2017/18 Condensed Half-Year Report

Your Specialist for Hazardous Reactions.

Content

This Half-Year Report 2017/18 in English includes only condensed financial information.
The comprehensive Half-Year Report 2017/18 is available in German.

Dear Shareholder,

Herewith we present to you DOTTIKON ES Group's Condensed Half-Year Report 2017/18 for the period from April 1 to September 30, 2017.
In the first half of the current business year, net sales were 4 percent higher than in the previous year. The production output – net sales plus inventory changes in semi-finished and finished goods – rose by 9 percent. The increase was driven by the pharma sector and reflects ongoing strength in demand. Due to growth-related advance performances, material and personnel expenses as well as other operating expenses rose disproportionately. As a result, at CHF 20.1 million, EBITDA was slightly below the previous year's figure, and the EBITDA margin was 28.6 percent (previous year: 30.1 percent). Due to slightly lower depreciation and amortization compared to the previous-year period, EBIT remained at the previous year's level of CHF 11.5 million. In combination with the financial result, net income rose slightly to CHF 9.6 million (previous year: CHF 9.5 million), while the net income margin of 13.8 percent remained below the previous year's 14.1 percent. Cash flow from operating activities stood at CHF 39.0 million in the reporting period. Cash flow for investing activities in property, plant and equipment rose by 22 percent compared to the previous year to CHF 15.3 million related to chemical multipurpose pharma production capacities that were expanded and put into operation. Despite this, cash and cash equivalents and fixed deposits rose from CHF 50.7 million to CHF 74.5 million. The equity ratio stands at a solid 80.9 percent.

KEY FIGURES, APRIL–SEPTEMBER

CHF million (unaudited)	2016	2017	Changes
Net sales	67.6	70.1	3.7%
EBITDA	20.4	20.1	–1.5%
EBITDA margin (in % of net sales)	30.1%	28.6%	
EBIT	11.5	11.5	0%
EBIT margin (in % of net sales)	17.0%	16.4%	
Net income	9.5	9.6	1.6%
Net income margin (in % of net sales)	14.1%	13.8%	
Operating cash flow	56.1	39.0	–30.4%
Employees (FTEs, six-month average)	536	563	5.0%

For the full business year 2017/18, we anticipate a further increase in net sales and net income against the background of ongoing demand from the pharma market as well as the further development and expansion of our project pipeline.

Global economic growth continued to improve in the period under review. Still, despite the brighter economic situation, inflation rates in industrialized nations largely remain low. Central banks on the whole maintain their expansive policies, even though the Federal Reserve has made an initial, modest step toward normalization by phasing out the purchase of securities. Despite this, the economic risk continues to rise. High government debt, low interest rates and the still low raw material and energy prices currently clash with increasing geopolitical tension, which creates a dangerous combination. Given the fickle unpredictability of the United States under their new president, options for the United States to counter Russia's demonstration of military might and expansion of power in the west as well as China's state-imposed forward integration and its hegemonic claim to power through the Belt and Road Initiative remain limited. The absence of profound reforms in Europe gives rise to shifts in the balance of political power and to secessionist tendencies. Potentates around the globe exploit this changing, multipolar environment marked by short-term power vacuums to strengthen their position by means of provocation or the creation of autocratic structures. This fosters ongoing regionalization and growing uncertainty. Amid this environment, values such as trust, reliability, and consistency – along with cultural and geographical proximity – continue to gain importance.

The demographic trend and the accelerated market approval for novel drugs, combined with inexpensive capital, are key innovation drivers and guarantee further long-term volume growth in the pharmaceutical market. Despite state-imposed efforts to curb health care costs, promote 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 five years. More than 30 percent of this growth will be attributable to drugs for the treatment of rare diseases. For oncology, the largest therapeutic area, the market expects annual sales growth rates of 13 percent. In the coming few years, the sales share of the more cost-intensive biotechnological APIs in the 100 top-selling drugs worldwide will surpass the 50 percent mark for the first time, while the number of small molecules will continue to represent a large majority. In the overall market, small molecules still clearly dominate, with a sales share of 70 percent. Pharma companies' research and development expenses worldwide are set to remain at a high level of clearly more than 15 percent of prescription drug sales. F&E spending in the pharma industry as a whole is expected to grow around 3 percent annually over the coming five years. Following a dip with just 27 new drug approvals in the United States in 2016, the market expects more than 50 drug approvals this year.

