Status Report 2017

KUEHNE+NAGEL

ECONOMIC ENVIRONMENT

In 2017, Kuehne + Nagel expanded its global leading position in Seafreight with 4.4 million TEUs managed in container traffic. The Group confirmed with 1.6 million tons in Airfreight its global number 2 position, reported on significant growth and profitability improvement in Overland and gained substantial business from high-profile customers in Contract Logistics.

Kuehne + Nagel has specialised in complex end-to-end supply chain solutions, which are managed in the global network of Logistics Control Towers and performed in cooperation with all Kuehne + Nagel business units. These integrated logistics solutions not only increase transparency and efficiency in the supply chain but also optimise information flows between the participating partners and customers. This allows Kuehne + Nagel to support its customers' value chain, a decisive factor in a highly competitive and fast growing market.

In 2017, the world economy grew by estimated 3.0 per cent (2016: 2.4 per cent) due to a recovery in industrial activity and a pickup in global trade. The United States, Japan, China, and especially the European Union significantly contributed to the improved global growth, with projections for 2018 confirming a solid growth.

Mature economies have shown clear indications for stronger momentum in domestic demand and export. Growth for these countries in 2017 increased by an estimated 2.3 per cent versus 1.6 per cent in 2016.

Emerging markets are estimated to have grown by 3.7 per cent in 2016 and 4.3 per cent in 2017, to a large extent based on improving conditions for large commodity shippers and improved domestic consumption. (Based on: World Bank, Global Economic Prospects, January 2018).

In 2017, the international logistics industry experienced world trade volume growth rebounding from low levels in 2016. The estimated world trade volume growth increased to 4.7 per cent in 2017 versus 2.5 per cent in 2016.

Advanced economies' world trade volume grew from 2.6 per cent in 2016 to estimated 4.1 per cent in 2017, whereas in emerging markets and developing economies from 2.3 per cent in 2016 to 5.9 per cent in 2017. (Based on: IMF, World Economic Outlook Update, January, 2018).

On the carrier side, the market in 2017 was characterised by highly volatile freight rates as a result of the continued imbalance of capacity and demand of carriers and a wave of consolidation in the shipping industry.

Kuehne + Nagel's volume growth was significantly above the market, supported by the improved market dynamics in 2017, resulting in strong turnover growth of 11.2 per cent. In spite of margin pressure due to consolidation in the supplier market and a more competitive market environment, the Group was able to increase gross profit by 7.2 per cent and grew its EBIT by 3.2 per cent in 2017 (excluding negative impacts of currency translation of 0.4 per cent and acquisitions of 0.7 per cent). The Group achieved its target of 5.0 per cent EBIT in relation to net turnover.

KEY FINANCIAL FIGURES

CHF million	2017	2016	Variance in per cent
Turnover	22,220	19,985	11.2
Net turnover	18,594	16,525	12.5
Gross profit	7,023	6,550	7.2
Gross profit in per cent of net turnover	37.8	39.6	
EBITDA	1,150	1,110	3.6
EBIT	937	918	2.1
EBIT in per cent of net turnover	5.0	5.6	
EBIT in per cent of gross profit	13.3	14.0	
Earnings for the year	740	720	2.8
Earnings for the year (Kuehne + Nagel share)	737	718	2.6
Earnings per share (in CHF)	6.16	5.99	2.8
Operational cash flow	1,148	1,062	8.1
Capital expenditures for fixed assets	225	239	–5.9
Total employees at year-end	75,876	70,038	8.3
Total full-time equivalents at year-end	92,372	85,887	7.6

Kuehne + Nagel’s net turnover increased in 2017 by CHF 2,069 million or 12.5 per cent and gross profit increased by CHF 473 million or 7.2 per cent compared to the previous year.

In 2017, EBIT increased by CHF 19 million or 2.1 per cent. At constant exchange rates and excluding acquisitions the increase would have been CHF 29 million or 3.2 per cent. The Group increased earnings for the year 2017 by CHF 20 million or 2.8 per cent compared to 2016, in constant currencies and excluding acquisitions by CHF 28 million or 3.9 per cent. Capital expenditure in fixed assets decreased by CHF 14 million or 5.9 per cent to CHF 225 million compared to the previous year.

In 2017, the Kuehne + Nagel Group increased the number of employees year-on-year by 5,838 or 8.3 per cent from 70,038 to 75,876 employees. The number of full time equivalents reached 92,372 versus 85,887, which is an increase of 6,485 or 7.6 per cent.

