2015/16 Condensed Half-Year Report

Your Specialist for Hazardous Reactions.

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This Half-Year Report 2015/16 in English includes only condensed financial information.
The comprehensive Half-Year Report 2015/16 is available in German.

Dear Shareholder,

Herewith we present to you DOTTIKON ES Group's Condensed Half-Year Report 2015/16 for the period from April 1 to September 30, 2015.

In the first half of the current business year, net sales were more than 10 percent higher than in the previous year, with pharma growing by around 20 percent. The production output – net sales plus inventory changes in semi-finished and finished goods – even rose by 31 percent. Existing projects were further developed and represented a significant and broad-based growth factor. As a result, at CHF 8.1 million, the operating profit before depreciation and amortization was clearly higher than the CHF 2.8 million reported a year earlier. The growth in net sales, combined with an increase in inventory in semi-finished and finished goods of CHF 9.8 million from customer orders, resulted in a net income of around CHF 1.0 million after a net loss of CHF 3.2 million in the previous year.

For the full business year 2015/16, we expect to extend our existing business and to further broaden our client, project, and product base. As a result, we anticipate a further increase in net sales and net income compared to the previous year.

KEY FIGURES, APRIL–SEPTEMBER

CHF million (unaudited)
[A] Change to absolute previous-year amount

	2014	2015	Change
Net sales	39.1	43.2	10.5%
EBITDA	2.8	8.1	186.9%
EBITDA margin (in % of net sales)	7.2%	18.8%	
EBIT[A]	–4.3	1.1	126.2%
EBIT margin (in % of net sales)	–11.0%	2.6%	
Net income (net loss)[A]	–3.2	1.0	131.6%
Net income (net loss) margin (in % of net sales)	–8.1%	2.3%	
Operating cash flow	17.6	3.3	–81.3%
Employees (FTEs, six-month average)	450	483	7.3%

After an economic revival in the United States and a muted recovery in the eurozone, economic and geopolitical uncertainties once again intensified toward the end of the reporting period. Globally, growth was not broadly based and was marked by a weak development in international trade as well as low raw material prices. Uncertainties regarding the economic development in China also further intensified. The multipolar interests of the superpowers add fuel to the military disputes in the Middle East and have caused new waves of migration to Europe that, following the Ukraine crisis, bring the current geopolitical tension another step closer to core Europe.

After remarkably high M&A and IPO volumes in 2014, it seems that the current year might even surpass the record marks set in 2007. The main drivers for this development are the low interest rates set by the key central banks that have prompted high cash reserve levels of companies as well as high stock market valuations. In an uncertain environment with cheap money, it is easier for companies to make acquisitions than to invest in their own innovation power.

The quest for short-term absolute return amid a scenario in which low interest rates falsely suggest low relative risk spirals company valuations higher. Private equity investors use this opportunity to divest their companies via IPOs. If the scenarios that cause the current uncertainties become a reality, these excessive prices could result in substantial losses in net asset value, send renewed shockwaves through the international financial markets and place the global monetary policy under renewed, intense pressure to take measures.

Amid increasing uncertainties and an ongoing focus on regionalization, values such as trust, reliability, and sustainability – along with cultural and geographical proximity – continue to gain importance.

The demographic trend in developed and emerging economies ensures long-term volume growth in the pharmaceutical market. With the exception of the United States, governments around the globe strive to contain the inevitable increase in health costs with price regulation. Given that the United States have not yet regulated the prices of drugs, the global pharmaceutical companies set very high prices for prescription drugs in this market. Over the last few months, the prices have often been systematically increased even further. Studies reveal that drug prices for certain indication areas are three to five times higher in the United States than in European countries. In 2014, prescription drug expenditures in the United States rose by 13 percent to CHF 375 billion, with a large part of the increase stemming directly from price hikes. With a market share of more than 40 percent, the United States with their high prices are the most important market for innovative drugs. In 2014, the FDA approved 41 new drugs in the United States – a figure that has not been reached since the mid-90s. 30 of these drugs were low molecular-weight compounds (new molecular entities, NME). More than 40 percent of the approved drugs were "First-in-Class" applications with new modes of action for the targeted treatment of illnesses or rare diseases. The FDA granted "Breakthrough" status to more than 20 percent of these approved drugs and thus gave them access to an accelerated approval process. More than 60 percent of new drugs were first filed and approved in the United States.

