

# PERSPECTIVES & CHALLENGES

**Bachem**

**Annual Report**

**2012**

PERIPHERAL  
DEVICES

& CHALLENGES

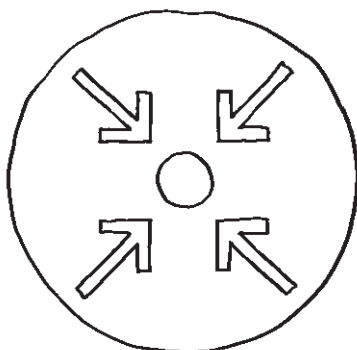
# PERSPECTIVES

*"The growing demand for peptides witnessed in Bachem's core API business as well as the related areas of diagnostics and cosmetics during the past year is expected to remain firm in future years. Thanks to its superior quality, reliability and know-how, as well as its experience in its core business, Bachem is well positioned to profit from this growing demand."*



# CHALLENGES

*"Staying number one for more than 40 years requires extraordinary discipline. The coming years will require our focus to increase both geographically and in terms of markets served. Client proximity, also in select emerging markets, will be central to success."*





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## To Our Shareholders,

Continuity and the steadfast execution of the Company's strategy characterized the change in management in 2012. Dr. Peter Grogg stepped down from his position as Chairman of the Board in accordance with long-standing plans, but the Grogg family remains represented in the Board by Mrs. Nicole Grogg Hötzer, the Vice-Chairwoman. Both of the undersigned persons assumed their functions in 2012. Dr. Kuno Sommer, the new Chairman, has been professionally affiliated with Dr. Grogg for more than 10 years and has many years of experience in the life sciences industry. At the executive helm Dr. Thomas Früh took over from Dr. Rolf Nyfeler, who is now serving on the Board of Directors. Mr. Früh previously managed the group company Bachem Ltd. in Bubendorf for the past 11 years. Company strategy will remain unchanged under the new leadership: We intend to strengthen our position as the world leader in peptides by delivering superior quality and innovation. To this end, we will continue to focus on our proven strengths in our core business, while seeking additional growth potential in well-established as well as new segments of the peptide market and prudently exploiting the opportunities that arise in the wake of industry consolidation.

We generated good sales growth of 7.9% in the 2012 financial year despite unrelenting market and competitive challenges. Active pharmaceutical ingredients showed pleasing growth. Business with patented substances (NCEs) was highlighted by three new market approvals, and in the generic peptides business persisting price pressure was more than offset by higher volumes. Research chemicals displayed a much higher rate of growth in the latter half of 2012 but full-year sales nev-



Dr. Thomas Früh, Dr. Kuno Sommer

ertheless fell short of the prior-year figure. Improvements are being made in organizational processes and in the market presence in an effort to achieve a sustained improvement in this business.

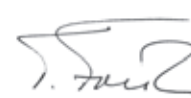
Bachem managed to achieve very good profit growth in 2012. This was primarily attributable to strict management of operating and personnel costs, improved sourcing processes and continual efficiency gains driven, for example, by the optimization of group-wide IT systems and the streamlining of corporate structures in the

USA. Operating profit rose by 48.4% year-on-year and the corresponding EBIT margin stood at 14.0%.

As for the coming years, we expect further sales growth in line with our long-term target range. Judging by the cost savings and efficiency gains that have already been achieved, operating profits are expected to continue to grow faster than sales going forward. This guidance is based on the assumption of stable foreign exchange rates and a stable economy. Regardless of the impact external factors may have, Bachem will steadfastly strive to strengthen its worldwide leadership in terms of quality and profitability in the peptides business. In light of this outlook and the financial stability of the Company, the Board of Directors will propose a dividend of CHF 1.50 per share at the pending general meeting of shareholders. As in the previous year, this payment will be distributed from capital contribution reserves.



Dr. Kuno Sommer  
Chairman of the  
Board of Directors



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

## Corporate Executive Committee

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*Dr. José de Chastonay*  
CMO

*Dr. Daniel Erne*  
CTO

*Dr. Thomas Früh*  
CEO

*Stephan Schindler*  
CFO

# Continuity and Focus

Sales continue to grow. Disproportionately high profit growth. Focus on peptides as core Company business now complete. New faces on the Board of Directors and Executive Committee. Singular competency and continuity.

## Sales Momentum Maintained

After a solid business trend in the first half, the positive sales momentum was sustained in the second half of the year. Bachem reached its sales target with an increase of 7.9% from the previous year.

## Solid Balance Sheet

With an equity ratio of 71.8%, Bachem is extremely well capitalized. Commercial loans were taken out at favorable terms and without any restrictive covenants.

## Sustainable CAPEX

Existing infrastructure and capacity preclude the need for any major investments. Approximately half of the total capex of CHF 9.8 million was spent on replacement and compliance measures.

## Jump in Profits

Bachem showed high year-on-year earnings growth across the board. Net profit surged more than 60% from the prior-year level and amounted to CHF 15.3 million.

# 1.50 CHF

The Board of Directors is maintaining an attractive dividend policy and will propose a dividend of 1.50 CHF, to be paid from capital contribution reserves and thus exempt from Swiss withholding tax.

# 28.2%

EBITDA increased by about one-third to CHF 44.4 million in 2012. Significant improvement in the EBITDA margin to 28.2%.

## Focusing

The Board of Directors analyzed the business activities of the Bachem Group in the spring of 2012 and resolved to sharpen the Company's focus on the core business of peptides.

## Continuity

There were various changes in the Board of Directors and Executive Committee. In accordance with the Company's bylaws, Peter Grogg and Gottlieb Knoch stepped down from the Board of Directors for reasons of age. Kuno Sommer was elected as the new Chairman and Peter Grogg was named Honorary Chairman. Long-serving CEO Rolf Nyfeler transferred his operational duties to Thomas Früh and was elected to the Board of Directors. At mid-year, José de Chastonay was recruited for the previously vacant position of Chief Marketing Officer. The above executives possess extraordinary skills and experience in the field of peptides. This is a guarantee of competency and continuity at top management levels.



## Key Figures

	2012	2011	Changes in %	
			CHF	LC
Sales (in MCHF)	<b>157.3</b>	145.8	<b>+ 7.9</b>	<b>+ 6.0</b>
EBITDA (in MCHF)	<b>44.4</b>	33.2	<b>+ 33.6</b>	<b>+ 29.0</b>
EBITDA in % of sales	<b>28.2 %</b>	22.8 %		
EBIT (in MCHF)	<b>22.0</b>	14.9	<b>+ 48.4</b>	<b>+ 38.6</b>
EBIT in % of sales	<b>14.0 %</b>	10.2 %		
Net income (in MCHF)	<b>15.3</b>	9.4	<b>+ 62.6</b>	
Net income in % of sales	<b>9.7 %</b>	6.5 %		
Earnings per share (EPS – in CHF)	<b>1.13</b>	0.70	<b>+ 61.4</b>	
Cash flow from operating activities (in MCHF)	<b>36.9</b>	24.6	<b>+ 49.8</b>	
Return on equity (ROE)	<b>4.6 %</b>	2.7 %		
Number of employees (in full-time equivalents)	<b>645</b>	671		
Sales per employee <sup>1</sup> (in CHF)	<b>252 000</b>	231 000		

<sup>1</sup> Basis: average full-time equivalents excluding apprentices.

## Sales (in MCHF)



## EBITDA (in MCHF)



## EBIT (in MCHF)



# PERSPECTIVES



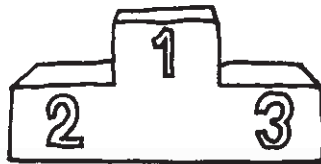
Dr. Thomas Früh

## HIGHLY SKILLED EMPLOYEES

*“Customer satisfaction and company success driven by highly qualified and motivated employees.”*

## FUTURE VISION

Growth based on quality and innovation, outperform the competition on all fronts.



## LEADERSHIP THROUGH QUALITY

A strong commitment to quality is the basis of our long-standing market leadership.



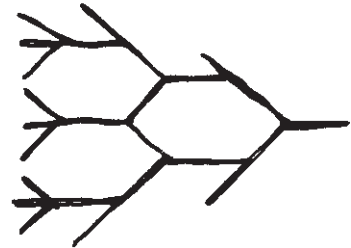
## GROWTH AND INTERNATIONALIZATION

Leverage the Company's strengths in its core business and push organic growth in new markets.



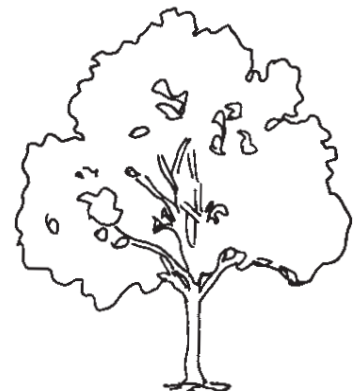
## STRONG CORPORATE CULTURE

High level of expertise, a dose of modesty coupled with entrepreneurial nimbleness and spirit.



## RESPONSIBLE CARE

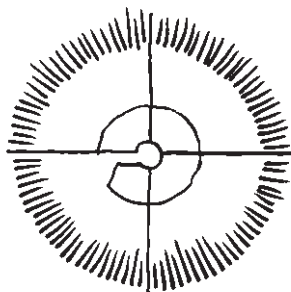
Continued efforts to improve health, safety, and environmental performance.



## **360°** BUSINESS MODEL

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Supporting research and development and bulk production of active pharmaceutical ingredients.



## **STAKEHOLDER BALANCE**

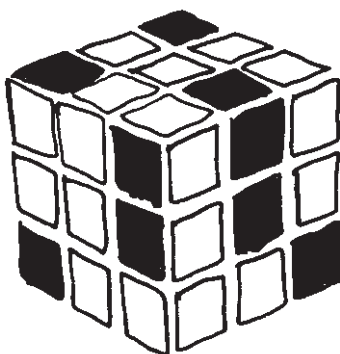
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*"Sustainable  
positive devel-  
opment  
achieved with  
a healthy  
balance between  
customer,  
employee and  
shareholder  
interests."*

## **INNOVATIVE PROCESS KNOW-HOW**

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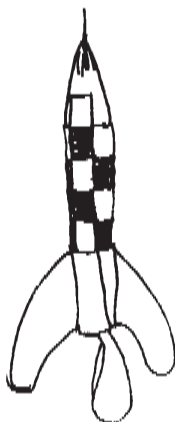
Unique expertise is the result of years of hard work and scores of successful projects.



## **IN SEARCH OF EXCELLENCE**

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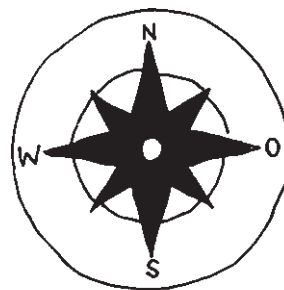
Constantly expand knowledge base and create new value for customers worldwide.



## **CLEAR POSITIONING**

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Leader in the peptide business thanks to superior quality, reliability, know-how, and experience.



## **ALLIANCES IN CORE BUSINESS**

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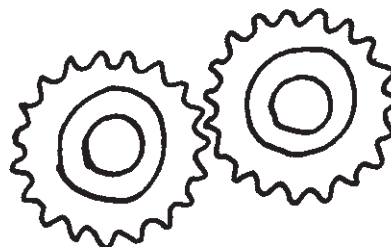
Benefiting from opportunities in the wake of industry consolidation – open for acquisitions and alliances.



## **EFFICIENCY & PROFITABILITY**

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Superior profit growth thanks to steady exploitation of global synergies.



## Interview with Dr. Thomas Fröh

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*Peptide technology is attractive. It is a promising growth story within the API industry as well as in the associated areas of diagnostics and cosmetics. Our goal as a company is to be the undisputed leader in the peptide business by virtue of our quality and innovation.*

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**Bachem was able to improve its results last year despite economic headwinds. How did it manage to do that?**

We attribute the Company's recovery to the interplay of several factors: We steadily expanded our project pipeline during the past few years; a number of NCE products were approved by regulators, and prices for generic peptides stabilized after undergoing a correction. Local sales growth was not neutralized by currency movements either, unlike in 2011. Various initiatives to increase productivity and reduce costs also contributed to the rebound. For example, we increased weekly working hours in Switzerland, and in the USA we flattened our corporate structure and optimized the group-wide IT system. Bachem is emerging from the crisis stronger than before.

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**What impact does the Swiss franc have on your business?**

We try to limit foreign exchange risk as best we can through natural hedging. Stable exchange rates are nevertheless crucial for us since more than 60% of our sales are transacted in foreign currency and our largest production base is located in Switzerland.



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### **What is your vision for Bachem?**

Our stated aim is to be the undisputed leader in the peptide business by virtue of our quality and innovation.

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### **What is your strategy for achieving this?**

We aim to leverage our existing strengths in our core business and tap further organic growth opportunities in the peptide business and – whenever possible and expedient – exploit the opportunities that arise in the wake of industry consolidation. That means expanding our share of the markets we are currently active in while continuing our efforts to develop new geographic markets and new application areas. We are diligently evaluating the markets, competitive settings and possible production partners in other countries, China and India in particular.

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### **What are Bachem's special strengths?**

Around the world we are recognized by the market as the leader in the peptide business, a position that rests on our superior quality, reliability, know-how, and experience. Thanks to a high degree of vertical integration, we can offer our customers a wide range of products: from peptide building blocks to peptide synthesis services, from research ingredients to APIs to finished dosage forms for clinical trials. Over the past few years we have built up a healthy project pipeline, and we also boast the largest portfolio of generic peptide APIs in the industry.

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### **What does the focus on core business mean for the non-core activities?**

The following criteria were defined for the non-core business activities of small organics and immunology products in connection with our strategic focus on the core business of peptides: They must not distract our attention from the core business; they must support our growth efforts in the peptide business; and, finally, they must not dilute profitability.

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### **What can you say about the budgeted level of capital expenditure in the current and coming years?**

In 2008 and 2009, we invested nearly CHF 100 million to lay the groundwork for future growth so Bachem is now in a good position to implement its stated growth strategy. We have a modern infrastructure that will allow us to maintain our competitiveness in the market even on increased business volumes. Therefore, budgeted capital expenditure will remain at lower levels in the coming years, until overall economic growth calls for a renewed expansion of our resources.

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### **What are your goals for the next few years?**

Our primary goal is to further strengthen Bachem's market leadership. We aim to do so by growing in the markets and industries where we are already doing business and by entering new geographic markets as well as new application areas. This should lead to steady top-line growth over the next few years. Thanks to the improvements we have already achieved on the cost side and in terms of efficiency, this sales growth should lead to proportionately faster profit growth.

# CHALLENGES

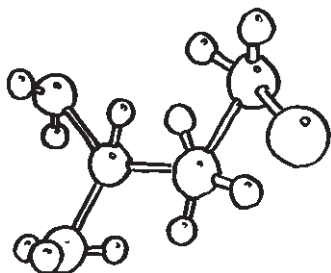


Dr. José de Chastonay

*“Remaining number one can only be achieved by constantly honing our value proposition and adapting to change.”*

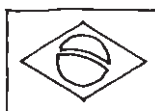
## FUTURE BUSINESS

Peptides are increasingly popular in medicine, as well as in cosmetics, functional foods, and material sciences.

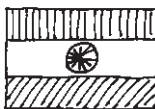


## FOCUS ON KEY AND EMERGING MARKETS

Key markets and emerging markets offer tremendous opportunities. Each region is unique.

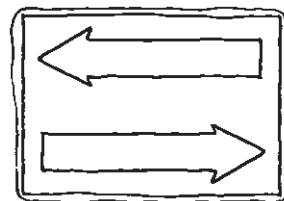


**BRIC**



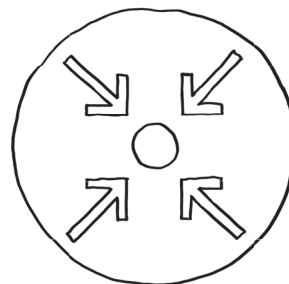
## INFORMATION EFFICIENCY

Optimal internal and external communication is the glue that binds Bachem to the customer.



## CUSTOMER ORIENTATION

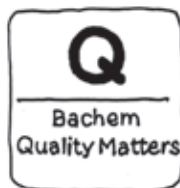
To satisfy customers one must understand their true needs, then deliver accordingly.



Dr. José de Chastonay

## COMPETITIVENESS THROUGH QUALITY

Quality's impact on science and medicine is priceless.



## FOSTERING PROJECT PIPELINE

Pipeline replenishment is essential and can only be achieved through customer proximity.

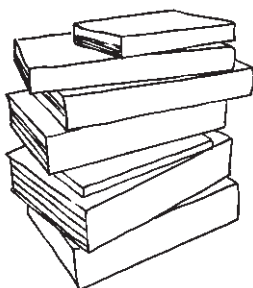


*“We must keep on delivering products on time, at the desired quantity and quality.”*

## CONSULTING EXPERTISE

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Bachem can help create a better product, navigate the regulatory landscape, and lower costs.



## FULL SERVICE

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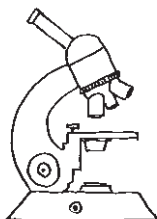
From research reagents to active pharmaceutical ingredients, Bachem provides tailored solutions.



## INNOVATIVE PRODUCT LINE

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Bachem selects, creates and adds useful new products to its life science catalog each year.



## LOW RISK

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Through experience, Bachem minimizes the products risk customers incur.



## CUSTOMIZED OFFER

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By understanding the clients' needs, Bachem tailors its proposals to their requirements.



Dr. José de Chastonay

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*"Bachem is known for consistently living up to the challenges faced in areas such as scaling up engineering, project management and compliance."*

## FAIR PARTNERSHIP

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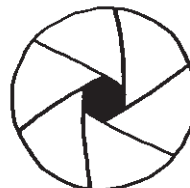
Bachem's focus is on value creation and sustainable customer relationships.



## STRONG FOCUS

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Bachem serves scientists and industry with a commitment to quality and reliable service.



## Interview with Dr. José de Chastonay

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*The peptide market initially focused on selling research reagents to biomedical researchers. Those molecules were probed for bioactivity, and some proved to be good drug candidates. There are 55 peptide drugs being marketed today. More are expected to follow. Some have already lost patent protection.*

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**Can you provide an overview of the peptide market?**

Universities, research institutes and industrial researchers carry out experiments using peptides. They procure such products off the shelf or have them custom-manufactured on demand by specialized companies. Many drugs have resulted from such efforts.

Today, roughly 20% of Bachem's sales stem from research chemicals and 80% from the manufacture of active pharmaceutical ingredients (APIs).

Many pharmaceutical and biotechnology companies outsource the manufacture of APIs to trusted suppliers. Bachem has earned this trust by being fiercely reliable and quality-oriented.

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**What are the drivers for future growth?**

The biggest driver for future growth will come from new peptide drug approvals. There are currently about 55 approved peptide drugs. Sales of these products are growing in low single digits on aggregate.

