

# **BACHEM ANNUAL REPORT 2016**

AMBITIOUS  
GOALS  
INSPIRING  
PEOPLE

PEOPLE  
INSPIRING  
GOALS  
AMBITIONS

# 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**

# AMBITIOUS GOALS INSPIRING PEOPLE

Bachem is a global leader in the peptides market and aims to achieve sustainable growth through continual progress and development. Dedicated staff ensure unfailing adherence to the most demanding standards for quality. Proficient specialists throughout the company with many years of experience apply their knowledge to system and process optimization. Every day they display a pioneering spirit in their thinking and actions. Innovative projects are efficiently executed as a team. This mindset enables Bachem to set the benchmarks of today and tomorrow.

## THE WORLD OF PEPTIDES

Peptides are chains of 2 to about 100 amino acids. Longer chains are called proteins...  
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A clear focus on the core business of peptides and the sustainable growth of that business are the central elements of Bachem's strategy...  
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## BACHEM'S STRATEGY

As the "Pioneering Partner for Peptides", Bachem focuses unerringly on know-how and innovation, quality, close collaboration with customers and continuous employee training and development...  
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## NEW PRODUCTION SITE BUILDING A

The commissioning of Building A in the summer of 2016 marked a milestone in the development of Bachem's headquarters in Bubendorf...  
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# 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  $\alpha$ -amino acids are sufficient 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, diabetes and obesity are three 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, renal failure, as antibiotics, in vaccines and in drugs for rare diseases (orphan drugs).

## AVAILABLE DOSAGE FORMS

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

## COSMETICS

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



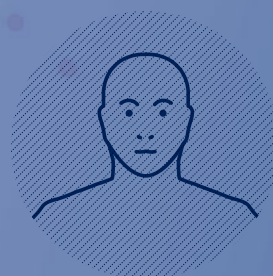
## NUTRITION PRODUCTS

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 SPRING SYMPOSIUM 2016

This year's Bachem Spring Symposium was centered around technical improvements in the dose delivery systems for peptide-based drugs. 61% of currently approved products are administered by injection. Patients are not fond of frequent injections, however. Improvements in drug delivery are an essential way to increase the acceptance of peptide-based drugs and ensure adherence to treatment regimens.

There has been plenty of innovation in this area recently. Up to 9% of peptide drugs can now be taken orally. The downside is that much larger volumes are usually necessary due to low bioavailability. Thanks to Bachem's efficient developments in large-scale synthesis, peptides can be produced cost-effectively and in large volumes to support oral delivery platforms.

Other possible dosage forms include delivery through the skin, intestinal tract, lung and nose. Increasingly sophisticated pumps are available that use sensors to detect the drug requirement and deliver the optimum dose. Specialists are working on ways to use these methods to optimize diabetes treatment, to give one example.

At the symposium, leaders from universities and industry talked about the latest developments in dose delivery systems. Bachem experts were among the speakers. Their contributions showed the perspective of a producer for active pharmaceutical ingredients (API).

The greatest challenges for API producers are the increasing product complexity as well as strong cost management.

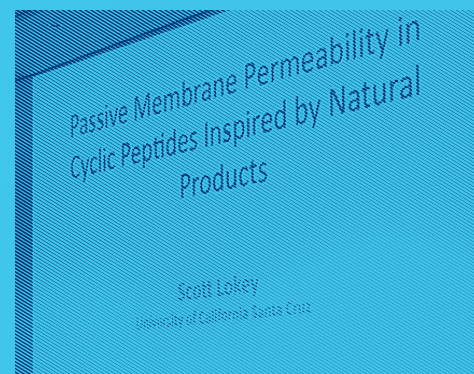
One reason for the increasing product complexity is that more and more complex diseases are being targeted. In the future, drugs will have to cross the blood-brain barrier to treat Alzheimer's and other kinds of dementia.

Researchers are also attempting to introduce peptides into specific cells to control or prevent protein interactions inside the cells. Using special peptides, it is even possible to introduce genetic material into cells to replace defective genes. These peptides often have structural modifications which can support these properties.

Another subject raised for discussion was peptide glycosylation. Various chemically synthesized glycopeptides have found their way into clinical research since Bachem established a partnership with GlyTech. These peptides are often improved versions of existing drug products. Researchers have already succeeded in making long peptides more efficient and cost-effective in the production process. Chemical synthesis now competes favorably with recombinant DNA technology.

Conference attendees agreed that peptide research will continue to produce effective new medicines to treat diseases for many decades. The convergence of multiple disciplines increases the appeal of peptides as drugs. In addition, peptide development and production is getting more and more cost-effective.

AMBITIOUS  
GOALS  
INSPIRING  
PEOPLE



## SPRING SYMPOSIUM TOPICS THROUGH THE YEARS

**2011** PEPTIDES – FROM BASICS  
TO LEADS TO DRUGS

**2012** GLPS – THE GOOD  
AND LUCKY PEPTIDES

**2013** MULTI-PEPTIDE VACCINES,  
A NEW CLASS OF IMMUNOTHERA-  
PEUTICS

**2014** MACROCYCLES & CON-  
STRAINED PEPTIDES – MANUFACTU-  
RING & THERAPEUTIC APPLICATIONS

**2015** DESIGNED FOR SUCCESS:  
MODIFIED PEPTIDES

# LETTER TO SHAREHOLDERS

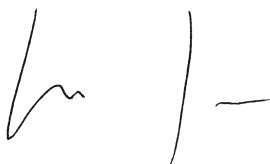
Dear Shareholders,

Bachem's positioning as a Pioneering Partner for Peptides underscores our aspiration to leverage our unique expertise and innovative prowess to be the partner of choice for successfully executing peptide projects of all kinds. Investments in additional state-of-the-art production facilities at our US site in Vista, California, and in a new research and development building at our headquarters in Switzerland enable us to further extend Bachem's world-leading position in the peptides market. In addition to pursuing organic growth, we will also examine further ways to strengthen our position in our core business through targeted alliances or acquisitions.

Once again, Bachem reached its growth objectives both in revenue and profit for the fiscal year 2016 amid a persistently challenging market and competitive environment. Growth momentum in the US and European markets continued apace, resulting in sales growth of +13.4%. The market of active pharmaceutical ingredients again developed significantly. Sales of patented new chemical entities (NCEs), a business area crucial to Bachem's future success, increased by around 54%. As expected, Bachem succeeded in substantially raising its earnings once again in 2016. The operating profit for 2016 increased 17.0% versus the previous year and the EBIT margin amounted to 19.1%.

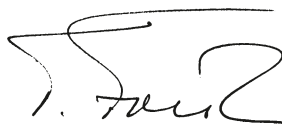
We are pleased with Bachem's stock performance in 2016. However, a rising stock price is not our primary goal; we see it as a corollary of our accomplishments. At the same time, it gives us a strong incentive to continue delivering top-quality products and services in the future through the hard work and dedication of our highly skilled employees. We consider it as essential to keep our feet firmly on the ground, to maintain strict cost discipline and to carefully plan and execute necessary investments.

We are confident that we will continually grow our sales in local currencies in the years to come by 6–10% per annum, in line with our long-term projections. However, earnings growth takes priority over sales growth. Our enduring aspiration is to further extend our leadership role in our core peptides business and to be a trailblazing partner for customers worldwide. In light of the results achieved, the forthcoming positive outlook and Bachem's financial stability, the Board of Directors will propose at the Annual General Meeting a dividend increase from CHF 2.25 to CHF 2.50 per share.



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Dr. Kuno Sommer  
Chairman of the  
Board of Directors



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





Dr. Kuno Sommer



Dr. Thomas Früh

# CORPORATE EXECUTIVE COMMITTEE

Dr. Thomas Früh, CEO

“The sustained success of our company is largely attributable to the work of our highly skilled and motivated employees. An open and direct communication flow, mutual trust, as well as clearly assigned duties, powers and responsibilities are decisive factors enabling this performance.”



Stephan Schindler, CFO

“Overcoming challenges, pushing our boundaries, achieving ambitious goals, and perhaps creating something new – that is motivation and inspiration.”



**Dr. Günther Loidl, CTO**

**“We produce active substances of premium quality for our partners using efficient manufacturing methods and cutting-edge technology.**

**The continual development and refinement of our systems and processes ensure the sustainability, safety and reliability of our services.”**



**Dr. José de Chastonay, CMO**

**“We want to be the ideal partner for our customers. Considerable resources are devoted to this challenging, ambitious goal to ensure continual progress and improvement. The vast knowledge and quality-first mindset of our employees and their motivation to be the best in the field make this possible.”**



## 2016 IN BRIEF

EBIT  
(IN MCHF)

# 45.1

Operating income (EBIT) increased by 17.0% in CHF.

NET INCOME

# +29.4%

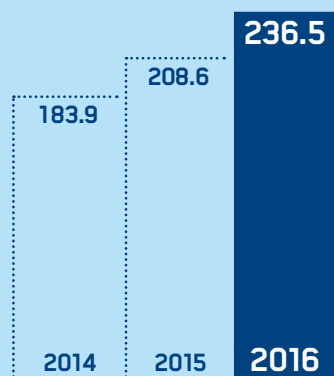
Significant increase in net income to 41.2 million CHF.

DIVIDEND  
(IN CHF)

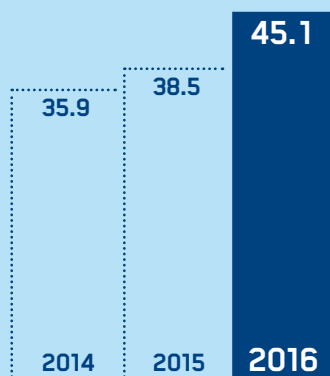
# 2.50

Proposed dividend 11.1% higher than in the prior year.

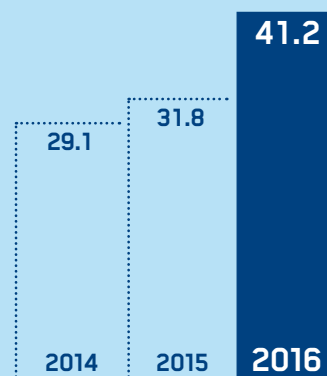
SALES  
(IN MCHF)



EBIT  
(IN MCHF)



NET INCOME  
(IN MCHF)



|                                                | 2016    | 2015    | CHANGES IN % |       |
|------------------------------------------------|---------|---------|--------------|-------|
|                                                |         |         | CHF          | LC    |
| SALES (IN MCHF)                                | 236.5   | 208.6   | +13.4        | +11.8 |
| EBITDA (IN MCHF)                               | 64.8    | 56.8    | +14.0        | +10.4 |
| EBITDA IN % OF SALES                           | 27.4    | 27.2    |              |       |
| EBIT (IN MCHF)                                 | 45.1    | 38.5    | +17.0        | +11.8 |
| EBIT IN % OF SALES                             | 19.1    | 18.5    |              |       |
| NET INCOME (IN MCHF)                           | 41.2    | 31.8    | +29.4        |       |
| NET INCOME IN % OF SALES                       | 17.4    | 15.3    |              |       |
| EARNINGS PER SHARE (EPS - IN CHF)              | 3.04    | 2.35    | +29.3        |       |
| CASH FLOW FROM OPERATING ACTIVITIES (IN MCHF)  | 40.4    | 61.4    | -34.2        |       |
| RETURN ON EQUITY (IN %)                        | 11.5    | 9.1     |              |       |
| NUMBER OF EMPLOYEES (IN FULL-TIME EQUIVALENTS) | 979     | 859     |              |       |
| SALES PER EMPLOYEE <sup>1</sup> (IN CHF)       | 267 000 | 277 000 |              |       |

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



# IMPRESSIVE RECORD- BREAKING RUN CONTINUES

Bachem presented very good results for the first half and delivered an even better performance in the second half, impressively continuing its record-breaking trend from 2015. Expectations for the 2016 fiscal year were high and yet they were met, if not exceeded, through hard work, determination and perseverance. Sales continued to grow at a fast pace and margins were higher. EBIT and net income increased substantially despite the adverse effects of several extraordinary factors.

## NEW SALES RECORD

Consolidated sales in the previous fiscal year passed the 200 million CHF mark for the first time in Bachem's history, so the bar for success in fiscal 2016 was set quite high. By the mid-year mark, Bachem was already able to announce that full-year sales growth could again come in above the long-term target of 6–10%. That guidance was more than met as full-year sales rose by 13.4% to 236.5 million CHF, setting a new record high.

## PROFITABILITY INCREASED

Despite higher costs for expansion projects and non-recurring extraordinary effects of some 1.4 million CHF, Bachem improved its profitability once again. Operating profit increased 17.0% or by 6.6 million CHF in the year under review and amounted to 45.1 million CHF.

## POSITIVE CURRENCY TRANSLATION EFFECT

Reported sales growth in Swiss francs was buoyed by the more favorable EUR/CHF and USD/CHF exchange rates compared to the previous year. The sharp drop in the value of the British pound after the Brexit vote did not have a material impact on the Group's results. This currency depreciation might actually sharpen the competitive edge of Bachem's UK "Competence Center for Custom Synthesis" in the global market.

## DIVIDEND INCREASE

In view of the renewed increase in net income to 41.2 million CHF, the Board of Directors will propose a 11.1% increase in the dividend to 2.50 CHF per share at the upcoming Annual General Meeting.

## MILESTONES

A clear focus on the core business of peptides and the sustainable growth of that business are the central elements of Bachem's strategy. Bachem diligently worked toward furthering its market leadership in 2016. The company made investments to expand production capacity at all sites and continuously optimized organizational structures and processes.



## PROGRESS REPORTS:

### INTEGRATION AND EXPANSION

The acquisition of American Peptide Company (APC) in March 2015 marked a major milestone in Bachem's drive to extend its global leadership. The integration of APC into the Bachem Americas organization was quickly initiated and brought to a conclusion. In the ensuing initial stage of expansion, production systems and procedures were reviewed with reference to Bachem's high quality standards and modified as necessary. Considerable investments were also made to create additional production capacity, which also entailed the installation of infrastructure, such as a central storage tank for solvents. The action taken thus far ensures the efficient and reliable operation of the production facilities, which will have a positive effect on overall plant quality and safety. After the temporary stoppage of production at Vista, California, during the expansion project, operations were ramped up again in the second half. Capacity at both locations in California was also increased significantly by recruiting additional personnel and further professionalizing the organization.





The competence center for research chemicals production is specialized in solid-phase peptide synthesis. The installation of new machines for automated synthesis has expanded existing capacities through the use of state-of-the-art technology and boosted site productivity. Bachem also strengthened human resources in quality control, built up new expertise and improved processes.

These measures enabled Bachem to attract new customers and projects in the customized synthesis business. Bachem also made use of its expertise in complex peptide synthesis to manufacture innovative new catalog peptides. The productivity boost from the modernization drive coupled with local currency in the wake of the Brexit decision has had a positive impact on Bachem's position as a manufacturer of high-quality peptides for research and development purposes.



The new research and development building in Bubendorf, Switzerland, was ceremoniously inaugurated in September 2016. The commissioning of this new building marks a milestone in the spatial development of Bachem Group's largest production site. It is a state-of-the-art facility encompassing some 6 000 m<sup>2</sup> with optimal conditions for developing New Chemical Entities (NCEs) and for processing small production orders. During the construction planning stage, Bachem enforced the strictest of standards of health and safety for products and employees by designating special industrial hygiene and chemical handling areas. Upon conclusion of the first stage of construction, Bachem Group had already invested some 30 million CHF in its new flagship for innovation. Further construction stages will follow. These investments underscore management's strong commitment to its Swiss operating base and will lay a foundation for further growth.





## PARTNER OF CHOICE

Bachem performed well amid persisting market challenges. As market leader with more than 45 years of experience in peptide synthesis and a steadfast focus on quality, Bachem serves its customers as a reliable and trusted partner.

## HIGH DEMAND

Demand for peptide-based compounds continued to grow during the year under review and pushed both sales and the order backlog to record highs. Management consequently created more jobs and invested additional capital in production capacity.

## EXPANDED PROJECT PIPELINE

Bachem slightly expanded its project portfolio last year. At year-end Group companies in Europe and North America were working on a total of 247 development projects for customers (previous year 241). Several projects, including some generic peptides, are on the verge of receiving regulatory approval.

## QUALITY MATTERS

Bachem made specific investments in compliance and replacements to ensure unfailing compliance with the company's high standards. Bachem's commitment to quality and reliability in all dealings with customers is a key factor for its success.

## PRODUCT APPROVALS

Two Bachem NCEs with potentially high sales volumes received regulatory approvals in the year under review. Approvals for generic products were also granted, and regional extensions for various commercially available medicines were approved. Assuming successful launch and acceptance of the medicinal products concerned, these regulatory approvals create an excellent springboard for further sales growth at Bachem Group.

## PROVIDING HIGH PERFORMANCE

Bachem is an internationally unique team of experts who collaborate in an interdisciplinary manner to create sound and sustainable solutions. With its claim of "Providing High Performance", Bachem strengthened its professionalism and performance level in the areas of finance, IT and human resources during the past fiscal year. This also included preparations for a new groupwide Enterprise Resource Planning (ERP) system.

## CAPACITY EXPANSION

The integration of American Peptide Company (APC) following its acquisition at the end of March 2015 proceeded as planned and was already completed in the previous fiscal year several months after the transaction closed. Selective investments were made to further optimize the company's plant in Vista, California, and prepare for the planned projects and tasks. In Bubendorf, Switzerland, operations commenced at the Group's most modern building for R&D projects and small lot production. Bachem also made other investments at virtually all of its sites worldwide and created more jobs. With a total headcount of 1022, the company's workforce passed the 1 000 mark for the first time in its history.

**1 022**  
employees





# AMBITIOUS GOALS

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## CAPITAL INVESTMENT AND GROWTH

In response to strong orders and rising demand, Bachem plans to invest in additional production capacities at all sites and create new jobs. Further increases in productivity and profitability will be supported by continuous organizational and process optimization. Close collaboration with customers is a crucial factor in determining Bachem Group's success and is underpinned by a solid foundation of quality, innovation and partnership.

## USA AND ASIA

Bachem plans to expand its operations at both US locations to make increased use of the available potential. In view of the large portfolio of current projects, additional investment in production capacities is planned. A second focus of Bachem's growth strategy is on the Asian region. Asia is a uniquely dynamic market and already accounts for more than 10% of Group sales. Bachem plans to strengthen its presence and activities in this region.

## OPERATIONAL EXCELLENCE

Bachem aims to continue increasing efficiency and cutting costs. Efforts will focus on integration and harmonization of internal processes, reduction of complexity, process automation and consistent application of best practices. An important first step in the coming year is the groupwide rollout of a new Enterprise Resource Planning (ERP) system.

## CAPTIVE BUSINESS

As a peptide market leader with a global reputation, Bachem is uniquely placed to offer customers and partners pioneering solutions. In addition to quality, reliability, know-how and experience, the company also has the necessary mass to offer pharmaceutical companies its expertise in exploring possible alternatives to in-house active pharmaceutical ingredient production. Tapping into this captive market offers promising prospects for future growth.

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**6-10%**  
sales  
growth p.a.

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Peptides are used worldwide in medical research. They contribute immensely to the understanding of diseases and have proven to be effective in medicinal products. Today, peptides can be produced at low cost. Customers are primarily located in the U.S., Europe and Japan. Peptides are increasingly being produced and used in other regions.

### **Progressing globalization**

The peptide market is changing fast. New competitors are emerging in Asia and South America. At the same time, new markets are opening up in these regions. To maintain global leadership, Bachem needs to understand regional trends and local customers in order to develop competitive solutions on a global scale.

An additional challenge emerges through stronger regulatory requirements. Regulatory authorities act locally and request different approaches from Bachem and its customers. Their requirements are also based on regional standards for ensuring that a medicine is safe and effective. In 2016, for example, a drug was approved in Japan and Europe but not in the United States, because different approaches to approval were taken.

Protectionist tendencies that give preference to local manufacturers are another factor. This is currently the case in China in particular, where new peptides need to be produced and tested locally prior to clinical use.

To maintain its global competitiveness, Bachem needs to have a thorough understanding of these challenges and mount an effective response. Economic factors are relevant also. The cost explosion in healthcare is a key factor and a highly political one. Every political party the world over is calling for cheaper medicines.

In that context, cost reduction measures are a key priority for Bachem. Automation and the development of production processes that yield efficiency gains or enable improvements in downstream purification processes are very important. Major breakthroughs are called for in these areas, too.