INCOME STATEMENT

Turnover

In 2017, Kuehne + Nagel's turnover amounted to CHF 22,220 million representing an increase of 11.2 per cent or CHF 2,235 million compared to the previous year. Organic business growth resulted in an increase in turnover of CHF 2,087 million (10.4 per cent) and acquisitions contributed CHF 72 million (0.4 per cent). The turnover increase was driven by the significant volume growth in all business units and regions.

Volumes in Seafreight increased by 7.5 per cent (+ 302,000 TEUs) and turnover per TEU increased by 2.7 per cent to CHF 2,022 per TEU (2016: CHF 1,969). In Airfreight, the volume increase was 20.4 per cent (+ 266,000 Tons), and the freight rate increase was at 0.4 per cent per 100 kg to CHF 303 (2016: CHF 302). These were the main contributors to the turnover growth, followed by volume increases in Overland and Contract Logistics.

At a regional level, Europe, Middle East, Central Asia and Africa "EMEA" (11.2 per cent), the Americas (12.8 per cent) and Asia-Pacific (7.8 per cent) reported an increased turnover in 2017.

Exchange rate fluctuations between 2016 and 2017, based on average yearly exchange rates, led to an increased valuation of the Euro of 2.1 per cent, a decreased valuation of the US Dollar as well as dependent currencies and the British Pound by 0.6 and 5.4 per cent respectively, against the Swiss Franc, resulting in a positive impact of CHF 76 million (0.4 per cent) of turnover.

Net turnover

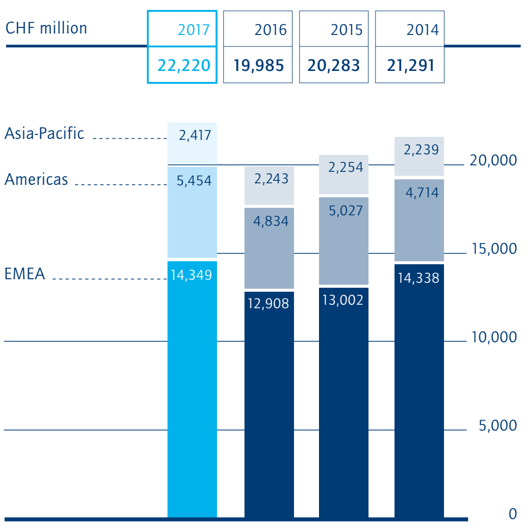
In 2017, Kuehne + Nagel's net turnover amounted to CHF 18,594 million representing an increase of 12.5 per cent or CHF 2,069 million compared to the previous year. Organic business growth resulted in an increase in net turnover of CHF 1,982 million (12.0 per cent) and acquisitions contributed CHF 72 million (0.4 per cent). The exchange rate fluctuation had a positive impact of CHF 15 million (0.1 per cent).

At a regional level, EMEA (11.8 per cent), the Americas (14.2 per cent) and Asia-Pacific (12.9 per cent) reported an increased net turnover in 2017.

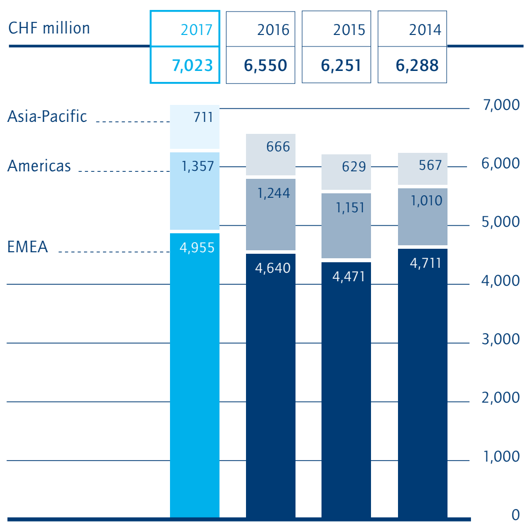
Gross profit

Gross profit reached CHF 7,023 million in 2017, which represents an increase of 7.2 per cent or CHF 473 million compared to the previous year. Organic business growth resulted in an increase in gross profit

