CONSOLIDATED INCOME STATEMENT

For the years ended December 31

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

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

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

CONSOLIDATED BALANCE SHEET

At December 31, 2017 and 2016

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

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

CONSOLIDATED CASH FLOW STATEMENT

For the years ended December 31

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

Business activities

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

Approval of the consolidated financial statements

The consolidated financial statements have been accepted by the Board of Directors of Bachem Holding AG on February 28, 2018, to be presented for approval by the Annual General Meeting on April 25, 2018.

Accounting policies

Principles of consolidation

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

The financial statements of the companies on which the consolidated accounts are based are drawn up in accordance with standard principles applied throughout the Group in the preparation of financial statements. The annual reporting period for the individual companies of the Group ends on December 31.

All essential cost and income items are recognized on an accrual basis. All internal transactions within the Group such as expenses and income, receivables and liabilities and unrealized profits are eliminated in the process of consolidation.

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

Changes in accounting policies

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

Scope of consolidation

The consolidated financial statements of Bachem comprise the financial statements of Bachem Holding AG and all companies in Switzerland and abroad that are controlled by Bachem Holding AG (with over 50% of the voting rights being held). The full list of the consolidated companies is to be found under note 22.

Investments in subsidiaries

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

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

Investments in associates

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

Currency translation

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

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

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

The following exchange rates were used for foreign currency translation:

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

Revenue recognition

Sale of products

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

Sale of services

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

Interest and dividend income

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

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

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

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

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

Leases

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

Intangible assets

Goodwill

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

Patents and licenses
Patents and licenses that have been acquired are shown at their historical acquisition cost less accumulated amortization and impairment, if any. Amortization is on a straight-line basis over 3 to 5 years, based on their useful lives. Costs for patents and licenses are expensed in the income statement as incurred. Patents and licenses are tested for impairment whenever there are indications of impairment.

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

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

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

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

Financial liabilities
Financial liabilities comprise loans, borrowings and finance lease liabilities.

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

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

Taxes

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

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

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

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

Pension benefit obligations

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

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

Employee compensation (share based payments)

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

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

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

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

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

Borrowing costs

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

Provisions

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

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

Own shares

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

Dividend distribution

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

Risk assessment

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

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

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

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

Financial risk factors

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

Foreign exchange risk

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

Interest rate risk

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

Price risk

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

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

Credit risk

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

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

Liquidity risk

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

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

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

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

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

Capital management

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

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

Related parties

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

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

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

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

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

1 Sales

The reported sales consist of the following:

in 1 000 CHF	2017	2016
Products	242 424	218 638
Services	19 188	17 840
Total sales	**261 612**	**236 478**

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

2 Segment information

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

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

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

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

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

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

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

[2] The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 175 752 kCHF and of eliminations in the value of –184 451 kCHF.

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

Information about geographical areas – sales third parties

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

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

3 Staff costs

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

4 Post-employment benefits

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

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

Economical benefit/economical obligation and pension expenses in 1 000 CHF	Surplus/ deficit **Dec. 31, 2017**	Economical share of the Bachem Group **Dec. 31, 2017**	Dec. 31, 2016	Change with effect on income statement **2017**	Contri- butions **2017**	Pension expenses in staff costs **2017**	2016
Plans without surplus/deficit	0	0	0	0	864	864	673
Plans with surplus	3 099	320	320	0	5 441	5 441	4 828
Plans with deficit	0	0	0	0	0	0	0
Plans without own assets	0	0	0	0	0	0	0
Total	**3 099**	**320**	**320**	**0**	**6 305**	**6 305**	**5 501**

Employer contribution reserves in 1 000 CHF	Nominal value **Dec. 31, 2017**	Renounced use **Dec. 31, 2017**	Asset according to balance sheet **2017**	2016	Change **2017**	Result from employer contribution reserves in staff costs **2017**	2016
Patronage funds	0	0	0	0	0	0	0
Pension institution	320	0	320	320	0	0	0
Total	**320**	**0**	**320**	**320**	**0**	**0**	**0**

5 Financial income

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

6 Financial expenses

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

Other financial expenses mainly include bank charges.