The prospect of very high profits with innovative drugs in the United States in combination with favorable financing conditions has channeled historically high sums into the US and European biotech industry and has driven M&A and IPO volumes to new all-time highs. However, the related price excesses have also turned drug price regulation into a topic for the presidential election campaigns, which represents a threat to the pharma industry's high profitability.

Cost and innovation pressure, a disproportionate increase in demand for generic drugs, patent expiries, and the demand for new innovative drugs for a more effective and efficient treatment of illnesses and rare diseases are further drivers of the current financing and consolidation wave in the pharma industry. The disproportionate growth in the generics market has attracted a vast number of new local market participants and has intensified the ongoing price battle. The large pharmaceutical companies focus on special indication areas and acquire market shares and innovation. They purchase biotechs with promising fast-track development projects or new technology platforms in order to make up for their low research productivity. With such transactions, they create added value by applying their market approval, commercialization and distribution competence to the value realization of the purchased biotech innovations. In order to secure fast market access at low production costs and with the required high quality levels, and thus to justify their expensive acquisitions, pharmaceutical companies struggle with the challenge of securing chemical synthesis routes and subsequent process development in short times, as both areas had been neglected in the early phases. The timely availability of active pharmaceutical ingredients (APIs) in sufficient quantity and quality is a critical success factor in this process. Given that many large pharmaceutical companies have drastically reduced their own chemical development as well as manufacturing capacities and that many of them or their suppliers face difficulties with regulatory authorities for non-compliance with cGMP, such tasks are increasingly outsourced to reliable and trustworthy strategic development and manufacturing partners that are able to deliver the required quality.

They tend to prefer partners that are able to provide the full range of services from chemical synthesis routefinding, the development of chemical processes and analytical methods, and multi-step API production, including validation and stability studies. On the one hand,

the partners should possess cutting-edge development and production infrastructure, an impeccable quality track record, and a broad technology platform, while on the other hand having profound experience in the development of chemical processes and the production of APIs. Pharmaceutical companies are interested in maintaining a very limited number of interfaces and are interested in cooperating closely with a select group of strategic partners throughout all stages from development up to market introduction.
The current conditions reinforce the need for trustworthy business partners that offer cultural and regional proximity and are innovative, reliable, and fast when it comes to implementation. Over the coming five years, around 200 new drugs are expected to receive market approval. The biggest threat to this promising outlook in the area of exclusive synthesis for the pharmaceutical industry is the introduction of strict price regulation of prescription drugs in the United States in combination with fast interest rate hikes. This would quickly and significantly dampen the injection of funds into the biotech industry and thus result in a lack of innovation and a further increase in price pressure.

At the end of the first half of the business year, net sales stood at CHF 43.2 million, more than 10 percent higher than a year earlier, with pharma growing by around 20 percent. The production output – net sales plus inventory changes in semi-finished and finished goods – even rose by 31 percent. Existing projects were further developed and represented a significant and broad-based growth factor. Compared to the previous year, the improved product mix with higher added value resulted in a 187 percent EBITDA increase to CHF 8.1 million. Net sales growth in combination with substantially higher costs related to preparatory efforts for further future growth – as a result of customer orders with an increase in inventory in semi-finished and finished goods of CHF 9.8 million and disproportionately higher material and

personnel expenses – along with depreciation and amortization at a level almost unchanged from the previous year at CHF 7.0 million resulted in a net income of around CHF 1.0 million in the first half of the business year compared to the net loss of CHF 3.2 million reported a year earlier.
Due to an increase in net sales toward the end of the reporting period, the reduction in trade receivables was CHF 7.6 million below the figure reported a year earlier. The increase in inventory related to preparatory efforts for future growth rose by another CHF 6.0 million compared to a year before. Cash inflows from other current liabilities in the year-earlier period exceeded the current reporting period's figure by CHF 6.4 million, mainly due to prepayments from customers for the future fulfillment of orders. As a result, the operating cash flow fell to CHF 3.3 million (previous year: CHF 17.6 million). With the initiated expansion of production capacity and the related increase in investments, the cash outflow was CHF 3.1 million in the reporting period. Cash and cash equivalents amounted to a comfortable level of CHF 26.0 million at the end of the reporting period. The equity ratio remains at a solid 86 percent.

