1971

2011

Bachem Annual Report 2011

BACHEM

BACHEM'S HISTORY

Bachem was established by Peter Grogg in Liestal in June of 1971 and has grown in those 40 years to become the undisputed market leader in peptide manufacture.

The company focused mainly on research chemicals in the initial years. The launch of peptide-based drugs and discovery of numerous new peptides of therapeutic interest shifted the company's focus to the production of active pharmaceutical ingredients. Bachem set a geographical milestone in 1987 with the establishment of a subsidiary in the USA. Later US acquisitions followed. Bachem significantly increased its activities in the generic drugs industry by acquiring Sochinaz SA in 2001. In 1998 Bachem enhanced its financial flexibility and secured access to growth capital by going public on the SIX Swiss Exchange.

1971 — 2011

BACHEM'S PERSPECTIVES

In its anniversary year of 2011, Bachem braved difficult market conditions to stay on course for growth in local markets. The company has succeeded in continuously and significantly increasing the number of projects in its development pipeline over the past number of years despite ever tougher competition. This reflects Bachem's strength as market leader as well as the increasing level of interest in peptides as potential active pharmaceutical ingredients in treating numerous diseases, including conditions for which no appropriate treatment method currently exists. Many patients place a lot of hope in peptides.

2012 ....

Independent studies too bear testimony to an increasing interest in peptides in the medical research community. Bachem's enhanced product range is actively helping to identify innovative new drug candidates. With its more than 40 years of experience, the world's largest pool of peptide specialists, and a proven ability to overcome new challenges on an ongoing basis, Bachem has excellent prospects in its core business.

40 years

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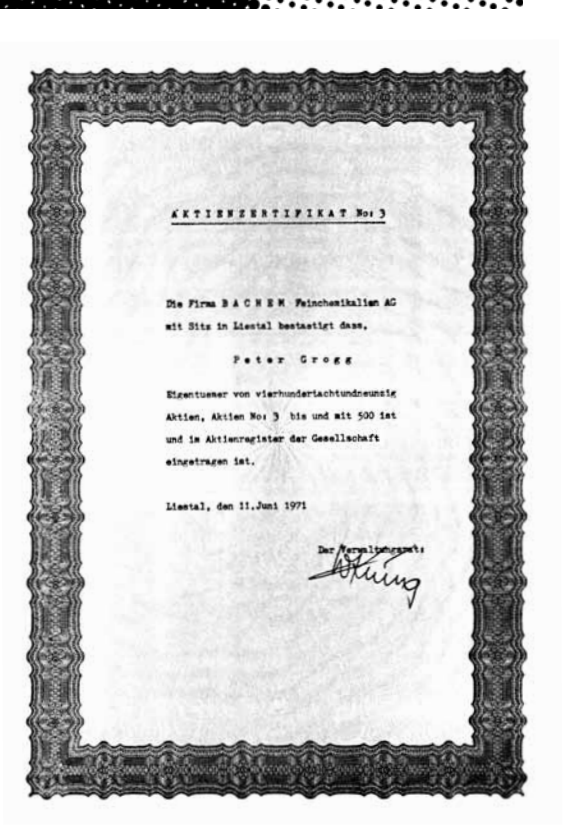
START-UP 1971

Those who dare…
Peter Grogg set up Bachem in June 1971 with a starting capital of 50 000 CHF. His goal right from the start was to earn a profit and finance all capital expenditure solely from the company's cash flow so that he could run the company the way he wanted. This conservative approach was pursued systematically and successfully, and is still evident in the balance sheet of the Bachem Group. Bachem has demonstrated high profitability throughout the company's existence in comparison with market rivals. The success of the company's business model was reflected in the high market capitalization achieved with the 1998 initial public offering.

70s

Peter Grogg, Founder , 1971
"It was only in the USA that I recognized the true potential of peptide chemistry. The continuing discovery of new peptide-based molecules triggered rising demand for peptides in Europe as well, which is what encouraged me to return to Switzerland and build up a company of my own."



AKTIENZERTIFIKAT No: 3

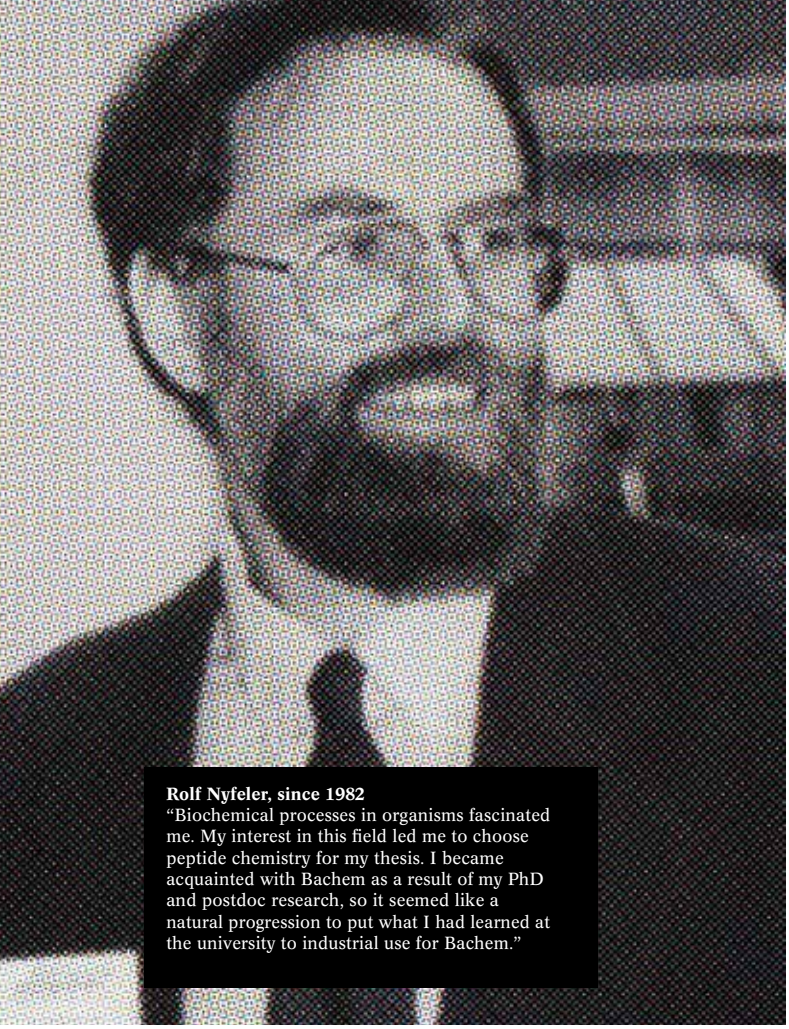
Die Firma BACHEM Feinchemikalien AG
mit Sitz in Liestal bestätigt dass,

Peter Grogg

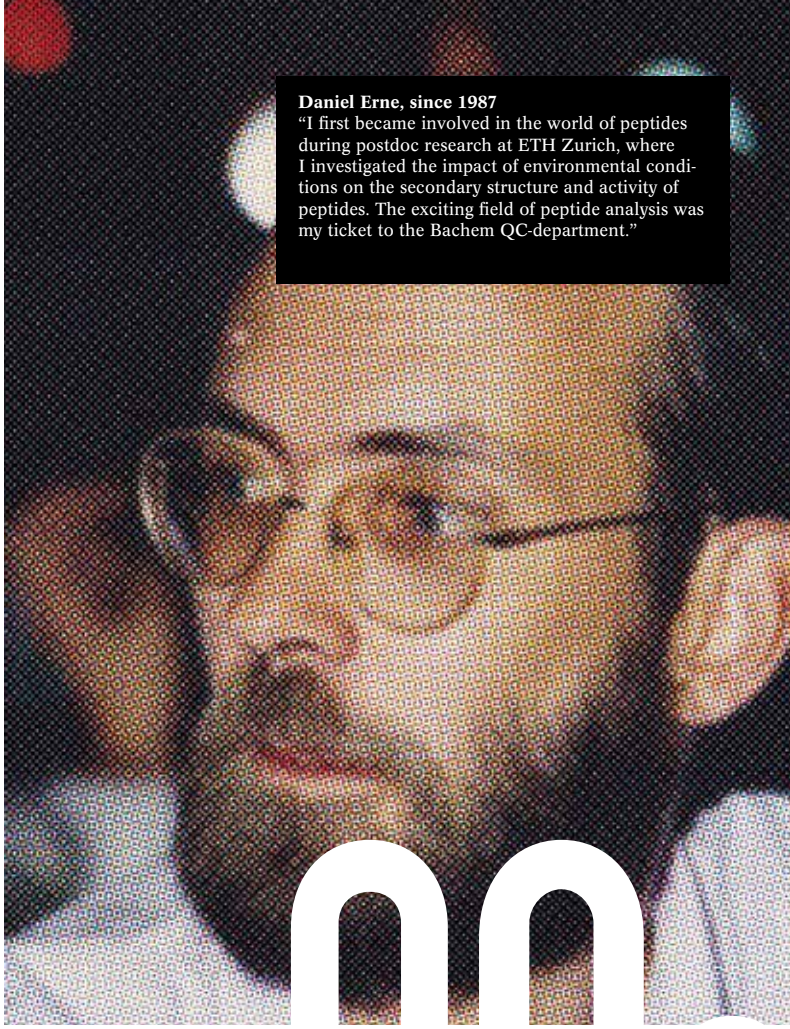
Eigentümer von vierhundertachtundneunzig
Aktien, Aktien No: 3 bis und mit 500 ist
und im Aktienregister der Gesellschaft
eingetragen ist.

Liestal, den 11.Juni 1971

Der Verwaltungsrat:



Rolf Nyfeler, since 1982
"Biochemical processes in organisms fascinated me. My interest in this field led me to choose peptide chemistry for my thesis. I became acquainted with Bachem as a result of my PhD and postdoc research, so it seemed like a natural progression to put what I had learned at the university to industrial use for Bachem."



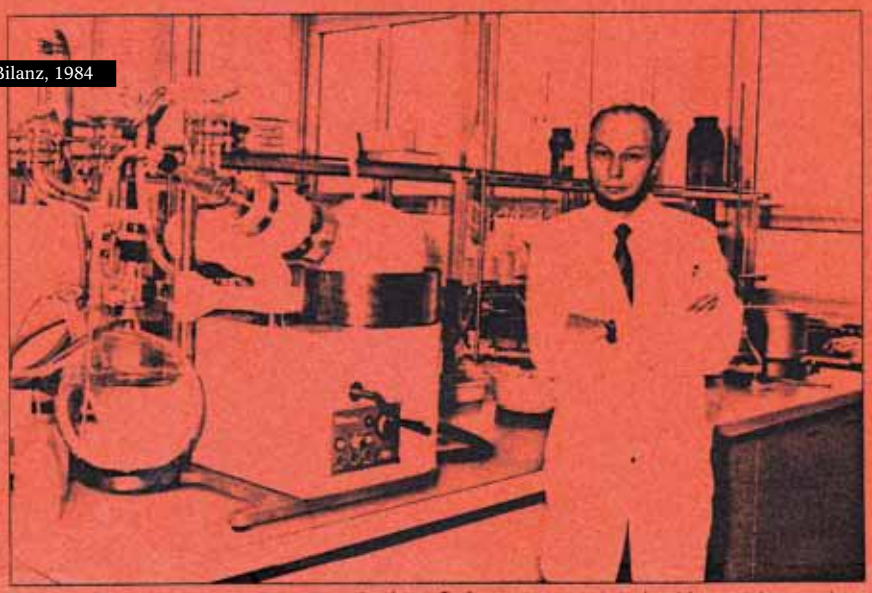
Daniel Erne, since 1987
"I first became involved in the world of peptides during postdoc research at ETH Zurich, where I investigated the impact of environmental conditions on the secondary structure and activity of peptides. The exciting field of peptide analysis was my ticket to the Bachem QC-department."

80s

50mal teurer als Gold

Als Untermieter einer Schreinerei in Liestal startete der asketisch wirkende Pionier sein Unternehmen, die Bachem AG, mit einem Startkapital von 50 000 Franken, das er sich zusammengespart hatte. Aus «Basel» und «Chemie» kombinierte der Gründer das Phantasiewort «Bachem», ein stolzer Name für die damalige Ein-Mann-Firma, die sich

Article Bilanz, 1984



Mit der Produktion von biochemischen Substanzen *erzielt das Unternehmen des 42jährigen Peter Grogg Umsatzzuwachsraten von durchschnittlich 50 Prozent.*

65 Mitarbeiter beschäftigt der 42jährige Unternehmer heute, und das Unternehmen wächst aus eige-

Universitäten. Zu den Spezialitäten der Bachem gehören Peptide. Viele körpereigene Substanzen sind Peptide. Sie spielen eine wichtige Rolle für Funktionen wie Stoffwechsel, Wachstum und Schlaf. Zu den bekannteren Peptiden zählen zum Beispiel die Interferone, das Insulin und die körpereigenen Schmerzmittel.

Der Weg zum Hersteller derar-

1980, first large quantities
Global demand for peptide-based active pharmaceutical ingredients began its steady ascent in the 1980s. Producing highly purified peptides in large quantities was a major challenge and very demanding. Peptides were accordingly expensive. Nonetheless, their specific activity and high efficiency made peptides an interesting substance class for the pharmaceutical industry. Quality was Bachem's hallmark even then.

Laboratory, 1991

90s

More than 300 employees
Demand for research chemicals and peptide-based active pharmaceutical ingredients continued to soar. Bachem invested in plant and machinery and created more than 200 new jobs. Excellently trained skilled experts are the most important asset of a highly specialized company like Bachem.

SPPS Reactor, 2001

00s

2000, engineering milestones in production
Ever-growing demands of regulatory agencies and customers called for clearly defined processes and analytical chemistry methods. Cutting-edge production facilities and analytical equipment were essential in order to meet the requirements. Bachem developed its own custom-built, state-of-the-art facilities for solid-phase peptide synthesis.

2011: Unique opportunities
In the course of its 40-year history, Bachem has built up a pool of peptide specialists unmatched anywhere in the world, with the expertise to deal with increasingly complex molecules. Excellent achievements in the synthesis of kilogram quantities of longer-chain peptides are testimony to the outstanding skills of Bachem employees. Bachem is set to remain at the top of its game now and in future thanks to their input and capabilities.

10s

Dear Shareholders

Despite ongoing market challenges, we achieved pleasing sales growth of 5.5% in local currency in 2011. The momentum from the first half of the year was held back in the third quarter as customers postponed orders and forex market turmoil escalated, but sales rebounded strongly in the fourth quarter.

Peter Grogg, Rolf Nyfeler

The strong Swiss franc had a notable impact on reported sales. Active pharmaceutical ingredients exhibited gratifying growth during the course of 2011. A positive sales trend was observed in the extremely volatile NCE business during the second half of the year along with a significant increase in demand for services associated with NCE projects. We also achieved pleasing sales growth with our generic APIs. Price reductions from the previous year were offset by strong volume growth in the year under review. Only in the research ingredients business did sales decline from the previous-year level. Besides currency movements, this was mainly attributable to cuts in research spending and scaled-back research activities in the pharmaceutical industry. Nevertheless, Bachem succeeded in further strengthening its market leadership with the reported sales growth and by further expanding its portfolio of active projects.

The somewhat modest profit growth after translation into Swiss francs contrasts with Bachem Group's operating performance in the marketplace. In fact, Bachem's capacity utilization was sharply higher compared to the previous year. Top-line growth was achieved without hiring additional personnel and operating costs were reduced considerably thanks to stringent measures, leading to an respectable EBIT margin of 15.2% at constant exchange rates. Further efficiency gains were realized as a result of the now completed integration of Sochinaz SA into Bachem AG and the roll-out of our resource planning system (ERP) in the USA at the end of the reporting period. In addition, capital spending was reduced to a significantly lower level than in the previous year.

As for the coming year, we are expecting sales growth in local currency to be within the forecast long-term range despite the still demanding market conditions and uncertainties. We also expect a slight improvement in operating profitability given a stabilization on the currency front.

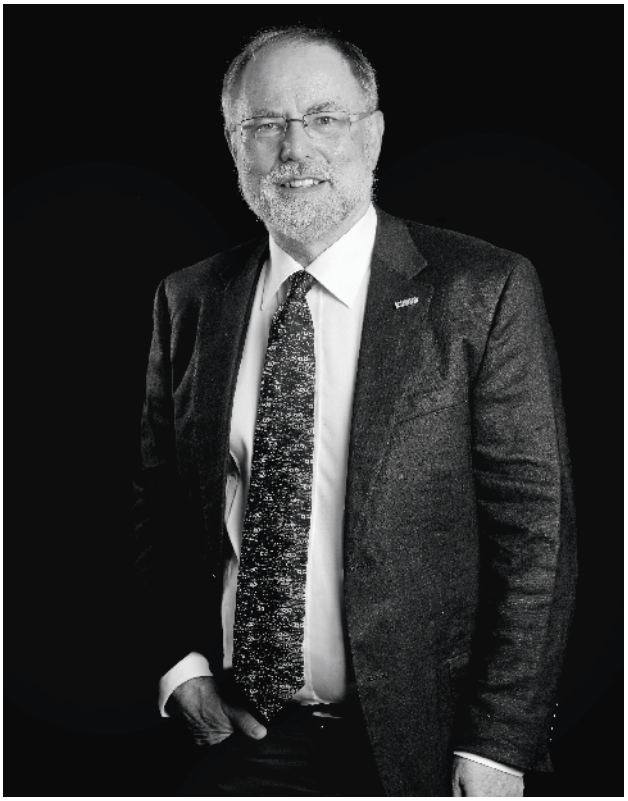
The financial stability of our company allows us to propose a dividend of CHF 1.50 for the past fiscal year. For the first time, payment will be made from reserves from capital contribution.

