150 YEARS OF MARKET EXPANSION SERVICES

DKSH

Letter to shareholders

Adrian T. Keller, Chairman, and Dr. Joerg Wolle, President & CEO, DKSH Group

Dear Shareholders,

Being the leading Market Expansion Services provider with a focus on Asia, DKSH, despite a challenging business environment, continued to grow in 2014 at constant exchange rates. All Business Units contributed to this performance.

We are well aware that for you, dear shareholders, the performance of DKSH in Swiss francs is of high importance. Against the backdrop of foreign exchange rate depreciations of more than 4% at Group level, however, we are also presenting our 2014 results at constant exchange rates. They emphasize DKSH's continued growth in the local markets and its competitive strength. Moreover, the focus on constant exchange rates ensures comparability of the results between 2013 and 2014.

In line with our corporate strategy, the focus in 2014 was on enhancing organic growth through expanding business with existing clients, multiplying success stories from country to country and new business development. In addition, we further strengthened our business with two bolt-on acquisitions in Macao as well as Spain and Portugal.

Net sales grew by 7.1% at constant exchange rates to CHF 10.2 billion. Organic growth was 6.4%, while just 0.7 percentage points of net sales growth resulted from M&A activities. The depreciation of Asian currencies negatively impacted net sales by 4.4%. Reported in Swiss francs, net sales accordingly increased by 2.7% to CHF 9.8 billion.

Despite the more challenging than expected market conditions in Thailand, operating profit before interest and taxes (EBIT) increased by 0.7% to CHF 284.1 million at constant exchange rates. Reported in Swiss francs, EBIT amounted to CHF 272.7 million. The economic implications of the challenging political situation in Thailand were more profound and enduring than expected, which led to lower demand for higher-margin luxury and lifestyle products as well as consumer goods and resulted in reduced industrial investments. The further depreciation of the Japanese yen, the political unrest in Hong Kong and the reduced demand for luxury products in China impacted business additionally.

Profit after tax reached CHF 201.3 million at constant exchange rates. Reported in Swiss francs, profit after tax was CHF 195.5 million.

Free Cash Flow in 2014 amounted to CHF 188.4 million, thereby almost reaching last year's figure of CHF 191.8 million. As announced along with the half-year 2014 results and to increase capital market transparency and comparability, the Free Cash Flow definition has been changed.

Against the backdrop of DKSH's resilient business model as well as favorable outlook, the Board of Directors, in our 150th anniversary year, decided to increase the long-term dividend payout range from 25–35% to 30–50% of profit after tax.

In line with the progressive dividend policy practiced since many years, the Board of Directors will propose to the Annual General Meeting (AGM) in March 2015 an ordinary dividend of CHF 1.15 per share for the financial year 2014. The ordinary dividend thereby would be 21% higher than last year and represent a payout ratio of 38.9%.

Payment date for this dividend, if approved by the AGM, is set to start as of April 8, 2015 (record date: April 7, 2015; ex-dividend date: April 2, 2015). Dividends will be paid from reserves of capital contributions and thus be tax-exempt for Swiss-domiciled private shareholders.

DKSH completed two bolt-on acquisitions in 2014. With the takeover of Glory, an established healthcare distributor in Macao, we not only added a direct presence in that market for the Business Unit Healthcare, but also reinforced our position as the leading Market Expansion Services provider for pharmaceuticals, consumer health and medical devices companies in the Greater China region.

With the acquisition of Zeus Química, a top-ranking specialty chemicals distributor in Spain and Portugal in June, we considerably strengthened our market position in Europe, while we complemented our market leadership in Asia. Zeus Química offers a full range of specialty products for the polymers, paints and coatings, personal care, food and pharmaceutical sectors. Notably, the company has been able to increase net sales and profitability continuously during the years of financial crisis on the Iberian Peninsula. Through the incorporation of Zeus Química into the DKSH platform, our existing partners and clients can now also take advantage of our service portfolio on the Iberian Peninsula.

