2018/19 Condensed Half-Year Report

Your Specialist for Hazardous Reactions.

Content

This Half-Year Report 2018/19 in English includes only condensed financial information.
The comprehensive Half-Year Report 2018/19 is available in German.

Dear Shareholder,

Herewith we present to you DOTTIKON ES Group's Condensed Half-Year Report 2018/19 for the period from April 1 to September 30, 2018.

In the first half of the current business year, net sales stood at CHF 56.6 million, around 19 percent below the previous-year period's result. The production output – net sales plus inventory changes in semi-finished and finished goods – declined by 11 percent. This decline is the result of current market challenges: (i) geopolitical and economic uncertainties; (ii) intermittent scale-up of processes with limited experience due to accelerated market approval processes; and (iii) supply bottlenecks due to rigorous enforcement of environmental regulations and, subsequently, the temporary or permanent closure of Asian chemical producers. In the period under review, this resulted in increased sourcing complexity, the interruption of campaigns, and therefore production and delivery acceptance delays related to existing customer contracts.

The increase in inventory in semi-finished and finished goods, which was twice as high in the reporting period compared to the previous-year period, as well as the partially related more material-intense product mix led to an increase in material expenses by approximately 9 percent in the first half of the business year 2018/19. The number of staff rose by 6 percent compared to the previous-year period, while personnel expenses only increased by 3 percent or CHF 0.9 million. This resulted in an operating result before depreciation and amortization (EBITDA) of CHF 9.8 million, down approximately 51 percent from the previous year, with an EBITDA margin of 17.4 percent (previous year: 28.5 percent). The previously announced

KEY FIGURES, APRIL–SEPTEMBER

CHF million (unaudited)

[A] Restated, see "Changes in Corporate Accounting Principles", page 14

	2017[A]	2018	Changes
Net sales	70.1	56.6	–19.2%
EBITDA	19.9	9.8	–50.7%
EBITDA margin (in % of net sales)	28.5%	17.4%	
EBIT	11.4	2.4	–78.8%
EBIT margin (in % of net sales)	16.3%	4.3%	
Net income	9.6	2.0	–79.1%
Net income margin (in % of net sales)	13.6%	3.5%	
Cash flow from operating activities	39.0	24.8	–36.4%
Employees (FTEs, six-month average)	563	596	5.9%

major investments will be put into operation at the end of the second business half-year 2018/19 and therefore did not yet have an impact on depreciation in the current reporting period. In addition, depreciation on some plant components from previous years expired, which reduced depreciation and amortization by around CHF 1.1 million to CHF 7.4 million. The operating result (EBIT) stood at CHF 2.4 million, around 79 percent below the previous-year period. Together with the financial result and income taxes, net income was CHF 2.0 million (previous year: CHF 9.6 million) and the net income margin stood at 3.5 percent, clearly below the previous year's 13.6 percent. Cash flow from operating activities was CHF 24.8 million in the reporting period (previous year: CHF 39.0 million). In line with the quality management, development, and production capacity increase, cash outflows for investments in property, plant and equipment rose by around 45 percent compared to the previous-year period to CHF 22.2 million. At the end of the reporting period, cash and cash equivalents stood at CHF 56.9 million (end of business year 2017/18: CHF 54.6 million). The equity ratio was a solid 80.2 percent.

Due to the delayed net sales realization in the past first business half-year and despite the forecasted significantly stronger second business half-year, we expect lower net sales and net income for the full business year 2018/19 compared to the previous year. Our focus remains on stabilizing past successes, additional buildup and expansion efforts in infrastructure as well as development and manufacturing plants, and advance performances for the expected product-related medium-term growth.

Global economic growth continued to improve in the period under review. Given the brighter economic situation in industrialized nations, inflation rates move closer to their target ranges. Central banks mainly maintain their expansive policies. With additional interest rate hikes, the Federal Reserve has taken further steps toward normalization. While growth rates are generally expected to ease, the expansive monetary policies and the improved labor market situation continue to provide the economy with further impetus. Despite this, the economic risk continues to rise. High debt levels, low interest rates, and the rising, but still low raw material and energy prices clash with increasing geopolitical tension, which creates a dangerous combination. The demonstration and expansion of power in the new tripolar world order with a confrontational United States, subversive Russia, and ambivalent China give rise to regionalization and nationalization. As a result, unpredictability and uncertainty intensify. Values such as trust, reliability, and long-term consistency as well as cultural and regional proximity become increasingly important.

