2014/15 Condensed Half-Year Report

Your Specialist for Hazardous Reactions.

Content

This Half-Year Report 2014/15 in English includes only condensed financial information.
The comprehensive Half-Year Report 2014/15 is available in German.

Dear Shareholder,

Herewith we present to you DOTTIKON ES Group's Condensed Half-Year Report 2014/15 for the period from April 1 to September 30, 2014.

In the first half of the current business year, net sales were nearly unchanged from the previous year, while the production output – net sales plus inventory changes in semi-finished and finished goods – increased. New projects were acquired and existing ones further developed. As a result, the operating profit before depreciation and amortization was higher than a year earlier. Net sales, however, were still low and resulted in a net loss, albeit a smaller one than in the previous year.

For the entire business year 2014/15, we expect to extend existing business and to broaden our customer, project, and product base through new project acquisitions.

Toward the end of the period under review, economic and geopolitical uncertainties intensified. Economic growth in the core eurozone is weaker than expected, while emerging economies mostly lack momentum. The USA looks set to provide further positive impulses, but economic growth in Europe is likely to remain muted. The tentative recovery of the global economy remains fragile in the wake of a potential further escalation of geopolitical tension that could at any moment take a further toll on corporate and consumer confidence. The eurozone's biggest challenges remain fiscal consolidation, the implementation of growth-promoting

KEY FIGURES, APRIL–SEPTEMBER

CHF million (unaudited)

[A] Reporting period 2014/15: relative change to absolute amount

	2013	2014	Changes
Net sales	39.2	39.1	–0.1%
EBITDA	1.0	2.8	174.9%
EBITDA margin (in % of net sales)	2.6%	7.2%	
EBIT[A]	–5.9	–4.3	27.2%
EBIT margin (in % of net sales)	–15.2%	–11.0%	
Net income (net loss)[A]	–4.5	–3.2	29.9%
Net income (net loss) margin (in % of net sales)	–11.5%	–8.1%	
Operating cash flow	7.6	17.6	131.3%
Employees (FTEs, six-month average)	438	450	2.7%

reforms, and measures to stabilize the financial system. With the globalization trend swinging back and the subsequent focus on regionalization amid intensified regional conflicts and crises with a global reach, values such as trust, reliability, and sustainability – along with cultural and geographical proximity – become increasingly important. In this process, the USA and Europe will come closer together, both politically and economically.

For many large-size companies, the growth potential based on economy of scales, specialization, and the consolidation of value chains is exhausted. Ongoing cost-saving efforts that involve the outsourcing and reduction of research, development, and production have ultimately resulted in a negligence of product innovation. Mergers, acquisitions, and swaps of entire business segments were used with the objective to secure monopoly premiums. But this value generation potential has reached its limits in many places as well. The resulting stagnation will increasingly force companies to return to the traditional long-term perspective of research and development and cause them to no longer view the respective expenditures as mere costs, but rather as investments in future product innovation.

The pharmaceutical market is characterized by the effects of patent expiries, government-imposed reductions of health care costs and drug prices as well as the promotion of generics. At the same time, quality requirements and their consistent enforcement keep rising. Following a defensive phase marked by significant slumps in sales and a delay of new product developments in an effort to defend profit margins, the first pharmaceutical companies are now offensively turning the wheel around: They actively increase the number of new products and accelerate their respective development and market launches. They return to inlicensing, acquisitions, and swaps. Even the delay of an own project in favor of a joined pursuit of a competitor's project is no longer frowned upon as a means to secure a unique selling proposition and the respective profit if the project is crowned by success. In the industrialized nations, pressure to reduce health care costs will persist, if not intensify, over the coming years. In light of the latest price excesses in the area of orphan drugs for the treatment of rare diseases, even in the USA, the most important pharmaceutical market, an introduction of governmental drug price regulations can no longer be ruled out, despite the fact that the government and the pharmaceutical industry agreed not to opt for such regulation amid Obamacare.

As a consequence, the increasingly limited health care budgets will only channel funds to effective and innovative drugs and therapies that provide a convincing, fact-based cost-benefit ratio.

In response, pharmaceutical companies are stepping up their efforts to develop innovative products and ambitiously aim at halving their time to market. In order to keep production costs low and reach the required high quality levels, they are interested in fast routefinding and subsequent process development of chemical synthesis routes, as both areas have been neglected in the preclinical phase. The timely availability of active pharmaceutical ingredients (APIs) in sufficient quantity and quality becomes a critical success factor in order to be able to meet the aggressive timelines for clinical tests. Given that many pharmaceutical companies have drastically reduced their chemical development capacity and that many of them or their providers face difficulties with regulatory authorities for non-compliance with the cGMP quality guidelines, such production steps are increasingly outsourced to reliable, trustworthy, and established development and production partners that are able to deliver the desired quality.

