BACHEM ANNUAL REPORT 2017

KEEPING UP THE MOMENTUM

KEEPING UP THE MOMENTUM

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**

KEEPING UP THE MOMENTUM

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.

BACHEM SPRING SYMPOSIUM

The seventh Bachem Spring Symposium was held in Basel in 2017. This year's event was the continuation of an impressive success story, highlighting the importance of the symposium for the exchange of scientific ideas on innovative chemical methods and application of Bachem products and bringing together the right people from the industry and research sectors.

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FIT FOR THE MARKET

By actively investing in our employees as well as buildings and facilities, Bachem is securing the foundation for a successful future.

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RELIABLE PARTNER

With a consistent focus on continual progress and improvement, we strive to excel in all business areas.

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INTERVIEW DR. J. DE CHASTONAY DR. A. STOLLER

It's about much more than the product itself. We don't just sell peptides, we support our customers in a close partnership from product development to approval.

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THE WORLD OF PEPTIDES

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.

WHAT ARE PEPTIDES?

Peptides are chains of 2 to about 100 amino acids. Longer chains are called proteins. Peptides are organic compounds made up of natural amino acids in living organisms. Originally isolated from biological sources, they are synthesized chemically today. The biological properties of peptides depend on the number of amino acids involved and their position in the chain. The 20 natural α-amino acids are 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

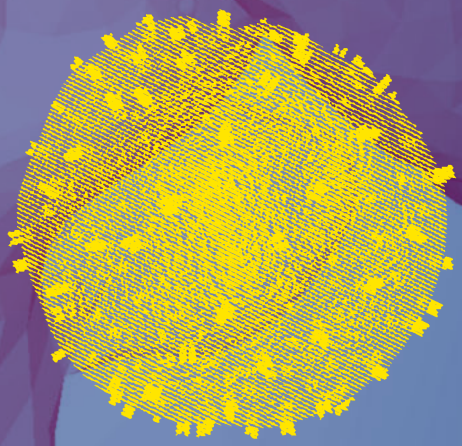
Peptides taken orally would undergo rapid breakdown in the digestive system and would therefore be unlikely to reach their target organs. Peptide-based drugs are usually administered by the parenteral route for that reason. In addition to conventional injections, implants with durations of action ranging 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.

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.



PDB ID 2n0a: Atomic-resolution structure of alpha-synuclein fibrils / Primary publication: Solid-state NMR structure of a pathogenic fibril of full-length human α-synuclein, Tuttle MD, Comellas G, Nieuwkoop AJ, Covell DJ, Berthold DA, Kloepper KD, Courtney JM, Kim JK, Barclay AM, Kendall A, Wan W, Stubbs G, Schwieters CD, Lee VM, George JM, Rienstra CM (PubMed ID: 27018801)

BACHEM SPRING SYMPOSIUM 2017

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The Symposium's remarkable agenda once again underscored Bachem's pioneering role in peptide and amino acid chemistry. This year's program addressed the latest peptide analysis technologies and featured scientists and business leaders as speakers.

As in previous years, the day began with a tour of Bachem's state-of-the-art production facilities and analytical laboratories at the Bubendorf plant. This was followed by the scientific portion of the symposium in Basel with over 30 guests from the worlds of business and science.

Dr. José de Chastonay and the moderator, Prof. Helma Wennemers, opened the proceedings. The audience heard presentations by Prof. Wolfgang Lindner (Lindner Consulting GmbH) on stereoselective separation methods for amino acids and small peptides and from Dr. Dan Bach Kristensen (Symphogen) on using mass spectroscopy for peptide quantification and pharmaceutical development.

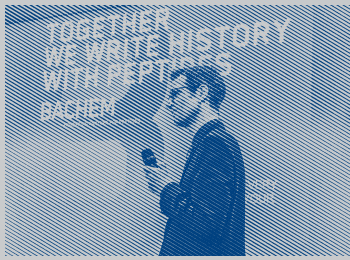
Dr. Wendy Winchester (Takeda) spoke on the significance of biological test procedures in drug development, and Dr. Astrid Pappenberger (Roche) gave a presentation on challenges in formulating therapeutic peptides. According to Dr. Pappenberger, close teamwork, a reliable production process and robust analytical methods are the keys to successful drug formulation, bolstering her arguments with six very different case studies.

Dr. Tobias Hauck, Head of Quality Control at Bachem Bubendorf, gave the final presentation on Bachem's quality strategy for pharmaceutically active peptide substances. Bachem has implemented a "holistic" quality strategy for pharmaceutically active peptide substances to meet ever-stricter targets in the context of an ever-growing number of projects. The entire spectrum of in-house analytics is gathered under the Quality Control umbrella (Figure 1). In addition, the latest analytical methods are used in each application case, as Dr. Hauck illustrated using various examples. With some 30 post-doctoral scientists and a laboratory staff of over 90 in Bubendorf alone, Quality Control is one of the absolute key units at Bachem, guaranteeing the exceptional quality of the company's products every day.

A shared dinner at the close of the Symposium gave this eclectic group of experts from a wide range of disciplines, who would rarely get the chance to meet in the course of their everyday work, an opportunity to exchange ideas.

We owe a debt of thanks to the organizers, moderators, and all who participated for making this valuable symposium possible.

KEEPING UP THE MOMENTUM



QUALITY CONTROL

ANALYTICAL DEVELOPMENT/ VALIDATION	RELEASE TESTING RAW AND STARTING MATERIALS	IPC & TROUBLE SHOOTING	RELEASE TESTING GMP MATERIALS	STABILITY

QC CONCEPTS, INTERNAL GUIDELINES AND PROCEDURES, TECHNICAL REPORTS, PROJECT MANAGEMENT

QC STAFF, ANALYTICAL TECHNOLOGIES, IT SYSTEMS

Figure: Holistic quality control at Bachem. Good manufacturing practice (GMP) refers to practices for compliance with regulations governing the production and sale of pharmaceutical substances. QC: Quality control.

LETTER TO SHAREHOLDERS

Dear Shareholders,

Bachem's positioning as a Pioneering Partner for Peptides underscores our focus on the core peptides business with a commitment, based on unique expertise and a strong capacity for innovation, to being the best partner for successful execution of peptide projects of all kinds. Investments in additional modern production facilities at our US location in Vista, California, and in an automated high-bay warehouse at our headquarters in Switzerland will allow us to further expand our global leadership in the peptide market. With a planned local presence in Japan, the most important Asian market, we intend to take greater advantage of the dynamic growth in the Far East. In addition to organic growth, we will also review opportunities to further strengthen our position through selective alliances, acquisitions or portfolio expansions.

Even as the market and competitive environment remained challenging, Bachem hit sales and profit growth targets in fiscal year 2017 again. Dynamic growth continued in all markets, resulting in a 10.6% increase in sales. Sales of active pharmaceutical ingredients continued to develop favorably. The key business area of patented new chemical entities (NCEs), a key to future success, saw expansion in excess of 15%. As anticipated, Bachem also succeeded in significantly boosting operating profit in 2017. Profit from operations increased by 12.3% over the prior year while the EBIT margin reached 19.3%. Since operating potential is not yet fully exhausted at all levels, and especially at the Vista facility acquired in 2015, we expect further positive movement in revenues and profits in the coming years.

Our share price continued to rise in 2017. This is a strong incentive for us to continue delivering top performance with highly qualified and dedicated employees into the future. At the same time, we have no intention of losing our realistic perspective and will maintain strict cost discipline and carefully plan and execute necessary investments.

For the coming years, we are confident that sales in local currencies will continue to grow within the range of our long-term forecast of 6–10% per year. Profit growth takes precedence over sales growth. We remain strongly committed to expanding our leadership role in our core business of peptides and to being the pioneering partner for customers worldwide. In light of the results achieved, our continuing good prospects and financial stability, the Board of Directors will propose at the Annual General Meeting a dividend increase from 2.50 CHF to 2.75 CHF per share.

Dr. Kuno Sommer
Chairman of the
Board of Directors

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

Dr. Kuno Sommer

Dr. Thomas Früh

CORPORATE EXECUTIVE COMMITTEE

Dr. Thomas Früh, Chief Executive Officer (CEO)

"Systematic implementation of the strategy with well-educated and highly motivated staff is vital to continued growth."

Stephan Schindler, Chief Financial Officer (CFO)

"Being successful is first and foremost about staying hungry. As long as there are some more ambitious goals, we won't rest on our laurels."

KEEPING UP THE MOMENTUM

Dr. Günther Loidl, Chief Technology Officer (CTO)

"On a foundation of innovation and quality, we are further expanding our market leadership and remain the partner of choice for peptide projects."

Dr. Alex Fässler, Chief Operations Officer (COO)

"Our strong commitment to quality is rooted in our corporate culture. We practice operational excellence in every department so that we can always deliver the best solution."

Dr. José de Chastonay, Chief Marketing Officer (CMO)

"The basis of our future growth is our extensive product and project portfolio, which we are systematically developing and expanding."

2017 IN BRIEF

EBITDA (IN MCHF)

71.5

Operating result (EBITDA) improved by 10.4% in CHF.

MARKET CAPITALIZATION (IN BILLION CHF)

2.1

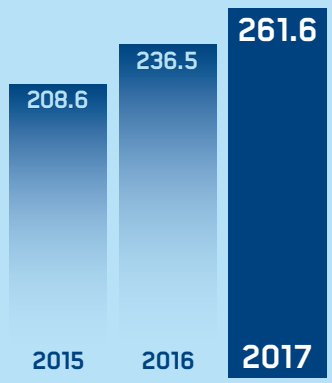
Market capitalization increased year-on-year by 70.5% to 2.1 billion CHF.

DIVIDEND (IN CHF)

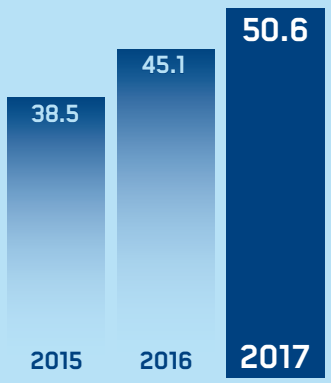
2.75

Proposed dividend 10% higher than in the prior year.

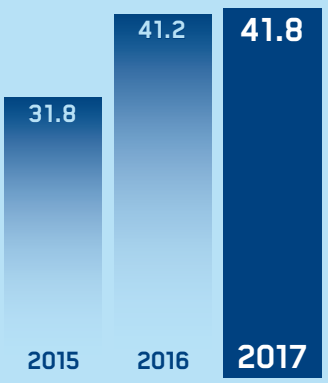
SALES (IN MCHF)



EBIT (IN MCHF)



NET INCOME (IN MCHF)



			CHANGES IN %	
	2017	2016	CHF	LC
SALES (IN MCHF)	261.6	236.5	+10.6	+10.5
EBITDA (IN MCHF)	71.5	64.8	+10.4	+9.6
EBITDA IN % OF SALES	27.3	27.4		
EBIT (IN MCHF)	50.6	45.1	+12.3	+11.1
EBIT IN % OF SALES	19.3	19.1		
NET INCOME (IN MCHF)	41.8	41.2	+1.4	
NET INCOME IN % OF SALES	16.0	17.4		
EARNINGS PER SHARE (EPS – IN CHF)	3.08	3.04	+1.2	
CASH FLOW FROM OPERATING ACTIVITIES (IN MCHF)	35.7	40.4	–11.5	
RETURN ON EQUITY (IN %)	11.3	11.5		
NUMBER OF EMPLOYEES (IN FULL-TIME EQUIVALENTS)	1 057	979		
SALES PER EMPLOYEE [1] (IN CHF)	266 000	267 000		

[1] Basis: average full-time equivalents excluding apprentices.

GROWTH WELL ABOVE THE OVERALL MARKET

With solid first-half results and further gains in the second half of the year, Bachem continued the successful trend of recent years. Expectations were again high for the 2017 fiscal year. Through hard work, determination and perseverance, these expectations were met or exceeded even in the face of considerable challenges. Sales growth again substantially outpaced the overall market while profitability remained high. In contrast to the previous year, currency translation effects on the measurement of intra-Group loans significantly reduced net income.

SALES UP BY MORE THAN 10%

By the mid-year mark, Bachem was already anticipating full-year sales growth of 10%, placing expectations at the upper end of the long-term target range of 6–10%. With sales up by 10.6%, this guidance was more than met. Bachem's sales for the year were 25.1 million CHF above the previous period, reaching a new record in the company's history at 261.6 million CHF.

PROFITABILITY INCREASED

Despite initial project delays and higher costs associated with expansion, Bachem's profitability was again higher. Operating profit (EBIT) was up by 12.3% (5.6 million CHF) for the period under review, reaching 50.6 million CHF. The EBIT margin rose to 19.3%.

HIGHER NET INCOME DESPITE CURRENCY TRANSLATION EFFECTS

In contrast to the positive contribution of 1.2 million CHF for the previous year, currency translation effects eroded net income for the year under review by a hefty –1.8 million CHF. The accounting measurement of US dollar-denominated intercompany loans to Group companies accounted for most of the charges. Despite the substantial impact of the exchange rate loss compared to the previous year, net income was increased to 41.8 million CHF.

DIVIDEND INCREASE

Based on the results achieved, the continuing strong order book and the solid financial situation, the Board of Directors will propose a 10% increase in the dividend to 2.75 CHF per share at the upcoming Annual General Meeting.

AN INTENSIVE AND SUCCESSFUL BUSINESS YEAR

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, pushing both sales and the order backlog to record highs. In response, Bachem created new jobs and invested in additional production capacity.

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.

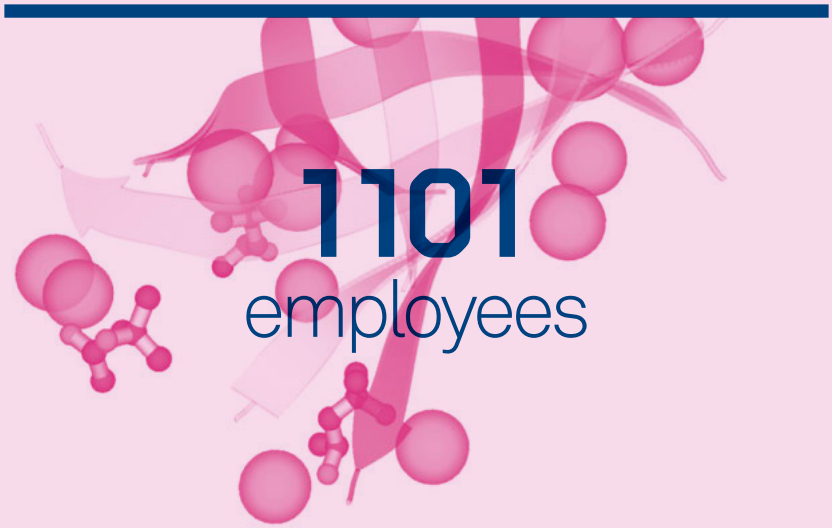
EXECUTIVE BOARD ENLARGED
Dr. Alex Fässler was appointed as an additional member of the Executive Board effective April 1, 2017. As Chief Operations Officer (COO) he is responsible for the Group's production sites worldwide.

