
2003	144.6
2004	147.8
2005	153.7
2006	171.8

EBIT (in CHF m)

2002	48.3
2003	48.4
2004	41.5
2005	47.2 *
2006	55.8

Net income (in CHF m)

2002	33.5
2003	37.3
2004	30.7
2005	39.4 *
2006	46.6

*restated



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



Dear Shareholders

A year ago we held out the prospect in 2006 of a sustained dynamic growth of our business. We did not promise too much. In the past year we have achieved new record figures. With a growth of 11.8 percent in Swiss francs and 12.0 percent in local currencies, sales climbed to CHF 171.8 million. As expected, both operating and net income showed overproportionately high increases of 18.2 and 18.5 percent in Swiss francs, reaching CHF 55.8 million and CHF 46.6 million, respectively. The net income margin thus rose further from 25.6 percent in 2005 to 27.2 percent in 2006, an outstanding figure both by national and international standards. These gratifying results were achieved through the consistent expansion of our core business and continuous improvement in our performance.

Business segments and markets

In operational terms, active pharmaceutical ingredients (APIs) contributed to sales growth with plus 10.1 percent and research chemicals with plus 18.5 percent, in Swiss francs. Particularly noteworthy is the approximately 50 percent jump in sales for patent-protected peptide active ingredients and the positive growth in research chemicals, especially in custom synthesis, for which a sales decline was reported just a year ago. Both developments confirm not only the increasing interest in peptides as medicines, but also the success of the strategy we have been pursuing for many years, namely to gain access as early as possible to projects with potential new APIs for innovative medicines.

Measured by this outstanding performance, only the business with non-peptide generics mainly produced at Sochinaz declined, with an 8 percent fall in sales in Swiss francs as a result of increasing

competition from China and India. With our first orders for the production of cytotoxic substances and the increased use of capacity for our established business, the measures we initiated are already beginning to take effect.

Geographically, the positive trend in Europe continued with a sales growth of 16.2 percent in Swiss francs. What at first glance appears to be a weaker performance in the USA, with a growth of 5.7 percent in local currencies, is the result of two diametrically opposed developments. The API business from local production increased substantially thanks not least to the new production capacity. This contrasts with a likewise marked decrease in sales with the APIs manufactured in Switzerland, following the abandonment of development work for a new product with one of our customers and the delay in delivery of planned quantities of a generic peptide with another customer. The fact that we could more than compensate for the negative impact of these two projects confirms us in our intention to take systematic advantage of the opportunities offered by the US market with the expansion of local capacity.

Operating income, net income and dividend

Thanks to the overproportionate and high double-digit growth in operating income, the EBIT margin increased further and, at 32.5 percent, now lies well above the minimum target of 30 percent aimed at as a long-term trend. Net income increased to the record sum of CHF 46.6 million.

As announced a year ago, we want to provide you, dear shareholders, with the opportunity to enjoy an increased share in

- Record results for sales, operating income and net income
- Increase in dividend and special dividend proposed to the Annual General Meeting
- Focus on core business based on unique positioning and incomparable range of products and services
- Excellent prospects for further business growth

the freely disposable funds of the company. In view of the good prospects for our core business, we set great store by organic growth and do not envisage any expansion in the near future through acquisitions for which we would have to fall back on these funds. The Board of Directors will therefore propose to the Annual General Meeting not only an increase in the dividend from CHF 1.50 to CHF 2.00, but also the payment of a special dividend of CHF 5.00. This proposal is based on the conviction that the profitability and efficiency of the current business and the expected further growth will also assure in the future to generate the cash flow needed for the planned continuous development of our leading position in the market. At the same time, we see this as a way of further enhancing the attractiveness of Bachem as an investment and thus contributing to the shareholder value.

Employees and investments

In view of the good business performance and excellent prospects for our company, 2006 was accompanied by major investments in the future. In the forefront of these investments came the human resources that are so important for our technology company. With 69 new full-time positions, the number of employees increased as never before in the history of Bachem. At the end of 2006, we had a total of 609 full-time equivalent positions occupied worldwide. The additional positions were distributed almost equally between our main European production center at Bubendorf, Switzerland, and at Bachem California in Torrance, USA.

This development of course poses new challenges for our company. The integration of new employees, ongoing training and continuing education, assurance of

quality and safety standards and the timely fulfillment of all our orders are a challenge to each and every one of us in the organization. The results achieved on the one hand and the further improvement in occupational safety indicators on the other show that everyone excelled in the performance of their duties. We take this opportunity to offer our sincere thanks to all our employees for this achievement.

Investments in tangible assets were further concentrated on the expansion of capacity in Bubendorf and Torrance. The total capital expenditure of CHF 30.8 million here was shared equally between these two centers. In Torrance, a further stage in the expansion of capacity was completed in the year under review. The new production capacity is already being well utilized. In Bubendorf, too, a constantly high utilization of plant capacity was reported.

Outlook for 2007

A glance at research and development projects in the pharmaceutical and biotechnology sectors shows that peptides are an important source of innovative medicines for medical needs that remain unmet to date. We have devoted the following pages of this report to this theme. With our specialist knowledge and our full-service offer, we are ideally positioned to play an important part in the implementation of new projects and, after successful regulatory approval, to ensure that our partners are supplied with the quantities of active ingredients needed for the commercialization of their medicines. In addition, with our competence in the efficient manufacture of established products, we offer a combination of skills that is unique in the market.

The latest successes, especially in custom synthesis, confirm our new dynamic growth in this field. At the same time, they provide us with early access to new projects and the development of our know-how to the advantage of our customers and in the interest of long-term business relations. Today, we thus have a highly promising portfolio of new projects, both with established generic peptides and with novel structures. The positive prospects are also supported by advances in product development with our customers, right through to marketing authorization, and also by long-term supply agreements with well-known partners. Overall, the level of orders at the end of 2006 was thus still above the record level a year before.

All this suggests that growth will also be sustained in the current year. We aim to make the most of our opportunities and to present further successes to you in 2007. We thank you for your support and loyalty on this path.



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



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

In spite of all the medical advances that have been made, new and innovative medicines are in demand as never before. While the treatment options for diseases such as cancer, diabetes and osteoporosis have increased, there is still a high therapeutic need for innovations, especially for disorders whose treatment remains an unsolved problem, such as Alzheimer's disease. Many companies – not only large global corporations, but also small start-up companies – are engaged in this search. New findings in the fields of molecular biology, functional genomics and proteomics research have brought a particular class of substances into the focus of interest: the peptides. Made up of amino acids, peptides are quasi-endogenous substances that can induce specific reactions in the human body. But what sounds easy as a concept is a highly complex task in practice.

How peptides work

Peptides occur naturally, both as hormones which regulate many functions of the body and as neuropeptides which influence the processes of the nervous system. Like proteins, peptides consist of chains of amino acids. They play a vitally important role in the control of many physical and mental processes. For example, peptides control the water balance of the body, measure and monitor body temperature, check the functions of the cardiovascular system, the gastrointestinal tract and the bladder, regulate food and liquid intake, transmit pain signals and are responsible for the development of emotions such as anger and aggression. They are highly active and very specific. The high degree of biological activity shown by peptides is also reflected in many animal toxins, which consist of peptide mixtures. For example, scorpions, snakes, frogs and sea anemones use peptides to keep their enemies at bay. In humans, peptides are produced in organs such as the hypothalamus, an area of the interbrain, or the pituitary. They are secreted in very small quantities as needed and have a very short residence time in the body. They

are transported via the blood stream to the target organ, such as the pituitary, the adrenal cortex, the thyroid, the pancreas or the intestinal wall, where they exert their effect by means of a specific interaction with proteins, the so-called receptors. This often stimulates the target organ to secrete further substances, which in turn induce or abolish other processes. Biological processes are usually kept in balance by the interplay between stimulatory and inhibitory signals. One example is seen with the peptide hormones which signal hunger to the brain, thus stimulating the body to take in food, and their counterparts which signal satiation and prompt the end of food intake. These molecules are under discussion today as potential therapeutic leads for the treatment of diabetes and obesity.

How peptides occur

Peptides occur in the body through highly complex mechanisms. But today they can also be manufactured by means of chemical synthesis and, to a limited extent, also by fermentation in biological systems. In chemical synthesis, the peptide chain is built up over several steps out of individual amino acid building blocks. The method of classical peptide synthesis in solution that was originally used has been supplemented and, to a substantial extent, developed further by synthesis on solid supports. This also allows a certain degree of automation, which enables production times to be reduced especially for smaller quantities also of complex structures. With the combination of classical synthesis in solution or recently developed ligation techniques with solid-phase synthesis, the synthetic manufacture is already possible today for peptides the size of relatively small proteins. What sounds easy in theory, however, is usually a highly complex task in practice. In particular the manufacture of peptides as therapeutic active substances - i.e. as substances in the quantity and quality demanded by manufacturers and authorities alike - calls for a great deal of know-how and experience, both in the selection of the synthesis strategy and also in the actual manufacture, purification and characterization of the substances. Only with an optimum sequence of the steps in the synthesis process and their exact implementation can undesired by-products or even total failure be avoided. Owing to their complexity, peptides can take several months and over 100 individual steps to be manufactured as active pharmaceutical ingredients in kg quantities.



Bachem has been active in the field of peptides for almost 40 years. As a leading supplier with comprehensive know-how, we are an established partner of pharmaceutical and biotechnology companies worldwide.



The most important peptide-based drugs on the market

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

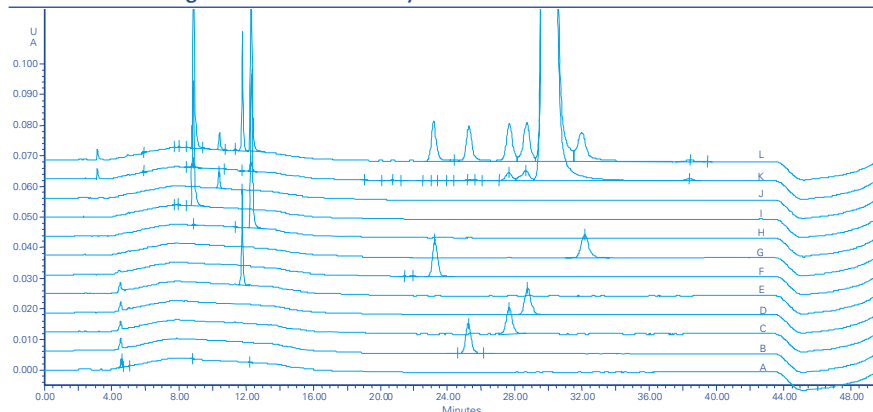


Successes to date

The first medicines to be manufactured on the basis of peptide active ingredients were based on the administration of natural peptides. Oxytocin, for example, is an endogenous hormone (i.e. a hormone produced by the body) which induces labor pain in childbirth and is also responsible for the engorgement of breast milk. It is used in clinical obstetrics as a medicine in tablet form, as a nasal spray or an intravenous injection. Calcitonin, a hormone produced by the thyroid gland, plays a key role in calcium metabolism. It is used to treat osteoporosis, especially in postmenopausal women. The largest group of peptide-based medicines today, in terms of sales, is the group comprising the so-called luteinizing hormone releasing hormone (LHRH) and its analogs. They are mostly used for treating cancer of the prostate and breast cancer. The limited bioavailability and relatively short residence time in the body – properties that play a crucial role for medicines – have been substantially improved by selective modifications to their natural structure. For this reason, numerous modified peptides have been developed from LHRH and have received market approval by the authorities.

Scanning electron micrograph of a breast cancer cell

HPLC-Chromatograms: HPLC-Overlays of a method validation



Diabetes is a disorder in which the body's own mechanisms for regulating the blood sugar have spun out of control. There are two peptide-based medicines on the market for treating diabetes. Whereas one is an analog of the natural peptide amylin, the other was originally identified as an ingredient of the venomous *Heloderma* lizard (Gila monster). Both medicines fundamentally differ from conventional diabetes treatments in their mode of action and are regarded as pioneering developments for the treatment of a clinical picture which has to be described today as almost of epidemic proportions. Apart from its influence on the blood sugar concentration, the amylin derivative also has positive effects on the weight of patients. In view of the observed weight loss during the treatment of diabetes, clinical studies with this peptide have now been started also in the treatment of obesity.

According to their broadly diversified natural functions in the healthy body, peptides are either already on the market or are currently undergoing clinical studies for the treatment of a wide range of diseases. But there are also peptides that have already been approved for the market which belong to new classes of active substance. These include, for example, the so-called fusion inhibitors, which prevent the human immunodeficiency virus (HIV) from entering the target cell and are used in combination with other medicines to treat HIV patients.

Recent applications of peptides as active pharmaceutical ingredients derive from the chemical linking of peptidic and cytotoxic molecules. While the peptide component finds the target organ, e.g. a tumor, with a high degree of selectivity,

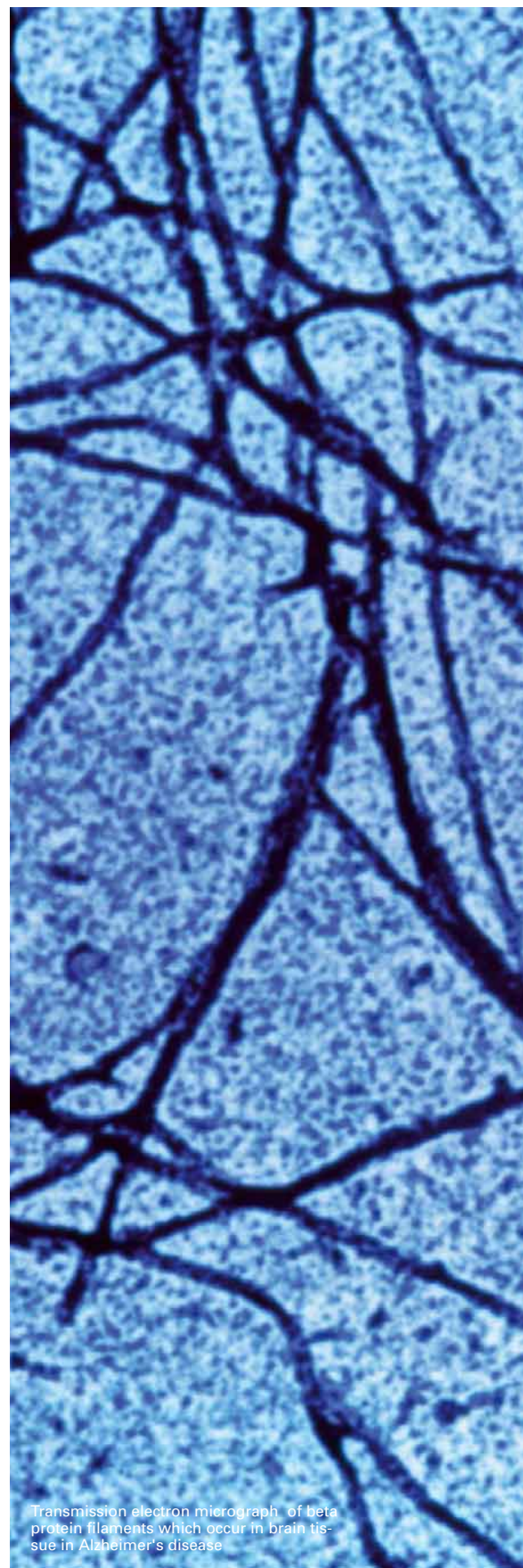
the cytotoxic component can exert its action locally without harming other tissue cells. This mechanism is also used for the local application of radiotherapy and for tumor imaging, a field with great potential in cancer therapy

Peptides are also in demand in the field of vaccines, because an excellent stimulation of the immune system can be achieved through skilful linking with other components.


