

2017 in Focus

**KUEHNE+NAGEL**



## Key Figures

| <i>in CHF million</i> | <i>2017</i>  | <i>Variance</i> |
|-----------------------|--|-----------------|
| <b>22,220</b>         | Turnover   | + 11.2%         |
| <b>18,594</b>         | Net turnover                                       | + 12.5%         |
| <b>7,023</b>          | Gross profit                                       | + 7.2%          |
| <b>1,150</b>          | EBITDA   | + 3.6%          |
| <b>937</b>            | EBIT   | + 2.1%          |
| <b>13.3%</b>          | EBIT in per cent of gross profit (conversion rate) |                 |
| <b>740</b>            | Earnings for the year                              | + 2.8%          |
| <b>1,148</b>          | Operational cash flow                              |                 |
| <b>238</b>            | Investments  |                 |
| <b>64%</b>            | Return on Capital Employed                         |                 |
| <b>CHF 6.16</b>       | Earnings per share (basic)                         |                 |
| <b>CHF 5.75</b>       | Dividend per share *                               |                 |
| <b>27</b>             | New locations                                      |                 |
| <b>5</b>              | New companies                                      |                 |
| <b>4</b>              | Acquisitions                                       |                 |
| <b>75,876</b>         | Employees  |                 |

\* Proposal to the Annual General Meeting on May 8, 2018

# Global Network



Group at a glance



109

*countries worldwide*



1,336

*locations worldwide*



75,876

*employees worldwide*

Allocation by region

Number of locations by region



# Kuehne + Nagel Business Units



Employees by region



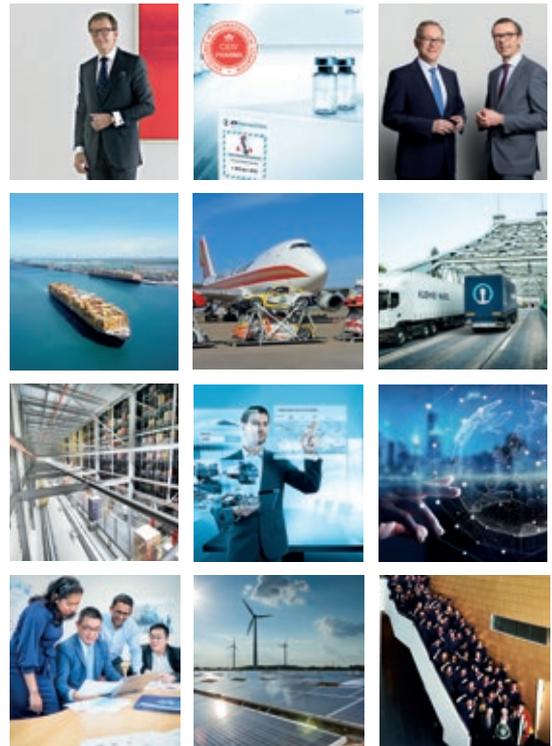
EBIT by region

in CHF million



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Dr. Jörg Wölle  
*Chairman of the Board of Directors*

## Ladies and Gentlemen, dear Shareholders

2017 was a successful year for the Kuehne + Nagel Group, new market shares were gained across all business units. The continued strong performance cannot be taken for granted in a demanding and rapidly changing market environment. The strong increase in volume achieved in 2017 in combination with high levels of operational efficiency led to improved results. Group EBIT increased by 2.1 per cent to CHF 937 million compared with the previous year and earnings for the year by 2.8 per cent to CHF 740 million. The results confirm the strategic decision to adopt an integrated business model. Difficult market conditions in one business unit can be compensated by increased profitability in the other divisions.

For more than 125 years, Kuehne + Nagel has been building up tight logistics networks, from which the company and its customers are now benefitting more than ever. The Group differentiates itself by agility and competence in global market penetration. Its customer proximity allows continuously expanding and optimising the service portfolio to meet current and future requirements.

We expect the rate of change in the markets and industries to further increase. New technologies and algorithms will disrupt traditional market mechanisms and generate new business models and new competitors. Digitalisation is the key driver behind a far-reaching transformation in the entire global economy.

Kuehne + Nagel will considerably contribute in shaping this transformation. In addition to its proven and effective IT solutions and initiatives in the fields of big data and predictive analytics, the decision in early 2018 to form a joint venture together with Temasek, the Singapore state-owned investment company, in order to invest in technology start-ups, is yet another important step towards this goal. Kuehne + Nagel is using innovative technologies to extend its activities across its customers' supply chains and to support the design of more efficient processes. By finding smart ways to combine its comprehensive logistics competence with continuity and innovation, the company will realise its full potential, eliminate weak spots and gain market share.

But besides its digital competence, the company needs highly qualified employees to manage goods flows and address potential interface problems. Kuehne + Nagel is firmly anchored in over 100 countries at more than 1,300 locations with approximately 76,000 employees. On behalf of the Board of Directors, I would like to express my sincere thanks to all of them for their outstanding contribution to the company's success.

The Board of Directors shares the confidence of the Group's management team that the implementation of the new and ambitious strategic programme will provide important impulses for a successful further development of the Kuehne + Nagel Group. The focus remains on organic growth, at the same time, Kuehne + Nagel is also considering acquisitions to strengthen its market position in selected regions and growth segments.

Ladies and gentlemen, dear shareholders, the good performance in 2017 demonstrates that your investment in the company is paying off. Thank you for your confidence in Kuehne + Nagel. We hope that you will stay with us on our journey!

Yours sincerely,  
Dr. Jörg Wolle  
Chairman of the Board of Directors

#### Kuehne + Nagel Board of Directors



*From top left to bottom right:*

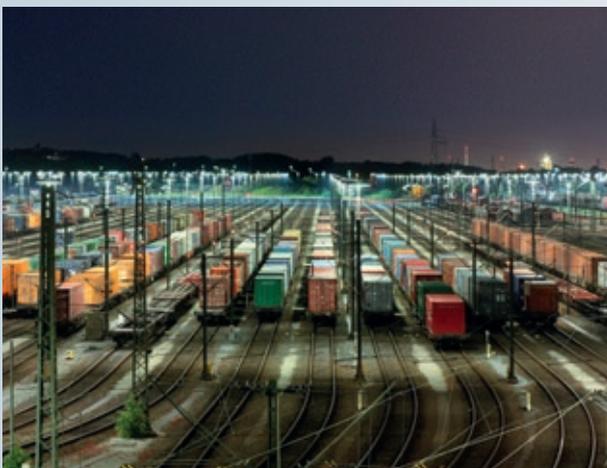
Klaus-Michael Kühne, Honorary Chairman  
Karl Gernandt, Vice Chairman  
Dr. Renato Fassbind  
Jürgen Fitschen  
Hans Lerch  
Dr. Thomas Staehelin  
Hauke Stars  
Dr. Martin C. Wittig

## Highlights 2017



### 01 — 2017 **IATA CEIV Pharma certification for KN PharmaChain air network**

Kuehne + Nagel is setting new standards in pharma and healthcare logistics. The company was the first in the logistics industry to be given International Air Transport Association (IATA) certification for its entire pharma air network. IATA's stamp of approval confirms the high standards of the KN PharmaChain solution. Customers expect GxP conformity, digital and seamless control systems as well as maximum transparency. With KN PharmaChain Kuehne + Nagel can fulfil these expectations across the world.



