

BACHEM ANNUAL REPORT 2018

LEVERAGING
EXCELLENCE

EXCELLENCE LEVERAGING

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, the US and Asia, 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**

LEVERAGING EXCELLENCE

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

On behalf of Bachem, Dr. Anne-Kathrin Stoller, Chief Marketing Officer, welcomed numerous guests from the worlds of industry and science to presentations tackling the theme of “The Promise of Brain Peptides for the Diagnosis & Therapy of CNS Diseases”. In the highly topical field of diseases of the central nervous system (CNS) ...
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LEVERAGING EXCELLENCE

Through “Leveraging Excellence”, Bachem strives to continuously optimize all processes and systems along the value chain ...
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FIRST LOCAL PRESENCE IN ASIA

2018 was a milestone year for Bachem in Asia: After a phase of careful evaluation and planning, the Group's first local site – a sales office in Tokyo – was inaugurated. The founding date: July 2, 2018. In the Japanese calendar this date is known as ...
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INTERVIEW DR. ALEX FÄSSLER THOMAS MEIER

Operational Excellence as a strategy to continuously improve the manufacturing and business processes is an attitude of our employees, which we convey and promote in our leadership training. The focus lies always ...
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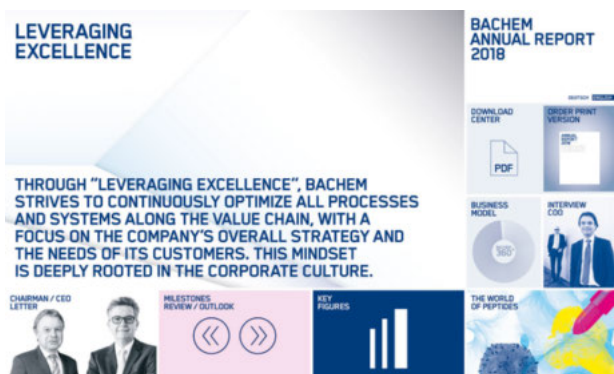
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ONLINE REPORT

<http://annualreport.bachem.com>



THE WORLD OF PEPTIDES

WHAT ARE PEPTIDES?

Peptides are chains of 2 to about 100 amino acids. Longer chains are called proteins. Peptides are organic compounds made up of natural amino acids in living organisms. Originally isolated from biological sources, they are synthesized chemically today. The biological properties of peptides depend on the number of amino acids involved and their position in the chain. The 20 natural α -amino acids are 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 neuro-degenerative diseases, renal failure, as antibiotics, in vaccines and in drugs for rare diseases (orphan drugs).

AVAILABLE DOSAGE FORMS

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

COSMETICS

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

NUTRITION PRODUCTS

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

CANCER THERAPIES

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

LETTER TO SHAREHOLDERS

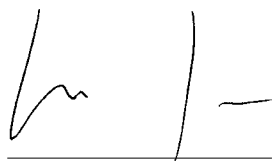
Dear Shareholders,

As the “Pioneering Partner for Peptides”, Bachem’s position as market leader is secure. By focusing group-wide on our core peptide business, we are consistently pursuing our goal of remaining the best in this field worldwide. With the market and competitive environment continuing to present challenges, Bachem achieved its sales and profit growth targets once again in fiscal year 2018. Though we got off to a difficult start in the first half of the year, the fall-off in sales caused by project delays was offset by a sharp rise in the second half. As a result, sales growth came to 8.0% for the year as a whole. Sales of active substances continued to develop encouragingly. The new chemical entities (NCE) product category, which is crucial to our future success, grew by over 20%. Bachem again succeeded in significantly boosting its operating profit in 2018. Profit from operations increased by 8.3% over the prior year while the EBIT margin reached 19.4%. Supported by positive currency effects, net profit rose by 11.7%.


For the next few years, we are confident that sales in local currencies will continue to grow steadily in line with our long-term forecast of 6-10% per year. With our newly founded local branch in Japan, we also want to derive greater benefit from the fast-growing Asian markets. We continue to give earnings growth precedence over sales growth. One factor we expect to contribute to higher profits in the coming years is the implementation of our digitalization and automation projects.

Moreover, as part of a strategic assessment, we have identified the market for therapeutic oligonucleotides as an option for augmenting and broadening our portfolio. Although their chemical structure differs significantly from that of peptides, we see considerable potential for synergies in terms of manufacturing and customer ties. Together with a team of specialists, therefore, we plan to build up a new pipeline of oligonucleotide projects in the next few years. We see these activities as complementing the core peptides business and believe they have the potential in the medium term to become a parallel – and equally strong – mainstay of our business.

In the light of the results we have achieved plus our continuing good prospects and our financial stability, the Board of Directors will propose at the Annual General Meeting that a dividend of 2.75 CHF per share be paid.



Dr. Kuno Sommer
Chairman of the
Board of Directors



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



CEO
Message



Dr. Kuno Sommer



Dr. Thomas Fröh

CORPORATE EXECUTIVE COMMITTEE



Dr. Thomas Früh,
Chief Executive Officer (CEO)

“By constantly optimizing our organization and processes, we will continue to generate added value for all stakeholders in future.”



Stephan Schindler,
Chief Financial Officer (CFO)

“Excellence arises from interdisciplinary collaboration characterized by openness, trust and mutual support.”



Dr. Günther Loidl,
Chief Technology Officer (CTO)

“We exploit synergies through the use of new technologies and company-wide knowledge transfer. This enables us to offer customized services to clients across the globe.”



Dr. Alex Fässler,
Chief Operations Officer (COO)

“Not being satisfied with our current achievements, developing products of even higher quality, and offering innovative and more efficient solutions for our customers as a competent partner—that is our daily practiced Operational Excellence.”

Dr. Anne-Kathrin Stoller,
Chief Marketing Officer (CMO)

“Together with our customers, we are working on the treatments of tomorrow. This is what motivates us and fills us with pride.”

2018 IN BRIEF

EBIT
(IN MCHF)

54.8

Operating result (EBIT) increased by 8.3% in CHF

NET INCOME

+11.7%

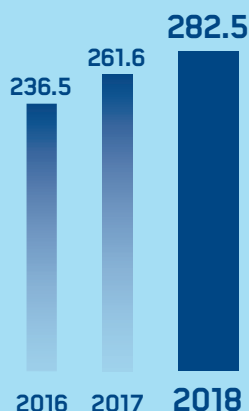
Significant increase in net income to 46.6 million CHF

DIVIDEND
(IN CHF)

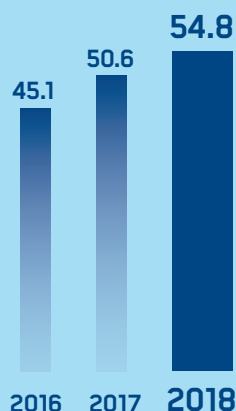
2.75

Stable high dividend per share proposed

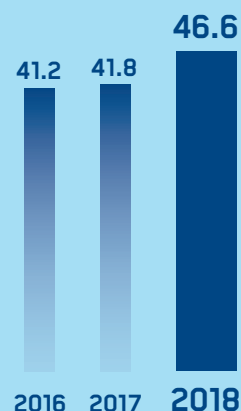
SALES
(IN MCHF)



EBIT
(IN MCHF)



NET INCOME
(IN MCHF)



	2018	2017	CHANGES IN %	
			CHF	LC
SALES (IN MCHF)	282.5	261.6	+8.0	+7.5
EBITDA (IN MCHF)	77.9	71.5	+8.9	+6.7
EBITDA IN % OF SALES	27.6	27.3		
EBIT (IN MCHF)	54.8	50.6	+8.3	+5.2
EBIT IN % OF SALES	19.4	19.3		
NET INCOME (IN MCHF)	46.6	41.8	+11.7	
NET INCOME IN % OF SALES	16.5	16.0		
EARNINGS PER SHARE (EPS - IN CHF)	3.43	3.08	+11.6	
CASH FLOW FROM OPERATING ACTIVITIES (IN MCHF)	25.8	36.5	-29.3	
RETURN ON EQUITY (IN %)	12.3	11.3		
NUMBER OF EMPLOYEES (IN FULL-TIME EQUIVALENTS)	1 097	1 057		
SALES PER EMPLOYEE ¹ (IN CHF)	271 000	266 000		

¹ Basis: average full-time equivalents excluding apprentices.

EMPHASIS ON THE SECOND HALF OF THE YEAR

As expected, the second half of fiscal year 2018 stood out strongly. Growth at mid-year fell short of the target figure due to postponed sales and project delays in the first six months. During the second half, Bachem not only made up for this shortfall but increased sales compared to the previous year by almost 21 million CHF. Since profitability showed a disproportionate increase, both EBIT and net profit rose significantly. Slightly positive currency effects rounded off this successful year.

RECORD SALES

In the second half, Bachem generated sales of 171.6 million CHF – about a million francs more than in the whole of fiscal 2013. Thus 2018 was the eighth successive year of growth in sales, which reached a new high of 282.5 million CHF. Compared to the previous year's figure, this represents an increase of 20.9 million CHF or 8.0%.

PROFITABILITY INCREASED

Bachem's operating profit (EBIT) grew by 8.3% to 54.8 million CHF during the period under review. Factoring out the previous year's gain of 0.4 million from the sale of a building in the USA, EBIT rose by over 9% – a higher percentage rise than sales. Bachem widened its EBIT margin to 19.4% and the EBITDA margin to 27.6%.

POSITIVE CURRENCY EFFECT

In the income statement, the exchange rate trends of the US dollar, the euro and the pound sterling against the Swiss franc had a moderately positive aggregate impact on performance in Swiss francs at EBIT level. Thus the currency effect on sales was a positive 1.2 million CHF, on EBIT a comparable 1.6 million CHF.

NEW JOBS

Bachem's good business performance and – in the second half especially – its very high capacity utilization enabled the company to create a total of 39 new jobs by the end of 2018. As of December 31, 2018, the Bachem Group employed a total of 1 140 people in 1 097 full-time equivalent positions.

STABLE DIVIDEND

The Board of Directors will propose a dividend of 2.75 CHF per share to the Annual General Meeting in April 2019.



SUCCESSFUL PROJECTS CREATE A STRONG FOUNDATION

NEW ERP SYSTEM

Beginning of May 2018 Bachem commissioned a new ERP system. Building on the “Chemical Company” model of SAP S4/HANA, an interdisciplinary project team had worked for around two years to prepare for the company-wide introduction of the new system. After intensive and comprehensive testing, the new system – the backbone of information processing at Bachem – went live in the form of a “Big Bang” at all sites. Thanks to the magnificent project work, the switch to the new system went entirely to plan, and operations could be continued almost seamlessly. As usual in all projects of this kind, the go-live was followed by a further intensive phase during which previously undetected bugs could be corrected and the final teething problems resolved. In launching the new ERP system, Bachem has created an important basis for the initiatives, starting in the next few months, for the ongoing improvements to Operational Excellence. Greater transparency, even more efficient processes and targeted cost reductions will contribute to the planned improvement in profitability.

FORMATION OF JAPAN K.K.

Following intensive preparations, the new subsidiary was founded in Tokyo, Japan, at the beginning of July 2018. Bachem Japan K.K. will assume responsibility for distribution for the

Active Pharmaceutical Ingredients (API) business in Japan and other Asian countries such as South Korea, China and Taiwan. This will make Asia a third regional pillar together with Europe and North America. The new local presence will significantly strengthen project support and customer relations in this important growth market.

EXCELLENT CONTRIBUTION OF VISTA

After taking over the American Peptide Company (APC) in 2015, Bachem renovated its facility in Vista, California. The various expansion projects during the year under review and the knock-on effects on production capacity illustrated the potential of this site. Compared to the year of acquisition, Vista quintupled its contribution to Group sales. A key contributory factor was the successful and efficient

utilization of the newly created capacity. After some initial difficulties, the integration of this facility was successfully concluded. With continuous improvements and selective expansion projects, Bachem is aiming to achieve a further increase in both productivity and profitability.

COMMISSIONING OF C1

Following the procurement and commissioning of the new automated high-bay warehouse “C1” at the Bubendorf site in Switzerland, Bachem has reached an important milestone in terms of safety and efficiency. The central warehouse for solids and liquids provides the plant with starting materials and ensures GMP-compliant storage of semi-finished and finished products. A fully automated materials management solution optimizes the use of available space and, thanks to the interfaces with the ERP system, facilitates cross-process integration in the value chain. With its state-of-the-art safety installations, Bachem meets the latest requirements relating to employee safety and the protection of products and the environment.

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.

35 million USD

contribution to sales
from Vista



“LEVERAGING EXCELLENCE” CREATES NEW POSSIBILITIES

SUSTAINABLE SUCCESS

In line with the saying “the best is the enemy of the good”, Bachem will not sit back and have faith in its leading position in the market. The company does not understand “Leveraging Excellence” to mean simply maximizing short-term profits. Rather, Bachem makes investments and launches initiatives aimed at long-term success. Processes and systems along the value chain are continuously optimized and new products and services developed.

PRODUCT PORTFOLIO

The introduction of the new ERP system improves transparency in terms of processes and internal costs. This enables Bachem to better analyze its existing product portfolio regarding turnover and profitability contributions and thereby streamline its product range through a facts-based approach. This in turn helps optimize capacity planning and – thanks to prioritization – avoid shortages and hence improve profitability.

OLIGONUCLEOTIDES

Motivated by specific requests from customers, Bachem has started to position herself as a provider for the development and production of active agents in the field of oligonucleotides. This new product category opens up promising prospects and will in future be expanded to become a parallel mainstay of our business alongside peptides.

AUTOMATION

Targeted investments in the automation of production processes will enable Bachem to fulfill increasing quality demands in the years to come. Meanwhile, profitability will improve thanks to the digital networking of internal processes and the resulting gains in efficiency.

30%
EBITDA
margin
as a target
for 2021

BACHEM SPRING SYMPOSIUM 2018

On behalf of Bachem, Dr. Anne-Kathrin Stoller, Chief Marketing Officer, welcomed numerous guests from the worlds of industry and science to presentations tackling the theme of “The Promise of Brain Peptides for the Diagnosis & Therapy of CNS Diseases”. In the highly topical field of diseases of the central nervous system (CNS), peptides offer considerable potential as active substances. Experts from across the globe took this year's symposium as an opportunity to present innovative projects and discuss the latest developments in the world of peptides.

