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Bachem

Quality Matters

Bachem

Annual Report

2010

BACHEM

Q

Bachem
Quality Matters

Quality Strategy

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

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

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

Content

Bachem Headquarters, Switzerland

Bachem Headquarters, Switzerland

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Well-trained and highly motivated employees are the key to the quality of our products and services. Of our employees, 41% have a degree from a college/university of applied sciences or a university and 44% have completed an apprenticeship. With continuing education and leadership training for managers we lay the foundation for high quality.

Bachem Employees, Production


45
40
35
30
25
20
15
10
5

Bachem Expert, Library

Bachem Specialist, Clean-Room

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Quality in production means developing and producing highly complex substances while upholding the ever stricter requirements of Good Manufacturing Practice for the pharmaceutical industry. Specialists with well-founded expertise and a high degree of dedication operate in total 37 clean-rooms at Bachem.

Bachem Analyst, Quality Control

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More than 20% of the Bachem workforce is engaged in quality assurance, quality control and regulatory affairs. Hence, we can guarantee comprehensive quality services support in all phases of a drug's life cycle.

Bachem Products, Distribution


UltiMate 3000
LC 244
HPLC-Anlage


TFA
B
TFA
UltiMate 3000
UltiMate 3000
LC 248
LC 249
UPLC-
Anlage
UPLC-
Anlage

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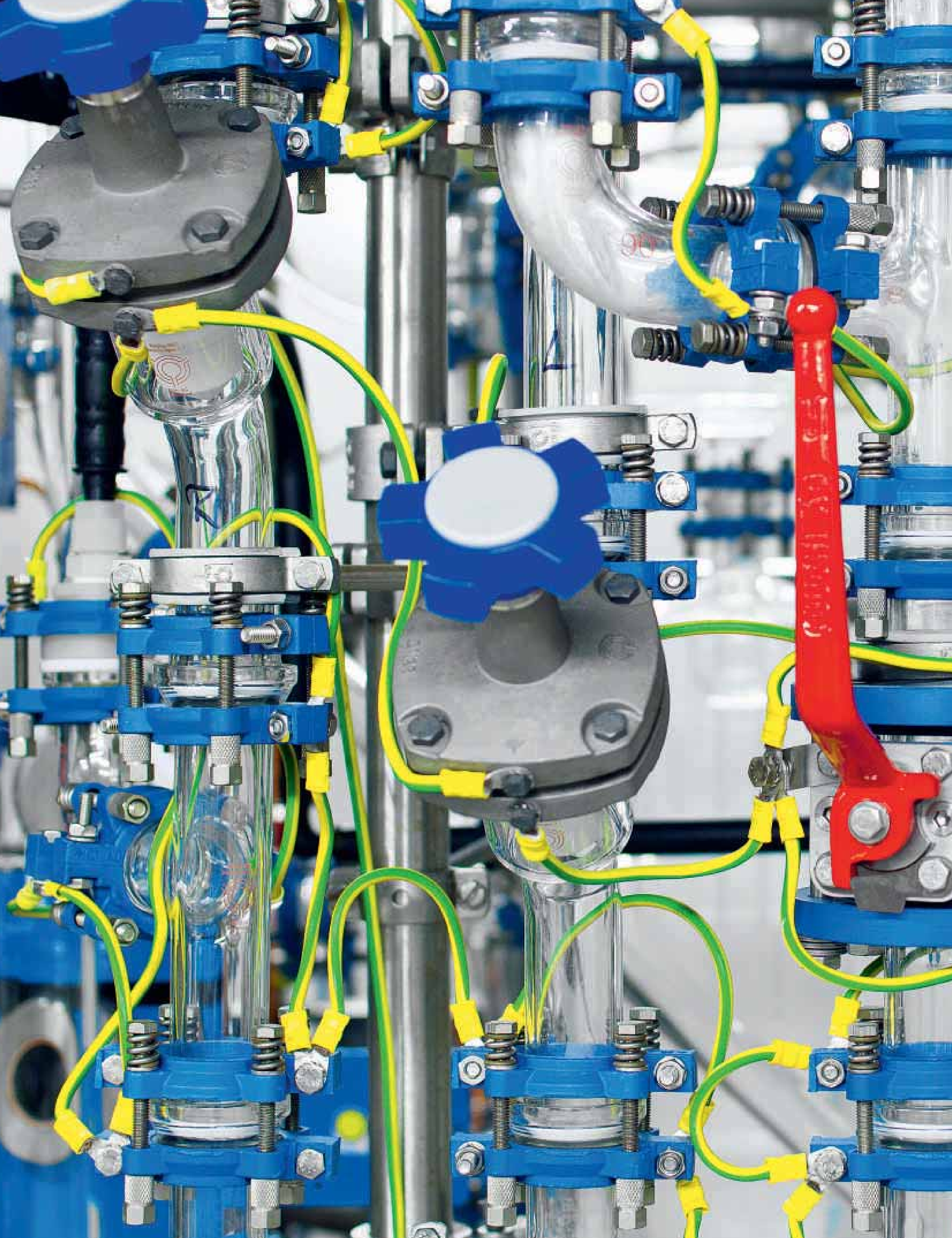
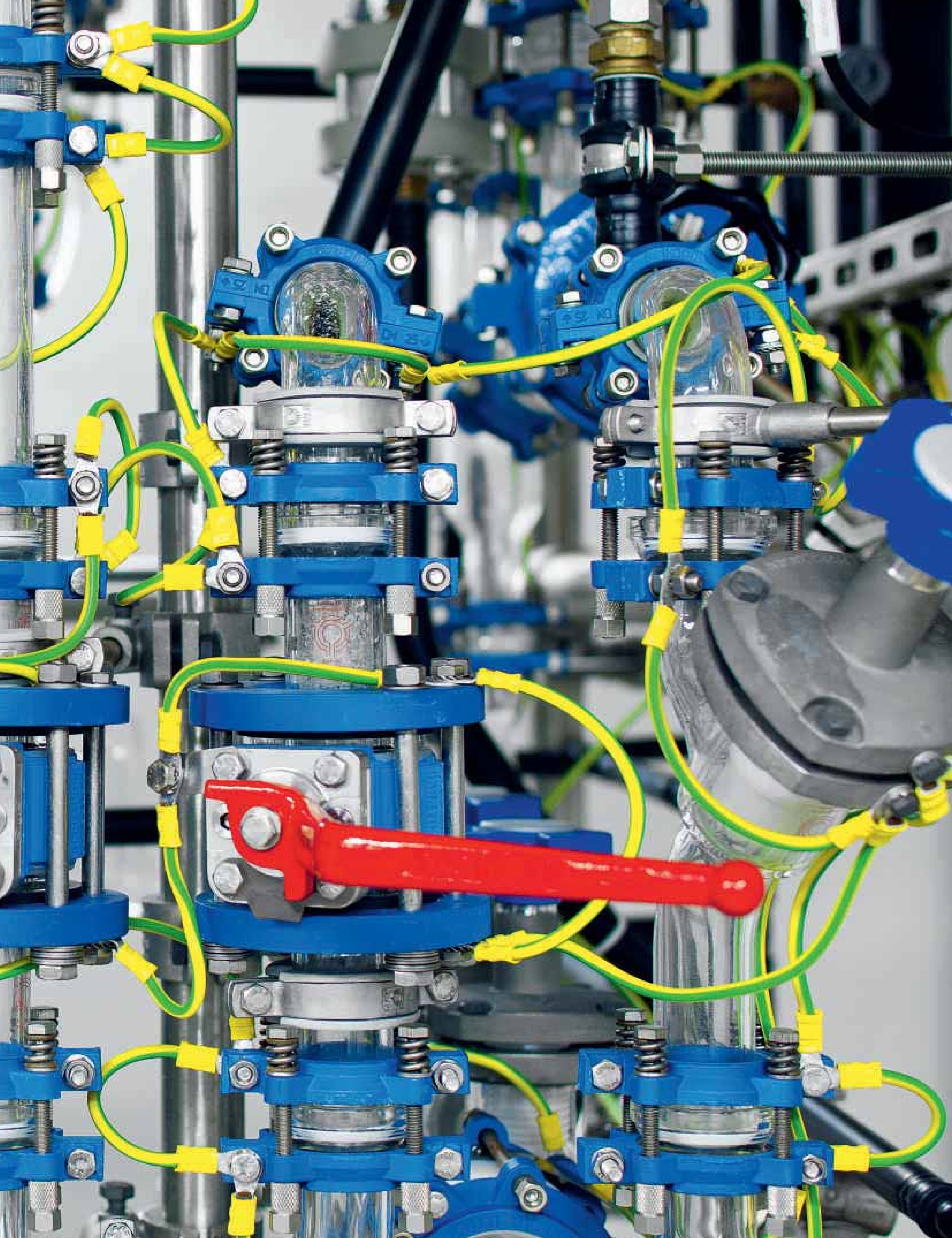
By means of regular audits, customers and authorities systematically verify quality in terms of equipment, processes and products. In the year 2010 overall 51 customer audits and 6 inspections by authorities took place. All of them were very successful and fully confirmed the high standards at Bachem and compliance with the requirements for Good Manufacturing Practice.

Bachem Customer Audit

Bachem Worldwide Markets





Dear Shareholders

Rolf Nyfeler, Peter Grogg

2010 was an extremely challenging year for everyone. Restructuring, cost-cutting and downsizing were the direct consequences of the decline in sales. At the same time, we drastically reduced our investments and inventory levels, and optimized processes. This improved efficiency is a good starting point for the expected upswing. We expanded our project and product portfolio and successfully drove our market penetration onwards during the year under review. We also choose not to cut corners in terms of quality even during this era of tough competition. Official inspections were conducted at all of our production sites in 2010. They were all very successful and are a testament to the high standard we uphold. We faced the challenges and asserted our market position as a leading manufacturer of peptide active ingredients.

Sales, EBIT and EBIT margin were below expectations because the markets were only recovering slowly. As a result, we were unable to make up for the weak start to 2010. The increasingly strong Swiss Franc also considerably hindered our efforts to make up lost ground. Nevertheless, we were able to significantly improve on our results from the first half of the year in a market environment that continued to be difficult. The situation in the USA also improved.

Generics and NCEs came under pressure for various reasons during the year under review. Clinical developments of NCEs advanced much more slowly than our customers had planned and approval decisions by regulatory authorities continued to suffer delays. Not only did sales of generic active ingredients fall, there was also considerable pressure on prices. The research market, on the other hand, saw a clear increase in demand. We are therefore optimistic about the future development of NCEs.

We cut the number of full-time positions by 62 (8.5%) in the year under review, mainly by making use of natural turnover. Restructuring in the USA is complete. Together with early retirements, some 1.8 million CHF in extraordinary costs was incurred in 2010. Integration of the two production sites in Bubendorf und Vionnaz got underway in the year under review and is scheduled to be completed by the middle of 2011.

We are well-equipped for the slow but positive development that we see in our markets, with a diverse project portfolio which was further expanded in the year under review. This is supported by our highly qualified staff, our strong position in generic active ingredients and in growth areas such as oncology, and through approval decisions by regulatory authorities either already taken or expected soon. On the basis of these prospects and the financial stability of our company, the Board of Directors proposes a dividend of CHF 2.50 to the Annual General Meeting.

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

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

Interview Corporate Executive Committee

Bachem has successfully held its own and we understand how to defend our leading market position. "When the going gets tough, the tough get going."

With Dr. Rolf Nyfeler, CEO, Dr. Daniel Erne, CTO, Dr. Lester Mills, CMO, and Stephan Schindler, CFO

Mr. Nyfeler, in 2010, Bachem reported its worst annual results since the IPO in 1998. What went wrong?
R. Nyfeler: The results are indeed below our own expectations because the markets are recovering more slowly than we thought. But we did our homework, implemented cost-cutting programs and secured our leading position – at the same time though, we deliberately ruled out shortsighted measures. We are continuing to pursue our medium and long-term goals and have created a good foundation to do this.

You have been working at Bachem for many years. In your opinion, what has changed?
R. Nyfeler: The environment is fundamentally different and changes happen more quickly. In general, we are much more customer-oriented than we used to be. The requirements imposed by the various government agencies have also become much stricter. At the same time, competitive pressure has increased significantly.

Mr. Schindler, what are the CFO's responsibilities during this time and what do you think are the challenges facing the Bachem Group today?
S. Schindler: Transparency in cost accounting, efficient controlling, working capital management and liquidity planning are more important now than ever before. We are thus continuously improving our organization and systems so that we have a solid and meaningful basis for decision-making within shorter timeframes. One extremely exciting challenge we currently face is reconciling our strategic roadmap with the shifts in the pharmaceutical industry.

Bachem has a reputation of being on extremely solid financial ground. Where does this come from?
S. Schindler: Since it was founded, Bachem has attached great importance to a high level of self-financing. This allows us to retain our flexibility and independence

when it comes to implementing long-term goals. A robust balance sheet also strengthens our staying power in turbulent times.

Who actually buys and holds Bachem shares, and why?
S. Schindler: With a free float of around 35%, Bachem is not a security for short-term investors. As a result, our shareholders are mainly long-term oriented investors who focus on solid basic values and attractive dividends.

The 2009 Annual Report was entitled "Remaining on Expansion Course". How can this be reconciled with current business developments?
L. Mills: Expansion takes time. We also expanded in different areas last year to prepare for future growth. Geographically speaking, we are focusing on the BRIC countries. Regarding applications, cosmetics and veterinary medicine are important. We are pushing development of new generic products intensively. We have also added to our range of services (e.g. Melusine® [1]) and expanded our project portfolio.

Were expectations about new approvals too optimistic in the past? How do you expect this to develop in the future?
L. Mills: We have had to acknowledge the delays in approval decisions along with the rest of the industry. Agencies are also demanding more and more data to reach their decisions. Regardless of this, the financial crisis has led to an industry focus and priorization on current development projects. The percentage of peptide-based medicines among total approvals is generally on the rise. By vigorously expanding our portfolio, we are increasing the odds of successful projects.

Bachem is not yet present in Asia. Isn't there a pressing need to make up lost ground?
R. Nyfeler: Bachem has been an established supplier for many years in Japan and Korea. We are already generating significant sales in India and have several product registrations. With regard to the Chinese market, we entered into a partnership with a local CRO and various approvals are pending. We also conduct ongoing analyses of the situation with respect to potential Asian production sites and sales markets, and keep all of our options, including acquisitions or partnerships, open.

What do you think is the risk of Asian competitors forcing their way into the peptide ingredience business?
D. Erne: Our own experience with Asian suppliers has shown that caution must be exercised with respect to quality and reliability and ongoing inspections are

essential. We believe that the same applies all the more to pharmaceutical active ingredients. We continue to see a considerable risk for buyers due to environmental considerations and because compliance with regulatory requirements in particular in these countries does not yet generally meet western standards.

[1] see page 34

What role do employees play in light of the current overcapacities?
D. Erne: We also attached great importance to retaining know-how in 2010, so that we are well-equipped for the expected upswing. We boosted staff numbers, particularly in sales. We largely avoided layoffs for economic reasons, thus taking our commitment to social responsibility seriously. Changes also create the opportunity to flexibly deploy staff and find the "right" organization.

What were your motives for fully integrating the Sochinaz S.A. business? Why didn't you get rid of the Small Molecules division and concentrate on peptide production?

L. Mills: The merger gives us a uniform market presence with a "one face to the customer" philosophy. We are also continuing to rely on the growth of generic products and peptide conjugates and are committed to capitalizing on synergies arising from the joint use of reactor capacities and the common informatic systems.

How have the competitive situation and Bachem's market share in the global peptide ingredience developed?
L. Mills: We are seeing changes in our competitive environment with consolidations and companies exiting the market. Bachem has successfully held its own and we understand how to defend our market position. "When the going gets tough, the tough get going."

Are there indications that major competitors could potentially exit the market or that there will be another wave of consolidations? Under what circumstances would Bachem participate in industry consolidation?
R. Nyfeler: We have been contacted about acquiring production sites or companies many times by various parties. We see this as a sign of further consolidation in our market. As the No. 1, Bachem is in a strong position and reviews offers like these carefully to determine their long-term benefit for the Group. Our solid financing gives us the flexibility we need to take the right steps when the opportunity presents itself.

What is a realistic EBIT margin for the future and how will the free cash flow develop? What will the dividend policy be?
S. Schindler: We are continuing to aim for an EBIT margin of 25% in the medium term. The free cash flow will also increase as a result of a rise in sales, an unchanged restrictive investment policy and improved overall working capital management. The Board of Directors and the Annual General Meeting will ultimately decide on the amount of the dividend. However, I expect that Bachem also wants to take into consideration the interests of its shareholders in the future with an attractive long-term policy.

Tailwind in 2nd Half-Year

Compared to first half-year, EBIT more than doubled to 15.7 million CHF. Achieved margins of 10.3% (EBIT) and 22.1% (EBITDA). Delayed market recovery, extra costs and currency effects slowed the pursuit of growth.

Strong Swiss Franc

The increase of the Swiss Franc compared to EUR and USD impacted sales by 7.3 million CHF. The corresponding burden on EBIT was 5 million CHF, mainly in the second half-year.

One-Time Effects

In 2010, one-time costs of 1.8 million CHF were charged to the financial statement. The related restructuring measures were all implemented and finished in the reporting period.

NWC Bound Capital Reduced

The cashflow relevant capital binding in Net Working Capital (NWC) was reduced by 5.2 million CHF. This means an improvement of 24.6 million CHF compared to the corresponding prior year's change.

18 Million CHF

Depreciation and amortization amounted to 18 million CHF. With some delay, the high investments made in the years 2008/9 caused a rise of 2.8 million CHF. Investments for 2010 were clearly reduced to 18.7 million CHF.

2.50 CHF

The attractive dividend yield emphazises the sustainability of the positive future prospects.

18%

The EBIT margin of 18% in the second semester, before one-time costs and at comparable currency exchange rates, reflects the achieved improvements. It shows as well that the first half-year Bachem has bottomed out. If the market continues the observed development an alike EBIT margin will be a realistic scenario for the business year 2011.

Solid Balance Sheet

With an equity ratio of 78.3% Bachem remains on an extremely sound financial footing. Loan contracts with banks are free of any restricting covenants.

Costs Reduced

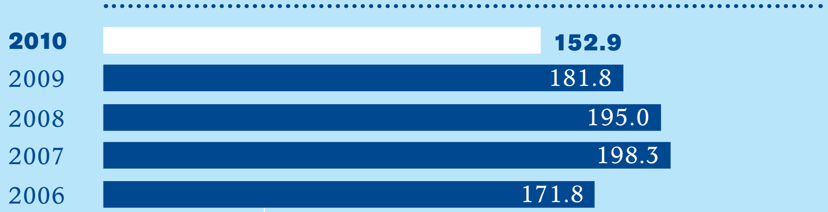
In the reporting period, staff was reduced by 8.5%, mainly without lay-offs. The closure of the production area at Bachem Bioscience Inc., USA, is completed. All non-GMP custom syntheses are performed at Bachems Competence Center for custom synthesis in St. Helens, UK. Various cost reduction programs have been implemented or initialized. Overall, sustainable cost savings of 5.8 million CHF were already achieved.

