

BACHEM ANNUAL REPORT 2013

PIONEERING
PARTNER
FOR PEPTIDES

FOR PEPTIDES PARTNER PIONEERING

BACHEM

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

MILESTONES OF A PIONEER

THE 1970S

Bachem was among the first to synthesize and make available amino acid derivatives for peptide synthesis. Initially, these derivatives were used for liquid phase peptide synthesis. When solid phase peptide synthesis became popular, Bachem offered a large selection of derivatives for this technology. Small bioactive peptides as well as enzyme substrates and inhibitors were in large demand. Bachem thus also made such products. Some of them became active drug substances.

In the late 1970s, Bachem was approached by pharmaceutical companies to make Active Pharmaceutical Ingredients (APIs) for them. Bachem thus became the first Contract Manufacturing Organization in the peptide field.

THE 1980S

Bachem rapidly recognizes the importance of Fmoc solid phase peptide synthesis which was invented in the late 1970s. As of 1980, the Company offers the largest range of Fmoc Amino Acid derivatives and resins for Fmoc solid phase peptide synthesis.

Slowly but surely, the Fmoc technology gained in popularity versus the competing tBoc technology. It is a safer and less polluting way to make peptides. Bachem was first to really embrace this technology as the organization continued to grow the Active Pharmaceutical Ingredient business segment.

In an effort to automate and form the basis for scaling up solid phase peptide technology, Bachem develops instruments capable of semi-automated peptide synthesis. The synthesizers and accompanying software developed then are still in use today, offering highly efficient solid phase synthesis capabilities to make 100s of kg of APIs.

THE 1990S

Both HIV and Alzheimer's disease were recognized as major health care challenges in the 1990s. Bachem produced novel high quality research reagents that added tremendous value in the drug discovery process and in advancing the understanding of the underlying pathologies.

As a supplier of APIs, the Company set standards on partnering with clients during all phases of drug development. Project management, analytical and regulatory issues become increasingly important.

Being the recognized leader in peptides, Bachem frequently spoke with regulatory agencies and customers to help set validation criteria.

THE 2000S

The amount of peptide APIs increased dramatically, as did the standards for purity. Bachem's R&D efforts concentrated on developing best practices to both characterize and avoid impurities.

Longer and more complex structures were high in demand. Bachem remained at the forefront of the field by making constant, incremental im-

provements to assure on time delivery of large quantities of peptide APIs meeting stringent purity standards.

THE 2010S

Bachem continued to evolve the peptide field with its Japanese partner, Glytech, by developing an industrial scale process for Interferon β -1a, a 166 amino acid long protein that is specifically glycosylated. Both the length of the "peptide" and the fact that it contains a sugar moiety made this a remarkable achievement.

Many specifically glycosylated proteins and peptides with interesting properties can now be made economically on an industrial scale. This may catalyze a new field of drug development.

PIONEERING PARTNER FOR PEPTIDES

BACHEM'S BRAND PERSONALITY HAS BEEN RECAST AFTER STRATEGICALLY REPOSITIONING THE COMPANY AROUND PEPTIDES.

THE SLOGAN "PIONEERING PARTNER FOR PEPTIDES" IS AN ACCURATE REFLECTION OF THE COMPANY'S CORE COMPETENCE AND HOW IT DIFFERENTIATES ITSELF FROM THE COMPETITION.

BACHEM HAS BEEN A PIONEER IN THE FIELD OF PEPTIDES FOR OVER 40 YEARS. THE COMPANY LISTENS TO ITS CUSTOMERS AND IS A RELIABLE PARTNER WHEN IT COMES TO FULFILLING THEIR EXPECTATIONS.

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LETTER TO SHAREHOLDERS

Dear Shareholders,



Dr. Kuno Sommer, Dr. Thomas Früh

The new “Pioneering Partner for Peptides” positioning underscores our focus on our core business of peptides and our intention to constantly build upon our pole position in the field. Ever since it was founded, Bachem has been a pioneer in the commercial production of peptides. With our unique expertise and innovative drive, we are a reliable business partner who can ensure the successful execution of peptide projects and deliver superior quality solutions.

We steadfastly followed our charted course during fiscal 2013 and achieved the targeted growth rates for sales and profits despite the persisting challenges in the market environment and on the competitive front. Strong momentum in the US market helped lift overall sales growth to 8.5%. Sales of active pharmaceutical ingredients remained brisk. The New Chemical Entities (NCEs) business, a bellwether of the Company’s future sales, grew by more than 40%. After various setbacks in the preceding years, the Research Ingredients business returned to top-line growth, with a more than 10% increase in sales.

As expected, Bachem reported another significant increase in profits in 2013. Operating profit surged 31.9% from the prior-year figure and the EBIT margin amounted to 17.3%. This performance shows that we have further strengthened our lead over key competitors.

We are confident that we will continue to grow sales steadily along the lines of our long-term projections for the coming years. Assuming exchange rates and the general economy remain stable, operating profits are likely to continue growing faster than sales in the foreseeable future. We remain firmly committed to our goals of further expanding our leadership in our core business of peptides and to serving customers around the world as a trend-setting business partner.

In view of the results achieved in the past fiscal year, the continued positive outlook and the Company’s financial strength, the Board of Directors will propose an increase in the dividend from 1.50 CHF to 1.75 CHF at the upcoming general meeting. This payment will again be distributed from reserves from capital contribution.



Dr. Kuno Sommer
Chairman of the
Board of Directors



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

CORPORATE EXECUTIVE COMMITTEE



Dr. José de Chastonay
CMO

Dr. Daniel Erne
CTO

Dr. Thomas Früh
CEO

Stephan Schindler
CFO

2013 IN BRIEF

The Group displays another strong operating performance. Expectations for sales growth and profits are fully met. Big increase in cash flow and net income. Higher dividend proposed.

EXPECTATIONS FULLY MET

The Bachem Group delivered another impressive operating performance in the year under review. Sustained sales and profit momentum was already evident at the mid-year mark. Based on the best half-year sales figure reported since 2009, with EBITDA of 21.7 million CHF and a 15.6% EBIT margin for the first half, further growth was forecast for the remaining six months of the year. NCE sales in the US, buoyed by an improvement in research and development financing and by projects for the biotech industry, were the main factor behind this guidance. Bachem performed well amid persisting market challenges and achieved the targeted growth in sales and profits.

FURTHER SALES GROWTH

After a good course of business in the first half, the positive sales trends were sustained in the second half. Bachem's full-year sales rose 8.5% from the previous year, within the targeted growth range of 6–10%.

ANOTHER SURGE IN PROFITS

Bachem's profits were once again sharply higher in a year-on-year comparison. Net income improved more than 50% versus prior year and amounted to 23.6 million CHF.

UNRELENTING FOCUS ON PEPTIDES

The new company slogan "Pioneering Partner for Peptides" is an expression of Bachem's unrelenting focus on peptides, and it formed the basis of the Group's latest branding campaign.



SOLID BALANCE SHEET

With an equity ratio of 76.7%, Bachem is extremely well capitalized. Commercial loans were taken out at favorable terms and without any restrictive covenants.



SWITCH TO SWISS GAAP FER

Due to the constantly growing complexity of the previously applied International Financial Reporting Standards (IFRS), the Company decided to apply Swiss GAAP FER standards instead of IFRS, effective retroactively to January 1, 2013.



OPERATING CASH FLOW

Another significant year-on-year improvement in cash flow from operating activities was achieved. Operating cash flow rose by one-third from 36.9 million CHF to 49.2 million CHF.



DIVIDEND 1.75 CHF

The Board of Directors is maintaining an attractive dividend policy and will propose a dividend of 1.75 CHF, to be paid from reserves from capital contribution and thus exempt from Swiss withholding tax.

KEY FIGURES

	2013	2012 ¹	CHANGES IN %	
			CHF	LC
SALES (IN MCHF)	170.7	157.3	+8.5	+8.9
EBITDA (IN MCHF)	47.4	44.7	+6.1	+6.7
EBITDA IN % OF SALES	27.8	28.4		
EBIT (IN MCHF)	29.5	22.3	+31.9	+33.0
EBIT IN % OF SALES	17.3	14.2		
NET INCOME (IN MCHF)	23.6	15.6	+51.7	
NET INCOME IN % OF SALES	13.8	9.9		
EARNINGS PER SHARE (EPS – IN CHF)	1.75	1.15	+52.2	
CASH FLOW FROM OPERATING ACTIVITIES (IN MCHF)	49.2	36.9	+33.5	
RETURN ON EQUITY (ROE)	7.0	4.6		
NUMBER OF EMPLOYEES (IN FULL-TIME EQUIVALENTS)	649	645		
SALES PER EMPLOYEE ² (IN CHF)	277 000	252 000		

¹ Since 2013, the consolidated financial statements are prepared in accordance with Swiss GAAP FER.

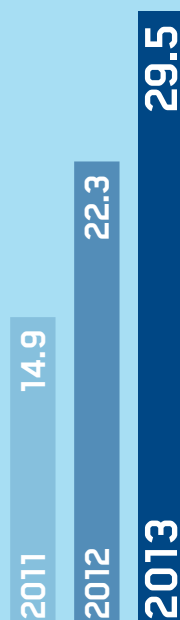
The prior year period has been restated to ensure comparability.

² Basis: average full-time equivalents excluding apprentices.

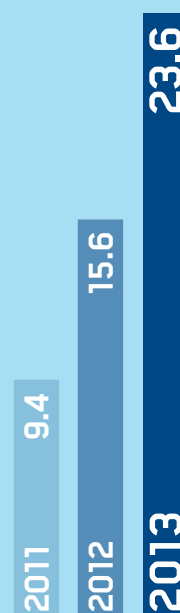
SALES
(IN MCHF)³



EBIT
(IN MCHF)³



NET INCOME
(IN MCHF)³



³ 2011 IFRS, 2012/2013 Swiss GAAP FER

INNOVATION AND QUALITY

INTERVIEW WITH DR. THOMAS FRÜH, CEO



Thomas Früh has a PhD in chemistry and has been part of the Bachem Group for 16 years. He initially served as COO of Bachem's subsidiary in Pennsylvania and then COO of Bachem AG in Bubendorf. He has been CEO of Bachem Holding AG and Chairman of the Corporate Executive Committee for two years.

What do you hope to accomplish with the new positioning strategy? What goals does it involve?

The new "Pioneering Partner for Peptides" positioning strategy underscores our focus on our core business of peptides. Ever since it was founded Bachem has been a pioneer in the commercial production of peptides. With our unique expertise and innovative drive, we are a reliable business partner who can ensure the successful execution of peptide projects and deliver superior quality solutions. Therefore, I would expect Bachem to continue reinforcing its leadership in the peptide business despite tougher international competition.

What makes the Bachem business model unique?

Bachem provides substances and services for every stage in the drug development process, from support in identifying new drug entities to production of the exact quantities of selected active substances required for commercial purposes. As an organization with strong vertical integration, we provide starting materials for peptide synthesis, research chemicals and active substances, and ready-to-use sterile filled products for clinical trials. No other peptide supplier can offer its customers such a huge variety of products and services from a single source like we can.

To what extent does corporate culture influence the power to innovate?

Peter Grogg founded Bachem as a pioneer in the peptide business. His solution-oriented approach has left its stamp on commercial peptide delivery. That pioneering spirit lives on in

our organization to this day. At every site and in every unit of our organization, our people are driven by an ambition to "make the impossible possible" and improve existing processes on a continuous basis. Institutionalized platforms for sharing knowledge and expertise ensure that new insights spread rapidly throughout the organization and are put to profitable use.

How does the organization ensure that sufficient knowledge, technologies and skills are available to enable a systematic innovation and quality strategy?

Our success stands and falls with the availability of a properly trained workforce of experienced staff. More than 40% of Bachem employees have a university degree. In addition to basic training, continuous professional education is a top priority at Bachem. Intensive cooperation with the academic research community and the relevant professional associations enables Bachem to scout out budding new technologies and help determine the shape of things to come.

“Bachem is more than just a service provider. We support our customers as partners in every stage of a project.”

Why the consistent emphasis on quality?

Bachem Group can hope to maintain and reinforce its global leadership in peptide chemistry only with a firm commitment to innovation and quality. Our customers operate in a highly regulated field, and they rely on our consistent corporate quality standards, which go beyond products and services to embrace the behaviors and attitudes of our workforce too. Sustainable use of resources is a hugely important aspect here, as is the quality of our interaction with regulatory and political authorities. All our competitors talk about quality, but it takes a consistent track record in producing top quality results to compete successfully in the marketplace in the long term.

What's so special about partnering with Bachem?

Bachem is more than just a service provider. We support our customers as partners in every stage of a project. We take a close look at the feasibility of our customers' projects, point out any potential difficulties that we would notice due to our extensive experience,

and cooperate closely in finding a solution. This support is not limited to production-related activities; it also includes the efficient handling of regulatory approval processes. Our partners appreciate those added benefits and are willing to sign long-term development and supply agreements with us.

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.



THE WORLD OF PEPTIDES

What are Peptides?

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

Effects of Peptides

Peptides act as hormones and neuropeptides. They are produced in specialized cells and are made available for quick release by endocrine glands if needed. They have a short half-life in the body and are rapidly broken down to their constituents. Peptides regulate a variety of biological processes and play a key role in many bodily processes. Examples include hunger and satiation, regulation of blood glucose levels, fertility, lactation, blood clotting, circadian rhythm, pain signals and pain relief. Animal toxins are frequently composed of mixes of highly active peptides.

GLOBAL RESEARCH



Laboratories throughout the world are working to discover and characterize new, hitherto unknown peptides.

PRODUCTION



Peptides can be produced by chemical synthesis in any specified quantity for research purposes, as diagnostics and therapeutics.

GROWTH



Increasing life expectancy and the rising prevalence of lifestyle diseases promise unabated growth of peptides as a drug class well into the future.

(J.L. Moreland, A. Gramada, O.V. Buzko, Q. Zhang, P.E. Bourne (2005) The Molecular Biology Toolkit (MBT): a modular platform for developing molecular visualization applications. BMC Bioinformatics 6:21).

Image of 1AU1 (M. Karpusas, M. Nolte, C.B. Benton, W. Meier, W.N. Lipscomb, S. Goetz (1997) Structure of human interferon beta at 2.2-Å resolution Proc. Natl. Acad. Sci. USA 94: 11813-11818) created with Protein Workshop

What are Peptides Used for?

Peptides are mainly used as highly active and highly specific drug substances. In keeping with the diversity of their biological functions, they are used in an extensive range of therapeutic areas. Oncology and diabetes/obesity are prominent examples of therapeutic areas in which peptides generate billions of dollars in revenues. Peptides are much in demand in the treatment of cardiovascular and neurodegenerative diseases, of renal failure, as antibiotics, in vaccines and in drugs for rare diseases (orphan drugs).

Available Dosage Forms

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



COSMETICS



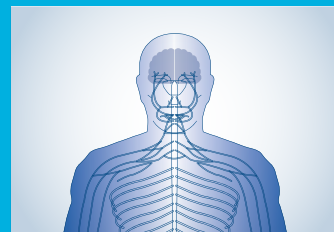
Peptide-based agents are used in top-end personal care products, for example as ingredients in antiaging products that promise to reduce wrinkles.

NUTRITION PRODUCTS



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

CANCER THERAPIES



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



BACHEM PIONEER

Dr. Fritz Dick Bachem AG

"As former Head of R&D and COO of Bachem AG I say without reservation that I am very proud of our Company. It was an honor to be part of the Bachem Group over the past 28 years. We proved consistently that we deserve to be the number 1 in our field. Bachem offers and finds solutions."

BACHEM PIONEER

Dr. Rolf Nyfeler
Member of the Board

“Partnering with Bachem allows customers to work with a company that has over 40 years of experience in peptide chemistry and provides access to state-of-the-art production capabilities, as well as to highly motivated teams of competent specialists.”



MILESTONES REVIEW

2013 marked a continuation of the successful trends from the previous year. As the industry leader with a sharp focus on quality and innovation, Bachem performed well last year in the face of persisting market challenges. Technological advances and project wins underscore its operating skills as well as the strength of its close partnerships with customers around the world.

ACQUISITION OF PROJECTS

Without a steady influx of new projects, sales would eventually stagnate. Discontinued projects must be continuously replaced with new projects, for only the successful projects will make a sustained contribution to Bachem's sales growth. Consequently, the acquisition of new projects is a major priority for the entire sales organization.

INVESTING IN THE FUTURE

Capital expenditure anticipates future customer demand and is a means of securing the production capacity the market needs. Maintaining a healthy balance between risk and opportunity over the long run is crucial for commercial success.

ADAPTING TO CHANGE

Manufacturers of active pharmaceutical ingredients operate in a highly regulated environment. Regulatory agencies around the world are constantly releasing rules and regulations that must be complied with. To operate successfully, a company must continuously adapt to the ever-changing business and regulatory environment. Bachem has the necessary experience and organizational strength to do so.