OPERATIONAL EXCELLENCE
Bachem again achieved further efficiency improvements and cost savings during the past year. Efforts focused on integration and harmonization of internal processes, reducing complexity, process automation and consistent application of best practices. The groupwide rollout of a new enterprise resource planning (ERP) system was a further driver in the company's successful advance.

GREEN CHEMISTRY AWARD
Together with a customer, Bachem accepted the Greener Reaction Conditions Award at a National Academy of Sciences ceremony in Washington, D.C. The award was given to recognize the development of a robust, cost-efficient and environmentally friendly manufacturing process for a peptide compound with regulatory approval. These accomplishments are a striking testimony to the possibilities of combining green chemistry, efficiency enhancement and cost optimization.

CAPACITY EXPANSION IN THE UNITED STATES
Through focused investments in production capacity and by strengthening the organization, Bachem was able to optimize utilization of its available potential in the United States. Despite the negative impact of delays and expansion work, Bachem more than doubled the sales contribution of its Vista, California plant, over the previous year.

ASIA AS GROWTH MARKET
Following a strong 2016 with gains of around 69%, business in Asia grew more than 41% in 2017 – well above the average figure again. Asia continues to offer great growth potential for the long term.



KEEPING UP THE MOMENTUM

INTO THE FUTURE WITH ELAN

Bachem focuses on quality, innovation and partnership and invests continually in the future. Standing still and resting on our laurels is never an option. With a commitment to getting even better, the company cultivates a forward-looking culture of performance designed for sustainability. From a position of strength, Bachem continuously reviews expansion opportunities in new markets and technologies and in carefully chosen strategic alliances.

QUALITY, INNOVATION AND PARTNERSHIP

Beyond high demand and a strong order book, Bachem anticipates trends and market demands as sources of future growth in its strategy and planning. As market leader, Bachem aspires to set new industry-wide standards for quality, innovation and partnership.

PRESENCE IN ASIA

As a key pillar of Bachem's growth strategy, Asia is a uniquely dynamic region, already accounting for 14% of the Group's total sales in 2017. In response, Bachem plans to establish a subsidiary in Japan. Preparations are already nearly complete. The move strengthens Bachem's presence and activities in a region with clearly exceptional growth potential.

CAPTIVE BUSINESS

As market leader, Bachem combines quality, reliability and expertise. As an exchange-listed corporation, Bachem offers the necessary size and transparency, offering pharmaceutical companies a viable alternative to in-house production of active pharmaceutical ingredients.

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.

The world of peptides is multifaceted

Peptides are very often used as research tools. The primary aim is to understand how a biological mechanism operates in order to better understand a disease and find an effective drug. It often takes more than a decade before a suitable molecule has been selected and all clinical trials are completed.

Bachem participates in the research chemicals market with a broad offering of products available in the Bachem online shop. Our flexible and innovative product management and our production site in the UK provide the ability to continually expand the product range in response to demand.

Alongside our standardized products business, we also produce specific peptides for what is known as the custom synthesis market for research chemicals. A key factor here is time. Quick order processing coupled with competitive prices is decisive in this environment.

The custom synthesis field is only lightly regulated, but customers are highly quality-conscious. This is especially true for cosmetic and diagnostic applications and in the preclinical sphere. Although competition in this non-GMP area is fierce, Bachem is not only well-placed as a pioneer and expert but also benefits from synergies with the strictly regulated clinical development of peptide compounds.

To further expand market share in this area, Bachem UK – the center of excellence for research chemicals – has obtained ISO certification. This helps make it clearer for customers how our quality standards apply in the custom synthesis business and provides them with reassurance that the quality will be suitable for their applications.

Succeeding in the clinical sector and producing pharmaceutical compounds (APIs) takes far more than just the ability to produce peptides. The customers are highly demanding pharmaceutical and biotechnology companies who expect Bachem to understand the challenging regulatory environment and to make the necessary investments and capacity expansion to stay in business for the long term.

There is significantly less competition in this field, since it takes a long time to build the necessary experience and systems, plus the process entails major investments. Remaining profitable in this environment takes a solid business with a corresponding pipeline to enable future growth. Bachem is very well-positioned here.

Changing customer expectations

Through our day-to-day project work, in numerous personal meetings and on-site visits, customers can see that we approach them as partners. Along with very good infrastructure, the key element is Bachem's capable people. In addition to many technical meetings with customers, each year Bachem undergoes numerous customer audits. These give Bachem's customers an opportunity to gain confidence in the Company's quality system, while for us they represent an ongoing review and validation of established processes.

Alongside traditional audits focusing primarily on the quality system and implementation of GMP requirements and ICH guidelines, customers and regulators are devoting increasing attention to neighboring areas such as environment, health and safety (EHS), ethical principles, industrial hygiene, data integrity, and validation of computer systems. Bachem is up to these challenges, and customers value that.

In addition to the requirements mentioned above, our customers expect us to produce efficiently and with an eye on costs. There is pressure on costs in the healthcare sector. Manufacturers of pharmaceutical ingredients also face a need to reduce drug costs in partnership with customers. Through improved process engineering, state-of-the-art production facilities and automation projects, we are constantly working on cost-effective production. Even major pharmaceutical companies are weighing up whether it's worthwhile to continue producing in-house or whether it makes more sense to outsource manufacturing to a specialist. Thus a new potential market for Bachem is emerging.

Bachem Group's operating results

Bachem Group generated sales of 261.6 million CHF in 2017, which represents an increase of 10.6% in CHF from the previous year. Growth came to 1.3% in the Americas and to 16.0% in Europe (in Swiss francs). This growth marks a continuation of the previous year's momentum and again far outpaces the market as a whole.

PIONEERING PARTNER FOR PEPTIDES

BACHEM HAS BEEN A PIONEER IN THE FIELD OF PEPTIDES FOR MORE THAN 45 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 WORLDWIDE

Bachem sells research reagents, active ingredients for drugs and cosmetics, and diagnostic peptides to customers worldwide. Pharmaceutical biotechnology companies account for the bulk of Bachem Group sales. Geographically, the importance of Asia as an output market again saw above-average gains following a very strong prior year.

Bachem addresses the world market through two regional segments, North America and Europe, based on sales recorded by the Group's subsidiaries. Business with customers in North and South America is invoiced at Bachem Americas Inc. in the United States and reported under the North America segment. Sales to customers in Europe, Asia and the rest of the world are grouped under the Europe segment. By region, Asia sales grew by 41.3% to 36.6 million CHF and now make up 14% of the consolidated total. In the previous year sales in the region grew 69%, bringing its share of consolidated sales over the 10% mark for the first time. Sales in Japan again recorded especially strong growth, and China contributed over 1 million CHF to sales for the first time. Product approval in China is still advancing sluggishly, however. As a result, it will be some time yet before the Chinese market contributes significantly to the total Asia business. A local presence in Asia in the near future will ensure project support and further business expansion in the region.

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

BACHEM HOLDING AG
Bubendorf, Switzerland

BACHEM AG
Bubendorf,
Switzerland

BACHEM DISTRIBUTION SERVICES GMBH
Weil am Rhein,
Germany

BACHEM AMERICAS, INC.
Torrance,
USA

BACHEM SA
Succursale Vionnaz
Vionnaz, Switzerland

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

BACHEM AMERICAS, INC.
Vista,
USA

The research chemicals business expanded by 23.0% over the prior year. Catalog product sales gained a modest 1.4% while the custom synthesis business increased 46.3%. The Bachem UK location was fully booked, and capacity is being expanded accordingly.

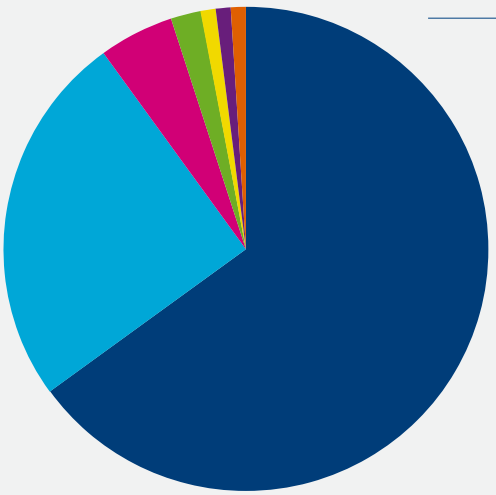
The generics business grew 5.4% while sales of new chemical entities (NCEs) picked up 15.4%. The Group continues to generate more sales with generics, but the gap shrank in 2017.

The range of services offered, mainly related to registration of new drug candidates, again enjoyed lively demand. This segment saw growth of 7.6%, reflecting a well-developed project pipeline.

Following a strong 2016 with growth of over 69%, the Asia business again recorded above-average gains at 41.3%. Asia now accounts for 14% of the Group's sales. The potential to achieve above-average growth in Asia remains strong.

Record new orders in the United States and Europe with deliveries scheduled for 2018 are also encouraging. Not only did the Bachem Group generate solid results in 2017, but the momentum continues in the current year. Both generics and NCEs will lend impetus to this expansion. In the research chemicals business, Bachem likewise anticipates significant growth thanks to expanded capacity and the launch of new, innovative catalog products.

CUSTOMER SEGMENTATION



PHARMA	BIOTECH	DISTRIBUTORS
65%	25%	5%
	ACADEMIA	COSMETICS
	2%	1%
	DIAGNOSTICS	OTHER
	1%	1%

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.

The number of peptides with market approval has grown steadily and now stands at 76. In addition, there are well over 100 projects in various stages of clinical testing and an estimated 450 are in pre-clinical development. As a result, it is safe to assume that a growing number of peptides will be approved as medicines in the coming decades.

Peptides used in many therapeutic approaches
Peptides are currently drawing a great deal of attention as potential medicinal substances. A glance at the pre-clinical pipeline reveals that some 450 products are being seriously examined as potential candidates for clinical development. About half of these projects are being undertaken in the United States, with Europe accounting for roughly 35% and Asia 15%. Asia is catching up, with Japan in the lead.

Just five years ago diabetes was the most intensively researched primary indication. Since then, many peptides such as Exenatide, Liraglutide and Semaglutide have come to market as highly effective drugs. It is not surprising, therefore, that endocrine and metabolic indications have dropped to fourth place among indications for new peptide-based drugs.

The focus of research in peptide-based drug candidates today is on oncology and treatment of infections and dementia. Peptides are also a timely topic to potentially treat other diseases.

Services in support of research increasingly important
It can take over ten years for a drug to move from the pre-clinical phase to application for approval. Throughout this onerous and complex development process, Bachem supports customers with a broad range of products and services. Even very early in the development process, customers are concerned with gaining a thorough understanding of the selected molecule and determining whether it is the best possible candidate for the targeted indication. This puts Bachem in an ideal position to provide hundreds of similar molecules for the selection process.

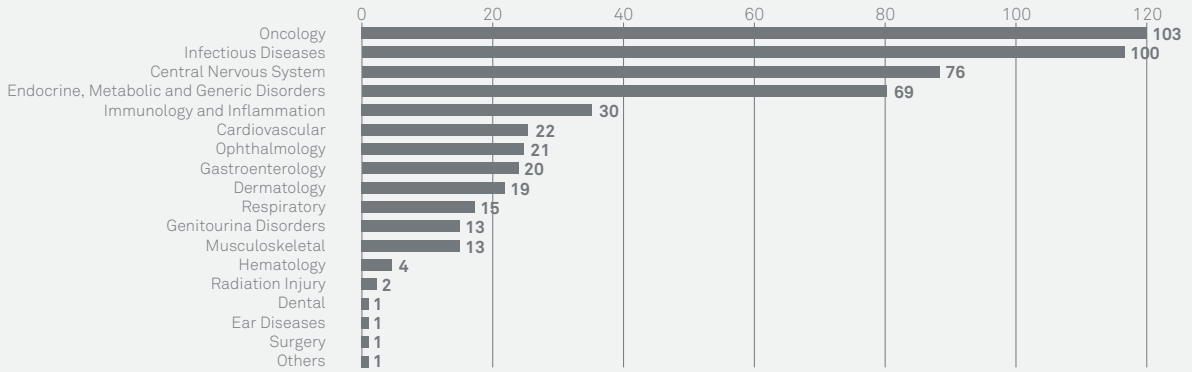
Once the right candidate has been identified, the production process is developed and optimized. Yields are increased and impurities reduced. Also of key importance is careful optimization for the intended commercial batch size and by use of suitable equipment. Here Bachem is an ideal partner thanks to its employees' years of experience in process development and validation.

The entire palette of analytical test procedures must be specifically developed and subsequently validated. This is extremely important not only for quality control and release of the products, but also for process optimization and monitoring. Various stability studies yield findings on the stability of the molecule. Degradation products are identified, characterized and often synthesized. The same applies to impurities specific to the process.

Important work is also required in compiling the approval documents. Despite harmonization efforts, requirements still differ from one country to another. Bachem has many years of global experience with regulatory documents and authorities. This sets Bachem apart from competitors in a positive way.

All of the services described above are important prerequisites for successful drug development. Bachem offers customers all of these services and many more, from synthesis of potential lead candidates to commercial production of the active substance.

GLOBAL PIPELINE OF PRE-CLINICAL NCES BY THERAPEUTIC CATEGORY



Source: Medtrack

KEEPING UP THE MOMENTUM

BACHEM CONSIDERS ENTREPRENEURIAL DYNAMISM AND FITNESS, ALONG WITH THE ABILITY AND COURAGE TO CONSTANTLY DEVELOP, TO BE ESSENTIAL PREREQUISITES FOR CONTINUING SUCCESS.

BACHEM

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. 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.

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

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.

"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."

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

FIT FOR THE MARKET

By actively investing in our employees as well as buildings and facilities, Bachem is securing the foundation for a successful future. We are also increasingly investing in infrastructure to protect the environment and our employees in line with the latest regulations. Further key areas of research that will keep Bachem moving forward include digitalization, automation and improving process engineering, while strong project management provides the link between Bachem and the customer.