Key Figures

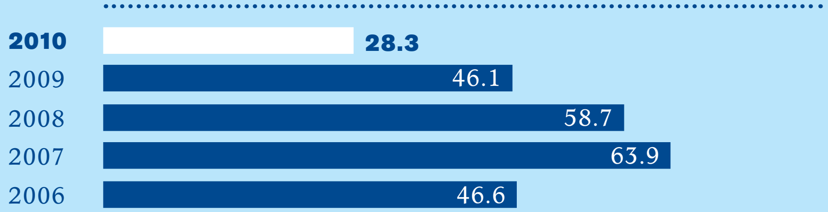
	2010	2009	Changes in % CHF	LC
Sales (in MCHF)	**152.9**	181.8	**– 15.9**	**– 11.9**
EBITDA (in MCHF)	**33.7**	66.2	**– 49.0**	**– 41.2**
EBITDA in % of sales	**22.1 %**	36.4 %		
EBIT (in MCHF)	**15.7**	50.9	**– 69.2**	**– 59.4**
EBIT in % of sales	**10.3 %**	28.0 %		
Net Income (in MCHF)	**28.3**	46.1	**– 38.6**	
Net Income in % of sales	**18.5 %**	25.3 %		
Earnings per share (EPS – in CHF)	**2.10**	3.43	**– 38.8**	
Cash flow from operating activities (in MCHF)	**38.1**	42.8	**– 11.1**	
Return on equity (ROE)	**7.7 %**	12.3 %		
Number of employees (in full-time equivalents)	**668**	730		
Sales per employee[1] (in CHF)	**233 000**	266 000		

[1] basis: average full-time equivalents excluding apprentices

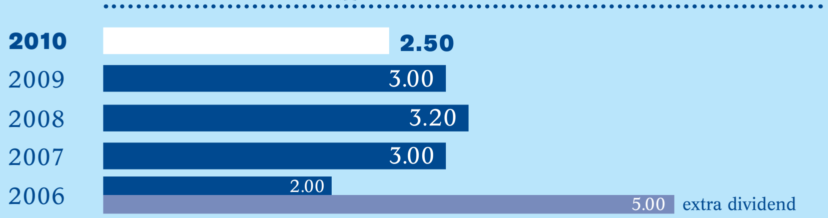
Sales (in MCHF)



Net Income (in MCHF)



Dividend (per share in CHF)



Market Position Defended

Despite very difficult market conditions, the year 2010 closed with a healthy profit, though lower than in past years. Clearly the slow recovery of the market from the economic down-cycle and the fierce competition required strong counter measures and aggressive pricing.

138 Projects

The number of projects in pre-clinical and clinical phases was grown during 2010 from 120 to 138. This shows a continued and positive progress in project acquisition toward the goal of long-term growth. Especially in the USA, more projects could be acquired as financial conditions have gradually improved.

New Products

A number of new products were included to the Bachem generic development portfolio during the year. A total of ten new small molecule and peptide drugs were added to the proactive development plan for future commercialization.

Expansion Continued

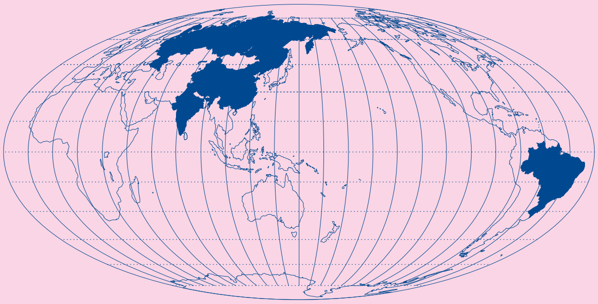
At the same time as defending key business, a continued expansive policy was followed for acquiring new projects and entering into new markets (e.g. BRIC countries).

Expansion of Customer Services

In tune with the Bachem business model, customers are supported in the early stages of drug development. The addition of the Melusine® product line as a service to find new active leads is one example of this and will support the customers in their search for innovation.

Know-How and Staff Retention

Bachem wishes to retain key staff to be ready for market recovery and improved demand. Therefore, no severe measures were taken to reduce the work-force beyond retirement and natural attrition which has helped to off-set the impact of lower sales.



Good Perspectives

The mid- and long-term perspectives are positive thanks to a comprehensive product and service portfolio and a steadily increasing project pipeline. Additionally, a gradual but clear market improvement was observed for research ingredients during 2010, suggesting better long-term growth opportunities.

Cosmetic and Veterinary Peptides

Growth has been evident in the newer market segments of cosmetic and veterinary peptides. New brochures for both these segments were developed to support sales efforts for these new markets.

Bachem Quality Matters

Bachem has always stood for high quality products and services. In recent years, Bachem has increased its response to meet the need for higher regulatory standards. Inspections by the FDA and Swissmedic during 2010 at all production locations were very successful and confirmed the high Bachem quality standard.

New Clients

Bachem's customer base is continually changing as mergers and acquisitions change the character of the existing customers, and as new markets and territories add new customers to the group's portfolio. While fewer new Biotec start-ups have been created during 2010, it is likely that as financial support improves, more new clients will appear in the coming years.

Focus on Efficiency

The Bachem affiliate Sochinaz, acquired in 2001, will be integrated fully into Bachem AG in the coming year. This integration will allow synergies in both research and in sales to be better exploited and aligned under one roof.

Investment for the Future

The shell of the new R&D and production building in Bubendorf was erected during 2010 and will be further developed as demand arises.

Market Changes

The business year 2010 was especially challenging with a much slower than expected recovery from the economic down-cycle and fierce competition in the market. Customer projects were further delayed and pricing for generic products came under heavy pressure. Nevertheless, Bachem successfully defended its No. 1 position in the market. Growing demand for research ingredients and the approval of an important product for the US are additional positive signals. This gives grounds for optimism and Bachem remains confident for the future.

Changes in the Pharma Industry

The current changes taking place within the pharmaceutical industry are profound and represent new paradigms for the future which will also affect suppliers as a consequence. The coming patent expiry of many prescription blockbuster drugs and the pursuant price erosion due to the rapid launch of generic alternatives has been rightly termed the “patent cliff”. This dynamic has accelerated what has already been a dramatic growth of generic drugs and re-shaped the importance of the generic drug producers within the overall world of pharmaceuticals.

As national healthcare organizations struggle to treat increasingly ageing populations, the need for ever more cost reduction will further force the trend toward prescription of generic drugs. Pharmaceutical companies are therefore restructuring to meet the future needs of healthcare and moving their focus away from representation to doctors’ practices and toward the key account management of health insurers, hospitals and managed healthcare organizations.

Amongst the smaller biotech industry players, the financial environment became very challenging and resulted in a slow rate of innovation in a segment which has in the past been the main driver of highly novel drug research. Nevertheless, there are signs of rising financial support for innovative biotech research programs.

These business conditions given, a continued change in the supplier market is likely to be observed for the future.

Change Represents Opportunity

As in all challenging situations, the forces of change can be beneficially used if correctly aligned to a growth strategy. Players active in the field of generics may expect growth in demand and volumes even though pricing pressures will remain. Therefore, cost saving measures and efficient process development will offer opportunity to those companies aligning their capabilities to the new market trends.

Additionally, certain therapeutic fields still retain unsolved medical needs and have experienced much less penetration by generic drugs (e.g. oncology, diabetes and autoimmune diseases). In contrast, some other therapeutic categories offer a growth opportunity to the main generic drug suppliers existing today (e.g. osteoporosis and hormonal contraceptives). Bachem is fortunately well positioned to address both opportunities. In the field of oncology and diabetes, peptide drugs are leading the way to new and much more effective treatments than currently exist. The widespread nature of these disease categories mean that research efforts has if anything, increased significantly over the last years. For example, the Bachem project portfolio comprises of projects of which more than 25% are in the field of oncology.

Another trend which will re-inflate innovation of smaller pharmaceutical start-ups is the increased level of partnering now taking place between big-pharma organizations and the biotec SMEs. As a clear response to the "patent cliff", this trend has intensified heavily over the last few years and especially in the therapeutic categories mentioned above.

The return to growth in the field of peptide research ingredients signals also the increasing popularity of peptides either as pure entities or conjugated with other molecules to find new and more effective modes of action in drug innovation. Bachem, being able to couple small organic molecules to peptides, even where high containment and difficult handling is needed, is well positioned to participate in this research trend.

The growth in demand for generic drugs, where Bachem has a significant proportion of its sales, can also represent an opportunity. However, this is very dependent on the specific product portfolio, the production process efficiency and costs. Nevertheless, with careful proactive positioning a generic API producer may also profit from the growing demand for these established drugs vs new chemical entities. In this respect, Bachem has intensified its forward looking approach to the generic market and the development of selected new products accordingly.

Additionally, sales force activities for the development of the generics business were increased during 2010 to find new customers and increase volume growth. These efforts are expected to compensate during 2011–2012 for the significant deterioration in pricing experienced during the year 2010.

Bachem's project portfolio is highly diversified, allowing a spread of risk across geographic boundaries and therapeutic categories. However, the strong representation of certain growth categories such as oncology is a positive indicator for the future.

Market Leadership

Leadership is shown by taking a defining position in times of turbulence and uncertainty. In the field of quality, Bachem makes no compromise and has always retained full emphasis on this special characteristic as part of its reputation. As the number one in the field, Bachem leads by example and sets quality standards in the front row of its capabilities. With the label "Quality Matters", Bachem marks its commitment and belief in the sustained importance of quality to the pharmaceutical and biotech industry whatever pressures may apply. "Quality matters" in all aspects of the Group's work.

As a mid-size company with operational flexibility, Bachem has quickly taken actions during 2010 to reduce costs and address the decline of sales, ensuring not only a sustained profitability but also a sound basis for recovery in 2011. While the consolidation of some production facilities yielded significant cost reductions, at the same time both efficiency and synergy for future operations have been increased. As an example for the new organizational focus, Bachem introduced a global center of excellence approach for custom synthesis at Bachem UK. The bold move to reduce costs will yield a stronger, more competitive and sustainable organization.

Bachem has also increased its marketing and sales resources and activities to ensure all possible opportunities are pursued in the market. Support for the sales organization with the right tools and best possible market intelligence has proven essential to maintain the leading position in a very competitive environment.

Bachem's product portfolio addresses a wide range of therapeutic uses. This diversity generally allows mitigation of risk and dependency.

Bachem project indications

- Oncology
- Multiple Sclerosis
- Parkinson's
- Alzheimer's
- Infection (various)
- CNS
- Diabetes/Obesity
- Osteoporosis
- Allergy

Wide Spectrum

Many of these indications are related to managing good health during the later stages of life and due to ageing populations, the need for appropriate medicines will only increase.

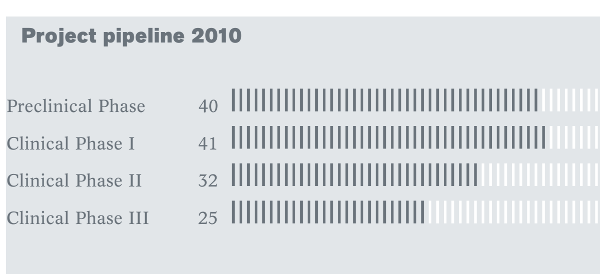
A recent independent analysis by the Therapeutic Peptide Foundation of the peptide-based pharmaceutical market continues to support a positive development and increasing interest by pharmaceutical companies in the structural category of peptides. Especially to be noted is the increased participation by large pharmaceutical players through partnering, licensing or the acquisition of smaller biotech organizations who search for financially powerful collaborators for their programs.

A Growing Pipeline

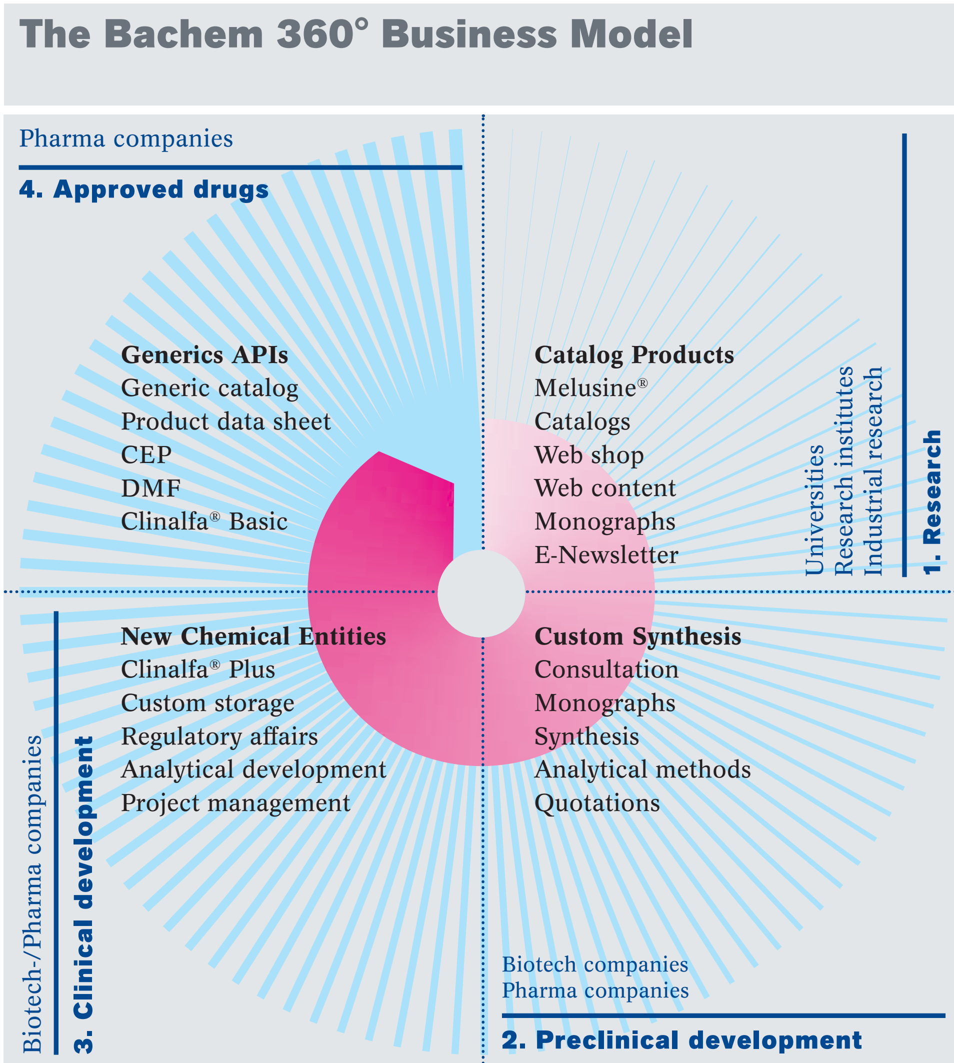
As shown below, the Bachem pipeline of preclinical and clinical projects continues to grow, having reached 138 projects during 2010, 18 more than in 2009. This clearly shows the continued progress made in project acquisition and a sustained basis for long-term growth of the business. While these projects are very largely for peptides, progress has been made also in small molecule project acquisition, especially for high potency peptide conjugate NCEs.

Follow the customers' needs – The Bachem Business Model

Bachem has aligned its activities to all stages of drug development. Starting with the early conception of new drug candidates, the Bachem catalog comprising of more than 9 300 peptide compounds serves to support early drug research activities. As drug candidates are selected and the need for materials and services increases, Bachem provides custom synthesis from its center of excellence located in St. Helens in the UK. As projects move from preclinical into clinical studies, larger scale GMP resources are needed. Bachem offers its powerful capabilities at Bubendorf in Switzerland and at Torrance in California, USA, to manage these increasingly demanding projects requiring many years of experience in project management. Bachem continues to accompany its customers through the clinical phases I to III over several years, all the time helping to solve the many challenges which may be encountered but still maintaining a high momentum to reach the market in a timely and efficient way. Lastly, as products mature and enter the generic phase of their life-cycle, Bachem offers generic APIs of high quality and at economically competitive levels through efficient large scale processes.



138 Projects



Research Ingredients

Bachem supports its customers through its offering of peptides and immunology products via its established catalog business. However, it is always important to reach out further to the needs of customers in supporting their innovation with the help of new products and services. Recently, the new product line of Melusine® discovery kits was added to Bachem's research ingredient portfolio to help customers find new and exciting peptide lead compounds from fascinating natural sources. Melusine® kits consist of fractionated venoms and provide a high throughput screening tool for the identification of novel potent peptides. The success of using naturally sourced peptides as a basis for new drugs can be seen in the table of examples below.

Although 2010 continued to be a difficult year for larger and more advanced projects, some positive signs of growth were apparent through increased sales of research ingredients. Sales grew by 8.0% compared to 2009 in local currency. Especially in custom synthesis, as a metric and barometer of research confidence, growth exceeded expectations by reaching double digits (15.3% growth in local currencies at group level). Catalog products and immunology sales were as well above past year levels. The weakness of the USD and EUR played some role in supporting the competitive position of other suppliers based in these currencies. Despite this headwind, Bachem successfully acquired many new custom synthesis projects which emphasizes the importance of quality.

Certainly, the selection of new peptides and immunological kits continues to be an important driver for growth and supportive of the innovation process of our customers. Bachem added more than 70 new peptide and immunology compounds to the catalog during 2010, specifically for research in the fields of oncology, anti-infectives, diabetes and neurology.

New Chemical Entities (NCEs)

The positive result for research ingredients and notably custom synthesis, sets an early indicator that also NCE projects growth is likely to return in the coming year. 2010 proved to be a disappointing year, largely due to the slowing down and deferral of market approvals which impacted sales significantly. In particular, in the USA, a project planned to contribute significantly to sales in 2010 was delayed due to the protracted market approval process by the authorities. However, on a happy note, this same project (Tesamorelin) was indeed finally approved late in the year. In addition, continual filling of the Bachem pipeline has helped to mitigate the downside effects and has constantly built a stronger foundation for future growth.

The decline of 23.8% in local currency for the NCE category in 2010 reflects the environment of generally slow project progression. Furthermore, the slow and exacting regulatory process represents part of the larger challenge to the pharmaceutical industry where development costs and time to market have doubled over the last 15 years. This has and will create pressure toward a very selected focus on future therapeutic programs by both large and small pharmaceutical players.

Nevertheless, for certain fields where the condition has dramatically increased or treatment options have remained limited, opportunities will become attractive for the future. In this respect, peptides are favorably positioned to address medical research in oncology, diabetes and anti-infectives, all of which for one or both reasons will increase in importance in the coming years.

Toward the year's end it was possible to secure two large projects in advanced development. One in particular represents a move away from a recombinant manufacturing process to a synthetic peptide route developed by Bachem.

Examples of successful drug development starting from venoms

Company	Drug	Molecule	Species	Target	Disease
Amylin & Eli Lilly	Exenatide (Byetta®)	Peptide (natural)	Heloderma suspectum (Gila monster)	GLP-1 receptor	Type-2 diabetes
Bristol-Myers Squibb	Capoten (Captopril®)	Peptidomimetic	Bothrops jararaca (Brazilian lancehead)	Angiotensin converting enzyme	Hypertension
COR Therapeutics	Integrilin (Eptifibatide®)	Cyclic peptide	Sistrurus miliarius barbouri (Southeastern pygmy rattlesnake)	Platelet aggregation (GPIIb/IIIa)	Ischemic stroke
Elan Corporation	Ziconotide (Prialt®)	Mini-protein (natural)	Conus magus (Magician's cone)	N-type voltage-gated Ca^{2+} channel	Severe chronic pain
Medicure Pharma & Merck	Tirofiban (Aggrastat®)	Peptidomimetic	Echis carinatus (Saw-scaled viper)	Platelet aggregation (GPIIb/IIIa)	Angina & infarction

No. 1 in Peptides Worldwide

Bachem is the number one recognized peptide producer in the world having almost 40 years of experience in the field and supplying the pharmaceutical industry globally from six different facilities. The field of peptides is increasingly relevant for major areas of medicinal research. Breakthroughs in drug delivery systems and the understanding of disease pathways continue to support this ingredient category as a promising basis for medical research and progress in the treatment of challenging illnesses.

