Half-Year Report 2018

Think Asia. Think DKSH.

Contents

Key figures

Interim consolidated income statement				At CER[1]
in CHF millions	January – June 2018	January – June 2017	Change in %	Change in %
Net sales	5,671.1	5,278.7	7.4	4.3
Operating profit (EBIT)	139.5	138.8	0.5	(3.0)
Profit after tax	97.5	93.3	4.5	0.4
EBIT margin (in %)	2.5	2.6	-	-

Interim consolidated statement of financial position		
in CHF millions	June 30, 2018	December 31, 2017
Total assets	4,710.2	4,645.0
Equity attributable to the shareholders of the Group	1,560.5	1,576.4
Net operating capital (NOC)	1,264.7	1,234.1
Net cash	304.2	344.2
Return on net operating capital (RONOC) (in %)	22.1	25.0
Return on equity (ROE) (in %)	12.2	13.1

Earnings per share		
in CHF	January – June 2018	January – June 2017
Basic earnings per share	1.47	1.40
Diluted earnings per share	1.47	1.40

Other		
	June 30, 2018	December 31, 2017
Specialists	32,045	31,973

[1] Constant exchange rates: 2018 figures converted at 2017 exchange rates (CER).

Interim consolidated income statement (unaudited)

in CHF millions [1]	January – June 2018	January – June 2017
Net sales	5,671.1	5,278.7
Other income	16.3	19.4
Goods and materials purchased and consumables used	(4,888.7)	(4,545.8)
Employee benefit expenses	(334.5)	(315.7)
Depreciation, amortization and impairments	(19.6)	(19.1)
Other operating expenses	(306.3)	(278.9)
Share of profit of associates and joint ventures	1.2	0.2
Operating profit (EBIT)	**139.5**	**138.8**
Financial income	1.3	0.8
Financial expense	(5.0)	(8.5)
Profit before tax	**135.8**	**131.1**
Income tax expenses	(38.3)	(37.8)
Profit after tax	**97.5**	**93.3**
Attributable to		
Shareholders of the Group	95.4	90.9
Non-controlling interest	2.1	2.4
Earnings per share for profit attributable to the shareholders of the Group		
Basic earnings per share	1.47	1.40
Diluted earnings per share	1.47	1.40

[1] Except for earnings per share (in CHF).

Interim consolidated statement of comprehensive income (unaudited)

in CHF millions	January – June 2018	January – June 2017
Profit after tax	**97.5**	**93.3**
Other comprehensive income		
Net investment hedges, net of tax of CHF 0.0 million in current and prior period	(2.0)	1.2
Currency translation differences	1.5	(26.9)
Items that may be reclassified to profit or loss	**(0.5)**	**(25.7)**
Remeasurement gains on defined benefit plans, net of tax of CHF 0.0 million in current period and CHF 0.4 million in prior period	0.1	1.4
Net gains/(losses) on financial assets at fair value through other comprehensive income	(0.2)	0.3
Items that will not be reclassified to profit or loss	**(0.1)**	**1.7**
Other comprehensive income	**(0.6)**	**(24.0)**
Total comprehensive income	**96.9**	**69.3**
Attributable to		
Shareholders of the Group	91.9	68.7
Non-controlling interest	5.0	0.6

Interim consolidated statement of financial position (unaudited)

in CHF millions	June 30, 2018	December 31, 2017
Cash and cash equivalents	442.4	443.1
Trade receivables	2,224.0	2,206.4
Inventories	1,177.1	1,108.5
Prepaid expenses	55.9	60.8
Other receivables	365.3	384.2
Current income tax receivables	17.3	15.1
Current assets	**4,282.0**	**4,218.1**
Intangible assets	138.5	142.2
Other receivables	2.8	3.4
Property, plant and equipment	142.7	137.9
Financial assets	55.3	55.4
Investments in associates and joint ventures	41.0	40.6
Retirement benefit assets	7.9	8.0
Deferred tax assets	40.0	39.4
Non-current assets	**428.2**	**426.9**
Total assets	**4,710.2**	**4,645.0**
Borrowings	85.7	76.4
Trade payables	2,459.7	2,370.5
Current income tax liabilities	24.3	26.0
Other payables and accrued expenses	415.7	467.5
Current provisions	2.0	2.1
Current liabilities	**2,987.4**	**2,942.5**
Borrowings	52.5	22.5
Other non-current liabilities	0.3	0.3
Deferred tax liabilities	12.4	12.7
Non-current provisions	3.8	4.6
Retirement benefit obligations	29.6	28.7
Non-current liabilities	**98.6**	**68.8**
Total liabilities	**3,086.0**	**3,011.3**
Share capital	6.5	6.5
Reserves and retained earnings	1,554.0	1,569.9
Equity attributable to the shareholders of the Group	**1,560.5**	**1,576.4**
Non-controlling interest	**63.7**	**57.3**
Total equity	**1,624.2**	**1,633.7**
Total equity and liabilities	**4,710.2**	**4,645.0**