Outlook

Peptides can affect different parts of the body in different ways. Vasoactive intestinal peptide (VIP), for example, was found in the intestine, where amongst other things it increases bowel activity. The same peptide also occurs in the brain, where it very likely plays a crucial part in the control of the so-called nyctemeral (or day/night) rhythm. In the heart, VIP dilates the vessels and has significant effects on the cardiovascular system. Accordingly, VIP is used for the treatment of such widely diverse symptoms as erectile dysfunction in men and high blood pressure in the pulmonary artery. There are good reasons for assuming that other peptides which are already known could be considered for new medical indications.

Peptides are also under serious discussion or even already undergoing clinical studies with a view to fulfilling medical needs that have hitherto not been satisfactorily met, as in the treatment of multiple sclerosis, rheumatoid arthritis and Alzheimer's disease. Advances in functional genomics and increasingly also in proteomics research are continually

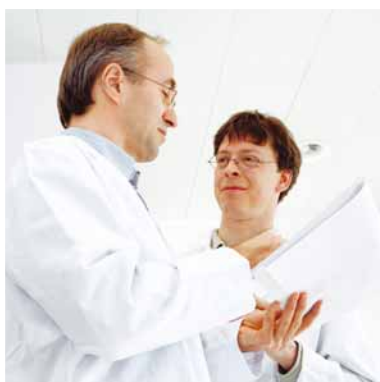


Transmission electron micrograph of beta protein filaments which occur in brain tissue in Alzheimer's disease



offering new insights into the functions of known or up to now unknown proteins and peptides in the healthy body and in disease. This will certainly give rise to new peptide leads and dynamic developments in drug research. New discoveries and new dosage forms in the field of peptides promise to supersede currently established forms of treatment one day or to open up new applications. Interest is also focusing increasingly on major diseases such as diabetes, which affects about 200 million people worldwide.

If new peptide-based medicines are in many cases still at any early stage of development, the next few years can be expected to see an increasing number of such medicines gaining regulatory approval. Peptides thus offer interesting prospects for the pharmaceutical industry and the hope of new treatment options for doctors and patients.



Bachem's portfolio of projects for potential future medicines includes over 100 substances from a wide variety of partners in all phases of preclinical and clinical development and for all important indication areas.

The strong sales growth of 12% in 2006 is the result of positive developments in both business segments of active pharmaceutical ingredients (APIs) and research chemicals.

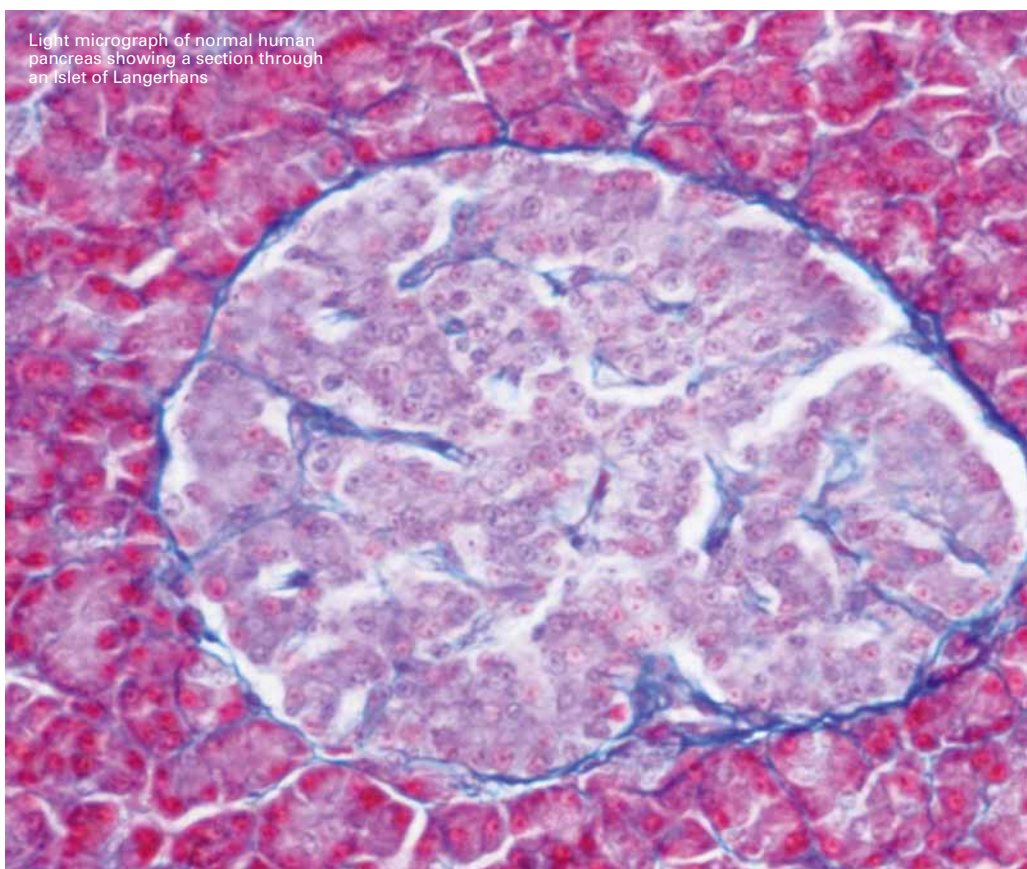
As expected, the marked increase of around 11% in sales of APIs was achieved on the basis of our business with patented active substances, the so-called new chemical entities (NCEs). This result is the consequence of various positive project developments with our customers and regulatory approval decisions by the authorities in the last two years.

The continued positive development of peptide generics was offset in the year under review by sales losses in the area of non-peptide generics. Peptide generics are as much in demand as ever thanks to the development and approval of new application forms, where there is substantial further potential in the future.

The 20 strongest-selling products include only APIs, three-quarters of which are generics. The proportion of sales achieved by the top ten products increased slightly from 51% to 55%.

After a decline in the previous year, research chemicals showed a substantial increase in 2006. An above-average increase was especially posted in the custom synthesis business, where we saw marked advances in the acquisition of projects in spite of the competitive market environment. The substances supplied are used for identifying and optimizing new active peptide structures. These then form the basis for further growth potential in the API business. Positive growth was likewise posted for the catalog business thanks to recovery of demand in the USA.

Light micrograph of normal human pancreas showing a section through an Islet of Langerhans



On growth course – Bachem in the USA

Significant expansion of production capacity at the US American subsidiary in California allows record sales increase in 2006

At its most important production site in the USA, Bachem California Inc. in Torrance in the Greater Los Angeles area, the Bachem Group substantially boosted capacity for the manufacture of peptide-based active pharmaceutical ingredients. Full capacity utilization will allow a 40% increase in production. The plant started operations gradually from the middle of 2006 and meets all the requirements of the American regulatory authorities. The investment amounted to about USD 10 million (CHF 12.5 million). In parallel to the expansion of the plant, the number of employees at Bachem California was increased by 40 people to 140 by the end of 2006.

The new plant offers additional capacity for the solid-phase synthesis of peptides, for the cleavage of peptides from the solid phase and purification. Extra space was also provided for additional freeze-drying capacity.

This expansion takes account of the current positive market growth and excellent prospects in the USA.



New Chemical Entities

In the year under review, sales of patented peptide APIs, i.e. the new chemical entities (NCEs), shot up by roughly 50%. This impressive boost to growth was based on the gratifying development seen with several projects of our customers, on the acquisition of new projects and on positive regulatory approval decisions of the authorities. The products could be delivered on time and in the quantities required thanks to the timely expansion of production capacity in Switzerland and especially the USA.

We can only manufacture NCEs on behalf of the patent holder or its licensee. As the supplier of the active substance, we are directly dependent on the success of the project with our customers. As in pharmaceutical research and development generally, so too in the development of peptide-based medicines, it is ultimately only a few substances which make it to the market place. It is thus all the more important for us to have the most diversified project portfolio possible. Broad diversification does not only imply a large number of projects, but also refers to a broad customer base, a good risk distribution of projects in terms of their development status and, not least, also a broad range of therapeutic indications.

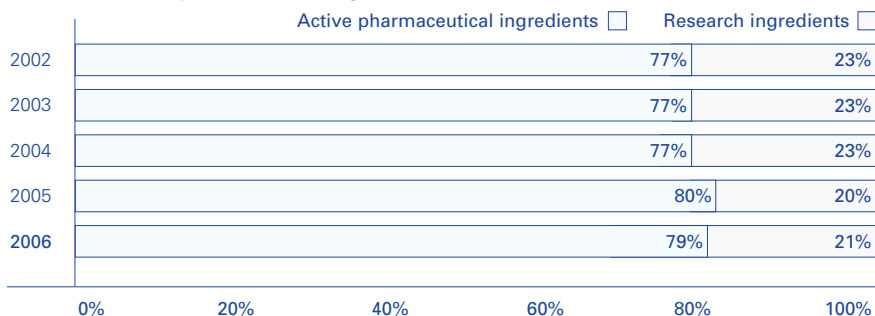
Thanks to the successes of the marketing and sales organizations in Switzerland and the USA, Bachem has a portfolio of well over a hundred projects. The positive trend in custom synthesis also makes a substantial additional contribution to the broadening and strengthening of this portfolio.

The marked increase of sales in NCEs is partly a result of approvals by the FDA in 2005 for the two diabetes medicines from Amylin Pharmaceuticals, with which Bachem has concluded delivery agreements for the corresponding APIs. But it is also explained by advances in project development with other customers. For example, Icatibant from the company Jerini has shown positive results for the indication of hereditary angioedema in clinical Phase 3 studies. The company anticipates market launch at end of 2007/beginning of 2008. The Canadian company Theratechnologies has likewise published positive results of a clinical study with its lead compound. In addition, there have been numerous advances with customer projects that cannot be disclosed for reasons of secrecy.

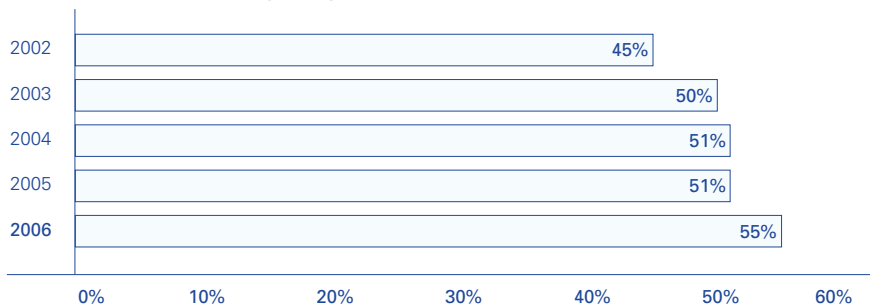
The most important indications for peptide-based medicines with future potential are in the areas of diabetes, bone metabolism, obesity and oncology. With the start-up of our production unit for cytotoxic substances, we are now also able to offer the manufacture of highly active substances for cancer therapy – an opportunity to broaden our product portfolio further.

New uses are increasingly often being published or investigated in clinical studies for peptide active substances that have already been known for a long time. Such projects and also the numerous developments of dosage forms for established peptide active substances are enumerated and commented on under our Generics business, since the substance patents on the active substances have already expired.

Sales share by business segment



Sales share of the top 10 products



Generics

Peptide generics have made a substantial contribution to the sales growth of the Bachem Group in the past few years and also increased by around 5% in the year under review. The interest in peptide generics remains high, although their share of total active substance sales fell from almost 75% to 67% because of the very good growth in NCEs and the decline in sales with non-peptide generics.

Bachem Group sales of organic generics, which are mainly produced by the subsidiary Sochinaz, fell by around 8%. This is primarily attributable to increasing competitor pressure from India and China.

The peptide generics enjoyed a number of successes. In 2006, the Canadian company QLT, for example, was granted approval for the 6-month depot of Eligard in Germany. Eligard contains the active substance leuprolide, which is manufactured by Bachem. Mondobiotech reported on a collaboration agreement for the development and marketing of aviptadil with Biogen Idec. Bachem has an agreement with Mondobiotech for delivery of the corresponding peptide active substance. We recently announced the signing of an agreement with Ardana for delivery of the same active substance for a different indication. Further agreements were concluded in the year under review with Swedish Orphan International for the delivery of nitisinone and with Debio for the delivery of triptorelin pamoate. A cooperation agreement with Mondobiotech allows the biotech company access to the peptide library of Bachem, with the aim of identifying new active substance candidates for the treatment of rare diseases. This offers further growth opportunities in the medium to long term.