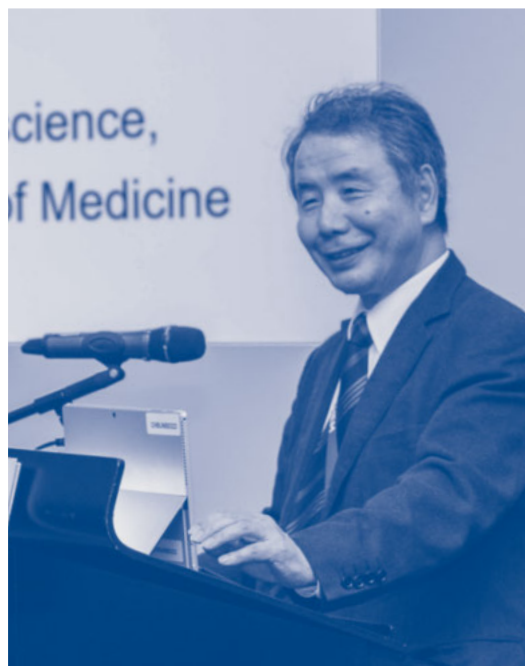
One example is the neurodegenerative Alzheimer's disease, which is being studied by Professor Hiroshi Mori at Osaka University in Japan. He presented an innovative mutation of the amyloid β -peptide that could lead to a breakthrough in the development of drugs to combat Alzheimer's. Dr. Dave Garman, NoNO Inc., demonstrated the potential of novel peptides as stroke treatments.

In addition to disorders of the central nervous system, peptides can also be used in other new applications: Dr. Anna Secher, Novo Nordisk A/S, described the effect of GLP-1 receptor antagonists in the brain and explained how they can be used in the treatment of overweight. Professor Kristian Strømgaard from Copenhagen University showed how challenges in the development of new active substances can be overcome by the analysis of protein-protein interactions in the brain.

A case study investigating the manufacture of a peptide-protein conjugate currently being tested in clinical trials for the treatment of Alzheimer's was the subject of the concluding presentation by Dr. Markus Wiesner, Bachem AG. The development of the GMP production process that enables the active substance to be produced in large quantities impressively demonstrates how Bachem, as a pioneer in the field of peptides, is ideally positioned to efficiently solve the challenges of its customers.

During a visit to the Bubendorf site the participants were able to see for themselves the state-of-the-art research and production facilities where such projects are managed at Bachem. The tour provided an impressive demonstration of the complexity associated with the development of a GMP manufacturing process for peptides in practice.

The exchanges between the experts from a variety of disciplines in industry and science are one of the key factors contributing to the success of the Bachem Spring Symposium. The event, moderated by Professor Helma Wennemers from ETH Zurich, gave rise to some lively discussions that were continued in greater depth at the Symposium dinner. With its Spring Symposium Bachem – together with its partners from the worlds of science and industry – is making a crucial contribution to the successful development of peptides as 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

Nowadays, peptides are used in a wide variety of applications. In addition to their use in clinical development and in medicinal products, peptides are also used in diagnostic and cosmetic products, as well as in basic research.

Customers in the field of basic research are primarily universities, institutes and research departments of pharmaceutical companies. The primary objective is speed and availability – the new idea of today should be implemented in the laboratory and theories checked tomorrow. With its catalog of products, Bachem is ideally positioned to achieve this goal. The online shop offers a sophisticated search function and displays availabilities. A substantial proportion of the more than 6 500 products is in stock and can be delivered within 1–2 days. Every year Bachem supplements its catalog with new, innovative products emerging from the latest areas of research.

If, despite this broad portfolio, a product is not included in the catalog, Bachem can offer this as a custom synthesis. Every year Bachem's site in the UK produces more than thousand peptides by custom synthesis. Short delivery times and competitive prices are also important factors here. Many competitors exist in the field of non-GMP (GMP = Good Manufacturing Practice) custom synthesis, increasingly from Asia as well. Even universities now offer their own custom synthesis services. Bachem therefore focuses on technically sophisticated high-quality products such as diagnostic and cosmetic peptides. The ISO certification of Bachem's site in the UK was a logical consequence of this focus. This service commitment is greatly valued: very close and trusting working relationships have been built over many years with numerous customers in the diagnostic and cosmetic sectors.

Peptides as active ingredients in drugs constitute the largest area of application at Bachem. As well as producing approved active pharmaceutical ingredients (API), Bachem also supports numerous new chemical entity (NCE) customers in their clinical development with products and services. These are primarily large and small pharmaceutical and biotech companies in the USA, Europe and Japan. In order to be able to serve the Japanese market even more effectively, Bachem set up

a subsidiary in Tokyo in July 2018, enabling Japanese clients to be supported directly on site. This is crucially important in the NCE sector, which is demanding in both technical and regulatory terms. Bachem usually works closely with customers over many years in the hope of being able to bring a new drug to market at the end of the development phase. During this phase of intensive cooperation, many technical and regulatory obstacles have to be jointly overcome. In addition to technical and regulatory expertise, this particularly requires extensive experience in the development of new drug substances. Globally, only a small number of competitors meet these requirements, and the barriers for new market entrants are high.

Traditionally Bachem also manufactures generic APIs, i.e. drug substances whose patent protection has expired. Most of the customers in this sector are generics companies. Increasingly appearing on the scene are firms that work on new applications for such generics, for example innovative formulations or additional therapeutic areas. New dosage forms such as oral formulations offer additional growth potential as a result of the increased demand for materials. Here too, the products are extremely sophisticated and are often developed in partnership with a generics company. Bachem's regulatory expertise, reliability and extensive experience in this field is greatly valued by customers.

Bachem Group's operating results in 2018

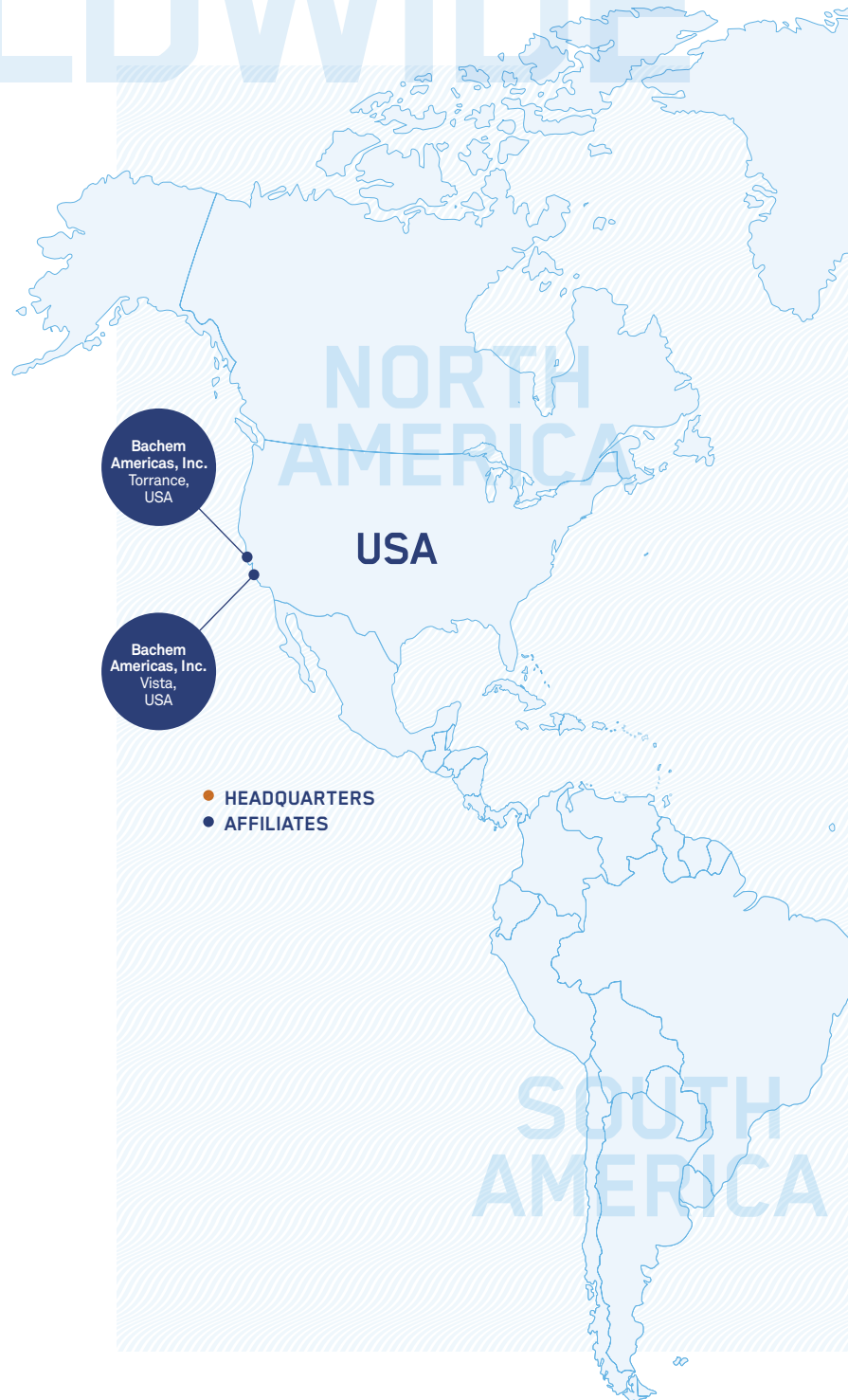
The Bachem Group generated sales of CHF 282.5 million in 2018, an 8.0% increase in Swiss francs. Growth reached 36.8% in the Americas, whereas sales in Europe declined by 6.4%. In the USA, important NCE and generics projects developed very positively, particularly in the second half of the year. On the other hand, in Europe and Asia a number of project and delivery postponements on the customers' side adversely affected sales, particularly during the first half of the year. Overall, growth was slightly lower than the previous year, which was mainly attributable to a weak first six months. Much of this deficit was made up in the second half of the year thanks to an outstanding order book.

**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 RELATION-
SHIPS THAT ARE IMBUED
WITH A STRONG SENSE
OF TRUST. BACHEM IS
RECEPTIVE TO INDIVIDUAL
NEEDS AND IS A COMPE-
TENT, RELIABLE PARTNER.**

Bachem sells peptides worldwide for use in research & development, cosmetics, diagnostics, medicines and other application areas. As in previous years, APIs for pharmaceutical and biotechnology companies account for the bulk of Bachem Group sales. Geographically, the USA, Europe and Japan are still the most important markets.

Bachem addresses the world market through two regional segments of North America and Europe, based on sales recorded by the Group's subsidiaries. Sales to customers in North and South America are 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 account for 12% of the consolidated total. Since the main market in Asia is Japan, Bachem also decided to set up its first local Asian presence in Tokyo. Other countries with growth potential are South Korea, Taiwan, Singapore and China. In China, obtaining regulatory approval continues to present the main obstacle to the achievement of significant commercial sales. However, recent changes in this area give cause for hope of an improvement in this situation.



BACHEM OPERATES SEVEN CENTERS OF EXCELLENCE IN SWITZERLAND, THE UK, GERMANY, THE US AND ASIA 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 JAPAN K.K.
Tokyo,
Japan

BACHEM SA
Succursale Vionnaz
Vionnaz, Switzerland

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

BACHEM AMERICAS, INC.
Vista,
USA



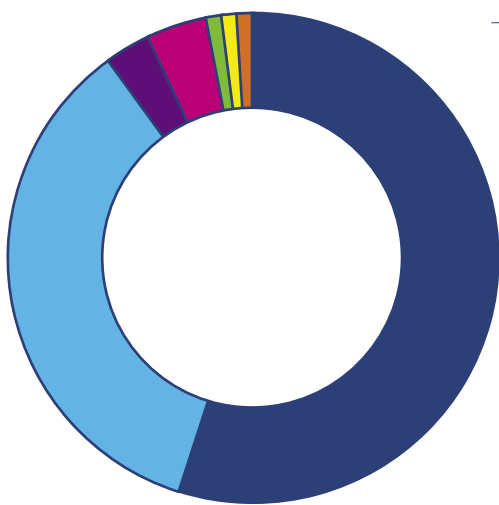
The research chemicals business decreased slightly compared to the previous year. Catalog sales were 9.0% lower than in 2017, primarily as a result of customer-related project and delivery delays in the bulk business. The custom synthesis business, too, was 13.2% lower, though this was primarily due to one-time effects in the previous year. Significant custom synthesis sales generated in 2017 were attributable to one-time factors connected with NCE development projects. Taking this into account, the custom synthesis business is developing well, and the Bachem site in the UK was again operating at full capacity.

Growth in 2018 was mainly generated with APIs. While the generics business has remained stable compared to 2017, the NCEs have grown by 22.0%. Both new projects and the growth of existing projects have contributed to this great result.

After the very strong growth in 2016 and 2017, sales have consolidated in Asia and thus remained roughly at previous year's level in 2018. The company will continue to focus on the demanding Asian market in 2019, since it promises great potential for growth in the medium and long term. The newly formed local presence in Japan is ideally positioned to exploit this potential to the full.

The prospects for 2019 are very good: In addition to a well filled order book, new NCE and generics projects in particular will contribute to future growth.

CUSTOMER SEGMENTATION



PHARMA

55%

BIOTECH

35%

DIAGNOSTICS

3%

DISTRIBUTORS

4%

ACADEMIA

1%

COSMETICS

1%

OTHER

1%

The key to future growth lies in having innovative peptides approved and new therapy or application areas opened up for existing products. That is why Bachem works in a motivated and committed way to drive forward and expand its development project pipeline. As a partner to its customers, Bachem works together with them to successfully obtain market authorization and to foster the flexibility and creativity of the project teams.

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.

Catalog

In the catalog business, aside from rapid availability and competitive prices, the product portfolio plays a decisive role. Every year Bachem supplements its catalog with new, innovative products emerging from the latest areas of research. Intensive exchanges with leading researchers at various conferences and symposia ensure that Bachem is able to support cutting-edge research all over the world with the right products.

