

BACHEM ANNUAL REPORT 2014

SHAPING
THE FUTURE
TOGETHER

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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

PIONEERING PARTNER FOR PEPTIDES

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.

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 recognized 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 developed 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 became 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 improvements 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.

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LETTER TO SHAREHOLDERS



Dr. Kuno Sommer, Dr. Thomas Früh

Dear Shareholders,

In the past year, Bachem forged ahead with the systematic focus on its core peptides business initiated in 2012. In line with this strategic orientation, the immunology product line from Peninsula Laboratories based in San Carlos, California, was sold at the start of the year. Bachem's aspiration, underpinned by its unique expertise and powerful innovative abilities, is still to be the partner of choice for successful implementation of peptide projects of whatever kind. The peptide market is enjoying growing appeal thanks to advancements in formulation development and greater efficiency in peptide production. Alongside organic growth, we will continue to explore options to strengthen our leadership in our core business through targeted alliances or acquisitions.

Bachem achieved its communicated target growth rates for sales and profits in fiscal 2014 amid persisting market and competitive challenges. The growing market momentum first observed in North America during the preceding year has now spread to Europe, where Group sales rose by 7.8%. Active pharmaceutical ingredients continued to sell well. The New Chemical Entities (NCEs) business, a bellwether of future sales trends for the company, grew by about 16% and sales of established generic APIs grew by approximately 8%. The divestment of the immunology product line resulted in slightly lower sales of research chemicals.

Sales in the catalog and custom peptide synthesis business segments matched the prior-year levels.

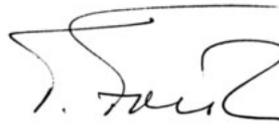
As expected, Bachem achieved another significant increase in profits in 2014. Operating profit rose by 21.8% to 35.8 million CHF, which includes a gain of 2.0 million CHF on the divestment of its immunology product line. The Group EBIT margin rose from 17.3% to 19.5%.

With its unfailing commitment to quality and reliability in all dealings with customers, Bachem is steadfastly working to build up its leadership position in the peptides market. Despite the volatile exchange-rate environment, we are confident we will be able to maintain our sales growth within the long-term target range of 6% to 10% p.a. in local currency.

In view of the results achieved in the past fiscal year, the continued positive outlook and the company's financial stability, the Board of Directors will propose an increase in the dividend from 1.75 CHF to 2.00 CHF at the upcoming General Meeting. Part of the dividend (1.16 CHF) will 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. Thomas Früh, CEO



Stephan Schindler, CFO



Dr. José Chastonay, CMO



Dr. Daniel Erne, CTO

Dr. Thomas Früh
CEO

We strive to maintain a constructive balance between the needs of our customers, our employees and our shareholders. Having highly skilled and motivated personnel allows us to create custom-tailored solutions for our customers and business partners. Efficient and profitable operating processes are the best way of ensuring that the interests of all stakeholders are addressed and this also lays a sound basis for sustainable growth.

Stephan Schindler
CFO

Achieving success together often means working towards common goals. That can be observed at an individual project level or across an entire company. Bachem is an internationally unique team of experts who collaborate in an interdisciplinary manner to create sound and sustainable solutions, working side by side with customers. This approach requires flexible yet reliable internal structures. Which is why Bachem is constantly improving professionalism and performance levels at its financial, IT and human resources departments within the framework of the "Providing High Performance" program. Together, we are shaping and supporting a successful future.

Dr. José Chastonay
CMO

It is an honor to be involved in promoting the development of new treatments for hitherto incurable diseases in collaboration with colleagues and customers. An example here is the drug FX06, which Bachem quickly produced and delivered to its customer MChE F4-Pharma. The drug was used to treat an Ebola patient who went on to make a full recovery. The usefulness of peptides in the fight against Ebola is an impressive demonstration of the relevance and benefits of peptide research.

Dr. Daniel Erne
CTO

Shaping our future together means extending the Group's leadership as a producer of peptides for research and commercial enterprises. The cohesive integration of all Group subsidiaries is imperative for Bachem to be perceived as a reliable partner in the eyes of its suppliers, customers and regulatory officials. Bachem achieves this by maintaining structures and processes that permit a flexible response to external circumstances and needs, as well through active sharing of specific know-how between all Group companies. Bachem has long set standards for the industry, and will continue to do so in the years to come.

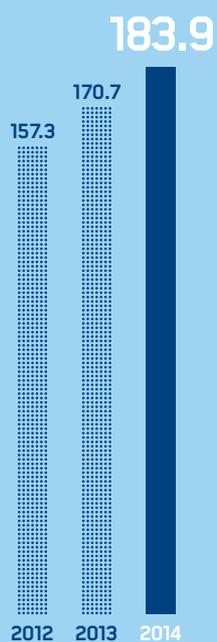
2014 IN BRIEF

| | 2014 | 2013 | CHANGES IN % | |
|--|---------|---------|--------------|-------|
| | | | CHF | LC |
| SALES (IN MCHF) | 183.9 | 170.7 | +7.8 | +7.9 |
| EBITDA (IN MCHF) | 55.1 | 47.4 | +16.3 | +17.2 |
| EBITDA IN % OF SALES | 29.9 | 27.8 | | |
| EBIT (IN MCHF) | 35.9 | 29.5 | +21.8 | +23.2 |
| EBIT IN % OF SALES | 19.5 | 17.3 | | |
| NET INCOME (IN MCHF) | 29.1 | 23.6 | +23.1 | |
| NET INCOME IN % OF SALES | 15.8 | 13.8 | | |
| EARNINGS PER SHARE (EPS - IN CHF) | 2.15 | 1.75 | +22.9 | |
| CASH FLOW FROM OPERATING ACTIVITIES (IN MCHF) | 47.2 | 49.2 | -4.1 | |
| RETURN ON EQUITY (IN %) | 8.5 | 7.0 | | |
| NUMBER OF EMPLOYEES (IN FULL-TIME EQUIVALENTS) | 711 | 649 | | |
| SALES PER EMPLOYEE ¹ (IN CHF) | 283 000 | 277 000 | | |

¹ Basis: average full-time equivalents excluding apprentices.

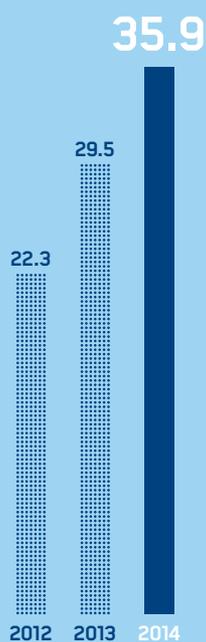
SALES

(in MCHF)



EBIT

(in MCHF)



NET INCOME

(in MCHF)



Expectations for 2014 met in full. Growth trend continues unimpeded. Strong demand for generics. Further improvement in utilization rates. Capex and staffing requirements increase. Gross profit, operating profit and net income once again sharply higher. Renewed increase in the dividend.

UNIMPEDED GROWTH TREND

Already at the mid-year mark sales were significantly above the prior-year figure and business remained buoyant during the second half. Generics sales were particularly strong and exceeded our expectations. Bachem Group maintained a fast pace of growth with sales up 7.9% in local currency. This performance underscores the high level of excellence the company has attained and its competitiveness in international markets.

HIGHER CAPACITY UTILIZATION

Bachem increased its production output again during the year under review, which raised the capacity utilization rate and led to increased investment in capacity expansion as well as the recruitment of additional staff. Despite the resulting rise in personnel expenses, gross profit grew by 6.0%. Lower sourcing costs, process improvements and higher capacity utilization rates

were largely to credit for this profit growth.

RENEWED INCREASE IN OPERATING PROFIT

Group EBIT of 35.9 million CHF topped the figure from the previous year by about 22% or 6.4 million CHF. The EBIT margin reached an outstanding level of 19.5% (or 18.4% excluding non-recurring gains from the divestment of the immunology product line).

SHARPLY HIGHER NET INCOME

Currency developments had a slightly negative effect of 0.4 million CHF at the EBIT level. Nevertheless, Bachem achieved a significant increase in bottom-line profit compared to the previous year. Net income exceeded the previous-year figure by 23.1% and amounted to 29.1 million CHF.

SOLID BALANCE SHEET

With an equity ratio of 80.3%, Bachem is extremely well capitalized. Bank loans were secured at favorable terms and without any restrictive covenants.

FOCUS ON PEPTIDES

The non-core immunology product line was divested effective January 1, 2014. This US-based business was sold for 4.3 million USD. The transaction had a positive one-off effect of about 2 million CHF on reported operating profit for 2014.

CAPACITY EXPANSION

Strong demand for peptide-based APIs and a renewed increase in capacity utilization warranted a further expansion of production capacity. Total capital expenditure in the year under review amounted to about 16 million CHF while depreciation and amortization added up to about 19 million CHF.

DIVIDEND 2.00 CHF

Earnings per share climbed sharply higher. The Board of Directors is therefore maintaining its attractive dividend policy and proposing a dividend of 2.00 CHF, partly paid from capital contribution reserves and thus exempt from Swiss withholding tax.



Bachem's growth trend remained clearly intact throughout 2014. Sales were up 7.8%, fully in line with guidance. Operating results and bottom-line profit rose at disproportionately faster rates. With its steadfast focus on peptides, Bachem stands by its claim of being the partner of choice for customers around the world.

PARTNER OF CHOICE

Bachem performed well amid persisting market challenges. As the market leader boasting more than 40 years of experience in customer-specific peptide synthesis and with an organization deeply committed to quality, Bachem serves its customers as a trusted and competent partner.

SUCCESSFUL CORE BUSINESS

The patented peptide compounds business (NCEs), which also serves as a platform for future sales, maintained its momentum from the previous fiscal year and delivered a 16% increase in sales. Sales of generic peptide APIs also rose and exceeded the previous-year figure by 8%.

RENEWED IMPROVEMENT IN PROFITABILITY

Bachem's production output increased once again and capacity utilization rates climbed higher. Despite an increase in the number of employees and organizational adjustments, costs of goods sold were only slightly higher. Economies of scale, sustained cost savings in sourcing and procurement, and process improvements contributed to this pleasing development.

GROWING PROJECT PIPELINE

Bachem kept the number of projects in its portfolio at a high level in 2014. At year-end Group companies in Europe and North America were working on a total of 199 development projects for customers (previous year: 174). The large number of projects for Phase II and III, clinical trials deserves special mention as these projects could eventually make a notable contribution to Group sales.

NEW ONLINE SHOP

Bachem's new web shop allows customers to search its catalog of 6,400 products (amino acids, biochemicals and peptides) 24/7, 365 days a year. A unique feature of the online shop is the detailed scientific and bibliographic information that is given for each product.

QUALITY MATTERS

Selective investments in compliance and in the replacement of equipment ensured unfailing compliance with the Bachem's high quality standards. Bachem views its strong commitment to quality and reliability in all dealings with customers as a key factor of its success.

PROVIDING HIGH PERFORMANCE

Bachem sees itself as an internationally unique team of experts that takes an interdisciplinary approach to creating viable solutions in partnership with its customers. The "Providing High Performance" motto embodies Bachem's constant efforts to raise the bar in terms of professionalism and performance in the areas of finance, IT and human resources.

PIONEERING PEPTIDES

Bachem's spring symposium in Basel was devoted to macrocycles and constrained peptides. The symposium's notable agenda included presentations and panel discussions with experts from academia and business, drew attention to Bachem's role as a pioneer in the production of particularly complex molecules.

PRESENCE

Operating from locations across Switzerland, Europe and the USA, Bachem delivered products and services to customers in 64 countries around the world. In the coming years, Bachem will strengthen its presence in the Asian market.



Under its “Shaping the Future Together” motto, Bachem is seeking to selectively expand its leading market position. Besides organic growth, management is also pursuing targeted alliances. Close collaboration with customers is crucial for success. Quality, innovation and partnership form the basis for collaboration.

UNDISPUTED MARKET LEADERSHIP

Bachem is recognized in the marketplace as the industry leader for peptides. That perception is substantiated by superior quality, reliability, know-how and experience. Thanks to its expertise, Bachem will be able to provide its customers and partners pioneering and sustainable solutions in the future just as it is today.

GROWTH POTENTIAL

The peptide market remains a growth market. New compounds for the treatment of Ebola, for example, and improved drug delivery solutions using peptides have raised hopes that more effective and efficient treatments will be developed for many diseases in the not too distant future.

INCREASING COMPLEXITY

Drug manufacturers must contend with increasing project complexity and regulatory requirements. Bachem therefore expects demand will grow steadily in the areas of registration and services. It also assumes that smaller players in particular will not be able to keep pace with the rapid change.

COMPETENCE AND EXPERIENCE

Bachem is in a position to develop efficient manufacturing processes for complex cyclic peptides thanks to the advances in chemical peptide synthesis that have been made in recent years. In providing these agents,

Bachem is making a significant contribution to the ongoing research and application of this promising drug class. One example here is the industrial-scale production process for a very long, specific glycosylated protein that Bachem co-developed with its Japanese partner GlyTech.

SHAPING THE FUTURE TOGETHER

Bachem supports its customers in the pursuit of groundbreaking discoveries that further scientific advances, particularly in the field of medicine. Sharing R&D-related tasks and challenges as well as the resulting findings lowers costs and shortens time-to-market.

EFFICIENT STRUCTURES

Open and frank communication, mutual trust and the clear assignment of tasks and responsibilities are crucial for Bachem's success. This is the only way, the company can truly understand and meet the needs and expectations of its clientele.

"PARTNERSHIP"
INTERVIEW WITH DR. THOMAS FRÜH, CEO



Bachem portrays itself as a “Pioneering Partner”. What exactly does that mean for the customer?

Thomas Fröh: Bachem supports its customers in the pursuit of groundbreaking discoveries that further scientific advances, particularly in the field of medicine. Partnerships with successful enterprises, leaders in their areas of specialty, represent a unique opportunity to develop pioneering products. Our customers turn to us for quality products and tailored solutions to their problems and we go to great lengths to find optimal ways of realizing project objectives.

What would you say are the enduring qualities of a good partnership?

TF: True partnership embraces lasting collaboration. It is rooted in mutual trust as well as an open and frank dialog and will satisfy all the necessary commercial and technical operating parameters. A partnership will be viable, rewarding and enduringly stable when both parties derive benefits from it. An example of such a partnership is splitting up the development activities for an NCE project (New Chemical Entities) and then sharing the results. This approach lowers costs and shortens time-to-market.

Long-term collaborations are considered a proven means of achieving superior performance or outcomes. Do you share that opinion and, if so, why?

TF: Developing and commercializing new drugs is a very lengthy process, so long-term collaborative tie-ups

“True partnership embraces lasting collaboration. It is rooted in mutual trust as well as an open and frank dialog and will satisfy all the necessary commercial and technical operating parameters.”

that extend across the entire value creation chain are indeed important. They add an element of predictability to a supplier’s business planning, which has a positive influence on production costs and other variables. Meanwhile, pharma companies profit from consistent quality and a high level of supplier readiness. Not surprisingly, then, many of these cooperation agreements are drawn up for a period of three to five years and in some cases even seven years.

Can Bachem maintain its culture of business integrity and good professional relationships as it becomes an increasingly international company?

TF: It’s important to be mindful of our homegrown strengths even as the business becomes more international. We are recognized around the world as the leader in the peptide business, and that market perception can be traced to the superior quality, reliability, know-how and experience that we offer. Thanks to our expertise,

we will be creating pioneering and sustainable solutions for our customers and partners in the future just as we are today.

How important is international networking and collaboration in the field of research and development for Bachem?

TF: As a pioneer and market leader in the field of peptides, it’s important to detect new trends early on and to play an active role in their gradual development. That’s why we are pursuing a number of research projects in collaboration with university and private-sector labs. One example of the fruits of such joint projects is the recently announced chemical synthesis of Interferon β -1a, achieved in collaboration with GlyTech Inc. in Japan.

As an employer, you determine the basic framework for collaboration within the workforce. What factors are important for good partnership among coworkers?