DOTTIKON ES' corporate strategy – strategic partner and specialist for hazardous reactions – is reaffirmed: By using enabling technology, we develop and manufacture high-quality, demanding chemical products safely and efficiently. We assess the risks properly and steadily minimize their potential impact and/or probability of occurrence. We collaborate closely with our customers and cultivate an integrated partnership. By applying our full development and manufacturing capabilities, we support our customers in the successful execution of their strategy. In doing so, we create more value for our customers than our competitors. We continue to focus on safety, reliability, high flexibility, and speed and are positioned as strategic development and manufacturing partner and performance leader.

The pharmaceutical market is and remains the main market in which the growth in net sales – the main driver for improving profitability – will be achieved. Amid this effort, capacity utilization of the existing infrastructure will be increased. In order to achieve the expected net sales growth in the medium term, we are increasing our API drying and multipurpose production capacities and are preparing the construction of a new facility for laboratories and offices. As a result, at CHF 100 million, the accumulated investment volume over the coming three years will be clearly higher than in the last few business years.
For the full business year 2015/16, we expect to extend our existing business and to further broaden our client, project, and product base. As a result, we anticipate a further increase in net sales and net income compared to the previous year.

Dottikon, November 12, 2015

Dr. Markus Blocher
Chairman of the Board of Directors

Group Financial Statements DOTTIKON ES Group

Consolidated Income Statements

April–September
CHF thousand and %
(unaudited, condensed)

[A] There are no options or similar instruments that have a dilutive effect

	2014	%	2015	%
Net sales	**39'140**	**100.0**	**43'231**	**100.0**
Changes in semi-finished and finished goods	1'269		9'750	
Other operating income	1'548		1'422	
Material expenses	–8'704		–13'307	
Personnel expenses	–23'217		–25'519	
Other operating expenses	–7'202		–7'447	
EBITDA	**2'834**	**7.2**	**8'130**	**18.8**
Depreciation and amortization	–7'156		–6'999	
EBIT	**–4'322**	**–11.0**	**1'131**	**2.6**
Financial income	90		101	
Financial expenses	–22		–115	
Financial result	**68**		**–14**	
Result from associated companies	**0**		**0**	
Net income (net loss) before taxes	**–4'254**	**–10.9**	**1'117**	**2.6**
Income taxes	1'092		–119	
Net income (net loss)	**–3'162**	**–8.1**	**998**	**2.3**
Basic earnings (loss) per share in CHF[A]	**–2.54**		**0.80**	
Weighted average number of shares	**1'245'401**		**1'247'230**	

Consolidated Statements of Comprehensive Income

April–September
CHF thousand
(unaudited, condensed)

	2014	2015
Net income (net loss)	**–3'162**	**998**
Foreign exchange forwards		
Realized gains (losses) on foreign exchange forwards	23	–999
attributable income taxes	–4	190
Changes in fair value of foreign exchange forwards	330	–501
attributable income taxes	–62	100
Items that will be reclassified subsequently to the income statement	**287**	**–1'210**
Employee benefits		
Actuarial gains (losses)	–5'470	–1'310
attributable income taxes	1'006	244
Limitation of the asset ceiling in accordance with IAS 19.64	4'816	0
attributable income taxes	–886	0
Interest on the effect of the asset ceiling	128	0
attributable income taxes	–23	0
Items that will not be reclassified subsequently to the income statement	**–429**	**–1'066**
Other comprehensive income, net of taxes	**–142**	**–2'276**
Total comprehensive income	**–3'304**	**–1'278**

Consolidated Balance Sheets

CHF thousand and %
(unaudited, condensed)