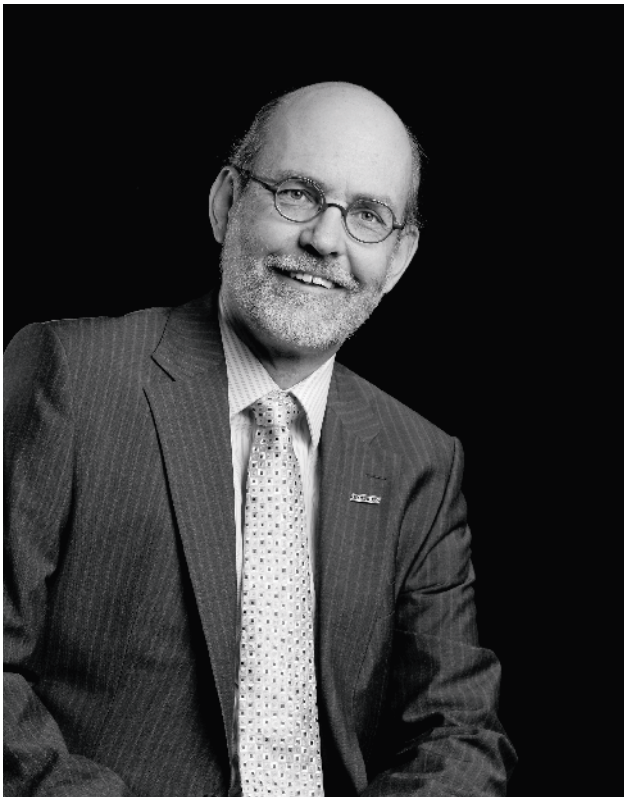
We thank you, dear shareholders, for your continued confidence in our company, particularly during challenging times.

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

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

Corporate Executive Committee





Dr. Rolf Nyfeler, CEO

Keeping the ship on course on troubled seas in stormy winds is not always easy. We succeeded thanks to a first class crew and excellent team spirit and are confident in being able to push ahead in 2012.

Dr. Daniel Erne, CTO

Bachem is highly committed to the quality of its products and services. As an integral part of our strategy and company-wide initiative, quality is the focal point of our daily work and the cornerstone of all of our corporate activities. Our enduring quest for quality and excellence is a guarantee of our lasting success in the marketplace.

Dr. Lester Mills, CMO

Bachem has great substance and an excellent project pipeline. During the last forty years, Bachem has had to overcome many challenges, and Bachem will also overcome and prevail through the current economic turmoil.

Stephan Schindler, CFO

Every day our employees prove that Bachem did not become the sector's top winning team by chance. With their expertise, experience and passion, projects are managed, problems resolved and measures implemented in record time. This is how we can and will successfully shape our future.

Positive Development in Jubilee Year

Partly, results in local currency were significantly better than last year. Productivity increased. Reported results in CHF overshadowed by currency translation effects. Margins reached 10.2% (EBIT) and 22.8% (EBITDA).

Continued Local Sales Growth

Sales rose by 5.5% in local currencies. Generics proved to be a pillar of stability, delivering 6.6% sales growth. NCE sales rose 2.3%. Our upward trend has been sustained.

CAPEX Reduced

Existing infrastructure and capacity are more than adequate and allowed CAPEX to be reduced to 13.1 million CHF, primarily for replacement and compliance purposes.

"Connect" Vionnaz

Sochinaz SA in Vionnaz and Bachem AG in Bubendorf were merged into a single entity in 2011. The "Connect" project is another example of highly successful collaboration between different parts of the company and the Group's ability to reach a common solution. "Quality Matters" – also in our own internal affairs.

Productivity Increased

Despite the large increase in production volumes and local sales growth, the number of employees has held steady. Significant cost savings were achieved and capital expenditure was scaled back.

1.50 CHF

Dividend of 1.50 CHF per share, paid for the first time from reserves from capital contribution. Attractive dividend yield maintained.

22.8%

EBITDA was almost unchanged at 33.2 million CHF and the margin improved to 22.8% in 2011. Excluding exchange-rate movements, EBITDA was a high 43.2 million CHF with a corresponding margin of 26.8%.

Sound Balance Sheet

Bachem remains a financially very strong company with an equity ratio of 72.6%. Loans were secured at favorable rates and without any restrictive covenants.

Overshadowed by Strong CHF

Fiscal 2011 was marked by the unprecedented appreciation of the Swiss franc. The local currency results achieved in our 40th anniversary year sustained the positive key trends in sales, productivity and cost management but turbulence on the currency front led to historically extreme corrections in the reported results. Sales were reduced by 15.6 million CHF, more than 10% of the reported figure, and EBITDA and EBIT were hit by massive exchange-rate adjustments of 10.0 million CHF and 9.6 million CHF, respectively.

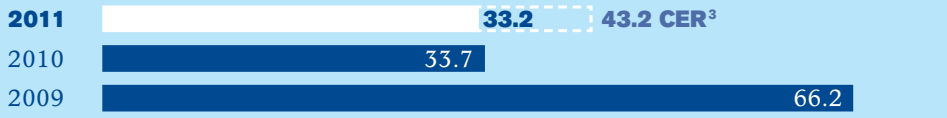
Key Figures

	2011	2010	Changes in % CHF	Changes in % LC
Sales (in MCHF)	**145.8**	152.9	**– 4.6**	**+ 5.5**
EBITDA (in MCHF)	**33.2**	33.7	**– 1.5**	**+ 28.3**
EBITDA in % of sales	**22.8 %**	22.1 %		
EBIT (in MCHF)	**14.9**	15.7	**– 5.2**	**+ 56.2**
EBIT in % of sales	**10.2 %**	10.3 %		
Net income (in MCHF) [1]	**9.4**	28.3	**– 66.7**	
Net income in % of sales	**6.5 %**	18.5 %		
Earnings per share (EPS – in CHF)	**0.70**	2.10	**– 66.7**	
Cash flow from operating activities (in MCHF)	**24.6**	38.1	**– 35.4**	
Return on equity (ROE)	**2.7 %**	7.7 %		
Number of employees (in full-time equivalents)	**671**	668		
Sales per employee [2] (in CHF)	**231 000**	233 000		

[1] The prior year value contains a one-time special effect in the amount of 16.1 million CHF from the disposal of the stake in Polyphor AG.
[2] basis: average full-time equivalents excluding apprentices

Sales (in MCHF)

EBITDA (in MCHF)



EBIT (in MCHF)

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

The Fundamentals are Healthy

Generic business increased again in 2011, reflecting stable growth of the core business. This was achieved by securing major long-term contracts and higher market share. Additionally, the NCE project pipeline was expanded as well, so the fundamentals are healthy.

173 Projects

The number of projects in preclinical and clinical phases grew from 138 to 173 during 2011. For the fourth consecutive semester, Bachem has added projects to its portfolio.

Increased Service Revenues

Very strong growth was observed in service revenues, which is associated with more developmental project work and a strong NCE pipeline. The results reflect a positive and sustained outlook regarding successful project acquisition and market penetration.

Entry into China

Several product registrations were filed for the Chinese market. Sales of generics in China was more than doubled in 2011.

Work-Force Stable

Staff levels were held steady in 2011 to ensure our capability to manage the increasing number of NCE projects and higher production volumes of generics..

Small-Scale R&D Business

Largely as a result of weak currencies but also because of shallower demand, the sales for catalog research products and custom synthesis slowed significantly in the second half of 2011. Various initiatives were undertaken in 2011 to counter this trend and better support this early stage of Bachem's business model.

Accumulation of Strengths

Although market conditions and macroeconomic factors were creating headwinds for the pharmaceutical sector, Bachem continued to increase market share and acquired new projects. These accumulated strengths have partly compensated for the severely adverse currency movements of the US dollar and Euro versus the Swiss franc.

Synthetic Superiors

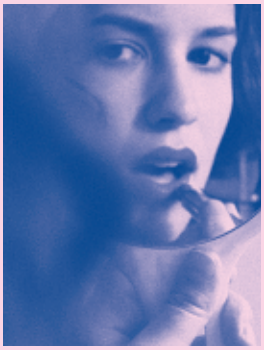
Bachem has commenced new projects aimed at synthesizing complex peptides which were formerly produced by re-combinant methods. This work will move beyond the past limitations which restricted Bachem's ability and scope to manufacture synthetically large and complex therapeutic proteins.

"Quality Matters" Always

Bachem pursues its "Quality Matters" positioning in the market and makes a clear message that quality cannot be compromised. By bringing more and more clinical projects to Bachem for API development, customers place increased trust in our partnership.

Beautiful Peptides

Cosmetic peptides had a strong performance in 2011. Various projects related to anti-aging and anti-wrinkle active peptide ingredients developed positively.



From Acorns to Oak Trees

Although launched only a year ago, sales of Melusine® have grown already by more than 100% and are expected to repeat this growth in the coming year. This novel drug discovery and lead-finding tool has been met with strong customer interest.

A Rising TIDE Lifts All Boats

Several collaboration agreements were signed in 2011. As an example, Bachem will work with BioSpring in the field of oligonucleoTIDE – pepTIDE conjugates.

Market Dynamics

The market was slammed by powerful exchange-rate headwinds. Both the US dollar and Euro reached historic lows versus the Swiss franc. Nevertheless, the market proved resilient in certain sectors.

Fast and Furious

The year 2011 proved to be a fast moving roller-coaster in terms of sales dynamics with a strong first half-year local-currency growth of 17.5%. In the second half-year there was a rapid downward development in the third quarter followed by a strong surge in sales in December. The mid-point of the year represented the pivotal change of the major currencies (USD, EUR, GBP) into a dramatically weaker phase of exchange versus the Swiss franc. Fortunately, this critical period was short-lived and exchange rates had almost recovered by December to the former levels of early 2011. Overall, this resulted in a 5.5% annual growth in local currency.

The pressure on profitability was felt throughout the fine chemicals industry and is likely to result in further consolidation and restructuring among competitors in the near term future. Some advantage was taken of the fact that, as a company with a solid track record, Bachem is perceived as a "safe haven" for important projects by many customers.

Given this challenging macroeconomic background, the pharmaceutical industry held steady and, especially for generics, demand for more volume has fuelled solid local-currency growth and performance. Having both a portfolio of small molecule and peptide generics and a total generic share of the business of nearly 60%, Bachem is well positioned to take part in the growth of generic drugs for the future.

Larger pharmaceutical companies and especially generic players remained reliable customers while smaller biotech and academic companies struggled with their cash-burn and slowed the pace of their development and research programs. Small-scale business was affected more than larger GMP projects, for which planning remained more predictable.

Turbulence but also Opportunity

Despite the world economic events of 2011, opportunities were to be found at industry tradeshows and customer meetings displayed a very active and vital pharmaceutical business. Bachem experienced the busiest time at the major tradeshows and exhibitions, e.g. at the DCAT (Drug, Chemical & Associated Technologies Association) in the USA and the CPhI (Convention on Pharmaceutical Ingredients) in Europe, with record numbers of customer meetings.

The interest of large pharmaceutical companies in alliances with small biotech was strong again and the ensuing rejuvenation of their R&D has become part of an industry strategy to achieve innovation and provide an answer to the impending "patent cliff" of commercial pharmaceuticals.

For some years now biological recombinant drugs have represented a major growth factor for the pharmaceutical industry and a comforting source of profitability. However, the biosimilars and generic versions of these drugs face the same patent cliff observed for the more conventional synthetic small molecules. Within this trend are now emerging the so-called "synthetic superiors" as a solution for "niche-buster" therapies where fermentation processes can become prohibitively expensive. This represents an opportunity for synthetic producers of peptides such as Bachem. New methods and forty years of experience in peptide chemistry allow Bachem to now consider making small proteins which were unreachable a few years ago.

Markets & Customers

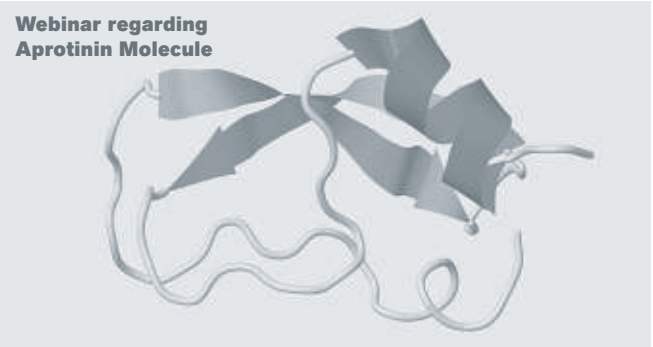
With new internet appearance, on-line shop for catalog products and other communication channels, including social media networks and webinars, Bachem enhanced interaction with customers for an even better response to their needs.

In 2011 Bachem launched its new homepage, a project which had already commenced a year before. The new homepage was designed to reflect Bachem's image as a cutting-edge biochemical innovator and producer and to improve customer information access and communication. In order to promote dialogue with visitors, many contact points were embedded into the new system. As an example, broadcast webinars are routinely initiated by Bachem to discuss novel new peptide syntheses and new ideas for drug discovery.

Now fully integrated into the new homepage, the Bachem online catalogue continues to be improved and to support researchers in their search for peptides, peptide building blocks and amino acid derivatives. Here also, suggestions for new peptide products and comments for improvement of this service are harvested through the many feedback channels. In this way, the dialogue with our customers drives the communication design process at Bachem also for the future.

Marketing presence was expanded in 2011 to include many key industry internet platforms to ensure prominent positioning of Bachem, creating further opportunities for customers to interact. Online advertising was focussed on synergies with major industry events (e.g. tradeshows) as well as package arrangements including the key popular journals in print and electronic media. Especially effective is the possibility to track the success of electronic media promotional campaigns, allowing a more cost effective and targeted marketing.

As observed across the world, social media networks provide a new and powerful connectivity to interest



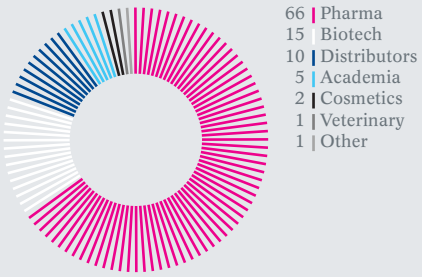
Bachem goes "online"

groups across countries, regions and continents. There are now many such systems available but the most popular among professionals are Facebook, Twitter, LinkedIn, Google+ and Xing. In 2011, Bachem has commenced its positioning and use of these systems where, in some cases, industry specific interest groups have arisen and offer a means of dialog and discussion not possible just a few years ago. As a result of these new channels, the connectivity between professionals has increased immensely and it is possible to participate in new forms of professional networking and communication.

Nevertheless, it is still important not to neglect conventional contact channels within the more traditional means of professional interaction. For this reason, Bachem launched in 2011 a "Spring Symposium" event organized in the city of Basel for a select group of customers. At this first event, the theme of peptide drug development "From Basics to Leads to Drugs" was discussed, supported by a distinguished list of speakers.

The symposium provided a great forum for customers from academia and industry to interact with Bachem experts on a personal basis. Individual direct contact will remain the preferred communication channel for professionals, now and in the future. Based on the resounding positive feedback received after this event, Bachem will repeat it again in 2012, addressing the theme of GLP (Glucagon-like peptides) for diabetes and other related indications.

Customer segmentation in percent (sales related)



Wide Range of Customers

Peptides perform vital functions in the body

Peptides are natural organic compounds that fulfill important functions in the body. Being highly active and very specific substances they are used as active pharmaceutical ingredients in drugs for a large number of medical indications.

Peptides are natural organic compounds. Originally isolated from animal organisms, peptides can now be produced by chemical synthesis or biotechnological fermentation. Peptides consist of chains of up to about 100 amino acid units; beyond that number, they would be called proteins. Peptides perform a host of important functions in the body. These include regulating metabolic processes, growth, response to pain, and many other vital tasks in the organism. Owing to their high activity and specificity, peptides make ideal active pharmaceutical ingredients in a wide range of therapeutic areas. Insertion of non-natural amino acids into chemically synthesized peptides can be used to extend their duration of action and significantly improve their activity in the body.

Animal toxins commonly consist of highly complex mixtures of peptides, and more and more peptides with the potential to be new candidate drugs are being identified from animal toxins. Especially now that peptides can be synthesized in large quantities, the substance class is of increasing importance to the biotech and pharmaceutical industry. As market leader in peptides, Bachem is the obvious alliance partner of choice.