### 02 — 2017 **KN Eurasia Express rail service connects Asia and Europe**

Trans-Eurasian rail transport has developed into an attractive alternative to seafreight and airfreight. Delivery times are shorter compared to maritime transport at lower costs compared to airfreight. With KN Eurasia Express, Kuehne + Nagel now provides own LCL shipments on these routes. Due to its high safety standards and fully transparent shipment status information, the service is of particular interest to customers from the automotive, high-tech and fashion industries.



#### 04 ——— 2017 **Global logistics services agreed with Alibaba.com**

E-commerce is one of the most important drivers of growth in logistics. Alibaba.com platform customers have been able to instantly obtain quotations, book pickup and destination delivery services for airfreight and LCL shipments via Kuehne + Nagel's digital platform KN FreightNet since 2016. In future, the strategic cooperation agreement with the e-commerce leader will be extended to all modes of transport and contract logistics outside China.



#### 06 ——— 2017 **Kuehne + Nagel discloses CO<sub>2</sub> emissions on seafreight invoices**

Analysis, reporting and management of CO<sub>2</sub> emissions from shipments is increasingly important for many sea-freight customers. Since May 2017, all of Kuehne + Nagel's seafreight invoices have shown the associated carbon dioxide emissions, an industry first. This allows Kuehne + Nagel customers to improve management of CO<sub>2</sub> emissions along their supply chains and reduce environmental pollution. The data is based on the Global Transport Carbon Calculator (GTCC) developed by Kuehne + Nagel.



#### 06 ——— 2017 **Supply chain finance solution wins 2017 Adam Smith Award**

The London-based Treasury Today Group honoured Kuehne + Nagel's innovative digital finance solution with this renowned prize. Kuehne + Nagel suppliers can log on to an online platform and submit invoices electronically. This allows them to receive payment far more quickly than by conventional means. The partners Tradeshift and Citibank ensure that the process is fully integrated and bank registration is no longer required. With its supply chain finance solution, Kuehne + Nagel is expanding its digital service portfolio in the field of finance.



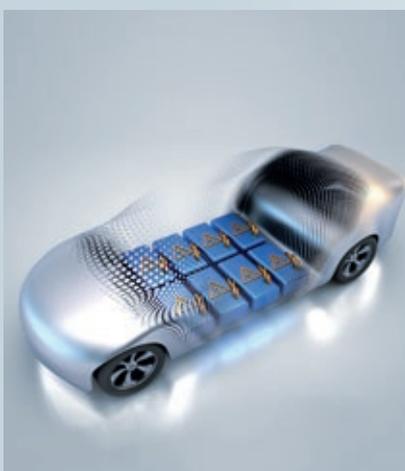
#### 06 ——— 2017 **Investment in Switzerland**

The pharma and healthcare industry is one of the most important growth sectors for Kuehne + Nagel. With the establishment of a new Pharma Hub in Möhlin, the company is expanding its position as leading pharma logistics provider. At this state-of-the-art facility, transport and logistics services will be implemented to the highest industry standards, additionally, high value added services will be offered. Swiss and international customers will benefit from the link to the worldwide KN PharmaChain network.



#### 07 ——— 2017 **Leading position in perishables logistics strengthened**

With the takeover of CFI, Commodity Forwarders Inc., the leading airfreight logistics provider for perishables in the US, and Trillvane Ltd, a Kenian company specialising in flower transport, Kuehne + Nagel is strengthening its global perishables network, which is now the world's largest. Connecting producer countries and major consumer markets is opening up considerable business potential for the Kuehne + Nagel Group.



#### 09 ——— 2017 **KN BatteryChain: New service for transport and storage of lithium batteries**

Battery-powered vehicles have gained substantial market shares in recent years around the world. As a result, demand for lithium batteries increased. With KN BatteryChain, Kuehne + Nagel provides its customers with an integrated logistics solution for sea, air and overland transport that covers the entire life cycle of lithium batteries from cell manufacture to battery assembly and automotive production as well as disposal and recycling of used batteries.



#### 09 ——— 2017 **Capital Markets Day 2017**

Numerous analysts and investors accepted an invitation to attend the Capital Markets Day 2017 and used the opportunity to talk to the Management Board of Kuehne + Nagel International AG. Following an in-depth information on the company development and trends in strategically important markets, CEO Dr. Detlef Trefzger and CFO Markus Blanka-Graff presented the new strategic programme KN+ NextGen (see p. 30).



#### 11 ——— 2017 **Sustainability at Kuehne + Nagel**

Kuehne + Nagel's sustainability goals are ambitious. In a yearly report, the company documents how it integrates the principle of sustainability throughout the company. The report is compiled on the basis of internationally recognised standards and is published annually as part of the annual report.



#### 11 ——— 2017 **Foundation stone laid for new August Kühne House in Bremen**

Kuehne + Nagel was founded in Bremen in 1890. The company has remained loyal to the city ever since. Now, the company needs more space at the Bremen site. A new building is emerging on the Wilhelm Kaisen Bridge in the heart of Bremen, where the company established its headquarters in 1909. The foundation stone for the new August Kühne House was laid on October 26, 2017, in the presence of Christian Weber, President of the Bremen Parliament, Dr. Carsten Sieling, the Mayor of Bremen, and Klaus-Michael Kühne, majority shareholder and Honorary Chairman of Kuehne + Nagel International AG.



Dr. Detlef Trefzger, *CEO*  
Markus Blanka-Graff, *CFO*

## Interview with the CEO and CFO

"Kuehne + Nagel closed the 2017 business year successfully. Our clear focus on target customers and target markets is a major factor behind our success."