Consolidation in the peptide sector is likely to continue. Many companies do not have the critical mass that is needed to remain competitive. To partake in this market, a lot of capital and specialized know-how is required. Peptide chemistry is a capital-intensive business. Its complexity also demands great expertise and extensive scientific education in a variety of disciplines.

### **Evolving markets**

Asia will be increasingly important for Bachem in the future. Bachem has patiently and successively expanded its customer base in a number of Asian countries over the past twenty years. Bachem's product range, including

generics, and the number of projects it has in clinical trials in the region have steadily increased from year to year. Bachem's growth in Asia has been well above average. This trend appears to be sustainable and the establishment of a local presence for Bachem in Asia has become a more pressing issue.

### **New customer requirements**

Customers investigating experimental drugs in clinical trials face the risk that, after a long and very costly development process, their drug candidates will fail to receive regulatory approval.

Considerable responsibility also falls on the manufacturers of active pharmaceutical ingredients. Their customers want to maximize their prospects of success as well as overall process efficiency and ensure full compliance with regulatory requirements. Regulators demand close cooperation from companies filing for approval and expect them to actively support contract manufacturers in every respect.

Efforts and costs have soared as a result. Manufacturers need to see themselves as genuine partners to their customers and build trust. Regular inspections have become an integral part of the business. Bachem hosts customer audits several times a week.

A good infrastructure and the skills and expertise to deal with such inspections are becoming increasingly important. Bachem's 45-year experience and concentration at a few specialized sites with high levels of production efficiency are critical success factors for the company.

### **Bachem Group's operating results**

Bachem Group generated sales of 236.5 million CHF in 2016, which represents an increase of 13.4% in CHF from the previous year. In North America sales rose 17.9% in CHF and in Europe 10.9% in CHF. This growth marks a continuation of the momentum from the previous year and clearly surpassed the market growth rate.

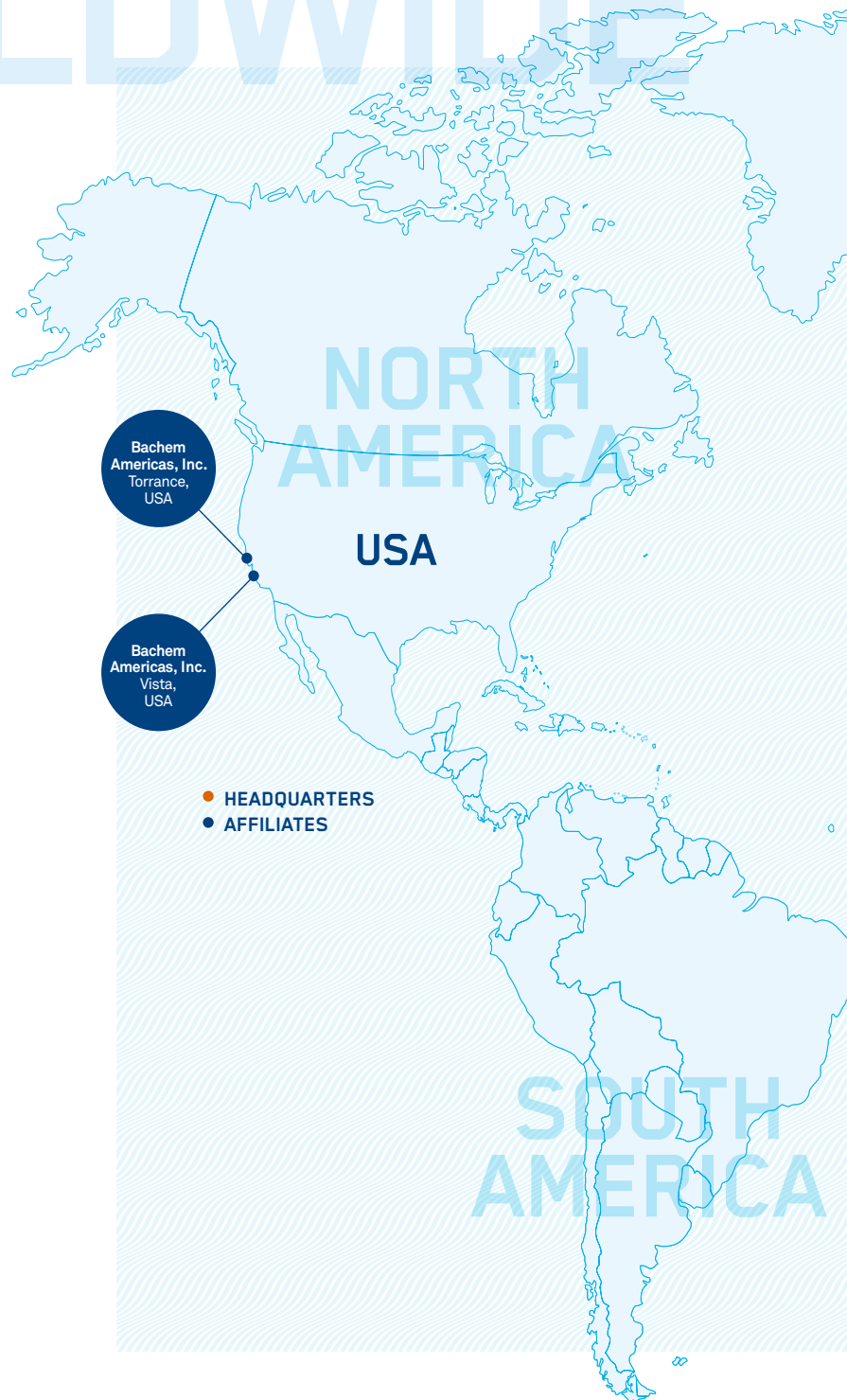
There was a year-over-year decline in the number of active projects in the custom synthesis business. This is primarily attributed to products that are now in clinical development and that had generated very high sales in the previous year, driven by orders for large quantities of custom peptides that did not have to be produced in accordance with strict regulations.

## **PIONEERING PARTNER FOR PEPTIDES**

**BACHEM HAS BEEN A PIONEER IN THE FIELD OF PEPTIDES FOR MORE THAN 40 YEARS. IT HAS BUILT LONG-TERM CUSTOMER RELATIONSHIPS THAT ARE IMBUED WITH A STRONG SENSE OF TRUST. BACHEM IS RECEPTIVE TO INDIVIDUAL NEEDS AND IS A COMPETENT, RELIABLE PARTNER.**

Bachem sells research reagents and active ingredients for drugs, cosmetics and diagnostic peptides to customers around the world. Most of the Group's sales are generated with pharmaceutical and biotechnology companies. Asia's contribution to Group sales increased considerably during the past year.

Bachem addresses the world market through two regional segments, North America and Europe. This geographic division is derived from the sales recorded by the Group's subsidiaries. Sales with customers in North and South America are invoiced by the US company Bachem Americas, Inc., and reported under the North America segment. Sales with customers in Europe, Asia and the rest of the world are grouped under the Europe segment. Looking at the specific regional breakdown, the Asia region accounted for more than 10% of total Group sales for the first time ever, having grown its sales by 69.2% to approximately 26 million CHF. Business in Japan showed particularly pleasing growth following lengthy efforts to build up operations there. India, South Korea and Taiwan are also attractive growth markets for Bachem. Sales in China remain low, as the generic products submitted for regulatory approval are still under review and the NCE business there is still in the start-up phase. Business with research chemicals was pleasing and is quite promising.





MARKETS & CUSTOMERS

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

**BACHEM AG**  
Bubendorf,  
Switzerland

**BACHEM SA**  
Succursale Vionnaz  
Vionnaz, Switzerland

**BACHEM HOLDING AG**  
Bubendorf, Switzerland

**BACHEM DISTRIBUTION  
SERVICES GMBH**  
Weil am Rhein,  
Germany

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

**BACHEM AMERICAS, INC.**  
Torrance,  
USA

**BACHEM AMERICAS, INC.**  
Vista,  
USA



High-quality amino acid derivatives continued to sell well. Peptide manufacturers order these in bulk. Sales in this segment grew by more than 90%.

The high-volume business with custom peptides that Bachem produces in England also experienced significant growth. Bachem UK generated 30.6% more sales than in the previous year. Sales in the highly competitive business with catalog products declined, but the very positive market uptake of new products offers grounds for optimism.

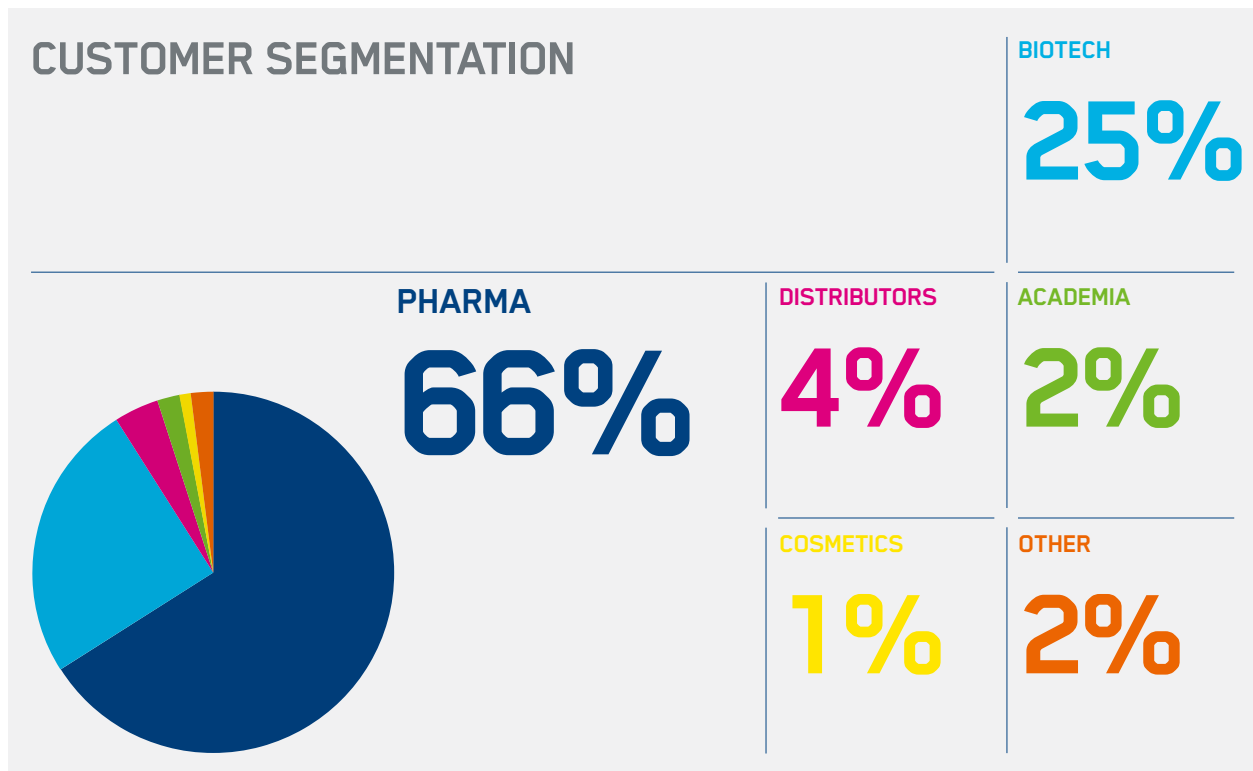
#### Major events

The Bachem Spring Symposium is a major event organized by Bachem every year in Basel. Technical improvements in the dose delivery systems for peptide-based drugs were the main theme of this year's symposium. Another important event is the DCAT Meeting in New York, where Bachem can hold talks with more than 100 of its customers.

Many of these talks focused on the generic active ingredients that Bachem produces. General trends are also discussed, which gives Bachem a reading on its position with respect to current and future market developments.

Another highlight of 2016 was the CPhI convention in Barcelona, where Bachem showcased its generic peptides and presented its full range of products and services. Bachem's Quality by Design presentation attracted considerable attention. A special highlight of the CPhI was the sustainability award Bachem received from the convention organizer for the green exhibition concept the company has steadfastly followed for the past several years.

Bachem is diligently working to maintain its status as an innovative supplier of research chemicals. The range of molecules offered is updated and selectively expanded in close collaboration with leading researchers in the field of peptides and biomedical sciences.



Peptide manufacture can now be accomplished at comparatively low cost, and large-scale production is open to any well-equipped specialist. This has significantly boosted the attractiveness of peptides as potential drugs. Peptides have made their mark as a drug class in various areas: adult-onset diabetes, obesity, oncology and dementia, for example. Medicinal products are now commercially available in the first three areas, with others undergoing clinical trials.

### BACHEM PRODUCT LINES

#### RESEARCH CHEMICALS

Bachem's Research Chemicals are mainly used to make peptides and to advance biochemical knowledge. The new online catalog provides enhanced search functionality and a unique shopping experience. The catalog is being continually updated with new and innovative products.

#### NEW CHEMICAL ENTITIES (NCES)

There are a large number of peptide drug candidates in clinical development. Furthermore, over 70 peptides have already been approved as a treatment for various diseases. Bachem is pursuing the largest number of peptide projects worldwide.

#### GENERICS

After a drug loses its patent protection, generic copies are produced. Peptide-based pharmaceuticals are somewhat different in this regard because a generic peptide will usually not have the same formulation as the innovator product. It must therefore be navigated through a demanding approval pathway and generic drug makers turn to Bachem for support during this process.

#### Complexity and production costs

Peptide chemistry is complex and capital-intensive. 78 peptides are now commercially available in the form of drug products, with very many more in the clinical pipeline. The commercial use has been as well accompanied by increasingly stringent regulatory requirements in recent years. The current focus is on low-cost manufacture and precise product characterization.

### Expertise and quality

In every phase of clinical development an experimental drug must undergo, Bachem offers production assessment, optimization services and validation of the methods relevant to the main product. The aim is to identify and minimize process-relevant impurities and degradation products. At the same time, the process should be such as to ensure that inter-batch variability is kept to a minimum.

### Requirements and services

It generally takes years before a product can be produced at the desired scale and in a consistently high quality. This entails conducting vast numbers of experiments and stability studies. These need to address customer preferences and comply with regulatory requirements. Hence, successful product development and manufacture calls for a wide range of services which, in turn, demand extensive and specific expertise.

### Flexibility and integrity

To succeed in this business, continuous adaptation to keep pace with evolving regulatory requirements is essential. These include rules and regulations on product specifications, environmental standards and employee health and safety. Maintaining data integrity is another relevant consideration, especially given that a very large body of specific data is generated over the years. Data integrity is a key factor in the regulatory approval process.

### Innovation and consolidation

These trends are driving accelerated consolidation in the market. If crucial expertise, continuous improvement and ongoing investment are lacking, it is hard to attract pharmaceutical companies and larger biotech firms as customers. Bachem is benefiting from this trend. The company has been a driving force in the peptide business for 45 years. It is also solidly capitalized and will be investing further in the expansion of its market position going forward.

## EXAMPLES OF GENERIC APIS PRODUCED BY BACHEM AND COMMON APPLICATION

| Generic Active Ingredient   | Examples of Related Trade Names   | Treatment and Indications                       |
|-----------------------------|-----------------------------------|-------------------------------------------------|
| Aprotinin                   | Tisseel®, Trasylol®               | Wound treatment, control of surgical bleeding   |
| Calcitonin                  | CalciHexal®, Forcaltonin®, Karil® | Osteoporosis, Paget's disease, Sudeck's disease |
| Carbidopa                   | Sinemet®                          | Parkinson's disease                             |
| Goserelin                   | Zoladex®                          | Advanced prostate cancer, uterine myoma         |
| Glucagon                    | Hypokit®                          | Diabetes                                        |
| Leuprolide                  | Eligard®, 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'S 360° BUSINESS MODEL

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.

As the “Pioneering Partner for Peptides”, Bachem focuses unerringly on know-how and innovation, quality, close collaboration with customers and continuous employee training and development. Bachem's stated goal is to be the partner of choice for successful implementation of peptide projects of whatever kind.

### **Know-how and innovation**

Know-how and innovation form the cornerstones of Bachem's success. Building on this foundation, Bachem offers its customers optimal support in the pursuit of groundbreaking discoveries that further scientific advances, particularly in the field of medicine. It is therefore important for Bachem to attract top scientists across all relevant disciplines. It does so by fostering a corporate culture and work environment that inspire and motivate employees to contribute knowledge and ideas to decision-making processes and thereby actively shape and steer the projects they are working on.

### **Quality**

Bachem's commitment to quality is a key factor for its success. Adherence to high quality standards lays the groundwork for top performance and new developments. This commitment to quality is a basic business principle at Bachem, deeply rooted in its drive to always offer customers the best. Diligence, flexibility, creativity and reliability are expressions of Bachem's appreciation of its customers and their needs.

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“Bachem's consistent focus on the needs of customers lays the groundwork for sustainable, profitable growth.”

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**Collaboration with customers**

Collaboration based on mutual trust and the forthright sharing of information enable knowledge, experience and resources to be pooled in the quest to achieve a new goal together. Of utmost importance for Bachem is knowing exactly what the customer needs and wants. Close contact with customers and a sound awareness of their challenges allow Bachem to create customized solutions. They are also the wellspring for superior efficiency and true value for both sides of this collaboration.

**Employee training and development**

Highly qualified employees at all levels of the organization who are specialists in their respective fields are another key factor for success at Bachem. Their willingness to take advantage of training opportunities and accept new challenges secures the company's knowledge advantage and bolsters its market leadership in peptides.

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“Bachem's vision is to be the undisputed leader in the peptides business. Adherence to the most demanding of quality standards and a high level of innovation help the company to stay ahead of the competition.”

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**Key strategic growth drivers are:**

- Focus on strengths in the core business of peptides
- Generate strong organic growth through a consistent focus on customer needs
- Seize opportunities arising from industry consolidation

**Bachem's strengths**

- Global market leader in peptides
- Excellent reputation for quality and reliability
- Superior know-how and unrivalled experience in peptides
- Extensive range of services with a high degree of vertical integration
- Strong product and project pipeline
- Largest portfolio of peptide generics in the industry



# NEW PRODUCTION SITE BUILDING A INTRODUCTION BY DR. GÜNTHER LOIDL, CTO



Approximately 30 million Swiss francs were invested in the first stage of the build-out and preparations for the next stage are already in high gear.

The new Building A features groundbreaking elements that will create optimal conditions for Group innovation and efficiency. Processes that were previously performed manually will now be automated wherever possible. An example here is the installation of a cluster of fully automated peptide synthesizers with a centralized feeding system for solvents. Reducing the need to convey materials by hand allows the highly qualified staff to concentrate on even greater value creation. Highly repetitive recurring process steps will be conducted in closed systems that meet stringent requirements regarding explosion protection and that minimize the open handling of chemicals and substances. A comprehensive occupational hygiene concept will be implemented for the entire building, including safety barriers for all areas where chemicals are handled.

R&D is continuously evaluating and rolling out new technologies as and when required, and thus contributes significantly to Bachem Group's mid- to long-term technology leadership. Innovative production processes developed by the R&D experts are leveraged throughout the company through their application by other departments and at other manufacturing sites. This yields substantial scale-up potential, especially in production.

## AMAZING NUMBERS:



Günther Loidl

"Investing in a state-of-the-art research and development building underscores our strong commitment to keep operation facilities in Switzerland. These investments will pave the way to greater innovation and strengthen our technology leadership."

**6000 m<sup>2</sup>**  
FLOOR SPACE

**3000 m<sup>3</sup>**  
CONCRETE

**8000 m<sup>2</sup>**  
DRY WALL

**100 TONS**  
STEEL

**270**  
WINDOWS

**1 000**  
FACADE ELEMENTS

**15 KM**  
PIPING SYSTEMS

**20 KM**  
NETWORK CABLES

**50 KM**  
POWER CABLES

The commissioning of Building A in the summer of 2016 marked a milestone in the development of Bachem's headquarters in Bubendorf. This new building with a gross floor area of 6000 m<sup>2</sup> will house the Research & Development (R&D) operations and also provide space for the future growth of other organizational units. Centralizing all of the R&D operations at the new building will free up space at other buildings that can be used to expand production capacity right when needed.

The build-out of the new building began in early 2016 after a detailed analysis of user needs and an intensive planning phase. On September 9, 2016, the building was ceremonially inaugurated. More than 150 people, representatives of cantonal and local government, nearby businesses and the construction companies as well as other officials attended the ceremony. A multi-stage construction concept allows the required infrastructure to be built and commissioned in stages.