Research Ingredients

Bachem supports the innovation of its pharmaceutical customers through the supply of high-quality research ingredients, innovative immunology kits and lead-finding screening tools.

New Chemical Entities (NCEs)

New drugs must first be developed through an exacting and very complex process with clinical trials, approvals and market launch. This process today is more than twice as long and expensive compared to 15 years ago. Therefore, the right choice of the manufacturing partner is crucial.

Generics

The increasing need for low-cost medicines and the rising populations of geriatric patients in western countries will favor the supply of generic APIs for the future. Quality however, shall not be compromised for reasons of cost.

Bachem is an independent, technology-based, public biochemicals company providing full service to the pharma and biotech industry. Bachem is specialized in the process development and the manufacturing of peptides and complex organic molecules as active pharmaceutical ingredients (APIs), as well as 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 a leading position in the field of peptides.

BACHEM

Bachem. Leading beyond peptides

Supportive for the success in project acquisition is the convincing and trustworthy record of Bachem as an efficient, fast-moving and flexible supplier, collaborating with customers in a team spirit for the development of NCEs.

Generics

The major sales impact in 2010 was certainly due to the reduced demand and significant price pressure for the generic products. Although the future for generic products appears in general very positive, there are currently competitive forces which adversely influence pricing. Many blockbuster drugs will in the next few years be eroded by generic entrants to the market and healthcare organizations continue to favor the use of generic drugs to contain rising costs of treatment for increasing populations of the elderly.

Many major pharmaceutical companies now position accordingly and large established generic players compete very aggressively for future control of the generics market. The continuing importance of low-cost countries and especially India is also playing a role in the now fierce pricing pressure which has intensified during 2010. As a result of this price pressure but also lower demand among some of Bachem's generic customers, generic sales declined significantly by 14.9% in local currency under these influences. As generics are a global market, the effect was seen equally in both Europe and North America and both for peptide and organic generic products alike.

Bachem has nevertheless defended its market share for its major generic products and several long-term contracts were renewed to secure the business for the coming years. However, where volume demand was weak in 2010, some improvement is expected and the general trend for increased sourcing of generic drugs by healthcare organizations is likely to help a recovery in demand for the future. The demographic projection for western populations also supports the essential need for more widespread use of generic medicine.

Additionally, Bachem continues to grow as a supplier to finished dosage form manufacturers in high-growth countries such as India. Several registrations of Bachem

Alarming headlines in the market – Quality Matters!

FDA may never have inspected 88 percent of Chinese sites

Millions in unapproved meds sold annually

China: flagging up quality concerns.

Generic Drug Scandal Spurs FDA Changes

FDA cites "clear and present danger"

Drug recalls sky-rocketing

Arrests in pay-for-approval scandal

Drugs linked to brain damage 30 years ago

generic APIs were approved in 2010 in India and others are in progress in China and Brazil. The BRIC countries in general represent a sustained growth opportunity for Bachem's generic portfolio and efforts will continue to penetrate more actively and deeply in these markets.

The proactive development of potential new generic APIs well ahead of patent expiry has become a focal activity for Bachem and a generics task force was created in 2010 to ensure continued development of candidates for the future generic market. The sales organization was strengthened globally to ensure Bachem has excellent contact with all major generic players and optimize the sales potential of the existing Bachem generic products as well as align to the coming needs for generics in future years. Also noteworthy is the increasing number of projects related to generic products and especially peptides in the field of veterinary medicine.

The field of generic medicines has experienced also problems due to issues related to regulatory compliance and other problems over past years. This has resulted in an impaired trust amongst health practitioners and patients and remains an area for improvement in the future. Bachem is committed to quality and believes that this commitment will become increasingly important in the future in order to avert the much higher costs and long-term damage resulting from risk taking in the industry.

Services

Regulatory authority requirements have become much more demanding during the last years. It is far more critical today than in the past to have exactly the right documentation in place and on time and that clinical programs are maintained on their critical paths. Therefore, pharmaceutical customers must judge very carefully the balance between risk and cost in the planning of their developmental programs.

Time-to-market is of the essence for pharmaceutical companies for whom patent life is running like a sand glass timer and each day is a factor in recovering the high investments made in the development of each new drug. It is here that Bachem can make a difference by placing adequate resources behind projects to accelerate them forward to achieve a timely and efficient completion.

Nevertheless, speed alone is not enough. All results must be absolutely trustworthy and reliable and only in this way is the reliable path to success assured. Bachem's working culture constantly strives to set a high standard in careful planning to avoid any inefficiencies in the execution of project work. Experience proved that detailed advanced planning and quality of work allows time to be saved further down the road and avoids unnecessary and costly mistakes.

It is this reliability which has been built up over decades to become the badge of quality at Bachem and for which the company gives its commitment and pledges its name and brand. Regulatory authorities have come to know this reputation and know that they can rely on the documentation provided by Bachem. Thus, reliability over years accumulates into a brand capital of "trust" which plays a strategic level of importance in the Bachem culture.

Clinalfa®

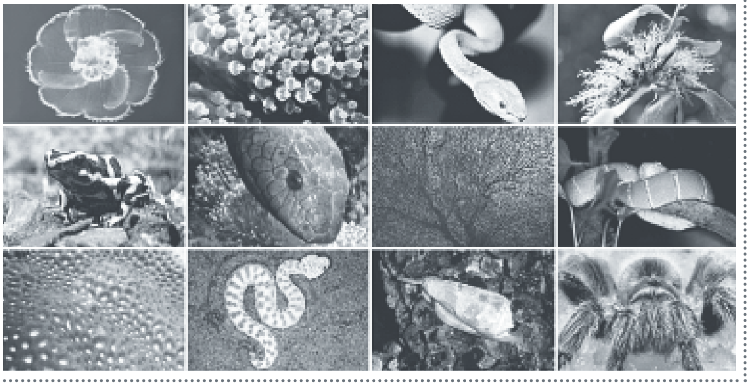
As a custom manufacturer, Bachem chooses to maintain a high service mentality and wide platform of useful service capabilities for its customers. An example of a specific product service is the sterile filling offered by Bachem in the form of the Clinalfa® product range. Bachem offers this service for both generic products and customer-specific NCEs depending on the requirements of the clinical trials. The interest in this service for generic products increased significantly.

Melusine®

Another example of a new service comprises of high-throughput screening kits containing fractionated venoms. Each testing kit comprises of a plate with a series of wells each of which contain approximately 1–10 fractionated peptides. Any one of these peptides has the potential to become a new lead compound in a pharmacological screening model. Would any one peptide fraction provide a positive result, Bachem's partner company Atheris would be able to isolate and identify the specific peptide in question. At this stage, the customer is likely to require more material for preclinical studies and Bachem can provide also this service with its custom synthesis unit in the UK. In this way, a perfect partnership has been developed between Atheris as the creator and manufacturer of the Melusine® kits and Bachem as a distributor and a partner for the eventual synthesis of these drug candidates.

Inevitably, nature's kitchen has optimized peptide structure over millions of years to ensure high potency and activity. The ingenuity of man is able to turn these very dangerous venoms into a source of powerful and benevolent medicines for the future. This however, can only be achieved by teamwork and collaboration. Bachem is proud to work together with customers and Atheris toward the goal of providing medical breakthroughs by applying the tremendous power of nature.

Nature is a bountiful source of novel and potently active peptide substances



Markets & Customers

Bachem believes in a close relationship with its customers and for this reason maintains a strong, well-educated and well-trained sales force. The motto of this highly qualified team is "keep our feet in the street" and above all "listen to the client".

The "feet in the street" strategy has helped to ensure that the sales result could be improved in the second half year of 2010 by 6.8% and that this trend will further continue. While the overall result for the year 2010 was disappointing, it does not reflect the intensive activities of the sales force in acquiring new projects and developing new markets. However, the growth of the project pipeline and for example of the custom synthesis business does reflect that better results are on the way and that Bachem is working intensively on wider and deeper relationships with its customers.

Participation at industry tradeshows was increased and in particular in markets where Bachem wishes to grow rapidly for the future. In India for example, Bachem exhibited at the Convention on Pharmaceutical Ingredients (CPhI) in Mumbai for the first time and carried out extensive customer visits at this event and around the pharmaceutical centers of India. In the Middle East, Bachem exhibited at the Pharmaceuticals and Biotechnology Middle East (PABME) tradeshow in Dubai and established many new contacts for its generic product portfolio. Bachem will continue to enter and penetrate these markets in the coming year and new sales growth potential is foreseen in Turkey and Russia in addition to what has been established already in India. In China, a partner was selected for the registration of several new generic products. An increased number of tradeshows were targeted in China for participation in the coming year.

Bachem's sales force was, of course, also very active in western markets and enjoyed a very busy agenda program at for example the CPhI tradeshow in Paris where the newly designed Bachem stand was used for the first time.

The new homepage design process was completed and content filling was commenced at the end of 2010. It is expected to launch the new homepage in the first half of 2011. In addition, market monitoring tools were improved during 2010 and for example, new IMS data for the improved evaluation of potential new generic products was secured.

At the internal global sales and marketing meeting in Bubendorf, a number of sales initiatives were commenced to further support lead finding and project acquisition. The systematic review of patents was, for example, taken on as a role in the central marketing group as a service to the sales force. The opportunity was also used to carry out a sales training session on the topic of negotiation skills which are constantly required and tested in the field. Lastly, some time was dedicated to important international project discussions, where cross coordination between colleagues in Europe and the USA ensured an improved global team approach to managing Bachem's key customers.

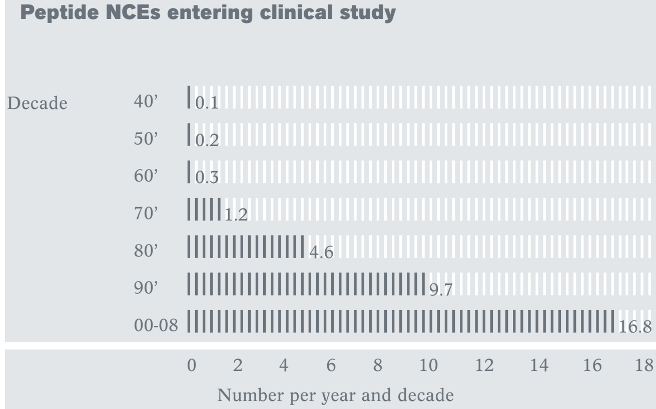
Customers invest many millions in the development of a new drug. It is therefore essential for them to minimize risks in order to increase the probability for a successful market approval. Therefore, quality work is essential throughout the clinical development path and Bachem makes no compromise on quality in everything is does.

The growth of peptide-based drug research continues as many pharmaceutical companies re-discover the merits of this active ingredient category. The figure below clearly shows the trend by decade for peptide NCEs entering the clinic. Latest internal estimates by Bachem indicate that almost 60 differentiated peptide drugs are known on the market and several new products launched during 2010.

The pharmaceutical industry repositions to deal with the issue of weak innovation over the past years and the impending "patent cliff" approaching rapidly. This has however led to a focus on therapeutic categories where fewer generics dominate and where there is still a largely unmet therapeutic need. Oncology in particular is a field where still today treatment options are very inadequate and where the active substance category of peptides is intrinsically attractive to new research. This also supports Bachem's position as a supplier of high-potency ingredients requiring special clean-room standards for handling. An increasing number of small molecules with conjugated peptide components are currently entering Bachem's project pipeline. Similarly, other therapeutic fields such as anti-diabetics and anti-virals represent growth potentials for largely the same reasons.

It is for this reason that Bachem's project pipeline for new chemical entities has continued to grow, despite the increasingly challenging market environment of the past year. While serious and continued drug approval delays have thwarted the desired sales recovery and growth, the success of project acquisition is expected to bring back sales growth over the next few years. Investments in organizational strength and improved market intelligence systems have continued to feed and support both the market penetration and Bachem's competitive position over the last year.

Peptide NCEs entering clinical study



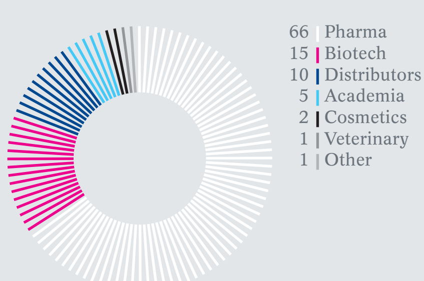
Peptide Category Booms

Bachem's customer base consists mainly of the large and financially independent big-pharma customers as well as the smaller biotech and start-up companies. The latter category has suffered the most during the financial crisis of the last two years although restructuring amongst large traditional pharmaceutical companies has also left a significant impact throughout the industry. Nevertheless, the search for sources of innovation on one side and for financial support on the other has also led to an intensive partnering between the two customer categories. This bodes well for the future and supports Bachem's business model which has always served not only large pharmaceutical customers but also early entry start-ups and biotechs.

While the classic human pharmaceutical segment represents the core of Bachem's customer base, new segments continue to grow and play an increasing role for the diversification of our business. Cosmetic research and development continues to use peptides as one of the most strategic and potent new classes of ingredients in high-value cosmetic products. To support this interest, a new cosmetic brochure was created in 2010 which also reviews peptide-based R&D activities in this very attractive field. Also gaining ground is the number of projects related to veterinary applications where Bachem's generic products are of interest and some already on the market.

In all aspects, the reliability and sustainability of a pharmaceutical supplier are dependent on a number of defining core competencies which are critical for its business. Customers invest many millions in the development of a new drug. It is therefore essential for them to minimize risks in order to increase the probability for a successful market approval. Therefore, quality work is essential throughout the clinical development path and Bachem makes no compromise on quality in everything it does.

Customer segmentation in percent (sales related)



Wide Range of Customers

Sustainability

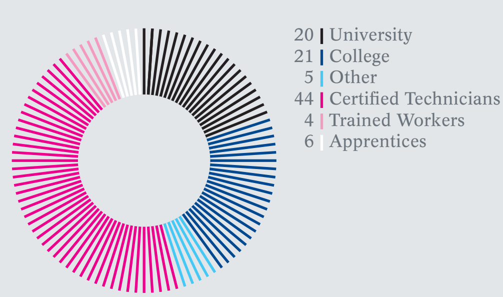
Sustainability stands for social responsibility for employees, careful handling of resources and ethical behavior towards all stakeholders – and therefore is a cornerstone for high quality.

High-Qualified Employees

The performance of a company's employees at all levels is a key factor in determining the success of the company itself. Bachem can depend on well-qualified and highly motivated employees throughout the entire Group. At the end of the year, Bachem employed 698 people (previous year 760) in 668 full-time positions (previous year 730). The staffing level was reduced in both the United States and Europe. The difficult economic situation was the cause of this reduction and Bachem was able to achieve it in a socially responsible way with most of those affected leaving the company voluntarily. However, production was shut down at the Philadelphia site and 14 full-time positions were eliminated. By reallocating employees internally, the Group was able to cope with discrepancies in capacity utilization at the different facilities. This required those employees affected to be highly flexible but also helped preserve jobs and knowledge. The fluctuation in personnel was 15.6% (previous year 11.4%) for the largest Group company, Bachem AG, at the Bubendorf site. This figure can be regarded as positive due to the significant professional requirements placed on employees, the highly dynamic character of the business and the general economic situation.

Bachem employees have to be highly qualified due to the growing degree of complexity of the products demanded by customers and the resulting disproportionate increase in technical and regulatory requirements for production and approval processes. Of the employees, 41% have a degree from a college/university of applied sciences or

Employees by education in percent



698 Employees

a university and 44% have completed an apprenticeship. Specialized professional training is also necessary above and beyond a solid basic education. Bachem offers this kind of training internally and in line with needs. This includes continuous training and further education in working to the strict current Good Manufacturing Practice (cGMP) guidelines at those locations where active pharmaceutical ingredients are produced. However, the steadily increasing concentration of regulations in other areas such as quality assurance systems, official approval processes, safety, labeling and transport regulations as well as international accounting standards that are required by customers and government agencies alike means that employees need ongoing professional training. The regular international seminars serve as a platform for the individual Group companies to share their experiences. These seminars cover the entire range of activities and, at the same time, foster integration in the Bachem Group.

Focus on Vocational Training

The company attaches great value to professional education within vocational trainings at the sites in Switzerland. Bachem AG and Sochinaz SA go to great lengths to train the next generation of scientific and technical professionals in Switzerland. Bachem thus not only lives up to its social responsibility vis-à-vis young secondary school graduates, it also makes a significant contribution to supplying the Swiss economy with highly qualified personnel in these areas. Secondary school graduates participating in the dual training and education system complete an apprenticeship lasting several years. During this time, they gain theoretical knowledge and a general education at the vocational school and learn the ins and outs of practical application in the company. Bachem operates a teaching lab in Bubendorf with full-time trainers for the chemistry lab technician training program. At the end of the year under review, 41 young people were in training in Switzerland. Most of them become chemistry lab technicians (specializing in chemical synthesis and analytical chemistry), with others pursuing careers as chemical technicians, commercial employees, IT specialists, logistics assistants and polymechanics. Last year, 11 apprentices successfully completed their vocational training, of whom 5 were hired as regular employees.

Sustainable Environmental Protection

As a producer of chemicals, Bachem is well aware of the significance of safety at the workplace and the importance of protecting human health and the environment in a sustainable manner. A workplace that poses no risks to employee health, careful handling of resources and the prevention of environmental hazards are the basic prerequisites for the long-term success of a company. For the Bachem Group, they are a matter of course. In addition to technical measures that are undertaken, raising employee awareness about occupational safety and environmental protection at all levels makes an enormous contribution to achieving the goals. External organizations and government agencies provide vigorous support for these efforts.

For many years, Bachem has made a voluntary commitment to the Responsible Care Program of the chemical industry. The company compiles annual standardized figures on occupational safety and environmental impact that can be compared within the industry. These are made available to management as an indication of site status and can be used as a management tool. The figures are compiled at the largest production sites Bachem AG in Bubendorf, Sochinaz SA in Vionnaz and Bachem Inc. in Torrance, CA. They are an indicator of the current situation and their evolution over the years also makes it possible to objectively assess the effectiveness of the measures that have been implemented.

Q Bachem Quality Matters

A new exhaust air purification system was put into operation at the Bubendorf production site. This technology has enabled the company to halve the emissions of organic solvents in exhaust air.

The newly installed exhaust air purification system was successfully put into operation at the Bubendorf site and enabled the company to halve the emissions of volatile organic compounds (VOC) in exhaust air. On a Group level, the total VOC quantities were decreased to 79 kg per employee and year from 108 kg in the previous year. However, this was achieved at the expense of an increased emission of CO_2 of 6 metric tons per employee (previous year 5 metric tons) due to the combustion of the exhaust air by propane. Herewith, the total energy consumption per employee increased to 186 GJ (previous year 162 GJ). In comparison to the consolidated responsible care figures of the Swiss Chemical Industry, the Bachem Group can present excellent environmental key figures and demonstrates that it achieves its considerable economic performance in a way that is comparatively compatible with the environment and with a consumption of resources that is well below average. The Group will be able to achieve additional reductions by further optimizing the system and process management.

The company premises in Bubendorf were also analyzed for potential contamination. Proof was supplied that the subsoil at the site is not contaminated and that there is no evidence of soil contamination caused by Bachem AG. The facility is considered free of contamination. As a result of these analyses, the site was removed from the relevant land register.

In the year 2010, the Group Company Bachem Inc. in Torrance, CA, has been awarded the Certificate of Recognition by the Sanitation District of Los Angeles for complying with US Environmental Protection Agency (EPA) and County Sanitation Districts Industrial Wastewater Discharge Limits and Permit Requirements.