TF: A crucial factor for the enduring success of our company is the quality of work performed by our well-trained and highly motivated staff. We want to provide them with an environment that facilitates collaboration between different teams so we can harness the full potential of every Bachem employee. We rely on a set of proven values to help us achieve that objective. Open and frank communication, mutual trust and the clear assignment of duties, responsibility and authority are crucial here. ●

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.

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.

GROWTH



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

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.

Image of 1AU1 (M. Karpusas, M. Nolte, C.B. Berntson, W. Meier, W.N. Lipscomb, S. Goetz (1987) structure of human interferon beta at 2.2-Å resolution Proc. Natl. Acad. Sci. USA 94: 11813-11818) created with ProteinWorkshop (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).

CYCLIC PEPTIDES – LEARNING FROM NATURE

Naturally occurring peptides like the hormones insulin and glucagon are highly active even in small amounts. These hormones are released systematically in the body, take effect rapidly and are broken down by the organism within minutes in many cases. Many biochemical processes are controlled by sophisticated feedback loops of this kind with the aid of peptides. In contrast, the active pharmaceutical ingredients used for therapeutic purposes, primarily in the management of chronic disease, generally have longer durations of action, enabling extension of the dosing intervals to days or weeks.

One strategy used with great success in nature to extend the lifespan and hence the activity of peptides in the organism is cyclization. In this process, an additional chemical bond – for instance between the two ends of a linear peptide or the side chains of two amino acids – results in the formation of molecules with a ring structure. Also known as macrocycles, such compounds are more resistant to enzymatic breakdown than their open-chain counterparts and bind to their biological target with an even higher degree of affinity and selectivity. Some macrocycles produced from fungi and bacteria – examples being cephalosporins and erythromycin – are well-established and essential antibiotics. The use of orally available cyclosporine A since the 1970s to suppress natural immunity has revolutionized organ transplantation medicine.

Researchers learning from nature are increasing their efforts to use peptides with a ring structure to reach bonding sites that existing drugs have been unable to target. Unlike conventional small organic compounds, macrocycles are ideal due to their size for modulating protein-protein interactions (PPIs) involving extensive binding surfaces. Inhibition of PPIs is being investigated in a number of clinical trials, including trials to develop cancer treatments, and the first such medicines have already been granted marketing authorization.

New scientific insights are helping us to understand why some macrocycles are absorbed better than others into the bloodstream after oral use or are better able to penetrate cell membranes. This knowledge enables the design of new macromolecules with tailored properties. With the advances in chemical peptide synthesis accomplished in recent years, Bachem is now able to develop efficient manufacturing processes for complex cyclic peptides. In providing these agents, Bachem is making a significant contribution to the further clinical research and exploitation of this promising drug class.

NEW PRODUCT LINES

COSMETICS



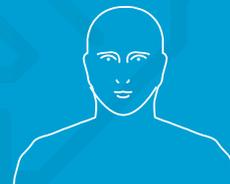
Peptide-based agents are used in top-end personal care products, for example as ingredients in antiaging products that promise to reduce wrinkles.

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 WORLDWIDE

Bachem sells its products and services around the world. It recorded very strong sales growth in Europe and consolidated its sales in North America at the high level of the previous year. The current growth in its core business is primarily being fueled by sales of active pharmaceutical ingredients.

In Europe, sales of peptides for clinical trials and of peptide generics grew at a double-digit pace. Bachem's sales in the US were slightly lower in 2014 after a banner year in 2013.

In Asia, Bachem was able to hold its market position amid a demanding environment. Bachem will be stepping up its sales and marketing efforts in Asia with the aim of remaining one of the top suppliers for this region.

Sales of research grade peptides and small molecule APIs were slightly higher, as expected.

Management remains optimistic regarding the company's long-term growth prospects.



Bachem operates five 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

BACHEM (UK) LTD.
St. Helens,
Great Britain





The peptide market remains a growth market. Pharmaceutical companies and biotech firms are putting many newly discovered and optimized peptides as well as generic peptides back into their clinical development pipelines. In addition to the substances themselves, improved drug delivery solutions offer the hope of more effective and efficient treatment for many diseases in the not too distant future.

Meaning of customer relationships

The customer is king. No customer, no business. Customers have expectations, and understanding them properly is crucial. As a manufacturer of research chemicals and active pharmaceutical ingredients, Bachem works in a challenging environment. The wishes of our customers go far beyond timely delivery of a product that meets the specifications.

High expectations apply in particular with regard to quality assurance systems. Regulatory authorities issue stringent requirements that need to be met. Customers interpret those requirements and check the manufacturer's ability to meet those requirements to their satisfaction.

Protection of the workforce and the environment is a paramount concern. In addition, the substance to be manufactured must be shielded from any cross-contamination with foreign substances or microbes. The associated measures cost a lot to implement. Nevertheless, they are a basic prerequisite for long-term customer loyalty and hence key factors in maintaining market leadership.

Bachem takes great pains in collaboration with the customer to meet the applicable regulatory requirements. This is an ongoing process that demands unrelenting effort. It is not a static condition but a sustained process of adaptation to meet the latest standards.

Customer dialog, its documentation throughout the Bachem Group and implementation of the agreed actions needs to be global. Pharmaceutical and biotech companies tend to operate globally and expect equally high standards from their main suppliers everywhere.

To meet these requirements, Bachem uses innovative communication solutions supported by cutting-edge software applications. These modernization efforts take place on top of daily business to secure the organization's competitiveness.

By the end of 2014, Bachem was involved in 199 clinical projects. The figure does not include medicinal products that have already been approved for marketing. Large numbers of existing projects are terminated every year due to clinical failure or are mothballed indefinitely for reasons of one kind or another. Accordingly, the Group

needs to acquire approximately sixty new projects a year to keep the pipeline growing.

In addition to state-of-the-art IT solutions, project management helps keep track of applicable deadlines and customer requirements, ensuring ongoing dialog and effective, close collaboration between customers and Bachem's project teams.

Bachem Group's operating results

Bachem Group generated sales of 183.9 million CHF in 2014, an increase of 7.8% from the previous year. The reported growth rate lies within the target range of 6% to 10% p.a. and exceeds the market's overall estimated growth rate.

Bachem's sales in the North America region retreated 5.3% after advancing no less than 33.1% in the previous year. The Group sales growth Bachem achieved in 2014 thus came entirely from Europe and Asia. Sales in these two regions grew 15.8%, which more than compensated for the pullback in US sales.

Patent-protected New Chemical Entities (NCEs) maintained the rapid pace of growth reported in the previous year. In this business segment Bachem recorded a gain of 16.6%. From a regional perspective, the NCE business grew 8.0% in North America and 32.4% in Eurasia. This pleasing result was achieved in spite of the full absence of several of the previous year's NCE growth drivers due to disappointing clinical outcomes or cutbacks in their production levels until customers had more clarity regarding the next stages of the registration process.

Generic peptides also performed well. Their sales growth amounted to 8.5%. Generic peptide sales had slumped in 2013 due to heavy stockpiling by several customers in 2012. These stockpiles were drawn down during the course of 2014. Demand for a key product was also quite high. Looking towards the future, Bachem is well-prepared to weather the greater pressure on prices in this segment. Management remains optimistic that sustained growth can and will be achieved with generic peptides.

Generic small-molecule drugs such as Propofol and Carbidopa, which are not part of the core business, sold as expected in a highly competitive environment. In addition, the Vionnaz site where these products are

manufactured was increasingly engaged in core business activities. High capacity utilization, the increased focus on the core business and strict cost control combined to make the site more competitive overall.

Bachem's sales in the research business were slightly lower. In 2014 those sales declined by 6.9% compared to a growth rate of 12.8% in 2013. This decline is almost entirely due to the divestment of the immunology business.

The release of a new online catalog led to an increase in direct sales and a decrease in sales with distributors. The resulting shift in the sales mix had a positive impact on margins. Also, the overall sales level stabilized after years of declines.

Major events

The Spring Symposium in Basel is a major event for Bachem. The main theme of the 2014 symposium was macrocyclic peptides. These molecules are particularly complex to produce. Many such peptides are now contained as active pharmaceutical ingredients in approved drugs, including linaclotide for the treatment of chronic constipation. Other peptides are currently undergoing investigation in clinical trials. One example is POL 7080, an antibiotic representing a novel antimicrobial drug class.

Another important event for Bachem is the DCAT Meeting in Manhattan, New York. Bachem used the platform for more than 100 direct meetings with customers. The discussions focused mainly on generic active pharmaceutical ingredients newly developed by Bachem.

Bachem also uses the meeting to gauge its position in relation to overall market trends.

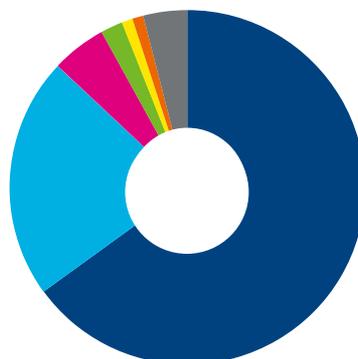
An additional highlight of 2014 was Bachem's showing at the CPhI in Paris, France. Again, the event focused mainly on generic agents. Bachem showcased the Group's future branding with a CPhI stand in the new design. The branding concept and "Pioneering Partner for Peptides" slogan found widespread acclaim.

Bachem plays an active role in shaping the course of peptide development. The organization sends its own specialists and research scientists to numerous trade shows and symposia every month. Their efforts ensure that Bachem keeps up to speed on everything that goes on and stays abreast of the latest trends in its core business. As a leading peptide manufacturer, Bachem offers its services to customers in the joint development of new active pharmaceutical ingredients. Care is taken to ensure that no aspect or area of its core business is neglected in the process.

The peptide business is set to remain full of change and highly attractive. Peptides are playing a key role in the development and manufacture of new medicinal products for the treatment of diseases such as Ebola. Moreover, peptides can significantly improve the effectiveness of existing medicinal products and their dosage forms. For Bachem, therefore, committed and ongoing dialog with the peptide community is an important success factor in maintaining the company's active leadership as a manufacturer at the vanguard of its industry.

CUSTOMER SEGMENTATION IN PERCENT

Wide range of customers



- 65 | Pharma
- 22 | Biotech
- 5 | Distributors
- 2 | Academia
- 1 | Cosmetics
- 1 | Veterinary
- 4 | Other



Peptides remain a very relevant present-day topic. As a specialist in the development and manufacture of peptides, Bachem has long played an active role in shaping and defining the ongoing process of change within this specialty field. During the course of 2014, Bachem produced a peptide that was used to treat an Ebola patient. The company has also added services applicable in the discovery of optimal glycopeptides to its range.

Peptide drug products and services

The peptide business involves supplying products as ordered and improving synthesis methods both in terms of efficiency and reproducibility. Characterization of method-relevant impurities is another service increasingly requested by customers.

Customers investigate the substance along with any impurities in toxicity studies to demonstrate their harmlessness. These processes must not result in any new unknown impurities in the manufacture of new batches.

That is why validation campaigns are important. These involve reproducing the production methods and developing and improving methods for analyzing peptides and impurities that are reproducible, sensitive and specific.

Bachem views this business of optimizing processes and analysis methods as a service that customers are billed for separately. Since Bachem's product range is growing all the time, services are taking on an increasingly important role and are coming to account for an ever larger proportion of total Group sales.

Another service provided by the Group is sterile fill-finished of active pharmaceutical ingredients in the production of ready-to-use injectable medicines. This service is mainly requested by smaller biotech firms that do not have the necessary equipment and expertise at their disposal.

Products and services in related areas

Customers who order peptide or amino acid derivatives that are not intended for use as medicinal products generally have a wide variety of specific needs and wants. This is because the regulatory requirements differ from the procedures that apply in the manufacture of substances intended for use in medicinal products. These customers nonetheless have expectations regarding the quality attributes and reproducibility of their substances. Bachem invests the time it takes to accommodate the wishes of its customers in these areas, and they in turn appreciate the professional expertise and flexibility of Bachem employees. These efforts have played no small part in Bachem's success in attracting a number of prestigious customers in the cosmetics industry. Bachem is also seeing increasing demand from peptide manufacturing companies for peptide components in defined grades. Reproducibility tends to be more important than price in these instances.

Products and services in basic research

Bachem also offers new products and services for use in basic research. The company has expanded its range of peptides relevant to Alzheimer's research, for example. Other innovative products and services are to follow. Furthermore, in GlyTech, Bachem has a very capable partner to work with in the joint development of glycosylated peptides that offer improved properties designed to meet specific customer requirements. This new service promises to spur peptide chemistry on to greater heights.

EXAMPLES OF GENERIC APIS PRODUCED BY BACHEM AND COMMON APPLICATION

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

BACHEM ONLINE SHOP



Today companies in the B2B space are increasingly ordering products online. Bachem's answer to this trend is its online shop. It allows customers to search for catalog products that they can order directly in the shop. This service is globally available 24/7 enabling customers worldwide to place orders at their convenience. All of the 6400 catalog products (amino acids, biochemicals and peptides) that are offered in the online shop are on stock in the most frequently requested pack sizes and easy to find using a standard search function based on

name, sequence, or the product or CAS number, for example.

A unique feature of Bachem's online shop is the comprehensive scientific and bibliographic information that is available in addition to the detailed product-specific information. Such information is included with every catalog product description. So besides making it easy for customers to find the exact products they need for specific areas of research, classes of drug substances or indication areas, Bachem provides extensive supplementary

information. Consequently, Bachem's online shop is used and appreciated as an outstanding source of information by researchers around the world. New content is added when deemed appropriate, for example the images depicting the lab behavior of HFIP-treated amyloid samples that were recently added to the corresponding product pages to provide additional product-relevant information.

In addition to the vast range of products and detailed contents of the online shop, customers appreciate the interactive functionality.

An integrated chat function is available to facilitate the ordering process. Questions about products, product availability, shop features and so on are answered in real time. This puts Bachem in direct contact with its customers and it is pleased with the very positive feedback it has received about the shop as well as the commercial and technical services it offers: "Great online shop, easy to use. Customer service was very helpful, friendly and competent."

is the expression of a business philosophy that is totally focused on client 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 the quantity needed 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. The catalog is being continually updated with new and innovative products.

New Chemical Entities (NCEs)

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, which is supported by Bachem as partners, more challenging.

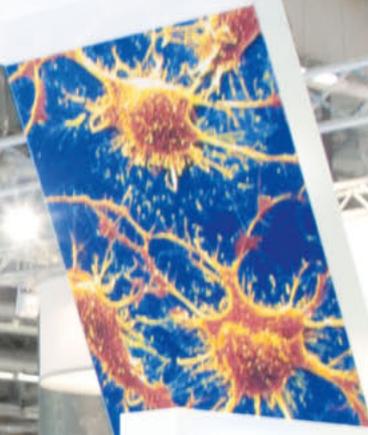


FOCUS PIONEERING PARTNER

Bachem lives up to its new claim – “Pioneering Partner for Peptides” – both internally and externally. Bachem seeks to expand the limits of peptide chemistry on an ongoing basis and approaches every customer relationship in a spirit of partnership. This attitude is imperative for retaining the company’s claim to the global number 1 position in this challenging area.



ERING
NER
PTIDES



ONCOLOGY

LANREOTIDE

LEUPROLIDE
ACETATE



BACHEM
PIONEERING PARTNER FOR PEPTIDES

FOCUS INNOVATION

Innovation is vital to Bachem and has many faces. The number of peptides serving as active pharmaceutical ingredients has risen continuously as a result of intensive research work. These peptides are increasingly complex to produce and they are being used in increasingly larger quantities. To meet these needs, more refined process engineering methods are required to enable more cost-effective and efficient operations. That takes innovation. Bachem can rely on the know-how of its teams in Switzerland and California to get the job done.





FOCUS EMPLOYEES

Initial and continuing professional development for employees is a top priority at Bachem. The continuing education process follows on from the vocational training provided in an apprenticeship or at a university. The high degree of specialization and increasingly high standards expected in terms of quality and operating procedures call for additional professional expertise.





