

IFCO SYSTEMS N.V.

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# Annual Report 2008



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# Annual Report 2008

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# Key figures

US \$ in thousands (except per share data)	US GAAP						IFRS	% Change
	2002	2003	2004	2005	2006	2007	2008	
Revenues	360,990	399,154	471,859	576,274	647,236	692,548	735,888	6.3%
Gross profit	50,542	61,793	84,227	116,209	108,966	122,606	132,177	7.8%
Gross profit margin	14.0%	15.5%	17.9%	20.2%	16.8%	17.7%	18.0%	
EBITDA	45,955	55,816	74,897	98,407	96,274	107,090	111,044	3.7%
EBITDA margin	12.7%	14.0%	15.9%	17.1%	14.9%	15.5%	15.1%	
EBIT	16,333	25,915	43,137	70,495	62,289	66,535	67,795	1.9%
EBIT margin	4.5%	6.5%	9.1%	12.2%	9.6%	9.6%	9.2%	
Profit from continuing operations before taxes	20,689	9,609	28,921	46,562	44,437	38,263	4,522	(88.2%)
Net (loss) profit	(35,575)	10,821	32,137	40,905	37,287	27,107	(6,038)	
Profit (loss) per share from continuing operations - basic*	0.45	0.27	0.65	0.98	0.71	0.52	(0.13)	
Operating cash flows from continuing operations**	26,719	51,141	88,764	95,344	92,560	117,766	57,142	(51.5%)
Capital expenditures from continuing operations, including cash paid for acquisitions	20,691	32,699	66,068	83,947	101,300	77,499	88,953	14.8%
Return on capital employed (ROCE)***	8.0%	14.4%	20.4%	27.2%	18.4%	17.2%	14.7%	
Shareholders' equity	110,103	119,828	154,917	201,469	233,858	254,626	243,323	(4.4%)
Total assets	445,526	517,791	610,933	630,481	698,341	806,237	887,709	10.1%
Headcount of continuing operations (as of the respective balance sheet dates)	2,979	2,922	3,082	4,074	4,054	4,141	4,255	2.8%

\* For comparison purposes, the weighted average outstanding shares for 2002 used in the calculation of earnings per share have been restated in effect Completed during 2002.

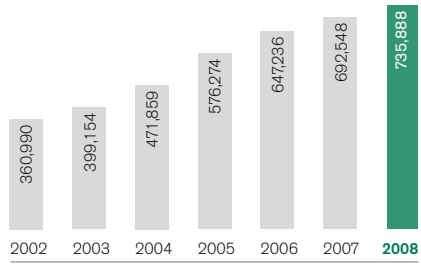
\*\* Operating cash flows presented above as calculated under IFRS are prior to interest and income tax payments. The Company reclassified the Cash Flow Statement of 2006 relating to income taxes paid of US \$0.9 million and interest received of US \$0.6 million. Income taxes paid was reclassified from cash generated from continuing operations before income tax payments to cash generated from continuing operating activities. Interest received was reclassified from operating cash flow to financing cash flow.

\*\*\* See Financial Reporting – Group Financial Highlights for explanation of this item.

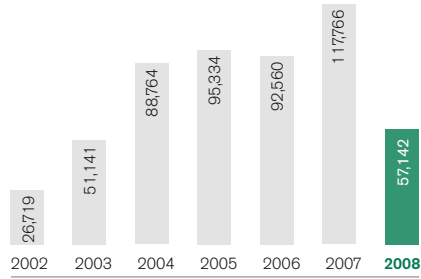
IFCO SYSTEMS prepared its consolidated financial information in accordance with generally accepted accounting principles of the United States (US-GAAP) through 2004. Beginning Q1 2005, the Company adopted International Financial Reporting Standards (IFRS) as its group accounting standard and retroactively applied those standards to January 1, 2004. Consequently, the financial information included herein for the years 2002 and 2003 is based on US-GAAP, while the data for the years 2004 to 2008 is in compliance with IFRS.



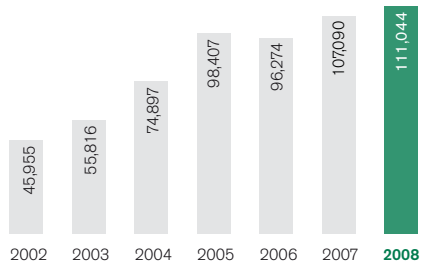
Revenues US \$ in thousands



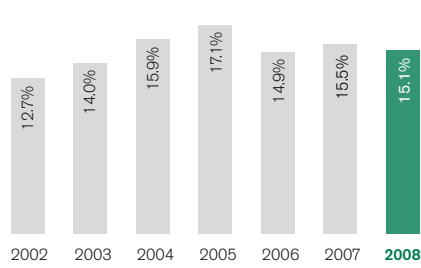
Operating Cash Flows US \$ in thousands



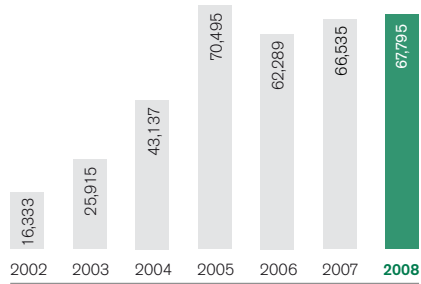
EBITDA US \$ in thousands



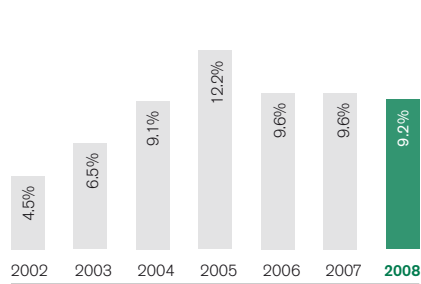
EBITDA margin



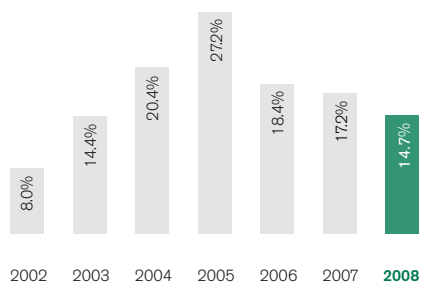
EBIT US \$ in thousands



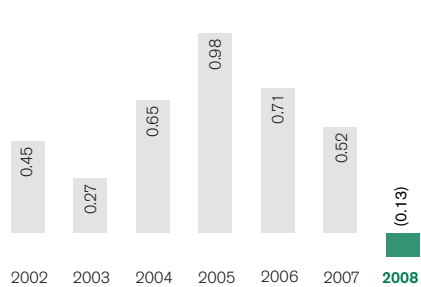
EBIT margin



ROCE



EPS – continuing operations US \$



# Key facts

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## Mission

IFCO SYSTEMS is the worldwide leading logistics services provider of Reusable Packaging Management Services and Pallet Management Services. Thanks to our economical and environmentally friendly solutions, we are setting worldwide standards in connection with our geographically comprehensive network.

Our innovative system solutions optimize the flow of goods through our clients' supply chains, providing them with sustained cost reductions and enhancing their competitive strength. Our products support IFCO SYSTEMS' ecological responsibility and contribute to climate protection.

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## Vision

To be the most trusted global provider of Reusable Packaging Management Services and Pallet Management Services.

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# 4,000

We employ more than 4,000 people worldwide.

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## 96

We operate a global pool of over 96 million RPCs.

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## 3

3 million tons of fruit and vegetables were packed and transported in our RPCs annually.

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## 398

We processed more than 398 million RPC trips in 2008 and more than 3 billion since our foundation in 1992.

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## 6,000

More than 90 retailers and 6,000 producers in 42 countries trust our unique RPC Management Services.

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## 125

We handled more than 125 million wooden pallets in the US last year.

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## 1.2

1.2 million tons of products were moved on our pallets last year.

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## 210

We maintain more than 210 operations worldwide.

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## 4.4

Our US Pallet-Management-Service business diverted 2.1 million tons of wood from landfills and saved 4.4 million trees last year.

# Letter to shareholders



2008 was a challenging year for IFCO SYSTEMS, yet in a very difficult economic environment, we still experienced positive developments and business performance. We grew our RPC Management Services and Pallet Management Services businesses and sustained the profitability recovery of our Pallet Management Services business segment.

Aside from our continuing operational development, three business events significantly impacted our 2008 financial results. First, the acquisition of STECO and first time consolidation of STECO's financials commenced in Q2 2008. Secondly, the termination of a large European RPC retailer contract in 2007 reduced our European RPC volume and burdened our working capital, although sales initiatives have partially recovered this lost volume. Lastly, the expenses associated with the ultimately successful settlement of the ICE investigation strongly negatively impacted our 2008 results.

We continue to be pleased with the development of our RPC Management Services business. In our European RPC Management Services division, each of our geographic regions contributed to our revenue growth. We are confident that increasing RPC penetration within our existing retailer base, promising new retailer prospects and the introduction of new product offerings will complete the recovery from the loss of one of our largest retailer contracts late in 2007. The acquisition of STECO, one of our most notable European competitors, has strengthened our European market position and accelerated our Central Eastern Europe growth plans. The execution of synergies between the IFCO SYSTEMS and STECO organizations are well underway and will drive future profitability gains.

Our RPC Management Services business in the U.S. also developed nicely in 2008. This growth has strengthened IFCO SYSTEMS' dominant leadership position in the United States RPC market. We remain very excited about the tremendous grocery retail potential for RPCs in the U.S. and are committed to aggressively growing this market.