Alzheimer's disease

Alzheimer's disease is a neurodegenerative condition whose cause has not been fully established yet. The most common form affects individuals aged 65 and over. Approximately 10 million people all over the world suffer from this form of dementia. The incidence is likely to increase over the coming years as a result of rising life expectancies and the associated demographic shift. There is no cure for Alzheimer's at the present time. The therapeutic approaches currently in use are limited to relieving the symptoms and, at best, delaying disease progression. Peptides are used for investigative purposes and potentially in therapeutic approaches as well.

Alzheimer's disease is a neurodegenerative condition whose cause has not been fully established yet.

Diabetes mellitus

Diabetes is a classic lifestyle disease. Type 2 diabetes, which is much more common than type 1 (juvenile diabetes), is due to a kind of insulin resistance that is mainly caused by obesity and lack of exercise. Experts put the prevalence of diabetes at about 6.4% of the global population and the percentage of undiagnosed cases is believed to be equally high. Of special concern is the increasing incidence of type 2 diabetes among children. While insulin injections and oral drugs are the traditional mainstay of treatment, peptides have increasingly been proposed – and approved – as therapeutic options. These new treatment modalities include GLP-1 (glucagon-like peptide -1) based strategies. Similarly to naturally occurring GLP-1, the peptides exenatide (Byetta®) and liraglutide (Victosa®)

are incretins. They work by stimulating insulin release and inhibiting glucagon production. Another peptide, pramlintide (Symlin®), is an amylin analogue with insulin-like effects. It was discovered in the saliva of the Gila monster (*Heloderma suspectum*) and is approved for treating both types of diabetes. All of these peptides are known to induce weight loss in therapeutic use, which has prompted research into their anti-obesity potential.

Oncology

In spite of significant therapeutic advances, cancer is still the second biggest killer in the Western hemisphere after cardiovascular disease. Peptides have been used for many years as anti-cancer drugs, with LHRH (Luteinizing Hormone Releasing Hormone) analogs leading the way. Many such agents are well established on the pharmaceutical market as treatments for prostate cancer, breast cancer and endometriosis. These include goserelin (Zoladex®), triptorelin (Decapeptyl®), buserelin (Suprefact®), leuprorelin (Lupron®) and others. Drug companies have established a competitive edge in this product area primarily by launching patentable depot dosage forms that release the active drug substance into the organism over a prolonged period of time with no medical intervention. More recent peptide-based treatment approaches in oncology use peptides conjugated to cytotoxic molecules. The peptides seek out the tumors in the organism and transport the cytotoxic drug to the right place, where its chemical effect kills the tumor cells at their local site. This is a comparatively gentle method of cancer chemotherapy. Peptide conjugates used to locate tumors in imaging procedures act by the same principle.

In spite of significant therapeutic advances, cancer is still the second biggest killer in the Western hemisphere after cardiovascular disease.

Vaccines

Preventive and therapeutic vaccines work by presenting the immune system with fragments or surfaces of antigens to induce the formation of disease-specific neutralizing antibodies. As many antigens are proteinogenic, constructing short protein sequences (peptides) and inserting them into vaccines seems a viable prospect. Recently published clinical trial results on the use of a peptide-based malaria vaccine in an endemic area show considerable promise. Peptides are also being investigated in ongoing clinical trials for their suitability as anti-allergy vaccines to combat cat, dog, dust mite, pollen and other allergies.

Infections

It has long been known that aquatic animals such as amphibians and crocodiles secrete peptides through glands on their skin. Toads, for example, are known to secrete peptides that are toxic to their predators. Other peptides have antibiotic activity and protect the animals from the microbes that thrive in the permanently humid environment. Pharmaceutical companies are using these insights to develop peptide-based antibiotics.

Peptides

Natural peptide	Source	Biological activity
Calcitonin	Thyroid	Reduces calcium levels in the blood
Conotoxins	Marine snails (*Conus*)	Neuronal ion channel blockers
Endorphins	Gastrointestinal tract, brain cells, placenta, kidneys and other organs	Opiates, pain reduction
Glucagon	Pancreas	Glycogen degradation
Hirudin	Leeches (*Hirudo medicinalis*)	Thrombin inhibitor
Insulin	Pancreas	Glucose uptake
Magainins	Amphibian skin	Antiinfective
Oxytocin	Pituitary gland	Uterine contraction, lactation
Parathyroid hormone	Parathyroid gland	Calcium mobilization
Somatostatin	Various organs	Inhibitor of growth hormones and other hormones
Substance P	Gastrointestinal tract and brain cells	Vasodilator, neurotransmitter
Vasoactive intestinal peptide	Gastrointestinal tract and brain cells	Vasodilator, bronchodilator
Vasopressin	Pituitary gland	Antidiuretic effect

Bachem "Partner of Choice"

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.

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

BACHEM

Bachem. Leading beyond peptides

Research Ingredients

In 2010 Bachem started a partnership with Atheris for Melusine® lead discovery kit distribution. Atheris has developed expertise in natural peptide containing venoms whilst Bachem has a wide customer base in research ingredients. This combination is expected to generate sustainable growth.

New Chemical Entities (NCEs)

Bachem signed a new agreement with BioSpring GmbH based in Frankfurt, Germany. The agreement represents a collaboration on R&D projects involving oligonucleotide-peptide conjugates, a category of developmental drugs which has strong growth potential.

Generics

Bachem offers not only small molecule generic drug ingredients produced at its site in Vionnaz, Switzerland but also generic peptide actives manufactured at Bubendorf, Switzerland, and Torrance, USA. The Group facility in Vionnaz, formerly known as Sochinaz, was integrated into Bachem AG in 2011, strengthening internal synergies and coordination.

Products & Services

Whilst sales of Research Ingredients and New Chemical Entities slowed down due to the economic down-cycle especially in the second half of 2011, Bachem's generic business resisted the adverse market conditions.

Trust is the decisive factor in the relationship between a pharmaceutical manufacturing organization and its customer. Trust is hard to earn and represents many years of consequent and professional relationship building. Bachem takes pride in being the "Partner of Choice" for many important companies in the industry.

The Bachem business model represents the long journey of a relationship between Bachem and the customer. This starts with the first small laboratory quantity of a peptide for early discovery research work through to custom synthesis scale up for pre-clinical trials and onward through the clinical trials I to III using larger GMP quantities and finally, many years later, the supply of the required volumes for the commercial market and for the generic phase of the product life cycle.

Research Ingredients

R&D activities experienced a slow business year with a decline of 9.3%. Many large pharmaceutical companies scaled back R&D activities, resulting in many job losses in the industry and the disposal of numerous facilities, among them Pfizer, Merck and BMS. This development was clearly felt in terms of catalogue sales at Bachem although currency movements were also a major contributor to this trend. Nevertheless, as distributor sales were equally impacted and pack article items sold were down, it can be concluded that weaker demand was in play during 2011. The biotech, start-up and academic sector likewise showed some sales weakness as fiscal tightness returned to the market and R&D budgets were trimmed as a consequence of the need to reduce cash-burn.

Small-scale custom synthesis sales were consequently also affected and were slightly below previous year although again, currency effects contributed significantly to this final result. However, the centralization of Bachem's small-scale custom synthesis operations at St. Helens in the UK during 2011 provides a cost-competitive basis for the future. Project acquisition improved toward year's end and the outlook for 2012 appears brighter.

Immunology sales similarly reflected poor demand, especially in Europe. Bachem has centralized the management of this business in the USA to further streamline the operation. The sales of the recently added fractionated venom kits Melusine® doubled in 2011 as large pharmaceutical customers recognized the value offered by this powerful and rewarding tool of discovery.

New Chemical Entities (NCEs)

The business of projects related to development products is by its nature unpredictable in the short term. Many factors can influence and delay the progress of a project and consequently the related sales revenue is often challenging to forecast. For example, regulatory approval, clinical trial results, patient recruitment and resource funding may all be reasons for a pharmaceutical or biotech customer to delay a delivery or even cancel an order. At the same time, these influences are entirely beyond the control of Bachem. However, an effective counter-measure is to add as many projects as possible to the portfolio in order to balance out unexpected disruptions and maintain a sustainable growth level. As the table shows below, Bachem has now over the last four semesters continually added projects to its portfolio and will continue to pursue this strategy.

As a result of this strong portfolio, although the half-year sales for this product category were weak and 9.4% below the same period in 2010, the final result in local currency for 2011 was positive and 2.3% above the full previous year. Clearly, however, the overwhelming currency effects in 2011 heavily impacted the result in Swiss francs. Nevertheless, the upswing in local currency growth demonstrates the irregular nature of this part of the business and Bachem is fortunate to have a flexible and nimble operation to accommodate such variation. Especially in the USA, sales of tesamorelin grew strongly after this product was approved for market launch. While a product may take ten years to develop through the various clinical phases, after launch the commercial material requirements increase quite dramatically. In this respect, it is promising that Bachem is working on a number of relatively advanced phase III peptide projects.

The services related to NCE projects are very diverse and also an important part of Bachem's expertise. In this respect, Bachem differentiates itself from many other active pharmaceutical ingredient (API) manufacturers who may produce even at large GMP scale but do not always offer such a comprehensive range of supportive services to pharmaceutical and biotech customers.

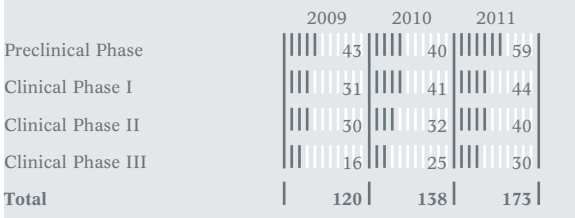
Some examples of these services are:

- *Comprehensive project management*
- *Process development and validation*
- *Analytical method development and method validation*
- *Sterile filling (Clinalfa®)*
- *Stability studies*
- *Regulatory support and preparation of regulatory documents*
- *Qualified technical documentation*

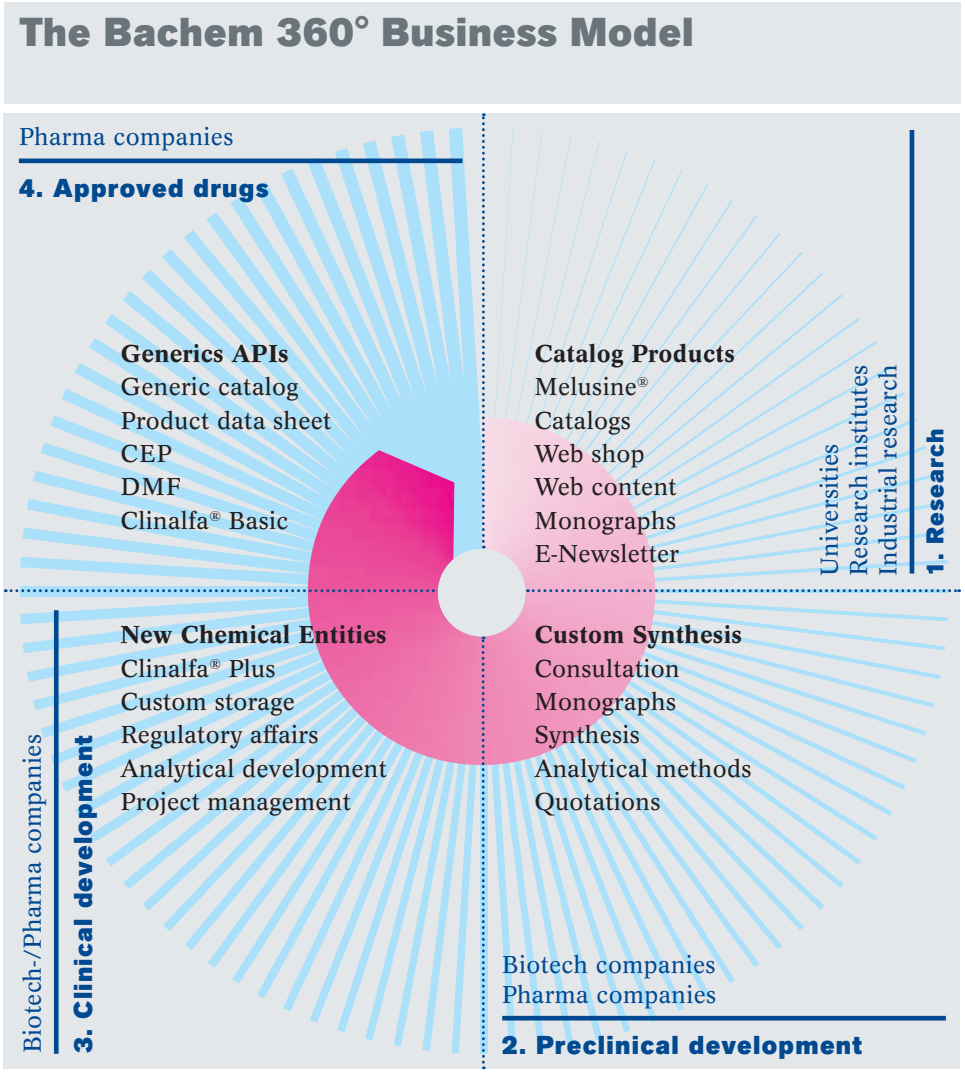
Therefore, as the portfolio of NCE projects grows, so does also the requirement for services in proportion to the number of projects acquired. In 2011, Bachem API related services grew by more than 40% in local currency, which is reflective of a very healthy rate of project acquisition and a high level of customer trust in the quality and reliability of Bachem's supporting services.

In addition, the sub-category of high potency NCEs grew very strongly in 2011 by more than 50%. As these projects require very special handling facilities, a dedicated high containment unit at Bachem's Vionnaz site is used to manufacture these products.

Projects by Clinical Phase over the last 3 Years



173 Projects



Generics

Bachem's generic business is, in contrast to the many diverse NCE projects, a mountain of stability. Sales grew by 6.6% in 2011 in local currency although again extremely weak exchange rates versus the Swiss franc heavily reduced the consolidated result. Two major long-term contracts were signed, which stabilized revenues in this category, and both peptides and small molecule generics grew in terms of local currency in 2011. Most of this growth was volume driven. Pricing remains under pressure due to global competitive pressure among generic pharma companies and from other API suppliers. However, with regard to the main active generic ingredients within the Bachem portfolio, the market share was increased and key customer partnerships were strengthened.

Additionally, growth in China progressed with several new generic ingredient registrations made and sales in 2011 more than doubling in this important growth country. Generic sales continue to grow generally throughout the BRIC region as the domestic pharmaceutical industry flourishes in these countries. India continues to rise as a powerhouse of finished dosage form generic drugs and it is expected that several Indian generic companies will be among the world's top ten in revenue by 2020

and that India itself be one of the world's top ten pharmaceutical markets. For this reason, Bachem is paying special attention to India with a view to the future positioning of its business.

The secret to success in the field of generic APIs lies in the timing and preparation for market entry as well as excellent process efficiency and cost control. Bachem created a dedicated team in 2011 to continually review potential new generic candidates and prepare the necessary steps for eventual production and market entry in future years. Some exciting new generic API opportunities are emerging in the next few years for both peptides and small molecules and Bachem is well positioned in both cases.

Looking forward, the generic drug industry continues to grow and will make dramatic strides in the next few years as many patented blockbuster drug patents expire and generic players rapidly enter the field. The pharmaceutical industry has transformed over the last decade to one which is led increasingly by generic drug companies as well as the established originators. Within the next ten years, the list of top 20 pharmaceutical companies measured by revenue will migrate in favour of generic players. Already today, several of the leading generic drug companies are also among the top 50 in pharmaceutical revenue and continue to move up the ranking list every year. It is also notable that an Indian company is already one of the top ten generic players.

This transformation reflects the continued preference and growth in the use of prescribed and OTC generic drugs by national health organizations in an attempt to control spiralling costs and demographic pressures on healthcare. The increasingly fast penetration of generic alternative drugs is an important source of future growth for Bachem.

Examples of Generic APIs Produced by Bachem and Common Application:

Generic Active Ingredient	Examples of Related Tradenames	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

Sustainability

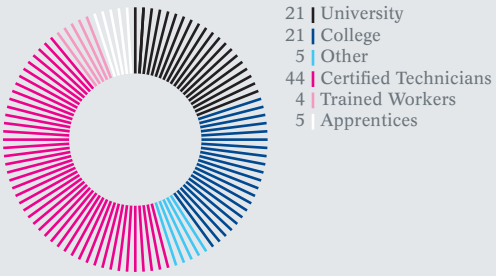
Sustainability is the basis for our activities. Responsible behavior towards all our stakeholders lays the foundation for the quality of our products and services. Today as well as in the future.

Our employees

As with any company, well trained, highly motivated employees at all levels form the basis for sustained success. Bachem employed 704 people (previous year: 698) worldwide in 671 full-time positions (previous year: 668) at the end of the year. Thereof 542 accounted for Bachem AG at the Bubendorf and Vionnaz sites, the distribution organization in Weil am Rhein (Germany) and Bachem Holding AG. Another 162 employees worked at the production sites in St. Helens (England) and the US Group companies in Pennsylvania and California. Fluctuation in the Bachem Group was 9.2% (previous year: 15.6%).