In the past decade, twice as many peptides entered clinical trials as in the preceding one. Since it takes some ten years before a drug candidate undergoes all required tests to gain market authorization, many new drug approvals are expected in the next years. Bachem has a privileged position, since our clinical pipeline is the largest in the field.



The second largest growth driver stems from old peptide drugs that are off patent. These products were often made by the innovator. Developers of generic peptides outsource manufacture of the API more readily. Also, some generic companies have superior delivery systems that ultimately increase the appeal of the drug.

Thirdly, new scientific advances funnel growth. These continue unabated in medicine and in adjacent fields. For instance, it was discovered recently that an Asian ladybug is immune to a wide range of bacterial and fungal infections. This was attributed to peptides. Will this lead to novel antibiotics?

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### **Are the emerging markets an opportunity?**

Our sales there are increasing and we continue to register our products in those countries. Each country has its unique opportunities and challenges. A book could be written about each one. China, in particular, is experiencing a remarkable transformation.

Their spending on prescription medicine is already reaching that of the developed countries. Today, they are the number two pharmaceutical market, with an annual growth rate of 22%. This will make them the number one market very soon, since the industry experiences only about 4% to 6% growth per annum in developed countries.

The Chinese government has made it a top priority to become a pharmaceutical innovator. Whereas they were manufacturing already approved drugs in the past, which carried a very low regulatory risk, they now want to invent new drugs.

They realize that through salary increases, environmental regulations and likely currency appreciation, their days as a low cost provider of Active Pharmaceutical Ingredients are numbered.

There are over 7,500 companies in China creating novel therapeutics and healthcare technologies. Hence, the clinical pipeline, also of peptides, will be replenished there possibly more than elsewhere in the future. This is an exciting story and opportunity for Bachem.

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### **Do you expect more competition in the future?**

This market has never developed without competition. Bachem drove industry consolidation in the past, only to see other large competitors emerge. Today, Bachem still remains the leader in the field.

Bachem has two large competitors and over 50 smaller players vying for the business. Some emerging market competitors also established themselves, especially in the generic peptide field. More are expected to follow. Hence, nothing can be taken for granted.

To stay ahead, a peptide company needs to stay abreast of changes in technology, and adapt. Equipment transformation, ranging from primary reactors to large-scale purification equipment, as they improve, is necessary to develop efficient processes. Know-how in peptide chemistry is critical to cost-effective manufacturing. To stay ahead requires wise capital expenditure decisions and the best trained chemists. This is more important than selection of a seemingly cheaper manufacturing location to deliver high-quality peptides in the desired quantity and quality at competitive prices. Only the research chemicals business benefits from low-cost manufacturing locations, such as the one Bachem has in the UK.

Thanks to our critical mass, our client proximity and favorable cost structure, we strongly believe in our abilities to counter the competition. It is all about understanding the customer's needs and delivering the goods. A good day is when a customer tells us we did a good job. We live for that.



### Quality Strategy

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

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

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

## Our Quality Charter

For the Bachem Group quality is of the essence for all products and services – “Quality Matters”

### Our Mission

- We want our products and services to fully satisfy our customers and to comply with the regulatory requirement
- We strive to continually improve our quality processes
- We are committed to full transparency to our customers and health authorities

### Our Commitment

- We actively involve all employees and business partners in the endeavors of quality
- We apply stringent quality processes to all our activities
- We produce active pharmaceutical ingredients according to international cGMP guidelines

### Our Guarantee for Success

- Our management actively supports the quality targets and provides for adequate personnel and resources
- We value highly skilled and motivated employees
- We provide continuous education and training of our collaborators

## Our Business Behavior

**Quality matters also in regard to professional integrity, therefore Bachem adheres strictly to the following behavioral rules:**

### **Bachem does not grant any advantage or concession if it is**

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

### **Bachem does not give nor request nor accept**

- any illegal rebate
- any kickback payment
- any “unofficial” payment
- any form of improper gift or favor

### **Bachem employees**

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

# FIVE REASONS TO INVEST

## REASON 1

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*Bachem is the most robust and sustained supplier in the industry since 40 years.*

## REASON 2

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*All stages of drug development (preclinical research, clinical phases I-III and after commercial launch) are supported by Bachem's API production and services.*

## REASON 3

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*Capability to produce long and complex peptides at large volume commercial scales is special.*

## REASON 4

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*Highest industry standards for quality assurance, control and regulatory compliance are part of Bachem's "Quality Matters" commitment.*

## REASON 5

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*Excellent project management record with the world's best pharmaceutical and biotechnology companies – the best work with the best.*

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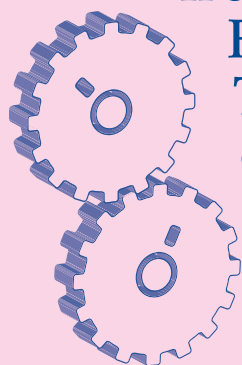
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# Continuity



In 2012 Kuno Sommer assumed the chairmanship from Company founder Peter Grogg. Thomas Früh succeeded Rolf Nyfeler as Group CEO. This change in top-level management is characterized by continuity: The new leadership likewise views quality and innovation as the primary drivers of the Company's success.

## 156 Projects

All projects in Bachem's pipeline have promising potential. In 2012 a number of products in Phase III trials received regulatory marketing authorization. One Phase II project progressed to Phase III clinical trials.

### Uptrend Continues

Demand in all product groups continued to grow in the second half of 2012, confirming the upward trend from the first half.

## Higher NCE and Generics Sales

Sales of New Chemical Entities (NCEs) were up 32.8% year-on-year in CHF; sales of generics rose by 3.3%. The only product group that showed a decline was research ingredients, down 5.6%. Compared to the previous year, this is quite an improvement and thus a positive development.

## Higher Productivity

Thanks to restrictive cost and personnel management policies, improved sourcing processes and continual efficiency gains, Bachem reported a significant across-the-board improvement in its earnings.

## Slight Decline in Workforce

As a result of the strong Swiss franc and the challenging economic environment, the Group Executive Committee raised the normal weekly working hours for full-time employees at the Swiss sites in Bubendorf and Vionnaz to 43. Because of this decision, the high volume of work last year was processed by a slightly smaller workforce. Bachem Group employed 681 persons at the end of 2012 (previous year: 704).

# Core Business of Peptides

Bachem is concentrating on its strengths in its core business. By growing in core and new markets and selectively exploiting opportunities arising in the wake of industry consolidation, the Group intends to further strengthen its position as the number 1 player in the peptides business.

## New Application Areas

Peptides are increasingly being used as active ingredients in cosmetics and food products.

New dosage forms are also being developed for peptide-based drugs to, for example, prolong their biological half-lives or to optimize drug concentration levels in the blood. Peptides are also a topic of interest in materials sciences. One area of research here is focusing on the use of peptides as catalysts in chemical processes.

## Quality Spelled with a Capital Q

“Quality Matters” sums up Bachem’s approach for profiling itself in the marketplace and assuring customers that no corners will be cut when it comes to quality. Market confidence and widespread interest in cooperating with Bachem are reflected in the growing number of development contracts.

## Expansion of Market Leadership

Bachem is aiming for further growth in the markets and industries where it has already established a presence and it also intends to expand into new geographic markets and applications.

## Continual Improvement in Profitability

In view of the recently achieved cost-savings and efficiency gains, profitability should continue to grow faster than sales going forward.

## China Offers Opportunities

Major change is under way in Chinese society. China is already the world’s second largest consumer of pharmaceuticals. The Chinese pharmaceutical market has been growing at an annual pace of 22%. In comparison, the US market is growing by only 4% to 6%. Many international companies are transferring a considerable share of their research activities to China. In the mid-term, this will have a positive impact on Bachem’s sales prospects in China.



# Market Dynamics

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**In 2012, sales increased within our target range both in CHF and local currencies. The second half of the year was slightly stronger than the first half, confirming the uptrend already experienced during the first half of 2012 versus the weak second half of 2011. Currency fluctuations also impacted our results less than in the prior turbulent year.**

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## Better and Calmer

The extreme roller coaster ride in 2011 gave way to a more even keeled and predictable market development in 2012. Bachem was confident of finishing the year on track. Sales momentum increased steadily throughout the year. The Company achieved its growth target both in CHF and local currencies.

Currency effects were not pronounced compared to last year, due in large part to the pegging of the CHF to the EUR at 1.20 by the Swiss National Bank. Since Bachem exports Swiss made goods around the globe, the stabilizing of exchange rates with key trading partners is of great help. Although the Swiss franc is stronger than in the past, Bachem is able to improve its position by focusing on productivity increases.

The global economy continues to be plagued by anaemic growth. Large budget deficits of developed economies put continued pressure on healthcare costs. Bachem is thus especially pleased to continue seeing upward momentum in both its generic peptide business as well as in the New Chemical Entities business.

An area where Bachem saw sales declines is in the research chemicals business. However, the second half of the year was markedly better than the first half. Bachem thus continues to be optimistic going into 2013, especially since we are working on a totally revamped state-of-the-art online shopping experience that will be rolled out to the Group's customers in the course of 2013.

## The Trend is Bachem's Friend

Bachem benefitted from new approvals of several drugs the Group supplies the Active Pharmaceutical Ingredient for. Bachem's generic APIs have gained market authorization in many new countries. The customer base has also expanded. Bachem believes that this bodes extremely well for the years to come.

Meeting ever increasing customer expectations is at the top of Bachem's priority list. As pioneers and recognized leaders in the field of peptide custom manufacturing, the Company must rise to the occasion to capitalize on the opportunities of increased demand for its services.

The market is segmented and Bachem must carefully select those areas where it sees most growth opportunities. The customer base is value oriented and has an appreciation for quality. Too often they have experienced the negative effects of selecting suppliers that compromise safety, the environment and quality in order to offer prices that are incompatible with value creation.

Research chemicals of bad quality can lead to false conclusions in research laboratories. Bachem has a big responsibility to uphold its high standards.



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**Although funding challenges are holding back some promising peptide drug candidates, advanced projects are gaining approval rather quickly. New formulations of existing drugs are driving up the volume requirements. Adjacent fields are also enhancing the popularity of peptides. It takes an optimal infrastructure and equipment base to satisfy the requirements.**

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### Funding Challenges

Funding biotechnology ventures is becoming more challenging for companies with early phase pipelines and unproven technological innovations that have questionable returns and present no clear exit possibilities for investors. Hence, although preclinical work and product safety trials abound, it takes a very compelling proposition to acquire funding of efficacy studies.

Venture Capital has somewhat deemphasized biotechnology due to the costly trials imposed by regulatory bodies, the uncertainty that accompany these trials, and the amount of time it takes to either find a pharmaceutical partner to carry the product into the marketplace or to do an Initial Public Offering at compelling valuations.

That said, there still are a good number of compelling products that advance swiftly through the process. They are often products to treat orphan diseases for which no treatment alternatives currently exist, or generic drugs that benefit from improved delivery systems. Bachem has several such products in its pipeline.

### Large Volume Requirements

Innovative technologies to make peptides orally available are gaining broad appeal. Peptides tend to be injected but the customers prefer a pill. The bioavailability of ingested peptides is only 1 to 2%. This drives up the volume requirements massively.



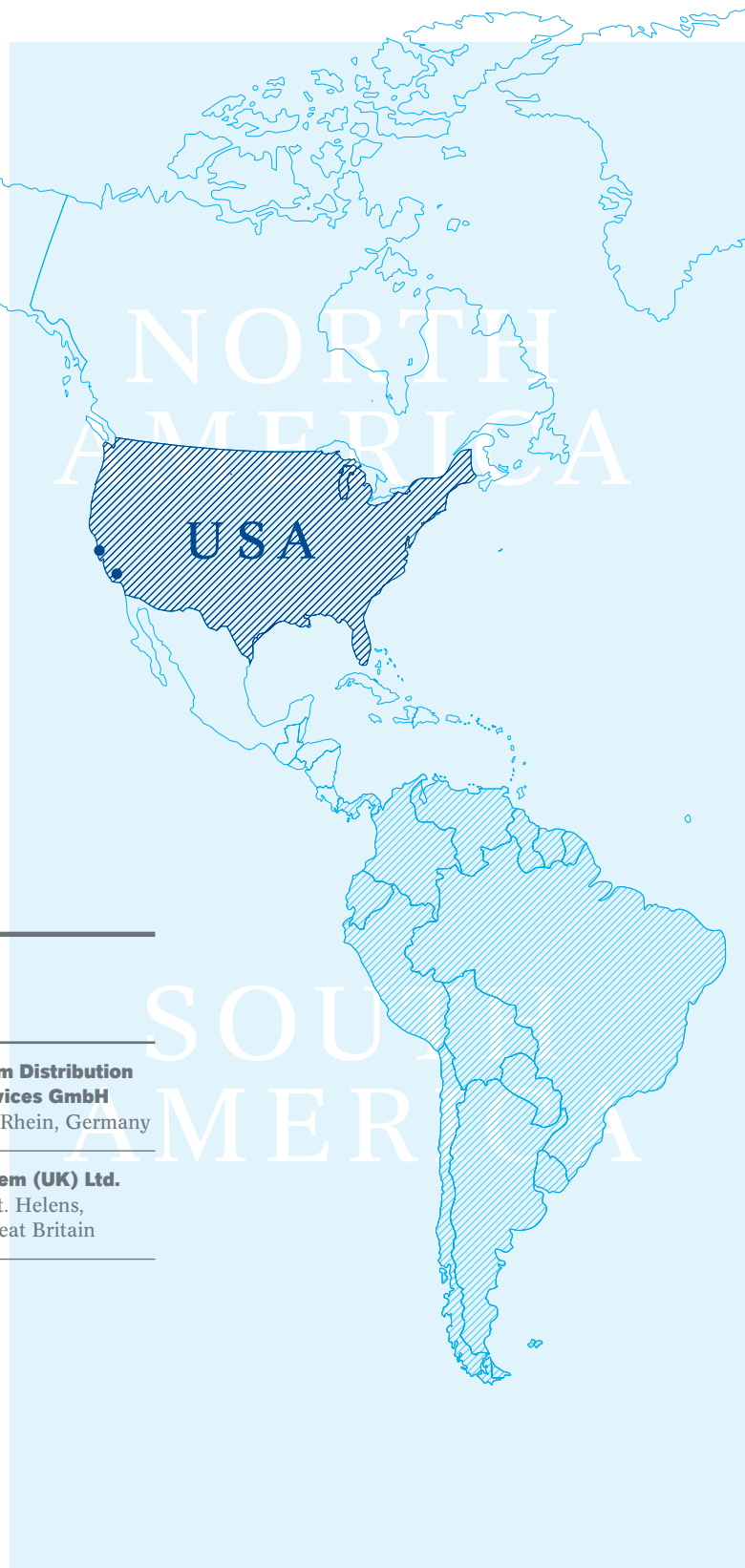
## International Presence

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Bachem operates three centers of excellence in Switzerland, the UK, and the USA that are focused on the production of Active Pharmaceutical Ingredients, custom synthesis products and catalog peptides.

Bachem Holding AG Bubendorf, Switzerland		
<b>Bachem AG</b> Bubendorf, Switzerland	<b>Bachem Americas, Inc.</b> Torrance, USA	<b>Bachem Distribution Services GmbH</b> Weil am Rhein, Germany
<b>Bachem SA</b> Succursale Vionnaz Vionnaz, Switzerland	<b>Peninsula Laboratories, LLC</b> San Carlos, USA	<b>Bachem (UK) Ltd.</b> St. Helens, Great Britain





To stay competitive as a manufacturer in this case requires specialized equipment, maximal automation and facilities compatible with such needs. The price pressure for the peptide manufacturer increases so as to make the pill competitive to the injected dosage form.

Bachem has adjusted to this market dynamic by developing in house engineering solutions and transforming the plants to accommodate large scale manufacture competitively. Scale up development work is being accompanied by negotiations for long term supply of such potential high volume products.

### Adjacent Fields

In cosmetics, several customers are finding solutions to treat wrinkles or remove spots that accumulate on aging skin. Products undergo extensive toxicological tests prior to approval. Once marketed, it is expected that volume requirements increase dramatically as well.

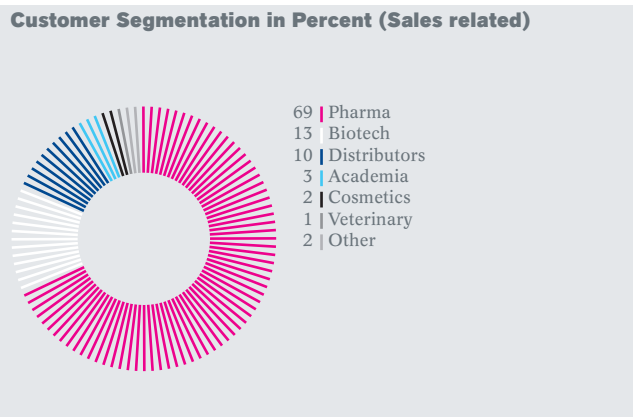
Several Bachem products are undergoing the approval process in the veterinary field. The filing requirements are comparable to human medicine and approvals take years as well.

Peptides are also being explored to lengthen the shelf life of food. There is considerable research being done in the field and it is only a matter of time before commercialization of one or the other peptide combination will occur in this area.

### Unmet Medical Needs

Infectious diseases continue to plague mankind. Pathogens are becoming resistant to drugs that were hitherto effective. Much research to find peptide-based antibiotics has been conducted. Breakthroughs may be just around the corner.

Alzheimer's disease is also in need of better treatment options. Here, again, peptide research plays a prominent role in finding a cure.



## Wide Range of Customers

# Peptides Increasingly Used in Cosmetics and Food Additives

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*Peptides are used as active drug substances in medicines and increasingly also in cosmetics and foods. Some of the main therapeutic indications for peptides are cancer as well as many endocrinological and hematological disorders.*

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Proteins consist of long chains of amino acids. They are broken down in the organism by enzymes into shorter pieces which scientists call peptides. Peptides are naturally occurring substances and perform a variety of functions in animal and plant organisms. They act as hormones and neuropeptides in the body, with responsibilities including metabolic processes, reproduction, growth, pain perception, circadian rhythm, blood clotting, and blood pressure. Peptides may also have antibiotic or antiviral functions. Most animal toxins are composed of highly complex combinations of peptides. The pharmaceutical industry discovered peptides many years ago as a basis for the development of new drugs, both through the use of naturally occurring peptides (examples include calcitonin for osteoporosis) and peptides modified chemically to enhance their properties, e.g. LHRH analogs for prostate and breast cancer. Their use in medicine is chiefly predicated upon their high specificity and activity, comparatively harmless

metabolism and accessibility via chemical synthesis. Another significant factor is that structurally modified peptides can be patented.