We have significantly extended our RPC Management Services presence in South America in 2008 by starting business in Brazil with one of the largest grocery retailers. We are very pleased with the business opportunities these South American countries bring to our global portfolio.

Our development of new markets and services, as well as expansion into new product lines, clearly positions IFCO SYSTEMS as a key global provider for all reusable packaging needs, an important strategic positioning objective.

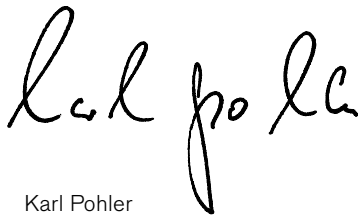
Pallet Management Services' revenues and profitability improved, in spite of challenging circumstances in 2008. Although we believe the U.S. economic environment will remain very difficult in 2009, we also remain confident that the key competitive advantages of our Pallet Management Services business – the breadth of our service offerings, our national network and our value proposition at a national and local level – have not changed and will continue to allow our Pallet Management Services segment to outpace the general market development in upcoming years.

Even though our 2008 overall results were negatively impacted by the continuing operational recovery from the 2006 ICE investigation, the shortfall from the termination of a large RPC retailer contract and the difficult economic climate, we still grew our revenues by 6.3% (3.5% currency adjusted) compared to 2007 and EBITDA increased by 3.7% (currency adjusted unchanged to prior year).

IFCO SYSTEMS recognizes it plays a role and has responsibility in this world's environment. This responsibility will be one of our key missions in the future.

We would like to express our special thanks to our employees, whose continuing commitment to IFCO SYSTEMS was the basis for our success again in 2008. Our thanks also go out to our customers, suppliers and other business partners, who continued to place their trust in us. Finally, we would like to thank our shareholders, who maintained their faith in our Company's capabilities and opportunities, and supported us and our strategic decisions to further increase IFCO SYSTEMS' value.

Although the global economic environment will be very challenging in 2009, we are very excited about our business opportunities and look forward to another year of growth in 2009.

A handwritten signature in black ink, appearing to read 'Karl Pohler', with a stylized flourish at the end.

Karl Pohler  
Chief Executive Officer

# Management



Karl Pohler  
Chief Executive Officer



Michael W. Nimtsch  
Chief Financial Officer

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## Management

IFCO SYSTEMS' Board of Managing Directors and the Executive Management are dedicated to promoting our worldwide market leadership and enhancing the Company's value. Our management style is target and result oriented and awards scope for entrepreneurial action to every employee. We are all ultimately responsible for our own actions, but all of us are reliant upon guidelines which help us direct our daily doings. The main charge of IFCO SYSTEMS' management is to set those guidelines. At the very core of IFCO SYSTEMS' corporate guidelines lies the word responsibility: the duty to answer, the need to be responsible.



Wolfgang Orgeldinger  
Chief Operating Officer



Helmut Hoerz  
Chief Sales Officer Europe



David S. Russel  
President, IFCO SYSTEMS North America

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## Ethics

We are aware of the importance of maintaining the trust and confidence of our employees, our customers, our shareholders and other stakeholders of IFCO SYSTEMS. We achieve this by acting honestly, fairly and reasonably with each other and among all of these groups. This is the basis for the success of our businesses and the protection of our reputation.

# Corporate Culture

Our corporate culture is the basis for the continuous success of IFCO SYSTEMS. We are convinced that the corporate culture and a positive work environment contribute significantly to employee motivation and the long-term success of our company.

IFCO SYSTEMS' corporate culture is characterized by flat organization structures, ensuring open and solution oriented communication across all levels. Our management style is target and results oriented, while providing a degree of entrepreneurial freedom to every employee. Our open door and open information policy directly involve our people in IFCO SYSTEMS' activities.

As a global corporation, it is necessary to think and communicate across language and geographical barriers, and to orient our strategies accordingly. However, as we endeavor to succeed in each of our markets, we aim to be flexible enough to adapt our global strategy to the local market conditions.

Our business model calls for close relationships with our customers and a focus on local market conditions. To reflect this, we think globally and act locally. Therefore, our operational staff is usually recruited from the individual countries and regions in which we operate. Due to their close contacts with our customers, they are highly familiar with individual client needs and concerns, and are conversant with the different cultures characterizing the various individual markets. This close interaction with our customers and the environment in which they operate is vital for our long term success.

As a service provider, the motivation, entrepreneurial attitude and qualifications of our staff is the foundation for the present and future success of our corporation. As our managers participate in our successes via performance based cash and performance based incentive programs, we are creating an incentive for our staff to take initiative and assume responsibility.

Constantly striving to maintain and improve our group performance is an essential part of our corporate culture. Ongoing staff training form the core of our human resources policy, with individual training requirements determined and implemented through regular evaluation and development reviews.

IFCO SYSTEMS' established procedures and standards go above and beyond current regulations and mandates. IFCO SYSTEMS' employees are central to its success. The Company's businesses have thrived by offering a workplace environment free of discrimination and providing a competitive level of compensation and benefits for our employees.



## Corporate Social Responsibility

IFCO SYSTEMS is a sustainable enterprise from a commercial, social and environmental perspective. We firmly believe that corporate activity and social responsibility are not mutually exclusive, but rather depend on one another. For IFCO SYSTEMS, social responsibility is a very important component of its corporate identity. Our values, quality, transparency, respect and trust, drive the way we interact with our employees, stakeholders, the environment and society.



We are aware of the importance of maintaining the trust and confidence of our employees, our customers, our shareholders and other stakeholders of IFCO SYSTEMS. We achieve this by acting honestly, fairly and reasonably among each other and among all of these groups. This is the basis for the success of our business and the protection of our reputation.

Our experience has taught us that our success is contingent upon our ability to have the flexibility to respond to our customer's changing needs and expectations. Our ability to do so is due to our respect for and response to the wants of our employees, the men and women who make IFCO SYSTEMS what it is. We recognize that the same respect is due to all those with whom IFCO SYSTEMS deals; from the laborer in a warehouse to our client's CEOs. We can only be treated fairly ourselves if we treat others the same; thus we have a responsibility to be fair and open to all with whom we do business.

We stay committed to continually improving our Corporate Social Responsibility performance.

## Corporate Culture



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# 4,000

We employ more than 4,000 people worldwide providing services in 42 countries.

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# 41

533 people have been employed by IFCO SYSTEMS\* more than 5 years, 170 people more than 10 years, 34 people more than 15 years and one employee from the United States has worked for IFCO SYSTEMS more than 41 years.

\*IFCO SYSTEMS and its affiliated and predecessor companies



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# Our Business

IFCO SYSTEMS is engaged in two main business segments. We operate a worldwide RPC Management Services business and a Pallet Management Services business in North America.

Increasing market dynamics and globalization in commerce are placing increasing demands on logistics providers. Today, products have to be transported intelligently, efficiently and above all, rapidly. At the same time, the protection of the environment is becoming more and more important. While these requirements place high demands on logistics management and reusable transport containers, this market shift also creates significant growth opportunities for well-positioned logistics service providers.

We have market leading positions in multi-billion US Dollar markets and offer significant future growth potential in our proven RPC Management Services business and our Pallet Management Services business. Thanks to our broad range of solutions and the continuous improvement of our products and services, we are able to meet virtually all customer requirements in an individual and client focused manner.

Barriers to entry in both businesses are very high in light of the large financial investments necessary for a comparable RPC pool and the development of a geographic network infrastructure which would be required to compete with our worldwide RPC businesses and our Pallet Management Services business. In addition, we possess extensive market knowledge and unique pool management expertise, and are proud to employ quality and talented management with in-depth industry experience.







Our Business

**RPC Management Services**











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IFCO SYSTEMS is the leading global provider of Reusable Packaging Management Services.

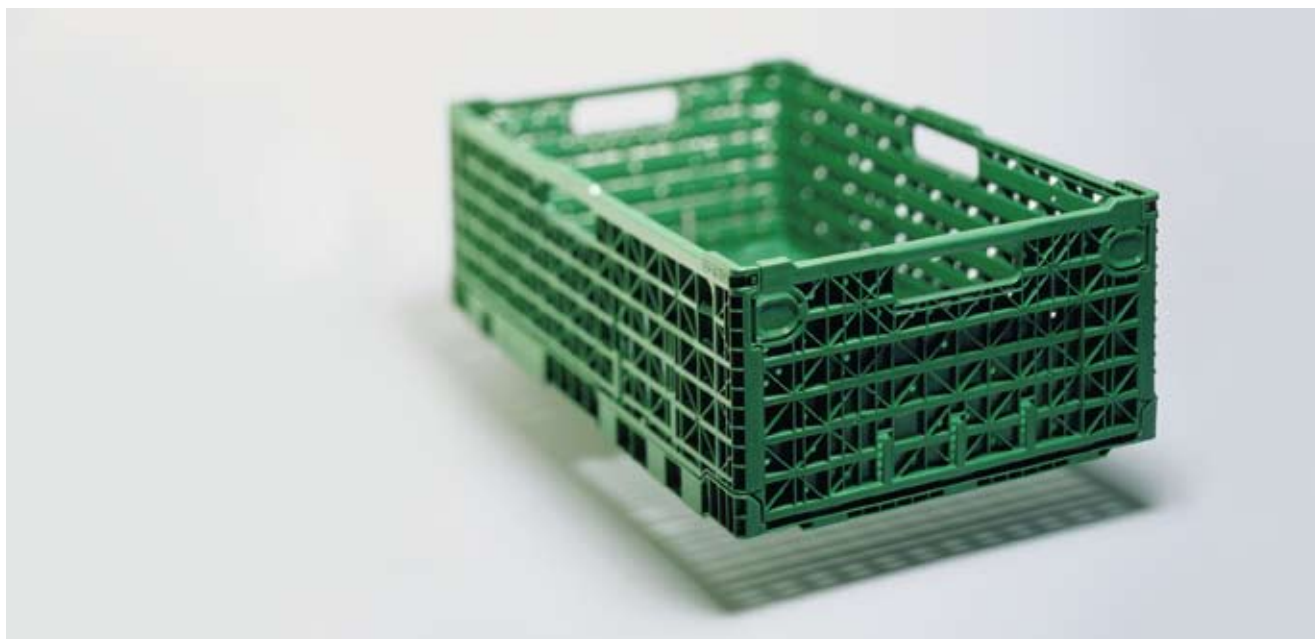
In our RPC Management Services business segment we offer superior reusable packaging, transport and service solutions across all industries, providing our customers with efficient tailor-made solutions for all their packaging needs. With our worldwide network, superior products and significant pool management expertise, we effectively manage millions of shipments with the highest standards of reliability and security for our customer's products.