The demographic trend and the accelerated market approval for novel drugs, combined with inexpensive capital, are key innovation drivers. They ensure long-term pharma volume growth. Despite state-imposed efforts to curb health care costs, boost generics and biosimilars, and contain excessive drug price hikes, global pharma drug sales volumes are expected to grow by 6 to 7 percent annually over the next 5 years. For generics, which represent more than 90 percent of the pharma market volume, annual volume growth is expected at 3 percent, in proportion with the increase in the population of over 65-year-olds. In contrast, the pharma market share of innovative patent-protected drugs, which represent around 80 percent of pharma sales, is expected to grow at a more rapid pace of around 10 percent, primarily driven by the US, European, and Japanese markets.

Innovation is undiminished. In the first 9 months of this calendar year alone, the FDA has approved as many as 42 new drugs. Extrapolated for the entire year, this would amount to 56 new approvals and represent a new high since 1996. At more than 70 percent, small molecules continue to represent the lion's share of market approvals. The significant capital inflow in the biotech sector has increased the number of market approvals of drugs subject to accelerated market approval processes, which has further intensified competitive and pricing pressure and increasingly reduced the times to harvest profits to shorter periods than the patent lifetime. This reduces the return on invested capital.

The chemical industry that emerged along the main rivers in Asia has resulted in grave environmental pollution and health problems in densely populated downstream regions. Targeted government measures to enforce environmental constraints and further requirements as well as the elimination of local corruption will result in presumably non-compliant Asian producers being closed temporarily and reviewed, shut down or forced to relocate to compliant industrial parks. This results in temporary interruptions of the supply chain, with the respective impact on the supply security for chemical intermediates and end products.

Raw material and API production costs have risen and are set to increase even further on the back of tighter regulatory requirements and the repatriation of manufacturing steps to the West. As a result, available high-quality development and manufacturing capacities become increasingly scarce.

The main risks to the generally positive outlook for the pharma market are: (i) larger geopolitical escalation with acts of war; (ii) global financial crisis with fast interest rate hikes; (iii) disruptions in the API production supply chain due to the closure of Asian producers based on the enforcement of environmental regulation; (iv) intense competition and pricing pressure on the back of a vast number of market approvals in similar indication areas as well as state-imposed drug price regulation in the United States; and (v) the occurrence of adverse events with drugs subject to accelerated market approval due to insufficient drug safety tests. These risks would have an immediate adverse effect on short to medium-term demand for API development and production.

Yet regardless of the mentioned risks, the increased molecular complexity, higher regulatory requirements, changed mechanics in the supply chain, and the cutback in high-quality 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.

In this environment, 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 with the possibility for backward integration, while on the other hand having profound experience in the development and design of chemical processes and the production of APIs. In addition, pharmaceutical companies are interested in having a very limited number of interfaces and in cooperating closely with a selected group of strategic partners throughout all stages from development to market introduction and supply. This trend is set to accentuate further.

The corporate strategy of DOTTIKON ES – strategic development and manufacturing 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 thus strengthening our position as strategic development and manufacturing partner and performance leader.

The pharmaceutical market is and remains the main market with ongoing growth potential. In order to realize the expected product-related sales growth in the medium term, significant additional chemical development and API drying capacities are built and existing ones expanded. In addition, the planning for a new raw material, intermediates, and API warehouse and the engineering for new chemical multipurpose production capacities for APIs have been continued. The main objective is to create the option for capturing the longer-term growth potential. Against this background, investments will continue to rise and remain high in the current and the following years. Financing options remain in evaluation and will be considered if required.

Due to the delayed net sales realization in the past first business half-year and despite the forecasted significantly stronger second business half-year, we expect lower net sales and net income for the full business year 2018/19 compared to the previous year. Our focus remains on stabilizing past successes, additional buildup and expansion efforts in infrastructure as well as development and manufacturing plants, and advance performances for the expected product-related medium-term growth.