UNDERSTANDING THE MARKET

Bachem has been in the peptides business since 1971 and knows the market from top to bottom. So it is hardly by chance that the number of active projects has increased sharply since 2012. Even the biggest pharmaceutical and biotechnology companies gladly work with Bachem to take advantage of our specialized knowledge and infrastructure. Bachem has the ability to meet customer requirements quickly and flexibly at any time.

LOCAL PRESENCE

In the key markets of Europe and North America Bachem operates from various production sites, ensuring a decentralized approach to project execution that keeps close to the customer. Customers can visit production sites at short notice and, if needed, get in touch with local employees to find out how projects are coming along. This is in compliance with official requirements. In the near future, Bachem will also establish a presence in Asia.

EXCHANGE-PLATFORMS

To stay in shape, Bachem is constantly working to enhance efficiency in the field of peptides. Existing processes and systems are improved at the global level on an ongoing basis, adopting the latest technologies. Among other things this includes IT and quality systems, research topics, production as well as marketing and sales. Customer wishes are always analyzed and incorporated into the process. The result for the Bachem Group has been steady progress with a positive impact on the company's market position.

GLOBAL ORIENTATION

Bachem has brought active substances to approval in all major global markets. This complex procedure requires not only a good understanding of the heterogeneous requirements in the various countries but also good and candid communication with the local authorities.

BACHEM'S 360° BUSINESS MODEL

Bachem takes advantage of synergies between the Research Chemicals unit and the regulated business units in the diagnostic and clinical space. Researchers already know Bachem from their student days as a supplier of high-quality research chemicals. As a result, they readily turn to the company when they need high-quality peptides in a regulated environment. Among Bachem's greatest strengths are a presence in the peptide sector from the beginning and the ability to meet the full spectrum of peptide research and development needs.

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

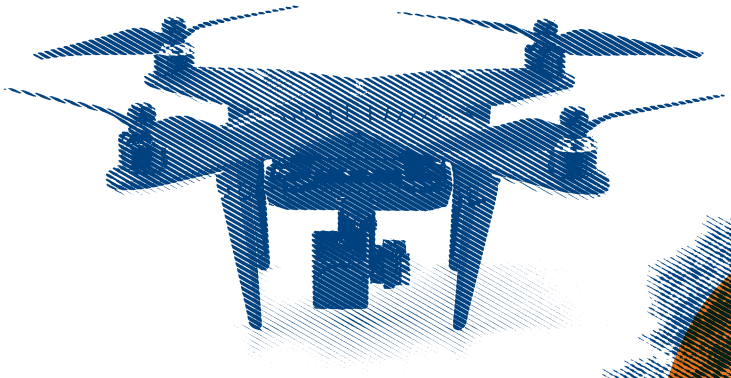
The responsibility to manufacture sufficient drug substance rests on the shoulders of the Contract Manufacturing Organization. This can only be done by being extremely reliable and also by coordinating activities closely with our partners. Forecasting the quantity needed is extremely difficult, especially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

RELIABLE PARTNER

KEEPING UP THE MOMENTUM

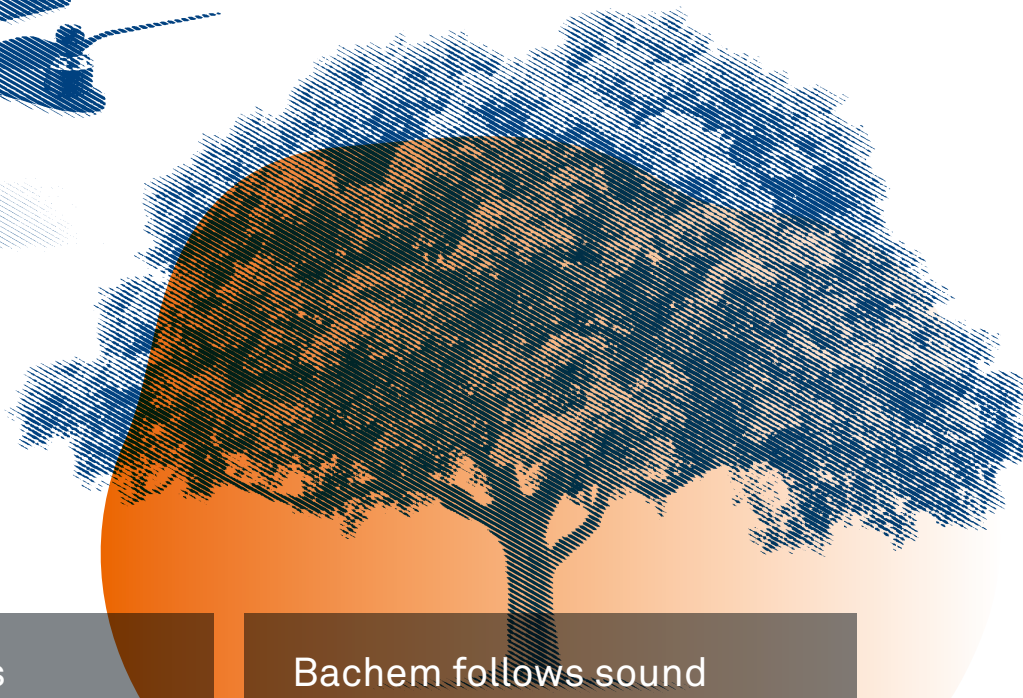
With a consistent focus on continual progress and improvement, we strive to excel in all business areas. Bachem is dedicated to offering its customers the best possible products and services in the industry. We earn trust through commitment and dedication to quality, ensuring an excellent performance for our customers. Our outstanding project management record with the world's leading pharmaceutical and biotechnology companies shows that the best work with the best.

VALUE-ADDED SERVICES



Bachem generates added value for clients through tailor-made services. Our know-how gets applied in the development of efficient manufacturing processes with an optimized cost structure while maintaining the highest quality standards. In the regulatory affairs arena, Bachem supports its customers' projects in clinical phases up to successful marketing with experience in worldwide drug approval processes that is unique in the industry.

SUSTAINABILITY AS A GUIDING PRINCIPLE



Bachem follows sound economic and ecological principles and complies with relevant international regulations. We take our social responsibility seriously by putting a higher priority on secure jobs and apprenticeships than on maximizing profits. Bachem is fully committed to the voluntary Responsible Care Program of the chemical industry. Safe workplaces and a careful handling of resources, as well as the avoidance of environmental risks, are a precondition for the long-term commercial success of our company.

EMPLOYEES

Julie Risse
Business Development Manager, Bubendorf CH

"At Bachem, we have the opportunity to work in a very dynamic, fast growing and high-performing company. In the Business Development team, we are the first contacts with our customers and we continually strive to deliver the best service by leveraging Bachem's quality, pioneering spirit and experience to bring customers' projects to the next level in collaboration with our expert colleagues."

Brian Osterwalder
Technical Writer, Torrance USA

"Bachem is venturing out into new markets and constantly strives to provide the highest customer satisfaction in the industry. The technical writing group is moving forward with new additions to the team to meet the increased demand. Together we can move forward and exceed all expectations."

Gavin Noble
Chemist R&D, St. Helens UK

"At Bachem to maintain our position as the leading provider of peptides, we constantly strive for improvement. To this end we investigate new technologies and methodologies, using our unrivalled know-how and experience to further optimize our existing processes."

KEEPING UP THE MOMENTUM

Andrea Grieshaber
Assistant Corporate Executive Committee, Bubendorf CH

"Bachem offers its employees a highly inspiring and dynamic working environment. This supports me in my daily work and motivates me to actively shape the company's development and to maintain the momentum we have seen in recent years."

Tim Tran
Director Engineering, Vista USA

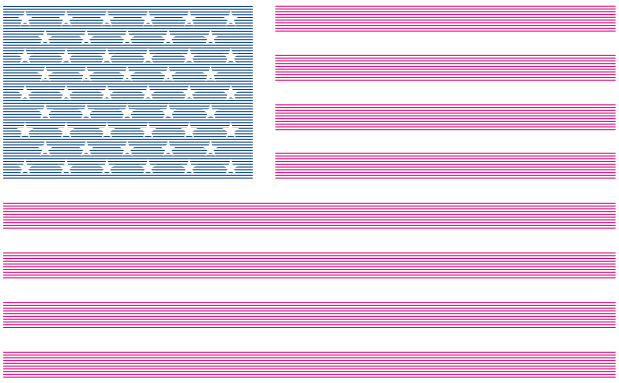
"Sometimes life offers you a seat on an amazing journey to far away places where few have ever experienced, do not waste time and doubt yourself by asking what seat! Just 'Move-It' and get on, seize this opportunity and take a part in the next exciting journey of your life! The best moment is now! Use your skills, resources and time in order to improve yourself and start 'keeping up the momentum'!"

Thierry Rausis
Production Chemist, Vionnaz CH

"It's our view of things that makes all the difference: is the glass half empty or half full? Our optimism enables us to tackle present and future challenges. And our strong team spirit will help us to meet tomorrow's goals even more easily."

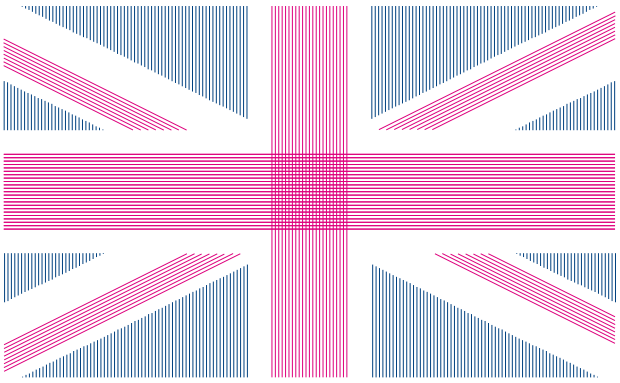
PROGRESS REPORTS:

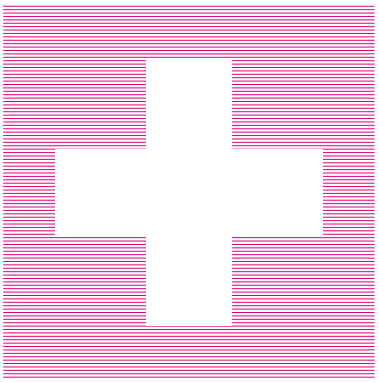
Investments in the latest production technologies and process automation are key drivers of innovation in the peptide business. Again in 2017, Bachem has placed new equipment into service at all sites to expand the project portfolio. With continually improved production processes coupled with operational excellence, the company is cementing its market leadership .



LARGE VOLUME PRODUCTION IN CALIFORNIA

The high-volume active substance production facilities at the Vista, California (USA), location have been expanded and put into service. Concurrently, methods and chemical processes have been updated to meet Bachem's high-quality standards, and the workforce has been expanded and trained for operation in shifts. The complexity of the new facilities requires an especially high degree of specialization among the newly trained employees. New technology has been installed throughout the production chain to accommodate the industry's largest freeze-dryer, not only enabling more cost-efficient and reliable large-scale production, but also providing customers with the benefits of enhanced flexibility and shorter delivery times. Further project-driven investments to optimize capacity utilization are already being planned.



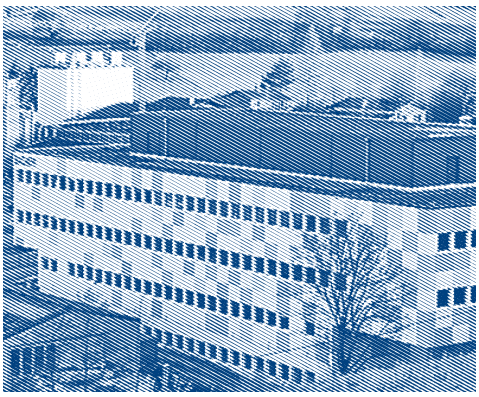


ISO CERTIFICATION AS MILESTONE IN ENGLAND

Bachem's Center of Excellence in production of Research Chemicals in St. Helens, UK, has benefited from the worldwide growth in demand for complex peptides for new applications in pre-clinical research. The investment in the latest production technology using automated synthesis equipment has enabled us to further increase productivity at the site. Thanks to systematic implementation of comprehensive quality systems, Bachem UK has obtained ISO certification. This milestone in the quest for top quality will facilitate our advance into the rapidly growing market for high-grade diagnostic and cosmetic peptides and further strengthen Bachem's market position. To enhance performance for the future, additional production and analytical labs have been built and equipped with state-of-the-art instruments.

OPERATIONAL EXCELLENCE AND INNOVATION

Bachem's commitment to always providing customers with the best solution requires continuous improvement in all aspects of the value chain. The Green Chemistry Award bestowed on Bachem by the US Environmental Protection Agency (EPA) for a jointly developed project underscores our dedication to also improving environmental aspects of production processes, ensuring that Bachem products are sustainable. Business processes have been harmonized to take advantage of synergies between the various sites and further increase flexibility for the rapid execution of customer projects. The research and development building at the company's headquarters in Bubendorf, placed in service in 2016, has been continually upgraded to meet market needs.



INTERVIEW
DR. JOSÉ DE CHASTONAY
DR. ANNE-KATHRIN STOLLER

Dr. José de Chastonay, CMO (June 2012–31.12.2017)

José de Chastonay has been employed by Bachem in various positions in the United States and Switzerland, most recently from June 2012 through the end of 2017 as CMO of Bachem Holding AG. He launched his career at Serono and Roche, then became CEO of Irvine Scientific and was active in M&A. He earned his doctorate in medical microbiology at the University of Bern and completed an MBA at the European University in Montreux.

Dr. Anne-Kathrin Stoller, CMO (as of 1.1.2018)

Anne-Kathrin Stoller has worked for Bachem in various positions in Switzerland, most recently from April 2010 to the end of 2017 as VP Business Development & Sales. Her career began at Exxon Mobil Chemical. She studied chemistry at the University of Hannover and earned her doctorate in bio-organic chemistry at the University of Basel.

How does Bachem keep its edge as market leader?

José de Chastonay: Bachem continues to uphold its trailblazer status through ongoing development of peptide chemistry and advances in automation for maximum efficiency. This keeps us competitive and enables us to meet our customers' expectations of top quality.

Getting down to brass tacks, what makes Bachem so unique?

JC: Customers value our quality and our commitment to partnership. Bachem stands out from the competition through expertise in chemistry and dependability in project execution. Our slogan, "Pioneering Partner for Peptides", communicates these strengths.
Anne-Kathrin Stoller: Especially in project execution, Bachem has expanded its capabilities in recent years and developed considerably as a company. This is something our customers value greatly and is part of how we're making sure we can live up to our slogan.