NEW BUSINESS OPPORTUNITIES THANKS TO INNOVATION

As a pioneer in the peptides business, Bachem uses innovation to latch onto new opportunities in a dynamic market. When it comes to exploring previously unknown terrain and producing solutions that work, Bachem has been at the industry forefront for many years.



174 PROJECTS

The number of projects in preclinical and clinical development increased by 11% to 174 compared to the previous year. This growth was fueled in particular by products in an early stage of development, which is a promising sign for future business.



POWER

The development and production of pharmaceutical ingredients entails various uncertainties and risks. Bachem has the requisite strength and perseverance to ultimately succeed, thanks to its solid financial standing and broadly based portfolio of products and projects.



SUSTAINABILITY

Total capital expenditure in the 2013 financial year amounted to 12.2 million CHF. Approximately 60% thereof was for compliance and the replacement and renewal of plant and equipment. Some 2 million USD was spent to build and commission new, modern lab facilities in the US alone.



INNOVATION

Innovation is a core competency at Bachem. However, its project successes are rarely publicized for confidentiality reasons. A project presented in 2013 by Bachem and GlyTech Inc. proved to be one of the rare exceptions, as it was nominated for the CPhI Innovation Award.

MILESTONES OUTLOOK

Bachem will continue to concentrate on its strengths in its core business. Increasing project complexity and growing regulatory requirements will exert additional pressure on API suppliers. Bachem has demonstrated that it is well prepared to master these challenges and it will take advantage of the opportunities they bring.

LONG-LASTING PARTNERSHIPS

Developing and launching drugs is a process that normally takes more than a decade before a final product is available for patients on a permanent basis. Bachem is an experienced “marathon runner” that customers can rely on throughout the long life cycle of a drug product.

A STRONG COMMITMENT TO QUALITY

Full adherence to the most stringent quality standards serves as a guarantee for safe, efficient development and production of active substances, as well as for impeccable services. Customers can rely on this pledge for every product the Company makes, from research ingredients to active substances.

EXCHANGE RATES A CHALLENGE

Bachem is emerging from the financial crisis stronger than before. In response to the economic downturn and currency headwinds, efforts to optimize operating costs and flexibility, as well as to increase efficiency were intensified. Bachem will continue to sharpen its competitive edge through continual improvement.

EMERGING MARKETS OFFER OPPORTUNITIES

Rising prosperity in emerging market countries such as India and China is creating a variety of new business prospects. As market leader, Bachem intends to act on the opportunities that arise and strengthen its presence in these countries.



CURRENCIES

As for currency risks, Bachem expects relatively stable EUR/CHF and USD/CHF exchange rates in the short to medium term. Therefore, exchange rate fluctuations are expected to have little effect on reported results for the 2014 financial year, as was already the case in 2013.



QUALITY

“Quality Matters” is the message Bachem uses to express the supreme importance it attaches to all aspects of quality. The growing number of orders to develop active substances attests to the confidence customers have in Bachem’s brand.



PARTNERSHIP

Bachem cares deeply about building and maintaining a long-lasting partnership with its customers. This facilitates constant dialog, a key prerequisite for understanding and meeting the high expectations and the needs of customers.



PRESENCE

Working from its plants in Switzerland, Europe and the US, Bachem delivered its products and services to 64 countries. The Company’s presence in the Asian market, China in particular, will be expanded in the coming years.

MARKETS & CUSTOMERS

Despite the fact that one newly approved, highly promising product Bachem had significant orders for had to be withdrawn from the market, the Group still managed to grow within the targeted 6% to 10% range. This was mainly due to the favorable evolution of several projects that have high future potential.

Significant Peptide Pipeline

Bachem benefitted from the large product pipeline in development. Especially the projects in advanced stages (Phase 2 and 3) led to an increase in product, services and custom synthesis revenues. Those New Chemical Entities (NCEs) were the major catalysts for growth in 2013.

In prior years, the generic chemical entities were the growth catalysts. However, starting in 2013, NCEs will likely outgrow the other product lines at Bachem for years to come as more of them advance through the clinical trial phases or become approved drugs. The risks that products in late stage development do not get approved or that the anticipated volumes do not bear out are part of the uncertainties of being a Contract Manufacturing Organization. This underscores the importance of focusing strongly on growing the pipeline throughout the development cycle.

Bachem has successfully expanded its customer base developing peptide drugs in 2013. Currently, the Group is working on 174 projects in various stages of clinical development. This constitutes an increase of 11% versus prior year. Peptides continue to be popular to address unmet medical needs. The Americas grew by 33% in CHF in 2013. This growth rate is impressive, especially when considering the weakening dollar. In Europe and other markets sales decreased by 3%. This slow growth masks a 43% growth rate of peptide NCEs and is attributable to a contraction of generic product sales. Overall, the Americas contribute 38% of total net third-party sales. Europe and Asia thus contributed the remaining 62% to the Group's top line result.

On both sides of the Atlantic, there is an increased demand for multi-peptide vaccines. These products are in clinical developments as therapeutics for cancers, allergies or chronic infectious diseases as well as for prevention of infections. These projects are especially challenging since each peptide has its characteristics and success only comes by making them individually

and then subsequently formulating them as one drug product. Each project requires enormous capacity and specialized know-how in synthesis and analytics, as well as in formulating different compounds having a wide range of physic-chemical properties.

The 2013 Bachem Spring Symposium in Basel was dedicated to the peptide vaccine field. An impressive lineup of specialists offered insight into their ongoing clinical programs, and Bachem highlighted the challenges from a manufacturer's perspective. The event was well attended and proved to be a well-appreciated learning experience. Lively discussions centered mainly on validation activities and the regulatory approval process as pertains to the Chemical Manufacturing Control section in particular.

As concerns generics, Europe registered a decline of 12%. In peptides, the decline was due to the fact that in the prior year several processes were scaled up and revalidated per customer request. This led to a higher inventory level for the customers in question, leading to less demand in 2013. In the small molecule generic segment, sales declined by 15%, mainly attributed to lower volume demand of two products.

The peptide generics in the Americas grew by 32% and the non-peptide generics by 11%. Demand for three peptides and two small molecule generics grew strongly and are the cause for the growth. On the group level, generic peptide sales are down by less than two percent due to the positive contribution of the Americas.

Research reagent sales of 28.6 million CHF were achieved, representing 16.8% of total sales. Versus prior year, the growth rate was 12.8% and is due to strength in custom synthesis sales. Catalog product sales continue to languish.

Most of the custom synthesis related growth was linked to major NCE projects. This underscores the synergistic potential of the different business segments. The center

of excellence for custom synthesis is located in the UK. Several customers that have their NCEs manufactured at the cGMP-accredited plants audited and subsequently used the UK plant for the manufacture of research chemicals such as impurities linked to their API.

Service revenues have increased every year, also during the crisis, when overall sales declined for the Group. The year 2013 was no exception. Service revenues grew by 5% in CHF. These services are essentially tied to drug registration endeavors. As long as the late stage clinical trial programs stay on track, this trend should continue.

To open new markets in the future, Bachem partnered with GlyTech Inc., a Japanese company with specific know-how in sugar chemistry. Together, a commercial scale process for Interferon β -1a was developed successfully. The result was a bio-active, specifically glycosylated protein of 166 amino acids (a very long peptide) produced economically by chemical synthesis. Several pharmaceutical companies have expressed interest to bring this molecule to market.

The work was nominated for the Innovation prize at CPhI. CPhI is the highly acclaimed Chemical and Pharmaceutical Ingredient Manufacturer trade show which is attended by 30 000 visitors.

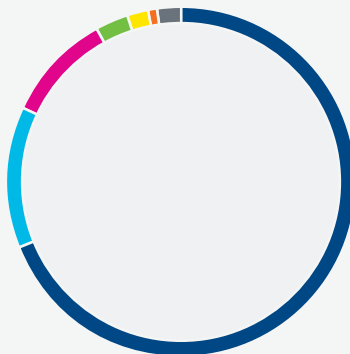
What this proof of concept study demonstrated was that it can be economical to utilize chemical synthesis also to make proteins, which usually are fermented. Furthermore, the selective glycosylation of peptides and proteins can have broad applicability. Some peptides or proteins can be improved through glycosylation. This can potentially express itself by more potency, less toxicity or higher circulating time in an organism.

Hence, there is potential to create novel custom synthesis services around glycosylation of peptides and proteins to find new interesting drug candidates.

Bachem continues to pioneer such concepts in the hope to better serve its customer base in the future as a full service provider in the peptide arena.

CUSTOMER SEGMENTATION IN PERCENT

WIDE RANGE OF CUSTOMERS



69	Pharma
13	Biotech
10	Distributors
3	Academia
2	Cosmetics
1	Veterinary
2	Other

BACHEM WORLDWIDE

Bachem sells its products and services worldwide. The company witnessed a strong acceleration of sales in North America and also have respectable sales in Central and South America. Growth is especially related to peptide New Chemical Entities and services sales.

In Europe, promising growth prospects have been observed after a period of stagnation. They come essentially from the core business of peptides. Also here, New Chemical Entities and services are key drivers that have forward momentum. Generic sales are stable at a high level at this time.

In India, Bachem has a sizeable market share of the peptide API market. In China and North Korea, we are also growing well. Although sales are not very high there as of now, such markets have a promising future. More resources are being allocated to these jurisdictions.

The Company is optimistic about its future long-term growth prospects.

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

Bachem Holding AG
Bubendorf,
Switzerland

Bachem AG
Bubendorf,
Switzerland

**Bachem
Americas, Inc.**
Torrance,
USA

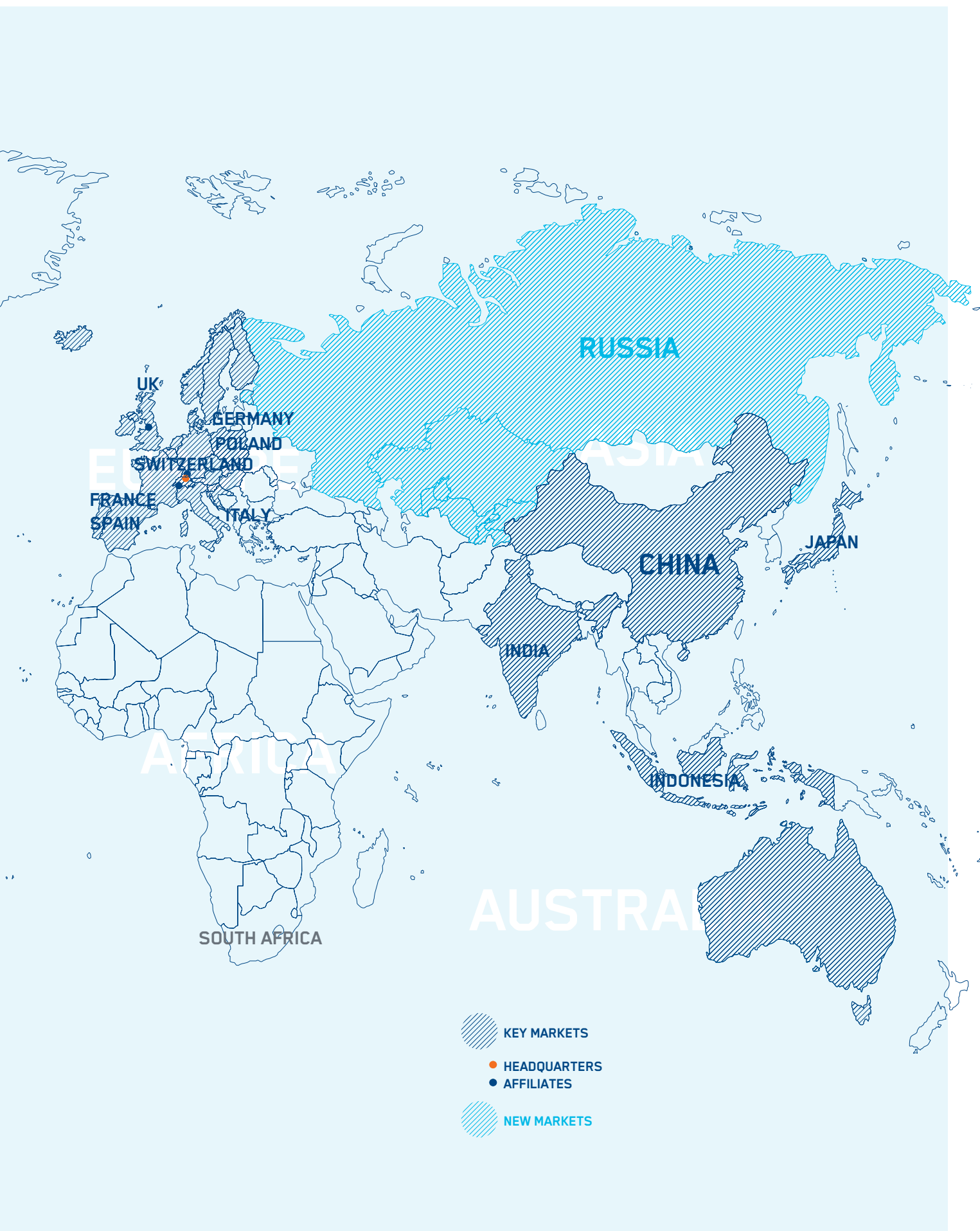
**Bachem
Distribution
Services GmbH**
Weil am Rhein,
Germany

Bachem SA
Succursale
Vionnaz
Vionnaz,
Switzerland

**Peninsula
Laboratories,
LLC**
San Carlos,
USA

Bachem (UK) Ltd.
St. Helens,
Great Britain





THE FUTURE OF PEPTIDES

INTERVIEW WITH DR. DANIEL ERNE, CTO



Daniel Erne is a chemistry PhD with 29 years of experience in peptide chemistry. 26 of those years were spent with Bachem Group. Dr. Erne headed the Quality Control department of Bachem Feinchemikalien AG, as it was then known, established the Quality Assurance and Regulatory Affairs unit and has been a member of the Bachem Group's Corporate Executive Committee since 1997.

Peptides have been in use as active pharmaceutical ingredients for as long as 50 years now. Do peptide-based drugs still have a future these days?

Peptides are in demand as active pharmaceutical ingredients now more than ever. Generally speaking, these are highly active, highly specific and metabolically favorable substances. As you might expect from the diverse physiological functions they perform, peptides are suitable for a wide range of very different therapeutic indications. In addition to the large areas of oncology and diabetology, peptides are also useful therapeutic options in renal failure, cardiovascular disease, palliative care and neurodegenerative disorders such as multiple sclerosis and autoimmune disorders like Crohn's disease, to give just a few examples. Numerous peptides are in clinical development as vaccines or antibiotics and for the treatment of orphan diseases.

How are new peptide-based drugs discovered?

Nature has an unbelievable reservoir of biologically active peptides in store. Many of the peptide-based drugs we know of today were originally discovered in animal organisms, and thousands await discovery and characterization. Targeted alterations of natural structures and subsequent structure-activity relationship studies give rise to new peptide-based drugs. Advances in proteomics research promote the development of new peptides as potential drugs on the basis of insights into the function of proteins in healthy and diseased organisms.

Peptides are protein-like substances. Proteins are made by biotechnology today. Does this pose a threat for suppliers of chemically synthesized peptides?

Chemical synthesis and recombinant technology both have their justification. With chemical synthesis, there are limits to the length of the peptide chains you can produce, while recombinant technology is unsuitable for producing shorter proteins on cost grounds. Nor is it possible to produce peptides by recombinant technology if they contain unnatural amino acids or have undergone any other structural modifications. Having said that, Bachem succeeded last year in pushing the generally accepted limit of about 100 amino acids per peptide. In collaboration with Japanese researchers, an industrial process was developed for the first time that enables the synthetic production of interferon β -1a, a glycosylated protein 166 amino acids long. Until then, production of such proteins was the exclusive preserve of recombinant technology.

What trends do you see for peptide development going forward?

We're seeing a trend toward more complex structures for peptidic drugs. Targeted structural alterations are being used to optimize biophysical properties to enhance activity and bioavailability. In the area of vaccines, epitope mimetics are being used to create complex cocktails. We can also expect further advances in drug delivery systems that are likely to give peptides an additional boost as a drug class.

THE FUTURE OF PEPTIDES

INTERVIEW WITH DR. MATTEO VILLAIN

PIONEERING
PARTNER
FOR PEPTIDES



Dr. Matteo Villain joined Bachem Americas, Inc. in 2004 and is VP of Research and Development. He has 20 years of experience in peptide chemistry and collaborated with different universities and research organizations in both the USA and Switzerland. His main focus was the development of peptide therapeutics and solid-phase peptide synthesis strategies. He is a contributor to more than 20 peer reviewed scientific publications, and is an inventor in multiple approved patents.

