2016/17 Condensed Half-Year Report

Your Specialist for Hazardous Reactions.

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This Half-Year Report 2016/17 in English includes only condensed financial information.
The comprehensive Half-Year Report 2016/17 is available in German.

Dear Shareholder,

Herewith we present to you DOTTIKON ES Group's Condensed Half-Year Report 2016/17 for the period from April 1 to September 30, 2016.

In the first half of the current business year, net sales were 56 percent higher than in the previous year, with pharma being the main growth driver. The production output – net sales plus inventory changes in semi-finished and finished goods – rose by 30 percent. New projects were acquired and existing ones further developed, which resulted in broad-based, strong and purely organic growth. The strong rise in net sales in combination with a smaller inventory increase in semi-finished and finished goods as well as higher personnel expenses and depreciation compared to the previous year resulted in a substantially higher operating profit of CHF 11.5 million compared to CHF 1.1 million in the rather weak previous-year period. Overall, net income rose to around CHF 9.5 million (previous year: CHF 1.0 million).

For the full business year 2016/17, we expect, next to extending our existing business, a further broadening of our client, project, and product base. As a result, we continue to anticipate a further increase in net sales and net income in the full business year 2016/17 compared to the previous year.

KEY FIGURES, APRIL–SEPTEMBER

CHF million (unaudited)	2015	2016	Changes
Net sales	43.2	67.6	56.3%
EBITDA	8.1	20.4	150.3%
EBITDA margin (in % of net sales)	18.8%	30.1%	
EBIT	1.1	11.5	917.6%
EBIT margin (in % of net sales)	2.6%	17.0%	
Net income	1.0	9.5	851.9%
Net income margin (in % of net sales)	2.3%	14.1%	
Operating cash flow	3.3	56.1	1'604.5%
Employees (FTEs, six-month average)	483	536	11.0%

The global economy continued to grow moderately in the period under review, based on robust consumer demand and a favorable labor market in the United States, differences in the economic output among the various European nations ranging from stagnant to robust, as well as a solid expansion in China that was supported by monetary and fiscal policy measures. Growth was mainly driven by domestic demand and the service sector. Global industrial activity and trade remained subdued, while the prevailing economic and geopolitical uncertainties continued to accentuate. The economic risks – originating from high government debt levels, expanded national bank balance sheets, extremely low interest rate levels, low raw material and energy prices, fundamental structural changes in China's economy, as well as the lack of substantial reforms in Europe – will have an impact on the medium-term development of the global economy. The low interest rates force market participants to buy absolute returns by taking disproportionately high risks. A materialization of these risks would entail massive losses in net asset values, and the related uncertainties could prompt substantial financial market turmoil, which would place heavy demands on the global monetary policy given the fact that fiscal measures are nearly exhausted.
In the long run, geopolitical risks remain a decisive factor for the development of the global economy: Russia pursues an aggressive foreign policy, China expands its global geopolitical and economic influence, the United States' internal and foreign policies are weak, and the ancient conflicts in the Middle East with their global reach steadily flare up again. In addition, the global IT interconnectivity is vulnerable to cyber attacks on important supply and transport infrastructures or the payment system.
Amid increasing uncertainties and ongoing regionalization, values such as trust, reliability, and sustainability – along with cultural and geographical proximity – continue to gain importance.

The demographic trend ensures further long-term volume growth in the pharmaceutical market. Government measures to lower the health care costs, promote generic drugs, and accelerate the market approval process for innovative drugs, in combination with low-priced capital, are key innovation drivers. The United States is the largest drug sales market and plays, not least thanks to nearly unregulated drug prices, an important role in spurring the outlook for quick and high profits with innovative drugs. Threats to this promising outlook are strict price regulation in the United States, swift interest rate hikes or adverse events associated with quick market approvals and inadequate drug safety tests.

Despite economic and geopolitical risks, the increased molecular complexity, higher regulatory requirements, changed mechanics in the supply chain of active pharmaceutical ingredients production, and a cutback in high-quality process development and manufacturing capacities create promising opportunities for high-quality, technologically advanced exclusive synthesis providers that are specialized in the process development and manufacturing of active pharmaceutical ingredients.

Reliable, trustworthy, and established strategic development and manufacturing partners that are able to deliver the required quality and to provide the full range of services from chemical synthesis routefinding, the development of chemical processes and analytical methods to multi-step API production, including validation and stability studies, remain in demand. 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. In addition, pharmaceutical companies are interested in maintaining a very limited number of interfaces and in cooperating closely with a select group of strategic partners throughout all stages from development to market introduction and supply. This trend is set to accentuate further in the coming years.