Interim consolidated statement of changes in equity (unaudited)

in CHF millions	Share capital	Currency translation	Other reserves	Retained earnings	Total equity attributable to shareholders of the Group	Non-controlling interest	Total equity
As of January 1, 2018	**6.5**	**(163.6)**	**234.2**	**1,499.3**	**1,576.4**	**57.3**	**1,633.7**
Profit after tax	-	-	-	95.4	95.4	2.1	97.5
Other comprehensive income	-	(3.4)	-	(0.1)	(3.5)	2.9	(0.6)
Total comprehensive income	**-**	**(3.4)**	**-**	**95.3**	**91.9**	**5.0**	**96.9**
Change in ownership	-	-	-	-	-	1.4	1.4
Treasury shares[1]	-	-	-	(1.0)	(1.0)	-	(1.0)
Share-based payment transactions	-	-	-	0.5	0.5	-	0.5
Dividend	-	-	-	(107.3)	(107.3)	-	(107.3)
As of June 30, 2018	**6.5**	**(167.0)**	**234.2**	**1,486.8**	**1,560.5**	**63.7**	**1,624.2**

in CHF millions							
As of January 1, 2017	**6.5**	**(181.7)**	**234.2**	**1,582.8**	**1,641.8**	**35.9**	**1,677.7**
Profit after tax	-	-	-	90.9	90.9	2.4	93.3
Other comprehensive income	-	(23.9)	-	1.7	(22.2)	(1.8)	(24.0)
Total comprehensive income	**-**	**(23.9)**	**-**	**92.6**	**68.7**	**0.6**	**69.3**
Share-based payment transactions	-	-	-	0.7	0.7	-	0.7
Increase of non-controlling interest	-	-	-	-	-	0.7	0.7
Dividend	-	-	-	(292.7)	(292.7)	(1.7)	(294.4)
As of June 30, 2017	**6.5**	**(205.6)**	**234.2**	**1,383.4**	**1,418.5**	**35.5**	**1,454.0**

[1] For treasury share transactions please see note 5.

Interim consolidated cash flow statement (unaudited)

in CHF millions	January – June 2018	January – June 2017
Profit before tax	**135.8**	**131.1**
Non-cash adjustments		
Depreciation, amortization and impairments on		
Property, plant and equipment	16.0	15.5
Intangible assets	3.6	3.6
Share-based payment transaction expense	0.5	0.7
Gain on sale of tangible assets, intangible assets	-	(7.0)
Financial income	(1.3)	(0.8)
Financial expense	5.0	8.5
Share of profit of associates and joint ventures	(1.2)	(0.2)
Change in provisions and other non-current liabilities	0.2	0.6
Change in other non-current assets	0.7	(1.9)
Working capital adjustments		
Decrease in trade and other receivables and prepayments	3.3	21.1
Increase in inventories	(66.0)	(60.7)
Increase in trade and other payables	31.1	8.5
Interest received	1.3	0.8
Interest paid	(3.5)	(3.0)
Taxes paid	(43.7)	(49.3)
Dividend received from associates and joint ventures	1.1	0.5
Net cash flows from operating activities	**82.9**	**68.0**
Proceeds from sale of property, plant and equipment	1.4	8.7
Purchase of property, plant and equipment	(12.2)	(10.3)
Proceeds from sale of intangible assets	-	0.2
Purchase of intangible assets	(1.1)	(1.0)
Proceeds from sale and repayment of financial assets	2.1	0.8
Acquisition of subsidiary net of cash	(1.1)	(6.1)
Net cash flows used in investing activities	**(10.9)**	**(7.7)**

in CHF millions	January – June 2018	January – June 2017
Proceeds from current and non-current borrowings	465.0	67.8
Repayment of current and non-current borrowings	(426.3)	(68.1)
Capital increase by non-controlling interest	-	0.7
Dividend paid	(107.3)	(292.7)
Dividend paid to non-controlling interest	-	(1.7)
Payments relating to net investment hedges	(1.1)	(0.9)
Purchase of treasury shares	(1.0)	-
Net cash flows used in financing activities	**(70.7)**	**(294.9)**
Cash and cash equivalents, as of January 1	**443.1**	**611.3**
Effect of exchange rate changes	(2.0)	(6.1)
Net decrease in cash and cash equivalents	1.3	(234.6)
Cash and cash equivalents, as of June 30	**442.4**	**370.6**

Notes to the interim consolidated financial statements

1. General information

DKSH ("the Group") is a Market Expansion Services Group with a focus on Asia. DKSH helps other companies and brands to grow their business in new or existing markets.