The trend observed in recent years toward ever more complex products and increasingly tough technical and regulatory requirements continues to apply. There has also been a sharp increase in customer demand for very close support all the way from receipt of the order, to delivery of the product or service, and even beyond in many cases. In the face of these developments, Bachem Group employees need to be qualified experts in their field. And they are: 42% of employees around the world have a college or university degree. 55% of employees in Switzerland have completed a vocational apprenticeship. Continuing professional and management education and training is a priority in the Bachem Group. Leadership courses commensurate with the various management levels were conducted during the year under review. Regular Group-wide meetings of specialists for R&D, production, quality assurance, finance, marketing and sales were held to share existing expertise and train new employees. These events were also instrumental in breaking down intercultural barriers and fostering integration among the participants and hence between the various Group companies concerned.

Employees by Education (FTE)
in Percent



704 Employees

Vocational Training

The dual vocational training system continues to play a major role in Switzerland. Among other merits, it ensures the employability of young school leavers and serves as a supply line of skilled workers to the labor force. Bachem has been involved in training apprentices for many years and therewith assumes responsibility to society. Bachem AG is currently training 36 apprentices, corresponding to 7.5% of total staff. This includes chemical laboratory technicians specializing in synthesis or analytical chemistry (29), office administration specialists (3), logistics specialists (2), one information technology specialist, and one polytechnician. There is a dedicated teaching lab for laboratory technician apprentices with full-time training supervisors in Bubendorf. In the year under review, 16 apprentices successfully completed their apprenticeships, 2 with distinction. Bachem AG was able to offer permanent positions to six of the graduates.

"Connect" Vionnaz

In the human resources area, full integration of Sochinaz SA, Vionnaz with Bachem AG, Bubendorf was a major challenge for the organization and for the employees concerned. There were language barriers to overcome and a host of site-specific regulations required harmonization. Tasks included standardization of employment contracts and site policies as well as adaptation of pension funds and other insurance schemes. Mixed task forces comprising employees from both sites set to work with unbridled enthusiasm to reach joint solutions. These projects contributed in a major way toward building up understanding between the different cultures and supported a successful integration process.

Raise in Working Hours

Given the unfavorable economic circumstances and the strength of the Swiss franc versus the Euro and US dollar, management voted in the period under review to raise weekly working hours in Switzerland to 43 hours in 2012 for equal pay. The move allows the company to cope with the heavy workload without a significant increase in staffing levels. The measure applies for an initial period of two years and was readily accepted by the workforce.

40 Years of Bachem

The Bachem Group celebrated the company's 40th anniversary during the year under review. The entire European workforce was invited to attend a celebration in Bubendorf. Employees took part in cultural or sporting activities in small groups during the afternoon. The official ceremony took place in the evening, with local dignitaries honoring Bachem with their presence. Bachem AG hosted a jazz matinée the following day for the local populace complete with brunch and entertainment. In the USA, all of the company's American employees met for a day out followed by a banquet in Los Angeles.

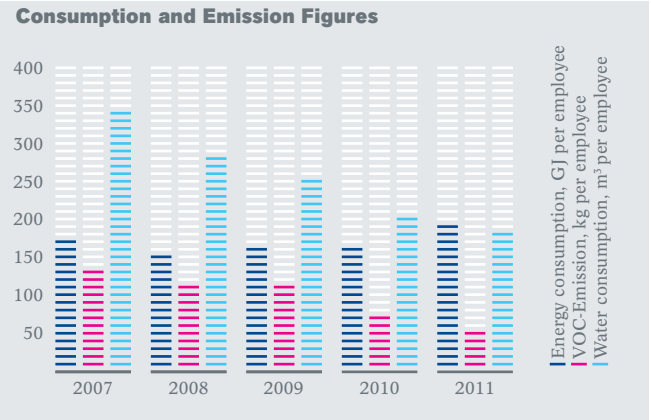
HSE: Health, Safety and Environment

Health, safety and environment are key issues for a chemical manufacturing company. Bachem is aware of its responsibilities for safety at work and conservation of resources. Risk minimization for people and the environment is a top priority and crucial to the company's sustained success. Bachem Group employs five full-time health, safety and environment officers, three at the Bubendorf site and one each in Vionnaz, Switzerland and Torrance, California. They are in charge of planning and implementing technical measures to enhance compliance and uphold constant health, safety and environment awareness on the part of staff. The HSE officers report directly to the plant manager/COO of their organization and are responsible for ensuring that applicable laws, regulations and administrative provisions are known and complied with at each site. They also liaise with external organizations and government agencies and officials.

Bachem's health, safety and environment officers advise local management in HSE matters and provide theoretical and practical risk management training for staff. In addition to preventive measures, crisis response drills are also carried out. A variety of workplace hygiene safety training courses and coaching sessions pitched at the different levels took place during the year under review. Content embraced preventive safety behavior at the workplace, safe handling of hazardous materials, deployment and proper use of personal safety equipment, and how to respond if an incident happens. Establishing and maintaining crisis response procedures in the event of an incident is a primary task, as is on-the-ground training for crisis response teams including company paramedics and fire fighters. External specialists were called in as needed for these training units. One reason prevention of occupational accidents is so important is because the incidence correlates directly with that of non-occupational accidents. Measures to lower occupational accidents have an immediately positive impact in terms of lowering the incidence of non-occupational accidents. Non-occupational accidents are in any case much more common, generate higher direct and indirect costs, and are a significant macroeconomic health and social welfare cost factor.

Responsible Care

Bachem has a more than 20-year history of commitment to the chemical industry's Responsible Care program. The program is a voluntary global initiative that sees chemical companies working together to achieve continuous improvement of work safety, health and environment performance. Bachem collects the relevant statistics annually at the main three production sites, i.e. the Bachem AG sites in Bubendorf and Vionnaz and the Bachem Inc. site in Torrance. Alongside the number of accidents involving personal injury and the associated number of days off work, the statistics



Further Improved Environmental Parameters

include energy and water consumption, air and waste water pollution, and hazardous waste disposal volumes. To facilitate comparison, the incidences thus established are standardized to take account of workforce size. These figures are used by management as a governance tool and indicate company performance in the areas mentioned. They are also a useful basis for initiating remedial actions and measuring their success.

Environmental Parameters

Most of the key performance indicators concerning environmental impact as a result of Bachem Group activities improved in the year under review compared with the year before. The improvement is attributable both to technical measures, some of which necessitated very high capital expenditure, and improved workplace processes. The exhaust cleaning system installed in Bubendorf in 2010 and new exhaust filter system in Torrance, California significantly and sustainably lowered airborne volatile organic compound (VOC) emissions to a total of 51 kg/employee (down from 79 kg/employee the year before). Bachem hence reduced this measure of emissions to one-third the level recorded five years ago. As the exhaust cleaning system in Bubendorf is based on the principle of regenerative thermal oxidation (combustion of contaminated air streams using propane as the carrier gas), total energy consumption per employee rose slightly to 191 GJ (previous year: 186 GJ). Total Bachem Group energy consumption would have been approximately constant for the same number of employees. Targeted measures have succeeded in halving total water consumption per employee in the course of the past five years from 350 m^3 to 176 m^3. A comparison with the aggregated statistics for the Swiss chemical industry impressively demonstrates the eco-friendly and resource-conserving way Bachem Group effects its economic performance.

Safe Workplaces

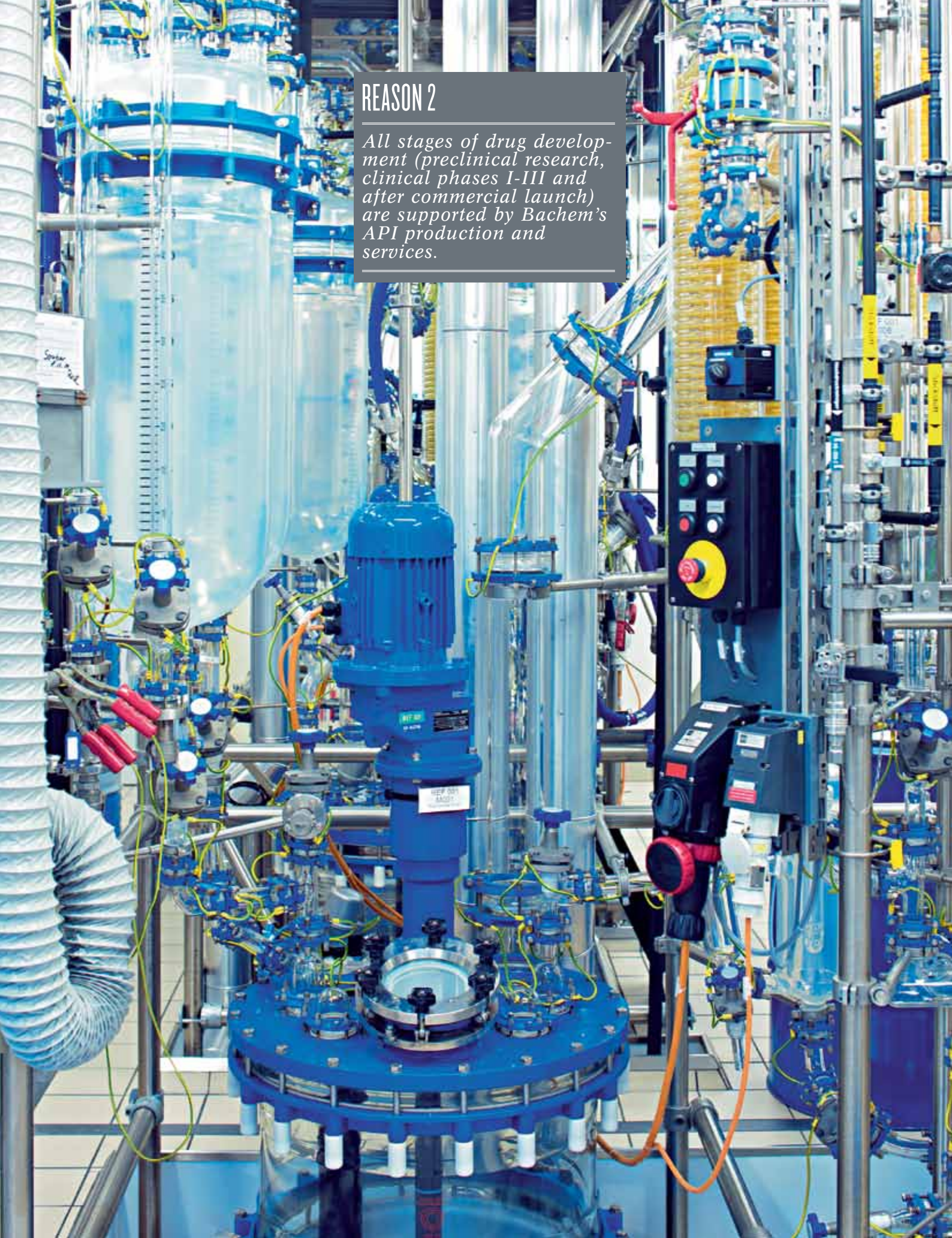
Statistics on occupational accidents involving personal injury and the associated days off work are also down substantially from the previous year. In the year under review, Bachem documented 0.86 accidents per 100 employees (previous year: 2.17) with 0.15 days off work per employee (previous year: 0.69). It is worth noting that the figures are not statistically significant owing to the relatively small number of employees. Hence, Bachem pays more attention to the type of accident and injury and uses that information to identify potential improvements and areas where there is a need for training and education. While acknowledging that any accident is one too many, Bachem is grateful that no serious accidents occurred during the period under review. All of the injuries sustained were reversible and did no lasting harm.

BACHEM PERSPECTIVE 2012

FIVE REASONS TO INVEST

REASON 1

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



REASON 2

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

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

REASON 4

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

REASON 5

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

Bachem Quality Matters

Quality Strategy
The quest for the perfect solution. Continuous improvement thanks to creativity and the ability to adapt. Always seeing what has been achieved and the current 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 Customers

Bachem is dedicated to offering its customers the highest quality of products and services in the industry. The business of pharmaceuticals requires the world's strictest manufacturing standards and demands absolute perfection in quality. Bachem therefore strives to excel in all aspects of quality to demonstrate that in every sense "Quality Matters" is part of the company's genetic code of practice. At Bachem we believe that real trust can only be earned through complete commitment and dedication to quality, ensuring a world class performance for our customers.

Our Business Model

More than forty years ago, Bachem started business offering a small catalog of special peptide products, satisfying an unmet need of the pharmaceutical industry for the development of new drugs. Today, Bachem still supports its customers in R&D, from milligrams to kilograms, during scale-up and clinical development, at the drug-product launch and then beyond with generic APIs. This very unique business model is unparalleled and sets Bachem apart from others in the industry.

Our Employees

Bachem starts by careful recruitment of its staff. The necessary qualifications and background form the basis of selection but more important are the individuals' attitude and values which influence their professional behavior. Quality for Bachem addresses everything we do and everything we say and is an integral element in all our work processes and communications. Good people make a good company; therefore we strive to uphold this quality as the life blood of our organization.

Our Know-How

In 2011, Bachem celebrated its 40th year in the business of supplying active ingredients to the pharmaceutical industry. Starting from a small catalog business, Bachem has grown and developed its capabilities over these many years to become the number one supplier at all scales of requirement. An enormous collective knowledge has been acquired over this time and additionally a great deal of experience accumulated. This can only be done through hard work and the successful completion of many projects, each with different challenges and complexities, over many years. Our ability to manage complexity and solve problems before they emerge as obstacles represents a know-how that has been hard won and cannot easily be copied by others. This sets us apart and provides a basis of trust, reassurance and security to all customers of Bachem.

Our Offering

A great diversity of products and services is offered by Bachem which is constantly being tailored to the needs of our industry and our cus-

tomers. Alone in the Bachem catalog, more than 9000 products are offered for research and more than 90 commercial generic APIs are offered for large scale supply. Each product is carefully checked for its individual quality as is the required documentation and supporting information needed by our clients.

The quality seal "Quality Matters" appears on our product labels as an emblem of our commitment that care has been taken to ensure our customers are very satisfied with our products. While quality today is often assumed, its actual achievement and robust enforcement is what really counts. As well as our products, the many services we offer for custom manufacturing in support of New Chemical Entity development are also a reflection of our diverse capabilities and wish to support all market requirements for new drug development.

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

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

Your Benefits

As a valued customer of Bachem, you may place your trust in our organization to ensure you are both satisfied and professionally served for your drug development needs. Bachem has many testimonials from major pharmaceutical and biotech companies which verify our performance and claim to be number one in our industry. The following unique benefits may be seen as a summary of the main advantages in working with Bachem:

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

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

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

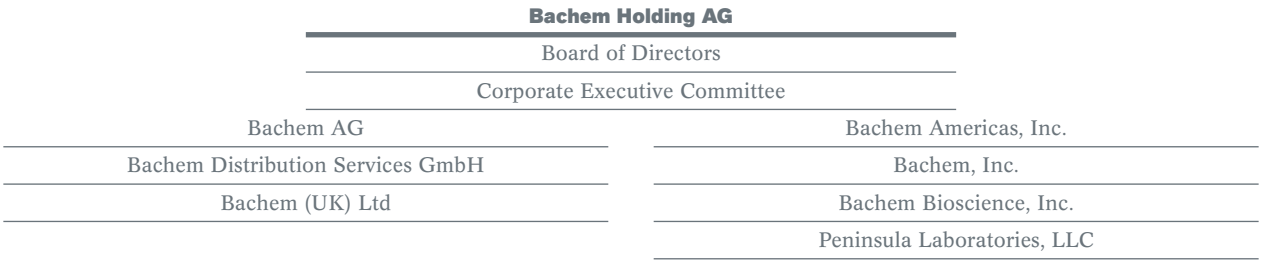
Highest industry standards for quality assurance, control and regulatory compliance are part of Bachem's "Quality Matters" commitment

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

More than ninety generic API small molecule and peptide products are offered by Bachem

Corporate Governance

1 Group structure and shareholders



1.1 Group structure

Bachem Holding AG, headquartered in Bubendorf, Switzerland, is listed at the SIX Swiss Exchange in Zurich (valor number: 1 253 020, ISIN: CH0012530207, SIX: BANB, Reuters: BANB.S, Bloomberg: BANB SW). Market capitalization at December 31, 2011 was 442 000 kCHF. No other Bachem companies are listed.

All subsidiaries are listed in note 25 on page 84 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, 2011 are listed in note 4 on page 92 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, 2011, 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 2009, 2010 and 2011, share capital remained unchanged. Changes in equity for the years 2011 and 2010 are listed on page 53 of the consolidated financial statements. Changes for 2009 are reported on page 59 of the annual report 2010.

2.4 Share and participation certificates

At December 31, 2011, Bachem Holding AG had 6 802 000 registered shares A and 6 798 000 registered shares B at a nominal value of 0.05 CHF issued, all fully paid-in. Registered shares B, but not registered shares A, are considered for trade at the stock exchange. Otherwise, both types of shares have the same rights, and there are particularly no differences regarding rights to dividends and voting rights. Each registered share carries one vote at the Annual General Meeting of the company, provided the shareholder has been recorded in the company's share register (see item 2.6). All shares are fully entitled to dividends. There are no participation certificates.