At the end of the first half of the business year 2016/17, net sales stood at CHF 67.6 million, which represents an increase of more than 56 percent compared to the previous year. Growth was mainly driven by pharma. Existing projects were further developed and made a substantial and broad-based contribution to the achieved purely organic growth. In contrast to net sales, the production output – net sales plus inventory changes in semi-finished and finished goods – only rose by 30 percent compared to the year-earlier period due to a less accentuated inventory increase in semi-finished and finished goods. Due to this lower inventory growth, material expenses in relation to net sales were lower than in the previous year. Personnel expenses were higher than a year earlier due to the creation of more than 50 new jobs. The growth also lifted the other operating expenses above the year-earlier figure. At CHF 20.4 million, operating profit before depreciation and amortization was clearly higher than a year earlier (previous year: CHF 8.1 million). Depreciation rose by CHF 1.8 million compared to the previous year mainly due to the fundamental major investments and the related valuation adjustment of older infrastructure with a view to the future, further intensified investment activity in new cGMP multipurpose production and development capacities. In the first half of the business year 2016/17, net income rose to CHF 9.5 million (previous year: CHF 1.0 million).
Given that the cash-relevant reduction in trade receivables was CHF 29.3 million higher due to a strong increase in net sales in the second half of the last business year, while the increase in inventory was CHF 7.0 million lower and liabilities rose by CHF 5.2 million compared to the previous year, the clearly higher net income and higher depreciation resulted in a CHF 52.8 million increase in operating cash flow. Combined with investments of CHF 12.5 million – twice as high as in the previous year – cash and cash equivalents stood at CHF 65.2 million at the end of the period under review. The higher balance sheet total based on intensified investment activities and the future sales growth resulted in a slightly lower equity ratio of 83 percent (previous year: 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 thereby strengthen our position 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 ongoing profitability – will be achieved. Amid this effort, capacity utilization of existing infrastructure will be increased. In order to achieve the expected net sales growth in the medium term, we are increasing our multipurpose production and API drying capacities and are realizing the construction of a new facility for laboratories and offices. The accumulated investment volume over the coming three years will therefore increase substantially. For the full business year 2016/17, we expect, next to extending our existing business, a further broadening of our client, project, and product base. As a result, we continue to anticipate a further increase in net sales and net income in the full business year 2016/17 compared to the previous year.

Dottikon, November 17, 2016

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

	2015	%	2016	%
Net sales	**43'231**	**100.0**	**67'577**	**100.0**
Changes in semi-finished and finished goods	9'750		1'508	
Other operating income	1'422		1'936	
Material expenses	–13'307		–13'189	
Personnel expenses	–25'519		–29'012	
Other operating expenses	–7'447		–8'468	
EBITDA	**8'130**	**18.8**	**20'352**	**30.1**
Depreciation and amortization	–6'999		–8'843	
EBIT	**1'131**	**2.6**	**11'509**	**17.0**
Financial income	101		176	
Financial expenses	–115		–199	
Financial result	**–14**		**–23**	
Result from associated companies	**0**		**0**	
Net income before taxes	**1'117**	**2.6**	**11'486**	**17.0**
Income taxes	–119		–1'986	
Net income	**998**	**2.3**	**9'500**	**14.1**
Basic earnings per share in CHF [A]	**0.80**		**7.61**	
Weighted average number of shares	**1'247'230**		**1'248'907**	

Consolidated Statements of Comprehensive Income

April–September
CHF thousand
(unaudited, condensed)

	2015	2016
Net income	**998**	**9'500**
Foreign exchange forwards		
Realized gains (losses) on foreign exchange forwards	–999	–698
attributable income taxes	190	130
Changes in fair value of foreign exchange forwards	–501	1
attributable income taxes	100	0
Items that will be reclassified subsequently to the income statement	**–1'210**	**–567**
Employee benefits		
Actuarial gains (losses)	–1'310	–1'048
attributable income taxes	244	195
Limitation of the asset ceiling in accordance with IAS 19.64	0	0
attributable income taxes	0	0
Interest on the effect of the asset ceiling	0	0
attributable income taxes	0	0
Items that will not be reclassified subsequently to the income statement	**–1'066**	**–853**
Other comprehensive income, net of taxes	**–2'276**	**–1'420**
Total comprehensive income	**–1'278**	**8'080**

Consolidated Balance Sheets

CHF thousand and %
(unaudited, condensed)

	31.03.2016	%	30.09.2016	%
Cash and cash equivalents	21'603		65'177	
Trade receivables	52'613		20'189	
Other receivables	2'973		2'389	
Inventories	45'292		47'094	
Current assets	**122'481**	**35.9**	**134'849**	**37.2**
Property, plant and equipment	194'392		204'370	
Intangible assets	682		583	
Investments in associated companies	1'262		1'262	
Pension surplus	22'343		21'496	
Non-current assets	**218'679**	**64.1**	**227'711**	**62.8**
Assets	**341'160**	**100.0**	**362'560**	**100.0**
Trade payables	4'970		6'223	
Income tax liabilities	242		580	
Other current liabilities	18'473		28'978	
Current liabilities	**23'685**	**6.9**	**35'781**	**9.9**
Deferred tax liabilities	25'839		26'534	
Non-current liabilities	**25'839**	**7.6**	**26'534**	**7.3**
Liabilities	**49'524**	**14.5**	**62'315**	**17.2**
Share capital	127		127	
Share premium	60'713		60'901	
Retained earnings	235'841		243'921	
Own shares	–5'045		–4'704	
Shareholders' equity	**291'636**	**85.5**	**300'245**	**82.8**
Shareholders' equity and liabilities	**341'160**	**100.0**	**362'560**	**100.0**