DR. DETLEF TREFZGER

"We achieved stable conversion rates in all business units and further solidified our balance sheet structure."

MARKUS BLANKA-GRAFF

**Dr. Trefzger, Mr. Blanka-Graff: How do you assess the 2017 business year?**

Dr. Detlef Trefzger (DT): Kuehne + Nagel closed the 2017 business year successfully. We are particularly pleased with the business units airfreight, contract logistics and overland. I would like to highlight the performance in airfreight, with volume growth of 20 per cent and increased productivity. Contract logistics has also set new record highs in all key figures. In overland, our systematic approach to implementing our strategy is effective. The very good results of this business unit are clear evidence. Seafreight faced challenges due to the changes in the operating environment. In the last decades there has not been such a rapid and extensive consolidation of container shipping companies as in 2017. We successfully coped with this difficult situation, not least due to volume growth in seafreight clearly above market average. We again saw productivity improvements in seafreight, as in all other business units.

In parallel we developed our new strategic programme KN+ NextGen, communicated it internally and externally and started implementation. We completed four acquisitions and seamlessly integrated these companies into our Group.

Markus Blanka-Graff (MBG): In 2017, we have witnessed a major strength of Kuehne + Nagel: managing four business units, each with very different operating dynamics; simultaneously closing and integrating acquisitions; developing a new strategic approach and extending the business organically.

**What are the main reasons for the strong results?**

DT: We implemented our go-to-market strategies very systematically. Our clear focus on target customers and target markets is a major factor behind our success. We have high levels of industry-specific competence and a strong global presence. Our customers from different industries benefit from our scalable industry-specific solutions, which we implement with outstanding operational excellence. I am thinking of the automotive, aerospace, high-tech, pharma and healthcare industries and e-commerce. Strongest growth was achieved in the latter two segments in 2017.

We are also pleased with the performance in the regions. Our main business continues to be in Europe but growth momentum outside Europe has accelerated considerably. At the same time our domestic footprint is to be expanded in Asia where we see further potential.

MBG: We achieved stable conversion rates, the EBIT-to-gross-profit ratio, in all business units and further solidified our balance sheet structure.

**Kuehne + Nagel is the number one in global seafreight.  
Why does profitability for seafreight lag behind compared to the other business units?**

DT: There has been a fundamental transformation in the operating environment for seafreight. There are now just three container shipping alliances, likely to be joined by a fourth in the course of 2018. This consolidation has an impact on capacities available in the market and on the rate structure. It was not possible to pass on the very significant rate increases that occurred in rapid succession in almost all trade lanes to customers as quickly as we originally thought would be possible.

MBC: We managed to partly compensate for the negative effects of the rate increases and resulting margin pressure. Further efficiency improvements enabled ongoing productivity gains, leveraged with significant volume growth. The conversion rate is amongst the highest in our industry in 2017.

In seafreight, we will focus more on industry-specific and integrated solutions, which in addition to continuous automation and digitalisation is a factor that will increase the added value per container.

**The Capital Markets Day was also one of the highlights of the past year.**

MBC: Yes, we held our first Capital Markets Day in three years to introduce our new strategic programme KN<sup>+</sup> NextGen. We presented how we are going to extend the supply chain to the value chain with more complex technology and data-based solutions. This approach goes beyond conventional network business and provides new impulses in our industry. It will secure growth and our company's future success. Feedback from participants was entirely positive, and they valued KN<sup>+</sup> NextGen as the right strategy for a leading company in our industry.

**KN<sup>+</sup> NextGen is Kuehne + Nagel's strategic programme to 2022.  
What are the focal points?**

DT: All markets, both our customers' and the global transport and logistics markets, are undergoing a substantial change. This transformation is enabled by technology and driven by consumer behaviour. We are launching KN<sup>+</sup> NextGen to align our company with the changes in the market environment. Our ambition is: "Leading the Transformation." KN<sup>+</sup> NextGen itself is a transformative programme, as we are adjusting every business unit in anticipation of future structures and customer requirements.

MBC: The strategic programme has been developed in-house in parallel with day-to-day business. We took the conscious decision not to involve external support, since the authenticity is crucial for the programme's success. The enthusiasm with which KN<sup>+</sup> NextGen is being received within the company is impressive. That is important because our business is and always will be a people's business that thrives on our employees' passion.

### How will KN+ NextGen work?

DT: We will speed up and expand automation and our use of technology. In this field, our company has always played a pioneering role. Kuehne + Nagel has been the first logistics provider to bring a digital platform, KN FreightNet, for quoting, booking and tracking shipments onto the market. Now, we will be marketing more and more eTouch solutions to gain new customers over new distribution channels. Automated processes will be used for standard shipments and commodity freight. The use of big data and predictive analytics is also increasingly important. We showed our pioneering spirit with the establishment of our data company LogIndex. In future, we will be able to optimise supply chains predictively, including influencing customer-side processes such as resource planning. We are extending our activities beyond the supply chain to the value chain.

MBC: One example of the extension of the supply chain into a value chain is our finance solutions offering. Access to liquidity is currently a major market obstacle in many parts of the world. We have therefore developed a platform for microcredits where customers, for whom we organise transports, can obtain trade finance in an integrated process.

### What is changing for your employees?

DT: We have excellent employees, who belong to the best in our industry. They do not just produce outstanding work every day, they drive our digitalisation and the company's transformation. At this point I would like to thank our employees for their excellent work. They are the ones who will shape the transformation we have described. We will give them the tools they need. Last year, we launched an internal platform for collaboration, communication, training, learning and internal professional development to strip out and modernise their working environment. As a result, our employees can concentrate on specialist work and provide customers with maximum added value.

### What are the main objectives for this business year?

MBC: The objective is to achieve double the market growth across all business units, hence gain additional market share. We are aiming towards a conversion rate of 16 per cent by 2022 for the Group.

DT: We set this target very deliberately for the whole Group since we are in the business of selling integrated services. Customers from all industries benefit from Kuehne + Nagel's specialised competence and global networks across all business units. This is what allows us to make an active contribution to our customers' success.