Custom synthesis

In custom synthesis, the customer defines the product or peptide sequence. What sets Bachem apart from its competitors in this area is its flexibility, technical expertise and exceptional quality. Focusing on demanding customer segments – diagnostic and cosmetic companies, for example – has proved effective in recent years and will continue to offer further potential for growth in future.

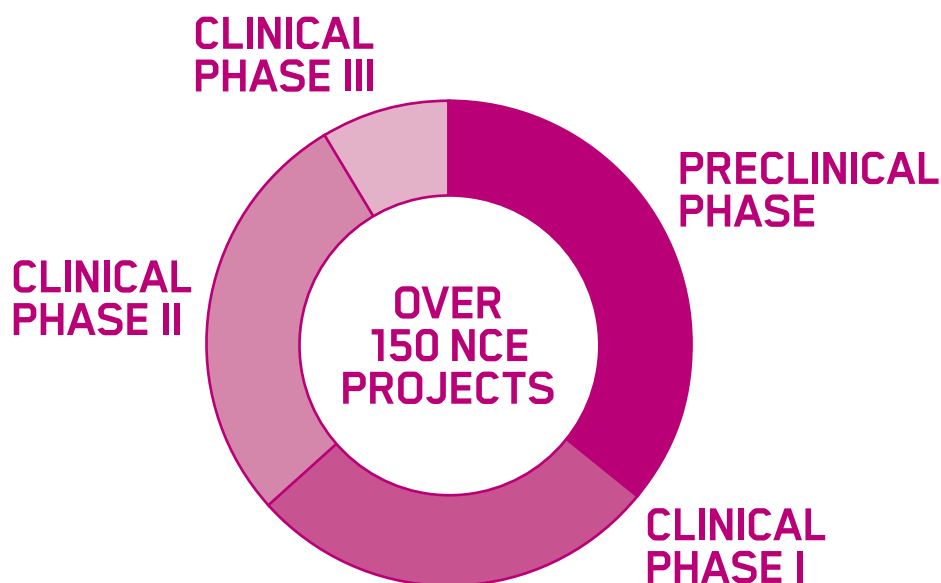
APIs & Services

Drug substances or APIs (Active Pharmaceutical Ingredients) are the largest application area for peptides at Bachem. These can be products with market approval or products that are still in development.

The priority for products with market approval is cost-effective production and reliable supply. Close coordination with the demand of customers and careful long-term planning are crucially important. Long-term supply contracts often regulate prices, purchase volumes and other obligations, thus providing security for both parties.

As well as producing approved APIs, Bachem also supports numerous new chemical entity (NCE) customers in their clinical development with products and services. Customers, particularly pharmaceutical and biotechnology companies, can have widely differing expectations. Whereas smaller companies prefer to rely on the experience and recommendations of Bachem, large pharmaceutical companies, for example, have very precise ideas about drug development and proceed according to their own internal guidelines. A high degree of flexibility and service readiness is essential for the optimal management of a broad portfolio of projects for a wide variety of customers. Thanks to many years of working in the field of NCE development and the breadth of its project pipeline, Bachem has managed to accumulate a wealth of experience, whether from different customers, development

OUR PIPELINE OF CUSTOMER NCE PROJECTS



strategies, molecule classes, therapeutic areas or authorities. Bachem brings this experience to its development projects so that customers can also gain the benefit.

Just a few years ago, customers were often only marginally involved in the details of the technical development activities. Today, Bachem cooperates very closely with most customers, particularly on development projects. Intensive project management with highly effective and experienced project managers is the key to successful development in Chemistry, Manufacturing & Controls (CMC). The teams work together to identify risks and define measures at an early stage. This can typically involve targeted process developments ("work packages") or the development of analytical tests. Nowadays, joint project meetings and regular phone conferences are the rule. On some projects, customers are also represented by technical experts on site (PIP = Person in Plant) when it comes to important steps. A joint Steering Committee that makes important decisions and resolves conflicts is also appointed on many projects.

The growth in the field of NCEs results from both the expanding NCE pipeline as well as from new approvals. Neither is possible without the other. In statistical terms, less than 10% of all clinical development projects reach market approval. A solid and growing NCE pipeline contributes directly to sales expansion. At the same time it is also the prerequisite for achieving further approvals together with Bachem's customers. These approvals are the backbone for growth in the coming years.

Quality Strategy

The quest for the perfect solution. Continuous improvement thanks to creativity and the ability to adapt. Always seeing what has been achieved and the current challenge as a starting point and incentive for the next development.

Doing this requires a specific mindset: namely, that of an entrepreneur who always wants to offer his partners the best possible quality. With 100% reliability, no exceptions. Steadfastly convinced of doing the right thing.

We at Bachem have lived this commitment to quality from the very outset. Embedded as a strategy, established as a Company-wide initiative, it shapes our day-to-day activities over the long term. Our well-established position as market leader in the production of active ingredients is a result of this consistent focus and, of course, the requirements and appreciation of our customers: **Quality Matters.**



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:

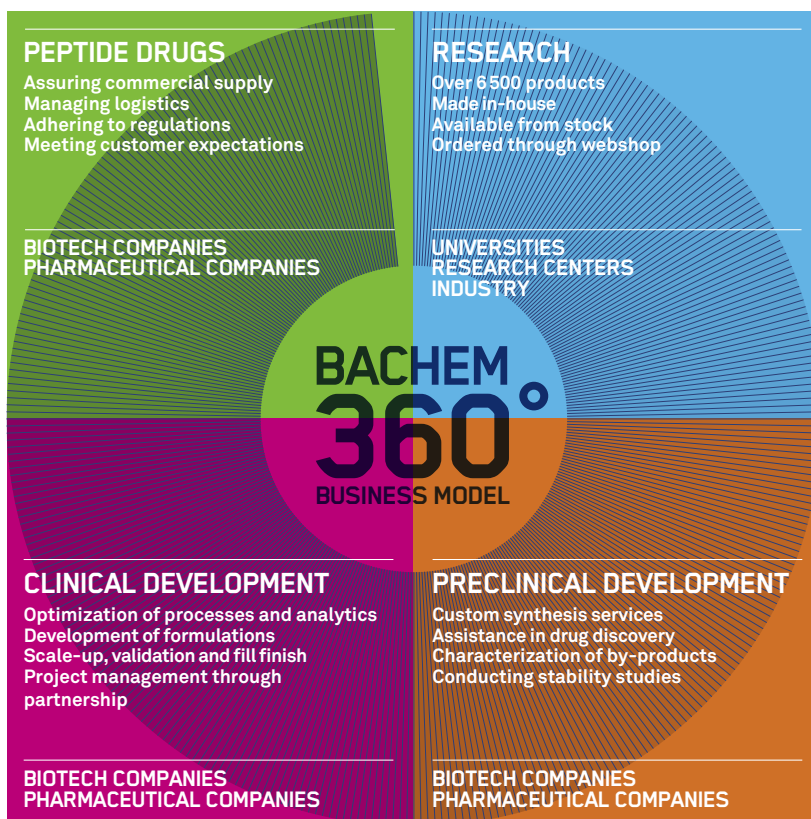
- Focus on strengths in the core business of peptides
- Generate strong organic growth through a consistent focus on customer needs
- Seize opportunities arising from industry consolidation

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

BACHEM'S 360° BUSINESS MODEL

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



RESEARCH

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

PRECLINICAL DEVELOPMENT

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

CLINICAL DEVELOPMENT

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

PEPTIDE DRUGS

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

LEVERAGING EXCELLENCE

THROUGH "LEVERAGING EXCELLENCE", BACHEM STRIVES TO CONTINUOUSLY OPTIMIZE ALL PROCESSES AND SYSTEMS ALONG THE VALUE CHAIN, WITH A FOCUS ON THE COMPANY'S OVERALL STRATEGY AND THE NEEDS OF ITS CUSTOMERS. THIS MINDSET IS DEEPLY ROOTED IN THE CORPORATE CULTURE.



LEVERAGING EXCELLENCE

FACT 1 CAPACITY

20 000 m³ BUILDING VOLUME
600 m² RT STORAGE
410 m² REFRIGERATED
STORAGE
2 HIGH-BAY WAREHOUSES

FACT 2 CONSTRUCTION MATERIAL

3 775 m³ CONCRETE
447 TONS OF IRON
14 km OF DUCTWORK
1,4 km PIPES

FACT 3 CONSTRUCTION SCHEDULE

10 MONTHS OF PLANNING
1 MONTH OF DEMOLITION
17 MONTHS OF EXCAVATION,
CONSTRUCTION AND
COMMISSIONING

FACT 4 AUTOMATION

2 HIGH-BAY WAREHOUSES
WITH TWO-DEEP STORAGE
AUTOMATED WAREHOUSE
HANDLING EQUIPMENT
WAREHOUSE MANAGEMENT
SOFTWARE
INTERFACE WITH SAP

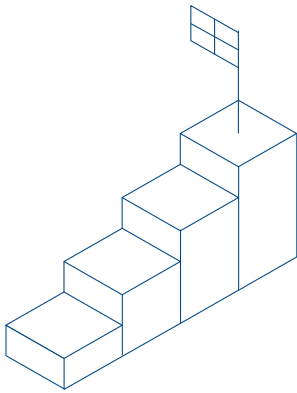


High-bay warehouses
Movie

POINTS OF EXCELLENCE

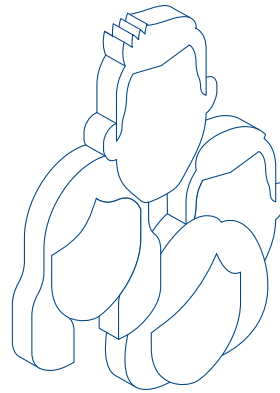
OPERATIONAL EXCELLENCE IS THE CONSTANT PURSUIT OF IMPROVED PERFORMANCE AND PROFITABILITY IN ALL AREAS OF YOUR ORGANIZATION; IT'S ABOUT CREATING VALUE THROUGH INTERACTION.

REDEFINING OPERATIONAL EXCELLENCE, ANDREW MILLER



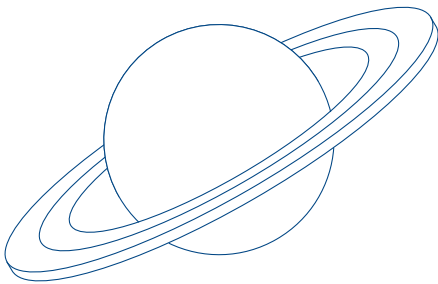
LEADERSHIP

Bachem's leadership culture supports the interdisciplinary collaboration of all company areas with a view to continuously optimizing processes and systems along the value creation chain.



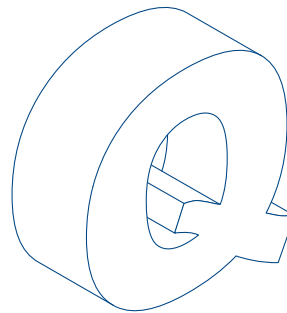
EMPLOYEE ENGAGEMENT

Bachem employees accompany their customers in a close partnership, from product development through to product approval, contributing to the success of each project as a team with their collective expertise and experience.



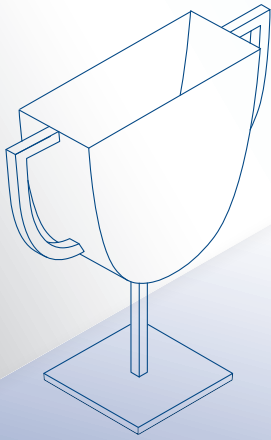
PIONEERING MINDSET

Scrutinizing the status quo, having the courage to try new things, and making the supposedly impossible actually possible are characteristics that set Bachem apart.



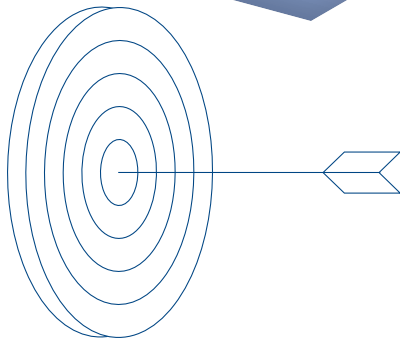
QUALITY & RELIABILITY

Quality and reliability are not accidental by-products, but result from a drive embedded deep in Bachem's corporate culture to go the extra mile, each and every day.



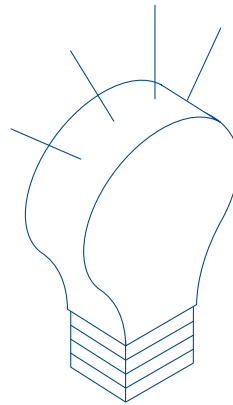
EXCEED CUSTOMER EXPECTATIONS

By focusing on customer needs, Bachem generates added value with its tailor-made services and partnership-based collaboration between all company areas.



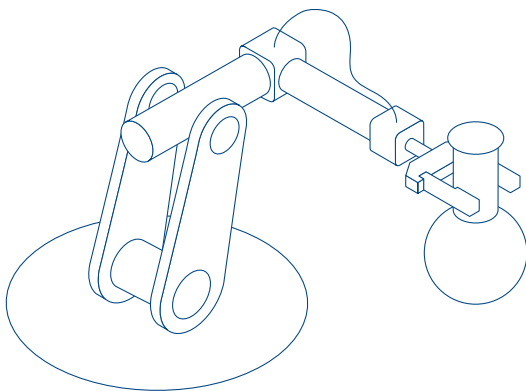
STRATEGY ALIGNMENT

All decisions and actions are geared toward implementing the company's strategy and delivering long-term success. The development of profitability takes precedence over sales growth.



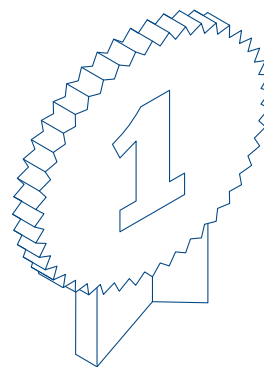
PRODUCT INNOVATION

Bachem offers its customers the best possible products and services to be found anywhere in the industry. Ongoing enhancements and improvements are designed to secure this leadership position in the future too.



HIGH-END INFRASTRUCTURE

To secure its future viability, Bachem invests continuously in infrastructure for environmental and employee protection, in buildings and systems, and in digitalization and automation.



PROCESS EXCELLENCE

Reliable information systems provide the basis for fact-based decisions. The company prioritizes the analysis of causes over the tackling of symptoms. Digitalized processes open up new opportunities.