Risks to this positive development are: (i) the currently not yet expected introduction of strict price regulation in the United States, the largest drug sales market with a market share of more than 40 percent; (ii) swift interest rate hikes that would abruptly reduce investor capital inflow that has been strong over the last few years; and (iii) the occurrence of adverse events associated with novel drugs after fast-track market approvals and inadequate drug safety tests, which would potentially result in new cost-intensive and time-consuming regulatory approval requirements.

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 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 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 in the coming years.

In the first half of the current business year, net sales were 4 percent higher than in the previous year. The production output – net sales plus inventory changes in semi-finished and finished goods – rose by 9 percent. The increase was driven by the pharma sector and reflects ongoing strength in demand. Due to growth-related advance performances and investment in the build-up of qualified personnel as well as inventory and capacity expansion, material (up 20 percent) and personnel expenses (up 8 percent with an increase in the workforce of 5 percent) rose disproportionately. In addition, at 14 percent, the increase in other operating expenses was clearly higher than in the previous year due to higher maintenance costs related to higher plant capacity utilization and larger equipment infrastructure as well as aperiodic plant revisions. As a result, at CHF 20.1 million, EBITDA was slightly below the previous year's figure, and the EBITDA margin was 28.6 percent (previous year: 30.1 percent). Due to slightly lower depreciation and amortization compared to the previous-year period, EBIT remained at the previous year's level of CHF 11.5 million. In combination with the financial result, net income rose slightly to CHF 9.6 million (previous year: 9.5 million), while the net income margin stood at 13.8 percent, slightly below the previous year's 14.1 percent. Cash flow from operating activities was CHF 39.0 million in the reporting period, down CHF 17.1 million, mainly due to a significant overhang reduction in trade receivables in the previous year. Cash flow for investing activities in property, plant and equipment rose by 22 percent compared to the previous year to CHF 15.3 million related to chemical multipurpose pharma production capacities that were expanded and put into operation. Despite this, cash and cash equivalents and fixed deposits rose from CHF 50.7 million to CHF 74.5 million. The equity ratio stands at a solid 80.9 percent.

The corporate strategy of DOTTIKON ES – 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 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. This is visible in rising demand for our existing and new development capacities and production plants. In order to realize the expected sales growth in the medium term, significant additional chemical development and API drying capacities are built and existing ones expanded. Further, the planning for a new raw material, intermediates, and API warehouse as well as the engineering for a new chemical multipurpose API production plant are driven forward. Against this background, investments will continue to rise in the current and the following years. Respective external financing options are in evaluation.

For the full business year 2017/18, we anticipate a further increase in net sales and net income against the background of ongoing demand from the pharma market as well as the further development and expansion of our project pipeline.

Dottikon, November 23, 2017

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)

	2016	%	2017	%
Net sales	**67'577**	**100.0**	**70'062**	**100.0**
Changes in semi-finished and finished goods	1'508		5'024	
Other operating income	1'936		1'889	
Material expenses	–13'189		–15'887	
Personnel expenses	–29'012		–31'362	
Other operating expenses	–8'468		–9'671	
EBITDA	**20'352**	**30.1**	**20'055**	**28.6**
Depreciation and amortization	–8'843		–8'550	
EBIT	**11'509**	**17.0**	**11'505**	**16.4**
Financial income	176		452	
Financial expenses	–199		–275	
Financial result	**–23**		**177**	
Result from associated companies	**0**		**0**	
Net income before taxes	**11'486**	**17.0**	**11'682**	**16.7**
Income taxes	–1'986		–2'033	
Net income	**9'500**	**14.1**	**9'649**	**13.8**
Basic/diluted earnings per share in CHF	**7.61**		**7.72**	
Weighted average number of shares	**1'248'907**		**1'249'982**	

Consolidated Statements of Comprehensive Income

April–September
CHF thousand
(unaudited, condensed)

	2016	2017
Net income	**9'500**	**9'649**
Foreign exchange forwards		
Realized gains (losses) on foreign exchange forwards	–698	–60
attributable income taxes	130	11
Changes in fair value of foreign exchange forwards	1	–8
attributable income taxes	0	2
Items that will be reclassified subsequently to the income statement	**–567**	**–55**
Employee benefits		
Actuarial gains (losses)	–1'048	10
attributable income taxes	195	–2
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	**–853**	**8**
Other comprehensive income, net of taxes	**–1'420**	**–47**
Total comprehensive income	**8'080**	**9'602**

Consolidated Balance Sheets

CHF thousand and %
(unaudited, condensed)

