

CONSOLIDATED INCOME STATEMENT

For the years ended December 31

in 1000 CHF	Notes	2019	2018
Net sales	1/2	313 715	282 500
Cost of goods sold		- 221 238	- 199 272
Gross profit		92 477	83 228
Other income		916	1 104
Marketing and sales costs		- 15 794	- 13 922
Research and development costs		- 1 655	- 1 691
General administrative costs		- 13 584	- 13 910
Operating income (EBIT)	2	62 360	54 809
Financial income	5	98	442
Financial expenses	6	- 2 088	- 614
Ordinary income before taxes		60 370	54 637
Income taxes	7	- 6 206	- 7 993
Net income¹		54 164	46 644
Earnings per share (CHF)	8	3.91	3.43

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

The notes on pages 72 to 94 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

At December 31, 2019 and 2018

in 1000 CHF	Notes	Dec. 31, 2019	Dec. 31, 2018
Assets			
Cash and cash equivalents		21 431	22 302
Trade receivables	9	83 949	81 385
Other current receivables	10	2 782	2 658
Prepaid expenses and accrued income	11	2 979	2 145
Current income tax asset		844	1 284
Inventories	12	219 174	195 608
Total current assets		331 159	305 382
Property, plant and equipment	13	296 602	289 795
Intangible assets	14	13 458	13 523
Assets from employer contribution reserve	4	320	320
Deferred tax assets		5 605	5 680
Total non-current assets		315 985	309 318
Total assets		647 144	614 700
Liabilities and equity			
Trade payables	15	18 189	9 902
Other current liabilities	16	17 504	13 553
Accrued expenses and deferred income	17	19 395	17 921
Current income tax liabilities		2 345	2 791
Current financial liabilities	18	46 917	150 176
Total current liabilities		104 350	194 343
Non-current financial liabilities	18	60 184	284
Deferred tax liabilities	7	34 792	35 861
Total non-current liabilities		94 976	36 145
Total liabilities		199 326	230 488
Share capital	20	700	680
Retained earnings		403 205	386 418
Share premium		79 039	30 861
Own shares		- 1	- 1
Cumulative translation differences		- 35 125	- 33 746
Total capital and reserves attributable to the equity holders of the company		447 818	384 212
Total liabilities and equity		647 144	614 700

The notes on pages 72 to 94 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the years ended December 31

in 1000 CHF	Notes	2019	2018
Cash flow from operating activities			
Net income		54 164	46 644
Adjustments for:			
Income taxes	7	6 206	7 993
Depreciation and amortization	2/13/14	24 888	23 065
Financial income	5	- 98	- 442
Financial expenses	6	2 088	614
Share based payments	21	1 032	641
Loss on sale of property, plant and equipment		52	0
Income taxes paid		- 7 074	- 5 322
Other non-cash items		- 443	105
Cash flow from operating activities before changes in net current assets		80 815	73 298
Change in trade receivables		- 3 323	- 26 011
Change in other current receivables, prepaid expenses and accrued income		- 908	- 617
Change in inventories		- 24 391	- 22 494
Change in trade payables		8 289	- 1 601
Change in other current liabilities, accrued expenses and deferred income		3 785	3 201
Cash flow from operating activities		64 267	25 776
Cash flow from investing activities			
Investments in property, plant and equipment		- 28 794	- 33 839
Sales of property, plant and equipment		24	21
Investments in intangible assets		- 1 795	- 4 163
Interest received		7	7
Other financial payments and proceeds		- 87	- 149
Cash flow from investing activities		- 30 645	- 38 123
Cash flow from financing activities			
Capital increase	20	47 103	0
Dividends paid	22	- 27 377	- 27 359
Increase in financial liabilities		106 800	140 000
Repayment of financial liabilities		- 160 180	- 94 783
Interest paid		- 626	- 343
Cash flow from financing activities		- 34 280	17 515
Net effect of currency translation on cash and cash equivalents		- 213	- 149
Net change in cash and cash equivalents		- 871	5 019
Cash and cash equivalents at the beginning of the year		22 302	17 283
Cash and cash equivalents at the end of the year		21 431	22 302
Net change in cash and cash equivalents		- 871	5 019