### Kuehne + Nagel Management Board



*From top left to bottom right:*

Dr. Detlef Trefzger, CEO  
 Markus Blanka-Graff, CFO  
 Horst Joachim Schacht, Seafreight  
 Yngve Ruud, Airfreight  
 Stefan Paul, Overland  
 Gianfranco Sgro, Contract Logistics  
 Lothar Harings, Human Resources  
 Martin Kolbe, Information Technology

Financial Key Figures  
Income Statement  
Balance Sheet

## Income Statement\*

| <i>CHF million</i>                            | 2017          | 2016          |
|---|---------------|---------------|
| <b>Net turnover</b>                           | <b>18,594</b> | <b>16,525</b> |
| Net expenses for services from third parties  | -11,571       | -9,975        |
| <b>Gross profit</b>                           | <b>7,023</b>  | <b>6,550</b>  |
| Personnel expenses                            | -4,243        | -3,957        |
| Selling, general and administrative expenses  | -1,643        | -1,525        |
| Other operating income/expenses, net          | 13            | 42            |
| <b>EBITDA</b>                                 | <b>1,150</b>  | <b>1,110</b>  |
| Depreciation of property, plant and equipment | -172          | -161          |
| Amortisation of other intangibles             | -41           | -31           |
| <b>EBIT</b>                                   | <b>937</b>    | <b>918</b>    |
| Financial income                              | 16            | 12            |
| Financial expenses                            | -4            | -3            |
| Result from joint ventures and associates     | 6             | 8             |
| <b>Earnings before tax (EBT)</b>              | <b>955</b>    | <b>935</b>    |
| Income tax                                    | -215          | -215          |
| <b>Earnings for the year</b>                  | <b>740</b>    | <b>720</b>    |
| <b>Attributable to:</b>                       |               |               |
| Equity holders of the parent company          | 737           | 718           |
| Non-controlling interests                     | 3             | 2             |
| <b>Earnings for the year</b>                  | <b>740</b>    | <b>720</b>    |
| <b>Basic earnings per share in CHF</b>        | <b>6.16</b>   | <b>5.99</b>   |
| <b>Diluted earnings per share in CHF</b>      | <b>6.15</b>   | <b>5.98</b>   |

\* This Income Statement only presents an extract and should be read in connection with the Consolidated Financial Statements 2017 of the Kuehne + Nagel Group.

## Balance Sheet\*

| <i>CHF million</i>   | <i>Dec. 31, 2017</i> | <i>Dec. 31, 2016</i> |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Property, plant and equipment  | 1,249                | 1,127                |
| Goodwill   | 849                  | 758                  |
| Other intangibles  | 96                   | 82                   |
| Investments in joint ventures  | 31                   | 27                   |
| Deferred tax assets  | 220                  | 215                  |
| <b>Non-current assets</b>  | <b>2,445</b>         | <b>2,209</b>         |
| Assets held for sale   | -                    | 66                   |
| Prepayments  | 128                  | 106                  |
| Work in progress   | 418                  | 300                  |
| Trade receivables  | 3,537                | 2,605                |
| Other receivables  | 132                  | 140                  |
| Income tax receivables   | 77                   | 64                   |
| Cash and cash equivalents  | 720                  | 841                  |
| <b>Current assets</b>  | <b>5,012</b>         | <b>4,122</b>         |
| <b>Total assets</b>  | <b>7,457</b>         | <b>6,331</b>         |
| <b>Liabilities and equity</b>  |                      |                      |
| Share capital  | 120                  | 120                  |
| Reserves and retained earnings   | 1,464                | 1,322                |
| Earnings for the year  | 737                  | 718                  |
| <b>Equity attributable to the equity holders of the parent company</b> | <b>2,321</b>         | <b>2,160</b>         |
| Non-controlling interests  | 6                    | 5                    |
| <b>Equity</b>  | <b>2,327</b>         | <b>2,165</b>         |
| Provisions for pension plans and severance payments                    | 430                  | 407                  |
| Deferred tax liabilities   | 128                  | 165                  |
| Finance lease obligations  | 4                    | 7                    |
| Non-current provisions   | 58                   | 60                   |
| <b>Non-current liabilities</b>   | <b>620</b>           | <b>639</b>           |
| Bank and other interest-bearing liabilities                            | 14                   | 8                    |
| Trade payables   | 1,890                | 1,544                |
| Accrued trade expenses/deferred income                                 | 1,493                | 968                  |
| Income tax liabilities   | 133                  | 108                  |
| Current provisions   | 66                   | 75                   |
| Other liabilities  | 914                  | 824                  |
| <b>Current liabilities</b>   | <b>4,510</b>         | <b>3,527</b>         |
| <b>Total liabilities and equity</b>                                    | <b>7,457</b>         | <b>6,331</b>         |

\* This Balance Sheet only presents an extract and should be read in connection with the Consolidated Financial Statements 2017 of the Kuehne + Nagel Group.

# Business Units

## Overview 2014 – 2017

### Turnover

#### Seafreight



#### Airfreight



#### Overland



#### Contract Logistics





Seafreight  
Powerful.  
Standardised.  
Efficient.

Key Figures



**4.4**

*million TEU in 2017*



**11,932**

*export TEU per day*



**9,543**

*seafreight specialists*



**NO. 1**

*worldwide*

*"Our customers benefit from our globally available IT-based and tailor-made services. We expand our digitalised solutions and put even greater emphasis on industry-specific and integrated solutions."*

Horst Joachim Schacht  
Seafreight

#### Performance

| <i>in CHF million</i>     | 2017  | 2016  | 2015  |
|---------------------------|-------|-------|-------|
| Turnover                  | 8,805 | 7,981 | 8,739 |
| Net turnover              | 1,416 | 1,416 | 1,381 |
| EBITDA                    | 437   | 465   | 485   |
| EBIT                      | 414   | 445   | 459   |
| EBIT in % of net turnover | 29.2  | 31.4  | 33.2  |
| TEU in 1,000              | 4,355 | 4,053 | 3,820 |
| Number of operating staff | 9,543 | 9,154 | 8,792 |

2017 marks a step change in global seafreight. The long-standing trend towards consolidation in container shipping once again accelerated rapidly with takeovers and new alliances. Now just three large alliances, likely to be joined by a fourth in the course of 2018, determine the market development. In many trade lanes rate increases occurred which could only be passed on to the customers partly and with delay, especially in the first two quarters. Kuehne + Nagel's growth in volume and productivity did not fully compensate for the margin pressure.

Kuehne + Nagel further increased its market share in 2017. The number of TEU handled by the company exceeded the 4 million mark for the second year in succession. The world no. 1 in seafreight handled 4.4 million TEU, about 300,000 more than in the previous year. This is an increase of 7.5 per cent; the overall market growth was at approximately 5 per cent. Kuehne + Nagel saw particularly strong volume increases in intra-Asian and US transport operations. In the LCL (Less-than-Container Load) business the company handled over 2 million cubic metres for the first time.