## **New dosage forms**

Peptide-based drugs tend to require parenteral administration, i.e., by injection. They have a relatively short half-life in the body. This is an advantage

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*Recent therapeutic areas for peptides are diabetes and obesity.*

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in some cases. In others, the short half-life is a drawback – primarily for patients requiring injections once or several times daily who are unable to self-administer their medication, or if a specific drug concentration needs to be maintained in the blood for a certain period of time. To

address this need, biotech and pharmaceutical companies have developed new dosage forms which are welcomed by patients and healthcare professionals alike. Dosage forms have been developed which allow patients to administer their drugs nasally or orally. Other dose delivery systems include implants which release the drug for months at a time with no further intervention necessary. Nanotechnology too has inspired new ideas. One such idea is the use of gold nanoparticles as vehicles for peptide drugs, for example to deliver cancer vaccines or diabetes drugs.

## **Cosmetics**

The cosmetics industry too is showing an interest in peptides as active components of dermatological products. Peptides from animal toxins such as snake venoms that paralyze prey have been isolated and characterized. Scientists modify these naturally occurring compounds so that they lose their neurotoxicity but retain their effects on signal transduction in the nervous system. Provided they

are sufficiently chemically stable and capable of being produced cost-effectively in bulk by chemical synthesis, these peptides are suitable for use as components of dermatological products. Hence, many high-end anti-aging products contain peptides. Some products for topical application use peptides as intercellular messengers that encourage the skin to produce more collagen and elastin, thereby promoting faster and more effective regeneration. Other peptide structures have been proposed for treating age spots.

#### Food additives

One peptide that has been used in the food industry for many years is the artificial sweetener known as aspartame. This peptide is composed of only two amino acids. Countless attempts have been made to increase the sweetening potency per unit of weight by modifying the structure. The organoleptic properties of the sweetener are another focus of research. The aim is to obtain a substance that tastes more like sugar but with no loss of sweetening potency. Given the very

*Animal peptide-derived synthetic substances are increasingly being used in the cosmetics and food industry.*

high sugar content of some soft drinks and the associated problems of diabetes and obesity, very sweet peptides that taste like sugar are of significant interest. Massive effort has also been exerted in the search for peptide-based substances that might replace salt in food. Dietary sodium is believed to be one of the main causes of high blood pressure. However, these research efforts have had little success to date. Peptides with blood pressure lowering properties have been isolated from milk proteins. Structures of this kind are now being tested for their suitability as food additives. Unlike artificial sweeteners,

which have no physiological effects immediately after ingestion, agents with blood pressure lowering effects are intended to enter the bloodstream following dietary intake. For that reason, these peptide structures need to be stable against gastrointestinal tract enzymes whose basic task is the breakdown of protein-like substances into their constituent components.

#### Material science

Peptides are increasingly attracting the interest of material scientists as a promising substance class, but more for their physical than their physiological properties. Peptides are being investigated, for instance, as catalysts in chemical processes. Short peptides are currently being discussed as biocompatible, "green" materials for application to surfaces in the form of a film. The hope is that surfaces treated in this manner will prevent biofouling, i.e., the accumulation of organisms such as algae, mollusks and their by-products on maritime structures. Biofouling is estimated to cause approximately USD 150 billion in costs worldwide every year.

## Drugs on the Basis of LHRH-Analogs

Peptide Active Ingredient	Drug Name	Company
Gonadorelin	Lutrelif®	Ferring
Leuprolide	Lupron®	Abbott/Takeda
Goserelin	Zoladex®	AstraZeneca
Buserelin	Suprefact®	Sanofi-Aventis
Triptorelin	Decapeptyl®	Ferring/Ipsen
Triptorelin Pamoate	Trelstar®	Debiopharm
Histrelin	Vantas®	Endo
Nafarelin	Synarel®	Pfizer
Deslorelin	Ovuplant® [ad us. vet.]	Peptech
Fertirelin	Conceral® [ad us. vet.]	Takeda
Peforelin	Maprelin® [ad us. vet.]	Various
Lecirelin	Dalmarelin® [ad us. vet.]	Various



# Bachem “Partner of Choice”

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Bachem believes in the synergy of partnerships and the power it creates. Therefore, suitable opportunities to expand the offering of products and services or increase the technological scope of the Company as the world's No. 1 in peptides are continually pursued.

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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**

## Research Ingredients

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The science of genomics is allowing scientists to discover many new cell receptors that can be targeted by peptides. Quite a few of these receptors are associated with diseases. Understanding the interrelationship of peptides with the receptors often enhances the understanding of pathologies and offers important clues on how to treat diseases.

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## New Chemical Entities (NCEs)

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As more Bachem manufactured NCEs become approved drugs, the Group's products are being used to treat an ever increasing number of diseases.

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## Generics

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Bachem's peptide generics pipeline is the largest in the world. Focusing on developing state-of-the-art processes at optimal scale is allowing us to be highly cost-effective. This in turn allows patients around the world to access lower cost treatment options.

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**In the first half of 2012 sales rebounded from the weak sales realized in the second half of 2011. The second semester confirmed the upward momentum. Research ingredient sales also trended favorably. The same can be said of New Chemical Entities sales and related services. Only generic sales slowed a bit after a strong first semester but they are still up year-over-year.**

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Project management is central to building strong bonds with customers that are developing New Chemical Entities. Our efforts in this area were rewarded by the trust expressed by major pharmaceutical and biotechnology companies. Bachem succeeded to deliver on its promises to meet highest standards. Such standards are defined through intense interactions with customer project teams.

Service revenues were generated in many ways. Some clients commissioned Bachem to do process optimization and scale up to drive down future costs. Validation projects were also in high demand.

Bachem understands the requirements of such work because of its long and positive track record serving customers and dealing with regulatory agencies around the world. Under the year in consideration, service revenues in CHF surged 38.7%.

Several products out of the phase 3 clinical trial pipeline received market authorization. Large volumes of such products had to be made in order to assure a successful commercial launch. The future uptake of these products will be determined by their success on the market.

Bachem is optimistic that approved products will contribute to future growth but temporary downward adjustments of inventory levels may materialize for the one or other product in the years to come. Indeed, sales of individual products tend to be cyclical. This stresses the importance of a well-balanced and deep product pipeline for successful and sustainable growth.

The Group was able to live up to expectations at all manufacturing locations. Thus, customer satisfaction was high in all business sectors. Scientists need high quality products to achieve reproducible research results. Patients need high quality drugs to heal. Bachem takes its responsibility seriously.

### Research Reagents

Although CHF-denominated sales of research chemicals rose 8.4% in the second half of the year versus the first half and 12.3% compared to the very weak second half of 2011, sales compared to the prior year are still down by 5.6%.

Whether Bachem has turned the corner in this segment remains to be seen. This business is highly dependent on government and industrial financing of basic research

activities. Also, competition is fierce and it is difficult to compare the product offering based on price due to variations in quality standards.

The Group is highly committed to supply off-the-shelf research ingredients as well as custom synthesis services. Bachem will forge ahead with innovation as well as with measures to improve and facilitate online shopping. Customer proximity will be pursued with vigor. To remain competitive, it is nonetheless essential to tightly control costs and to achieve a high capacity utilization of the facilities and equipment.

### New Chemical Entities

Biotechnology companies have less access to venture capital than in the past. There has been a pronounced decline in funding of early stage projects in 2012. This trend is predicted to continue by industry experts. VCs have shifted their focus to late stage projects or to other fields entirely. As such, preclinical and Phase 1 projects tend to fall to the wayside.

The Group also had to deal with the loss of highly promising late stage products which were discontinued due to lack of efficacy. Despite these negative trends and the fact that significant approvals were secured, the preclinical and clinical pipeline is robust.

Sales of NCEs reached CHF 33.3 million, up 32.8% in CHF versus the prior year. This increase is mainly attributed to the Americas and now accounts for 31.1% of total sales.

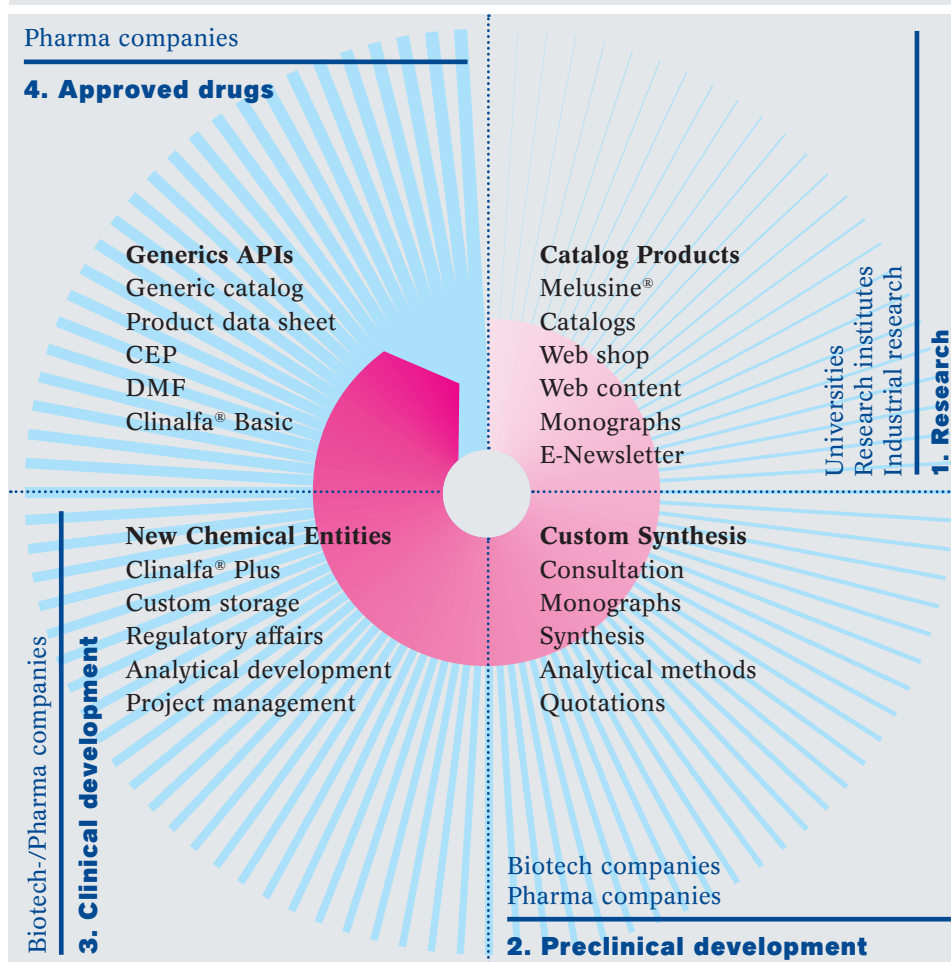
### Generics

Generic sales reached CHF 86.4 million and thus accounted for 54.6% of total sales. The sales increased 3.3% over 2011. Peptide generic sales grew by 14.7% whereas non-peptide generic sales declined by 16.1%. The non-peptide generic space remains challenging. Bachem sees continued opportunities to advance the peptide generic sales and aims to stabilize the non peptide generic sales going forward.

#### Examples of Generic APIs Produced by Bachem and Common Application:

Generic Active Ingredient	Examples of Related Trade Names	Treatment and Indications
Aprotinin	Tisseel®, Trasylol®	Wound treatment, control of surgical bleeding
Calcitonin	CalciHexal®, Forcaltonin®, Karil®	Osteoporosis, Paget's disease, Sudeck's disease
Carbidopa	Sinemet®	Parkinson's Disease
Goserelin	Zoladex®	Advanced prostate cancer, uterine myoma
Glucagon	Hypokit®	Diabetes
Leuprolide	Eligard®, Leupron®	Advanced prostate cancer, uterine myoma
Octreotide	Hexal®, Octreolin®	Acromegaly, carcinoid syndrome, VIPomas
Ornithine Oxoglutarate	Cetornan®	Hyperammonaemia, hepatic encephalopathy
Propofol	Diprivan®	Anesthetic
Triptorelin Pamoate/Acetate	Trelstar®, Decapeptyl®	Advanced prostate cancer, precocious puberty

## The Bachem 360° Business Model



Bachem offers sterile filling of peptides that can then be directly used in early clinical trial programs. Especially small biotechnology companies developing NCEs in early phases of development appreciate that they do not need to go elsewhere to make their product ready for use. In 2012, this subsector of activities performed well.

The emergence of multi-peptide vaccines has kept Bachem busy in 2012 and shall continue to do so in the foreseeable future. The marketing team is dedicating the 2013 Bachem Spring Symposium to peptide vaccines. Speakers will include prominent scientists in the field as well as customers that focus on this topic.

Throughout the year, the marketing and sales force attended many tradeshow and symposia. In 2012, a record number of meetings were held with prospective clients to discuss projects within our reach. Interesting collaborations ensued. CPhI and DCAT and various conferences were fruitful in this respect.

One active collaboration aims to chemically manufacture a drug that is on the market as a recombinant protein. The aim is to show that proteins can now be chemically synthesized in a cost competitive manner. Such projects would have been unthinkable a few years ago.

By remaining innovative in the core business of peptides, new product opportunities are found. It is gratifying to evolve the technology forward. This is central to remaining competitive and attractive to clients around the world.

Sales of research chemicals and active pharmaceutical ingredients both accelerated in the second half of 2012. This allowed the Group to comfortably grow, despite overall growth of only 3.3% in generics and less sales overall in research chemicals compared to the full prior year.

To remain on a sustainable growth trajectory, Bachem will continue to invest in improving the prospects of the research chemicals business. This will include a new and improved web shop as well as accelerating the pace of innovation and renewal of the product portfolio.

When it comes to scaling up and optimizing processes and stretching the limits of peptide science, the Group is poised to stay ahead of the curve.

The preclinical and clinical pipeline consists of 156 projects. In 2011, three generic and three new chemical entities received market authorization. These projects have thus been removed from the pipeline but will contribute to future sales.

Venture capital is harder to find for preclinical and early clinical phase projects. Some Bachem customers are thus experiencing difficulties to access capital. This leads to project eliminations or delays in project continuation. However, advanced projects with promising results tend to be fully funded.



## 156 Projects











## A well-trained and highly motivated workforce is Bachem Group's most valuable resource. Outstanding technical expertise and unfaltering innovation are distinguishing qualities of the Company.

### Our Employees

Bachem boasts the world's largest workforce of qualified specialists devoted to the field of peptide chemistry. Bachem Group employed 681 people at the end of 2012 (previous year: 704) in 645 full-time equivalent positions (previous year: 671). In Europe, 514 of these were working at Bachem's sites in Bubendorf and Vionnaz, Switzerland, as well as at its distribution center in Weil am Rhein, Germany. Another 31 people were working for Bachem (UK) Ltd in St. Helens, England. In the US the Company employed 128 people, mostly at its site in Torrance, California. Bachem Holding AG in Bubendorf employed 8 people as of year-end. Employee turnover at Group level during the year under review was 11.5% (previous year: 9.2%).

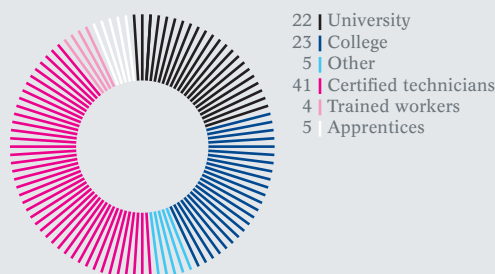
The integration of the former Sochinaz SA, Vionnaz, into Bachem AG was successfully completed in 2012.

Since the start of the year under review, employee salaries have been processed centrally at the Bubendorf office. Various workgroups made up of employees from both locations are helping to overcome cultural, language and technical-related barriers.

### Increase in Weekly Working Hours in Switzerland

The appreciation of the Swiss franc, especially against the euro and the US-dollar, and the challenging economy prompted Company management to increase weekly working time at the sites in Bubendorf and Vionnaz, Switzerland, to 43 hours at same pay with effect from April 1, 2012. That decision allowed the Company to handle a heavy workload without a significant increase in staffing levels. Employees responded well to this measure, which was introduced for an initial period of two years, and they continue to support it with conviction.

Employees by Education (FTE)  
in Percent



**681 Employees**

## High Level of Education

Bachem Group can defend and strengthen its claim to global leadership in the field of peptide chemistry thanks only to its highly educated workforce. Besides having technical expertise in peptide synthesis and analysis, commercial success in our business is increasingly being driven by project management skills and experience as well as a sound understanding of patent and regulatory issues. In recent years drugs have had to clear significantly more regulatory hurdles before gaining marketing approval. This has increased the overall efforts of obtaining first-time marketing approval for a drug as well as the cost of compliance with post-approval regulatory obligations. These additional efforts are being incurred not only by the biotechnology and pharmaceutical companies but also by manufacturers of active pharmaceutical ingredients further upstream in the value chain.

At Bachem Group, 45% of the employees have earned a degree from either a university or a university of applied sciences. In Switzerland, 54% of the employees have completed a vocational apprenticeship. This high level of professional expertise at all levels of the workforce is acknowledged and appreciated by both customers and government officials. Research, development, and production operations account for 40% of the workforce; quality control, quality assurance, and registration for 25%. The remainder of the specialized employees are divided fairly equally among the areas of sales and marketing, finance and administration, engineering and maintenance/support, and logistics. In-service continuing education programs are offered to keep employees up-to-date on the latest developments in our industry and to instruct them on the exact requirements of API production in full compliance with current good manufacturing practice (cGMP).

## Employee Education

In addition to the educational qualifications of its workforce acquired through a university degree program or a vocational apprenticeship, the Company attaches great importance to providing employees with training and continuing education. A high level of specialization requires an accordingly high level of specialist expertise. Continuing education is available to employees through internal programs and external providers. In addition to technical know-how, special attention is accorded to continual management training. Management training courses for the various management levels are given on a periodic basis.

## Vocational Training

The dual vocational training system has traditionally occupied a major role in the Swiss educational system. Bachem goes to great lengths to offer young school-leavers a vocational education within the scope of a scientific, technical or business administration apprenticeship. In doing so, it serves an important function in ensuring a steady supply of young skilled workers to the labor force and demonstrates that it is serious about its corporate social responsibility. Offering school-leavers a broad range of vocational apprenticeships has also been proven to be effective at keeping the rates of youth unemployment at low levels. Bachem AG employed a total of 31 apprentices in the following vocational fields during the year under review: chemical laboratory technicians specializing in synthesis or analytical chemistry (24), office administration specialists (3), information technology specialists (2), and logistics specialists (2). The Company provides a separate teaching lab with two full-time instructors for the laboratory technician apprentices. During the course of 2012, 15 apprentices earned their federal vocational and educational training diploma, three of them with honors. After completing their apprenticeship, five of the graduates accepted Bachem's offer of permanent employment.