What makes Bachem the "partner of choice"?

JC: It's about much more than the product itself. We don't just sell peptides, we support our customers in a close partnership from product development to approval. We're not just dealing with chemical and analytical issues but also validation of computer systems, industrial hygiene and regulatory requirements. Customers value our strong expertise, our long experience, and our absolute reliability.

It's about much more than the product itself. We don't just sell peptides, we support our customers in a close partnership from product development to approval.

AS: Along with our unique know-how when it comes to innovative and efficient manufacturing of peptides, Bachem also offers a lot more. Bachem is a knowledgeable advisor for customers in all phases of drug development. We are there for our customers, providing support and contributing our experience for each of over 150 NCE development projects, from the pre-clinical stage to market approval.

What opportunities and challenges do you see for Bachem in entering new markets?

JC: The peptide market remains very dynamic. There are still a lot of peptide projects in progress. Bachem is providing the efficient infrastructure to complete them. This takes long-term planning and the will and capability to invest.
AS: Entering new geographic markets is both an opportunity and a challenge. Bachem is a company which operates worldwide. We sell our products and services in very many countries around the world. That means knowing and respecting the unique aspects of new geographical markets. We have to weigh potential against expense and be able to identify the right moment.

Bachem pursues a systematic quality strategy. Does that still win points in global competition?

JC: Absolutely, especially in the pharmaceutical industry, where regulatory requirements play a very important role.
AS: A company like Bachem can only be successful in the long term with a systematic quality strategy. It's about much more than the quality of the actual products themselves. The quality has to be right in every area, such as project execution and communication with our customers. Systematically bringing our quality commitment to life gives us a decisive competitive advantage. ●

SUSTAINABILITY, CORPORATE GOVERNANCE, COMPENSATION REPORT

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 1101 people at the end of the year (previous year: 1022) in 1057.4 full-time equivalent positions (previous year: 979.4). Of these, 750 (corresponding to 708.5 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 39 for Bachem (UK) Ltd in St. Helens (UK). Bachem Americas Inc. employed 299 people at the sites in Torrance and Vista, California. Bachem Holding AG employed 12 people. Employee turnover at Group level was 12.1% (previous year: 12.8%).

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, 25% of the employees have earned a degree from a university and another 29% have earned a degree from a university of applied science. Over 37% of Bachem employees worldwide have completed a vocational apprenticeship, as have 51% of its employees in Switzerland.

Vocational training

Vocational apprenticeship training has a high priority at Bachem AG's Swiss sites in Bubendorf and Vionnaz. Our dual system of education provides young school leavers with an excellent opportunity to gain specific vocational training once they finish their compulsory schooling and strive to enter the working population. Apprentices acquire theoretical knowledge and general education at a vocational school and gain practical experience working at the company. In providing these apprenticeships, Bachem is both discharging part of its social responsibility towards society and also making an important contribution to the maintenance of non-academic professional training in Switzerland.

At the Bubendorf site, Bachem 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, 34 young people were enrolled in three- or four-year vocational apprenticeship programs as of the end of the year; this represented 3.2% of the workforce. The apprentices were pursuing qualifications as chemical lab technicians (25), office administration staff (4), IT technicians (1), logistics specialists (3) and polymechanics (1). In the year under review, 10 apprentices successfully completed their vocational training, and 4 were offered permanent employment contracts.

PERSONNEL

		2017		2016	
		FTE	%	FTE	%
EMPLOYEE DISTRIBUTION BY JOB CATEGORY					
MARKETING AND SALES		81.5	7.7	76.9	7.9
ADMINISTRATION		95.4	9.0	77.4	7.9
SUPPLY CHAIN		53.4	5.0	45.0	4.6
ENGINEERING AND SERVICES		130.6	12.4	117.6	12.0
QUALITY ASSURANCE AND REGULATORY AFFAIRS		285.6	27.0	255.7	26.1
RESEARCH/DEVELOPMENT AND PRODUCTION		410.9	38.9	406.8	41.5
GEOGRAPHIC DISTRIBUTION					
EUROPE		759.1	71.8	746.2	76.2
USA		298.3	28.2	233.2	23.8
EMPLOYEE DISTRIBUTION BY GENDER					
WORKFORCE (TOTAL)	WOMEN	335.3	31.7	300.1	30.6
	MEN	722.1	68.3	679.3	69.4
UPPER MANAGEMENT	WOMEN	11.8	16.5	12.0	18.5
	MEN	59.8	83.5	52.8	81.5
REGIONAL EXECUTIVE COMMITTEES	WOMEN	5.0	17.2	5.0	17.9
	MEN	24.0	82.8	23.0	82.1
CORPORATE EXECUTIVE COMMITTEE	WOMEN	0.0	0.0	0.0	0.0
	MEN	5.0	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		149.0	14.1	140.2	14.3
AGE 26–35		301.9	28.5	279.7	28.6
AGE 36–45		259.0	24.5	244.6	25.0
AGE 46–55		230.3	21.8	203.8	20.8
AGE 56–65		113.0	10.7	105.7	10.8
AGE 65		4.2	0.4	5.4	0.5

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 committed to achieving ongoing, lasting improvements in safety, protection for employee health and the environment (EHS). To this end the company continually develops and implements new approaches for enhancing employees' safety and environmental awareness, sometimes in collaboration with external partners. The company provides funding and internal resources at all locations.

Protecting human health and the environment and the safety of employees and the surrounding communities are fundamental concerns for the chemical industry. To live up to its social responsibility, Bachem has upheld its commitment to the Responsible Care program for over two decades. This initiative, the only one of its kind in the world, drives continual improvement in the health, safety and environmental performance of chemical companies with global operations, often going well beyond what the law requires. Responsible Care promotes responsible handling of resources and risks, making a key contribution to sustainability. Bachem collects relevant data at its four biggest locations, Bachem AG in Bubendorf and Vionnaz and Bachem Americas Inc. in Torrance and Vista.

RESPONSIBLE CARE KEY FIGURES

	2017	2016	2015	2014	2013
PERSON ACCIDENTS, NUMBER/100 EMPLOYEES	2.2	1.3	1.5	0.8	0.7
LOST WORKING DAYS, NUMBER/EMPLOYEE	0.1	0.1	0.1	0.0	0.1
HEALTH SAFETY ENVIRONMENT STAFF, NUMBER	9.5	9	8	6	6
TOTAL STAFF, NUMBER	1 026	939	750	660	579
ENVIRONMENT KEY FIGURES					
TOTAL ENERGY CONSUMPTION, GJ/EMPLOYEE	129	125	148	161	191
CO_2, T/EMPLOYEE	4	4	4	5	6
NO_X, KG/EMPLOYEE	4	4	4	5	6
SO_2, KG/EMPLOYEE	0.6	0.5	1	1	1
VOC, KG/EMPLOYEE	21	26	31	29	37
TOC, KG/EMPLOYEE	2	4	4	6	6
HAZARDOUS WASTE DISPOSED OF, KG/EMPLOYEE	7 080	6 262	6 544	4 991	6 946
TOTAL WATER CONSUMPTION, M^3/EMPLOYEE	107	121	126	132	175

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

Green Chemistry Challenge Award

The twelve principles of "Green Chemistry" describe ways of developing new chemicals and chemical processes with improved ecological and economic parameters. The US EPA's Green Chemistry Challenge Award program recognizes outstanding successes in research, development and implementation of green chemical technologies. Together with a customer, Bachem accepted the Greener Reaction Conditions Award at a National Academy of Sciences ceremony in Washington, D.C. The award was given to recognize the development of a robust, cost-efficient and environmentally friendly manufacturing process for a peptide compound with regulatory approval. Scientific innovation has provided the following improvements: a five-fold increase in production capacity, a reduction of 56% in process time and 71% in solvent consumption, elimination of a process step entailing high water consumption and reduction of energy-intensive freeze-drying operations from 13 to one. These accomplishments are a striking testimony to the possibilities of combining green chemistry, efficiency enhancement and cost optimization.

Workplace hygiene

Workplace hygiene is a basic requirement for safe handling of active substances, making it an integral element of employee health and safety protection at Bachem. Bachem's strategy for achieving optimum workplace hygiene consists of three interlinked components: personnel hygiene, a basic hygiene concept and control banding.

The approach is based on universal principles of personnel hygiene, such as employee apparel and personal care. In addition, the basic hygiene concept seeks to prevent the release of active substances and their subsequent dispersal by deploying technical measures such as use of closed transfer systems and physical separation of individual pieces of production equipment. Organizational measures address analysis and optimization of personnel and material flows, specifications for cleaning procedures – even for non product-contact surfaces – as well as waste disposal. Bachem provides personal safety equipment and regular training in its use, and enforces application in line with regulations.

The purpose of control banding is to monitor active substance concentrations in the manufacturing environment and hold them to levels low enough to reliably prevent absorption of an effective dose during work processes. Active substances are classified into "control bands" based on what is known about their physiochemical properties and biological effects. Depending on the consistency of the substance, the production process and the quantity being produced, measures are set forth based on the risk level of each control band to ensure that concentrations are kept within the specified limits. Specifications derived from control banding techniques are also used in the planning of construction projects.

Environmental parameters

Thanks to a very satisfactory order book, the number of employees at the Bachem Group's top four production sites rose to 1026, an increase of 9% since 2016 (939 employees). Despite this capacity expansion and significantly higher production volume, Bachem again succeeded in improving many of the environmental parameters measured. Total energy consumption of 129 GJ per employee remained nearly unchanged from the previous year, well below the Swiss chemical industry's reference value of 303 GJ per employee. VOC emissions were reduced to 21 kg per employee while TOCs were halved to 2 kg per employee. Total water consumption per employee was reduced by 12% from the previous year's figure to 107 m^3 (Swiss chemical industry: 4870 m^3 per employee). The Bachem Group has very good environmental figures to show, with a comparatively low environmental impact and resource consumption relative to economic output that is well below the Swiss chemical industry average.

Occupational safety

The number of staff assigned to EHS increased further from 9 to 9.5. The number of work-related injuries was 2.2 per 100 employees. With only 0.1 lost workday per employee, Bachem maintained its very good safety performance. Once again, non work-related accidents were significantly more frequent than occupational injuries and resulted in far more absences from work. The number of non-occupational injuries per 100 employees remained largely unchanged from 2016 while the resulting lost workdays per employee declined. The main risks of non-occupational accidents involved slips, trips and falls along with sports-related injuries. Because heightened risk awareness among employees

during their leisure time has been shown to reduce the frequency of accidents in the workplace as well, Bachem takes a comprehensive approach to employee safety training.

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 exceeds the minimum healthcare standards required by law. Among other things, issues addressed by Bachem's CHM program include "people in organizations" and "work-life balance".

Ethics and integrity

Bachem does not grant any advantage or concession if it is
- not in line with local law or custom
- not properly accounted for and financially registered

Bachem does not give nor request nor accept
- any illegal rebate
- any kickback payments
- any "unofficial" payments
- any form of improper gift or favor

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

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

1 Group structure and shareholders

1.1 Group structure

Bachem Holding AG, headquartered in Bubendorf, Switzerland, is listed at the SIX Swiss Exchange in Zurich (valor number: 1 253 020, ISIN: CH0012530207, SIX: BANB, Reuters: BANB.S, Bloomberg: BANB SW). Market capitalization at December 31, 2017 was 2 094 000 kCHF. No other Bachem companies are listed.

All consolidated companies are listed in note 22 on page 88 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, 2017, are listed in note 9 on page 100 of the notes to the financial statements of Bachem Holding AG. There were no new disclosure notifications made in the reporting year. There are no shareholders' agreements.

1.3 Cross-shareholdings

There are no cross-shareholdings with other companies.

2 Capital structure

2.1 Capital

At December 31, 2017, 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 2015, 2016 and 2017, share capital remained unchanged. Changes in equity for the years 2017 and 2016 are listed on page 65 of the consolidated financial statements. Changes for 2015 are reported on page 69 of the Annual Report 2016.

2.4 Shares and participation certificates

At December 31, 2017, 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 71 and 72 as well as in note 20 of the consolidated financial statements on page 87.

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[1] (1956), Ph.D. in Business Administration, Chairman, Swiss. Since 2012, elected until 2018.

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 Sunstar-Holding AG, of PDS Pathology Data Systems AG, of Kenta Biotech AG and of TargImmune Therapeutics AG.

Nicole Grogg Hötzer[2] (1973), Graduate Biologist, Vice-Chairwoman, Swiss. Since 2011, elected until 2018.

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, of Hotel Bad Schauenburg AG and of Sunstar-Holding AG as well as member of the Board of Directors of MFC Beteiligungs AG and of Breiten Immobilien AG.

Jürgen Brokatzky-Geiger[1,2] (1952), Dr. rer. nat., Member, German. Since 2009, elected until 2018.

Dr. Jürgen Brokatzky-Geiger graduated with a Ph.D. in chemistry from the University of Freiburg, Germany, in 1982. He joined Ciba-Geigy Ltd. in 1983 as a Laboratory Head in the Pharmaceuticals Division. After a job rotation in the United States, he held positions of increasing responsibility in Research and Development (R&D) including Group Leader of Process R&D, Head of Process R&D, and Head of Process Development and Pilot Plant Operations. During the merger of Ciba-Geigy and Sandoz in 1996, Jürgen Brokatzky-Geiger was appointed Integration Officer of Technical Operations. He later became the Head of Chemical and Analytical Development and served as the Global Head of Technical R&D from 1999 to August 2003. From September 2003 to February 2014, he was appointed as Global Head of Human Resources and member of the Executive Committee of Novartis. Until his retirement at the end of October 2017, Dr. Jürgen Brokatzky-Geiger was Global Head of Corporate Responsibility of Novartis.

Thomas Burckhardt (1950), Dr. iur., LL.M., Secretary, Swiss. Since 1997, elected until 2018.

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[1,2] (1950), Dr. phil. II, Member, Swiss. Since 2012, elected until 2018.

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 2018.

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 "Inhoffen Medal" (2017), the "Pedler Award" (2016), and the "Leonidas Zervas Award" (2010). She has also been awarded with numerous honorary lectureships such as the "Calvin Lecture" of UC Berkeley (2017), "The Chemical Record Lectureship" (2017), the "David Ginsburg Lectureship" at the Technion in Haifa (2010) and she was named "Fellow of the Royal Society of Chemistry" (2013).