**LEVERAGING
EXCELLENCE**

**"THE MOST VALUABLE LESSON
MOUNTAIN ULTRA RUNNING
HAS TO TEACH: WHAT EVER –
NEVER GIVE UP."**

TOM LELLAU, OPERATIONAL EXCELLENCE





LEVERAGING
EXCELLENCE

**"THE TOOLBOX FOR SUSTAINABLE
SPEED AND SUCCESS IN BUSINESS
IS SIMILAR TO THE ATTITUDE OF
TRUE RACING: COURAGE, A DYNAMIC
ENVIRONMENT, AGILITY IN THINKING,
DECIDING, EXECUTING AND HIGHLY
RELIABLE EMPLOYEES, EQUIPMENT
AND PROCESSES."**

ROLAND SCHÜRMANN, SITE MANAGER TORRANCE





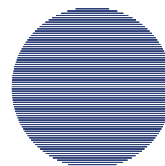
**LEVERAGING
EXCELLENCE**

**"VENTURING OUT BOLDLY
AND WITH DETERMINATION
CALLS FOR STRONG
FOUNDATIONS."**

DANIEL SCRUZZI, APPRENTICE INSTRUCTOR



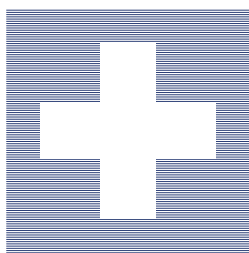
LEVERAGING
EXCELLENCE



FIRST LOCAL PRESENCE IN ASIA

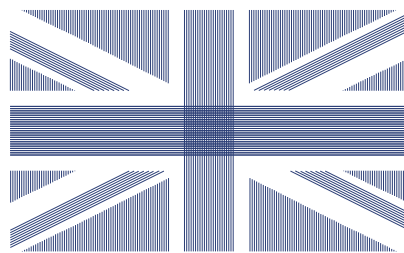
2018 was a milestone year for Bachem in Asia: After a phase of careful evaluation and planning, the Group's first local site – a sales office in Tokyo – was inaugurated. The founding date: July 2, 2018. In the Japanese calendar this date is known as "Taian" (大安), a "lucky day" and hence an ideal time to get married, found a company or embark on a new endeavor. With its highly motivated local team, Bachem can now approach the Asian market more directly and serve its customers on site. The local sales organization is focusing primarily on the API (Active Pharmaceutical Ingredient) business, which is already well established in Japan but is also gaining in importance in other countries such as South Korea, Taiwan and China. It is important for Bachem to be as close to its customers as possible in terms of language and culture, as well as being physically present. And now Bachem has taken the first step in Asia!

PROGRESS REPORTS TOKYO – NEW ASIA HUB



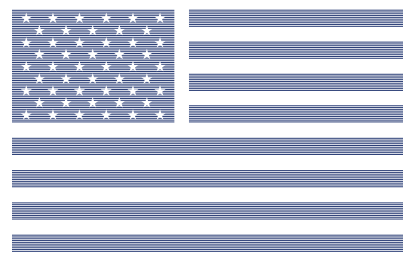
AUTOMATED WAREHOUSE AS THE BACKBONE FOR FURTHER EXPANSION IN BUBENDORF

In Bubendorf, Switzerland, a newly constructed logistics building for solids and liquids was commissioned as scheduled. The new facility marks a further milestone in the expansion of the site. The automated high-bay warehouse enables a more efficient and safer materials handling and management with fewer personnel. Construction to the maximal possible building volume provides sufficient storage capacity to support future growth of the site operations. This expansion demonstrates Bachem's clear commitment to Operational Excellence in all areas of the value chain, including intralogistics. The new Enterprise Resource Planning (ERP) system launched across all sites constitutes the backbone for merging laboratory and production information systems. This will drive more efficient use of data for faster decision-making processes. Coupled with the investment in the automation of routine process steps, Bachem thereby consolidates its leading market position also in the digital age.



GROWING DEMAND FOR DIAGNOSTIC PEPTIDES THANKS TO ISO CERTIFICATION

The ISO certification of the Center of Excellence in St. Helens has triggered significant growth, particularly in the area of diagnostic peptides. The expansion project launched last year enabled a substantial increase in production output. Such increase is likely to continue apace thanks to further investments and advances in automation. Moreover, state-of-the-art manufacturing technology – the use of microwave-assisted peptide synthesis, for example – and additional capacity shorten delivery times and increase flexibility to respond to specific customer needs. With these successfully implemented measures, Bachem sets itself apart in this fiercely competitive business. The company is well positioned to respond to the growing demand in all sectors, including diagnostics and cosmetics, and exploit opportunities as they emerge.



HIGH CAPACITY UTILIZATION WITH SUBSTANTIAL INCREASE IN PRODUCTIVITY IN CALIFORNIA

Last year's expansion in capacity at the Vista site in California was effectively utilized with high-volume projects, which contributed to the significant growth in the US market. Over the last year the US management team placed the emphasis on the training of all line managers according to the Bachem principles and values. This accelerated the development of an efficient organization well prepared for further growth. Such training also helped to establish Operational Excellence as a comprehensive strategy towards continuously improving workflows and chemical manufacturing processes and productivity. Utilization of the production facilities was further optimized and manufacturing costs lowered thanks to production planning closely coordinated across the sites and integrated with global procurement of materials.

INTERVIEW DR. ALEX FÄSSLER THOMAS MEIER

Dr. Alex Fässler, COO
(until December 31, 2018)
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. 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.

Thomas Meier, COO
(as of January 1, 2019)
Thomas Meier joined Bachem AG in 1993 as Team Head, Active Pharmaceutical Ingredients. From 2001 to 2004, he headed up peptide manufacturing at Peninsula Laboratories, Inc. in San Carlos, California. On his return to Switzerland, he was in charge of solid-phase peptide manufacturing for Bachem AG in Bubendorf. He assumed overall responsibility for production at the Bubendorf site in 2013, and was appointed COO Europe in August 2017, with responsibility for all production sites in Switzerland, Germany, and the UK. After an apprenticeship as chemical laboratory technician at the ETH in Zurich, Thomas Meier obtained a degree in chemistry from the ZHAW School of Engineering.



What does excellence mean for the corporate culture at Bachem?

Dr. Alex Fässler: We view it as a winning combination of the outstanding expertise of our personnel and their enthusiasm. Our aim is to manufacture products of the best possible quality – for our customers, and therefore ultimately for the patients who need the medicines produced with our peptides.

Thomas Meier: We strive to synthesize more complex peptides using innovative technologies. Our scientific excellence is supplemented by the collaboration of teams, which interact seamlessly across all business units. At the same time, we stream and accelerate our business processes, thereby lowering manufacturing costs.

What kind of working environment does Bachem offer its employees?

AF: Our employees perform demanding tasks and work as a team towards clear, ambitious goals. Thereby we create a working environment in which they are able to play their part in this process. The steady growth makes Bachem a particularly attractive employer since ambitious employees are given the opportunity to quickly assume responsibility for projects and line management.

Why is teamwork so important at Bachem?

TM: The successful development and manufacture of peptides requires the cooperation of various specialists, who contribute their expertise and work in partnership with our customers to develop collaborative solutions. This is our only way that enables us to develop active drug substances for hitherto unmet medical needs.

Operational Excellence as a strategy to continuously improve the manufacturing and business processes is an attitude of our employees, which we convey and promote in our leadership training. The focus lies always on the value added for our customers.

How do you promote innovative processes?

AF: Our strength lies in the development of innovative manufacturing processes and technologies. This enables us to manufacture peptides cost-effectively with innovative and continuously optimized processes. The daily challenge lies in advancing the current state while incorporating external input.

How does Bachem ensure quality in this production process?

TM: The slogan "Quality matters" applies to Bachem in general and to each individual team. Our internal quality assurance ensures that the quality of our products meets the standards demanded by the authorities and our customers – ultimately in the interest of the patients. We guarantee adherence through clearly defined processes and instructions.

We must recognize though that assurance of quality overall can only be as good as each of our individual employees.

We are in the middle of the digital revolution. How do you meet this challenge?

AF: We view the digital revolution as an opportunity because new technologies allow us to collect and analyze large data volumes as a basis to improve manufacturing as well as business processes. Of course, this also creates a need for investments: To fully embrace such processes, capital is then needed to develop and implement the new technologies. We actively shape the digitalization process and successfully integrate it in our work environment. Today we are able to manufacture more efficiently and cost-effectively than was the case even a few years ago.

How can you achieve these efficiency improvements?

TM: It primarily involves two areas. On one hand, we can automate certain manual operations – for example, the addition of fluids or recording of measurements. Quality control is also increasingly performed by automated devices. Barcode readers acquire large volumes of data extremely reliably and accurately. On the other hand, the digital revolution enables us to process data in ever smarter ways. We can evaluate and correlate recorded values faster and better. As a result, in a Research and Development setting we understand more rapidly whether an initial development idea will be successful to reach our goal. ●

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 1140 people at the end of the year (previous year: 1101) in 1097.3 full-time equivalent positions (previous year: 1057.4). Of these, 761 (corresponding to 720.8 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 42 for Bachem (UK) Ltd in St. Helens (UK). Bachem Americas Inc. employed 324 people at the sites in Torrance and Vista, California. Bachem Holding AG employed 12 people. Employee turnover at Group level was 11.1% (previous year: 12.1%).

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

High level of education

Bachem Group is the world leader in its core business of manufacturing peptides as research chemicals and active pharmaceutical ingredients. Its claim to be a "Pioneering Partner for Peptides" is predicated on very high educational attainment of workforce members at every level and high subject area specialization. The growing complexity of the products the company manufactures and the services it is expected to provide, and, more so, the increasing requirements of customers and official bodies in terms of production and regulatory processes, call for a highly qualified workforce throughout the organization. At Bachem Group, 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 53% 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, 37 young people were enrolled in three- or four-year vocational apprenticeship programs as of the end of the year; this represented 3.4% of the workforce. The apprentices were pursuing qualifications as chemical lab technicians (27), office administration staff (4), IT technicians (2), logistics specialists (3) and polymechanics (1). In the year under review, 10 apprentices successfully completed their vocational training, and 7 were offered permanent employment contracts.

PERSONNEL		2018		2017	
		FTE	%	FTE	%
EMPLOYEE DISTRIBUTION BY JOB CATEGORY					
MARKETING AND SALES		86.5	7.9	81.5	7.7
ADMINISTRATION		103.1	9.4	95.4	9.0
SUPPLY CHAIN		56.1	5.1	53.4	5.0
ENGINEERING AND SERVICES		141.3	12.9	130.6	12.4
QUALITY ASSURANCE AND REGULATORY AFFAIRS		284.8	25.9	285.6	27.0
RESEARCH/DEVELOPMENT AND PRODUCTION		425.5	38.8	410.9	38.9
GEOGRAPHIC DISTRIBUTION					
EUROPE		774.4	70.6	759.1	71.8
USA		322.9	29.4	298.3	28.2
EMPLOYEE DISTRIBUTION BY GENDER					
WORKFORCE (TOTAL)	WOMEN	349.7	31.9	335.3	31.7
	MEN	747.6	68.1	722.1	68.3
UPPER MANAGEMENT	WOMEN	15.0	20.3	11.8	16.5
	MEN	58.8	79.7	59.8	83.5
REGIONAL EXECUTIVE COMMITTEES	WOMEN	5.0	17.2	5.0	17.2
	MEN	24.0	82.8	24.0	82.8
CORPORATE EXECUTIVE COMMITTEE	WOMEN	1.0	20.0	0.0	0.0
	MEN	4.0	80.0	5.0	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		120.6	11.0	149.0	14.1
AGE 26-35		314.7	28.7	301.9	28.5
AGE 36-45		276.8	25.2	259.0	24.5
AGE 46-55		251.2	22.9	230.3	21.8
AGE 56-65		130.3	11.9	113.0	10.7
AGE 65		3.7	0.3	4.2	0.4

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.

Right from the initial conceptual design of new plant and production processes, top priority is given to the consideration of safety-related and ecological issues, with input from personnel and external advisors.

RESPONSIBLE CARE KEY FIGURES

	2018	2017	2016	2015	2014
PERSON ACCIDENTS, NUMBER/100 EMPLOYEES	1.7	2.2	1.3	1.5	0.8
LOST WORKING DAYS, NUMBER/EMPLOYEE	0.1	0.1	0.1	0.1	0.0
HEALTH SAFETY ENVIRONMENT STAFF, NUMBER	9.5	9.5	9	8	6
TOTAL STAFF, NUMBER	1 056	1 026	939	750	660
ENVIRONMENT KEY FIGURES					
TOTAL ENERGY CONSUMPTION, GJ/EMPLOYEE	135	129	125	148	161
CO ₂ , T/EMPLOYEE	4	4	4	4	5
NO _x , KG/EMPLOYEE	4	4	4	4	5
SO ₂ , KG/EMPLOYEE	0.4	0.6	0.5	1	1
VOC, KG/EMPLOYEE	18	21	26	31	29
TOC, KG/EMPLOYEE	2	2	4	4	6
HAZARDOUS WASTE DISPOSED OF, KG/EMPLOYEE	9 965	7 080	6 262	6 544	4 991
TOTAL WATER CONSUMPTION, M ³ /EMPLOYEE	93	107	121	126	132

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

Annually recorded key parameters measure the performance and development of the company and help guide the management in continuously identifying and implementing effective and efficient improvement measures. Bachem collects relevant data at its four biggest locations, Bachem AG in Bubendorf and Vionnaz and Bachem Americas Inc. in Torrance and Vista.