The Group offers any combination of sourcing, marketing, sales, distribution and after-sales services. It provides business partners with expertise as well as on-the-ground logistics based on a comprehensive network of unique size and depth.

Business activities are organized into four specialized Business Units that mirror the Group's fields of expertise: Consumer Goods, Healthcare, Performance Materials and Technology.

DKSH Holding Ltd. is the parent company of DKSH Group. Since March 20, 2012 DKSH Holding Ltd.'s shares are listed on the SIX Swiss Exchange. The address of its registered office is Wiesenstrasse 8, 8008 Zurich, Switzerland.

These interim consolidated financial statements include the consolidated financial statements of the Group and its subsidiaries as of June 30, 2018. They were approved by the Board of Directors on July 12, 2018.

2. Basis of preparation and accounting policies

Basis of preparation
The interim consolidated financial statements for the six months ended June 30, 2018 are prepared in accordance with IAS 34. These interim consolidated statements do not include all of the information and disclosures required for the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS.

Accounting policies
The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2017, except for the adoption of new standards and amendments effective as of January 1, 2018 as described below. Other amendments to standards and interpretations that also became effective on January 1, 2018 have no impact on the interim consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has applied IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" for the first time in these interim financial statements.

New and amended standards and interpretations adopted
IFRS 9 "Financial Instruments": The Group implemented IFRS 9 Financial Instruments, which replaces IAS 39, as of January 1, 2018. Comparative information has not been restated and follows the classification and measurement guidance in IAS 39.

IFRS 9 introduces new rules for classification and measurement, in particular for financial assets, for impairment of financial assets, and for hedge accounting. The Group's financial assets principally consist of trade and other receivables, cash and some other financial assets that continue to be measured at amortized cost as they are held to collect contractual cash flows.

Financial assets and liabilities at fair value through profit and loss include derivatives and those investments in equity securities that the Group has not irrevocably elected to classify as at fair value through OCI (FVOCI).

Investments in equity securities with a carrying amount of CHF 34.4 million previously classified as available-for-sale financial assets continue to be measured at fair value and have been reclassified as follows to the new categories at January 1, 2018:

• CHF 3.8 million to equity instruments at fair value through OCI (FVOCI), with no recycling of gains or losses to profit or loss on derecognition. This relates mainly to investments in listed companies that the Group intends to hold for the foreseeable future.

• CHF 30.6 million, representing the investment in aCommerce, to financial assets at fair value through profit or loss.

The new standard requires impairments on receivables and loans not held at fair value through profit and loss to be based on a forward-looking expected credit loss (ECL) model. ECLs are the difference between the contractual cash flows due in accordance with the terms of the contract and the cash flows the Group expects to receive. For trade and other receivables the Group has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. Due to the secured nature of the Group's receivables the application of the ECL model has had no material impact on the loss allowance and therefore no adjustment to retained earnings at January 1, 2018 was required.

The adoption of the IFRS 9 hedge accounting guidance prospectively from January 1, 2018 has no significant impact on the Group's financial statements.

IFRS 15 "Revenue from Contracts with Customers": the Group implemented IFRS 15 as of January 1, 2018 with the modified retrospective application. IFRS 15 supersedes all current revenue recognition requirements under IFRS and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized when control over goods or services is passed to the customer either at a point in time or over time at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The adoption of IFRS 15 did not significantly change the timing or amount of revenue recognized by the Group.

The Group's updated accounting policies, effective from January 1, 2018, upon adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenues from Contracts with Customers" are as follows:

Financial assets

Financial assets at fair value through profit or loss include financial assets for short term purposes, derivative financial instruments and other equity securities not irrevocably designated as at fair value through OCI on initial recognition. Such instruments are initially recognized at fair value on the date on which they are acquired and are subsequently measured at fair value. Unrealized and realized gains and losses relating to securities held for short-term purpose, derivative assets and other equity securities held for strategic purpose are recognized in the consolidated income statement. Derivative assets are included in other receivables, and derivative liabilities are included in other payables and accrued expenses in the statement of financial position as they are generally expected to be realized within twelve months of the financial reporting date.