## Responsible Care

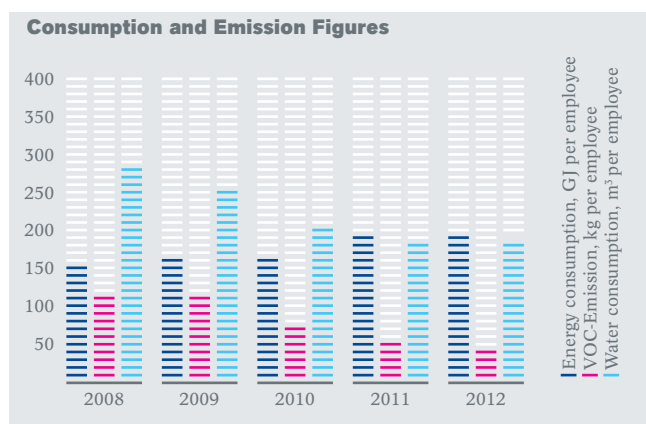
Maintaining a responsible attitude towards resources and hazards is an important part of Bachem's corporate social responsibility towards its employees and neighbors and towards society in general. Bachem has been engaged in the Responsible Care program, a voluntary initiative of the chemical industry, for 22 years now. Responsible Care is a global initiative that encourages chemical companies to work together to continuously improve their safety, health, and environmental performance. Data on the Company's performance in the aforementioned areas is collected annually. It serves management as a benchmarking and governance tool and also helps it to take appropriate remedial action. In addition to technical measures, raising awareness of safety and environmental issues at all levels of the workforce is crucial for achieving the defined performance goals. Bachem gathers the relevant RC data at its three largest sites Bachem AG in Bubendorf and Vionnaz and

Bachem Americas Inc. in Torrance, California. Bachem then assesses the data in comparison with multi-year averages and with industry-wide performance data.

Bachem Group has 5.5 full-time equivalent positions dedicated to health, safety, and environment issues. The HSE officers ensure that the Company is aware of and in compliance with all applicable laws and regulations. They also liaise with government officials. The HSE officers advise management on all matters pertaining to workplace safety and environmental protection. They also ensure that employees are aware of and receive training in all the relevant issues at each site.

## Environmental Parameters

Bachem's key environmental impact indicators remained at exceptionally low levels in 2012 and in some cases improved even further. In particular, the emissions of volatile organic compounds (VOC) were again signifi-



## Further Improved Environmental Parameters



cantly reduced in comparison with the previous-year level thanks to organizational, technical and construction-related measures and amounted to only 37 kg/employee (previous year: 51 kg/employee). Over the past five years Bachem has reduced VOC emissions, by 70%, an accomplishment that is all the more impressive considering the substantial increase in production output during the same period. The regenerative thermal oxidation system (RTO) for burning contaminated exhaust air at the Bubendorf site has obviously proven its worth judging by the reduction in VOC emissions and the system also had less downtime than in the previous year. This RTO system operates on propane gas, which is why total Bachem Group energy consumption per employee rose slightly from 191 GJ in the previous year to 195 GJ in 2012. Total water consumption declined slightly and appears to be stabilizing at the current level. A comparison with the aggregated Responsible Care data for the Swiss chemical industry reveals that Bachem Group is still delivering very good environmental data and consuming far fewer resources with a comparatively smaller environmental impact to run its business. Nevertheless, further improvements to plant and equipment and process controls will be sought in a continual effort to reduce the Company's environmental impact.

## Workplace Safety

Workplace safety is a top priority for all companies in the Bachem Group. Workplace safety is measured by two indicators in the Responsible Care program: One is the accident rate, which reflects the number of accidents per 100 full-time employees per year, the other the severity rate, which is expressed as the number of lost work days per full-time employee due to accidents. During the year under review, the accident rate for the three major production sites rose slightly to 1.49 accidents per 100 full-time employees (previous year: 1.36). Conversely, the number of lost work days per full-time employee declined from 0.15 in the previous year to 0.08 in 2012. All of the injuries sustained were minor and reversible.

Although every workplace accident is one too many, 2012 can be described as a low-incident year.

During the year under review, various training courses on workplace safety were offered within the scope of a longer-term project. Bachem offered its employees risk management training commensurate with their function. In addition to accident prevention, this training focused on the primary measures to be taken in the event of an incident. These courses also covered aspects of health promotion with the aim of reducing sick leave.

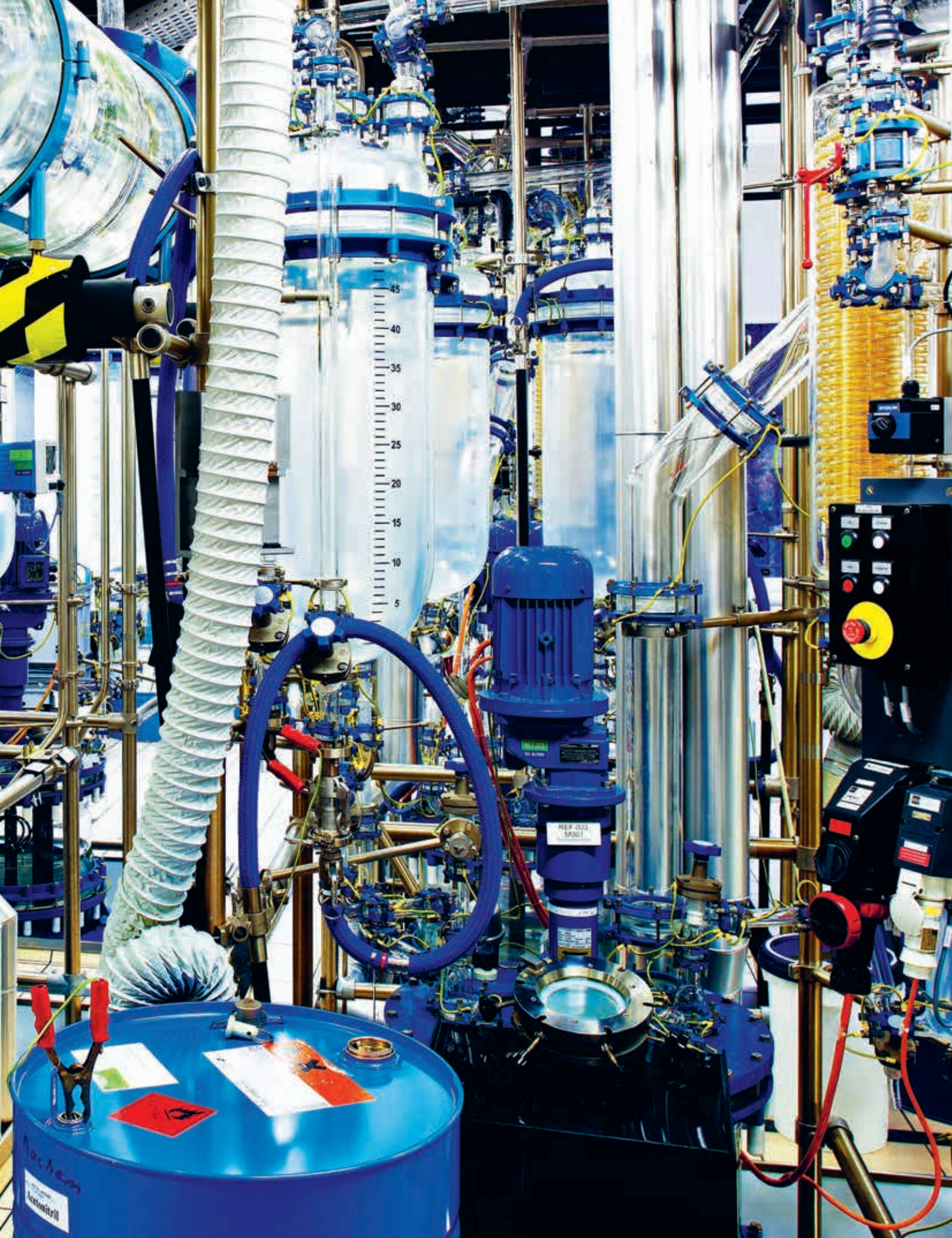
## Non-Occupational Accidents

With regard to employee absence from work due to accidents, statistics show that non-occupational accidents are far more serious than workplace accidents. As a preventive measure, Bachem therefore informed its employees about the risk of accidents outside the work environment on a periodic basis. These accidents happen at home and, especially, while playing sports. An additional benefit of these preventive measures is the statistically backed finding that preventive measures in non-occupational settings have a positive effect on the incidence of work-related accidents.











# Corporate Governance

40

## 1 Group structure and shareholders

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

### 1.1 Group structure

Bachem Holding AG, headquartered in Bubendorf, Switzerland, is listed at the SIX Swiss Exchange in Zurich (valor number: 1253 020, ISIN: CH0012530207, SIX: BANB, Reuters: BANB.S, Bloomberg: BANB SW). Market capitalization at December 31, 2012 was 495 000 kCHF. No other Bachem companies are listed.

All subsidiaries are listed in note 25 on page 88 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, 2012 are listed in note 4 on page 96 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, 2012, 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 2010, 2011 and 2012, share capital remained unchanged. Changes in equity for the years 2012 and 2011

are listed on page 57 of the consolidated financial statements. Changes for 2010 are reported on page 53 of the annual report 2011.

### 2.4 Share and participation certificates

At December 31, 2012, Bachem Holding AG had 6 802 000 registered shares A and 6 798 000 registered shares B at a nominal value of CHF 0.05 issued, all fully paid-in. Registered shares B, but not registered shares A, are considered for trade at the stock exchange. Otherwise, both types of shares have the same rights, and there are particularly no differences regarding rights to dividends and voting rights. Each registered share carries one vote at the Annual General Meeting of the Company, provided the shareholder has been recorded in the Company's share register (see item 2.6). All shares are fully entitled to dividends. There are no participation certificates.

### 2.5 Profit sharing certificates

Bachem has not issued any profit sharing certificates.

### 2.6 Limitations of transferability and nominee registrations

Registered shares of Bachem can be transferred without restriction. Registration in the share register of Bachem requires the proof of purchase of shares on own account and own benefit. There are no further registration restrictions (e.g. percentage limitation). The registration of nominees without voting rights is permitted, nominee registrations including voting rights have to be approved on request by the Board of Directors on a case-by-case basis. During the reporting period, no nominees with voting rights have been registered nor have there 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 64 and 65 as well as in note 23 of the consolidated financial statements on pages 86, 87 and 88.

## 3 Board of Directors

### 3.1 Members of the Board of Directors

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

Kuno Sommer (1956)<sup>1</sup>, Ph.D. in Business Administration, Chairman, Swiss. Since 2012, elected until 2013. Dr. Kuno Sommer, Ph.D. University of Basel, worked for Roche from 1986 to 1999 in various functions, including four years in the USA. Kuno Sommer was ultimately a member of the Executive Committee of Roche, responsible for the Flavours and Fragrances division, today Givaudan. From 2000 to 2006 he was CEO of Berna Biotech. Kuno Sommer is Chairman of the Board of Kenta Biotech AG and member of the Board of Polyphor AG.



Nicole Grogg Hötzer (1973), Graduate Biologist, Vice-Chairwoman, Swiss. Since 2011, elected until 2013. Nicole Grogg Hötzer graduated in Biology at Basel University in 1999. Afterwards she worked in various positions in the field of regulatory affairs. In 2002, Nicole Grogg Hötzer began her post-graduate studies in Business Administration at the University of Applied Sciences Basel which she completed successfully in 2004. Nicole Grogg Hötzer is Vice-Chairwoman of the Board of Directors of Ingro Finanz AG and member of the Board of Directors of MFC Beteiligungs AG.



Jürgen Brokatzky-Geiger (1952)<sup>1</sup>, Dr. rer. nat., Member, German. Since 2009, elected until 2013. 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 2013. 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, USA). Since 1980, he is practicing law 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: Viking River Cruises AG, Stiftung FOCUS Basel.



Hans Hengartner (1944), Prof. Dr. sc. nat. ETH, Member, Swiss. Since 2003, elected until 2013. 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.



Rolf Nyfeler (1950)<sup>1</sup>, Dr. phil. II, Member, Swiss. Since 2012, elected until 2013. Rolf Nyfeler studied chemistry at Basel University and was awarded his doctorate in 1979. Afterwards he deepened his knowledge with postdoc stays at the Max-Planck-Institute in Martinsried and at the University of California in San Diego. Rolf Nyfeler joined Bachem in 1982. For many years he was responsible for Research and Development in Bubendorf. Then, after spending some time as Head of Production in the subsidiary in California, he became COO of the Parent company in 1998. From 2002 to 2012, he was CEO of the Bachem Group and Chairman of the Corporate Executive Committee.



<sup>1</sup> Member of the Compensation Committee



### 3.2 Other activities and vested interests

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

### 3.3 Elections and terms of office

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

### 3.4 Internal organizational structure

During 2012, the Board of Directors held one half-day and three full-day meetings as well as one two-day strategy conference. The Corporate Executive Committee attends generally the Board meetings (see item 3.6). In 2012, 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 2012, three Board meetings were attended by a Chief Operating Officer of a Group company (COO). In addition, four members of the management of Group companies took part in the two-day strategy conference. In 2012, 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 2012, 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 performed by the full Board since considering the size of the Board with its six members, the Board of Directors has renounced the formation of additional firm committees.

Subsequent to the Annual General Meeting of April 25, 2012, the founder, majority shareholder, CEO and Chairman of the Bachem Group for many years, Dr. h.c. Peter Grogg, was appointed to Honorary Chairman of the Bachem Holding AG. According to the bylaws, the Honorary Chairman does not execute any institutional function, but is allowed to take part at the Board meetings as an advisory guest with no voting rights.

### 3.5 Definition of areas of responsibility

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

- ultimate direction of the business of the Company and 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 3.4). 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.

### 3.6 Information and control instruments vis-à-vis the Corporate Executive Committee

The Corporate Executive Committee attends generally the meetings of the Board in order to provide updates about the ongoing business, important events within the Group and about the execution of tasks delegated to the Corporate Executive Committee. 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.

Additional aspects of the information and control instruments are the internal control system (ICS) and the risk management system, which is described on page 65 under the title risk assessment. Due to its size, the Bachem Group does not carry out its own internal audit.

## 4 Corporate Executive Committee

### 4.1 Members of the Corporate Executive Committee

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



Thomas Früh joined Bachem in 1997. He was first COO of the Bachem Group Company in Pennsylvania and became COO of Bachem AG in 2001. Since April 1, 2012 he is CEO of Bachem Holding AG and Chairman of the Corporate Executive Committee. He completed his education as a chemist at the Swiss Federal Institute of Technology in Zürich (ETHZ) and then was research fellow at Harvard University in Cambridge. Before he joined Bachem, he held various research and development positions at Ciba-Geigy and Novartis. Thomas Früh is member of the Board of Directors of Dottikon ES Holding AG.

José de Chastonay (1954), Dr. Phil. Nat. & MBA, CMO, Swiss/



American. Since 2012. José de Chastonay joined Bachem AG in 1991 as International Marketing Manager. As of 1992, he relocated to the USA, first as President and COO of Bachem Bioscience, Inc. and subsequently of Bachem, Inc. and ultimately as President of Bachem Americas. In 2007, he left Bachem to become CEO of Irvine Scientific Inc and Managing Director of Wombat Capital Ltd. in Los Angeles, before rejoining Bachem as Chief Marketing Officer in 2012. José de Chastonay started his industrial career with Ares Serono as Assistant Director of Biotechnology and joined Roche Diagnostica as International Product Lines Manager several years later. He served on the Board of Directors of Viroblock SA and also is part of the Strategic Advisory Board of Rapid Pharmaceuticals. José de Chastonay earned his Ph.D. in medical microbiology from the University of Bern and his MBA from the European University in Montreux.

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.

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 extraoccupational 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. 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 2012, the variable compensation to the Corporate Executive Committee has increased compared to the prior year. In the reporting year, the variable salaries of the members of the Executive Committee amounted to 42%–52% 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 90 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 91 and 92 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 64 and 65.

**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 holds elections, if not otherwise required by law (Swiss Code of Obligations, article 704), with a simple majority of the votes represented. For the calculation of the simple majority, abstentions and empty votes are not considered.

**6.3 Convocation of the general meetings of shareholders**

An ordinary Annual General Meeting is held within six months after the end of the Company's business year. Extraordinary general meetings may be convened by the Board of Directors, the statutory auditors or one or more individual shareholders representing a minimum of 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](http://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. Dr. Rodolfo Gerber has been lead auditor since the business year 2011. The rotation period of the lead auditor is based on the maximum statutory length for Swiss companies of seven years (Swiss Code of Obligations, article 730a, paragraph 2). Auditors are elected by the Annual General Meeting on an annual basis.

### 8.2 Auditing fees

Auditing fees of PricewaterhouseCoopers for the Bachem Group amounted to 192 kCHF for the business year 2012. Fees for audit services on Bachem companies by other auditors totaled 25 kCHF.

### 8.3 Additional fees

During 2012, PricewaterhouseCoopers charged additional fees of 175 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 5 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 2012, the external auditors attended one Board of Directors meeting. The performance assessment of the external auditor and the audit fees is made based on the independency and objectivity of the external auditors, the presented reports, the shown technical and operational competences, the involved resources, as well as the open and effective communication and coordination with internal staff.

## 9 Information policy

The Bachem Group has an open and up-to-date information policy that treats all target groups of the capital investment market equally. The most important information tools are the annual report and the half-year report, the website ([www.bachem.com](http://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](http://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](mailto:ir@bachem.com).



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**Financial Report**

**2012**

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# Financial Review

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## Sales + 7.9%

The Bachem Group has been growing again since the second half of 2010. After the continuation of this trend in the first semester of 2011, sales unexpectedly slowed during the second half of 2011. In 2012, sales were back at the previously good levels. Bachem is on track again and this confirms the trust stakeholders have in the company's sustainable growth strategy.

The Group already reported high sequential sales growth for the first half of 2012. In contrast to the previous year, the momentum from the first half was maintained in the months that followed. Bachem's sales for 2012 increased by 11.5 million CHF compared to the prior year to 157.3 million CHF. Sales growth amounted to 7.9% in CHF and 6.0% in local currency (LC), matching expectations for LC growth and exceeding the expected range in CHF.

in million CHF	2012	Change in local currency	Change in CHF	As % of total sales
API Products	<b>131.9</b>	+ 9.1%	+ 10.9%	83.9%
Research Ingredients	<b>25.4</b>	- 7.5%	- 5.6%	16.1%
Total sales	<b>157.3</b>	+ 6.0%	+ 7.9%	100.0%

Sales of research ingredients, and especially of catalog products, remained under pressure. This business area is disadvantaged by the strong Swiss franc and must also contend with growing global competition, which is creating strong price pressure. Research ingredients sales declined by 1.5 million CHF (-7.5% in LC). The reasons for the lower sales are known. Bachem is exploring its options for achieving a sustained improvement in this core business area and will continue to strengthen and optimize its organizational structure and its marketing activities in the coming quarters.

In the NCE market, Bachem continued to perform well and achieved impressive sales growth of 32.8% in CHF (+ 29.1% in LC). This volume growth is all the more pleasing considering that biotechnology companies must still cope with difficult conditions in capital markets while pharmaceutical companies are under considerable pressure to cut costs. Thanks to focusing and closer cooperation between biotech and pharma companies, however, it appears that for late-stage projects funding efforts are more and more successful.