A number of other interesting projects with further biotech and pharmaceutical companies are in important phases of clinical development. We expect some customers to be granted approval for various projects in the current year. But there is also further growth potential for peptide generics with increasing demand for the active substance in medicines already approved, e.g. with the peptides of the LHRH (luteinizing hormone releasing hormone) family used in cancer therapy. Bachem is the world's largest independent

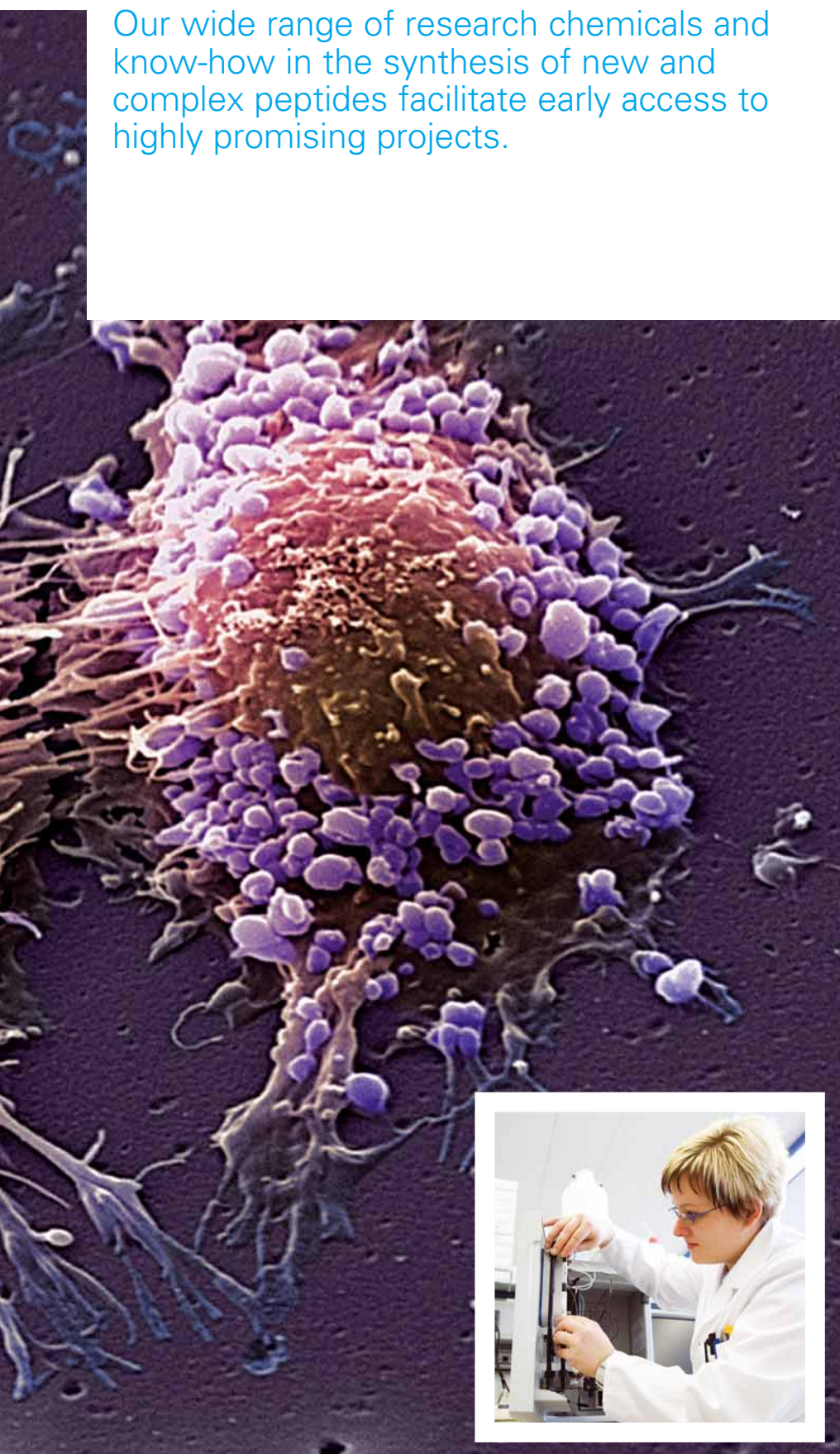


Scanning electron micrograph of two prostate cancer cells in the final stage of cell division

Bachem is the world's largest independent manufacturer of LHRH peptides, which are used as generic active ingredients in medicines for the treatment of breast and prostate cancer.

producer of LHRH peptides. Additional market opportunities are emerging through the development of new dosage forms such as pens, patches, depots and nasal sprays. Indication areas for those novelties are not only cancer therapy, as already mentioned, but also the prevention and treatment of osteoporosis.





Our wide range of research chemicals and know-how in the synthesis of new and complex peptides facilitate early access to highly promising projects.

Research Chemicals

The generally growing economy in 2006 and the associated increase in investments for research projects are also reflected in the strong sales growth of around 19% with research chemicals. A high share of this growth came from custom synthesis. But the catalog business also showed positive growth again thanks in particular to the demand from the USA.

Although this segment remains subject to cyclical influences, the increasing interest in peptides and related molecules can be expected to ensure continuing long-term growth. This can be assumed especially because a lot of biochemical processes and the regulatory mechanisms in our body are still not fully understood at the molecular level.

In addition to the stimulus coming from the discovery of new, physiologically active peptide sequences, old established products may also become interesting if a major function is attributed to them in an important indication. An example is the pancreatic polypeptide. Recent studies show that the regulation of appetite is influenced centrally by this peptide. Apart from the peptides already known for regulating the metabolism, this substance may therefore have a crucial role to play in the treatment of obesity. Even with established molecules, such discoveries also stimulate interest in exclusive syntheses in an attempt to optimize their properties for the given indication, such as bioavailability and stability, while preserving their efficacy. As an alternative to the modified peptide structure, innovative formulation technology can also help to achieve these goals.

With its broad range not only of research chemicals, especially exclusive custom syntheses, but also of active pharmaceutical ingredients in any quantity desired, Bachem is well positioned as a reliable and competent partner for biotech and pharmaceutical companies already in the preclinical phase, especially if demanding active substance development is needed.



Well qualified and highly motivated employees are a basic prerequisite for every successful company. We are proud of the fact that we can count on well established teams at all sites in the Bachem Group who show a high degree of commitment. At the end of the year under review, the Bachem Group employed 646 people in 609 full-time equivalent positions. The number of employees showed a marked net increase of 74 people over the previous year. At the two sites with the strongest growth, Bubendorf and Torrance, 74 new positions were created. Altogether 154 new employees were taken on last year in the Bachem Group. This posed a major challenge not only for human resources departments, but also for management and the organization as a whole. The fluctuation rate during the year under review amounted to 13% throughout the Group, which can be seen as good in view of the strong general economic upswing.

The areas with the strongest growth were research, development and production, which accounted for 43% of the total full-time equivalent positions, followed by quality assurance and regulatory affairs, which accounted for 19%. This underlines the strong technological focus of our activities. High levels of scientific qualification and technical know-how are essential not only for the manufacture of peptides, but also for providing the inten-

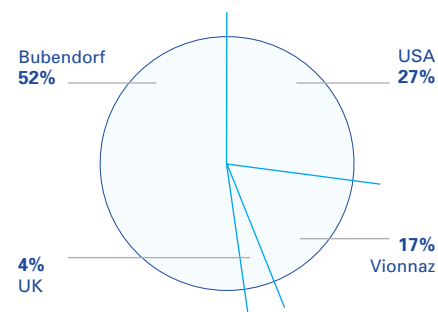
sive professional support for our customers that is associated with our business and for ensuring an appropriate level of competence in our contacts with the health authorities. Forty-two percent of our employees have a college or university degree. But even well-qualified specialists are usually only vaguely, if at all, familiar with the specific problems of peptide synthesis and have to be carefully introduced into their new field of work. In addition, they have to be trained to work in conformity with cGMP requirements, an aspect which is not usually covered in higher specialist education or academic studies. Management training, too, is crucially important, especially in times of strong growth. Appropriate ongoing training in aspects of personnel and project management was also continued last year. These aspects of training are addressed either through in-house courses or through external organizations specializing in this field.

At Bachem AG, we have been engaged for many years in the training of apprentices to become chemistry lab technicians, commercial employees, logistics assistants and IT specialists. In view of the dearth of apprenticeships in Switzerland, the number of apprenticeships at our site in Bubendorf was increased by 4 to a total of 28. This increase was not only made with a view to fostering young talent, but also underlines our sense of social responsibility on the local job markets.

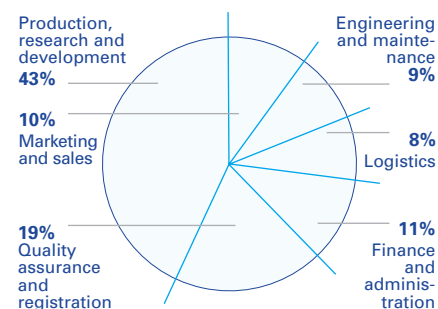


Human palm

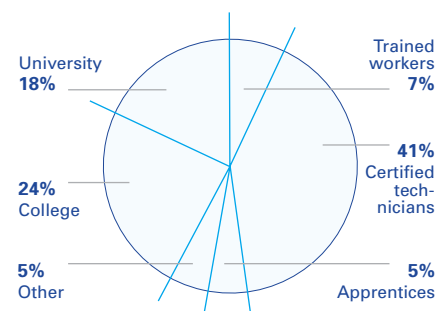
Full-time equivalents by location



Employees by activities



Employees by education



The high degree of specialization in the area of our core business and ongoing technological advances call for continuous training and further education of our employees at all levels.



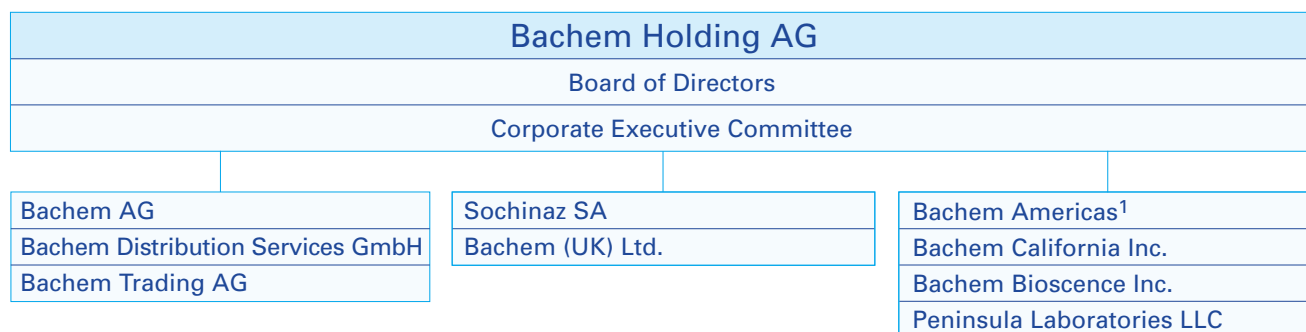
Thanks to a sustained educational campaign on health protection at work and in spare time, the accident rate at Bachem showed another sharp fall in 2006.



At its main site, in Bubendorf, Bachem signed up to the chemical industry's Responsible Care Program back in 1991. The indicators assessed in the context of this program serve as a management tool and provide a measure of the company's performance in the areas of safety, health and environmental protection. The Responsible Care data on safety showed a marked improvement in 2006 compared with the previous year. With 1.3 lost-time accidents per 100 full-time positions (previous year 3.9) and 0.11 lost working days per full-time equivalent (previous year 0.34), we again achieved record values. Also there were no serious accidents in 2006, and all injuries were reversible. We attribute this improvement in safety figures to the "integrated safety" project launched in conjunction with the Swiss Accident Insurance Institute (SUVA). In this project, employees at all levels undergo intensive training to familiarize themselves with the issues of health protection at work and in their spare time.

The Responsible Care data on environmental protection show that, at 24.7 terajoules, the total energy consumption did not increase over the previous year. A slight increase in electricity consumption was offset by a somewhat lower consumption of heating oil. At 710 tons p.a., CO₂ emissions were also slightly below those of the previous year (724 t). At 0.5 tons each, nitrogen oxide and sulfur dioxide emissions remained at a low level. In spite of a substantially increased use of solvents in production, the emissions of volatile organic compounds (VOCs) continued to decline. This is attributable to the renewed improvement in the performance of the low-temperature condensation plant. The levels of total organic carbons (TOCs) in the wastewater were also found to be further reduced in comparison with the previous year. By contrast, the increased use of solvents led to an increase in the amount of hazardous waste disposed of. The data obtained on environmental pollution show that Bachem AG achieves its business performance in an environmentally compatible way that is above average compared with the rest of the chemical industry in Switzerland.

1. Group structure and shareholders



¹Marketing organisation for North and South America

1.1. Group structure

Bachem Holding AG, headquartered in Bubendorf, Switzerland, is listed at the SWX Swiss Exchange in Zurich (valor number: 1 253 020, ISIN: CH0012530207, SWX: BANB, Reuters: BAMZn). Market capitalization at December 31, 2006 was CHF 1 251 200 000. No other Bachem companies are listed.

All subsidiaries are listed in note 25 on page 51 of the notes to the consolidated financial statements including company name, location and participation.

1.2. Major shareholders

Shareholders with more than five percent of voting rights on December 31, 2006 are listed in note 3 on page 56 of the notes to the financial statements of Bachem Holding AG. 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, 2006, the nominal share capital of Bachem Holding AG was CHF 680 000.

2.2. Authorized and conditional share capital in particular

Bachem does not have any conditional and authorized capital outstanding

2.3. Changes in capital

In 2004, 2005 and 2006, share capital remained unchanged. Changes in equity for the years 2006 and 2005 are listed in note 21 on page 48 of the consolidated financial statements. Changes for 2004 are reported on page 27 of the annual report 2005.

2.4. Shares and participation certificates

At December 31, 2006, Bachem Holding AG had 6 802 000 registered shares A and 6 798 000 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. Profit sharing certificates

Bachem has not issued any profit sharing certificates.

2.6. Limitations of transferability and nominee registrations

Registered shares of Bachem can be transferred without restriction. Registration in the share register of Bachem requires the proof of purchase of shares on own account and own benefit. There are no further registration restrictions (e.g. percentage limitation). The registration of nominees without voting rights is permitted, nominee registrations including voting rights have to be approved on request by the Board of Directors on a case by case basis. During the reporting period no nominees with voting rights have been registered nor have been any other exceptions to entering the share register been granted by the Board.

2.7. Convertible bonds and warrants/options

The company has not issued any convertible bonds. The only options the company has issued are for its employee compensation plan as described in the accounting policies on page 33 as well as in note 23 of the consolidated financial statements on page 50.