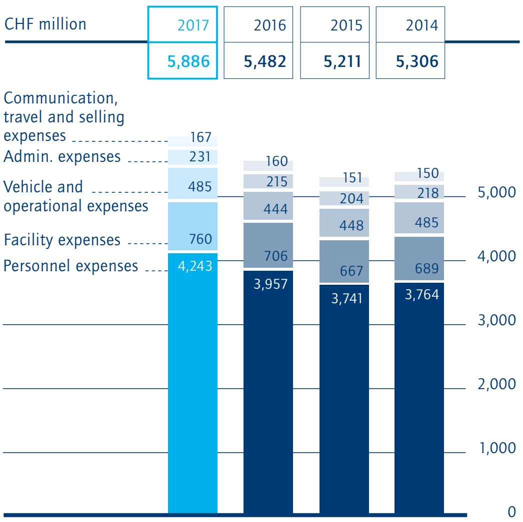
Regional turnover



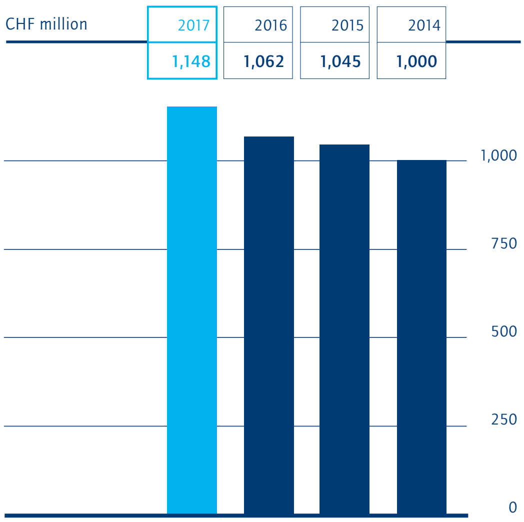
Regional gross profit



Operational expenses



Operational cash flow



of CHF 453 million (6.9 per cent), mainly in the business unit Contract Logistics (+ CHF 340 million), and exchange rate fluctuation had a negative impact of CHF 9 million (0.1 per cent). Acquisitions contributed CHF 29 million (0.4 per cent). The positive effect from volume growth in Sea and Airfreight was partially offset by lower yields in a competitive market environment with increasing supplier rates.

At a regional level, EMEA (6.8 per cent), the Americas (9.1 per cent) and Asia-Pacific (6.8 per cent) reported an increased gross profit in 2017.

Operational cash flow

The operational cash flow, the sum of the net income for the year plus/minus non-cash-related transactions, increased by CHF 86 million to CHF 1,148 million in 2017 (for further information, please refer to the cash flow statement in the Consolidated Financial Statements 2017 on page 43).

EBITDA

In 2017, earnings before interest, tax, depreciation, amortisation and impairment of property, plant and equipment, goodwill and other intangible assets, increased by CHF 40 million or 3.6 per cent compared to the previous year; EBITDA of organic business increased by CHF 42 million, acquisitions contributed CHF 2 million, and negative exchange rate development accounted for EBITDA of CHF –4 million.

EMEA generated the largest EBITDA contribution with CHF 675 million (58.7 per cent), followed by the Americas with CHF 246 million (21.4 per cent), and Asia-Pacific with CHF 229 million (19.9 per cent).

EBIT / Earnings for the year

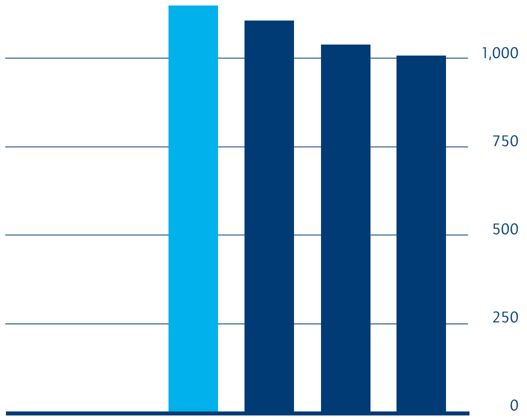
In 2017, earnings before interest and tax (EBIT) increased by CHF 19 million to CHF 937 million (2016: CHF 918 million). The increase was mainly due to higher contribution from the organic business by CHF 29 million, whereas the business from acquisitions had a negative impact of CHF 6 million, mainly due to the amortisation of other intangibles of CHF 8 million; the exchange rate development had a negative impact of CHF 4 million. The EBIT margin to net turnover for the Group has decreased to 5.0 per cent compared to 5.6 per cent in 2016. EBIT in per cent of gross profit (conversion rate), an important KPI for the Group, decreased from 14.0 per cent in 2016 to 13.3 per cent in 2017.

In 2017, the region EMEA contributed CHF 523 million (55.8 per cent) to the Group's EBIT, followed by Asia-Pacific with CHF 210 million (22.4 per cent), and the Americas with CHF 204 million (21.8 per cent).