In the NCE business, Bachem maintained its competitive edge and strengthened its leading market position. The number of active projects in the NCE portfolio remained high and services for NCEs also showed very good growth. At year-end, Group companies in Europe and North America were developing a total of 156 projects for customers. Each of these 156 projects is a potential growth driver that could account for a substantial share of the Group's future sales revenues. Attention is also drawn to the high number of projects in Phase II and III clinical trials. Sterile finished dosage forms (Clinalfa®) delivered pleasing results as well.

Geographically, sales growth in North America was much stronger than in Europe. This can be traced not least to the numerous market approvals granted in the USA and the increasing market share of the generics business.

in million CHF	2012	Change in local currency	Change in CHF	As % of total sales
Europe	<b>108.4</b>	+ 1.6%	+ 1.7%	68.9%
North America	<b>48.9</b>	+ 17.7%	+ 24.7%	31.1%
Total sales	<b>157.3</b>	+ 6.0%	+ 7.9%	100.0%

Generics sales in 2012 were stable as well at the global level. Overall sales of this product group advanced another 3.3% year-on-year (+ 2.1% in LC). Peptide and non-peptide generic APIs showed divergent trends. Non-peptide generics were affected by various negative developments and these sales were therefore lower whereas in the core business area of peptide-based generic APIs, Bachem again widened its share of the market thanks to its high sales growth.

### **Operating profit + 48.4%**

Bachem achieved an operating profit (EBIT) of 22.0 million CHF in the past fiscal year. The EBIT margin rose to 14.0%. Operating profit before depreciation and amortization (EBITDA) amounted to 44.4 million CHF, which corresponded to an EBITDA margin of 28.2%.

The operating result includes non-recurring expenses of 4.1 million CHF. As part of its concentration on core business activities, Bachem decided to discontinue cytotoxic API projects. The fixed assets for those projects at the Vionnaz plant were impaired during the year under review.

The Group achieved strong growth of +48.4% in EBIT and +33.6% in EBITDA on slightly favourable exchange rate movements, demonstrating its resiliency and consistency amid an uncertain economy.

### **Gross profit + 17.9%**

Bachem's production volumes of active substances were significantly higher in 2012 than in previous years but gross profit margins have declined in recent years due to pressure on generic APIs. In the year under review the company increased gross profits by 7.7 million CHF (+17.9%) in nominal terms and cost of goods sold was lowered to 67.7% of sales (previous year: 70.4%). A reduction in sourcing and procurement costs, improvements in business processes, and lower material costs as well as the decision taken in 2012 to increase weekly working hours at the Swiss sites to 43 hours contributed to the reduction in cost of goods sold.

The improvements achieved in 2012 are substantial and all the more gratifying considering the unrelenting intense competitive pressure in the marketplace. However, it must also be noted that gross profit can be heavily affected by the product mix for a particular reporting period. In fiscal 2012 the product mix was also a positive factor that contributed to the reported profit growth.

### **Costs under control**

Despite the increase in production volumes and sales, the economic crisis is not over yet and Bachem has therefore maintained very restrictive policies for new hires and the filling of vacancies. The Group headcount at year-end after various reorganizations in Europe and the USA stood at 681, or 645 expressed as full-time equivalents. During the year under review the corporate dissolution of Bachem's subsidiary Bioscience Inc. became legally effective. This East Coast company and its business activities were taken over by the Group's US subsidiary Bachem Americas Inc. in Torrance, California.

Staff costs are the Group's largest single cost item and it amounted to 70.5 million CHF in the year under review. Compared to 2011, this corresponds to an increase of 0.8 million CHF (1.1%), despite the lower headcount. The uptick was largely due to the stronger USD/CHF exchange rate, which is used to translate the local expense of the US companies.

Bachem was again present at all major trade fairs in fiscal 2012. It also organized the "Bachem Spring Symposium" and intensified its marketing activities by publishing new or updated product brochures and presentations, for example. Marketing and sales costs remained virtually unchanged at 10.4 million CHF. The slight increase of 0.4 million CHF compared to the previous year is attributable to the printing of a new catalog for immunology products and exchange-rate movements.

Bachem began to develop processes for new generics proactively already in 2010. These projects are carefully screened, approved by the Corporate Executive Committee on a case-by-case basis and the corresponding development costs are capitalized. More projects qualified for this procedure during the period under review and capitalized costs amounted to 0.4 million CHF. Bachem allocated the costs incurred in production units as a result of process optimization or scale-ups directly to cost of goods sold in 2012, as in previous reporting periods.

Research and development costs amounted to 1.7 million CHF in the year under review, a decrease of 0.3 million CHF (-15.7%) from the previous year. Capitalized development costs of 0.4 million CHF were



already deducted and are thus not included in this figure. R&D activities are continually monitored by Bachem's internal Research Committee, which convenes on a regular basis. Workloads increased significantly for individual teams and their members were increasingly involved in the processing of client orders, in addition to their research and development responsibilities. Consequently, the budget for research and development activities was not fully spent in fiscal 2012.

The measures taken in previous years to improve efficiency and lower costs in administrative operations have had a lasting effect. General administrative costs amounted to 17.2 million CHF, which was a slight increase from the previous year (+0.1 million CHF) and also fully attributable to exchange-rate movements.

#### **Further improvement in capacity utilization**

Capacity utilization improved further during the year under review. Utilization rates of individual business units or departments were to a large extent determined by their respective product and project mix.

This was particularly evident at the quality assurance and control functions, which had to manage heavy workloads in connection with development projects and marketing authorizations. Bachem can rely on its highly dedicated, experienced and qualified specialists to meet such challenges and ensure that "Quality Matters" is practiced at all levels of the business.

Some production units operated at full capacity. This was primarily attributable to labor supply constraints (available personnel) and only in rare instances to a lack of infrastructure (plant & equipment).

Therefore, when the temporary increase in weekly working hours is rolled back in 2014, one can expect personnel requirements and the corresponding costs to increase. The resulting impact on operating profit could, however, be mitigated if business continues to evolve favorably.

Company management will review this situation in the second half of 2013 and, depending on the course of business and the general economy, decide what action shall be taken.

#### **Net profit + 62.6%**

Net profit for fiscal 2012 was likewise well above the figure reported in the previous year. Bachem earned a net profit of 15.3 million CHF in 2012, an increase of 5.9 million CHF (+62.6%) from the previous year. Earnings per share (EPS) climbed from 0.70 CHF to 1.13 CHF.

Results of associated companies, stemming from the interest in Pevion Biotech AG, had a negative effect of 1.5 million CHF on the Group's 2012 result. As of December 31, 2012, the reported equity of this company was negative and the value of this equity interest was therefore reported as zero in Bachem's consolidated accounts.

Net foreign exchange gains and losses amounted to a negative 0.6 million CHF, which represents an increase of CHF 0.2 million from the previous year. Interest expense amounted to 0.5 million CHF (-0.1 million CHF vs. the previous year). Low interest rates had a particularly positive impact on this line item.

The Group's tax rate was 21.0%. Total income taxes for fiscal 2012 amounted to 4.1 million CHF. Bachem continues to anticipate a Group tax rate of about 20% in the coming years.

#### **Cash flow from operating activities + 49.8%**

Operating cash flow amounted to 36.9 million CHF or 23.4% of sales revenues in 2012. Compared to the previous year, this represents a sharp increase of 12.3 million CHF (+49.8%).

Cash-flow-relevant capital held in net current assets rose by 1.4 million CHF. This was primarily the result of higher customer receivables on the reporting date due to the very good sales in December. Customer receivables are of sound quality and DSO data (day sales outstanding) is continuously monitored to detect changes at the earliest possible time.

Inventory management remained a high priority during the year under review. Bachem goes to great lengths to maintain a stable level of inventories. As of the balance sheet date, an unanticipated delay in one product delivery was the primary cause of the increase in net current assets.

in million CHF	2012	2011	2010	2009
Cash flow effect of inventory movements	<b>- 1.2</b>	+ 0.7	+ 0.5	- 22.2

### **Sustainable capital expenditure**

Bachem's infrastructure is highly modern and will enable it to remain competitive as it continues to grow. Therefore, major capacity expansion projects were not necessary in 2012 and investment volumes were low.

Compliance and replacements accounted for about half of total capital expenditure, or 4.9 million CHF. This reflects the company's strong commitment to maintaining a high level of standards with regard to corporate social responsibility, quality, workplace safety, and the environment.

Capital expenditure amounted to 9.8 million CHF, which was slightly more than half of the reported depreciation and amortization expense of 18.2 million CHF (excl. non-recurring impairments). Net cash outflow from investing activities amounted to 9.8 million CHF (previous year: 12.7 million CHF).

As for cash flow from financing activities, the dividend distribution of 20.2 million CHF was 13.5 million CHF less than in the previous year. Part of this distribution was converted into a general operating loan, which was repaid in full by the end of the reporting period.

In fiscal 2012, Bachem also refinanced the bank loans of 32 million CHF disclosed in the previous year and borrowed an additional 18 million CHF during the period under review. As of December 31, 2012, bank loans taken out from three Swiss banks amounted to a total of 50 million CHF. Cash flow from financing activities amounted to - 19.2 million CHF.

### **Cash and cash equivalents of 27.9 million CHF**

Cash and cash equivalents in the consolidated cash flow statement for 2012 increased by 7.6 million CHF. Total cash holdings as defined in the cash flow statement amounted to 27.9 million CHF at year-end. This is equivalent to 17.8% of top-line revenues, temporarily overshooting the targeted range of 5% to 10%.

### **Dividend of 1.50 CHF proposed**

Bachem remains extremely well capitalized with an equity ratio of 71.8% (72.6% in the previous year). This sound capital base guarantees the Group's independence and operational flexibility as it pursues its strategic goals while upholding its business priorities and values.

The Board of Directors will propose a dividend of 1.50 CHF at the general meeting of shareholders, unchanged from the previous year. This payout will again be exempt from withholding tax, as it will be distributed from reserves from capital contribution.

# Consolidated Income Statement

For the years ended December 31

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in 1000 CHF	Notes	2012	2011
Sales	1/2	157 298	145 808
Cost of goods sold		- 106 459	- 102 670
<b>Gross profit</b>		<b>50 839</b>	<b>43 138</b>
Other income		590	932
Marketing and sales costs		- 10 396	- 10 029
Research and development costs		- 1 739	- 2 056
General administrative costs		- 17 246	- 17 123
<b>Operating income</b>		<b>22 048</b>	<b>14 862</b>
Result from associates	6	- 1 520	- 1 590
Financial income	7	23	63
Financial expenses	8	- 1 174	- 1 097
<b>Earnings before taxes</b>		<b>19 377</b>	<b>12 238</b>
Income taxes	9	- 4 077	- 2 829
<b>Net income <sup>1</sup></b>		<b>15 300</b>	<b>9 409</b>
<b>Basic earnings per share (CHF)</b>	10	<b>1.13</b>	<b>0.70</b>
<b>Diluted earnings per share (CHF)</b>	10	<b>1.13</b>	<b>0.70</b>

<sup>1</sup> The net income is completely attributable to the equity holders of the parent.

The notes on pages 58 to 92 are an integral part of the consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the years ended December 31

in 1000 CHF	Notes	2012	2011
<b>Net income according to income statement</b>		<b>15 300</b>	<b>9 409</b>
Actuarial losses on defined benefit plans and deferred taxes thereon	4	- 1 538	- 2 897
Cumulative translation differences	21	308	579
<b>Total comprehensive income <sup>2</sup></b>		<b>12 323</b>	<b>7 551</b>

<sup>2</sup> The comprehensive income is completely attributable to the equity holders of the parent.

The notes on pages 58 to 92 are an integral part of the consolidated financial statements.

# Consolidated Balance Sheet

At December 31, 2012 and 2011

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in 1000 CHF	Notes	Dec. 31, 2012	Dec. 31, 2011
<b>Assets</b>			
Cash and cash equivalents	11	27 934	20 302
Trade receivables	12	28 942	25 519
Other receivables	13	2 403	5 684
Current tax assets		2 311	449
Inventories	14	150 411	149 855
<b>Total current assets</b>		<b>212 001</b>	<b>201 809</b>
Property, plant and equipment	15	216 411	230 068
Intangible assets	16	20 195	20 026
Associates	6	0	1 520
Deferred tax assets	21	6 702	6 577
<b>Total non-current assets</b>		<b>243 308</b>	<b>258 191</b>
<b>Total assets</b>		<b>455 309</b>	<b>460 000</b>
<b>Liabilities and equity</b>			
Trade payables	18	11 737	11 647
Other current liabilities	19	8 973	9 031
Financial liabilities	20	50 211	48 405
Current tax liabilities		3 168	4 052
<b>Total current liabilities</b>		<b>74 089</b>	<b>73 135</b>
Financial liabilities	20	496	710
Deferred tax liabilities	21	34 183	34 334
Defined benefit plan liabilities	4	19 718	17 884
<b>Total non-current liabilities</b>		<b>54 397</b>	<b>52 928</b>
<b>Total liabilities</b>		<b>128 486</b>	<b>126 063</b>
Share capital	22	680	680
Retained earnings		290 802	276 735
Share premium		75 214	94 635
Own shares		- 1 308	- 1 295
Cumulative translation differences		- 38 565	- 36 818
<b>Total capital and reserves attributable to the equity holders of the company</b>		<b>326 823</b>	<b>333 937</b>
<b>Total liabilities and equity</b>		<b>455 309</b>	<b>460 000</b>

The notes on pages 58 to 92 are an integral part of the consolidated financial statements.



# Consolidated Cash Flow Statement

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For the years ended December 31

in 1 000 CHF	Notes	2012	2011
<b>Cash flow from operating activities</b>			
Net income		15 300	9 409
Adjustments for:			
Income taxes	9	4 077	2 829
Depreciation, amortization and impairment	2/15/16	22 306	18 341
Financial income	7	-23	-63
Financial expenses	8	1 174	1 097
Result from associates	6	1 520	1 590
Share-based payments	23	812	954
Gain on sale of property, plant and equipment		0	-244
Income taxes paid		-6 767	-4 697
Other non-cash items		-139	-607
<b>Cash flow from operating activities before changes in net current assets</b>		<b>38 260</b>	<b>28 609</b>
Change in trade receivables		-3 628	-3 459
Change in inventories		-1 191	667
Change in trade payables		172	-446
Change in other net current assets		3 258	-762
<b>Cash flow from operating activities</b>		<b>36 871</b>	<b>24 609</b>
<b>Cash flow used for investing activities</b>			
Investments in property, plant and equipment		-7 298	-9 126
Sales of property, plant and equipment		0	394
Investments in intangible assets		-2 458	-3 956
Interest received		21	27
Other financial proceeds	7	2	33
Other financial payments	8	-58	-69
<b>Cash flow used for investing activities</b>		<b>-9 791</b>	<b>-12 697</b>
<b>Cash flow used for financing activities</b>			
Additions own shares		-16	-790
Disposals own shares		0	26
Dividends paid	24	-10 030	-16 687
Increase in financial liabilities		50 000	32 000
Repayment of financial liabilities		-58 609	-24 128
Interest paid		-537	-411
<b>Cash flow used for financing activities</b>		<b>-19 192</b>	<b>-9 990</b>
Net effect of currency translation on cash and cash equivalents		-256	400
<b>Net change in cash and cash equivalents</b>		<b>7 632</b>	<b>2 322</b>
<b>Cash and cash equivalents at the beginning of the year</b>	11	<b>20 302</b>	<b>17 980</b>
<b>Cash and cash equivalents at the end of the year</b>	11	<b>27 934</b>	<b>20 302</b>
<b>Net change in cash and cash equivalents</b>		<b>7 632</b>	<b>2 322</b>

The notes on pages 58 to 92 are an integral part of the consolidated financial statements.

# Consolidated Statement of Changes in Equity

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For the years ended December 31

2012 in 1 000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Cumula- tive trans- lation dif- ferences	Total
<b>Balance at January 1</b>		<b>680</b>	<b>276 735</b>	<b>94 635</b>	<b>- 1 295</b>	<b>- 36 818</b>	<b>333 937</b>
Net income according to income statement			15 300				<b>15 300</b>
Actuarial losses on defined benefit plans (net of tax)			- 1 230				<b>- 1 230</b>
Cumulative translation differences						- 1 747	<b>- 1 747</b>
<b>Total comprehensive income</b>			<b>14 070</b>			<b>- 1 747</b>	<b>12 323</b>
Dividends	24			-20 233			<b>-20 233</b>
Transactions with own shares (net of tax)			-3		-13		<b>- 16</b>
Share-based payments	23			812			<b>812</b>
<b>Balance at December 31</b>		<b>680</b>	<b>290 802</b>	<b>75 214</b>	<b>- 1 308</b>	<b>-38 565</b>	<b>326 823</b>

2011 in 1 000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Cumula- tive trans- lation dif- ferences	Total
<b>Balance at January 1</b>		<b>680</b>	<b>303 918</b>	<b>93 681</b>	<b>- 1 962</b>	<b>- 37 278</b>	<b>359 039</b>
Net income according to income statement			9 409				<b>9 409</b>
Actuarial losses on defined benefit plans (net of tax)			- 2 318				<b>- 2 318</b>
Cumulative translation differences						460	<b>460</b>
<b>Total comprehensive income</b>			<b>7 091</b>			<b>460</b>	<b>7 551</b>
Dividends	24		-33 692				<b>-33 692</b>
Transactions with own shares (net of tax)			-582		667		<b>85</b>
Share-based payments	23			954			<b>954</b>
<b>Balance at December 31</b>		<b>680</b>	<b>276 735</b>	<b>94 635</b>	<b>- 1 295</b>	<b>- 36 818</b>	<b>333 937</b>

The notes on pages 58 to 92 are an integral part of the consolidated financial statements.

# Notes to the Consolidated Financial Statements

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## 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 645 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 26, 2013 to be presented for approval by the Annual General Meeting on April 24, 2013.

## 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 acquisition 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 1000 CHF.

### Amendments to published standards effective in 2012 but not relevant for Bachem

The following amendments to published standards got effective for the reporting year 2012 but were not relevant for Bachem at the moment.

IFRS 1	First-time Adoption of International Financial Reporting Standards (Amendment)
IFRS 7	Financial Instruments: Disclosures (Amendment)
IAS 12	Income Taxes (Amendment)

### 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 the earliest for the accounting periods beginning on or after July 1, 2012 or later. Some of the amendments relate to the annual improvements projects of the IASB and aim to remove inconsistencies and clarify wording. None of them has been early adopted by the Group. Bachem is still evaluating the total impact of all these changes. Besides the amendments of IAS 19, Employee Benefits, which are clarified separately hereafter, mostly non-material impacts are expected at the moment.