3. Board of Directors

3.1 Members of the Board of Directors

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

from left to right and top to bottom:
Peter Grogg, Gottlieb Knoch, Thomas Burckhardt,
François L'Eplattenier, Hans Hengartner



Peter Grogg (1942)*

Dr. h.c., Chairman, Swiss
since 1971, elected until 2009

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

Gottlieb Knoch (1942)*

Graduate Chemist ETH, MBA, Vice-Chairman,
since 1985, elected until 2009

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

Thomas Burckhardt (1950)

Dr. iur., LL.M., Secretary of the Board, Swiss
since 1997, elected until 2009

Thomas Burckhardt studied at the Universities of Basel, Geneva and Munich and was awarded his doctorate in 1978 in Basel. Since 1975 he is licensed attorney and in 1979 received a Master of Law (LL.M.) at Harvard Law School (Cambridge, Massachusetts, US). Since 1980 he practices as lawyer in Zurich and Basel and since 1987 is an associate at Simonius Pfrommer & Partner. Thomas Burckhardt further is Honorary Consul-General of the Kingdom of Thailand in Basel as well as president of an important charity in favour of young and disabled persons in Basel. Other important board memberships: CMA CGM Agency AG, Viking River Cruises AG

François L'Eplattenier (1939)*

Dr. sc. techn. ETH, Dr. h.c., Member, Swiss
since 1997, elected until 2009

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

Hans Hengartner (1944)

Prof. Dr. sc. nat. ETH, Member, Swiss
since 2003, elected until 2009

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

*Member of the Compensation Committee

3.2. Other activities and vested interests

Other activities are listed in above table.

3.3. Cross involvements

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

3.4. Elections and terms of office

Members of the Board are elected by the Annual General Meeting for a period of three years. Re-election is permitted. Elections are individually. All elections and motions at the Annual General Meeting are taken by open vote unless requested otherwise by the majority of votes. For information concerning first election and remaining term of office, see item 3.1.

3.5. Internal organizational Structure

During 2006, the Board of Directors held three half-day and two full day meetings. The Corporate Executive Committee attends all Board meetings (see item 3.7). At two meetings, one member of the Board of Directors was missing. The remaining three meetings were attended by all Board and Corporate Executive Committee members. If considered appropriate, members of the management of the subsidiaries are invited to the Board meetings as well. During 2006, one Chief Operating Officer of a Group company (COO) attended one Board meeting. 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 constitutes a Compensation Committee (see item 3.1) that annually submits proposals regarding annual compensation of its members, the individual members of the Corporate Executive Committee as well as of Chief Operating Officers (COOs) of group companies. The Compensation Committee also proposes employee participation schemes. In the frame of approved programs, it also submits proposals concerning allocation of shares and share options to members of the Board, members of the Corporate Executive Committee as well as Chief Operating Officers (COOs) of

group companies. Approvals of proposals of the Compensation Committee are granted by the full Board. In 2006, the Compensation Committee met twice for half an hour.

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. Further the Audit Committee on behalf of the Board receives, analyzes and evaluates the audit reports of the Group and statutory auditors. The tasks of the Audit Committee as described in the organization regulations currently are looked after by the full Board since considering the size of the Board with its five members the Board of Directors has renounced the formation of additional firm committees.

3.6. Definition of areas of responsibility

Pursuant to 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:

- ultimate direction of the business of the Company and the giving of the necessary directives
- determination of the organization of the Company
- administration of accounting, financial control and financial planning as far as it is required for the direction of the Company
- appointment and removal of the persons entrusted with the management and representation of the Company
- ultimate supervision of the persons entrusted with the management of the Company, specifically in view of their compliance with the law, the Articles of Incorporation, regulations and directives
- preparation of the annual report and the Annual General Meeting of shareholders and the carrying out of its resolutions
- notification of the court if liabilities exceed assets

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 com-

posed of the CEO, the CTO and the CFO (see item 4.1). The CEO in particular is responsible for the overall operational leadership. Based on the proposal of the Compensation Committee, the Board defines compensation for members of the Corporate Executive Committee and for COOs of operating group companies (see item 3.5). Further, the Board is in charge of the consolidated financial statements of the Bachem Group, as well as the financial statements of Bachem Holding AG, including reports of the external auditors. It also assesses whether recommendations of the auditors have been implemented. The detailed tasks of the Board of Directors are described in the organization regulations.

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

The Corporate Executive Committee attends the meetings of the Board in order to provide updates about the ongoing business, important events within the Group and about the execution of tasks delegated to the Corporate Executive Committee. Further, the Board is informed about the most important key figures. The management information system (MIS) at Bachem is structured as follows: On a monthly basis each individual group company prepares a report including balance sheets, income statements and other operating key figures as well as comments. On a quarterly basis, balance sheets, income statements, cash flow statements and statements of changes in equity as well as various key figures of the Group as well as 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.

4. Corporate Executive Committee

4.1 Members of the Corporate Executive Committee



Rolf Nyfeler (1950)

Dr. phil. II, CEO, Swiss
since 2000

Rolf Nyfeler joined Bachem in 1982. He was responsible for Research and Development for some time and became COO of the Parent Company in 1998, after a commitment as Head of Production in the subsidiary in California. Since May 1, 2002, he is CEO of the Bachem Group and Chairman of the Corporate Executive Committee. He completed his education as a chemist at the Universities of Basel and San Diego and at the Max-Planck-Institute in Martinsried.



Michael Hüsler (1972)

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

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



Daniel Erne (1952)

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

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

4.2. Other activities and vested interest

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

4.3. Management contracts

Bachem has not entered into any management contracts.

5. Compensation, shareholdings and loans

5.1. Content and method of the compensation and the shareholding programs

Compensation and shareholding programs are defined by the Board of Directors based on a proposal of the Compensation Committee. Members of the Board of Directors receive a base compensation, meeting fees and free shares. The members of the Corporate Executive Committee receive, in addition to their base salary, free shares and options. The additional variable part of compensation is subject to business success as well as to meeting personal objectives. The share and option programs are described in detail in the notes to the consolidated financial statements on page 33.

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

Total compensation for the five non-executive members of the Board amounted to CHF 277 000 in 2006 (excluding shares and options). Compensation for the members of the Corporate Executive Committee for the business year totaled CHF 819 000 (excluding shares and options). No severance payments were made.

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

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

5.4. Share and option grant in the year under review

The five members of the Board of Directors were granted a total of 1 500 free shares in 2006. During the reporting year, the members of the Corporate Executive Committee received a total of 200 free shares and a total of 2 000 shares with a blocking period of five years. In 2006, a total of 1500 options were granted to the Corporate Executive Committee. Each member of the Corporate Executive Committee is entitled to 500 options per year. Each third of the options has a blocking period of one, two and three years, respectively, and a vesting period of three, four and five years, respectively. Each option represents the right to acquire one share.

5.5. Share ownership

For the number of shares held by the members of the Board and of the Corporate Executive Committee at December 31, 2006, see table "Ownership of shares and options".

5.6. Options

For the number of options held by the members of the Corporate Executive Committee at December 31, 2006, see table "Ownership of shares and options". Members of the Board of Directors did not hold any options.

5.7. Additional fees and remuneration

One member of the Board of Directors received fees of CHF 22 000 as a compensation for legal services.

5.8. Loans to members of governing bodies

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

5.9. Highest total compensation

The highest total compensation paid to a member of the Board of Directors during the year under review was CHF 184 000 (including 300 shares).

6. Shareholders' participation

6.1. Voting rights and representation restrictions

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

6.2. Statutory quorums

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

Ownership of shares and options	Number of shares	Number of options	Year of allocation	Exercise price	Vesting date of options	Expiry dates
Board of Directors (5 members)	8 720 553	0				
Corporate Executive Committee (3 members)	94 742	800	2001	80.00	30.09.06	30.09.07
		800	2002	80.00	20.10.07	20.10.08
		800	2003	60.30	30.11.08	30.11.09
		501	2006	76.00	31.12.06	31.12.08
		501	2006	76.00	31.12.07	31.12.09
		498	2006	76.00	31.12.08	31.12.10
Total	8 815 295	3 900				

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

6.3. Convocation of the general meetings of shareholders

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

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

6.4. Agenda

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

6.5. Inscriptions into the share register

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

7. Changes of control and defense measures

7.1. Duty to make an offer

The Articles of Incorporation of Bachem Holding AG do not envisage a duty to submit a public purchase offer according to art. 32, paragraph 1 of the federal law governing stock markets and stock dealing (BEHG) (Opting Out).

7.2. Clauses on changes of control

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

8. Auditors

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

PricewaterhouseCoopers AG, Basel, has been Group auditor since 1995 and statutory auditor of Bachem Holding AG since 1998. Gerd Tritschler has been lead auditor since the business year 2004. Auditors are elected by the Annual General Meeting on an annual basis.

8.2. Auditing fees

Auditing fees of PricewaterhouseCoopers for the Bachem Group amounted to CHF 184 000 for the business year 2006. Fees for audit services on Bachem companies by other auditors totaled CHF 70 000.

8.3. Additional fees

During 2006, PricewaterhouseCoopers charged additional fees of CHF 188 000 for various projects and other services. Additional services conducted by other auditors amounted to CHF 23 000.

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

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 and reviews conducted as well as on current trends in the International Financial Reporting Standards (IFRS) as well as other relevant laws and standards. In 2006, the external auditors attended one Board of Directors meeting.

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 web site (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 quoted on the SWX Swiss Exchange, Bachem is obliged to publish information that is relevant to its share price (ad hoc publicity, art. 72 of rules governing quoted companies "Kotierungsreglement"). These rules can be viewed under www.swx.com. For specific questions regarding Bachem, contact our investor relations responsible, Michael Hüsler, CFO, phone +41 61 935 2333, IR@bachem.com.

Record sales, operating income and net income

The Bachem Group achieved a new sales record in 2006 with CHF 171.8 million. Net sales grew by 12.0% in local currencies and 11.8% in CHF compared with 2005. The currency effects of the US dollar and the Euro almost completely canceled each other out here, the negative effect of the US dollar being offset by the positive effect of the Euro. After sales of CHF 82.2 million were achieved in the first half-year of 2006, they increased further to CHF 89.6 million in the second half.

Both business segments contributed to this strong performance with double-digit growth rates. Sales of active pharmaceutical ingredients (APIs) thus increased by 10.5% in local currencies and 10.1% in CHF. The research ingredients, too, made a substantial contribution to the very gratifying overall result with increases of 17.7% in local currencies and 18.5% in CHF. In the case of APIs, new chemical entities (NCEs) posted an increase of 50%, whereas sales of generics remained unchanged. The peptide generics achieved single-digit growth, while non-peptide generics posted a further decline on a similar scale. In the case of research ingredients, catalog sales increased only slightly, while sales in custom synthesis more than doubled in 2006. These figures result in the following picture:

In CHF million	2006	Change in CHF	Change in local currency	Share of sales
Active pharmaceutical ingredients (APIs)	135.0	+10.1%	+10.5%	78.6%
Research ingredients	36.8	+18.5%	+17.7%	21.4%
Bachem Group	171.8	+11.8%	+12.0%	100.0%

In geographic terms, our European business in particular showed very strong growth in 2006 with a plus of 16.2% in local currencies and 16.6% in CHF. This clearly shows that pharmaceutical and biotechnology companies in Europe are also becoming increasingly active in the field of peptide-based substances. This region's share of sales thus also increased again and now amounts to 62.1%. Sales in North America increased by 5.7% in local currencies and by 4.7% in CHF. The marked increase in sales of substances manufactured in the USA was offset by a decline in sales of two substances produced in Switzerland for this market. One of these was due to the abandonment of a highly promising project by one of our customers, the other was due to delays in delivery with another important customer. The gratifying development of sales from local production confirms our strategic decision to expand our US site further. The additional capacity is already very well utilized and has already made a substantial contribution to sales in 2006. In the next few years, this is likely to lead to a rise in the share of total sales in the US, which declined to 37.9% in the year under review.

In terms of geographic segments, sales in 2006 developed as follows:

In CHF million	2006	Change in CHF	Change in local currency	Share of sales
Europe	106.7	+16.6%	+16.2%	62.1%
North America	65.1	+4.7%	+5.7%	37.9%
Bachem Group	171.8	+11.8%	+12.0%	100.0%

Marked increase in operating margin to 32.5%

In the past business year, Bachem increased its operating income by 18.2% or CHF 8.6 million compared with the previous year. EBIT was thus CHF 55.8 million versus CHF 47.2 million in the previous year. The EBIT margin was again substantially improved and amounted to 32.5% in 2006 compared with 30.7% in the previous year.

In the 2006 Annual Report, Bachem presents the income statement for the first time according to the cost of sales method as the primary reporting format. Bachem believes this provides for a better picture of the operating performance. The previous year figures were restated accordingly. For purposes of comparison, the previously used reporting format, the income statement by nature, is shown once again underneath the income statement according to the cost of sales method.

A substantial part of the improvement in the operating margin results from the reduction in the cost of goods sold in relation to sales revenue by around one percent. At 46.9% of sales revenue or CHF 80.5 million, the cost of goods sold represent the main cost block in the income statement. This improvement is partly related to the product mix, but among other things also resulted from economy of scale effects and process optimization. The gross margin thus improved over the previous year from 52.1% to 53.1%. The cost of goods sold also includes a reduction in material costs by 12.0% from CHF 28.2 million to CHF 24.8 million. On the other hand, personnel and other costs in this area increased.

Bachem further strengthened its marketing and sales activities in 2006. The success is reflected in the double-digit sales growth and an increased number of projects in which Bachem is involved. Distribution costs increased accordingly from CHF 9.9 million to CHF 11.7 million. In relation to sales, this cost block increased only slightly from 6.5% to 6.8%.

In absolute terms, research and development costs are the smallest cost block. They amounted in 2006 to CHF 3.6 million or 2.1% of sales. This position mainly reflects the development of

new processes and product developments in the field of non-peptide generics. Costs are also incurred in production for the optimization of processes or the development of scale-ups, but this expenditure is attributed directly to the cost of goods sold.

The administrative costs decreased not only in relation to sales from 13.5% to 11.7%, but also in absolute terms from CHF 20.8 million to CHF 20.2 million. This optimization represents the second important component of the increase in operating margin. It underlines the cost-consciousness of Bachem because, despite double-digit sales growth, this cost block was still slightly reduced. Bachem is intent on driving the expansion forward, especially in the value-adding areas, and on continuously optimizing administrative functions.

In 2006, Bachem increased the number of employees by 69 full-time equivalents. 37 of the new positions were created as part of the capacity expansion in California, and 32 positions were added in Switzerland. Personnel costs increased in proportion to sales and amounted to CHF 62.3 million, which corresponds to 36.3% of sales.