Earnings for the year 2017 increased by CHF 20 million to CHF 740 million compared to the previous year's CHF 720 million, whereby the margin decreased to 4.0 per cent (in per cent of net turnover) compared to the previous year's 4.4 per cent.

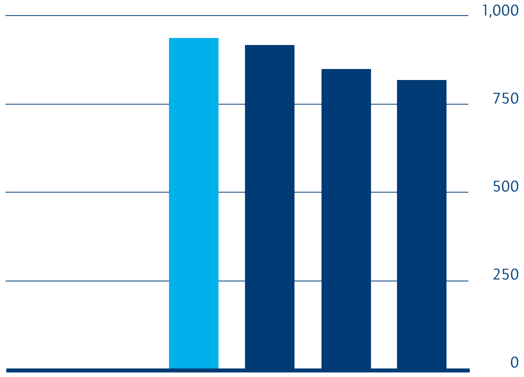
EBITDA

CHF million	2017	2016	2015	2014
	1,150	1,110	1,041	1,005



EBIT

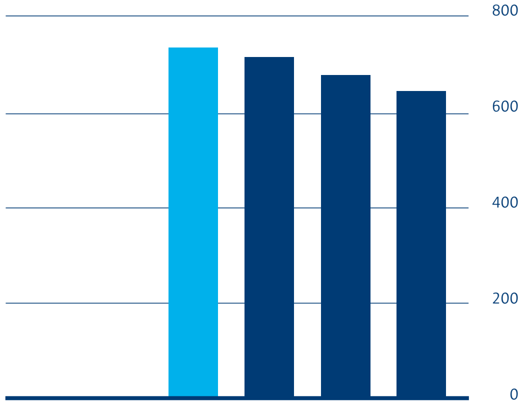
CHF million	2017	2016	2015	2014
	937	918	850	819



Earnings for the year were positively impacted by the tax reform in the USA and the Group expects a positive impact on the effective tax rate based on the above for 2018.

Earnings for the year

CHF million	2017	2016	2015	2014
	740	720	679	644



FINANCIAL POSITION

In 2017, total assets and liabilities of the Group increased by CHF 1,126 million to CHF 7,457 million compared to 2016. The amount of cash and cash equivalents decreased by CHF 127 million, mainly due to changes in working capital through volume growth and rate increases in Sea and Airfreight. For details of changes in the balance sheet and cash flow statement, please refer to the Consolidated Financial Statements.

Trade receivables amounting to CHF 3,537 million represent the most significant asset of the Kuehne + Nagel Group. The days of trade receivables outstanding increased by December 2017 to 53.9 days compared to 46.6 of December 31, 2016, reflecting an increasingly higher pressure from customers for longer credit terms.

As of December 31, 2017, the equity of the Group increased by CHF 162 million to CHF 2,327 million, which represents an equity ratio of 31.2 per cent (2016: 34.2 per cent).

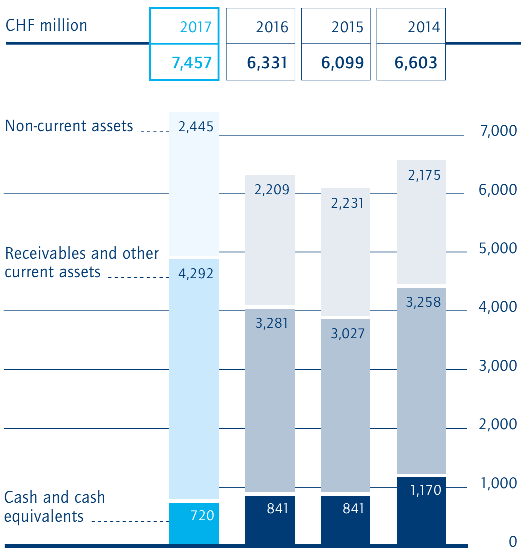
Developments of other key financial indicators on capital structure are shown in the following table:

Kuehne + Nagel Group key figures on capital structure

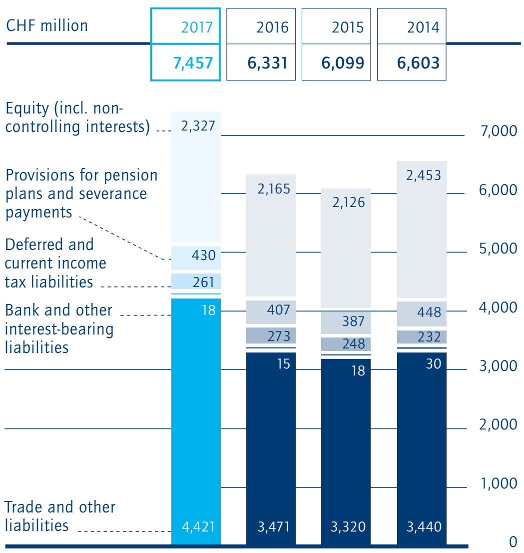
Key figures on capital structure	2017	2016	2015	2014	2013
1 Equity ratio (in per cent)	31.2	34.2	34.9	37.1	40.1
2 Return on equity (in per cent)	32.1	32.8	28.7	24.9	23.9
3 Debt ratio (in per cent)	68.8	65.8	65.1	62.9	59.9
4 Short-term ratio of indebtedness (in per cent)	60.5	55.7	55.3	52.7	51.0
5 Intensity of long-term indebtedness (in per cent)	8.3	10.1	9.9	10.2	8.8
6 Fixed assets coverage ratio (in per cent)	120.5	126.9	122.2	143.6	146.3
7 Working capital (in CHF million)	502	595	496	949	988
8 Receivables terms (in days)	53.9	46.6	44.4	44.4	43.2
9 Vendor terms (in days)	69.0	60.2	55.1	54.9	52.6
10 Intensity of capital expenditure (in per cent)	32.8	34.9	36.6	32.9	33.5

1 Total equity in relation to total assets at the end of the year.
2 Net earnings for the year in relation to share capital + reserves + retained earnings as of January 1 of the current year less dividend paid during the current year as of the date of distribution + capital increase (incl. share premium) as of the date of payment.
3 Total liabilities – equity in relation to total assets.
4 Short-term liabilities in relation to total assets.
5 Long-term liabilities in relation to total assets.
6 Total equity (including non-controlling interests) + long-term liabilities in relation to non-current assets.
7 Total current assets less current liabilities.
8 Turnover in relation to receivables outstanding at the end of the current year.
9 Expenses for services from third parties in relation to trade liabilities/accrued trade expenses at the end of the current year.
10 Non-current assets in relation to total assets.

Assets



Liabilities



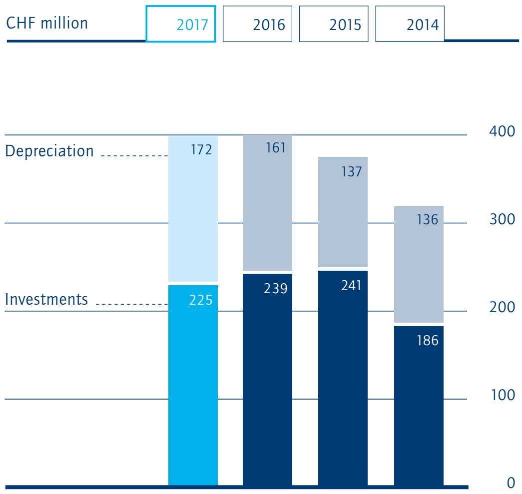
INVESTMENTS, DEPRECIATION AND AMORTISATION

In 2017, the Kuehne + Nagel Group invested a total of CHF 225 million (2016: CHF 239 million) in fixed assets. Investments in properties and buildings amounted to CHF 48 million (2016: CHF 42 million), of which the most substantial amount into a new large-scale pharma logistics facility in Moehlin, Switzerland, and CHF 177 million (2016: CHF 197 million) were invested in other fixed assets, operating and office equipment.

All capital expenditure in 2017 was financed through operational cash flow.

In 2017, the following major investments were made in properties and buildings:

Investments in fixed assets/depreciation



Location	CHF million	Centres
Moehlin, Switzerland	15	Construction of a large-scale pharma logistics facility
Geel, Belgium	7	Expansion of a logistics facility
Mississauga, Canada	7	Construction of a built-to-suit warehouse
Bremen, Germany	6	Construction of a new office building
Various locations	13	
Total	**48**	

The allocation of investments in other fixed assets, operating and office equipment by category is as follows:

CHF million	2017	2016
Operating equipment	74	93
Vehicles	13	16
Leasehold improvements	46	43
IT hardware	34	34
Office furniture and equipment	10	11
Total Group	**177**	197

The allocation by region is as follows:

CHF million	2017	2016
EMEA	116	151
Americas	40	26
Asia-Pacific	21	20
Total Group	**177**	197

The allocation by business unit is as follows:

CHF million	2017	2016
Seafreight	19	19
Airfreight	18	22
Overland	23	31
Contract Logistics	117	125
Total Group	**177**	197

Depreciation and amortisation in 2017 amounted to CHF 213 million and was allocated in the income statement as indicated in notes 26 and 27 to the Consolidated Financial Statements.