With both acquisitions, DKSH confirms its position as the industry consolidator in the fast-growing but still highly fragmented Market Expansion Services industry.

Formed in 2002 through the merger of long-established Swiss trading houses Diethelm Keller Services Asia and SiberHegner, DKSH has transitioned from a traditional trading company into the leader in the recently established Market Expansion Services industry.

Following the IPO in 2012 and the increased visibility that comes with being a listed company, awareness of DKSH among manufacturers and clients has increased yet again, as has our standing in the market for new talents.

In 2014, DKSH continuously invested in the skills and development of its employees. At year-end 2014, DKSH employed 27,550 specialists worldwide, representing an increase of 857 people or 3.2% compared to 2013.

Our well diversified Board of Directors has been further strengthened. In 2014, David Kamenetzky, who is currently responsible for Corporate Affairs and Strategic Initiatives on the Executive Board of Mars, Incorporated, joined the Board. His in-depth understanding of the global consumer goods markets, coupled with his outstanding professional career, make him a perfect fit for our company.

The growth prospects in our markets and Business Units remain promising. With our highly diversified and scalable business model, DKSH is ideally positioned to benefit from the growing middle classes, rising inner-Asian trade and increased outsourcing to specialist services providers like DKSH.

For 2015, DKSH expects a continued dynamic net sales growth and double-digit EBIT growth at constant exchange rates.

Looking into 2016, DKSH continues to project net sales of around CHF 12 billion at constant exchange rates (compound annual growth rate of 8% between 2013 and 2016). For the same period, DKSH anticipates an operating profit (EBIT) of around CHF 380 million at constant exchange rates (compound annual growth rate of 10% between 2013 and 2016) which should translate into profit after tax of some CHF 270 million at constant exchange rates.

We look forward to celebrate our 150th anniversary together with you in 2015 and thank you for your continued trust in our company.

Sincerely yours,

Adrian T. Keller
Chairman

Dr. Joerg Wolle
President & CEO

Key figures

Consolidated income statement	At constant exchange rates[1]				
in CHF millions	2014	Change in %	2014	Change in %	2013
Net sales	10,240.7	7.1	9,818.2	2.7	9,559.0
Operating profit (EBIT)[2]	284.1	0.7	272.7	(3.4)	282.2
Operating profit including gain from sale of property	284.1	(8.3)	272.7	(12.0)	309.8
Profit after tax[2]	201.3	(6.0)	195.5	(8.7)	214.1
Profit after tax including gain from sale of property	201.3	(16.7)	195.5	(19.1)	241.7
EBIT margin (in %)[2]	2.8	–	2.8	–	3.0

Consolidated statement of financial position

in CHF millions	December 31, 2014	December 31, 2013	Change in %
Total assets	3,991.1	3,386.6	17.8
Equity attributable to the shareholders of the Group	1,449.0	1,277.2	13.5
Net operating capital (NOC)	1,174.3	1,078.6	8.9
Net cash	292.5	214.4	36.4
Return on net operating capital (RONOC) (in %)[2]	24.2	25.8	
Return on equity (ROE) (in %)[2]	13.3	15.7	

Earnings per share

in CHF	2014	2013	Change in %
Basic earnings per share	2.96	3.57	(17.1)
Diluted earnings per share	2.96	3.53	(16.1)

Other

	December 31, 2014	December 31, 2013	Change in %
Specialists	27,550	26,693	3.2

[1] Constant exchange rates: 2014 figures converted at 2013 exchange rates
[2] Excl. income of CHF 27.6 million from sale of property in Malaysia in 2013

Publisher
DKSH Holding Ltd.
Wiesenstrasse 8
P.O. Box 888
8034 Zurich
Switzerland
Phone +41 44 386 7272
Fax +41 44 386 7282

Investor and Media Relations
Till Leisner
investors@dksh.com
Phone +41 44 386 7272

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