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.**





FOCUS SAFETY

The number of days of absence from work resulting from occupational accidents per employee declined further toward zero in the period under review. This outcome is due to the small number of accidents, which moreover resulted in only minor injuries involving no lost time. Once again, non-occupational accidents are significantly more common than occupational accidents and are associated with far more lost time away from work.





FOCUS SUSTAINABLE DEVELOPMENT

Despite a substantial expansion of capacity and higher production output, Bachem nonetheless succeeded once again in improving its performance in the vast majority of the environmental parameters investigated. In a cross-comparison with the Swiss chemical industry, Bachem Group has very good results to show. Its environmental impact is comparatively low and its resource consumption figures relative to economic output are well below the average industry figures.





BODEGA

STRAUSS

BASEL ERFAHREN

"REGULATORY AFFAIRS SERVICES" INTERVIEW WITH DR. DANIEL ERNE, CTO AND DR. GUENTHER LOIDL, CTO

(SINCE JANUARY 1, 2015)

Dr. Daniel Erne, CTO

Daniel Erne has a PhD in chemistry and 30 years of experience in peptide chemistry, including 27 years with Bachem Group. He was head of the Quality Control department of the former Bachem Feinchemikalien AG, established the Quality Assurance and Regulatory Affairs units and was a member of Bachem's Corporate Executive Committee from 1997 to the end of 2014.

Dr. Guenther Loidl, CTO

Guenther Loidl studied chemistry in Germany and England and joined Bachem AG in 2000 after obtaining his doctorate. After a number of positions in Research and Development (R&D) and active pharmaceutical ingredient manufacturing, he took over as head of R&D in 2012. He has been CTO and a member of Bachem's Corporate Executive Committee since the beginning of 2015.



What is the role of services in Bachem’s 360 degree business model today?

Daniel Erne: The regulatory affairs services Bachem provides are intended to support customers’ efforts to obtain regulatory approval for a future medicinal product in a specific market. Bachem provides a detailed description of the manufacture and characterization of the underlying active substance contained in the product. A complete active substance dossier that is accepted by the authorities is an essential prerequisite for the regulatory approval of a medicinal product. In addition, the dossier needs to be updated periodically throughout the medicinal product’s life cycle. So, on that basis, the regulatory affairs services Bachem provides are hugely important for Bachem and its customers throughout a medicinal product’s life cycle.

What services are requested the most?

DE: Bachem compiles regulatory dossiers both for new, mostly patented drug substances and for such whose patents have expired. To apply for approval for patented drugs, the dossiers are submitted directly to the regulatory authorities in the form of drug master files. In keeping with the nature of a proprietary active pharmaceutical ingredient, the patent owner has the exclusive right to refer to that particular file during the regulatory review process. In the case of generic – that is, off-patent – drug substances, Bachem submits dossiers that multiple customers can make reference to simultaneously. When required, our specialists support customer’s own regulatory efforts by working in close cooperation.

“A biotech or pharmaceutical company must be able to count on the drug substance’s having been described sufficiently – the manufacturing process and active substance characterization in particular – and to the full satisfaction of the authorities.”

What does service quality mean to customers?

DE: The quality of regulatory dossiers is a matter of key importance to customers, as much so as the quality of the drug substance supplied. A biotech or pharmaceutical company must be able to count on the drug having been described sufficiently (including the process involved in its manufacture, chemical and physical characteristics, purity, contamination profile and stability in various storage conditions) and to the full satisfaction of the authorities. The authorities in particular expect a scientifically sound account of everything pertaining to synthesis and analysis. Service quality also includes timely submission and the submission of periodic updates to the authorities.

What challenges do you see in the further internationalization of business in this sector?

Guenther Loidl: Regulatory authorities are essentially national institutions. Despite the options for mutual recognition procedures in the European Union, each national authority judges an application for marketing authorization in its own way. Regulatory applications in South-east Asia present another challenge. Chinese authorities require all the material to be translated into Chinese, for instance. Hence, expanding into new markets necessarily increases the complexity of the regulatory affairs services required.

What are your expectations in regard to future growth of the services business?

GL: We can expect demand for regulatory affairs services to grow along with the number of new drugs. Growth in the service business matches the increase in the number of substances being registered and the number of competent health authorities that need to be included in the information-sharing process. We are also expecting dossiers to become more complex and lengthy given the increasing regulatory burden. ●

SUSTAINABILITY



A highly qualified and motivated workforce is the backbone of a successful organization. Bachem Group boasts the world's largest workforce of qualified specialists devoted to the field of peptide chemistry.

Our employees

A highly qualified and motivated workforce is the backbone of a successful organization. Bachem Group boasts the world's largest workforce of qualified specialists devoted to the field of peptide chemistry. The organization employed 754 people at the end of the year (previous year: 684) in 711.3 full-time equivalent positions (previous year: 649.3). Of these, 586 (corresponding to 545.4 full-time equivalent positions) were working in Europe at Bachem AG sites in Bubendorf and Vionnaz, 4 at Bachem Distribution Services GmbH in Weil am Rhein (Germany) and 29 for Bachem (UK) Ltd in St. Helens (UK). Bachem Americas, Inc. employed 126 people, mostly at the Torrance, California, site. Bachem Holding AG employed 9 people. Employee turnover at Group level was 11.6% (previous year: 9.8%).

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 equality of opportunity 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

Bachem Group is the world leader in its core business of manufacturing peptides as research chemicals and active pharmaceutical ingredients. Its claim to be a "Pioneering Partner for Peptides" is predicated on very high educational attainment of workforce members at every level and high subject area specialization.

| PERSONNEL | | 2014 | | 2013 | | |
|--|--|-------|-------|-------|-------|------|
| | | FTE | % | FTE | % | |
| EMPLOYEE DISTRIBUTION BY JOB CATEGORY | | | | | | |
| FINANCE AND ADMINISTRATION | | 63.7 | 9% | 60.1 | 9% | |
| LOGISTICS | | 58.3 | 8% | 56.2 | 9% | |
| QUALITY ASSURANCE AND REGULATORY AFFAIRS | | 182.4 | 26% | 159.3 | 25% | |
| ENGINEERING AND MAINTENANCE | | 53.6 | 8% | 48.5 | 7% | |
| RESEARCH/DEVELOPMENT AND PRODUCTION | | 290.0 | 41% | 265.7 | 41% | |
| MARKETING AND SALES | | 63.3 | 9% | 59.5 | 9% | |
| GEOGRAPHIC DISTRIBUTION | | | | | | |
| EUROPE | | 585.9 | 82% | 524.3 | 81% | |
| USA | | 125.4 | 18% | 125.0 | 19% | |
| EMPLOYEE DISTRIBUTION BY GENDER | | | | | | |
| WORKFORCE (TOTAL) | | WOMEN | 209.2 | 29% | 206.5 | 32% |
| | | MEN | 502.1 | 71% | 442.8 | 68% |
| MANAGEMENT | | WOMEN | 74 | 27% | 62 | 27% |
| | | MEN | 200.7 | 73% | 170.2 | 73% |
| REGIONAL EXECUTIVE COMMITTEES | | WOMEN | 3.0 | 17% | 3.0 | 18% |
| | | MEN | 15.0 | 83% | 14.0 | 82% |
| CORPORATE EXECUTIVE COMMITTEE | | WOMEN | 0.0 | 0% | 0.0 | 0% |
| | | MEN | 4.0 | 100% | 4.0 | 100% |
| BOARD OF DIRECTORS | | WOMEN | 2.0 | 33% | 1.0 | 17% |
| | | MEN | 4.0 | 67% | 5.0 | 83% |
| EMPLOYEE DISTRIBUTION BY AGE | | | | | | |
| AGE < 26 | | 108.7 | 15% | 84.7 | 13% | |
| AGE 26-35 | | 194.6 | 27% | 337.0 | 52% | |
| AGE 36-45 | | 171.2 | 24% | 337.0 | 52% | |
| AGE 46-55 | | 150.1 | 21% | 150.5 | 23% | |
| AGE 56-65 | | 77.7 | 11% | 71.1 | 11% | |
| AGE 65 | | 9.0 | 1% | 6.0 | 1% | |

The growing complexity of the products the company manufactures and the services it is expected to provide, and, more so, the increasing requirements of customers and official bodies in terms of production and regulatory processes, call for a highly qualified workforce throughout the organization. At Bachem Group, 24% of the employees have earned a degree from a university, and another 21% have earned a degree from a university of applied science. 42% of Bachem employees worldwide have completed a vocational apprenticeship, as have 52% of its employees in Switzerland.

Vocational training

Vocational apprenticeship training has a high priority at Bachem AG's Swiss sites in Bubendorf and Vionnaz. Our dual system of education provides young school leavers with an excellent opportunity to gain specific vocational training once they finish their compulsory schooling and strive to enter 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 specifically for the practical instruction and training of qualified chemical

lab technicians. At the two Swiss locations operated by Bachem AG, 31 young people were enrolled in three- or four-year vocational apprenticeship programs as of the end of the year; this represented 5.7% of the workforce. The apprentices were pursuing qualifications as chemical lab technicians (25), office administration staff (3), IT technician (1), and logistics specialists (2). During the year under review, 9 apprentices successfully completed their professional training. Six of them were offered permanent employment contracts.

Employee education

In addition to the professional qualifications of its workforce acquired through a vocational apprenticeship or university degree program, the company attaches great importance to providing employees with training and continuing education. The high level of specialization and increasingly tough requirements pertaining to quality and operating procedures call for additional specialist expertise. Bachem provides opportunities for continual professional development to employees as appropriate through internal programs and external providers. Bachem Group specialists meet periodically for international seminars or to share information. Seminar topics cover the entire spectrum of Group activities, including research and development, production, quality assurance and regulatory affairs, finance, marketing and sales. In addition to technical know-how, special attention is accorded to

RESPONSIBLE CARE KEY FIGURES

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|-------|-------|-------|-------|-------|
| PERSON ACCIDENTS, NUMBER/100 EMPLOYEES | 0.8 | 0.7 | 1.5 | 1.4 | 3.0 |
| LOST WORKING DAYS, NUMBER/EMPLOYEE | 0.0 | 0.1 | 0.1 | 0.2 | 0.7 |
| HEALTH SAFETY ENVIRONMENT STAFF, NUMBER | 6 | 6 | 6 | 5 | 5 |
| TOTAL STAFF, NUMBER | 660 | 579 | 601 | 587 | 594 |
| ENVIRONMENT KEY FIGURES | | | | | |
| TOTAL ENERGY CONSUMPTION, GJ/EMPLOYEE | 161 | 191 | 195 | 192 | 186 |
| CO ₂ , T/EMPLOYEE | 5 | 6 | 6 | 6 | 6 |
| NO _x , KG/EMPLOYEE | 5 | 6 | 5 | 5 | 4 |
| SO ₂ , KG/EMPLOYEE | 1 | 1 | 1 | 1 | 1 |
| VOC, KG/EMPLOYEE | 29 | 37 | 37 | 51 | 79 |
| TOC, KG/EMPLOYEE | 6 | 6 | 6 | 6 | 6 |
| HAZARDOUS WASTE DISPOSED OF, KG/EMPLOYEE | 4 991 | 6 946 | 7 967 | 9 932 | 8 157 |
| TOTAL WATER CONSUMPTION, M ³ /EMPLOYEE | 132 | 175 | 179 | 184 | 199 |

continual management training. Level-specific courses on topics including self-development and leadership were provided in the period under review.

Ethics and integrity

For the Bachem Group, ethically correct behavior and integrity are essential prerequisites for lasting business success. The professional and personal integrity of our employees is a prerequisite for meeting the high quality standards of all stakeholders. 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.

Responsible care

Protection of human health and the environment and upholding the safety of employees and local communities are fundamental concerns in the chemical industry. To meet its social responsibility, Bachem has been committed to the objectives of the Responsible Care program for more than two decades. This unique global initiative drives continuous improvement in the health, safety and environmental performance of globally operating chemical companies, and the extent of its commitment frequently goes beyond what the law requires. Responsible Care promotes responsible handling of resources and risks and provides a major contribution in achieving sustainable development. Right from the planning stages of new plants and production processes, issues relevant to safety and the environment are addressed with the involvement of the employees concerned. Annual statistics measure company performance and development and are used by management as a tool to identify and implement improvements. Bachem collects relevant data at its three largest sites – Bachem AG in Bubendorf and Vionnaz and at Bachem Americas, Inc. in Torrance, California – and evaluates the results compared with other years and relative to the pertinent industry benchmarks.

Workplace hygiene

Workplace hygiene is a basic requirement for safe handling of active substances and hence an integral part of efficient employee health and safety protection at Bachem. Bachem's strategy to provide optimum workplace hygiene is based on three main interlinked components: personnel hygiene, a basic hygiene concept and control banding. The approach is based on universal principles of personnel hygiene, for instance

in relation to employee clothing and personal care.

The basic hygiene concept also seeks to prevent active substance release and subsequent carryover. Technical solutions implemented to this end include the use of closed transfer systems and physical separation of individual production plants. Organizational measures include analysis and optimization of personnel and material flows and specifications for surface cleaning procedures – including non-product-contact surfaces – and waste disposal. Bachem provides suitable personal protective equipment for this purpose, hosts periodic training in its use and enforces application in line with requirements. The purpose of control banding is to monitor active substance concentrations in the manufacturing environment and contain them to levels low enough to reliably prevent absorption of an effective dose during the performance of work tasks. Active substances are divided into control bands based on what is known about their physiochemical properties and biological mechanisms of action. Depending on the consistency of the active substance, the manufacturing process and the quantity to be produced, measures are set forth based on the risk level of the respective control band to ensure compliance with concentration limits. The procedures resulting from implementation of control banding are also used in the planning of structural investment projects.

Environmental parameters

Due to the extremely satisfactory upswing in orders received, the workforce of the production sites used to collect Responsible Care statistics increased by 14% versus the previous year from 579 to 660 employees. Despite this substantial expansion of capacity and increased production output, Bachem nonetheless succeeded once again in improving its performance in the vast majority of the environmental parameters investigated. With a total energy consumption of 161 GJ per employee, Bachem reduced the figure by 16% versus the previous year and was once more well below the reference value of the Swiss chemical industry of 516 GJ per employee. Total water consumption was reduced versus the previous year by as much as 25% to a level of 132 m³ per employee (Swiss chemical industry: 6420 m³ per employee). The overall reduction in special waste disposal volume (–28% versus the previous year) and volatile organic carbon (VOC) emissions (–22% versus the previous year) also goes to reflect Bachem's environmental protection efforts. In a cross-comparison with the Swiss chemical industry, Bachem Group has very good

environmental statistics to show. Its environmental impact is comparatively low, and its resource consumption figures relative to economic output are well below the industry average.

Occupational safety

Personal injury accident statistics and injury downtime figures were more or less on a par with the previous year. The number of personal injuries per 100 employees was slightly up on the previous year, rising from 0.7 to 0.8, but the number of work days lost per employee declined closer toward zero. This outcome is due to the low number of accidents and the fact that they involved only minor injuries leading to no lost time or time away from work.

Once again, non-occupational accidents are significantly more common than occupational accidents and are associated with significantly higher rates of absence from the workplace. In the non-occupational-accident category, the number of accidents decreased by 20% versus the previous year, but the associated number of days off work was approximately the same. The main hazards resulting in non-occupational accidents are slips and falls and sporting injuries. Bachem pursues a holistic approach to safety training for employees in the knowledge that risk awareness on the part of employees during their leisure time has been proven to reduce the frequency of accidents and injuries at the workplace.

Health management

A Corporate Health Management (CHM) strategy for health promotion was devised in the year under review. CHM involves the development of corporate structures and processes specifically designed to promote employee health, performance and motivation. Bachem's corporate health management goes beyond the minimum requirements for healthcare applicable by law. CHM at Bachem encompasses topics including people in organizations and work-life balance.

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

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



Corporate governance encompasses all of the principles aimed at safeguarding sustainable company interests. While maintaining decision-making capability and efficiency at the highest level of a company, these principles are intended to guarantee transparency and a healthy balance of management and control.