# BACHEM

IS A GLOBAL LEADER IN THE PEPTIDES MARKET AND AIMS TO ACHIEVE SUSTAINABLE GROWTH THROUGH CONTINUAL PROGRESS AND DEVELOPMENT. DEDICATED STAFF ENSURE UNFAILING ADHERENCE TO THE MOST DEMANDING STANDARDS FOR QUALITY. PROFICIENT SPECIALISTS THROUGHOUT THE COMPANY WITH MANY YEARS OF EXPERIENCE APPLY THEIR KNOWLEDGE TO SYSTEM AND PROCESS OPTIMIZATION. EVERY DAY THEY DISPLAY A PIONEERING SPIRIT IN THEIR THINKING AND ACTIONS. INNOVATIVE PROJECTS ARE EFFICIENTLY EXECUTED AS A TEAM. THIS MINDSET ENABLES BACHEM TO SET THE BENCHMARKS OF TODAY AND TOMORROW.

AMBITIOUS  
GOALS  
INSPIRING  
PEOPLE



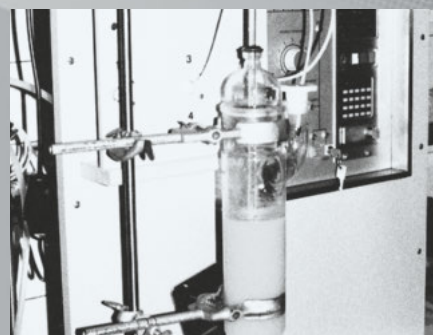
# PIONEERING SPIRIT, SINCE 45 YEARS



# 1971



Since 1971,  
Bachem  
has pioneered  
industrial peptide  
manufacturing



With its unique history and expertise, Bachem has made history more than once. Embracing new challenges and possibilities has always been part of its pioneering mindset. For 45 years, Bachem has supported clients in the pharmaceutical and biotech industry in making groundbreaking discoveries. As peptides became drug substances, the company advanced from a research chemicals supplier into one of the best providers of active peptides. Today, Bachem is proud to be recognized as the undisputed leader in the field.



# 2016

## AMBITIOUS GOALS INSPIRING PEOPLE

**1** Having been at the forefront all along, Bachem is known for its concepts, technologies and a sustained pioneering mindset. Improved analytical and process technologies contribute to meeting the growing challenges of industrial peptide manufacturing.

**2** As a team, we will continue to innovate and make history with peptides.

**3** We push the boundaries to tackle new challenges in peptide manufacturing, operational processes and business strategies. Our culture of continuous improvement positions us to contribute to new scientific discoveries and to adapt to rapidly evolving challenges.



# LEADING KNOWLEDGE & KNOW-HOW

Excellent  
know-how is the  
bedrock  
of Bachem's  
success

Bachem's employees know how to overcome complex project challenges and guide customers to success. Through its in-depth knowledge of peptide chemistry, Bachem achieves outstanding results and is recognized as a reliable supplier of high-quality products with a strong track record of excellent quality assurance. Customers benefit from full regulatory support that is tailored to their needs while meeting regulatory requirements.







# TOP INFRA- STRUCTURE IN ALL DISCIPLINES

The new R&D building meets the strictest guidelines for energy efficiency

Bachem is continually investing in new technologies at all its sites to further its development in all areas of its business. Capital investment is focused on research and development, production, quality assurance and distribution.

Bachem offers customers superior safety and reliability through the deployment of cutting-edge technology, proprietary work processes and groundbreaking techniques.

Bachem is ideally positioned to address growing levels of demand



**1** Bachem expanded its production site in Vista. The site now has ample reactor capacity and boasts the largest lyophilisator in the industry. Bachem is well prepared to meet the rapidly growing demand for bulk quantities of peptides.



**2** The new R&D building enables development of customer products using cutting-edge methods. Bachem is continually improving and refining its state-of-the-art processes, thereby ensuring superior product quality.

**3** The new production site Building A commissioned in September 2016 offers approximately 6,000 m<sup>2</sup> of space for research and development (R&D) and for future growth. Peptide-based active compounds and processes are being developed at the new facility and new technologies tested and implemented. Bachem invested more than 30 million CHF alone in the first stage of construction.





# TRAINING AND EDUCATION – INVESTMENT IN THE FUTURE

## GLOBAL INTERACTION WITH THE BEST

Bachem invests globally in the training and education of its employees. The company's commitment centers around apprenticeship training in Switzerland, continuing education and training in a variety of specialist disciplines, periodic meetings of specialists at internal seminars, participation in conferences and symposia around the world and close cooperation with selected universities and leading lights in peptide chemistry. Bachem works continuously to expand the know-how of its teams, the aim being to keep its finger on the pulse of research and push the boundaries of what is possible in collaboration with customers.



### VOCATIONAL EDUCATION

Vocational education is hardwired into Bachem's DNA. Bachem has provided job training from the very beginning and it has retained many of its apprentices after they have completed their vocational education program. This tradition does much to ensure a high level of education and training throughout the organization and it forms the basis for professional excellence in day-to-day operations.



### CONTINUING EDUCATION

Continuing professional education and training helps experienced employees to build their careers in new roles as the organization grows. It contributes to sustainable organic growth and ensures that business and specialist expertise is retained within the company. Bachem is intent on maintaining a sharp competitive edge, both for the company and for its employees, enabling them to devote a growing repertoire of skills and resources towards the achievement of the given business goals.



### INTERNAL SEMINARS AND EXCHANGES

Internal seminars are an integral part of the company culture throughout the Group and help to maintain employee expertise at the highest of levels. Bachem supports the exchange of knowledge by transferring experts to other sites and offering internships in the Centers of Excellence of the various specialist units.



### GLOBAL INTERACTION

Bachem is represented at all major peptide symposia and conferences as a sponsor, exhibitor and scientific participant. As guest speakers at many such events, Bachem experts are in continuous dialog with other leading specialists, which helps them to stay abreast of the latest developments on the research front. Through collaboration with selected universities and top professors throughout the world, Bachem deepens and nurtures relationships with academia and the best educated young talents in peptide chemistry today.





**1** A solid education is the foundation for excellence in everyday working life.

**2** Bachem maintains the know-how at the highest level, exchanging and passing on specialized knowledge.



#### **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.**





## "BACHEM – THE ATTRACTIVE EMPLOYER" INTERVIEW WITH STEPHAN SCHINDLER, CFO

AMBITIOUS  
GOALS  
INSPIRING  
PEOPLE

We are a young and dynamic company where talented specialists can grow their skills and actively contribute to the company's prosperity. An inspiring work environment and a corporate culture marked by strong social skills, reliability and commitment allow Bachem to clearly position itself as an attractive employer.

"We don't  
play hide-  
and-seek  
in our  
company."



### How does Bachem plan to win the war of talents?

#### Stephan Schindler:

By focusing on our core business and strengths, also in the job market. We very deliberately set ourselves apart from other companies and competitors by highlighting our uniqueness and special qualities as an employer.

#### Give us some specific examples here.

**Stephan Schindler:** As a peptides specialist operating in the chemicals/biotech/pharma markets, Bachem is also unique as an employer. From our early roots as an SME with a local focus, we have grown over the years into a multinational global leader with a network of interconnected disciplines. Despite that, the company is not too large and impersonal, the style is informal and the local roots are still very much present. With these attributes,

the kind of specialists we attract are different from those who would be drawn to the mammoth corporations around Basel or to our competitors. We appeal to keen, highly motivated people who value an active role and want to make a difference, and we offer them a highly inspiring and dynamic working environment. With us, they can develop their talents, inspire others and enjoy success. The satisfaction that brings is viewed as both a reward and an incentive. That's how I would define meaningful work.

#### What are the most important attributes newcomers should bring to the organization?

#### Stephan Schindler:

Our successful core business is based on science, technology and productivity. For that reason, it is essential that newcomers come to us with a sound background in their specialist areas. They should also be

willing and able to embrace ongoing personal and professional development. A service mentality and a strong team spirit are also required in our customer-centric environment.

Social skills, reliability, dedication and sensible pragmatism are extremely useful assets. All these qualities are conducive to smooth and effective collaboration with internal and external contacts that ultimately benefits everyone involved.

#### What makes Bachem an attractive employer?

**Stephan Schindler:** Given the size of our organization, it's very easy to keep the entire value chain in sight. This creates transparency and deepens our understanding of our interconnectedness. We don't just offer a job like any other, we offer positions of responsibility where employees can actively contribute to the company's successful development. We don't play hide-and-seek in our company. At Bachem, every single person makes a difference and is truly important for the company. And for that reason, every single employee has a stake in the company's fortunes through an incentive program.

Thanks to a solid shareholder structure and a clear focus on sustainable corporate development, Bachem offers a stable as well as dynamic work environment. Those two qualities characterize our special workplace culture, where there is no room for a "hire and fire" mentality. As the market and technology leader in peptides, we employ the largest number of specialists of any company in the world and are the industry's winning team.

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**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 1 022 people at the end of the year (previous year: 902) in 979.4 full-time equivalent positions (previous year: 858.7). Of these, 740 (corresponding to 699.6 full-time equivalent positions) were working in Europe at Bachem AG sites in Bubendorf and Vionnaz, one at Bachem Distribution Services GmbH in Weil am Rhein (Germany) and 38 for Bachem (UK) Ltd in St. Helens (UK). Bachem Americas Inc. employed 234 people at the sites in Torrance and Vista, California. Bachem Holding AG employed 9 people. Employee turnover at Group level was 12.8% (previous year: 13.1%).

The Bachem Group is fully committed to ensuring equality of opportunity for all staff, irrespective of age, sex, 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. 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, 26% of the employees have earned a degree from a university and another 26% have earned a degree from a university of applied science. Over 40% of Bachem employees worldwide have completed a vocational apprenticeship, as have 51% of its employees in Switzerland.

# WE LIVE THE PIONEERING SPIRIT!

**“Logistics has witnessed the company’s growth at first hand. We address a variety of challenges every day.”**



Marcel Eugster, Logistic Assistant, Bubendorf CH

**“The Regulatory Affairs team strives to deliver best-in-class regulatory solutions that contribute to the Bachem success story.”**



Stanislav Ivan, Director Regulatory Affairs, Bubendorf CH

Jason Gilbert, Scientist QC II, Vista USA



**“Bachem does business with biotech, biopharmaceutical, and medical device companies worldwide, delivering high-purity peptides and complex organic molecules for the most demanding of applications. In my role as Scientist QC II, I implement sound analytical test methods to ensure Bachem products are of the highest purity and quality. By unequivocally characterizing Bachem products for quality, I help to realize demanding customer applications and build on our innovation leadership.”**

**“Our clients are at the heart of our customer service philosophy. Their satisfaction is what we strive for every day.”**



Loubna Kerkeb, Director Research Sales, Torrance USA

**“Continuous improvements in quality, safety, housekeeping and leadership... attitude is everything!”**



Roland Schuermann, Vice President Manufacturing, Torrance USA



Aline Sondenecker, Sales Manager  
Generics, Vionnaz CH



**“Respect, achievement, courage and creativity are essential values for a collaborative culture, dealing with colleagues as well as business partners!”**

**“We constantly chart new territory by using novel technologies to produce ever more challenging custom peptides.”**



Iain Pritchard, Director of Production,  
St. Helens UK

**“I am happy to work at Bachem, where employees push boundaries every day to discover new frontiers.”**



Iris Hreinsdottir, Senior HR Business  
Partner, Bubendorf CH

Rebecca Sanvito, Group Leader Services,  
Bubendorf CH



**“What I like most is the way we work with our colleagues and business partners around the world. Every day brings new challenges that call for creative solutions.”**

Violeta Jordan, Global Director of  
Product Management, Torrance USA



**“Our team is dedicated to making new innovative peptides available to the scientific community as catalog products.”**



### 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 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, 35 young people were enrolled in three- or four-year vocational apprenticeship programs as of the end of the year; this represented 3.6% of the workforce. The apprentices were pursuing qualifications as chemical lab technicians (25), office administration staff (4), IT technicians (1), logistics specialists (4) and polymechanics (1). In the year under review, 8 apprentices successfully completed their vocational training, and 5 were offered permanent employment contracts.

## PERSONNEL

### EMPLOYEE DISTRIBUTION BY JOB CATEGORY

|                                          | 2016  |      | 2015  |      |
|------------------------------------------|-------|------|-------|------|
|                                          | FTE   | %    | FTE   | %    |
| MARKETING AND SALES                      | 76.9  | 7.9  | 73.4  | 8.5  |
| ADMINISTRATION                           | 77.4  | 7.9  | 70.4  | 8.2  |
| SUPPLY CHAIN                             | 45.0  | 4.6  | 35.5  | 4.1  |
| ENGINEERING AND SERVICES                 | 117.6 | 12.0 | 107.9 | 12.6 |
| QUALITY ASSURANCE AND REGULATORY AFFAIRS | 255.7 | 26.1 | 220.3 | 25.7 |
| RESEARCH/DEVELOPMENT AND PRODUCTION      | 406.8 | 41.5 | 351.2 | 40.9 |

### GEOGRAPHIC DISTRIBUTION

|        |       |      |       |      |
|--------|-------|------|-------|------|
| EUROPE | 746.2 | 76.2 | 667.0 | 77.7 |
| USA    | 233.2 | 23.8 | 191.7 | 22.3 |

### EMPLOYEE DISTRIBUTION BY GENDER

|                               |       |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|-------|
| WORKFORCE (TOTAL)             | WOMEN | 300.1 | 30.6  | 268.1 | 31.2  |
|                               | MEN   | 679.3 | 69.4  | 590.6 | 68.8  |
| UPPER MANAGEMENT              | WOMEN | 12.0  | 18.5  | 7.8   | 15.1  |
|                               | MEN   | 52.8  | 81.5  | 43.8  | 84.9  |
| REGIONAL EXECUTIVE COMMITTEES | WOMEN | 5.0   | 17.9  | 4.0   | 19.0  |
|                               | MEN   | 23.0  | 82.1  | 17.0  | 81.0  |
| CORPORATE EXECUTIVE COMMITTEE | WOMEN | 0.0   | 0.0   | 0.0   | 0.0   |
|                               | MEN   | 4.0   | 100.0 | 4.0   | 100.0 |
| BOARD OF DIRECTORS            | WOMEN | 2.0   | 33.3  | 2.0   | 33.3  |
|                               | MEN   | 4.0   | 66.7  | 4.0   | 66.7  |

### EMPLOYEE DISTRIBUTION BY AGE

|           |       |      |       |      |
|-----------|-------|------|-------|------|
| AGE < 26  | 140.2 | 14.3 | 117.7 | 13.7 |
| AGE 26-35 | 279.7 | 28.6 | 231.6 | 26.9 |
| AGE 36-45 | 244.6 | 25.0 | 214.3 | 25.0 |
| AGE 46-55 | 203.8 | 20.8 | 192.4 | 22.4 |
| AGE 56-65 | 105.7 | 10.8 | 95.3  | 11.1 |
| AGE 65    | 5.4   | 0.5  | 7.4   | 0.9  |

### 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 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

Bachem is constantly working toward lasting improvement with regard to environmental, health, safety and security issues (EHS). Therefore, it is continuously developing and implementing, on its own and in collaboration with external partners, new concepts to promote employee awareness of safety and environmental issues. The company provides internal resources and the necessary funds at all sites.

## RESPONSIBLE CARE KEY FIGURES

|                                                   | 2016  | 2015  | 2014  | 2013  | 2012  |
|---------------------------------------------------|-------|-------|-------|-------|-------|
| PERSON ACCIDENTS, NUMBER/100 EMPLOYEES            | 1.3   | 1.5   | 0.8   | 0.7   | 1.5   |
| LOST WORKING DAYS, NUMBER/EMPLOYEE                | 0.1   | 0.1   | 0.0   | 0.1   | 0.1   |
| HEALTH SAFETY ENVIRONMENT STAFF, NUMBER           | 9     | 8     | 6     | 6     | 6     |
| TOTAL STAFF, NUMBER                               | 939   | 750   | 660   | 579   | 601   |
| ENVIRONMENT KEY FIGURES                           |       |       |       |       |       |
| TOTAL ENERGY CONSUMPTION, GJ/EMPLOYEE             | 125   | 148   | 161   | 191   | 195   |
| CO <sub>2</sub> , T/EMPLOYEE                      | 4     | 4     | 5     | 6     | 6     |
| NO <sub>x</sub> , KG/EMPLOYEE                     | 4     | 4     | 5     | 6     | 5     |
| SO <sub>2</sub> , KG/EMPLOYEE                     | 0.5   | 1     | 1     | 1     | 1     |
| VOC, KG/EMPLOYEE                                  | 26    | 31    | 29    | 37    | 37    |
| TOC, KG/EMPLOYEE                                  | 4     | 4     | 6     | 6     | 6     |
| HAZARDOUS WASTE DISPOSED OF, KG/EMPLOYEE          | 6 262 | 6 544 | 4 991 | 6 946 | 7 967 |
| TOTAL WATER CONSUMPTION, M <sup>3</sup> /EMPLOYEE | 121   | 126   | 132   | 175   | 179   |

Responsible Care data was collected at the Vista site for the first time during the year under review.

Protection of human health and the environment and upholding the safety of employees and the surrounding 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.

Production- and non-production-related units uphold and adhere to the Responsible Care program. The host organization of the 2016 CPhI Europe, the most important trade fair for the peptide sector, presented Bachem with a sustainability award for its exhibition booth. Bachem's concept of re-using the stand for several years, the recyclable materials it used to make the stand and minimized energy consumption were some of the factors cited by the jury in presenting this award. Bachem also reduced its use of printed materials and relied more on greener electronic media.

After the acquisition of American Peptide Company in March 2015, its site in Vista was integrated into the Bachem Americas organization in the months following the transaction. The Responsible Care data collected during the year under review now includes the site in Vista, as well as the previously covered sites of Bachem AG in Bubendorf and Vionnaz and Bachem Americas Inc. in Torrance. The enlarged basis has a distorting effect when comparing multiple years of data, but a cross-comparison with the industry reference data still produces relevant and robust results.

### 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. Control banding techniques are also used in the planning of structural investment projects.

### Environmental parameters

Due to the integration of the new Vista site in the Responsible Care statistics and the very satisfactory order situation, the number of employees at Bachem Group's four largest production sites rose to 939. This corresponds to a 25% increase (end-2015: 750). Despite the substantial expansion of capacity and increased production output, Bachem again managed to improve its performance in most of the environmental parameters it monitors.

With a total energy consumption of 125 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 303 GJ per employee. Total water consumption per employee was reduced by 4% from the previous year to 121 m<sup>3</sup> (Swiss chemical industry: 4 870 m<sup>3</sup> per employee). Despite its substantial growth, Bachem reduced the volume of hazardous waste it disposed of and its emissions of volatile

organic carbon (VOC) and SO<sub>2</sub>. In a cross-comparison with the Swiss chemical industry, Bachem Group can show very good environmental statistics. Its environmental impact is comparatively low and its resource consumption figures relative to economic output are well below the industry average.

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

The number of staff assigned to EHS increased from 8 to 9. The number of work-related injuries declined to 1.3 per 100 employees from 1.5 in the previous year. With a lost workday rate of only 0.1 per employee, Bachem maintained its very good safety performance. Once again, non-work-related accidents are much more common than occupational injuries and illnesses and they are associated with a significantly higher number of days away from work. The number of non-occupa-

tional injuries per 100 employees and the resulting lost workdays per employee rose slightly compared to 2015. Both figures were still well below the levels reported in 2014, however. The main hazards resulting in non-occupational injuries are slips, trips and falls and sports-related 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 at the workplace.