As a result of the increase in investment activity, depreciation and amortization increased by around CHF 1.6 million to CHF 10.0 million. They thus remained almost constant in relation to sales at 5.8%.

Net income increased by 18.5%

On the basis of the overproportionate increase in operating income, net profit likewise showed a correspondingly positive development, increasing by 18.5% from CHF 39.4 million to CHF 46.6 million. The net profit margin improved from 25.6% to 27.2%.

Compared with the previous year, the negative result from associated companies and joint ventures was approximately halved and amounts to CHF 1.7 million. At CHF 5.5 million, the financial result is approximately on previous year level. This includes higher interest income and profits from sales of securities but also a lower foreign exchange result.

The tax rate increased again slightly to 21.6% after non-recurring effects in the previous year. The total tax expenses in 2006 amounted to CHF 12.8 million.

As a result, the earnings per share improved sharply from CHF 2.99 in 2005 to CHF 3.54 in 2006.

Cash flow and investments

Cash flow from operating activities improved markedly in 2006. It amounts to CHF 40.2 million or 23.4% of sales. Bachem reduced the increase in net working capital. In 2006 this stood

at CHF 15.9 million. The increase in net working capital is due almost exclusively to the increase in inventory of CHF 16.0 million. CHF 4.6 million of this is related to higher stocks of raw materials, and CHF 11.4 million to work in process, semi-finished and finished goods. Trade receivables remained almost constant with an increase of CHF 0.8 million, despite strong sales growth. The changes in the other items of net working capital remained neutral in terms of the total sum.

In view of the increasingly dynamic growth in demand, investments in 2006 were somewhat higher than expected, amounting to CHF 30.8 million or 17.9% of sales. The two companies Bachem AG, Bubendorf, and Bachem California Inc., Torrance, accounted for most of these investments in almost equal measure. The investment in Torrance amounted in total to USD 11.3 million or CHF 13.9 million and in Bubendorf to CHF 12.9 million. In Torrance the production capacity was increased by around 40% as a result of this expansion. In Bubendorf the investments are accounted for by the ongoing expansion of large-scale equipment as a result of the additional capacity needed for the growth from existing and new projects. At Sochinaz SA in Vionnaz, investments fell to CHF 2.7 million after several years of expansion. At the other sites, investments totaled a further CHF 1.3 million. Bachem is thus clearly pointing the way to continued investment in the core business in order to make optimum use of the market opportunities available.

In the area of financing activities, CHF 19.8 million was paid out in dividends and there was a net change in own shares of CHF 2.9 million.

All these activities led to the cash and cash equivalents as defined in the cash flow statement declining slightly by CHF 3.2 million to CHF 73.1 million.

Increase in ordinary dividend and additional special dividend proposed

The equity ratio fell slightly from the previous year's level, but is still a comfortable 88.0%. At the end of 2006, Bachem had CHF 129.3 million at its disposal in cash and cash equivalents and securities.

The Board of Directors decided to propose to the Annual General Meeting an increase in the dividend from CHF 1.50 to CHF 2.00 plus a special dividend of CHF 5.00 for each share entitled to a dividend. This underlines the intention of Bachem to focus on the development of its core business and thus on organic growth and to grant its shareholders a share of the funds that are not needed in operational terms.

Consolidated Income Statement

for the years ended December 31

	Notes	2006 000 CHF	2005* 000 CHF
Sales	1/2	171 754	153 656
Cost of goods sold		-80 539	-73 574
Gross profit		91 215	80 082
Other income		17	111
Selling costs		-11 682	-9 919
Research and development costs		-3 644	-2 349
General administrative costs		-20 154	-20 770
Operating income		55 752	47 155
Result from associates and joint ventures	1/6	-1 723	-3 321
Financial result	7	5 456	5 631
Earnings before taxes		59 485	49 465
Income taxes	8	-12 836	-10 086
Net income**		46 649	39 379
Basic earnings per share (CHF)	9	3.54	2.99
Diluted earnings per share (CHF)	9	3.54	2.99

* restated (refer to note 4)

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

The operating result according to the nature of expense method is as follows:

	Notes	2006 000 CHF	2005* 000 CHF
Sales	1/2	171 754	153 656
Other income		17	111
Cost of materials		-24 822	-28 216
Changes in inventories		8 267	7 854
Staff cost	3	-62 330	-55 128
Depreciation and amortization	1	-9 952	-8 337
General administration and other expenses	5	-27 182	-22 785
Operating income		55 752	47 155

* restated (refer to note 4)

The notes on pages 28 to 52 are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

at December 31, 2006 and 2005

Assets	Notes	Dec. 31, 2006 000 CHF	Dec. 31, 2005* 000 CHF
Cash and cash equivalents	10	73 116	76 351
Marketable securities	11	56 200	47 685
Other financial assets	11	0	10 000
Trade receivables	12	28 938	28 135
Other receivables	13	6 033	5 981
Current tax assets		4 440	1 646
Inventories	14	90 303	74 294
Total current assets		259 030	244 092
Property, plant and equipment	15	159 997	141 530
Intangible assets	16	14 764	15 092
Associates and joint ventures	1/6	3 518	3 241
Deferred tax assets	20	4 926	4 963
Total non-current assets		183 205	164 826
Total assets		442 235	408 918
Liabilities and equity			
Trade payables		11 294	8 559
Other current liabilities	18	8 275	4 957
Current tax liabilities		1 057	1 922
Provisions	19	159	243
Total current liabilities		20 785	15 681
Deferred tax liabilities	20	25 657	22 199
Provisions	19	238	0
Defined benefit plan liability	4	6 340	6 138
Total non-current liabilities		32 235	28 337
Total liabilities		53 020	44 018
Share capital	21/22	680	680
Retained earnings	21	325 084	298 190
Share premium	21	88 993	88 018
Own shares	21	-13 789	-15 930
Fair value reserves	21	4 590	5 002
Cumulative translation differences	21	-16 343	-11 060
Total capital and reserves attributable to the equity holders of the Company		389 215	364 900
Total liabilities and equity		442 235	408 918

* restated (refer to note 4)

The notes on page 28 to 52 are an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement

for the years ended December 31

	Notes	2006 000 CHF	2005* 000 CHF
Cash flow from operating activities			
Net income		46 649	39 379
Adjustments for:			
Taxes	8	12 836	10 086
Depreciation and amortization	1	9 952	8 337
Financial result	7	-5 456	-5 631
Result from associates and joint ventures	1/6	1 723	3 321
Share-based payments	23	975	801
Income taxes paid		-9 597	-6 639
Change in net current assets		-15 925	-21 568
Other non-cash items		-1 007	-663
Cash flow from operating activities		40 150	27 423
Cash flow used for investing activities			
Investments in property, plant and equipment	1/15	-29 417	-20 043
Investments in intangible assets	1/16	-1 426	-895
Repayments/(Investments) in other financial assets	11	10 000	-10 000
Investments in associates and joint ventures	6	-2 000	-2 000
Purchases of marketable securities in current assets		-19 411	-27 407
Sales and repayments of marketable securities in current assets		14 031	29 935
Interest received		1 788	1 070
Dividends received	7	654	457
Other financial income	7	159	167
Other financial expenses		-310	-412
Cash flow used for investing activities		-25 932	-29 128
Cash flow used for financing activities			
Additions own shares		-1 403	-3 001
Disposals own shares		4 277	2 308
Dividends paid	24	-19 781	-15 849
Cash flow used for financing activities		-16 907	-16 542
Net effect of currency translation on cash and cash equivalents		-546	1 317
Net change in cash and cash equivalents		-3 235	-16 930
Cash and cash equivalents at the beginning of the year	10	76 351	93 281
Cash and cash equivalents at the end of the year	10	73 116	76 351
Net change in cash and cash equivalents		-3 235	-16 930

* restated (refer to note 4)

The notes on pages 28 to 52 are an integral part of the consolidated financial statements.

Consolidated Statement of Recognized Income and Expenses

for the years ended December 31

	Notes	2006 000 CHF	2005* 000 CHF
Valuation changes of available-for-sale investments and	21	-399	6 639
deferred taxes thereon	20/21	-13	-553
Actuarial losses on defined benefit plans and	4	-884	-2 154
deferred taxes thereon	20	177	508
Translation differences	21	-5 283	6 830
Income and expense recognized directly in equity		-6 402	11 270
Net income according to Income Statement		46 649	39 379
Total recognized income and expense**	21	40 247	50 649

* restated (refer to note 4)

** completely attributable to the equity holders of the parent

The notes on pages 28 to 52 are an integral part of the consolidated financial statements.

General information

Business activities

Bachem, based in Bubendorf in the Canton of Baselland, Switzerland, is an independent, technology-based public biochemicals company providing full service to pharma and biotech industries. Bachem employs 609 people (FTE) and is specializing in the process development and the manufacturing of peptides and complex organic active pharmaceutical ingredients and innovative biochemicals for research purposes. With headquarters in Switzerland and affiliates in Europe and the US, Bachem works on a global scale and holds the leading position in the field of peptides.

Approval of the consolidated financial statements

The consolidated financial statements have been accepted by the Board of Directors of Bachem Holding AG on February 23, 2007 to be presented for approval by the Annual General Meeting.

Accounting policies

Principles of consolidation

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

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

Changes in presentation of consolidated financial statements

To better reflect the Group's operating performance, the consolidated income statement 2006 of Bachem Group is presented for the first time according to the function of expense method and the consolidated income statement 2005 was adapted accordingly. In the annual reports of the previous years the consolidated income statement was presented according to the nature of expense method. For comparison purposes the operating expense is also presented according to the nature of expense method.

Changes to accounting policies

As from January 1, 2006 Bachem adopts the amendments of IAS 19 revised to recognize actuarial gains and losses. The alternative recognition allows to recognize actuarial gains and losses resulting from experience adjustments or the effects of changes in actuarial assumptions directly in equity and to disclose them accordingly in the Statement of Recognized Income and Expense (SORIE). The previously published figures were restated according to the transitional provisions (see note 4).

Standards, amendments and interpretations effective in 2006 but not relevant

IAS 21 (Amendment)

Net Investment in a Foreign Operation

IAS 39 (Amendment)

Cash Flow Hedge Accounting of Forecast Intragroup Transactions

IAS 39 (Amendment)

The Fair Value Option

IAS 39 and IFRS 4 (Amendment)

Financial Guarantee Contracts

IFRS 1 (Amendment)

First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources

IFRS 6

Exploration for and Evaluation of Mineral Resources

IFRIC 4

Determining whether an Arrangement contains a Lease

IFRIC 5

Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

IFRIC 6

Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

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

Following standards and interpretations to existing standards have been published. They are mandatory for the Group's accounting periods beginning on or after January 1, 2007 or later (Bachem has not early adopted):

IFRS 7 Financial Instruments

This standard replaces IAS 30 (Disclosures in the Financial Statements of Banks and Similar Financial Institutions) and the disclosure requirements in IAS 32 (Financial Instruments: Presentation). This standard is applicable to all entities that have financial instruments and report under IFRS.

The new significantly more detailed disclosure requirements contain among others:

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

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

IFRS 8 Operating Segments

IFRS 8 requires the disclosure of information, which is used by Management as the basis for running the business. In general, the disclosed information should equal the information management uses to assess segment performance.

This standard is effective for annual periods beginning on or after January 1, 2009. The impact of IFRS 8 is currently being evaluated.

IAS 1 Capital disclosures

Additional disclosure requirements:

- Disclosure of the entity's objectives, policies and processes for managing capital
- Disclosure of quantitative data about what the entity considers as capital
- Entity has to disclose compliance with the capital requirements during the period and in case of non-compliance the consequences out of it.

Bachem will apply the amendments of IAS 1 from January 1, 2007, which will mainly affect disclosure.

IFRIC 8 Scope of IFRS 2

Where the identifiable consideration received is less than the fair value of the equity instruments issued, IFRIC 8 requires to identify whether or not they fall within the scope of IFRS 2.

Bachem will apply IFRIC 8 from January 1, 2007, but it is not expected to have any impact on the Group's accounts.

IFRIC 10 Interim Financial Reporting and Impairment

IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date.

Bachem will apply IFRIC 10 from January 1, 2007, but it is not expected to have any impact on the Group's accounts.

IFRIC 11 Group and Treasury Share Transactions according to IFRS 2

IFRIC 11 requires that share-based payments with own equity instruments, for which the entity buys or is obligated to buy own equity instruments to fulfill the share-based payments, is always accounted for as an equity-settled share-based payment transaction according to IFRS 2. This interpretation has to be applied as well when the entity buys equity instruments from third parties.

Bachem will apply IFRIC 11 from January 1, 2007, but it is not expected to have any significant impact on Bachem's accounts.

Other interpretations

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

- IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 12 Service Concession Arrangements

Scope of consolidation

The consolidated financial statements include Bachem Holding AG and all companies in Switzerland and abroad which Bachem Holding AG controls (over 50% of voting interest). The companies included in the consolidation are listed in Note 25.

Investments in subsidiaries

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

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

Notes to the Consolidated Financial Statements

Investments in associates and joint ventures

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

Associates and joint ventures also apply the International Financial Reporting Standards (IFRS).

Currency translation

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

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

The following exchange rates were used for foreign currencies:

	Income statement Average rates		Balance sheet Year end rates	
	2006 CHF	2005 CHF	2006 CHF	2005 CHF
USD	1.25	1.25	1.22	1.32
GBP	2.31	2.26	2.40	2.27
EUR	1.57	1.55	1.61	1.56

Revenue Recognition

Sale of goods

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

Sale of services

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

License income

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

Interest and dividend income

Interest income is reported on a pro rata basis using the effective interest method. Dividend income is recorded when the legal entitlement to payment arises.

Segment information

Primary segment information

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

Secondary segment information

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

Cash and cash equivalents

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

The cash flow statement is based on cash and cash equivalents.

Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Purchases and sales of financial assets are recognized at the settlement date, i.e. the day on which the assets are transferred. The initial recording of all assets that do not belong to the "Financial assets at fair value through profit and loss" category is carried out at fair value including transaction costs. The assets are derecognized as soon as the rights to receive cash flows from the assets expire or are transferred, and Bachem has ceded all risks and opportunities arising from their ownership. Available-for-sale assets and assets recognized at fair value through profit or loss are subsequently valued at fair value. Loans and receivables, as well as held-to-maturity assets are accounted for at amortized cost using the effective interest method. Realized and unrealized gains and losses resulting

from changes in the fair value of assets "at fair value through profit and loss" are booked to the income statement in the period during which they occur. Unrealized gains and losses resulting from the changes in fair value of available-for-sale financial assets are recorded in equity. If available-for-sale assets are sold or affected by impairment, the market value adjustments accumulated in equity are included in the income statement as gains and losses from securities.

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

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

Trade and other receivables

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

Inventories

Inventories include raw materials (incl. technical raw material), work in progress and finished goods. They are recognized at acquisition or manufacturing cost or net realizable value, whichever is the lowest. Manufacturing costs comprise all related production costs including proportionate production overhead costs. Net realizable value is the estimated sales proceeds achievable in normal business, less the necessary variable sales costs. In general, the valuation is based on the First-In-First-Out (FIFO) method, except technical raw material which is recognized based on weighted average cost.

Property, plant and equipment and depreciation

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

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

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

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

Intangible assets

Goodwill

In the case of business combinations, the excess of the purchase price over the fair value of the net identifiable assets acquired is recorded as goodwill in the balance sheet at cost. Goodwill is reviewed for impairment as required, but at least once annually. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Other intangible assets

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

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

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

Taxes

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

Deferred taxes are calculated on the temporary differences that arise between the tax base of an asset or liability and its carrying value in the balance sheet of the Group companies prepared for consolidation purposes (comprehensive liability method), with the exception of differences where Bachem is able to control the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future. The Group's deferred tax assets and tax liabilities, calculated using applicable local tax rates, are included in the consolidated balance sheet as non-current assets and non-current liabilities respectively.

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

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

Pension obligations

Pension and retirement benefits in favor of employees are governed by the regulations and practice of the countries in which Bachem is represented. In Switzerland, pension and retirement benefits are governed by the rules of defined benefit plans in accordance with IAS 19 (Employee Benefits). The defined benefit obligation of the material defined benefit pension plans is calculated on a yearly basis by independent actuaries using the projected unit credit method. The defined benefit obligation is equal to the present value of all estimated future cash flows. Plan assets are recognized at fair market values. Actuarial gains and losses are recognized directly in equity.

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

Employee participation (share-based payments)

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

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

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

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

Certain key management employees of the Bachem Group also receive between 150 and 500 free options each year. One option entitles to buy one share at a fixed strike. The options have a term of three to five years and are blocked for one to three years. The value of the options is the fair value at grant date and is determined using the Trinomial-Baum-Method. The services for share options are booked as staff costs over the vesting period.

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

Provisions

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

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events, or where the amount of the obligation cannot be measured with reasonable reliability, if a future outflow of funds appears unlikely.

Own shares

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

Dividend distribution

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

Financial risk factors

The Corporate Executive Committee is responsible for financial risk management within the Group. It monitors foreign currency risks, interest rate risks, market risks, credit risks, and liquidity risks on an ongoing basis and approves the use of financial instruments to reduce certain risks, if necessary. The Corporate Executive Committee believes that, in order to create the optimum value for the Group, it is not desirable to eliminate or mitigate all possible market fluctuations. Appropriate hedges can be concluded in order to reduce risks. Bachem only works with firstclass financial institutions.

Foreign currency risks

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

Credit risks

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

Liquidity risks

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

Cash flow and market interest rate risk

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

Derivative financial instruments and hedging transactions

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

Fair value hedges

Changes in the fair value of derivatives which are designated as fair value hedges and hence meet the hedge accounting criteria are recorded in the income statement along with the changes in the fair value of the hedged asset or liability.

Cash flow hedges

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

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

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

Net investment hedges

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

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

Derivates which do not meet the criteria for hedge accounting

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

Related parties

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

Government grants

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

Critical accounting estimates and assumptions

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

Goodwill

The Group conducts an annual analysis to determine whether goodwill impairment is required. The underlying valuations are based on estimates (refer to note 17).

Income taxes

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

1. Segment Information (geographical)

Primary segment information based on the location of assets	Europe		North America		Eliminations		Consolidated Values	
	2006 000 CHF	2005* 000 CHF	2006 000 CHF	2005 000 CHF	2006 000 CHF	2005 000 CHF	2006 000 CHF	2005* 000 CHF
Sales third parties	106 712	91 529	65 042	62 127	0	0	171 754	153 656
Sales intercompany	17 886	27 455	3 353	1 958	-21 239	-29 413	0	0
Total sales	124 598	118 984	68 395	64 085	-21 239	-29 413	171 754	153 656
Operating income	40 120	37 301	15 543	10 606	89	-752	55 752	47 155
Result from associates and Joint ventures	-1 723	-3 321	0	0	0	0	-1 723	-3 321
Financial result							5 456	5 631
Income taxes							-12 836	-10 086
Net income							46 649	39 379

* restated (refer to note 4)

Other information							Dec. 31, 2006 000 CHF	Dec. 31, 2005* 000 CHF
Assets	649 550	595 886	89 015	77 757	-296 330	-264 725	442 235	408 918
Liabilities	97 679	69 709	27 456	21 100	-72 115	-46 791	53 020	44 018
Associates and joint ventures	3 518	3 241	0	0	0	0	3 518	3 241

* restated (refer to note 4)

							2006 000 CHF	2005 000 CHF
Capital expenditure	16 132	14 297	14 711	6 641			30 843	20 938
Depreciation and amortization	-8 314	-7 076	-1 638	-1 261			-9 952	-8 337
Impairment on current assets	0	-84	-511	-203			-511	-287

Segment information based on the location of customers	Europe/Rest of the world		North/South America		Consolidated Values	
	2006 000 CHF	2005 000 CHF	2006 000 CHF	2005 000 CHF	2006 000 CHF	2005 000 CHF
Sales third parties	102 705	84 652	69 049	69 004	171 754	153 656

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

2. Segment Information (Business Segments)

	2006 000 CHF	2005 000 CHF	2006 in %	2005 in %	Changes in CHF in %	Changes in local currencies %
Active pharmaceutical ingredients (APIs)	134 990	122 638	78.6%	79.8%	10.1%	10.5%
Research ingredients (incl. custom synthesis)	36 764	31 018	21.4%	20.2%	18.5%	17.7%
Total sales	171 754	153 656	100.0%	100.0%	11.8%	12.0%

Investments and assets cannot be allocated to the business segments since multi-purpose equipment is used which can be employed to produce different products.

3. Staff Cost

	2006 000 CHF	2005* 000 CHF
Salaries and wages	-48 333	-42 781
Pension costs for defined benefit plans	-1 597	-1 997
Pension costs for defined contribution plans	-960	-980
Other social security expenses	-6 539	-5 629
Share-based payments	-975	-801
Other personnel related costs	-3 926	-2 940
Total staff cost	-62 330	-55 128

* restated (refer to note 4)

4. Post Employment Benefits

As from January 1, 2006 Bachem adopts the amendments of IAS 19 revised to recognize actuarial gains and losses. The alternative recognition allows to recognize actuarial gains and losses resulting from experience adjustments or the effects of changes in actuarial assumptions directly in equity and to disclose them accordingly in the Statement of Recognized Income and Expense (SORIE). So far, the actuarial gains and losses were charged or credited to profit or loss over the remaining period of service of the employees if they exceeded the corridor of +/- 10%. Therefore, the following restatements were made compared to the figures published in the annual report 2005:

	Jan. 1, 2005 000 CHF	Dec. 31, 2005 000 CHF
Balance Sheet		
Decrease defined benefit plan asset	530	521
Increase deferred tax asset	824	1 228
Decrease deferred tax liabilities	0	104
Increase defined benefit plan liability	4 122	6 138
Decrease retained earnings	3 828	5 327

2005

Income Statement

Net income before restatement	39 232
Decrease staff cost	147
Net income after restatement	39 379

The performed restatements that were caused by changes in accounting policies result in an increase in diluted and basic earnings per share of CHF 0.01 compared to the figures disclosed in the annual report 2005.

Post employment benefits are based on the regulations and circumstances in each country where Bachem is represented. In countries with defined contribution plans, the related contributions which have an effect on the income statement in 2006 amounted to CHF 960 000 and in 2005 to CHF 980 000.

In Switzerland Bachem Holding AG, Bachem AG and Sochinaz AG are members of so called "BVG multi employer plans". These funds are considered defined benefit plans. The defined benefit obligations are calculated by independent actuaries on an annual basis. The following is a summary of these defined benefit plans at December 31, 2006 and 2005:

Defined benefit plan liability	Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
Fair value of plan assets	43 195	39 889
Present value of defined benefit obligation	-49 535	-46 027
Deficit recognized as a liability in the balance sheet	-6 340	-6 138

The annual pension cost is as follows:	2006 000 CHF	2005 000 CHF
Service cost	-3 399	-3 306
Interest cost	-1 483	-1 428
Expected return on plan assets	1 596	1 226
Employees' contributions	1 689	1 511
Annual pension cost	-1 597	-1 997

Of the total annual pension cost, CHF 1 024 000 (2005: CHF 1 280 000) were included in cost of goods sold, CHF 184 000 (2005: CHF 230 000) in selling costs, CHF 47 000 (2005: CHF 58 000) in research and development costs and CHF 342 000 (2005: CHF 429 000) in general administrative costs.

The movement in the defined benefit obligation was as follows:	2006 000 CHF	2005 000 CHF
Present value of defined benefit obligation at January 1	-46 027	-34 773
Service cost	-3 399	-3 306
Interest cost	-1 483	-1 428
Actuarial loss on benefit obligation	-834	-3 148
Benefits paid	2 208	-3 372
Present value of defined benefit obligation at December 31	-49 535	-46 027

The movement in the fair value of plan assets was as follows:	2006 000 CHF	2005 000 CHF
Fair value of plan assets at January 1	39 889	30 651
Expected return on plan assets	1 596	1 226
Actuarial (loss)/gain on plan assets	-50	994
Employees' contribution	1 689	1 511
Employer's contribution	2 279	2 135
Benefits paid	-2 208	3 372
Fair value of plan assets at December 31	43 195	39 889

The actual return on plan assets for 2006 was CHF 1 546 000. In the previous year the actual return on plan assets was CHF 2 220 000.

Notes to the Consolidated Financial Statements

Statement of recognized actuarial losses	2006 000 CHF	2005 000 CHF
Actuarial losses recognized in equity at January 1	-6 806	-4 652
Actuarial losses recognized in equity current year	-884	-2 154
Actuarial losses recognized in equity at December 31	-7 690	-6 806

Major categories of plan assets (Fair value as a percentage of total plan assets):	Dec. 31, 2006	Dec. 31, 2005
Money market	4.74%	3.92%
Bonds	51.07%	53.50%
Shares	28.07%	29.46%
Real estate	16.12%	13.12%
Total	100.00%	100.00%

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

Assumptions for the actuarial calculations:	2006	2005
Discount rate	3.00%	3.00%
Expected return on plan assets	4.00%	4.00%
Expected future salary increase	2.00%	2.00%
Expected pension revaluation	0.50%	0.50%
Retirement age (f/m)	64/65	64/65

The expected return on plan assets was determined based on past experience. The chosen portfolio strategy is designed to achieve a long-term return that is above the statutory minimum interest rate.

Funding status summary of defined benefit plans:	2006 000 CHF	2005 000 CHF
Plan assets	43 195	39 889
Defined benefit obligation	-49 535	-46 027
Deficit	-6 340	-6 138
Experience adjustments on plan assets	-50	994
Experience adjustments on plan liabilities	-834	-3 148

Bachem expects a contribution to the pension plans of about CHF 2 500 000 in 2007.

5. General Administration and other Expenses

	2006 000 CHF	2005 000 CHF
Marketing expense	-3 028	-2 402
General administration expense	-7 214	-5 868
Repair and maintenance	-4 295	-3 779
Waste disposal and safety	-2 586	-2 223
Supplies and utilities	-7 643	-6 602
Other expenses	-2 416	-1 911
Total general administration and other expenses	-27 182	-22 785

6. Associates and Joint Ventures

	2006 000 CHF	2005 000 CHF
Result from associates and joint ventures	-1 723	-3 321

Polyphor AG, Allschwil

Founded by institutional and private investors in 1996 the goal of Polyphor AG is to support the research oriented chemical industry (pharmaceutical, agrochemical and cosmetics) in shortening the development periods for new drugs and commercial compounds. At December 31, 2006 Bachem Group held 23.0% (2005: 26.2%) of the shares and votes of Polyphor AG. The equity method is applied for the investment in Polyphor AG.

Bachem has invested CHF 6 500 000 in Polyphor AG so far. The valuation of the proportional equity as per December 31, 2006 amounts to CHF 2 025 000 (2005: CHF 1 730 000).

Pevion Biotech AG, Bern

On January 7, 2002, Bachem Holding AG and Berna Biotech AG founded Pevion Biotech AG in Bern. In 2006 Berna Biotech AG was taken over by Crucell. Crucell took over all rights and obligations of Berna Biotech AG concerning the investment in Pevion Biotech AG. Both partners have a 50% stake in Pevion Biotech AG. The company develops innovative therapeutic and prophylactic vaccines against infectious diseases and cancer which are based on the combination of peptides and the virosome technology. Up to now both partners together invested CHF 20 000 000. It is foreseen that Bachem will invest another CHF 2 000 000 when the next capital increase takes place.

Bachem has invested CHF 10 000 000 in Pevion Biotech AG so far. The valuation of the proportional equity as per December 31, 2006 amounts to CHF 1 493 000 (2005: CHF 1 511 000).

There are no further contingent liabilities related to the investments in Polyphor AG and Pevion Biotech AG.