By using reusable packaging instead of disposable packaging, our customers achieve significant cost and handling efficiencies along the entire supply chain while at the same time minimizing their ecological footprint.

Being the leading global provider of reusable packaging solutions for fruit and vegetables, IFCO SYSTEMS is broadening its product range to meet its customers growing requirements for new reusable packaging solutions as for fresh products such as meat and also solutions for beverages, bulk containers and plastic pallets. IFCO SYSTEMS is constantly developing innovative products offering an integrated one-stop solution for reusable packaging.

Our logistics and pool management competence in the food industry represents an excellent foundation to provide our services to other industries.

Our service offering supports the growing outsourcing trend in industrial companies and allows companies to focus on their core competencies while benefiting from the expertise of a specialized service provider for reusable packaging solutions. The service portfolio of IFCO SYSTEMS covers all aspects of pool management and supports the full supply chain. We advise our customers on the selection of the optimal reusable packaging product and we ensure that the required reusable packaging products are always provided in time and at the right place.



## **Line of goods**

### **Reusable Plastic Containers (RPC) for Fruits & Vegetables**

The market for fruits & vegetables is the main area of IFCO SYSTEMS. Since its foundation in 1992, IFCO SYSTEMS has managed the delivery of more than 3 billion containers worldwide and made RPCs the most efficient and ecological packaging method for fruits and vegetables.

In our core markets, Europe and the United States, some 260 million tons of fruit and vegetables are produced annually. These products must make their way quickly and without damage from producers to consumers – and often across country borders. In many instances, the period between harvest and consumption is no more than a few days.

Consequently, retailers and producers are calling for flexible, effective, cost efficient and state-of-the-art product distribution solutions. This puts stringent demands on transport containers and their utilization from producers through retailers to consumers. IFCO SYSTEMS' container and service systems are well equipped to meet these demands.

IFCO SYSTEMS' core competence is the efficient management of a worldwide rental pool of over 96 million RPCs used to transport fruit and vegetables. Offering a total of 21 different models, our RPCs address the packaging and transportation requirements of various types of fruit and vegetables.

### The cycle

In order to prepare the RPCs for shipment to the producers, IFCO SYSTEMS, in cooperation with retailers, handles the return transport of the empty and folded containers from the retailer's central warehouses to the IFCO SYSTEMS service centers. A quality inspection is then performed and each container is carefully sanitized and cleaned according to stringent food hygiene requirements, such as the HACCP-Standard (Hazard Analysis and Critical Control Points) in Europe and the AIB (American Institute of Baking) in the United States. The RPCs are now ready for shipment to the producer.

The cycle then continues with the producers of fruits and vegetables, who order the required number of RPCs from IFCO SYSTEMS. Our services consist of providing the producers with RPCs for their products at the right time and place and in the right type and quantity. To fulfill these requirements, IFCO SYSTEMS has developed a logistics network in place that encompasses 59 service centers worldwide at strategic locations in our key markets.

The delivery of RPCs from the IFCO SYSTEMS service centers to our customers, which are coordinated by our personnel and systems, is performed by third party transport companies. Once the producers have filled the RPCs with goods, the containers are transported to retailers' central warehouses. The products then enter the retail distribution chain and are shipped from the central warehouses to the respective retail outlets where the goods are sold to consumers.



One complete pass for an RPC through this cycle is referred to as a trip. In order to ensure the prompt return of the empty RPCs and to safeguard our assets, we have introduced a deposit system in Europe and a clearing system in the United States covering the entire goods cycle from producers to the individual retailers. Every day, IFCO SYSTEMS coordinates the outbound and inbound movement of approximately 450 third party truckloads of RPCs. IFCO SYSTEMS transported goods with a total weight of more than 3 million tons in its RPC Management Services business segment during 2008.



### **IFCO SYSTEMS' RPCs – High quality combined with low costs**

In close cooperation with the manufacturers of our RPCs, as well as our customers, we are continuously optimizing our RPCs in terms of their technical characteristics, stability and design. This ensures constant quality enhancement, as well as advancing the development of new applications. Examples are the latest RPC generation launched in Europe, the "IFCO Green Plus" line, as well as the state-of-the-art generation of RPCs which has been rolled out in the US market. The design of the new IFCO SYSTEMS RPC generations further improve the perishability and damage rates of produce through their enhanced design and markedly reduces the container damage rate. The lower folded height of our RPCs increases their volume per pallet significantly, further reducing our transport costs and providing labor savings for our business partners.

Our logistics management expertise and RPC design guarantee that the high quality of clients' goods is retained, while reducing costs throughout the entire supply chain. We provide support for the efficient organization of goods and product cycles, thereby creating further cost advantages for our customers.

The practical value to everyone lies in the benefits of the global supply chain and the satisfaction of the customer.

Our RPCs make prudent and sparing use of natural resources and represent an efficient contribution to the protection of the environment. In opting for our products, customers are also making a valuable contribution to environmental protection and use efficient and environmentally responsible ways to distribute their products, while at the same time eliminating disposal costs. IFCO SYSTEMS helps its customers to achieve a higher level of environmental sustainability through our corporation's sense of responsibility.

Below are some of the advantages which make our Reusable Plastic Containers superior to traditional packaging:

#### **Advantages to the producer:**

##### **Economic advantages**

- One-off rental fee per use
- Just-in-time delivery
- Low provision of stock, short-term ordering as required
- Low capital tie-up, no investment risk
- Significant reduction of damage to goods in storage and transportation

##### **Application advantages**

- Standard packaging of Europe's leading retailers
- 21 different RPC types (10 in Europe, 11 in the US), covering the entire range of fruit and vegetables
- Efficient storage (105 to 512 crates per pallet, depending on the type of RPC)
- Simple manual or mechanical set-up
- Easy and safe stacking
- Branding with advertising inlays or inserts possible





#### Advantages for goods

- Open side and base structure means reduced energy for cooling and guarantees freshness in storage and transportation
- Optimum protection of products in transportation by means of stable structure and rounded inner edges
- Hygienic packaging through our sanitation process following each trip

#### Advantages for Retail:

##### Advantages in goods procurement

- Optimum transport packaging that guarantees maximum freshness and quality of the goods across all stages of the supply chain
- Significant reduction of damage to goods in transportation and storage
- Availability throughout Europe/US
- 21 different RPC types (10 in Europe, 11 in the US), covering the entire range of fruit and vegetables

##### Advantages in goods logistics

- Standard packaging with the basic dimensions 60 x 40 cm and 40 x 30 cm
- Compatible with all primary pallet types (Europallets and ISO pallets in Europe, GMA pallets in the US)
- All RPC types are mutually compatible
- Optimum stacking properties for segregated and mixed dispatch units
- Highly suited to the use of jaw loaders, as well as the use of materials handling technology and automatic storage systems
- Practical ergonomics for manual handling (handles on all four sides, stability)



### Advantages in sales

- Enhances sales through outstanding display properties
- Increased merchandising attractiveness through standardized containers
- Usable for chilled and humidified display counters
- Effect exchange of empty RPCs in produce departments takes less time and reduces labor costs
- Branding with advertising inlays or inserts possible

### Advantages in removal

- Fast, space-saving removal through simple folding of the empty RPCs, no waste disposal required
- Protection of the environment and natural resources through multiple reuse

### Economic advantages

- Significant reduction of damage to goods in storage and transportation
- Reduction of labor costs through improved handling
- Reduced costs for warehousing
- No costs for waste disposal
- Total cost savings of 23% compared with cardboard (Fraunhofer study)

### Advantages for the Environment:

Reusable packaging system

100% recyclability of RPCs

No waste disposal at retailer

The recent study, "The sustainability of packaging systems for fruit and vegetable transport in Europe based on life-cycle-analysis Update 2009", published in February 2009 by Stiftung Initiative Mehrweg, highlighted various environmental advantages in using RPCs in comparison to cardboard.

### IFCO RPCs are ecologically superior compared to traditional one way packaging:

- 49% lower greenhouse emissions potential
- 33% lower ozone depletion potential
- 46% lower summer smog potential
- 69% lower Acidification potential (contribution to acid rain)
- 88% lower Eutrophication (contribution to over-fertilization)

A recent study, entitled "Life Cycle Inventory of Reusable Plastic Containers and Display-Ready Corrugated Containers Used for Fresh Produce Applications", was conducted by Franklin and Associates, a recognized leader worldwide in the development of LCI (life cycle inventory) data.

### Key Findings:

- Reduce solid waste by 95%
- Require 29% less total energy



## Product development

Based on our strategy to broaden our product line, we have developed new reusable packaging products, which are designed to address our customers' needs and carry all advantages and benefits of our fruit and vegetable RPCs.