### Health management

The Corporate Health Management (CHM) strategy promoting employee health was again given high priority 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

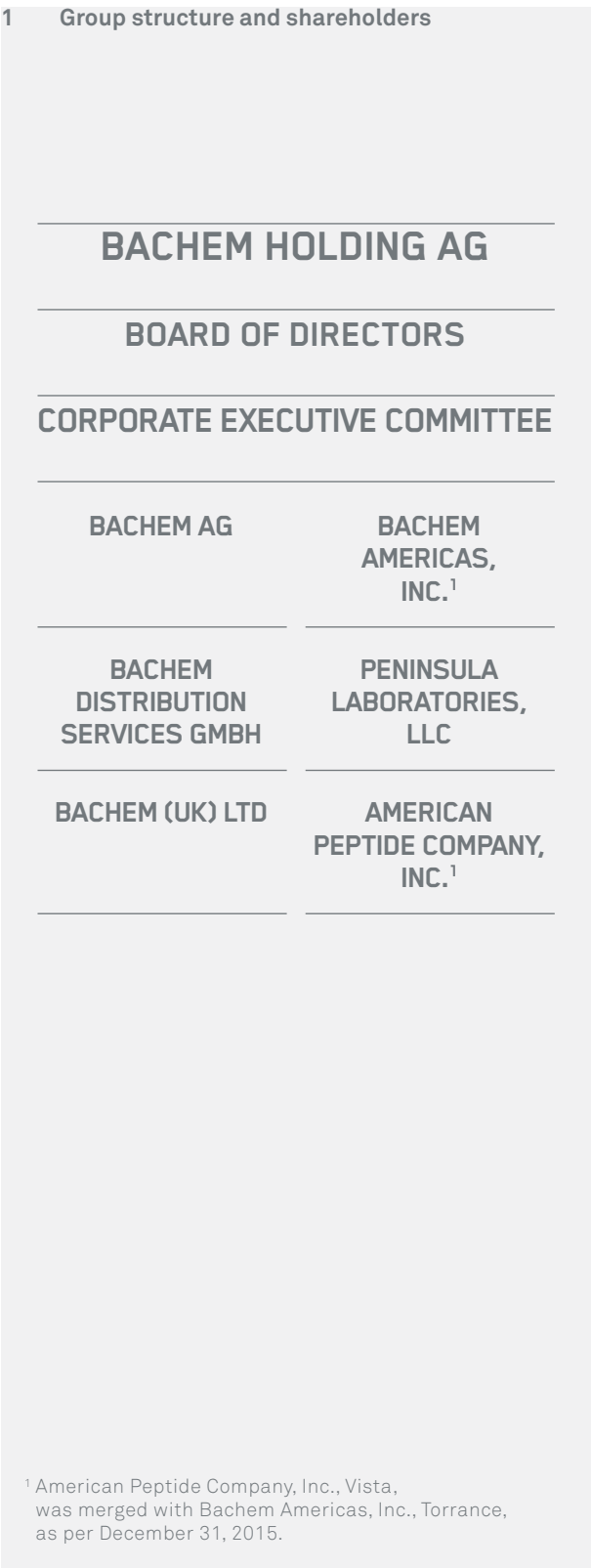
- any illegal rebate
- any kickback payments
- any “unofficial” payments
- any form of improper gift or favor

### 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.



### 1.1 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, 2016 was 1 228 000 kCHF. No other Bachem companies are listed.

All consolidated companies are listed in note 22 on page 92 of the notes to the consolidated financial statements including company name, location, registered capital, and participation.

### 1.2 Significant shareholders

Shareholders with more than 3% of voting rights on December 31, 2016, are listed in note 8 on page 104 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, 2016, 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 2014, 2015 and 2016, share capital remained unchanged. Changes in equity for the years 2016 and 2015 are listed on page 69 of the consolidated financial statements. Changes for 2014 are reported on page 73 of the Annual Report 2015.

### 2.4 Shares and participation certificates

At December 31, 2016, 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 75 and 76 as well as in note 20 of the consolidated financial statements on page 91.

### 3 Board of Directors

#### 3.1 Members of the Board of Directors

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

**Kuno Sommer<sup>1</sup> (1956), Ph.D. in Business Administration, Chairman, Swiss. Since 2012, elected until 2017.**



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 Flavors 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, of Kenta Biotech AG and of Sunstar-Holding AG.

**Nicole Grogg Hötzer<sup>2</sup> (1973), Graduate Biologist, Vice-Chairwoman, Swiss. Since 2011, elected until 2017.**



Nicole Grogg Hötzer graduated in biology at Basel University in 1999. Afterwards, she worked in various positions in the field of regulatory

affairs until 2009. 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 of Hotel Bad Schauenburg AG and member of the Board of Directors of MFC Beteiligungs AG and of Breiten Immobilien AG.

**Jürgen Brokatky-Geiger<sup>1,2</sup> (1952), Dr. rer. nat., Member, German. Since 2009, elected until 2017.**



Dr. Jürgen Brokatky-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 Brokatky-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 and member of the Executive Committee of Novartis. On February 26,

2014, Dr. Jürgen Brokatky-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 2017.**



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 & Partner in Basel. Thomas Burckhardt further is Honorary Consul-General of the Kingdom of Thailand in Basel. Other important Board memberships: MFC Beteiligungs AG and Stiftung FOCUS Basel.

**Rolf Nyfeler<sup>1,2</sup> (1950), Dr. phil. II, Member, Swiss. Since 2012, elected until 2017.**



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 2017.**



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 is Professor at the Laboratory of Organic Chemistry at ETH Zurich. Helma Wennemers' research has been recognized by several awards including the "Pedler Award" (2016), the "JSPS Distinguished Lectureship" (2016) and the "Leonidas Zervas Award" (2010). She has also been awarded with numerous honorary lectureships such as the "David Ginsburg Lectureship" at the Technion in Haifa (2010) and she was named "Fellow of the Royal Society of Chemistry" (2013).

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

<sup>2</sup> Member of the Investment Committee

### 3.2 Other activities and vested interests

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

### 3.3 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 2016, the Board of Directors held four full-day meetings as well as one full-day strategy conference. The Corporate Executive Committee attends generally the Board meetings (see item 3.7). Three meetings were attended by all Board and Corporate Executive Committee members. At one meeting, one Board member was absent. If necessary, additional persons will attend Board meetings as guests to discuss specific items on the agenda. During 2016, three Board meetings were attended by a total of three guest persons. In addition, the two regional Chief Operating Officers (COOs) took

part in the strategy conference. In 2016, no external consultants were called in.

Meetings are prepared by the Chairman and by committees of various compositions. Decisions are taken by the full Board. The Board can decide when more than half of its members are present. It decides by majority of votes. In case of a tie, the vote of the Chairman decides.

The Board of Directors has established a Compensation Committee (committee members are listed 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 year under review.

The Board of Directors has established an Investment Committee (committee members are listed in section 3.1). The Investment Committee supports the Board of Directors in its function as the ultimate supervisory body and in the exercise of its financial powers and duties, particularly with respect to capital expenditure decisions. It examines the annual capital investment budget and the multi-year capital investment plans of the Corporate Executive Committee and the pertinent reports addressed to the Board of Directors. Furthermore, the Investment Committee evaluates and determines the level of detail required for individual capital investment proposals. The Investment Committee held three half-day meetings and one telephone conference during the year 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 Committee as described in the organization regulations currently are performed by the full Board since considering the size of the Board with its six members, the Board of Directors has renounced the formation of additional firm committees.

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

### 3.6 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 76 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, Board member of the business association scienceindustries and president of the Board of the foundation SimplyScience.

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



José de Chastonay joined Bachem AG in 1991 as International Marketing Manager. As of 1992, he relocated to the USA, first as President and

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

###### Günther Loidl (1970), Dr. rer. nat., CTO, German. Since 2015.



Günther Loidl joined Bachem in 2000. He held several functions in Research and Development (R&D) and Active Pharmaceutical Ingredient

Manufacturing and became Vice President R&D in 2012. Since 2015, he is CTO of the Bachem Group and a member of the Corporate Executive Committee. He studied chemistry in Regensburg (Germany) and Leeds (UK) and obtained his doctorate under the supervision of Prof. Dr. Luis Moroder at the Max Planck Institute of Biochemistry in Martinsried (Germany).

###### 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 52 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 105 to 106.

### **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](http://www.bachem.com/financial_calendar)

## **7 Changes of control and defense measures**

### **7.1 Duty to make an offer**

The Articles of Incorporation of Bachem Holding AG do not envisage a duty to submit a public purchase offer according to article 135 and 163 of the Federal Financial Markets Infrastructure Act (FinfraG) (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 176 kCHF for the business year 2016. Fees for audit services on Bachem companies by other auditors totaled 13 kCHF.

### **8.3 Additional fees**

During 2016, PricewaterhouseCoopers charged additional fees of 269 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 3 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 2016, the external auditors attended one Board of Directors meeting. The performance assessment of the external auditor and the audit fees is made based on the independency and objectivity of the external auditors, the presented reports, the shown technical and operational competences, the involved resources, as well as the open and effective communication and coordination with internal staff.

## **9 Information policy**

The Bachem Group has an open and up-to-date information policy that treats all target groups of the capital investment market equally. The most important information tools are the annual report and the half-year report, the website ([www.bachem.com](http://www.bachem.com)), press releases, the presentation of the financial statements for media and analysts, as well as the Annual General Meeting. Shareholders are in addition informed on important matters by letter. As a company listed on the SIX Swiss Exchange, Bachem is obliged to publish information that is relevant to its share price (obligation to disclose potentially price-sensitive facts, art. 53 of the "Listing Rules"). These rules can be viewed under: [www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/listing-rules/03\\_01-LR\\_en.pdf](http://www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/listing-rules/03_01-LR_en.pdf). For specific questions regarding Bachem, contact our investor relations responsible, Stephan Schindler, CFO, phone +41 58 595 2021, [ir@bachem.com](mailto:ir@bachem.com).



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The compensation report contains information on the compensation of the members of the Board of Directors and the Corporate Executive Committee. It substantially 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<sup>bis</sup> and Art. 663c OR, and the Ordinance Against Excessive Compensation in Listed Companies (OAEC) Articles 14–16 and 20.

## 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 2016. 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 2016, 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 21 kCHF was issued by law firm and notary office Simonius & 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"> <li>– Elect and remove the members of the Board of Directors and the Compensation Committee</li> <li>– Prospectively set the aggregate amount of annual compensation of the Board of Directors</li> <li>– Prospectively approve the maximum aggregate amount of fixed and variable compensation of the Corporate Executive Committee</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| BOARD OF DIRECTORS     | <ul style="list-style-type: none"> <li>– Determine and periodically review Bachem's compensation policy and guidelines</li> <li>– Submit proposals at the General Meeting regarding compensation of members of the Board of Directors and Corporate Executive Committee</li> <li>– 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</li> <li>– Establish performance-based variable compensation and stock award plans</li> <li>– Prepare the compensation report</li> </ul>                                                                                                                                                                                   |
| COMPENSATION COMMITTEE | <ul style="list-style-type: none"> <li>– Support the Board of Directors in setting and periodically reviewing Bachem's compensation policy and guidelines</li> <li>– Submit proposals to the Board of Directors on the compensation of the members of the Board of Directors</li> <li>– 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</li> <li>– Submit proposals to the Board of Directors for establishing or revising performance- and/or profit-based variable compensation and stock award plans</li> <li>– Preparing proposals put to the General Meeting regarding compensation of members of the Board of Directors and Corporate Executive Committee</li> </ul> |
| AUDITORS               | <ul style="list-style-type: none"> <li>– Audit of quantitative information on compensations, loans and borrowings in the compensation report (acc. to Art. 17 OAEC)</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |



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.

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

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

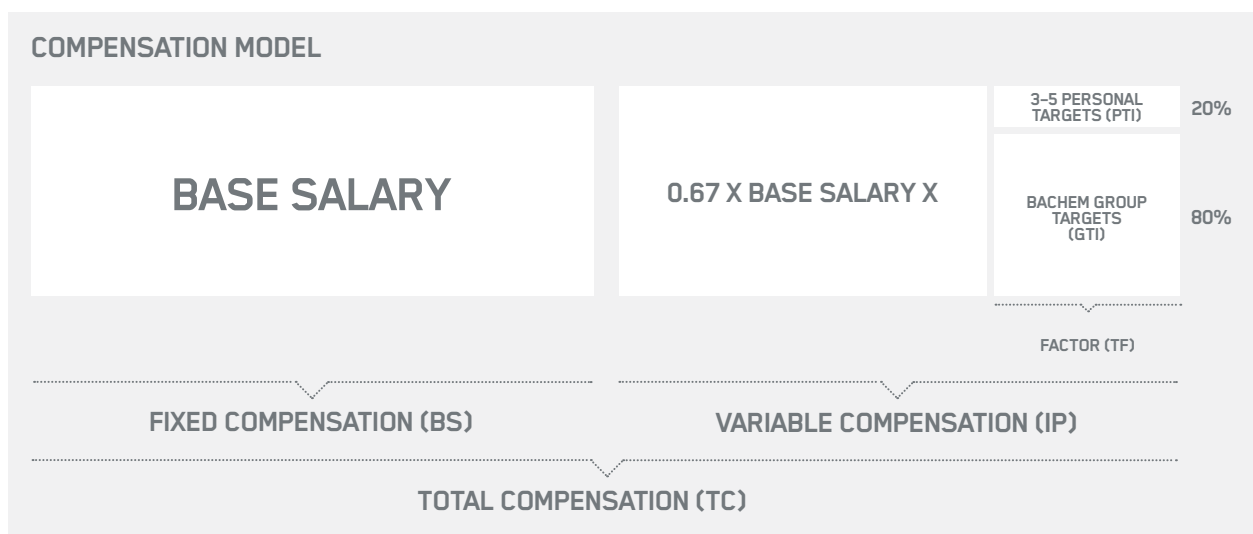
compensation is converted into a specific number of awarded shares using the average daily closing price for the corresponding fiscal year.

The Group targets set for the 2016 fiscal year were achieved in full and in some cases exceeded. In view of the assessment of the total performance, the Board of Directors has set the Group Target Incentive rate at 105% as proposed by the Compensation Committee. In the year under review, the variable compensation of the Corporate Executive Committee members based on tax values therefore corresponded in total to approximately 66% 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 9 beginning on page 105 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 75 and 76 and on page 91.



### 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:

| <b>2016</b><br>in 1 000 CHF                      | Fix salaries,<br>fees | Variable<br>salaries | Share-<br>based<br>payments | Pension<br>plan<br>contri-<br>bution | Other<br>social<br>security<br>expenses | Total        |
|--------------------------------------------------|-----------------------|----------------------|-----------------------------|--------------------------------------|-----------------------------------------|--------------|
| Kuno Sommer (Chairman)                           | 126                   |                      | 29                          |                                      | 11                                      | <b>166</b>   |
| Nicole Grogg Hötzer (Vice-Chairwoman)            | 44                    |                      | 29                          |                                      | 5                                       | <b>78</b>    |
| Jürgen Brokatzky-Geiger (Member)                 | 41                    |                      | 29                          |                                      | 4                                       | <b>74</b>    |
| Thomas Burckhardt (Secretary)                    | 42                    |                      | 29                          |                                      | 3                                       | <b>74</b>    |
| Rolf Nyfeler (Member)                            | 44                    |                      | 29                          |                                      | 3                                       | <b>76</b>    |
| Helma Wennemers (Member)                         | 42                    |                      | 29                          |                                      | 5                                       | <b>76</b>    |
| <b>Total Board of Directors (BoD)</b>            | <b>339</b>            | <b>0</b>             | <b>174</b>                  | <b>0</b>                             | <b>31</b>                               | <b>544</b>   |
| Thomas Früh (CEO)                                | 270                   | 132                  | 47                          | 61                                   | 37                                      | <b>547</b>   |
| Rest of the Corporate Executive Committee        | 560                   | 268                  | 97                          | 111                                  | 80                                      | <b>1 116</b> |
| <b>Total Corporate Executive Committee (CEC)</b> | <b>830</b>            | <b>400</b>           | <b>144</b>                  | <b>172</b>                           | <b>117</b>                              | <b>1 663</b> |
| <b>Total</b>                                     | <b>1 169</b>          | <b>400</b>           | <b>318</b>                  | <b>172</b>                           | <b>148</b>                              | <b>2 207</b> |

| <b>2015</b><br>in 1 000 CHF                      | Fix salaries,<br>fees | Variable<br>salaries | Share-<br>based<br>payments | Pension<br>plan<br>contri-<br>bution | Other<br>social<br>security<br>expenses | Total        |
|--------------------------------------------------|-----------------------|----------------------|-----------------------------|--------------------------------------|-----------------------------------------|--------------|
| Kuno Sommer (Chairman)                           | 126                   |                      | 15                          |                                      | 12                                      | <b>153</b>   |
| Nicole Grogg Hötzer (Vice-Chairwoman)            | 43                    |                      | 15                          |                                      | 4                                       | <b>62</b>    |
| Jürgen Brokatzky-Geiger (Member)                 | 43                    |                      | 15                          |                                      | 4                                       | <b>62</b>    |
| Thomas Burckhardt (Secretary)                    | 42                    |                      | 15                          |                                      | 3                                       | <b>60</b>    |
| Rolf Nyfeler (Member)                            | 44                    |                      | 15                          |                                      | 3                                       | <b>62</b>    |
| Helma Wennemers (Member)                         | 42                    |                      | 15                          |                                      | 4                                       | <b>61</b>    |
| <b>Total Board of Directors (BoD)</b>            | <b>340</b>            | <b>0</b>             | <b>90</b>                   | <b>0</b>                             | <b>30</b>                               | <b>460</b>   |
| Thomas Früh (CEO)                                | 268                   | 145                  | 52                          | 62                                   | 37                                      | <b>564</b>   |
| Rest of the Corporate Executive Committee        | 555                   | 296                  | 107                         | 109                                  | 65                                      | <b>1 132</b> |
| <b>Total Corporate Executive Committee (CEC)</b> | <b>823</b>            | <b>441</b>           | <b>159</b>                  | <b>171</b>                           | <b>102</b>                              | <b>1 696</b> |
| <b>Total</b>                                     | <b>1 163</b>          | <b>441</b>           | <b>249</b>                  | <b>171</b>                           | <b>132</b>                              | <b>2 156</b> |

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 56 of the compensation report of Bachem Holding AG for the year ended December 31, 2016.

### **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, 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Dr. Rodolfo Gerber  
Audit expert  
Auditor in charge



Raphael Rutishauser  
Audit expert

Basel, February 22, 2017





# **BACHEM FINANCIAL REPORT 2016**

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

# FIVE REASONS TO INVEST

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## REASON 1

BACHEM IS THE MOST ROBUST AND SUSTAINED SUPPLIER IN THE INDUSTRY SINCE 45 YEARS.

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## 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

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## REASON 3

CAPABILITY TO PRODUCE LONG AND COMPLEX PEPTIDES AT LARGE VOLUME COMMERCIAL SCALES IS SPECIAL.

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## REASON 4

HIGHEST INDUSTRY STANDARDS FOR QUALITY ASSURANCE, CONTROL AND REGULATORY COMPLIANCE ARE PART OF BACHEM'S "QUALITY MATTERS" COMMITMENT.

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## 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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Stephan Schindler, CFO



## Sales at record high

Bachem's results in the second half of 2016 extended the already excellent trend from the first half of the year. Its operating performance improved once again in the second half compared to the half-year mark. Bachem has now increased its annual sales for six consecutive years and last year's total of 236.5 million CHF set a record high for the company. Compared to the previous year, sales were up by 27.9 million CHF or 13.4%. Reported sales growth in Swiss francs was buoyed by more favorable EUR/CHF and USD/CHF exchange rates compared to the previous year. Sales growth in local currencies (LC) remained high at nearly 12%.

## Organic growth the key driver

The sales contribution of American Peptide Company (APC), acquired at the end of March 2015, did not yet contribute to the Group's top-line growth. As reported at the mid-year mark, various expansion projects at the site in Vista, California, were undertaken in the first half of the year. This led to temporary production halts, so overall sales from the site were only slightly above the prior year level. Based on the results for the second half, Bachem expects to leverage far more of the now fully integrated production site's sales potential during the coming fiscal year.

## Generics a stable pillar of business

Sales of generic peptides amounted to 107.1 million CHF and retained their status as a bedrock of stability within the Group's product portfolio, accounting for some 45% of total sales. Sales were slightly lower in a direct comparison with the figure for the very strong previous year, when generics sales grew 26% to 110.3 million CHF. This slight year-on-year decline in sales is mainly attributed to the reporting cutoff date of December 31. Any shifts in sales transactions around year-end are correctly accrued to the period in which they fall. From a regional perspective, business in North America was very pleasing and sales grew at a double-digit rate. Europe, too, confirmed the enduring stability of this product group in view of the current order backlog and close customer relationships in this region.