Consequently, 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 all the way to validation and stability assessments. On the one hand, the partners should provide cutting-edge development and production infrastructure, an impeccable quality track record, and a broad technology platform, while on the other hand offer profound experience in the development of chemical processes and the

production of APIs. As the new, considerably shorter time targets in the API development no longer allow for time-consuming knowledge and process transfer from one supplier to another between two clinical phases, pharmaceutical companies are interested in reducing the interfaces and aim at working with a reduced number of strategic partners throughout the full cycle from development up to market introduction.
The framework conditions set out above reinforce the need for trustworthy business partners that offer cultural and regional proximity and are innovative, reliable, and fast when it comes to implementation.

In the first half of the current business year, net sales remained nearly unchanged at CHF 39.1 million. The production output – net sales plus inventory changes in semi-finished and finished goods – increased by 3 percent. The improved product mix with higher added value resulted in an operating profit before depreciation and amortization of CHF 2.8 million, up 175 percent compared to a year earlier, despite higher personnel expenses due to an increase in the number of employees as well as higher other operating expenses. Net sales were still low and resulted, together with slightly higher depreciation and amortization, in a net loss of CHF 3.2 million. However, the net loss was 30 percent smaller than in the previous year. Thanks to a continuation of investments below the level of depreciation and amortization and despite a cash outflow of CHF 6.1 million related to a reduction of the nominal value, the cash level remained at a comfortable CHF 40 million, with a solid equity ratio of 86 percent.

In the current pharmaceutical environment described above, DOTTIKON ES remains well positioned. The corporate strategy – strategic partner and specialist for hazardous reactions – is therefore 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.
The pharmaceutical market is and remains the main market in which the growth in net sales – the main driver for reaching profitability – will be achieved. We continue to focus on safety, reliability, high flexibility, and speed and are positioned as strategic development and manufacturing partner and performance leader. Capacities in chemical process development were expanded by another 20 percent in summer 2014. In addition, we plan to increase our strategic share in SYSTAG, System Technik AG, Rüschlikon, the technology leader in automated lab reactor systems, thermal process safety, and automation, from 33.9 percent to 47.1 percent.

For the full business year 2014/15, we expect to extend existing business and to broaden our customer, project, and product base through new project acquisitions.

Dottikon, November 19, 2014

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

	2013	%	2014	%
Net sales	**39'187**	**100.0**	**39'140**	**100.0**
Changes in semi-finished and finished goods	44		1'269	
Other operating income	1'532		1'548	
Material expenses	–10'282		–8'704	
Personnel expenses	–22'820		–23'217	
Other operating expenses	–6'630		–7'202	
EBITDA	**1'031**	**2.6**	**2'834**	**7.2**
Depreciation and amortization	–6'969		–7'156	
EBIT	**–5'938**	**–15.2**	**–4'322**	**–11.0**
Financial income	250		90	
Financial expenses	–74		–22	
Financial result	**176**		**68**	
Result from associated companies	**0**		**0**	
Net income (net loss) before taxes	**–5'762**	**–14.7**	**–4'254**	**–10.9**
Income taxes	1'253		1'092	
Net income (net loss)	**–4'509**	**–11.5**	**–3'162**	**–8.1**
Basic earnings (loss) per share in CHF [A]	**–3.62**		**–2.54**	
Weighted average number of shares	**1'244'208**		**1'245'401**	

Consolidated Statements of Comprehensive Income

April–September
CHF thousand
(unaudited, condensed)

	2013	2014
Net income (net loss)	**–4'509**	**–3'162**
Foreign exchange forwards		
Realized gains (losses) on foreign exchange forwards	22	23
attributable income taxes	–4	–4
Changes in fair value of foreign exchange forwards	–157	330
attributable income taxes	30	–62
Items that will be reclassified subsequently to the income statement	**–109**	**287**
Employee benefits		
Actuarial gains (losses)	115	–5'470
attributable income taxes	–21	1'006
Limitation of the asset ceiling in accordance with IAS 19.64	–701	4'816
attributable income taxes	129	–886
Interest on the effect of the asset ceiling	140	128
attributable income taxes	–26	–23
Items that will not be reclassified subsequently to the income statement	**–364**	**–429**
Other comprehensive income, net of taxes	**–473**	**–142**
Total comprehensive income	**–4'982**	**–3'304**

Consolidated Balance Sheets

CHF thousand and %
(unaudited, condensed)