The Group continued to operate an asset-light business model and invests only into strategically important locations with high demand for state of the art logistic space.

SHAREHOLDER RETURN

Dividend

For 2017 the Board of Directors is proposing a dividend amounting to CHF 5.75 per share for approval at the Annual General Meeting. If the dividend proposal is approved by the shareholders, the dividend payment on the shares will amount to CHF 688 million (2016: CHF 658 million) resulting in a payout ratio of 93.3 per cent (2016: 91.8 per cent) of the earnings for the year attributable to the equity holders of the Company. Based on the share price at year-end 2017 the dividend yield on the Kuehne + Nagel share is 3.2 per cent (2016: 3.7 per cent).

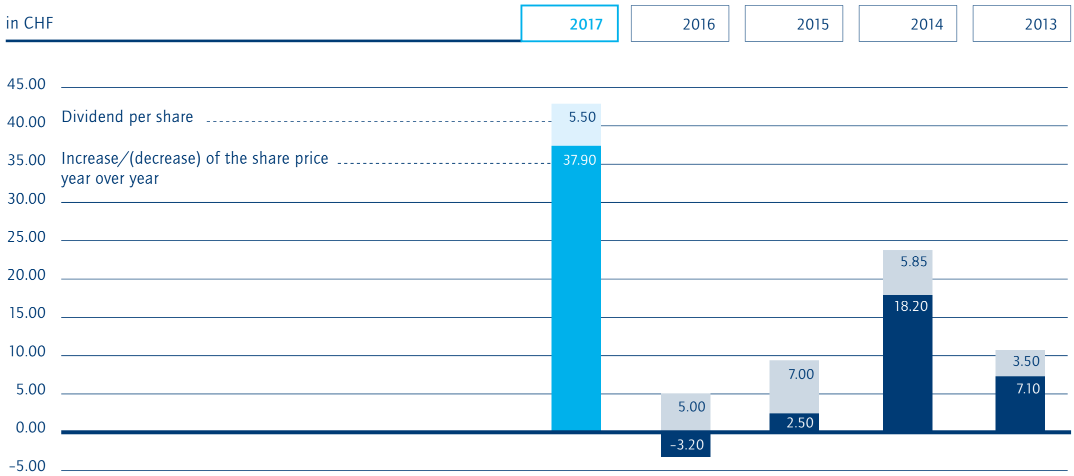
Total Shareholder Return for the year 2017 has been the highest in the last 5 years with CHF 43.40 per share.

Share price and market capitalisation (December 31)

Share price and market capitalisation	2017	2016	2015	2014	2013
Share price (in CHF)	172.50	134.60	137.80	135.30	117.10
Market capitalisation (in CHF million)	20,700	16,152	16,536	16,236	14,052

Total shareholder return development

in CHF	2017	2016	2015	2014	2013
Increase/(decrease) of share price year over year	37.90	-3.20	2.50	18.20	7.10
Dividend per share	5.50	5.00	7.00	5.85	3.50
Total return	43.40	1.80	9.50	24.05	10.60



RISK MANAGEMENT, OBJECTIVES AND POLICIES

Group risk management
Risk management is a fundamental element of the Group's business practice on all levels and is embedded into the business planning and controlling processes of the Group. Material risks are monitored and regularly discussed within the Risk and Compliance Committee and the Audit Committee of the Board of Directors.

The Risk and Compliance Committee headed by the CEO and having the CFO, the Chief Compliance Officer, the Head of Internal Audit, and the Group General Counsel as members, monitors the risk profile of the Group and the development of essential internal controls to mitigate these risks.

A risk is defined as the possibility of an adverse event which has a negative impact on the achievement of the Group's objectives.

The Group carries out an annual risk assessment and in conformity with the Swiss Code of Best Practice for Corporate Governance, the Group's risk management system covers both financial and operational risks.

Risk management as an integral part of the Internal Control System (ICS) for financial reporting
Risk management is incorporated within the ICS. Preventive, risk-mitigating measures to control risks are proactively taken at different levels and are an integral part of management responsibility.