The notes on pages 72 to 94 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

2019 in 1000 CHF	Notes	Share capital	Retained earnings	Share premium	Own shares	Cumulative translation differences	Total
Balance at January 1		680	386 418	30 861	- 1	- 33 746	384 212
Capital increase	20	20		47 980			48 000
Transaction costs of the capital increase (net of tax)	20			- 827			- 827
Net income according to income statement			54 164				54 164
Dividends	22		- 37 377				- 37 377
Transactions with own shares (net of tax)				- 7			- 7
Share based payments	21			1 032			1 032
Cumulative translation differences						- 1 379	- 1 379
Balance at December 31		700	403 205	79 039	- 1	- 35 125	447 818

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	22		- 37 359				- 37 359
Transactions with own shares (net of tax)				- 7			- 7
Share based payments	21			641			641
Cumulative translation differences						121	121
Balance at December 31		680	386 418	30 861	- 1	- 33 746	384 212

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

As of December 31, 2019, the accumulated non-distributable reserves amount to 12 640 kCHF (previous year: 12 636 kCHF).

The notes on pages 72 to 94 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

Business activities

Bachem is a listed technology-based company focused on peptide chemistry. The company provides a full range of services to the pharma and biotech industries. It specializes in the development of innovative, efficient manufacturing processes and the reliable production of peptide-based active pharmaceutical ingredients. A comprehensive catalog of biochemicals and exclusive custom syntheses for research labs complete the service portfolio. Headquartered in Switzerland with subsidiaries in Europe, 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.

Approval of the consolidated financial statements

The consolidated financial statements have been accepted by the Board of Directors of Bachem Holding AG on February 19, 2020, to be presented for approval by the Annual General Meeting on April 22, 2020.

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 material 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 2019, 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 23.

Investments in subsidiaries

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

Internal transactions and balances between Group companies are eliminated. 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 in 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 period-end 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	
	2019	2018	2019	2018
USD	0.99	0.98	0.97	0.98
EUR	1.11	1.15	1.09	1.13
GBP	1.27	1.31	1.28	1.25
JPY (100)	0.91	0.89	0.89	0.89

Revenue recognition

Sale of products

The reported net sales correspond to the invoiced product deliveries to third parties after deducting sales tax, discounts and other sales deductions. 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. Inter-company 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.

In addition to the business segments Europe/Asia and North America, 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/Asia" 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 actual values. 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 value 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 receivables 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 net 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, after deduction of 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. Current 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 completed 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 completed 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 interest 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 (share premium). 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 per year. The expense is accrued at the end of the year and booked as an increase in equity (share premium).

Bachem holds own shares to fulfill its obligations under its share 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.

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 share premium.

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 19, 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 Net sales

The reported net sales consist of the following:

in 1000 CHF	2019	2018
Products	287 095	258 249
Services	26 620	24 251
Total net sales	313 715	282 500

in 1000 CHF	2019	2018
Active pharmaceutical ingredients (APIs)	276 612	252 672
Research chemicals (incl. custom synthesis)	37 103	29 828
Total net sales	313 715	282 500

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 1000 CHF	Europe/ Asia	North America	Total segments	Corporate and eliminations	Consolidated values
Sales information 2019					
Net sales third parties	158 564	155 151	313 715	0	313 715
Net sales intersegment	74 208	6 212	80 420	- 80 420	0
Total net sales	232 772	161 363	394 135	- 80 420	313 715
Income information 2019					
Operating income (EBIT)	51 677	17 422	69 099	- 6 739 ¹	62 360
Other information 2019					
Additions in property, plant and equipment and intangible assets	26 158	6 569	32 727	0	32 727
Depreciation and amortization	- 20 625	- 4 249	- 24 874	- 14	- 24 888
Total assets	502 839	171 695	674 534	- 27 390 ²	647 144
Total liabilities	295 743	88 406	384 149	- 184 823 ³	199 326

¹ The amount consists of the operating income from corporate activities of -5905 kCHF and of eliminations in the value of -834 kCHF.