IFRS 1	First-time Adoption of International Financial Reporting Standards (Amendment)
IFRS 7	Financial Instruments: Disclosures (Amendment)
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements

IFRS 12	Disclosures of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 1	Presentation of Financial Statements (Amendment)
IAS 16	Property, Plant and Equipment (Amendment)
IAS 19	Employee Benefits (Amendment)
IAS 27	Consolidated and Separate Financial Statements (Amendment)
IAS 28	Investment in Associates (Amendment)
IAS 32	Financial Instruments: Presentation (Amendment)
IAS 34	Interim Financial Reporting (Amendment)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

#### *IAS 19 Employee Benefits (Amendment)*

According to the amended standard, the annual pension costs for defined benefit plans newly comprise the net interest costs respectively income calculated on the net funding basis of the plan using the discount rate of the defined benefit obligation. Since Bachem's defined benefit plans are showing a deficit at the moment, the amendments to be applied will lead to increased costs in the consolidated income statement. On the other hand, the total impact on equity will be rather low. Furthermore, there are several additional disclosure requirements. The amended standard is effective for the accounting year beginning January 1, 2013.

If the new standard had already been applied in the current financial statements, earnings before taxes would have been lower by approx. 1.2 million CHF and the actuarial losses directly recognized in equity would have been lower by approx. 1.3 million CHF.

#### **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 based on the primary economic environment in which they operate. 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:

in CHF	Income statement average rates		Balance sheet year-end rates	
	2012	2011	2012	2011
USD	0.94	0.88	0.91	0.94
GBP	1.49	1.42	1.48	1.46
EUR	1.21	1.24	1.21	1.22

## Revenue recognition

### *Sale of products*

The reported sales correspond to invoiced product deliveries to third parties and are net of sales taxes and rebates. Sales are generally recognized at the time of product deliveries, even though to some extent certain risks and rewards of ownership of the goods (decisive according to IAS 18) are transferred to the buyer at a later point in time. This simplified treatment does not have any material impact on the consolidated financial statements. 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. The respective amortization is recognized as research and development costs in the income statement. In addition, capitalized development costs are regularly reviewed for impairment and if there is evidence for impairment, they are impaired accordingly.

In particular, since all relevant capitalization criteria are met, development costs relating to the process development of new generic products are capitalized according to the stage of the project.



### **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.

#### **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. All other credit and financing costs are expensed in the period in which they are incurred.

#### **Provisions**

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

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

#### **Own shares**

Own shares are valued at acquisition cost and are deducted from equity. Gain or loss on sale of own shares are recognized in retained earnings.

#### **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 generally 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 these 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, 2012, if the euro had weakened by 10% against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been 961 kCHF (2011: 1 634 kCHF) 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, 2012, if the US dollar had weakened by 10% against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been 915 kCHF (2011: 489 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. The pre-tax profit is less sensitive to currency fluctuation in euro compared to the prior year since the receivables in euros at the balance sheet date were lower than in the prior year. For the US dollar, the pre-tax profit is more sensitive to currency fluctuation compared to the prior year since the receivables at the balance sheet date were 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 218 kCHF (2011: 178 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, 2012 were held with 67% at one financial institution in Switzerland and with 23% at one financial institution in the USA. The remaining 10% were split over several financial institutions in Switzerland and abroad (2011: 1 financial institution in Switzerland, portion: 68%; 1 institution in the USA, portion: 15% and several remaining, portion: 17%).

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. Furthermore, Bachem has the possibility, based on several existing framework agreements, to take out a loan on favorable terms at any time.

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.

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

<b>December 31, 2012</b> in 1 000 CHF	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Trade payables	10 034	1 548	155			<b>11 737</b>
Other current liabilities	2 796	1 138	5 039			<b>8 973</b>
Current financial liabilities	20	60	50 166			<b>50 246</b>
Current tax liabilities	25	1 864	1 279			<b>3 168</b>
Non-current financial liabilities				527	0	<b>527</b>

<b>December 31, 2011</b> in 1 000 CHF	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Trade payables	11 330	297	20			<b>11 647</b>
Other current liabilities	4 507	1 358	3 166			<b>9 031</b>
Current financial liabilities	9	43	48 398			<b>48 450</b>
Current tax liabilities	19	0	4 033			<b>4 052</b>
Non-current financial liabilities				775	0	<b>775</b>



### *Capital management*

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.

Bachem monitors the capital structure by reference to the equity ratio. This ratio amounted to 72% at December 31, 2012 (2011: 73%). The reported equity in the consolidated balance sheet at year-end 2012 was 327 million CHF (2011: 334 million CHF).

### **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 salability of the corresponding products.

### *Capitalized development costs*

Development costs for own developments are capitalized if the corresponding IFRS criteria are met. At December 31, 2012, intangible assets include capitalized development costs in the amount of 2 406 kCHF (2011: 2 078 kCHF). The management reviews the capitalized development costs regularly for impairment. For this purpose, discounted cash flow calculations are prepared. These calculations are based on assumptions such as discount rates and forecasts of future earnings, costs and investments attributable to the individual projects. Due to changes in the economic and market conditions, the assumptions used may differ from the actual results. These differences could have a significant impact on capitalized development costs in future periods.

## 1 Sales

The reported sales consist of the following:

in 1000 CHF	2012	2011
Products	145 847	137 554
Services	11 451	8 254
<b>Total sales</b>	<b>157 298</b>	<b>145 808</b>

in 1000 CHF	2012	2011
Active pharmaceutical ingredients (APIs)	131 930	118 928
Research chemicals (incl. custom synthesis)	25 368	26 880
<b>Total sales</b>	<b>157 298</b>	<b>145 808</b>

## 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
<b>Sales information 2012</b>					
Sales third parties	108 353	48 945	157 298	0	<b>157 298</b>
Sales intersegment	22 269	3 642	25 911	-25 911	<b>0</b>
<b>Total sales</b>	<b>130 622</b>	<b>52 587</b>	<b>183 209</b>	<b>-25 911</b>	<b>157 298</b>
<b>Income information 2012</b>					
Operating income	21 901	4 647	26 548	-4 500 <sup>1</sup>	<b>22 048</b>
Result from associates					<b>-1 520</b>
Financial income					<b>23</b>
Financial expenses					<b>-1 174</b>
<b>Earnings before taxes</b>					<b>19 377</b>
<b>Other information 2012</b>					
Additions in property, plant and equipment and intangible assets	7 747	2 009	9 756	0	<b>9 756</b>
Depreciation, amortization and impairment	-20 277	-2 013	-22 290	-16	<b>-22 306</b>
Total assets	369 497	83 693	453 190	2 119 <sup>2</sup>	<b>455 309</b>
Total liabilities	180 474	32 217	212 691	-84 205 <sup>3</sup>	<b>128 486</b>
Associates					<b>0</b>

<sup>1</sup> The amount consists of the operating income from corporate activities of -4 368 kCHF and of eliminations in the value of -132 kCHF.

<sup>2</sup> The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 160 503 kCHF, of eliminations in the value of -162 328 kCHF and of specific tax assets from Group adjustments of 3 944 kCHF.

<sup>3</sup> The amount consists of corporate liabilities of 56 150 kCHF, of eliminations in the value of -160 073 kCHF and of defined benefit plan liabilities of 19 718 kCHF.

in 1000 CHF	Europe	North America	Total segments	Corporate and eliminations	Consolidated values
<b>Sales information 2011</b>					
Sales third parties	106 543	39 265	145 808	0	<b>145 808</b>
Sales intersegment	14 079	2 958	17 037	-17 037	<b>0</b>
<b>Total sales</b>	<b>120 622</b>	<b>42 223</b>	<b>162 845</b>	<b>-17 037</b>	<b>145 808</b>
<b>Income information 2011</b>					
Operating income	14 615	4 595	19 210	-4 348 <sup>1</sup>	<b>14 862</b>
Result from associates					<b>-1 590</b>
Financial income					<b>63</b>
Financial expenses					<b>-1 097</b>
<b>Earnings before taxes</b>					<b>12 238</b>
<b>Other information 2011</b>					
Additions in property, plant and equipment and intangible assets	11 576	2 073	13 649	0	<b>13 649</b>
Depreciation and amortization	-16 084	-2 211	-18 295	-46	<b>-18 341</b>
Total assets	385 549	75 253	460 802	-802 <sup>2</sup>	<b>460 000</b>
Total liabilities	190 765	18 670	209 435	-83 372 <sup>3</sup>	<b>126 063</b>
Associates					<b>1 520</b>

<sup>1</sup> The amount consists of the operating income from corporate activities of -4 383 kCHF and of eliminations in the value of 35 kCHF.

<sup>2</sup> The amount consists of corporate assets as for example cash and cash equivalents, associates and loans to Group companies in the total of 153 198 kCHF, of eliminations in the value of -157 577 kCHF and of specific tax assets from Group adjustments of 3 577 kCHF.

<sup>3</sup> The amount consists of corporate liabilities of 54 141 kCHF, of eliminations in the value of -155 397 kCHF and of defined benefit plan liabilities of 17 884 kCHF.

In the reporting year, sales with a single customer amounted to 17 094 kCHF or 10.9% of Group sales. In the previous year, sales with a single customer amounted to 17 192 kCHF or 11.8% of Group sales. The respective sales for both years are mainly reported in the segment Europe.

<b>Information about geographical areas – sales third parties</b>		
in 1000 CHF	2012	2011
Switzerland	16 807	13 631
USA	36 146	23 694
Great Britain	20 491	20 740
Germany	20 117	18 550
Rest of the world	63 737	69 193
<b>Total</b>	<b>157 298</b>	<b>145 808</b>

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 1 000 CHF

	Dec. 31, 2012	Dec. 31, 2011
Switzerland	197 209	209 610
USA	34 990	35 994
Rest of the world	4 407	4 490
<b>Total</b>	<b>236 606</b>	<b>250 094</b>

**3 Staff costs**

in 1 000 CHF	2012	2011
Salaries and wages	-56 069	-55 339
Pension costs for defined benefit plans	-3 605	-3 286
Pension costs for defined contribution plans	-344	-344
Other social security expenses	-7 034	-7 124
Share-based payments	-812	-954
Other personnel-related costs	-2 640	-2 675
<b>Total staff costs</b>	<b>-70 504</b>	<b>-69 722</b>

**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 2012 amounted to 344 kCHF and in 2011 to 344 kCHF.

In Switzerland, Bachem Holding AG and Bachem AG 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, 2012 and 2011:

**Defined benefit plan liabilities**  
in 1 000 CHF

	Dec. 31, 2012	Dec. 31, 2011
Fair value of plan assets	68 115	60 890
Present value of defined benefit obligation	-87 833	-78 774
<b>Deficit recognized as liabilities in the balance sheet</b>	<b>-19 718</b>	<b>-17 884</b>



<b>Composition of the annual pension cost</b> in 1 000 CHF		
	2012	2011
Service cost	-6 098	-5 835
Interest cost	-2 003	-2 165
Expected return on plan assets	2 489	2 316
Plan amendment cost	-384	0
Employees' contributions	2 391	2 398
<b>Annual pension cost</b>	<b>-3 605</b>	<b>-3 286</b>

Of the total annual pension cost, 2 631 kCHF (2011: 2 406 kCHF) were included in cost of goods sold, 374 kCHF (2011: 346 kCHF) in marketing and sales costs, 84 kCHF (2011: 82 kCHF) in research and development costs and 516 kCHF (2011: 452 kCHF) in general administrative costs.

<b>Movement in the defined benefit obligation</b> in 1 000 CHF		
	2012	2011
<b>Present value of defined benefit obligation at January 1</b>	<b>-78 774</b>	<b>-72 893</b>
Service cost	-6 098	-5 835
Interest cost	-2 003	-2 165
Plan amendment cost	-384	0
Actuarial loss/gains on defined benefit obligation	-3 619	331
Benefits paid	3 045	1 788
<b>Present value of defined benefit obligation at December 31</b>	<b>-87 833</b>	<b>-78 774</b>

<b>Movement in the fair value of plan assets</b> in 1 000 CHF		
	2012	2011
<b>Fair value of plan assets at January 1</b>	<b>60 890</b>	<b>57 904</b>
Expected return on plan assets	2 489	2 316
Actuarial gains/loss on plan assets	2 081	-3 228
Employees' contribution	2 391	2 398
Employer's contribution	3 309	3 288
Benefits paid	-3 045	-1 788
<b>Fair value of plan assets at December 31</b>	<b>68 115</b>	<b>60 890</b>

The actual return on plan assets in the reporting year was 4 570 kCHF (2011: -912 kCHF).

<b>Statement of recognized actuarial losses</b> in 1 000 CHF		
	2012	2011
<b>Actuarial losses recognized in equity at January 1</b>	<b>-20 287</b>	<b>-17 390</b>
Actuarial losses recognized in equity in the current year	-1 538	-2 897
<b>Actuarial losses recognized in equity at December 31</b>	<b>-21 825</b>	<b>-20 287</b>

<b>Major categories of plan assets</b>		
fair value as a percentage of total plan assets		
	Dec. 31, 2012	Dec. 31, 2011
Money market	5.17%	5.01%
Bonds	32.67%	37.47%
Shares	35.78%	34.41%
Real estate	26.38%	23.11%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

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

<b>Assumptions for the actuarial calculations</b>	2012	2011
Discount rate	2.00%	2.50%
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)	24.7/21.2	24.6/21.1

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.

<b>Funding status summary of defined benefit plans</b>	2012	2011	2010	2009	2008
in 1 000 CHF					
Plan assets	68 115	60 890	57 904	55 536	46 117
Defined benefit obligation	-87 833	-78 774	-72 893	-71 570	-60 112
Deficit	-19 718	-17 884	-14 989	-16 034	-13 995
Experience adjustments on plan assets	2 081	-3 228	1 323	1 720	-9 756
Experience adjustments on defined benefit obligation	1 132	1 042	1 673	-206	-209
Adjustment on defined benefit obligation due to changes in assumptions	-4 751	-711	-1 816	-3 104	1 458

Bachem expects an employer's contribution to the pension plans of about 3 400 kCHF in 2013.

## 5 Financial instruments

Financial assets and liabilities are classified in the following categories:

in 1 000 CHF	Carrying amount Dec. 31, 2012	Carrying amount Dec. 31, 2011	Fair value Dec. 31, 2012	Fair value Dec. 31, 2011
<b>Financial assets</b>				
Cash and cash equivalents	27 934	20 302	27 934	20 302
Trade receivables	28 942	25 519	28 942	25 519
Other receivables	2 403	5 593	2 403	5 593
<b>Total loans and receivables</b>	<b>59 279</b>	<b>51 414</b>	<b>59 279</b>	<b>51 414</b>
Derivatives – forward foreign exchange contracts (EUR)	0	91	0	91
<b>Total derivatives at fair value through profit or loss</b>	<b>0</b>	<b>91</b>	<b>0</b>	<b>91</b>
<b>Financial liabilities</b>				
Trade payables	11 737	11 647	11 737	11 647
Other current liabilities	8 973	8 984	8 973	8 984
Current financial liabilities	50 211	48 405	50 211	48 405
Non-current financial liabilities	496	710	496	710
<b>Total financial liabilities at amortized costs</b>	<b>71 417</b>	<b>69 746</b>	<b>71 417</b>	<b>69 746</b>
Derivatives – forward foreign exchange contracts (USD)	0	47	0	47
<b>Total derivatives at fair value through profit or loss</b>	<b>0</b>	<b>47</b>	<b>0</b>	<b>47</b>

The derivatives listed in 2011 were disclosed in the positions other receivables and other current liabilities (see notes 13 and 19). 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).

## 6 Associates

<b>According to income statement</b>		
in 1 000 CHF	2012	2011
Result from associates	- 1 520	- 1 590
<b>According to balance sheet</b>		
in 1 000 CHF	Dec. 31, 2012	Dec. 31, 2011
Associates	0	1 520

### 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 at December 31, 2012 is 27.5% (2011: 27.5%). The accounting treatment remains unchanged using the equity method.

Bachem has invested 12 000 kCHF in Pevion Biotech AG so far.

As per December 31, 2012, the disclosed equity of Pevion Biotech AG is negative. Consequently Bachem valued the investment in its books at 0 kCHF (2011: 1 520 kCHF).

There are no contingent liabilities related to the investment in Pevion Biotech AG.

### Aggregated financial statements of Pevion Biotech AG

Income statement in 1 000 CHF		2012	2011
Income		87	447
Expenses		-6 617	-6 240
<b>Result</b>		<b>-6 530</b>	<b>-5 793</b>

Balance sheet in 1 000 CHF		Dec. 31, 2012	Dec. 31, 2011
Current assets		264	4 245
Non-current assets		1 685	2 092
<b>Assets</b>		<b>1 949</b>	<b>6 337</b>
Liabilities		2 951	809
Equity		-1 002	5 528
<b>Liabilities and equity</b>		<b>1 949</b>	<b>6 337</b>

### 7 Financial income

in 1 000 CHF		2012	2011
Interest income		21	30
Other financial income		2	33
<b>Total financial income</b>		<b>23</b>	<b>63</b>

### 8 Financial expenses

in 1 000 CHF		2012	2011
Interest expenses		-540	-624
Other financial expenses		-58	-69
Foreign exchange result		-576	-404
<b>Total financial expenses</b>		<b>-1 174</b>	<b>-1 097</b>

Other financial expenses mainly include bank charges.



## 9 Income taxes

in 1000 CHF	2012	2011
Current taxes	-4 028	-4 999
Deferred taxes	-49	2 170
<b>Total income taxes</b>	<b>-4 077</b>	<b>-2 829</b>

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:

<b>Tax rate reconciliation</b> in %	2012	2011
<b>Expected tax rate</b>	<b>17.9</b>	<b>22.1</b>
Adjustments from prior periods recognized in the current period	-2.8	0.2
Effect of tax rate changes	0.0	0.9
Revaluation of deferred taxes	5.9	0.0
Other items	0.0	-0.1
<b>Effective tax rate</b>	<b>21.0</b>	<b>23.1</b>

The revaluation of deferred taxes is the result of the reassessment of the application of future tax reductions.

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

## 10 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.

<b>Basic</b>	2012	2011
Net income (in 1000 CHF)	15 300	9 409
Average number of shares outstanding	13 488 349	13 471 331
<b>Basic earnings per share (CHF)</b>	<b>1.13</b>	<b>0.70</b>

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.

<b>Diluted</b>	2012	2011
Net income (in 1000 CHF)	15 300	9 409
Average number of shares outstanding	13 488 349	13 471 331
Adjustment for dilutive share options	0	0
Average number of shares outstanding for diluted earnings per share	13 488 349	13 471 331
<b>Diluted earnings per share (CHF)</b>	<b>1.13</b>	<b>0.70</b>

In the reporting year, all of the 8077 outstanding options were excluded from the calculation of diluted earnings per share as they were not dilutive (2011: 10276 options).