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 four largest production sites rose to 1056, an increase of 3% since 2017 (1026 employees). Production capacity has also been greatly expanded, with the commissioning of major facilities and increased automation. Despite the resulting sharp increase in output, Bachem again succeeded in improving many of the environmental parameters measured. VOC emissions were reduced to 18 kg per employee while TOCs stabilized at last year's low figure of 2 kg per employee. Total water consumption per employee was reduced by 13% from the previous year's figure to 93 m³ (Swiss chemical industry: 4870 m³ per employee). The energy consumption per employee increased slightly compared to last year to 135 GJ per employee, but was still well below the Swiss chemical industry's reference value of 303 GJ 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 remained unchanged at 9.5 full-time equivalent positions. A welcome result was a 20% decline in the number of work-related injuries, from 2.2 to 1.7 per 100 employees. With only 0.1 lost workday per employee, Bachem maintained its excellent 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 was comparable with that in 2017, as was the resulting lost workdays per employee. 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	
BACHEM HOLDING AG	
BOARD OF DIRECTORS	
CORPORATE EXECUTIVE COMMITTEE	
BACHEM AG	BACHEM AMERICAS, INC.
BACHEM DISTRIBUTION SERVICES GMBH	PENINSULA LABORATORIES, LLC
BACHEM (UK) LTD	BACHEM JAPAN K.K.

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, 2018, was 1 545 000 kCHF. No other Bachem companies are listed.

All consolidated companies are listed in note 24 on page 94 of the notes to the consolidated financial statements including company name, location, registered capital, and participation.

1.2 Significant shareholders

Shareholders with more than 3% of voting rights on December 31, 2018, are listed in note 9 on page 106 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, 2018, 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 2016, 2017 and 2018, share capital remained unchanged. Changes in equity for the years 2018 and 2017 are listed on page 73 of the consolidated financial statements. Changes for 2016 are reported on page 65 of the Annual Report 2017.

2.4 Shares and participation certificates

At December 31, 2018, 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 or options.

3 Board of Directors

3.1 Members of the Board of Directors

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

Kuno Sommer¹ (1956), Ph.D. in Business Administration, Chairman, Swiss. Since 2012, elected until 2019.



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 Hötzer² (1973), Graduate Biologist, Vice-Chairwoman, Swiss. Since 2011, elected until 2019.



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 2019.

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 2019.

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 2019.



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 2019.

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 2018, the Board of Directors held four full-day meetings as well as one full-day strategy conference. The Corporate Executive Committee attends generally the Board meetings (see item 3.7). 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 2018, two Board meetings were attended by a total of five guest persons. In addition, one regional executive manager took part in the strategy conference. In 2018, 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, the CMO, and the COO (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 pages 79 and 80 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, Vice President of the business association scienceindustries, Board member of the Chamber of Commerce of both Basel and President of the Board of the foundation SimplyScience.

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. Alex Fässler is consultant for TargImmune Therapeutics AG.

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.

Anne-Kathrin Stoller (1974), Dr. phil. nat., CMO, German.



Since 2018.

Anne-Kathrin Stoller joined Bachem AG in Bubendorf in 2006 and headed the Business Development Unit from 2008 to 2010.

Subsequently, she was responsible for the Business Development & Sales Department, first locally and finally for the entire region Europe. Serving as Vice President and Department Head she was also a member of the local management team in Bubendorf. Since January 1, 2018, she is CMO of the Bachem Group and member of the Corporate Executive Committee. Anne-Kathrin Stoller studied chemistry in Hannover (Germany) and Cambridge (UK). After obtaining her doctorate under the supervision of Prof. Dr. Bernd Giese at the University of Basel (Switzerland), she started her career in the sales team of ExxonMobil Chemical.

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 56 of this Annual Report.

Details of the shares held by the Board of Directors and the Corporate Executive Committee can be found in the notes to the financial statements of Bachem Holding AG on page 107.

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. Gerd Tritschler has been lead auditor since the business year 2018. 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 200 kCHF for the business year 2018. Fees for audit services on Bachem companies by other auditors totaled 12 kCHF.

8.3 Additional fees

During 2018, PricewaterhouseCoopers charged additional fees of 324 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 2018, 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 2018. 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 2018, a gross amount of 30 kCHF per quarter was set for the Chairman and 9 kCHF per quarter for the other members of the Board of Directors. For the year under review, every member of the Board of Directors was awarded 300 BANB shares. Meeting fees amounted to 1200 CHF per day and per meeting participant.

The company may assign individual members additional tasks that go beyond the nature and scope of their given mandate. Compensation of such work shall be paid separately as invoiced. Legal counsel obtained by Thomas Burckhardt, Secretary and member of the Board of Directors, is cited in this regard, for which an invoice of 5 kCHF was issued by law firm and notary office Simonius & Partner.

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

Compensation of the Corporate Executive Committee

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

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

OVERVIEW OF DUTIES AND RESPONSIBILITIES

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

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

Total compensation:	$TC = BS + IP$
Variable compensation:	$IP = BS \times 0.69 \times TF$
Factor:	$TF = PTI \times 0.2 + GTI \times 0.8$

Variable compensation is calculated by multiplying 69% (prior year 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

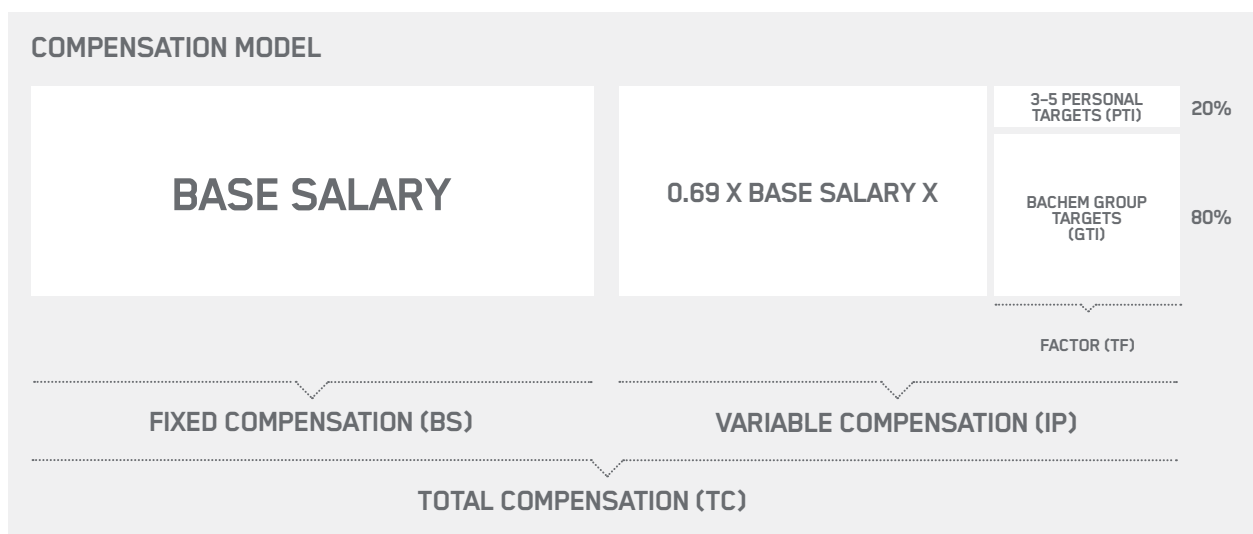
compensation is converted into a specific number of awarded shares using the average daily closing price for the corresponding fiscal year.

The Group targets set for the 2018 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 66% of base salary.

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

The shares held by the Board of Directors and the Corporate Executive Board are detailed in note 10 on page 107 of the notes to the consolidated financial statements of Bachem Holding AG.

Further information on Bachem Group's share plans is given in the notes to the consolidated financial statements on pages 79 and 94.



Compensations to the Board of Directors and the Corporate Executive Committee

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

2018 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		36		13	175
Nicole Grogg Hötzer (Vice-Chairwoman)	43		36		6	85
Jürgen Brokatzky-Geiger (Member)	43		36		4	83
Thomas Burckhardt (Secretary)	42		36		4	82
Rolf Nyfeler (Member)	43		36		4	83
Helma Wennemers (Member)	42		36		6	84
Total Board of Directors	339	0	216	0	37	592
Thomas Früh (CEO)	280	135	49	60	35	559
Rest of the Corporate Executive Committee	803	387	139	142	92	1 563
Total Corporate Executive Committee	1 083	522	188	202	127	2 122
Total	1 422	522	404	202	164	2 714

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	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	1 011	472	169	203	124	1 979
Total	1 358	472	439	203	162	2 634

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

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

We have audited page 60 of the compensation report of Bachem Holding AG for the year ended December 31, 2018.

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, 2018 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Gerd Tritschler
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 20, 2019

BACHEM FINANCIAL REPORT 2018

A large, light blue, stylized number '8' serves as a background graphic, spanning most of the page. The number has a textured, wavy pattern within its strokes. The text 'BACHEM FINANCIAL REPORT 2018' is positioned in the top left corner, overlapping the upper part of the '8'.

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

BACHEM IS UNIQUE IN ITS ABILITY TO PRODUCE LONG-CHAIN AND COMPLEX PEPTIDES IN LARGE QUANTITIES FOR COMMERCIAL APPLICATIONS.

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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Stephan Schindler, CFO



Sales at a new high

As expected, the second half of fiscal year 2018 stood out strongly. Owing to postponed sales and project delays, growth up to mid-year fell short of its target. In the second half, Bachem generated sales of 171.6 million CHF – about a million francs more than in the whole of fiscal 2013. Thus 2018 was the eighth successive year of growth in sales, which reached a new high of 282.5 million CHF. Sales exceeded the previous year's figure by 20.9 million CHF (8.0%). Exchange rate movements contributed to this encouraging result, with a moderately positive impact on the translation of sales in local currencies (LCs) of 7.5%.

Vista's contribution to sales more than quintuples

After taking over the American Peptide Company (APC) in 2015, Bachem renovated its facility in Vista, California. Sundry expansion work and the resulting effects on production capacities highlighted the potential of this location in the year under review. In comparison with the year of the takeover, Vista increased its contribution to overall Group sales by a factor of five. The successful and more efficient use of the new capacities played a decisive role in this. After some initial difficulties, the integration of this facility was successfully concluded. Bachem is pursuing further increases in productivity and profitability by means of continual improvements and selective expansion work.

Generics a pillar of stability

Sales of generics amounted to 113.7 million CHF, underscoring their status as a bedrock of stability within the Group's product portfolio with a share of roughly 40% of total sales. Generics sales posted moderate growth over the year-back period. Regional performance was once again mixed. After a growth spurt of some 24% in the previous year, European sales fell by around 13.5% in the year under review. North America, on the other hand, almost doubled its contribution to sales. Annual fluctuations such as those that occurred in Europe in 2018 are attributable to contractual cut-off dates, so their relevance as performance indicators must be seen in the context of a period spanning more than one financial year. Existing purchase agreement contracts and long-standing customer relations are a reliable foundation for the continuing stability of this product group.

Research chemicals stronger

Bachem's Competence Center for Custom Synthesis in St. Helens, UK, reaffirmed and consolidated its globally strong position in research chemicals. The business unit also made a strong showing in the second half. Catalog products and custom synthesis performed well in the face of a challenging, highly competitive market. Sales, however, were down on the previous year by approximately 11%. This was because a number of major catalog bulk and custom synthesis orders, which arise periodically as part of ingredient development projects, failed to materialize. Nevertheless, the successful establishment of long-term customer relations and the encouraging trend in the diagnostics unit were able to make up for some of the one-off effects that were absent in the fiscal year.

New Chemical Entities as growth driver

After a difficult start to the fiscal year, New Chemical Entities (NCEs) increased its sales in the second half as expected. Various delays in the clinical development of customer projects pushed the half-year result below that of the previous year, but the broad-based, high-quality project portfolio and the attractive range of services enabled full-year sales to be increased by 22%. The previous year's 15% sales increase had underscored the unit's outstanding starting position for further growth. Project delays and postponements in Europe in the first half meant that sales were down by some 14% year on year. The trend in North America more than made up for the losses in Europe. This

region's NCE sales were over 60% ahead of the prior year period, which had itself been strong.

Promising project portfolio

As already mentioned, Bachem continued the successful development of its project portfolio in fiscal year 2018. At year-end, Group companies in Europe and North America were working with customers on more than 150 NCE projects in all stages of development. The large number of projects in clinical stages II and III is both important and promising. They constitute an outstanding foundation for Bachem's future success.

Sales breakdown by product category

The API product category again delivered strong growth in 2018. This is a key category for the growth of the Group as a whole. The trend in research chemicals was also convincing at operating level, even if this product group's sales in 2018 were down year on year because irregular major orders failed to materialize.

in million CHF	2018	Change in local currency	Change in CHF	As % of total sales
API Products	252.7	+ 10.4%	+ 10.8%	89.4%
Research Chemicals	29.8	– 12.2%	– 11.3%	10.6%
Total sales	282.5	+ 7.5%	+ 8.0%	100.0%

Thus APIs increased their proportion of total sales to 89.4% as against 10.6% for research chemicals. Future growth is targeted for the API product category, so the proportion of total sales accounted for by research chemicals is set to decrease further.

Geographical breakdown

Geographically, overall sales performance in the North America region was very encouraging. The region's sales reached a new high of over 119 million CHF in 2018. Sales in Europe were slightly down owing to the project delays already mentioned, reducing the region's share of sales.

in million CHF	2018	Change in local currency	Change in CHF	As % of total sales
Europe	163.4	– 7.2%	– 6.4%	57.9%
North America	119.1	+ 36.9%	+ 36.8%	42.1%
Total sales	282.5	+ 7.5%	+ 8.0%	100.0%

Excellent order backlog

Demand for peptide-based therapeutic agents remained firm, and the current order backlog is excellent. In a market environment that remains challenging, Bachem further strengthened its lead over the competition in 2018. A broad-based project portfolio enabled the growth target of 6–10% to be met, despite delays and postponements in the first half of the year. The efficient use and capacity utilization of free resources and continual improvements in operating processes – together with their automation – provide an excellent basis for further growth.

Disproportionately high increase in EBIT

Bachem's operating income (EBIT) grew by 8.3% to 54.8 million CHF during the period under review. Factoring out the previous year's gain of 0.4 million from the sale of a building in the USA, EBIT rose by over 9% – a higher percentage rise than sales. Bachem reported an EBIT margin of 19.4% (previous year: 19.3%). Operating income before depreciation and amortization (EBITDA) came to 77.9 million CHF (previous year: 71.5 million CHF). This corresponds to an EBITDA margin of 27.6% (previous year: 27.3%).

Positive currency effects

In the income statement, the exchange rate trends of the US dollar, the euro and the British pound against the Swiss franc had a moderately positive aggregate impact on performance in Swiss francs at EBIT level. The currency effect on sales was a positive 1.2 million CHF, on EBIT a comparable 1.6 million CHF.