1 Group structure and shareholders



1.1 Group structure

Bachem Holding AG, headquartered in Bubendorf, Switzerland, is listed at the SIX Swiss Exchange in Zurich (valor number: 1 253 020, ISIN: CH0012530207, SIX: BANB, Reuters: BANB.S, Bloomberg: BANB SW). Market capitalization at December 31, 2014 was 666 000 kCHF. No other Bachem companies are listed.

All consolidated companies are listed in note 23 on page 94 of the notes to the consolidated financial statements including company name, location, registered capital, and participation.

1.2 Significant shareholders

Shareholders with more than three percent of voting rights on December 31, 2014, are listed in note 3 on page 100 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, 2014, 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 2012, 2013 and 2014, share capital remained unchanged. Changes in equity for the years 2014 and 2013 are listed on page 71 of the consolidated financial statements. Changes for 2012 are reported on page 51 of the Annual Report 2013.

2.4 Shares and participation certificates

At December 31, 2014, 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 Dividend-right certificates

Bachem has not issued any dividend-right certificates.

2.6 Limitations on 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 options

The Company has not issued any convertible bonds. The only options the Company has issued are for its employee compensation plan as described in the accounting policies on pages 77 and 78 as well as in note 21 of the consolidated financial statements on pages 93 and 94.

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 2015.



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 Vice-Chairman of the Board of Polyphor AG, Chairman of the Board of PDS Pathology Data Systems AG and Chairman of the Board of Kenta Biotech AG.

Nicole Grogg Hötzer (1973), Graduate Biologist, Vice-Chairwoman, Swiss. Since 2011, elected until 2015.



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 2015.



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. From September 2003 to February 2014, he was appointed as Global Head of Human Resources. On February 26, 2014, Dr. Jürgen Brokatzky-Geiger took over responsibility as Global Head of Corporate Responsibility of Novartis.

Thomas Burckhardt (1950), Dr. iur., LL.M., Secretary, Swiss.



Since 1997, elected until 2015.

Thomas Burckhardt studied at the universities of Basel, Geneva and Munich and was awarded his doctorate in 1978 in Basel. Since 1975, he is admitted to the bar and in 1979, he received the degree of a Master of Laws (LL.M.) at Harvard Law School (Cambridge, Massachusetts, USA). Since 1980, he is practicing law in Zurich and Basel and since 1987, he is a partner at Simonius Pfrommer & Partner in Basel. 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.

Rolf Nyfeler¹ (1950), Dr. phil. II, Member, Swiss. Since 2012, elected until 2015.



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.

Helma Wennemers (1969), Prof. Dr., Member, German.



Since 2014, elected until 2015.

Helma Wennemers graduated with a diploma degree in chemistry from Johann Wolfgang Goethe-University in Frankfurt in 1993. Three years later she earned a doctorate degree from Columbia University, New York. She then pursued post-doctoral studies at Nagoya University before accepting the "Bachem-Stiftungs-Assistenzprofessur" at the University of Basel in 1999, where she became Associate Professor in 2003. Since 2011, she works

¹ Member of the Compensation Committee

as a Professor at the Laboratory of Organic Chemistry at ETH Zurich. Helma Wennemers research has been recognized by several awards including the “Leonidas Zervas Award” (2010) and the “Goering Visiting Professorship of the University of Wisconsin, Madison” (2004). She has also been awarded with numerous honorary lectureships such as the “David Ginsburg Lectureship” at the Technion in Haifa (2010) and was named a “Fellow of the Royal Society of Chemistry” (2013).

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 Number of permitted activities

No member of the Board of Directors may hold more than ten other mandates, of which no more than three may be board memberships in other listed corporations. A mandate as chair of the Board of Directors counts as two mandates. The following mandates are not subject to the aforementioned limitations:

- Mandates in companies that are controlled by the Company or that control the Company
- Mandates held at the request of the Company or a company controlled by it
- Mandates in associations, charitable foundations, family foundations and trusts, and employee assistance foundations

Mandates are defined as roles and responsibilities in the supreme governing body of a legal entity that is required to be entered in an official commercial register or a comparable foreign register. Mandates in different legal entities controlled by the same body or entity or that have the same beneficial owners are deemed to be a single mandate.

3.4 Elections and terms of office

The members of the Board of Directors and its chair and the members of the Compensation Committee and the committee chair are elected by shareholders at the Annual General Meeting for a one-year term of office. 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.

3.5 Internal organizational structure

During 2014, 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 3.7). All meetings were attended by all Board and Corporate Executive Committee members. If necessary, additional persons will attend board meetings as guests to discuss specific items on the agenda. During 2014, two Board meetings were attended by a total of three guest persons. In addition, the two regional Chief Operating Officers (COOs) took part in the two-day strategy conference. In 2014, 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.

A Compensation Committee will be established by the Board of Directors (committee members are named in section 3.1). The Compensation Committee assists the Board of Directors in formulating and periodically reviewing Bachem’s compensation strategy and guidelines as well as the performance criteria used to determine the total compensation paid to each member of the Corporate Executive Committee and helps to prepare the proposals of the Board of Directors to the Annual General Meeting regarding the compensation paid to members of the Board of Directors and of the Corporate Executive Committee. The committee also files motions asking the Board of Directors to establish or change the variable compensation and employee stock ownership plans based on personal performance and/or Company earnings. All proposals put forth by the Compensation Committee shall be subject to approval by the full Board of Directors. The Compensation Committee held one one-hour meeting during the period under review.

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 Commit-

tee 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.

3.6 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:

- Overall management of the Company and the issuing of all necessary directives
- Determining the Company's organization in the Organization Regulations
- Establishing the Company's policies and procedures regarding accounting, financial controls and financial planning
- Appointment and dismissal of the persons entrusted with managing and representing the Company
- Overall supervision of the persons entrusted with managing the Company, in particular with regard to compliance with the law, the Articles of Incorporation, operational regulations and the directives or instructions that have been issued
- Compilation of an annual report, consisting of the annual financial statements and, if necessary, consolidated annual financial statements, a compensation report and a financial review, in full compliance with all applicable legal requirements
- Preparations for the Annual General Meeting and the implementation of its resolutions
- Determination of details regarding the payment of dividends
- Establishment and closure of business offices and subsidiaries
- Notification of the court in the event the Company becomes over-indebted

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 the regional COOs (see item 3.5). 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.

3.7 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 78 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 and Board member of the business association scienceindustries.

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 Diagnostics 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 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 Number of permitted activities

A member of the Corporate Executive Committee cannot hold more than five other mandates, barring approval by the Board of Directors. No member of the Corporate Executive Committee may chair the Board of Directors of a listed company. The following mandates are not subject to the aforementioned limitations:

- Mandates in companies that are controlled by the Company or that control the Company
- Mandates held at the request of the Company or a company controlled by it
- Mandates in associations, charitable foundations, family foundations and trusts, and employee assistance foundations

Mandates are defined as roles and responsibilities in the supreme governing body of a legal entity that is required to be entered in an official commercial register or a comparable foreign register. Mandates in different legal entities controlled by the same body or entity or that have the same beneficial owners are deemed to be a single mandate.

4.4 Management contracts

Bachem has not entered into any management contracts.

5 Compensation, shareholdings and loans

For details of the remuneration of the Board of Directors and the Corporate Executive Committee as well as the employee share plans of the Bachem Group, please refer to the compensation report starting on page 53 of this Annual Report.

Details of shares and options held by the Board of Directors and the Corporate Executive Committee can be found in the notes to the financial statements of Bachem Holding AG on page 101 to 102.

6 Shareholders' participation rights

6.1 Voting rights restrictions and representation

Shareholders duly registered with voting rights in the share register on the day the invitations to a general meeting are sent out are entitled to vote, as are any proxies appointed in writing by said shareholders. Legal representatives require no such written authorization. Proxies must be shareholders of the Company, unless they are serving in the capacity of legal representative. Representation by Company proxy or by a custodian bank is no longer permitted. Every shareholder duly registered in the share register can be represented at a general meeting by the independent proxy or by another shareholder. Shareholders can participate in the proposals and elections at a General Meeting by transmitting powers of attorney and specific instructions to the independent proxy in advance electronically. The Board of Directors can adopt and publish rules regarding participation in and representation at general meetings of shareholders.

6.2 Quorums required by the Articles of Incorporation

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 Inclusion of items on the 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 Entries in 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 183 kCHF for the business year 2014. Fees for audit services on Bachem companies by other auditors totaled 30 kCHF.

8.3 Additional fees

During 2014, PricewaterhouseCoopers charged additional fees of 150 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 14 kCHF.

8.4 Information instruments pertaining to the external audit

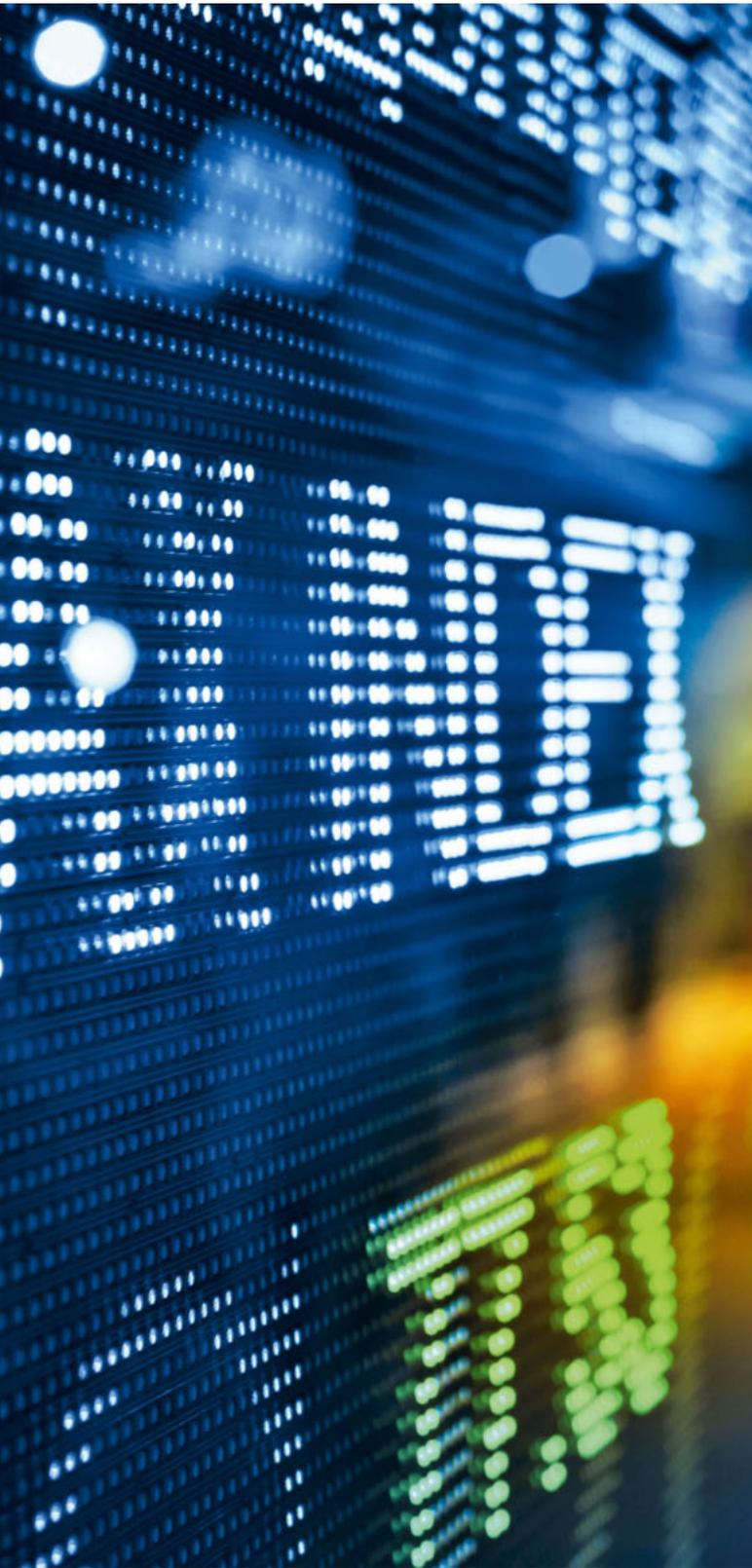
The Board of Directors is responsible for the evaluation of the external auditors and determines the audit scope and plan on an annual basis. For this purpose, the external auditors prepare a report for the attention of the Board of Directors. The external auditors meet with the Board of Directors at 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 conducted as well as on current trends in Swiss GAAP FER and other relevant laws and standards. In 2014, 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.

COMPENSATION REPORT



The compensation report contains information on the compensation of the members of the Board of Directors and the Corporate Executive Committee that previously had been disclosed in the corporate governance section of the annual report. In compliance with the Ordinance Against Excessive Compensation in Listed Companies (Oaec) in effect as of January 1, 2014, all disclosures regarding compensation of the Board of Directors and the Corporate Executive Committee are now presented in the compensation report. This report adheres to the provisions set forth in Bachem's Articles of Incorporation, the transparency requirements of the Swiss Code of Obligations as specified in Art. 663b^{bis} and Art. 663c OR, the Oaec Articles 14–16 and 20, the Directive on Information relating to Corporate Governance (DCG) issued by SIX Swiss Exchange AG and the recommendations given in the Swiss Code of Best Practice for Corporate Governance issued by *economiesuisse*.

Dr. Kuno Sommer,
Chairman of the
Board of Directors



“Having a skilled work force with a wide range expertise and many years of experience is necessary to ensure Bachem’s successful development over mid- and long-term horizons. Bachem’s compensation system establishes the framework for fair and transparent pay based on individual performance and financial metrics. Another objective is to attract the best talent the market has to offer, and to develop and retain that talent through a competitive package of total compensation. ‘Total performance’ is expected in return for ‘total compensation’. Total performance is predicated not upon the maximization of short-term earnings but rather upon a successful and sustainable development over the long term. This is an intrinsically straightforward approach that has served Bachem very well for more than 40 years – in the balanced interests of all stakeholders.”

Basic compensation policy

The steadfast focus on peptides, adherence to the most stringent of quality standards and a distinctive capacity for innovation attest to the skills and many years of experience that Bachem employees possess. In acknowledgment thereof, the central objectives of Bachem’s compensation policy are to ensure a sustainable, positive business development and to recruit and retain the best specialists. The compensation system is rooted in the principles of transparency, performance-oriented pay, and lasting value creation. It is aimed to attract, incentivize and retain employees committed to the successful development of the company by offering comprehensive pay packages competitive with peer market practice. Besides the requisite skills and knowledge, a high level of motivation and strong commitment are expected in return.

The foundation for Bachem’s compensation model is provided by the binding, Group-wide Bachem Incentive Plan. It sets the overall compensation mechanisms for all employees at Bachem Group, including the members of the Corporate Executive Committee.

The basic principles underlying the system of compensation described in the Bachem Incentive Plan are:

- Total compensation is understood as compensation for total performance
- Total compensation and total performance are focused on sustainable corporate success and therefore further the long-term interests of all stakeholders
- Targets and objectives pertinent to the expected total performance are assigned and/or agreed upon
- The subsequent assessment of total performance takes into consideration internal and individual factors as well as general and external forces and factors of consequence
- All employees have a stake in the company’s success within the scope of their roles and responsibilities
- All employees are assigned individual, mutually agreed upon objectives that have a positive impact on the company
- Senior management receives part of its total compensation in the form of blocked company shares

The Bachem Incentive Plan is not utilized to determine the compensation paid to the (non-executive) members of the Board of Directors. To ensure true independence, neither performance-oriented nor individual objectives are applied in setting the overall compensation of the members of the Board of Directors.

Management and control of compensation

The remuneration and share-based payment plans offered to the Board of Directors and the Corporate Executive Committee are determined annually by the Board of Directors acting on a proposal by the Compensation Committee, which shall consist of three members of the Board of Directors. Compensation shall be determined in compliance with all applicable legal, statutory and contractual requirements and, at the Board's own discretion, subject to subsequent approval by the General Meeting.