Risk assessment in 2017

An independent risk assessment procedure was adopted for operational risks. The Regional Management was interviewed in order to assess the risks for each country in their respective region. In addition, Management Board members assessed the overall strategic risk exposure of the Group. Within the framework of the Corporate Governance process, the updated risk assessment was then presented to the Audit Committee of the Board of Directors.

Financial risks analysis and assessment were carried out by the finance and accounting department.

The following risk areas have been identified amongst others for which mitigating actions have been implemented:

- Financial risks such as development of interest rates, credit and financial markets and currency risks are constantly monitored and controlled by the corporate finance and accounting department.
- The continuing challenges of the global and macroeconomic developments as well as the uncertainties in the financial markets. These are managed by appropriate risk diversification and avoidance of regional and industry clustering.
- Risks related to IT network availability, IT data and security are managed by the permanent monitoring of systems, redundant infrastructure as well as interlinked data centers with back-up structures and business continuity plans.
- The increase of regulations, growing complexity and customer expectations have led to rising security requirements and risks; such risks and requirements are considered in the planning of supply chain solutions and worldwide operation.
- Organised crime, terrorism, legal and non-compliance risks such as fraud, intentional and unintentional violations of the law and internal regulations are counteracted by comprehensive and worldwide staff training and a network of compliance officers at regional and national levels.

Organisation of risk management

A continuous dialogue between the Management Board, Risk and Compliance Committee and Audit Committee ensures the Group's effective risk management. The risk management system is governed by the Risk Assessment Guideline defining risk groups and sub-groups, the structure and the process of risk assessments. The risk catalogue is reviewed regularly and critical analysis ensures a continuous development of the risk management system.

Summarised assessment of the risk situation

In 2017 no significant risks were identified that would have the potential to substantially negatively impact the Group and its future development.
The most material risks remain the uncertainty of the global economic development, the geopolitical instability, volatile currency fluctuations and the financial markets, thus being in the constant focus of the management.

BUSINESS UNITS

The main contributor to the Group's result remains the business unit Seafreight, whereby in 2017 major profitability improvements were generated in the Airfreight, Overland, and Contract Logistics business units.

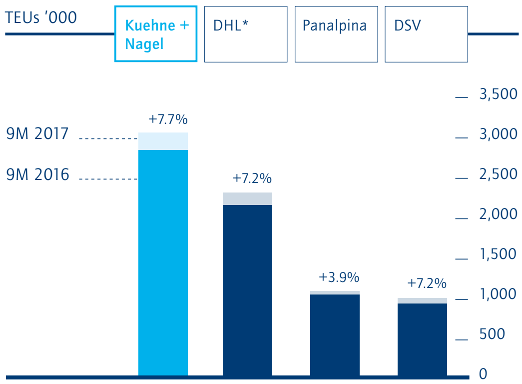
Seafreight

Seafreight volumes increased by 7.5 per cent to 4,355,000 TEUs exceeding market growth estimated at 4 to 5 per cent and further solidified the Group's global leadership in Seafreight. Services for temperature controlled cargo in reefer containers and the Less-than-Container Load (LCL) business have significantly contributed to the growth. Customers from the pharma and healthcare industry use Kuehne + Nagel to handle temperature-sensitive products.
The US import from and export to Europe trades contributed to the strong volume growth. However, the effects of the continuing consolidation in the shipping industry and margin pressure from competition impacted Kuehne + Nagel negatively. Despite further productivity increases, EBIT in 2017 declined by 7.0 per cent compared to the previous year, while the ratio of EBIT to gross profit (conversion rate) declined slightly to 29.2 per cent (2016: 31.4 per cent) due to difficult market conditions, but is still amongst the leading levels in the industry.

It remains the Group's target to achieve growth rates that are substantially above market growth.

Simultaneously the Group's focus is on the Sea and Airfreight profitability and continuous efficiency gains through productivity improvements. The Group has a long-standing track record in achieving year-over-year cost per unit improvements.

***Seafreight volumes:** Market growth ~4–5%*



* Seafreight export TEUs not separately reported.
Source: quarterly publications

Performance Seafreight

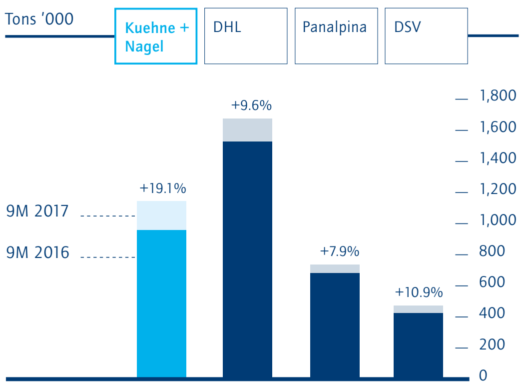
CHF million	2017	2016	2015
Turnover	8,805	7,981	8,739
Net turnover	6,583	5,814	6,406
Gross profit	1,416	1,416	1,381
EBITDA	437	465	485
EBIT	414	445	459
EBIT in per cent of gross profit (conversion rate)	29.2	31.4	33.2
Number of operating staff	9,543	9,154	8,792
TEUs '000	4,355	4,053	3,820