² The amount consists of corporate assets as for example cash and cash equivalents and loans to Group companies in the total of 271 999 kCHF and of eliminations in the value of -299 389 kCHF.

³ The amount consists of corporate liabilities of 110 509 kCHF and of eliminations in the value of -295 332 kCHF.

in 1000 CHF	Europe/ Asia	North America	Total segments	Corporate and eliminations	Consolidated values
Sales information 2018					
Net sales third parties	163 439	119 061	282 500	0	282 500
Net sales intersegment	36 366	5 441	41 807	- 41 807	0
Total net 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 ¹	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 ²	614 700
Total liabilities	274 528	72 247	346 775	- 116 287 ³	230 488

¹ The amount consists of the operating income from corporate activities of -5 848 kCHF and of eliminations in the value of -199 kCHF.

² 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.

³ The amount consists of corporate liabilities of 154 133 kCHF and of eliminations in the value of -270 420 kCHF.

Information about geographical areas – net sales third parties in 1000 CHF	2019	2018
Switzerland	23 040	21 968
USA	151 749	115 746
Germany	23 468	24 174
Austria	20 923	14 668
Great Britain	17 601	25 274
Japan	17 038	18 597
Rest of the world	59 896	62 073
Total	313 715	282 500

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

3 Staff costs

in 1000 CHF	2019	2018
Salaries and wages	- 113 615	- 107 069
Pension expenses	- 7 291	- 6 475
Other social security expenses	- 17 224	- 14 292
Share-based payments	- 1 032	- 641
External staff costs	- 1 642	- 2 104
Other personnel-related costs	- 5 140	- 4 329
Total staff costs	- 145 944	- 134 910

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.

Economic benefit/economic 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, 2019	Dec. 31, 2019	Dec. 31, 2018	2019	2019	2018
Patronage funds	0	0	0	0	0	0
Plans without surplus/deficit	0	0	0	0	1 095	1 095
Plans with surplus	683	0	0	0	6 196	6 196
Plans with deficit	0	0	0	0	0	0
Plans without own assets	0	0	0	0	0	0
Total	683	0	0	0	7 291	7 291

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, 2019	Dec. 31, 2019	2019	2018	2019	2019	2018
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	2019	2018
Interest income	94	9
Other financial income	4	2
Foreign exchange result	0	431
Total financial income	98	442

6 Financial expenses

in 1 000 CHF	2019	2018
Interest expenses	- 410	- 470
Other financial expenses	- 85	- 144
Foreign exchange result	- 1 593	0
Total financial expenses	- 2 088	- 614

Other financial expenses mainly include bank charges.

7 Income taxes

in 1 000 CHF	2019	2018
Current taxes	- 7 173	- 5 901
Deferred taxes	967	- 2 092
Total income taxes	- 6 206	- 7 993

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 %	2019	2018
Expected tax rate	17.6	17.2
Change in tax loss carry-forwards	0.0	0.0
Impact of tax reform Switzerland	- 4.4	0.0
Tax credits and allowances	- 2.9	- 2.9
Non tax deductible expenditures	0.1	0.2
Adjustments for prior periods	- 0.1	0.1
Effective tax rate	10.3	14.6

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

On May 19, 2019, Swiss voters adopted the Federal Law on Tax Reform and AHV Financing (TRAF). The new regulations on corporate taxation came into force on January 1, 2020, although the reform process at cantonal level had not yet been completed in all cantons relevant to Bachem as of December 31, 2019. Based on the cantonal legislative changes that have already been decided, Bachem has revalued its deferred tax positions. The positive one-time effect from this revaluation of 2.7 million CHF was recognized in the income statement. As soon as the legislative process in all relevant cantons has been completed, the resulting influence will be examined.

At the end of the year, there were deferred tax assets for unused tax loss carry-forwards in the amount of 392 kCHF (2018: 92 kCHF).