	31.03.2014	%	30.09.2014	%
Intangible assets	772		741	
Property, plant and equipment	200'029		198'267	
Investments in associated companies	670		670	
Pension surplus	33'367		33'367	
Non-current assets	**234'838**	**70.9**	**233'045**	**71.0**
Inventories	37'288		40'062	
Trade receivables	23'677		12'585	
Other receivables	1'352		1'999	
Current financial assets	0		0	
Cash and cash equivalents	33'945		40'688	
Current assets	**96'262**	**29.1**	**95'334**	**29.0**
Assets	**331'100**	**100.0**	**328'379**	**100.0**
Share capital	6'363		127	
Share premium	60'544		60'704	
Own shares	–5'714		–5'419	
Retained earnings	229'826		226'522	
Shareholders' equity	**291'019**	**87.9**	**281'934**	**85.9**
Deferred tax liabilities	25'836		24'464	
Non-current liabilities	**25'836**	**7.8**	**24'464**	**7.4**
Trade payables	2'869		3'777	
Income tax liabilities	557		798	
Other current liabilities	10'819		17'406	
Current liabilities	**14'245**	**4.3**	**21'981**	**6.7**
Liabilities	**40'081**	**12.1**	**46'445**	**14.1**
Shareholders' equity and liabilities	**331'100**	**100.0**	**328'379**	**100.0**

Consolidated Cash Flow Statements

April–September
CHF thousand
(unaudited, condensed)

	2013	2014
Net income (net loss)	–4'509	–3'162
Income taxes	–1'253	–1'092
Financial result	–176	–68
Depreciation of property, plant and equipment	6'879	7'073
Amortization of intangible assets	90	83
Result from associated companies	0	0
Other non-cash income and expenses	17	–244
Interest received	21	5
Interest paid	–5	–5
Income taxes paid	–9	–10
Changes in		
Trade receivables	8'582	11'029
Other receivables	–450	–328
Inventories	–1'261	–2'774
Trade payables	–965	499
Other current liabilities	643	6'585
Cash flow from operating activities	**7'604**	**17'591**
Outflows of		
Intangible assets	–120	–32
Property, plant and equipment	–2'809	–4'736
Current financial assets	0	0
Inflows of		
Intangible assets	0	0
Property, plant and equipment	10	0
Current financial assets	10'000	0
Cash flow from investing activities	**7'081**	**–4'768**
Dividends paid	–4'978	0
Reduction of share capital by reduction of the nominal value	0	–6'104
Purchase of own shares	0	0
Disposal of own shares	0	0
Cash flow from financing activities	**–4'978**	**–6'104**
Currency translation effect on cash and cash equivalents	–16	24
Net change in cash and cash equivalents	**9'691**	**6'743**
Cash and cash equivalents at the beginning of the reporting period	26'275	33'945
Cash and cash equivalents at the end of the reporting period	**35'966**	**40'688**

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 01.04.2013	**6'363**	**60'550**	**–5'992**	**–18**	**237'720**	**298'623**
Net income (net loss)					**–4'509**	**–4'509**
Foreign exchange forwards						
Realized gains (losses) on foreign exchange forwards				22		22
Changes in fair value of foreign exchange forwards				–157		–157
Employee benefits						
Actuarial gains (losses)					115	115
Limitation of the asset ceiling in accordance with IAS 19.64					–701	–701
Interest on the effect of the asset ceiling					140	140
Income taxes on other comprehensive income				26	82	108
Other comprehensive income, net of taxes				**–109**	**–364**	**–473**
Total comprehensive income				**–109**	**–4'873**	**–4'982**
Dividends paid					–4'978	–4'978
Changes in own shares		–5	348			343
Balance 30.09.2013	**6'363**	**60'545**	**–5'644**	**–127**	**227'869**	**289'006**
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**

Notes to the Group Financial Statements (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 at the 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	2013	2014
Pharma Products	29'904	31'025
Performance Chemicals	7'090	5'973
Recycling & Waste Treatment	2'193	2'142
Net sales	**39'187**	**39'140**

Net sales by regions:

CHF thousand/April–September	2013	2014
Switzerland	15'586	16'677
Northern Europe	12'727	14'366
Southern Europe and others	904	115
America	9'414	7'150
Asia	556	832
Net sales	**39'187**	**39'140**

Share of sales by customers:

CHF thousand/April–September	2013	2014
Customers with more than 10% of net sales[A]	22'638	25'038
Customers with less than 10% of net sales	16'549	14'102
Net sales	**39'187**	**39'140**

[A] Reporting period 2014/15: three customers with more than 10% of net sales (same period of the previous year: three customers)

2 EVENTS AFTER THE BALANCE SHEET DATE

The consolidated interim financial statements were approved for issue by the Board of Directors on November 19, 2014. No events have occurred between September 30, 2014, and November 19, 2014, 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 2014/15
May 29, 2015

Annual General Meeting for the Business Year 2014/15
July 3, 2015

Issue Half-Year Report 2015/16
November 27, 2015

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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