The effects of increased freight rates were mitigated but not fully compensated by volume growth and productivity increases. High levels of data quality globally standardised and cutting-edge IT systems and interfaces that allow seamless connectivity are major factors behind the competitive edge in productivity at Kuehne + Nagel. The opera-

tional software SeaLOG was successfully implemented for seafreight imports. The company made considerable progress on integrating its systems with those of the shipping companies in 2017. Over 98 per cent of all transactions are now digital. Around a million data messages are exchanged with the shipping companies' systems every day. Kuehne + Nagel uses big data to offer its customers innovative digital solutions that support the optimisation of their inventory management systems.

High levels of data transparency are also of great importance in the growth market of reefer container business. Kuehne + Nagel offers a temperature monitoring system which is available online and in real-time for pharma and healthcare products and other temperature-sensitive freight. Services such as KN PharmaChain and KN Fresh-Chain, which comply with the highest quality standards all around the world, contributed to an increase of 25 per cent in the reefer business in 2017. Industry-specific e-commerce solutions are also becoming increasingly important in seafreight.

It is likely that the market remains challenging and freight rates high. Kuehne + Nagel's aim is to provide its customers highly flexible services tailored to their requirements and to achieve further productivity increases. With the quality of its digital solutions, its global network and the local expertise of a total of over 9,500 seafreight experts, Kuehne + Nagel is well positioned.

Airfreight  
Customer-oriented.  
Innovative.  
Fast growing.

Key Figures



**1.6**

*million tons in 2017*



**4,301**

*tons per day*



**6,693**

*airfreight specialists*



**NO. 2**

*worldwide*



*"2017 was a success for airfreight. We will build on this by maintaining our strategy of offering innovative products and increasing efficiency driven by process automation. The focus will continue to be on our customers' current and future requirements."*

Yngve Ruud  
Airfreight

#### Performance

| <i>in CHF million</i>     | 2017  | 2016  | 2015  |
|---------------------------|-------|-------|-------|
| Turnover                  | 4,759 | 3,935 | 4,014 |
| Net turnover              | 1,036 | 964   | 904   |
| EBITDA                    | 333   | 315   | 286   |
| EBIT                      | 313   | 298   | 265   |
| EBIT in % of net turnover | 30.2  | 30.9  | 29.3  |
| Tons in 1,000             | 1,570 | 1,304 | 1,250 |
| Number of operating staff | 6,693 | 5,734 | 5,563 |

Performance has been outstanding in airfreight: Whilst global market growth in 2017 was about 10 per cent, the highest increase since 2010, Kuehne + Nagel raised tonnage by 20.4 per cent to 1.57 million tons and doubling market growth. In addition to the above-average volume increase, strict cost control and productivity gains through process automation ensured that airfreight continued to make a major contribution to Kuehne + Nagel's business success in 2017. The conversion rate, the EBIT-to-gross-profit margin, was at 30.2 per cent, EBIT increased by 5.0 per cent: a clear proof that the business unit's strategic focus is correct. At the same time, the market environment was challenging, with increased pressure on margins caused by capacity shortfalls, imbalanced traffic on many routes and a significant increase in freight rates, particularly in the second half of the year.

In logistics, innovation is a key driver for any company's success. At Kuehne + Nagel innovation has always been on top of the agenda, and this is also true for the airfreight business unit. Many of the innovations introduced in 2017 set industry standards. Kuehne + Nagel became the world's first company to be given International Air Transport Association (IATA) CEIV Pharma certification for its entire KN PharmaChain air network. This confirms that Kuehne + Nagel meets the pharma industry's high require-

ments and legal regulations at 88 locations on its airfreight network.

The company also strengthened its position in other areas. With the acquisition of the Kenyan Trillvane Ltd and CFI Commodity Forwarders Inc., USA, two national market leaders belong to the Kuehne + Nagel Group, expanding its leading position in perishables logistics. KN Battery-Chain is the first integrated logistics solution to cover the entire life cycle of lithium batteries.

Continuous process optimisation is a crucial part of the Kuehne + Nagel's airfreight strategy. Following the worldwide rollout of the AirLOG Import software aimed at achieving efficiency increases, the module for export has also been implemented in over thirty countries in 2017. Although high-performance digital solutions are increasingly important in airfreight, it remains a people's business. Some 6,700 specialists around the world are developing tailor-made solutions for companies of any size. The combination of customer proximity and innovation has been an important factor in gaining many business wins and extending current contracts. With new product offerings and investments in the expansion of efficient IT systems, the company is best placed to strengthen its leading position in airfreight.



Overland  
Focused.  
Transparent.  
Goal-oriented.

Key Figures



**3.1**

*billion CHF net turnover  
in 2017*



**18.4**

*million shipments  
in 2017*



**8,040**

*overland specialists*



**NO. 5**

*in Europe*

*"Digital sales channels and automated solutions are important in achieving operational success in the overland business. We will continue to expand our digital offering, with a particular eye on small and medium-sized enterprises."*

Stefan Paul  
Overland

#### Performance

| <i>in CHF million</i>     | 2017  | 2016  | 2015  |
|---------------------------|-------|-------|-------|
| Turnover                  | 3,356 | 3,130 | 2,825 |
| Net turnover              | 952   | 895   | 834   |
| EBITDA                    | 92    | 70    | 50    |
| EBIT                      | 49    | 28    | 7     |
| EBIT in % of net turnover | 5.1   | 3.1   | 0.8   |
| Number of operating staff | 8,040 | 7,894 | 8,186 |

No logistics function can ignore the effects of digitalisation. And long since, overland customers require high-performance digital solutions. This is opening up a wide range of possibilities for Kuehne + Nagel. KN FreightNet, the company's digital quotation, booking and tracking platform, which was implemented in the overland business unit in 2017, initially in Germany, has attracted many small and medium-sized enterprises which is demonstrated by the increase in online orders over the last year. In order to keep this momentum going, KN FreightNet will be available for all European overland customers in 2018. Modernisation of the Transport Management System (TMS) has contributed to a significant improvement in productivity, particularly with large customers.