Gross profit slightly up

The costs of goods sold in the year under review totaled 199.3 million CHF or 70.5% of sales (H1 2018: 71.8%, previous year: 68.4%). In contrast to the prior year period, the implementation of a global ERP (Enterprise Resource Planning) system facilitated a reliable internal allocation of IT and HR department expenses. These had previously been reported under general administrative costs. Expenses of approximately 4.0 million CHF which can henceforth be allocated to production units are now included in the costs of goods sold. Significant increases in sales in the second half of the year more than made up for the declines in the first half due to project delays. Capacity utilization during the year was extremely varied, making it difficult to plan capacity and absorb costs. Improvements in this area and the stepping-up of "Operational Excellence" and process

automation give Bachem additional potential for a further increase in profitability in response to rising personnel costs and regulatory requirements. Despite negative factors, Bachem achieved a moderate increase in nominal gross profit in 2018. The gross profit margin stood at 29.5% (H1 2018: 28.2%, previous year: 31.6%).

Quality and partnership matter

The know-how and experience of our people are crucial to the Bachem Group's success. Every day, Bachem's qualified and experienced specialists commit themselves and their profound knowledge to the implementation of the company's high standards of quality and partnership.

Creating jobs

Bachem's good business performance and – in the second half especially – its very high capacity utilization enabled the company to create a total of 39 new jobs by the end of 2018. As of December 31, 2018, the Bachem Group employed a total of 1 140 people in 1 097 full-time equivalent positions.

Personnel costs up

Wage increases and the new jobs created in the previous year as well as the year under review increased personnel costs. Total personnel expenses for the period amounted to 134.9 million CHF (previous year: 126.8 million CHF).

Marketing & sales stable

Marketing & sales costs came in at 13.9 million CHF, slightly below the previous year's figure of 14.0 million CHF. The encouraging sales figures improved the ratio of costs to sales. For the past fiscal year this came to 4.9% (previous year: 5.4%). The company again exhibited successfully at all major trade shows and as well as in the reporting year maintained an extensive, ambitious project portfolio. Marketing and sales also took on important tasks in connection with the development and establishment of the company's new branch in Tokyo, Japan. Bachem intends to further strengthen its image as the "Pioneering Partner for Peptides" in Asia as well as elsewhere in the world.

High capacity utilization in research & development

In research and development (R&D) the Group recorded expenses of 1.7 million CHF (previous year: 1.9 million CHF). This amount includes amortization of previously capitalized development costs for new generics in the amount of approximately 69 kCHF. As a result, this item

is slightly below the projected typical yearly outlay of roughly 2 million CHF. The main factors here were the relevant departments' very high capacity utilization and the prioritization of customer orders at the expense of internal projects. In 2018, as in previous periods, Bachem directly recognized costs incurred at production units for process optimization and scale-ups, along with development costs for new generic samples, in the cost of goods sold.

Changes to general administrative costs

General administrative costs totaled 13.9 million CHF, a decline of 4.0 million CHF (-22.5%) on the previous year. This reduction was due to the effect of the internal allocation of IT and HR services in the value of 4.0 million CHF, which was made possible by the new ERP system. Since the introduction of this system, costs which could be allocated to production units have been recorded as costs of goods sold.

Depreciation and amortization up

At 23.1 million CHF, regular depreciation and amortization was 2.1 million CHF higher than the prior-year figure. This was due primarily to the commissioning of new production capacity at all locations in Switzerland, Great Britain and the United States, and of the new company-wide ERP system. No impairments were recognized during the period under review.

Increase in net income

In contrast to their significant negative contribution in the previous year, which was mainly due to the valuation at the balance sheet date of USD loans granted to subsidiaries by the holding company, net income benefited moderately from currency translation effects in the year under review. Overall, exchange rate movements resulted in a consolidated exchange rate gain of 0.4 million CHF (previous year: loss of 1.8 million CHF). Posting a net profit of 46.6 million CHF, the company exceeded the previous year's result by 4.9 million CHF (+11.7%).

Interest expense slightly higher

With interest rates still low but with significantly higher funding needs, interest rate expense rose to 0.5 million CHF (previous year: 0.3 million CHF).

Tax rate remains low

The net income figure reflects income taxes of 8.0 million CHF (previous year: 6.6 million CHF). In consequence of tax credits and allowances, the Group's resulting tax rate was 14.6% (previous year: 13.6%). 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 73.3 million CHF in fiscal year 2018, an increase of 7.5 million CHF (+11.4%) over the previous year. At the same time, cash flow relevant capital held in net current assets increased by a total of 47.5 million CHF. This was due mainly to the growth-related increase in inventories of 22.5 million CHF. Further items include the cash flow relevant increase of 26.0 million CHF in trade receivables, the 1.6 million CHF decline in trade payables, and the net 2.6 million CHF decrease in other current receivables and liabilities including related accruals and deferrals.

Investments for further growth

The Group continued to pursue its growth strategy in 2018, with investments in property, plant & equipment of approximately 33.8 million CHF. Together with investments in intangible assets, the resulting cash flow from investment activities came to -38.1 million CHF. Along with capacity expansion and substitute procurement, the company focused particularly on automation and compliance along with safety and environmental protection.

Higher funding needs

Owing to the increase in the dividend to 2.75 CHF (previous year: 2.50 CHF), the dividend payout of 27.4 million CHF was 3.4 million CHF higher than in the previous year. Dividends in the amount of 10.0 million CHF remained outstanding as a loan to Ingro Finanz AG. A total of 94.6 million CHF of the financial liabilities reported in the previous year was repaid in the first half of the year. By the year-end the company had raised loans from five banks totaling 140.0 million CHF. Consequently, total loan liabilities owed to third parties and related parties amounted to 150.0 million CHF on the reporting date of December 31, 2018. Cash flow from financing activities amounted to +17.5 million CHF.

Cash and cash equivalents of 22.3 million CHF

Cash and cash equivalents in the consolidated cash flow statement increased by 5.0 million CHF. Total cash holdings as defined in the cash flow statement amounted to 22.3 million CHF at year-end.

Solid capital base

With an equity ratio of 62.5% (previous year: 68.7%), 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.

Share price below expectations

Over the course of the 2018 fiscal year, the price of Bachem shares (BANB) traded on SIX Swiss Exchange fell from 154.00 CHF to 113.60 CHF at the end of the year. The year-end share price was thus well below analysts' expectations. The lowest closing price during the year was 108.20 CHF on October 15, 2018, and the highest closing price was 160.80 CHF, recorded at the beginning of the year.

Dividend stable

Bachem's earnings per share (EPS) rose from 3.08 CHF to 3.43 CHF during the fiscal year. The Board of Directors will propose a dividend of 2.75 CHF per share to the Annual General Meeting in April 2019.

CONSOLIDATED INCOME STATEMENT

For the years ended December 31

in 1000 CHF	Notes	2018	2017
Sales	1/2	282 500	261 612
Cost of goods sold	9	- 199 272	- 178 883
Gross profit		83 228	82 729
Other income	26	1 104	1 731
Marketing and sales costs		- 13 922	- 14 035
Research and development costs		- 1 691	- 1 863
General administrative costs	9	- 13 910	- 17 952
Operating income (EBIT)	2	54 809	50 610
Financial income	5	442	17
Financial expenses	6	- 614	- 2 260
Ordinary income before taxes		54 637	48 367
Income taxes	7	- 7 993	- 6 597
Net income¹		46 644	41 770
Earnings per share (CHF)	8	3.43	3.08

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

The notes on pages 74 to 96 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At December 31, 2018 and 2017

in 1000 CHF	Notes	Dec. 31, 2018	Dec. 31, 2017
Assets			
Cash and cash equivalents		22 302	17 283
Trade receivables	10	81 385	55 438
Other current receivables	11	2 658	1 089
Prepaid expenses and accrued income	12	2 145	3 201
Current income tax asset		1 284	1 465
Inventories	13	195 608	172 719
Total current assets		305 382	251 195
Property, plant and equipment	14	289 795	274 520
Intangible assets	15	13 523	12 671
Assets from employer contribution reserve	4	320	320
Deferred tax assets		5 680	5 949
Total non-current assets		309 318	293 460
Total assets		614 700	544 655
Liabilities and equity			
Trade payables	16	9 902	11 493
Other current liabilities	17	13 553	11 289
Accrued expenses and deferred income	18	17 921	16 277
Current income tax liabilities		2 791	2 412
Current financial liabilities	19	150 176	94 746
Total current liabilities		194 343	136 217
Non-current financial liabilities	19	284	188
Deferred tax liabilities	7	35 861	34 078
Total non-current liabilities		36 145	34 266
Total liabilities		230 488	170 483
Share capital	21	680	680
Retained earnings		386 418	377 133
Share premium		30 861	30 227
Own shares		- 1	- 1
Cumulative translation differences		- 33 746	- 33 867
Total capital and reserves attributable to the equity holders of the company		384 212	374 172
Total liabilities and equity		614 700	544 655

The notes on pages 74 to 96 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the years ended December 31

in 1000 CHF	Notes	2018	2017
Cash flow from operating activities			
Net income		46 644	41 770
Adjustments for:			
Income taxes	7	7 993	6 597
Depreciation and amortization	2/14/15	23 065	20 931
Financial income	5	- 442	- 17
Financial expenses	6	614	2 260
Share based payments	22	641	1 198
Gain on sale of property, plant and equipment	26	0	- 437
Income taxes paid		- 5 322	- 5 974
Other non-cash items		105	- 534
Cash flow from operating activities before changes in net current assets		73 298	65 794
Change in trade receivables		- 26 011	- 6 584
Change in other current receivables, prepaid expenses and accrued income		- 617	- 118
Change in inventories		- 22 494	- 21 945
Change in trade payables		- 1 601	- 1 137
Change in other current liabilities, accrued expenses and deferred income		3 201	469
Cash flow from operating activities		25 776	36 479
Cash flow from investing activities			
Investments in property, plant and equipment		- 33 839	- 45 740
Sales of property, plant and equipment	26	21	5 178
Investments in intangible assets		- 4 163	- 5 423
Interest received		7	17
Other financial payments and proceeds		- 149	- 134
Cash flow from investing activities		- 38 123	- 46 102
Cash flow from financing activities			
Disposals of own shares		0	2 414
Dividends paid	23	- 27 359	- 23 946
Increase in financial liabilities		140 000	84 600
Repayment of financial liabilities		- 94 783	- 55 141
Interest paid		- 343	- 184
Cash flow from financing activities		17 515	7 743
Net effect of currency translation on cash and cash equivalents		- 149	- 43
Net change in cash and cash equivalents		5 019	- 1 923
Cash and cash equivalents at the beginning of the year		17 283	19 206
Cash and cash equivalents at the end of the year		22 302	17 283
Net change in cash and cash equivalents		5 019	- 1 923

The notes on pages 74 to 96 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

2018 in 1000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Cumulative translation differences	Total
Balance at January 1		680	377 133	30 227	- 1	- 33 867	374 172
Net income according to income statement			46 644				46 644
Dividends	23		- 37 359				- 37 359
Transactions with own shares (net of tax)				- 7			- 7
Share based payments	22			641			641
Cumulative translation differences						121	121
Balance at December 31		680	386 418	30 861	- 1	- 33 746	384 212

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	23		- 33 946				- 33 946
Transactions with own shares (net of tax)				1 342	957		2 299
Share based payments	22			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

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

As of December 31, 2018, the accumulated non-distributable reserves amount to 12 636 kCHF (previous year: 12 636 kCHF).

The notes on pages 74 to 96 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

Business activities

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

Approval of the consolidated financial statements

The consolidated financial statements have been accepted by the Board of Directors of Bachem Holding AG on February 20, 2019, to be presented for approval by the Annual General Meeting on April 10, 2019.

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

In connection with the introduction of a new ERP system, the conceptual distinction between trade payables and other current liabilities has been revised. Prepayments from customers and liabilities from investment projects are now allocated to other current liabilities. In order to ensure comparability, the previous year's figures for the balance sheet and the cash flow statement have been adjusted. On the one hand, reclassifications amounting to 8435 kCHF were made within current liabilities. On the other hand, there were minor reclassifications made within the cash flow from operating activities and between the cash flows from operating and investing activities.

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 24.

Investments in subsidiaries

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

Internal transactions and balances between Group companies are eliminated. Inter-company profits from inventories and deliveries within Group companies that have not yet been realized through sales to third parties are eliminated.

Investments in associates

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

Currency translation

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

The consolidated financial statements are drawn up in Swiss francs. The translation into Swiss francs of the assets and liabilities as set out in the local balance sheets is performed at the exchange rate on the relevant date.

The translation of the income statement and the cash flow statement is undertaken at the weighted average exchange rate for the reporting year. The currency-related translation differences arising from the translation of the balance sheet and income statement are allocated directly to equity. In the event of the sale of a foreign business unit, these exchange rate differences are recorded in the income statement as part of the profit or loss arising from the sale.

The following exchange rates were used for foreign currency translation:

in CHF	Income statement average rates		Balance sheet year-end rates	
	2018	2017	2018	2017
USD	0.98	0.98	0.98	0.98
EUR	1.15	1.11	1.13	1.17
GBP	1.31	1.27	1.25	1.32

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. They are measured at acquisition cost or Group production cost or (if lower) at net realizable value. Production costs comprise all production costs and an appropriate proportion of production overheads. Inventories are measured at weighted average cost. For slow-moving inventory items and for inventories with a lower net realizable value, an appropriate valuation provision is made. Net realizable value is the estimated selling price in the ordinary course of business, less the variable costs necessary to make the sale.

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	5 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.

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 an 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.

In note 20, the contractual maturities of financial liabilities are disclosed.

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-moving inventory items

Bachem's inventory items are characterized by an extremely long shelf life. Nevertheless, due to commercial considerations, a valuation provision for slow-moving inventory items is determined, which takes into account the salability of the corresponding products. This system-supported provision is principally based on historical consumption and for certain products additionally on a coverage analysis.

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	2018	2017
Products	258 249	242 424
Services	24 251	19 188
Total sales	282 500	261 612

in 1 000 CHF	2018	2017 ¹
Active pharmaceutical ingredients (APIs)	252 672	227 998
Research chemicals (incl. custom synthesis)	29 828	33 614
Total sales	282 500	261 612

¹ In connection with the introduction of a new ERP system, the allocation of products to the product categories has been redefined. In order to ensure comparability, the previous year's figures have been adjusted.