Movement of deferred tax liabilities in 1 000 CHF	2019	2018
Deferred tax liabilities at January 1	35 861	34 078
Recognized in income statement	- 1 051	1 811
Currency translation differences	- 18	- 28
Deferred tax liabilities at December 31	34 792	35 861

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	2019	2018
Net income (in 1 000 CHF)	54 164	46 644
Average number of shares outstanding	13 836 379	13 583 637
Earnings per share (in CHF)	3.91	3.43

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

9 Trade receivables

in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Trade receivables	84 239	81 696
Provision for impairment of trade receivables	- 290	- 311
Total trade receivables	83 949	81 385

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	2019	2018
Provision for impairment of trade receivables at January 1	- 311	- 122
Provision for receivables impairment	- 342	- 194
Receivables written off during the year as uncollectable	359	3
Unused amounts reversed	0	0
Currency translation differences	4	2
Provision for impairment of trade receivables at December 31	- 290	- 311

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, 2019	84 239	63 437	15 305	4 248	690	228	0	331
December 31, 2018	81 696	72 289	6 494	1 137	347	850	0	579

10 Other current receivables

in 1000 CHF	Dec. 31, 2019	Dec. 31, 2018
Other receivables	2 782	2 658
Total other current receivables	2 782	2 658

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

11 Prepaid expenses and deferred income

in 1000 CHF	Dec. 31, 2019	Dec. 31, 2018
Prepaid expenses and accrued income	2 979	2 145
Total prepaid expenses and accrued income	2 979	2 145

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

12 Inventories

in 1000 CHF	Dec. 31, 2019	Dec. 31, 2018
Raw materials	39 962	30 384
Work in progress	22 051	18 002
Semi-finished and finished goods	157 161	147 222
Total inventories	219 174	195 608

The valuation provision in the total amount of 32 475 kCHF (2018: 28 626 kCHF) is included in the above line items. The change as well as the utilization of the provision are included in the cost of goods sold.

13 Property, plant and equipment

2019 in 1 000 CHF	Land and buildings	Installations and laboratory equipment	Other property, plant and equipment	Assets under construction	Total
Cost at January 1	198 057	306 363	19 911	31 759	556 090
Additions	0	0	24	30 024	30 048
Disposals	0	-324	-167	0	-491
Reclassifications	6 346	25 277	3 358	-34 981	0
Currency translation differences	-666	-814	-62	-139	-1 681
Cost at December 31	203 737	330 502	23 064	26 663	583 966
Accumulated at January 1	- 72 986	- 178 920	- 14 389	0	- 266 295
Depreciation	-4 636	-16 002	-1 519	0	-22 157
Disposals	0	276	138	0	414
Currency translation differences	202	435	37	0	674
Accumulated depreciation at December 31	- 77 420	- 194 211	- 15 733	0	- 287 364
Net book value at December 31	126 317	136 291	7 331	26 663	296 602

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 depreciation 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.

Bachem does not have any undeveloped land.

The carrying amount of fixed assets under finance lease contracts at year-end 2019 amounted to 287 kCHF (2018: 446 kCHF). Depreciation relating to fixed assets under finance lease amounted to 181 kCHF (2018: 176 kCHF).

No assets were pledged for security of own liabilities in 2019 and 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, 2019	Dec. 31, 2018
Within 1 year	117	176
Between 1 and 5 years	184	284
More than 5 years	0	0
Present value of finance lease liabilities	301	460

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 4 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, 2019	Dec. 31, 2018
Within 1 year	847	756
Between 1 and 5 years	1 643	1 728
More than 5 years	295	448
Total future minimum operating lease payments	2 785	2 932

There are operating leases for office facilities, vehicles and buildings at the moment. The remaining life of the different contracts is between 1 and 7 years.

The recognized expenses for operating leases in the consolidated income statement 2019 was 1 000 kCHF (2018: 775 kCHF).