Dottikon, November 26, 2018

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] Restated, see "Changes in Corporate Accounting Principles", page 14

	2017[A]	%	2018	%
Net sales	**70'062**	**100.0**	**56'604**	**100.0**
Changes in semi-finished and finished goods	5'024		10'325	
Other operating income	1'889		2'339	
Material expenses	–15'887		–17'392	
Personnel expenses	–31'471		–32'405	
Other operating expenses	–9'671		–9'642	
Operating result before depreciation and amortization (EBITDA)	**19'946**	**28.5**	**9'829**	**17.4**
Depreciation and amortization	–8'550		–7'417	
Operating result (EBIT)	**11'396**	**16.3**	**2'412**	**4.3**
Financial income	452		468	
Financial expenses	–275		–560	
Financial result	**177**		**–92**	
Result from associated companies	**0**		**0**	
Net income before taxes	**11'573**	**16.5**	**2'320**	**4.1**
Income taxes	–2'013		–319	
Net income	**9'560**	**13.6**	**2'001**	**3.5**
Basic/diluted earnings per share in CHF	**7.65**		**1.60**	
Weighted average number of shares	**1'249'982**		**1'250'884**	

Consolidated Balance Sheets

CHF thousand and %
(unaudited, condensed)

[A] Restated, see "Changes in Corporate Accounting Principles", page 14

	31.03.2018[A]	%	30.09.2018	%
Cash and cash equivalents	54'581		56'942	
Current financial assets	0		0	
Trade receivables	53'933		24'026	
Other receivables	902		2'601	
Inventories	52'143		63'363	
Prepaid expenses and accrued income	763		1'711	
Current assets	**162'322**	**37.0**	**148'643**	**33.7**
Property, plant and equipment	231'476		248'121	
Intangible assets	512		433	
Investments in associated companies	1'232		1'232	
Pension surplus	42'835		42'835	
Non-current assets	**276'055**	**63.0**	**292'621**	**66.3**
Assets	**438'377**	**100.0**	**441'264**	**100.0**
Trade payables	10'061		11'577	
Income tax liabilities	1'962		2'570	
Other current liabilities	15'963		12'831	
Current provisions	500		150	
Accrued expenses and deferred income	21'769		23'345	
Current liabilities	**50'255**	**11.5**	**50'473**	**11.5**
Non-current provisions	4'985		5'322	
Deferred tax liabilities	31'662		31'365	
Non-current liabilities	**36'647**	**8.3**	**36'687**	**8.3**
Liabilities	**86'902**	**19.8**	**87'160**	**19.8**
Share capital	127		127	
Share premium	61'358		61'826	
Retained earnings	294'507		296'508	
Own shares	–4'517		–4'357	
Shareholders' equity	**351'475**	**80.2**	**354'104**	**80.2**
Shareholders' equity and liabilities	**438'377**	**100.0**	**441'264**	**100.0**

Consolidated Cash Flow Statements

April–September
CHF thousand
(unaudited, condensed)

[A] Restated, see "Changes in Corporate Accounting Principles", page 14

	2017[A]	2018
Net income	9'560	2'001
Income taxes	2'013	319
Financial result	–177	92
Depreciation of property, plant and equipment	8'450	7'338
Amortization of intangible assets	100	79
Result from associated companies	0	0
Other non-cash income and expenses	73	–24
Interest received	15	21
Interest paid	–14	–8
Income taxes paid	–8	–8
Changes in		
Trade receivables	18'897	29'938
Other receivables as well as prepaid expenses and accrued income	–1'252	–2'626
Inventories	–6'273	–11'220
Trade payables	2'596	959
Other current liabilities as well as accrued expenses and deferred income	5'158	–2'024
Provisions	–120	–13
Cash flow from operating activities	**39'018**	**24'824**
Outflows of		
Current financial assets	0	0
Property, plant and equipment	–15'277	–22'154
Intangible assets	–150	–238
Inflows of		
Current financial assets	3'000	0
Property, plant and equipment	0	0
Intangible assets	0	0
Cash flow from investing activities	**–12'427**	**–22'392**
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	217	–71
Net change in cash and cash equivalents	**26'808**	**2'361**
Cash and cash equivalents at the beginning of the reporting period	47'721	54'581
Cash and cash equivalents at the end of the reporting period	**74'529**	**56'942**

Consolidated Statements of Changes in Equity

CHF thousand
(unaudited, condensed)