### Beverage Trays

Changing demographics and consumer behavior have impacted the beverage industry in recent years. The continuing trend in single person households and smaller families has led to rising demand for smaller packaging units with greater variety. As an example, the beverage industry has adjusted its product offerings with more small-sized beverage packages such as six-packs, multipacks and single bottles, instead of larger, heavier beverage crates.

Previously six-packs, multipacks and single bottles were transported on pallets, and then either sold directly from pallets or repacked onto the retailers' displays. Neither of these methods is ideal, as they either require significant labor, waste valuable storage space or are not appealing to the consumer.

IFCO SYSTEMS has developed, in close collaboration with Delbrouck, an innovative system for the distribution, merchandising and return of small-sized beverage packaging. This system offers economic and supply chain advantages for the beverage industry, retailers and beverage wholesalers, as compared to the distribution of small-sized beverage packages in traditional plastic crates or cardboard displays. The "IFCO-Dual-Tray-System" offers double the benefit as a result of its two-sided utilization, with one side offering space for single bottles, and the other side accommodating diverse multipacks.



The products remain on the dual tray throughout the whole supply chain and can be merchandised directly at the point of sale (POS). After the product has been sold, the empty tray is available for the collection of empty containers, saving retailers valuable stock space as no crates for empties have to be stored.

This open pool system can support virtually all existing beverage distribution channels. IFCO SYSTEMS' extensive network of service partners also offers a complete and customized range of cost efficient services to both industry and retail distribution cycles. As the IFCO SYSTEMS beverage trays are provided as a pooling system, industry benefits from no investment risk and just-in-time deliveries.

The Fraunhofer Institute confirmed the above findings that IFCO SYSTEMS' beverage trays reduce costs. Their 2008 beer distribution study compared the cost-effectiveness of various packaging solutions and found that IFCO SYSTEMS beverage tray pool offers the following benefits:

- 30% savings vs. one-way displays
- 12.5% more bottles transported per comparable loading unit than in conventional distribution
- 80% reduction in handling costs at the retail store as compared to traditional shelf display



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In 2008, IFCO SYSTEMS won the Logistics Service Award 2008 from the Bundesvereinigung Logistik (BVL – German Logistics Association) as recognition for outstanding and innovative logistics services, for the design and implementation of the IFCO Dual Tray Beverage Pool.



### IFCO Magnum-Box

The IFCO SYSTEMS Magnum-Box was designed to ensure safe packaging and transport for large and heavy fruits and vegetables not suitable for regular RPCs due to their size and weight, such as melons, pumpkins, and sacks of onions and potatoes. Despite its larger measurements, the IFCO Magnum Box works well with our existing IFCO Green Plus crates and offers an efficient, alternative solution to one-way containers.

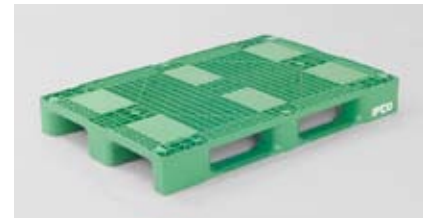
#### Advantages of the IFCO Magnum Box:

- Excellent hygiene
- Optimized perforation/ventilation

- Alternative solution to one-way containers
- Non-sequential folding for easy handling
- Unique four-way entry pallet designed for all types of handling equipment
- Easy replacement of all container components
- Easy to clean due to smooth surfaces
- Very low folded height
- Equipped with 2-dimensional barcode and RFID Chip
- 100% recyclable

#### **IFCO Plastic Pallet**

At the request of our customers, IFCO SYSTEMS has brought the IFCO Plastic Pallet to market. The IFCO Plastic Pallet measures 1200 x 800 millimeter and is manufactured of durable plastic. The green colored and attractively designed pallet meets industry's construction, design, durability and fabrication requirements and is suited for both transportation and display.



The IFCO Plastic Pallet provides additional value through tracking & tracing capabilities via an integrated RFID chip and 2D-Barcode that delivers 100% readability at speeds up to 20 kilometers per hour. Its multiple reuse capabilities make this plastic pallet the most cost-efficient load carrier on the market today.

#### **Durable, hygiene-friendly construction**

- Produced from high quality plastic using a seamless, single mould injection process, the pallet will not rust or rot and inhibits mould development. The pallet is robustly constructed for heavy loading and has a very long durability.

#### **Safety-conscious design**

- Impervious to water, fire resistant, antislip panels on the load platform, nail-free.

#### **Operational effectiveness**

- Innovative 3 skid base design offers improved self-storage capabilities, while rounded edges facilitate easy handling by forklift trucks and power jacks.

#### **Operational stability**

- Wide temperature range, with acceptable storage temperatures from -20°C to +60°C, and with acceptable washing temperatures of up to 80°C.

#### **Multiple uses**

- The green colored pallet is equally suited to POS display and transport.

#### **RPCs for the Automotive Industry – Industry Solutions**

Within the automotive industry, IFCO SYSTEMS' pool management services have devised VDA (Verband der Automobilindustrie - Association for the German automotive industry) standard containers in the area of small and heavy load carriers. In the automotive supplier industry, we operate an RPC pool for heavy load carriers, which are used in internal transportation and by external suppliers for plant deliveries. We are already active in supply chain areas such as downstream goods distribution logistics and spare parts distribution.



### Major growth opportunities

Our RPC rental business is the market leader in Europe with an estimated market share of almost 40% of foldable RPCs. According to our estimates based on available market data, European retailers conduct 6.4 billion fruit and vegetable packaging units annually, with approximately 4.5 billion packaging units addressable with our RPCs. However, we estimate that European pool operators conducted approximately 800 million annual trips with foldable RPCs. IFCO SYSTEMS global RPC Management Services business segment generated US \$358.3 million revenues in 2008. Through increasing the penetration of RPCs with our existing customer base, by bringing new food wholesalers and retailers into our system, and by broadening our product line, we will continue to develop this market potential.

IFCO SYSTEMS acquired the STECO Group, one of Europe's notable RPC service providers for reusable plastic container (RPC), in 2008. The IFCO SYSTEMS and STECO teams have already been working together to maximize synergies from this acquisition in order to provide better value to our customers.

The acquisition of the STECO group is a perfect strategic move for IFCO SYSTEMS and underscores our commitment to the European RPC market and makes IFCO SYSTEMS the market leader and driving force in the European industry. We are excited about the STECO organization and welcome them to the IFCO SYSTEMS group. Both organizations will enhance synergies to the benefit of our customers.

Karl Pohler, CEO

Today in Europe, some 6,000 fruit and vegetable producers, as well as more than 90 retailers such as Rewe and Metro in Germany, COOP and Migros in Switzerland, Système U and ATAC in France, SMA SPA, Aspiag, Penny and Eurospin in Italy, Carrefour, Dia, Gadisa and El Arbol in Spain, Dia in Portugal, Reitan, Norges Group and COOP in Norway and Waitrose in Great Britain already place their trust in our logistics services.

The significant growth opportunities for RPCs are even more pronounced in the US market. With an estimated annual volume of 2.6 billion packaging units for fruit and vegetables, it is one of the world's largest individual markets. IFCO SYSTEMS is the dominant market leader in the US, with an estimated market share in excess of 60%. The US RPC poolers continued to pursue market development during 2008. Wal-Mart, the world's largest retailer, as well regional grocers Stater Bros Markets and HEB have adopted the RPC system in their grocery businesses and have selected IFCO SYSTEMS as one of their system providers. The Kroger Co. continued the rollout of RPCs into their Supermarkets during 2008 following a successful RPC pilot project at one of its divisions. Finally, we



are excited about RPC projects commenced during 2008 at Harris Teeter and Wegmans, two well respected regional US grocers. We look forward to the continued development of the RPC model within new retailers, both regional and national. We remain convinced, particularly in light of the strong supply chain focus of the US retail sector, that this market will experience strong RPC penetration in the future.

In order to increase our geographic presence, we are actively exploring the Central Eastern European, South American and Asian markets.

IFCO SYSTEMS do Brazil has started business in 2008 and will provide RPC services to all growers and distributors in the major regions of Brazil. Pao de Açúcar Group (Companhia Brasileira de Distribuição) a leading food retailer in Brazil, has signed a long term agreement with IFCO SYSTEMS to become its exclusive RPC service provider for fruits and vegetables.

We are excited about the business opportunities in Brazil and have set up a nationwide operation to take advantage of the growing demand for reusable packaging in Brazil. We are very pleased that Pao de Açúcar has come to a long term agreement with IFCO SYSTEMS and are committed to deliver superior logistic services to the Brazilian retail market. This agreement underlines our leading position as RPC service provider in South America. Karl Pohler, CEO

The significant investments we have committed to our RPC pool and to our logistics infrastructure, our new product offerings, and our increased marketing and sales activities have created a strong foundation for continued growth in 2009.

### Tracking & Tracing

With more than 398 million RPC trips during 2008, IFCO SYSTEMS ranks as one of the world's leading providers of RPCs. Consequently, the stringent controlling and monitoring of our pool and the assurance of optimal pool utilization and capacity utilization are of key strategic importance to us. As a result, we place significant emphasis and focus on "asset control" and the ability to track and trace our RPCs and have control and monitoring systems in place to assist with these objectives.

Tracking & Tracing technologies are also becoming more important to our customers. Especially in the food sector, the ability to trace goods movements has gained increasing significance due to heightened legislative requirements. Additionally, Tracking & Tracing technologies also play a key role in the automation and optimization of logistics processes throughout the entire supply chain.