Safe Workplaces

During the year under review, training was again held in all Group companies to improve workplace hygiene and occupational safety. This included safe conduct at the workplace, training of the internal medical services and first aid courses. It is a known fact that the number of occupational accidents correlates directly to the incidence of non-occupational accidents. Steps taken to reduce the number of occupational accidents thus have a positive impact on the frequency of non-occupational accidents. Following a particularly low number of accidents in 2009, the year under review saw a slight increase. Bachem believes that every accident, whether on-the-job or outside of work, is one too many, and will again intensify its efforts to prevent accidents. The personal injuries suffered were all minor and did not result in permanent damage for those affected.

In the year under review, Bachem's Torrance, CA, facility has been awarded the National Safety Council (NSC) Occupational Excellence Achievement Award for 2009. This award is given to companies throughout the United States that have demonstrated a commitment to safety by compiling one year without a lost time accident or injury.

Health Promotion

On the initiative of an employee, a regular blood drive was set up at the Bubendorf site in cooperation with the blood donation center of the Cantons of Basel-Stadt and Basel-Landschaft. The blood donation center's mobile unit comes to the company three times a year and is supported in its activities on site by the in-house medical personnel. Bachem employees can donate blood on a voluntary basis during working hours. The blood drive has been so successful that an invitation has also been extended to nearby companies that could also take advantage of this offer.

This idea fulfills several different goals at the same time with relatively little effort: raising awareness and mobilizing each individual about health issues, realizing that small, personal steps when taken together can contribute to achieving a larger goal and that the responsibility for the well-being of others cannot be delegated. These are all issues that also play a central role in the Group's work to improve integrated safety.

REACH

During the year under review, Bachem focused on the new European Union regulations for registering chemicals. The new EU REACH legislation (Registration, Evaluation, Authorization and Restriction of Chemical substances) concerns all chemicals that are produced, sold, transported and used in the EU. REACH replaces a number of ordinances relating to chemical law. The initiative will harmonize and simplify existing chemical legislation and aims to protect human health and the environment associated with the use of all types of chemicals. Even if Bachem is only marginally affected, it sets about intensively familiarizing itself with the new directives and assessing their impact on the business.

GHS

Another new requirement related to the production and sale of chemicals is the regulations published by the United Nations (UN) for the Globally Harmonized System of Classification and Labeling of Chemicals (GHS). While GHS does not yet apply in the USA and Canada, many Asian countries have already introduced GHS and, in Europe, GHS is already in effect. Introducing GHS regulations will not only result in a reassessment of risks at product level but will require new labels and danger symbols on packaging labels and in accompanying documents.

Even though the details of implementing these new regulations and laws are still the subject of controversial debate and these initiatives will create huge challenges for industry, the hope is that the risks of handling chemicals for human beings and the environment will be reduced over the long term.

Corporate Governance

1 Group structure and shareholders

Bachem Holding AG	
Board of Directors	
Corporate Executive Committee	
Bachem AG	Bachem Americas, Inc.
Sochinaz SA	Bachem, Inc.
Bachem Distribution Services GmbH	Bachem Bioscience, Inc.
Bachem (UK) Ltd	Peninsula Laboratories, LLC

1.1 Group structure

Bachem Holding AG, headquartered in Bubendorf, Switzerland, is listed at the SIX Swiss Exchange in Zurich (valor number: 1253020, ISIN: CH0012530207, SIX: BANB, Reuters: BAMZ.S, Bloomberg: BANB SW). Market capitalization at December 31, 2010 was 761600 kCHF. No other Bachem companies are listed.

All subsidiaries are listed in note 25 on page 90 of the notes to the consolidated financial statements including company name, location and participation.

1.2 Major shareholders

Shareholders with more than three percent of voting rights on December 31, 2010 are listed in note 4 on page 98 of the notes to the financial statements of Bachem Holding AG. There were no new disclosure notifications made in the reporting year. There are no shareholders' agreements.

1.3 Cross-shareholdings

There are no cross-shareholdings with other companies.

2 Capital structure

2.1 Capital

At December 31, 2010, the nominal share capital of Bachem Holding AG was 680 kCHF.

2.2 Authorized and conditional capital in particular

Bachem does not have any conditional or authorized capital outstanding.

2.3 Changes in capital

In 2008, 2009 and 2010, share capital remained unchanged. Changes in equity for the years 2010 and 2009 are listed on page 59 of the consolidated financial statements. Changes for 2008 are reported on page 28 of the annual report 2009.

2.4 Share and participation certificates

At December 31, 2010, Bachem Holding AG had 6802000 registered shares A and 6798000 registered shares B at a nominal value of 0.05 CHF 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 pages 66 and 67 as well as in note 23 of the consolidated financial statements on pages 88, 89 and 90.

3 Board of Directors

3.1 Members of the Board of Directors

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

Peter Grogg (1942)[1], Dr. h.c., Chairman, Swiss. Since 1971, elected until 2012. Peter Grogg founded Bachem AG in 1971 and was the CEO until 2002. He is Chairman of the Board of Ingro Finanz AG. He is a member of the Board of Directors of Polyphor AG, Dottikon ES Holding AG and Sunstar Holding AG.

Gottlieb Knoch (1942)[1], graduate chemist ETH, MBA, Vice-Chairman. Since 1985, elected until 2012. 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 Männedorf.

Jürgen Brokatzky-Geiger (1952)[1], Dr. rer. nat., Member, German, since 2009, elected until 2012. Dr. Jürgen Brokatzky-Geiger graduated with a Ph.D. in chemistry from the University of Freiburg, Germany, in 1982. He joined Ciba-Geigy Ltd. in 1983 as a Laboratory Head in the Pharmaceuticals Division. After a job rotation in the United States, he held positions of increasing responsibility in Research and Development (R&D) including Group Leader of Process R&D, Head of Process R&D, and Head of Process Development and Pilot Plant Operations. During the merger of Ciba-Geigy and Sandoz in 1996, Dr. Jürgen Brokatzky-Geiger was appointed Integration Officer of Technical Operations. He later became the Head of Chemical and Analytical Development and served as the Global Head of Technical R&D from 1999 to August 2003. Dr. Jürgen Brokatzky-Geiger was appointed to his present position as Head of Human Resources on September 1, 2003. He has been a member of the Executive Committee of Novartis since January 1, 2005.

Thomas Burckhardt (1950), Dr. iur., LL.M., Secretary, Swiss, since 1997, elected until 2012. 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, he 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, he is an associate at Simonius Pfrommer & Partner. Thomas Burckhardt further is Honorary Consul-General of the Kingdom of Thailand in Basel. Other important Board memberships: CMA CGM Agency AG, Viking River Cruises AG.

Hans Hengartner (1944), Prof. Dr. sc. nat. ETH, Member, Swiss, since 2003, elected until 2012. Hans Hengartner studied biochemistry and molecular biology at ETH Zurich and holds a doctorate in natural sciences from ETH Zurich. He was Co-Director of the Institute for Experimental Immunology at the University Hospital Zurich and was full 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 head of the Biology Department of ETH Zurich. Since March 2008, he is a Professor emeritus at the University and ETH Zurich.

3.2 Other activities and vested interests

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

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

[1] Member of the Compensation Committee

3.5 Internal organizational structure

During 2010, the Board of Directors held one half-day and three full-day meetings. The Corporate Executive Committee attends all Board meetings (see item 3.7). All 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 to attend special agenda items as well. During 2010, two Chief Operating Officers of Group companies (COOs) attended one Board meeting. In 2010, 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 2009, the Compensation Committee met 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 composed of the CEO, the CFO, the CTO and the CMO (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: Each individual Group company prepares a monthly report including balance sheets, income statements and other operating key figures as well as comments. On a monthly basis, balance sheets, income statements, cash flow statements and statements of changes in equity as well as various key figures of the Group and the subsidiaries are prepared and consolidated. Budgets are controlled several times a year and compared to latest estimates per subsidiary and for the consolidated results. On the occasion of the Board meetings, financial reports are discussed with the Corporate Executive Committee. Extraordinary events and important decisions are immediately brought to the attention of all Board members. In addition, the Chairman regularly meets members of the Corporate Executive Committee for discussions of business development, status of projects and important events. He receives all minutes of Corporate Executive Committee Meetings, which are also available to the other members of the Board if required.

4 Corporate Executive Committee

4.1 Members of the Corporate Executive Committee

Rolf Nyfeler (1950), Dr. phil. II, CEO, Swiss. Since 2002.

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. Rolf Nyfeler is member of the management board of the Swiss Association of the Chemical Industry (SGCI).

Daniel Erne (1952), Dr. sc. nat. ETH, CTO, Swiss. Since 1997.

Daniel Erne joined Bachem AG in 1987 as Head Quality Control and was since 1990 member of the Management Team responsible for Quality Assurance/Regulatory Affairs. Since 1997, he is a member of the Corporate Executive Committee, as of 2002 CTO of the Bachem Group. He received his education as a chemist at the Swiss Federal Institute of Technology in Zurich (ETHZ), then was a research fellow at the University of Utah, Salt Lake City, and at the ETHZ. Daniel Erne is member of the Board of Directors of Pevion Biotech AG.

Lester Mills (1958), Dr. chem., MBA, CMO, British/Swiss. Since 2009.

Lester Mills joined Bachem Holding AG as Chief Marketing Officer (CMO) and Member of the Corporate Executive Committee in 2009. He is responsible for all sales and marketing activities of the Bachem Group. He studied chemistry at Cambridge University (UK) and gained a Ph.D. at the UEA (UK). Later, he received an MBA from the SUNY (USA, 2001). He started his career in R&D with Lonza Ltd, Visp (1987). Following this, he worked in the USA in commercial development for Lonza (USA) and Genzyme (1996). In 1998, he joined Roche Vitamins Ltd (later DSM) as Sales Director (until 2008).

Stephan Schindler (1964), business economist HWV, EMBA, CFO, Swiss. Since 2009.

Stephan Schindler joined Bachem Holding AG as Chief Financial Officer (CFO) and Member of the Corporate Executive Committee in 2009. In 1991, he assumed a first management position in informatics as Head of Information Center at Patria Insurances in Basel. In parallel, he persistently pursued his extra occupational studies in business economics, finance and control. After his graduation, he joined the Corporate Finance Department at F. Hoffmann-La Roche Ltd in Basel. 1995 to 2001, he assumed various positions, e.g. Head of Credit Management/IC Reconciliation. With the unbundling of the division in 2001, he took over the accounting & reporting department at Roche Vitamins Ltd. Until 2009, he was Head Finance & Control Switzerland at DSM Nutritional Products Ltd, Kaiseraugst. In addition, Stephan Schindler holds a degree of International Executive MBA Zurich/Boston.

4.2 Other activities and vested interests
Other activities of the members of the Executive Committee are described in the paragraph above.

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 participation programs are defined yearly by the Board of Directors based on a proposal of the Compensation Committee and at their own discretion. 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, as well as a variable profit sharing. The latter is subject to business success of the financial year, based on sales, operating income and net income. In addition, 30% of the variable profit sharing depends on the achievement of the individual objectives of the Corporate Executive Committee. Based on the business success 2010, the variable compensation to the Corporate Executive Committee has decreased significantly compared to the prior year. In the reporting year, the variable salaries of the members of the Executive Committee amounted to 36%–43% of the fix salaries. There are no agreements concerning possible termination compensations. The compensation to the Board of Directors and the Corporate Executive Committee is listed in note 27 on page 92 of the notes to the consolidated financial statements. The share and option ownership of the Board of Directors and the Corporate Executive Committee is listed in note 27 on pages 93 and 94 of the notes to the consolidated financial statements. The share and option programs are described in detail in the notes to the consolidated financial statements on pages 66 and 67.

5.2 Transparency of compensations, shareholdings and loans pertaining to issuers domiciled abroad
Does not apply.

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

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

6.3 Convocation of the general meetings of shareholders
An ordinary Annual General Meeting is held within six months after the end of the company's business year. Extraordinary general meetings may be convened by the Board of Directors, the statutory auditors or 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: www.bachem.com/financial_calendar.

7 Changes of control and defense measures

7.1 Duty to make an offer

The Articles of Incorporation of Bachem Holding AG do not envisage a duty to submit a public purchase offer according to 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 members of the Board of Directors nor members of the Corporate Executive Committee have a contractual agreement in case of change of control.

8 Auditors

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

PricewaterhouseCoopers AG, Basel, has been statutory auditor of the Bachem Group since 1995 and statutory auditor of Bachem Holding AG since 1998. Gerd Tritschler has been lead auditor since the business year 2004. The rotation period of the lead auditor is based on the maximum statutory length for Swiss companies of seven years (Swiss Code of Obligations, article 730a, paragraph 2). Auditors are elected by the Annual General Meeting on an annual basis.

8.2 Auditing fees

Audit fees of PricewaterhouseCoopers for the Bachem Group amounted to 257 kCHF for the business year 2010. Fees for audit services on Bachem companies by other auditors totaled 30 kCHF.

8.3 Additional fees

During 2010, PricewaterhouseCoopers charged additional fees of 158 kCHF for various projects and other services, mainly in the area of tax consulting. Additional services, also for tax advisory, conducted by other auditors amounted to 7 kCHF.

8.4 Information instruments pertaining to the external 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) and other relevant laws and standards. In 2010, the external auditors attended one Board of Directors meeting. The performance assessment of the external auditor and the audit fees is made based on the independency and objectivity of the external auditors, the presented reports, the shown technical and operational competences, the involved resources as well as the open and effective communication and coordination with internal staff.

9 Information policy

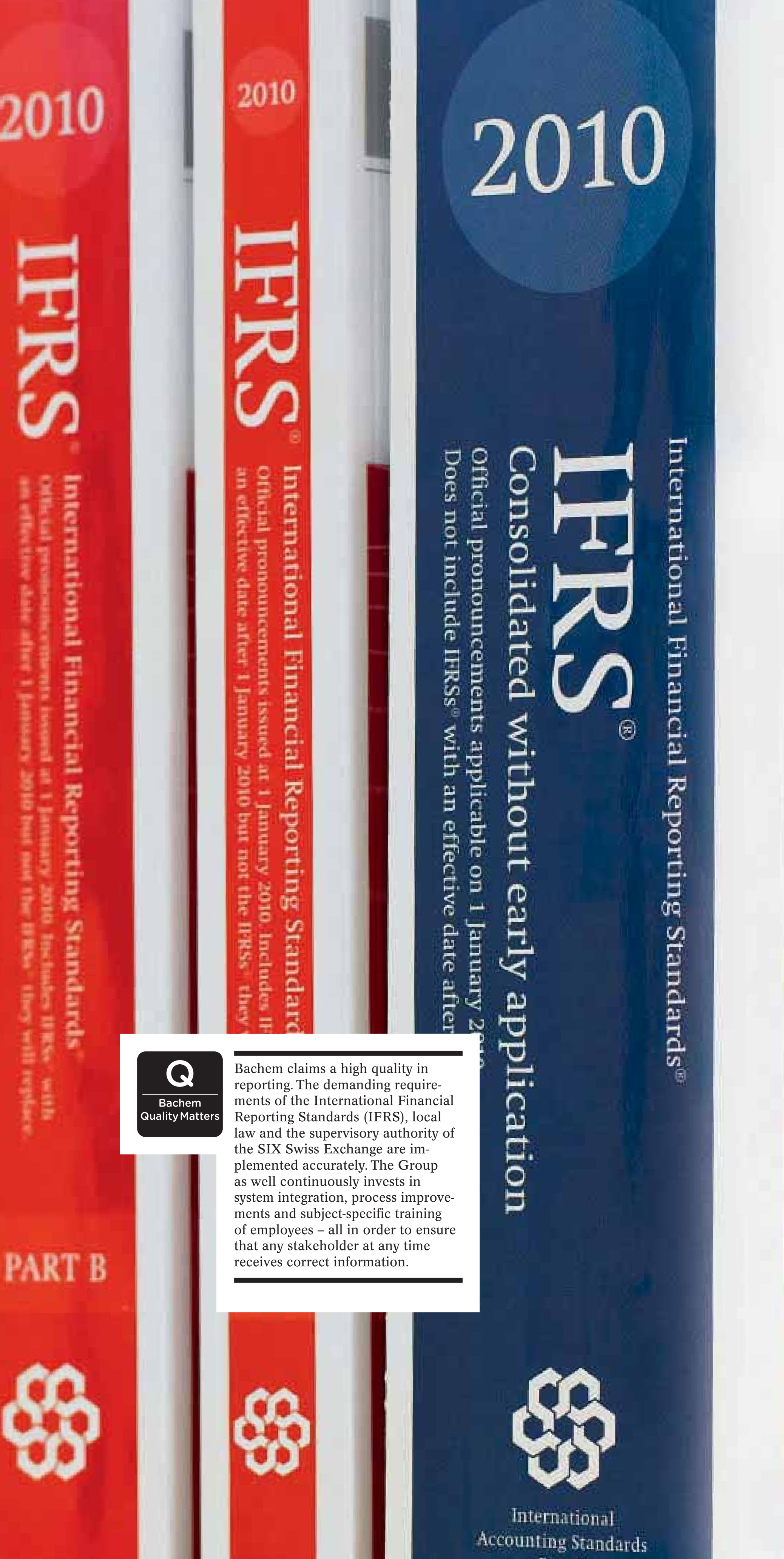
The Bachem Group has an open and up-to-date information policy that treats all target groups of the capital investment market equally. The most important information tools are the annual report and the half-year report, the web site (www.bachem.com), press releases, the presentation of the financial 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 listed on the SIX 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 “Listing Rules”). These rules can be viewed under www.six-exchange-regulation.com/regulation/listing_rules_en.html. For specific questions regarding Bachem, contact our investor relations responsible, Stephan Schindler, CFO, phone +41 61 935 2333, ir@bachem.com.

Bachem

Financial Report

2010


HWP
July 2010
A Guide through IFRS
PART B
July 2010
PART A



Q
Bachem
Quality Matters

Bachem claims a high quality in reporting. The demanding requirements of the International Financial Reporting Standards (IFRS), local law and the supervisory authority of the SIX Swiss Exchange are implemented accurately. The Group as well continuously invests in system integration, process improvements and subject-specific training of employees – all in order to ensure that any stakeholder at any time receives correct information.

Content

Financial Review

Strong Swiss franc slowed successful recovery effort

After a slow start to the 2010 business year, second-quarter sales in CHF increased 25% over the first three months. Sales in the first half year totaling 73.9 million CHF were nonetheless unusually low for Bachem. Despite the continuing crisis in the market and tougher competition, the Bachem Group continued to improve in the second half of the year. Group projections were based on the strong second half of 2009 (90.7 million CHF) and a target range of 85–90 million CHF. Even with the slow market recovery and price adjustments, Bachem generated sales in this period totaling 84.6 million CHF at comparable exchange rates (CER[1]). However, the increasing strength of the Swiss franc reduced this encouraging result to 79.0 million CHF.

The Bachem Group therefore posted sales of 152.9 million CHF (CER: 160.1 million CHF) in 2010, a decrease of 15.9% in CHF or 11.9% in local currencies (LC).

in million CHF	2010	Change in local currency	Change in CHF	Sales share
Active Pharmaceutical Ingredients (APIs)	**120.0**	–16.1%	–20.2%	78.5%
Research Chemicals	**32.9**	+8.0%	+4.3%	21.5%
Total sales	**152.9**	–11.9%	–15.9%	100.0%
Total sales CER	**160.1**			

The intensified price competition in the generics sector, further project postponements, delays in approvals and the strong Swiss franc slowed business growth. In the second half of the year Bachem definitely stepped up the pace, significantly increasing sales by 6.8% in CHF (CER: +12%) compared with the first six months.