Airfreight

Airfreight increased volumes by 20.4 per cent to 1,570,000 tons, thus strengthening the Group's position as the number two global airfreight provider. Acquisitions, including Commodity Forwarders Inc. (CFI), a company based in Los Angeles (USA), which was consolidated as of October 2, 2017, contributed 2.3 per cent to the year-to-date volume growth. The focus on industry-specific Airfreight services like KN EngineChain, a specialised service for production, spare parts, and maintenance of aircraft engines for the Aerospace industry has significantly contributed to this success. Substantial new business has been gained through Kuehne + Nagel's state of the art services for temperature-sensitive goods, pharmaceutical and perishables products. Profitability in 2017 remained at an industry leading 30.2 per cent (2016: 30.9 per cent) EBIT-to-gross profit margin as volume growth more than compensated margin dilutions. EBIT improved by 5.0 per cent compared to the previous year.

The Group has developed in various strategic programmes world class expertise in industry and product-specific supply chain services. Organic growth in areas such as perishables, pharma and aerospace logistics, together with selected bolt-on acquisitions continue to ascertain the Group's leading position.

***Airfreight volumes:** Market growth ~10%*



Source: quarterly publications

Performance Airfreight

CHF million	2017	2016	2015
Turnover	4,759	3,935	4,014
Net turnover	4,080	3,347	3,424
Gross profit	1,036	964	904
EBITDA	333	315	286
EBIT	313	298	265
EBIT in per cent of gross profit (conversion rate)	30.2	30.9	29.3
Number of operating staff	6,693	5,734	5,563
Tons '000	1,570	1,304	1,250

Overland

Overland increased its net turnover in 2017 by 7.6 per cent with strong performance of its land transport activities within Europe. The key performance indicator EBITDA to net turnover margin was with 3.0 per cent above the previous year's 2.4 per cent. EBIT increased to CHF 49 million (2016: CHF 28 million). With the expansion of services in Overland to industry-specific solutions, Overland has significantly contributed to the success of the Group's integrated logistics offering.

Performance Overland

CHF million	2017	2016	2015
Turnover	3,356	3,130	2,825
Net turnover	3,117	2,898	2,589
Gross profit	952	895	834
EBITDA	92	70	50
EBIT	49	28	7
EBIT in per cent of gross profit (conversion rate)	5.1	3.1	0.8
Number of operating staff	8,040	7,894	8,186

Contract Logistics

The focus on specialised end-to-end solutions for industries such as automotive, high-tech, consumer goods, aerospace, pharmaceuticals, healthcare, and e-commerce fulfilment led to numerous new customer contracts. This resulted for 2017 in a (net of currency impact) net turnover growth of 8.0 per cent. More than 100 new logistics projects were implemented for customers in 2017, enabling the company to manage 10.6 million square meters of warehouse and logistics space worldwide. Continuous process improvements in 2017 led to an increase of the EBITDA to net turnover margin to 6.0 per cent versus 5.8 per cent in 2016 and an increase of EBIT by 9.5 per cent.

Kuehne + Nagel further strengthened its global leading position in the field of integrated logistics with increased contract volumes and improved profitability. The Group offers specialised end-to-end supply chain management solutions, which are managed from the Logistics Control Towers and performed with other business units, supporting customers to improve their value chain. Integrated Logistics experts develop, implement and manage solutions that streamline the supply chain to make it lean, agile and demand-driven.

Performance Contract Logistics

CHF million	2017	2016	2015
Turnover	5,300	4,939	4,705
Net turnover	4,814	4,466	4,312
Gross profit	3,619	3,275	3,132
EBITDA	288	260	220
EBIT	161	147	119
EBIT in per cent of gross profit (conversion rate)	4.4	4.5	3.8
Number of operating staff	39,957	35,866	33,925
Warehousing and logistics space in sqm	10,631,779	10,021,688	9,556,477
Idle space in sqm	283,690	364,035	335,453
Idle space in per cent	2.7	3.6	3.5

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