## 11 Cash and cash equivalents

in 1000 CHF	Dec. 31, 2012	Dec. 31, 2011
<b>Cash and cash equivalents by currency</b>		
CHF	14 745	8 827
USD	7 621	6 266
EUR	5 254	5 039
GBP	314	170
<b>Total cash and cash equivalents</b>	<b>27 934</b>	<b>20 302</b>
Thereof cash and bank balances	27 934	20 302
Thereof short-term deposits	0	0

## 12 Trade receivables

in 1000 CHF	Dec. 31, 2012	Dec. 31, 2011
Trade receivables	28 996	25 733
Provision for impairment of trade receivables	-54	-214
<b>Total trade receivables</b>	<b>28 942</b>	<b>25 519</b>

In the prior year, there were considerable receivables with one customer which equaled 11.1% 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:

<b>Movement provision for impairment of trade receivables</b> in 1000 CHF	2012	2011
<b>Provision for impairment of trade receivables at January 1</b>	<b>-214</b>	<b>-705</b>
Provision for receivables impairment	-16	-51
Receivables written off during the year as uncollectable	127	442
Unused amounts reversed	47	101
Currency translation differences	2	-1
<b>Provision for impairment of trade receivables at December 31</b>	<b>-54</b>	<b>-214</b>

The ageing analysis of trade receivables is as follows:

<b>Ageing analysis</b> in 1000 CHF	Total	Not due	Overdue and not impaired					Overdue and impaired	
			< 31 days	31-60 days	61-90 days	91-180 days	> 180 days	1-180 days	> 180 days
December 31, 2012	<b>28 996</b>	21 422	4 837	1 926	617	120	0	0	74
December 31, 2011	<b>25 733</b>	18 832	4 318	1 703	85	96	426	0	273

<b>Trade receivables by currency</b> in 1000 CHF	Dec. 31, 2012	Dec. 31, 2011
CHF	9 372	8 162
USD	13 900	8 760
EUR	5 073	8 546
GBP	28	51
JPY	569	0
<b>Total trade receivables</b>	<b>28 942</b>	<b>25 519</b>

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

### 13 Other receivables

in 1000 CHF	Dec. 31, 2012	Dec. 31, 2011
Prepaid expenses and accrued income	1 159	1 100
Derivatives	0	91
Other receivables	1 244	4 493
<b>Total other receivables</b>	<b>2 403</b>	<b>5 684</b>

Prepaid expenses and accrued income comprise prepayments for not yet received goods and services as well as accrued income. The derivatives disclosed in the prior year consist of the hedge of foreign exchange risks (see note 5). Other receivables contain VAT and withholding tax receivables and other receivables against third parties.

### 14 Inventories

in 1000 CHF	Dec. 31, 2012	Dec. 31, 2011
Raw material	14 669	16 795
Work in progress/finished goods	169 131	165 422
Provision for slow-movers	- 33 389	- 32 362
<b>Total inventories</b>	<b>150 411</b>	<b>149 855</b>

Important factors for the development of the inventories are still the higher inventory availability of generic finished goods demanded by the market, several validation batches and cutoff-date-related fluctuations as per year-end associated to shipments scheduled for 2013. A technical defect of a lyophilizer in December 2012 also contributed to the stock level. The consequent delay in delivery resulted in an unplanned, temporary inventory position of more than one million Swiss francs at year-end. Even so, the overall inventory levels of semi-finished and finished goods were reduced. Work in progress increased noticeably as a result of the improved sales and order situation.

In the reporting period, inventory in the amount of 1 013 kCHF was definitely written off (2011: 38 kCHF). 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

<b>2012</b> in 1 000 CHF	Land	Buildings	Installations, laboratory equipment and others	Assets under con- struction	Total
<b>Cost at January 1</b>	<b>18 196</b>	<b>127 972</b>	<b>238 103</b>	<b>5 730</b>	<b>390 001</b>
Additions	0	122	6 606	570	<b>7 298</b>
Disposals	0	-3	-699	0	<b>-702</b>
Reclassifications	0	115	420	-535	<b>0</b>
Currency translation differences	-209	-580	-606	-23	<b>-1 418</b>
<b>Cost at December 31</b>	<b>17 987</b>	<b>127 626</b>	<b>243 824</b>	<b>5 742</b>	<b>395 179</b>
<b>Accumulated depreciation and impairment at January 1</b>	<b>0</b>	<b>-41 982</b>	<b>-117 951</b>	<b>0</b>	<b>-159 933</b>
Depreciation	0	-3 168	-12 922	0	<b>-16 090</b>
Impairment <sup>1</sup>	0	-3	-4 079	0	<b>-4 082</b>
Disposals	0	3	699	0	<b>702</b>
Currency translation differences	0	220	415	0	<b>635</b>
<b>Accumulated depreciation and impairment at December 31</b>	<b>0</b>	<b>-44 930</b>	<b>-133 838</b>	<b>0</b>	<b>-178 768</b>
<b>Net book value at December 31</b>	<b>17 987</b>	<b>82 696</b>	<b>109 986</b>	<b>5 742</b>	<b>216 411</b>
<b>Insurance value at December 31</b>					<b>345 092</b>

<sup>1</sup> The Board of Directors decided in December 2012 to no longer pursue the development of cytotoxic active pharmaceutical ingredients. Fixed assets allocated to this API production, all located in the operating segment Europe, were subsequently impaired from 4 082 kCHF to 0 kCHF.

<b>2011</b> in 1 000 CHF	Land	Buildings	Installations, laboratory equipment and others	Assets under con- struction	Total
<b>Cost at January 1</b>	<b>18 138</b>	<b>127 604</b>	<b>229 941</b>	<b>5 584</b>	<b>381 267</b>
Additions	0	184	2 924	6 585	<b>9 693</b>
Disposals	0	-575	-827	0	<b>-1 402</b>
Reclassifications	0	580	5 861	-6 441	<b>0</b>
Currency translation differences	58	179	204	2	<b>443</b>
<b>Cost at December 31</b>	<b>18 196</b>	<b>127 972</b>	<b>238 103</b>	<b>5 730</b>	<b>390 001</b>
<b>Accumulated depreciation at January 1</b>	<b>0</b>	<b>-39 353</b>	<b>-105 444</b>	<b>0</b>	<b>-144 797</b>
Depreciation	0	-2 998	-13 120	0	<b>-16 118</b>
Disposals	0	462	790	0	<b>1 252</b>
Currency translation differences	0	-93	-177	0	<b>-270</b>
<b>Accumulated depreciation at December 31</b>	<b>0</b>	<b>-41 982</b>	<b>-117 951</b>	<b>0</b>	<b>-159 933</b>
<b>Net book value at December 31</b>	<b>18 196</b>	<b>85 990</b>	<b>120 152</b>	<b>5 730</b>	<b>230 068</b>
<b>Insurance value at December 31</b>					<b>333 005</b>

In the reporting and in the prior year, no qualifying asset was identified and consequently no borrowing costs were capitalized as property, plant and equipment.

The carrying amount of fixed assets under finance lease contracts at year-end 2012 amounted to 674 kCHF (2011: 888 kCHF). Depreciation relating to fixed assets under finance lease amounted to 214 kCHF (2011: 145 kCHF).

No assets were pledged for security of own liabilities in 2012. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

<b>Finance lease liabilities – minimum lease payments</b> in 1 000 CHF	Dec. 31, 2012	Dec. 31, 2011
Within 1 year	246	245
Between 1 and 5 years	527	775
More than 5 years	0	0
<b>Total future minimum finance lease payments</b>	<b>773</b>	<b>1 020</b>
Future interest expenses on finance lease payments	-66	-110
<b>Present value of minimum finance lease payments</b>	<b>707</b>	<b>910</b>

<b>Present value of finance lease liabilities</b> in 1 000 CHF	Dec. 31, 2012	Dec. 31, 2011
Within 1 year	211	200
Between 1 and 5 years	496	710
More than 5 years	0	0
<b>Present value of finance lease liabilities</b>	<b>707</b>	<b>910</b>

The existing finance lease contracts have been concluded in Switzerland and in the USA in the last 3 years. Their remaining durations are between 2 and 4 years and they are based on interest rates between 4% and 8.1% p.a. In all cases, the finance lease contracts are related to office and IT equipment.

<b>Operating lease liabilities – minimum lease payments</b> in 1 000 CHF	Dec. 31, 2012	Dec. 31, 2011
Within 1 year	234	168
Between 1 and 5 years	503	391
More than 5 years	0	0
<b>Total future minimum operating lease payments</b>	<b>737</b>	<b>559</b>

There are operating leases for office facilities, vehicles and buildings at the moment. The remaining life of the different contracts is between 1 and 5 years. There are renewal options for the leases of the buildings.

The recognized expenses for operating leases in the consolidated income statement 2012 was 228 kCHF (2011: 182 kCHF).

## 16 Intangible assets

2012 in 1 000 CHF	Goodwill	Capitalized development costs	Other intangible assets	Total
<b>Cost at January 1</b>	<b>10 438</b>	<b>2 078</b>	<b>21 516</b>	<b>34 032</b>
Additions	0	441	2 017	<b>2 458</b>
Disposals	0	0	0	<b>0</b>
Currency translation differences	-101	0	-70	<b>-171</b>
<b>Cost at December 31</b>	<b>10 337</b>	<b>2 519</b>	<b>23 463</b>	<b>36 319</b>
<b>Accumulated amortization at January 1</b>	<b>0</b>	<b>0</b>	<b>-14 006</b>	<b>-14 006</b>
Amortization	0	-113	-2 021	<b>-2 134</b>
Disposals	0	0	0	<b>0</b>
Currency translation differences	0	0	16	<b>16</b>
<b>Accumulated amortization at December 31</b>	<b>0</b>	<b>-113</b>	<b>-16 011</b>	<b>-16 124</b>
<b>Net book value at December 31</b>	<b>10 337</b>	<b>2 406</b>	<b>7 452</b>	<b>20 195</b>

2011 in 1 000 CHF	Goodwill	Capitalized development costs	Other intangible assets	Total
<b>Cost at January 1</b>	<b>10 411</b>	<b>844</b>	<b>19 227</b>	<b>30 482</b>
Additions	0	1 234	2 722	<b>3 956</b>
Disposals	0	0	-480	<b>-480</b>
Currency translation differences	27	0	47	<b>74</b>
<b>Cost at December 31</b>	<b>10 438</b>	<b>2 078</b>	<b>21 516</b>	<b>34 032</b>
<b>Accumulated amortization at January 1</b>	<b>0</b>	<b>0</b>	<b>-12 261</b>	<b>-12 261</b>
Amortization	0	0	-2 223	<b>-2 223</b>
Disposals	0	0	480	<b>480</b>
Currency translation differences	0	0	-2	<b>-2</b>
<b>Accumulated amortization at December 31</b>	<b>0</b>	<b>0</b>	<b>-14 006</b>	<b>-14 006</b>
<b>Net book value at December 31</b>	<b>10 438</b>	<b>2 078</b>	<b>7 510</b>	<b>20 026</b>

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 1 852 kCHF (2011: 1 860 kCHF) is included in cost of goods sold, recognized in the income statement, 22 kCHF (2011: 25 kCHF) in marketing and sales costs, 25 kCHF (2011: 15 kCHF) in research and development costs and 235 kCHF (2011: 323 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 3 634 kCHF (2011: 3 735 kCHF), Switzerland with a goodwill of 6 383 kCHF (2011: 6 383 kCHF) and the Clinalfa® business with a goodwill of 320 kCHF (2011: 320 kCHF) and the Clinalfa® brand of 480 kCHF (2011: 480 kCHF).

The impairment, respectively the value of the above-mentioned cash-generating units North America, Switzerland, 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 11.4% (2011: 12.4%), for Switzerland 6.9% (2011: 7.8%) and for the Clinalfa® business 6.9% (2011: 7.8%). 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, a slight above-average growth is anticipated compared to the whole Group, as well as an improvement in the operating margin of about 0.6 percentage points per year. For the cash-generating unit Switzerland, an average growth is assumed, as well as an improvement in the operating margin of about 3 percentage points per year. For the cash-generating unit Clinalfa®, an average growth and an improvement in the operating margin of about 1.5 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, 2012	Dec. 31, 2011
Trade payables	9 691	10 351
Prepayments	2 046	1 296
<b>Total trade payables</b>	<b>11 737</b>	<b>11 647</b>

Trade payables by currency in 1000 CHF	Dec. 31, 2012	Dec. 31, 2011
CHF	6 493	9 162
USD	4 347	1 863
EUR	696	485
GBP	191	137
JPY	10	0
<b>Total trade payables</b>	<b>11 737</b>	<b>11 647</b>

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, 2012	Dec. 31, 2011
Deferred income and accrued expenses	6 688	5 002
Derivatives	0	47
Other current liabilities	2 285	3 982
<b>Total other current liabilities</b>	<b>8 973</b>	<b>9 031</b>

Deferred income and accrued expenses mainly consist of accruals for staff cost. The derivatives disclosed in the prior year consist of the hedge of foreign exchange risks (see note 5).

## 20 Financial liabilities

in 1000 CHF	Dec. 31, 2012	Dec. 31, 2011
Loans from related parties	0	16 205
Bank loans	50 000	32 000
Finance lease liabilities	707	910
<b>Total financial liabilities</b>	<b>50 707</b>	<b>49 115</b>
Thereof current financial liabilities	50 211	48 405
Thereof non-current financial liabilities	496	710

Loans from related parties (see note 26) and bank loans were provided as unsecured business loans in CHF and bear an average interest of 0.9% p.a. The maturity of the bank loans is less than 6 months and the other loans have an open-ended maturity.

Details concerning finance leases are disclosed in note 15.

## 21 Deferred taxes

The changes in deferred taxes were as follows:

Deferred tax assets in 1 000 CHF	Receivables	Inventories	Property, plant and equipment	Liabilities	Tax loss carry- forwards	Defined benefit plan	Total
<b>Balance at January 1, 2011</b>	<b>244</b>	<b>1 949</b>	<b>72</b>	<b>574</b>	<b>638</b>	<b>2 998</b>	<b>6 475</b>
Recognized in profit and loss	-146	-237	316	-33	-380	0	-480
Recognized in equity	0	0	0	0	0	579	579
Currency translation differences	-1	7	0	5	-8	0	3
<b>Balance at December 31, 2011</b>	<b>97</b>	<b>1 719</b>	<b>388</b>	<b>546</b>	<b>250</b>	<b>3 577</b>	<b>6 577</b>
Recognized in profit and loss	-92	243	-71	-39	-243	59	-143
Recognized in equity	0	0	0	0	0	308	308
Currency translation differences	-3	-18	0	-12	-7	0	-40
<b>Balance at December 31, 2012</b>	<b>2</b>	<b>1 944</b>	<b>317</b>	<b>495</b>	<b>0</b>	<b>3 944</b>	<b>6 702</b>

Deferred tax liabilities in 1 000 CHF	Securities	Receivables	Inventories	Property, plant and equipment	Intangible assets	Liabilities	Total
<b>Balance at January 1, 2011</b>	<b>0</b>	<b>330</b>	<b>13 588</b>	<b>20 272</b>	<b>1 445</b>	<b>1 342</b>	<b>36 977</b>
Recognized in profit and loss	0	50	-3 485	682	107	-4	-2 650
Recognized in equity	0	0	0	0	0	0	0
Currency translation differences	0	-1	0	8	0	0	7
<b>Balance at December 31, 2011</b>	<b>0</b>	<b>379</b>	<b>10 103</b>	<b>20 962</b>	<b>1 552</b>	<b>1 338</b>	<b>34 334</b>
Recognized in profit and loss	0	45	-31	1 101	-276	-933	-94
Recognized in equity	0	0	0	0	0	0	0
Currency translation differences	0	1	0	-58	0	0	-57
<b>Balance at December 31, 2012</b>	<b>0</b>	<b>425</b>	<b>10 072</b>	<b>22 005</b>	<b>1 276</b>	<b>405</b>	<b>34 183</b>

Tax loss carry-forwards by expiry date in 1 000 CHF	Dec. 31, 2012	Dec. 31, 2011
Up to 5 years	0	0
More than 5 years	0	734
<b>Total tax loss carry-forwards</b>	<b>0</b>	<b>734</b>

At December 31, 2012, 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 6 798 000 shares Bachem -B- (49.99% of share capital). The shares -B- are traded at the SIX Swiss Exchange in Zurich under valor number 1 253 020. There are no differences between the two share categories except the listing of the -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 96.

	Dec. 31, 2012	Dec. 31, 2011
<b>Shares Bachem -A-</b>		
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
<b>Shares Bachem -B-</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
<b>Total number of shares</b>	<b>13 600 000</b>	<b>13 600 000</b>
<b>Total share capital (in CHF)</b>	<b>680 000</b>	<b>680 000</b>

On December 31, 2012, Bachem Holding AG held 108 705 own shares, of which 27 334 are reserved for trading and 81 371 for distribution under the employee participation plans.

<b>Own shares</b>		Purchases/ backslide of blocked shares	Sales/ transfer to employees	
Number	Dec. 31, 2011			Dec. 31, 2012
Employee participation plans at the price of 0.05 CHF	92 779	3 500	- 14 908	<b>81 371</b>
Treasury stock at the price of 47.69 CHF	26 884	450 <sup>1</sup>	0	<b>27 334</b>
<b>Total own shares</b>	<b>119 663</b>	<b>3 950</b>	<b>- 14 908</b>	<b>108 705</b>

<sup>1</sup> The shares were acquired on the market at an average price of 34.96 CHF.

<b>Outstanding shares</b>	Dec. 31, 2012	Dec. 31, 2011
Total number of shares	13 600 000	13 600 000
Number of own shares Bachem -B-	- 108 705	- 119 663
<b>Total shares outstanding</b>	<b>13 491 295</b>	<b>13 480 337</b>

## 23 Share-based payment

The employee and management participation plans are described in the accounting policies on pages 64 and 65. The recognized expenses for share-based payments in the reporting period amounted to 812 kCHF (2011: 954 kCHF).

In 2012 and 2011, the following number of shares was granted

<b>Shares granted</b> Number/CHF	2012	2011
Number of granted shares	14 908	12 550
Average fair value per share at grant date in CHF	34.57	49.47

The option plan developed as follows:

	2012		2011	
<b>Share options outstanding</b>	Number of options	Weighted average exercise price in CHF	Number of options	Weighted average exercise price in CHF
<b>At January 1</b>	<b>10 276</b>	<b>67.45</b>	<b>9 593</b>	<b>79.00</b>
Granted options	2 850	43.00	3 800	54.00
Cancelled options	-2 832	67.52	-500	81.40
Expired options	-2 217	79.96	-2 617	87.63
Exercised options	0	0.00	0	0.00
<b>At December 31</b>	<b>8 077</b>	<b>55.36</b>	<b>10 276</b>	<b>67.45</b>
<b>Exercisable options</b>	<b>2 501</b>	<b>66.10</b>	<b>3 051</b>	<b>79.53</b>

The fair values at grant date of the options granted in 2012 are 1.36 CHF for options GA, 1.62 CHF for options GB and 1.72 CHF for options GC (2011: 7.08 CHF for options FA, 7.26 CHF for options FB and 7.76 CHF for options FC).