14 Intangible assets

2019 in 1 000 CHF	Software	Capitalized development costs	Other intangible assets	Total
Cost at January 1	40 449	2 660	526	43 635
Additions	2 679	0	0	2 679
Disposals	- 128	0	- 480	- 608
Currency translation differences	- 62	0	0	- 62
Cost at December 31	42 938	2 660	46	45 644
Accumulated amortization at January 1	- 27 131	- 2 455	- 526	- 30 112
Amortization	- 2 662	- 69	0	- 2 731
Disposals	128	0	480	608
Currency translation differences	49	0	0	49
Accumulated amortization at December 31	- 29 616	- 2 524	- 46	- 32 186
Net book value at December 31	13 322	136	0	13 458
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

15 Trade payables

in 1000 CHF	Dec. 31, 2019	Dec. 31, 2018
Trade payables	18 189	9 902
Total trade payables	18 189	9 902

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 1000 CHF	Dec. 31, 2019	Dec. 31, 2018
Other liabilities	14 016	10 839
Prepayments	3 488	2 714
Total other current liabilities	17 504	13 553

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.

17 Accrued expenses and deferred income

in 1000 CHF	Dec. 31, 2019	Dec. 31, 2018
Accrued expenses and deferred income	19 395	17 921
Total accrued expenses and deferred income	19 395	17 921

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

18 Financial liabilities

in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Loans from related parties	0	10 000
Bank loans	106 800	140 000
Finance lease liabilities	301	460
Total financial liabilities	107 101	150 460
Thereof current financial liabilities	46 917	150 176
Thereof non-current financial liabilities	60 184	284

The loans from related parties (see note 24) and the bank loans were provided as unsecured business loans in CHF and bear an average interest of 0.3% p. a.

The remaining durations of the bank loans is between 1 and 29 months.

Details concerning finance leases are disclosed in note 13.

19 Maturities of financial liabilities

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

December 31, 2019 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	11 657	6 532				18 189
Other current liabilities	10 475	4 770	2 259			17 504
Accrued expenses and deferred income	4 502	884	14 009			19 395
Current income tax liabilities	43	1 626	676			2 345
Current financial liabilities	46 813	35	69			46 917
Non-current financial liabilities				60 184	0	60 184

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

20 Share capital

The share capital is divided into 7 002 059 shares Bachem A (50.01% of share capital) and 6 997 941 shares Bachem B (49.99% of share capital). The shares Bachem 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 Bachem B shares at the SIX Swiss Exchange. All shares are registered shares which are eligible to vote and entitled to dividend. All Bachem A shares are owned by Ingro Finanz AG. The important shareholders are listed in the notes to the financial statements of Bachem Holding AG in note 8 on page 102.

	Dec. 31, 2019	Dec. 31, 2018
Shares Bachem A		
Number of shares	7 002 059	6 802 000
Number of fully paid-in shares	7 002 059	6 802 000
Par value per share (in CHF)	0.05	0.05
Shares Bachem B		
Number of shares	6 997 941	6 798 000
Number of fully paid-in shares	6 997 941	6 798 000
Par value per share (in CHF)	0.05	0.05
Total number of shares	14 000 000	13 600 000
Total share capital (in CHF)	700 000	680 000

On May 8, 2019, the share capital was increased by 400 000 shares (200 059 registered shares A and 199 941 registered shares B) with a nominal value of 0.05 CHF per share. The placement price per share was 120.00 CHF. The transaction costs of the capital increase amounted to 897 kCHF (before taxes).

On December 31, 2019, Bachem Holding AG held 8 250 own shares, which are reserved for distribution under the employee participation plans.

Own shares	Dec. 31, 2018	Purchases/ backslide of blocked shares	Sales/transfer to employees	Dec. 31, 2019
Number				
Employee participation plans at the price of 0.05 CHF	14 858	0	- 6 608	8 250
Treasury stock	0	0	0	0
Total own shares	14 858	0	- 6 608	8 250

	Dec. 31, 2019	Dec. 31, 2018
Outstanding shares		
Total number of shares	14 000 000	13 600 000
Number of own shares Bachem B	- 8 250	- 14 858
Total shares outstanding	13 991 750	13 585 142

21 Share-based payment

The employee and management participation plans are described in the accounting policies on pages 76 and 77. The recognized expenses for share-based payments in the reporting period amounted to 1 032 kCHF (2018: 641 kCHF).