Summarized financial statements of Pevion Biotech AG & Polyphor AG

Income statements	2006 000 CHF	2005 000 CHF
Income	11 128	10 318
Expenses	-19 577	-18 075
Result	-8 449	-7 757

Balance Sheet	Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
Current assets	14 554	11 118
Non-current assets	3 054	4 098
Assets	17 608	15 216
Liabilities	5 994	5 579
Equity	11 614	9 637
Liabilities and equity	17 608	15 216

7. Financial Result

Financial Result	2006 000 CHF	2005 000 CHF
Interest income	2 453	1 276
Dividend income	654	457
Gains on sale of securities	4 012	3 050
Other financial income	159	167
Total financial income	7 278	4 950

Financial expense		
Loss on sale of securities	-207	-165
Loss on fair value measurement of derivatives	-982	-347
Other financial expenses	-389	-412
Total financial expense	-1 578	-924

Foreign exchange result	-244	1 605
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Financial result	5 456	5 631
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8. Income Taxes

	2006 000 CHF	2005 000 CHF
Current taxes	-9 362	-9 943
Deferred taxes	-3 474	-143
Total income taxes	-12 836	-10 086

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

Tax rate reconciliation	2006 %	2005 %
Expected tax rate	22.6	22.6
Effect of income taxed at reduced rates	-1.3	-1.1
Effect of non tax deductible expenditures	0.1	0.1
Recognition of previously unrecognised tax loss carry forwards	0.0	-5.1
Unrecognized tax losses	0.0	1.0
Adjustments from prior periods recognized in the current period	0.1	4.0
Adjustments of the applicable tax rates	0.0	-0.9
Other items	0.1	-0.1
Effective tax rate	21.6	20.5

9. Earnings per Share

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

	2006	2005*
Net income (000 CHF)	46 649	39 379
Weighted average number of ordinary shares outstanding	13 188 597	13 183 554
Basic earnings per share (CHF)	3.54	2.99

* restated (refer to note 4)

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

	2006	2005*
Net income (000 CHF)	46 649	39 379
Weighted average number of ordinary shares outstanding	13 188 597	13 183 554
Adjustment for dilutive share options	1 002	685
Weighted average number of ordinary shares outstanding for diluted earnings per share	13 189 599	13 184 239
Diluted earnings per share (CHF)	3.54	2.99

* restated (refer to note 4)

6 800 options (2005:12 100) were excluded from the calculation of diluted earnings per share as they were not dilutive.

10. Cash and Cash Equivalents

Cash and cash equivalents		Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
– CHF		52 667	60 626
– USD		13 043	11 201
– EUR		4 963	3 317
– GBP		2 443	1 207
Total cash and cash equivalents		73 116	76 351
thereof cash and bank balances		30 627	41 585
thereof short-term deposits		42 489	34 766

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

11. Marketable Securities and other Financial Assets

Available for sale		Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
Shares	Fair value	22 230	28 636
Structured products	Fair value	18 003	9 045
	Contract value	19 938	10 000
Bonds	Fair value	15 615	9 494
Total available for sale		55 848	47 175
At fair value through profit or loss			
Derivatives	Fair value	352	510
Total at fair value through profit or loss		352	510
Total marketable securities		56 200	47 685

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

The derivatives contain embedded derivatives of structured products which were separated.

In the previous year the position other financial assets contained a CHF 10 000 000 short-term deposit with a duration of more than 3 months.

12. Trade Receivables

	Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
Trade receivables	29 721	28 849
Impairment	-783	-714
Total trade receivables	28 938	28 135

The fair value of trade receivables complies with the book value. There are considerable receivables with two customers which equal 34.7% and 10.7% respectively of total trade receivables. In the previous year there were considerable receivables with two customers which came up to 26.2% and 14.4% respectively. The remaining single receivables did not exceed 10% of the total trade receivables.

The recognized impairment of the period amounts to CHF 511 000 (2005: CHF 87 000).

13. Other Receivables

	Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
Prepaid expenses and accrued income	4 349	4 456
Other receivables	1 684	1 525
Total other receivables	6 033	5 981

Prepaid expenses and accrued income comprise prepayments for not yet received goods and services as well as income that is realizable in the following year. Other receivables contain VAT and withholding tax receivables and other receivables against third parties.

14. Inventories

	Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
Raw material	17 466	12 879
Work in progress/Finished goods	90 437	77 007
Provision for slow-movers	-17 600	-15 592
Total inventories	90 303	74 294

The increase in inventories is allocated to both categories. The increase in raw material and work in progress refers to projects, which will be sales generating in 2007. The inventory of several important products was increased to improve supply readiness for peptide and non-peptide generics.

In 2006 no write-offs on inventories were necessary. In the previous year goods in the amount of CHF 200 000 were written off as a consequence of the revision of inventories. These amounts were recognized in the cost of goods sold. In both periods no write-offs were reversed.

15. Property, plant and equipment

2006	Land 000 CHF	Buildings 000 CHF	Assets under construction 000 CHF	Installations 000 CHF	Laboratory equipment 000 CHF	Other 000 CHF	Total 2006 000 CHF
Cost at January 1	12 122	97 422	11 619	51 008	61 764	8 527	242 462
Additions	0	7 443	11 425	3 703	5 562	1 284	29 417
Disposals	0	0	0	-40	-307	-557	-904
Reclassifications	0	3 928	-14 200	6 238	3 806	228	0
Translation effects	-393	-1 252	-452	-301	-1 162	-161	-3 721
Cost at December 31	11 729	107 541	8 392	60 608	69 663	9 321	267 254
Accumulated depreciation at January 1	0	-26 565	0	-30 683	-37 427	-6 257	-100 932
Depreciation	0	-2 538	0	-2 463	-2 914	-879	-8 794
Disposals	0	0	0	40	307	557	904
Translation effects	0	357	0	152	935	121	1 565
Accumulated depreciation at December 31	0	-28 746	0	-32 954	-39 099	-6 458	-107 257
Net book value at December 31	11 729	78 795	8 392	27 654	30 564	2 863	159 997
2005	Land 000 CHF	Buildings 000 CHF	Assets under construction 000 CHF	Installations 000 CHF	Laboratory equipment 000 CHF	Other 000 CHF	Total 2005 000 CHF
Cost at January 1	10 951	91 331	15 100	38 197	53 484	7 455	216 518
Additions	359	1 674	8 241	1 961	7 234	574	20 043
Disposals	0	0	0	-36	-193	-20	-249
Reclassifications	0	1 996	-11 959	10 422	-629	170	0
Translation effects	812	2 421	237	464	1 868	348	6 150
Cost at December 31	12 122	97 422	11 619	51 008	61 764	8 527	242 462
Accumulated depreciation at January 1	0	-23 538	0	-28 474	-34 018	-5 089	-91 119
Depreciation	0	-2 380	0	-1 920	-2 288	-790	-7 378
Disposals	0	0	0	36	193	32	261
Reclassifications	0	0	0	-47	172	-125	0
Translation effects	0	-647	0	-278	-1 486	-285	-2 696
Accumulated depreciation at December 31	0	-26 565	0	-30 683	-37 427	-6 257	-100 932
Net book value at December 31	12 122	70 857	11 619	20 325	24 337	2 270	141 530

At December 31, 2006 and 2005 no buildings were held under operating lease.

Fire insurance values	2006 000 CHF	2005 000 CHF
Land/Buildings	90 998	81 339
Other property, plant and equipment	133 078	124 330

16. Intangible assets

2006	Goodwill 000 CHF	Other intangible assets 000 CHF	Total 2006 000 CHF
Cost at January 1	11 853	8 781	20 634
Additions	0	1 426	1 426
Translation effects	-589	-122	-711
Cost at December 31	11 264	10 085	21 349
Accumulated amortization at January 1	0	-5 542	-5 542
Amortization	0	-1 158	-1 158
Translations effects	0	115	115
Accumulated amortization at December 31	0	-6 585	-6 585
Net book value at December 31	11 264	3 500	14 764
2005			
	Goodwill 000 CHF	Other intangible assets 000 CHF	Total 2005 000 CHF
Cost at January 1	11 853	7 822	19 675
Additions	0	895	895
Disposals	0	-13	-13
Translation effects	0	77	77
Cost at December 31	11 853	8 781	20 634
Accumulated amortization at January 1	0	-4 516	-4 516
Amortization	0	-959	-959
Disposals	0	0	0
Translations effects	0	-67	-67
Accumulated amortization at December 31	0	-5 542	-5 542
Net book value at December 31	11 853	3 239	15 092

Other intangible assets mainly comprise software.

Amortization of intangible assets of CHF 742 000 (2005: CHF 615 000) is included in cost of goods sold, recognized in the income statement; CHF 133 000 (2005: CHF 111 000) in selling costs; CHF 34 000 (2005: CHF 28 000) in research and development costs and CHF 249 000 (2005: CHF 205 000) in general administrative costs.

17. Impairment test for Goodwill

With the application of IFRS 3 Business Combinations there is no further goodwill amortization. Instead goodwill has to be tested for impairment at least annually on the cash-generating unit level. The relevant cash-generating units to test impairment are the geographical segment of North America with a goodwill of CHF 4 881 000 and the division non-peptide generics, which consists of Sochinaz SA, with a goodwill of CH 6 383 000.

The impairment respectively the value of the above mentioned cash-generating units North America and non-peptide generics was tested on the basis of the discounted cash flow method. The recoverable amount represents the value in use. The basis for the test was Bachem's five-year-plan. This plan was prepared based on the assumptions of the Management that represent its best estimate regarding market growth and market share, as well as the projected costs on the basis of the prior year. For the two cash-generating units different discount rates, which reflect the specific risk in the respective markets, were applied. The pre-tax discount rate used for North America was 15.7% (2005: 15.7%) and for Sochinaz 8.3% (2005: 9.2%). We expect an organic growth for the Group between 7.5% and 10% per year over the next five years. No growth of the cash flows is considered beyond the five-year period. We assume an above-average growth for the cash-generating unit North America. For the cash-generating unit non-peptide generics we assume a below-average growth. The margins were calculated with a slight improvement in efficiency.

Based on both impairment tests, evidence is available that there is no impairment.

18. Other current liabilities

	Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
Deferred income and accrued expenses	7 353	4 319
Derivatives	72	0
Other current liabilities	850	638
Total other current liabilities	8 275	4 957

19. Provisions

	Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
At January 1	243	1 045
Additions	259	19
Reversals	-27	0
Utilization	-65	-908
Translation effects	-13	87
At December 31	397	243
Current portion	159	243

Beside the restructuring provision from prior year the provisions on December 31, 2006 contain a provision for a pending legal case.

20. Deferred taxes

The changes in deferred taxes were as follows:

Deferred tax assets	Receivables 000 CHF	Inventories 000 CHF	Property, plant and equipment 000 CHF	Liabilities 000 CHF	Tax loss carry- forward 000 CHF	Defined benefit plan liability 000 CHF	Total* 000 CHF
Asset on January 1, 2005	16	888	0	750	0	824	2 478
Recognized in profit and loss	-3	-333	0	-377	2 538	0	1 825
Recognized in equity	0	0	0	0	0	404	404
Translation effects	3	117	0	108	28	0	256
Asset on December 31, 2005	16	672	0	481	2 566	1 228	4 963
Recognized in profit and loss	337	-60	81	-144	-58	-137	19
Recognized in equity	0	0	0	0	0	177	177
Translation effects	-1	-13	0	-34	-185	0	-233
Asset on December 31, 2006	352	599	81	303	2 323	1 268	4 926

Deferred tax liabilities	Securities 000 CHF	Receivables 000 CHF	Inventories 000 CHF	Property, plant and equipment 000 CHF	Intangible assets 000 CHF	Liabilities 000 CHF	Total* 000 CHF
Liability on January 1, 2005	86	242	7 873	9 663	223	1 588	19 675
Recognized in profit and loss	-120	101	891	1 442	34	-379	1 968
Recognized in equity	553	0	0	0	0	-104	449
Translation effects	3	-2	0	105	0	1	107
Liability on December 31, 2005	522	341	8 764	11 209	257	1 106	22 199
Recognized in profit and loss	-64	-48	1 821	1 212	-98	670	3 493
Recognized in equity	13	0	0	0	0	0	13
Translation effects	0	0	0	-53	0	5	-48
Liability on December 31, 2006	471	293	10 585	12 368	159	1 781	25 657

* restated (refer to note 4)

Tax loss carry-forwards by expiry date:	Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
Up to five years	0	62
More than five years	6 832	7 549
Total tax loss carry-forward	6 832	7 611

On the total tax loss carry-forwards, deferred taxes are recognized, because the company assumes probable future taxable profit to be available and the tax loss carry-forwards to be utilized. As a consequence there are no tax loss carry-forwards at December 31, 2006, on which no deferred tax assets were recognized.

At December 31, 2006 there were temporary differences on investments in subsidiaries of CHF 73 349 000 on which no deferred taxes were recognized.

21. Changes in equity

2006	Notes	Share capital 000 CHF	Retained earnings 000 CHF	Share premium 000 CHF	Own shares 000 CHF	Fair value reserves 000 CHF	Deferred taxes on fair value reserves 000 CHF	Cumulative translation differences 000 CHF	Total 2006 000 CHF
Balance January 1, 2006		680	298 190	88 018	-15 930	5 446	-444	-11 060	364 900
Total recognized income and expense for the period		0	45 942	0	0	-399	-13	-5 283	40 247
Dividends paid	24		-19 781						-19 781
Transactions with own shares			733		2 141				2 874
Share-based payments	23			975					975
Balance December 31, 2006		680	325 084	88 993	-13 789	5 047	-457	-16 343	389 215
2005	Notes	Share capital 000 CHF	Retained earnings 000 CHF	Share premium 000 CHF	Own shares 000 CHF	Fair value reserves 000 CHF	Deferred taxes on fair value reserves 000 CHF	Cumulative translation differences 000 CHF	Total 2005* 000 CHF
Balance January 1, 2005		680	279 711	87 217	-14 814	-1 193	109	-17 890	333 820
Effect of IAS 19 revised	4		-4 652						-4 652
Deferred taxes on IAS 19 revised	4		824						824
Restated Balance January 1, 2005		680	275 883	87 217	-14 814	-1 193	109	-17 890	329 992
Total recognized income and expense for the period		0	37 733	0	0	6 639	-553	6 830	50 649
Dividends paid	24		-15 849						-15 849
Transactions with own shares			423		-1 116				-693
Share-based payments	23			801					801
Balance December 31, 2005		680	298 190	88 018	-15 930	5 446	-444	-11 060	364 900

* restated (refer to note 4)

22. Share capital

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

Shares Bachem -A-	Dec. 31, 2006	Dec. 31, 2005
Number of shares	6 802 000	6 802 000
Number of fully paid-in shares	6 802 000	6 802 000
Par value per share (in CHF)	0.05	0.05

Shares Bachem -B-		
Number of shares	6 798 000	6 798 000
Number of fully paid-in shares	6 798 000	6 798 000
Par value per share (in CHF)	0.05	0.05

Total number of shares	13 600 000	13 600 000
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Total share capital (in CHF)	680 000	680 000
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On December 31, 2006 Bachem Holding AG held 378 679 own shares, of which 209 092 are reserved for trading and 169 587 for distribution under the employee participation plans.