Consolidated Cash Flow Statements

April–September
CHF thousand
(unaudited, condensed)

	2015	2016
Net income	998	9'500
Income taxes	119	1'986
Financial result	14	23
Depreciation of property, plant and equipment	6'909	8'697
Amortization of intangible assets	90	146
Result from associated companies	0	0
Other non-cash income and expenses	1'163	814
Interest received	0	0
Interest paid	–5	–12
Income taxes paid	–7	–628
Changes in		
Trade receivables	3'388	32'685
Other receivables	–837	–827
Inventories	–8'791	–1'802
Trade payables	90	1'338
Other current liabilities	159	4'159
Cash flow from operating activities	**3'290**	**56'079**
Outflows of		
Property, plant and equipment	–6'380	–12'476
Intangible assets	–8	–37
Inflows of		
Property, plant and equipment	3	7
Intangible assets	0	0
Cash flow from investing activities	**–6'385**	**–12'506**
Dividends paid	0	0
Purchase of own shares	0	0
Disposal of own shares	0	0
Cash flow from financing activities	**0**	**0**
Currency translation effect on cash and cash equivalents	18	1
Net change in cash and cash equivalents	**–3'077**	**43'574**
Cash and cash equivalents at the beginning of the reporting period	29'075	21'603
Cash and cash equivalents at the end of the reporting period	**25'998**	**65'177**

Consolidated Statements of Changes in Equity

CHF thousand
(unaudited, condensed)

	Share capital	Share premium	Changes in fair value of foreign exchange forwards	Other retained earnings	Own shares	Shareholders' equity
Balance 01.04.2015	**127**	**60'706**	**2'476**	**228'827**	**–5'418**	**286'718**
Net income				**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**	**1'266**	**228'759**	**–5'045**	**285'820**
Balance 01.04.2016	**127**	**60'713**	**591**	**235'250**	**–5'045**	**291'636**
Net income				**9'500**		**9'500**
Foreign exchange forwards						
Realized gains (losses) on foreign exchange forwards			–698			–698
Changes in fair value of foreign exchange forwards			1			1
Employee benefits						
Actuarial gains (losses)				–1'048		–1'048
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			130	195		325
Other comprehensive income, net of taxes			**–567**	**–853**		**–1'420**
Total comprehensive income			**–567**	**8'647**		**8'080**
Changes in own shares		188			341	529
Balance 30.09.2016	**127**	**60'901**	**24**	**243'897**	**–4'704**	**300'245**

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. Property, plant and equipment, intangible assets, and investments in associated companies are located in Switzerland. 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	2015	2016
Pharma Products	37'325	58'788
Performance Chemicals	3'995	7'227
Recycling & Waste Treatment	1'911	1'562
Net sales	**43'231**	**67'577**

Net sales by regions:

CHF thousand/April–September	2015	2016
Switzerland	13'432	13'391
Northern Europe	10'989	36'457
Southern Europe and others	9'167	8'142
America	6'900	6'772
Asia	2'743	2'815
Net sales	**43'231**	**67'577**

Share of sales by customers:

CHF thousand/April–September	2015	2016
Customers with more than 10% of net sales[A]	20'679	33'546
Customers with less than 10% of net sales	22'552	34'031
Net sales	**43'231**	**67'577**

[A] Business half-year 2016/17: 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 17, 2016.

No significant events have occurred between September 30, 2016, and November 17, 2016, that would require an adjustment of the Group's carrying amounts of assets and liabilities.

At the end of October 2016, the foundation board of the pension plan of DOTTIKON ES Group decided to reduce the technical interest rate as well as the conversion rate as of January 1, 2017, due to altered return expectations in the capital market and continuously rising life expectancy. To guarantee similar future pensions to young employees, employer and employee savings contributions will be increased on equal terms at the same time. This decision will influence the result in the second business half year 2016/17 accordingly. The certified actuary has been assigned with performing detailed calculations of the effect of the changes in plan. At the date of approval of the Condensed Half-Year Report 2016/17 by the Board of Directors, the respective data are not yet available. No further events have occurred that would need to be disclosed under this heading.

Investor Relations

Issue Annual Report 2016/17
May 30, 2017

Annual General Meeting for the Business Year 2016/17
July 7, 2017

Issue Half-Year Report 2017/18
November 28, 2017

DOTTIKON ES HOLDING AG is listed at the SIX Swiss Exchange.
Symbol: DESN
Security number: 2073900
ISIN: CH0020739006

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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.

Dottikon ES Holding AG
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