The General Meeting shall cast a prospective vote on and set with binding force the aggregate compensation of the Board of Directors for the period extending to the close of the next Annual General Meeting.

The resolutions of the Board of Directors on the maximum aggregate amount of fixed and variable compensation of the Corporate Executive Committee for the next fiscal year will also be submitted for approval at the Annual General Meeting. If a new individual is appointed to the Corporate Executive Committee or an existing Corporate Executive Committee member is promoted after the aggregate amount of compensation for the period has been approved, the Board of Directors shall be entitled to provide an additional amount of compensation should the approved amount of aggregate compensation not be sufficient. The additional compensation provided per member of the Corporate Executive Committee shall not exceed 25% of the aggregate amount approved by the General Meeting.

The Compensation Committee supports the Board of Directors in determining and periodically reviewing the compensation strategy and guidelines as well as in formulating the resolutions to be submitted for approval at the General Meeting. Furthermore, the Compensation Committee submits proposals to the Board of Directors regarding key performance criteria to be used in setting individual total compensation for the members of the Corporate Executive Committee. The Committee shall also submit proposals to the Board of Directors for

establishing or revising individual performance- and/or profit-based variable compensation and stock award plans.

Based on the guidelines approved by the full Board of Directors, the Compensation Committee measures the extent to which the financial and non-financial targets of the members of the Corporate Executive Committee have been achieved and makes specific recommendations regarding compensation. These recommendations and the proposals for the compensation of the members of the Board of Directors are presented to the Board of Directors for review and approval.

The Compensation Committee meets as often as necessary to carry out its responsibilities, but at least once every year. It held one one-hour meeting in 2014. No external specialists were called in during the period under review.

The Board of Directors discloses the actual compensation paid to members of the Board of Directors and the Corporate Executive Committee in the compensation report. This report is audited annually by the auditors.

Compensation of the Board of Directors

Compensation paid to the (non-executive) members of the Board of Directors consists of a fixed base fee set independently of the operating results, meeting fees, and an appropriate amount of unrestricted company shares.

The amount of the base fee is determined by the given roles and responsibilities and the associated requirements in terms of time and tasks assigned. In 2014, a gross amount of 30 kCHF per quarter was set for the Chairman and 9 kCHF per quarter for the other members of the Board of Directors. For the year under review, every member of the Board of Directors was awarded 300 BANB shares. Meeting fees amounted to 1200 CHF per day and per meeting participant.

The company may assign individual members additional tasks that go beyond the nature and scope of their given mandate. Compensation of such work shall be paid separately as invoiced. Legal counsel obtained by Thomas Burckhardt, Secretary and member of the Board of Directors, is cited in this regard, for which an invoice of 40 kCHF was issued by law firm and notary office Simonius Pfrommer & Partner.

In congruence with the company's compensation philosophy, there are no agreements between Bachem and the members of the Board of Directors granting entitlement to severance payments, any other benefits on separation from service or loans and borrowings.

Compensation of the Corporate Executive Committee

Compensation of members of the Corporate Executive Committee consists of fixed and variable elements. The short-term variable compensation elements are based on performance metrics that primarily reflect

the company's bottom-line results. Variable compensation is paid both in cash and as blocked company shares. During the first three years after grant, the shares have full voting and dividend rights commencing on the date of grant, but they may not be sold during this time. By imposing a minimum holding period, Bachem adds a long-term perspective to the variable compensation component so as to direct the actions and behavior of Corporate Executive Committee members toward sustainable corporate development.

OVERVIEW OF DUTIES AND RESPONSIBILITIES

| BODY / FUNCTION | DUTIES AND RESPONSIBILITIES |
|------------------------|---|
| ANNUAL GENERAL MEETING | <ul style="list-style-type: none"> - Elect and remove the members of the Board of Directors and the Compensation Committee - Prospectively set the aggregate amount of annual compensation of the Board of Directors - Prospectively approve the maximum aggregate amount of fixed and variable compensation of the Corporate Executive Committee |
| BOARD OF DIRECTORS | <ul style="list-style-type: none"> - Determine and periodically review Bachem's compensation policy and guidelines - Submit proposals at the General Meeting regarding compensation of members of the Board of Directors and Corporate Executive Committee - Set performance targets and objectives for short- and long-term variable compensation components within the overall compensation of the Corporate Executive Committee members and determine target achievement levels - Establish performance-based variable compensation and stock award plans - Prepare the compensation report |
| COMPENSATION COMMITTEE | <ul style="list-style-type: none"> - Support the Board of Directors in setting and periodically reviewing Bachem's compensation policy and guidelines - Submit proposals to the Board of Directors on the compensation of the members of the Board of Directors - Support the Board of Directors in determining the key financial and non-financial performance criteria used to set the individual total compensation of the members of the Corporate Executive Committee - Submit proposals to the Board of Directors for establishing or revising performance- and/or profit-based variable compensation and stock award plans - Preparing proposals put to the General Meeting regarding compensation of members of the Board of Directors and Corporate Executive Committee |
| AUDITORS | <ul style="list-style-type: none"> - Audit of quantitative information on compensations, loans and borrowings in the compensation report (acc. to Art. 17 OAEC) |

COMPENSATION REPORT

Total compensation (TC) paid to members of the Corporate Executive Committee consists of a guaranteed base salary (BS) specified by contract and a variable component (IP) as detailed in the “Bachem Incentive Plan,” which is applicable throughout the Group. The achievement scores are weighted with a factor (TF) in the compensation equation.

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

Variable compensation is calculated by multiplying 67% of the base salary by a factor derived from the weighted achievement scores for the Bachem Group financial targets (Group Target Incentives/GTI), which are typically based on sales and profits, and with respect to three to five individual objectives (Personal Target Incentives/PTI). The Board of Directors assesses the overall achievement scores with respect to Group-wide and individual targets based on a proposal by the Compensation Committee. The achievement of individual objectives is divided into four achievement levels: 0%, 80%, 100% and 120%.

30% of variable compensation will be paid out as company shares. These shares will be blocked for three years after grant and disclosed in the compensation report at discounted value in accordance with applicable tax laws. The aforementioned proportion of variable

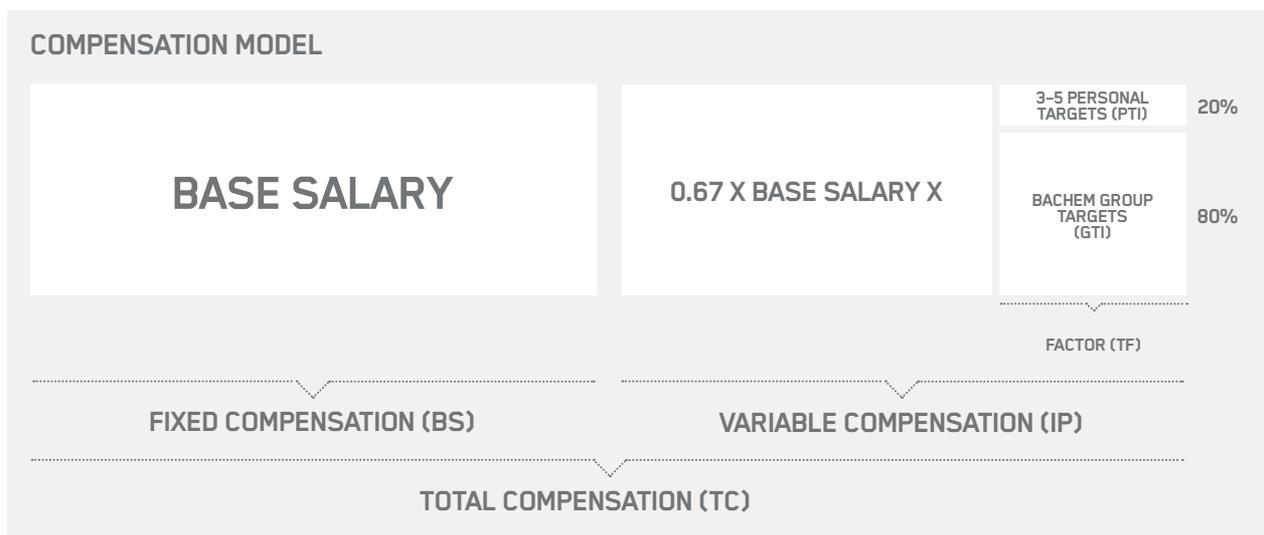
compensation is converted into a specific number of awarded shares using the average daily closing price for the corresponding fiscal year.

The Group targets set for the 2014 fiscal year were achieved in full and in some cases exceeded. In view of the assessment of the highly positive total performance, the Board of Directors has slightly increased the corresponding variable compensation paid to the Corporate Executive Committee as proposed by the Compensation Committee. In the year under review, the variable compensation of individual Corporate Executive Committee members therefore corresponded in total to approximately 68% of base salary.

In congruence with the company’s compensation philosophy, there are no agreements between Bachem and the members of the Corporate Executive Committee granting entitlement to severance payments, any other benefits on separation from service or loans and borrowings.

The shares and options held by the Board of Directors and the Corporate Executive Board are detailed in note 5 beginning on page 101 of the notes to the consolidated 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 pages 77 and 78 and on pages 93 and 94.



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:

| 2014 in 1 000 CHF | Fix salaries, fees | Variable salaries | Share- based payments | Pension plan contri- bution | Other social security expenses | Total |
|--|-----------------------|----------------------|-----------------------------|--------------------------------------|---|--------------|
| Kuno Sommer (Chairman) | 126 | | 15 | | 12 | 153 |
| Nicole Grogg Hötzer (Vice-Chairman) | 42 | | 15 | | 4 | 61 |
| Jürgen Brokatzky-Geiger (Member) | 42 | | 15 | | 4 | 61 |
| Thomas Burckhardt (Secretary) | 42 | | 15 | | 4 | 61 |
| Hans Hengartner (Member until April 28, 2014) | 14 | | 0 | | 2 | 16 |
| Rolf Nyfeler (Member) | 43 | | 15 | | 4 | 62 |
| Helma Wennemers (Member since April 28, 2014) | 29 | | 15 | | 2 | 46 |
| Total Board of Directors (BoD) | 338 | 0 | 90 | 0 | 32 | 460 |
| Thomas Früh (CEO) | 263 | 133 | 48 | 59 | 35 | 538 |
| Rest of the Corporate Executive Committee | 573 | 287 | 103 | 120 | 80 | 1 163 |
| Total Corporate Executive Committee (CEC) | 836 | 420 | 151 | 179 | 115 | 1 701 |
| Total | 1 174 | 420 | 241 | 179 | 147 | 2 161 |

| 2013 in 1 000 CHF | Fix salaries, fees | Variable salaries | Share- based payments | Pension plan contri- bution | Other social security expenses | Total |
|--|-----------------------|----------------------|-----------------------------|--------------------------------------|---|--------------|
| Kuno Sommer (Chairman) | 127 | | 15 | | 12 | 154 |
| Nicole Grogg Hötzer (Vice-Chairman) | 43 | | 15 | | 4 | 62 |
| Jürgen Brokatzky-Geiger (Member) | 40 | | 15 | | 4 | 59 |
| Thomas Burckhardt (Secretary) | 43 | | 15 | | 4 | 62 |
| Hans Hengartner (Member) | 43 | | 15 | | 2 | 60 |
| Rolf Nyfeler (Member) | 43 | | 15 | | 4 | 62 |
| Total Board of Directors (BoD) | 339 | 0 | 90 | 0 | 30 | 459 |
| Thomas Früh (CEO) | 258 | 140 | 51 | 49 | 29 | 527 |
| Rest of the Corporate Executive Committee | 566 | 308 | 111 | 92 | 64 | 1 141 |
| Total Corporate Executive Committee (CEC) | 824 | 448 | 162 | 141 | 93 | 1 668 |
| Total | 1 163 | 448 | 252 | 141 | 123 | 2 127 |

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



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

We have audited page 58 of the compensation report of Bachem Holding AG for the year ended December 31, 2014.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report of Bachem Holding AG for the year ended December 31, 2014 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Dr. Rodolfo Gerber
Audit expert
Auditor in charge

Basel, March 4, 2015

Raphael Rutishauser
Audit expert

BACHEM FINANCIAL REPORT 2014

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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

2014 was another very
good year for Bachem.
Its growth trend was
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FINANCIAL CALENDAR

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(business year 2014)
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FINANCIAL REVIEW

Stephan Schindler, CFO



Renewed sales growth

2014 was another very good year for Bachem. Its growth trend was sustained and already at the mid-year mark, sales were well above the figure reported a year earlier. Business remained very strong during the second half too, allowing Bachem to present excellent results for the year as a whole. These operating results are testimony to the level of excellence Bachem Group has achieved and to its competitiveness in international markets.

The guidance given for the 2014 financial year was met in full. Bachem increased its sales by 13.3 million CHF to 183.9 million CHF and the reported growth rates of 7.8% in CHF and 7.9% in local currency (LC) are within the targeted range of 6–10%.

| in million CHF | 2014 | Change in local currency | Change in CHF | As % of total sales |
|----------------------|-------|--------------------------|---------------|---------------------|
| API Products | 157.3 | + 10.8% | + 10.7% | 85.5% |
| Research Ingredients | 26.6 | - 6.1% | - 6.9% | 14.5% |
| Total sales | 183.9 | + 7.9% | + 7.8% | 100.0% |

Sales in the research ingredients business were in line with expectations. Due to the divestment of the immunology product line, these sales no longer contributed to the total sales figure. Excluding this one-off effect, sales in the remaining core business lines increased slightly,

by 1.3% in CHF. Catalog products and the custom peptide synthesis business showed divergent trends. The catalog business struggled with an unfavorable USD/CHF exchange rate during the first nine months of the year, whereas in the highly competitive custom synthesis business, Bachem achieved significant growth. Initial successful reports from the modernized online shop indicate that it should be possible to achieve a turnaround in the catalog business too. Bachem will further intensify its market activities on this front.

Bachem again achieved significant growth in the New Chemical Entities (NCEs) business, where sales rose by more than 16% in CHF. As expected, sales in the USA turned sharply higher during the second half after falling well below the prior year level in the first half. Both regions proved to be stable growth drivers with extensive top-quality project portfolios and an attractive range of services for NCEs. These include sterile fill-finished products for clinical studies marketed under the Clinalfa® name.

Bachem kept the number of projects in its portfolio at a high level in 2014. At year-end, Group companies in Europe and North America were working on a total of 199 development projects for customers. Attention is drawn to the large number of projects in Phase II and III clinical trials; these could make an important contribution to future Group sales.

The “Bachem Spring Symposium” held in the spring of last year was also about the future. It was devoted to the subject of “Macrocycles and Constrained Peptides” and proved to be just as successful as previous symposiums. Presentation topics and panel discussions with experts from academia and business examined current projects, production challenges and solutions, and the therapeutic application of these agents. Bachem’s symposium in 2014 underscored its pioneering role in the field of macrocycles and constrained peptides.

In the generics business, Bachem had been expecting an incremental increase in full-year sales compared to the preceding year after recording somewhat slack generics sales in the first half, especially in the USA. However, demand in this product category ultimately exceeded expectations. With growth of 8.7% in LC or

6.6 million CHF in absolute terms, generics sales were clearly higher than in the previous year. Sales exceeded the targeted levels in the Europe region in particular, where both peptide and non-peptide generics showed significant growth.

Due to the aforementioned developments, overall sales trends in Europe and the USA diverged and the overall sales mix shifted in Europe's favor.

| in million CHF | 2013 | Change in local currency | Change in CHF | As % of total sales |
|----------------|--------------|--------------------------|---------------|---------------------|
| Europe | 122.2 | + 16.6% | + 15.8% | 66.5% |
| North America | 61.7 | - 5.8% | - 5.3% | 33.5% |
| Total sales | 183.9 | + 7.9% | + 7.8% | 100.0% |

Bachem performed well considering the persisting market challenges. As market leader with more than 40 years of experience in peptide synthesis and a steadfast focus on quality, Bachem is a reliable and trusted partner for its customers.