7 Income taxes

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

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

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

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

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

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

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

8 Earnings per share

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

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

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

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

In the prior year, all outstanding options were dilutive.

9 Trade receivables

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

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

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

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

The ageing analysis of trade receivables is as follows:

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

10 Other current receivables

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

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

11 Prepaid expenses and deferred income

in 1 000 CHF	**Dec. 31, 2017**	Dec. 31, 2016
Prepaid expenses and accrued income	3 201	2 489
Total prepaid expenses and accrued income	**3 201**	**2 489**

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

12 Inventories

in 1 000 CHF	**Dec. 31, 2017**	Dec. 31, 2016
Raw materials	20 242	16 006
Work in progress	33 356	26 884
Semi-finished and finished goods	119 121	109 000
Total inventories	**172 719**	**151 890**

The provision for slow-movers in the total amount of 26 315 kCHF (2016: 25 912 kCHF) is included in the above line items. The change as well as the utilization of the provision are included in the cost of goods sold.

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

13 Property, plant and equipment

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

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

Bachem does not have any undeveloped land.

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

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

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

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

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

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

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

14 Intangible assets

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

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

15 Trade payables

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

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

16 Other current liabilities

in 1 000 CHF	Dec. 31, 2017	Dec. 31, 2016
Other liabilities	2 854	7 058
Total other current liabilities	**2 854**	**7 058**

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

17 Accrued expenses and deferred income

in 1 000 CHF	Dec. 31, 2017	Dec. 31, 2016
Accrued expenses and deferred income	16 277	11 749
Total accrued expenses and deferred income	**16 277**	**11 749**

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

18 Financial liabilities

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

The loans from related parties (see note 23) and the bank loans were provided as unsecured business loans in CHF and bear an average interest of 0.3% p.a.

The maturity of loans is less than 6 months.

Details concerning finance leases are disclosed in note 13.

19 Share capital

The share capital is divided into 6 802 000 shares Bachem -A- (50.01% of share capital) and 6 798 000 shares Bachem -B- (49.99% of share capital). The shares -B- are traded at the SIX Swiss Exchange in Zurich under valor number 1 253 020. There are no differences between the two share categories except the listing of the -B- shares at the SIX Swiss Exchange. All shares are nominal shares which are eligible to vote and entitled to dividend. All -A- shares are owned by Ingro Finanz AG. The important shareholders are listed in the notes to the financial statements of Bachem Holding AG in note 9 on page 100.

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

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

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

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

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

20 Share-based payment

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

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

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

The option plan developed as follows:

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

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

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

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

21 Dividend distribution

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

The Board of Directors will propose a dividend of 2.75 CHF per share or a total of 37 341 kCHF on 13 578 634 shares entitled to dividend, to the Annual General Meeting for the year 2017. The number of shares entitled to dividend may change until the Annual General Meeting on April 25, 2018, due to the granting of shares to employees or the purchase/sale of own shares.

22 Consolidated companies

Consolidated company	Country	Currency	Registered capital	**Equity share Dec. 31, 2017**	Equity share Dec. 31, 2016
Bachem Holding AG, Bubendorf	Switzerland	CHF	680 000	100%	100%
Bachem AG, Bubendorf	Switzerland	CHF	25 000 000	100%	100%
Bachem Distribution Services GmbH, Weil am Rhein	Germany	EUR	128 000	100%	100%
Bachem (UK) Ltd., St. Helens	England	GBP	2 500	100%	100%
Bachem Americas, Inc., Torrance	USA	USD	3 000	100%	100%
Peninsula Laboratories, LLC, San Carlos	USA	USD	32 000	100%	100%

23 Related party transactions

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

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

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

Transactions with related parties are performed at arm's length. This means in particular that products are sold to related parties at the same prices as to third parties.