Based on these internal and external requirements, IFCO SYSTEMS has developed high performance Tracking & Tracing solution. The core of this system is based on a web-based Tracking & Tracing software application that is capable of processing data from a wide range of different identification technologies, including one- and two dimensional barcode, color code (optical image recognition) or transponders (RFID). The identification devices are attached to individual transport containers and enable the complete Tracking & Tracing of products within the supply chain. The choice of identification technology depends on individual company requirements and applications.

Our newly developed Plastic Pallet as well as the Magnum Box provides Tracking & Tracing capabilities via an integrated RFID chip and 2D-Barcode that ensure 100% readability with speeds up to 20 kilometers per hour.

We anticipate that RFID (Radio Frequency Identification) technology will become the leading auto identification technology in the future. Although the costs of RFID technology continues to decline, the costs for RFID are still high or the technology is not yet suitable for implementation in certain applications. In these situations, the IFCO SYSTEMS solution is open for the deployment of various technologies and at the same time supports the parallel utilization of different auto identification devices or a conversion at a later date. This open system solution provides the ability to implement a solution today that may be based on one- and two dimensional barcode or color code and transition to RFID at some time in the future.

IFCO SYSTEMS has implemented its Tracking & Tracing System in our US RPC operations. All new IFCO SYSTEMS US containers are tagged with combined color code and barcode labels, allowing each RPC to be tracked individually and our US service centers are now equipped with required RPC reading equipment to support this program. IFCO SYSTEMS is now tracking inbound and outbound movements of our RPCs, improving our asset control capabilities and enhancing the management and utilization of our RPCs. The system may be utilized by our customers on request. We are currently evaluating the implementation of the system for the larger European RPC operation.





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# IFCO SYSTEMS is the leading global provider of Reusable Packaging Management Services.

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**398**

We processed more than 398 million RPC trips in 2008 and more than 3 billion since our foundation in 1992.

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**450**

We coordinate more than 450 truck loads of RPCs in 42 countries daily.

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**34,000**

Fruit and vegetable are displayed in our RPCs in more than 34,000 sales outlets worldwide.





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**3**

3 million tons of fruit and vegetables were packed and transported in our RPCs annually.

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**6,000**

More than 90 retailers and 6000 producers in 42 countries trust our unique RPC Management Services.

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**96**

We operate a global pool of over 96 million RPCs.

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**59**

We operate 59 service centers in our worldwide RPC business.

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**23**

Total cost savings of 23% compared with cardboard (Fraunhofer study).







IFCO SYSTEMS is North America's leading pallet management services company, specializing in environmentally sustainable pallet programs throughout the supply chain. IFCO SYSTEMS offers the only true single-source and national solution to pallet needs. IFCO SYSTEMS programs include the procurement, reconditioning and distribution of wood pallets to and from the manufacturing, distribution and retail sectors. Pallets are used in virtually all industries to transport products. We estimate that approximately 2.1 billion wooden pallets are in circulation in the United States every year. In 2008, the US pallet market volume was approximately US \$7.7 billion, which should continue to increase with overall industrial development.

### **Dominant Leader in the United States**

The US pallet market consists of the sale of new pallets, the leasing or "pooling" of pallets, and the reconditioning or "recycling" of used pallets. IFCO SYSTEMS focuses on pallet recycling and the surrounding supply chain logistics services – including pallet retrieval, procurement, handling, repair, transportation and tracking solutions – to provide comprehensive, 360-degree pallet management services. Today, more than 40% of all US pallet sales are of reconditioned pallets – creating a market of approximately US \$3.0 billion.

IFCO SYSTEMS' Pallet Management Services business segment generated US \$377.6 million revenues in 2008 and remains the market leader for recycled pallets by a wide margin with over 11% national market share. By comparison, IFCO SYSTEMS believes the second largest provider accounts for less than 1% of the national market. The US pallet market is heavily fragmented with over 3,000 predominantly local providers. IFCO SYSTEMS is supported by 155 total locations. These locations include 56 which are our primary pallet recycling centers and 99 other operating and satellite locations - many of which are located at or near our customers' retail distribution centers. IFCO SYSTEMS also has 124 affiliate companies that help complete our geographical coverage. The North American headquarters in Houston, Texas operates as the principal back office for this business segment.

Growth opportunities in the US pallet market are equally as compelling as those in the RPC sector. IFCO SYSTEMS is uniquely positioned with the only nationwide network competing in a highly fragmented market. This gives IFCO SYSTEMS decisive competitive advantages and enables us to provide single-source pallet management solutions to large manufacturers and retailers across a diverse range of industries and geography. Retailers such as Wal-Mart, Kmart, Home Depot and Target; food producers such as Nestle, PepsiCo, Purina Mills, Del Monte, Tyson Foods and Pilgrims Pride; manufacturers such as General Electric, Black & Decker, Georgia Pacific and Newell Rubbermaid; and technology leader Dell are all utilizing one or several of IFCO SYSTEMS' pallet management services offerings. IFCO SYSTEMS customers can optimize their logistics processes, achieve supply chain efficiencies and cost savings. We believe that our unique position and value added service offerings in the pallet management services market will allow us to continue to profitably expand our leading market position.



## IFCO SYSTEMS Pallets

As in our RPC business, our Pallet Management Services operations combine high-value products with innovative and individual solutions for our customers. Our core business consists of acquiring used pallets, reconditioning the pallets and returning them to the supply chain. Pallets that cannot be repaired to our standards are dismantled into individual parts for use in the repair of other pallets or converted into useable byproducts like landscape mulch and bio-fuel, completing the most ecologically responsible wood product cycle.

IFCO SYSTEMS offers a broad selection of pallets in different sizes – at a far lower price than new pallets. Our comprehensive evaluation process allows IFCO SYSTEMS to offer customized and cost-efficient solutions to meet our customers' individual needs. With a transportation fleet of over 5,000 units and a nationwide service center network, we are also able to guarantee the on-time availability of the required pallets. IFCO SYSTEMS sorted, repaired and reissued more than 125 million pallets in its Pallet Management Services business segment in the USA during 2008.



**Pallet Management Services Solutions**

To support the core business of pallet procurement and distribution, IFCO SYSTEMS' scalable pallet management services model enables us to offer a variety of value-added solutions to companies in a wide range of industries. Our solutions offer advantages for retailers, food producers and industrial companies alike. By outsourcing pallet management to IFCO SYSTEMS, customers can concentrate on their core business instead of pallet-related issues.



In more detail, IFCO SYSTEMS offers the following portfolio of logistics and management services:

**Pallet Sort and Repair**

This individualized service entails sorting customer pallets, repairing damaged units and returning them to the customer's pallet distribution cycle. We make this service available at customer locations or at one of our IFCO SYSTEMS service centers.

**Warehouse Management and Logistics Services**

With Warehouse Management and Logistics Services, we provide comprehensive and individual Pallet Management Services solutions that include all aspects of pallet handling, sorting and tracking, as well as the handling of other returnables and disposal of waste items like corrugate and shrink-wrap.

**Pallet Retrieval**

Pallet retrieval services allow our customers to recover value from used pallets. Pallets can be retrieved from the customer's distribution centers or their stores – whichever best fits their business. Our customers may earn credit towards future IFCO SYSTEMS pallet purchases or choose to receive cash back for pallets retrieved.

**Buy-Sell Programs**

This service is ideal for customers who have received pallets from third-parties that do not meet their specifications. IFCO SYSTEMS will purchase these pallets, providing credit to the customer towards the purchase of IFCO SYSTEMS pallets of the correct specification.

Additionally, our InXchange™ program allows IFCO SYSTEMS' customers to deposit surplus pallets in one location and withdraw ready-to-use pallets in another – anywhere in our nationwide network. Customers can track all of their activity on our web-based PalTrax™ System – 24 hours a day.

As a packaging specialist, IFCO SYSTEMS also offers custom wood crates and other packaging material to customers in the lawn and garden, heating and cooling and the personal recreation vehicle industries, to name a few. These cost-effective packaging solutions help reduce product damage as well as improve logistics and handling.

Due to our stringent quality standards, robust service network and sophisticated logistics management systems, IFCO SYSTEMS customers in North America can rely on having the right number of highest grade pallets available and on time.

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# 125

We handled more than 125 million wooden pallets in the US last year.

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# 3,300

IFCO SYSTEMS' Pallet Management Services business segment is supported by over 3,300 employees at 155 service centers. These locations include 56 which are our primary pallet recycling centers and 99 other operating and satellite locations – many of which are located at or near our customers' retail distribution centers.

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# 1.2

1.2 million tons of products were moved on our pallets last year.



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Retailers such as Wal-Mart, Kmart, Home Depot and Target; food producers such as Nestle, PepsiCo, Purina Mills, Del Monte, Tyson Foods and Pilgrims Pride; manufacturers such as General Electric, Black & Decker, Georgia Pacific and Newell Rubbermaid; and technology leader Dell are all utilizing one or several of IFCO SYSTEMS' services.

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IFCO SYSTEMS is uniquely positioned with the only nationwide network competing in a highly fragmented market.

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IFCO SYSTEMS is North America's leading pallet management services company and offers the only true single-source and national solution to pallets needs.



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# 4.4

Our US Pallet-Management-Service business diverted 2.1 million tons of wood from landfills and saved 4.4 million trees last year.