What are the new trends in peptide therapeutics that you observe in the United States?

Recently we have observed a striking increase in the complexity of the molecules we are requested to develop. There is a significant demand for longer peptide-based active pharmaceutical ingredients. Furthermore, modifications to the peptide basic structure are often requested. We are frequently asked to produce peptides conjugated with other chemical entities such as PEG or lipids. The development of industrially viable synthetic strategies for these types of peptidic molecules represents a significant challenge. Fortunately, Bachem has always invested in recruiting top-notch scientists with strong backgrounds in both peptide and organic chemistry. This allows us to integrate our available expertise in different fields and to design robust manufacturing processes.

What are the specific challenges you face today?

Devising new synthetic strategies to make such complex molecules in industrial quantities also calls for state-of-the-art analytical capabilities. The characterization of these molecules requires specialized equipment and a significant effort in analytical method development. In the R&D department of Bachem Americas, Inc. we recently expanded our analytical capabilities to address the specific requirements of the process development approach.

What excited you last year?

Still on the subject of peptide complexity, we have seen a significant interest in dye-conjugated peptides for tumor-diagnostic applications. Dyes, specifically fluorescent dyes, are extremely sensitive molecules. We had the opportunity last year to develop dye-conjugated peptides for human application. We were rewarded with great success and were excited both to be able to produce these complex molecules and to be actively supporting the battle against cancer.

What is your outlook for the next years?

We are really excited about the future. The complexity of the molecules described requires exactly the type of expertise we have developed in the Bachem Group. We have the background knowledge necessary to successfully produce these molecules at large scale and in consistent quality. Bachem is well positioned to further expand its worldwide leadership in peptide manufacturing, true to the claim to be a Pioneering Partner for Peptides to both the biotech and pharmaceutical industry.

BACHEM'S 360 DEGREE BUSINESS MODEL

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

RESEARCH

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

PRECLINICAL DEVELOPMENT

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

CLINICAL DEVELOPMENT

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

PEPTIDE DRUGS

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

BACHEM PRODUCT LINES

Research Chemicals

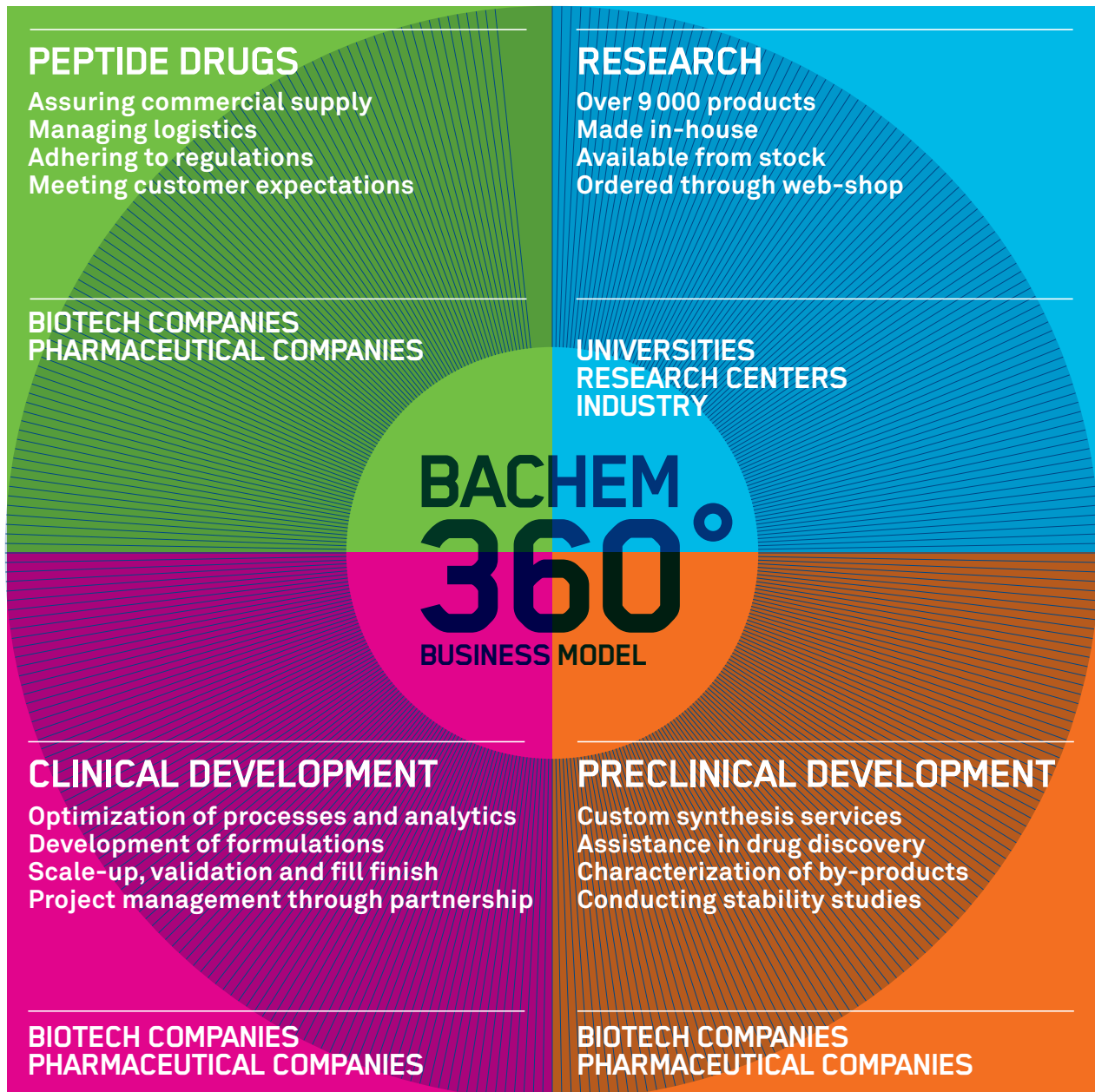
Bachem's Research Chemicals are mainly used to make peptides and to advance biomedical knowledge. The new online catalog provides good search functionality and a unique shopping experience. Over 9 000 products are available.

New Chemical Entities

There is a large pipeline of peptide drug candidates in clinical development. Also, over 50 peptides are approved to treat various diseases. Bachem has the largest pipeline of projects for which we supply the peptide.

Generics

After patent protection is lost, drugs are copied to become generics. For peptides, however, this is only partially true. Usually, the generic peptide is not formulated like the innovator product, thereby making the approval process more challenging.



PRODUCTS & SERVICES

Bachem is essentially a contract manufacturer of active pharmaceutical peptides. The market is evolving. Furthermore, products undergo lengthy and thorough development processes necessitating long term partnerships with customers. As “Pioneering Partner for Peptides,” Bachem stays at the forefront of market changes.

General Trends

The peptide industry is still growing. The number of new peptides in clinical trials is increasing. Also, after peptide drugs lose patent protection, generics thereof are developed. These often are delivered to patients in more sophisticated ways than the originator drug. Technological advances in depot formulations and in medical devices that provide long-term constant or optimized drug delivery are key contributing factors.

Customers are being more demanding of their contract manufacturers. They want to increase their involvement in the optimization process of manufacture and expect their understanding of the regulatory processes to be implemented. The customers are often “in house” and the challenges faced by their projects are jointly managed. Bachem is uniquely positioned for such partnerships since the Company is the recognized leader in the field and possesses ample know-how.

Another key element Bachem focuses on is the perfect coordination of projects in line with customer needs. They need the active pharmaceutical ingredient on time to be able to convert it to the drug product as planned. Furthermore, clinical trials of experimental drugs are planned well in advance and can't be postponed. Delivering drugs to market also must be planned well in advance, to avoid supply chain disruptions. It is thus paramount for the contract manufacturer to remain highly reliable throughout the product life cycle. The same holds true when it comes to submitting regulatory documents critical to the drug approval process.

Mutual expectations can only be fully understood and met through constant dialog. For this reason, Bachem has built its global project management into an optimized department that tracks and manages customer expectations. The Company emphasizes constantly that success only is possible through solid partnerships with its clients. Experience has demonstrated that together one achieves best and most pragmatic solutions that satisfy expectations.

Special customer requests typically are handled as services. Since these services typically do not lead to a product with exact chemical properties, emphasis is placed on exactly defining the goals. To achieve these, it is highly relevant to possess the appropriate technical expertise and to listen carefully.

Bachem is also capable to help customers develop formulations of their drug substances, thus converting them to drug products. Under the brand Clinalfa, Bachem sells formulation development services and sterile fill finishing of drugs destined for early phase clinical trials. This is a highly appreciated service, since many biotechnology companies do not have the expertise for this work. By outsourcing both the peptide manufacture and the formulation to the same partner, the projects are easier to manage. Also in this area, Bachem is a pioneer in its field.

Spotlight on Peptide Vaccines

One major trend in the peptide world is the development of multi-peptide vaccines. They are either considered therapeutic vaccines to treat existing diseases such as pancreatic cancer or cat allergies and prophylactic vaccines to prevent diseases such as malaria. Typical vaccines consist of 2 to 10 individual peptides (drug substances). These are typically combined into one drug product described to be a “peptide cocktail.” Both manufacturing and formulating such cocktails poses extraordinary challenges. For one, they need much production capacity, both in personnel and equipment. The peptides are individually made in parallel or sequentially, subsequently mixed and sterile filtered. Problems arising from solubility issues of individual peptides, stability problems or aggregation must be overcome.

Project management, quality control and quality Assurance are more complex than for “regular” peptide projects. The registration documentation is extremely voluminous since the file must include information about each individual peptide and then also about the mixture. Bachem sets standards of communication and project handling in this area as well.

Spotlight on High Volume Requirements

Currently, there are only very few peptide-based drugs with annual requirements exceeding 100 kg. Usually, a few kilograms suffice to treat the entire patient population of the world, given the high potency of peptides.

However, today there are more and more peptides in development for which the customers anticipate needing hundreds of kilograms and occasionally even tons per year if they become successful drugs. A portion of Bachem's anticipated growth will likely stem from such projects.

In the past, large volume projects were handled in solution because the peptides tended to be small. Newer drug candidates tend to be longer and more complex. Hence, they are best handled using solid phase peptide synthesis technology. It was important to make appropriately sized reactors and downstream purification equipment to tackle the projects. Bachem invested substantially early on to find appropriate engineering solutions and to create large-scale manufacturing capabilities.

Due to these efficient large-scale capabilities, Bachem is now handling large volume projects for numerous large pharmaceutical and biotechnology companies from around the world. Together with these customers peptide history will be written.

Spotlight on Long Peptides (Proteins)

Together with GlyTech, Inc., a company that possesses a large Glycan library, Bachem synthesized the 166 amino acid long selectively glycosylated protein Interferon β -1a in order to elucidate feasibility of an economic industrial scale process of a very long peptide that is typically fermented.

The specific glycosylation and scale-up endeavors were successful. They highlighted that indeed an economical synthesis of market saturating quantities can be achieved. The product proved to be homogeneous and of high purity. It also displayed biologic activity.

This pioneering event can be extended to other proteins and peptides. It has the potential to lead to more efficacious bio-betters and potentially also enable new drug discovery of glycoproteins and glycosylated peptides. Since this is still a novel approach, only time will tell if this technology can successfully be offered to customers.

EXAMPLES OF GENERIC APIs PRODUCED BY BACHEM AND COMMON APPLICATION

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

A man in a dark suit and blue striped tie holds a complex molecular model. The model is composed of white, blue, red, and purple spheres connected by sticks, representing a chemical structure. The background is a modern building with a blue-tinted glass facade and a staircase.

POLYPHOR LTD

**Daniel Obrecht, Ph.D.
Chief Scientific Officer**

"As a customer, we expect that the drug substance manufacturer understands our requirements and that they contribute to our success from the beginning because of their experience and know-how. Bachem and Polyphor have been working together extremely well for more than ten years. For us, Bachem is a true pioneering partner for peptides."



PIONEERING
PARTNER
FOR PEPTIDES

ETH ZÜRICH

**Prof. Dr. Helma Wennemers
Organic Chemistry
Laboratory**

"Those that work with peptides know Bachem. They understand their craft. That is why I enjoy the scientific exchanges with Bachem specialists. It is both fascinating and impressive how this company translates scientific discoveries into industrial solutions."

SUSTAINABILITY

Sustainability as the guiding principle. Social responsibility and ethical behavior toward all stakeholders and a diligent use of resources are the basis for the success of the Bachem Group.

Our Employees

A crucial factor in the enduring success of any company is the standard of work performed by well trained and highly motivated staff at all levels. At year-end, Bachem Group had 684 staff (681 in the previous year), holding 649.3 full-time positions (644.8 in the previous year). Of these, 519 staff were engaged in Europe, holding 484.5 full-time positions with Bachem AG at the sites in Bubendorf and Vionnaz, 4 were employed at Bachem Distribution Services GmbH in Weil am Rhein (Germany), and 28 staff worked at Bachem (UK) Ltd in St. Helens (UK). In the United States, the total number of staff stood at 125, most of whom were based in California. Bachem Holding AG employed 8 people. At Bachem AG in Bubendorf and Vionnaz, the increase in weekly working hours introduced in April 2012 was reversed at the end of 2013, and the working week at both sites now stands at 41 hours and 40 minutes. Employee turnover for the Group as a whole stood at 9.8% (as against 11.5% the previous year).

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

High Level of Education

The high level of education achieved by employees at all levels and extensive specialization are essential to Bachem Group's ability to lay claim to international leadership in the field of peptide chemistry. The high and ever-increasing complexity of products and services our customers demand and the ever-increasing technical and regulatory requirements in manufacturing and marketing approval processes require employees to have high levels of professional qualifications. 22% of staff at the Bachem Group hold a university degree and a further 22% hold a degree from a university of applied sciences. 42% of our employees worldwide have completed a professional apprenticeship; at our sites in Switzerland, this figure stands at 54%.

Training of Apprentices

Bachem's training program is strongly focused around the training of apprentices. Our dual system of education provides young school leavers with an excellent opportunity to gain specific vocational training after they finish school and join the working population. Apprentices acquire theoretical knowledge and general education at a vocational school and gain practical experience working at the Company. In providing these apprenticeships, Bachem is both discharging part of its social responsibility towards society and also making an important contribution to the maintenance of non-academic professional training in Switzerland. At the Bubendorf site Bachem AG operates a teaching laboratory with two full-time instructors who provide specialized, practical training for laboratory staff. At the two Bachem AG sites in Switzerland, 28 young people were enrolled in a vocational apprenticeship program as of the end of the year; this represented 5.8% of the workforce. The apprentices acquired qualifications as chemical laboratory technicians (23), office administration staff (3), information technology technicians (1), and logistics specialists (1). In the year under review eleven apprentices successfully completed their professional training, one of them with honors and five were offered permanent employment contracts.

Employee Education

Continuing professional development of our staff remains a high priority. Technical and specialist training is offered internally or sourced externally, depending on the situation and the particular requirements. Specialists from Bachem Group regularly meet at international specialist seminars or gather to share best practice among Group companies. The topics at these seminars encompass the full spectrum of activity within the Bachem Group, in particular research and development, production, quality assurance and regulatory affairs, finance, and marketing and sales. To ensure professional development at managerial level, courses on personal development and leadership at various levels were again offered in the year under review.

Ethics and Integrity

For the Bachem Group, ethically correct behavior and integrity are essential prerequisites for lasting business success, enabling us to lay claim to being world leaders in our field. The professional and personal integrity of our employees forms the basis for our high quality standards. Our principles of ethical behavior and integrity are binding on all staff, are set down in writing, and are applied without exception. This applies in particular to staff with customer- or supplier-facing roles, such as sales and procurement staff.

Innovative Strength

Bachem undertakes research and development during the course of the customer order fulfillment process, to improve its own processes and in the pursuit of new developments in the synthesis of generic APIs. Innovative strength is an essential prerequisite for Bachem Group to continue to lay claim to world leadership in the field of peptide chemistry and to expand its position. In the year under review, 2.1 million CHF was spent on proprietary research and development, and respective capital expenditure amounted to 1.5 million CHF.