24 Sale of property, plant and equipment

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

25 Theoretical goodwill

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

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

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

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

in 1 000 CHF	2017	2016
Net income according to income statement	**41 770**	**41 205**
Theoretical amortization of goodwill	– 270	– 270
Theoretical net income after amortization of goodwill	**41 500**	**40 935**

26 Contingent liabilities and other commitments

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

27 Events after the balance sheet date

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Bachem Holding AG and its subsidiaries (Bachem or the Group, respectively), which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (pages 62 to 90).

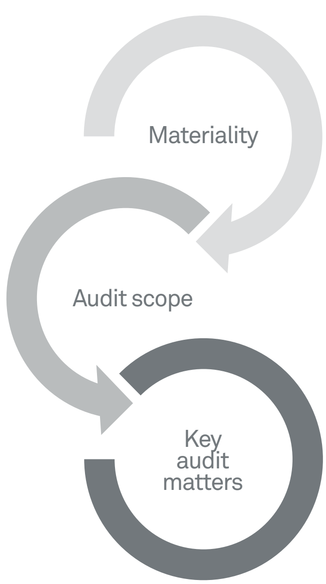
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with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

Basis for opinion

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

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

OUR AUDIT APPROACH OVERVIEW



Overall Group materiality:
CHF 2 400 000

We concluded full scope audit work at three reporting units in two countries. Our audit scope addressed 93% of the Group's total sales and 84% of the Group's total assets.

We identified the inventory provision as key audit matter.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. As Group auditor, we performed in our role as statutory auditor audits at Bachem Holding AG and Bachem AG in Bubendorf. Specified procedures were tailored to cover significant financial statement line items and transactions at Bachem Americas, Inc. in the United States which were performed by the component auditor from the PwC network. The involvement of the Group auditor included the assessment of the reporting und work papers of the component auditor as well as telephone conference calls where the management took part as well.

Materiality

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

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

OVERALL GROUP MATERIALITY	CHF 2 400 000
HOW WE DETERMINED IT	5% of profit before tax (rounded)
RATIONALE FOR THE MATERIALITY BENCHMARK APPLIED	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of a listed group is most commonly measured. In addition, profit before tax is a generally accepted benchmark for considerations of materiality.

We agreed with the Board of Directors that we would report to them misstatements above CHF 240 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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

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

INVENTORY PROVISION

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Inventories amount to CHF 172.7 million after the deduction of an inventory provision of CHF 26.3 million representing 32% of the total assets. We consider the valuation of inventories as key audit matter given the magnitude of this balance sheet position and the judgment involved in determining the required product category based inventory provision for slow movers and products not yet released by quality control. The inventory provision is determined based on an item by item system based days-of-inventory analysis. Additional inventory provisions are recorded on a case by case basis. Further information on inventories is provided in the accounting policy section (page 68), the critical accounting estimates and assumptions section (page 75) and in the footnotes with a breakdown by inventory categories (page 81).	We performed the following audit procedures: – Our audit approach started with the assessment of the existence and effectiveness of the process related key controls. – We discussed and assessed the key assumptions made by Bachem in relation to the system based inventory slow-mover provision calculation. – We tested the system based calculation of the inventory provision on a sample basis and tested the slow-mover report for completeness. – In addition, we discussed the requirement for inventory provisions recorded on a case by case basis with Bachem and performed tests on sample basis. – Further, we assessed Bachem's net realizable value analysis and performed tests on a sample basis. – We assessed the inventory provision in performing days-of-inventory based analytical procedures on a product category level. The procedures performed as described above gave us sufficient audit comfort to address the inventory provision specific valuation risk. We have no audit findings to report.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

Dr. Rodolfo Gerber
Audit expert
Auditor in charge

Raphael Rutishauser
Audit expert

Basel, February 28, 2018