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 2012:

<b>Parameters 2012</b>	Options GA	Options GB	Options GC
Share price at grant date in CHF	33.60	33.60	33.60
Strike of a share in CHF	43.00	43.00	43.00
Risk-free interest rate in %	0.01%	0.05%	0.21%
Volatility in %	22.30%	21.90%	21.00%
Dividend yield in %	4.40%	4.40%	4.40%
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 2011:

<b>Parameters 2011</b>	Options FA	Options FB	Options FC
Share price at grant date in CHF	56.80	56.80	56.80
Strike of a share in CHF	54.00	54.00	54.00
Risk-free interest rate in %	0.80%	1.06%	1.31%
Volatility in %	20.50%	19.50%	19.60%
Dividend yield in %	4.00%	4.00%	4.00%
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	2012	2011
Year 2012	68.00	0	1 203
Year 2012	80.00	0	1 036
Year 2012	96.00	0	812
Year 2013	54.00	936	1 270
Year 2013	68.00	869	1 203
Year 2013	80.00	696	1 028
Year 2014	43.00	953	0
Year 2014	54.00	936	1 270
Year 2014	68.00	862	1 194
Year 2015	43.00	953	0
Year 2015	54.00	928	1 260
Year 2016	43.00	944	0
<b>Total</b>		<b>8 077</b>	<b>10 276</b>

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

## 24 Dividend distribution

On May 3, 2012, a dividend of 20233 kCHF, respectively 1.50 CHF per share was distributed for the year 2011 (previous year: 33 692 kCHF, respectively 2.50 CHF per share). Of the total dividend in the amount of 20233 kCHF (previous year: 33 692 kCHF), 10 030 kCHF (previous year: 16 687 kCHF) were paid out and 10 203 kCHF (previous year: 17 005 kCHF) remained as a loan (see note 26).

The Board of Directors will propose a dividend of 1.50 CHF per share or a total of 20252 kCHF on 13 501 305 shares entitled to dividend, to the Annual General Meeting for the year 2012. The number of shares entitled to dividend may change until the Annual General Meeting on April 24, 2013 due to the granting of shares to employees or the purchase/sale of own shares.

## 25 Consolidated companies

Company	Country	Equity share <sup>1</sup> Dec. 31, 2012	Equity share <sup>1</sup> Dec. 31, 2011
Bachem Holding AG, Bubendorf	Switzerland	Parent company	Parent company
Bachem AG, Bubendorf	Switzerland	100%	100%
Bachem Distribution Services GmbH, Weil am Rhein	Germany	100%	100%
Bachem (UK) Ltd., St. Helens	England	100%	100%
Bachem Americas, Inc., Torrance	USA	100%	100%
Bachem, Inc., Torrance <sup>2</sup>	USA	n/a	100%
Bachem Bioscience, Inc., King of Prussia <sup>3</sup>	USA	n/a	100%
Peninsula Laboratories, LLC, San Carlos	USA	100%	100%

<sup>1</sup> directly or indirectly

<sup>2</sup> Bachem, Inc., Torrance, was merged with Bachem Americas, Inc., Torrance, as per January 1, 2012.

<sup>3</sup> Bachem Bioscience, Inc., King of Prussia, was liquidated as per November 30, 2012. The operational activities have been fully transferred to Bachem Americas, Inc., Torrance.

## 26 Related party transactions

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

<b>Transactions</b> in 1 000 CHF	2012	2011
Chemoforma AG (purchase of goods)	-19	-33
Ingro Finanz AG (dividend/sale of securities/interest payments/further charging)	-10 585	-16 863
Pevion Biotech AG (delivery of goods)	6	36
Polyphor AG (delivery of goods)	587	1 478
Pension fund (employer's contribution)	-3 309	-3 288
Sunstar Group (seminar)	-7	-8
<b>Total transactions with related parties</b>	<b>-13 327</b>	<b>-18 678</b>

<b>Balances</b> in 1 000 CHF	Dec. 31, 2012	Dec. 31, 2011
Chemoforma AG	0	0
Ingro Finanz AG	0	-16 191
Polyphor AG	227	328
<b>Total balances with related parties</b>	<b>227</b>	<b>-15 863</b>

In 2012, a dividend in the amount of 10 516 kCHF was distributed to Ingro Finanz AG (2011: 17 527 kCHF). From this amount, 313 kCHF were paid out (2011: 522 kCHF) and 10 203 kCHF (2011: 17 005 kCHF) were converted into a loan. In the reporting year, a total of 26 408 kCHF of the loans was repaid (2011: 9 000 kCHF and 800 kCHF by offsetting as a result of sale of own shares), hence all loans from Ingro Finanz AG are fully paid back as per December 31, 2012 (2011: outstanding amount of 16 205 kCHF; see note 20). The interest expense recognized on the loans from Ingro Finanz AG in 2012 amounted to 75 kCHF (2011: 161 kCHF). For administrative services 6 kCHF (2011: 25 kCHF) were further charged to Ingro Finanz AG, of which 0 kCHF were outstanding at year-end (2011: 14 kCHF).

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:

2012 in 1 000 CHF	Fix salaries, fees	Variable salaries	Pension plan contri- bution	Other social security expenses	Share-based payments	Total
Kuno Sommer (Chairman since April 25, 2012)	95 <sup>1</sup>			8	0	103
Peter Grogg (Chairman until April 25, 2012)	42			4	10	56
Nicole Grogg Hötzer (Vice-Chairman)	44			4	10	58
Gottlieb Knoch (Vice-Chairman until April 25, 2012)	14			1	10	25
Jürgen Brokatzy-Geiger (Member)	45			4	10	59
Thomas Burckhardt (Secretary)	71 <sup>2</sup>			4	10	85
Hans Hengartner (Member)	44			2	10	56
Rolf Nyfeler (Member since April 25, 2012)	44			3	0	47
<b>Total Board of Directors</b>	<b>399</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>60</b>	<b>489</b>
Thomas Früh (CEO since April 1, 2012) <sup>3</sup>	191	100	32	17	14	354
Rolf Nyfeler (CEO until March 31, 2012)	152 <sup>4</sup>	33	23	19	3	230
Rest of the Corporate Executive Committee	493	214	75	43	88	913
<b>Total Corporate Executive Committee</b>	<b>836</b>	<b>347</b>	<b>130</b>	<b>79</b>	<b>105</b>	<b>1 497</b>
<b>Total</b>	<b>1 235</b>	<b>347</b>	<b>130</b>	<b>109</b>	<b>165</b>	<b>1 986</b>

<sup>1</sup> incl. 10 kCHF for consultancy services before April 25, 2012

<sup>2</sup> incl. 27 kCHF for legal services

<sup>3</sup> excl. function as COO of Bachem AG until March 31, 2012

<sup>4</sup> incl. 7 kCHF for consultancy services after March 31, 2012 and paid out accrued vacation in the amount of 58 kCHF

2011 in 1 000 CHF	Fix salaries, fees	Variable salaries	Pension plan contri- bution	Other social security expenses	Share-based payments	Total
Peter Grogg (Chairman)	130			10	17	157
Gottlieb Knoch (Vice-Chairman)	41			3	17	61
Jürgen Brokatzy-Geiger (Member)	40			4	17	61
Thomas Burckhardt (Secretary)	67 <sup>5</sup>			4	17	88
Nicole Grogg Hötzer (Member)	31			2	0	33
Hans Hengartner (Member)	41			3	17	61
<b>Total Board of Directors</b>	<b>350</b>	<b>0</b>	<b>0</b>	<b>26</b>	<b>85</b>	<b>461</b>
Rolf Nyfeler (CEO)	250	102	28	30	26	436
Rest of the Corporate Executive Committee	542	189	81	63	33	908
<b>Total Corporate Executive Committee</b>	<b>792</b>	<b>291</b>	<b>109</b>	<b>93</b>	<b>59</b>	<b>1 344</b>
<b>Total</b>	<b>1 142</b>	<b>291</b>	<b>109</b>	<b>119</b>	<b>144</b>	<b>1 805</b>

<sup>5</sup> incl. 26 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:

	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
<b>December 31, 2012</b>								
Kuno Sommer (Chairman)	3 000		3 000	0				
Nicole Grogg Hötzer (Vice-Chairman)	85 700		85 700	300				
Jürgen Brokatzy-Geiger (Member)	900		900	300				
Thomas Burckhardt (Secretary)	0		0	300				
Hans Hengartner (Member)	2 700		2 700	300				
Rolf Nyfeler (Member) <sup>1</sup>	52 660		52 660	100				
<b>Total Board of Directors</b>	<b>144 960</b>	<b>0</b>	<b>144 960</b>	<b>1 300</b>				
Thomas Früh (CEO) <sup>1</sup>	2 675	0	2 675	375	200	399	599	200
José de Chastonay (CMO)	233	0	233	233	0	0	0	0
Daniel Erne (CTO)	41 642	0	41 642	500	500	999	1 499	500
Stephan Schindler (CFO)	159	4 000	4 159	100	334	999	1 333	500
<b>Total Corporate Executive Committee</b>	<b>44 709</b>	<b>4 000</b>	<b>48 709</b>	<b>1 208</b>	<b>1 034</b>	<b>2 397</b>	<b>3 431</b>	<b>1 200</b>
<b>Total</b>	<b>189 669</b>	<b>4 000</b>	<b>193 669</b>	<b>2 508</b>	<b>1 034</b>	<b>2 397</b>	<b>3 431</b>	<b>1 200</b>

	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
<b>December 31, 2011</b>								
Peter Grogg (Chairman) <sup>1</sup>	7 767 932		7 767 932	300				
Gottlieb Knoch (Vice-Chairman)	1 171 500		1 171 500	300				
Jürgen Brokatzy-Geiger (Member)	600		600	300				
Thomas Burckhardt (Secretary)	0		0	300				
Nicole Grogg Hötzer (Member since Apr. 13, 2011)	85 400		85 400	0				
Hans Hengartner (Member)	2 400		2 400	300				
<b>Total Board of Directors</b>	<b>9 027 832</b>	<b>0</b>	<b>9 027 832</b>	<b>1 500</b>				
Rolf Nyfeler (CEO) <sup>1</sup>	52 560	0	52 560	600	500	999	1 499	500
Daniel Erne (CTO)	41 142	0	41 142	500	500	999	1 499	500
Lester Mills (CMO)	200	3 500	3 700	100	334	999	1 333	500
Stephan Schindler (CFO)	59	4 000	4 059	100	167	833	1 000	500
<b>Total Corporate Executive Committee</b>	<b>93 961</b>	<b>7 500</b>	<b>101 461</b>	<b>1 300</b>	<b>1 501</b>	<b>3 830</b>	<b>5 331</b>	<b>2 000</b>
<b>Total</b>	<b>9 121 793</b>	<b>7 500</b>	<b>9 129 293</b>	<b>2 800</b>	<b>1 501</b>	<b>3 830</b>	<b>5 331</b>	<b>2 000</b>

<sup>1</sup> Ownership of shares and options incl. related parties.

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**

As disclosed previously, Bachem AG, Bubendorf, was sued in the course of the second half-year 2010. In December 2012, the claim was dismissed by the District Court of Liestal and is pending possible appeal.

Furthermore, in the reporting year, an individual in the USA sued twelve different companies, including Bachem Inc., Torrance, for damages relating to alleged side effects caused by a drug.

Management believes that there is no merit to both of the claims 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

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## 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 54 to 92), for the year ended December 31, 2012.

### 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, 2012 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

Dr. Rodolfo Gerber  
Audit expert  
Auditor in charge

Raphael Rutishauser  
Audit expert

Basel, February 26, 2013

# Income Statement

For the years ended December 31

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in 1 000 CHF	2012	2011
<b>Income</b>		
Income from investments	11 980	12 456
Income from licenses	12 928	10 950
Interest income	4 934	5 615
Other financial income	2 286	2 223
Other income	25	26
<b>Total income</b>	<b>32 153</b>	<b>31 270</b>
<b>Expenses</b>		
Staff costs	- 2 467	- 2 199
Administration expenses	- 4 802	- 4 890
Interest expenses	- 474	- 413
Other financial expenses	- 1 922	- 2 577
Depreciation and amortization	- 100	- 129
<b>Total expenses</b>	<b>- 9 765</b>	<b>- 10 208</b>
<b>Earnings before taxes</b>	<b>22 388</b>	<b>21 062</b>
Taxes	- 911	- 769
<b>Net income</b>	<b>21 477</b>	<b>20 293</b>

# Balance Sheet

At December 31, 2012 and 2011

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in 1 000 CHF	Dec. 31, 2012	Dec. 31, 2011
<b>Assets</b>		
Cash and cash equivalents	14 045	4 812
Own shares	1 308	1 295
Other receivables from third parties	561	387
Other receivables from group companies	26 907	25 765
Prepaid expenses and accrued income	47	15
<b>Total current assets</b>	<b>42 868</b>	<b>32 274</b>
Investments	115 305	120 961
Loans to group companies	118 345	119 961
Property, plant and equipment	23	27
Intangible assets	56	152
<b>Total non-current assets</b>	<b>233 729</b>	<b>241 101</b>
<b>Total assets</b>	<b>276 597</b>	<b>273 375</b>
<b>Liabilities and equity</b>		
Other current liabilities to third parties	175	180
Other current liabilities to group companies	4 223	4 234
Financial liabilities to third parties	50 000	32 000
Shareholder loan	0	16 205
Deferred income and accrued expenses	1 464	1 265
<b>Total liabilities</b>	<b>55 862</b>	<b>53 884</b>
Share capital	680	680
Legal reserves		
General reserves	10 551	10 551
Reserves from capital contribution	59 685	79 918
Reserves for own shares	1 308	1 295
Free reserves	97 281	97 294
Retained earnings		
Retained earnings	29 753	9 460
Net income	21 477	20 293
<b>Total equity</b>	<b>220 735</b>	<b>219 491</b>
<b>Total liabilities and equity</b>	<b>276 597</b>	<b>273 375</b>

# Notes to the Financial Statements of Bachem Holding AG

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## 1 Significant investments

Company	Location	Branch		Share capital Dec. 31, 2012	Share capital Dec. 31, 2011
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. <sup>1</sup>	Torrance CA, USA	Production, sales	USD	3 000	1 000
Bachem, Inc. <sup>1</sup>	Torrance CA, USA	Production, sales	USD	n/a	3 000
Bachem Bioscience, Inc. <sup>1</sup>	King of Prussia PA, USA	Production, sales	USD	n/a	3 000 000
Pevion Biotech AG	Bern, CH	Production, sales	CHF	11 267 000	11 267 000

<sup>1</sup> Details to the change in investments are disclosed in the note 25 of the consolidated financial statements.

With the exception of Pevion Biotech AG (27.5%), all companies are controlled with 100% of the voting rights.

## 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, 2012	Dec. 31, 2011
P. Grogg (via Ingro Finanz AG) <sup>2</sup>	54.5	52.3
G. Knoch	8.6	8.6
Family of P. Grogg	6.0	6.0
Sarasin Investmentfonds AG	4.8	4.5
<b>Total important shareholders</b>	<b>73.9</b>	<b>71.4</b>

<sup>2</sup> 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 65 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 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 14, 2013, the ordinary Annual General Meeting from Bachem AG has decided to distribute a dividend in the amount of 10 000 kCHF for the business year 2012 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 2012 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

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

### Appropriation of available earnings

Retained earnings at January 1	CHF	29 753 431.84
Net income 2012	CHF	21 477 384.86
Available to the Annual General Meeting	CHF	51 230 816.70
Retained earnings to be carried forward	CHF	51 230 816.70

### Appropriation of reserves from capital contribution

Opening balance reserves from capital contribution	CHF	59 684 625.50
Transfer to free reserves for dividend payment of 1.50 CHF per registered share for the business year 2012 on 13 501 305 registered shares entitled to dividend	CHF	20 251 957.50
Reserves from capital contribution to be carried forward	CHF	39 432 668.00

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 24, 2013 depending on the distribution of shares to employees or purchase/sale of own shares.

# Report of the Statutory Auditor

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## 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 94 to 97), for the year ended December 31, 2012.

### 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, 2012 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

A handwritten signature in dark ink, appearing to read 'R. Gerber'.

Dr. Rodolfo Gerber  
Audit expert  
Auditor in charge

A handwritten signature in dark ink, appearing to read 'R. Rutishauser'.

Raphael Rutishauser  
Audit expert

Basel, February 26, 2013

# Shareholder Information

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		2012	2011	2010	2009	2008
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		13 488 349	13 471 331	13 463 630	13 444 683	13 406 601
Dividend per share	CHF	1.50 <sup>1</sup>	1.50	2.50	3.00	3.20
Share price	Beginning of the year	CHF 33.60	56.80	65.55	80.50	96.65
	High	CHF 39.30	59.00	73.05	80.50	98.00
	Low	CHF 33.00	32.00	51.00	57.00	74.75
	Year end	CHF 36.40	32.50	56.00	66.35	80.50
Dividend yield per share	%	4.1	4.6	4.5	4.5	4.0
Earnings per share (EPS)	CHF	1.13	0.70	2.10	3.43	4.38
Cash flow from operating activities per share	CHF	2.73	1.83	2.83	3.19	2.93
Group equity per share	CHF	24.23	24.79	26.67	27.97	27.98
Price/earnings ratio (year end)		32.21	46.43	26.67	19.34	18.38
Market capitalization at year end	MCHF	495	442	762	902	1 095

<sup>1</sup> Proposal to the Annual General Meeting of April 24, 2013  
distribution out of reserves from capital contribution.

Bachem registered shares are traded at the SIX Swiss Exchange.

Valor number: 1253020; SIX: BANB; Reuters: BANB.S; Bloomberg: BANB SW.

## Distribution of shares

Number of shares per shareholder	Dec. 31, 2012	Dec. 31, 2011
0–100	1 278	1 305
101–1 000	1 468	1 529
1 001–10 000	235	261
10 001–100 000	42	40
100 001–1 000 000	4	7
1 000 001 and more	2	2
<b>Total</b>	<b>3 029</b>	<b>3 144</b>

## Shareholdings

in %	Dec. 31, 2012	Dec. 31, 2011
Major shareholders	73.9	71.4
Institutional shareholders	10.3	11.7
Private individuals	11.2	11.5
Dispo	4.6	5.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### **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.

## *Events*

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### **Annual General Meeting**

*(business year 2012)*

*April 24, 2013*

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### **Payout Date for Dividend**

*May 2, 2013*

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### **Half-Year Report 2012**

*August 23, 2013*

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### **Annual Report 2013**

*March 2014*

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### **Annual General Meeting**

*(business year 2013)*

*April 2014*

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*This Annual Report  
is published in German  
and English.*

**Publisher**

*Bachem Holding AG,  
Bubendorf, Switzerland*

**Conception/Design**

*hilda design matters, Zurich*

**Photos**

*Michael Lio, Winterthur  
Jos Schmid, Zurich*

**Prepress/Print**

*Linkgroup, Zurich*

*This Annual Report  
is printed on  
FSC-certified paper.*



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