In a heavily segmented and regionalised market, Kuehne + Nagel achieved an excellent result in overland in 2017. Net turnover increased by 7.6 per cent, gross profit by 6.4 per cent and EBIT even improved by 75 per cent compared to the previous year. Contributors to this success were the strong growth in the groupage, full truckload and intermodal shipments and the positive order situation for the industry-specific solutions. All this was achieved in a challenging operating environment. There were significant rate increases in both core markets, Europe and USA. This

was largely due to capacity bottlenecks in the European market and in Germany in particular. Driver shortages also increased, a trend that is unlikely to be reversed. These changes in the market environment mean that a price adjustment will be unavoidable in order to continue to offer customers top quality in the future.

Kuehne + Nagel also strengthened its presence outside Europe and North America. With the commencement of its overland activities in Central America, the company is seen as attractive due to its strict compliance with GDP standards, particularly by pharma and healthcare customers. Kuehne + Nagel was very successful in providing services for customers from these industries. In 2018, Kuehne + Nagel will therefore continue to invest in its fleet of bi-temp trailers which currently consists of more than 100 throughout Europe, in order to strengthen its leading position in pharma logistics.

Industry-specific services are strategically important in overland with particular focus on e-commerce fulfilment solutions. Kuehne + Nagel will continue to develop high-performance digital sales channels and high levels of transparency which are crucial for overland customers.

Contract Logistics  
End-to-end.  
Scalable.  
Integrated.

Key Figures



4.8

billion CHF net turnover  
in 2017



10.6

million sqm logistics  
and warehousing space



39,957

contract logistics specialists



NO.2

worldwide



*"In a rapidly changing market, we are using new technologies and digitalisation as key tools to create long-term competitive edges for our customers as well as to continuously improve productivity."*

Gianfranco Sgro  
Contract Logistics

#### Performance

| <i>in CHF million</i>          | 2017   | 2016   | 2015   |
|--------------------------------|--------|--------|--------|
| Turnover                       | 5,300  | 4,939  | 4,705  |
| Net turnover                   | 3,619  | 3,275  | 3,132  |
| EBITDA                         | 288    | 260    | 220    |
| EBIT                           | 161    | 147    | 119    |
| EBIT in % of net turnover      | 4.4    | 4.5    | 3.8    |
| Warehouse space in million sqm | 10.6   | 10.0   | 9.6    |
| Number of operating staff      | 39,957 | 35,866 | 33,925 |

The market for contract logistics services is substantially transforming due to the increase of e-commerce and ongoing digitalisation. Customers from industries including automotive, e-commerce, high-tech and aerospace, as well as pharma and healthcare with their demanding logistics process requirements, expect customised and scalable logistics solutions. With its specialised end-to-end solutions, data-driven processes and real-time information across entire supply chains, Kuehne + Nagel is meeting these expectations and establishing itself as a long-term, reliable contract logistics partner. These initiatives are enabling its customers to achieve efficiency gains and the company to improve its own productivity. Contract logistics continued to see dynamic growth in 2017. New record highs were reached on net turnover, gross profit and EBIT. Both contract extensions and business wins contributed to this successful development. China and South-East Asia operations achieved double-digit growth. Many customers in these regions are looking for experienced and professional logistics partners able to support their market entry strategies and increasingly outsource their logistics functions.

Kuehne + Nagel has over 10.6 million square metres of warehousing and logistics space under management worldwide, an increase of around 600,000 square metres compared with the previous year. A huge number of new contract logistics projects were implemented in 2017.

New technologies such as collaborative robots and pick-by-vision in many locations contribute to further efficiency increases generating competitive advantages for customers. For certain industries, technology-driven and scalable solutions are of particular importance. Kuehne + Nagel has managed to win new customers worldwide by deploying solutions of this kind, particularly in the pharma and healthcare industry. The company will continue to invest in this growth market. Two leading pharma logistics companies were taken over in Italy and Turkey in 2017. This will allow Kuehne + Nagel to generate additional growth in these important pharma markets. Customised and specific solutions in e-commerce fulfilment for global retailers and high-profile brand internet shops led to new business and double-digit growth.

Having access to accurate real-time information about shipments is of particular importance for global customers. With innovative end-to-end solutions managed from logistics control towers and implemented in cooperation with other Kuehne + Nagel business units, the company is strengthening its leading position in integrated logistics. Two control towers have recently been put in service in Shanghai, China, and the Polish city of Wroclaw, expanding the global network. This one-stop approach increases transparency and efficiency in the supply chain and optimises information flows between the parties.



Technology  
Pioneering.  
Flexible.  
Transformative.

Key Figures



**200**

*million real-time data messages  
generated per day*



**1,696**

*IT specialists*

*"Data is an essential asset in the logistics industry. Systematically analysed and applied, data will drive the development of new solutions and services and is key for the digital transformation of the logistics industry."*

Martin Kolbe  
CIO

#### Real-time data: Big Data of the Kuehne + Nagel Group External data sources (non-exhaustive)



Digital interconnectivity along the supply chain presents challenges but at the same time considerable potential for the logistics industry: from productivity gains to the introduction of innovative logistics services and products as well as the development of new business models. Data processing, connectivity and the use of state-of-the-art software and technology become key elements in the success of the digital transformation. Kuehne + Nagel's response to this increasing complexity is to continue expanding its IT infrastructure as well as automating and digitalising processes and applications. This allows the company to better address the supply chain dynamics and to create the transparency required by all parties while offering its customers seamless digital workflows.

The introduction of SaLOG, Kuehne + Nagel's standardised, global operating system for seafreight and airfreight simplifies operational activities by increasing process automation and real-time interaction between Kuehne + Nagel and its customers. With RoadLOG, the company introduced a new transport management system for overland, which is already implemented in several countries. In 2017, Kuehne + Nagel completed the development of a new, unified financial accounting system, so far rolled-out in almost 100 countries.

2017 saw a new control centre for the digital management of quotations, shipments and user accounts in seafreight and airfreight added to KN FreightNet, the platform for digital quoting, booking and tracking. Enhanced applications have also been added to

KN Login, the customer information platform: Kuehne + Nagel now offers its customers the "new shipment visibility" option, a self-service management and monitoring system that provides full transparency on shipment details on all devices.

New digital technologies are being tested in customer-oriented and real-time workflows. The company is developing a series of blockchain solutions and is engaging with partners in an initiative that aims to digitalise bills of lading via a blockchain-based system. In contract logistics, Kuehne + Nagel focuses on automated solutions such as self-driving vehicles, hand-held terminals for order picking by voice, light or vision and heat mapping. With the introduction of smart sensor technology, service levels for KN PharmaChain airfreight have further improved.