2.5 Profit sharing certificates

Bachem has not issued any profit sharing certificates.

2.6 Limitations of transferability and nominee registrations

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

2.7 Convertible bonds and warrants/options

The company has not issued any convertible bonds. The only options the company has issued are for its employee compensation plan as described in the accounting policies on pages 60 and 61 as well as in note 23 of the consolidated financial statements on pages 82, 83 and 84.

3 Board of Directors

3.1 Members of the Board of Directors

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

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

Gottlieb Knoch (1942)[1], graduate chemist ETH, MBA, Vice-Chairman. Since 1985, elected until 2012. Gottlieb Knoch holds a diploma in chemistry of ETH Zurich and an MBA of Stanford University. Among other assignments, he worked for McKinsey & Co in Zurich, Saurer AG in Arbon and Tecan AG in Männedorf.

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

Thomas Burckhardt (1950), Dr. iur., LL.M., Secretary, Swiss, since 1997, elected until 2012. Thomas Burckhardt studied at the universities of Basel, Geneva and Munich and was awarded his doctorate in 1978 in Basel. Since 1975, he is licensed attorney and in 1979, he received a Master of Law (LL.M.) at Harvard Law School (Cambridge, Massachusetts, US). Since 1980, he practices as lawyer in Zurich and Basel and since 1987, he is an associate at Simonius Pfrommer & Partner. Thomas Burckhardt further is Honorary Consul-General of the Kingdom of Thailand in Basel. Other important Board memberships: Viking River Cruises AG, Stiftung FOCUS Basel.

Nicole Grogg Hötzer (1973), Graduate Biologist, Member, Swiss, since 2011, elected until 2014. 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-Chairman of the Board of Directors of Ingro Finanz AG and member of the Board of Directors of MFC Beteiligungs AG.

Hans Hengartner (1944), Prof. Dr. sc. nat. ETH, Member, Swiss, since 2003, elected until 2012. Hans Hengartner studied biochemistry and molecular biology at ETH Zurich and holds a doctorate in natural sciences from ETH Zurich. He was Co-Director of the Institute for Experimental Immunology at the University Hospital Zurich and was full Professor for Immunology at the Medical Faculty of the University of Zurich and at the Department of Biology of ETH Zurich. From 2000 to 2005, Hans Hengartner was head of the Biology Department of ETH Zurich. Since March 2008, he is a Professor emeritus at the University and ETH Zurich.

[1] 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 three years. Re-election is permitted. Elections are individual. All elections and motions at the Annual General Meeting are taken by open vote unless requested otherwise by the majority of votes. For information concerning first election and remaining term of office, see item 3.1.

3.4 Internal organizational structure

During 2011, the Board of Directors held three half-day and three full-day meetings. The Corporate Executive Committee attends generally all Board meetings (see item 3.6). Two full-day meetings were attended by all Board and Corporate Executive Committee members. At one full-day meeting the Chairman of the Board was absent. At two half-day meetings one member of the Board was absent and one half-day meeting was held to the exclusion of the Corporate Executive Committee. If considered appropriate, members of the management of the subsidiaries are invited to the Board meetings to attend special agenda items as well. During 2011, as an exception, no Chief Operating Officer of a Group company (COOs) attended a Board meeting. In 2011, no external consultants were called in as well. 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 2011, the Compensation Committee met for half an hour.

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

3.5 Definition of areas of responsibility

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

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

Per definition, in its organization regulations the Board has delegated the management of ongoing operations to the Corporate Executive Committee under the leadership of the CEO. The Corporate Executive Committee is composed of the CEO, the CFO, the CTO and the CMO (see item 4.1). The CEO in particular is responsible for the overall operational leadership. Based on the proposal of the Compensation Committee, the Board defines compensation for members of the Corporate Executive Committee and for COOs of operating Group companies (see item 3.4). 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 61 under the title risk assessment. Due to its size, the Bachem Group does not operate its own internal audit.

4 Corporate Executive Committee

4.1 Members of the Corporate Executive Committee

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

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

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

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

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

Lester Mills joined Bachem Holding AG as Chief Marketing Officer (CMO) and Member of the Corporate Executive Committee in 2009. He is responsible for all sales and marketing activities of the Bachem Group. He studied chemistry at Cambridge University (UK) and gained a Ph.D. at the UEA (UK). Later, he received an MBA from the SUNY (USA, 2001). He started his career in R&D with Lonza Ltd, Visp (1987). Following this, he worked in the USA in commercial development for Lonza (USA) and Genzyme (1996). In 1998, he joined Roche Vitamins Ltd (later DSM) as Sales Director (until 2008). As communicated, Lester Mills will leave the company by the end of January 2012.

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

Stephan Schindler joined Bachem Holding AG as Chief Financial Officer (CFO) and Member of the Corporate Executive Committee in 2009. In 1991, he assumed a first management position in informatics as Head of Information Center at Patria Insurances in Basel. In parallel, he persistently pursued his extra occupational studies in business economics, finance and control. After his graduation, he joined the Corporate Finance Department at F. Hoffmann-La Roche Ltd in Basel. 1995 to 2001, he assumed various positions, e.g. Head of Credit Management. 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 2011, the variable compensation to the Corporate Executive Committee has decreased marginally compared to the prior year. In the reporting year, the variable salaries of the members of the Executive Committee amounted to 33%–41% 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 86 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 87 and 88 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 60 and 61.

5.2 Transparency of compensations, shareholdings and loans pertaining to issuers domiciled abroad

Does not apply.

6 Shareholders' participation

6.1 Voting rights and representation restrictions

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

6.2 Statutory quorums

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

6.3 Convocation of the general meetings of shareholders

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

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

6.4 Agenda

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

6.5 Inscriptions into the share register

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

7 Changes of control and defense measures

7.1 Duty to make an offer

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

7.2 Clauses on changes of control

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

8 Auditors

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

PricewaterhouseCoopers AG, Basel, has been statutory auditor of the Bachem Group since 1995 and statutory auditor of Bachem Holding AG since 1998. Mr. 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

Audit fees of PricewaterhouseCoopers for the Bachem Group amounted to 216 kCHF for the business year 2011. Fees for audit services on Bachem companies by other auditors totaled 23 kCHF.

8.3 Additional fees

During 2011, PricewaterhouseCoopers charged additional fees of 154 kCHF for various projects and other services, mainly in the area of tax consulting. Additional services, also for tax advisory, conducted by other auditors amounted to 7 kCHF.

8.4 Information instruments pertaining to the external auditors

The Board of Directors is responsible for the evaluation of the external auditors and determines the audit scope and plan on an annual basis. For this purpose, the external auditors prepare a report for the attention of the Board of Directors. The external auditors meet with the Board of Directors at least once a year. During this meeting, the management letters concerning the individual companies and the consolidated financial statements that are summarized in the audit report are discussed. Further, the external auditors provide an overview on all audits and reviews conducted as well as on current trends in the International Financial Reporting Standards (IFRS) and other relevant laws and standards. In 2011, the external auditors attended one Board of Directors meeting. The performance assessment of the external auditor and the audit fees is made based on the independency and objectivity of the external auditors, the presented reports, the shown technical and operational competences, the involved resources as well as the open and effective communication and coordination with internal staff.

9 Information policy

The Bachem Group has an open and up-to-date information policy that treats all target groups of the capital investment market equally. The most important information tools are the annual report and the half-year report, the web site (www.bachem.com), press releases, the presentation of the financial statements for media and analysts as well as the Annual General Meeting. Shareholders are in addition informed on important matters by letter. As a company listed on the SIX Swiss Exchange, Bachem is obliged to publish information that is relevant to its share price (ad hoc publicity, art. 72 of rules governing quoted companies “Listing Rules”). These rules can be viewed under www.six-exchange-regulation.com/regulation/listing_rules_en.html.
For specific questions regarding Bachem, contact our investor relations responsible, Stephan Schindler, CFO, phone +41 61 935 2333, ir@bachem.com.

Bachem

Financial Report

2011

World Markets

North and South Amer

9:00am – 4:00pm ET

S&P 500

Mexican Bolsa

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Financial Review

2011 marked by big swings in sales and the Swiss franc's unprecedented strength

Bachem has been back on a growth track since the second half of 2010. Its strong performance in the first six months of 2011 with local sales growth of 17.5% year-on-year and a gratifying EBIT margin of more than 18% confirmed the good trends observed in the preceding half-year period. Management cited this surge in business, incoming orders and its confidence regarding future business activity when it confirmed its guidance of 10% local sales growth and an EBIT margin of nearly 18% for 2011 as a whole.

However, the strong start in the first half was followed by a series of negative events in the third quarter. On the one hand, customers suspended a number of projects and reduced or even cancelled already placed orders for various unrelated reasons, most of which could be traced to the real economy. On the other hand, the value of the two key currencies for our export business tumbled, sending the Swiss franc to historic highs. As a result of these unexpected headwinds, company management announced in December that it was reducing its forecast of local sales growth for 2011 to 6–8% and its full-year sales forecast in Swiss francs to 145 million CHF.

Actual sales for the year totaled 145.8 million CHF (CER[1]: 161.4 million CHF), which corresponds to a decline of 4.6% in CHF and an increase of 5.5% in local currency. Local sales growth thus came in at the lower end of the revised growth range while the reported figure in CHF was slightly better than forecast.

in million CHF	2011	Change in local currency	Change in CHF	As % of total sales
APIs	**118.9**	+9.6%	–0.9%	81.6%
Research ingredients	**26.9**	–9.3%	–18.3%	18.4%
Total sales	**145.8**	+5.5%	–4.6%	100.0%
Total sales CER	**161.4**			

[1] CER: Comparable Exchange Rates
Transactions in foreign currency translated into CHF using the corresponding exchange rates for the prior-year period.

Sales of research ingredients and catalog products in particular retreated 9.3% in local currency in the face of persisting cost pressures and budget cuts in research and development. The best performance in the research segment came from the custom synthesis operations. After initial capacity constraints in the wake of the global consolidation of these activities, the designated competence center for custom synthesis in St. Helens, UK, proved to be a highly competitive provider of non-GMP custom synthesis.

Financing conditions in the biotech industry remained difficult and these customers therefore scaled back their R&D activities. Meanwhile the pharmaceutical industry worldwide had to contend with unrelenting cost pressures and one way of doing so was by narrowing their focus on the R&D front. Bachem was successful in the marketplace despite these adverse circumstances and its NCE sales rose by 2.3% in local currency. Business in Europe developed better than in North America.

in million CHF	2011	Change in local currency	Change in CHF	As % of total sales
Europe	**106.5**	+5.3%	–2.6%	73.1%
North America	**39.3**	+6.3%	–9.7%	26.9%
Total sales	**145.8**	+5.5%	–4.6%	100.0%
Total sales CER	**161.4**			

Despite the weaker growth, 2011 was still a good year for Bachem compared to the industry sector because it strengthened its market position and made further measurable progress in improving efficiency and cost management.

Bachem acquired 35 additional NCE projects, nearly twice as many as in the previous year, notwithstanding the challenging market environment. At year-end it was involved in a total of 173 development projects for customers in Europe and North America. Each of these NCEs is a potential growth driver that could account for a substantial share of the Group's future sales revenues.

The high number of projects in Phase III clinical trials also deserves special mention. This achievement shows that Bachem has maintained its competitive lead over other suppliers and continues to expand its market leadership in this important business area.

Generics proved to be a stable source of sales once again, delivering 6.6% growth in local currency compared to the year-ago level. Peptide and non-peptide generics sold equally well. From a geographic perspective, sales growth was particularly high in the USA, where Bachem successfully concluded several large orders.

Recovery in local operating margins overshadowed by CHF appreciation

Bachem achieved an operating profit of 14.9 million CHF in the year under review, resulting in an EBIT margin of 10.2%. EBITDA amounted to 33.2 million CHF and the corresponding margin was 22.8%.

These figures were diminished by highly negative currency effect, which overshadowed the margin improvements achieved in local currency. At the EBIT level, the negative currency translation effect was 9.6 million CHF, attributable to the movements of the EUR/CHF and USD/CHF currency pairs and to the historic appreciation of the Swiss franc in the third quarter. The company's production and marketing operations in North America served as a natural hedge in offsetting some of the erosion in the value of the USD.

Factoring out the negative exchange-rate effects, adjusted operating profit (EBIT CER) amounted to 24.5 million CHF and the corresponding margin reached 15.2%. Currency translation had a negative effect of about 10 million CHF at the EBITDA level. Excluding this effect, the EBITDA margin reached 26.8%.

In local currency terms, EBITDA and EBIT for 2011 were up by 28.3% and 56.2% compared to the corresponding figures from the prior year. This impressive performance in such a challenging environment is testimony to Bachem's inherent strengths.

Price markdowns have an impact on gross profit

Cost of goods sold amounted to 102.7 million CHF (70.4% of sales). While significantly higher volumes were produced during the past year, the correction in the generics business during the preceding year led to subsequent price reductions and, as a result, the gross profit margin in the year under review moved lower.

The primarily strategically-driven investment projects executed in 2008 and 2009 (total capex of 94.4 million CHF) continued to impact the income statement in the form of depreciation and amortization.

The increase in cost of goods sold from the prior-year level is also attributable to restrictive inventory management policies. Material costs were notably lower during the year under review.

Stable headcount despite increase in production and sales, further cost-savings achieved

Bachem is proactively addressing the challenges brought forth by the economic headwinds. Despite substantially higher production volumes and sales revenues, the number of employees was held steady in 2011. Working time at Swiss sites was increased to 43 hours a week beginning in 2012, which will lead to a further increase in productivity on higher business volumes.

As of year-end, the Group employed 704 people in 671 full-time positions. Personnel expenses, which are the largest single cost item, amounted to 69.7 million CHF, a decline of 4.1 million CHF (5.6%) from the year-ago number. This underscores the sustainability of the cost-saving measures implemented in the previous year and it also reflects restrictive policies in filling vacant positions or creating new ones.

Bachem deliberately maintained a high level of marketing and sales activities during the 2011 financial year. The Group participated in major medical trade shows, acquired new projects and redesigned its Internet portal, including its online shop. Nevertheless, marketing and sales costs were reduced by approximately 1 million CHF year-on-year thanks to concurrent cost-saving programs.

In its generics business Bachem already began to proactively develop processes on its own account in 2010. These projects are carefully screened, approved by the Corporate Executive Committee on a case-by-case basis and the ensuing development costs are capitalized. More projects were approved during the period under review and the corresponding capitalized costs amounted to 1.2 million CHF. The costs incurred at production units as a result of process optimization or scale-ups were taken directly to cost of goods sold, however, as in previous reporting periods.

Research and development costs declined by 4.7 million CHF or nearly 70% from the prior-year level and amounted to 2.1 million CHF. This decrease is attributable to the aforementioned capitalized development costs as well as to a significantly higher order inflow in the research segment, which required R&D personnel to devote more time to processing customer orders.

Additional measures to improve the efficiency and lower the costs of administrative units were implemented during the year under review and they resulted in a 2.4 million CHF reduction in the Group's general administrative costs, a savings of 12.4% from the previous year. General administrative costs for the year amounted to 17.1 million CHF.

Net profit of 9.4 million CHF

In the first half of 2010 Bachem realized an extraordinary profit on the sale of its equity interest in Polyphor AG in the amount of 17.5 million CHF, or 16.1 million CHF after tax. This extraordinary profit is included in the net profit figure reported for 2010 and must be taken into consideration in comparison with the 2011 net profit figure. Bachem's net profit for 2011, 9.4 million CHF with a corresponding margin of 6.5%, was also diminished by the extreme fluctuations in exchange rates last year. The resulting negative currency translation effect draws attention away from the positive growth in local-currency results and the cost-savings that the company has achieved. Earnings per share (EPS) declined by 1.40 CHF from the previous year level. Based on the reported net profit of 9.4 million CHF, the Group's EPS amounted to 0.70 CHF.

Results of associated companies had a negative impact of 1.6 million CHF during the year under review; in the previous fiscal year associated companies had a neutral effect on Group results. Net foreign exchange gains and losses amounted to a negative 0.4 million CHF, which represents an improvement of 0.6 million CHF from the previous year.

The Group tax rate rose to 23.1% because a much greater share of profits were generated in high-tax countries. Total tax paid for fiscal 2011 amounts to 2.8 million CHF. Bachem anticipates a Group tax rate of about 20% in the coming years.

Change in inventories had a positive impact on cash flow

Operating cash flow amounted to 24.6 million CHF or 16.9% of sales revenues in 2011. Again, the extreme fluctuations in exchange rates had a major impact on this item. In absolute terms, currency translation reduced operating cash flow by 13.5 million CHF from the year-ago level, despite the high local sales growth and substantial cost savings.

Cash-flow-relevant capital held in net current assets rose by 4.0 million CHF. This can be traced to the good sales growth in the fourth quarter and the associated rise in accounts receivable at year-end as well as the deliberate reduction in spending, which led to generally lower accounts due to suppliers.