PERSONNEL

EMPLOYEE DISTRIBUTION BY JOB CATEGORY

	2013		2012	
	FTE	%	FTE	%
FINANCE AND ADMINISTRATION	60.1	9%	56.0	9%
LOGISTICS	56.2	9%	57.5	9%
QUALITY ASSURANCE AND REGULATORY AFFAIRS	159.3	25%	161.0	25%
ENGINEERING AND MAINTENANCE	48.5	7%	51.2	8%
RESEARCH/DEVELOPMENT AND PRODUCTION	265.7	41%	264.1	41%
MARKETING AND SALES	59.5	9%	55.0	9%

GEOGRAPHIC DISTRIBUTION

EUROPE	524.3	81%	518.8	80%
USA	125.0	19%	126.0	20%

EMPLOYEE DISTRIBUTION BY GENDER

WORKFORCE (TOTAL)		WOMEN	206.5	32%	198.6	31%
		MEN	442.8	68%	446.2	69%
MANAGEMENT		WOMEN	62	27%	59.3	25%
		MEN	170.2	73%	176.8	75%
REGIONAL EXECUTIVE COMMITTEES *)		WOMEN	3.0	18%	n/a	n/a
		MEN	14.0	82%	n/a	n/a
CORPORATE EXECUTIVE COMMITTEE		WOMEN	0.0	0%	0.0	0%
		MEN	4.0	100%	4.0	100%
BOARD OF DIRECTORS		WOMEN	1.0	17%	1.0	17%
		MEN	5.0	83%	5.0	83%

EMPLOYEE DISTRIBUTION BY AGE

AGE < 26	84.7	13%	88.1	14%
AGE 26-45	337.0	52%	343.3	53%
AGE 46-55	150.5	23%	141.5	22%
AGE 56-65	71.1	11%	63.7	10%
AGE > 65	6.0	1%	8.2	1%

*) NO COMPARATIVE FIGURES FOR 2012 DUE TO REORGANIZATION OF REGIONAL STRUCTURES DURING THE COURSE OF 2013

Sustainable Procurement

As a supplier of pharmaceutical ingredients, Bachem forms an important link in the procurement chain for its customers, yet in turn is dependent on its suppliers and the services they provide. To ensure sustainable procurement, topics such as contracting partner stability, readiness to deliver, pricing and also quality and compliance considerations are of central importance for all stakeholders. Bachem has concluded supply and service contracts and quality agreements with its principal customers and suppliers.

Major suppliers are subjected by Bachem to a formal certification process. Qualification as a supplier includes, depending on the exact requirements, written proof from the supplier concerning the observance of quality standards, a quality audit on site, and/or an assessment of the supplier's historical performance record in regard to quality and adherence to delivery deadlines. Bachem Group conducted 20 external supplier audits in the year under review, involving 85 man-days. Supplier qualification procedures are repeated periodically, depending on the criticality of the goods or services being procured.

Similarly, the companies of Bachem Group themselves are regularly subjected to strict quality testing by their customers. During the year under review, 56 customers carried out a total of 87 days of quality audits on site at Bachem Group companies. The American Food and Drug

Administration (US FDA) carried out quality and compliance audits lasting several days each at the sites at Torrance, California, and Vionnaz, Switzerland. Both sites passed their inspections with no reports of objectionable conditions (Form 483 Observations).

Responsible Care

The Responsible Care program is a voluntary initiative on the part of the international chemicals industry that aims continually to improve performance in the fields of safety, health and environmental protection. Responsible Care is an important contribution by the chemicals industry to sustainable development. The key data that are gathered act as an indicator for the current state of affairs. Monitoring of changes to these key data over the years permits an objective assessment of the effectiveness of the measures that have been put in place, and also serves as a useful management tool. Bachem has participated in this program for many years and collects key data for the three principal production sites, Bachem AG in Bubendorf and Vionnaz and Bachem Americas, Inc. in Torrance, California.

Safety at Work

In a production-based chemicals company, workplace safety is the overriding priority. At Bachem we are aware of our responsibility towards our employees and their families, and we devote a substantial effort to protecting people and the environment at all times. In addition to appropriate technical measures, we ensure that

RESPONSIBLE CARE KEY FIGURES

	2013	2012	2011	2010	2009
PERSON ACCIDENTS, NUMBER/100 EMPLOYEES	0.7	1.5	1.4	3.0	0.6
LOST WORKING DAYS, NUMBER/EMPLOYEE	0.1	0.1	0.2	0.7	0.0
HEALTH SAFETY ENVIRONMENT STAFF, NUMBER	6	6	5	5	5
TOTAL STAFF, NUMBER	579	601	587	594	638
ENVIRONMENT KEY FIGURES					
TOTAL ENERGY CONSUMPTION, GJ/EMPLOYEE	191	195	192	186	162
CO ₂ , T/EMPLOYEE	6	6	6	6	5
NO _x , KG/EMPLOYEE	6	5	5	4	3
SO ₂ , KG/EMPLOYEE	1	1	1	1	2
VOC, KG/EMPLOYEE	37	37	51	79	108
TOC, KG/EMPLOYEE	6	6	6	6	8
HAZARDOUS WASTE DISPOSED OF, KG/EMPLOYEE	6 946	7 967	9 932	8 157	7 572
TOTAL WATER CONSUMPTION, M ³ /EMPLOYEE	175	179	184	199	254

employees at all levels are constantly aware of issues relating to safety and environmental protection, and this awareness contributes greatly to the achievement of our goals. Regular theoretical and practical training on safety-relevant topics and industrial hygiene have again been carried out in the year under review. One project that has been set up on a permanent basis is “safety through self-monitoring.” This project aims to get all employees involved in the work of ensuring safety, increasing their sense of personal responsibility and making them aware that the issue of safety is not something that can be delegated. This applies not only in regard to on-the-job situations, but also in respect of behavior outside working hours, and is therefore extremely important, because non-industrial accidents give rise to far greater costs than accidents at the workplace. It is also a known fact that industrial accident prevention has a positive effect on the frequency of non-industrial accidents.

Generally speaking, the year under review can be described as uneventful, and the industrial accident figures are markedly lower than in previous years. At 0.7 accidents per 100 employees (for the purpose of comparison, the figure at Swiss Chemical Industries is 1.16 accidents per 100 employees), Bachem has achieved a good result. There were no serious accidents; the accidents that occurred were of limited extent and reversible.

Environmental Parameters

The key data on environmental parameters all show an absolute improvement in comparison with the previous year. Because of the lower number of employees, the relative key data (calculated on a per employee basis) have remained constant. In view of the increased business volumes, the situation can be described as good. The figures are impressive evidence that the economic output of Bachem is comparatively gentle on the environment and is characterized by below-average consumption of resources. For example, total energy consumption per employee amounted to 191 GJ (Swiss Chemical Industries: 516 GJ per employee) and the total water consumption was 175 m³ per employee (Swiss Chemical Industries: 6 420 m³ per employee).

In the year under review, emissions of volatile organic carbons (VOCs) at Bachem AG in Bubendorf were slightly reduced, in spite of the higher rate of utilization. Bachem has consistently executed its program for the implementation of state-of-the-art measures for handling VOCs. These measures include technical improvements in production plant and organizational, work-related instructions such as the replacement of solvents used in glass cleaning with more suitable detergents. Technical developments in apparatus have made it possible for VOC emissions to be increasingly disposed of through the exhaust air combustion system, which has also been fitted with a scrubber in the course of the year under review. This means that harmful materials that arise with the incineration of chlorinated hydrocarbons (CHCs) can be efficiently washed out and do not pollute the environment.

Ethics and Integrity

Bachem does not grant any advantage or concession if it is

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

Bachem does not give nor request nor accept

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

Bachem employees

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

VOICES OF EMPLOYEES

“Pioneering – a pioneer is someone who is first; first to develop a service or product. Bachem is a perfect example, having been the first to offer many research reagents or to make peptide APIs for customers already in the 1970s. Recently, we developed an economic chemical synthesis of a selectively glycosylated protein, which is a very long modified peptide.”



Peter Hutchings,
Sales

“We are a partner to our customers through extensive support and communication from project concept to completion, with technical and sales support second to none. We strive to promote long-term customer relationships that extend beyond product delivery. Bachem represents vision and innovation, with quality and reliability always at its core.”



Julie Marley,
Site Manager

“Pioneering for me is to create opportunities through innovation. Continuously improving and renewing in all relevant areas, such as in equipping the facilities with best possible technology and by setting new high quality standards. Partnering entails practicing open communication, building mutual trust and working together as an effective team. At Bachem, I strive to live this on a daily basis.”



Thomas Huber,
QC IPC



Martina Diekmann,
Global Marketing

“Being a globally active full-service peptide contract manufacturing organization, we commit to excellence by delivering consistent high quality. Our customer-oriented service and strong focus on accuracy within each individual project make us a reliable partner that is easy to work with. By combining our expertise and know-how with state-of-the-art technology and an open-minded way of thinking, we remain at the forefront of the peptide field.”



Syrinthia Harrison,
Inside Sales

“I am a partner to my customers by going over and beyond to ensure they are happy with the service I provide at Bachem. This includes tracking shipments carefully, forecasting with customers so as to assure sufficient product is available from inventory and doing all that is possible to get the product there on time. Sometimes it is necessary to deviate from the normal procedures to accommodate their special requests.”



Sandra Thöni,
EHS

“Pioneering is like driving a car on muddy ground: You have to stay on the move, otherwise you get stuck. As partners, we support our colleagues with our knowledge and experience. Working at Bachem is a refreshing challenge where teamwork and a collaborative attitude are lived and breathed in order to deliver what our customers want. This includes adherence to environmental, Health and Safety standards.”

CORPORATE GOVERNANCE

1 Group structure and shareholders

BACHEM HOLDING AG	
BOARD OF DIRECTORS	
CORPORATE EXECUTIVE COMMITTEE	
BACHEM AG	BACHEM AMERICAS, INC.
BACHEM DISTRIBUTION SERVICES GMBH	PENSINSULA LABORATORIES, LLC
BACHEM (UK) LTD	

1.1 Group structure

Bachem Holding AG, headquartered in Bubendorf, Switzerland, is listed at the SIX Swiss Exchange in Zurich (valor number: 1 253 020, ISIN: CH0012530207, SIX: BANB, Reuters: BANB.S, Bloomberg: BANB SW). Market capitalization at December 31, 2013, was 660 000 kCHF. No other Bachem companies are listed.

All subsidiaries are listed in note 24 on page 76 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, 2013, are listed in note 3 on page 82 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, 2013, 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 2011, 2012 and 2013, share capital remained unchanged. Changes in equity for the years 2013 and 2012 are listed on page 51 of the consolidated financial statements. Changes for 2011 are reported on page 57 of the Annual Report 2012.

2.4 Share and participation certificates

At December 31, 2013, Bachem Holding AG had 6 802 000 registered shares A and 6 798 000 registered shares B at a nominal value of CHF 0.05 issued, all fully paid-in. Registered shares B, but not registered shares A, are considered for trade at the stock exchange. Otherwise, both types of shares have the same rights, and there are particularly no differences regarding rights to dividends and voting rights. Each registered share carries one vote at the Annual General Meeting of the Company, provided the shareholder has been recorded in the Company's share register (see item 2.6). All shares are fully entitled to dividends. There are no participation certificates.

2.5 Profit sharing certificates

Bachem has not issued any profit sharing certificates.

2.6 Limitations of transferability and nominee registrations

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

2.7 Convertible bonds and warrants/options

The Company has not issued any convertible bonds. The only options the Company has issued are for its employee compensation plan as described in the accounting policies on page 59 as well as in note 22 of the consolidated financial statements on pages 74 to 76.

3 Board of Directors

3.1 Members of the Board of Directors

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

Kuno Sommer¹ (1956), Ph.D. in Business Administration,



Chairman, Swiss. Since 2012, elected until 2014.

Dr. Kuno Sommer worked for Roche from 1986 to 1999 in various functions, including four years in the USA. He was ultimately a member of the Executive Committee of Roche, responsible for the Flavours and Fragrances division, today Givaudan. From 2000 to 2006 he was CEO of Berna Biotech. Kuno Sommer is Chairman of the Board of Kenta Biotech AG and member of the Board of Polyphor AG.

Nicole Grogg Hötzer (1973), Graduate Biologist, Vice-Chairwoman, Swiss. Since 2011, elected until 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 postgraduate studies in business administration at the University of Applied Sciences Basel which she completed successfully in 2004. Nicole Grogg Hötzer is Vice-Chairwoman of the Board of Directors of Ingro Finanz AG and member of the Board of Directors of MFC Beteiligungs AG.

Jürgen Brokatzky-Geiger¹ (1952), Dr. rer. nat., Member, German.



Since 2009, elected until 2014.

Dr. Jürgen Brokatzky-Geiger graduated with a Ph.D. in chemistry from the University of Freiburg, Germany, in 1982. He joined Ciba-Geigy Ltd. in 1983 as a Laboratory Head in the Pharmaceuticals Division. After a job rotation in the United States, he held positions of increasing responsibility in Research and Development (R&D) including Group Leader of Process R&D, Head of Process R&D, and Head of Process Development and Pilot Plant Operations. During the merger of Ciba-Geigy and Sandoz in 1996, Jürgen Brokatzky-Geiger was appointed Integration Officer of Technical

Operations. He later became the Head of Chemical and Analytical Development and served as the Global Head of Technical R&D from 1999 to August 2003. 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 2014.

Thomas Burckhardt studied at the universities of Basel, Geneva and Munich and was awarded his doctorate in 1978 in Basel. Since 1975, he is licensed attorney and in 1979, he received a Master of Law (LL.M.) at Harvard Law School (Cambridge, Massachusetts, USA). Since 1980, he is practicing law in Zurich and Basel and since 1987, he is an associate at Simonius Pfrommer & Partner. Thomas Burckhardt further is Honorary Consul-General of the Kingdom of Thailand in Basel. Other important Board memberships: Viking River Cruises AG, MFC Beteiligungs AG and Stiftung FOCUS Basel.

Hans Hengartner (1944), Prof. Dr. sc. nat. ETH, Member, Swiss.



Since 2003, elected until 2014.

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 at ETH Zurich.

Rolf Nyfeler¹ (1950), Dr. phil. II, Member, Swiss. Since 2012, elected until 2014.



Rolf Nyfeler studied chemistry at Basel University and was awarded his doctorate in 1979. Afterwards he deepened his knowledge with postdoc stays at the Max-Planck-Institute in Martinsried and at the University of California in San Diego. Rolf Nyfeler joined Bachem in 1982. For many years he was responsible for Research and Development in Bubendorf. Then, after spending some time as Head of Production in the subsidiary in California, he became COO of the parent company in 1998. From 2002 to 2012, he was CEO of the Bachem Group and Chairman of the Corporate Executive Committee.

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

3.4 Internal organizational structure

During 2013, the Board of Directors held four full-day meetings as well as one two-day strategy conference. The Corporate Executive Committee attends generally the Board meetings (see item 3.6). Three meetings were attended by all Board and Corporate Executive Committee members. At one meeting and at the strategy conference one Board member was absent. If considered appropriate, members of the management of the subsidiaries are invited to the Board meetings to attend special agenda items as well. During 2013, one Board meeting was attended by a Chief Operating Officer of a Group company (COO). In addition, three members of the management of Group companies took part in the two-day strategy conference. In 2013, no external consultants were called in. Meetings are prepared by the Chairman and by committees of various compositions. Decisions are taken by the full Board. The Board can decide when more than half of its members are present. It decides by majority of votes. In case of a tie, the vote of the Chairman decides.

The Board constitutes a Compensation Committee (see item 3.1) that annually submits proposals regarding annual compensation of its members, the individual members of the Corporate Executive Committee, as well as of Chief Operating Officers (COOs) of Group companies. The Compensation Committee also proposes employee participation schemes. In the frame of approved programs, it also submits proposals concerning allocation of shares and share options to members of the Board, members of the Corporate Executive Committee as well as Chief Operating Officers (COOs) of Group companies. Approvals of proposals of the Compensation Committee are granted by the full Board. In 2013, the Compensation Committee met twice for one 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. Furthermore, the Audit Committee on behalf of the Board receives, analyzes and evaluates the audit reports of the Group and statutory auditors. The tasks of the Audit Committee as described in the organization regulations currently are performed by the full Board since considering the size of the Board with its six members, the Board of Directors has renounced the formation of additional firm committees.

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

3.5 Definition of areas of responsibility

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

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

Per definition, in its organization regulations the Board has delegated the management of ongoing operations to the Corporate Executive Committee under the leadership of the CEO. The Corporate Executive Committee is composed of the CEO, the CFO, the CTO, and the CMO (see item 4.1). The CEO in particular is responsible for the overall operational leadership. Based on the proposal of the Compensation Committee, the Board defines compensation for members of the Corporate Executive Committee and for COOs of operating Group companies (see item 3.4). Furthermore, the Board is in charge of the consolidated financial statements of the Bachem Group, as well as the financial statements of Bachem Holding AG, including reports of the external auditors. It also assesses whether recommendations of the auditors have been implemented. The detailed tasks of the Board of Directors are described in the organization regulations.

3.6 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. Furthermore, the Board is informed about the most important key figures. The management information system (MIS) at Bachem is structured as follows: Each individual Group company prepares a monthly report including balance sheets, income statements and other operating key figures, as well as comments. On a monthly basis, balance sheets, income statements, cash flow statements and statements of changes in equity, as well as various key figures of the Group and the subsidiaries are prepared and consolidated. Budgets are controlled several times a year and compared to latest estimates per subsidiary and for the consolidated results. On the occasion of the Board meetings, financial reports are discussed with the Corporate Executive Committee. Extraordinary events and important decisions are immediately brought to the attention of all Board members. In addition, the Chairman regularly meets members of the Corporate Executive Committee for discussions of business development, status of projects and important events. He receives all minutes of Corporate Executive Committee meetings, which are also available to the other members of the Board if required.

