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DOTTIKON ES with Lower Sales and Net Income

Dottikon, Switzerland, May 28, 2010 – SIX-listed DOTTIKON ES HOLDING AG closed its business year 2009/10 on March 31, 2010.

- Net sales fell by 24.7% from CHF 150.3 million to CHF 113.1 million compared with the previous year
  - Most of the reduction was a result of highly cyclical industrial chemicals, where net sales fell 84% year-on-year, whereas the announced elimination of redundant product lines also contributed to the decrease
  - The main business of pharmaceutical products proved more resilient, with a 7% reduction in net sales compared with the previous year
- As a systematic response, operating costs were reduced by 27% on a year-on-year basis. Personnel expenses were lowered by 9%, while material expenses were reduced by 51% as a result of destocking, the enhanced product mix, and lower commodity prices
- At CHF 12.6 million, net income was 45.2% lower compared with the previous year; most of this was due to the decline in net sales but also to the extraordinary effect of a divesture of property in the previous year
- As a result of efficient cash management and disciplined cost control, cash and cash equivalents rose 36.2% to CHF 41.4 million despite a continued high level of investment activity
- The Board of Directors of DOTTIKON ES HOLDING AG will propose to this year's Annual General Meeting that, in light of continued investment activity and in view of the need for working capital amid a return to growing demand, no dividend be paid, as in the previous year, and that the entire retained earnings are instead carried forward to new account
- Furthermore, the Board of Directors will propose that Dr Markus Blocher be elected to the Board of Directors of DOTTIKON ES HOLDING AG to replace Dr Robert Hofer, who is not putting himself forward for reelection for reasons of age

The recovery in the world economy, which was signaled by the positive development in leading indicators, appears to be taking hold. A continuation of the modest upward trend is evident, in particular due to the rise in demand for industrial chemicals. Significant risks remain for the international economic situation, however. Above all, the high rates of unemployment and challenging prospects for public finances are likely to weigh on consumer demand and therefore on the most important driver of the upturn.

The pharmaceuticals market has been experiencing its most profound period of transformation since the early 1990s. The increasing concentration of research and development spending on the late clinical phases of drug development is reflected in the sharply reduced number of new drug applications amid a simultaneous loss in share for the pharmaceutical majors. Only through in-licensing and the purchase of new candidate drugs in late clinical development stages, the major pharmaceutical companies have been able to expand their share again. By 2013, patent expiration will affect pharmaceutical sales of around USD 140 billion. Pressure on prices due to regulatory measures, and to lower the steady rise in health care costs as a result of demographic changes, is increasing sharply. Efficiency and innovation pressure on pharmaceutical firms has consequently risen substantially. The traditional pharmaceuticals model is now being transformed into the biotech

model, which has been significantly more successful in the more recent past. At the moment, however, pharmaceutical companies are giving top priority to streamlining and replenishing the project pipeline. The capacities freed up are being reduced or disposed of, as well as the costs of continuing projects are also being lowered. This means reducing current spending on internal research, development and production, as well as reducing the capital that is tied up. The resources freed up in this way are used by the pharmaceutical companies to access promising external projects in already advanced clinical phases. New financing and cooperation models are increasingly being used alongside the traditional methods – such as acquisition, in-licensing and participations –, where majority control of the assets and responsibility for development and marketing generally lie with the pharmaceutical firms. These models uncouple the use of internal resources and capacities from the financial investments and day-to-day operational control of the proprietary rights. We are consequently seeing acquisitions, cross-licensing and in-licensing, as well as an increasing number of option deals. In combination with the portfolio reviews, this is leading to a reduction in the number and volume of active projects in the overall market.
In light of reduced spending, the shift in development costs to later clinical stages, simultaneous efforts to reduce time-to-market, and consolidation of pharmaceutical pipelines are increasing the complexity, and therefore the financial risks involved in process development and exclusive synthesis of active pharmaceutical ingredients (APIs) for pharmaceutical companies. Reduced process experience as a consequence of an increasing number of interfaces and friction losses due to transfers will increasingly lead to scale-up-related quality problems and delay the approval process. The number of process- and quality-induced problems at the approval and launch stage will increase and need to be solved under time pressure. Proven experience, rapid adaptability, innovative process technology and reliability when it comes to quality and supply, are proving to be the key determinants of success in such an environment.