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 2018					
Sales third parties	163 439	119 061	282 500	0	282 500
Sales intersegment	36 366	5 441	41 807	- 41 807	0
Total sales	199 805	124 502	324 307	- 41 807	282 500
Income information 2018					
Operating income (EBIT)	46 131	14 725	60 856	- 6 047 ²	54 809
Other information 2018					
Additions in property, plant and equipment and intangible assets	35 243	3 725	38 968	0	38 968
Depreciation and amortization	- 18 696	- 4 129	- 22 825	- 240	- 23 065
Total assets	474 082	147 701	621 783	- 7 083 ³	614 700
Total liabilities	274 528	72 247	346 775	- 116 287 ⁴	230 488

² The amount consists of the operating income from corporate activities of -5 848 kCHF and of eliminations in the value of -199 kCHF.

³ The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 266 932 kCHF and of eliminations in the value of -274 015 kCHF.

⁴ The amount consists of corporate liabilities of 154 133 kCHF and of eliminations in the value of -270 420 kCHF.

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.

Information about geographical areas – sales third parties		
in 1 000 CHF	2018	2017
Switzerland	21 968	20 445
USA	115 746	86 321
Great Britain	25 274	24 023
Germany	24 174	31 767
Japan	18 597	27 554
Rest of the world	76 741	71 502
Total	282 500	261 612

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

3 Staff costs

in 1 000 CHF	2018	2017
Salaries and wages	- 107 069	- 99 816
Pension expenses	- 6 475	- 6 305
Other social security expenses	- 14 292	- 12 664
Share-based payments	- 641	- 1 198
External staff costs	- 2 104	- 2 389
Other personnel-related costs	- 4 329	- 4 380
Total staff costs	- 134 910	- 126 752

4 Post-employment benefits

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

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

Economical benefit/economical obligation and pension expenses in 1 000 CHF	Surplus/deficit	Economical share of the Bachem Group		Change with effect on income statement	Contributions	Pension expenses in staff costs	
	Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2017	2018	2018	2018	2017
Plans without surplus/deficit	0	0	0	0	6 475	6 475	6 305
Plans with surplus	0	0	0	0	0	0	0
Plans with deficit	0	0	0	0	0	0	0
Plans without own assets	0	0	0	0	0	0	0
Total	0	0	0	0	6 475	6 475	6 305

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, 2018	Dec. 31, 2018	2018	2017	2018	2018	2017
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	2018	2017
Interest income	9	17
Other financial income	2	0
Foreign exchange result	431	0
Total financial income	442	17

6 Financial expenses

in 1 000 CHF	2018	2017
Interest expenses	-470	-307
Other financial expenses	-144	-134
Foreign exchange result	0	-1 819
Total financial expenses	-614	-2 260

Other financial expenses mainly include bank charges.

7 Income taxes

in 1 000 CHF	2018	2017
Current taxes	- 5 901	- 4 329
Deferred taxes	- 2 092	- 2 268
Total income taxes	- 7 993	- 6 597

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 %	2018	2017
Expected tax rate	17.2	17.7
Change in tax loss carry-forwards	0.0	0.0
Impact of US tax reform	0.0	- 2.6
Tax credits and allowances	- 2.9	- 1.5
Non tax deductible expenditures	0.2	0.0
Other impacts	0.1	0.0
Effective tax rate	14.6	13.6

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

In 2017, the tax expenses of the Group companies in the USA were impacted by the US tax reform legislation. 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 2017.

At the end of the year, there were deferred tax assets for unused tax loss carry-forwards in the amount of 92 kCHF (2017: 1 129 kCHF).

Movement of deferred tax liabilities in 1 000 CHF	2018	2017
Deferred tax liabilities at January 1	34 078	31 342
Recognized in income statement	1 811	2 702
Currency translation differences	- 28	34
Deferred tax liabilities at December 31	35 861	34 078

8 Earnings per share

Earnings per share (EPS) are calculated by dividing net income by the weighted average number of shares outstanding during the reporting period.

Earnings per share	2018	2017
Net income (in 1 000 CHF)	46 644	41 770
Average number of shares outstanding	13 583 637	13 571 842
Earnings per share (in CHF)	3.43	3.08

There are no options or similar that have a dilutive effect.

9 Cost allocation in the income statement

Compared to the previous year period, it should be noted that the introduction of a new ERP system made it possible to revise the internal allocation of costs for the IT and personnel departments. This resulted in a shift in costs of 4.0 million CHF in the consolidated income statement 2018 from the general administrative costs to the cost of goods sold.

10 Trade receivables

in 1 000 CHF	Dec. 31, 2018	Dec. 31, 2017
Trade receivables	81 696	55 560
Provision for impairment of trade receivables	- 311	- 122
Total trade receivables	81 385	55 438

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	2018	2017
Provision for impairment of trade receivables at January 1	- 122	- 215
Provision for receivables impairment	- 194	- 42
Receivables written off during the year as uncollectable	3	7
Unused amounts reversed	0	130
Currency translation differences	2	- 2
Provision for impairment of trade receivables at December 31	- 311	- 122

The ageing analysis of trade receivables is as follows:

Ageing analysis in 1 000 CHF	Total	Not due	< 31 days	Overdue and not impaired			Overdue and partially impaired	
				31–60 days	61–90 days	91–180 days	1–180 days	> 180 days
December 31, 2018	81 696	72 289	6 494	1 137	347	850	0	579
December 31, 2017	55 560	46 304	8 057	314	16	676	0	193

11 Other current receivables

in 1 000 CHF	Dec. 31, 2018	Dec. 31, 2017
Other receivables	2 658	1 089
Total other current receivables	2 658	1 089

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

12 Prepaid expenses and deferred income

in 1 000 CHF	Dec. 31, 2018	Dec. 31, 2017
Prepaid expenses and accrued income	2 145	3 201
Total prepaid expenses and accrued income	2 145	3 201

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

13 Inventories

in 1 000 CHF	Dec. 31, 2018	Dec. 31, 2017 ¹
Raw materials	30 384	20 242
Work in progress	18 002	17 210
Semi-finished and finished goods	147 222	135 267
Total inventories	195 608	172 719

¹ In connection with the introduction of a new ERP system, the settlement procedure for production orders has been adjusted, which led to a shift from work in progress to semi-finished and finished goods in the reporting year. In order to ensure comparability, the previous year's figures have been adjusted.

The valuation provision in the total amount of 28 626 kCHF (2017: 26 315 kCHF) is included in the above line items. The change as well as the utilization of the provision are included in the cost of goods sold.

14 Property, plant and equipment

2018 in 1 000 CHF	Land and buildings	Installations and laboratory equipment	Other property, plant and equipment	Assets under construction	Total
Cost at January 1	174 387	295 119	18 242	32 756	520 504
Additions	0	0	185	35 210	35 395
Disposals	0	- 165	- 77	0	- 242
Reclassifications	12 257	21 070	2 887	- 36 214	0
Reallocations ¹	11 144	- 9 824	- 1 320	0	0
Currency translation differences	269	163	- 6	7	433
Cost at December 31	198 057	306 363	19 911	31 759	556 090
Accumulated at January 1	- 59 558	- 171 817	- 14 609	0	- 245 984
Depreciation	- 4 590	- 14 627	- 1 119	0	- 20 336
Disposals	0	141	66	0	207
Reallocations ¹	- 8 680	7 420	1 260	0	0
Currency translation differences	- 158	- 37	13	0	- 182
Accumulated depreciation at December 31	- 72 986	- 178 920	- 14 389	0	- 266 295
Net book value at December 31	125 071	127 443	5 522	31 759	289 795

¹ In connection with the introduction of a new ERP system, some property, plant and equipment have been allocated to new categories.

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 depreciation 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

Bachem does not have any undeveloped land.

The carrying amount of fixed assets under finance lease contracts at year-end 2018 amounted to 446 kCHF (2017: 312 kCHF). Depreciation relating to fixed assets under finance lease amounted to 176 kCHF (2017: 137 kCHF).

No assets were pledged for security of own liabilities in 2018. 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, 2018	Dec. 31, 2017
Within 1 year	176	146
Between 1 and 5 years	284	188
More than 5 years	0	0
Present value of finance lease liabilities	460	334

The existing finance lease contracts have been concluded in Switzerland and in the USA in the last 4 years. Their remaining durations are between 1 and 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, 2018	Dec. 31, 2017
Within 1 year	756	614
Between 1 and 5 years	1 728	1 210
More than 5 years	448	597
Total future minimum operating lease payments	2 932	2 421

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 2018 was 775 kCHF (2017: 562 kCHF).

15 Intangible assets

2018 in 1 000 CHF	Software	Capitalized development costs	Other intangible assets	Total
Cost at January 1	36 857	2 660	526	40 043
Additions	3 573	0	0	3 573
Disposals	- 3	0	0	- 3
Currency translation differences	22	0	0	22
Cost at December 31	40 449	2 660	526	43 635
Accumulated amortization at January 1	- 24 688	- 2 386	- 298	- 27 372
Amortization	- 2 432	- 69	- 228	- 2 729
Disposals	3	0	0	3
Currency translation differences	- 14	0	0	- 14
Accumulated amortization at December 31	- 27 131	- 2 455	- 526	- 30 112
Net book value at December 31	13 318	205	0	13 523

2017 in 1 000 CHF	Software	Capitalized development costs	Other intangible assets	Total
Cost at January 1	31 689	3 274	1 761	36 724
Additions	5 311	0	0	5 311
Disposals	- 5	- 614	- 1 235	- 1 854
Currency translation differences	- 138	0	0	- 138
Cost at December 31	36 857	2 660	526	40 043
Accumulated amortization at January 1	- 22 727	- 2 893	- 1 509	- 27 129
Amortization	- 2 041	- 107	- 24	- 2 172
Disposals	5	614	1 235	1 854
Currency translation differences	75	0	0	75
Accumulated amortization at December 31	- 24 688	- 2 386	- 298	- 27 372
Net book value at December 31	12 169	274	228	12 671

16 Trade payables

in 1 000 CHF	Dec. 31, 2018	Dec. 31, 2017
Trade payables	9 902	11 493
Total trade payables	9 902	11 493

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

17 Other current liabilities

in 1 000 CHF	Dec. 31, 2018	Dec. 31, 2017
Other liabilities	10 839	9 080
Prepayments	2 714	2 209
Total other current liabilities	13 553	11 289

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

18 Accrued expenses and deferred income

in 1 000 CHF	Dec. 31, 2018	Dec. 31, 2017
Accrued expenses and deferred income	17 921	16 277
Total accrued expenses and deferred income	17 921	16 277

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

19 Financial liabilities

in 1 000 CHF	Dec. 31, 2018	Dec. 31, 2017
Loans from related parties	10 000	10 000
Bank loans	140 000	84 600
Finance lease liabilities	460	334
Total financial liabilities	150 460	94 934
Thereof current financial liabilities	150 176	94 746
Thereof non-current financial liabilities	284	188

The loans from related parties (see note 25) 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 14.

20 Maturities of financial liabilities

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

December 31, 2018 in 1 000 CHF	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Trade payables	8 020	1 882				9 902
Other current liabilities	10 007	1 251	2 295			13 553
Accrued expenses and deferred income	3 609	6 592	7 720			17 921
Current income tax liabilities	88	1 500	1 203			2 791
Current financial liabilities	81 015	29	69 132			150 176
Non-current financial liabilities				284	0	284

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	10 789	675	29			11 493
Other current liabilities	9 394	862	1 033			11 289
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

21 Share capital

The share capital is divided into 6 802 000 shares Bachem -A- (50.01% of share capital) and 6 798 000 shares Bachem -B- (49.99% of share capital). The shares -B- are traded at the SIX Swiss Exchange in Zurich under valor number 1253 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 106.

Shares Bachem -A-	Dec. 31, 2018	Dec. 31, 2017
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, 2018, Bachem Holding AG held 14 858 own shares, which are reserved for distribution under the employee participation plans.

Own shares		Purchases/ backslide of blocked shares	Sales/transfer to employees	Dec. 31, 2018
Number	Dec. 31, 2017			
Employee participation plans at the price of 0.05 CHF	21 366	0	- 6 508	14 858
Treasury stock	0	0	0	0
Total own shares	21 366	0	- 6 508	14 858

Outstanding shares	Dec. 31, 2018	Dec. 31, 2017
Total number of shares	13 600 000	13 600 000
Number of own shares Bachem -B-	- 14 858	- 21 366
Total shares outstanding	13 585 142	13 578 634

22 Share-based payment

The employee and management participation plans are described in the accounting policies on page 79. The recognized expenses for share-based payments in the reporting period amounted to 641 kCHF (2017: 1 198 kCHF).

In 2018 and 2017, the following number of shares was granted:

Shares granted Number/CHF	2018	2017
Number of granted shares	6 508	8 996
Average fair value per share at grant date in CHF	128.80	117.92

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

23 Dividend distribution

On May 2, 2018, a dividend of 37 359 kCHF respectively 2.75 CHF per share was distributed for the year 2017 (previous year: 33 946 kCHF respectively 2.50 CHF per share). Of the total dividend in the amount of 37 359 kCHF (previous year: 33 946 kCHF), 27 359 kCHF (previous year: 23 946 kCHF) were paid out and 10 000 kCHF (previous year: 10 000 kCHF) remained as a loan (see note 25).

The Board of Directors will propose a dividend of 2.75 CHF per share or a total of 37 359 kCHF on 13 585 142 shares entitled to dividend, to the Annual General Meeting for the year 2018. The number of shares entitled to dividend may change until the Annual General Meeting on April 10, 2019, due to the granting of shares to employees or the purchase/sale of own shares.

