



KLAUS-MICHAEL KUEHNE – Chairman of the Kuehne + Nagel International AG Board of Directors

## REPORT OF THE BOARD OF DIRECTORS

### Strong results despite economic downturn

#### Ladies and Gentlemen

The beginning of 2008 was characterised by strong growth and high earnings. But a noticeable slowdown occurred in the second half – particularly in the traffic from Asia to Europe and North America – with the fourth quarter showing a clear tendency towards recession. Notwithstanding this situation, the Kuehne + Nagel Group again achieved the best results in its history, increasing global turnover by 3.0 per cent (currency-adjusted 9.7 per cent) and net earnings by 9.1 per cent (currency-adjusted 14.5 per cent) compared to the previous year.

#### Shareholder structure

There were only slight changes in the Kuehne + Nagel International AG shareholder structure, which at the end of 2008 was as follows:

|                     |                |
|---------------------|----------------|
| – Kuehne Holding AG | 55.8 per cent  |
| – Free float        | 42.6 per cent  |
| – Treasury shares   | 1.6 per cent   |
|                     | 100.0 per cent |

#### Board of Directors

At the beginning of the business year, Xavier Urbain resigned from the Board of Directors after having been appointed to the Management Board of Kuehne + Nagel International AG. At the Annual General Meeting in May, the age-related retirement of Bruno Salzmann was announced. He had been the Kuehne + Nagel Group's Chief Financial Officer for many years before being appointed to the Board of Directors in 1999. At the same time, Juergen Fitschen, member of the Deutsche Bank AG's executive committee, was elected to the Board of Directors.

At the Extraordinary General Meeting of Kuehne + Nagel International AG in December 2008, Karl Gernandt was elected to the Board of Directors and subsequently appointed its Delegate, effective January 1, 2009. At the same time, Klaus-Michael Kuehne stepped down from his function as Delegate. He remains Chairman and Bernd Wrede Vice Chairman.

**Board committees**

The Board of Directors' three regular committees are the Audit, the Investment, and the Nomination and Compensation Committees. In general, their meetings take place quarterly with the respective chairmen reporting findings in subsequent Board of Directors' meetings.

**Management Board**

In agreement with those involved, the Board of Directors accelerated the hand-over of the CEO function from Klaus Herms to Reinhard Lange. This change became effective January 1, 2009, rather than, as initially planned, by mid-2009. Klaus Herms will be responsible for special tasks until his retirement on June 30, 2009. As of February 1, 2008, Xavier Urban was appointed to the Management Board, where he is in charge of the Road & Rail Logistics business unit.

**Business performance**

While seafreight, airfreight and contract logistics operations initially performed according to plan, there was a strong slowdown in the third and fourth quarters. Business development and profit margins, however, remained satisfactory overall. The efforts to expand the European overland transport network yielded high growth rates. In the autumn of 2008 Kuehne + Nagel acquired the French groupage provider Alloin, securing a strong position in the national road transport sector of one of Europe's key industrial countries. This important acquisition added 3,170 employees to the Group as of January 1, 2009.

**Results**

The seafreight and airfreight businesses were the main contributors to the Kuehne + Nagel Group's good results in 2008. Contract logistics results, which were affected by extraordinary costs in some countries, were positive overall. Despite planned business expansion investments and start-up losses, European overland transport achieved satisfactory results.

**Dividend**

The Board of Directors' proposal to pay an extraordinary dividend of CHF 2.50 per share (due to the special proceeds stemming from the mid-2008 sale of a number of logistics assets) was approved at the Extraordinary General Meeting of December 2008. The Board of Directors will propose to distribute a dividend of CHF 2.30 per share for the business year 2008 (previous year: CHF 1.90) to the Annual General Meeting of May 13, 2009.

**Business units**

Seafreight volumes increased by 2 per cent to a total of 2.670 million container units (TEU) shipped. The most significant declines in volume were in traffics from Asia to Europe and from Europe to North America. Particularly well performed the seafreight business with the Middle East and South America.