Albeit stunted at present due to current economic circumstances, the demand for high-quality, sophisticated exclusive synthesis under time pressure – in other words, demand for capacity for development of safe and stable chemical processes using hazardous reactions and high-volume capacity for multi-ton API production employing these processes in compliance with the highest safety standards and pharmaceutical quality – is set to increase inevitably again going forward. In the last business year, DOTTIKON ES therefore realigned its costs with the short-term reduction in net sales but at the same time forged ahead with expanding capacity. In medium-scale production, the installation of API separator capacity was expanded and brought on stream. In large-volume production, DOTTIKON ES expanded and brought on stream its corrosion-resistant glass-lined steel and Hastelloy multipurpose reactor, low-temperature, and API separator capacity. The next step will be to expand API drying capacity, work on which has begun alongside the qualitative and technical upgrading of existing multipurpose capacity – both for large volumes.
In the last business year, net sales fell by around 24.7 percent compared with the previous year to CHF 113.1 million. Most of the reduction was a result of highly cyclical industrial chemicals and the elimination of redundant product lines announced for the past business year. Pharmaceutical products proved more resilient. In a timely, systematic response, personnel expenses were reduced by 9 percent compared with the previous year. Material expenses halved as a result of the lower net sales, destocking, the enhanced product mix, and lower commodity prices. Thanks to disciplined cost control, other operating expenses were reduced by 28 percent compared with the previous

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year. Ongoing investment activity, and with it the capitalization of recently commissioned development and production capacity, correspondingly increased depreciation and amortization by 6 percent. As for the bottom line, net income was 45.2 percent lower compared with the previous year at CHF 12.6 million. This was also helped by a lower tax rate. Although margin erosion could not be prevented, it was nevertheless mitigated after taking into account the extraordinary effect in the previous year, which included the divesture of property.

In the business year 2010/11, DOTTIKON ES is continuing the strategy of performance leadership as specialist for hazardous reactions, building on one single production site and therefore flexibility, speed, and reliability. This is part of a differentiated performance leadership strategy where the number of internal interfaces is reduced in order to shorten decision and communication pathways resulting in fast and efficient project development and comprehensive and transparent communication with customers. By means of this strategy, DOTTIKON ES adds value for customers over the entire product life cycle by using hazardous reactions. DOTTIKON ES utilizes the environment of the safety culture created over the last 100 years to innovatively use hazardous reactions to question, tighten or shorten conventional chemical synthesis routes. This allows DOTTIKON ES to improve products' purity profiles and make new, potentially bioactive chemical structures commercially available for future active pharmaceutical ingredients.

In the current business year 2010/11, DOTTIKON ES will continue to invest in high-quality, technologically advanced capacity expansion and upgrading, despite a persistently difficult market environment. As the market difficulties have not yet been overcome, DOTTIKON ES expects net sales to be in line with the previous year.

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Key Figures DOTTIKON ES Group

CHF million	FY 2008/09*	FY 2009/10	Changes
Net sales	**150.3**	**113.1**	–24.7%
Changes in semi-finished and finished goods	–0.3	–9.2	
Other operating income	8.7	4.9	
Material expenses	–50.8	–24.8	
Personnel expenses	–48.4	–43.8	
Other operating expenses	–19.7	–14.1	
EBITDA	**39.8**	**26.1**	–34.5%
EBITDA margin (in % of net sales)	*26.5%*	*23.1%*	
Depreciation and amortization	–12.7	–13.6	
EBIT	**27.1**	**12.5**	–53.8%
EBIT margin (in % of net sales)	*18.0%*	*11.1%*	
Financial result	0.5	0.0	
Income taxes	–4.5	0.1	
Net income	**23.1**	**12.6**	–45.2%
Net income margin (in % of net sales)	*15.3%*	*11.2%*	
Basic earnings per share (in CHF)	**18.65**	**10.21**	–45.3%
Proposed dividend per share (in CHF)	–	–	
Cash flow from operating activities	**46.9**	**35.2**	–24.9%
Capital expenditure	–39.8	–24.2	
Free cash flow	**7.1**	**11.0**	+54.6%

*Restated; change in accounting policy regarding employee's defined benefit plans in accordance with IAS 19
FY 2008/09: business year from April 1, 2008, to March 31, 2009
FY 2009/10: business year from April 1, 2009, to March 31, 2010

DOTTIKON ES, with its production site in Dottikon (Aargau, Switzerland), is specialized in hazardous chemical reactions and focuses on the exclusive synthesis of fine chemicals for the pharmaceutical and chemical industry worldwide. The product range of DOTTIKON ES includes active pharmaceutical ingredients (APIs) and pharmaceutical intermediates as well as in-house-developed, high-value industrial chemicals.

DOTTIKON ES HOLDING AG is listed at the SIX Swiss Exchange.
Symbol: DESN
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