Group subsidiaries managed to avoid building up inventory levels in 2011 and overall inventories showed a renewed decrease of 0.5 million CHF. Several validation batches and the deliveries scheduled for the first quarter of 2012 led to an increase in finished goods and work in progress at year-end. Bachem intends to maintain a stable level of inventories going forward while concurrently meeting market needs and demands for optimized production cycles.

Taking into account non-cash-flow items, inventory movements had a positive effect of 0.7 million CHF. This marks a further improvement from preceding years, when continued inventory growth had a negative effect on cash flow.

in million CHF	2011	2010	2009	2008
Cash flow effect of inventory movements	**+ 0.7**	+ 0.5	– 22.2	– 27.8

Capital expenditure mainly for replacement and compliance purposes

A total of 94.4 million CHF was expended on investment projects in 2008 and 2009 in accordance with management's sustainable growth strategy. As a result, Bachem now has highly modern infrastructure that will enable it to remain competitive as it continues to grow.

Therefore there was no need to initiate any new expansion projects in the past year and capital expenditure was kept at a low level. Compliance and replacements accounted for about 54% of total capital expenditure, or 7.0 million CHF. With these projects, Bachem is standing by its commitment and obligations with regard to quality, employee health and safety, as well as environment.

At 13.1 million CHF, total capital expenditure was well below the aggregate figure for depreciation and amortization (18.3 million CHF). This resulted in a net cash outflow of 12.7 million CHF from investing activities. In the previous year a net outflow of 18.7 million CHF was reported.

As for cash flow from financing activities, the dividend distribution of 33.7 million CHF was 6.7 million CHF or 16.6% lower than in the previous year. Part of this distribution was converted into a general operating loan, of which 16.2 million CHF was still included under financial liabilities at the end of the reporting period.

Bachem also refinanced the bank loans of 15 million CHF disclosed in the previous year and borrowed an additional 17 million CHF during the period under review. Cash flows used in financing activities amounted to a total of –10.0 million CHF in 2011.

Increase in cash holdings

Cash and cash equivalents in the consolidated cash flow statement for 2011 increased by 2.3 million CHF. Total cash holdings as defined in the cash flow statement amounted to 20.3 million CHF at year-end. This is equivalent to 13.9% 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 72.6% (78.3% in the previous year). This sound capital base is a guarantee of independence and flexibility as the Group pursues its strategic goals while adhering to its own business priorities and values.

The Board of Directors will propose a reduced dividend of 1.50 CHF per share at the general meeting of shareholders (2.50 CHF for FY 2010). This payout will for the first time be exempt from withholding tax, as it will be distributed from reserves from capital contribution.

Consolidated Income Statement

For the years ended December 31

in 1000 CHF	Notes	2011	2010
Sales	1/2	145 808	152 884
Cost of goods sold		– 102 670	– 100 347
Gross profit		**43 138**	**52 537**
Other income		932	474
Marketing and sales costs		– 10 029	– 11 019
Research and development costs		– 2 056	– 6 760
General administrative costs		– 17 123	– 19 556
Operating income		**14 862**	**15 676**
Result from associates	2/6	– 1 590	4
Financial income	7	63	17 625
Financial expenses	8	– 1 097	– 1 321
Earnings before taxes		**12 238**	**31 984**
Income taxes	9	– 2 829	– 3 687
Net income [1]		**9 409**	**28 297**
Basic earnings per share (CHF)	10	**0.70**	**2.10**
Diluted earnings per share (CHF)	10	**0.70**	**2.10**

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

The notes on pages 54 to 88 are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the years ended December 31

in 1 000 CHF	Notes	2011	2010
Net income according to income statement		**9 409**	**28 297**
Actuarial losses/gains on defined benefit plans and	4	– 2 897	1 180
deferred taxes thereon	21	579	– 236
Cumulative translation differences		460	– 7 070
Total comprehensive income [2]		**7 551**	**22 171**

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

The notes on pages 54 to 88 are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

At December 31, 2011 and 2010

in 1 000 CHF	Notes	Dec. 31, 2011	Dec. 31, 2010
Assets			
Cash and cash equivalents	11	20 302	17 980
Trade receivables	12	25 519	22 132
Other receivables	13	5 684	3 371
Current tax assets		449	491
Inventories	14	149 855	150 393
Total current assets		**201 809**	**194 367**
Property, plant and equipment	15	230 068	236 470
Intangible assets	16	20 026	18 221
Associates	2/6	1 520	3 110
Deferred tax assets	21	6 577	6 475
Total non-current assets		**258 191**	**264 276**
Total assets		**460 000**	**458 643**
Liabilities and equity			
Trade payables	18	11 647	12 165
Other current liabilities	19	9 031	7 271
Financial liabilities	20	48 405	24 086
Current tax liabilities		4 052	3 731
Total current liabilities		**73 135**	**47 253**
Financial liabilities	20	710	385
Deferred tax liabilities	21	34 334	36 977
Defined benefit plan liability	4	17 884	14 989
Total non-current liabilities		**52 928**	**52 351**
Total liabilities		**126 063**	**99 604**
Share capital	22	680	680
Retained earnings		276 735	303 918
Share premium		94 635	93 681
Own shares		– 1 295	– 1 962
Cumulative translation differences		– 36 818	– 37 278
Total capital and reserves attributable to the equity holders of the company		**333 937**	**359 039**
Total liabilities and equity		**460 000**	**458 643**

The notes on pages 54 to 88 are an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement

For the years ended December 31

in 1 000 CHF	Notes	2011	2010
Cash flow from operating activities			
Net income		9 409	28 297
Adjustments for:			
Income taxes	9	2 829	3 687
Depreciation and amortization	2/15/16	18 341	18 036
Financial income	7	–63	–17 625
Financial expenses	8	1 097	1 321
Result from associates	2/6	1 590	–4
Share-based payments	23	954	1 164
Gain on sale of property, plant and equipment		–244	0
Income taxes paid		–4 697	–1 919
Other non-cash items		–607	–10
Cash flow from operating activities before changes in net current assets		**28 609**	**32 947**
Change in trade receivables		–3 459	12 353
Change in inventories		667	508
Change in trade payables		–446	–5 731
Change in other net current assets		–762	–1 967
Cash flow from operating activities		**24 609**	**38 110**
Cash flow used for investing activities			
Investments in property, plant and equipment		–9 126	–16 165
Sales of property, plant and equipment		394	12
Investments in intangible assets		–3 956	–2 552
Interest received		27	54
Other financial proceeds	7	33	51
Other financial payments	8	–69	–128
Cash flow used for investing activities		**–12 697**	**–18 728**
Cash flow used for financing activities			
Additions own shares		–790	0
Disposals own shares		26	0
Dividends paid	24	–16 687	–19 995
Increase in financial liabilities		32 000	15 000
Repayment of financial liabilities		–24 128	–8 066
Interest paid		–411	–299
Cash flow used for financing activities		**–9 990**	**–13 360**
Net effect of currency translation on cash and cash equivalents		400	–512
Net change in cash and cash equivalents		**2 322**	**5 510**
Cash and cash equivalents at the beginning of the year	11	**17 980**	**12 470**
Cash and cash equivalents at the end of the year	11	**20 302**	**17 980**
Net change in cash and cash equivalents		**2 322**	**5 510**

The notes on pages 54 to 88 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the years ended December 31

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

2010 in 1 000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Cumulative translation differences	Total
Balance at January 1		**680**	**315 104**	**92 517**	**– 1 988**	**– 30 208**	**376 105**
Net income according to income statement			28 297				**28 297**
Actuarial gains on defined benefit plans (net of tax)			944				**944**
Cumulative translation differences						– 7 070	**– 7 070**
Total comprehensive income			**29 241**			**– 7 070**	**22 171**
Dividends	24		– 40 401				**– 40 401**
Transactions with own shares (net of tax)			– 26		26		**0**
Share-based payments	23			1 164			**1 164**
Balance at December 31		**680**	**303 918**	**93 681**	**– 1 962**	**– 37 278**	**359 039**

The notes on pages 54 to 88 are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

General Information

Business activities

Bachem, based in Bubendorf in the Canton of Basel-Landschaft, Switzerland, is an independent, technology-based, public biochemicals company providing full service to the pharma and biotech industry. Bachem employs 671 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 21, 2012 to be presented for approval by the Annual General Meeting on April 25, 2012.

Accounting Policies

Principles of consolidation

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

The financial statements of the companies included in the consolidation are prepared using uniform accounting policies. The annual closing date of the individual financial statements is December 31, with all cost and income items being reported in the period to which they relate. Intercompany income and expenses, including unrealized profits from internal Group transactions and intercompany receivables and payables, are eliminated. Acquired companies are consolidated according to the purchase method. Companies acquired or divested in the course of the year are included in the consolidated financial statements as of the date of purchase respectively up to the date of sale. Unless otherwise indicated, all the figures quoted in these annual financial statements and the notes to the annual financial statements have been rounded up to the nearest 1000 CHF.

Amendments and interpretations to published standards effective in 2011 but not relevant for Bachem

The following amendments and interpretations to published standards got effective for the reporting year 2011 but were not relevant for Bachem at the moment. A lot of the amendments relate to the annual improvements projects of the IASB and aim to remove inconsistencies and clarify wording.

IFRS 1	First-time Adoption of International Financial Reporting Standards (Amendment)
IFRS 3	Business Combinations (Amendment)
IFRS 7	Financial Instruments: Disclosures (Amendment)
IAS 1	Presentation of Financial Statements (Amendment)
IAS 24	Related Party Disclosures (Amendment)
IAS 27	Consolidated and Separate Financial Statements (Amendment)
IAS 32	Financial Instruments: Presentation (Amendment)
IAS 34	Interim Financial Reporting (Amendment)
IFRIC 13	Customer Loyalty Programmes (Amendment)
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendment)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Standards and amendments to published standards that are not yet effective

The following standards and amendments to existing standards have been published. They are mandatory the earliest for the accounting periods beginning on or after July 1, 2011 or later. None of them has been early adopted by the Group. Bachem is still evaluating the total impact of all these changes. At the moment mostly non-material impacts are expected.

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 12	Income Taxes
IAS 19	Employee Benefits
IAS 27	Consolidated and Separate Financial Statements (Amendment)
IAS 28	Investment in Associates (Amendment)

Scope of consolidation

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

Investments in subsidiaries

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

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

Investments in associates

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

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

Currency translation

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

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

The following exchange rates were used for foreign currencies:

	Income statement average rates		Balance sheet year end rates	
in CHF	2011	2010	2011	2010
USD	0.88	1.04	0.94	0.93
GBP	1.42	1.61	1.46	1.46
EUR	1.24	1.38	1.22	1.25

Revenue recognition

Sale of products

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

Sale of services

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

Interest and dividend income

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

Segment information

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

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

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

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

Cash and cash equivalents

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

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

Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

Purchases and sales of financial assets are recognized at the settlement date, i.e. the day on which the assets are transferred. The initial recording of all assets that do not belong to the "Financial assets at fair value through profit or loss" category is carried out at fair value including transaction costs. "Financial assets at fair value through profit or loss" are also initially recorded at fair value, but the transaction costs are booked to the income statement. The assets are derecognized as soon as the rights to receive cash flows from the assets expire or are transferred, and Bachem has ceded all risks and opportunities arising from their ownership. Available-for-sale assets and assets recognized at fair value through profit or loss are subsequently valued at fair value. Loans and receivables, as well as held-to-maturity assets are accounted for at amortized cost using the effective interest method. Realized and unrealized gains and losses resulting from changes in the fair value of assets "at fair value through profit or loss" are booked to the income statement in the period during which they occur. Unrealized gains and losses resulting from the changes in fair value of available-for-sale financial assets are recorded in equity. If available-for-sale assets are sold or affected by impairment, the market value adjustments accumulated in equity are included in the income statement as gains and losses from securities.

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

On every balance sheet date, it is determined whether there is objective evidence to suggest that a financial investment or a group of financial investments has been affected by impairment. In the case of investments categorized as available for sale, a considerable or sustained decline in the fair value of the security below its acquisition cost is assumed in order to determine whether the security has been affected by impairment.

In this case, the cumulative loss – measured as the difference between the purchase price and the current fair value of the financial investment, minus any impairment, which has already been recognized in the income statement – is removed from equity and included in the income statement. Impairment losses on financial investments that have already been recognized in the income statement are not reversed.

Derivative financial instruments and hedging transactions

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

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method which approximates the original invoice amount, less provision for impairment. An impairment occurs when there is objective evidence that it will not be possible to collect all amounts due. Impairment corresponds to the difference between the book value of the receivable and the expected payment to be received from the customer and is included in sales as a sales deduction.

Inventories

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

Property, plant and equipment and depreciation

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

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

The depreciation rates reflect the anticipated, economic useful life of the respective assets. Maintenance costs are recognized in the income statement. Additional costs that extend the estimated useful life of property, plant and equipment and lead to future economic benefits are capitalized, if these costs can be reliably estimated. All other costs for repair and maintenance are recognized in the income statement.

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

Leases

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

Intangible assets

Goodwill

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

Patents and licenses

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

Brands

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

Software

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

Research and development costs

All research costs are recognized directly as expenses in the period in which they are incurred. Development costs are capitalized as intangible assets only when there is an identifiable asset that can be completed and that will generate future economic benefits and when the cost of such an asset can be measured reliably. Capitalized development costs are amortized on a straight-line basis over their estimated useful life of five to eight years. 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, development costs relating to the process development of a new generic products are capitalized according to the stage of the project, since all relevant capitalization criteria are met.

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.

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 theses international meetings and incorporates the relevant issues in the Group-wide risk assessment process.

Financial risk factors

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

Foreign exchange risk

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

At December 31, 2011, if the euro had weakend by 10% against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been 1 634 kCHF (2010: 541 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, 2011, if the US dollar had weakend by 10% against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been 489 kCHF (2010: 291 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 more sensitive to currency fluctuation compared to the prior year since the receivables in euros and US dollars 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 178 kCHF (2010: 140 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, 2011 were held with 68% at one financial institution in Switzerland and with 15% at one financial institution in the USA. The remaining 17% were split over several financial institutions in Switzerland and abroad (2010: 1 financial institution in Switzerland, portion: 67%; 1 institution in the USA, portion: 19% and several remaining, portion: 14%).

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:

December 31, 2011 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			**11 647**
Other current liabilities	4 507	1 358	3 166			**9 031**
Current financial liabilities	8	41	48 356			**48 405**
Current tax liabilities	19	0	4 033			**4 052**
Non-current financial liabilities				710	0	**710**

December 31, 2010 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	10 327	1 829	9			**12 165**
Other current liabilities	2 651	840	3 780			**7 271**
Current financial liabilities	0	21	24 065			**24 086**
Current tax liabilities	0	1 696	2 035			**3 731**
Non-current financial liabilities				385	0	**385**

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

Bachem monitors the capital structure by reference to the equity ratio. This ratio amounted to 73% at December 31, 2011 (2010: 78%). The reported equity in the consolidated balance sheet at year-end 2011 was 334 million CHF (2010: 359 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, 2011, intangible assets include capitalized development costs in the amount of 2 078 kCHF (2010: 844 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 1 000 CHF	2011	2010
Products	137 554	146 614
Services	8 254	6 270
Total sales	**145 808**	**152 884**

in 1 000 CHF	2011	2010
Active pharmaceutical ingredients (APIs)	118 928	119 979
Research chemicals (incl. custom synthesis)	26 880	32 905
Total sales	**145 808**	**152 884**

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

[1] The amount consists of the operating income from corporate activities of – 4 383 kCHF and of eliminations in the value of 35 kCHF.

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

[3] 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 1 000 CHF	Europe	North America	Total segments	Corporate and eliminations	Consolidated values
Sales information 2010					
Sales third parties	109 379	43 505	152 884	0	**152 884**
Sales intersegment	12 451	4 379	16 830	– 16 830	**0**
Total sales	**121 830**	**47 884**	**169 714**	**– 16 830**	**152 884**
Income information 2010					
Operating income	17 939	3 242	21 181	– 5 505 [1]	**15 676**
Result from associates					**4**
Financial income					**17 625**
Financial expenses					**– 1 321**
Earnings before taxes					**31 984**
Other information 2010					
Additions in property, plant and equipment and intangible assets	19 215	841	20 056	81	**20 137**
Depreciation and amortization	– 14 788	– 3 196	– 17 984	– 52	**– 18 036**
Total assets	386 595	69 603	456 198	2 445 [2]	**458 643**
Total liabilities	177 893	15 499	193 392	– 93 788 [3]	**99 604**
Associates					**3 110**

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

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

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

In the reporting year, sales with a single customer amounted to 17 192 kCHF or 11.8% of Group sales. In the previous year, sales with a single customer amounted to 19 597 kCHF or 12.8% of Group sales. The respective sales for both years are mainly reported in the segment Europe.