Additional aspects of the information and control instruments are the internal control system (ICS) and the risk management system, which is described on page 60 under the title risk assessment. Due to its size, the Bachem Group does not carry out its own internal audit.

4 Corporate Executive Committee

4.1 Members of the Corporate Executive Committee

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



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

José de Chastonay (1954), Dr. phil. nat. & MBA, CMO, Swiss/American. Since 2012.



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

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



Daniel Erne joined Bachem AG in 1987 as Head Quality Control and was since 1990 member of the Management Team responsible for Quality Assurance/Regulatory Affairs. Since 1997, he is a member of the Corporate Executive Committee, as of 2002 CTO of the Bachem Group. He received his education and 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 ETHZ.

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



Stephan Schindler joined Bachem Holding AG as CFO and Member of the Corporate Executive Committee in 2009. In 1991, he assumed a first management position in informatics as Head of Information Center at Patria Insurances in Basel. In parallel, he persistently pursued his extraoccupational studies in business economics, finance and control. After his graduation, he joined the Corporate Finance Department at F. Hoffmann-La Roche Ltd in Basel. From 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 determined by the Board of Directors in its sole discretion, based on the proposals of the Compensation Committee and in accordance with all applicable legal, statutory and contractual provisions.

Members of the Board of Directors typically receive a fixed amount of compensation, Board meeting fees and free shares.

Total compensation (TC) paid to members of the Corporate Executive Committee consists of the guaranteed base salary (BS) specified by contract and a variable component (incentive pay, IP) as specified in the "Bachem Incentive Plan," which is applicable for the entire Group.

Variable pay (IP) is calculated by multiplying 67% of the base salary by a factor (target factor, TF) which is derived from the weighted achievement of three to five individual targets (Personal Target Incentives/PTI) and several other targets defined for the Bachem Group (Group Target Incentive / GTI), most of which are financial targets based on Group sales and profits. PTI achievement is assessed by the CEO and the Chairman and is divided into four levels (0%, 80%, 100% and 120%). The Board of Directors sets and assesses the GTI.

Total compensation:	$TC = BS + IP$
Variable pay:	$IP = BS \times 0.67 \times TF$
Factor:	$TF = PTI \times 0.2 + GTI \times 0.8$

30% of the variable pay is distributed in the form of Bachem shares rather than in cash. These shares are blocked for a period of three years and carry full voting and dividend rights. The conversion of the aforementioned percentage of variable pay into a number of shares awarded is based on the average closing price for the corresponding fiscal year.

Based on the business success 2013, the variable compensation to the Corporate Executive Committee has increased compared to the prior year. Variable pay for the members of the Corporate Executive Committee for the year under review amounted to approximately 74% of their respective base salary. There are no agreements regarding severance and separation payments.

Compensation paid to the Board of Directors and the Corporate Executive Committee is detailed in note 5 on page 83 of the notes to the financial statements of Bachem Holding AG. The shares and options awarded to the Board of Directors and the Corporate Executive Committee are detailed in note 5 on pages 84 and 85 of the notes to the financial statements of Bachem Holding AG.

Further information on Bachem Group's share and option plans is given in the notes to the consolidated financial statements on page 59 and on pages 74 to 76.

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

Does not apply.

6 Shareholders' participation

6.1 Voting rights and representation restrictions

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

6.2 Statutory quorums

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

6.3 Convocation of the general meetings of shareholders

An ordinary Annual General Meeting is held within six months after the end of the Company's business year. Extraordinary general meetings may be convened by the Board of Directors, the statutory auditors or one or more individual shareholders representing a minimum of 10% of share capital.

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

6.4 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. Dr. Rodolfo Gerber has been lead auditor since the business year 2011. The rotation period of the lead auditor is based on the maximum statutory length for Swiss companies of seven years (Swiss Code of Obligations, article 730a, paragraph 2). Auditors are elected by the Annual General Meeting on an annual basis.

8.2 Auditing fees

Auditing fees of PricewaterhouseCoopers for the Bachem Group amounted to 201 kCHF for the business year 2013. Fees for audit services on Bachem companies by other auditors totaled 37 kCHF.

8.3 Additional fees

During 2013, PricewaterhouseCoopers charged additional fees of 197 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 16 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 2013, the external auditors attended one Board of Directors meeting. The performance assessment of the external auditor and the audit fees is made based on the independency and objectivity of the external auditors, the presented reports, the shown technical and operational competences, the involved resources, as well as the open and effective communication and coordination with internal staff.

9 Information policy

The Bachem Group has an open and up-to-date information policy that treats all target groups of the capital investment market equally. The most important information tools are the annual report and the half-year report, the website (www.bachem.com), press releases, the presentation of the financial statements for media and analysts, as well as the Annual General Meeting. Shareholders are in addition informed on important matters by letter. As a company listed on the SIX Swiss Exchange, Bachem is obliged to publish information that is relevant to its share price (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 2013

A large, light blue, stylized number '8' serves as a background graphic, positioned on the right side of the page. The number is composed of two thick, rounded strokes, with the top loop being slightly larger than the bottom loop. The overall design is clean and modern, with a focus on the company name and the year of the report.

GEMEINDE BUBENDORF

Erwin Müller-Wahl
Mayor of Bubendorf

"Bachem never forgot its local roots, even as it became a successful global player in the field of peptides. The Company is immensely important to the region as an employer and tax payer. It also contributes to the community by providing vocational training to young citizens. I thank them for their devotion to our community, their dedication to adapt high environmental standards and the open communication we enjoyed for many decades."



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.

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FINANCIAL REVIEW



Stephan Schindler, CFO

Sales +8.5%

The upward trend from the preceding year continued throughout 2013. Bachem already laid the groundwork for a successful financial year by the mid-year mark when it reported its highest interim sales since 2009. Based on the good results for the

first half of 2013, the company forecast sales growth of 6–10% for the year as a whole with even faster growth in operating profit and net income. Those high expectations were fully met.

Bachem increased its sales by 13.4 million CHF year-over-year to 170.7 million CHF. At +8.5% in CHF and +8.9% in local currency (LC), growth was within the targeted range.

in million CHF	2013	Change in local currency	Change in CHF	As % of total sales
API Products	142.1	+ 8.1%	+ 7.7%	83.2%
Research Ingredients	28.6	+ 13.0%	+ 12.8%	16.8%
Total sales	170.7	+ 8.9%	+ 8.5%	100.0%

In the research ingredients business, the initial positive effects of measures taken to improve organizational efficiency and the market profile became apparent. Full-year sales of research ingredients increased 13% in LC, which confirms the trend reversal seen during the first half of the year.

Growth was primarily driven by the custom synthesis business at the competence center in the UK. Sales of catalog products, on the other hand, remained under pressure and ended the year slightly lower than in 2012. Bachem has modernized its online shop for catalog products to expedite a trend change for this business segment. Initial positive signs are already visible.

In the NCE business Bachem maintained its lead over the competition and strengthened its leading market position. The 43.3% increase in sales in LC is an impressive proof of the company's operating abilities. This growth is all the more remarkable considering that in the period under review one customer had to withdraw a product from the market shortly after it had been approved by regulators, forcing Bachem to suddenly seek new business to offset the cancelled orders. Bachem's extensive portfolio of outstanding projects built up over the years proved to be an effective sales tool in securing new business at short notice.

The project portfolio continued to grow in 2013. At year-end Group companies in Europe and North America were involved in a total of 174 development projects for customers. Every one of these projects is a potential driver of future growth and could make a substantial contribution to the Group's future sales revenues. Attention is also drawn to the high number of projects in Phase II and III clinical trials.

NCE-related services, which include sterile fill-finished products (Clinalfa®), showed very good growth as well, with revenues rising 5.6% in LC.

The volume growth with NCEs is all the more pleasing considering that the situation for biotechnology companies in capital markets is still difficult and pharmaceutical companies are under considerable pressure to cut costs. Thanks to focusing efforts and greater cooperation between biotech and pharma companies, more funding appears to be available for late-stage projects.

After the good first half, sales of generics fell well short of expectations, especially in the fourth quarter. Full-year generics sales were therefore lower y-o-y at 81.6 million CHF. Europe in particular failed to reach the given sales targets. This was primarily attributed to cuts in orders for two products in the non-core business area of small organic generics. The ongoing pleasing uptrend in the US was unable to fully offset the weakness in European generics sales.

Business with generic peptides was in line with expectations. As several peptides had been revalidated during the previous year in response to customer requests, inventory levels were still sufficient throughout 2013, which resulted in fewer orders and a slight 1.5% decline in sales in CHF.

Looking at the geographic breakdown of sales, the aforementioned developments led to opposing trends in Europe and the US. The slight downturn in Europe was easily offset by strong growth in the US and this also led to a corresponding shift in the sales mix towards North America.

in million CHF	2013	Change in local currency	Change in CHF	As % of total sales
Europe	105.5	- 2.7%	- 2.6%	61.8%
North America	65.2	+ 35.1%	+ 33.1%	38.2%
Total sales	170.7	+ 8.9%	+ 8.5%	100.0%

Operating profit +31.9%

Bachem achieved an operating profit (EBIT) of 29.5 million CHF in the past fiscal year. The EBIT margin rose to 17.3%. Operating profit before depreciation and amortization (EBITDA) amounted to 47.4 million CHF, resulting in an EBITDA margin of 27.8%.

As a result of the targeted concentration on core business areas, Bachem recorded a provision on various small organic products and validation batches at its plant in Vionnaz. Reported operating results therefore included one-time costs of 4.3 million CHF.

Divergent exchange-rate movements during the period under review ultimately only had a marginal impact on the results published in Swiss francs. The positive currency effect of 0.3 million CHF reported at the EBIT level for the first half swung to a negative effect in the same amount for the year as a whole. This was mainly caused by the substantial weakening of the US dollar.

Gross profit +16.9%

Bachem's production volumes of active substances were again significantly higher in 2013 compared to previous years but gross profit margins have declined in recent years due to the pressure on generic APIs. In the year under review gross profits increased by 8.6 million CHF (+16.9%) in nominal terms, continuing the pleasing trend from the previous year, and the cost of goods sold was reduced once again to 65.1% of sales (previous year: 67.5%) thanks to sustained savings in sourcing and procurement, as well as process improvements and lower material costs.

This renewed improvement in operating performance is quite substantial and all the more gratifying considering the unrelenting intense competitive pressure in the marketplace. It must be noted that gross profit can be heavily affected by the product mix for any one reporting period. The sales mix for fiscal 2013 had a positive effect on reported profit growth.

Costs under control

Bachem has achieved significant savings and efficiency gains in recent years. The overall headcount was deliberately excluded from this process and, having maintained its pool of human capital, Bachem was able to respond to the upturn in business without any delay.

A major factor in keeping costs under control was the temporary increase in the work week at Swiss sites to 43 hours that was introduced in 2012. Thanks to the good course of business, this measure was rescinded earlier than expected, with effect from January 1, 2014.

Staff costs remain the Group's largest single cost item. They amounted to 72.3 million CHF in 2013, an increase of 2.1 million CHF year-over-year (+2.9%).

At the end of the year the Group employed 684 people at its sites in Europe and the USA or 649 expressed as full-time equivalents.

Bachem was again present at all major trade fairs in fiscal 2013. It organized the “Bachem Spring Symposium” again, this year with an emphasis on peptide-based vaccine research. Marketing and sales costs remained virtually unchanged at 10.7 million CHF. The slight increase of 0.3 million CHF compared to the previous year is mainly attributable to the hiring of additional personnel and the further professionalization of the marketing organization.

Bachem began developing processes for the generics business proactively in 2010. These projects are carefully screened, approved by the Corporate Executive Committee on a case-by-case basis and the corresponding development costs are capitalized. New projects qualified for this procedure during the period under review resulted in an addition of 0.8 million CHF in capitalized development costs. Amortization of previously capitalized development costs was of a similar amount.

Bachem allocated the costs incurred in production units as a result of process optimization or scale-ups directly to cost of goods sold in 2013, as in previous reporting periods.

Research and development costs in the year under review were 0.3 million CHF higher (+19.9%) than in the previous year and amounted to 2.1 million CHF. R&D activities are continuously monitored by Bachem's internal Research Committee, which convenes on a regular basis.

Workloads increased significantly for individual teams as their team members were increasingly involved in the processing of client orders, in addition to their research and development responsibilities. Thanks to their tremendous efforts, these challenges were successfully overcome.

The measures taken in previous years to improve efficiency and lower costs in administrative operations have had a lasting effect. General administrative costs amounted to 17.8 million CHF, which is 0.6 million CHF more than in the previous year (+3.7%). This figure includes non-recurring costs for the change in accounting standards from IFRS to Swiss GAAP FER.

Ordinary depreciation and amortization was unchanged year-over-year at 18.2 million CHF. Unlike in the previous year, no impairments were recognized during the period under review. However, the company identified a new use for some of the assets that had been declared impaired at the Vionnaz plant in the previous year. Therefore the initially stated impairment of 4.1 million CHF was reduced by 0.3 million to 3.8 million CHF.

Further improvement in utilization rate

Capacity utilization improved further during the year under review. Utilization rates of individual business units or departments were to a large extent determined by their current product and project mix. This was particularly evident at the quality assurance and control functions, which had to manage heavy workloads in connection with development projects and releases.

Two particular challenges were increasing project complexity and growing regulatory requirements. Bachem can rely on highly dedicated, experienced and qualified specialists who ensure that “Quality Matters” is practiced at all levels of the business in meeting these challenges.

In light of the general order situation and the personnel-intensive, complex development projects in the pipeline, Bachem plans to recruit more staff in the coming months. As the market leading “Pioneering Partner for Peptides” and a socially responsible employer, Bachem offers unique opportunities for specialized training, interdisciplinary teamwork and outstanding project success within the field of peptide chemistry.

Net income +51.7%

Net income for fiscal 2013 was likewise well above the figure reported in the previous year. Bachem's net income of 23.6 million CHF for 2013 exceeded the figure reported for the previous year by 8 million CHF (+51.7%). Earnings per share (EPS) climbed from 1.15 CHF to 1.75 CHF.

In the previous year the results from associated companies, stemming from the interest in Pevion Biotech AG, had a negative effect of 1.5 million CHF on the bottom-line result. As the investment in Pevion Biotech AG is valued at zero since the end of 2012, it no longer had an impact on net income during the period under review.

Net foreign exchange gains and losses amounted to a negative 0.1 million CHF, a notable improvement of 0.5 million CHF versus the previous year. Interest expense amounted to 0.5 million CHF, which is unchanged from the previous year.

The Group's tax rate was 18.3%. Total income taxes for fiscal 2013 amounted to 5.3 million CHF. Bachem continues to anticipate a Group tax rate of about 20% in the coming years.

Cash flow from operating activities +33.5%

Operating cash flow amounted to 49.2 million CHF or 28.8% of sales revenues in 2013. Compared to the previous year, this represents a substantial increase of 12.4 million CHF (+33.5%).

Cash-flow-relevant capital held in net current assets declined by 7.1 million CHF. This was mainly attributable to a reduction in inventory.

in million CHF	2013	2012	2011	2010
Cash flow effect of inventory movements	+ 9.0	- 1.2	+ 0.7	+ 0.5

Inventory management remained a high priority during the year under review and Bachem focused on maintaining a stable level of inventories.

Customer receivables are of sound quality and DSO data (day sales outstanding) is continuously monitored to detect changes at the earliest possible time.

Sustainable capital expenditure

Bachem's infrastructure is highly modern and will enable the company to remain competitive even as business volumes continue to grow.

Compliance and replacements accounted for about 60% of total capital expenditure and amounted to 7.3 million CHF. This reflects the company's strong commitment to maintaining a high level of standards with regard to corporate social responsibility, quality, workplace safety, and the environment.

At the same time these investments ensure that Bachem can reliably produce the products customers want with an unfailingly high level of quality. One example here is the 2 million USD that was spent in the US to upgrade laboratory capacity.

Total capital expenditure amounted to 12.2 million CHF in 2013. This sum is again less than the ordinary depreciation and amortization of approximately 18 million CHF. Bachem expects capital expenditure to rise to that level over the coming years. Net cash outflow from investing activities amounted to 11.9 million CHF (previous year: 9.8 million CHF).

As for cash flow from financing activities, the dividend distribution of 20.3 million CHF was marginally higher compared to the previous year (20.2 million CHF).

In contrast to previous years when part of the dividend was converted into a general operating loan, the entire dividend was paid out directly to all shareholders in the current period.