	31.03.2015	%	30.09.2015	%
Intangible assets	783		709	
Property, plant and equipment	195'200		194'497	
Investments in associated companies	753		753	
Pension surplus	31'582		30'428	
Non-current assets	**228'318**	**68.8**	**226'387**	**68.4**
Inventories	40'197		48'988	
Trade receivables	28'179		25'128	
Other receivables	6'210		4'333	
Cash and cash equivalents	29'075		25'998	
Current assets	**103'661**	**31.2**	**104'447**	**31.6**
Assets	**331'979**	**100.0**	**330'834**	**100.0**
Share capital	127		127	
Share premium	60'706		60'713	
Own shares	–5'418		–5'045	
Retained earnings	231'303		230'025	
Shareholders' equity	**286'718**	**86.4**	**285'820**	**86.4**
Deferred tax liabilities	25'478		24'969	
Non-current liabilities	**25'478**	**7.7**	**24'969**	**7.5**
Trade payables	4'522		4'844	
Income tax liabilities	385		472	
Other current liabilities	14'876		14'729	
Current liabilities	**19'783**	**5.9**	**20'045**	**6.1**
Liabilities	**45'261**	**13.6**	**45'014**	**13.6**
Shareholders' equity and liabilities	**331'979**	**100.0**	**330'834**	**100.0**

Consolidated Cash Flow Statements

April–September
CHF thousand
(unaudited, condensed)

	2014	2015
Net income (net loss)	–3'162	998
Income taxes	–1'092	119
Financial result	–68	14
Depreciation of property, plant and equipment	7'073	6'909
Amortization of intangible assets	83	90
Result from associated companies	0	0
Other non-cash income and expenses	–244	1'163
Interest received	5	0
Interest paid	–5	–5
Income taxes paid	–10	–7
Changes in		
Trade receivables	11'029	3'388
Other receivables	–328	–837
Inventories	–2'774	–8'791
Trade payables	499	90
Other current liabilities	6'585	159
Cash flow from operating activities	**17'591**	**3'290**
Outflows of		
Intangible assets	–32	–8
Property, plant and equipment	–4'736	–6'380
Inflows of		
Intangible assets	0	0
Property, plant and equipment	0	3
Cash flow from investing activities	**–4'768**	**–6'385**
Dividends paid	0	0
Reduction of share capital by reduction of the nominal value	–6'104	0
Purchase of own shares	0	0
Disposal of own shares	0	0
Cash flow from financing activities	**–6'104**	**0**
Currency translation effect on cash and cash equivalents	24	18
Net change in cash and cash equivalents	**6'743**	**–3'077**
Cash and cash equivalents at the beginning of the reporting period	33'945	29'075
Cash and cash equivalents at the end of the reporting period	**40'688**	**25'998**

Consolidated Statements of Changes in Equity

CHF thousand
(unaudited, condensed)

	Share capital	Share premium	Own shares	Changes in fair value of foreign exchange forwards	Other retained earnings	Shareholders' equity
Balance 01.04.2014	**6'363**	**60'544**	**–5'714**	**–24**	**229'850**	**291'019**
Net income (net loss)					**–3'162**	**–3'162**
Foreign exchange forwards						
Realized gains (losses) on foreign exchange forwards				23		23
Changes in fair value of foreign exchange forwards				330		330
Employee benefits						
Actuarial gains (losses)					–5'470	–5'470
Limitation of the asset ceiling in accordance with IAS 19.64					4'816	4'816
Interest on the effect of the asset ceiling					128	128
Income taxes on other comprehensive income				–66	97	31
Other comprehensive income, net of taxes				**287**	**–429**	**–142**
Total comprehensive income				**287**	**–3'591**	**–3'304**
Reduction of share capital by reduction of the nominal value	–6'236	132				–6'104
Changes in own shares		28	295			323
Balance 30.09.2014	**127**	**60'704**	**–5'419**	**263**	**226'259**	**281'934**
Balance 01.04.2015	**127**	**60'706**	**–5'418**	**2'476**	**228'827**	**286'718**
Net income (net loss)					**998**	**998**
Foreign exchange forwards						
Realized gains (losses) on foreign exchange forwards				–999		–999
Changes in fair value of foreign exchange forwards				–501		–501
Employee benefits						
Actuarial gains (losses)					–1'310	–1'310
Limitation of the asset ceiling in accordance with IAS 19.64					0	0
Interest on the effect of the asset ceiling					0	0
Income taxes on other comprehensive income				290	244	534
Other comprehensive income, net of taxes				**–1'210**	**–1'066**	**–2'276**
Total comprehensive income				**–1'210**	**–68**	**–1'278**
Changes in own shares		7	373			380
Balance 30.09.2015	**127**	**60'713**	**–5'045**	**1'266**	**228'759**	**285'820**