Information about geographical areas – sales third parties

in 1 000 CHF	2011	2010
Switzerland	13 631	13 731
USA	23 694	37 368
Great Britain	20 740	20 452
Germany	18 550	18 636
France	9 430	12 078
Rest of the world	59 763	50 619
Total	**145 808**	**152 884**

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, 2011	Dec. 31, 2010
Switzerland	209 610	214 460
USA	35 994	35 854
Rest of the world	4 490	4 377
Total	**250 094**	**254 691**

3 Staff costs

in 1 000 CHF	2011	2010
Salaries and wages	–55 339	–58 055
Pension costs for defined benefit plans	–3 286	–3 520
Pension costs for defined contribution plans	–344	–529
Other social security expenses	–7 124	–7 701
Share-based payments	–954	–1 164
Other personnel-related costs	–2 675	–2 851
Total staff costs	**–69 722**	**–73 820**

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 2011 amounted to 344 kCHF and in 2010 to 529 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, 2011 and 2010:

Defined benefit plan liability

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Fair value of plan assets	60 890	57 904
Present value of defined benefit obligation	–78 774	–72 893
Deficit recognized as a liability in the balance sheet	**–17 884**	**–14 989**

Composition of the annual pension cost

in 1 000 CHF	2011	2010
Service cost	–5 835	–5 871
Interest cost	–2 165	–2 323
Expected return on plan assets	2 316	2 221
Employees' contributions	2 398	2 453
Annual pension cost	**–3 286**	**–3 520**

Of the total annual pension cost, 2 406 kCHF (2010: 2 345 kCHF) were included in cost of goods sold, 346 kCHF (2010: 358 kCHF) in marketing and sales costs, 82 kCHF (2010: 254 kCHF) in research and development costs and 452 kCHF (2010: 563 kCHF) in general administrative costs.

Movement in the defined benefit obligation in 1 000 CHF	2011	2010
Present value of defined benefit obligation at January 1	**– 72 893**	**– 71 570**
Service cost	– 5 835	– 5 871
Interest cost	– 2 165	– 2 323
Actuarial gains/loss on defined benefit obligation	331	– 143
Benefits paid	1 788	7 014
Present value of defined benefit obligation at December 31	**– 78 774**	**– 72 893**

Movement in the fair value of plan assets in 1 000 CHF	2011	2010
Fair value of plan assets at January 1	**57 904**	**55 536**
Expected return on plan assets	2 316	2 221
Actuarial loss/gains on plan assets	– 3 228	1 323
Employees' contribution	2 398	2 453
Employer's contribution	3 288	3 385
Benefits paid	– 1 788	– 7 014
Fair value of plan assets at December 31	**60 890**	**57 904**

The actual return on plan assets in the reporting year was –912 kCHF (2010: 3 544 kCHF).

Statement of recognized actuarial losses in 1 000 CHF	2011	2010
Actuarial losses recognized in equity at January 1	**– 17 390**	**– 18 570**
Actuarial losses/gains recognized in equity in the current year	– 2 897	1 180
Actuarial losses recognized in equity at December 31	**– 20 287**	**– 17 390**

Major categories of plan assets fair value as a percentage of total plan assets	Dec. 31, 2011	Dec. 31, 2010
Money market	5.01%	2.89%
Bonds	37.47%	39.39%
Shares	34.41%	35.07%
Real estate	23.11%	22.65%
Total	**100.00%**	**100.00%**

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

Assumptions for the actuarial calculations	2011	2010
Discount rate	2.50%	2.75%
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)	24.6/21.1	21.9/17.9

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

Funding status summary of defined benefit plans in 1 000 CHF	2011	2010	2009	2008	2007
Plan assets	60 890	57 904	55 536	46 117	48 183
Defined benefit obligation	–78 774	–72 893	–71 570	–60 112	–54 576
Deficit	–17 884	–14 989	–16 034	–13 995	–6 393
Experience adjustments on plan assets	–3 228	1 323	1 720	–9 756	–2 405
Experience adjustments on defined benefit obligation	1 042	1 673	–206	–209	–376
Adjustment on defined benefit obligation due to changes in assumptions	–711	–1 816	–3 104	1 458	1 998

Bachem expects an employer's contribution to the pension plans of about 3 400 kCHF in 2012.

5 Financial instruments

Financial assets and liabilities are classified in the following categories:

in 1 000 CHF	Carrying amount Dec. 31, 2011	Carrying amount Dec. 31, 2010	Fair value Dec. 31, 2011	Fair value Dec. 31, 2010
Financial assets				
Cash and cash equivalents	20 302	17 980	20 302	17 980
Trade receivables	25 519	22 132	25 519	22 132
Other receivables	5 684	3 371	5 684	3 371
Total loans and receivables	**51 505**	**43 483**	**51 505**	**43 483**
Derivatives - forward foreign exchange contracts (EUR)	91	606	91	606
Total derivatives at fair value through profit or loss	**91**	**606**	**91**	**606**
Financial liabilities				
Trade payables	11 647	12 165	11 647	12 165
Other current liabilities	9 031	7 271	9 031	7 271
Current financial liabilities	48 405	24 086	48 405	24 086
Non-current financial liabilities	710	385	710	385
Total financial liabilities at amortized costs	**69 793**	**43 907**	**69 793**	**43 907**
Derivatives - forward foreign exchange contracts (USD)	47	0	47	0
Total derivatives at fair value through profit or loss	**47**	**0**	**47**	**0**

The derivatives are 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

According to income statement in 1 000 CHF	2011	2010
Result from associates	– 1 590	4

According to balance sheet in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Associates	1 520	3 110

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, 2011 is 27.5% (2010: 27.5%). The accounting treatment remains unchanged using the equity method.

Bachem has invested 12 000 kCHF in Pevion Biotech AG so far. The valuation of the proportional equity as per December 31, 2011 amounts to 1 520 kCHF (2010: 3 110 kCHF).

Polyphor AG, Allschwil
Founded by institutional and private investors in 1996, the goal of Polyphor AG is to support the research-oriented chemical industry (pharmaceutical, agrochemical and cosmetics) in shortening the development periods for new drugs and commercial compounds. In addition, Polyphor conducts its own drug discovery and clinical development programs based on the proprietary PEM Technology.

On June 16, 2010, the associated company, Polyphor AG, Allschwil, was sold to a related party (see note 26). The gain resulting from this transaction (difference between sales price and carrying value according to the equity method) in the amount of 17 518 kCHF was recognized in the income statement as financial income (see note 7).

Until the disposal, Bachem had invested 6 500 kCHF in Polyphor AG.

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

Accumulated financial statements of Pevion Biotech AG & Polyphor AG

Income statement in 1 000 CHF	2011	2010
Income	447	3 226
Expenses	– 6 240	– 14 849
Result	**– 5 793**	**– 11 623**

Balance sheet in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Current assets	4 245	9 591
Non-current assets	2 092	2 429
Assets	**6 337**	**12 020**
Liabilities	809	699
Equity	5 528	11 321
Liabilities and equity	**6 337**	**12 020**

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

7 Financial income

in 1 000 CHF	2011	2010
Interest income	30	56
Gains on sale of associate	0	17 518
Other financial income	33	51
Total financial income	**63**	**17 625**

8 Financial expenses

in 1 000 CHF	2011	2010
Interest expenses	– 624	– 218
Other financial expenses	– 69	– 128
Foreign exchange result	– 404	– 975
Total financial expenses	**– 1 097**	**– 1 321**

Other financial expenses mainly include bank charges.

9 Income taxes

in 1 000 CHF	2011	2010
Current taxes	–4 999	–5 336
Deferred taxes	2 170	1 649
Total income taxes	**–2 829**	**–3 687**

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

Tax rate reconciliation

in %	2011	2010
Expected tax rate	**22.1**	**12.5**
Effect of income taxed at reduced rates	0.0	–0.7
Effect of non-tax-deductible expenditures	0.0	0.1
Adjustments from prior periods recognized in the current period	0.2	–0.2
Effect of tax rate changes	0.9	0.0
Other items	–0.1	–0.2
Effective tax rate	**23.1**	**11.5**

In the previous year, the expected tax rate was very low due to the weighting of the gain realized on the sale of an associate. Furthermore, the expected tax rate is higher in the reporting year, since there were higher profits in countries with higher 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.

Basic	2011	2010
Net income (in 1 000 CHF)	9 409	28 297
Average number of shares outstanding	13 471 331	13 463 630
Basic earnings per share (CHF)	**0.70**	**2.10**

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

Diluted	2011	2010
Net income (in 1 000 CHF)	9 409	28 297
Average number of shares outstanding	13 471 331	13 463 630
Adjustment for dilutive share options	0	0
Average number of shares outstanding for diluted earnings per share	13 471 331	13 463 630
Diluted earnings per share (CHF)	**0.70**	**2.10**

In the reporting year, all of the 10 276 outstanding options were excluded from the calculation of diluted earnings per share as they were not dilutive (2010: 9 593 options).

11 Cash and cash equivalents

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Cash and cash equivalents by currency		
CHF	8 827	6 153
USD	6 266	7 253
EUR	5 039	4 324
GBP	170	250
Total cash and cash equivalents	**20 302**	**17 980**
Thereof cash and bank balances	20 302	17 980
Thereof short-term deposits	0	0

12 Trade receivables

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Trade receivables	25 733	22 837
Provision for impairment of trade receivables	–214	–705
Total trade receivables	**25 519**	**22 132**

There are considerable receivables with one customer which equal 11.1% of the total trade receivables. The remaining single receivables do not exceed 10% of the total trade receivables. In the prior year, there was no single receivable which exeeded 10% of the total trade receivables.

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

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

Movement provision for impairment of trade receivables

in 1 000 CHF	2011	2010
Provision for impairment of trade receivables at January 1	**–705**	**–155**
Provision for receivables impairment	–51	–681
Receivables written off during the year as uncollectable	442	96
Unused amounts reversed	101	0
Currency translation differences	–1	35
Provision for impairment of trade receivables at December 31	**–214**	**–705**

The ageing analysis of trade receivables is as follows:

			Overdue and not impaired					Overdue and impaired		
Ageing analysis in 1 000 CHF	Total	Not due	< 31 days	31–60 days	61–90 days	91–180 days	> 180 days	61–90 days	91–180 days	> 180 days
December 31, 2011	**25 733**	18 832	4 318	1 703	85	96	426	0	0	273
December 31, 2010	**22 837**	14 941	4 585	1 379	691	281	0	292	0	668

Trade receivables by currency

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
CHF	8 162	8 265
USD	8 760	6 632
EUR	8 546	6 542
GBP	51	64
JPY	0	629
Total trade receivables	**25 519**	**22 132**

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

13 Other receivables

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Prepaid expenses and accrued income	1 100	1 299
Derivatives	91	606
Other receivables	4 493	1 466
Total other receivables	**5 684**	**3 371**

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

14 Inventories

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Raw material	16 795	16 977
Work in progress/finished goods	165 422	164 013
Provision for slow-movers	– 32 362	– 30 597
Total inventories	**149 855**	**150 393**

Raw material inventory could be kept stable despite of increased production volumes. Important factors for the development of inventories in work in progress and finished goods were the higher inventory availability of generic finished goods demanded by the market, several validation batches and cutoff-date-related fluctuations as per year-end associated to shipments scheduled for 2012.

In the reporting period, inventory in the amount of 38 kCHF was definitely written off (2010: 539 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

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

2010 in 1 000 CHF	Land	Buildings	Installations, laboratory equipment and others	Assets under construction	Total
Cost at January 1	**18 931**	**126 124**	**208 114**	**21 053**	**374 222**
Additions	0	634	6 074	9 987	**16 695**
Disposals	0	–18	–2 837	0	**–2 855**
Reclassifications	0	3 741	21 685	–25 426	**0**
Currency translation differences	–793	–2 877	–3 095	–30	**–6 795**
Cost at December 31	**18 138**	**127 604**	**229 941**	**5 584**	**381 267**
Accumulated depreciation at January 1	**0**	**–36 689**	**–97 373**	**0**	**–134 062**
Depreciation	0	–3 469	–12 796	0	**–16 265**
Disposals	0	18	2 825	0	**2 843**
Currency translation differences	0	787	1 900	0	**2 687**
Accumulated depreciation at December 31	**0**	**–39 353**	**–105 444**	**0**	**–144 797**
Net book value at December 31	**18 138**	**88 251**	**124 497**	**5 584**	**236 470**
Insurance value at December 31					**335 553**

In the reporting year, the three categories installations, laboratory equipment and others have been combined to one category. The prior year values were adjusted accordingly.

In the reporting year, no qualifying asset was identified and consequently no borrowing costs were capitalized as property, plant and equipment (2010: capitalization of 81 kCHF using an interest rate of 1%).

The carrying amount of fixed assets under finance lease contracts at year-end 2011 amounted to 888 kCHF (2010: 467 kCHF). Depreciation relating to fixed assets under finance lease amounted to 145 kCHF (2010: 26 kCHF).

No assets were pledged for security of own liabilities in 2011. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Finance lease liabilities – minimum lease payments

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Within 1 year	245	120
Between 1 and 5 years	775	447
More than 5 years	0	0
Total future minimum finance lease payments	**1 020**	**567**
Future interest expenses on finance lease payments	–110	–96
Present value of minimum finance lease payments	**910**	**471**

Present value of finance lease liabilities

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Within 1 year	200	86
Between 1 and 5 years	710	385
More than 5 years	0	0
Present value of finance lease liabilities	**910**	**471**

The existing finance lease contracts have been concluded in Switzerland and in the USA in the prior and the reporting year. Their remaining durations are between 3 and 5 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.

Operating lease liabilities – minimum lease payments

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Within 1 year	168	156
Between 1 and 5 years	391	414
More than 5 years	0	24
Total future minimum operating lease payments	**559**	**594**

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 2011 was 182 kCHF (2010: 176 kCHF).

16 Intangible assets

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

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

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 1 860 kCHF (2010: 1 404 kCHF) is included in cost of goods sold, recognized in the income statement, 25 kCHF (2010: 21 kCHF) in marketing and sales costs, 15 kCHF (2010: 100 kCHF) in research and development costs and 323 kCHF (2010: 246 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.

With retrospective effect as per January 1, 2011, Sochinaz SA was absorbed by Bachem AG. In conjunction with this merger, the organizational and reporting structures were reorganized, which led to a reallocation of the former goodwill Sochinaz SA to a new cash-generating unit. Based on the criteria of IAS 36, Bachem AG was identified as the new cash-generating unit. Following the established nomenclature, the terms goodwill Switzerland and cash-generating unit Switzerland were chosen.

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 3 735 kCHF (2010: 3 708 kCHF), Switzerland with a goodwill of 6 383 kCHF (2010: 6 383 kCHF) and the Clinalfa® business with a goodwill of 320 kCHF (2010: 320 kCHF) and the Clinalfa® brand of 480 kCHF (2010: 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 12.4% (2010: 13.8%), for Switzerland 7.8% (2010: 8.6%) and for the Clinalfa® business 7.8% (2010: 8.6%). 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 1.8 percentage points per year. For the cash-generating unit Switzerland, a slight below-average growth is assumed, as well as an improvement in the operating margin of about 1 percentage point per year. For the cash-generating unit Clinalfa®, an average growth and an improvement in the operating margin of about 1 percentage point per year are expected.

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

18 Trade payables

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Trade payables	10 351	11 139
Prepayments	1 296	1 026
Total trade payables	**11 647**	**12 165**

Trade payables by currency

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
CHF	9 162	9 856
USD	1 863	1 374
EUR	485	764
GBP	137	168
JPY	0	3
Total trade payables	**11 647**	**12 165**

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 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Deferred income and accrued expenses	5 002	5 083
Derivatives	47	0
Other current liabilities	3 982	2 188
Total other current liabilities	**9 031**	**7 271**

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

20 Financial liabilities

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Loans from related parties	16 205	9 000
Bank loans	32 000	15 000
Finance lease liabilities	910	471
Total financial liabilities	**49 115**	**24 471**
Thereof current financial liabilities	48 405	24 086
Thereof non-current financial liabilities	710	385

The loans from related parties (see note 26) and the bank loans were provided as unsecured business loans in CHF and bear an average interest of 1% p.a. The maturity of the bank loans is less than 6 months and the other loans have an open-ended maturity. Since Bachem has the intention to repay the loans from related parties during the calendar year 2012 in full, they are presented as part of the current liabilities.

Details concerning finance leases are disclosed in note 15.

21 Deferred taxes

The changes in deferred taxes were as follows:

Deferred tax assets in 1 000 CHF	Receivables	Inventories	Property, plant and equipment	Liabilities	Tax loss carry-forwards	Defined benefit plan	Total
Balance at January 1, 2010	**150**	**1 765**	**0**	**944**	**155**	**3 207**	**6 221**
Recognized in profit and loss	112	264	82	**–262**	522	27	**745**
Recognized in equity	0	0	0	0	0	**–236**	**–236**
Currency translation differences	–18	–80	**–10**	**–108**	–39	0	**–255**
Balance at December 31, 2010	**244**	**1 949**	**72**	**574**	**638**	**2 998**	**6 475**
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**
Balance at December 31, 2011	**97**	**1 719**	**388**	**546**	**250**	**3 577**	**6 577**

Deferred tax liabilities in 1 000 CHF	Securities	Receivables	Inventories	Property, plant and equipment	Intangible assets	Liabilities	Total
Balance at January 1, 2010	**0**	**429**	**17 402**	**18 369**	**686**	**1 219**	**38 105**
Recognized in profit and loss	0	–98	–3 814	2 126	759	123	**–904**
Recognized in equity	0	0	0	0	0	0	**0**
Currency translation differences	0	–1	0	–223	0	0	**–224**
Balance at December 31, 2010	**0**	**330**	**13 588**	**20 272**	**1 445**	**1 342**	**36 977**
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**
Balance at December 31, 2011	**0**	**379**	**10 103**	**20 962**	**1 552**	**1 338**	**34 334**

Tax loss carry-forwards by expiry date in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Up to 5 years	0	0
More than 5 years	734	1 597
Total tax loss carry-forwards	**734**	**1 597**

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

At December 31, 2011, 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 92.