In spite of the challenging market conditions, Bachem also acquired 18 additional NCE projects and thus continued to expand its leading position. At year's end Bachem Group companies in Europe and North America were handling a total of 138 development projects. Each of these NCEs is a potential growth driver and can make a key contribution to Group sales in the future.

Sales in research chemicals also grew in 2010. The increase of 8% (in LC) was significant. The growth in catalog sales and the rise in custom synthesis (+15.3% in LC) indicated the growing interest in peptide-based substances. North America saw an even greater improvement in all areas than Europe.

Customers in the biotech sector reported continuing difficulties with capital procurement and were forced to limit their development activities. Pharmaceutical companies also became increasingly vulnerable to cost pressure and responded in part by increasing their focus on research and development. With a 23.8% decline in LC, sales of New Chemical Entities (NCEs) suffered the most from the effects of the economic crisis.

In the generics segment, delays in approvals, inventory reductions and increasing (price) competition brought about a 14.9% drop in sales in LC. This market-specific development affected both Europe and North America, and both peptide-based and non-peptide-based generics. Here, too, Bachem recovered significantly in the second half of the year compared with the first six months. It also strengthened its market position by signing long-term contracts.

From a regional perspective, the strong Swiss franc had a greater effect on European sales in EUR than on USD-based sales in North America.

in million CHF	2010	Change in local currency	Change in CHF	Sales share
Europe	**109.4**	–12.7%	–16.9%	71.5%
North America	**43.5**	–10.3%	–13.5%	28.5%
Total sales	**152.9**	–11.9%	–15.9%	100.0%
Total sales CER	**160.1**			

[1] CER: Comparable Exchange Rates
Transactions in foreign currencies were translated at the corresponding exchange rates in the prior year period.

Strength of Swiss franc and one-time restructuring costs reduced operating margin

Bachem posted operating income of 15.7 million CHF and an EBIT margin of 10.3% for 2010.

These figures include not only hefty currency exchange losses but also one-time restructuring costs totaling 1.8 million CHF. Thereof, 0.4 million CHF was reported in the first half of the year and covered early retirements. The remaining 1.4 million CHF were incurred in the second half of the year for restructuring measures in North America.

At the EBIT level, the negative foreign currency effect amounted to 5.0 million CHF, of which 4.0 million CHF was charged in the second half of the year, the result primarily of changes in the EUR/CHF exchange rate and the increase in sales in Europe. Thanks to production and sales sites in North America, a natural hedging process mitigated the effects of the erosion in the USD exchange rate.

in million CHF/ % sales	EBIT/ margin	EBIT CER/ margin	EBIT CER before special effects/ margin	Sales CER
1st half-year 2010	**5.8** **7.9%**	6.8 9.0%	7.3 9.6%	75.5
2nd half-year 2010	**9.9** **12.5%**	13.8 16.4%	15.2 18.0%	84.6
Business year 2010	**15.7** **10.3%**	20.7 12.9%	22.5 14.1%	160.1

After adjustment for these special effects, the operating income totaled 22.5 million CHF and the EBIT margin reached 14.1%. The adjusted EBIT CER more than doubled to 15.2 million CHF in the second half of the year, and the corresponding EBIT margin increased to 18.0%. In this period, Bachem posted an adjusted EBITDA CER of 24.7 million CHF and a margin of 29.2%.

Higher depreciation and amortization as well as changes in inventory depressed gross income

The cost of goods sold totaled 100.3 million CHF (65.6% of sales). The full effect of investments in 2008/09 (a total of 94.4 million CHF), which were primarily strategic in nature, impacted the financial statements negatively for the first time. Compared with 2009, depreciation and amortization rose by 2.8 million CHF, primarily affecting the production area. Another reason for the higher cost of goods sold compared with the previous period was the systematic reduction in inventories. Changes in personnel costs, on the other hand, had a positive effect. The other operational production costs decreased in line with the decline in sales.

Headcount significantly reduced, cost-cutting measures took effect

Bachem met the challenges of the economic crisis by taking various types of action. The total number of employees was reduced to 668 full-time positions by the end of the year. With this significant 8.5% reduction in jobs (62 full-time positions), the Bachem Group put itself in an excellent starting position for the expected upswing. As in the past, Bachem consciously refrained from economically driven layoffs designed only for short-term profit management, but was unable to avoid cutting 14 jobs in North America. The related activities were transferred to the competence center for Custom Synthesis at Bachem UK. Further reductions were achieved by taking advantage of natural employment fluctuation and a few early retirements. Personnel costs, the Bachem Group's largest cost component, were thus reduced by 4.9 million CHF compared with the previous year.

Bachem deliberately intensified its marketing and sales activities in the 2010 business year. It exhibited at all the key trade shows, using a new booth design, acquired additional projects and continued to improve market penetration. The associated costs were nonetheless kept at the prior year level of 11.0 million CHF.

Bachem adopted a new proactive strategy in Generics in 2010, focusing on the development of processes at its own expense. The projects are carefully analyzed and then individually approved by the Corporate Executive Committee. The development costs are capitalized. One project qualified for this process in the year under review, and the 0.8 million CHF cost was recognized on the balance sheet. The production costs incurred for process optimization projects or scale-ups continued to be attributed directly to cost of goods sold. Research and development costs were reduced by 0.6 million CHF or 8.6% from the previous year and totaled 6.8 million CHF.

In 2010, Bachem also analyzed various options for increasing efficiency and reducing costs in the administrative area. As a result of the projects and measures it initiated, the Group achieved cost savings of 2.0 million CHF, or 9.3% compared with the previous year. As a result, administrative costs dropped to 19.6 million CHF.

Sale of stake in Polyphor buoyed net profit

In the first half of 2010, Bachem sold its interest in Polyphor AG, thereby realizing a profit of 17.5 million CHF. This boosted net profit at Group level and relieved the effects of the sales gap. The net profit of 28.3 million CHF therefore exceeded operating income by 12.6 million CHF. One-time special effects totaling 1.8 million CHF had a negative effect on the net profit margin of 18.5%.

The performance of associated companies had no impact on the overall result in 2010, whereas a loss of 3.3 million CHF had to be reported in this area in 2009. The foreign currency result, while showing a loss of 1.0 million CHF, still represented a slight improvement of 0.3 million CHF over the previous year.

Based on the weighting of income achieved with the sale of the stake in Polyphor AG in relation to the overall performance, the tax rate dropped temporarily to 11.5%. Tax expenses for 2010 totaled 3.7 million CHF. For subsequent years, Bachem is again projecting a corporate tax rate of 18% to 20%.

As a result of temporarily lower sales, higher depreciation and amortization, one-time special effects and substantial negative currency effects, earnings per share (EPS) declined by 1.33 CHF compared with the previous year. On the basis of the net profit of 28.3 million CHF, the Bachem Group reported EPS of 2.10 CHF.

Improvements in net current assets had a positive effect on cash flow

Cash flow from operating activities totaled 38.1 million CHF or 24.9% of sales in 2010 (2009: 23.6%). Compared with the prior year, operating cash flow as a ratio of sales improved slightly. The absolute decline from 2009 was only 4.7 million CHF, despite the sales losses mentioned above.

By performing analyses and deriving appropriate measures from them, Bachem reduced the cash-flow-relevant capital tied up in net current assets by CHF 5.2 million. The Group therefore achieved an improvement of CHF 24.6 million compared with the previous year's change.

The Diamond Project, which involved Group-wide analysis and optimization of inventories, had the biggest impact. The project also improved the company's understanding of cross-divisional relationships between marketing&sales, production and finance. Bachem is planning to make further improvements in this area and will undertake system expansions to support this goal. Group companies were able to halt the continuous growth in inventories over the last few years, and for the first time, they reduced the inventory item on the balance sheet by 3.2 million CHF by the end of the year. Raw material and building block inventories were reduced, and work in progress also decreased as a result of the reduction in personnel levels. Finished goods and intermediates inventories were increased to meet the projected sales demand. This applied especially to Generics, where preparations were made to meet market demands for greater supply availability.

Taking into account the processes that do not impact cash flow, the change in inventories resulted in a positive effect of CHF 0.5 million. This is a significant improvement over the negative effects of increased inventories reported in recent years.

in million CHF	2010	2009	2008	2007
Effect of inventory changes on cash flow	**+0.5**	–22.2	–27.8	–17.3

Investments at reduced level

Investment projects totaling 94.4 million CHF were implemented in 2008 and 2009 on the basis of the sustainable growth strategy. As a result, Bachem now has a modern infrastructure that will enable it to remain competitive in the long term, even in the face of greater order volumes. Because of the sales shifts based on macroeconomic developments, aggregate total investments were sharply reduced. Around 46% of total investments or 8.6 million CHF was earmarked for compliance and replacement procurement. Bachem thereby underscored its standards and responsibilities in the area of quality, job security and environmental protection. Around 3.5 million CHF was invested in construction of the building shell for the new research and production complex in Bubendorf. This has given Bachem an advantageous base and a head start for future capacity expansion. At 18.7 million CHF, investment volume was at about the same level as depreciation and amortization (18.0 million CHF). This resulted in a corresponding outflow of funds for investment activities in an equivalent amount. In 2009, this item still totaled 37.6 million CHF.

In the area of financing activities, 40.4 million CHF was distributed in dividends, representing a decrease of 2.6 million CHF or 6.1% compared with 2009. Part of the dividend was converted into a general operating loan. At the time of reporting, 9.0 million CHF from this conversion still consisted of liabilities from loans. Bachem also took out a bank loan for 15 million CHF during the period under review. The cash flow from financing activities was –13.4 million CHF in 2010.

Increase in cash and cash equivalents

The consolidated cash flow statement showed an increase of 5.5 million CHF in cash and cash equivalents. This result represented a 28.4 million CHF improvement over the previous year. Total cash and cash equivalents as defined in the cash flow statement amounted to 18.0 million CHF at the end of the year. At 11.8%, this is slightly above the relevant target range of 5% to 10% of sales.

Dividend of CHF 2.50 proposed

With an equity ratio of 78.3% (79.3% in 2009), Bachem remains on an extremely sound financial footing. This will enable the Bachem Group to pursue its strategic goals independently and flexibly in the future while maintaining its own priorities and values.

The Board of Directors has decided to propose an adjustment in the dividend from 3.00 CHF to 2.50 CHF for approval by the Annual General Meeting.

Consolidated Income Statement

For the years ended December 31

in 1000 CHF	Notes	2010	2009
Sales	1/2	152 884	181 848
Cost of goods sold		– 100 347	– 91 169
Gross profit		**52 537**	**90 679**
Other income		474	179
Marketing and sales costs		– 11 019	– 11 022
Research and development costs		– 6 760	– 7 399
General administrative costs		– 19 556	– 21 556
Operating income		**15 676**	**50 881**
Result from associates	2/5	4	– 3 320
Financial income [1]	6	17 625	319
Financial expenses [1]	7	– 1 321	– 1 629
Earnings before taxes		**31 984**	**46 251**
Income taxes	8	– 3 687	– 194
Net income [2]		**28 297**	**46 057**
Basic earnings per share (CHF)	9	**2.10**	**3.43**
Diluted earnings per share (CHF)	9	**2.10**	**3.43**

[1] The prior line financial result is newly split into financial income and financial expenses. The previous year presentation was adjusted accordingly.
[2] The net income is completely attributable to the equity holders of the parent.

The notes on pages 60 to 94 are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the years ended December 31

in 1000 CHF	Notes	2010	2009
Net income according to income statement		**28 297**	**46 057**
Change in fair value reserves and		0	–242
deferred taxes thereon	21	0	20
Actuarial gains/losses on defined benefit plans and	4	1 180	–1 590
deferred taxes thereon	21	–236	318
Cumulative translation differences		–7 070	–1 811
Total comprehensive income [3]		**22 171**	**42 752**

[3] The comprehensive income is completely attributable to the equity holders of the parent.

The notes on pages 60 to 94 are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

At December 31, 2010 and 2009

in 1 000 CHF	Notes	Dec. 31, 2010	Dec. 31, 2009
Assets			
Cash and cash equivalents	10	17 980	12 470
Trade receivables	12	22 132	35 816
Other receivables	13	3 371	3 602
Current tax assets		491	1 593
Inventories	14	150 393	153 641
Total current assets		**194 367**	**207 122**
Property, plant and equipment	15	236 470	240 160
Intangible assets	16	18 221	16 981
Associates	2/5	3 110	3 948
Deferred tax assets	21	6 475	6 221
Total non-current assets		**264 276**	**267 310**
Total assets		**458 643**	**474 432**
Liabilities and equity			
Trade payables	18	12 165	18 126
Other current liabilities	19	7 271	9 761
Financial liabilities	20	24 086	15 000
Current tax liabilities		3 731	1 301
Total current liabilities		**47 253**	**44 188**
Financial liabilities	20	385	0
Deferred tax liabilities	21	36 977	38 105
Defined benefit plan liability	4	14 989	16 034
Total non-current liabilities		**52 351**	**54 139**
Total liabilities		**99 604**	**98 327**
Share capital	22	680	680
Retained earnings		303 918	315 104
Share premium		93 681	92 517
Own shares		– 1 962	– 1 988
Fair value reserves		0	0
Cumulative translation differences		– 37 278	– 30 208
Total capital and reserves attributable to the equity holders of the company		**359 039**	**376 105**
Total liabilities and equity		**458 643**	**474 432**

The notes on pages 60 to 94 are an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement

For the years ended December 31

in 1000 CHF	Notes	2010	2009
Cash flow from operating activities			
Net income		28 297	46 057
Adjustments for:			
Income taxes	8	3 687	194
Depreciation and amortization	2/15/16	18 036	15 274
Financial income [1]	6	–17 625	–319
Financial expenses [1]	7	1 321	1 629
Result from associates	2/5	–4	3 320
Share-based payments	23	1 164	1 092
Income taxes paid		–1 919	–4 807
Other non-cash items		–10	–172
Cash flow from operating activities before changes in net current assets		**32 947**	**62 268**
Change in trade receivables		12 353	–3 303
Change in inventories		508	–22 187
Change in trade payables		–5 731	456
Change in other net current assets		–1 967	5 613
Cash flow from operating activities		**38 110**	**42 847**
Cash flow used for investing activities			
Investments in property, plant and equipment		–16 165	–38 184
Sales of property, plant and equipment		12	0
Investments in intangible assets		–2 552	–2 213
Sales of marketable securities		0	2 713
Interest received		54	95
Dividends received	6	0	88
Other financial proceeds	6	51	92
Other financial payments	7	–128	–144
Cash flow used for investing activities		**–18 728**	**–37 553**
Cash flow used for financing activities			
Additions own shares		0	–1
Disposals own shares		0	134
Dividends paid	24	–19 995	–21 261
Increase in financial liabilities		15 000	0
Repayment of financial liabilities		–8 066	–6 766
Interest paid		–299	–189
Cash flow used for financing activities		**–13 360**	**–28 083**
Net effect of currency translation on cash and cash equivalents		–512	–118
Net change in cash and cash equivalents		**5 510**	**–22 907**
Cash and cash equivalents at the beginning of the year	10	**12 470**	**35 377**
Cash and cash equivalents at the end of the year	10	**17 980**	**12 470**
Net change in cash and cash equivalents		**5 510**	**–22 907**

[1] The prior line financial result is newly split into financial income and financial expenses. The previous year presentation was adjusted accordingly.

The notes on pages 60 to 94 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the years ended December 31

2010 in 1 000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Fair value reserves	Deferred taxes on fair value reserves	Cumulative translation differences	Total
Balance at January 1		**680**	**315 104**	**92 517**	**–1 988**	**0**	**0**	**–30 208**	**376 105**
Total comprehensive income			29 241					–7 070	**22 171**
Dividends	24		–40 401						**–40 401**
Transactions with own shares (net of tax)			–26		26				**0**
Share-based payments	23			1 164					**1 164**
Balance at December 31		**680**	**303 918**	**93 681**	**–1 962**	**0**	**0**	**–37 278**	**359 039**

2009 in 1 000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Fair value reserves	Deferred taxes on fair value reserves	Cumulative translation differences	Total
Balance at January 1		**680**	**313 223**	**91 425**	**–1 998**	**242**	**–20**	**–28 397**	**375 155**
Total comprehensive income			44 785			–242	20	–1 811	**42 752**
Dividends	24		–43 027						**–43 027**
Transactions with own shares (net of tax)			123		10				**133**
Share-based payments	23			1 092					**1 092**
Balance at December 31		**680**	**315 104**	**92 517**	**–1 988**	**0**	**0**	**–30 208**	**376 105**

The notes on pages 60 to 94 are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

General Information

Business activities
Bachem, based in Bubendorf in the Canton of Basel-Landschaft, Switzerland, is an independent, technology-based, public biochemicals company providing full service to the pharma and biotech industry. Bachem employs 668 people (FTEs) and is specialized 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, 2011 to be presented for approval by the Annual General Meeting on April 13, 2011.

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 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 notes to the annual financial statements have been rounded up to the nearest 1 000 CHF.

Amendments and interpretations to published standards effective in 2010 but not relevant for Bachem
The following amendments and interpretations to published standards got effective in 2010 but were not relevant for Bachem at the moment. A lot of the amendments relate to the annual improvements projects of the IASB and aim to remove inconsistencies and clarify wording.

IFRS 1	First-time Adoption of International Financial Reporting Standards (Amendment)
IFRS 2	Share-based Payment (Amendment)
IFRS 3	Business Combinations (Amendment)
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Amendment)
IFRS 8	Operating Segments (Amendment)
IAS 1	Presentation of Financial Statements (Amendment)
IAS 7	Statement of Cash Flows (Amendment)
IAS 17	Leases (Amendment)
IAS 18	Revenue (Amendment)
IAS 27	Consolidated and Separate Financial Statements (Amendment)
IAS 28	Investment in Associates (Amendment)
IAS 31	Interests in Joint Ventures (Amendment)
IAS 36	Impairment of Assets (Amendment)
IAS 38	Intangible Assets (Amendment)
IAS 39	Financial Instruments: Recognition and Measurement (Amendment)
IFRIC 9	Reassessment of Embedded Derivatives (Amendment)
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

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

The following standards, amendments and interpretations to existing standards have been published. They are mandatory for the accounting periods beginning on or after February 1, 2010 or later. None of them has been early adopted by the Group. Bachem is still evaluating the impact of all these changes. At the moment only non-material impacts are expected.

IFRS 9	Financial Instruments
IAS 24	Related Party Disclosures (Amendment)
IAS 32	Financial Instruments: Presentation (Amendment)
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Scope of consolidation

The consolidated financial statements include the financial statements of Bachem Holding AG and all companies in Switzerland and abroad, which Bachem Holding AG controls (over 50% of voting rights). 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.

Investments in associates

Investments in associates 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 as well as dilutions due to capital increases of these associates are recognized as income or expense.

Associates 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 compiled 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	
in CHF	2010	2009	2010	2009
USD	1.04	1.08	0.93	1.03
GBP	1.61	1.69	1.46	1.67
EUR	1.38	1.51	1.25	1.48

Revenue recognition

Sale of products

The reported sales correspond to invoiced product deliveries and to third parties and are reported net of sales taxes and rebates. Sales are recognized on invoicing of product deliveries, this means when the significant risks and rewards of ownership of the goods are transferred to a third party. 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.

Interest and dividend income

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

Segment information

The segment information is based on the information, which is used by the Chief Operating Decision Maker (CODM) for running the business. The Corporate Executive Committee executes the function of the CODM at Bachem. The operating segments were derived from the organizational structure and the internal reporting without aggregating them.

The identification of the reportable segments based on geographical areas results in the segmentation Europe and North America. Another column is called “corporate and eliminations”. This column is not considered as an operating segment and contains besides the corporate activities the eliminations required for the reconciliation of the consolidated values.