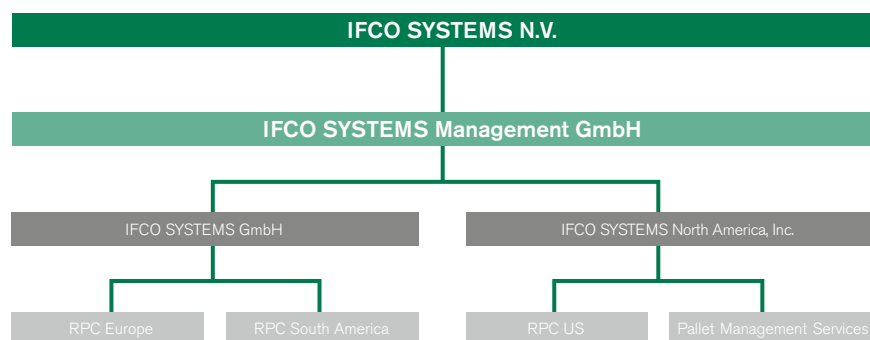
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# Corporate

# Corporate and operating structure

## Corporate information

Our registered name is IFCO SYSTEMS N.V. We were incorporated under the laws of the Netherlands on March 31, 1999. Our registered seat is in Amsterdam, the Netherlands, at our principal executive offices located at Evert van de Beekstraat 310, 1118 CX Schiphol Centrum, the Netherlands. We also maintain operations headquarters in Pullach, Germany, and in Houston, Texas in the United States.



IFCO SYSTEMS N.V. is a holding company with a number of operating subsidiaries, which are shown above. This chart does not reflect the exact and entire legal structure of IFCO SYSTEMS. Our significant subsidiaries are described in the following table along with our principal indirect subsidiaries:

<b>Subsidiary</b>	<b>Jurisdiction of Organization</b>	<b>Percentage Ownership</b>	<b>Direct or Indirect Ownership by IFCO SYSTEMS N.V.</b>
IFCO SYSTEMS Management GmbH <sup>(1)</sup>	Germany	100.0%	Indirect
IFCO SYSTEMS GmbH <sup>(2)</sup>	Germany	100.0%	Indirect
IFCO SYSTEMS North America, Inc. <sup>(3)</sup>	Delaware (US)	100.0%	Indirect
Reusable Container Company LLC <sup>(4)</sup>	Delaware (US)	100.0%	Indirect

<sup>(1)</sup> This subsidiary is also a holding company and owns all of the capital stock of IFCO SYSTEMS GmbH (indirect), IFCO SYSTEMS North America, Inc. (direct) and Reusable Container Company LLC (indirect). The business address of IFCO SYSTEMS Management GmbH is Zugspitzstrasse 7, 82049 Pullach, Germany. Its registered seat is Munich.

<sup>(2)</sup> IFCO SYSTEMS GmbH has operating subsidiaries in Germany and in other countries mainly in Europe but also in South America. Its percentage ownership – in some cases together with IFCO SYSTEMS Holding GmbH - in the European and South American subsidiaries is always greater than 99%. IFCO SYSTEMS GmbH also has a 99.0% interest in a Hong Kong subsidiary and a 33.3% interest in a Japanese joint venture. The business address of IFCO SYSTEMS GmbH is Zugspitzstrasse 7, 82049 Pullach, Germany. Its registered seat is Munich.

<sup>(3)</sup> We conduct our Pallet Management Services operations through indirect wholly owned subsidiaries of IFCO SYSTEMS North America, Inc. The registered address for IFCO SYSTEMS North America, Inc. is 13100 Northwest Freeway, Suite 625, Houston, Texas 77040, US.

<sup>(4)</sup> The shareholder of Reusable Container Company LLC is IFCO SYSTEMS North America, Inc. The registered address of Reusable Container Company LLC, the legal entity in which we conduct our RPC related operations in the United States, is 4343 Anchor Plaza Parkway, Suite 230, Tampa, Florida 33634, US.

The Board of Managing Directors has authorized the consolidated financial statements for 2008 and submitted to the Audit Committee for review. Based on the recommendation of the Audit Committee, the Supervisory Board approved the consolidated financial statements 2008. Ernst & Young Accountants have audited the consolidated financial statements.

## Corporate governance

Sound corporate governance is a high priority to IFCO SYSTEMS. The confidence of our stakeholders is essential if they are to cooperate effectively within and with the Company. The guidelines on which our corporate governance rests are good entrepreneurship, enterprise continuity, operational and corporate control maintenance and enhancement, and decision making integrity and transparency of our Executive Management and supervision thereof. The Executive Management, the Board of Managing Directors and the Supervisory Board have overall responsibility for weighing up the interests, generally with a view to ensuring the continuity of the enterprise. In doing so, the Company endeavors to create long-term shareholder value.

The Company has implemented a code of ethics to act in accordance with the highest standards of honesty, integrity and fairness and expect the same in their relationships with others while maintaining a work and business climate fostering such standards. The code of ethics is specifically intended to provide for a number of implementing requirements in the area of avoidance of conflicts of interest by the Supervisory Board, the Board of Managing Directors, the Executive Management Committee and employees of the Company. The Company has also established arrangements in regard of a whistleblower function.

As a Dutch Company, we follow the principles and best practice statements of the Dutch Corporate Governance Code, which came into effect on January 1, 2004.

The Board of Managing Directors and the Supervisory Board are responsible for the corporate governance structure of the Company and the compliance with the Corporate Governance Code. They are accountable for this to the general meeting of shareholders.

The Dutch Corporate Governance Code is also reflected in the Company's articles of association.



## Board Structure

### Supervisory Board

According to the articles of association:

The Company has a Supervisory Board, consisting of at least three (3) natural persons, the precise number of whom is determined by the General Meeting of Shareholders. Presently the Supervisory Board consists of six (6) natural persons.

The Supervisory Board members are appointed by the General Meeting of Shareholders for a maximum term of four (4) years, provided that, unless a Supervisory Board member retires earlier, his appointment term expires on the day of the next General Meeting of Shareholders to be held in the fourth year after the year of his appointment. At expiration of this term a Supervisory Board member can be reappointed with due observance of the provisions in the previous sentence, provided always that a Supervisory Board member may not serve more than three (3) consecutive four-year terms.

The duty of the Supervisory Board is to supervise the policies of the Board of Managing Directors and the general course of affairs of the Company and its affiliated business. It shall give advice to the Board of Managing Directors. The Supervisory Board can give instructions to the Board of Managing Directors outlining the Company's general financial, social, economic, investment, staffing and environmental policy.

The Supervisory Board has established an Audit Committee, a Remuneration Committee and a Selection and Appointment Committee whose duties, responsibilities and processes are set out in separate charters (see below).

The Supervisory Board shall meet as often as a Supervisory Board member or the Board of Managing Directors may deem necessary. In the meeting of the Supervisory Board each Supervisory member has a right to cast one (1) vote. All resolutions by the Supervisory Board shall be adopted by an absolute majority of the votes cast.

### Members of the Supervisory Board

Name	Age	Position	Nationality
Dr. Bernd Malmström	67	Chairman	German
Michael Phillips	47	Vice Chairman I	Canadian
Christoph Schoeller	51	Vice Chairman II	Swiss
Hervé Defforey	58		French
Ralf Gruss	36		German
Dr. Philipp Gusinde	38		German

The Supervisory Board aims for an appropriate combination of knowledge and experience amongst its members:

**Dr. Bernd Malmström** became member of the Supervisory Board of the Company in December 2005. He was elected as Chairman of the Supervisory Board of IFCO SYSTEMS on September 26, 2006. Mr. Malmström studied law at the universities of Kiel and Freiburg (Germany) and holds a PhD in law. Mr. Malmström works as a lawyer. Prior to that, he has held various management positions at Deutsche Bahn AG, Stinnes AG, Schenker-Rhenus-Group and VEBA AG. Mr. Malmström also serves as a member of the Board of the following companies: BLG Logistics Group AG & Co. KG (Advisory Board), Deutsche Afrika-Linien GmbH & Co. KG (Advisory Board), time:matters GmbH (Chairman of the Advisory Board), Fraport AG (Advisory Board), HHLA Intermodal GmbH (Supervisory Board), K+S AG (Supervisory Board), VTG AG (Supervisory Board), Lehnkering GmbH (Chairman of the Supervisory Board), Stinnes Corporation, New York (Chairman of the Supervisory Board) and Schweizer Bundesbahn SBB AG (Board of Administration). Mr. Malmström was appointed for a period of four (4) years.

**Michael Phillips** was Director C in the Board of Directors of the Company since December 2003. He resigned as member of the Board of Directors in August 2005, and became member and first vice chairman of the Supervisory Board of IFCO SYSTEMS in August 2005. He is a graduate in engineering chemistry from Queen's University in Kingston, Canada, and also holds an MBA from INSEAD, where he graduated with distinction. Upon graduating from University, Mr. Phillips worked at Ciba Geigy Canada Ltd. as a manager in the plastics additives division. He then spent three years at OTTO Holding Ltd. in Cologne, one of Germany's largest waste management companies, as the General Manager of an operations subsidiary. Mr. Phillips currently works for and is a director of Apax Partners. He is also a Director of Xerium Technologies Inc, Tommy Hilfiger Sarl, Mueller Brot AG, Elmira Sarl and Anker Brot AG. Mr. Phillips was appointed for a period of four (4) years.