[1] Member of the Compensation Committee
[2] 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 2017, the Board of Directors held four full-day meetings, of which one took place in the USA, as well as one full-day strategy conference. The Corporate Executive Committee attends generally the Board meetings (see item 3.7). All meetings were attended by all Board and Corporate Executive Committee members. If necessary, additional persons will attend Board meetings as guests to discuss specific items on the agenda. During 2017, two Board meetings were attended by a total of five guest persons. In addition, two regional executive managers took part in the strategy conference. In 2017, 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 72 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 the Chamber of Commerce of both Basel as well as 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.

Alex Fässler (1955), Dr. sc. nat., COO, Swiss/American. Since 2017.

Alex Fässler joined Bachem AG in 1998, before he relocated to the USA, where he served as Head of Production, Site Manager, and ultimately as the Regional COO for the Americas. In 2013, he returned to Switzerland to become COO of the European Operations. He was appointed COO of the Bachem Group and member of the Corporate Executive Committee effective April 1, 2017. Alex Fässler started his industrial career at Ciba-Geigy, later Novartis, where he held various positions in preclinical Research in Basel, New Jersey and England. He completed his education at the Swiss Institute of Technology in Zurich (ETH) with a Ph.D. in Natural Sciences, followed by a fellowship in Chemistry at the University of California, Berkeley.

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 extra occupational studies in business economics, finance and control. After his graduation in 1995, he joined F. Hoffmann-La Roche Ltd in Basel where he assumed various positions in Corporate Finance. 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. Stephan Schindler holds a degree of International Executive MBA Zurich/Boston. Furthermore, he is a member of the Board of Directors of Arcondis (Holding) AG and a Board member of Columna Collective Foundation – Client Invest, Winterthur.

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 48 of this Annual Report.

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

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

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

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

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

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

6.5 Entries in the share register

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

7 Changes of control and defense measures

7.1 Duty to make an offer

The Articles of Incorporation of Bachem Holding AG do not envisage a duty to submit a public purchase offer according to 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 172 kCHF for the business year 2017. Fees for audit services on Bachem companies by other auditors totaled 13 kCHF.

8.3 Additional fees

During 2017, PricewaterhouseCoopers charged additional fees of 171 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 1 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 2017, the external auditors attended one Board of Directors meeting. The performance assessment of the external auditor and the audit fees is made based on the independency and objectivity of the external auditors, the presented reports, the shown technical and operational competences, the involved resources, as well as the open and effective communication and coordination with internal staff.

9 Information policy

The Bachem Group has an open and up-to-date information policy that treats all target groups of the capital investment market equally. The most important information tools are the annual report and the half-year report, the website (www.bachem.com), press releases, the presentation of the financial statements for media and analysts, as well as the Annual General Meeting. Shareholders are in addition informed on important matters by letter. As a company listed on the SIX Swiss Exchange, Bachem is obliged to publish information that is relevant to its share price (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. For specific questions regarding Bachem, contact our investor relations responsible, Stephan Schindler, CFO, phone +41 58 595 2021, ir@bachem.com.

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^{bis} 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 2017. 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 2017, 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 1 200 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 15 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	– Elect and remove the members of the Board of Directors and the Compensation Committee – Prospectively set the aggregate amount of annual compensation of the Board of Directors – Prospectively approve the maximum aggregate amount of fixed and variable compensation of the Corporate Executive Committee
BOARD OF DIRECTORS	– Determine and periodically review Bachem's compensation policy and guidelines – Submit proposals at the General Meeting regarding compensation of members of the Board of Directors and Corporate Executive Committee – Set performance targets and objectives for short- and long-term variable compensation components within the overall compensation of the Corporate Executive Committee members and determine target achievement levels – Establish performance-based variable compensation and stock award plans – Prepare the compensation report
COMPENSATION COMMITTEE	– Support the Board of Directors in setting and periodically reviewing Bachem's compensation policy and guidelines – Submit proposals to the Board of Directors on the compensation of the members of the Board of Directors – Support the Board of Directors in determining the key financial and non-financial performance criteria used to set the individual total compensation of the members of the Corporate Executive Committee – Submit proposals to the Board of Directors for establishing or revising performance- and/or profit-based variable compensation and stock award plans – Preparing proposals put to the General Meeting regarding compensation of members of the Board of Directors and Corporate Executive Committee
AUDITORS	– Audit of quantitative information on compensations, loans and borrowings in the compensation report (acc. to Art. 17 OAEC)

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

Total compensation:	TC = BS + IP
Variable compensation:	IP = BS x 0.67 x TF
Factor:	TF = PTI x 0.2 + GTI x 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%.

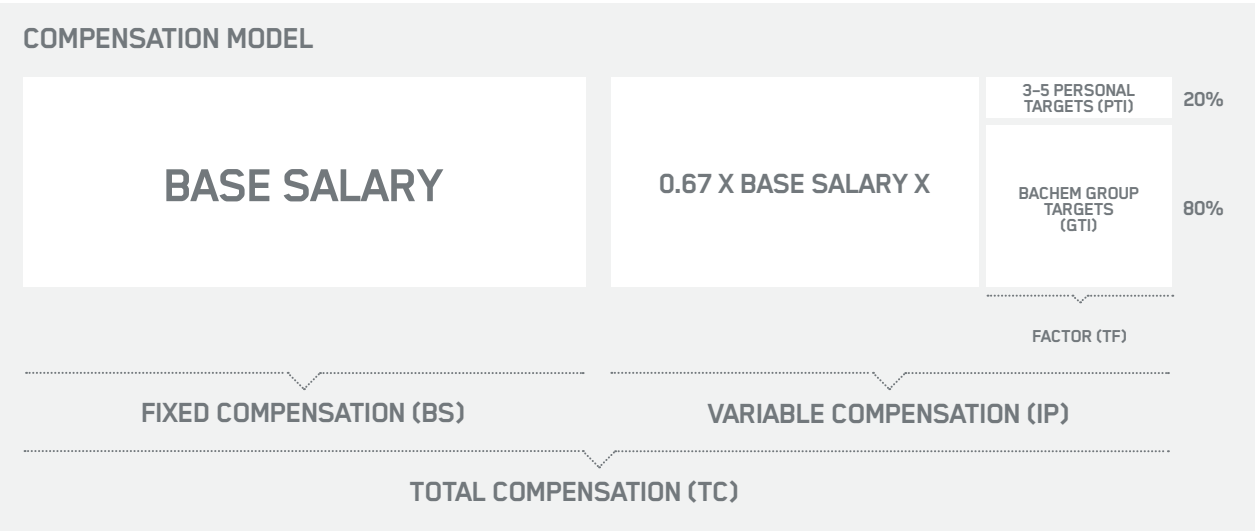
30% of variable compensation will be paid out as company shares. These shares will be blocked for three years after grant and disclosed in the compensation report at discounted value in accordance with applicable tax laws. The aforementioned proportion of variable compensation is converted into a specific number of awarded shares using the average daily closing price for the corresponding fiscal year.

The Group targets set for the 2017 fiscal year were achieved in full. In view of the assessment of the total performance, the Board of Directors has set the Group Target Incentive rate at 100% 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 63% 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 10 beginning on page 101 of the notes to the consolidated financial statements of Bachem Holding AG.

Further information on Bachem Group's share and option plans is given in the notes to the consolidated financial statements on pages 71 and 72 and on pages 87 and 88.



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:

2017 in 1 000 CHF	Fix salaries, fees	Variable salaries	Share-based payments	Pension plan contri-bution	Other social security expenses	Total
Kuno Sommer (Chairman)	128		45		12	**185**
Nicole Grogg Hötzer (Vice-Chairwoman)	46		45		6	**97**
Jürgen Brokatzky-Geiger (Member)	43		45		6	**94**
Thomas Burckhardt (Secretary)	42		45		4	**91**
Rolf Nyfeler (Member)	46		45		4	**95**
Helma Wennemers (Member)	42		45		6	**93**
Total Board of Directors (BoD)	**347**	**0**	**270**	**0**	**38**	**655**
Thomas Früh (CEO)	275	128	46	58	35	**542**
Rest of the Corporate Executive Committee	736	344	123	145	89	**1 437**
Total Corporate Executive Committee (CEC)	**1 011**	**472**	**169**	**203**	**124**	**1 979**
Total	**1 358**	**472**	**439**	**203**	**162**	**2 634**

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

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

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

We have audited page 52 of the compensation report of Bachem Holding AG for the year ended December 31, 2017.

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, 2017 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 28, 2018

BACHEM FINANCIAL REPORT 2017

FIVE REASONS TO INVEST

REASON 1
BACHEM IS THE MOST ROBUST AND SUSTAINED SUPPLIER IN THE INDUSTRY SINCE MORE THAN 45 YEARS.

REASON 2
ALL STAGES OF DRUG DEVELOPMENT (PRE-CLINICAL RESEARCH, CLINICAL PHASES I–III AND AFTER COMMERCIAL LAUNCH) ARE SUPPORTED BY BACHEM'S API PRODUCTION AND SERVICES

REASON 3
CAPABILITY TO PRODUCE LONG AND COMPLEX PEPTIDES AT LARGE VOLUME COMMERCIAL SCALES IS SPECIAL.

REASON 4
HIGHEST INDUSTRY STANDARDS FOR QUALITY ASSURANCE, CONTROL AND REGULATORY COMPLIANCE ARE PART OF BACHEM'S "QUALITY MATTERS" COMMITMENT.

REASON 5
EXCELLENT PROJECT MANAGEMENT RECORD WITH THE WORLD'S BEST PHARMACEUTICAL AND BIOTECHNOLOGY COMPANIES – THE BEST WORK WITH THE BEST.

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FINANCIAL REVIEW

Stephan Schindler, CFO

Sales at a new high
Despite some initial project delays, Bachem had a successful start to the new year and achieved solid results in the first half. The company scored further gains in the second half, boosting sales to 261.6 million CHF, a new record for the seventh year in a row. Sales exceeded the previous year's figure by 25.1 million CHF (10.6%). Unlike in the prior-year period, exchange rate movements had no relevant impact on translation of local-currency (LC) sales gains of 10.5%.

Vista's contribution to sales more than doubles
As reported earlier, several expansion projects were undertaken at the Vista plant, California, acquired with American Peptide Company (APC). The resulting impacts on production capacity again limited sales growth in the year under review. Given ramp-up difficulties and an appraisal of risks against opportunities in the second half, management deliberately passed up certain short-term sales opportunities, choosing instead to pursue sustainable job security and product quality by waiting to bring a portion of the newly built production capacity online. Nevertheless, the contribution of the plant (acquired in 2015) to total sales more than doubled over the previous year. Successful utilization of the capacity mentioned above should enable further significant gains in the coming year.

Generics as stable pillar of business
Sales of generics amounted to 112.9 million CHF, underscoring their status as a bedrock of stability within the Group's product portfolio with a share of roughly 43% of total sales. Generics sales grew 5.4% over the year-back period. By regions, Europe saw especially encouraging gains of approximately 24%. North America, by contrast, remained below expectations following the previous year's growth spurt. The current order backlog and close customer relationships further confirm the continuing stability of this product group.

New vitality in research chemicals
The research chemicals business unit again delivered a strong performance following the previous year's product line purge. Catalog products and custom synthesis performed well in the face of a challenging, highly competitive market, growing by a substantial 23% to 31.9 million CHF. Bachem's Competence Center for Custom Synthesis in St. Helens, UK, reaffirmed and solidified its strong position in global competition in research chemicals. The activities taken over from APC also contributed to the gratifying performance.

New Chemical Entities as growth driver
In the New Chemical Entities (NCEs) business, the first half of 2017 saw gains of 24%, setting the stage for a highly successful year overall. Thanks to a diversified, high-quality project portfolio and an appealing range of services for NCEs, sales remained strong in the second half, resulting in overall growth of over 15% versus the prior year. In particular, sales in the Europe region surged roughly 32%, underscoring its outstanding operating performance and competitive edge. Despite the previously mentioned bottlenecks due to the expansion of one of the two plants in California, NCE sales in the North America region likewise exceeded those of the already strong year-back period by about 2% in local currencies. The expansion in both regions highlights Bachem's excellent starting position and solid foundation for further sustained growth.

A promising project portfolio
Bachem's NCE project portfolio saw further milestones in 2017. At year-end, Group companies in Europe and North America were working with customers on some 250 development projects in all stages of development. The large number of products in Phase II and III clinical trials remain important and promising, providing

Bachem with an outstanding platform for a successful future.

Sales breakdown by product category

The active pharmaceutical ingredients (APIs) product category again delivered strong growth in 2017. This is a key category for the growth of the Group as a whole. The performance of research chemicals was equally striking following the previous year's product line purge, with a very encouraging rise in sales.

in million CHF	2017	Change in local currency	Change in CHF	As % of total sales
API Products	**229.7**	+ 9.0%	+ 9.1%	87.8%
Research Chemicals	**31.9**	+ 22.5%	+ 23.0%	12.2%
Total sales	**261.6**	+ 10.5%	+ 10.6%	100.0%

The categories' share of total sales – 87.8% for APIs and 12.2% for research chemicals – remained nearly unchanged from the previous year.

Geographic breakdown

Geographically, overall sales performance was quite pleasing in both Europe and the United States. North America's share of sales declined somewhat due to the delays in the United States mentioned above.

in million CHF	2017	Change in local currency	Change in CHF	As % of total sales
Europe	**174.6**	+ 15.5%	+ 16.0%	66.7%
North America	**87.0**	+ 1.8%	+ 1.3%	33.3%
Total sales	**261.6**	+ 10.5%	+ 10.6%	100.0%

Order backlog is excellent

Overall, Bachem further strengthened its lead over the competition in a market environment that remains challenging. Demand for peptide-based therapeutic agents remained firm, and the current order backlog is excellent. With increasing utilization of available resources, especially in the plant acquired from APC in the United States, the company is exceptionally well placed for further growth.

EBIT up despite friction

Bachem's operating profit (EBIT) grew by 12.3% to 50.6 million CHF during the period under review. This includes a 0.4 million CHF gain from the disposal of a building in the United States. The sale was undertaken as part of a strategy of focusing expansion plans on the Vista site, California, where a suitable building was acquired to replace it. Due to the delays mentioned above and planned production downtime, the plant in Vista was not able to fully utilize the newly built capacity. As in the previous year, the facility's contribution to EBIT was still negative. Despite this friction Bachem widened its EBIT margin to 19.3% (previous year: 19.1%). Operating profit before depreciation and amortization (EBITDA) came to 71.5 million CHF (previous year: 64.8 million CHF), for an EBITDA margin of 27.3%.