Operating income improved again

In the past fiscal year, operating income (EBIT) advanced 21.8% to 35.9 million CHF. That figure includes the gain of 2.0 million CHF on the divestment of the immunology product line which had already been reported with the first-half results for 2014. This one-time effect lifted the EBIT margin from 18.4% (previous year: 17.3%) to 19.5%.

Operating income before depreciation and amortization (EBITDA) amounted to 55.1 million CHF, resulting in an EBITDA margin of 29.9% (previous year: 47.4 million CHF/27.8%).

Exchange rate movements, primarily by the USD/CHF and EUR/CHF currency pairs, had a slightly negative impact on the results published in Swiss francs during the period under review. A very strong fourth quarter helped Bachem to profit from the appreciation of the USD and reverse some of the negative currency translation effect of 1.1 million CHF reported at the half-year mark. At year-end, currency translation had a negative effect of 0.4 million CHF at the EBIT level.

Higher gross profit

Bachem's production volumes of active pharmaceutical ingredients were again significantly higher in 2014 compared to previous years and capacity utilization rates continued to climb, with some production lines operating at full capacity. Staffing levels were increased at all production-related units to meet the growing demand.

The cost of goods sold rose only slightly to 65.6% of sales (previous year: 65.1%) despite the significantly higher headcount and organizational changes (mentioned under administrative costs). Sustained savings in sourcing and procurement, process improvements and lower material costs helped to restrain the rise in cost of goods sold. The product mix also had a positive impact on the gross profit margin during the period under review. As the product mix can vary, one can expect this effect to fluctuate somewhat in future reporting periods, but Bachem nevertheless expects the overall trend in the product mix to be positive over time.

In the year under review, gross profit increased by 3.6 million CHF (+6.0%) in nominal terms. This marks a continuation of the pleasing trend from previous reporting periods notwithstanding the highly competitive operating environment.

Costs under control

Bachem continued its efforts to improve efficiency during the past year. Besides a score of minor yet important improvements, one major initiative was launched within the "Operational Excellence" program. Entitled "Wings for Bachem", this project is primarily focused on production operations with the aim of achieving further efficiency gains in capital employed and in planning processes. Initial promising results were already visible shortly after project launch and led to the initiation of corresponding measures and improvements.

The success of Bachem Group rests upon the know-how and experience of its work force. In response to its latest market success and the substantial increase in order intake and in the continual pursuit of work force professionalization, staff costs were again the largest single cost item in 2014, rising 8.6% year-over-year to 78.5 million CHF (previous year: 72.3 million CHF).

At the end of the year, the Group employed 754 people at its sites in Europe and the USA, or 711 expressed as full-time equivalents.

In fiscal 2014, Bachem proceeded to implement action plans to intensify its market presence and further professionalize its sales and marketing operations. The company was present at all major trade fairs and received positive feedback on its new "Pioneering Partner for Peptides" concept. As expected, the personnel recruitment drive that had already begun in 2013 and stepped-up market development efforts led to higher marketing and sales costs. They rose by 1.9 million CHF to 12.6 million CHF.

Research and development costs in the year under review were 0.3 million CHF higher than in the previous year and amounted to 2.4 million CHF. This sum includes amortization of previously capitalized development costs for new generics in the amount of 1.4 million CHF. Bachem recognized the costs incurred at production units for process optimization or scale-ups as well as development costs for new generic samples directly in cost of goods sold in 2014, as in previous reporting periods.

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 15.1 million CHF, which is 2.8 million CHF less than in the previous year (-15.6%). The difference to the previous year period is primarily attributable to the aforementioned cost cuts and internal reorganization. As part of this reorganization, the regional and global services were centralized, their functions and costs analyzed, and in some cases duties were transferred to production and/or marketing units. This led to a sustained reduction in administrative costs but had no effect on overall operating expenses.

Ordinary depreciation rose by 1.0 million CHF to 19.2 million CHF. Depreciation as a percent of sales was stable at 10.5%. No impairments were recognized during the period under review.

Further improvement in capacity utilization

Capacity utilization rose again during the year under review. Against the background of increasing project complexity and growing regulatory requirements, both Bachem and its customers can rely on highly skilled and experienced specialists to get the job done. Bachem employees go to great lengths to ensure that "Quality Matters" is embraced in every aspect of the business. In view of the overall order situation, Bachem will continue to expand its work force. The company has been steadily growing and 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.

Net income +23.1%

Net income for fiscal 2014 was likewise well above the figure reported in the previous year. Bachem's net income of 29.1 million CHF exceeded the bottom-line figure from 2013 by 5.5 million CHF (+23.1%). Net income for 2014 also includes the gain on the divestment of the immunology product line.

Bachem increased its earnings per share (EPS) from 1.75 CHF to 2.15 CHF.

Net foreign exchange gains and losses amounted to a positive 0.8 million CHF, significantly better than in the previous year when a loss of 0.1 million CHF was reported. Due to low interest rates and reduced borrowing requirements, interest expense amounted to only 0.3 million CHF (previous year: 0.5 million CHF).

The Group's tax rate was 20.0%. Income taxes for fiscal 2014 amounted to 7.3 million CHF. Bachem continues to anticipate a Group tax rate of about 20% in the coming years.

Cash flow from operating activities

Cash flow from operating activities before changes in net current assets amounted to 46.5 million CHF in 2014, which corresponded to an increase of 4.3 million CHF (+10.2%) compared to the previous year.

Cash-flow-relevant capital held in net current assets declined by 0.8 million CHF. This led to an operating cash flow of 47.2 million CHF, which represents 25.7% of sales.

The cash-flow-relevant increase of 9.5 million CHF in trade receivables had the greatest negative impact on net current assets. This effect was offset primarily by the overall increase of 7.0 million CHF in trade payables, other current liabilities, and accrued expenses and deferred income. A renewed inventory reduction of 3.0 million CHF also had a major positive impact during the year under review.

| in million CHF | 2014 | 2013 | 2012 | 2011 |
|---|-------|-------|-------|-------|
| Cash flow effect of inventory movements | + 3.0 | + 9.0 | - 1.2 | + 0.7 |

Sustainable capital expenditure

Bachem made continual investments in compliance and replacements during the course of 2014 to ensure unfailing compliance with the company’s high standards regarding corporate social responsibility, quality, workplace safety and the environment. By doing so, it also guarantees that the high level of quality customers have come to expect from Bachem products and services will be maintained going forward.

In response to strong demand for peptide-based active ingredients, the company has begun to set up additional production capacity. This additional capacity will complement the already existing, modern infrastructure that is competitive even for high volume orders. As announced at mid-year, the company had initially planned to allocate at least 18 million CHF to capital expenditure for the year under review. However, various delays in the meantime prevented the company from expending the budgeted amount by the end of the reporting period.

Total capital expenditure for 2014 amounted to 15.8 million CHF. It is expected that the delayed projects will be completed in 2015.

Cash flow from investing activities was impacted positively by the divestment of the immunology product line, which generated proceeds of 3.9 million CHF, and by the repayment of a loan receivable in the amount of 1.7 million CHF in connection with the sale of a building in the USA.

Net cash outflow from investing activities amounted to 10.0 million CHF (previous year: 11.9 million CHF).

As a result of the increase in the dividend per share to 1.75 CHF (previous year: 1.50 CHF), the dividend distribution of 23.7 million CHF was considerably higher than in the previous year (20.3 million CHF). In the first half-year, Bachem also repaid a total of 44.6 million CHF of the financial liabilities reported in the previous year and borrowed a total of 33.0 million CHF from three Swiss banks. By year-end, the company had repaid 12.0 million CHF of these loans, resulting in total bank loans of 21.0 million CHF as of December 31, 2014.

Cash flow from financing activities amounted to -47.3 million CHF.

Cash and cash equivalents of 29.5 million CHF

Cash and cash equivalents in the consolidated cash flow statement decreased by 9.2 million CHF. Total cash holdings as defined in the cash flow statement amounted to 29.5 million CHF at year-end.

Dividend of 2.00 CHF proposed

Bachem remains extremely well capitalized with an equity ratio of 80.3% (76.7% 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.

After increasing its earnings per share significantly for two consecutive years, the Board of Directors will propose increasing the dividend to 2.00 CHF (previous year: 1.75 CHF) at the Annual General Meeting.

This payout will be partially 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 | 2014 | 2013 |
|---|-------|---------------|---------------|
| Sales | 1/2 | 183 937 | 170 685 |
| Cost of goods sold | | - 120 733 | - 111 036 |
| Gross profit | | 63 204 | 59 649 |
| Other income | 25 | 2 747 | 442 |
| Marketing and sales costs | | - 12 591 | - 10 718 |
| Research and development costs | | - 2 426 | - 2 077 |
| General administrative costs | | - 15 070 | - 17 845 |
| Operating income (EBIT) | 2 | 35 864 | 29 451 |
| Financial income | 5 | 836 | 30 |
| Financial expenses | 6 | - 355 | - 584 |
| Ordinary income before taxes | | 36 345 | 28 897 |
| Income taxes | 7 | - 7 280 | - 5 293 |
| Net income¹ | | 29 065 | 23 604 |
| Basic earnings per share (CHF) | 8 | 2.15 | 1.75 |
| Diluted earnings per share (CHF) | 8 | 2.15 | 1.75 |

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

The notes on pages 72 to 96 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At December 31, 2014 and 2013

| in 1000 CHF | Notes | Dec. 31, 2014 | Dec. 31, 2013 |
|---|-------|----------------|----------------|
| Assets | | | |
| Cash and cash equivalents | | 29 494 | 38 721 |
| Securities and current financial receivables | 9 | 0 | 1 734 |
| Trade receivables | 10 | 43 401 | 33 134 |
| Other current receivables | 11 | 711 | 722 |
| Prepaid expenses and accrued income | 12 | 1 057 | 1 339 |
| Current income tax asset | | 775 | 1 134 |
| Inventories | 13 | 139 256 | 141 043 |
| Total current assets | | 214 694 | 217 827 |
| Property, plant and equipment | 14 | 208 924 | 208 346 |
| Intangible assets | 15 | 8 025 | 9 435 |
| Assets from employer contribution reserve | 4 | 320 | 320 |
| Deferred tax assets | | 3 050 | 2 849 |
| Total non-current assets | | 220 319 | 220 950 |
| Total assets | | 435 013 | 438 777 |
| Liabilities and equity | | | |
| Trade payables | 16 | 15 644 | 10 275 |
| Other current liabilities | 17 | 4 781 | 4 006 |
| Accrued expenses and deferred income | 18 | 9 881 | 8 565 |
| Current income tax liabilities | | 2 069 | 2 026 |
| Current financial liabilities | 19 | 21 207 | 44 717 |
| Total current liabilities | | 53 582 | 69 589 |
| Non-current financial liabilities | 19 | 149 | 324 |
| Deferred tax liabilities | 7 | 32 151 | 32 426 |
| Total non-current liabilities | | 32 300 | 32 750 |
| Total liabilities | | 85 882 | 102 339 |
| Share capital | 20 | 680 | 680 |
| Retained earnings | | 339 471 | 310 406 |
| Share premium | | 41 568 | 64 469 |
| Own shares | | -957 | -1 311 |
| Cumulative translation differences | | -31 631 | -37 806 |
| Total capital and reserves attributable to the equity holders of the company | | 349 131 | 336 438 |
| Total liabilities and equity | | 435 013 | 438 777 |

The notes on pages 72 to 96 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the years ended December 31

| in 1000 CHF | Notes | 2014 | 2013 |
|---|---------|-----------------|-----------------|
| Cash flow from operating activities | | | |
| Net income | | 29 065 | 23 604 |
| Adjustments for: | | | |
| Income taxes | 7 | 7 280 | 5 293 |
| Depreciation and amortization | 2/14/15 | 19 224 | 17 918 |
| Financial income | 5 | - 836 | - 30 |
| Financial expenses | 6 | 355 | 584 |
| Share based payments | 21 | 706 | 818 |
| Gain on sale of property, plant and equipment | | - 116 | - 83 |
| Gain on sale of product line | 25 | - 1 996 | 0 |
| Income taxes paid | | - 7 566 | - 5 879 |
| Other non-cash items | | 349 | - 77 |
| Cash flow from operating activities before changes in net current assets | | 46 465 | 42 148 |
| Change in trade receivables | | - 9 534 | - 4 176 |
| Change in other current receivables, prepaid expenses and accrued income | | 333 | 341 |
| Change in inventories | | 2 956 | 8 985 |
| Change in trade payables | | 5 161 | - 1 454 |
| Change in other current liabilities, accrued expenses and deferred income | | 1 837 | 3 386 |
| Cash flow from operating activities | | 47 218 | 49 230 |
| Cash flow from investing activities | | | |
| Investments in property, plant and equipment | | - 13 806 | - 9 646 |
| Sales of property, plant and equipment | | 116 | 315 |
| Investments in intangible assets | | - 1 968 | - 2 556 |
| Sale of product line | 25 | 3 905 | 0 |
| Repayment of financial receivables | | 1 732 | 12 |
| Interest received | | 36 | 29 |
| Other financial payments and proceeds | | - 62 | - 59 |
| Cash flow from investing activities | | - 10 047 | - 11 905 |
| Cash flow from financing activities | | | |
| Additions of own shares | | 0 | - 6 |
| Disposals of own shares | | 398 | 6 |
| Dividends paid | 22 | - 23 651 | - 20 253 |
| Increase in financial liabilities | | 33 000 | 52 500 |
| Repayment of financial liabilities | | - 56 725 | - 58 209 |
| Interest paid | | - 369 | - 433 |
| Cash flow from financing activities | | - 47 347 | - 26 395 |
| Net effect of currency translation on cash and cash equivalents | | 949 | - 143 |
| Net change in cash and cash equivalents | | - 9 227 | 10 787 |
| Cash and cash equivalents at the beginning of the year | | 38 721 | 27 934 |
| Cash and cash equivalents at the end of the year | | 29 494 | 38 721 |
| Net change in cash and cash equivalents | | - 9 227 | 10 787 |

The notes on pages 72 to 96 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

| 2014 in 1000 CHF | Notes | Share capital | Retained earnings | Share premium | Own shares | Cumulative translation differences | Total |
|---|-------|------------------|----------------------|------------------|----------------|--|----------------|
| Balance at January 1 | | 680 | 310 406 | 64 469 | - 1 311 | - 37 806 | 336 438 |
| Net income according to income statement | | | 29 065 | | | | 29 065 |
| Dividends | 22 | | | - 23 651 | | | - 23 651 |
| Transactions with own shares (net of tax) | | | | 44 | 354 | | 398 |
| Share based payments | 21 | | | 706 | | | 706 |
| Cumulative translation differences | | | | | | 6 175 | 6 175 |
| Balance at December 31 | | 680 | 339 471 | 41 568 | - 957 | - 31 631 | 349 131 |

| 2013 in 1000 CHF | Notes | Share capital | Retained earnings | Share premium | Own shares | Cumulative translation differences | Total |
|---|-------|------------------|----------------------|------------------|----------------|--|----------------|
| Balance at January 1 | | 680 | 286 802 | 84 115 | - 1 308 | - 36 729 | 333 560 |
| Net income according to income statement | | | 23 604 | | | | 23 604 |
| Dividends | 22 | | | - 20 253 | | | - 20 253 |
| Transactions with own shares (net of tax) | | | | 3 | - 3 | | 0 |
| Share based payments | 21 | | | 604 | | | 604 |
| Cumulative translation differences | | | | | | - 1 077 | - 1 077 |
| Balance at December 31 | | 680 | 310 406 | 64 469 | - 1 311 | - 37 806 | 336 438 |

As of December 31, 2014, the accumulated non-distributable reserves amount to 12 636 kCHF (previous year: 12 636 kCHF).

The notes on pages 72 to 96 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

Business activities

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.