The CODM measures the performance of the segments on the basis of the operating income (EBIT). Besides corporate activities and eliminations, within the income statement the result from associates, the financial result and the income taxes and within the balance sheet defined benefit plan liabilities and specific tax assets/liabilities from Group adjustments are not allocated to the reportable segments.

Both reportable segments, Europe and North America, derive their revenues from products and services within the areas active pharmaceutical ingredients (APIs) and research chemicals (incl. custom synthesis).

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 or loss. A financial asset is allocated to this category if it was acquired for short-term sale or was allocated in this way by management. Derivatives also belong to this category if they do not qualify as hedges. Assets in this category are reported as current assets if they are either held for trading or are likely to be realized within 12 months following the balance sheet date.

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

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 or loss" category is carried out at fair value including transaction costs. "Financial assets at fair value through profit or loss" are also initially recorded at fair value, but the transaction costs are booked to the income statement. 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 or 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 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.

Derivative financial instruments and hedging transactions

Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into. Transaction costs are recognized in the income statements. Subsequently, they are also measured at fair value. Bachem uses derivative financial instruments mainly to hedge foreign exchange risks. Bachem does not apply hedge accounting, instead all valuation gains and losses are recognized directly in the income statement.

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method which approximates the original invoice amount, less provision 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 expected payment to be received from the customer and is included in sales as a sales deduction.

Inventories

Inventories include raw materials (incl. consumables), 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 for 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.

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. If so, Bachem estimates the future cash flows that are likely to result from the usage of this asset 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.

Leases

Financial leases, which effectively constitute assets purchased with long-term financing, are carried as fixed assets at their purchase price and are written off over their estimated useful lives if the leased assets are transferred to the lessee at the end of the lease term. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The corresponding liabilities are included in non-current and current financial liabilities. The finance lease gives rise to a depreciation expense for depreciable assets as well as a finance expense for each accounting period. Lease payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term.

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 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.

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 of three to five years. 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.

Brands
Acquired brands are recognized in the balance sheet at historical cost less any impairments. As long as such brands are used, Bachem assumes that they qualify as intangible assets with indefinite useful lives, which are tested for impairment as required, but at least annually.

Software
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 of three to five years. 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 software is amortized on a straight-line basis over its estimated useful life of three to five years.

Research and development costs
All research costs are recognized directly as expenses in the period in which they are incurred. Development costs are capitalized as intangible assets only when there is an identifiable asset that can be completed and that will generate future economic benefits and when the cost of such an asset can be measured reliably. Capitalized development costs are amortized on a straight-line basis over their estimated useful life of five to eight years. In addition, they are regularly reviewed for impairment and if there is evidence for impairment, they are impaired accordingly.

In the reporting year, for the first time ever, development costs relating to the process development of a new generic product were capitalized according to the stage of the project, since all relevant capitalization criteria were met (see note 16). In the past, development costs were charged against income since the criteria for their recognition as an asset were not met or the development work was performed on behalf of the client.
As a result of the intensive proactive development of generics, the development costs to be capitalized will become more important in the future.

Financial liabilities

Financial liabilities comprise loans, grants and finance lease liabilities.

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

Financial liabilities are classified as current unless Bachem has an unconditional right to defer the settlement of the liability for at least 12 months. Planned repayments within 12 months after the balance sheet date are also classified as current.

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 and the Board of Directors 300 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.

Risk assessment

The risk assessment of the Bachem Group takes place within the ordinary Board meetings. The Corporate Executive Committee participates in all Board meetings and is therefore fully involved in the risk assessment process. The strategic, operational and financial risks that exist in the different areas respectively on the different levels are discussed within these meetings and appropriate actions to reduce the risks are defined if necessary.

The Corporate Executive Committee meets with the Chief Operating Officers of the Group companies several times per year to have local Board meetings. As part of these Board meetings, the risks of the relevant Group company are assessed. The outcome of these discussions flows into the risk assessment process on Group level. Group-wide risks and their impact on the local entities are also discussed in the local Board meetings.

For each area, at least one international meeting takes place per year, where members of the management discuss area-specific topics as well as current risks. The Corporate Executive Committee is represented in theses international meetings and incorporates the relevant issues in the Group-wide risk assessment process.

Financial risk factors

Due to its worldwide activities, Bachem is exposed to a variety of financial risks like currency risk, interest rate risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. This includes the sporadic use of derivative financial instruments to economically hedge financial risks, without applying an actual hedge accounting according to IAS 39. Bachem only cooperates with first-class financial institutions.

Foreign exchange risk

Bachem operates internationally and is therefore exposed to foreign exchange risk based on changes in the exchange rates of various foreign currencies, mainly the US dollar and the euro. The risks relate to expected future transactions, assets and liabilities recognized in the balance sheet, and net investments in foreign operations. If material foreign exchange fluctuations are expected, the risks relating to these fluctuations are analyzed by group treasury and hedged with derivative financial instruments as necessary.

At December 31, 2010, if the euro had weakend by 10% against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been 541 kCHF (2009: 297 kCHF with 3% weakend euro) lower and equity would not have been affected directly. In the opposite case, profit would have been higher by the same amount.

At December 31, 2010, if the US dollar had weakend by 10% against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been 291 kCHF (2009: 13 kCHF) lower and equity would not have been affected directly. In the opposite case, profit would have been higher by the same amount.

Main reasons for this are foreign exchange gains/losses on translation of cash, receivables and payables. For the euro, the stronger impact of currency fluctuation on the pre-tax profit compared to prior year is mainly influenced by the increased fluctuation margin of 10%. For the US dollar, the pre-tax profit is more sensitive to currency fluctuation compared to the prior year since the cash balance in US dollar at the balance sheet date was higher than in the prior year.

Interest rate risk

Interest-bearing securities and revenue from cash and cash equivalents are exposed to changes in market interest rates. On one hand, a change in market interest rate has an impact on cash flows (cash flow risk) and, on the other hand, it also influences the fair value of interest-bearing securities with fixed interest rates (fair value risk). A 1% rise in market interest rate would have led to an increase of 140 kCHF (2009: 218 kCHF) in cash flow and in pre-tax profit. If market interest rate had declined by 1%, cash flow and profit would have decreased by the same amounts. Interest rate risk is not being hedged by the Group. There were no interest-bearing securities with fixed interest rates held at the balance sheet date and therefore, a shift in market interest rate would not have influenced profit nor equity.

A shift in the rate of interest payable would have no impact on profit or equity since Bachem has no interest-bearing liabilities apart from the fixed-interest financial liabilities.

Equity securities price risk

The group is entitled to acquire shares, bonds and options for asset management purposes. According to the code of asset management, only non-operating assets are invested in such marketable securities. For each asset category, specific asset management rules are predefined. Investment decisions are made by the investment committee. Potential larger investments are verified by analyses of financial key figures. At the end of the reporting and prior year, Bachem holds no shares.

Credit risk

Credit risks arise when customers or financial institutions are not able to meet their obligations as agreed. Credit risk may arise from cash and cash equivalents, deposits with banks and financial institutions as well as credit exposure to customers. Banks and financial institutions need an independently evaluated minimum rating of "A" in order that Bachem does business with them. Cash and cash equivalents of Bachem on December 31, 2010 were held with 67% at one financial institution in Switzerland and with 19% at one financial institution in the USA. The remaining 14% were split over several financial institutions in Switzerland and abroad (2009: 1 financial institution in Switzerland, portion: 69%; 1 institution in the USA, portion: 16% and several remaining, portion: 15%).

The Group has not issued generally accepted credit limits due to the differing customer structure in each of the business units. However, each entity assesses the credit quality of customers systematically, taking into account the financial situation, the past experience and other factors, where necessary prepayments are requested. Management does not expect any substantial losses from outstanding receivables.

Liquidity risk

The liquidity risk describes the risk that arises when the Group is not able to meet its obligations due. Bachem monitors its liquidity through prudent liquidity management. In doing so, Bachem follows the principle of maintaining liquidity reserves higher than the daily and monthly demand of operating cash. This includes the provision of sufficient cash and marketable securities. In context of the cash-pooling agreement, Bachem has therefore required credit lines at its disposal. Given Bachem's solid financial situation, credits could be negotiated quickly at good conditions if necessary.

A rolling forecast of liquidity on the basis of expected cash flow is conducted and regularly updated. In order to fulfill its liabilities, Bachem monitors a minimum liquidity reserve of approximately 5%–10% of Group sales. This target is monitored continuously and readjusted if required.

Capital risk

When managing capital, Bachem's objectives are to safeguard the Group's ability to continue as a going concern and to achieve an adequate return for the shareholders. In order to reach these goals, Bachem may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

It is Bachem's goal to be self-financed apart from short-term operating liabilities. The reported equity in the consolidated balance sheet at year-end 2010 was 359 million CHF (2009: 376 million CHF). The equity ratio at December 31, 2010 amounted to 78% (2009: 79%).

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 and their close family members are also deemed to be related parties, as are pension plans that exist for the benefit of the company's employees.

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 (see 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.

Provision for slow-movers on inventories

Work in progress and finished goods of Bachem are characterized by a very long shelf life. Nevertheless, driven by commercial considerations and based on several assumptions, a calculatory provision is accounted for. This provision reflects the ageing of the corresponding products.

1 Sales

The reported sales consist of the following:

in 1000 CHF	2010	2009
Products	146 614	174 764
Services	6 270	7 084
Total sales	**152 884**	**181 848**

in 1000 CHF	2010	2009
Active pharmaceutical ingredients (APIs)	119 979	150 304
Research chemicals (incl. custom synthesis)	32 905	31 544
Total sales	**152 884**	**181 848**

2 Segment information

The presented values are based on the same valuation principles according to IFRS as used for the whole consolidated financial statements. Transactions between the segments are performed at arm's length, i.e. based on prices as they are charged to third parties.

in 1000 CHF	Europe	North America	Total segments	Corporate and eliminations	Consolidated values
Sales information 2010					
Sales third parties	109 379	43 505	152 884	0	**152 884**
Sales intersegment	12 451	4 379	16 830	– 16 830	**0**
Total sales	**121 830**	**47 884**	**169 714**	**– 16 830**	**152 884**
Income information 2010					
Operating income	17 939	3 242	21 181	– 5 505 [1]	**15 676**
Result from associates					**4**
Financial income					**17 625**
Financial expenses					**– 1 321**
Earnings before taxes					**31 984**
Other information 2010					
Additions in property, plant and equipment and intangible assets	19 215	841	20 056	81	**20 137**
Depreciation and amortization	– 14 788	– 3 196	– 17 984	– 52	**– 18 036**
Total assets	386 595	69 603	456 198	2 445 [2]	**458 643**
Total liabilities	177 893	15 499	193 392	– 93 788 [3]	**99 604**
Associates					**3 110**

[1] The amount consists of the operating income from corporate activities of – 6 111 kCHF and of eliminations in the value of 606 kCHF.

[2] The amount consists of corporate assets as for example cash and cash equivalents, associates and loans to Group companies in the total of 141 200 kCHF, of eliminations in the value of – 142 353 kCHF and of specific tax assets from Group adjustments of 3 598 kCHF.

[3] The amount consists of corporate liabilities of 31 338 kCHF, of eliminations in the value of – 140 115 kCHF and of defined benefit plan liabilities of 14 989 kCHF.

in 1000 CHF	Europe	North America	Total segments	Corporate and eliminations	Consolidated values
Sales information 2009					
Sales third parties	131 545	50 303	181 848	0	**181 848**
Sales intersegment	19 448	5 795	25 243	–25 243	**0**
Total sales	**150 993**	**56 098**	**207 091**	**–25 243**	**181 848**
Income information 2009					
Operating income	50 324	6 006	56 330	–5 449 [1]	**50 881**
Result from associates					**–3 320**
Financial income					**319**
Financial expenses					**–1 629**
Earnings before taxes					**46 251**
Other information 2009					
Additions in property, plant and equipment and intangible assets	38 952	1 372	40 324	111	**40 435**
Depreciation and amortization	–12 396	–2 752	–15 148	–126	**–15 274**
Total assets	391 465	85 671	477 136	–2 704 [2]	**474 432**
Total liabilities	168 158	26 653	194 811	–96 484 [3]	**98 327**
Associates					**3 948**

[1] The amount consists of the operating income from corporate activities of –5 018 kCHF and of eliminations in the value of –431 kCHF.

[2] The amount consists of corporate assets as for example cash and cash equivalents, associates and loans to Group companies in the total of 130 368 kCHF, of eliminations in the value of –136 332 kCHF and of specific tax assets from Group adjustments of 3 260 kCHF.

[3] The amount consists of corporate liabilities of 21 183 kCHF, of eliminations in the value of –133 701 kCHF and of defined benefit plan liabilities of 16 034 kCHF.

In the reporting year, sales with a single customer amounted to 19 597 kCHF or 12.8% of Group sales. In the previous year, sales with a single customer amounted to 22 351 kCHF or 12.3% of Group sales. The respective sales for both years are mainly reported in the segment Europe.

Information about geographical areas – sales third parties

in 1000 CHF	2010	2009
Switzerland	13 731	13 604
USA	37 368	41 133
Great Britain	20 452	24 778
Germany	18 636	22 377
France	12 078	18 435
Rest of the world	50 619	61 521
Total	**152 884**	**181 848**

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

Information about geographical areas – property, plant and equipment and intangible assets

in 1000 CHF	31.12.2010	31.12.2009
Switzerland	214 460	210 121
USA	35 854	42 201
Rest of the world	4 377	4 819
Total	**254 691**	**257 141**

3 Staff costs

in 1000 CHF	2010	2009
Salaries and wages	−58 055	−61 366
Pension costs for defined benefit plans	−3 520	−3 800
Pension costs for defined contribution plans	−529	−643
Other social security expenses	−7 701	−7 981
Share-based payments	−1 164	−1 092
Other personnel-related costs	−2 851	−3 799
Total staff costs	**−73 820**	**−78 681**

4 Post-employment benefits

Post-employment benefits are based on the regulations and circumstances in each country where Bachem is represented. In countries with defined contribution plans, the related contributions which have an effect on the income statement in 2010 amounted to 529 kCHF and in 2009 to 643 kCHF.

In Switzerland, Bachem Holding AG, Bachem AG and Sochinaz SA are members of so-called “LOB 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, 2010 and 2009:

Defined benefit plan liability

in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Fair value of plan assets	57 904	55 536
Present value of defined benefit obligation	−72 893	−71 570
Deficit recognized as a liability in the balance sheet	**−14 989**	**−16 034**

Composition of the annual pension cost

in 1000 CHF	2010	2009
Service cost	−5 871	−5 155
Interest cost	−2 323	−2 284
Expected return on plan assets	2 221	1 845
Plan amendment cost	0	−624
Employees’ contributions	2 453	2 418
Annual pension cost	**−3 520**	**−3 800**

Of the total annual pension cost, 2 345 kCHF (2009: 2 531 kCHF) were included in cost of goods sold, 358 kCHF (2009: 358 kCHF) in marketing and sales costs, 254 kCHF (2009: 267 kCHF) in research and development costs and 563 kCHF (2009: 644 kCHF) in general administrative costs.

Movement in the defined benefit obligation in 1000 CHF	2010	2009
Present value of defined benefit obligation at January 1	**–71 570**	**–60 112**
Service cost	–5 871	–5 155
Interest cost	–2 323	–2 284
Plan amendment cost	0	–624
Actuarial loss on defined benefit obligation	–143	–3 310
Benefits paid	7 014	–85
Present value of defined benefit obligation at December 31	**–72 893**	**–71 570**

Movement in the fair value of plan assets in 1000 CHF	2010	2009
Fair value of plan assets at January 1	**55 536**	**46 117**
Expected return on plan assets	2 221	1 845
Actuarial gains on plan assets	1 323	1 720
Employees' contribution	2 453	2 418
Employer's contribution	3 385	3 351
Benefits paid	–7 014	85
Fair value of plan assets at December 31	**57 904**	**55 536**

The actual return on plan assets in the reporting year was 3 544 kCHF (2009: 3 565 kCHF).

Statement of recognized actuarial losses in 1000 CHF	2010	2009
Actuarial losses recognized in equity at January 1	**–18 570**	**–16 980**
Actuarial gains/losses recognized in equity in the current year	1 180	–1 590
Actuarial losses recognized in equity at December 31	**–17 390**	**–18 570**

Major categories of plan assets fair value as a percentage of total plan assets	Dec. 31, 2010	Dec. 31, 2009
Money market	2.89%	3.83%
Bonds	39.39%	42.46%
Shares	35.07%	36.63%
Real estate	22.65%	17.08%
Total	**100.00%**	**100.00%**

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

Assumptions for the actuarial calculations	2010	2009
Discount rate	2.75%	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
Life expectancy at retirement age (F/M)	21.9/17.9	21.9/17.9

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 in 1000 CHF	2010	2009	2008	2007	2006
Plan assets	57 904	55 536	46 117	48 183	43 195
Defined benefit obligation	−72 893	−71 570	−60 112	−54 576	−49 535
Deficit	−14 989	−16 034	−13 995	−6 393	−6 340
Experience adjustments on plan assets	1 323	1 720	−9 756	−2 405	−50
Experience adjustments on defined benefit obligation	1 673	−206	−209	−376	−834
Adjustment on defined benefit obligation due to changes in assumptions	−1 816	−3 104	1 458	1 998	0

Bachem expects an employer's contribution to the pension plans of about 3300 kCHF in 2011.

5 Associates

According to income statement in 1000 CHF	2010	2009
Result from associates	4	– 3 320

According to balance sheet in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Associates	3 110	3 948

Pevion Biotech AG, Ittigen
On January 7, 2002, Bachem Holding AG and Berna Biotech AG founded Pevion Biotech AG. Pevion develops innovative therapeutic and prophylactic vaccines against infectious diseases and cancer which are based on the combination of peptides and the virosome technology.

The interest of Bachem in Pevion Biotech AG decreased from 38.5% at December 31, 2009 to 27.5% at December 31, 2010 due to a financing round, in which Bachem did not participate. The accounting treatment remains unchanged using the equity method.

Bachem has invested 12 000 kCHF in Pevion Biotech AG so far. The valuation of the proportional equity as per December 31, 2010 amounts to 3 110 kCHF (2009: 3 124 kCHF).

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. In addition, Polyphor conducts its own drug discovery and clinical development programs based on the proprietary PEM Technology.

On June 16, 2010, the associated company, Polyphor AG, Allschwil, was sold to a related party (see note 26). The gain resulting from this transaction (difference between sales price and carrying value according to the equity method) in the amount of 17 518 kCHF was recognized in the income statement as financial income (see note 6).

Until the disposal, Bachem had invested 6 500 kCHF in Polyphor AG. As per December 31, 2009 the interest of Bachem in Polyphor AG was 17.0% and the valuation of the proportional equity amounted to 824 kCHF.

There are no contingent liabilities related to the investment in Pevion Biotech AG as well as the sold investment in Polyphor AG.

Accumulated financial statements of Pevion Biotech AG & Polyphor AG

Income statement in 1000 CHF	2010	2009
Income	3 226	10 983
Expenses	–14 849	–30 274
Result	**–11 623**	**–19 291**

Balance sheet in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Current assets	9 591	15 125
Non-current assets	2 429	11 308
Assets	**12 020**	**26 433**
Liabilities	699	13 411
Equity	11 321	13 022
Liabilities and equity	**12 020**	**26 433**

In the above accumulated financial statements, the data from Polyphor AG is only included until the date of disposal on June 16, 2010.