Based on its global data lake, Kuehne + Nagel has created a big data infrastructure which serves as a workbench for new internal applications and customer solutions. This also enables the company to pioneer predictive analytics: The gKNi data product delivers nowcasts on exports, imports, trade balance and industrial production for the largest economies in the world. These estimates are available up to 55 days earlier than the street estimates, the so called "consensus", providing customers with near real-time insights into the economic performance of specific countries and industries. In April 2017, Kuehne + Nagel additionally introduced the gKNi World Trade Indicator (gKNi WTI), an early, daily updated forecast of the official world trade data which is published two months later.

# KN<sup>+</sup> NextGen

Customer + Technology + People



## CUSTOMER

*Customer requirements are at the centre of all activities.*



## TECHNOLOGY

*Technology is the key to transformation.*



## PEOPLE

*The employees shape the change.*



## Leading the Transformation.

Innovative technologies and shifts in consumer behaviour drive the change of the global economy. Logistics providers also need to adapt to the changing operating environment. Kuehne + Nagel is well positioned to address this transformational process. The company has always played a pioneering role in the use of technology and automation in logistics. Early identification of trends and developments is one of its strengths, especially in technology. With its new strategic programme KN+ NextGen it has once again proven to be an early mover. "Leading the Transformation" is Kuehne + Nagel's ambition for its strategic programme, based on the claim to take a proactive role in shaping these changes. The programme extends the company's focus from the supply chain to the value chain. As a consequence, Kuehne + Nagel is aligning each individual business unit to reflect these requirements.

There are three dimensions to the strategic programme: customers, technology and people. In a fast changing environment it is particularly important to understand and anticipate customers' needs and expectations at an early stage to be able to develop customised solutions. Therefore, the company is increasing the focus on customers' perspectives as it develops new products, processes and tools. Kuehne + Nagel has been using industry-leading technology systems. By constantly improving these systems and introducing new technologies, the company is driving the digital transformation. eTouch solutions, quasi-automated services for standard shipments, and the use of big data and predictive analytics are in the focus. The almost 76,000 highly qualified Kuehne + Nagel employees will play a decisive role in the implementation of the strategic programme as they are the ones whose passion will shape the transformation.



Employees  
Experienced.  
Passionate.  
Creative.

Key Figures



**75,876**

*employees worldwide*



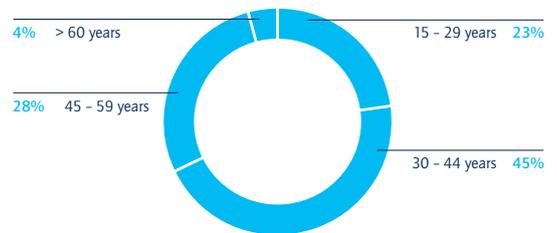
**33 : 67**

*female : male  
in per cent*

*"Our human resource management is focused on motivating and developing our employees and managers. A modern working environment and a dynamic learning culture give us a competitive edge and ensure the successful future of our company."*

Lothar Harings  
Human Resources

#### Age structure



Kuehne + Nagel's goal is to lead the digital transformation of the logistics industry. The use of digital solutions is a central concern for the human resources department and reflected in numerous initiatives. 2017 saw the global roll-out of "myKN", Kuehne + Nagel's new digital collaboration platform, which facilitates and promotes interactive working across the Group. The platform supports the employees in managing projects and tasks, sharing knowledge and creating global and interdisciplinary networks. The global implementation of myKN was fast and highly successful: After just six months, half of all employees with PC workstations now use the platform regularly. In 2018, more global applications and functions will be integrated in myKN, such as the ability to create shared working environments with customers to simplify processes and increase productivity.

The new "myLearning" application, integrated into myKN, provides the employees with user-friendly access to the Group's training portfolio so they can build their own programme of internal and external courses. Every employee has the chance to acquire additional knowledge at his own pace and at a convenient time, on top of compulsory training. myLearning provides multiple learning formats, from classroom-based training sessions to online courses and integrated learning - offering employees attractive professional and personal development opportunities. More than 28,000 live and 215,000 online training sessions were held in 2017, transferring industry-specific knowhow, product, process and IT skills as well as compliance topics. Committed and competent managers are as important for

the company's success as well-qualified, motivated employees. Kuehne + Nagel systematically develops management skills and invests in the development of future managers. The company encourages all its employees to realise their potential through appropriate development opportunities and recognition as well as an attractive work environment. They are the ones who determine how Kuehne + Nagel is perceived externally and therefore have a direct impact on customer satisfaction.

Whilst digital evolution continues, Kuehne + Nagel pays particular attention to continuously improving its dialogue with customers and personalising its customer services. The global "Care Programme" was launched in 2017 to suggest ways in which employees can become even more customer-focused. This global initiative aims to ensure that Kuehne + Nagel's high standards of service are spread and maintained across all functions and geographies. Initial assessments show that "Care" has increased customer satisfaction and strengthened customer loyalty.

Kuehne + Nagel was once again seen as an attractive employer in 2017. The Group received more than twice as many applications as in the previous year. Important factors here have been modernised career and application platforms as well as several employer branding initiatives around the world. With state-of-the-art e-recruitment applications talents are identified in a more targeted way and the recruitment process is speeded up significantly.

Sustainability  
Responsible.  
Significant.  
Effective.

Key Figures



**580,000**

*sqm surface covered with  
photovoltaic panels*



**1.4**

*million sqm covered with LED*



*"As a globally operating company, Kuehne + Nagel is aware of its responsibility for society and the environment. We have set ourselves ambitious sustainability targets which we have continuously met in recent years."*

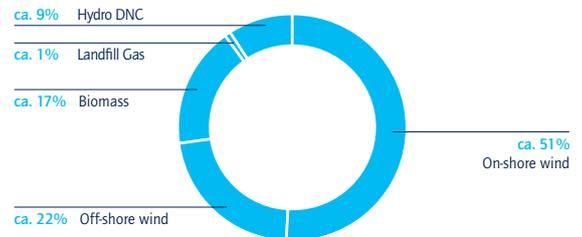
Dr. Detlef Trefzger  
CEO

Economic, ecological and social sustainability is an integral part of Kuehne + Nagel's business activities. For the Group, operating sustainably means actively contributing to protecting the environment through the considerate use of natural resources and acting in accordance with public concerns.