Shares Bachem -A-	Dec. 31, 2011	Dec. 31, 2010
Number of shares	6 802 000	6 802 000
Number of fully paid-in shares	6 802 000	6 802 000
Par value per share (in CHF)	0.05	0.05
Shares Bachem -B-		
Number of shares	6 798 000	6 798 000
Number of fully paid-in shares	6 798 000	6 798 000
Par value per share (in CHF)	0.05	0.05
Total number of shares	**13 600 000**	**13 600 000**
Total share capital (in CHF)	**680 000**	**680 000**

On December 31, 2011, Bachem Holding AG held 119 663 own shares, of which 26 884 are reserved for trading and 92 779 for distribution under the employee participation plans.

Own shares Number	Dec. 31, 2010	Purchases / backslide of blocked shares	Sales/ transfer to employees	Dec. 31, 2011
Employee participation plans at the price of 0.08 CHF	104 329	1 000	– 12 550	**92 779**
Treasury stock at the price of 47.90 CHF	27 695	19 781[1]	– 20 592[2]	**26 884**
Total own shares	**132 024**	**20 781**	**– 33 142**	**119 663**

[1] The shares were acquired on the market at an average price of 39.95 CHF.
[2] 592 shares were sold on the market and 20 000 shares were sold to a related party (see note 26). The average selling price amounted to 40.11 CHF.

Outstanding shares	Dec. 31, 2011	Dec. 31, 2010
Total number of shares	13 600 000	13 600 000
Number of own shares Bachem -B-	– 119 663	– 132 024
Total shares outstanding	**13 480 337**	**13 467 976**

23 Share-based payment

The employee and management participation plans are described in the accounting policies on pages 60 and 61. The recognized expenses for share-based payments in the reporting period amounted to 954 kCHF (2010: 1 164 kCHF).

In 2011 and 2010, the following number of shares was granted

Shares granted Number/CHF	2011	2010
Number of granted shares	12 550	22 280
Average fair value per share at grant date in CHF	49.47	67.39

The option plan developed as follows:

Share options outstanding Number	2011	2010
At January 1	**9 593**	**9 560**
Granted options	3 800	4 100
Cancelled options	–500	–1 033
Expired options	–2 617	–3 034
Exercised options	0	0
At December 31	**10 276**	**9 593**
Exercisable options	**3 051**	**2 817**

The fair values at grant date of the options granted in 2011 are 7.08 CHF for options FA, 7.26 CHF for options FB and 7.76 CHF for options FC (2010: 5.93 CHF for options EA, 6.87 CHF for options EB and 6.86 CHF for options EC).

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 2011:

Parameters 2011	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

Parameters for the options granted in 2010:

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

Options by expiry date Number	Exercise price	2011	2010
Year 2011	80.00	0	1 086
Year 2011	89.00	0	862
Year 2011	96.00	0	869
Year 2012	68.00	1 203	1 253
Year 2012	80.00	1 036	1 086
Year 2012	96.00	812	862
Year 2013	54.00	1 270	0
Year 2013	68.00	1 203	1 253
Year 2013	80.00	1 028	1 078
Year 2014	54.00	1 270	0
Year 2014	68.00	1 194	1 244
Year 2015	54.00	1 260	0
Total		**10 276**	**9 593**

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

24 Dividend distribution

On April 20, 2011, a dividend of 33 692 kCHF – respectively 2.50 CHF per share – was distributed for the year 2010 (previous year: 40 401 kCHF respectively 3.00 CHF per share). Of the total dividend in the amount of 33 692 kCHF (previous year: 40 401 kCHF), 16 687 kCHF (previous year: 19 995 kCHF) were paid out and 17 005 kCHF (previous year: 20 406 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 20 231 kCHF on 13 487 387 shares entitled to dividend, to the Annual General Meeting for the year 2011. The number of shares entitled to dividend may change until the Annual General Meeting on April 25, 2012 due to the granting of shares to employees or the purchase/sale of own shares.

25 Consolidated companies

Company	Country	Equity share [1] Dec. 31, 2011	Equity share [1] Dec. 31, 2010
Bachem Holding AG, Bubendorf	Switzerland	Parent company	Parent company
Bachem AG, Bubendorf	Switzerland	100%	100%
Sochinaz SA, Vionnaz [2]	Switzerland	n/a	100%
Bachem Distribution Services GmbH, Weil am Rhein	Germany	100%	100%
Bachem (UK) Ltd., St. Helens	England	100%	100%
Bachem Americas, Inc., Torrance	USA	100%	100%
Bachem, Inc., Torrance	USA	100%	100%
Bachem Bioscience, Inc., King of Prussia	USA	100%	100%
Peninsula Laboratories, LLC, San Carlos	USA	100%	100%

[1] directly or indirectly
[2] Sochinaz SA, Vionnaz, was merged with Bachem AG, Bubendorf, as per January 1, 2011.

26 Related party transactions

Cerecon AG, 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:

Transactions in 1 000 CHF	2011	2010
Cerecon AG (delivery of goods)	0	1
Chemoforma AG (purchase of goods)	– 33	– 67
Ingro Finanz AG (dividend/sale of securities/interest payments/further charging)	– 16 863	– 2 740
Pevion Biotech AG (delivery of goods)	36	203
Polyphor AG (delivery of goods)	1 478	801
Pension fund (employer's contribution)	– 3 288	– 3 385
Sunstar Group (seminar)	– 8	0
Total transactions with related parties	**– 18 678**	**– 5 187**

Balances in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Chemoforma AG	0	– 2
Ingro Finanz AG	– 16 191	– 8 986
Polyphor AG	328	456
Total balances with related parties	**– 15 863**	**– 8 532**

In 2011, a dividend in the amount of 17 527 kCHF was distributed to Ingro Finanz AG (2010: 20 940 kCHF). From this amount, 522 kCHF were paid out (2010: 534 kCHF) and 17 005 kCHF (2010: 20 406 kCHF) were converted into a loan. On November 30, 2011, 20 000 own shares were sold to Ingro Finanz AG at the price of 800 kCHF by offsetting the sales price against the existing loans. The sales price of CHF 40 per share was based on the stock price at that time. In addition, 9 000 kCHF of the loan were repaid in the reporting year (2010: 8 046 kCHF and 18 360 kCHF by offsetting as a result of sale of associated company; see note 5), hence 16 205 kCHF remain outstanding as of December 31, 2011 (2010: 9 000 kCHF; see note 20). The interest expense recognized on the loans from Ingro Finanz AG in 2011 amounted to 161 kCHF (2010: 185 kCHF). For administrative services 25 kCHF (2010: 25 kCHF) were further charged to Ingro Finanz AG, of which 14 kCHF were still outstanding at year-end (2010: 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:

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 Brokatzky-Geiger (Member)	40			4	17	**61**
Thomas Burckhardt (Secretary)	67 [1]			4	17	**88**
Nicole Grogg Hötzer (Member since April 13, 2011)	31			2	0	**33**
Hans Hengartner (Member)	41			3	17	**61**
Total Board of Directors	**350**	**0**	**0**	**26**	**85**	**461**
Rolf Nyfeler (CEO)	250	102	28	30	26	**436**
Rest of the Corporate Executive Committee	542	189	81	63	33	**908**
Total Corporate Executive Committee	**792**	**291**	**109**	**93**	**59**	**1 344**
Total	**1 142**	**291**	**109**	**119**	**144**	**1 805**

[1] incl. 26 kCHF for legal services

2010 in 1 000 CHF	Fix salaries, fees	Variable salaries	Pension plan contri-bution	Other social security expenses	Share-based payments	Total
Peter Grogg (Chairman)	137			12	20	**169**
Gottlieb Knoch (Vice-Chairman)	41			3	20	**64**
Jürgen Brokatzky-Geiger (Member)	41			5	20	**66**
Thomas Burckhardt (Secretary)	55 [2]			5	20	**80**
Hans Hengartner (Member)	41			3	20	**64**
Total Board of Directors	**315**	**0**	**0**	**28**	**100**	**443**
Rolf Nyfeler (CEO)	246	106	30	31	11	**424**
Rest of the Corporate Executive Committee	518	196	81	78	126	**999**
Total Corporate Executive Committee	**764**	**302**	**111**	**109**	**137**	**1 423**
Total	**1 079**	**302**	**111**	**137**	**237**	**1 866**

[2] incl. 14 kCHF for legal services

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

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

December 31, 2011	Number of free shares	Number of blocked shares	Number of shares total	Shares allocated in reporting period	Number of free options	Number of blocked options	Number of options total	Options allocated in reporting period
Peter Grogg (Chairman) [1]	7 767 932		7 767 932	300				
Gottlieb Knoch (Vice-Chairman)	1 171 500		1 171 500	300				
Jürgen Brokatzky-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				
Total Board of Directors	**9 027 832**	**0**	**9 027 832**	**1 500**				
Rolf Nyfeler (CEO) [1]	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
Total Corporate Executive Committee	**93 961**	**7 500**	**101 461**	**1 300**	**1 501**	**3 830**	**5 331**	**2 000**
Total	**9 121 793**	**7 500**	**9 129 293**	**2 800**	**1 501**	**3 830**	**5 331**	**2 000**

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

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

29 Events after the balance sheet date

Bachem Americas, Inc., Torrance, was merged with Bachem, Inc., Torrance, as per January 1, 2012. This merger had no impact on the operational activities.

Report of the Statutory Auditor

pwc

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 50 to 88), for the year ended December 31, 2011.

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, 2011 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 24, 2012

Income Statement

For the years ended December 31

in 1 000 CHF	2011	2010
Income		
Income from investments	12 456	16 347
Gain on sale of investment	0	17 518
Income from licenses	10 950	11 684
Interest income	5 615	5 408
Other financial income	2 223	2 775
Other income	26	118
Total income	**31 270**	**53 850**
Expenses		
Staff costs	–2 199	–2 457
Administration expenses	– 4 890	–4 770
Interest expenses	–413	–268
Other financial expenses	–2 577	–1 282
Depreciation and amortization	–129	–147
Total expenses	**– 10 208**	**– 8 924**
Earnings before taxes	**21 062**	**44 926**
Taxes	–769	–2 347
Net income	**20 293**	**42 579**

Balance Sheet

At December 31, 2011 and 2010

in 1 000 CHF	Dec. 31, 2011	Dec. 31, 2010
Assets		
Cash and cash equivalents	4 812	2 527
Own shares	1 295	1 962
Other receivables from third parties	387	544
Other receivables from group companies	25 765	29 970
Prepaid expenses and accrued income	15	14
Total current assets	**32 274**	**35 017**
Investments	120 961	122 551
Loans to group companies	119 961	106 470
Property, plant and equipment	27	32
Intangible assets	152	277
Total non-current assets	**241 101**	**229 330**
Total assets	**273 375**	**264 347**
Liabilities and equity		
Other current liabilities to third parties	180	163
Other current liabilities to group companies	4 234	4 370
Financial liabilities to third parties	32 000	15 000
Shareholder loan	16 205	9 000
Deferred income and accrued expenses	1 265	2 924
Total liabilities	**53 884**	**31 457**
Share capital	680	680
Legal reserves		
General reserves [1]	10 551	90 469
Reserves from capital contribution [1]	79 918	0
Reserves for own shares	1 295	1 962
Free reserves	97 294	96 626
Retained earnings		
Retained earnings	9 460	574
Net income	20 293	42 579
Total equity	**219 491**	**232 890**
Total liabilities and equity	**273 375**	**264 347**

[1] On January 28, 2012, the Board of Directors has decided, to reclassify within the legal reserves the reserves from capital contribution, in the amount of 79 918 106 CHF, out of the general reserves.

Notes to the Financial Statements of Bachem Holding AG

1 Significant investments

Company	Location	Branch		Share capital Dec. 31, 2011	Share capital Dec. 31, 2010
Bachem AG	Bubendorf, CH	Production, sales	CHF	25 000 000	25 000 000
Bachem Distribution Services GmbH	Weil am Rhein, D	Production, sales	EUR	128 000	128 000
Bachem (UK) Ltd.	St. Helens, GB	Production, sales	GBP	2 500	2 500
Bachem Americas, Inc.	Torrance CA, USA	Sales	USD	1 000	1 000
Bachem, Inc.	Torrance CA, USA	Production, sales	USD	3 000	3 000
Bachem Bioscience, Inc.	King of Prussia PA, USA	Production, sales	USD	3 000 000	3 000 000
Pevion Biotech AG	Bern, CH	Production, sales	CHF	11 267 000	11 267 000

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, 2011	Dec. 31, 2010
P. Grogg (via Ingro Finanz AG) [1]	52.3	51.5
G. Knoch	8.6	8.6
Family of P. Grogg	6.0	6.0
Sarasin Investmentfonds AG	4.5	4.2
Total important shareholders	**71.4**	**70.3**

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

5 Risk assessment

Bachem Holding AG is fully integrated into the group-wide risk assessment process of the Bachem Group. This Group risk assessment process also addresses the nature and scope of business activities and the specific risks of Bachem Holding AG. The risk assessment process of the whole Bachem Group is disclosed within the consolidated financial statements on page 61 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 10, 2012, the ordinary Annual General Meeting from Bachem AG has decided to distribute a dividend in the amount of 11 000 kCHF for the business year 2011 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 2011 simultaneous to the disclosure of the profit in the books of the 100%-subsidiary Bachem AG.
The corresponding income is shown in the line income from investments and the corresponding receivable in the line other receivables from group companies.

Appropriation of Available Earnings

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

Appropriation of available earnings		
Retained earnings at January 1	CHF	9 460 337.39
Net income 2011	CHF	20 293 094.45
Available to the Annual General Meeting	CHF	29 753 431.84
Retained earnings to be carried forward	CHF	29 753 431.84

Appropriation of reserves from capital contribution		
Opening balance reserves from capital contribution	CHF	79 918 106.00
Transfer to free reserves for dividend payment of 1.50 CHF per registered share for the business year 2011 on 13 487 387 registered shares entitled to dividend	CHF	20 231 080.50
Reserves from capital contribution to be carried forward	CHF	59 687 025.50

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 25, 2012 depending on the distribution of shares to employees or purchase/sale of own shares.

Report of the Statutory Auditor

pwc

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 90 to 93), for the year ended December 31, 2011.

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, 2011 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

Dr. Rodolfo Gerber
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 24, 2012

Shareholder Information

			2011	2010	2009	2008	2007
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			13 471 331	13 463 630	13 444 683	13 406 601	13 280 323
Dividend per share		CHF	1.50 [1]	2.50	3.00	3.20	3.00
Extra dividend		CHF					
Share price	Beginning of the year	CHF	56.00	66.35	80.50	95.70	92.00
	High	CHF	59.00	73.05	80.50	98.00	105.50
	Low	CHF	32.00	51.00	57.00	74.75	89.40
	Year end	CHF	32.50	56.00	66.35	80.50	95.70
Dividend yield per share		%	4.6	4.5	4.5	4.0	3.1
Earnings per share (EPS)		CHF	0.70	2.10	3.43	4.38	4.81
Cash flow from operating activities per share		CHF	1.83	2.83	3.19	2.93	5.88
Group equity per share		CHF	24.79	26.67	27.97	27.98	27.06
Price/earnings ratio (year end)			46.43	26.67	19.34	18.38	19.90
Market capitalization at year end		MCHF	442	762	902	1 095	1 302

[1] proposal to the Annual General Meeting of April 25, 2012
distribution out of reserves from capital contribution

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

Distribution of shares

Number of shares per shareholder	Dec. 31, 2011	Dec. 31, 2010
0–100	1 305	1 315
101–1 000	1 529	1 651
1 001–10 000	261	277
10 001–100 000	40	43
100 001–1 000 000	7	7
1 000 001 and more	2	2
Total	**3 144**	**3 295**

Shareholdings

in %	Dec. 31, 2011	Dec. 31, 2010
Major shareholders	71.4	70.3
Institutional shareholders	11.7	12.5
Private individuals	11.5	12.3
Dispo	5.4	4.9
Total	**100.0**	**100.0**

Forward-looking statements

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

Financial Calendar

Events

Annual General Meeting
(business year 2011)
April 25, 2012

Payout Date for Dividend
May 3, 2012

Half-Year Report 2012
August 24, 2012

Annual Report 2012
March 2013

Annual General Meeting
(business year 2012)
April 2013

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