Currency translation effects mildly positive

In the income statement, the divergent exchange rate trends of the US dollar and euro against the Swiss franc had a slightly positive aggregate impact on performance in Swiss francs at EBIT level. The currency effect on the top line was a positive 0.4 million CHF, on EBIT a similar 0.5 million CHF.

Gross profit up 7.1%

Rising demand again necessitated more hiring at various production units in 2017. Higher personnel costs were only partially offset by cost-cutting and, in some cases, high capacity utilization. Moreover, delays in the issuing of permits – along with the aforementioned expansion work and production downtime at the Vista plant, California – caused a temporary drop in capacity utilization and a corresponding absorption of fixed costs. Various organizational measures were undertaken in the United States to permanently enhance operational excellence and strengthen management both numerically and in terms of expertise. Cost of goods sold for the full year was 178.9 million CHF or 68.4% of sales (H1 2017: 68.6%, 2016: 67.3%). Despite these negative factors, the company successfully boosted gross profit for the year by a nominal 5.5 million CHF (+7.1%), continuing the gratifying performance of previous years.

Quality and partnership matter

The know-how and experience of our people are crucial to the Bachem Group's success. In an environment of increasingly complex projects and growing regulatory demands, Bachem and its customers can count on qualified and experienced specialists to get the job done. With vast knowledge and untiring dedication, they are able to meet the most stringent expectations of quality and partnership day in and day out.

More jobs added

Thanks to the strong business performance and high overall capacity utilization, Bachem created a total of 79 new jobs through the end of 2017. As of December 31, 2017, the Bachem Group employed a total of 1101 people in 1057 full-time equivalent positions. As the market leader and as a socially conscious employer, Bachem offers employees unique opportunities to work in interdisciplinary teams and, together with customers, contribute actively to the success of exciting, groundbreaking projects such as developing new therapeutic agents for more effective treatment of diseases.

Personnel costs up as anticipated

Staff costs were again the Group's largest single expense item in 2017. Along with raises and the new jobs created during the year under review, the workforce expansion in the second half of the previous year was the major factor in this expected cost increase. Total personnel expenses for the period amounted to 126.8 million CHF (previous year: 113.3 million CHF).

Marketing & sales stable

The company again exhibited at all major trade shows, cultivated an extensive, ambitious project portfolio and supported customers as "Pioneering Partner for Peptides" during the year under review. Despite all this, marketing and sales costs of 14.0 million CHF remained slightly below the previous year's figure (14.2 million CHF). In light of the encouraging growth in sales, this expense category's share of gross sales therefore fell to 5.4% (previous year: 6.0%).

Research & development according to plan

In research and development (R&D), the Group recorded expenses of 1.9 million CHF (previous year: 1.6 million CHF), leaving this item slightly below the projected typical yearly outlay of roughly 2 million CHF. This amount includes amortization of previously capitalized development costs for new generics in the amount of approximately 107 kCHF. As in previous periods, Bachem in 2017 directly recognized costs incurred at production units for process optimization and scale-ups, along with development costs for new generic samples, in "cost of goods sold."

General administrative costs slightly higher

General administrative costs amounted to 18.0 million CHF, an increase of 0.4 million CHF (+2.2%) over the previous year. Implementation of the new Group-wide ERP (Enterprise Resource Planning) system placed heavy burdens on internal service units including IT, Finance and HR. The temporary staff expansion this entailed gave rise to added expenses. This expense category also reflects the addition of a new, fifth member to the Corporate Executive Committee from April 1, 2017, onward.

Depreciation and amortization up

At 20.9 million CHF, regular depreciation and amortization was 1.2 million CHF higher than the prior-year figure. This was due primarily to the commissioning of new production capacity at all locations in Switzerland, Britain and the United States. No impairments were recognized during the period under review.

Currency translation effects impact net profit

In contrast to the prior-year period's positive contribution, currency translation effects had a significant negative effect on net income for the year under review. This is largely attributed to the valuation at the balance sheet date of USD loans granted to subsidiaries by the holding company. Overall, exchange rate movements resulted in a consolidated exchange rate result of −1.8 million CHF (previous year: +1.2 million CHF). Posting net income of 41.8 million CHF, the company slightly exceeded the previous year's result despite these significant negative effects. Net income before currency translation effects, by contrast, rose significantly.

Interest expense slightly higher

With interest rates still low but with significantly higher funding needs, interest rate expense rose to 0.3 million CHF (previous year: 0.2 million CHF).

Tax rate remains low

The net income figure includes income taxes of 6.6 million CHF (previous year: 4.7 million CHF). In consequence of the US tax reform and of tax credits and allowances, the Group's resulting tax rate was 13.6% (previous year: 10.2%). In future periods Bachem anticipates a Group tax rate in the neighborhood of 18%.

Cash flow diminished by net current assets

Cash flow from operating activities before changes in net current assets was 65.8 million CHF in fiscal year 2017, an increase of 6.1 million CHF (+10.3%) from the previous year. Cash flow-relevant capital held in net current assets increased by a total of 30.0 million CHF in comparison. This was due mainly to the growth-

related increase in inventories of intermediates and finished goods and work in process of 21.9 million CHF. Further items include the cash flow-relevant increase of 6.6 million CHF in trade receivables, the 1.9 million CHF decline in trade payables and the net 0.4 million CHF decrease in other current receivables and liabilities including relevant accruals and deferrals.

Investments for further growth

With gross capital expenditures in property, plant and equipment of approximately 45 million CHF, the Group again sent a clear signal of future growth in 2017. Together with investments in intangible assets and the previously mentioned disposal of a building at the Torrance location, California, the resulting cash flow from investment activities came to –45.4 million CHF. Along with capacity expansion and replacements, the company focused particularly on automation and compliance. This is a further confirmation of Bachem's long-term commitment to social responsibility and its focus on job security and environmental protection even while growing.

Higher corresponding funding needs

Due to the increase in the dividend to 2.50 CHF (previous year: 2.25 CHF), the dividend distribution of 33.9 million CHF was once again higher than in the previous year (30.5 million CHF). A total of 55.1 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 84.6 million CHF with three banks. Dividends in the amount of 10.0 million CHF remained outstanding as a loan from Ingo Finanz AG. Consequently, total loan liabilities owed to third and related parties amounted to 94.6 million CHF on the reporting date of December 31, 2017. Cash flow from financing activities amounted to +7.7 million CHF.

Cash and cash equivalents of 17.3 million CHF

Cash and cash equivalents in the consolidated cash flow statement decreased by 1.9 million CHF. Total cash holdings as defined in the cash flow statement amounted to 17.3 million CHF at year-end.

Capital base remains solid

With an equity ratio of 68.7% (previous year: 73.6%), Bachem remains extremely 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.

Shares again outperform the market

Over the course of the 2017 fiscal year, the price of Bachem shares (BANB) traded on SIX Swiss Exchange rose by over 70% from 90.30 CHF to 154.00 CHF. This marks the third consecutive year that Bachem has clearly outperformed the SPI (+19.9%) and the SMI (+14.1%). The lowest closing price during the year was 91.80 CHF at the beginning of the year, and the highest closing price was 154.00 CHF, recorded at the end of the year.

Dividend increase proposed

Despite the negative currency translation effects described above, Bachem's earnings per share (EPS) rose slightly from 3.04 CHF to 3.08 CHF. The Board of Directors will therefore propose a 10% dividend increase to 2.75 CHF (previous year: 2.50 CHF) to the Annual General Meeting in April 2018.

CONSOLIDATED INCOME STATEMENT

For the years ended December 31

in 1000 CHF	Notes	**2017**	2016
Sales	1/2	261 612	236 478
Cost of goods sold		– 178 883	– 159 231
Gross profit		**82 729**	**77 247**
Other income	24	1 731	1 114
Marketing and sales costs		– 14 035	– 14 180
Research and development costs		– 1 863	– 1 564
General administrative costs		– 17 952	– 17 561
Operating income (EBIT)	2	**50 610**	**45 056**
Financial income	5	17	1 178
Financial expenses	6	– 2 260	– 347
Ordinary income before taxes		**48 367**	**45 887**
Income taxes	7	– 6 597	– 4 682
Net income[1]		**41 770**	**41 205**
Basic earnings per share (CHF)	8	**3.08**	**3.04**
Diluted earnings per share (CHF)	8	**3.08**	**3.04**

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

The notes on pages 66 to 90 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At December 31, 2017 and 2016

in 1000 CHF	Notes	**Dec. 31, 2017**	Dec. 31, 2016
Assets			
Cash and cash equivalents		17 283	19 206
Trade receivables	9	55 438	49 390
Other current receivables	10	1 089	1 719
Prepaid expenses and accrued income	11	3 201	2 489
Current income tax asset		1 465	1 099
Inventories	12	172 719	151 890
Total current assets		**251 195**	**225 793**
Property, plant and equipment	13	274 520	255 265
Intangible assets	14	12 671	9 595
Assets from employer contribution reserve	4	320	320
Deferred tax assets		5 949	5 536
Total non-current assets		**293 460**	**270 716**
Total assets		**544 655**	**496 509**
Liabilities and equity			
Trade payables	15	19 928	21 998
Other current liabilities	16	2 854	7 058
Accrued expenses and deferred income	17	16 277	11 749
Current income tax liabilities		2 412	3 562
Current financial liabilities	18	94 746	55 134
Total current liabilities		**136 217**	**99 501**
Non-current financial liabilities	18	188	302
Deferred tax liabilities	7	34 078	31 342
Total non-current liabilities		**34 266**	**31 644**
Total liabilities		**170 483**	**131 145**
Share capital	19	680	680
Retained earnings		377 133	369 309
Share premium		30 227	27 687
Own shares		– 1	– 958
Cumulative translation differences		– 33 867	– 31 354
Total capital and reserves attributable to the equity holders of the company		**374 172**	**365 364**
Total liabilities and equity		**544 655**	**496 509**

The notes on pages 66 to 90 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the years ended December 31

in 1000 CHF	Notes	**2017**	2016
Cash flow from operating activities			
Net income		41 770	41 205
Adjustments for:			
Income taxes	7	6 597	4 682
Depreciation and amortization	2/13/14	20 931	19 726
Financial income	5	– 17	– 1 178
Financial expenses	6	2 260	347
Share based payments	20	1 198	938
Gain on sale of property, plant and equipment	24	– 437	– 60
Income taxes paid		– 5 974	– 6 452
Other non-cash items		– 534	438
Cash flow from operating activities before changes in net current assets		**65 794**	**59 646**
Change in trade receivables		– 6 584	– 10 496
Change in other current receivables, prepaid expenses and accrued income		– 118	– 243
Change in inventories		– 21 945	– 11 833
Change in trade payables		– 1 872	781
Change in other current liabilities, accrued expenses and deferred income		470	2 554
Cash flow from operating activities		**35 745**	**40 409**
Cash flow from investing activities			
Investments in property, plant and equipment		– 45 118	– 49 168
Sales of property, plant and equipment	24	5 178	60
Investments in intangible assets		– 5 311	– 2 093
Interest received		17	13
Other financial payments and proceeds		– 134	– 142
Cash flow from investing activities		**– 45 368**	**– 51 330**
Cash flow from financing activities			
Disposals of own shares		2 414	61
Dividends paid	21	– 23 946	– 20 484
Increase in financial liabilities		84 600	45 000
Repayment of financial liabilities		– 55 141	– 17 160
Interest paid		– 184	– 200
Cash flow from financing activities		**7 743**	**7 217**
Net effect of currency translation on cash and cash equivalents		– 43	– 339
Net change in cash and cash equivalents		**– 1 923**	**– 4 043**
Cash and cash equivalents at the beginning of the year		**19 206**	**23 249**
Cash and cash equivalents at the end of the year		**17 283**	**19 206**
Net change in cash and cash equivalents		**– 1 923**	**– 4 043**

The notes on pages 66 to 90 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

2017 in 1000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Cumulative translation differences	Total
Balance at January 1		**680**	**369 309**	**27 687**	**– 958**	**– 31 354**	**365 364**
Net income according to income statement			41 770				**41 770**
Dividends	21		– 33 946				**– 33 946**
Transactions with own shares (net of tax)				1 342	957		**2 299**
Share based payments	20			1 198			**1 198**
Cumulative translation differences						– 2 513	**– 2 513**
Balance at December 31		**680**	**377 133**	**30 227**	**– 1**	**– 33 867**	**374 172**

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

Goodwill in the amount of 1 352 kCHF is offset in retained earnings.

As of December 31, 2017, the accumulated non-distributable reserves amount to 12 636 kCHF (previous year: 12 636 kCHF).

The notes on pages 66 to 90 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 28, 2018, to be presented for approval by the Annual General Meeting on April 25, 2018.

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

For the reporting year 2017, no changes in accounting policies became effective.

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. 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:

	Income statement average rates		Balance sheet year-end rates	
in CHF	**2017**	2016	**2017**	2016
USD	**0.98**	0.99	**0.98**	1.02
EUR	**1.11**	1.09	**1.17**	1.07
GBP	**1.27**	1.34	**1.32**	1.26

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 to shareholders are recorded as liabilities at the time the resolution to pay a dividend is made.

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

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

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

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

Financial risk factors

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

Foreign exchange risk

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

Interest rate risk

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

Price risk

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

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

Credit risk

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

Because of the different customer structures in the various business areas, there are no general credit limits that apply across the Group, but the creditworthiness of each business area's customers is systematically evaluated. In this context, the financial situation, previous experience and/or other factors are taken into consideration and if necessary the customers are required to make prepayments.

Liquidity risk

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

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

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

December 31, 2017 in 1 000 CHF	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Trade payables	17 732	1 520	676			**19 928**
Other current liabilities	2 451	17	386			**2 854**
Accrued expenses and deferred income	928	3 238	12 111			**16 277**
Current income tax liabilities	0	1 491	921			**2 412**
Current financial liabilities	37 613	36	57 097			**94 746**
Non-current financial liabilities				188	0	**188**

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

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	**2017**	2016
Products	242 424	218 638
Services	19 188	17 840
Total sales	**261 612**	**236 478**

in 1 000 CHF	**2017**	2016
Active pharmaceutical ingredients (APIs)	229 740	210 562
Research chemicals (incl. custom synthesis)	31 872	25 916
Total sales	**261 612**	**236 478**

2 Segment information

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

in 1 000 CHF	Europe	North America	Total segments	Corporate and eliminations	Consolidated values
Sales information 2017					
Sales third parties	174 592	87 020	261 612	0	**261 612**
Sales intersegment	28 640	10 623	39 263	– 39 263	**0**
Total sales	**203 232**	**97 643**	**300 875**	**– 39 263**	**261 612**
Income information 2017					
Operating income (EBIT)	47 693	8 441	56 134	– 5 524 [1]	**50 610**
Other information 2017					
Additions in property, plant and equipment and intangible assets	35 146	15 322	50 468	0	**50 468**
Depreciation and amortization	– 17 761	– 3 136	– 20 897	– 34	**– 20 931**
Total assets	430 179	127 808	557 987	– 13 332 [2]	**544 655**
Total liabilities	234 782	59 794	294 576	– 124 093 [3]	**170 483**

[1] The amount consists of the operating income from corporate activities of –5 127 kCHF and of eliminations in the value of –397 kCHF.