Equity securities are designated at date of acquisition on an instrument-by-instrument basis as financial assets at fair value through other comprehensive income with no subsequent recycling though profit and loss. Unrealized gains and losses for these instruments are recorded in the statement of comprehensive income. They are reclassified to retained earnings when the equity security is sold. If these equity securities are not designated at date of acquisition as financial assets at fair value through other comprehensive income, they are classified as at fair value through profit and loss.

Trade and other receivables are measured at amortized cost, which reflects the net present value less any allowances for uncollectable amounts. Impairments relating to this type of financial assets are based on the expected credit loss model and are included in depreciation, amortization and impairments in the consolidated income statement.

Trade receivables are carried at original invoice, including any related sales tax less adjustments for estimated revenue deductions such as rebates, charge backs and cash discounts, less provision for doubtful trade receivables. The provision is based on a forward looking expected credit loss model. The Group applies the simplified approach and records lifetime expected losses on all trade receivables. These provisions represent the difference between the trade receivable's carrying amount in the consolidated balance sheet and the estimated net collectible amounts. Charges for doubtful trade receivables are recorded as selling cost as part of other operating expense. Trade receivables are written off against the provision account when there is an official announcement of liquidation or bankruptcy confirming that the receivable will not be collected.

Revenue recognition
The Group's sales are generated from the distribution of healthcare products and consumer goods, trading of technology and performance material products and from rendering of services. Revenue is recognized when a contractual promise to a customer has been fulfilled by transferring control over the promised goods or services, principally at the time of shipment to or receipt of the products by the customer, or over time when the services are performed. The Group's contractual promises generally represent one performance obligation. However, if a contract includes more than one performance obligation, the consideration is allocated based on the standalone selling prices of the individual performance obligations. The amount of revenue recognized is based on the expected consideration in exchange for the goods and services, taking into account contractually defined terms (e.g. trade discounts, cash discounts and volume rebates) and excluding taxes or duty.

The Group's Technology segment may sell equipment and related installation services Under IFRS 15 the two deliverables are considered separate performance obligations since the installation services do not significantly modify or customize the equipment. Revenue is recognized based on the satisfaction of each of the performance obligations in the contract.

In the Business Units Consumer Goods and Healthcare, the Group enters into contracts with its suppliers for the distribution of products. Under these contracts, the Group might also provide procurement, marketing, sales, warehousing, logistics and collection services. The Group assesses on a contract-by-contract basis whether it is acting as a principal or agent. In some cases, the Group might not be considered the party primarily responsible for fulfilling the promise to the customer to provide the products, and/or might not have inventory risk before or after the specified equipment has been transferred to the customer and/or might not have discretion in establishing the price for the specified equipment. For arrangements where these features indicate that the Group is the principal, revenue is measured at the fair value of the consideration received or receivable from the customer. In cases where the Group is not acting as a principal, only the margin on sale, the fees or commissions earned are recorded in net sales.

3. Segment information

Identification of reportable segments

For management purposes, the Group is organized into Business Units based on their products and services and has four reportable segments as described in the Group's annual financial statements 2017.

No operating segments have been aggregated to form the reportable operating segments.

An individual segment manager is determined for each operating segment and the results are regularly reviewed by the Board of Directors. The Board of Directors monitors the operating results of its Business Units separately for the purpose of making decisions about resource allocation and performance assessment.

Management assesses the performance of the operating segments based on EBIT. This measure excludes gains/losses on financial instruments and interest income and expenditure that are not allocated to segments, as this type of activity is driven by the central treasury function.

Operating segments

January – June 2018

in CHF millions	Consumer Goods	Healthcare	Performance Materials	Technology	Others	Eliminations	Group Total
Net sales	**1,920.7**	**3,082.9**	**475.7**	**192.1**	**-**	**(0.3)**	**5,671.1**
EBIT	**34.1**	**79.7**	**39.7**	**8.7**	**(22.7)**	**-**	**139.5**
Net finance costs							(3.7)
Profit before tax							**135.8**

January – June 2017

in CHF millions	Consumer Goods	Healthcare	Performance Materials	Technology	Others	Eliminations	Group Total
Net sales	**1,755.1**	**2,888.4**	**449.6**	**185.9**	**-**	**(0.3)**	**5,278.7**
EBIT	**45.5**	**76.0**	**37.4**	**5.7**	**(25.8)**	**-**	**138.8**
Net finance costs							(7.7)
Profit before tax							**131.1**

4. Acquisitions

New acquisitions
Effective June 29, 2018, the Group purchased the assets of the beverage business of Davies Foods in New Zealand. The provisional fair values of identifiable assets relate to receivables of CHF 0.1 million, inventories of CHF 0.7 million, intangible assets of CHF 0.2 million and fixed assets of CHF 0.2 million.