## A focus on quality at research ingredients

The research ingredients business maintained its pleasing momentum. Catalog products and custom synthesis performed well in the face of a challenging, highly competitive market environment. Bachem streamlined its catalog offering, removing some products while adding new, innovative molecules. This streamlining together with the concentration of production capacity on high-quality processes led to lower sales volumes year-on-year, but clearly improved the profitability of this product category.

## Tailwinds for the Competence Center in the UK

The operations acquired from APC again contributed to growth at Bachem's "Competence Center for Custom Synthesis" in St. Helens, Great Britain. Additional tailwinds came from the significantly weaker pound sterling after the Brexit vote. A weaker pound further improves the organization's competitive advantage and will reinforce Bachem's already strong competitive position in the global market for research grade chemicals.

## New Chemical Entities as a growth driver

In the New Chemical Entities (NCEs) business, the impressive sales growth of more than 40% in local currency announced for the first half of 2016 set the stage for a highly successful year overall. Thanks to the well-diversified top-quality project portfolio and the attractive range of services offered for NCEs, sales continued to grow in the second half and resulted in full-year sales growth of 52.2% in local currencies versus the previous year. Sales in Europe surged more

than 80%, confirming the regional operation's excellent operating performance and competitive edge. Despite some production delays in the summer due to the aforementioned expansion of one of the two production plants in California, NCE sales in the North America region grew by 33.1% in local currency versus the previous year period. The strong performance in these two regions puts Bachem in an even better position for future growth than before. Building on this solid base, the NCE business will serve as a constant engine of growth and have an increasingly positive impact on the overall success of Bachem Group.

### Project portfolio for the future

Bachem's NCE project portfolio showed further slight growth during the past year. At year-end, Group companies in Europe and North America were working on a total of 247 development projects for customers (previous year: 241 projects). The large number of products in Phase II and III clinical trials are important and promising projects. They provide Bachem with an outstanding platform for a successful future.

### Sales breakdown by product category

The API product category delivered strong growth again in 2016. This development is significant for the Group's future growth.

| in million CHF       | 2016  | Change<br>in local<br>currency | Change<br>in CHF | As % of<br>total sales |
|----------------------|-------|--------------------------------|------------------|------------------------|
| API Products         | 210.6 | + 18.2%                        | + 19.8%          | 89.0%                  |
| Research Ingredients | 25.9  | - 22.3%                        | - 21.0%          | 11.0%                  |
| Total sales          | 236.5 | + 11.8%                        | + 13.4%          | 100.0%                 |

The decline in research ingredients sales is primarily attributed to non-recurring, exceptionally large contracts involving approximately 5 million CHF in sales with a single customer in the previous year and, to a lesser extent, to the deliberate streamlining of the catalog range as mentioned above, with the objective of improving the profitability of this product category.

### Geographic breakdown

From a geographic perspective, the general sales trends in Europe and the US were very pleasing. Due to the aforementioned shift of some generics sales into the 2017 fiscal year and the pleasing growth in the US, the share of sales generated in North America continued to grow.

| in million CHF | 2016  | Change<br>in local<br>currency | Change<br>in CHF | As % of<br>total sales |
|----------------|-------|--------------------------------|------------------|------------------------|
| Europe         | 150.6 | + 9.9%                         | + 10.9%          | 63.7%                  |
| North America  | 85.9  | + 15.5%                        | + 17.9%          | 36.3%                  |
| Total sales    | 236.5 | + 11.8%                        | + 13.4%          | 100.0%                 |

### Bachem as market leader

Bachem managed to strengthen its leadership over the competition in an ongoing challenging market. Demand for peptide-based therapeutic agents remained firm and the order backlog is at an outstanding level. Selective investments to expand production capacity and the increasing utilization of resources and capacity acquired from APC will enable Bachem to overcome the challenges associated with the anticipated growth.

### EBIT grows despite extraordinary items

Bachem increased its operating profit (EBIT) by 17.0% to 45.1 million CHF in the period under review. One-off costs totaling 1.4 million CHF associated with legal counsel and the introduction of a new Group-wide Enterprise Resource Planning (ERP) system are included in the reported figure. The business units acquired from APC were not yet able to deploy their full potential due to the aforementioned production downtimes in the first half and had a negative impact on EBIT as in the previous year. Despite these extraordinary effects, Bachem was able to significantly widen its EBIT margin to 19.1% (previous year: 18.5%). Operating profit before depreciation and amortization (EBITDA) amounted to 64.8 million CHF (previous year: 56.8 million CHF). This corresponds to an EBITDA margin of 27.4%.

### Currency translation has a positive effect

Exchange-rate fluctuations were generally favorable compared to the previous year, especially by the USD/CHF and EUR/CHF currency pairs, and they had an

overall positive impact on the results published in Swiss francs. Currency translation had a positive effect of 3.3 million CHF at the top line. At the EBIT line, the positive effect of 1.4 million CHF reported at the mid-year mark rose to 2.0 million CHF by year-end.

#### **Gross profit +9.6%**

Personnel had to be recruited at all production units in 2016 to meet the rise in demand. Various cost savings and high rates of capacity utilization offset only part of the increase in personnel costs. Moreover, the expansion work at the Vista, California, site in the first half of the year led to a temporary reduction in capacity utilization and in the absorption of fixed costs. Those effects already receded somewhat in the second half thanks to a substantial increase in the utilization of capacity in the US. Cost of goods sold for the year as a whole amounted to 159.2 million or 67.3% of sales (H1 2016: 67.7% / previous year: 66.2%). Despite these negative factors, Bachem managed to increase its gross profit for the year by 6.8 million CHF (+9.6%) in nominal terms. This marks a continuation of the pleasing trend from previous reporting periods.

#### **Specialists a key factor for success**

The success of Bachem Group rests upon the know-how and experience of its workforce. Against the background of increasing project complexity and growing regulatory requirements, Bachem and its customers can rely on the strong skills and experience of its specialists to get the job done. Their vast knowledge and untiring dedication help them to satisfy the highest expectations regarding quality and partnership day in and day out.

#### **Headcount at Bachem passes 1000 mark**

Thanks to the good course of business and high capacity utilization, Bachem was able to create 120 new jobs by the end of last year. As of December 31, 2016, Bachem Group employed a total of 1022 people in 979 full-time-equivalent positions. As the market leader in peptides, Bachem offers its employees unique opportunities to work on exciting, groundbreaking projects in interdisciplinary teams and together with customers and to actively contribute, for example, to the development of new therapeutic agents for more effective treatment of diseases.

#### **Personnel costs increase**

Staff costs were again the Group's largest single cost item in 2016. The higher costs compared to the previous year are attributed to the organic growth fueled by the pleasing order intake and to the pro rata inclusion of costs for the retained APC employees as of March 2015. Total personnel expenses for the period amounted to 113.3 million CHF (previous year: 95.1 million CHF).

#### **Marketing & sales stable**

The company participated in all major trade fairs and was widely acknowledged as the "Pioneering Partner for Peptides". Despite the unchanged level of marketing and sales activities and the further professionalization of its marketing campaigns, marketing and sales costs were held at the previous year's level of 14.2 million CHF. The corresponding share of sales declined to 6.0% due to the pleasing top-line growth (previous year: 6.8%).

#### **Research & development in line with budget**

The Group's research and development costs amounted to 1.6 million CHF (previous year: 2.1 million CHF). This is slightly below the approximately 2 million CHF in projected spending on R&D in a typical year. The reported figure includes amortization of previously capitalized development costs for new generics in the amount of 42 kCHF. 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 2016, as in previous reporting periods.

#### **General administrative costs rise to new level**

General administrative costs amounted to 17.6 million CHF. This corresponds to an increase of 0.9 million CHF from the previous year (+5.1%). The difference to the prior year period is largely attributable to the recruitment of additional staff and specialists for internal services units and for the operations acquired from APC.

#### **Increase in depreciation & amortization**

Depreciation and amortization amounted to 19.7 million CHF, approximately 1.4 million CHF more than in the previous year. This increase is largely attributed to the commissioning of new production capacity in Bubendorf, Switzerland. No impairments were recognized during the period under review.

### Net income rises disproportionately faster

Net income for fiscal 2016 was likewise well above the figure reported in the previous year. Bachem's net income of 41.2 million CHF exceeded the bottom-line figure from 2015 by 9.4 million CHF (+29.4%).

### Additional boost from currency translation

Thanks to a recovery in the euro and a stronger dollar, the currency translation effect on net income for the period was a positive 1.2 million (previous year: -1.0 million CHF).

### Interest expense at comparable level

Interest rates remained low, but funding needs rose considerably, resulting in higher interest expense of 0.2 million CHF (previous year: 0.1 million CHF).

### Exceptionally low tax rate

The Group's tax rate was only 10.2%. This is largely attributed to one-time revaluations of deferred tax positions as well as tax credits and allowances. Tax expenses for fiscal 2016 amounted to 4.7 million CHF. Bachem expects the Group tax rate will be about 18% in future reporting periods.

### Cash flow diminished by net current assets

Cash flow from operating activities before changes in net current assets amounted to 59.6 million CHF in 2016, which corresponds to an increase of 7.7 million CHF from the previous fiscal year (+14.8%). Cash-flow-relevant capital held in net current assets increased by a total of 19.2 million CHF in comparison. The cash-flow-relevant increase in trade receivables of 10.5 million CHF and the increase in inventory of 11.8 million CHF to meet growing business requirements were only partly offset by the sum of 3.1 million CHF resulting from change in other current receivables and liabilities as well as related accruals and deferrals.

### Investments in preparation for future growth

Approximately 51 million CHF was invested in 2016 to maintain a sturdy platform for future growth. Bachem increased capacity at all production sites, upgraded and replaced equipment, and strengthened its compliance units. These investments ensure that Bachem will maintain its high standards regarding social responsibility, health and safety in the workplace and environmental protection.

### Higher funding needs

Due to the increase in the dividend to CHF 2.25 (previous year: CHF 2.00), the dividend distribution of 30.5 million CHF was once again higher than in the previous year (27.1 million CHF). A total of 17.0 million CHF of the financial liabilities reported in the previous year were repaid in the first half of the year. At year-end, the company had aggregate outstanding loans of 45.0 million CHF with two Swiss banks and an outstanding business loan of 10.0 million CHF from Inagro Finanz AG. Total loan liabilities vis-à-vis third parties and related parties amounted to 55.0 million CHF on the reporting date of December 31, 2016. Cash flow from financing activities amounted to +7.2 million CHF.

### Cash and cash equivalents of 19.2 million CHF

Cash and cash equivalents in the consolidated cash flow statement decreased by 4.0 million CHF. Total cash holdings as defined in the cash flow statement amounted to 19.2 million CHF at year-end.

### Solid capital base

With an equity ratio of 73.6%, Bachem remains solidly financed. 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.

### An outperformer on the stock market

Over the course of the 2016 fiscal year, the price of Bachem shares (BANB) traded on SIX Swiss Exchange rose by 74% from 51.90 CHF to 90.30 CHF. This marks the second consecutive year that Bachem has clearly outperformed the SPI (-1.4%) and the SMI (-6.8%). The lowest closing price during the year was 49.55 CHF, recorded on three days in January and February, and the highest closing price was 97.95 CHF, recorded on October 19, 2016. Bachem increased its earnings per share (EPS) by more than 29% from 2.35 CHF to 3.04 CHF during the year under review.

### Dividend increased

Having increased earnings per share significantly for the fifth consecutive year, the Board of Directors is proposing an 11.1% increase in the dividend to 2.50 CHF (previous year: 2.25 CHF) at the Annual General Meeting in April 2017.



# CONSOLIDATED INCOME STATEMENT

For the years ended December 31

| in 1000 CHF                             | Notes | 2016          | 2015          |
|-----------------------------------------|-------|---------------|---------------|
| Sales                                   | 1/2   | 236 478       | 208 604       |
| Cost of goods sold                      |       | - 159 231     | - 138 122     |
| <b>Gross profit</b>                     |       | <b>77 247</b> | <b>70 482</b> |
| Other income                            |       | 1 114         | 969           |
| Marketing and sales costs               |       | - 14 180      | - 14 163      |
| Research and development costs          |       | - 1 564       | - 2 092       |
| General administrative costs            |       | - 17 561      | - 16 701      |
| <b>Operating income (EBIT)</b>          | 2     | <b>45 056</b> | <b>38 495</b> |
| Financial income                        | 5     | 1 178         | 24            |
| Financial expenses                      | 6     | - 347         | - 1 243       |
| <b>Ordinary income before taxes</b>     |       | <b>45 887</b> | <b>37 276</b> |
| Income taxes                            | 7     | - 4 682       | - 5 438       |
| <b>Net income<sup>1</sup></b>           |       | <b>41 205</b> | <b>31 838</b> |
| <b>Basic earnings per share (CHF)</b>   | 8     | <b>3.04</b>   | <b>2.35</b>   |
| <b>Diluted earnings per share (CHF)</b> | 8     | <b>3.04</b>   | <b>2.35</b>   |

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

The notes on pages 70 to 94 are an integral part of the consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

At December 31, 2016 and 2015

| in 1000 CHF                                                                         | Notes | Dec. 31, 2016  | Dec. 31, 2015  |
|-------------------------------------------------------------------------------------|-------|----------------|----------------|
| <b>Assets</b>                                                                       |       |                |                |
| Cash and cash equivalents                                                           |       | 19 206         | 23 249         |
| Trade receivables                                                                   | 9     | 49 390         | 38 645         |
| Other current receivables                                                           | 10    | 1 719          | 2 324          |
| Prepaid expenses and accrued income                                                 | 11    | 2 489          | 1 664          |
| Current income tax asset                                                            |       | 1 099          | 1 078          |
| Inventories                                                                         | 12    | 151 890        | 139 664        |
| <b>Total current assets</b>                                                         |       | <b>225 793</b> | <b>206 624</b> |
| Property, plant and equipment                                                       | 13    | 255 265        | 223 120        |
| Intangible assets                                                                   | 14    | 9 595          | 9 325          |
| Assets from employer contribution reserve                                           | 4     | 320            | 320            |
| Deferred tax assets                                                                 |       | 5 536          | 4 443          |
| <b>Total non-current assets</b>                                                     |       | <b>270 716</b> | <b>237 208</b> |
| <b>Total assets</b>                                                                 |       | <b>496 509</b> | <b>443 832</b> |
| <b>Liabilities and equity</b>                                                       |       |                |                |
| Trade payables                                                                      | 15    | 21 998         | 21 229         |
| Other current liabilities                                                           | 16    | 7 058          | 4 733          |
| Accrued expenses and deferred income                                                | 17    | 11 749         | 11 459         |
| Current income tax liabilities                                                      |       | 3 562          | 4 272          |
| Current financial liabilities                                                       | 18    | 55 134         | 17 146         |
| <b>Total current liabilities</b>                                                    |       | <b>99 501</b>  | <b>58 839</b>  |
| Non-current financial liabilities                                                   | 18    | 302            | 277            |
| Deferred tax liabilities                                                            | 7     | 31 342         | 31 353         |
| <b>Total non-current liabilities</b>                                                |       | <b>31 644</b>  | <b>31 630</b>  |
| <b>Total liabilities</b>                                                            |       | <b>131 145</b> | <b>90 469</b>  |
| Share capital                                                                       | 19    | 680            | 680            |
| Retained earnings                                                                   |       | 369 309        | 358 588        |
| Share premium                                                                       |       | 27 687         | 26 689         |
| Own shares                                                                          |       | - 958          | - 959          |
| Cumulative translation differences                                                  |       | - 31 354       | - 31 635       |
| <b>Total capital and reserves attributable to the equity holders of the company</b> |       | <b>365 364</b> | <b>353 363</b> |
| <b>Total liabilities and equity</b>                                                 |       | <b>496 509</b> | <b>443 832</b> |

The notes on pages 70 to 94 are an integral part of the consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the years ended December 31

| in 1000 CHF                                                                     | Notes   | 2016            | 2015            |
|---------------------------------------------------------------------------------|---------|-----------------|-----------------|
| <b>Cash flow from operating activities</b>                                      |         |                 |                 |
| Net income                                                                      |         | 41 205          | 31 838          |
| Adjustments for:                                                                |         |                 |                 |
| Income taxes                                                                    | 7       | 4 682           | 5 438           |
| Depreciation and amortization                                                   | 2/13/14 | 19 726          | 18 345          |
| Financial income                                                                | 5       | - 1 178         | - 24            |
| Financial expenses                                                              | 6       | 347             | 1 243           |
| Share based payments                                                            | 20      | 938             | 746             |
| Loss/gain on sale of property, plant and equipment                              |         | - 60            | 3               |
| Income taxes paid                                                               |         | - 6 452         | - 5 327         |
| Other non-cash items                                                            |         | 438             | - 296           |
| <b>Cash flow from operating activities before changes in net current assets</b> |         | <b>59 646</b>   | <b>51 966</b>   |
| Change in trade receivables                                                     |         | - 10 496        | 5 003           |
| Change in other current receivables, prepaid expenses and accrued income        |         | - 243           | - 1 882         |
| Change in inventories                                                           |         | - 11 833        | 1 516           |
| Change in trade payables                                                        |         | 781             | 4 863           |
| Change in other current liabilities, accrued expenses and deferred income       |         | 2 554           | - 32            |
| <b>Cash flow from operating activities</b>                                      |         | <b>40 409</b>   | <b>61 434</b>   |
| <b>Cash flow from investing activities</b>                                      |         |                 |                 |
| Investments in property, plant and equipment                                    |         | - 49 168        | - 21 467        |
| Sales of property, plant and equipment                                          |         | 60              | 41              |
| Investments in intangible assets                                                |         | - 2 093         | - 3 913         |
| Acquisitions                                                                    | 24      | 0               | - 10 693        |
| Interest received                                                               |         | 13              | 23              |
| Other financial payments and proceeds                                           |         | - 142           | - 138           |
| <b>Cash flow from investing activities</b>                                      |         | <b>- 51 330</b> | <b>- 36 147</b> |
| <b>Cash flow from financing activities</b>                                      |         |                 |                 |
| Additions of own shares                                                         |         | 0               | - 3             |
| Disposals of own shares                                                         |         | 61              | 76              |
| Dividends paid                                                                  | 21      | - 20 484        | - 17 069        |
| Increase in financial liabilities                                               |         | 45 000          | 19 000          |
| Repayment of financial liabilities                                              |         | - 17 160        | - 33 209        |
| Interest paid                                                                   |         | - 200           | - 140           |
| <b>Cash flow from financing activities</b>                                      |         | <b>7 217</b>    | <b>- 31 345</b> |
| Net effect of currency translation on cash and cash equivalents                 |         | - 339           | - 187           |
| <b>Net change in cash and cash equivalents</b>                                  |         | <b>- 4 043</b>  | <b>- 6 245</b>  |
| <b>Cash and cash equivalents at the beginning of the year</b>                   |         | <b>23 249</b>   | <b>29 494</b>   |
| <b>Cash and cash equivalents at the end of the year</b>                         |         | <b>19 206</b>   | <b>23 249</b>   |
| <b>Net change in cash and cash equivalents</b>                                  |         | <b>- 4 043</b>  | <b>- 6 245</b>  |

The notes on pages 70 to 94 are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

| 2016<br>in 1000 CHF                       | Notes | Share<br>capital | Retained<br>earnings | Share<br>premium | Own<br>shares | Cumulative<br>translation<br>differences | Total           |
|-------------------------------------------|-------|------------------|----------------------|------------------|---------------|------------------------------------------|-----------------|
| <b>Balance at January 1</b>               |       | <b>680</b>       | <b>358 588</b>       | <b>26 689</b>    | <b>- 959</b>  | <b>- 31 635</b>                          | <b>353 363</b>  |
| Net income according to income statement  |       |                  | 41 205               |                  |               |                                          | <b>41 205</b>   |
| Dividends                                 | 21    |                  | - 30 484             |                  |               |                                          | <b>- 30 484</b> |
| Transactions with own shares (net of tax) |       |                  |                      | 60               | 1             |                                          | <b>61</b>       |
| Share based payments                      | 20    |                  |                      | 938              |               |                                          | <b>938</b>      |
| Cumulative translation differences        |       |                  |                      |                  |               | 281                                      | <b>281</b>      |
| <b>Balance at December 31</b>             |       | <b>680</b>       | <b>369 309</b>       | <b>27 687</b>    | <b>- 958</b>  | <b>- 31 354</b>                          | <b>365 364</b>  |

| 2015<br>in 1000 CHF                       | Notes | Share<br>capital | Retained<br>earnings | Share<br>premium | Own<br>shares | Cumulative<br>translation<br>differences | Total           |
|-------------------------------------------|-------|------------------|----------------------|------------------|---------------|------------------------------------------|-----------------|
| <b>Balance at January 1</b>               |       | <b>680</b>       | <b>339 471</b>       | <b>41 568</b>    | <b>- 957</b>  | <b>- 31 631</b>                          | <b>349 131</b>  |
| Net income according to income statement  |       |                  | 31 838               |                  |               |                                          | <b>31 838</b>   |
| Dividends                                 | 21    |                  | - 11 369             | - 15 700         |               |                                          | <b>- 27 069</b> |
| Offset goodwill                           | 24/25 |                  | - 1 352              |                  |               |                                          | <b>- 1 352</b>  |
| Transactions with own shares (net of tax) |       |                  |                      | 75               | - 2           |                                          | <b>73</b>       |
| Share based payments                      | 20    |                  |                      | 746              |               |                                          | <b>746</b>      |
| Cumulative translation differences        |       |                  |                      |                  |               | - 4                                      | <b>- 4</b>      |
| <b>Balance at December 31</b>             |       | <b>680</b>       | <b>358 588</b>       | <b>26 689</b>    | <b>- 959</b>  | <b>- 31 635</b>                          | <b>353 363</b>  |

As of December 31, 2016, the accumulated non-distributable reserves amount to 12 636 kCHF (previous year: 12 636 kCHF).