In the first half of fiscal 2013 Bachem also refinanced the bank loans of 50 million CHF disclosed in the previous year and borrowed an additional 2.5 million CHF during the period under review. By year-end the company had repaid 8 million CHF of these loans. Consequently as of December 31, 2013, bank loans granted by three Swiss banks amounted to a total of 44.5 million CHF. Cash flow from financing activities amounted to -26.4 million CHF.

Cash and cash equivalents of 38.7 million CHF

Cash and cash equivalents in the consolidated cash flow statement increased by 10.8 million CHF.

Total cash holdings as defined in the cash flow statement increased by 38.6% to 38.7 million CHF at year-end.

Dividend of 1.75 CHF proposed

Bachem remains extremely well capitalized with an equity ratio of 76.7% (75.6% 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.

In light of the fact that the company has increased its earnings per share significantly for a second consecutive year, the Board of Directors will propose increasing the dividend to 1.75 CHF (previous year: 1.50 CHF).

This payout will again be exempt from withholding tax, as it will be distributed from reserves from capital contribution.

CONSOLIDATED INCOME STATEMENT

For the years ended December 31

in 1000 CHF	Notes	2013	2012 ¹
Sales	1/2	170 685	157 298
Cost of goods sold		- 111 036	- 106 254
Gross profit		59 649	51 044
Other income		442	590
Marketing and sales costs		- 10 718	- 10 365
Research and development costs		- 2 077	- 1 732
General administrative costs		- 17 845	- 17 205
Operating income (EBIT)	2	29 451	22 332
Result from associates	5	0	- 1 520
Financial income	6	30	23
Financial expenses	7	- 584	- 1 174
Ordinary income before taxes		28 897	19 661
Income taxes	8	- 5 293	- 4 103
Net income²		23 604	15 558
Basic earnings per share (CHF)	9	1.75	1.15
Diluted earnings per share (CHF)	9	1.75	1.15

¹ Since 2013, the consolidated financial statements are prepared in accordance with Swiss GAAP FER.

The prior period has been restated to ensure comparability.

² The net income is completely attributable to the equity holders of the parent.

The notes on pages 52 to 78 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At December 31, 2013 and 2012

in 1000 CHF	Notes	Dec. 31, 2013	Dec. 31, 2012 ¹
Assets			
Cash and cash equivalents		38 721	27 934
Securities and current financial receivables	10	1 734	0
Trade receivables	11	33 134	28 942
Other current receivables	12	722	1 244
Prepaid expenses and accrued income	13	1 339	1 159
Current income tax asset		1 134	2 311
Inventories	14	141 043	150 411
Total current assets		217 827	212 001
Property, plant and equipment	15	208 346	216 316
Intangible assets	16	9 435	9 726
Assets from employer contribution reserve	4	320	320
Deferred tax assets		2 849	2 758
Total non-current assets		220 950	229 120
Total assets		438 777	441 121
Liabilities and equity			
Trade payables	17	10 275	11 737
Other current liabilities	18	4 006	2 285
Accrued expenses and deferred income	19	8 565	6 688
Current income tax liabilities		2 026	3 168
Current financial liabilities	20	44 717	50 211
Total current liabilities		69 589	74 089
Non-current financial liabilities	20	324	496
Deferred tax liabilities	8	32 426	32 976
Total non-current liabilities		32 750	33 472
Total liabilities		102 339	107 561
Share capital	21	680	680
Retained earnings		310 406	286 802
Share premium		64 469	84 115
Own shares		- 1 311	- 1 308
Cumulative translation differences		- 37 806	- 36 729
Total capital and reserves attributable to the equity holders of the company		336 438	333 560
Total liabilities and equity		438 777	441 121

¹ Since 2013, the consolidated financial statements are prepared in accordance with Swiss GAAP FER. The prior period has been restated to ensure comparability.

The notes on pages 52 to 78 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the years ended December 31

in 1000 CHF	Notes	2013	2012 ¹
Cash flow from operating activities			
Net income		23 604	15 558
Adjustments for:			
Income taxes	8	5 293	4 103
Depreciation and amortization	2/15/16	17 918	22 318
Financial income	6	-30	-23
Financial expenses	7	584	1 174
Result from associates	5	0	1 520
Share based payments	22	818	812
Gain on sale of property, plant and equipment		-83	0
Income taxes paid		-5 879	-6 767
Other non-cash items		-77	-435
Cash flow from operating activities before changes in net current assets		42 148	38 260
Change in trade receivables		-4 176	-3 628
Change in other current receivables, prepaid expenses and accrued income		341	3 259
Change in inventories		8 985	-1 191
Change in trade payables		-1 454	172
Change in other current liabilities, accrued expenses and deferred income		3 386	-1
Cash flow from operating activities		49 230	36 871
Cash flow from investing activities			
Investments in property, plant and equipment		-9 646	-7 298
Sales of property, plant and equipment		315	0
Investments in intangible assets		-2 556	-2 458
Repayment of financial receivables		12	0
Interest received		29	21
Other financial payments and proceeds		-59	-56
Cash flow from investing activities		-11 905	-9 791
Cash flow from financing activities			
Additions of own shares		-6	-16
Disposals of own shares		6	0
Dividends paid	23	-20 253	-10 030
Increase in financial liabilities		52 500	50 000
Repayment of financial liabilities		-58 209	-58 609
Interest paid		-433	-537
Cash flow from financing activities		-26 395	-19 192
Net effect of currency translation on cash and cash equivalents		-143	-256
Net change in cash and cash equivalents		10 787	7 632
Cash and cash equivalents at the beginning of the year		27 934	20 302
Cash and cash equivalents at the end of the year		38 721	27 934
Net change in cash and cash equivalents		10 787	7 632

¹ Since 2013, the consolidated financial statements are prepared in accordance with Swiss GAAP FER. The prior period has been restated to ensure comparability.

The notes on pages 52 to 78 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

2013 in 1000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Cumulative translation differences	Total
Balance at January 1¹		680	286 802	84 115	- 1 308	- 36 729	333 560
Net income according to income statement			23 604				23 604
Dividends	23			- 20 253			- 20 253
Transactions with own shares (net of tax)				3	- 3		0
Share based payments	22			604			604
Cumulative translation differences						- 1 077	- 1 077
Balance at December 31		680	310 406	64 469	- 1 311	- 37 806	336 438

2012 ¹ in 1000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Cumulative translation differences	Total
Balance at January 1 according to IFRS		680	276 735	94 635	- 1 295	- 36 818	333 937
Change in accounting policies (see note 2)			- 5 491	8 904		1 735	5 148
Balance at January 1 according to Swiss GAAP FER		680	271 244	103 539	- 1 295	- 35 083	339 085
Net income according to income statement			15 558				15 558
Dividends	23			- 20 233			- 20 233
Transactions with own shares (net of tax)				- 3	- 13		- 16
Share based payments	22			812			812
Cumulative translation differences						- 1 646	- 1 646
Balance at December 31		680	286 802	84 115	- 1 308	- 36 729	333 560

¹ Since 2013, the consolidated financial statements are prepared in accordance with Swiss GAAP FER.
The prior period has been restated to ensure comparability.

As of December 31, 2013, the accumulated non-distributable reserves amount to 12 636 kCHF
(previous year: 12 636 kCHF).

The notes on pages 52 to 78 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General Information

Business activities

Bachem, which has its main registered office in Bubendorf BL (Switzerland), is an independent, technology-based, public biochemicals company providing full service to the pharma and biotech industry. Bachem employs 649 people (FTEs) and 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 the leading position in the field of peptides.

Approval of the consolidated financial statements

The consolidated financial statements have been accepted by the Board of Directors of Bachem Holding AG on February 26, 2014 to be presented for approval by the Annual General Meeting on April 28, 2014.

Accounting Policies

Principles of consolidation

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

The financial statements of the companies on which the consolidated accounts are based are drawn up in accordance with standard principles applied throughout the Group in the preparation of financial statements. The annual reporting period for the individual companies of the Group ends on December 31. All essential cost and income items are recognized on an accrual basis. All internal transactions within the Group such as expenses and income, receivables and liabilities and unrealized profits are eliminated in the process of consolidation.

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

Changes in accounting policies

International Financial Reporting Standards (IFRS) were applied in prior reporting periods until the end of 2012. The ever-growing body of rules and regulations under IFRS has led to increasingly complex financial disclosure requirements. These standards are imposing more and more detailed formal requirements that, for the most part, do not lead to a better understanding of the company's financial position and operating results. On the other hand, they are causing additional administrative costs. Bachem therefore decided to switch the accounting standards used by Bachem Group to Swiss GAAP FER with effect from January 1, 2013. For the sake of comparison, the figures and presentation structure from the prior reporting period were restated to conform to the requirements of Swiss GAAP FER. The most significant effects as a result of the conversion to Swiss GAAP FER are described below

A) Goodwill:

Under IFRS the goodwill acquired in a business combination was recognized as an intangible asset not subject to regular amortization and subsequently tested at least once a year for impairment. Bachem is now electing to make use of the option provided by FER to write off acquired goodwill directly to retained earnings. On January 1, 2012, the entire goodwill in the amount of 10 438 kCHF was offset against retained earnings.

B) Employee benefit plans:

According to FER 16 "Pension benefit obligations," a pension benefit obligation must be recognized if a company has an economic obligation as described in FER 23 "Provisions" to alleviate any shortfall in a pension plan's funding. A net pension asset may arise if a company stands to reap an economic benefit from

an overfunded pension plan. The financial situation of a pension plan is relevant for the measurement of plan assets and liabilities. Swiss employee pension plan disclosures are based on the financial statements prepared in accordance with FER 26 "Accounting of pension plans." Swiss GAAP FER does not stipulate that a surplus position be recognized as a net pension asset. However, employer contribution reserves that may be allocated to future contribution requirements must always be capitalized on the balance sheet. The deficit of 17 884 kCHF for defined benefit plans recognized under IFRS as of January 1, 2012 was set off against retained earnings, while employer contribution reserves in the amount of 320 kCHF were capitalized retroactively. Pension plan expense recognized in the income statement for the whole year 2012 was reduced by 296 kCHF.

C) Intangible assets with an indefinite useful life:

Under IFRS, intangible assets with an indefinite useful life are not subject to amortization. Instead they are tested for impairment once a year. FER 10 "Intangible assets" specifies an amortization period of 5 years for such assets in most cases and a maximum period of 20 years under certain circumstances. Under IFRS, the Clinalfa® brand had been carried as an intangible asset with an indefinite useful life. Bachem has concluded that a useful life of 20 years is appropriate for the Clinalfa® brand under FER because an end to the brand's useful life is not foreseen. Consequently, the accumulated

amortization of 108 kCHF was written to retained earnings and the amortization expense reported for fiscal 2012 was increased by 24 kCHF.

D) Capitalization of borrowing costs:

In fiscal 2009 and 2010, the cost of borrowed capital for assets under construction was capitalized in accordance with IFRS guidelines. Under Swiss GAAP FER there is no mandatory requirement to capitalize these costs. With the switch to FER, Bachem has decided to recognize the cost of borrowed capital directly in the income statement rather than capitalize this cost on the balance sheet. Consequently, as of January 1, 2012, the remaining capitalized borrowing costs of 107 kCHF were set off against retained earnings and amortization expense for 2012 was reduced by 12 kCHF.

E) Deferred taxes:

The aforementioned corrections had an impact on deferred tax assets, deferred tax liabilities and income taxes (see tables below).

F) Profit or loss from the sale of own shares:

Under IFRS profit or loss from the sale of own shares was recognized in retained earnings. FER 24 "Equity and transactions with shareholders" requires such transactions to be recognized in share premium. A corresponding adjustment within equity in the amount of 8 904 kCHF was made as of December 1, 2012.

The following tables show the effects of the conversion of the accounting standards on equity and net income of the Bachem Group:

Effects on the consolidated balance sheet due to change in accounting policies		
in 1000 CHF		
	Dec. 31, 2012	Jan. 1, 2012
Equity according to IFRS	326 823	333 937
A) Offsetting goodwill against equity	- 10 337	- 10 438
B) Derecognition of defined benefit plan liability (according to IAS 19)	19 718	17 884
B) Recognition of employer contribution reserve	320	320
C) Amortization of Clinalfa® brand	- 132	- 108
D) Derecognition of capitalized borrowing costs	- 95	- 107
E) Deferred taxes	- 2 737	- 2 403
Equity according to Swiss GAAP FER	333 560	339 085

Effects on the consolidated income statement due to change in accounting policies
in 1000 CHF

	2012
Net income according to IFRS	15 300
B) Write-back of costs relating to increase of former defined benefit plan liability (according to IAS 19)	296
C) Amortization of Clinalfa® brand	– 24
D) Write-back of amortization of former capitalized borrowing costs	12
E) Deferred taxes	– 26
Net income according to Swiss GAAP FER	15 558

Effective January 1, 2013, Bachem Group voluntarily early adopts the Swiss GAAP FER 31 “Complementary recommendation for listed public companies” standard, which will be effective for reporting periods beginning on or after January 1, 2015. Swiss GAAP FER 31 is applicable for listed companies only and addresses the issues of first time adoption, share based payment, earnings per ownership right, income taxes, financial liabilities, segment reporting and interim reporting. As these particular topics were largely included in the previous IFRS reporting requirements, the adoption of this standard leads to only minor adjustments for Bachem.

Scope of consolidation

The consolidated financial statements of Bachem comprise the financial statements of Bachem Holding AG and all companies in Switzerland and abroad that are controlled by Bachem Holding AG (with over 50 per cent of the voting rights being held). The full list of the consolidated companies is to be found under note 24.

Investments in subsidiaries

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

Internal transactions and balances between Group companies are eliminated. Goods and services provided between group companies are charged at market prices. Inter-company profits from inventories and deliveries within Group companies that have not yet been realized through sales to third parties are eliminated.

Investments in associates

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

Currency translation

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

The consolidated financial statements are drawn up in Swiss francs. The translation into Swiss francs of the assets and liabilities as set out in the local balance sheets is performed at the exchange rate on the relevant date. The translation of the income statement and the cash flow statement is undertaken at the weighted average exchange rate for the reporting year. The currency-related translation differences arising from the translation of the balance sheet and income statement are allocated directly to equity. In the event of the sale of a foreign business unit these exchange rate differences are recorded in the income statement as part of the profit or loss arising from the sale.

The following exchange rates were used for foreign currency translation:

in CHF	Income statement average rates		Balance sheet year-end rates	
	2013	2012	2013	2012
USD	0.92	0.94	0.90	0.91
GBP	1.45	1.49	1.49	1.48
EUR	1.23	1.21	1.23	1.21

Revenue recognition

Sale of products

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

Sale of services

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

Interest and dividend income

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

Segment information

Segment information is based on the information used by the Corporate Executive Committee for managing the business. The business segments have been derived from the organizational structure and the internal reporting, without aggregating segments.

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, credit balances at banks and financial investments with a residual term of not more than 3 months after the balance sheet date.

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

Financial assets

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

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

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

Derivative financial instruments and hedging transactions

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

Trade and other receivables

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

Inventories

The inventories comprise raw materials (including supplies and consumables), work in progress as well as semi-finished and finished goods, and are measured at acquisition cost or Group production cost or (if lower) at net realizable value. Production cost comprises all production costs and an appropriate proportion of production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the variable costs necessary to make the sale. Inventories are basically accounted for using the first-in-first-out (FIFO) method, except for supplies and consumables, which are measured at weighted average cost.

Property, plant and equipment and depreciation

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

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

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

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

Leases

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

Intangible assets

Goodwill

The difference between the price paid for an acquired company and the fair value of the net identifiable assets acquired (goodwill) on the date of acquisition is offset against retained earnings. The effects on the income statement of a theoretical capitalization and ordinary amortization as well as any impairment over a useful life of 5 years are disclosed in the notes. In the event of the sale of a subsidiary, any goodwill acquired at an earlier date and offset against equity is accounted for at initial cost in order to determine the gain or loss in the income statement.

Patents and licenses

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

Brands

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

Software

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

Research and development costs

Research costs are taken directly to the income statement when incurred. Development costs are capitalized as intangible assets only if an intangible asset can be identified and produced which will provide a future economic benefit over several years, and if the cost of this asset can be reliably determined. Capitalized development costs are amortized on a straight-line basis over an estimated useful life of 5 to 8 years. The corresponding amortization is recognized in the income statement as research and development costs. In addition capitalized development costs are tested for impairment on a regular basis and an impairment loss will be recognized if there are indications of impairment.

In particular, development costs in connection with the process development of new generics are capitalized according to the progress made in the project in question, since all cumulative criteria for capitalization are met.

Financial liabilities

Financial liabilities comprise loans, borrowings and finance lease liabilities.

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

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

Taxes

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

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

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

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

Pension benefit obligations

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

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

Employee compensation (share based payments)

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

The 3-year equity program for all employees of the Bachem Group disclosed in the preceding year was discontinued at the beginning of the year 2013. The pro-rata claims acquired by the employees up to this time were paid out in cash.