International airfreight traditionally is heavily affected by economic downturns, and 2008 was no exception as volumes slumped in the second half compared to the same period of the previous year. For the whole year, however, a growth of 2 per cent was achieved.

Contract logistics saw a strong demand for complex services and additional warehousing and transport capacities, with the closure of a significant number of new business opportunities. Among the highlights were substantial contracts with two global customers from the airline and the cosmetics industries. The results were negatively affected by insufficient capacity utilisation in the United States, Canada and the United Kingdom as well as start-up costs in some East European countries.

In the Road & Rail Logistics business unit, Kuehne + Nagel focused on the further expansion of its European groupage network. Under the new management, processes were streamlined and bundling effects in traffic flows realised. The acquisition of the French groupage provider Alloin was an important strategic milestone. The incorporation of French operations into the Group's road transport network is intended to generate strong business opportunities across Europe. The management of the European rail activities was placed in new hands and the focus on innovative concepts was strengthened.

The Real Estate business unit optimised its portfolio through the sale of warehousing and handling facilities as well as office buildings in five European countries. For a transitional period, most of the sold facilities were leased back. In addition, real estate property was created among else in Germany.

Nacora, the wholly-owned insurance broker, significantly improved its results; new offices were added to the network, which now comprises 30 countries.

**Summary and outlook**

The second half of the business year was characterised by an accelerating economic slowdown. In light of that fact and, especially, of the unfavourable economic outlook for 2009, in December 2008 the Board of Directors established an ad hoc Economic Committee, comprised of three of its members. The committee meets monthly with the Chairman of the Board of Directors and members of the Management Board to analyse the current business results and to review the measures initiated by the Management Board.

Initial 2009 development indicators confirm the subdued assessment for the year. The Kuehne + Nagel Group, however, is well prepared for difficult times due to its strong position in virtually all parts of the world, its innovative products and its financial strength. At an early stage in the economic situation, comprehensive cost-cutting measures were initiated and broadened during the first months of 2009. At the same time, Kuehne + Nagel plans to secure and extend the current market positions in the respective business units and to maximise business opportunities in European overland transport.

The Board of Directors expresses its sincere thanks to Klaus Herms for his successful work as Chairman of the Management Board during the past ten years. It also extends its support and best wishes for success to the new CEO, Reinhard Lange. At the same time the Board of Directors expresses its appreciation to the Management Board and all employees for their valuable contributions to the development of the company and to the remarkably good results in 2008. This gratitude is also extended to all the customers and business partners, with whom Kuehne + Nagel shares trust and cooperation.



**Klaus-Michael Kuehne**  
Chairman of the Board of Directors



Front row, from the left:

**DR. WILLY KISSLING**

**BERND WREDE**, Vice Chairman

**KLAUS-MICHAEL KUEHNE**, Chairman

**KARL GERNANDT**, Delegate

As of January 1, 2009

Back row, from the left:

**DR. JOACHIM HAUSSER**

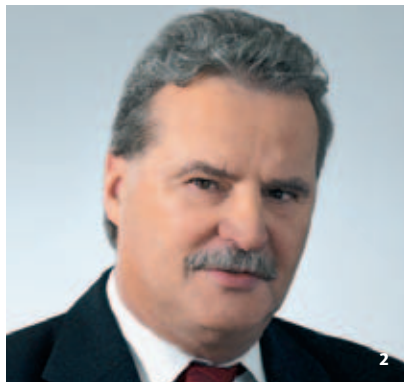
**DR. WOLFGANG PEINER**

**HANS LERCH**

**DR. GEORG OBERMEIER**

**DR. THOMAS STAEHELIN**

**JUERGEN FITSCHEN**



- 1 KLAUS HERMS, Chief Executive Officer until December 31, 2008
- 2 REINHARD LANGE, Sea & Air Logistics; Chief Executive Officer as of January 1, 2009
- 3 GERARD VAN KESTEREN, Chief Financial Officer
- 4 PETER ULBER, Sea & Air Logistics as of January 1, 2009
- 5 DIRK REICH, Contract Logistics
- 6 XAVIER URBAIN, Road & Rail Logistics
- 7 KLAUS-DIETER PIETSCH, Human Resources
- 8 MARTIN KOLBE, Chief Information Officer