[2] The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 215 936 kCHF and of eliminations in the value of –229 268 kCHF.

[3] The amount consists of corporate liabilities of 101 860 kCHF and of eliminations in the value of –225 953 kCHF.

in 1 000 CHF	Europe	North America	Total segments	Corporate and eliminations	Consolidated values
Sales information 2016					
Sales third parties	150 543	85 935	236 478	0	**236 478**
Sales intersegment	45 622	12 203	57 825	– 57 825	**0**
Total sales	**196 165**	**98 138**	**294 303**	**– 57 825**	**236 478**
Income information 2016					
Operating income (EBIT)	44 978	5 309	50 287	– 5 231 [1]	**45 056**
Other information 2016					
Additions in property, plant and equipment and intangible assets	34 561	16 873	51 434	0	**51 434**
Depreciation and amortization	– 16 887	– 2 805	– 19 692	– 34	**– 19 726**
Total assets	388 631	116 577	505 208	– 8 699 [2]	**496 509**
Total liabilities	200 510	49 594	250 104	– 118 959 [3]	**131 145**

[1] The amount consists of the operating income from corporate activities of –4 475 kCHF and of eliminations in the value of –756 kCHF.

[2] 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.

[3] The amount consists of corporate liabilities of 62 828 kCHF and of eliminations in the value of –181 787 kCHF.

Information about geographical areas – sales third parties

in 1 000 CHF	**2017**	2016
Switzerland	20 445	16 851
USA	86 321	77 281
Germany	31 767	25 078
Japan	27 554	15 860
Great Britain	24 023	27 211
Rest of the world	71 502	74 197
Total	**261 612**	**236 478**

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

3 Staff costs

in 1 000 CHF	**2017**	2016
Salaries and wages	– 99 816	– 88 234
Pension expenses	– 6 305	– 5 501
Other social security expenses	– 12 664	– 11 614
Share-based payments	– 1 198	– 938
External staff costs	– 2 389	– 2 677
Other personnel-related costs	– 4 380	– 4 343
Total staff costs	**– 126 752**	**– 113 307**

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	Contri-butions	Pension expenses in staff costs	
	Dec. 31, 2017	**Dec. 31, 2017**	Dec. 31, 2016	**2017**	**2017**	**2017**	2016
Plans without surplus/deficit	0	0	0	0	864	864	673
Plans with surplus	3 099	320	320	0	5 441	5 441	4 828
Plans with deficit	0	0	0	0	0	0	0
Plans without own assets	0	0	0	0	0	0	0
Total	**3 099**	**320**	**320**	**0**	**6 305**	**6 305**	**5 501**

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, 2017	**Dec. 31, 2017**	**2017**	2016	**2017**	**2017**	2016
Patronage funds	0	0	0	0	0	0	0
Pension institution	320	0	320	320	0	0	0
Total	**320**	**0**	**320**	**320**	**0**	**0**	**0**

5 Financial income

in 1 000 CHF	**2017**	2016
Interest income	17	14
Foreign exchange result	0	1 164
Total financial income	**17**	**1 178**

6 Financial expenses

in 1 000 CHF	**2017**	2016
Interest expenses	– 307	– 205
Other financial expenses	– 134	– 142
Foreign exchange result	– 1 819	0
Total financial expenses	**– 2 260**	**– 347**

Other financial expenses mainly include bank charges.

7 Income taxes

in 1 000 CHF	**2017**	2016
Current taxes	– 4 329	– 5 769
Deferred taxes	– 2 268	1 087
Total income taxes	**– 6 597**	**– 4 682**

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

Tax rate reconciliation in %	**2017**	2016
Expected tax rate	**17.7**	**17.0**
Change in tax loss carry-forwards	0.0	0.0
Impact of US tax reform	– 2.6	0.0
Tax credits and allowances	– 1.5	– 2.7
Revaluation of deferred taxes	0.0	– 3.3
Adjustments for prior periods	0.0	– 0.7
Other impacts	0.0	– 0.1
Effective tax rate	**13.6**	**10.2**

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

The tax expenses of the Group companies in the USA were impacted by the US tax reform legislation 2017. This tax reform comprised not only a reduction in the federal corporate tax rate from 35% to 21% for tax years beginning after 2017, but also provided the option to fully expense the cost of qualified property placed in service after September 27, 2017. As a result, the additional expenses lead to tax loss carry-forwards in the reporting year 2017. At the end of the year, there were deferred tax assets for unused tax loss carry-forwards in the amount of 1 129 kCHF.

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

Movement of deferred tax liabilities in 1 000 CHF	**2017**	2016
Deferred tax liabilities at January 1	**31 342**	**31 353**
Recognized in income statement	2 702	19
Currency translation differences	34	– 30
Deferred tax liabilities at December 31	**34 078**	**31 342**

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.

Basic	**2017**	2016
Net income (in 1 000 CHF)	41 770	41 205
Average number of shares outstanding	13 571 842	13 545 983
Basic earnings per share (CHF)	**3.08**	**3.04**

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

Diluted	**2017**	2016
Net income (in 1 000 CHF)	41 770	41 205
Average number of shares outstanding	13 571 842	13 545 983
Adjustment for dilutive share options	0	139
Average number of shares outstanding for diluted earnings per share	13 571 842	13 546 122
Diluted earnings per share (CHF)	**3.08**	**3.04**

In the prior year, all outstanding options were dilutive.

9 Trade receivables

in 1 000 CHF	**Dec. 31, 2017**	Dec. 31, 2016
Trade receivables	55 560	49 605
Provision for impairment of trade receivables	– 122	– 215
Total trade receivables	**55 438**	**49 390**

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

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

Movement of provision for impairment of trade receivables in 1 000 CHF	**2017**	2016
Provision for impairment of trade receivables at January 1	**– 215**	**– 302**
Provision for receivables impairment	– 42	– 186
Receivables written off during the year as uncollectable	7	274
Unused amounts reversed	130	0
Currency translation differences	– 2	– 1
Provision for impairment of trade receivables at December 31	**– 122**	**– 215**

The ageing analysis of trade receivables is as follows:

Ageing analysis in 1 000 CHF	Total	Not due	Overdue and not impaired < 31 days	31–60 days	61–90 days	91–180 days	1–180 days	Overdue and impaired > 180 days
December 31, 2017	**55 560**	46 304	8 057	314	16	676	0	193
December 31, 2016	**49 605**	36 842	11 361	663	154	315	8	262

10 Other current receivables

in 1 000 CHF	**Dec. 31, 2017**	Dec. 31, 2016
Other receivables	1 089	1 719
Total other current receivables	**1 089**	**1 719**

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, 2017**	Dec. 31, 2016
Prepaid expenses and accrued income	3 201	2 489
Total prepaid expenses and accrued income	**3 201**	**2 489**

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, 2017**	Dec. 31, 2016
Raw materials	20 242	16 006
Work in progress	33 356	26 884
Semi-finished and finished goods	119 121	109 000
Total inventories	**172 719**	**151 890**

The provision for slow-movers in the total amount of 26 315 kCHF (2016: 25 912 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.

In the context of the introduction of a new ERP (Enterprise Resource Planning) system, the presentation of value-adjusted inventory items as well as classifications were changed. All adjustments had no impact on the total value of inventories or on the income statement. In order to ensure comparability, the previous year's figures have been adjusted.

13 Property, plant and equipment

2017 in 1 000 CHF	Land and buildings	Installations and laboratory equipment	Other property, plant and equipment	Assets under construction	Total
Cost at January 1	**168 696**	**266 171**	**17 324**	**33 181**	**485 372**
Additions	5 394	407	271	39 085	**45 157**
Disposals	– 5 576	– 546	– 306	0	**– 6 428**
Reclassifications	7 617	30 284	1 009	– 38 910	**0**
Currency translation differences	– 1 744	– 1 197	– 56	– 600	**– 3 597**
Cost at December 31	**174 387**	**295 119**	**18 242**	**32 756**	**520 504**
Accumulated at January 1	**– 56 989**	**– 159 152**	**– 13 966**	**0**	**– 230 107**
Depreciation	– 3 814	– 13 959	– 986	0	**– 18 759**
Disposals	835	546	306	0	**1 687**
Currency translation differences	410	748	37	0	**1 195**
Accumulated depreciation at December 31	**– 59 558**	**– 171 817**	**– 14 609**	**0**	**– 245 984**
Net book value at December 31	**114 829**	**123 302**	**3 633**	**32 756**	**274 520**

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

Bachem does not have any undeveloped land.

The carrying amount of fixed assets under finance lease contracts at year-end 2017 amounted to 312 kCHF (2016: 411 kCHF). Depreciation relating to fixed assets under finance lease amounted to 137 kCHF (2016: 168 kCHF).

No assets were pledged for security of own liabilities in 2017. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Present value of finance lease liabilities in 1 000 CHF	**Dec. 31, 2017**	Dec. 31, 2016
Within 1 year	146	134
Between 1 and 5 years	188	302
More than 5 years	0	0
Present value of finance lease liabilities	**334**	**436**

The existing finance lease contracts have been concluded in Switzerland and in the USA in the last 3 years. Their remaining durations are between 2 and 5 years. In all cases, the finance lease contracts are related to office and IT equipment.

Operating lease liabilities – minimum lease payments in 1 000 CHF	**Dec. 31, 2017**	Dec. 31, 2016
Within 1 year	614	440
Between 1 and 5 years	1 210	860
More than 5 years	597	782
Total future minimum operating lease payments	**2 421**	**2 082**

There are operating leases for office facilities, vehicles and buildings at the moment. The remaining life of the different contracts is between 1 and 8 years. There are renewal options for the leases of the buildings.

The recognized expenses for operating leases in the consolidated income statement 2017 was 562 kCHF (2016: 622 kCHF).

14 Intangible assets

2017 in 1 000 CHF	Capitalized development costs	Other intangible assets	Total
Cost at January 1	**3 274**	**33 450**	**36 724**
Additions	0	5 311	**5 311**
Disposals	– 614	– 1 240	**– 1 854**
Currency translation differences	0	– 138	**– 138**
Cost at December 31	**2 660**	**37 383**	**40 043**
Accumulated amortization at January 1	**– 2 893**	**– 24 236**	**– 27 129**
Amortization	– 107	– 2 065	**– 2 172**
Disposals	614	1 240	**1 854**
Currency translation differences	0	75	**75**
Accumulated amortization at December 31	**– 2 386**	**– 24 986**	**– 27 372**
Net book value at December 31	**274**	**12 397**	**12 671**

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

15 Trade payables

in 1 000 CHF	**Dec. 31, 2017**	Dec. 31, 2016
Trade payables	17 719	19 739
Prepayments	2 209	2 259
Total trade payables	**19 928**	**21 998**

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, 2017**	Dec. 31, 2016
Other liabilities	2 854	7 058
Total other current liabilities	**2 854**	**7 058**

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, 2017**	Dec. 31, 2016
Accrued expenses and deferred income	16 277	11 749
Total accrued expenses and deferred income	**16 277**	**11 749**

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

18 Financial liabilities

in 1 000 CHF	**Dec. 31, 2017**	Dec. 31, 2016
Loans from related parties	10 000	10 000
Bank loans	84 600	45 000
Finance lease liabilities	334	436
Total financial liabilities	**94 934**	**55 436**
Thereof current financial liabilities	94 746	55 134
Thereof non-current financial liabilities	188	302

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 0.3% p.a.

The maturity of loans is less than 6 months.

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 9 on page 100.

Shares Bachem -A-	**Dec. 31, 2017**	Dec. 31, 2016
Number of shares	6 802 000	6 802 000
Number of fully paid-in shares	6 802 000	6 802 000
Par value per share (in CHF)	0.05	0.05
Shares Bachem -B-		
Number of shares	6 798 000	6 798 000
Number of fully paid-in shares	6 798 000	6 798 000
Par value per share (in CHF)	0.05	0.05
Total number of shares	**13 600 000**	**13 600 000**
Total share capital (in CHF)	**680 000**	**680 000**

On December 31, 2017, Bachem Holding AG held 21 366 own shares, which are reserved for distribution under the employee participation plans.

Own shares Number	Dec. 31, 2016	Purchases/ backslide of blocked shares	Sales/transfer to employees	**Dec. 31, 2017**
Employee participation plans at the price of 0.05 CHF	30 362	0	– 8 996	**21 366**
Treasury stock	20 106	0	– 20 106 [1]	**0**
Total own shares	**50 468**	**0**	**– 29 102**	**21 366**

[1] The shares were sold on the market at an average price of 120.38 CHF.

Outstanding shares	**Dec. 31, 2017**	Dec. 31, 2016
Total number of shares	13 600 000	13 600 000
Number of own shares Bachem -B-	– 21 366	– 50 468
Total shares outstanding	**13 578 634**	**13 549 532**

20 Share-based payment

The employee and management participation plans are described in the accounting policies on pages 71 and 72. The recognized expenses for share-based payments in the reporting period amounted to 1 198 kCHF (2016: 938 kCHF).

In 2017 and 2016, the following number of shares was granted:

Shares granted Number/CHF	**2017**	2016
Number of granted shares	8 996	13 617
Average fair value per share at grant date in CHF	117.92	60.48

The option plan developed as follows:

	2017		2016	
Share options outstanding	Number of options	Weighted average exercise price in CHF	Number of options	Weighted average exercise price in CHF
At January 1	**264**	**35.00**	**2 092**	**37.15**
Granted options	0	0.00	0	0.00
Cancelled options	0	0.00	0	0.00
Expired options	0	0.00	– 200	37.64
Exercised options	– 264	35.00	– 1 628	37.44
At December 31	**0**	**0.00**	**264**	**35.00**
Exercisable options	**0**	**0.00**	**264**	**35.00**

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

Options by expiry date Number	Exercise price	**2017**	2016
Year 2017	35.00	0	264
Total		**0**	**264**

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 28, 2017, a dividend of 33 946 kCHF respectively 2.50 CHF per share was distributed for the year 2016 (previous year: 30 484 kCHF respectively 2.25 CHF per share). Of the total dividend in the amount of 33 946 kCHF (previous year: 30 484 kCHF), 23 946 kCHF (previous year: 20 484 kCHF) were paid out and 10 000 kCHF (previous year: 10 000 kCHF) remained as a loan (see note 23).