	31.03.2017	%	30.09.2017	%
Cash and cash equivalents	40'317		65'624	
Current financial assets	10'404		8'905	
Trade receivables	43'084		24'237	
Income tax receivables	3'977		1'375	
Other receivables	2'344		3'538	
Inventories	45'448		51'721	
Current assets	**145'574**	**38.3**	**155'400**	**39.1**
Property, plant and equipment	207'517		214'617	
Intangible assets	514		568	
Investments in associated companies	1'224		1'224	
Pension surplus	25'684		25'803	
Non-current assets	**234'939**	**61.7**	**242'212**	**60.9**
Assets	**380'513**	**100.0**	**397'612**	**100.0**
Trade payables	5'462		9'466	
Income tax liabilities	0		0	
Other current liabilities	29'227		32'772	
Current provisions	5'605		500	
Current liabilities	**40'294**	**10.6**	**42'738**	**10.7**
Non-current provisions	0		4'985	
Deferred tax liabilities	29'001		28'413	
Non-current liabilities	**29'001**	**7.6**	**33'398**	**8.4**
Liabilities	**69'295**	**18.2**	**76'136**	**19.1**
Share capital	127		127	
Share premium	60'901		61'359	
Retained earnings	254'894		264'496	
Own shares	–4'704		–4'506	
Shareholders' equity	**311'218**	**81.8**	**321'476**	**80.9**
Shareholders' equity and liabilities	**380'513**	**100.0**	**397'612**	**100.0**

Consolidated Cash Flow Statements

April–September
CHF thousand
(unaudited, condensed)

	2016	2017
Net income	9'500	9'649
Income taxes	1'986	2'033
Financial result	23	–177
Depreciation of property, plant and equipment	8'697	8'450
Amortization of intangible assets	146	100
Result from associated companies	0	0
Other non-cash income and expenses	814	–25
Interest received	0	15
Interest paid	–12	–14
Income taxes paid	–628	–8
Changes in		
Trade receivables	32'685	18'897
Other receivables	–827	–1'252
Inventories	–1'802	–6'273
Trade payables	1'338	2'596
Other current liabilities	4'159	5'158
Provisions	0	–120
Cash flow from operating activities	**56'079**	**39'029**
Outflows of		
Current financial assets	0	–8'702
Property, plant and equipment	–12'476	–15'277
Intangible assets	–37	–150
Inflows of		
Current financial assets	0	10'190
Property, plant and equipment	7	0
Intangible assets	0	0
Cash flow from investing activities	**–12'506**	**–13'939**
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	1	217
Net change in cash and cash equivalents	**43'574**	**25'307**
Cash and cash equivalents at the beginning of the reporting period	21'603	40'317
Cash and cash equivalents at the end of the reporting period	**65'177**	**65'624**

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 01.04.2016	**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**
Dividends paid						0
Changes in own shares		188			341	529
Balance 30.09.2016	**127**	**60'901**	**24**	**243'897**	**–4'704**	**300'245**
Balance 01.04.2017	**127**	**60'901**	**52**	**254'842**	**–4'704**	**311'218**
Net income				**9'649**		**9'649**
Foreign exchange forwards						
Realized gains (losses) on foreign exchange forwards			–60			–60
Changes in fair value of foreign exchange forwards			–8			–8
Employee benefits						
Actuarial gains (losses)				10		10
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			13	–2		11
Other comprehensive income, net of taxes			**–55**	**8**		**–47**
Total comprehensive income			**–55**	**9'657**		**9'602**
Dividends paid						0
Changes in own shares		458			198	656
Balance 30.09.2017	**127**	**61'359**	**–3**	**264'499**	**–4'506**	**321'476**

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	2016	2017
Pharma Products	58'788	63'400
Performance Chemicals	7'227	5'666
Recycling & Waste Treatment	1'562	996
Net sales	**67'577**	**70'062**

Net sales by regions:

CHF thousand/April–September	2016	2017
Switzerland	13'391	13'390
Northern Europe	36'457	42'615
Southern Europe and others	8'142	89
America	6'772	10'883
Asia	2'815	3'085
Net sales	**67'577**	**70'062**

Share of sales by customers:

CHF thousand/April–September	2016	2017
Customers with more than 10% of net sales[A]	33'546	36'354
Customers with less than 10% of net sales	34'031	33'708
Net sales	**67'577**	**70'062**

[A] Business half-year 2017/18: 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 23, 2017.

No significant events have occurred between September 30, 2017, and November 23, 2017, 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 2017/18
May 31, 2018

Annual General Meeting for the Business Year 2017/18
July 6, 2018

Issue Half-Year Report 2018/19
November 27, 2018

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