## REPORT OF THE MANAGEMENT BOARD

### Improved business result

Despite the increasing impact of the economic crisis on the logistics industry in the second half of 2008, the Kuehne + Nagel Group delivered improved results compared with the previous year. The Group's integrated logistics business model and the worldwide presence once again proved to be of significant advantage.

### General conditions

Through the first two quarters of 2008, general economic conditions remained favourable for the global logistics business. Although the U.S. economy already had been suffering from a significant decline in consumer demand, the credit crisis had not dramatically affected other regions' economies. But from October 2008 onwards, the economic downturn rapidly spread to the industrialised countries and the emerging economies in Latin America, Eastern Europe and Asia. Even China, the decisive driver of world trade for the past years, was unable to evade this development. Mainly due to the deteriorating economic climate in the United States and Europe, Chinese exports significantly slumped after having generated above-average growth rates in previous years.

In the meantime, many governments launched economic stimulus plans in an attempt to soften further decline in demand; their effectiveness, however, has yet to be proven.

### Logistics industry

In the third quarter 2008, transport volumes and inventory turnover substantially declined due to the lack of demand for investment and consumer goods. Logistics providers with flexible cost and organisation structures that can quickly adapt to changing market situations are better able to cope with such an environment. In addition, risks can be minimised by a geographically broad coverage and by focussing on a variety of customer segments.

While 2007 was characterised by large acquisitions and restructuring processes, 2008 saw a decline in take-over activities. This trend is expected to continue in 2009, even as the industry remains under pressure to consolidate.

Given the difficult economic times and associated cost pressure, companies in trade and industry are increasingly concentrating on their core competences. In addition, many are reluctant to invest in their own logistics infrastructure, all of which will push the outsourcing trend. Also, complex supply chain management will become more important, opening business opportunities for logistics providers with efficient processes and global organisational structures.

### **Business performance**

Although growth rates were below prior years' levels, Kuehne + Nagel was able to maintain its high margins in both sea- and airfreight thanks to strong productivity and strict cost management. Market shares were expanded worldwide. Growth again was the primary target in the overland business, with the acquisition of the French groupage provider Alloin filling a major gap in the Group's European overland transport network. Contract logistics benefited from the company's global presence and its comprehensive service offering, which allowed it to generate new business to partly compensate for the volume decrease caused by the economic situation. As in previous years, the Insurance Broker and the Real Estate business units' activities supported good business performance.

In spite of the economic slowdown and exchange-rate effects that affected the Kuehne + Nagel regions to varying degrees, each contributed to 2008's improved business result.

**Outlook for 2009**

The current global economic crisis is unparalleled in terms of scope and pace, and it is impossible to predict its length. A critical factor will be whether the economic stimulus plans initiated by the various governments globally will succeed in their effort to fight recession and revive the world economy.

In 2009, the Kuehne + Nagel Group will have to demonstrate its flexibility and its capabilities to sustain its position in the global logistics market.

The effectiveness of the company's strategy, however, has been proven and is reflected in the 2008 business results. In view of the declining economy, measures were taken during the final months of 2008, including stricter cost management and further optimisation of all business units' processes and productivity.

Regardless of the economic environment, Kuehne + Nagel intends to focus on gaining further market share through strategic investments and organic growth in all fields of activity. The Group's financial strength, as well as its high service quality and its business model of integrated logistics form a solid basis to achieve this.



Reinhard Lange  
Chairman of the Management Board