**Christoph Schoeller** was Chairman of the Board of Directors of the Company since December 2002, and a Director B as of March 2000. He resigned as member of the Board of Directors in August 2005, and became member and second vice chairman of the Supervisory Board of the Company in August 2005. He graduated in mechanical engineering from the Swiss University ETH Zurich in 1982. In 1992, he co-founded IFCO SYSTEMS GmbH and MTS with his brother, Martin Schoeller. Mr. Schoeller was

responsible for advancing both IFCO SYSTEMS Europe's and MTS's market and product development and logistics network. In 1982, Mr. Schoeller joined the Schoeller group of companies and presently serves as one of its Managing Directors. Mr. Schoeller was a member of the Supervisory Board of Trans-o-flex Schnell-Lieferdienst AG, a logistics company, and was formerly a member of the Supervisory Board of Danzas Holding AG, a logistics company, until its merger with Deutsche Post AG. Mr. Schoeller is also a member of the Supervisory Board of Syntek Capital AG. Mr. Schoeller is also Vice-Chairman of the Board of Trailer International GmbH, the holding company for the trailer manufacturing companies Kögel Fahrzeugwerke GmbH and Chereau S.A.S. On January 18, 2008, Mr. Schoeller became a Supervisory Board member of Schoeller Arca Systems N.V. Mr. Schoeller was appointed for a period of four (4) years.

**Ralf Gruss** was a Director C of the Board of Directors of the Company since December 2003. He resigned as member of the Board of Directors, and became member of the Supervisory Board of the Company in August 2005. He holds a degree with distinction in financial economics and industrial engineering from the University of Karlsruhe and studied financial economics as well as business administration at the London School of Economics and the University of Massachusetts (Boston). Mr. Gruss is currently employed by and is a director of Apax Partners, focusing on leveraged transactions, financial services and business services companies. Prior to joining Apax Partners, Mr. Gruss worked as project manager for Arthur D. Little International Inc.. He also serves on the Supervisory Board of LR Global Holding GmbH. Mr. Gruss was appointed for a period of four (4) years.

**Hervé Defforey** became member of the Supervisory Board of the Company in August 2005. Mr. Defforey holds a degree in Business Administration/Economics from the University of St. Gallen Switzerland. Mr. Defforey is an operating partner of GRP Ventures, USA. Prior to joining GRP Ventures, USA he held various management positions at Carrefour S.A., Azucarrera EBRO S.A., BMW AG, Chase Manhattan Bank N.A. and Nestlé. He also serves on the Boards of Kyriba Sas, Ulta, Inc. and X5 Retail Group (chairman of the Supervisory Board). Mr. Defforey was appointed for a period of four (4) years.

**Dr. Philipp Gusinde** was a Director C in the Board of Directors of the Company since December 2003. He resigned as member of the Board of Directors in August 2005, and became member and Chairman of the Supervisory Board of the Company in August 2005. He resigned as Chairman on September 26, 2006. He studied economics at the University of St. Gallen (Switzerland) and Indiana University (USA), graduating with a first class degree in accounting and controlling, after having successfully completed a trainee program at Deutsche Bank. He wrote his doctoral thesis on IFRS accounting issues working as a research assistant at the University of St. Gallen. Dr. Gusinde joined Apax Partners in 2000 as a member of the Leveraged Transactions team and recently transferred to Apax' US office in 2008. He is focusing on opportunities in the Business Services sector. Dr. Gusinde was appointed for a period of four (4) years.

Mr. Gusinde and Mr. Gruss have been employed by Apax Partners Beteiligungsberatung GmbH ("Apax Partners") since 2000. Mr. Gusinde transferred to New York-based Apax Partners, L.P. ("Apax US") in 2008. Mr. Phillips has been employed by Apax Partners since 1999. Previously, between 1992 and 1999, Mr. Phillips was employed by Apax Partners & Co Beteiligungsberatung AG. Mr. Phillips and Mr. Gruss are Managing Directors of Apax Partners. Mr. Phillips is also a director of Apax Partners Holdings Ltd. ("Apax Partners Holdings"), Apax Partners Worldwide Holdings Ltd ("Apax Partners Worldwide Holdings"), Apax Partners US Holdings Ltd ("Apax Partners US Holdings"), Apax Partners Hong Kong Ltd ("Apax Partners Hong Kong"), and he is a partner and member of the executive committee of Apax Partners LLP ("Apax LLP"). Apax Partners, Apax US, and Apax Partners Holdings have entered into a sub-investment advisory agreement with Apax LLP. Apax Partners Worldwide Holdings, Apax Partners US Holdings, and Apax Partners Hong Kong are members of the Apax LLP group of companies. Apax LLP is investment advisor to Apax Partners Europe Managers Ltd ("Apax Europe"). Apax Europe is the discretionary investment manager and custodian of the limited partnerships which collectively constitute the Apax Europe V Fund, which is the beneficial owner of Cortese N.V.. Neither Mr. Gusinde, Mr. Gruss nor Mr. Phillips are employed by, or are directors of, Apax Europe, the Apax Europe V Fund or Cortese N.V..

### **Conflict of interest of members of the Supervisory Board**

On January 18, 2008, Mr. Schoeller became a supervisory board member of Schoeller Arca Systems N.V., the supplier of RPCs to the Company. Mr. Schoeller does not take part in any discussion and/or decision of the Supervisory Board regarding the relationship of the Company with Schoeller Arca Systems N.V.. In the opinion of the Board of Managing Directors and the Supervisory Board the individual agreements entered into with Schoeller Arca Systems N.V. during 2008 are not of such a material nature that they require approval by the Supervisory Board. In the opinion of the Supervisory Board, only Mr. Schoeller has a conflict of interest (and only as described above), and the Company has complied with BPP III.6 of the Dutch Corporate Governance Code dealing with that subject.

### **Independence of the members of the Supervisory Board**

During August 2005, Schoeller Logistic Systems GmbH sold its shares in the Company to Island LP and used the proceeds from this transaction to acquire an indirect investment in Island LP. As a result of this transaction and other holdings Mr. Schoeller indirectly owns 18.2% in capital stock of the Company. Mr. Schoeller and some of his family members directly hold 0.5% in capital stock of the Company. Mr. Schoeller can therefore not be regarded as independent in application of the criteria listed in BPP III.2.2 of the Corporate Governance Code.

In the opinion of the Supervisory Board the Company complied with the BPP III.2.1 of the Corporate Governance Code (Independency of Supervisory Board members).

## Board of Managing Directors

According to the articles of association:

The Board of Managing Directors is in charge of managing the Company. It shall consist out of one or more Managing Directors.

The Managing Directors are appointed by the General Meeting of Shareholders. They are appointed for a maximum period of four (4) years, provided that, unless a Managing Director resigns at an earlier date, his appointment term ends on the day of the next General Meeting of Shareholders to be held in the fourth year after the year of his appointment. A Managing Director can be reappointed for consecutive periods of not more than four (4) years and with due observance of the provisions in the preceding sentence. The Supervisory Board can draw up a rotation schedule for the Managing Directors.

The Board of Managing Directors meets as often as a Managing Director requests a meeting. In the meeting of the Board of Managing Directors each Managing Director has a right to cast one (1) vote. All resolutions by the Board of Managing Directors shall be adopted by an absolute majority of the votes cast.

The Board of Managing Directors shall timely provide the Supervisory Board with any such information as may be necessary for the Supervisory Board to perform its duties.

Up to March 30, 2008, the Board of Managing Directors consisted of two Managing Directors, Mr. Karl Pohler and Mr. Douwe Terpstra. On March 19, 2008 the General Meeting of Shareholders appointed four further members to the Board of Managing Directors. This appointment became effective April 1, 2008. On March 19, 2008 the General Meeting of Shareholders also appointed Mr. Helmut Hoerz as a Managing Director and as Chief Sales Officer Europe effective April 1, 2008.

## Members of the Board of Managing Directors

Name	Age	Position
Karl Pohler	55	Managing Director (Chief Executive Officer)
Douwe Terpstra	50	Managing Director
Helmut Hoerz	48	Managing Director (Chief Sales Officer)
Michael W. Nimtsch	51	Managing Director (Chief Financial Officer)
Wolfgang Orgeldinger	51	Managing Director (Chief Operating Officer)
David S. Russell	49	Managing Director (President IFCO SYSTEMS North America)

**Karl Pohler** was Director A of the Company since December 2000. On August 29, 2005 he became Chief Executive Officer of the Board of Managing Directors for a period of four (4) years since that date. Prior to joining IFCO SYSTEMS, Mr. Pohler was the chairman of the Board of Management of Computer 2000 AG, Munich and, at the same time, European president of Computer 2000/Tech Data Corp.. From 1997 to 1999, he served as CEO of Sony Deutschland GmbH, Cologne. From 1993 to 1996, Mr. Pohler

chaired the Board of Management of Computer 2000 Deutschland GmbH, Munich. From 1980 to 1992, he was active in executive management functions for Digital Equipment GmbH, Munich.

**Douwe HJ Terpstra** became Managing Director on August 29, 2005 and was appointed for a period of four (4) years. Mr. Terpstra has a well established experience in international corporate structuring and management. Mr. Terpstra is an employee of Fortis Intertrust since 1993. Fortis Intertrust is a world leader in trust and corporate services for private and corporate clients and is the result of the merger in 2002 of MeesPierson Trust and Intertrust Group. Within Fortis Intertrust, Mr. Terpstra is an Executive Director and member of the Management Team.

**Helmut Hoerz** became Chief Sales Officer of the Company in April 2008. Prior to joining IFCO SYSTEMS, he was COO of EDEKA AG from June 2003 to December 2005, where he was responsible for global sourcing and marketing across the entire group. Prior to joining EDEKA, Mr. Hoerz held business positions with the METRO Group. From 1998 to 2002 he was CEO in charge of the extra consumer markets, and prior to that he spent several years on the Executive Board of METRO subsidiary Real-GmbH. From 1979 to 1991 he was active in several management functions within the food retail industry.