The Board of Directors will propose a dividend of 2.75 CHF per share or a total of 37 341 kCHF on 13 578 634 shares entitled to dividend, to the Annual General Meeting for the year 2017. The number of shares entitled to dividend may change until the Annual General Meeting on April 25, 2018, 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, 2017**	Equity share Dec. 31, 2016
Bachem Holding AG, Bubendorf	Switzerland	CHF	680 000	100%	100%
Bachem AG, Bubendorf	Switzerland	CHF	25 000 000	100%	100%
Bachem Distribution Services GmbH, Weil am Rhein	Germany	EUR	128 000	100%	100%
Bachem (UK) Ltd., St. Helens	England	GBP	2 500	100%	100%
Bachem Americas, Inc., Torrance	USA	USD	3 000	100%	100%
Peninsula Laboratories, LLC, San Carlos	USA	USD	32 000	100%	100%

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:

Transactions in 1 000 CHF	**2017**	2016
Breiten Immobilien AG (lease of business premises)	– 227	– 202
Breiten Immobilien AG (rendering of services)	15	20
Chemoforma AG (purchase of goods)	0	– 2
Hotel Bad Schauenburg AG (seminars)	– 7	– 30
Ingro Finanz AG (dividend paid out)	– 8 866	– 6 979
Ingro Finanz AG (dividend converted into loan)	– 10 000	– 10 000
Ingro Finanz AG (interest paid)	– 50	– 48
Peninsula Laboratories International, Inc. (sale of goods/rendering of services)	2	20
Pension fund (employer's contribution)	– 5 441	– 4 828
Total transactions with related parties	**– 24 574**	**– 22 049**

Balances in 1 000 CHF	**Dec. 31, 2017**	Dec. 31, 2016
Ingro Finanz AG	– 10 000	– 10 000
Total balances with related parties	**– 10 000**	**– 10 000**

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 Sale of property, plant and equipment

In the second quarter of 2017, Bachem sold an operating building in Torrance, California, for 5 178 kCHF and purchased a corresponding building in Vista, California, as a replacement. The realized gain on sale of 437 kCHF is included in the line other income.

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 in 1 000 CHF	**2017**	2016
Theoretical cost at January 1	**1 352**	**1 352**
Additions from acquisitions	0	0
Theoretical cost at December 31	**1 352**	**1 352**
Theoretical accumulated amortization at January 1	**– 473**	**– 203**
Theoretical amortization	– 270	– 270
Theoretical accumulated amortization at December 31	**– 743**	**– 473**
Theoretical net book value of goodwill at December 31	**609**	**879**

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	**2017**	2016
Net income according to income statement	**41 770**	**41 205**
Theoretical amortization of goodwill	– 270	– 270
Theoretical net income after amortization of goodwill	**41 500**	**40 935**

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, 2017 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 62 to 90).

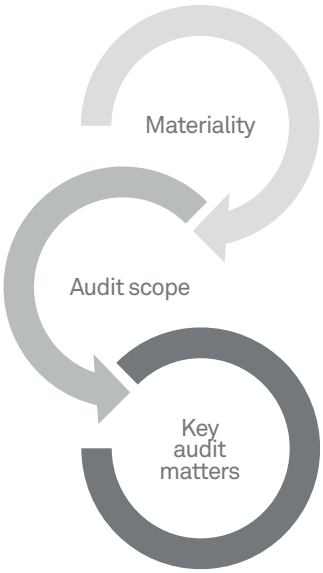
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with 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.

OUR AUDIT APPROACH OVERVIEW



Overall Group materiality:
CHF 2 400 000

We concluded full scope audit work at three reporting units in two countries. Our audit scope addressed 93% of the Group's total sales and 84% 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. As Group auditor, we performed in our role as statutory auditor audits at Bachem Holding AG and Bachem AG in Bubendorf. Specified procedures were tailored to cover significant financial statement line items and transactions at Bachem Americas, Inc. in the United States which were performed by the component auditor from the PwC network. The involvement of the Group auditor included the assessment of the reporting und work papers of the component auditor as well as telephone conference calls where the management took part as well.

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.

OVERALL GROUP MATERIALITY	CHF 2 400 000
HOW WE DETERMINED IT	5% of profit before tax (rounded)
RATIONALE FOR THE MATERIALITY BENCHMARK APPLIED	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. In addition, profit before tax is a generally accepted benchmark for considerations of materiality.

We agreed with the Board of Directors that we would report to them misstatements above CHF 240 000 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 172.7 million after the deduction of an inventory provision of CHF 26.3 million representing 32% 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 68), the critical accounting estimates and assumptions section (page 75) and in the footnotes with a breakdown by inventory categories (page 81).

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 28, 2018

INCOME STATEMENT

For the years ended December 31

in 1 000 CHF	Notes	**2017**	2016
Income			
Income from investments	1	20 342	17 645
Income from licenses		21 338	20 918
Interest income	2	2 495	1 523
Other income		16	20
Other financial income	3	1 464	561
Total income		**46 655**	**40 667**
Expenses			
Staff costs		– 3 390	– 2 733
Administration expenses		– 5 325	– 5 771
Interest expenses	4	– 279	– 172
Other financial expenses	5	– 1 506	– 39
Depreciation and amortization		– 10	– 11
Total expenses		**– 10 510**	**– 8 726**
Ordinary net income before taxes		**35 145**	**31 941**
Taxes		– 1 530	– 1 439
Net income for the year		**33 615**	**30 502**

BALANCE SHEET

At December 31, 2017 and 2016

in 1 000 CHF	Notes	**Dec. 31, 2017**	Dec. 31, 2016
Assets			
Cash and cash equivalents		459	6 491
Other receivables from third parties		676	936
Other receivables from group companies	1	40 221	38 137
Prepaid expenses and accrued income		25	0
Total current assets		**41 381**	**45 564**
Loans to group companies		173 993	129 593
Investments	6	115 305	115 305
Property, plant and equipment		14	23
Total non-current assets		**289 312**	**244 921**
Total assets		**330 693**	**290 485**
Liabilities and equity			
Current interest-bearing liabilities	7	94 600	55 000
Other current liabilities to third parties		139	142
Other current liabilities to group companies		5 013	5 963
Deferred income and accrued expenses		2 382	1 983
Total current liabilities		**102 134**	**63 088**
Share capital		680	680
Statutory capital reserves			
Reserves from capital contribution		1 377	841
Other capital reserves		6 334	6 334
Statutory retained earnings		136	136
Voluntary retained earnings		102 669	102 669
Available earnings			
Net income brought forward		83 749	87 193
Net income for the year		33 615	30 502
Own shares	8	– 1	– 958
Total equity		**228 559**	**227 397**
Total liabilities and equity		**330 693**	**290 485**

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 (32nd 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	**2017**	2016
Dividend income	17 000	14 821
Other income from investments	3 342	2 824
Total income from investments	**20 342**	**17 645**

On February 5, 2018, the ordinary Annual General Meeting from Bachem AG has decided to distribute a dividend in the amount of 16 000 kCHF for the business year 2017 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 2017 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	**2017**	2016
Interest income group companies	2 495	1 523
Interest income third parties	0	0
Total interest income	**2 495**	**1 523**

3 Other financial income

in 1 000 CHF	**2017**	2016
Gain on sale of own shares	1 464	0
Foreign exchange result	0	561
Total other financial income	**1 464**	**561**

4 Interest expenses

in 1 000 CHF	**2017**	2016
Interest expenses third parties	– 232	– 124
Interest expenses shareholders	– 47	– 48
Total interest expenses	**– 279**	**– 172**

5 Other financial expenses

in 1 000 CHF	**2017**	2016
Bank service charges	– 34	– 39
Foreign exchange result	– 1 472	0
Total other financial expenses	**– 1 506**	**– 39**

6 Investments

Company	Location	**Capital and voting share Dec. 31, 2017**	Capital and voting share Dec. 31, 2016
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.	Torrance, USA	100%	100%
Peninsula Laboratories, LLC	San Carlos, USA	100%	100%

All companies are directly or indirectly held with 100%.

7 Current interest-bearing liabilities

in 1 000 CHF	**Dec. 31, 2017**	Dec. 31, 2016
Bank loans	84 600	45 000
Loans from shareholders	10 000	10 000
Total current interest-bearing liabilities	**94 600**	**55 000**

8 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.

9 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, 2017**	Dec. 31, 2016
P. Grogg (via Ingro Finanz AG) [1]	55.5	55.5
Family of P. Grogg	6.1	6.1
Total important shareholders	**61.6**	**61.6**

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

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

December 31, 2017	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
Kuno Sommer (Chairman)	6 300		6 300	300				
Nicole Grogg Hötzer (Vice-Chairwoman)	87 200		87 200	300				
Jürgen Brokatzky-Geiger (Member)	2 400		2 400	300				
Thomas Burckhardt (Secretary)	25		25	300				
Rolf Nyfeler (Member)	54 310		54 310	300				
Helma Wennemers (Member)	1 050		1 050	300				
Total BoD	**151 285**	**0**	**151 285**	**1 800**				
Thomas Früh (CEO) [1]	3 602	3 172	6 774	765	0	0	0	0
José de Chastonay (CMO)	10	2 122	2 132	503	0	0	0	0
Alex Fässler (COO) [1]	4 624	2 480	7 104	605	0	0	0	0
Günther Loidl (CTO)	0	1 717	1 717	520	0	0	0	0
Stephan Schindler (CFO)	3 559	2 229	5 788	538	0	0	0	0
Total CEC	**11 795**	**11 720**	**23 515**	**2 931**	**0**	**0**	**0**	**0**
Total	**163 080**	**11 720**	**174 800**	**4 731**	**0**	**0**	**0**	**0**

December 31, 2016	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
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) [1]	54 010		54 010	300				
Helma Wennemers (Member)	750		750	300				
Total BoD	**149 785**	**0**	**149 785**	**1 800**				
Thomas Früh (CEO) [1]	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
Total CEC	**13 248**	**11 758**	**25 006**	**3 779**	**66**	**0**	**66**	**0**
Total	**163 033**	**11 758**	**174 791**	**5 579**	**66**	**0**	**66**	**0**

[1] Ownership of shares and options incl. related parties.

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

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

11 Full-time positions

The average number of full-time positions during the reporting year was below 50 (2016: below 10).

12 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.

13 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	83 748 643.59
Net income for the year 2017	CHF	33 614 872.64
Available to the Annual General Meeting	CHF	117 363 516.23
Dividend payment of 2.75 CHF per registered share for the business year 2017 on 13 578 634 registered shares entitled to dividend	CHF	37 341 243.50
Net income to be carried forward	CHF	80 022 272.73

The total amount of dividend mentioned in the proposal of the Board of Directors has been calculated on the basis of numbers of shares entitled to dividend on the day of the Board meeting. The number of shares entitled to dividend can still change up to the Annual General Meeting on April 25, 2018, 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, 2017, income statement and notes for the year then ended, including a summary of significant accounting policies (pages 96 to 102).

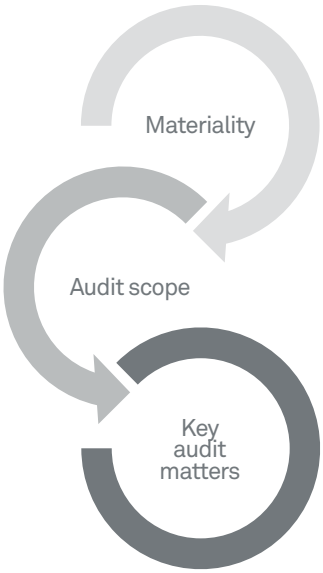
In our opinion, the financial statements as of December 31, 2017 comply with Swiss law and the company's articles of incorporation.

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.

OUR AUDIT APPROACH OVERVIEW



Overall materiality: CHF 1 000 000

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.

OVERALL MATERIALITY	CHF 1 000 000
HOW WE DETERMINED IT	0.3% of total assets (rounded)
RATIONALE FOR THE MATERIALITY BENCHMARK APPLIED	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 100 000 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, 2017, the Company reports investments of CHF 115.3 million and loans to group companies of CHF 174.0 million. We consider the valuation of these balance sheet positions as key audit matter for the following reasons:

- These positions are significant and represent 87% 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 98) and in the footnotes with more detailed information on the holdings (page 100).

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 28, 2018

SHAREHOLDER INFORMATION

			2017	2016	2015	2014	2013
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			13 571 842	13 545 983	13 532 178	13 512 994	13 500 625
Dividend per share		CHF	2.75 [1]	2.50	2.25	2.00	1.75
Share price	High	CHF	154.00	97.95	53.90	51.80	52.00
	Low	CHF	91.80	49.55	41.80	44.75	35.20
	Year-end	CHF	154.00	90.30	51.90	49.00	48.50
Dividend yield per share		%	1.8	2.8	4.3	4.1	3.6
Earnings per share (EPS)		CHF	3.08	3.04	2.35	2.15	1.75
Cash flow from operating activities per share		CHF	2.63	2.98	4.54	3.49	3.65
Group equity per share		CHF	27.57	26.97	26.11	25.84	24.92
Price/earnings ratio (year-end)			50.00	29.70	22.09	22.79	27.71
Market capitalization at year-end		MCHF	2 094	1 228	706	666	660

[1] Proposal to the Annual General Meeting of April 25, 2018

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

Distribution of shares

Number of shares per shareholder	Dec. 31, 2017	Dec. 31, 2016
0–100	1 815	1 324
101–1 000	2 137	1 873
1 001–10 000	259	264
10 001–100 000	36	41
100 001–1 000 000	7	8
1 000 001 and more	1	1
Total	**4 255**	**3 511**

Shareholdings

in %	Dec. 31, 2017	Dec. 31, 2016
Major shareholders	61.6	61.6
Institutional shareholders	16.0	15.6
Private individuals	12.1	12.2
Dispo	10.3	10.6
Total	**100.0**	**100.0**

FINANCIAL CALENDAR

Events

Annual General Meeting
(business year 2017)
April 25, 2018

Payout Date for Dividend
May 2, 2018

Half-Year Report 2018
August 24, 2018

Annual Report 2018
March 2019

Annual General Meeting
(business year 2018)
April 2019

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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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