Members of the Corporate Executive Committee, the regional executive managers and the executive managers of larger Group companies receive 25% to 30% of the variable pay in the form of shares. The number of shares that can be granted is calculated on the basis of the average closing prices for the financial year in question. The shares are blocked for a period of 3 years, but are not subject to any further vesting conditions. The expense is measured at the estimated fair value at the grant date, accrued and booked as an increase in equity (capital reserves). Any differences between the accrued and actual amounts are corrected in the income statement for the following year.

Some managers were awarded free shares upon recruitment or promotion which are blocked for a period of 5 years. These shares are recognized as staff costs over the vesting period at the share price applicable at grant date. In addition, some managers of Bachem Group were granted between 150 and 500 free options every year. One option entitles the holder to purchase one share at a specified exercise price. The options have a term of 3 to 5 years and are blocked for a period of 1 to 3 years. The value of the options corresponds to the market value on the grant date and is determined by an independent expert using the trinomial tree method. The benefits in respect of share options are recognized as staff costs over the vesting period.

The members of the Board of Directors receive 300 shares for each completed year of service. The expense is accrued at the end of the year and booked as an increase in equity (capital reserves).

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

Borrowing costs

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

Provisions

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

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

Own shares

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

Dividend distribution

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

Risk assessment

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

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

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

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

Financial risk factors

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

Foreign exchange risk

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

Interest rate risk

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

Price risk

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

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

Credit risk

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

Because of the different customer structures in the various business areas, there are no general credit limits that apply across the Group but the creditworthiness of each business area's customers is systematically evaluated.

In this context the financial situation, previous experience and/or other factors are taken into consideration and if necessary the customers are required to make prepayments.

Liquidity risk

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

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

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

December 31, 2013 in 1 000 CHF	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Trade payables	8 766	560	949			10 275
Other current liabilities	3 733	179	94			4 006
Accrued expenses and deferred income	2 998	626	4 941			8 565
Current income tax liabilities	0	1 078	948			2 026
Current financial liabilities	18	4 036	40 663			44 717
Non-current financial liabilities				321	3	324

December 31, 2012 in 1 000 CHF	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Trade payables	10 034	1 548	155			11 737
Other current liabilities	2 078	163	44			2 285
Accrued expenses and deferred income	718	975	4 995			6 688
Current income tax liabilities	25	1 864	1 279			3 168
Current financial liabilities	16	35	50 160			50 211
Non-current financial liabilities				496	0	496

Capital management

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

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

Related parties

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

Critical accounting estimates and assumptions

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

Income taxes

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

Provision for slow-movers on inventories

Bachem's work in progress and finished goods are characterized by an extremely long shelf life. Nevertheless, on the basis of commercial considerations, a calculated provision is taken into account, based on various assumptions. This provision reflects the saleability of the products in question.

Capitalized development costs

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

1 Sales

The reported sales consist of the following:

in 1 000 CHF	2013	2012
Products	158 652	145 847
Services	12 033	11 451
Total sales	170 685	157 298

in 1 000 CHF	2013	2012
Active pharmaceutical ingredients (APIs)	142 072	131 930
Research chemicals (incl. custom synthesis)	28 613	25 368
Total sales	170 685	157 298

2 Segment information

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

in 1 000 CHF	Europe	North America	Total segments	Corporate and eliminations	Consolidated values
Sales information 2013					
Sales third parties	105 536	65 149	170 685	0	170 685
Sales intersegment	30 818	2 266	33 084	- 33 084	0
Total sales	136 354	67 415	203 769	- 33 084	170 685
Income information 2013					
Operating income (EBIT)	26 085	7 197	33 282	- 3 831 ¹	29 451
Other information 2013					
Additions in property, plant and equipment and intangible assets	9 414	2 858	12 272	0	12 272
Depreciation, amortization and reversal of impairment	- 15 706	- 2 183	- 17 889	- 29	- 17 918
Total assets	356 465	78 931	435 396	3 381 ²	438 777
Total liabilities	176 235	29 048	205 283	- 102 944 ³	102 339

¹ The amount consists of the operating income from corporate activities of -3 710 kCHF and of eliminations in the value of -121 kCHF.

² The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 159 184 kCHF and of eliminations in the value of -155 803 kCHF.

³ The amount consists of corporate liabilities of 50 541 kCHF and of eliminations in the value of -153 485 kCHF.

in 1 000 CHF	Europe	North America	Total segments	Corporate and eliminations	Consolidated values
Sales information 2012					
Sales third parties	108 353	48 945	157 298	0	157 298
Sales intersegment	22 269	3 642	25 911	– 25 911	0
Total sales	130 622	52 587	183 209	– 25 911	157 298

Income information 2012					
Operating income (EBIT)	21 901	4 647	26 548	– 4 216 ¹	22 332

Other information 2012					
Additions in property, plant and equipment and intangible assets	7 747	2 009	9 756	0	9 756
Depreciation and amortization	– 20 277	– 2 013	– 22 290	– 28	– 22 318
Total assets	362 794	80 059	442 853	– 1 732 ²	441 121
Total liabilities	179 234	32 217	211 451	– 103 890 ³	107 561

¹ The amount consists of the operating income from corporate activities of –4 084 kCHF and of eliminations in the value of –132 kCHF.

² The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 160 596 kCHF and of eliminations in the value of –162 328 kCHF.

³ The amount consists of corporate liabilities of 56 183 kCHF and of eliminations in the value of –160 073 kCHF.

Information about geographical areas – sales third parties

in 1 000 CHF	2013	2012
Switzerland	21 218	16 807
USA	50 671	36 146
Great Britain	21 749	20 491
Germany	16 692	20 117
Rest of the world	60 355	63 737
Total	170 685	157 298

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

3 Staff costs

in 1 000 CHF	2013	2012
Salaries and wages	– 57 008	– 56 069
Pension expenses	– 4 231	– 3 653
Other social security expenses	– 7 121	– 7 034
Share-based payments	– 818	– 812
Other personnel-related costs	– 3 083	– 2 640
Total staff costs	– 72 261	– 70 208

4 Post-employment benefits

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

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

Economical benefit/economical obligation and pension expenses in 1 000 CHF	Surplus/deficit	Economical share of the Bachem Group	Change with effect on income statement	Contributions	Pension expenses in staff costs
	Dec. 31, 2013	Dec. 31, 2013	Dec. 31, 2012	2013	2013
Plans without surplus/deficit	0	- 387 ¹	0	387	1 451
Plans with surplus	1 342	320	320	0	2 393
Plans with deficit	0	0	0	0	0
Plans without own assets	0	0	0	0	0
Total	1 342	- 67	320	387	4 231

¹ Financial requirement as of December 31, 2013, related to the approved merger of two plans with different coverage levels by early 2014.

Employer contribution reserves in 1 000 CHF	Nominal value	Renounced use	Asset according to balance sheet	Change	Result form employer contribution reserves in staff costs
	Dec. 31, 2013	Dec. 31, 2013	2013	2013	2013
Patronage funds	0	0	0	0	0
Pension institution	320	0	320	0	0
Total	320	0	320	0	0

5 Associates

According to income statement in 1 000 CHF	2013	2012
Result from associates	0	- 1 520

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

The interest of Bachem in Pevion Biotech AG decreased from 27.5% at December 31, 2012 to 0.6% at December 31, 2013 due to a financing round, in which Bachem did not participate. Therefore Bachem no longer qualifies its stake as an associate, but as securities (see note 10).

The valuation of the investment remains unchanged to the prior year at 0 kCHF.

6 Financial income

in 1 000 CHF	2013	2012
Interest income	30	21
Other financial income	0	2
Total financial income	30	23

7 Financial expenses

in 1 000 CHF	2013	2012
Interest expenses	- 463	- 540
Other financial expenses	- 59	- 58
Foreign exchange result	- 62	- 576
Total financial expenses	- 584	- 1 174

Other financial expenses mainly include bank charges.

8 Income taxes

in 1 000 CHF	2013	2012
Current taxes	- 5 921	- 4 028
Deferred taxes	628	- 75
Total income taxes	- 5 293	- 4 103

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

Tax rate reconciliation in %	2013	2012
Expected tax rate	18.3	17.9
Impact from change in tax loss carry-forwards	0.0	0.0
Other impacts	0.0	3.0
Effective tax rate	18.3	20.9

At the end of the years 2013 and 2012, no Group company had any tax loss carry-forwards.

Movement of deferred tax liabilities in 1 000 CHF	2013	2012
Deferred tax liabilities at January 1	32 976	33 160
Recognized in income statement	- 540	- 127
Currency translation differences	- 10	- 57
Deferred tax liabilities at December 31	32 426	32 976

9 Earnings per share

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

Basic	2013	2012
Net income (in 1 000 CHF)	23 604	15 558
Average number of shares outstanding	13 500 625	13 488 349
Basic earnings per share (CHF)	1.75	1.15

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	2013	2012
Net income (in 1 000 CHF)	23 604	15 558
Average number of shares outstanding	13 500 625	13 488 349
Adjustment for dilutive share options	511	0
Average number of shares outstanding for diluted earnings per share	13 501 136	13 488 349
Diluted earnings per share (CHF)	1.75	1.15

In the reporting year, 4 777 outstanding options were excluded from the calculation of diluted earnings per share as they were not dilutive (2012: 8 077 options).

10 Securities and current financial receivables

in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Securities	0	0
Current financial receivables	1 734	0
Total securities and financial receivables	1 734	0

The line item securities contains the shares in Pevion Biotech AG which are valued at 0 kCHF (see note 5).

In the fourth quarter of 2013, Bachem has sold an operations building in the USA which is no longer needed. The remaining receivable over 1 734 TCHF will be due until March 31, 2014. The current financial receivable is non-interest bearing.

11 Trade receivables

in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Trade receivables	33 268	28 996
Provision for impairment of trade receivables	- 134	- 54
Total trade receivables	33 134	28 942

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

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

Movement of provision for impairment of trade receivables in 1 000 CHF	2013	2012
Provision for impairment of trade receivables at January 1	- 54	- 214
Provision for receivables impairment	- 749	- 16
Receivables written off during the year as uncollectable	666	127
Unused amounts reversed	3	47
Currency translation differences	0	2
Provision for impairment of trade receivables at December 31	- 134	- 54

The ageing analysis of trade receivables is as follows:

Ageing analysis in 1 000 CHF	Total	Not due	< 31 days	Overdue and not impaired			Overdue and impaired	
				31-60 days	61-90 days	91-180 days	1-180 days	> 180 days
December 31, 2013	33 268	22 884	6 242	2 593	230	1 096	0	223
December 31, 2012	28 996	21 422	4 837	1 926	617	120	0	74

12 Other current receivables

in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Other receivables	722	1 244
Total other current receivables	722	1 244

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

13 Prepaid expenses and deferred income

in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Prepaid expenses and accrued income	1 339	1 159
Total prepaid expenses and accrued income	1 339	1 159

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

14 Inventories

in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Raw materials	13 825	13 808
Work in progress	14 797	17 111
Semi-finished and finished goods	112 421	119 492
Total inventories	141 043	150 411

The provision for slow-movers in the total amount of 37 559 kCHF (2012: 33 389 kCHF) is included in the above line items. The change as well as the utilization of the provision are included in the cost of goods sold.

15 Property, plant and equipment

2013 in 1 000 CHF	Land and Buildings	Installations and laboratory equipment	Other property, plant and equipment	Assets under construction	Total
Cost at January 1	145 494	228 955	14 869	5 742	395 060
Additions	304	5 754	646	3 012	9 716
Disposals	- 2 618	- 1 716	- 312	0	- 4 646
Reclassifications	700	623	0	- 1 323	0
Currency translation differences	- 520	- 404	- 32	- 98	- 1 054
Cost at December 31	143 360	233 212	15 171	7 333	399 076
Accumulated at January 1	- 44 906	- 123 059	- 10 779	0	- 178 744
Depreciation	- 3 136	- 11 176	- 1 120	0	- 15 432
Reversal of impairment ¹	0	324	0	0	324
Disposals	1 013	1 342	273	0	2 628
Currency translation differences	158	309	27	0	494
Accumulated depreciation at December 31	- 46 871	- 132 260	- 11 599	0	- 190 730
Net book value at December 31	96 489	100 952	3 572	7 333	208 346
Insurance value at December 31					347 772

¹ An extensive analysis of the previous year impaired fixed assets (see footnote 2) has shown that equipment in the amount of 324 kCHF can further be utilized in other production areas.

2012 in 1 000 CHF	Land and Buildings	Installations and laboratory equipment	Other property, plant and equipment	Assets under construction	Total
Cost at January 1	146 049	223 156	14 947	5 730	389 882
Additions	122	6 404	202	570	7 298
Disposals	- 3	- 468	- 231	0	- 702
Reclassifications	115	417	3	- 535	0
Currency translation differences	- 789	- 554	- 52	- 23	- 1 418
Cost at December 31	145 494	228 955	14 869	5 742	395 060
Accumulated depreciation at January 1	- 41 970	- 108 147	- 9 804	0	- 159 921
Depreciation	- 3 156	- 11 679	- 1 243	0	- 16 078
Impairment ²	- 3	- 4 079	0	0	- 4 082
Disposals	3	468	231	0	702
Currency translation differences	220	378	37	0	635
Accumulated depreciation at December 31	- 44 906	- 123 059	- 10 779	0	- 178 744
Net book value at December 31	100 588	105 896	4 090	5 742	216 316
Insurance value at December 31					345 092

² The Board of Directors decided in December 2012 to no longer pursue the development of cytotoxic active pharmaceutical ingredients. Fixed assets allocated to this API production were subsequently impaired from 4 082 kCHF to 0 kCHF.

Bachem does not have any undeveloped land.

The carrying amount of fixed assets under finance lease contracts at year-end 2013 amounted to 504 kCHF (2012: 674 kCHF). Depreciation relating to fixed assets under finance lease amounted to 211 kCHF (2012: 214 kCHF).

No assets were pledged for security of own liabilities in 2013. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Present value of finance lease liabilities in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Within 1 year	217	211
Between 1 and 5 years	321	496
More than 5 years	3	0
Present value of finance lease liabilities	541	707

The existing finance lease contracts have been concluded in Switzerland and in the USA in the last 4 years. Their remaining durations are between 1 and 6 years. In all cases, the finance lease contracts are related to office and IT equipment.

Operating lease liabilities – minimum lease payments in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Within 1 year	351	234
Between 1 and 5 years	410	503
More than 5 years	0	0
Total future minimum operating lease payments	761	737

There are operating leases for office facilities, vehicles and buildings at the moment. The remaining life of the different contracts is between 1 and 4 years. There are renewal options for the leases of the buildings.

The recognized expenses for operating leases in the consolidated income statement 2013 was 257 kCHF (2012: 228 kCHF).

16 Intangible assets

2013 in 1 000 CHF	Capitalized development costs	Other intangible assets	Total
Cost at January 1	2 519	23 463	25 982
Additions	755	1 801	2 556
Disposals	0	- 240	- 240
Currency translation differences	0	- 53	- 53
Cost at December 31	3 274	24 971	28 245
Accumulated amortization at January 1	- 113	- 16 143	- 16 256
Amortization	- 814	- 1 996	- 2 810
Disposals	0	240	240
Currency translation differences	0	16	16
Accumulated amortization at December 31	- 927	- 17 883	- 18 810
Net book value at December 31	2 347	7 088	9 435

2012 in 1 000 CHF	Capitalized development costs	Other intangible assets	Total
Cost at January 1	2 078	21 516	23 594
Additions	441	2 017	2 458
Disposals	0	0	0
Currency translation differences	0	- 70	- 70
Cost at December 31	2 519	23 463	25 982
Accumulated amortization at January 1	0	- 14 114	- 14 114
Amortization	- 113	- 2 045	- 2 158
Disposals	0	0	0
Currency translation differences	0	16	16
Accumulated amortization at December 31	- 113	- 16 143	- 16 256
Net book value at December 31	2 406	7 320	9 726

The last goodwill acquired dates back to the year 2007. A disclosure in the notes of the effects on the income statement of a theoretical capitalization and ordinary depreciation over a useful life of 5 years is therefore obsolete, since this goodwill had been fully amortized by the end of 2011.

17 Trade payables

in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Trade payables	7 611	9 691
Prepayments	2 664	2 046
Total trade payables	10 275	11 737

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.

18 Other current liabilities

in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Other liabilities	4 006	2 285
Total other current liabilities	4 006	2 285

Other current liabilities mainly contain of value added tax liabilities owed social security charges and other liabilities to third parties.