24 Consolidated companies

Consolidated company	Country	Currency	Registered capital	Equity share Dec. 31, 2018	Equity share Dec. 31, 2017
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%
Bachem Japan K.K., Tokyo	Japan	JPY	10 000 000	100%	n/a

25 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	2018	2017
Breiten Immobilien AG (lease of business premises)	- 298	- 227
Breiten Immobilien AG (rendering of services)	15	15
Chemoforma AG (purchase of goods)	- 2	0
Hotel Bad Schauenburg AG (seminars)	- 21	- 7
Ingro Finanz AG (dividend paid out)	- 10 752	- 8 866
Ingro Finanz AG (dividend converted into loan)	- 10 000	- 10 000
Ingro Finanz AG (interest paid)	- 46	- 50
Peninsula Laboratories International, Inc. (sale of goods)	1	2
Pension fund (employer's contribution)	- 5 670	- 5 441
Total transactions with related parties	- 26 773	- 24 574

Balances in 1 000 CHF	Dec. 31, 2018	Dec. 31, 2017
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.

26 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.

In the reporting year, there were no material sales of property, plant and equipment.

27 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	2018	2017
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	- 743	- 473
Theoretical amortization	- 270	- 270
Theoretical accumulated amortization at December 31	- 1 013	- 743
Theoretical net book value of goodwill at December 31	339	609

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	2018	2017
Net income according to income statement	46 644	41 770
Theoretical amortization of goodwill	- 270	- 270
Theoretical net income after amortization of goodwill	46 374	41 500

28 Contingent liabilities and other commitments

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

29 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, 2018 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 70 to 96).

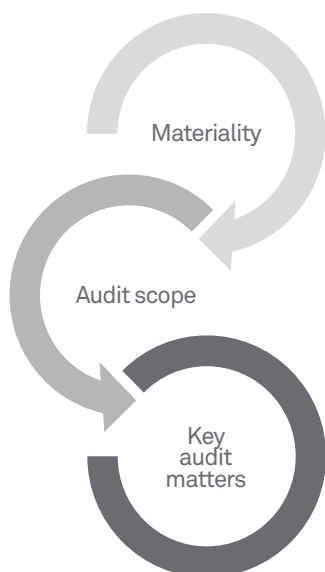
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with 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 2 700 000

We concluded full scope audit work at three reporting units in two countries. Our audit scope addressed 100% of the Group's total sales and 87% 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. Significant financial statement line items and transactions at Bachem Americas, Inc. in the United States were covered by the Group auditor as well as by the component auditor from the PwC network in performing specified procedures. The involvement of the Group auditor included the assessment of the reporting and 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 2 700 000
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 270 000 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 195.6 million after the deduction of an inventory provision of CHF 28.6 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 judgement involved in determining the required product category based inventory provision for slow movers and products not released by quality control ("blocked products"). The inventory provision is determined system based on an item by item basis on historical consumption and additionally for certain products on a 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 76), the critical accounting estimates and assumptions section (page 81) and in the footnotes with a breakdown by inventory categories (page 87).

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 key controls applied in relation to the determination of the system based and item by item based inventory provision.
- 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 and accuracy.
- We discussed the requirement for inventory provisions recorded on a case by case basis with Bachem and tested supporting information such as the blocked products listings on a sample basis.
- Further, we assessed Bachem's net realizable value analysis comparing the production costs with the estimated selling price less cost to sell and tested the estimated selling price with sales invoices 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

Gerd Tritschler
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 20, 2019

INCOME STATEMENT

For the years ended December 31

in 1 000 CHF	Notes	2018	2017
Income			
Income from investments	1	21 661	20 342
Income from licenses		22 476	21 338
Interest income	2	3 398	2 495
Other income		22	16
Other financial income	3	180	1 464
Total income		47 737	45 655
Expenses			
Staff costs		– 3 531	– 3 390
Administration expenses		– 6 133	– 5 325
Interest expenses	4	– 446	– 279
Other financial expenses	5	– 43	– 1 506
Depreciation and amortization		– 12	– 10
Total expenses		– 10 165	– 10 510
Ordinary net income before taxes		37 572	35 145
Taxes		– 1 595	– 1 530
Net income for the year		35 977	33 615

BALANCE SHEET

At December 31, 2017 and 2016

in 1 000 CHF	Notes	Dec. 31, 2018	Dec. 31, 2017
Assets			
Cash and cash equivalents		7 421	459
Other receivables from third parties		763	676
Other receivables from group companies	1	6 913	40 221
Prepaid expenses and accrued income from third parties		3	25
Prepaid expenses and accrued income from group companies	1	18 000	0
Total current assets		33 100	41 381
Loans to group companies		233 458	173 993
Investments	6	115 397	115 305
Property, plant and equipment		7	14
Intangible assets		47	0
Total non-current assets		348 909	289 312
Total assets		382 009	330 693
Liabilities and equity			
Current interest-bearing liabilities	7	150 000	94 600
Other current liabilities to third parties		151	139
Other current liabilities to group companies		1 097	5 013
Deferred income and accrued expenses		3 217	2 382
Total current liabilities		154 465	102 134
Share capital		680	680
Statutory capital reserves			
Reserves from capital contribution		1 745	1 377
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		80 004	83 749
Net income for the year		35 977	33 615
Own shares	8	- 1	- 1
Total equity		227 544	228 559
Total liabilities and equity		382 009	330 693

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	2018	2017
Dividend income	18 229	17 000
Other income from investments	3 432	3 342
Total income from investments	21 661	20 342

On February 4, 2019, the ordinary Annual General Meeting from Bachem AG has decided to distribute a dividend in the amount of 18 000 kCHF for the business year 2018 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 2018 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 accrual in the line prepaid expenses and accrued income from group companies (2017: in the line other receivables from group companies).

2 Interest income

in 1 000 CHF	2018	2017
Interest income group companies	3 397	2 495
Interest income third parties	1	0
Total interest income	3 398	2 495

3 Other financial income

in 1 000 CHF	2018	2017
Gain on sale of own shares	0	1 464
Foreign exchange result	180	0
Total other financial income	180	1 464

4 Interest expenses

in 1 000 CHF	2018	2017
Interest expenses third parties	- 412	- 232
Interest expenses shareholders	- 34	- 47
Total interest expenses	- 446	- 279

5 Other financial expenses

in 1 000 CHF	2018	2017
Bank service charges	- 43	- 34
Foreign exchange result	0	- 1 472
Total other financial expenses	- 43	- 1 506

6 Investments

Company	Location	Capital and voting share Dec. 31, 2018	Capital and voting share Dec. 31, 2017
Bachem AG	Bubendorf, Switzerland	100%	100%
Bachem Distribution Services GmbH	Weil am Rhein, Germany	100%	100%
Bachem (UK) Ltd.	St. Helens, England	100%	100%
Bachem Americas, Inc.	Torrance, USA	100%	100%
Peninsula Laboratories, LLC	San Carlos, USA	100%	100%
Bachem Japan K.K.	Tokyo, Japan	100%	n/a

All companies are directly or indirectly held with 100%.

7 Current interest-bearing liabilities

in 1 000 CHF	Dec. 31, 2018	Dec. 31, 2017
Bank loans	140 000	84 600
Loans from shareholders	10 000	10 000
Total current interest-bearing liabilities	150 000	94 600

8 Own shares

Details to the holding and the changes in own shares are disclosed in the notes 21 and 22 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, 2018	Dec. 31, 2017
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 and the Corporate Executive Committee

	Number of free shares	Number of blocked shares	Number of shares total	Shares allocated in reporting period
December 31, 2018				
Kuno Sommer (Chairman)	7 000		7 000	300
Nicole Grogg Hötzer (Vice-Chairwoman)	87 500		87 500	300
Jürgen Brokatzy-Geiger (Member)	2 700		2 700	300
Thomas Burckhardt (Secretary)	20		20	300
Rolf Nyfeler (Member)	51 600		51 600	300
Helma Wennemers (Member)	1 350		1 350	300
Total Board of Directors	150 170	0	150 170	1 800
Thomas Früh (CEO) ¹	4 767	2 473	7 240	466
Alex Fässler (COO) ¹	5 549	1 946	7 495	391
Günther Loidl (CTO)	349	1 685	2 034	317
Stephan Schindler (CFO)	3 097	1 739	4 836	328
Anne-Kathrin Stoller (CMO)	751	702	1 453	128
Total Corporate Executive Committee	14 513	8 545	23 058	1 630
Total	164 683	8 545	173 228	3 430
	Number of free shares	Number of blocked shares	Number of shares total	Shares allocated in reporting period
December 31, 2017				
Kuno Sommer (Chairman)	6 300		6 300	300
Nicole Grogg Hötzer (Vice-Chairwoman)	87 200		87 200	300
Jürgen Brokatzy-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 Board of Directors	151 285	0	151 285	1 800
Thomas Früh (CEO) ¹	3 602	3 172	6 774	765
José de Chastonay (CMO)	10	2 122	2 132	503
Alex Fässler (COO) ¹	4 624	2 480	7 104	605
Günther Loidl (CTO)	0	1 717	1 717	520
Stephan Schindler (CFO)	3 559	2 229	5 788	538
Total Corporate Executive Committee	11 795	11 720	23 515	2 931
Total	163 080	11 720	174 800	4 731

¹ Ownership of shares incl. related parties.

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

11 Full-time positions

The average number of full-time positions during the reporting and the prior year was below 50.

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	80 004 375.73
Net income for the year 2018	CHF	35 977 179.96
Available to the Annual General Meeting	CHF	115 981 555.69
Dividend payment of 2.75 CHF per registered share for the business year 2018 on 13 585 142 registered shares entitled to dividend	CHF	37 359 140.50
Net income to be carried forward	CHF	78 622 415.19

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 10, 2019, 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, 2018, income statement and notes for the year then ended, including a summary of significant accounting policies (pages 102 to 108).

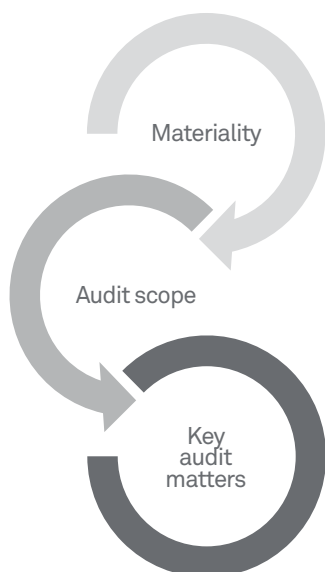
In our opinion, the financial statements as of December 31, 2018 comply with Swiss law and the company's articles of incorporation.

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 1 100 000

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 1 100 000
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 110 000 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, 2018, the Company reports investments of CHF 115.4 million and loans to group companies of CHF 233.5 million. We consider the valuation of these balance sheet positions as key audit matter for the following reasons:

- These positions are significant and represent 91% 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 104) and in the footnotes with more detailed information on the holdings (page 106).

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

Gerd Tritschler
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 20, 2019

SHAREHOLDER INFORMATION

		2018	2017	2016	2015	2014
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		13 583 637	13 571 842	13 545 983	13 532 178	13 512 994
Dividend per share	CHF	2.75 ¹	2.75	2.50	2.25	2.00
Share price	High	CHF 160.80	154.00	97.95	53.90	51.80
	Low	CHF 108.20	91.80	49.55	41.80	44.75
	Year-end	CHF 113.60	154.00	90.30	51.90	49.00
Dividend yield per share	%	2.4	1.8	2.8	4.3	4.1
Earnings per share (EPS)	CHF	3.43	3.08	3.04	2.35	2.15
Cash flow from operating activities per share	CHF	1.90	2.69	2.98	4.54	3.49
Group equity per share	CHF	28.28	27.57	26.97	26.11	25.84
Price/earnings ratio (year-end)		33.12	50.00	29.70	22.09	22.79
Market capitalization at year-end	MCHF	1 545	2 094	1 228	706	666

¹ Proposal to the Annual General Meeting of April 10, 2019

Bachem registered shares are traded at the SIX Swiss Exchange.

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

Distribution of shares

Number of shares per shareholder	Dec. 31, 2018	Dec. 31, 2017
0–100	1 792	1 815
101–1 000	2 070	2 137
1 001–10 000	263	259
10 001–100 000	35	36
100 001–1 000 000	8	7
1 000 001 and more	1	1
Total	4 169	4 255

Shareholdings

in %	Dec. 31, 2018	Dec. 31, 2017
Major shareholders	61.6	61.6
Institutional shareholders	16.7	16.0
Private individuals	11.7	12.1
Dispo	10.0	10.3
Total	100.0	100.0

Events

Annual General Meeting

(business year 2018)

April 10, 2019

Payout Date for Dividend

April 16, 2019

Half-Year Report 2019

August 23, 2019

Annual Report 2019

March 2020

Annual General Meeting

(business year 2019)

April 2020

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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.

Switzerland

Investor Relations
Bachem Holding AG
Stephan Schindler
Chief Financial Officer
Hauptstrasse 144
4416 Bubendorf
Switzerland
Tel +41 58 595 2021
Fax +41 58 595 2043
ir@bachem.com
www.bachem.com

Bachem Holding AG
Bachem AG
Hauptstrasse 144
4416 Bubendorf
Switzerland
Tel +41 58 595 2021
Fax +41 58 595 2041
sales.ch@bachem.com

Bachem SA
Succursale Vionnaz
Route du Simplon 22
1895 Vionnaz
Switzerland
Tel +41 58 595 3990
Fax +41 58 595 3991
info.bvi@bachem.com

Germany

Bachem Distribution
Services GmbH
Hegenheimer Strasse 5
79576 Weil am Rhein
Germany
Tel +41 58 595 2020
Fax +41 58 595 2040
sales.ch@bachem.com

Great Britain

Bachem (UK) Ltd.
Delph Court
Sullivans Way, St. Helens
Merseyside WA9 5GL
England
Tel +44 1744 61 2108
Fax +44 1744 73 0064
sales.uk@bachem.com

USA

Bachem Americas, Inc.
3132 Kashiwa Street
Torrance, CA 90505
USA
Tel +1 310 539 4171
Fax +1 310 539 9428
U.S. toll-free number:
1-888-4-BACHEM
sales.us@bachem.com

Bachem Americas, Inc.
1271 Avenida Chelsea
Vista, CA 92081
USA
Tel +1 310 539 4171
Fax +1 310 539 9428
U.S. toll-free number:
1-888-4-BACHEM
sales.us@bachem.com

Japan

Bachem Japan K.K.
AREA Shinagawa, 13F
1-9-36 Konan, Minato-ku,
Tokyo 108-0075
Japan
Tel +81 3 4405 3141
sales.jp@bachem.com