Approval of the consolidated financial statements

The consolidated financial statements have been accepted by the Board of Directors of Bachem Holding AG on March 4, 2015 to be presented for approval by the Annual General Meeting on April 27, 2015.

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

At January 1, 2013, the Bachem Group voluntarily early adopted 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 International Financial Reporting Standards (IFRS) which the Bachem Group applied until the year-end 2012, the adoption of this standard lead to only minor adjustments for Bachem.

The Swiss GAAP FER Commission has undertaken revisions concerning revenue recognition and its disclosure, which will be effective for reporting periods beginning on or after January 1, 2016. Specifically small adjustments have been made to the Swiss GAAP FER Framework, to Swiss GAAP FER 3 “Presentation and Format” and to Swiss GAAP FER 6 “Notes”. These revisions will have no effect on the results of the Bachem Group. Only minor impacts on the disclosure are expected.

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% of the voting rights being held). The full list of the consolidated companies is to be found under note 23.

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 | |
|--------|-----------------------------------|------|---------------------------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| USD | 0.93 | 0.92 | 0.99 | 0.90 |
| GBP | 1.51 | 1.45 | 1.55 | 1.49 |
| EUR | 1.21 | 1.23 | 1.20 | 1.23 |

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 3 to 5 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.

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, 2014 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 | 13 138 | 2 025 | 481 | | | 15 644 |
| Other current liabilities | 4 422 | 0 | 359 | | | 4 781 |
| Accrued expenses and deferred income | 1 921 | 1 992 | 5 968 | | | 9 881 |
| Current income tax liabilities | 0 | 1 152 | 917 | | | 2 069 |
| Current financial liabilities | 18 | 10 053 | 11 136 | | | 21 207 |
| Non-current financial liabilities | | | | 149 | 0 | 149 |

| 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 |

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 | 2014 | 2013 |
|--------------------|----------------|----------------|
| Products | 172 401 | 158 652 |
| Services | 11 536 | 12 033 |
| Total sales | 183 937 | 170 685 |

| in 1 000 CHF | 2014 | 2013 |
|---|----------------|----------------|
| Active pharmaceutical ingredients (APIs) | 157 295 | 142 072 |
| Research chemicals (incl. custom synthesis) | 26 642 | 28 613 |
| Total sales | 183 937 | 170 685 |

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 2014 | | | | | |
| Sales third parties | 122 247 | 61 690 | 183 937 | 0 | 183 937 |
| Sales intersegment | 33 086 | 8 886 | 41 972 | - 41 972 | 0 |
| Total sales | 155 333 | 70 576 | 225 909 | - 41 972 | 183 937 |
| Income information 2014 | | | | | |
| Operating income (EBIT) | 27 997 | 12 148 | 40 145 | - 4 281 ¹ | 35 864 |
| Other information 2014 | | | | | |
| Additions in property, plant and equipment and intangible assets | 14 528 | 1 246 | 15 774 | 0 | 15 774 |
| Depreciation, amortization and reversal of impairment | - 16 939 | - 2 256 | - 19 195 | - 29 | - 19 224 |
| Total assets | 364 651 | 84 910 | 449 561 | - 14 548 ² | 435 013 |
| Total liabilities | 186 655 | 22 426 | 209 081 | - 123 199 ³ | 85 882 |

¹ The amount consists of the operating income from corporate activities of -4 365 kCHF and of eliminations in the value of 84 kCHF.

² The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 138 387 kCHF and of eliminations in the value of -152 935 kCHF.

³ The amount consists of corporate liabilities of 27 470 kCHF and of eliminations in the value of -150 669 kCHF.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| in 1000 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 and amortization | - 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.

Information about geographical areas – sales third parties

| in 1000 CHF | 2014 | 2013 |
|-------------------|----------------|----------------|
| Switzerland | 26 430 | 21 218 |
| USA | 53 032 | 50 671 |
| Great Britain | 21 198 | 21 749 |
| Germany | 19 292 | 16 692 |
| Rest of the world | 63 985 | 60 355 |
| Total | 183 937 | 170 685 |

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

3 Staff costs

| in 1000 CHF | 2014 | 2013 |
|--------------------------------|-----------------|-----------------|
| Salaries and wages | - 61 978 | - 57 008 |
| Pension expenses | - 3 859 | - 4 231 |
| Other social security expenses | - 7 492 | - 7 121 |
| Share-based payments | - 706 | - 818 |
| Other personnel-related costs | - 4 454 | - 3 083 |
| Total staff costs | - 78 489 | - 72 261 |

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, 2014 | Dec. 31, 2014 | Dec. 31, 2013 | 2014 | 2014 | 2014 | 2013 |
| Plans without surplus/deficit | 0 | 0 | -387 ¹ | 0 | 240 | 240 | 1 838 |
| Plans with surplus | 2 234 | 320 | 320 | 0 | 3 619 | 3 619 | 2 393 |
| Plans with deficit | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Plans without own assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 2 234 | 320 | - 67 | 0 | 3 859 | 3 859 | 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 from employer contribution reserves in staff costs | |
|---|---------------|---------------|----------------------------------|------------|----------|---|----------|
| | Dec. 31, 2014 | Dec. 31, 2014 | 2014 | 2013 | 2014 | 2014 | 2013 |
| Patronage funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pension institution | 320 | 0 | 320 | 320 | 0 | 0 | 0 |
| Total | 320 | 0 | 320 | 320 | 0 | 0 | 0 |

5 Financial income

| in 1 000 CHF | 2014 | 2013 |
|-------------------------------|------------|-----------|
| Interest income | 36 | 30 |
| Gain on sale of securities | 3 | 0 |
| Foreign exchange result | 797 | 0 |
| Total financial income | 836 | 30 |

6 Financial expenses

| in 1 000 CHF | 2014 | 2013 |
|---------------------------------|-------------|-------------|
| Interest expenses | -290 | -463 |
| Other financial expenses | -65 | -59 |
| Foreign exchange result | 0 | -62 |
| Total financial expenses | -355 | -584 |

Other financial expenses mainly include bank charges.

7 Income taxes

| in 1 000 CHF | 2014 | 2013 |
|---------------------------|----------------|----------------|
| Current taxes | - 7 866 | - 5 921 |
| Deferred taxes | 586 | 628 |
| Total income taxes | - 7 280 | - 5 293 |

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 % | 2014 | 2013 |
|---|-------------|-------------|
| Expected tax rate | 20.1 | 18.3 |
| Impact from change in tax loss carry-forwards | 0.0 | 0.0 |
| Other impacts | -0.1 | 0.0 |
| Effective tax rate | 20.0 | 18.3 |

At the end of the years 2014 and 2013, no Group company had any tax loss carry-forwards.

| Movement of deferred tax liabilities in 1 000 CHF | 2014 | 2013 |
|--|---------------|---------------|
| Deferred tax liabilities at January 1 | 32 426 | 32 976 |
| Recognized in income statement | - 345 | - 540 |
| Currency translation differences | 70 | - 10 |
| Deferred tax liabilities at December 31 | 32 151 | 32 426 |

8 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 | 2014 | 2013 |
|---------------------------------------|-------------|-------------|
| Net income (in 1 000 CHF) | 29 065 | 23 604 |
| Average number of shares outstanding | 13 512 994 | 13 500 625 |
| Basic earnings per share (CHF) | 2.15 | 1.75 |

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 | 2014 | 2013 |
|---|-------------|-------------|
| Net income (in 1 000 CHF) | 29 065 | 23 604 |
| Average number of shares outstanding | 13 512 994 | 13 500 625 |
| Adjustment for dilutive share options | 970 | 511 |
| Average number of shares outstanding for diluted earnings per share | 13 513 964 | 13 501 136 |
| Diluted earnings per share (CHF) | 2.15 | 1.75 |

In the reporting year, 812 outstanding options were excluded from the calculation of diluted earnings per share as they were not dilutive (2013: 4 777 options).

9 Securities and current financial receivables

| in 1 000 CHF | Dec. 31, 2014 | Dec. 31, 2013 |
|---|----------------------|---------------|
| Securities | 0 | 0 |
| Current financial receivables | 0 | 1 734 |
| Total securities and financial receivables | 0 | 1 734 |

The shares in Pevion Biotech AG, which were valued at 0 kCHF, have been sold in the reporting year.

In the prior year, a remaining receivable over 1 734 TCHF from the sell of an operations building in the USA which was no longer needed was disclosed. This receivable was paid as agreed in the first half of 2014.

10 Trade receivables

| in 1 000 CHF | Dec. 31, 2014 | Dec. 31, 2013 |
|---|----------------------|---------------|
| Trade receivables | 43 474 | 33 268 |
| Provision for impairment of trade receivables | -73 | -134 |
| Total trade receivables | 43 401 | 33 134 |

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 | 2014 | 2013 |
|--|--------------|--------------|
| Provision for impairment of trade receivables at January 1 | - 134 | - 54 |
| Provision for receivables impairment | - 19 | - 749 |
| Receivables written off during the year as uncollectable | 12 | 666 |
| Unused amounts reversed | 69 | 3 |
| Currency translation differences | - 1 | 0 |
| Provision for impairment of trade receivables at December 31 | - 73 | - 134 |

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, 2014 | 43 474 | 37 012 | 4 425 | 1 032 | 500 | 405 | 0 | 100 |
| December 31, 2013 | 33 268 | 22 884 | 6 242 | 2 593 | 230 | 1 096 | 0 | 223 |

11 Other current receivables

| in 1 000 CHF | Dec. 31, 2014 | Dec. 31, 2013 |
|--|---------------|---------------|
| Other receivables | 711 | 722 |
| Total other current receivables | 711 | 722 |

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

12 Prepaid expenses and deferred income

| in 1 000 CHF | Dec. 31, 2014 | Dec. 31, 2013 |
|--|---------------|---------------|
| Prepaid expenses and accrued income | 1 057 | 1 339 |
| Total prepaid expenses and accrued income | 1 057 | 1 339 |

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

13 Inventories

| in 1 000 CHF | Dec. 31, 2014 | Dec. 31, 2013 |
|----------------------------------|----------------|----------------|
| Raw materials | 16 525 | 13 825 |
| Work in progress | 15 989 | 14 797 |
| Semi-finished and finished goods | 106 742 | 112 421 |
| Total inventories | 139 256 | 141 043 |

The provision for slow-movers in the total amount of 38 011 kCHF (2013: 37 559 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.

14 Property, plant and equipment

| 2014 in 1 000 CHF | Land and Buildings | Installations and laboratory equipment | Other property, plant and equipment | Assets under construction | Total |
|--|-----------------------|--|---|------------------------------|-----------------|
| Cost at January 1 | 143 360 | 233 212 | 15 171 | 7 333 | 399 076 |
| Additions | 1 076 | 5 634 | 880 | 6 250 | 13 840 |
| Disposals | -826 | -10 021 | -320 | 0 | -11 167 |
| Reclassifications | 179 | 991 | 77 | -1 247 | 0 |
| Currency translation differences | 2 980 | 2 547 | 212 | 86 | 5 825 |
| Cost at December 31 | 146 769 | 232 363 | 16 020 | 12 422 | 407 574 |
| Accumulated at January 1 | -46 871 | -132 260 | -11 599 | 0 | -190 730 |
| Depreciation | -3 098 | -11 498 | -1 062 | 0 | -15 658 |
| Disposals | 310 | 9 928 | 318 | 0 | 10 556 |
| Currency translation differences | -846 | -1 808 | -164 | 0 | -2 818 |
| Accumulated depreciation at December 31 | -50 505 | -135 638 | -12 507 | 0 | -198 650 |
| Net book value at December 31 | 96 264 | 96 725 | 3 513 | 12 422 | 208 924 |
| Insurance value at December 31 | | | | | 351 750 |
| | | | | | |
| 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 depreciation 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 has shown that equipment in the amount of 324 kCHF can further be utilized in other production areas.

Bachem does not have any undeveloped land.

The carrying amount of fixed assets under finance lease contracts at year-end 2014 amounted to 326 kCHF (2013: 504 kCHF). Depreciation relating to fixed assets under finance lease amounted to 219 kCHF (2013: 211 kCHF).

No assets were pledged for security of own liabilities in 2014. 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, 2014 | Dec. 31, 2013 |
|---|----------------------|---------------|
| Within 1 year | 207 | 217 |
| Between 1 and 5 years | 149 | 321 |
| More than 5 years | 0 | 3 |
| Present value of finance lease liabilities | 356 | 541 |

The existing finance lease contracts have been concluded in Switzerland and in the USA in the last 5 years. Their remaining durations are between 1 and 5 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, 2014 | Dec. 31, 2013 |
|---|----------------------|---------------|
| Within 1 year | 360 | 351 |
| Between 1 and 5 years | 177 | 410 |
| More than 5 years | 0 | 0 |
| Total future minimum operating lease payments | 537 | 761 |

There are operating leases for office facilities, vehicles and buildings at the moment. The remaining life of the different contracts is between 1 and 3 years. There are renewal options for the leases of the buildings.

The recognized expenses for operating leases in the consolidated income statement 2014 was 381 kCHF (2013: 257 kCHF).

15 Intangible assets

| 2014 in 1 000 CHF | Capitalized development costs | Other intangible assets | Total |
|--|-------------------------------------|-------------------------------|-----------------|
| Cost at January 1 | 3 274 | 24 971 | 28 245 |
| Additions | 0 | 1 968 | 1 968 |
| Disposals | 0 | - 68 | - 68 |
| Currency translation differences | 0 | 302 | 302 |
| Cost at December 31 | 3 274 | 27 173 | 30 447 |
| Accumulated amortization at January 1 | - 927 | - 17 883 | - 18 810 |
| Amortization | - 1 365 | - 2 201 | - 3 566 |
| Disposals | 0 | 68 | 68 |
| Currency translation differences | 0 | - 114 | - 114 |
| Accumulated amortization at December 31 | - 2 292 | - 20 130 | - 22 422 |
| Net book value at December 31 | 982 | 7 043 | 8 025 |
| | | | |
| 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 |

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.

16 Trade payables

| in 1 000 CHF | Dec. 31, 2014 | Dec. 31, 2013 |
|-----------------------------|---------------|---------------|
| Trade payables | 11 513 | 7 611 |
| Prepayments | 4 131 | 2 664 |
| Total trade payables | 15 644 | 10 275 |

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.

17 Other current liabilities

| in 1 000 CHF | Dec. 31, 2014 | Dec. 31, 2013 |
|--|---------------|---------------|
| Other liabilities | 4 781 | 4 006 |
| Total other current liabilities | 4 781 | 4 006 |

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

18 Accrued expenses and deferred income

| in 1 000 CHF | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---------------|---------------|
| Accrued expenses and deferred income | 9 881 | 8 565 |
| Total accrued expenses and deferred income | 9 881 | 8 565 |

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

19 Financial liabilities

| in 1 000 CHF | Dec. 31, 2014 | Dec. 31, 2013 |
|---|---------------|---------------|
| Bank loans | 21 000 | 44 500 |
| Finance lease liabilities | 356 | 541 |
| Total financial liabilities | 21 356 | 45 041 |
| Thereof current financial liabilities | 21 207 | 44 717 |
| Thereof non-current financial liabilities | 149 | 324 |

The bank loans were provided as unsecured business loans in CHF and bear an average interest of 0.8% p.a. The maturity of them is less than 6 months.

Details concerning finance leases are disclosed in note 14.

20 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 100.

| | Dec. 31, 2014 | Dec. 31, 2013 |
|-------------------------------------|-------------------|-------------------|
| Shares Bachem -A- | | |
| 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, 2014, Bachem Holding AG held 77 019 own shares, of which 20 055 are reserved for trading and 56 964 for distribution under the employee participation plans.

| Own shares | Dec. 31, 2013 | Purchases/ backslide of blocked shares | Sales/transfer to employees | Dec. 31, 2014 |
|---|---------------|--|--------------------------------|---------------|
| Number | | | | |
| Employee participation plans at the price of 0.05 CHF | 69 761 | 0 | - 12 797 | 56 964 |
| Treasury stock at the price of 47.59 CHF | 27 419 | 0 | - 7 364 ¹ | 20 055 |
| Total own shares | 97 180 | 0 | - 20 161 | 77 019 |

¹ The shares were sold at an average price of 48.00 CHF.

| | Dec. 31, 2014 | Dec. 31, 2013 |
|---------------------------------|-------------------|-------------------|
| Outstanding shares | | |
| Total number of shares | 13 600 000 | 13 600 000 |
| Number of own shares Bachem -B- | - 77 019 | - 97 180 |
| Total shares outstanding | 13 522 981 | 13 502 820 |

21 Share-based payment

The employee and management participation plans are described in the accounting policies on pages 77 and 78. The recognized expenses for share-based payments in the reporting period amounted to 706 kCHF (2013: 818 kCHF).