19 Accrued expenses and deferred income

in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Accrued expenses and deferred income	8 565	6 688
Total accrued expenses and deferred income	8 565	6 688

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

20 Financial liabilities

in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Bank loans	44 500	50 000
Finance lease liabilities	541	707
Total financial liabilities	45 041	50 707
Thereof current financial liabilities	44 717	50 211
Thereof non-current financial liabilities	324	496

The bank loans were provided as unsecured business loans in CHF and bear an average interest of 1.0% p.a. The maturity of them is less than 6 months.

Details concerning finance leases are disclosed in note 15.

21 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 3 on page 82.

Shares Bachem -A-	Dec. 31, 2013	Dec. 31, 2012
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, 2013, Bachem Holding AG held 97 180 own shares, of which 27 419 are reserved for trading and 69 761 for distribution under the employee participation plans.

Own shares		Purchases/ backslide of blocked shares	Sales/transfer to employees	Dec. 31, 2013
Number	Dec. 31, 2012			
Employee participation plans at the price of 0.05 CHF	81 371	0	- 11 610	69 761
Treasury stock at the price of 47.69 CHF	27 334	135 ¹	- 50 ²	27 419
Total own shares	108 705	135	- 11 660	97 180

¹ The shares were acquired on the market at an average price of 44.81 CHF.

² The shares were sold on the market at an average price of 47.90 CHF.

Outstanding shares	Dec. 31, 2013	Dec. 31, 2012
Total number of shares	13 600 000	13 600 000
Number of own shares Bachem -B-	- 97 180	- 108 705
Total shares outstanding	13 502 820	13 491 295

22 Share-based payment

The employee and management participation plans are described in the accounting policies on page 59. The recognized expenses for share-based payments in the reporting period amounted to 818 kCHF (2012: 812 kCHF).

In 2013 and 2012, the following number of shares was granted

Shares granted	2013	2012
Number/CHF		
Number of granted shares	11 610	14 908
Average fair value per share at grant date in CHF	37.22	34.57

The option plan developed as follows:

	2013		2012	
	Number of options	Weighted average exercise price in CHF	Number of options	Weighted average exercise price in CHF
Share options outstanding				
At January 1	8 077	55.36	10 276	67.45
Granted options	3 200	35.00	2 850	43.00
Cancelled options	- 1 249	52.90	- 2 832	67.52
Expired options	- 2 151	65.91	- 2 217	79.96
Exercised options	- 100	43.00	0	0.00
At December 31	7 777	44.62	8 077	55.36
Exercisable options	2 301	55.02	2 501	66.10

The fair values at grant date of the options granted in 2013 are 4.86 CHF for options HA, 5.08 CHF for options HB and 4.97 CHF for options HC (2012: 1.36 CHF for options GA, 1.62 CHF for options GB and 1.72 CHF for options GC).

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 2013:

Parameters 2013	Options HA	Options HB	Options HC
Share price at grant date in CHF	36.35	36.35	36.35
Strike of a share in CHF	35.00	35.00	35.00
Risk-free interest rate in %	0.13%	0.22%	0.34%
Volatility in %	24.00%	23.70%	22.60%
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 2012:

Parameters 2012	Options GA	Options GB	Options GC
Share price at grant date in CHF	33.60	33.60	33.60
Strike of a share in CHF	43.00	43.00	43.00
Risk-free interest rate in %	0.01%	0.05%	0.21%
Volatility in %	22.30%	21.90%	21.00%
Dividend yield in %	4.40%	4.40%	4.40%
Duration of the options in years	3	4	5
Vesting period of the options in years	1	2	3

Options by expiry date			
Number	Exercise price	2013	2012
Year 2013	54.00	0	936
Year 2013	68.00	0	869
Year 2013	80.00	0	696
Year 2014	43.00	736	953
Year 2014	54.00	819	936
Year 2014	68.00	746	862
Year 2015	35.00	1 003	0
Year 2015	43.00	836	953
Year 2015	54.00	812	928
Year 2016	35.00	1 003	0
Year 2016	43.00	828	944
Year 2017	35.00	994	0
Total		7 777	8 077

Bachem holds own shares in order to meet its obligations under the employee participation plans. For the change in the number of Bachem shares outstanding, please refer to note 21.

23 Dividend distribution

On May 2, 2013, a dividend of 20 253 kCHF, respectively, 1.50 CHF per share was distributed for the year 2012 (previous year: 20 233 kCHF, respectively, 1.50 CHF per share). In prior years, part of the dividend was temporarily converted into a loan payable to a related party. In this reporting year, the dividend was directly fully paid out.

The Board of Directors will propose a dividend of 1.75 CHF per share or a total of 23 630 kCHF on 13 503 071 shares entitled to dividend, to the Annual General Meeting for the year 2013. The number of shares entitled to dividend may change until the Annual General Meeting on April 28, 2014 due to the granting of shares to employees or the purchase/sale of own shares.

24 Consolidated companies

Company	Country	Equity share ¹ Dec. 31, 2013	Equity share ¹ Dec. 31, 2012
Bachem Holding AG, Bubendorf	Switzerland	Parent company	Parent company
Bachem AG, Bubendorf	Switzerland	100%	100%
Bachem Distribution Services GmbH, Weil am Rhein	Germany	100%	100%
Bachem (UK) Ltd., St. Helens	England	100%	100%
Bachem Americas, Inc., Torrance	USA	100%	100%
Peninsula Laboratories, LLC, San Carlos	USA	100%	100%

¹ directly or indirectly

25 Related party transactions

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

Transactions in 1 000 CHF	2013	2012
Chemoforma AG (purchase of goods)	- 16	- 19
Ingro Finanz AG (dividend/interest payments/further charging)	- 11 117	- 10 585
Pevion Biotech AG (delivery of goods)	0	6
Polyphor AG (delivery of goods)	5 335	587
Pension fund (employer's contribution)	- 3 362	- 3 309
Sunstar Group (seminar)	- 4	- 7
Total transactions with related parties	- 9 164	- 13 327

Balances in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Polyphor AG	933	227
Total balances with related parties	933	227

In 2013, a dividend in the amount of 11 120 kCHF was paid out to Ingro Finanz AG.

In 2012, a dividend in the amount of 10 516 kCHF was distributed to Ingro Finanz AG. At the date of dividend, 313 kCHF were paid out and the rest was converted into a loan. By the end of the year 2012, all loans from Ingro Finanz AG in the total amount of 26 408 kCHF were fully paid back. The interest expense recognized on these loans amounted to 75 kCHF.

For administrative services provided to Ingro Finanz AG, 3 kCHF (2012: 6 kCHF) were further charged.

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.

26 Contingent liabilities and other commitments

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

Both in the previous year in this note disclosed legal cases have been dismissed by the relevant courts.

27 Events after the balance sheet date

As of January 1, 2014, Bachem has divested its immunology product line which was qualified as non-core business. This in the USA located product line was sold to the MFC Beteiligungs AG, a company of the majority shareholder of Bachem Holding AG. The selling price amounted to 4.3 million USD and was based on an independent expertise.

In the context of that sale, Bachem transferred inventories, fixed assets, the existing customer base, the staff consisting of nine employees and technical know-how.

Immunology product sales amounted to 2.2 million CHF in the year 2013 (2012: 2.2 million CHF).

REPORT OF THE STATUTORY AUDITOR



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 income statement, balance sheet, cash flow statement, statement of changes in equity and notes (pages 48 to 78), for the year ended December 31, 2013.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Swiss GAAP FER 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. 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, 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Dr. Rodolfo Gerber
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 26, 2014

INCOME STATEMENT

For the years ended December 31

in 1 000 CHF	2013	2012
Income		
Income from investments	12 222	11 980
Income from licenses	13 615	12 928
Interest income	4 493	4 934
Other financial income	3 054	2 286
Other income	3	25
Total income	33 387	32 153
Expenses		
Staff costs	- 2 794	- 2 467
Administration expenses	- 4 900	- 4 802
Interest expenses	- 429	- 474
Other financial expenses	- 96	- 1 922
Depreciation and amortization	- 61	- 100
Total expenses	- 8 280	- 9 765
Earnings before taxes	25 107	22 388
Taxes	- 1 106	- 911
Net income	24 001	21 477

BALANCE SHEET

At December 31, 2013 and 2012

in 1 000 CHF	Dec. 31, 2013	Dec. 31, 2012
Assets		
Cash and cash equivalents	18 860	14 045
Own shares	1 311	1 308
Other receivables from third parties	3	561
Other receivables from group companies	26 533	26 907
Prepaid expenses and accrued income	24	47
Total current assets	46 731	42 868
Investments	115 305	115 305
Loans to group companies	113 090	118 345
Property, plant and equipment	18	23
Intangible assets	0	56
Total non-current assets	228 413	233 729
Total assets	275 144	276 597
Liabilities and equity		
Other current liabilities to third parties	354	175
Other current liabilities to group companies	3 953	4 223
Financial liabilities to third parties	44 500	50 000
Deferred income and accrued expenses	1 853	1 464
Total liabilities	50 660	55 862
Share capital	680	680
Legal reserves		
General reserves	10 551	10 551
Reserves from capital contribution	39 432	59 685
Reserves for own shares	1 311	1 308
Free reserves	97 278	97 281
Retained earnings		
Retained earnings	51 231	29 753
Net income	24 001	21 477
Total equity	224 484	220 735
Total liabilities and equity	275 144	276 597

NOTES TO THE FINANCIAL STATEMENTS OF BACHEM HOLDING AG

1 Significant investments

Company	Location	Branch		Share capital Dec. 31, 2013	Share capital Dec. 31, 2012
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	Production, sales	USD	3 000	3 000
Pevion Biotech AG ¹	Bern, CH	Production, sales	CHF	n/a	11 267 000

¹ The interest of Bachem in Pevion Biotech AG decreased to 0.6% at December 31, 2013
(see note 5 of the consolidated financial statements).

With the exception of Pevion Biotech AG, 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 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, 2013	Dec. 31, 2012
P. Grogg (via Ingro Finanz AG) ²	54.6	54.5
G. Knoch	8.6	8.6
Family of P. Grogg	6.0	6.0
Sarasin Investmentfonds AG	4.8	4.8
Total important shareholders	74.0	73.9

² In this position, all shares -A- are included.

4 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 60 of this annual report.

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

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

2013 in 1 000 CHF	Fix salaries, fees	Variable salaries	Pension plan contri- bution	Other social security expenses	Share- based payments	Total
Kuno Sommer (Chairman)	127			12	15	154
Nicole Grogg Hötzer (Vice-Chairman)	43			4	15	62
Jürgen Brokatzky-Geiger (Member)	40			4	15	59
Thomas Burckhardt (Secretary)	71 ²			4	15	90
Hans Hengartner (Member)	43			2	15	60
Rolf Nyfeler (Member)	43			4	15	62
Total Board of Directors (BoD)	367	0	0	30	90	487
Thomas Früh (CEO)	258	140	49	29	51	527
Rest of the Corporate Executive Committee	566	308	92	64	111	1 141
Total Corporate Executive Committee (CEC)	824	448	141	93	162	1 668
Total	1 191	448	141	123	252	2 155

¹ incl. 28 kCHF for legal services

2012 ² in 1 000 CHF	Fix salaries, fees	Variable salaries	Pension plan contri- bution	Other social security expenses	Share- based payments	Total
Kuno Sommer (Chairman since April 25, 2012)	95 ³			8	0	103
Peter Grogg (Chairman until April 25, 2012)	42			4	10	56
Nicole Grogg Hötzer (Vice-Chairman)	44			4	10	58
Gottlieb Knoch (Vice-Chairman until April 25, 2012)	14			1	10	25
Jürgen Brokatzky-Geiger (Member)	45			4	10	59
Thomas Burckhardt (Secretary)	71 ⁴			4	10	85
Hans Hengartner (Member)	44			2	10	56
Rolf Nyfeler (Member since April 25, 2012)	44			3	0	47
Total Board of Directors (BoD)	399	0	0	30	60	489
Thomas Früh (CEO since April 1, 2012) ⁵	191	100	32	17	13	353
Rolf Nyfeler (CEO until March 31, 2012)	152 ⁶	33	23	19	3	230
Rest of the Corporate Executive Committee	493	214	75	43	29	854
Total Corporate Executive Committee (CEC)	836	347	130	79	45	1 437
Total	1 235	347	130	109	105	1 926

² Due to the change to tax values, prior year figures have been restated.

³ incl. 10 kCHF for consultancy services before April 25, 2012

⁴ incl. 27 kCHF for legal services

⁵ excl. function as COO of Bachem AG until March 31, 2012

⁶ incl. 7 kCHF for consultancy services after March 31, 2012
and paid out accrued vacation in the amount of 58 kCHF

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 (BoD) and the Corporate Executive Committee (CEC) at the balance sheet date is composed of as follows:

	Number of free shares	Number of blocked shares	Number of shares total	Shares allocated in reporting period	Number of free options	Number of blocked options	Number of options total	Options allocated in reporting period
December 31, 2013								
Kuno Sommer (Chairman)	3 300		3 300	300				
Nicole Grogg Hötzer (Vice-Chairman)	86 000		86 000	300				
Jürgen Brokatzky-Geiger (Member)	1 200		1 200	300				
Thomas Burckhardt (Secretary)	20		20	300				
Hans Hengartner (Member)	3 000		3 000	300				
Rolf Nyfeler (Member) ¹	53 110		53 110	300				
Total BoD	146 630	0	146 630	1 800				
Thomas Früh (CEO) ¹	2 875	0	2 875	200	200	699	899	500
José de Chastonay (CMO)	233	0	233	0	0	0	0	0
Daniel Erne (CTO)	41 742	0	41 742	100	500	999	1 499	500
Stephan Schindler (CFO)	259	4 000	4 259	100	500	999	1 499	500
Total CEC	45 109	4 000	49 109	400	1 200	2 697	3 897	1 500
Total	191 739	4 000	195 739	2 200	1 200	2 697	3 897	1 500

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

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.

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 12, 2014, the ordinary Annual General Meeting from Bachem AG has decided to distribute a dividend in the amount of 10 000 kCHF for the business year 2013 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 2013 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	51 230 816.70
Net income 2013	CHF	24 001 395.30
Available to the Annual General Meeting	CHF	75 232 212.00
Retained earnings to be carried forward	CHF	75 232 212.00

Appropriation of reserves from capital contribution

Opening balance reserves from capital contribution	CHF	39 431 618.00
Transfer to free reserves for dividend payment of 1.75 CHF per registered share for the business year 2013 on 13 503 071 registered shares entitled to dividend	CHF	23 630 374.25
Reserves from capital contribution to be carried forward	CHF	15 801 243.75

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 28, 2014 depending on the distribution of shares to employees or purchase/sale of own shares.

REPORT OF THE STATUTORY AUDITOR



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 income statement, balance sheet and notes (pages 80 to 85), for the year ended December 31, 2013.

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, 2013 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 26, 2014

SHAREHOLDER INFORMATION

		2013 ¹	2012 ¹	2011 ¹	2010 ¹	2009 ¹
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		13 500 625	13 488 349	13 471 331	13 463 630	13 444 683
Dividend per share	CHF	1.75 ²	1.50	1.50	2.50	3.00
Share price	Beginning of the year	CHF 36.35	33.60	56.80	65.55	80.50
	High	CHF 52.00	39.30	59.00	73.05	80.50
	Low	CHF 35.20	33.00	32.00	51.00	57.00
	Year end	CHF 48.50	36.40	32.50	56.00	66.35
Dividend yield per share	%	3.6	4.1	4.6	4.5	4.5
Earnings per share (EPS)	CHF	1.75	1.15	0.70	2.10	3.43
Cash flow from operating activities per share	CHF	3.65	2.73	1.83	2.83	3.19
Group equity per share	CHF	24.92	24.73	24.79	26.67	27.97
Price/earnings ratio (year end)		27.71	31.65	46.43	26.67	19.34
Market capitalization at year end	MCHF	660	495	442	762	902

¹ 2009–2011 based on IFRS values and 2012/2013 based on Swiss GAAP FER values.

² Proposal to the Annual General Meeting of April 28, 2014 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, 2013	Dec. 31, 2012
0–100	1 314	1 278
101–1 000	1 615	1 468
1 001–10 000	236	235
10 001–100 000	40	42
100 001–1 000 000	4	4
1 000 001 and more	2	2
Total	3 211	3 029

Shareholdings

in %	Dec. 31, 2013	Dec. 31, 2012
Major shareholders	74.0	73.9
Institutional shareholders	9.9	10.3
Private individuals	11.5	11.2
Dispo	4.6	4.6
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 2013)

April 28, 2014

Payout Date for Dividend

May 6, 2014

Half-Year Report 2013

August 29, 2014

Annual Report 2014

March 2015

Annual General Meeting

(business year 2014)

April 2015

This Annual Report
is published in German
and English.

Publisher

Bachem Holding AG,
Bubendorf, Switzerland

Conception/Design

hilda design matters, Zurich

Photos

Jos Schmid, Zurich

Prepress/Print

Linkgroup, Zurich

This Annual Report
is printed on
FSC-certified paper.



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