Own shares	Dec. 31, 2005 (number)	Purchases/ Backslide of blocked shares (number)	Sales/ Transfer to employees (number)	Dec. 31, 2006 (number)
Employee participation scheme at the price of CHF 1.22	82 577	600	-12 590	70 587
Option plan at the price of CHF 0.05	100 000	0	-1 000	99 000
Treasury stock at the price of CHF 65.51	239 092	20 000	-50 000	209 092
Total own shares	421 669	20 600	-63 590	378 679

Outstanding shares	Dec. 31, 2006	Dec. 31, 2005
Total number of shares	13 600 000	13 600 000
Number of own shares Bachem -B-	-378 679	-421 669
Total shares outstanding	13 221 321	13 178 331

23. Share-based payment

The employee and management participation plans are described in the accounting policies on page 33. The recognized expenses for share-based payments in the reporting period were CHF 975 000 (2005: CHF 801 000).

In 2006 and 2005 the following number of shares was granted:

Year	2006 number/CHF	2005 number/CHF
Number of granted shares	12 590	16 960
Average fair value per share at grant date in CHF	77.60	70.85

The option plan developed as follows:

Options outstanding	2006 number	2005 number
At January 1	16 300	21 500
Granted options	3 250	0
Cancelled options	-1 000	-2 400
Expired options	-3 700	-2 800
Exercised options	-1 000	0
At December 31	13 850	16 300
Exercisable options	3 300	3 700

Due to an amendment of the option plan there was no option grant in 2005. The next grant was at the beginning of 2006.

The following table lists the parameters, based on which the option valuation was performed by independent experts using the Trinomial-Baum-Method:

Parameters (2006)	Options AA	Options AB	Options AC
Weighed average share price in CHF	74.50	74.50	74.50
Strike of a share in CHF	76.00	76.00	76.00
Risk-free interest rate in %	1.47%	1.63%	1.74%
Volatility in %	22.00%	23.80%	33.20%
Dividend yield in %	1.60%	1.60%	1.60%
Duration of the options (in years)	3	4	5
Vesting period of the options (in years)	1	2	3

Options by expiry date	Exercise price	2006 number	2005 number
Year 2006	80.00	0	3 700
Year 2007	80.00	3 300	4 700
Year 2008	80.00	3 500	3 700
Year 2008	76.00	1 086	0
Year 2009	60.30	3 300	3 500
Year 2009	76.00	1 086	0
Year 2010	65.33	500	700
Year 2010	76.00	1 078	0
Total		13 850	16 300

Bachem holds own shares in order to meet its obligations under the employee participation plans. These own shares are deducted from equity. For the change in the number of Bachem shares outstanding, please refer to note 22.

24. Dividend payment

In 2006 a dividend of CHF 19 781 000 respectively CHF 1.50 per share has been distributed for the year 2005 (prior year: CHF 15 849 000 respectively CHF 1.20 per share).

The Board of Directors will propose a dividend of CHF 2.00 per share plus an extra dividend of CHF 5.00 per share or a total of CHF 92 567 000 on 13 223 871 shares entitled to dividend, to the Annual General Meeting for the year 2006. The number of shares entitled to dividend may change until the Annual General Meeting on April 18, 2007 due to the granting of shares to employees or the purchase/sale of own shares.

25. Consolidated companies

Company	Country	Equity share* 2006	Equity share* 2005
Bachem Holding AG, Bubendorf	Switzerland	Parent company	Parent company
Bachem AG, Bubendorf	Switzerland	100%	100%
Bachem Trading AG, Bubendorf	Switzerland	100%	100%
Sochinaz SA, Vionnaz	Switzerland	100%	100%
Bachem Biochimie SARL, Mulhouse (liquidated)	France	N/A	100%
Bachem Distribution Services GmbH, Weil am Rhein	Germany	100%	100%
Bachem (UK) Ltd., St. Helens	England	100%	100%
Peninsula Laboratories Europe Ltd., St. Helens (inactive)	England	100%	100%
Peninsula Laboratories Inc., San Carlos (merged)	USA	N/A	100%
Peninsula Laboratories LLC, San Carlos	USA	100%	N/A
Bachem Bioscience Inc., King of Prussia	USA	100%	100%
Bachem California Inc., Torrance	USA	100%	100%

* directly oder indirectly

Bachem Biochimie SARL was liquidated as per April 21, 2006. As per December 20, 2006, Peninsula Laboratories Inc., San Carlos was merged with Peninsula Laboratories LLC, San Carlos, which was newly founded in 2006.

26. Related party transactions

Chemoforma AG, Pevion Biotech AG, Polyphor AG, Ingro Finanz AG, the pension fund of the Swiss subsidiaries as well as the Board of Directors and Corporate Management of Bachem Holding AG are considered related parties. The following tables show an overview of the transactions and balances with related parties.

Transactions	2006 000 CHF	2005 000 CHF
Chemoforma AG (purchase of goods)	-86	0
Ingro Finanz AG (dividend)	-10 380	-8 296
Pevion Biotech AG (delivery of goods)	228	244
Polyphor AG (delivery of goods)	495	65
Pension fund (contribution)	-2 279	-2 135
Total transactions with related parties	-12 022	-10 122

Balances	Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
Chemoforma AG	-11	0
Polyphor AG	27	7
Total balances with related parties	16	7

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

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

2006	Salaries, fees 000 CHF	Social expenses 000 CHF	Share- based payments 000 CHF	Total 000 CHF
Board of Directors	277	43	112	432
Corporate Management	819	141	126	1 086
Total	1 096	184	238	1 518

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

27. Contingent liabilities and other commitments

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

In 2005 Bachem California Inc. was sued, but the lawsuit was abandoned in 2006.

At December 31, 2006 there are no contingent liabilities.

28. Events after the balance sheet date

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



Report of the group auditors to the general meeting of Bachem Holding AG, Bubendorf

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, cash flow statement, statement of recognized income and expense and notes/pages 24 to 52) of Bachem Holding AG for the year ended December 31, 2006.

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

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

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

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

PricewaterhouseCoopers AG

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

G. Tritschler
Auditor in charge

A handwritten signature in blue ink, appearing to read 'D. Baumann' followed by a long horizontal flourish.

D. Baumann

Basel, March 5, 2007

Income Statements

for the years ended December 31

	2006 000 CHF	2005* 000 CHF
Income from licenses	19 516	10 029
Total operating income	19 516	10 029
Staff cost	-2 360	-1 961
Depreciation and amortization	-59	-25
Other operating expenses	-3 377	-3 140
Operating result	13 720	4 903
Financial income	72 220	19 495
Financial expense	-3 298	-3 896
Foreign exchange gains	1 800	1 419
Foreign exchange losses	-2 714	-720
Income before taxes	81 728	21 201
Taxes	-1 805	-1 182
Net income	79 923	20 019

* Prior year values reclassified to new structure

Balance Sheet

at December 31, 2006 and 2005

	Dec. 31, 2006 000 CHF	Dec. 31, 2005 000 CHF
Assets		
Cash and cash equivalents	47 222	33 978
Marketable securities	63 834	57 474
Other receivables, third parties	1 258	1 187
Other receivables, intercompany	23 849	12 854
Prepaid expenses and accrued income	616	431
Total current assets	136 779	105 924
Investments	123 058	122 916
Loans to Group companies	50 568	20 044
Tangible fixed assets	53	49
Intangible assets	316	210
Total non-current assets	173 995	143 219
Total assets	310 774	249 143
Liabilities and Equity		
Other current liabilities, third parties	179	106
Other current liabilities, intercompany	4 019	3 264
Deferred income and accrued expenses	2 043	1 382
Total liabilities	6 241	4 752
Share capital	680	680
Legal reserves		
General reserves	89 897	89 897
Reserves for own shares	13 789	15 930
Free reserves	119 800	117 659
Retained earnings	80 367	20 225
Total equity	304 533	244 391
Total liabilities and equity	310 774	249 143

1. Significant Investments

Company	Location	Branch		Share capital Dec. 31, 2006	Share capital Dec. 31, 2005
Bachem AG	Bubendorf, CH	Production, sales	CHF	25 000 000	25 000 000
Bachem Trading AG	Bubendorf, CH	Sales	CHF	100 000	100 000
Bachem Biochimie SARL (liquidated)	Mulhouse, F	Sales	EUR	N/A	75 000
Bachem Distribution Services GmbH	Weil am Rhein, D	Production, sales	EUR	128 000	128 000
Bachem (UK) Ltd.	St. Helens, GB	Production, sales	GBP	2 500	2 500
Peninsula Laboratories Inc. (merged)	San Carlos CA, USA	Production, sales	USD	N/A	32 000
Bachem Bioscience Inc.	King of Prussia PA, USA	Production, sales	USD	3 000 000	3 000 000
Bachem California Inc.	Torrance CA, USA	Production, sales	USD	3 000	3 000
Pevion Biotech AG	Bern, CH	Production, sales	CHF	5 800 000	5 000 000
Polyphor AG	Allschwil, CH	Production, sales	CHF	4 692 500	4 129 200

With the exception of Pevion Biotech AG (50.0%) and Polyphor AG (23.0%) all companies are controlled with 100% of the voting rights.

Bachem Biochimie SARL was liquidated as per April 21, 2006. As per December 20, 2006 Peninsula Laboratories Inc., San Carlos was merged with Peninsula Laboratories LLC, San Carlos, which was founded in 2006 and is held at 100% by Bachem California Inc.

2. Own Shares

On December 31, 2006 Bachem Holding AG held 378'679 own shares, thereof 209'092 are reserved for trading and 169'587 are reserved for distribution under the employee participation plans.

Own Shares	Dec. 31, 2005 (number)	Purchases/backslide of blocked shares (number)	Sales/transfer to employees (number)	Dec. 31, 2006 (number)
Employee participation scheme at the price of CHF 1.22	82 577	600	-12 590	70 587
Option plan at the price of CHF 0.05	100 000	0	-1 000	99 000
Treasury stock at the price of CHF 65.51	239 092	20 000	-50 000	209 092
Total own shares	421 669	20 600	-63 590	378 679

3. Important Shareholders

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

	Percentage of total share capital Dec. 31, 2006	Percentage of total share capital Dec. 31, 2005
P. Grogg (via Ingro Finanz AG)*	50.9	50.8
G. Knoch	8.6	8.6
Family of P. Grogg	6.0	6.0

* in this position all shares -A- are included

4. Value Added Tax Group

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

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

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

Net income	CHF	79 923 047.86
Retained earnings at January 1	CHF	444 220.87
Release of free reserves	CHF	14 000 000.00
Available to the Annual General Meeting	CHF	94 367 268.73

as follows:

Payment of a dividend of CHF 2.– per registered share for the business year 2006 plus a special dividend of CHF 5.– on 13 223 871 registered shares entitled to dividend	CHF	92 567 097.00
Retained earnings to be carried forward	CHF	1 800 171.73

The total amount of dividend included 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 18, 2007 depending on the distribution of shares to employees or purchase/sale of own shares.

Report of the Statutory Auditors



Report of the statutory auditors to the general meeting of Bachem Holding AG, Bubendorf

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes/pages 54 to 56) of Bachem Holding AG for the year ended December 31, 2006.

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

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

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

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

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to read 'G. Tritschler', is positioned above the name and title of the auditor in charge.

G. Tritschler
Auditor in charge

A handwritten signature in blue ink, appearing to read 'D. Baumann', is positioned above the name of the second auditor.

D. Baumann

Basel, March 5, 2007

Shareholder information

		2006	2005*	2004	2003	2002
Registered shares, nom. CHF 0.05		13 600 000	13 600 000	13 600 000	13 600 000	13 600 000
Average number of outstanding shares		13 188 597	13 183 554	13 204 587	13 249 707	13 324 757
Dividend per share	CHF	2.00¹	1.50	1.20	1.10	1.00 ²
Special dividend	CHF	5.00¹				
Share price	beginning of the year	CHF 75.50	66.00	64.90	62.40	97.00
	high	CHF 92.45	78.00	74.95	75.00	105.00
	low	CHF 66.30	65.75	63.50	50.10	59.00
	year end	CHF 92.00	75.50	65.45	63.45	65.00
Dividend yield per share		7.6%	2.0%	1.8%	1.7%	1.5% ²
Earnings per share (EPS)	CHF	3.54	2.99	2.45	2.82	2.51
Cash flow from operating activities per share	CHF	3.04	2.08	3.77	2.68	2.83
Group equity per share	CHF	29.51	27.68	25.53	24.46	23.32
Price/earnings ratio (year end)		25.99	25.25	26.71	22.50	25.90
Market capitalization at year end	CHF m	1 251	1 027	890	863	884

¹ proposal to the Annual General Meeting of April 18, 2007

² including nominal value reduction of CHF 0.45 per share

* restated (refer to note 4)

Bachem registered shares are traded at the Swiss Exchange (SWX). Valor number: 1 253 020 SWX: BANB Reuters: BAMZn. In 2003, share capital was reduced from CHF 6 800 000 to CHF 680 000 by means of nominal value reduction.

Distribution of Shares

Number of shares per shareholder	Dec. 31, 2006	Dec. 31, 2005
0 – 100	1 134	1 265
101 – 1 000	1 482	1 690
1 001 – 10 000	259	246
10 001 – 100 000	45	45
100 001 – 1 000 000	7	5
1 000 001 and more	2	2
Total shareholders	2 929	3 253

Shareholdings

in %	Dec. 31, 2006	Dec. 31, 2005
Major shareholders	65.4	65.4
Institutional shareholders	12.0	11.3
Private individuals	13.6	14.3
Others	2.0	1.1
Dispo	7.0	7.9

Financial Calendar 2007/2008

Annual General Meeting (business year 2006)	April 18, 2007
Payout date for dividend	April 23, 2007
Half year results 2007	August 17, 2007
Full year results 2007	March 2008
Annual General Meeting (business year 2007)	April 2008

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Bachem. Leading beyond peptides

Bachem is an independent, technology-based public biochemicals company providing full service to pharma and biotech industries. Bachem is specializing in the process development and the manufacturing of peptides and complex organic active pharmaceutical ingredients and innovative biochemicals for research purposes. With headquarters in Bubendorf, Switzerland and affiliates in Europe and the US, Bachem works on a global scale and holds the leading position in the field of peptides.