In 2014 and 2013, the following number of shares was granted:

| Shares granted Number/CHF | 2014 | 2013 |
|---|-------------|--------|
| Number of granted shares | 12 797 | 11 610 |
| Average fair value per share at grant date in CHF | 49.69 | 37.22 |

The option plan developed as follows:

| | 2014 | | 2013 | |
|----------------------------------|-------------------|--|-------------------|--|
| | Number of options | Weighted average exercise price in CHF | Number of options | Weighted average exercise price in CHF |
| Share options outstanding | | | | |
| At January 1 | 7 777 | 44.62 | 8 077 | 55.36 |
| Granted options | 0 | 0.00 | 3 200 | 35.00 |
| Cancelled options | 0 | 0.00 | - 1 249 | 52.90 |
| Expired options | - 1 632 | 59.95 | - 2 151 | 65.91 |
| Exercised options | - 1 070 | 41.25 | - 100 | 43.00 |
| At December 31 | 5 075 | 40.40 | 7 777 | 44.62 |
| Exercisable options | 2 250 | 44.24 | 2 301 | 55.02 |

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.

The following tables list the parameters, based on which the option valuations were performed by an independent expert using the trinomial tree 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 |

| Options by expiry date | | | | |
|-------------------------------|----------------|--|--------------|--------------|
| Number | Exercise price | | 2014 | 2013 |
| Year 2014 | 43.00 | | 0 | 736 |
| Year 2014 | 54.00 | | 0 | 819 |
| Year 2014 | 68.00 | | 0 | 746 |
| Year 2015 | 35.00 | | 769 | 1 003 |
| Year 2015 | 43.00 | | 669 | 836 |
| Year 2015 | 54.00 | | 812 | 812 |
| Year 2016 | 35.00 | | 1 003 | 1 003 |
| Year 2016 | 43.00 | | 828 | 828 |
| Year 2017 | 35.00 | | 994 | 994 |
| Total | | | 5 075 | 7 777 |

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 20.

22 Dividend distribution

On May 6, 2014, a dividend of 23 651 kCHF, respectively 1.75 CHF per share, was paid out for the year 2013 (previous year: 20 253 kCHF, respectively 1.50 CHF per share).

The Board of Directors will propose a dividend of 2.00 CHF per share or a total of 27 046 kCHF on 13 522 930 shares entitled to dividend, to the Annual General Meeting for the year 2014. The number of shares entitled to dividend may change until the Annual General Meeting on April 27, 2015 due to the granting of shares to employees or the purchase/sale of own shares.

23 Consolidated companies

| Consolidated company | Country | Currency | Registered capital | Equity share Dec. 31, 2014 | Equity share Dec. 31, 2013 |
|--|-------------|----------|--------------------|-----------------------------------|----------------------------|
| Bachem Holding AG, Bubendorf | Switzerland | CHF | 680 000 | 100% | 100% |
| Bachem AG, Bubendorf | Switzerland | CHF | 25 000 000 | 100% | 100% |
| Bachem Distribution Services GmbH, Weil am Rhein | Germany | EUR | 128 000 | 100% | 100% |
| Bachem (UK) Ltd., St. Helens | England | GBP | 2 500 | 100% | 100% |
| Bachem Americas, Inc., Torrance | USA | USD | 3 000 | 100% | 100% |
| Peninsula Laboratories, LLC, San Carlos | USA | USD | 32 000 | 100% | 100% |

24 Related party transactions

Chemoforma AG, Ingro Finanz AG, MFC Beteiligungs AG, Peninsula Laboratories International, Inc., 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 | 2014 | 2013 |
|--|-----------------|----------------|
| Chemoforma AG (purchase of goods) | - 1 | - 16 |
| Ingro Finanz AG (dividend) | - 12 180 | - 11 120 |
| Ingro Finanz AG (sale of 5 798 own shares for CHF 48.00 per share) | 278 | 0 |
| Ingro Finanz AG (further charging of administrative services) | 0 | 3 |
| MFC Beteiligungs AG (sale of product line; see note 25) | 3 905 | 0 |
| Peninsula Laboratories International, Inc. (rendering of services) | 82 | 0 |
| Pension fund (employer's contribution) | - 3 619 | - 3 362 |
| Polyphor AG (delivery of goods) | n/a | 5 335 |
| Sunstar Group (seminar) | - 7 | - 4 |
| Total transactions with related parties | - 11 542 | - 9 164 |

| Balances in 1 000 CHF | Dec. 31, 2014 | Dec. 31, 2013 |
|--|---------------|---------------|
| Polyphor AG | n/a | 933 |
| Total balances with related parties | n/a | 933 |

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.

25 Sale of product line

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 (3.9 million CHF) 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.

The gain on sale of this product line in the amount of 2.0 million CHF is included in the line "other income" of the consolidated income statement.

Immunology product sales amounted to 2.2 million CHF in the year 2013.

26 Contingent liabilities and other commitments

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

27 Events after the balance sheet date

On January 15, 2015, the Swiss National Bank announced that it was discontinuing the minimum exchange rate of 1.20 CHF per euro. These Consolidated Financial Statements do not reflect changes in foreign exchange rates after December 31, 2014.

If the euro exchange rate had been 1.04 CHF per EUR and the US dollar exchange rate had been 0.93 CHF per USD at December 31, 2014, foreign exchange losses of approximately 2.0 million CHF would have resulted due to the valuation of several balance sheet items.

Assuming the euro-average rate had amounted to 1.04 CHF per EUR and the US dollar-average rate had amounted to 0.93 CHF per USD for the whole calendar year 2014, consolidated sales would have been lower by approximately 5.7 million CHF and consolidated EBIT would have been lower by approximately 4.7 million CHF.

Both scenarios were calculated with all other variables held constant.

In February 2015 Bachem Americas, Inc. signed an agreement as buyer with ILS, Inc. as seller on the transfer of 100% of the shares of American Peptide Company, Inc. (APC).

APC operates two sites at Sunnyvale and Vista, California, and has 86 employees.

This acquisition gives Bachem immediate access to additional cGMP capacity for large-scale production runs to accommodate its internationally growing project portfolio, strengthens its position both in the US and in the demanding Japanese market, and reduces Bachem's operational exposure to the strong Swiss franc due to APC's US dollar cost base.

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 68 to 96), for the year ended December 31, 2014.

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, 2014 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, March 4, 2015

INCOME STATEMENT

For the years ended December 31

| in 1 000 CHF | 2014 | 2013 |
|-------------------------------|----------------|----------------|
| Income | | |
| Income from investments | 12 210 | 12 222 |
| Income from licenses | 15 875 | 13 615 |
| Interest income | 4 169 | 4 493 |
| Other financial income | 3 776 | 3 054 |
| Other income | 2 | 3 |
| Total income | 36 032 | 33 387 |
| Expenses | | |
| Staff costs | - 2 802 | - 2 794 |
| Administration expenses | - 5 423 | - 4 900 |
| Interest expenses | - 261 | - 429 |
| Other financial expenses | - 740 | - 96 |
| Depreciation and amortization | - 5 | - 61 |
| Total expenses | - 9 231 | - 8 280 |
| Earnings before taxes | 26 801 | 25 107 |
| Taxes | - 1 235 | - 1 106 |
| Net income | 25 566 | 24 001 |

BALANCE SHEET

At December 31, 2014 and 2013

| in 1 000 CHF | Dec. 31, 2014 | Dec. 31, 2013 |
|--|----------------|----------------|
| Assets | | |
| Cash and cash equivalents | 6 258 | 18 860 |
| Own shares | 957 | 1 311 |
| Other receivables from third parties | 1 | 3 |
| Other receivables from group companies | 29 263 | 26 533 |
| Prepaid expenses and accrued income | 0 | 24 |
| Total current assets | 36 479 | 46 731 |
| Investments | 115 305 | 115 305 |
| Loans to group companies | 102 232 | 113 090 |
| Property, plant and equipment | 13 | 18 |
| Total non-current assets | 217 550 | 228 413 |
| Total assets | 254 029 | 275 144 |
| Liabilities and equity | | |
| Other current liabilities to third parties | 260 | 354 |
| Other current liabilities to group companies | 4 338 | 3 953 |
| Financial liabilities to third parties | 21 000 | 44 500 |
| Deferred income and accrued expenses | 2 033 | 1 853 |
| Total liabilities | 27 631 | 50 660 |
| Share capital | 680 | 680 |
| Legal reserves | | |
| General reserves | 10 551 | 10 551 |
| Reserves from capital contribution | 15 780 | 39 432 |
| Reserves for own shares | 957 | 1 311 |
| Free reserves | 97 632 | 97 278 |
| Retained earnings | | |
| Retained earnings | 75 232 | 51 231 |
| Net income | 25 566 | 24 001 |
| Total equity | 226 398 | 224 484 |
| Total liabilities and equity | 254 029 | 275 144 |

NOTES TO THE FINANCIAL STATEMENTS OF BACHEM HOLDING AG

1 Significant investments

| Company | Location | Branch | | Share capital Dec. 31, 2014 | Share capital Dec. 31, 2013 |
|--------------------------------------|------------------|-------------------|-----|--------------------------------|--------------------------------|
| 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 |

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 20 and 21 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, 2014 | Dec. 31, 2013 |
|---|---------------|---------------|
| P. Grogg (via Ingro Finanz AG) ¹ | 55.5 | 54.6 |
| G. Knoch | 8.6 | 8.6 |
| Family of P. Grogg | 6.0 | 6.0 |
| Sarasin Investmentfonds AG | 4.0 | 4.8 |
| Total important shareholders | 74.1 | 74.0 |

¹ 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 78 of this annual report.

5 Ownership of shares and options of the Board of Directors (BoD) and the Corporate Executive Committee (CEC)

| | 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, 2014 | | | | | | | | |
| Kuno Sommer (Chairman) | 4 000 | | 4 000 | 300 | | | | |
| Nicole Grogg Hötzer (Vice-Chairman) | 86 300 | | 86 300 | 300 | | | | |
| Jürgen Brokatzky-Geiger (Member) | 1 500 | | 1 500 | 300 | | | | |
| Thomas Burckhardt (Secretary) | 320 | | 320 | 300 | | | | |
| Rolf Nyfeler (Member) ¹ | 53 410 | | 53 410 | 300 | | | | |
| Helma Wennemers (Member) | 150 | | 150 | 0 | | | | |
| Total BoD | 145 680 | 0 | 145 680 | 1 500 | | | | |
| Thomas Früh (CEO) ¹ | 2 875 | 1 427 | 4 302 | 1 427 | 300 | 399 | 699 | 0 |
| José de Chastonay (CMO) | 233 | 1 007 | 1 240 | 1 007 | 0 | 0 | 0 | 0 |
| Daniel Erne (CTO) | 41 742 | 1 122 | 42 864 | 1 122 | 500 | 499 | 999 | 0 |
| Stephan Schindler (CFO) | 593 | 4 999 | 5 592 | 999 | 333 | 499 | 832 | 0 |
| Total CEC | 45 443 | 8 555 | 53 998 | 4 555 | 1 133 | 1 397 | 2 530 | 0 |
| Total | 191 123 | 8 555 | 199 678 | 6 055 | 1 133 | 1 397 | 2 530 | 0 |

| | 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 |

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 9, 2015, the ordinary Annual General Meeting from Bachem AG has decided to distribute a dividend in the amount of 11 000 kCHF for the business year 2014 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 2014 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 | 75 232 212.00 |
| Net income 2014 | CHF | 25 565 454.78 |
| Available to the Annual General Meeting | CHF | 100 797 666.78 |
| Dividend payment of 0.84 CHF per registered share for the business year 2014 on 13 522 930 registered shares entitled to dividend | CHF | 11 359 261.20 |
| Retained earnings to be carried forward | CHF | 89 438 405.58 |

Appropriation of reserves from capital contribution

| | | |
|---|-----|---------------|
| Opening balance reserves from capital contribution | CHF | 15 780 341.75 |
| Transfer to free reserves for dividend payment of 1.16 CHF per registered share for the business year 2014 on 13 522 930 registered shares entitled to dividend | CHF | 15 686 598.80 |
| Reserves from capital contribution to be carried forward | CHF | 93 742.95 |

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 27, 2015, 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 98 to 102), for the year ended December 31, 2014.

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, 2014 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, March 4, 2015

SHAREHOLDER INFORMATION

| | | 2014 ¹ | 2013 ¹ | 2012 ¹ | 2011 ¹ | 2010 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 | | 13 512 994 | 13 500 625 | 13 488 349 | 13 471 331 | 13 463 630 | |
| Dividend per share | CHF | 2.00 ² | 1.75 | 1.50 | 1.50 | 2.50 | |
| Share price | Beginning of the year | CHF | 48.50 | 36.35 | 33.60 | 56.80 | 65.55 |
| | High | CHF | 51.80 | 52.00 | 39.30 | 59.00 | 73.05 |
| | Low | CHF | 44.75 | 35.20 | 33.00 | 32.00 | 51.00 |
| | Year end | CHF | 49.00 | 48.50 | 36.40 | 32.50 | 56.00 |
| Dividend yield per share | % | 4.1 | 3.6 | 4.1 | 4.6 | 4.5 | |
| Earnings per share (EPS) | CHF | 2.15 | 1.75 | 1.15 | 0.70 | 2.10 | |
| Cash flow from operating activities per share | CHF | 3.49 | 3.65 | 2.73 | 1.83 | 2.83 | |
| Group equity per share | CHF | 25.84 | 24.92 | 24.73 | 24.79 | 26.67 | |
| Price/earnings ratio (year end) | | 22.79 | 27.71 | 31.65 | 46.43 | 26.67 | |
| Market capitalization at year end | MCHF | 666 | 660 | 495 | 442 | 762 | |

¹ 2010/2011 based on IFRS values and 2012–2014 based on Swiss GAAP FER values

² Proposal to the Annual General Meeting of April 27, 2015

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, 2014 | Dec. 31, 2013 |
|----------------------------------|---------------|---------------|
| 0–100 | 993 | 1 314 |
| 101–1 000 | 1 520 | 1 615 |
| 1 001–10 000 | 227 | 236 |
| 10 001–100 000 | 41 | 40 |
| 100 001–1 000 000 | 5 | 4 |
| 1 000 001 and more | 2 | 2 |
| Total | 2 788 | 3 211 |

Shareholdings

| in % | Dec. 31, 2014 | Dec. 31, 2013 |
|----------------------------|---------------|---------------|
| Major shareholders | 74.1 | 74.0 |
| Institutional shareholders | 9.8 | 9.9 |
| Private individuals | 11.2 | 11.5 |
| Dispo | 4.9 | 4.6 |
| Total | 100.0 | 100.0 |

Events

Annual General Meeting

(business year 2014)

April 27, 2015

Payout Date for Dividend

May 5, 2015

Half-Year Report 2015

August 28, 2015

Annual Report 2015

March 2016

Annual General Meeting

(business year 2015)

April 2016

This Annual Report
is published in German
and English.

Publisher

Bachem Holding AG,
Bubendorf, Switzerland

Conception/Design

hilda design matters, Zurich

Photos

Keystone AG, Zurich
Michael Lio, Winterthur
Jos Schmid, Zurich

Prepress/Print

Linkgroup, Zurich

This Annual Report
is printed on
FSC-certified paper.



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.

BACHEM

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