6 Financial income

in 1000 CHF	2010	2009
Interest income	56	97
Dividend income	0	88
Gains on sale of associate	17 518	0
Gains on sale of available for sale financial instruments	0	42
Other financial income	51	92
Total financial income	**17 625**	**319**

7 Financial expenses

in 1000 CHF	2010	2009
Interest expenses	–218	–151
Loss on sale of available for sale financial instruments	0	–95
Other financial expenses	–128	–144
Foreign exchange result	–975	–1 239
Total financial expenses	**–1 321**	**–1 629**

Other financial expenses mainly include bank charges.

8 Income taxes

in 1000 CHF	2010	2009
Current taxes	–5 336	4 287
Deferred taxes	1 649	–4 481
Total income taxes	**–3 687**	**–194**

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

Tax rate reconciliation in %	2010	2009
Expected tax rate	**12.5**	**19.5**
Effect of income taxed at reduced rates	–0.7	–2.5
Effect of non-tax-deductible expenditures	0.1	0.1
Recognized tax loss carry-forwards from prior periods	0.0	–0.1
Adjustments from prior periods recognized in the current period	–0.2	–16.7
Effect of tax rate changes	0.0	–0.1
Other items	–0.2	0.2
Effective tax rate	**11.5**	**0.4**

The expected tax rate has decreased significantly due to the weighting of the gain realized on the sale of an associate.

In 2009, the final judgment concerning the taxable treatment of royalties was effected by the relevant tax authorities. This led to a reduction of current tax liabilities in the amount of 7520 kCHF, which was recorded affecting net income. This circumstance had a positive effect of 16.3 percentage points on the effective tax rate and is disclosed besides other items in the line “adjustments from prior periods recognized in the current period”.

9 Earnings per share

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

Basic	2010	2009
Net income (in 1000 CHF)	28 297	46 057
Average number of shares outstanding	13 463 630	13 444 683
Basic earnings per share (CHF)	**2.10**	**3.43**

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

Diluted	2010	2009
Net income (in 1 000 CHF)	28 297	46 057
Average number of shares outstanding	13 463 630	13 444 683
Adjustment for dilutive share options	0	27
Average number of shares outstanding for diluted earnings per share	13 463 630	13 444 710
Diluted earnings per share (CHF)	**2.10**	**3.43**

In the reporting year, all of the 9 593 outstanding options were excluded from the calculation of diluted earnings per share as they were not dilutive (2009: 9 060 options).

10 Cash and cash equivalents

in 1 000 CHF	Dec. 31, 2010	Dec. 31, 2009
Cash and cash equivalents by currency		
CHF	6 153	4 520
USD	7 253	2 913
EUR	4 324	4 520
GBP	250	517
Total cash and cash equivalents	**17 980**	**12 470**
Thereof cash and bank balances	17 980	12 169
Thereof short-term deposits	0	301

11 Derivatives

in 1 000 CHF		Dec. 31, 2010	Dec. 31, 2009
Derivatives at fair value through profit or loss			
Derivatives – forward foreign exchange contracts	Fair value	606	10
Total derivatives at fair value through profit or loss		**606**	**10**

The derivatives are disclosed in the position other receivables (see note 13).

The fair value of the forward foreign exchange contracts was deviated from the available market data (level 2 of the three-step fair value hierarchy according to IFRS 7).

There is no credit risk at year-end on the derivatives.

Derivatives by currency

in 1 000 CHF	Dec. 31, 2010	Dec. 31, 2009
USD	0	10
EUR	606	0
Total derivatives	**606**	**10**

12 Trade receivables

in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Trade receivables	22 837	35 971
Provision for impairment of trade receivables	–705	–155
Total trade receivables	**22 132**	**35 816**

In the prior year, there were considerable receivables with one customer which equaled 11.5% of total trade receivables. In the reporting year, the single receivables did not exceed 10% of the total trade receivables.

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

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

Movement provision for impairment of trade receivables in 1000 CHF	2010	2009
Provision for impairment of trade receivables at January 1	**–155**	**–104**
Provision for receivables impairment	–681	–279
Receivables written off during the year as uncollectable	96	212
Unused amounts reversed	0	17
Currency translation differences	35	–1
Provision for impairment of trade receivables at December 31	**–705**	**–155**

The ageing analysis of trade receivables is as follows:

			Overdue and not impaired				Overdue and impaired		
Ageing analysis in 1000 CHF	Total	Not due	< 31 days	31–60 days	61–90 days	91–180 days	61–90 days	91–180 days	> 180 days
December 31, 2010	**22 837**	14 941	4 585	1 379	691	281	292	0	668
December 31, 2009	**35 971**	25 591	8 825	927	319	142	0	90	77

Trade receivables by currency in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
CHF	8 265	13 198
USD	6 632	15 103
EUR	6 542	6 742
GBP	64	158
JPY	629	615
Total trade receivables	**22 132**	**35 816**

The maximal credit risk at year-end is equal to the carrying amount of trade receivables.

13 Other receivables

in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Prepaid expenses and accrued income	1 299	1 654
Derivatives	606	10
Other receivables	1 466	1 938
Total other receivables	**3 371**	**3 602**

Prepaid expenses and accrued income comprise prepayments for not yet received goods and services as well as accrued income. The derivatives consist of the hedge of foreign exchange risks (see note 11). Other receivables contain VAT and withholding tax receivables and other receivables against third parties.

14 Inventories

in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Raw material	16 977	19 602
Work in progress/finished goods	164 013	158 822
Provision for slow-movers	–30 597	–24 783
Total inventories	**150 393**	**153 641**

In consequence of the achieved availability of finished goods and their intermediates, the inventory in raw material could be reduced in the reporting year. Important factors for the development of inventories in work in progress and finished goods were the higher inventory availability of generic finished goods demanded by the market, the mentioned safeguarding of intermediates for important products and cutoff-date-related fluctuations as per year-end.

In the reporting period, inventory in the amount of 539 kCHF was definitely written off (2009: none). The increase in the provision for slow-movers and the definite write-offs are included in cost of goods sold. In both reporting periods, no write-offs were reversed.

15 Property, plant and equipment

2010 in 1 000 CHF	Land	Buildings	Assets under construction	Installations	Laboratory equipment	Other	Total
Cost at January 1	**18 931**	**126 124**	**21 053**	**109 187**	**85 022**	**13 905**	**374 222**
Additions	0	634	9 987	3 276	1 856	942	**16 695**
Disposals	0	–18	0	–18	–2 135	–684	**–2 855**
Reclassifications	0	3 741	–25 426	17 917	2 778	990	**0**
Currency translation differences	–793	–2 877	–30	–697	–2 066	–332	**–6 795**
Cost at December 31	**18 138**	**127 604**	**5 584**	**129 665**	**85 455**	**14 821**	**381 267**
Accumulated depreciation at January 1	**0**	**–36 689**	**0**	**–42 461**	**–46 123**	**–8 789**	**–134 062**
Depreciation	0	–3 469	0	–6 535	–5 036	–1 225	**–16 265**
Disposals	0	18	0	18	2 135	672	**2 843**
Currency translation differences	0	787	0	308	1 354	238	**2 687**
Accumulated depreciation at December 31	**0**	**–39 353**	**0**	**–48 670**	**–47 670**	**–9 104**	**–144 797**
Net book value at December 31	**18 138**	**88 251**	**5 584**	**80 995**	**37 785**	**5 717**	**236 470**
Insurance value at December 31							**335 553**

2009 in 1 000 CHF	Land	Buildings	Assets under construction	Installations	Laboratory equipment	Other	Total
Cost at January 1	**19 122**	**115 485**	**30 111**	**81 997**	**81 709**	**11 173**	**339 597**
Additions	18	2 673	28 207	4 742	1 849	733	**38 222**
Disposals	0	–311	0	–393	–1 346	–68	**–2 118**
Reclassifications	0	8 969	–37 260	23 050	3 122	2 119	**0**
Currency translation differences	–209	–692	–5	–209	–312	–52	**–1 479**
Cost at December 31	**18 931**	**126 124**	**21 053**	**109 187**	**85 022**	**13 905**	**374 222**
Accumulated depreciation at January 1	**0**	**–33 888**	**0**	**–38 217**	**–42 985**	**–7 832**	**–122 922**
Depreciation	0	–3 317	0	–4 714	–4 703	–1 062	**–13 796**
Disposals	0	311	0	393	1 346	68	**2 118**
Currency translation differences	0	205	0	77	219	37	**538**
Accumulated depreciation at December 31	**0**	**–36 689**	**0**	**–42 461**	**–46 123**	**–8 789**	**–134 062**
Net book value at December 31	**18 931**	**89 435**	**21 053**	**66 726**	**38 899**	**5 116**	**240 160**
Insurance value at December 31							**336 466**

In the reporting year, borrowing costs totaling 81 kCHF using an interest rate of 1% were capitalized as property, plant and equipment (2009: 38 kCHF at an interest rate of 1.1%).

The carrying amount of fixed assets under finance lease contracts at year-end 2010 amounted to 467 kCHF (2009: n/a). Depreciation relating to fixed assets under finance lease amounted to 26 kCHF (2009: n/a).

No assets were pledged for security of own liabilities in 2010. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Finance lease liabilities – minimum lease payments in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Within 1 year	120	n/a
Between 1 and 5 years	447	n/a
More than 5 years	0	n/a
Total future minimum finance lease payments	**567**	**n/a**
Future interest expenses on finance lease payments	–96	n/a
Present value of minimum finance lease payments	**471**	**n/a**

Present value of finance lease liabilities in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Within 1 year	86	n/a
Between 1 and 5 years	385	n/a
More than 5 years	0	n/a
Present value of finance lease liabilities	**471**	**n/a**

The existing finance lease contracts have been concluded in Switzerland and in the USA in the reporting year. Their remaining durations are between 4 and 5 years and they are based on interest rates between 8% and 8.1%. In all cases, the finance lease contracts are related to office equipment.

Operating lease liabilities – minimum lease payments in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Within 1 year	156	179
Between 1 and 5 years	414	529
More than 5 years	24	135
Total future minimum operating lease payments	**594**	**843**

There are operating leases for office facilities, vehicles and buildings at the moment. The remaining life of the different contracts is between 1 and 6 years. There are renewal options for the leases of the buildings.

The recognized expenses for operating leases in the consolidated income statement 2010 was 176 kCHF (2009: 183 kCHF).

16 Intangible assets

2010 in 1 000 CHF	Goodwill	Capitalized development costs	Other intangible assets	Total
Cost at January 1	**10 815**	**0**	**16 768**	**27 583**
Additions	0	844	2 598	**3 442**
Disposals	0	0	–43	**–43**
Currency translation differences	–404	0	–96	**–500**
Cost at December 31	**10 411**	**844**	**19 227**	**30 482**
Accumulated amortization at January 1	**0**	**0**	**–10 602**	**–10 602**
Amortization	0	0	–1 771	**–1 771**
Disposals	0	0	43	**43**
Currency translation differences	0	0	69	**69**
Accumulated amortization at December 31	**0**	**0**	**–12 261**	**–12 261**
Net book value at December 31	**10 411**	**844**	**6 966**	**18 221**

2009 in 1 000 CHF	Goodwill	Capitalized development costs	Other intangible assets	Total
Cost at January 1	**10 937**	**0**	**14 629**	**25 566**
Additions	0	0	2 213	**2 213**
Disposals	0	0	–55	**–55**
Currency translation differences	–122	0	–19	**–141**
Cost at December 31	**10 815**	**0**	**16 768**	**27 583**
Accumulated amortization at January 1	**0**	**0**	**–9 191**	**–9 191**
Amortization	0	0	–1 478	**–1 478**
Disposals	0	0	55	**55**
Currency translation differences	0	0	12	**12**
Accumulated amortization at December 31	**0**	**0**	**–10 602**	**–10 602**
Net book value at December 31	**10 815**	**0**	**6 166**	**16 981**

Other intangible assets mainly comprise software. Furthermore, this position contains the Clinalfa® brand at cost of 480 kCHF, which represents an intangible asset with an indefinite useful life. The brand is tested for impairment as required, but at least annually (see note 17).

Amortization of intangible assets of 1 404 kCHF (2009: 1 139 kCHF) is included in cost of goods sold, recognized in the income statement, 21 kCHF (2009: 17 kCHF) in marketing and sales costs, 100 kCHF (2009: 96 kCHF) in research and development costs and 246 kCHF (2009: 226 kCHF) in general administrative costs.

17 Impairment test of intangible assets

According to IFRS 3 Business Combinations and IAS 38 Intangible Assets, goodwill and intangible assets with indefinite useful lives are not amortized. Instead, they have to be tested for impairment at least annually on the cash-generating unit level. The relevant cash-generating units to test for impairment of goodwill and the Clinalfa® brand (intangible asset with an indefinite useful life) are the segment North America with a goodwill of 3 708 kCHF (2009: 4 112 kCHF), the Sochinaz SA with a goodwill of 6 383 kCHF (2009: 6 383 kCHF) and the Clinalfa® business with a goodwill of 320 kCHF (2009: 320 kCHF) and the Clinalfa® brand of 480 kCHF (2009: 480 kCHF).

The impairment respectively the value of the above-mentioned cash-generating units North America, Sochinaz SA and Clinalfa® 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 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 13.8% (2009: 15.6%), for Sochinaz 8.6% (2009: 9.0%) and for the Clinalfa® business 8.6% (2009: 9.0%). An organic growth for the Group between 6% and 10% per year over five years is expected. No growth of the cash flows and no further improvement in efficiency were considered beyond this five-year period. For the cash-generating unit North America, an average growth is anticipated, as well as an improvement in the operating margin of about 1.5 percentage points per year. For the cash-generating unit Sochinaz SA, a slight above-average growth is assumed, as well as an improvement in the operating margin of about 1 percentage point per year. For the cash-generating unit Clinalfa®, an average growth and an improvement in the operating margin of about 1.8 percentage points per year are expected.

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

18 Trade payables

in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Trade payables	11 139	15 080
Prepayments	1 026	3 046
Total trade payables	**12 165**	**18 126**

Trade payables by currency in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
CHF	9 856	8 005
USD	1 374	7 877
EUR	764	2 107
GBP	168	137
JPY	3	0
Total trade payables	**12 165**	**18 126**

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

19 Other current liabilities

in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Deferred income and accrued expenses	5 083	7 501
Other current liabilities	2 188	2 260
Total other current liabilities	**7 271**	**9 761**

Deferred income and accrued expenses mainly consist of accruals for staff cost.

20 Financial liabilities

in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Loans from related parties	9 000	15 000
Bank loans	15 000	0
Finance lease liabilities	471	0
Total financial liabilities	**24 471**	**15 000**
Thereof current financial liabilities	24 086	15 000
Thereof non-current financial liabilities	385	0

The loans from related parties (see note 26) and the bank loans were provided as unsecured business loans in CHF and bear an average interest of 1% p.a. The maturity of the bank loans is less than 6 months and the other loans have an open-ended maturity. Since Bachem has the intention to repay the loans from related parties during the calendar year 2011 in full, they are presented as part of the current liabilities.

Details concerning finance leases are disclosed in note 15.

21 Deferred taxes

The changes in deferred taxes were as follows:

Deferred tax assets in 1000 CHF	Receivables	Inventories	Property, plant and equipment	Liabilities	Tax loss carry-forwards	Defined benefit plan	Total
Balance at January 1, 2009	**351**	**1 118**	**0**	**0**	**576**	**2 799**	**4 844**
Recognized in profit and loss	–191	648	0	941	–404	90	**1 084**
Recognized in equity	0	0	0	0	0	318	**318**
Currency translation differences	–10	–1	0	3	–17	0	**–25**
Balance at December 31, 2009	**150**	**1 765**	**0**	**944**	**155**	**3 207**	**6 221**
Recognized in profit and loss	112	264	82	–262	522	27	**745**
Recognized in equity	0	0	0	0	0	–236	**–236**
Currency translation differences	–18	–80	–10	–108	–39	0	**–255**
Balance at December 31, 2010	**244**	**1 949**	**72**	**574**	**638**	**2 998**	**6 475**

Deferred tax liabilities in 1000 CHF	Securities	Receivables	Inventories	Property, plant and equipment	Intangible assets	Liabilities	Total
Balance at January 1, 2009	**20**	**569**	**14 998**	**15 273**	**271**	**1 486**	**32 607**
Recognized in profit and loss	0	–140	2 414	3 143	415	–267	**5 565**
Recognized in equity	–20	0	0	0	0	0	**–20**
Currency translation differences	0	0	0	–47	0	0	**–47**
Balance at December 31, 2009	**0**	**429**	**17 402**	**18 369**	**686**	**1 219**	**38 105**
Recognized in profit and loss	0	–98	–3 814	2 126	759	123	**–904**
Recognized in equity	0	0	0	0	0	0	**0**
Currency translation differences	0	–1	0	–223	0	0	**–224**
Balance at December 31, 2010	**0**	**330**	**13 588**	**20 272**	**1 445**	**1 342**	**36 977**

Tax loss carry-forwards by expiry date in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Up to 5 years	0	0
More than 5 years	1 597	456
Total tax loss carry-forwards	**1 597**	**456**

On the entire tax loss carry-forwards deferred taxes are capitalized, because the company assumes probable future taxable profit to be available and the tax loss carry-forwards to be utilized.

At December 31, 2010, there were temporary differences on investments in subsidiaries of 73 349 kCHF on which no deferred taxes were recognized.

22 Share capital

The share capital is divided into 6 802 000 shares Bachem -A- (50.01% of share capital) and 6798000 shares Bachem -B- (49.99% of share capital). The shares -B- are traded at the SIX Swiss Exchange in Zurich under valor number 1253020. There are no differences between the two share categories except the listing of the -B- shares at the SIX Swiss Exchange. All shares are nominal shares which are eligible to vote and entitled to dividend. All -A- shares are owned by Ingro Finanz AG. The important shareholders are listed in the notes to the financial statements of Bachem Holding AG in note 4 on page 98.

Shares Bachem -A-	Dec. 31, 2010	Dec. 31, 2009
Number of shares	6 802 000	6 802 000
Number of fully paid-in shares	6 802 000	6 802 000
Par value per share (in CHF)	0.05	0.05
Shares Bachem -B-		
Number of shares	6 798 000	6 798 000
Number of fully paid-in shares	6 798 000	6 798 000
Par value per share (in CHF)	0.05	0.05
Total number of shares	**13 600 000**	**13 600 000**
Total share capital (in CHF)	**680 000**	**680 000**

On December 31, 2010, Bachem Holding AG held 132024 own shares, of which 27695 are reserved for trading and 104329 for distribution under the employee participation plans.

Own shares Number	Dec. 31, 2009	Purchases/ backslide of blocked shares	Sales/ transfer to employees	Dec. 31, 2010
Employee participation scheme at the price of 1.22 CHF	35 097	1 000	−22 280	**13 817**
Option plan at the price of 0.05 CHF	90 512	0	0	**90 512**
Treasury stock at the price of 70.06 CHF	27 695	0	0	**27 695**
Total own shares	**153 304**	**1 000**	**−22 280**	**132 024**

Outstanding shares	Dec. 31, 2010	Dec. 31, 2009
Total number of shares	13 600 000	13 600 000
Number of own shares Bachem -B-	−132 024	−153 304
Total shares outstanding	**13 467 976**	**13 446 696**

23 Share-based payment

The employee and management participation plans are described in the accounting policies on pages 66 and 67. The recognized expenses for share-based payments in the reporting period amounted to 1164 kCHF (2009: 1092 kCHF).