For a number of years now, Kuehne + Nagel has been implementing its 2020 environment strategy, a global effort to improve its environmental performance and support customers in achieving their own targets. Kuehne + Nagel is the first logistics provider to give its customers insights into their CO<sub>2</sub> footprint. Since May 2017 all seafreight invoices disclose the associated carbon dioxide emissions. This allows Kuehne + Nagel customers to improve the analysis, reporting and management of CO<sub>2</sub> emissions caused by their transport chain and thus achieve long-term reduction of the environmental impact. Together with its business partner Hapag-Lloyd, one of the largest liner shipping companies in the world, Kuehne + Nagel has committed to making a considerable reduction in CO<sub>2</sub> emissions in their common container transport activities. By 2020, pollution emissions per container moved should be reduced by approximately 17 per cent. In offices and warehouses, the Kuehne + Nagel Group is committed to sustainable energy supplies: About 580,000 sqm of space around the world is fitted with photovoltaic panels for renewable electricity generation.

At Kuehne + Nagel, quality is a key differentiator. This applies to all products and areas of activity. Compliance with quality standards is regularly evaluated through internal and external audits. In 2017, the Bureau Veritas agency again audited the Kuehne + Nagel Group and recertified it against the ISO 9001, ISO 14001 and OHSAS 18001 standards. The supplier management system

#### Use of renewable energy sources



allows the evaluation of suppliers and business partners in view of compliance with national and international quality standards. This continuous optimisation process delivered a significant increase in customer satisfaction in 2017, confirmed by surveys in all regions.

With the "No harm to people" initiative, Kuehne + Nagel aims to achieve the highest level of health and safety for all parties involved in operations: employees, customers and suppliers. A comprehensive health and safety management system supported by global, regional and national expert teams contributes to further raise awareness of health and safety topics through training and action programmes.

Compliance with statutory and regulatory requirements as well as the internal Code of Conduct is a matter of course at Kuehne + Nagel; all business activities worldwide are based upon the highest ethical and legal standards. Kuehne + Nagel considers integrity to be a key element of its business behaviour. Therefore, in 2017, the KN Ethics and Compliance Programme was enhanced: Regional Compliance Officers now support compliance with the global Code of Conduct and relevant training for managers and employees.

At an early stage, Kuehne + Nagel identified the need for a certified end-to-end solution for warehousing and transport of lithium batteries, which have to be handled as dangerous goods. In 2017, the company launched KN BatteryChain, a new product which covers the entire lithium battery supply chain from manufacture of the cells to battery assembly and automotive production as well as disposal and recycling of used lithium batteries. The high quality of Kuehne + Nagel's industry-specific products and services is confirmed by more than 300 customer audits performed in the pharma and healthcare, aerospace and high-tech industries.

>> The full Sustainability Report is available at:  
<https://annual-report.kuehne-nagel.com/sustainability-report>



Social Responsibility –  
Kühne Foundation  
Sustainable  
commitment.

Kühne Foundation



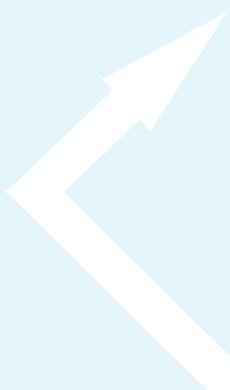
22.1

million CHF promotional funding



>60

projects worldwide



The Kühne Foundation, which was founded in Switzerland in 1976, is renowned for its initiatives to promote academic teaching, further education, training and research in the fields of logistics and transport. It also supports medical, cultural and humanitarian projects. The Kühne Foundation is operationally active and initiates almost all of the projects it funds. The sole donor of this public trust foundation, Prof. Dr. h. c. Klaus-Michael Kühne, regards his commitment to quality and sustainability as an important part of his social responsibility as an entrepreneur.

### Support in the field of logistics

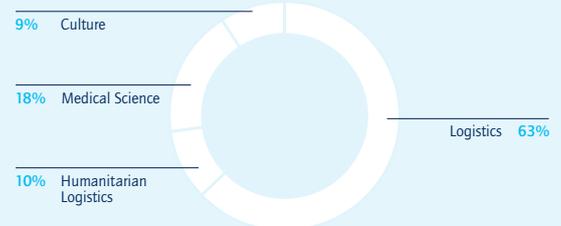
The foundation's goal is to support and develop logistics as a scientific field. Logistics is facing major challenges: Digitalisation, globalisation and the call for more sustainability are creating new, complex interactions that require pro-active shaping and integrated thinking. The Kühne Foundation connects research institutions that provide scientific supervision of new developments and supports further education of the current and upcoming generation of managers. The Kühne Logistics University (KLU), founded in Hamburg in 2010, promotes pioneering research and practice-oriented teaching in transport, global logistics and supply chain management. In 2017, the KLU was granted the right to confer doctorate degrees by the Hamburg Senate, another important milestone in the development of the university.

The Kühne Foundation also supports academic chairs and competence and training centres at the Federal Institute of Technology (ETH), Zurich, WHU – Otto Beisheim School of Management, Vallendar, Berlin Institute of Technology (TU Berlin), Tongji University, Shanghai and the German Foreign Trade & Logistics Academy (DAV), Bremen.

### Humanitarian Logistics – HELP

HELP Logistics, a programme of the Kühne Foundation, is a training and consulting group registered in 2014 and based in Schindellegi, Switzerland. Since 2016, HELP has three regional offices in Singapore (Asia), Amman (Middle East) and Nairobi (East Africa) with eleven dedicated fulltime logistics and supply chain experts. HELP's goal is to make humanitarian responses more efficient (to save

### 2017 Promotional funding projects



cost) and effective (to save time). In 2017, a year marked by numerous crises, HELP supported 34 humanitarian organisations and local governments in 29 countries through the successful delivery of 44 logistics and supply chain projects.

### Medicine – Allergy Research and Education

Around the world, roughly one billion people are affected by allergic diseases and asthma. The Christine Kühne Centre for Allergy Research and Education (CK-CARE), founded in 2009, concentrates on funding research and therapy into allergic diseases as well as supporting training of specialists to contribute to the resolution of allergy-related problems in as focused and effective a way as possible. CK-CARE is a Davos-based association of leading international scientists.

### Cultural Projects

In the field of culture, the Kühne Foundation gives support mainly to music and literature. In 2017, many concerts, operas and festivals in Switzerland, Germany and Austria were again funded. These include the Lucerne Festival, the Mecklenburg-Vorpommern Festival, the Salzburg Festival, the opening festival for the Elbphilharmonie Hamburg, the Baden-Baden Festival, Zurich Opera House, the Symphony Orchestra of the Canton of Schwyz and the Music Summer on Lake Zurich as well as the Harbour Front Literature Festival in Hamburg.

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