Prior year acquisitions
During the first six months of 2017, the Group acquired shares in the following companies:

Effective January 23, 2017, the Group purchased 100% of the shares of EUROP Continents S.A.R.L, a privately held company based in Cambodia. EUROP Continents S.A.R.L is a distributor of medical devices, in vitro diagnostic and laboratory products with activities in Cambodia.

Effective March 24, 2017, the Group purchased 99% of the shares of Innovative Marketing Actions (IMA), a privately held company based in Vietnam. IMA provides specialized services for brand activation solutions, in-store and outdoor promotions as well as product consulting and event management in Vietnam.

Company	Country of incorporation	Legal ownership	Effective date	Consolidation method	Employees
EUROP Continents S.A.R.L	Cambodia	100%	January 23, 2017	Full	96
Innovative Marketing Actions (IMA)	Vietnam	99%	March 24, 2017	Full	67

As per acquisition date the Group recorded a contingent consideration liability of CHF 1.2 million, which was released in the first six months of 2018 since the Group concluded no payment will be applicable as the earn-out conditions will not be achieved.

5. Equity

There were no changes in share capital during the first six months of 2018 and 2017.

During the first six months of 2018, DKSH Holding purchased 12,000 treasury shares for CHF 1.0 million. The Group used 7,800 treasury shares for vested share based payment awards during the first six months of 2018.

An ordinary dividend of CHF 1.65 per registered share was paid during the 2018 interim period. Total dividend payments amounted to CHF 107.3 million. In 2017, a dividend of CHF 1.50 per registered share and a CHF 3.00 special dividend per registered share was paid, resulting in total dividend payments of CHF 292.7 million.

6. Financial instruments

Details of the carrying amounts and fair values of financial instruments by category and hierarchy levels are as follows:

in CHF millions[2]	Level[1]	June 30, 2018	December 31, 2017
Financial assets at fair value through profit and loss			
Derivative assets[5]	2	3.6	3.7
Investments[5]	3	30.8	30.4
Total		**34.4**	**34.1**
Financial assets at fair value through other comprehensive income			
Other equity securities	1	3.8	3.7
Total		**3.8**	**3.7**
Financial assets at amortized cost			
Cash and cash equivalents		442.4	443.1
Trade receivables		2,224.0	2,206.4
Other receivabels[3]		319.4	338.0
Deposits to third party		18.3	18.4
Loans to third party		2.2	2.6
Total		**3,006.3**	**3,008.5**
Total financial assets		**3,044.5**	**3,046.3**
Financial liablities at fair value through profit and loss			
Contingent consideration liabilities	3	1.0	1.2
Derivatives	2	4.3	5.2
Total		**5.3**	**6.4**
Financial liabilities at amortized cost			
Borrowings		138.2	98.9
Other non-current liablities		0.3	0.3
Trade payables		2,459.7	2,370.5
Other payables and accrued expenses[4]		151.5	131.0
Total		**2,749.7**	**2,600.7**
Total financial liabilities		**2,755.0**	**2,607.1**

1 Level 1: The fair value is based on quoted prices in active markets
Level 2: The fair value is based on observable market data, other than quoted prices
Level 3: The fair value is based on valuation techniques using non-observable data
2 Carrying amounts are equivalent to fair values for all financial assets and liabilities.
3 Excluding VAT and other tax receivables and derivative assets.
4 Excluding accrued expenses, VAT and other tax payables, derivative liabilities and contingent consideration liabilities.
5 Financial assets available for sale as of December 31, 2017 reclassified to financial assets at fair value through profit and loss as of January 1, 2018.

7. Events after the reporting period

On July 10, 2018, the Group has signed an agreement to dispose its healthcare activities in China. The business generated annual net sales of more than CHF 300 million and the purchase price is approximately CHF 100 million. Closing of the transaction is expected for the second half-year 2018 and is subject to certain conditions and regulatory approvals.

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