In 2010 and 2009, the following number of shares was granted

Shares granted Number/CHF	2010	2009
Number of granted shares	22 280	13 170
Average fair value per share at grant date in CHF	67.39	72.21

The option plan developed as follows:

Share options outstanding Number	2010	2009
At January 1	**9 560**	**11 513**
Granted options	4 100	4 100
Cancelled options	–1 033	–1 666
Expired options	–3 034	–2 147
Exercised options	0	–2 240
At December 31	**9 593**	**9 560**
Exercisable options	**2 817**	**3 168**

The fair values at grant date of the options granted in 2010 are 5.93 CHF for options EA, 6.87 CHF for options EB and 6.86 CHF for options EC (2009: 8.89 CHF for options DA, 9.37 CHF for options DB and 11.41 CHF for options DC).

The following tables list the parameters, based on which the option valuations were performed by an independent expert using the Trinomial-Baum-Method:

Parameters for the options granted in 2010:

Parameters 2010	Options EA	Options EB	Options EC
Share price at grant date in CHF	65.55	65.55	65.55
Strike of a share in CHF	68.00	68.00	68.00
Risk-free interest rate in %	1.13%	1.37%	1.58%
Volatility in %	19.20%	19.30%	17.80%
Dividend yield in %	3.60%	3.60%	3.60%
Duration of the options in years	3	4	5
Vesting period of the options in years	1	2	3

Parameters for the options granted in 2009:

Parameters 2009	Options DA	Options DB	Options DC
Share price at grant date in CHF	80.50	80.50	80.50
Strike of a share in CHF	80.00	80.00	80.00
Risk-free interest rate in %	1.37%	1.61%	1.83%
Volatility in %	17.40%	15.80%	16.80%
Dividend yield in %	2.40%	2.40%	2.40%
Duration of the options in years	3	4	5
Vesting period of the options in years	1	2	3

Options by expiry date Number	Exercise price	2010	2009
Year 2010	65.33	0	500
Year 2010	76.00	0	796
Year 2010	89.00	0	936
Year 2010	96.00	0	936
Year 2011	80.00	1 086	1 203
Year 2011	89.00	862	928
Year 2011	96.00	869	936
Year 2012	68.00	1 253	0
Year 2012	80.00	1 086	1 203
Year 2012	96.00	862	928
Year 2013	68.00	1 253	0
Year 2013	80.00	1 078	1 194
Year 2014	68.00	1 244	0
Total		**9 593**	**9 560**

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 distribution

On May 4, 2010, a dividend of 40 401 kCHF – respectively 3.00 CHF per share – was distributed for the year 2009 (previous year: 43 027 kCHF respectively 3.20 CHF per share). Of the total dividend in the amount of 40 401 kCHF (previous year: 43 027 kCHF), 19 995 kCHF (previous year: 21 261 kCHF) were paid out and 20 406 kCHF (previous year: 21 766 kCHF) remained as a loan (see note 26).

The Board of Directors will propose a dividend of 2.50 CHF per share or a total of 33 692 kCHF on 13 476 756 shares entitled to dividend, to the Annual General Meeting for the year 2010. The number of shares entitled to dividend may change until the Annual General Meeting on April 13, 2011 due to the granting of shares to employees or the purchase/sale of own shares.

25 Consolidated companies

Company	Country	Equity share[1] Dec. 31, 2010	Equity share[1] Dec. 31, 2009
Bachem Holding AG, Bubendorf	Switzerland	Parent company	Parent company
Bachem AG, Bubendorf	Switzerland	100%	100%
Sochinaz SA, Vionnaz	Switzerland	100%	100%
Bachem Distribution Services GmbH, Weil am Rhein	Germany	100%	100%
Bachem (UK) Ltd., St. Helens	England	100%	100%
Bachem Americas, Inc., Torrance	USA	100%	100%
Bachem, Inc., Torrance	USA	100%	100%
Bachem Bioscience, Inc., King of Prussia	USA	100%	100%
Peninsula Laboratories, LLC, San Carlos	USA	100%	100%

[1] directly or indirectly

26 Related party transactions

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

Transactions in 1000 CHF	2010	2009
Cerecon AG (delivery of goods)	1	3
Chemoforma AG (purchase of goods)	–67	–89
Ingro Finanz AG (dividend/sale of securities/interest payments/further charging)	–2 740	–22 468
Pevion Biotech AG (delivery of goods)	203	97
Polyphor AG (delivery of goods)	801	553
Pension fund (employer's contribution)	–3 385	–3 351
Total transactions with related parties	**–5 187**	**–25 255**

Balances in 1000 CHF	Dec. 31, 2010	Dec. 31, 2009
Chemoforma AG	–2	–7
Ingro Finanz AG	–8 986	–14 986
Polyphor AG	456	92
Total balances with related parties	**–8 532**	**–14 901**

In 2010, a dividend in the amount of 20 940 kCHF was distributed to Ingro Finanz AG (2009: 22 336 kCHF). From this amount, 534 kCHF were paid out (2009: 570 kCHF) and 20 406 kCHF (2009: 21 766 kCHF) were converted into a loan. On June 16, 2010, an associated company was sold to Ingro Finanz AG at the price of 18 360 kCHF by offsetting the sales price against the existing loans (see note 5). The sales price per share was based on a price paid by third party investors in financing rounds which have recently taken place. In addition, 8 046 kCHF of the loan were repaid in the reporting year, hence 9 000 kCHF remain outstanding as of December 31, 2010 (see note 20). The interest expense recognized on the loans from Ingro Finanz AG in 2010 amounted to 185 kCHF (2009: 162 kCHF). For administrative services 25 kCHF (2009: 30 kCHF) were further charged to Ingro Finanz AG.

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

Compensations to the Board of Directors and the Corporate Executive Committee are shown in note 27.

27 Compensations to the Board of Directors and the Corporate Executive Committee

The compensations to the Board of Directors and the Corporate Executive Committee are based on the valuation principles used for the consolidated financial statements according to IFRS and are composed of as follows:

2010 in 1000 CHF	Fix salaries, fees	Variable salaries	Pension plan contribution	Other social security expenses	Share-based payments	Total
Peter Grogg (Chairman)	137			12	20	**169**
Gottlieb Knoch (Vice-Chairman)	41			3	20	**64**
Jürgen Brokatzky-Geiger (Member)	41			5	20	**66**
Thomas Burckhardt (Secretary)	55 [1]			5	20	**80**
Hans Hengartner (Member)	41			3	20	**64**
Total Board of Directors	**315**	**0**	**0**	**28**	**100**	**443**
Rolf Nyfeler (CEO)	246	106	30	31	11	**424**
Rest of the Corporate Executive Committee	518	196	81	78	126	**999**
Total Corporate Executive Committee	**764**	**302**	**111**	**109**	**137**	**1 423**
Total	**1 079**	**302**	**111**	**137**	**237**	**1 866**

[1] incl. 14 kCHF for legal services

2009 in 1000 CHF	Fix salaries, fees	Variable salaries	Pension plan contribution	Other social security expenses	Share-based payments	Total
Peter Grogg (Chairman)	143			13	23	**179**
Gottlieb Knoch (Vice-Chairman)	41			3	23	**67**
Jürgen Brokatzky-Geiger (Member since April 22, 2009)	31			2	0	**33**
Thomas Burckhardt (Secretary)	54 [2]			5	23	**82**
François L'Eplattenier (Member until April 22, 2009)	20			2	23	**45**
Hans Hengartner (Member)	41			3	23	**67**
Total Board of Directors	**330**	**0**	**0**	**28**	**115**	**473**
Rolf Nyfeler (CEO)	241	164	30	36	21	**492**
Rest of the Corporate Executive Committee	488	205	73	59	44	**869**
Total Corporate Executive Committee	**729**	**369**	**103**	**95**	**65**	**1 361**
Total	**1 059**	**369**	**103**	**123**	**180**	**1 834**

[2] incl. 13 kCHF for legal services

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

The ownership of shares and options of the Board of Directors and the Corporate Executive Committee at the balance sheet date is composed of as follows:

December 31, 2010	Number of free shares	Number of blocked shares	Number of shares total	Shares allocated in reporting period	Number of free options	Number of blocked options	Number of options total	Options allocated in reporting period
Peter Grogg (Chairman)[1]	7 649 753		7 649 753	300				
Gottlieb Knoch (Vice-Chairman)	1 171 200		1 171 200	300				
Jürgen Brokatzky-Geiger (Member)	300		300	300				
Thomas Burckhardt (Secretary)	0		0	300				
Hans Hengartner (Member)	2 100		2 100	300				
Total Board of Directors	**8 823 353**	**0**	**8 823 353**	**1 500**				
Rolf Nyfeler (CEO)	51 750	0	51 750	100	500	999	1 499	500
Daniel Erne (CTO)	40 642	0	40 642	100	500	999	1 499	500
Lester Mills (CMO)	100	3 500	3 600	1 600	167	833	1 000	500
Stephan Schindler (CFO)	100	4 000	4 100	4 100	0	500	500	500
Total Corporate Executive Committee	**92 592**	**7 500**	**100 092**	**5 900**	**1 167**	**3 331**	**4 498**	**2 000**
Total	**8 915 945**	**7 500**	**8 923 445**	**7 400**	**1 167**	**3 331**	**4 498**	**2 000**

December 31, 2009	Number of free shares	Number of blocked shares	Number of shares total	Shares allocated in reporting period	Number of free options	Number of blocked options	Number of options total	Options allocated in reporting period
Peter Grogg (Chairman)[1]	7 606 953		7 606 953	300				
Gottlieb Knoch (Vice-Chairman)	1 170 900		1 170 900	300				
Jürgen Brokatzky-Geiger (Member since Apr. 22, 2009)	0		0	0				
Thomas Burckhardt (Secretary)	50		50	300				
François L'Eplattenier (Member until Apr. 22, 2009)	n/a		n/a	300				
Hans Hengartner (Member)	1 800		1 800	300				
Total Board of Directors	**8 779 703**	**0**	**8 779 703**	**1 500**				
Rolf Nyfeler (CEO)	51 150	500	51 650	100	500	999	1 499	500
Daniel Erne (CTO)	40 142	400	40 542	100	500	999	1 499	500
Lester Mills (CMO)	0	2 000	2 000	2 000	0	500	500	500
Stephan Schindler (CFO since Sept. 1, 2009)	0	0	0	0	0	0	0	0
Michael Hüsler (CFO until June 30, 2009)	n/a	0	n/a	100	n/a	0	n/a	500[2]
Total Corporate Executive Committee	**91 292**	**2 900**	**94 192**	**2 300**	**1 000**	**2 498**	**3 498**	**2 000**
Total	**8 870 995**	**2 900**	**8 873 895**	**3 800**	**1 000**	**2 498**	**3 498**	**2 000**

[1] Ownership of shares and options incl. related parties.
[2] The options allocated in 2009 were still blocked on June 30, 2009 and cancelled afterwards.

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

All options are call options. One call option entitles to purchase one share of Bachem Holding AG upon vesting. The members of the Board of Directors do not receive call options.

28 Contingent liabilities and other commitments

In the course of the second half-year 2010, Bachem AG, Bubendorf, was sued. Management believes that there is no merit to the claim and estimates the probability of a payment as low. Consequently no provision has been recognized.

29 Events after the balance sheet date

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

Report of the Statutory Auditor

PRICEWATERHOUSECOOPERS

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

Report of the statutory auditor on the consolidated financial statements
As statutory auditor, we have audited the consolidated financial statements of Bachem Holding AG, which comprise the balance sheet, income statement, cash flow statement, statement of comprehensive income, statement of changes in equity and notes (pages 56 to 94), for the year ended December 31, 2010.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2010 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.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

PricewaterhouseCoopers AG

Gerd Tritschler Audit expert Auditor in charge	Raphael Rutishauser Audit expert

Basel, February 25, 2011

Income Statement

For the years ended December 31

in 1000 CHF	2010	2009
Income		
Income from investments	16 347	12 104
Gain on sale of investment	17 518	0
Income from licenses	11 684	15 246
Interest income	5 408	5 324
Other financial income	2 775	3 051
Other income	118	0
Total income	**53 850**	**35 725**
Expenses		
Staff costs	–2 457	–2 550
Administration expenses	–4 770	–4 491
Interest expenses	–268	–162
Other financial expenses	–1 282	–3 459
Depreciation and amortization	–147	–222
Total expenses	**–8 924**	**–10 884**
Earnings before taxes	**44 926**	**24 841**
Taxes	–2 347	–1 060
Net income	**42 579**	**23 781**

For a better transparency the presentation of the income statement was adapted. The prior year values were adjusted accordingly.

Balance Sheet

At December 31, 2010 and 2009

in 1 000 CHF	Dec. 31, 2010	Dec. 31, 2009
Assets		
Cash and cash equivalents	2 527	1 218
Own shares	1 962	1 988
Other receivables from third parties	544	90
Other receivables from group companies	29 970	17 411
Prepaid expenses and accrued income	14	40
Total current assets	**35 017**	**20 747**
Investments	122 551	123 389
Loans to group companies	106 470	107 022
Property, plant and equipment	32	40
Intangible assets	277	415
Total non-current assets	**229 330**	**230 866**
Total assets	**264 347**	**251 613**
Liabilities and equity		
Other current liabilities to third parties	163	156
Other current liabilities to group companies	4 370	4 124
Financial liabilities to third parties	15 000	0
Shareholder loan	9 000	15 000
Deferred income and accrued expenses	2 924	1 621
Total liabilities	**31 457**	**20 901**
Share capital	680	680
Legal reserves		
General reserves	90 469	90 469
Reserves for own shares	1 962	1 988
Free reserves	96 626	113 601
Retained earnings		
Retained earnings	574	193
Net income	42 579	23 781
Total equity	**232 890**	**230 712**
Total liabilities and equity	**264 347**	**251 613**

Notes to the Financial Statements of Bachem Holding AG

1 Significant investments

Company	Location	Branch		Share capital Dec. 31, 2010	Share capital Dec. 31, 2009
Bachem AG	Bubendorf, CH	Production, sales	CHF	25 000 000	25 000 000
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
Bachem Americas, Inc.	Torrance CA, USA	Sales	USD	1 000	1 000
Bachem, Inc.	Torrance CA, USA	Production, sales	USD	3 000	3 000
Bachem Bioscience, Inc.	King of Prussia PA, USA	Production, sales	USD	3 000 000	3 000 000
Pevion Biotech AG	Bern, CH	Production, sales	CHF	11 267 000	8 333 000
Polyphor AG	Allschwil, CH	Production, sales	CHF	n/a	6 363 000

With the exception of Pevion Biotech AG (27.5%), all companies are controlled with 100% of the voting rights. The investment in Polyphor AG was sold in the reporting period (see note 5 of the consolidated financial statements).

2 Own shares

Details to the holding and the changes in own shares are disclosed in the notes 22 and 23 of the consolidated financial statements.

3 Compensations to the Board of Directors and the Corporate Executive Committee

The compensations to the Board of Directors and the Corporate Executive Committee are based on the valuation principles used for the consolidated financial statements according to IFRS and are illustrated in note 27 of the consolidated financial statements. In the same note, the share and option holdings of the Board of Directors and the Corporate Executive Committee are listed.

4 Important shareholders

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

Percentage of total share capital	Dec. 31, 2010	Dec. 31, 2009
P. Grogg (via Ingro Finanz AG) [1]	51.5	51.3
G. Knoch	8.6	8.6
Family of P. Grogg	6.0	6.0
Sarasin Investmentfonds AG	4.2	3.2
Total important shareholders	**70.3**	**69.1**

[1] In this position all shares -A- are included.

5 Risk assessment

Bachem Holding AG is fully integrated into the group-wide risk assessment process of the Bachem Group. This Group risk assessment process also addresses the nature and scope of business activities and the specific risks of Bachem Holding AG. The risk assessment process of the whole Bachem Group is disclosed within the consolidated financial statements on page 67 of this annual report.

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

7 Income from investment

On February 11, 2011, the ordinary Annual General Meeting from Bachem AG has decided to distribute a dividend in the amount of 15 000 kCHF for the business year 2010 to its sole shareholder Bachem Holding AG. Following an economical approach, this entitlement to profits respectively income from investment has already been recorded by Bachem Holding AG in this year's financial statements 2010 simultaneous to the disclosure of the profit in the books of the 100%-subsidiary Bachem AG.
The corresponding income is shown in the line income from investments and the corresponding receivable in the line other receivables from group companies.

Appropriation of Available Earnings

Proposal of the Board of Directors for the appropriation of the available earnings

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

Net income 2010	CHF	42 579 013.43
Retained earnings at January 1	CHF	573 563.96
Available to the Annual General Meeting	CHF	43 152 577.39

as follows:

Payment of a dividend of 2.50 CHF per registered share for the business year 2010 on 13 476 756 registered shares entitled to dividend	CHF	33 691 890.00
Retained earnings to be carried forward	CHF	9 460 687.39

The total amount of dividend mentioned in the proposal of the Board of Directors has been calculated on the basis of numbers of shares entitled to dividend on the day of the Board meeting. The number of shares entitled to dividend can still change up to the Annual General Meeting on April 13, 2011 depending on the distribution of shares to employees or purchase/sale of own shares.

Report of the Statutory Auditor

PRICEWATERHOUSECOOPERS

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

Report of the statutory auditor on the financial statements
As statutory auditor, we have audited the financial statements of Bachem Holding AG, which comprise the balance sheet, income statement and notes (pages 96 to 99), for the year ended December 31, 2010.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2010 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

PricewaterhouseCoopers AG

Gerd Tritschler Audit expert Auditor in charge	Raphael Rutishauser Audit expert

Basel, February 25, 2011

Shareholder Information

			2010	2009	2008	2007	2006
Number of registered shares, nom. 0.05 CHF			13 600 000	13 600 000	13 600 000	13 600 000	13 600 000
Average number of shares outstanding			13 463 630	13 444 683	13 406 601	13 280 323	13 188 597
Dividend per share		CHF	2.50 [1]	3.00	3.20	3.00	2.00
Extra dividend		CHF					5.00
Share price	Beginning of the year	CHF	66.35	80.50	95.70	92.00	75.50
	High	CHF	73.05	80.50	98.00	105.50	92.45
	Low	CHF	51.00	57.00	74.75	89.40	66.30
	Year end	CHF	56.00	66.35	80.50	95.70	92.00
Dividend yield per share		%	4.5	4.5	4.0	3.1	7.6
Earnings per share (EPS)		CHF	2.10	3.43	4.38	4.81	3.54
Cash flow from operating activities per share		CHF	2.83	3.19	2.93	5.88	3.04
Group equity per share		CHF	26.67	27.97	27.98	27.06	29.51
Price/earnings ratio (year end)			26.67	19.34	18.38	19.90	25.99
Market capitalization at year end		MCHF	762	902	1 095	1 302	1 251

[1] proposal to the Annual General Meeting of April 13, 2011

Bachem registered shares are traded at the SIX Swiss Exchange.
Valor number: 1 253 020; SIX: BANB; Reuters: BANB.S; Bloomberg: BANB SW.

Distribution of shares

Number of shares per shareholder	Dec. 31, 2010	Dec. 31, 2009
0–100	1 315	1 301
101–1 000	1 651	1 611
1 001–10 000	277	281
10 001–100 000	43	42
100 001–1 000 000	7	8
1 000 001 and more	2	2
Total	**3 295**	**3 245**

Shareholdings

in %	Dec. 31, 2010	Dec. 31, 2009
Major shareholders	70.3	69.1
Institutional shareholders	12.5	13.5
Private individuals	12.3	12.1
Dispo	4.9	5.3
Total	**100.0**	**100.0**

Forward-looking statements

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

Financial Calendar

Events

Annual General Meeting
(business year 2010)
April 13, 2011

Payout Date for Dividend
April 20, 2011

Half-Year Report 2011
August 26, 2011

Annual Report 2011
March 2012

Annual General Meeting
(business year 2011)
April 2012

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