The notes on pages 70 to 94 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 February 22, 2017 to be presented for approval by the Annual General Meeting on April 24, 2017.

## 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

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 had no effect on the results of the Bachem Group. The impacts on the disclosure were marginally.

### 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 22.

### 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<br>average rates |      | Balance sheet<br>year-end rates |      |
|--------|-----------------------------------|------|---------------------------------|------|
|        | 2016                              | 2015 | 2016                            | 2015 |
| USD    | 0.99                              | 0.97 | 1.02                            | 1.00 |
| EUR    | 1.09                              | 1.07 | 1.07                            | 1.09 |
| GBP    | 1.34                              | 1.47 | 1.26                            | 1.48 |

#### 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 three 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 five 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 fulfilment 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 three 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):

| <b>December 31, 2016</b><br>in 1 000 CHF | Less than<br>1 month | Between<br>1 and 3<br>months | Between<br>3 and 12<br>months | Between<br>1 and 5<br>years | Over<br>5 years | Total         |
|------------------------------------------|----------------------|------------------------------|-------------------------------|-----------------------------|-----------------|---------------|
| Trade payables                           | 19 993               | 1 687                        | 318                           |                             |                 | <b>21 998</b> |
| Other current liabilities                | 6 121                | 623                          | 314                           |                             |                 | <b>7 058</b>  |
| Accrued expenses and deferred income     | 1 026                | 2 322                        | 8 401                         |                             |                 | <b>11 749</b> |
| Current income tax liabilities           | 0                    | 1 400                        | 2 162                         |                             |                 | <b>3 562</b>  |
| Current financial liabilities            | 34 012               | 33                           | 21 089                        |                             |                 | <b>55 134</b> |
| Non-current financial liabilities        |                      |                              |                               | 302                         | 0               | <b>302</b>    |

| <b>December 31, 2015</b><br>in 1 000 CHF | Less than<br>1 month | Between<br>1 and 3<br>months | Between<br>3 and 12<br>months | Between<br>1 and 5<br>years | Over<br>5 years | Total         |
|------------------------------------------|----------------------|------------------------------|-------------------------------|-----------------------------|-----------------|---------------|
| Trade payables                           | 19 237               | 1 194                        | 798                           |                             |                 | <b>21 229</b> |
| Other current liabilities                | 4 437                | 0                            | 296                           |                             |                 | <b>4 733</b>  |
| Accrued expenses and deferred income     | 884                  | 2 105                        | 8 470                         |                             |                 | <b>11 459</b> |
| Current income tax liabilities           | 518                  | 1 401                        | 2 353                         |                             |                 | <b>4 272</b>  |
| Current financial liabilities            | 16                   | 4 048                        | 13 082                        |                             |                 | <b>17 146</b> |
| Non-current financial liabilities        |                      |                              |                               | 277                         | 0               | <b>277</b>    |

#### *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       | 2016           | 2015           |
|--------------------|----------------|----------------|
| Products           | 218 638        | 196 968        |
| Services           | 17 840         | 11 636         |
| <b>Total sales</b> | <b>236 478</b> | <b>208 604</b> |

| in 1 000 CHF                                | 2016           | 2015           |
|---------------------------------------------|----------------|----------------|
| Active pharmaceutical ingredients (APIs)    | 210 562        | 175 783        |
| Research chemicals (incl. custom synthesis) | 25 916         | 32 821         |
| <b>Total sales</b>                          | <b>236 478</b> | <b>208 604</b> |

## 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 |
|------------------------------------------------------------------|----------------|---------------|----------------|----------------------------|---------------------|
| <b>Sales information 2016</b>                                    |                |               |                |                            |                     |
| Sales third parties                                              | 150 543        | 85 935        | 236 478        | 0                          | <b>236 478</b>      |
| Sales intersegment                                               | 45 622         | 12 203        | 57 825         | - 57 825                   | <b>0</b>            |
| <b>Total sales</b>                                               | <b>196 165</b> | <b>98 138</b> | <b>294 303</b> | <b>- 57 825</b>            | <b>236 478</b>      |
| <b>Income information 2016</b>                                   |                |               |                |                            |                     |
| Operating income (EBIT)                                          | 44 978         | 5 309         | 50 287         | - 5 231 <sup>1</sup>       | <b>45 056</b>       |
| <b>Other information 2016</b>                                    |                |               |                |                            |                     |
| Additions in property, plant and equipment and intangible assets | 34 561         | 16 873        | 51 434         | 0                          | <b>51 434</b>       |
| Depreciation and amortization                                    | - 16 887       | - 2 805       | - 19 692       | - 34                       | <b>- 19 726</b>     |
| Total assets                                                     | 388 631        | 116 577       | 505 208        | - 8 699 <sup>2</sup>       | <b>496 509</b>      |
| Total liabilities                                                | 200 510        | 49 594        | 250 104        | - 118 959 <sup>3</sup>     | <b>131 145</b>      |

<sup>1</sup> The amount consists of the operating income from corporate activities of -4 475 kCHF and of eliminations in the value of -756 kCHF.

<sup>2</sup> The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 175 752 kCHF and of eliminations in the value of -184 451 kCHF.

<sup>3</sup> The amount consists of corporate liabilities of 62 828 kCHF and of eliminations in the value of -181 787 kCHF.

| in 1 000 CHF                  | Europe         | North America | Total segments | Corporate and eliminations | Consolidated values |
|-------------------------------|----------------|---------------|----------------|----------------------------|---------------------|
| <b>Sales information 2015</b> |                |               |                |                            |                     |
| Sales third parties           | 135 692        | 72 912        | 208 604        | 0                          | <b>208 604</b>      |
| Sales intersegment            | 36 261         | 4 055         | 40 316         | – 40 316                   | <b>0</b>            |
| <b>Total sales</b>            | <b>171 953</b> | <b>76 967</b> | <b>248 920</b> | <b>– 40 316</b>            | <b>208 604</b>      |

|                                |        |       |        |                      |               |
|--------------------------------|--------|-------|--------|----------------------|---------------|
| <b>Income information 2015</b> |        |       |        |                      |               |
| Operating income (EBIT)        | 38 865 | 4 212 | 43 077 | – 4 582 <sup>1</sup> | <b>38 495</b> |

|                                                                  |          |         |          |                        |                 |
|------------------------------------------------------------------|----------|---------|----------|------------------------|-----------------|
| <b>Other information 2015</b>                                    |          |         |          |                        |                 |
| Additions in property, plant and equipment and intangible assets | 19 347   | 6 001   | 25 348   | 32                     | <b>25 380</b>   |
| Depreciation and amortization                                    | – 15 649 | – 2 661 | – 18 310 | – 35                   | <b>– 18 345</b> |
| Total assets                                                     | 353 871  | 96 666  | 450 537  | – 6 705 <sup>2</sup>   | <b>443 832</b>  |
| Total liabilities                                                | 174 287  | 33 170  | 207 457  | – 116 988 <sup>3</sup> | <b>90 469</b>   |

<sup>1</sup> The amount consists of the operating income from corporate activities of –4 670 kCHF and of eliminations in the value of 88 kCHF.

<sup>2</sup> The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 136 772 kCHF and of eliminations in the value of –143 477 kCHF.

<sup>3</sup> The amount consists of corporate liabilities of 24 296 kCHF and of eliminations in the value of –141 284 kCHF.

| <b>Information about geographical areas – sales third parties</b> |                |                |
|-------------------------------------------------------------------|----------------|----------------|
| in 1 000 CHF                                                      | 2016           | 2015           |
| Switzerland                                                       | 16 851         | 31 364         |
| USA                                                               | 77 281         | 56 052         |
| Great Britain                                                     | 27 211         | 22 916         |
| Germany                                                           | 25 078         | 17 143         |
| Austria                                                           | 20 582         | 24 305         |
| Rest of the world                                                 | 69 475         | 56 824         |
| <b>Total</b>                                                      | <b>236 478</b> | <b>208 604</b> |

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

### 3 Staff costs

| in 1 000 CHF                   | 2016             | 2015            |
|--------------------------------|------------------|-----------------|
| Salaries and wages             | – 88 234         | – 75 738        |
| Pension expenses               | – 5 501          | – 4 705         |
| Other social security expenses | – 11 614         | – 9 084         |
| Share-based payments           | – 938            | – 746           |
| Other personnel-related costs  | – 7 020          | – 4 789         |
| <b>Total staff costs</b>       | <b>– 113 307</b> | <b>– 95 062</b> |



#### 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, 2016   | Dec. 31, 2016                        | Dec. 31, 2015 | 2016                                   | 2016          | 2016                            | 2015         |
| Plans without surplus/deficit                                              | 0               | 0                                    | 0             | 0                                      | 673           | 673                             | 491          |
| Plans with surplus                                                         | 905             | 320                                  | 320           | 0                                      | 4 828         | 4 828                           | 4 214        |
| Plans with deficit                                                         | 0               | 0                                    | 0             | 0                                      | 0             | 0                               | 0            |
| Plans without own assets                                                   | 0               | 0                                    | 0             | 0                                      | 0             | 0                               | 0            |
| <b>Total</b>                                                               | <b>905</b>      | <b>320</b>                           | <b>320</b>    | <b>0</b>                               | <b>5 501</b>  | <b>5 501</b>                    | <b>4 705</b> |

| 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, 2016 | Dec. 31, 2016 | 2016                             | 2015       | 2016     | 2016                                                      | 2015     |
| Patronage funds                             | 0             | 0             | 0                                | 0          | 0        | 0                                                         | 0        |
| Pension institution                         | 320           | 0             | 320                              | 320        | 0        | 0                                                         | 0        |
| <b>Total</b>                                | <b>320</b>    | <b>0</b>      | <b>320</b>                       | <b>320</b> | <b>0</b> | <b>0</b>                                                  | <b>0</b> |

#### 5 Financial income

| in 1 000 CHF                  | 2016         | 2015      |
|-------------------------------|--------------|-----------|
| Interest income               | 14           | 24        |
| Foreign exchange result       | 1 164        | 0         |
| <b>Total financial income</b> | <b>1 178</b> | <b>24</b> |

#### 6 Financial expenses

| in 1 000 CHF                    | 2016         | 2015           |
|---------------------------------|--------------|----------------|
| Interest expenses               | - 205        | - 140          |
| Other financial expenses        | - 142        | - 138          |
| Foreign exchange result         | 0            | - 965          |
| <b>Total financial expenses</b> | <b>- 347</b> | <b>- 1 243</b> |

Other financial expenses mainly include bank charges.

**7 Income taxes**

| in 1 000 CHF              | 2016           | 2015           |
|---------------------------|----------------|----------------|
| Current taxes             | - 5 769        | - 7 182        |
| Deferred taxes            | 1 087          | 1 744          |
| <b>Total income taxes</b> | <b>- 4 682</b> | <b>- 5 438</b> |

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:

| <b>Tax rate reconciliation</b><br>in % | 2016        | 2015        |
|----------------------------------------|-------------|-------------|
| <b>Expected tax rate</b>               | <b>17.0</b> | <b>15.6</b> |
| Change in tax loss carry-forwards      | 0.0         | 0.0         |
| Tax credits and allowances             | - 2.7       | - 1.0       |
| Revaluation of deferred taxes          | - 3.3       | 0.0         |
| Adjustments for prior periods          | - 0.7       | 0.0         |
| Other impacts                          | - 0.1       | 0.0         |
| <b>Effective tax rate</b>              | <b>10.2</b> | <b>14.6</b> |

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

At the end of the years 2016 and 2015, no Group company had any tax loss carry-forwards.

| <b>Movement of deferred tax liabilities</b><br>in 1 000 CHF | 2016          | 2015          |
|-------------------------------------------------------------|---------------|---------------|
| <b>Deferred tax liabilities at January 1</b>                | <b>31 353</b> | <b>32 151</b> |
| Change in scope of consolidation                            | 0             | 168           |
| Recognized in income statement                              | 19            | - 940         |
| Currency translation differences                            | - 30          | - 26          |
| <b>Deferred tax liabilities at December 31</b>              | <b>31 342</b> | <b>31 353</b> |

## 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.

| <b>Basic</b>                          | <b>2016</b> | 2015        |
|---------------------------------------|-------------|-------------|
| Net income (in 1 000 CHF)             | 41 205      | 31 838      |
| Average number of shares outstanding  | 13 545 983  | 13 532 178  |
| <b>Basic earnings per share (CHF)</b> | <b>3.04</b> | <b>2.35</b> |

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

| <b>Diluted</b>                                                      | <b>2016</b> | 2015        |
|---------------------------------------------------------------------|-------------|-------------|
| Net income (in 1 000 CHF)                                           | 41 205      | 31 838      |
| Average number of shares outstanding                                | 13 545 983  | 13 532 178  |
| Adjustment for dilutive share options                               | 139         | 504         |
| Average number of shares outstanding for diluted earnings per share | 13 546 122  | 13 532 682  |
| <b>Diluted earnings per share (CHF)</b>                             | <b>3.04</b> | <b>2.35</b> |

In the reporting year and in the prior year, all outstanding options were dilutive.

## 9 Trade receivables

| in 1 000 CHF                                  | <b>Dec. 31, 2016</b> | Dec. 31, 2015 |
|-----------------------------------------------|----------------------|---------------|
| Trade receivables                             | 49 605               | 38 947        |
| Provision for impairment of trade receivables | - 215                | - 302         |
| <b>Total trade receivables</b>                | <b>49 390</b>        | <b>38 645</b> |

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

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

| <b>Movement of provision for impairment of trade receivables</b><br>in 1 000 CHF | <b>2016</b>  | 2015         |
|----------------------------------------------------------------------------------|--------------|--------------|
| <b>Provision for impairment of trade receivables at January 1</b>                | <b>- 302</b> | <b>- 73</b>  |
| Change in scope of consolidation                                                 | 0            | - 257        |
| Provision for receivables impairment                                             | - 186        | - 128        |
| Receivables written off during the year as uncollectable                         | 274          | 162          |
| Unused amounts reversed                                                          | 0            | 0            |
| Currency translation differences                                                 | - 1          | - 6          |
| <b>Provision for impairment of trade receivables at December 31</b>              | <b>- 215</b> | <b>- 302</b> |

The ageing analysis of trade receivables is as follows:

| Ageing analysis<br>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, 2016               | <b>49 605</b> | 36 842  | 11 361    | 663                      | 154        | 315         | 8                    | 262        |
| December 31, 2015               | <b>38 947</b> | 25 878  | 8 919     | 2 608                    | 566        | 648         | 0                    | 328        |

## 10 Other current receivables

| in 1 000 CHF                           | Dec. 31, 2016 | Dec. 31, 2015 |
|----------------------------------------|---------------|---------------|
| Other receivables                      | 1 719         | 2 324         |
| <b>Total other current receivables</b> | <b>1 719</b>  | <b>2 324</b>  |

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

## 11 Prepaid expenses and deferred income

| in 1 000 CHF                                     | Dec. 31, 2016 | Dec. 31, 2015 |
|--------------------------------------------------|---------------|---------------|
| Prepaid expenses and accrued income              | 2 489         | 1 664         |
| <b>Total prepaid expenses and accrued income</b> | <b>2 489</b>  | <b>1 664</b>  |

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

## 12 Inventories

| in 1 000 CHF                     | Dec. 31, 2016  | Dec. 31, 2015  |
|----------------------------------|----------------|----------------|
| Raw materials                    | 17 067         | 17 672         |
| Work in progress                 | 26 884         | 27 458         |
| Semi-finished and finished goods | 107 939        | 94 534         |
| <b>Total inventories</b>         | <b>151 890</b> | <b>139 664</b> |

The provision for slow-movers in the total amount of 44 062 kCHF (2015: 41 470 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.



## 13 Property, plant and equipment

| <b>2016</b><br>in 1 000 CHF                    | Land and<br>Buildings | Installations<br>and laboratory<br>equipment | Other<br>property, plant<br>and equipment | Assets under<br>construction | Total           |
|------------------------------------------------|-----------------------|----------------------------------------------|-------------------------------------------|------------------------------|-----------------|
| <b>Cost at January 1</b>                       | <b>161 291</b>        | <b>237 782</b>                               | <b>16 760</b>                             | <b>21 402</b>                | <b>437 235</b>  |
| Additions                                      | 64                    | 686                                          | 229                                       | 48 362                       | <b>49 341</b>   |
| Disposals                                      | -185                  | -1 553                                       | -2                                        | 0                            | <b>-1 740</b>   |
| Reclassifications                              | 7 358                 | 29 380                                       | 374                                       | -37 301                      | <b>-189</b>     |
| Currency translation differences               | 168                   | -124                                         | -37                                       | 718                          | <b>725</b>      |
| <b>Cost at December 31</b>                     | <b>168 696</b>        | <b>266 171</b>                               | <b>17 324</b>                             | <b>33 181</b>                | <b>485 372</b>  |
| <b>Accumulated at January 1</b>                | <b>-53 750</b>        | <b>-147 275</b>                              | <b>-13 090</b>                            | <b>0</b>                     | <b>-214 115</b> |
| Depreciation                                   | -3 327                | -13 445                                      | -916                                      | 0                            | <b>-17 688</b>  |
| Disposals                                      | 185                   | 1 553                                        | 2                                         | 0                            | <b>1 740</b>    |
| Currency translation differences               | -97                   | 15                                           | 38                                        | 0                            | <b>-44</b>      |
| <b>Accumulated depreciation at December 31</b> | <b>-56 989</b>        | <b>-159 152</b>                              | <b>-13 966</b>                            | <b>0</b>                     | <b>-230 107</b> |
| <b>Net book value at December 31</b>           | <b>111 707</b>        | <b>107 019</b>                               | <b>3 358</b>                              | <b>33 181</b>                | <b>255 265</b>  |

| <b>2015</b><br>in 1 000 CHF                    | Land and<br>Buildings | Installations<br>and laboratory<br>equipment | Other<br>property, plant<br>and equipment | Assets under<br>construction | Total           |
|------------------------------------------------|-----------------------|----------------------------------------------|-------------------------------------------|------------------------------|-----------------|
| <b>Cost at January 1</b>                       | <b>146 769</b>        | <b>232 363</b>                               | <b>16 020</b>                             | <b>12 422</b>                | <b>407 574</b>  |
| Change in scope of consolidation               | 6 963                 | 843                                          | 47                                        | 0                            | <b>7 853</b>    |
| Additions                                      | 0                     | 494                                          | 570                                       | 20 730                       | <b>21 794</b>   |
| Disposals                                      | 0                     | -87                                          | -382                                      | 0                            | <b>-469</b>     |
| Reclassifications                              | 7 176                 | 4 125                                        | 525                                       | -11 826                      | <b>0</b>        |
| Currency translation differences               | 383                   | 44                                           | -20                                       | 76                           | <b>483</b>      |
| <b>Cost at December 31</b>                     | <b>161 291</b>        | <b>237 782</b>                               | <b>16 760</b>                             | <b>21 402</b>                | <b>437 235</b>  |
| <b>Accumulated depreciation at January 1</b>   | <b>-50 505</b>        | <b>-135 638</b>                              | <b>-12 507</b>                            | <b>0</b>                     | <b>-198 650</b> |
| Depreciation                                   | -3 172                | -11 612                                      | -942                                      | 0                            | <b>-15 726</b>  |
| Disposals                                      | 0                     | 42                                           | 341                                       | 0                            | <b>383</b>      |
| Currency translation differences               | -73                   | -67                                          | 18                                        | 0                            | <b>-122</b>     |
| <b>Accumulated depreciation at December 31</b> | <b>-53 750</b>        | <b>-147 275</b>                              | <b>-13 090</b>                            | <b>0</b>                     | <b>-214 115</b> |
| <b>Net book value at December 31</b>           | <b>107 541</b>        | <b>90 507</b>                                | <b>3 670</b>                              | <b>21 402</b>                | <b>223 120</b>  |

Bachem does not have any undeveloped land.