[A] Restated, see "Changes in Corporate Accounting Principles", page 14

	Share capital	Share premium	Changes in fair value of foreign exchange forwards	Other retained earnings	Own shares	Shareholders' equity
Balance 01.04.2017 according to IFRS	**127**	**60'901**	**52**	**254'842**	**–4'704**	**311'218**
Adjustments Swiss GAAP FER[A]				13'794		13'794
Balance 01.04.2017 according to Swiss GAAP FER	**127**	**60'901**	**52**	**268'636**	**–4'704**	**325'012**
Net income				**9'560**		**9'560**
Changes of foreign exchange forwards			–68			–68
Income taxes on items recognized directly in equity			13			13
Dividends paid						0
Changes in own shares		458			198	656
Balance 30.09.2017 according to Swiss GAAP FER	**127**	**61'359**	**–3**	**278'196**	**–4'506**	**335'173**
Balance 01.04.2018 according to IFRS	**127**	**61'358**	**37**	**284'092**	**–4'517**	**341'097**
Adjustments Swiss GAAP FER[A]				10'378		10'378
Balance 01.04.2018 according to Swiss GAAP FER	**127**	**61'358**	**37**	**294'470**	**–4'517**	**351'475**
Net income				**2'001**		**2'001**
Changes of foreign exchange forwards						0
Income taxes on items recognized directly in equity						0
Dividends paid						0
Changes in own shares		468			160	628
Balance 30.09.2018 according to Swiss GAAP FER	**127**	**61'826**	**37**	**296'471**	**–4'357**	**354'104**

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

1 CHANGES IN CORPORATE ACCOUNTING PRINCIPLES

Change to Swiss GAAP FER

The Board of Directors of DOTTIKON ES HOLDING AG decided to change the accounting standard from IFRS to Swiss GAAP FER, effective from April 1, 2018. The company will start reporting under the new accounting standard beginning with its Half-Year Report 2018/19 (see media releases from July 7, 2017, and October 11, 2017).

The change of the accounting standard is due to a substantial increase in the scope of regulations within IFRS, especially "IFRS 15 – Revenue from Contracts with Customers", as formal requirements increasingly overrule economically reasonable behavior, which adversely affects the core operating business of DOTTIKON ES.

The corresponding application led to a material impact with regard to the Group Financial Statements, and the previous year's figures have been restated retrospectively as of April 1, 2017. The impacts due to the application of Swiss GAAP FER are explained separately below.

Employee benefits

In accordance with Swiss GAAP FER 16 "Pension Benefit Obligations", an economic obligation or a benefit from Swiss pension schemes is determined from the statements made on the basis of Swiss GAAP FER 26 "Accounting of Pension Plans". Employer contribution reserves are capitalized in accordance with Swiss GAAP FER 16. Under IFRS, defined benefit plans were calculated in accordance with the projected unit credit method and recognized in accordance with IAS 19.

Deferred taxes

The above-mentioned valuation and balance sheet adjustments have an impact on deferred income taxes in the balance sheet and income statement.

Presentation and structure

The presentation and structure of the income statement, balance sheet, cash flow statement, and statement of changes in equity were adjusted to meet the requirements of Swiss GAAP FER.

Among others, according to Swiss GAAP FER 4 "Cash Flow Statement", cash equivalents with a maturity of up to 90 days from the balance sheet date were allocated to cash and cash equivalents (effect of reclassification as of March 31, 2018: CHF 7'915 thousand; as of March 31, 2017: CHF 7'404 thousand).

The previous periods were restated in order to ensure comparability with the presentation of the period under review.

The implications of the above-mentioned adjustments for equity and the income statement of DOTTIKON ES Group are summarized in the following tables.

Adjustments equity:

CHF thousand	01.04.2017	30.09.2017	01.04.2018
Equity according to IFRS	**311'218**	**321'476**	**341'097**
Adjustment pension surplus	16'936	16'817	12'739
Adjustment deferred tax liabilities	–3'142	–3'120	–2'361
Equity according to Swiss GAAP FER	**325'012**	**335'173**	**351'475**

Adjustments net income:

CHF thousand/April–September	2017
Net income according to IFRS	**9'649**
Adjustment employee benefits	–109
Adjustment deferred income taxes	20
Net income according to Swiss GAAP FER	**9'560**

2 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 FER 31 "Complementary Recommendation for Listed Public Companies", the reportable operating segments are determined using the segment reporting to the top management level for corporate management. DOTTIKON ES Group's top management level 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 is prepared in a single segment. DOTTIKON ES Group allocates resources and assesses their performance on entity level.

Therefore, the required information according to Swiss GAAP FER 31.8 "Segment Reporting" is shown in the consolidated interim financial statements.

3 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The consolidated interim financial statements were approved for issue by the Board of Directors on November 26, 2018.

No significant events have occurred between September 30, 2018, and November 26, 2018, 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 2018/19
May 28, 2019

Annual General Meeting for the Business Year 2018/19
July 5, 2019

Issue Half-Year Report 2019/20
November 29, 2019

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 105 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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