Notes to the Group Financial Statements of DOTTIKON ES Group (condensed)

1 SEGMENT REPORTING

DOTTIKON ES Group manufactures high-quality performance chemicals, intermediates and exclusive active pharmaceutical ingredients (APIs) for the world's leading chemical and pharmaceutical industry. DOTTIKON ES Group is specialized in hazardous reactions and is positioning itself as strategic development and manufacturing partner. DOTTIKON ES Group uses its versatile technology and equipment portfolio to design, develop and optimize chemical processes, and scale up from kilograms to multi-tons.

According to IFRS 8 "Operating Segments", the reportable operating segments are determined using the management approach. External segment reporting is thus based on the Group's internal organization and management structure as well as internal financial reporting to the Chief Operating Decision Maker. DOTTIKON ES Group's Chief Operating Decision Maker is the Board of Directors. In addition to its statutory tasks, the Board of Directors is responsible for the strategic focus and management of the Group. Strategic and important operational decisions of DOTTIKON ES Group are taken by the Board of Directors.

DOTTIKON ES Group builds on one single production site with the strategy of performance leadership as specialist for hazardous reactions. DOTTIKON ES Group mainly executes projects with focus on the exclusive synthesis of fine chemicals which are strongly heterogeneous. Therefore, a differentiation in several operating segments is not informative.

The financial reporting to the Board of Directors as Chief Operating Decision Maker is prepared in a single segment. DOTTIKON ES Group allocates resources and assesses their performance on entity level.

The segment reporting is compiled according to IFRS 8.31 ff. as one single reportable segment on entity level. The valuation principles applied for segment reporting purposes are consistent with those applied in the preparation of the Group Financial Statements.

Entity-wide disclosures are as follows:

Net sales by product lines:

CHF thousand/April–September	2014	2015
Pharma Products	31'025	37'325
Performance Chemicals	5'973	3'995
Recycling & Waste Treatment	2'142	1'911
Net sales	**39'140**	**43'231**

Net sales by regions:

CHF thousand/April–September	2014	2015
Switzerland	16'677	13'432
Northern Europe	14'366	10'989
Southern Europe and others	115	9'167
America	7'150	6'900
Asia	832	2'743
Net sales	**39'140**	**43'231**

Share of sales by customers:

CHF thousand/April–September	2014	2015
Customers with more than 10% of net sales[A]	25'038	20'679
Customers with less than 10% of net sales	14'102	22'552
Net sales	**39'140**	**43'231**

[A] Business half-year 2015/16: three customers with more than 10% of net sales (same period of the previous year: three customers)

2 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The consolidated interim financial statements were approved for issue by the Board of Directors on November 12, 2015.

No significant events have occurred between September 30, 2015, and November 12, 2015, that would require an adjustment of the Group's carrying amounts of assets and liabilities or that would need to be disclosed under this heading.

Investor Relations

Issue Annual Report 2015/16
May 31, 2016

Annual General Meeting for the Business Year 2015/16
July 1, 2016

Issue Half-Year Report 2016/17
November 25, 2016

DOTTIKON ES HOLDING AG is listed at the SIX Swiss Exchange.
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DOTTIKON ES manufactures high-quality performance chemicals, intermediates and exclusive active pharmaceutical ingredients (APIs) for the world's leading chemical and pharmaceutical industry. The company with its production site in Dottikon (Aargau, Switzerland) is specialized in hazardous reactions and is positioning itself as strategic development and manufacturing partner. Its safety culture created over the last 100 years guides innovative use of hazardous reactions, low-temperature and high-pressure chemistry, as well as continuous processing. This shortens conventional chemical synthesis routes, increases yields, selectivities and purities, and reduces waste. The versatile technology and equipment portfolio is used to design, develop and optimize chemical processes, and scale up from kilograms to multi-tons.
DOTTIKON ES' one-site strategy allows reduced decision and communication pathways. This ensures rapid and efficient project development as well as clear and transparent communication with customers.

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