In 2019 and 2018, the following number of shares was granted:

Shares granted Number/CHF	2019	2018
Number of granted shares	6 608	6 508
Average fair value per share at grant date in CHF	110.80	128.80

Bachem holds own shares in order to meet its obligations under the employee participation plans. For the change in the number of Bachem shares outstanding, please refer to note 20.

22 Dividend distribution

On April 16, 2019, a dividend of 37 377 kCHF respectively 2.75 CHF per share was distributed for the year 2018 (previous year: 37 359 kCHF respectively 2.75 CHF per share). Of the total dividend in the amount of 37 377 kCHF (previous year: 37 359 kCHF), 27 377 kCHF (previous year: 27 359 kCHF) were paid out and 10 000 kCHF (previous year: 10 000 kCHF) remained as a loan (see note 24).

The Board of Directors will propose a dividend of 3.00 CHF per share or a total of 41 975 kCHF on 13 991 750 shares entitled to dividend, to the Annual General Meeting for the year 2019. The number of shares entitled to dividend may change until the Annual General Meeting on April 22, 2020, due to the granting of shares to employees or the purchase/sale of own shares.

23 Consolidated companies

Consolidated company	Country	Currency	Registered capital	Equity share Dec. 31, 2019	Equity share Dec. 31, 2018
Bachem Holding AG, Bubendorf	Switzerland	CHF	700 000	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%	100%

24 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	2019	2018
Breiten Immobilien AG (lease of business premises)	-450	-298
Breiten Immobilien AG (rendering of services)	16	15
Chemoforma AG (purchase of goods)	0	-2
Hotel Bad Schauenburg AG (seminars)	-9	-21
Ingro Finanz AG (dividend paid out)	-10 752	-10 752
Ingro Finanz AG (dividend converted into loan)	-10 000	-10 000
Ingro Finanz AG (interest paid on loan)	-20	-46
Peninsula Laboratories International, Inc. (sale of goods)	8	1
Pension fund in Switzerland (employer's contribution)	-6 196	-5 670
Sunstar Group (seminars)	-45	0
Total transactions with related parties	-27 448	-26 773

Balances in 1 000 CHF	Dec. 31, 2019	Dec. 31, 2018
Ingro Finanz AG	0	-10 000
Total balances with related parties	0	-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.

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	2019	2018
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	- 1 013	- 743
Theoretical amortization	- 270	- 270
Theoretical accumulated amortization at December 31	- 1 283	- 1 013
Theoretical net book value of goodwill at December 31	69	339

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	2019	2018
Net income according to income statement	54 164	46 644
Theoretical amortization of goodwill	- 270	- 270
Theoretical net income after amortization of goodwill	53 894	46 374

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 (the Group), which comprise the consolidated balance sheet as at December 31, 2019 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 68 to 94) give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and its consolidated results of operations 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.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

- Inventory provision

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 219.2 million after the deduction of an inventory provision of CHF 32.5 million representing 34% 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 with a lower net realizable value.

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.

Please refer to page 74 (Accounting policies), page 79 (Critical accounting estimates and assumptions) and page 85 (12 Inventories) in the annual report.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We performed the following audit procedures:

- 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 and the completeness and accuracy of the slow-mover report on a sample basis.
- We discussed the requirement for inventory provisions recorded on a case by case basis with Bachem and tested supporting information 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.

Based on the audit procedures performed, we have addressed the risk of an incorrect inventory provision. We have no audit findings to report.

Other Matter

The consolidated financial statements of Bachem Holding AG for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 20, 2019.

Responsibility 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 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.

Zurich, February 19, 2020

MAZARS AG

Cyprian Bumann
Licensed Audit Expert
Auditor in Charge

Roger Leu
Licensed Audit Expert