The carrying amount of fixed assets under finance lease contracts at year-end 2015 amounted to 411 kCHF (2015: 405 kCHF). Depreciation relating to fixed assets under finance lease amounted to 168 kCHF (2015: 206 kCHF).

No assets were pledged for security of own liabilities in 2016. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

| <b>Present value of finance lease liabilities</b><br>in 1 000 CHF | <b>Dec. 31, 2016</b> | Dec. 31, 2015 |
|-------------------------------------------------------------------|----------------------|---------------|
| Within 1 year                                                     | 134                  | 146           |
| Between 1 and 5 years                                             | 302                  | 277           |
| More than 5 years                                                 | 0                    | 0             |
| <b>Present value of finance lease liabilities</b>                 | <b>436</b>           | <b>423</b>    |

The existing finance lease contracts have been concluded in Switzerland and in the USA in the last 4 years. Their remaining durations are between 3 and 4 years. In all cases, the finance lease contracts are related to office and IT equipment.

| <b>Operating lease liabilities – minimum lease payments</b><br>in 1 000 CHF | <b>Dec. 31, 2016</b> | Dec. 31, 2015 |
|-----------------------------------------------------------------------------|----------------------|---------------|
| Within 1 year                                                               | 440                  | 509           |
| Between 1 and 5 years                                                       | 860                  | 986           |
| More than 5 years                                                           | 782                  | 929           |
| <b>Total future minimum operating lease payments</b>                        | <b>2 082</b>         | <b>2 424</b>  |

There are operating leases for office facilities, vehicles and buildings at the moment. The remaining life of the different contracts is between 1 and 9 years. There are renewal options for the leases of the buildings.

The recognized expenses for operating leases in the consolidated income statement 2016 was 622 kCHF (2015: 495 kCHF).

## 14 Intangible assets

| 2016<br>in 1 000 CHF                           | Capitalized<br>development<br>costs | Other<br>intangible<br>assets | Total           |
|------------------------------------------------|-------------------------------------|-------------------------------|-----------------|
| <b>Cost at January 1</b>                       | <b>3 274</b>                        | <b>31 105</b>                 | <b>34 379</b>   |
| Additions                                      | 0                                   | 2 093                         | <b>2 093</b>    |
| Disposals                                      | 0                                   | 0                             | <b>0</b>        |
| Reclassifications                              | 0                                   | 189                           | <b>189</b>      |
| Currency translation differences               | 0                                   | 63                            | <b>63</b>       |
| <b>Cost at December 31</b>                     | <b>3 274</b>                        | <b>33 450</b>                 | <b>36 724</b>   |
| <b>Accumulated amortization at January 1</b>   | <b>- 2 851</b>                      | <b>- 22 203</b>               | <b>- 25 054</b> |
| Amortization                                   | - 42                                | - 1 996                       | <b>- 2 038</b>  |
| Disposals                                      | 0                                   | 0                             | <b>0</b>        |
| Currency translation differences               | 0                                   | - 37                          | <b>- 37</b>     |
| <b>Accumulated amortization at December 31</b> | <b>- 2 893</b>                      | <b>- 24 236</b>               | <b>- 27 129</b> |
| <b>Net book value at December 31</b>           | <b>381</b>                          | <b>9 214</b>                  | <b>9 595</b>    |

| 2015<br>in 1 000 CHF                           | Capitalized<br>development<br>costs | Other<br>intangible<br>assets | Total           |
|------------------------------------------------|-------------------------------------|-------------------------------|-----------------|
| <b>Cost at January 1</b>                       | <b>3 274</b>                        | <b>27 173</b>                 | <b>30 447</b>   |
| Additions                                      | 0                                   | 3 913                         | <b>3 913</b>    |
| Disposals                                      | 0                                   | 0                             | <b>0</b>        |
| Currency translation differences               | 0                                   | 19                            | <b>19</b>       |
| <b>Cost at December 31</b>                     | <b>3 274</b>                        | <b>31 105</b>                 | <b>34 379</b>   |
| <b>Accumulated amortization at January 1</b>   | <b>- 2 292</b>                      | <b>- 20 130</b>               | <b>- 22 422</b> |
| Amortization                                   | - 559                               | - 2 060                       | <b>- 2 619</b>  |
| Disposals                                      | 0                                   | 0                             | <b>0</b>        |
| Currency translation differences               | 0                                   | - 13                          | <b>- 13</b>     |
| <b>Accumulated amortization at December 31</b> | <b>- 2 851</b>                      | <b>- 22 203</b>               | <b>- 25 054</b> |
| <b>Net book value at December 31</b>           | <b>423</b>                          | <b>8 902</b>                  | <b>9 325</b>    |

## 15 Trade payables

| in 1 000 CHF                | Dec. 31, 2016 | Dec. 31, 2015 |
|-----------------------------|---------------|---------------|
| Trade payables              | 19 739        | 14 866        |
| Prepayments                 | 2 259         | 6 363         |
| <b>Total trade payables</b> | <b>21 998</b> | <b>21 229</b> |

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

**16 Other current liabilities**

| in 1 000 CHF                           | Dec. 31, 2016 | Dec. 31, 2015 |
|----------------------------------------|---------------|---------------|
| Other liabilities                      | 7 058         | 4 733         |
| <b>Total other current liabilities</b> | <b>7 058</b>  | <b>4 733</b>  |

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

**17 Accrued expenses and deferred income**

| in 1 000 CHF                                      | Dec. 31, 2016 | Dec. 31, 2015 |
|---------------------------------------------------|---------------|---------------|
| Accrued expenses and deferred income              | 11 749        | 11 459        |
| <b>Total accrued expenses and deferred income</b> | <b>11 749</b> | <b>11 459</b> |

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

**18 Financial liabilities**

| in 1 000 CHF                              | Dec. 31, 2016 | Dec. 31, 2015 |
|-------------------------------------------|---------------|---------------|
| Loans from related parties                | 10 000        | 10 000        |
| Bank loans                                | 45 000        | 7 000         |
| Finance lease liabilities                 | 436           | 423           |
| <b>Total financial liabilities</b>        | <b>55 436</b> | <b>17 423</b> |
| Thereof current financial liabilities     | 55 134        | 17 146        |
| Thereof non-current financial liabilities | 302           | 277           |

The loans from related parties (see note 23) and the bank loans were provided as unsecured business loans in CHF and bear an average interest of 0.5% p.a. The maturity of the bank loans is less than 6 months and the other loans have an open-ended maturity.

Since Bachem has the intention to repay the loans from related parties during the calendar year 2017 in full, they are presented as part of the current liabilities.

Details concerning finance leases are disclosed in note 13.

**19 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 8 on page 104.

| <b>Shares Bachem -A-</b>            | <b>Dec. 31, 2016</b> | <b>Dec. 31, 2015</b> |
|-------------------------------------|----------------------|----------------------|
| Number of shares                    | 6 802 000            | 6 802 000            |
| Number of fully paid-in shares      | 6 802 000            | 6 802 000            |
| Par value per share (in CHF)        | 0.05                 | 0.05                 |
| <b>Shares Bachem -B-</b>            |                      |                      |
| Number of shares                    | 6 798 000            | 6 798 000            |
| Number of fully paid-in shares      | 6 798 000            | 6 798 000            |
| Par value per share (in CHF)        | 0.05                 | 0.05                 |
| <b>Total number of shares</b>       | <b>13 600 000</b>    | <b>13 600 000</b>    |
| <b>Total share capital (in CHF)</b> | <b>680 000</b>       | <b>680 000</b>       |

On December 31, 2016, Bachem Holding AG held 50 468 own shares, of which 20 106 are reserved for trading and 30 362 for distribution under the employee participation plans.

| <b>Own shares</b>                                     |               | Purchases/<br>backslide of<br>blocked shares | Sales/transfer<br>to employees | <b>Dec. 31, 2016</b> |
|-------------------------------------------------------|---------------|----------------------------------------------|--------------------------------|----------------------|
| Number                                                | Dec. 31, 2015 |                                              |                                |                      |
| Employee participation plans at the price of 0.05 CHF | 43 979        | 0                                            | - 13 617                       | <b>30 362</b>        |
| Treasury stock at the price of 47.58 CHF              | 20 106        | 0                                            | 0                              | <b>20 106</b>        |
| <b>Total own shares</b>                               | <b>64 085</b> | <b>0</b>                                     | <b>- 13 617</b>                | <b>50 468</b>        |

| <b>Outstanding shares</b>       | <b>Dec. 31, 2016</b> | <b>Dec. 31, 2015</b> |
|---------------------------------|----------------------|----------------------|
| Total number of shares          | 13 600 000           | 13 600 000           |
| Number of own shares Bachem -B- | - 50 468             | - 64 085             |
| <b>Total shares outstanding</b> | <b>13 549 532</b>    | <b>13 535 915</b>    |



**20 Share-based payment**

The employee and management participation plans are described in the accounting policies on pages 75 and 76. The recognized expenses for share-based payments in the reporting period amounted to 938 kCHF (2015: 746 kCHF).

In 2016 and 2015, the following number of shares was granted:

| <b>Shares granted</b>                             |             |        |
|---------------------------------------------------|-------------|--------|
| Number/CHF                                        | <b>2016</b> | 2015   |
| Number of granted shares                          | 13 617      | 12 985 |
| Average fair value per share at grant date in CHF | 60.48       | 48.92  |

The option plan developed as follows:

|                                  | <b>2016</b>       |                                        | 2015              |                                        |
|----------------------------------|-------------------|----------------------------------------|-------------------|----------------------------------------|
|                                  | Number of options | Weighted average exercise price in CHF | Number of options | Weighted average exercise price in CHF |
| <b>Share options outstanding</b> |                   |                                        |                   |                                        |
| <b>At January 1</b>              | <b>2 092</b>      | <b>37.15</b>                           | <b>5 075</b>      | <b>40.40</b>                           |
| Granted options                  | 0                 | 0.00                                   | 0                 | 0.00                                   |
| Cancelled options                | 0                 | 0.00                                   | 0                 | 0.00                                   |
| Expired options                  | - 200             | 37.64                                  | - 1 013           | 50.76                                  |
| Exercised options                | - 1 628           | 37.44                                  | - 1 970           | 38.52                                  |
| <b>At December 31</b>            | <b>264</b>        | <b>35.00</b>                           | <b>2 092</b>      | <b>37.15</b>                           |
| <b>Exercisable options</b>       | <b>264</b>        | <b>35.00</b>                           | <b>1 098</b>      | <b>39.09</b>                           |

In 2013, the share option plan was terminated and the last options were issued.

| <b>Options by expiry date</b> |                |             |              |
|-------------------------------|----------------|-------------|--------------|
| Number                        | Exercise price | <b>2016</b> | 2015         |
| Year 2016                     | 35.00          | 0           | 536          |
| Year 2016                     | 43.00          | 0           | 562          |
| Year 2017                     | 35.00          | 264         | 994          |
| <b>Total</b>                  |                | <b>264</b>  | <b>2 092</b> |

Bachem holds own shares in order to meet its obligations under the employee participation plans. For the change in the number of Bachem shares outstanding, please refer to note 19.

## 21 Dividend distribution

On April 22, 2016, a dividend of 30 484 kCHF respectively 2.25 per share was distributed for the year 2015 (previous year: 27 069 kCHF respectively 2.00 CHF per share).

Of the total dividend in the amount of 30 484 kCHF, 20 484 kCHF were paid out and 10 000 kCHF remained as a loan (see note 23).

The Board of Directors will propose a dividend of 2.50 CHF per share or a total of 33 874 kCHF on 13 549 598 shares entitled to dividend, to the Annual General Meeting for the year 2016. The number of shares entitled to dividend may change until the Annual General Meeting on April 24, 2017, due to the granting of shares to employees or the purchase/sale of own shares.

## 22 Consolidated companies

| Consolidated company                               | Country     | Currency | Registered capital | Equity share Dec. 31, 2016 | Equity share Dec. 31, 2015 |
|----------------------------------------------------|-------------|----------|--------------------|----------------------------|----------------------------|
| 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 <sup>1</sup>       | USA         | USD      | 3 000              | 100%                       | 100%                       |
| Peninsula Laboratories, LLC, San Carlos            | USA         | USD      | 32 000             | 100%                       | 100%                       |
| American Peptide Company, Inc., Vista <sup>1</sup> | USA         | USD      | 13 790 112         | n/a                        | n/a                        |

<sup>1</sup> American Peptide Company, Inc., Vista, was merged with Bachem Americas, Inc., Torrance, as per December 31, 2015.

## 23 Related party transactions

Breiten Immobilien AG, Chemoforma AG, Hotel Bad Schauenburg AG, Ingro Finanz AG, MFC Beteiligungs AG, Peninsula Laboratories International, Inc., the pension fund of the Swiss Group Companies, Sunstar Group as well as the Board of Directors, and the Corporate Executive Committee of Bachem Holding AG are considered related parties. The following tables show an overview of the transactions and balances with related parties:

| <b>Transactions</b><br>in 1 000 CHF                                              | <b>2016</b>     | <b>2015</b>     |
|----------------------------------------------------------------------------------|-----------------|-----------------|
| Breiten Immobilien AG (lease of business premises)                               | - 202           | n/a             |
| Breiten Immobilien AG (rendering of services)                                    | 20              | n/a             |
| Chemoforma AG (purchase of goods)                                                | - 2             | 0               |
| Hotel Bad Schauenburg AG (seminars)                                              | - 30            | - 11            |
| Ingro Finanz AG (dividend paid out)                                              | - 6 979         | - 5 093         |
| Ingro Finanz AG (dividend converted into loan)                                   | - 10 000        | - 10 000        |
| Ingro Finanz AG (interest paid)                                                  | - 48            | - 33            |
| Peninsula Laboratories International, Inc. (sale of goods/rendering of services) | 20              | 7               |
| Pension fund (employer's contribution)                                           | - 4 828         | - 4 214         |
| <b>Total transactions with related parties</b>                                   | <b>- 22 049</b> | <b>- 19 344</b> |

| <b>Balances</b><br>in 1 000 CHF            | <b>Dec. 31, 2016</b> | <b>Dec. 31, 2015</b> |
|--------------------------------------------|----------------------|----------------------|
| Ingro Finanz AG                            | - 10 000             | - 10 000             |
| <b>Total balances with related parties</b> | <b>- 10 000</b>      | <b>- 10 000</b>      |

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.

## 24 Acquisitions

As of March 27, 2015, Bachem has taken over all shares of the American Peptide Company, Inc., in California, USA. The American Peptide Company provides a wide range of services from small-scale catalog business and custom synthesis to large-scale manufacturing under cGMP.

In addition to the symbolic purchase price of 1 USD paid in cash, loans in the amount of 13.2 million CHF were settled. The acquired net assets at fair values amounted to 12.3 million CHF. The main balance sheet items at time of acquisition are: cash of 3.2 million CHF, inventories of 1.8 million CHF and property, plant & equipment of 7.9 million CHF.

Since the acquisition costs were slightly higher than the acquired net assets at fair values, the acquisition results in a goodwill. The goodwill in the amount of 1.4 million CHF, including transaction costs of 0.5 million CHF, was offset against equity.

**25 Theoretical goodwill**

Goodwill is offset against retained earnings at the time of purchase of a subsidiary. The theoretical capitalization of goodwill, based on a useful life of 5 years, would have the following impact on the consolidated balance sheet:

| Theoretical goodwill<br>in 1 000 CHF                         | 2016         | 2015         |
|--------------------------------------------------------------|--------------|--------------|
| <b>Theoretical cost at January 1</b>                         | <b>1 352</b> | <b>0</b>     |
| Additions from acquisitions                                  | 0            | 1 352        |
| <b>Theoretical cost at December 31</b>                       | <b>1 352</b> | <b>1 352</b> |
| <b>Theoretical accumulated amortization at January 1</b>     | <b>- 203</b> | <b>0</b>     |
| Theoretical amortization                                     | - 270        | - 203        |
| <b>Theoretical accumulated amortization at December 31</b>   | <b>- 473</b> | <b>- 203</b> |
| <b>Theoretical net book value of goodwill at December 31</b> | <b>879</b>   | <b>1 149</b> |

Acquisitions are translated into CHF with the exchange rate applicable on their respective transaction dates. As a result of this procedure, no currency adjustments are necessary in the above statement of changes in goodwill.

Had goodwill been capitalized and amortized, the theoretical effect on net income would have been as follows.

| in 1 000 CHF                                                 | 2016          | 2015          |
|--------------------------------------------------------------|---------------|---------------|
| <b>Net income according to income statement</b>              | <b>41 205</b> | <b>31 838</b> |
| Theoretical amortization of goodwill                         | - 270         | - 203         |
| <b>Theoretical net income after amortization of goodwill</b> | <b>40 935</b> | <b>31 635</b> |

**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**

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

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of Bachem Holding AG and its subsidiaries (Bachem or the Group, respectively), which comprise the consolidated balance sheet as at December 31, 2016 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (pages 66 to 94).

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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### OUR AUDIT APPROACH OVERVIEW



Overall Group materiality:  
CHF 2 200 000

We concluded full scope audit work at three reporting units in two countries. Our audit scope addressed 84% of the Group's total sales and 98% of the Group's total assets.

We identified the inventory provision as key audit matter.



### Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. We performed a full scope audit at Bachem Holding AG and Bachem AG in Bubendorf. Specified procedures were tailored to cover significant financial statement line items at Bachem Americas, Inc. in the United States.

### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

|                                                        |                                                                                                                                                                                                         |
|--------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>OVERALL GROUP MATERIALITY</b>                       | CHF 2 200 000                                                                                                                                                                                           |
| <b>HOW WE DETERMINED IT</b>                            | 5% of profit before tax (rounded)                                                                                                                                                                       |
| <b>RATIONALE FOR THE MATERIALITY BENCHMARK APPLIED</b> | We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of a listed group is most commonly measured, and is a generally accepted benchmark. |

We agreed with the Board of Directors that we would report to them misstatements above CHF 220 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

### Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INVENTORY PROVISION

### KEY AUDIT MATTER

Inventories amount to CHF 151.9 million after the deduction of an inventory provision of CHF 44.1 million representing 31% of the total assets.

We consider the valuation of inventories as key audit matter given the magnitude of this balance sheet position and the judgment involved in determining the required product category based inventory provision for slow movers and products not yet released by quality control. The inventory provision is determined based on an item by item system based days-of-inventory analysis. Additional inventory provisions are recorded on a case by case basis.

Further information on inventories is provided in the accounting policy section (page 72), the critical accounting estimates and assumptions section (page 79) and in the footnotes with a breakdown by inventory categories (page 85).

### HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We performed the following audit procedures:

- Our audit approach started with the assessment of the existence and effectiveness of the process related key controls.
- We discussed and assessed the key assumptions made by Bachem in relation to the system based inventory slow-mover provision calculation.
- We tested the system based calculation of the inventory provision on a sample basis and tested the slow-mover report for completeness.
- In addition, we discussed the requirement for inventory provisions recorded on a case by case basis with Bachem and performed tests on sample basis.
- Further, we assessed Bachem's net realizable value analysis and performed tests on a sample basis.
- We assessed the inventory provision in performing days-of-inventory based analytical procedures on a product category level.

The procedures performed as described above gave us sufficient audit comfort to address the inventory provision specific valuation risk. We have no audit findings to report.

### Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on other legal and regulatory requirements**

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

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

PricewaterhouseCoopers AG



Dr. Rodolfo Gerber  
Audit expert  
Auditor in charge



Raphael Rutishauser  
Audit expert

Basel, February 22, 2017

# INCOME STATEMENT

For the years ended December 31

| in 1 000 CHF                            | Notes | 2016           | 2015           |
|-----------------------------------------|-------|----------------|----------------|
| <b>Income</b>                           |       |                |                |
| Income from investments                 | 1     | 17 645         | 15 334         |
| Income from licenses                    |       | 20 918         | 18 197         |
| Interest income                         | 2     | 1 523          | 3 928          |
| Other income                            |       | 20             | 0              |
| Other financial income                  |       | 561            | 498            |
| <b>Total income</b>                     |       | <b>40 667</b>  | <b>37 957</b>  |
| <b>Expenses</b>                         |       |                |                |
| Staff costs                             |       | - 2 733        | - 2 963        |
| Administration expenses                 |       | - 5 771        | - 5 144        |
| Interest expenses                       | 3     | - 172          | - 116          |
| Other financial expenses                |       | - 39           | - 33           |
| Depreciation and amortization           |       | - 11           | - 11           |
| <b>Total expenses</b>                   |       | <b>- 8 726</b> | <b>- 8 267</b> |
| <b>Ordinary net income before taxes</b> |       | <b>31 941</b>  | <b>29 690</b>  |
| Taxes                                   |       | - 1 439        | - 1 442        |
| <b>Net income for the year</b>          |       | <b>30 502</b>  | <b>28 248</b>  |



# BALANCE SHEET

At December 31, 2016 and 2015

| in 1 000 CHF                                 | Notes | Dec. 31, 2016  | Dec. 31, 2015  |
|----------------------------------------------|-------|----------------|----------------|
| <b>Assets</b>                                |       |                |                |
| Cash and cash equivalents                    |       | 6 491          | 5 614          |
| Other receivables from third parties         |       | 936            | 732            |
| Other receivables from group companies       | 1     | 38 137         | 31 518         |
| Prepaid expenses and accrued income          |       | 0              | 27             |
| <b>Total current assets</b>                  |       | <b>45 564</b>  | <b>37 891</b>  |
| Loans to group companies                     |       | 129 593        | 98 251         |
| Investments                                  | 4     | 115 305        | 115 305        |
| Property, plant and equipment                |       | 23             | 34             |
| <b>Total non-current assets</b>              |       | <b>244 921</b> | <b>213 590</b> |
| <b>Total assets</b>                          |       | <b>290 485</b> | <b>251 481</b> |
| <b>Liabilities and equity</b>                |       |                |                |
| Current interest-bearing liabilities         | 5     | 55 000         | 17 000         |
| Other current liabilities to third parties   |       | 142            | 313            |
| Other current liabilities to group companies |       | 5 963          | 4 644          |
| Deferred income and accrued expenses         |       | 1 983          | 2 563          |
| <b>Total current liabilities</b>             |       | <b>63 088</b>  | <b>24 520</b>  |
| Share capital                                |       | 680            | 680            |
| Statutory capital reserves                   |       |                |                |
| Reserves from capital contribution           |       | 841            | 423            |
| Other capital reserves                       |       | 6 334          | 6 334          |
| Statutory retained earnings                  |       | 136            | 4 217          |
| Voluntary retained earnings                  |       | 102 669        | 98 589         |
| Available earnings                           |       |                |                |
| Net income brought forward                   |       | 87 193         | 89 429         |
| Net income for the year                      |       | 30 502         | 28 248         |
| Own shares                                   | 6     | - 958          | - 959          |
| <b>Total equity</b>                          |       | <b>227 397</b> | <b>226 961</b> |
| <b>Total liabilities and equity</b>          |       | <b>290 485</b> | <b>251 481</b> |

# NOTES TO THE FINANCIAL STATEMENTS OF BACHEM HOLDING AG

## Accounting policies

### General information

These financial statements were prepared in accordance with the provisions of the Swiss Law on Accounting and Financial Reporting (32<sup>nd</sup> title of the Swiss Code of Obligations). Significant valuation principles that have been applied in the preparation of these financial statements which are not prescribed by law are described below.

### Presentation of cash flow statement and additional disclosures in the notes dispensed with

As Bachem Holding AG has prepared consolidated financial statements under a recognized accounting standard (Swiss GAAP FER), it has decided, in accordance with the law, to dispense with the presentation of information on interest-bearing liabilities and audit fees in the notes, a cash flow statement, and an annual review.

### Valuation principles

Assets are valued at no more than cost. Liabilities are carried at nominal value.

All assets and liabilities in foreign currencies are translated by applying the exchange rate prevailing on the balance sheet date. Exchange differences are recognized in profit and loss.

Earnings and expenses originating in foreign currencies are translated at the exchange rate prevailing on the respective transaction dates.

### Income from investments

Income from investments comprises dividends from Group companies and other income from investments as well as management fees from Group companies.

### Investments

Investments are shown at historical acquisition costs less impairment, if any. They are usually valued individually unless they are considered to be one economic entity and thus combined into one group.

### Own shares

Own shares are recognized in equity as a negative item at cost as per the date of acquisition. Upon subsequent sale on the market, any gain or loss is recognized in the income statement as other financial income or expenses.

### Share-based payments

Part of the variable compensation paid to members of the Corporate Executive Committee and part of the compensation paid to members of the Board of Directors is in the form of Company shares. These shares are distributed at no cost to the recipients. The acquisition cost of the shares is recorded under personnel expense.

**1 Income from investments**

| in 1 000 CHF                         | 2016          | 2015          |
|--------------------------------------|---------------|---------------|
| Dividend income                      | 14 821        | 12 419        |
| Other income from investments        | 2 824         | 2 915         |
| <b>Total income from investments</b> | <b>17 645</b> | <b>15 334</b> |

On February 6, 2017, the ordinary Annual General Meeting from Bachem AG has decided to distribute a dividend in the amount of 14 000 kCHF for the business year 2016 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 2016 simultaneous to the disclosure of the profit in the books of the 100% subsidiary Bachem AG. The corresponding income is shown in the line dividend income and the corresponding receivable in the line other receivables from group companies.

**2 Interest income**

| in 1 000 CHF                    | 2016         | 2015         |
|---------------------------------|--------------|--------------|
| Interest income group companies | 1 523        | 3 928        |
| Interest income third parties   | 0            | 0            |
| <b>Total interest income</b>    | <b>1 523</b> | <b>3 928</b> |

**3 Interest expenses**

| in 1 000 CHF                    | 2016         | 2015         |
|---------------------------------|--------------|--------------|
| Interest expenses third parties | - 124        | - 83         |
| Interest expenses shareholders  | - 48         | - 33         |
| <b>Total interest expenses</b>  | <b>- 172</b> | <b>- 116</b> |

#### 4 Investments

| Company                                     | Location         | Capital and voting share<br>Dec. 31, 2016 | Capital and voting share<br>Dec. 31, 2015 |
|---------------------------------------------|------------------|-------------------------------------------|-------------------------------------------|
| Bachem AG                                   | Bubendorf, CH    | 100%                                      | 100%                                      |
| Bachem Distribution Services GmbH           | Weil am Rhein, D | 100%                                      | 100%                                      |
| Bachem (UK) Ltd.                            | St. Helens, GB   | 100%                                      | 100%                                      |
| Bachem Americas, Inc. <sup>1</sup>          | Torrance, USA    | 100%                                      | 100%                                      |
| Peninsula Laboratories, LLC                 | San Carlos, USA  | 100%                                      | 100%                                      |
| American Peptide Company, Inc. <sup>1</sup> | Vista, USA       | n/a                                       | n/a                                       |

<sup>1</sup> American Peptide Company, Inc., Vista, was merged with Bachem Americas, Inc., Torrance, as per December 31, 2015.

All companies are directly or indirectly held with 100%.

#### 5 Current interest-bearing liabilities

| in 1 000 CHF                                      | Dec. 31, 2016 | Dec. 31, 2015 |
|---------------------------------------------------|---------------|---------------|
| Bank loans                                        | 45 000        | 7 000         |
| Loans from shareholders                           | 10 000        | 10 000        |
| <b>Total current interest-bearing liabilities</b> | <b>55 000</b> | <b>17 000</b> |

#### 6 Own shares

Details to the holding and the changes in own shares are disclosed in the notes 19 and 20 of the consolidated financial statements.

#### 7 Full-time positions

The average number of full-time positions during the reporting year was below 10.

#### 8 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, 2016 | Dec. 31, 2015 |
|---------------------------------------------|---------------|---------------|
| P. Grogg (via Ingro Finanz AG) <sup>1</sup> | 55.5          | 55.5          |
| Family of P. Grogg                          | 6.1           | 6.1           |
| G. Knoch                                    | n/a           | 8.1           |
| Sarasin Investmentfonds AG                  | n/a           | 3.4           |
| <b>Total important shareholders</b>         | <b>61.6</b>   | <b>73.1</b>   |

<sup>1</sup> In this position, all shares -A- are included.

### 9 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 |
|---------------------------------------|-----------------------|--------------------------|------------------------|--------------------------------------|------------------------|---------------------------|-------------------------|---------------------------------------|
| <b>December 31, 2016</b>              |                       |                          |                        |                                      |                        |                           |                         |                                       |
| Kuno Sommer (Chairman)                | 6 000                 |                          | 6 000                  | 300                                  |                        |                           |                         |                                       |
| Nicole Grogg Hötzer (Vice-Chairwoman) | 86 900                |                          | 86 900                 | 300                                  |                        |                           |                         |                                       |
| Jürgen Brokatzky-Geiger (Member)      | 2 100                 |                          | 2 100                  | 300                                  |                        |                           |                         |                                       |
| Thomas Burckhardt (Secretary)         | 25                    |                          | 25                     | 300                                  |                        |                           |                         |                                       |
| Rolf Nyfeler (Member)                 | 54 010                |                          | 54 010                 | 300                                  |                        |                           |                         |                                       |
| Helma Wennemers (Member)              | 750                   |                          | 750                    | 300                                  |                        |                           |                         |                                       |
| <b>Total BoD</b>                      | <b>149 785</b>        | <b>0</b>                 | <b>149 785</b>         | <b>1 800</b>                         |                        |                           |                         |                                       |
| Thomas Früh (CEO) <sup>1</sup>        | 3 175                 | 3 834                    | 7 009                  | 1 242                                | 0                      | 0                         | 0                       | 0                                     |
| José de Chastonay (CMO)               | 5 233                 | 2 626                    | 7 859                  | 816                                  | 0                      | 0                         | 0                       | 0                                     |
| Günther Loidl (CTO)                   | 80                    | 2 608                    | 2 688                  | 848                                  | 66                     | 0                         | 66                      | 0                                     |
| Stephan Schindler (CFO)               | 4 760                 | 2 690                    | 7 450                  | 873                                  | 0                      | 0                         | 0                       | 0                                     |
| <b>Total CEC</b>                      | <b>13 248</b>         | <b>11 758</b>            | <b>25 006</b>          | <b>3 779</b>                         | <b>66</b>              | <b>0</b>                  | <b>66</b>               | <b>0</b>                              |
| <b>Total</b>                          | <b>163 033</b>        | <b>11 758</b>            | <b>174 791</b>         | <b>5 579</b>                         | <b>66</b>              | <b>0</b>                  | <b>66</b>               | <b>0</b>                              |

|                                       | Number of free shares | Number of blocked shares | Number of shares total | Shares allocated in reporting period | Number of free options | Number of blocked options | Number of options total | Options allocated in reporting period |
|---------------------------------------|-----------------------|--------------------------|------------------------|--------------------------------------|------------------------|---------------------------|-------------------------|---------------------------------------|
| <b>December 31, 2015</b>              |                       |                          |                        |                                      |                        |                           |                         |                                       |
| Kuno Sommer (Chairman)                | 5 000                 |                          | 5 000                  | 300                                  |                        |                           |                         |                                       |
| Nicole Grogg Hötzer (Vice-Chairwoman) | 86 600                |                          | 86 600                 | 300                                  |                        |                           |                         |                                       |
| Jürgen Brokatzky-Geiger (Member)      | 1 800                 |                          | 1 800                  | 300                                  |                        |                           |                         |                                       |
| Thomas Burckhardt (Secretary)         | 200                   |                          | 200                    | 300                                  |                        |                           |                         |                                       |
| Rolf Nyfeler (Member) <sup>1</sup>    | 53 710                |                          | 53 710                 | 300                                  |                        |                           |                         |                                       |
| Helma Wennemers (Member)              | 450                   |                          | 450                    | 300                                  |                        |                           |                         |                                       |
| <b>Total BoD</b>                      | <b>147 760</b>        | <b>0</b>                 | <b>147 760</b>         | <b>1 800</b>                         |                        |                           |                         |                                       |
| Thomas Früh (CEO) <sup>1</sup>        | 3 109                 | 2 592                    | 5 701                  | 1 165                                | 66                     | 166                       | 232                     | 0                                     |
| José de Chastonay (CMO)               | 233                   | 1 810                    | 2 043                  | 803                                  | 0                      | 0                         | 0                       | 0                                     |
| Günther Loidl (CTO)                   | 80                    | 1 760                    | 1 840                  | 349                                  | 67                     | 66                        | 133                     | 0                                     |
| Stephan Schindler (CFO)               | 4 760                 | 1 817                    | 6 577                  | 818                                  | 333                    | 166                       | 499                     | 0                                     |
| <b>Total CEC</b>                      | <b>8 182</b>          | <b>7 979</b>             | <b>16 161</b>          | <b>3 135</b>                         | <b>466</b>             | <b>398</b>                | <b>864</b>              | <b>0</b>                              |
| <b>Total</b>                          | <b>155 942</b>        | <b>7 979</b>             | <b>163 921</b>         | <b>4 935</b>                         | <b>466</b>             | <b>398</b>                | <b>864</b>              | <b>0</b>                              |

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



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

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

#### **10 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.

#### **11 Events after the balance sheet date**

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

# APPROPRIATION OF AVAILABLE EARNINGS

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

| Appropriation of available earnings                                                                                                  |     |                |
|--------------------------------------------------------------------------------------------------------------------------------------|-----|----------------|
| Net income brought forward at January 1                                                                                              | CHF | 87 192 927.12  |
| Net income for the year 2016                                                                                                         | CHF | 30 501 971.47  |
| Available to the Annual General Meeting                                                                                              | CHF | 117 694 898.59 |
| Dividend payment of 2.50 CHF per registered share for the business year 2016<br>on 13 549 598 registered shares entitled to dividend | CHF | 33 873 995.00  |
| Net income to be carried forward                                                                                                     | CHF | 83 820 903.59  |

The total amount of dividend mentioned in the proposal of the Board of Directors has been calculated on the basis of numbers of shares entitled to dividend on the day of the Board meeting. The number of shares entitled to dividend can still change up to the Annual General Meeting on April 24, 2017, depending on the distribution of shares to employees or purchase/sale of own shares.

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Bachem Holding AG, which comprise the balance sheet as at December 31, 2016, income statement and notes for the year then ended, including a summary of significant accounting policies (pages 100 to 106).

In our opinion, the financial statements as of December 31, 2016 comply with Swiss law and the company's articles of incorporation.

### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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## OUR AUDIT APPROACH OVERVIEW



Overall materiality: CHF 1 200 000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

The valuation of investments and loans to group companies was identified as key audit matter.

### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgments were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

|                                                        |                                                                                                                                                                                                       |
|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>OVERALL MATERIALITY</b>                             | CHF 1 200 000                                                                                                                                                                                         |
| <b>HOW WE DETERMINED IT</b>                            | 0.4% of total assets (rounded)                                                                                                                                                                        |
| <b>RATIONALE FOR THE MATERIALITY BENCHMARK APPLIED</b> | We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of a holding company is most commonly measured, and is a generally accepted benchmark. |

We agreed with the Board of Directors that we would report to them misstatements above CHF 120 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

### Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## VALUATION OF INVESTMENTS AND LOANS TO GROUP COMPANIES

### KEY AUDIT MATTER

As of December 31, 2016, the Company reports investments of CHF 115.3 million and loans to group companies of CHF 129.6 million. We consider the valuation of these balance sheet positions as key audit matter for the following reasons:

- These positions are significant and represent 84% of the total assets.
- The judgment involved in performing the impairment tests of investments and loans and assessing the related assumptions on the future performance of the business.

These investments represent the core business and therefore the value of Bachem group.

Further information on investments is provided in the accounting policy section (page 102) and in the footnotes with more detailed information on the holdings (page 104).

### HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We performed the following audit procedures:

- In a first step, we assessed the carrying value of the investments and loans to group companies individually item-by-item based on the net asset value, the net profit of the year and the budget.
- We evaluated the underlying budgeting process and the Board of Director's approval.
- Further, the market capitalization of the group (based on Bachem Holdings AG's share price) was compared with the carrying value of the investments and loans to group companies as they are considered to represent the relevant value of Bachem group.

The procedures performed as described above gave us sufficient audit comfort to address the investment and loans specific valuation risk. We have no audit findings to report.

### Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.



**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on other legal and regulatory requirements**

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

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

PricewaterhouseCoopers AG



Dr. Rodolfo Gerber  
Audit expert  
Auditor in charge



Raphael Rutishauser  
Audit expert

Basel, February 22, 2017

# SHAREHOLDER INFORMATION

|                                               |          | 2016              | 2015       | 2014       | 2013       | 2012       |
|-----------------------------------------------|----------|-------------------|------------|------------|------------|------------|
| 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          |          | 13 545 983        | 13 532 178 | 13 512 994 | 13 500 625 | 13 488 349 |
| Dividend per share                            | CHF      | 2.50 <sup>1</sup> | 2.25       | 2.00       | 1.75       | 1.50       |
| Share price                                   | High     | CHF 97.95         | 53.90      | 51.80      | 52.00      | 39.30      |
|                                               | Low      | CHF 49.55         | 41.80      | 44.75      | 35.20      | 33.00      |
|                                               | Year-end | CHF 90.30         | 51.90      | 49.00      | 48.50      | 36.40      |
| Dividend yield per share                      | %        | 2.8               | 4.3        | 4.1        | 3.6        | 4.1        |
| Earnings per share (EPS)                      | CHF      | 3.04              | 2.35       | 2.15       | 1.75       | 1.15       |
| Cash flow from operating activities per share | CHF      | 2.98              | 4.54       | 3.49       | 3.65       | 2.73       |
| Group equity per share                        | CHF      | 26.97             | 26.11      | 25.84      | 24.92      | 24.73      |
| Price/earnings ratio (year-end)               |          | 29.70             | 22.09      | 22.79      | 27.71      | 31.65      |
| Market capitalization at year-end             | MCHF     | 1 228             | 706        | 666        | 660        | 495        |

<sup>1</sup> Proposal to the Annual General Meeting of April 24, 2017

Bachem registered shares are traded at the SIX Swiss Exchange.

Valor number: 1253 020; SIX: BANB; Reuters: BANB.S; Bloomberg: BANB SW.

## Distribution of shares

| Number of shares per shareholder | Dec. 31, 2016 | Dec. 31, 2015 |
|----------------------------------|---------------|---------------|
| 0–100                            | 1 324         | 969           |
| 101–1 000                        | 1 873         | 1 579         |
| 1 001–10 000                     | 264           | 233           |
| 10 001–100 000                   | 41            | 44            |
| 100 001–1 000 000                | 8             | 5             |
| 1 000 001 and more               | 1             | 2             |
| <b>Total</b>                     | <b>3 511</b>  | <b>2 832</b>  |

## Shareholdings

| in %                       | Dec. 31, 2016 | Dec. 31, 2015 |
|----------------------------|---------------|---------------|
| Major shareholders         | 61.6          | 73.1          |
| Institutional shareholders | 15.6          | 10.5          |
| Private individuals        | 12.2          | 11.5          |
| Dispo                      | 10.6          | 4.9           |
| <b>Total</b>               | <b>100.0</b>  | <b>100.0</b>  |

## Events

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### **Annual General Meeting**

(business year 2016)

April 24, 2017

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### **Payout Date for Dividend**

April 28, 2017

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### **Half-Year Report 2017**

August 25, 2017

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### **Annual Report 2017**

March 2018

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### **Annual General Meeting**

(business year 2017)

April 2018

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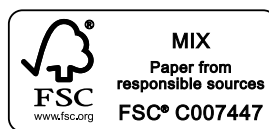
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**Forward-looking statements**

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.



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