**Michael W. Nimtsch** became Chief Financial Officer of the Company in October 2000. Mr. Nimtsch also became a Managing Director of IFCO SYSTEMS GmbH and IFCO SYSTEMS Management GmbH in September 2000. He is also serving as Managing Director and Supervisory Board member in subsidiaries of the Company. Before joining the Company, Mr. Nimtsch served as Chief Financial Officer of Hagemeyer Deutschland GmbH, an electrical infrastructure materials supplier, and was responsible for finance, purchasing, foreign subsidiaries, retail and human resources. Prior to Hagemeyer Deutschland GmbH, Mr. Nimtsch served as a Tax Advisor and Public Chartered Accountant for Deloitte & Touche and PricewaterhouseCoopers. He holds a degree in business economics from the University of Munich.

**Wolfgang Orgeldinger** became Chief Operating Officer of the company in January 2002 and previously served as Chief Information Officer of IFCO SYSTEMS with responsibility for e-logistics and IT since December 2000. Mr. Orgeldinger also became a Managing Director of IFCO SYSTEMS GmbH and IFCO SYSTEMS Management GmbH in February 2001 and is serving as Managing Director and Supervisory Board member in subsidiaries of the Company. Before joining IFCO SYSTEMS Mr. Orgeldinger was a member of the Executive Board of Computer 2000 AG, Europe's leading IT distributor, where he was responsible for the company's European logistics, IT, technical services, and configuration and assembly operations. From 1997 to 1999, Mr. Orgeldinger served as Managing Director of the Computer 2000 Deutschland GmbH, prior to that he worked there for 3 years as Director IT & Logistics. Before joining Computer 2000, Mr. Orgeldinger worked for nine years for Digital Equipment in various management positions in the area of marketing, sales, consulting, IT and operations.



**David S. Russell** became President of IFCO SYSTEMS North America Inc. (Pallet Management Services and RPC US) in January 2002. He joined IFCO SYSTEMS North America in May 2000 as Senior Vice President with responsibility for sales and marketing and as General Manager for the US RPC business. Prior to joining IFCO SYSTEMS, he served, beginning in March 1999, as a Director and President and Chief Executive Officer of General Rental, Inc., a privately held equipment rental company in Pompano Beach, Florida. From October 1996 to August 1998, Mr. Russell was Vice President/General Manager of Ryder TRS, Inc., a privately held company with publicly traded bond debt in Denver, Colorado. Beginning in 1982, Mr. Russell also served in various management positions, including as an Officer, at Ryder System, Inc., a publicly traded company, until the sale of its Consumer Truck Rental Division in October 1996.

## Executive Management Committee

The Board of Managing Directors together with the Selection and Appointment Committee has appointed Executive Managers (Executive Management Committee) to execute managerial responsibilities of the Company's business. The Executive Managers promote the interest of the Company and enhance the Company's value. They are also responsible for achieving the Company's aims, strategy, policy and results. The Executive Management Committee directs the preparation of the Company's quarterly and annual financial statements. The Executive Management Committee also informs the Board of Managing Directors and the Supervisory Board regularly, promptly and comprehensively regarding all issues related to Company's strategy implementation, business operational and financial budgeting and development, the structure and operation of the internal risk management and control systems, compliance with legislation and regulations and emerging risks inherent in the Company's business activities. Major decisions of the Executive Management Committee require the prior approval of the Board of Managing Directors or the Supervisory Board respectively.

The current members of the Executive Management Committee, bound to IFCO SYSTEMS by an employment agreement, are:

Name	Age	Position
Karl Pohler	55	Chief Executive Officer
Helmut Hoerz	48	Chief Sales Officer Europe
Michael W. Nimtsch	51	Chief Financial Officer
Wolfgang Orgeldinger	51	Chief Operating Officer
David S. Russell	49	President, IFCO SYSTEMS North America

### Activities of the Supervisory Board

The Supervisory Board held ten (10) meetings in 2008; all were held together with the Board of Managing Directors.

The items discussed included a number of recurring subjects, such as Company's strategy, acquisitions, the financial performance of the Company in 2008, business plan 2009, stock option issues, share buy back program and corporate governance issues. The Supervisory Board put special emphasis on and discussed frequently the ongoing ICE investigation and consulted with Baker & McKenzie, one of the Company's law firms.

On February 25, 2009, the Supervisory Board conducted a meeting with the accountants and discussed the consolidated and separate financial statements. Following that discussion the Supervisory Board approved the consolidated and separate financial statements 2008.

The Supervisory Board is acting in accordance with the Company's Supervisory Board Charter.

The Supervisory Board, the Board of Managing Directors and Executive Management Committee are acting in accordance with the Company's Code of Ethics.

The Supervisory Board has established committees whose duties, responsibilities and processes are set out in separate charters (see below).

The Supervisory Board discussed on its own, without the Board of Managing Directors or the Executive Management Committee being present, both their functioning and that of their individual members as well as the competence and the composition of the Supervisory Board.

The Supervisory Board discussed the corporate strategy, the financial performance and the business plan of the Company as well as the risks of the business. The discussion with the Board of Managing Directors and the Executive Management Committee regarding the structure and operation of internal risk management and internal control systems was delegated to the Audit Committee.

### Supervisory Board Committees

In order to fulfill the requirements of the Dutch Corporate Governance Code and the rules of the Frankfurt Stock Exchange, the Supervisory Board has established committees whose duties, responsibilities and processes are set out in separate charters.

#### Audit Committee

Effective September 6, 2005 the Supervisory Board adopted a charter of the Audit Committee. This charter was amended on November 20, 2006.

Pursuant to its charter, the Audit Committee is to be composed of at least three Supervisory Board members. All members of the Audit Committee are required to be financially literate and at least one member shall be a financial expert as defined in BPP III.3.2. of the Dutch Corporate Governance Code.

The Audit Committee is currently composed of Ralf Gruss (Chairman), Hervé Defforey and Dr. Philipp Gusinde. All of them are financially literate and Mr. Defforey is qualified as the financial expert.

According to the charter, the Audit Committee shall meet as often as it determines necessary, but not less frequently than quarterly.

The Audit Committee met five (5) times in 2008. The main items discussed in these meetings were: annual and interim financial statements, earnings releases, audit findings, audit fees, external audit planning, internal audit planning and results, internal control, risk management system, tax planning, tax structure and acquisition accounting.

According to the charter the responsibilities of the Audit Committee are the following:

#### **Purpose**

The Committee shall provide assistance to the Supervisory Board in fulfilling its oversight responsibility to the Company and its stakeholders as appropriate under Dutch corporate law, relating to the integrity of the Company's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the performance of the Company's independent auditors; the independent auditor's qualifications and independence; the operation of the internal risk management and control systems; the system of internal auditing; the supply of financial information by the Company; compliance with recommendations by external auditors; the Company's tax planning policy; the financing of the Company; information and communication technology systems; and the Company's compliance with ethics policies, codes of conduct and legal and regulatory requirements.

#### **Duties and Responsibilities**

- The primary responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the Supervisory Board and report the results of their activities to the Supervisory Board.
- The Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.
- Amongst others, the following shall be the principal duties and responsibilities of the Committee:

- **Independent auditors**

The Committee shall be directly responsible for the recommendation(s) regarding the appointment, termination, and replacement (subject to shareholder appointment and/or ratification), the compensation, and the oversight of the work of the independent auditors, including resolution of disagreements between management and the auditor regarding financial reporting. The Committee shall pre-approve all audit and non-audit services provided by the independent auditors.

- **Plan of audit**

The Committee shall discuss with the internal auditors and the independent auditors the overall scope and plans for their respective audits, including the adequacy of staffing and compensation.

- **Internal controls**

The Committee shall discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor, and manage business risk and legal and ethical compliance programs. The Committee shall meet separately periodically with management and the independent auditors to discuss issues and concerns warranting Committee attention. The Committee shall provide sufficient opportunity for the independent auditors to meet privately with the members of the Committee. The Committee shall review with the independent auditor any audit problems or difficulties and management's response.

The Committee shall review management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year and the independent auditors' report on management's assertion.

The Committee shall meet with internal audit or invite internal audit in the Audit Committee Meeting to discuss the adequacy and effectiveness of the internal accounting and financial controls and the management of business risks.

- **Review of quarterly and annual reports**

The Committee shall review the interim financial statements and disclosures with management and the independent auditors and approve them prior to the filing of each of the Company's quarterly reports.

The Committee shall review (but not approve) the financial statements and disclosures to be included in the Company's annual financial statements and any annual report together with management and the independent auditors, and make a recommendation to the Supervisory Board of the Company, including a judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.

- **Earnings releases**

The Committee shall review and discuss quarterly and annual earnings press releases.

- **Regulatory and accounting initiatives**

The Committee shall discuss with management and the independent auditors the effect on the Company of regulatory and accounting initiatives, as well as off-balance sheet structures, if any, reflected in the Company's financial statements or affecting its financial condition or results of operations.

- **Risk Assessment and Management**

The Committee shall discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

- **Reports**

The Committee shall review with management and the independent auditors any disclosure by the Company with respect to the Committee's policies and procedures and/or the fees paid by the Company for audit and non-audit services to the independent auditors.

## Remuneration Committee

Effective September 6, 2005 the Supervisory Board adopted a charter of the Remuneration Committee. This charter was amended on November 20, 2006.

The Remuneration Committee is composed of Dr. Philipp Gusinde (Chairman), Michael Phillips, Ralf Gruss and Dr. Bernd Malmström.

The Remuneration Committee shall advise the Supervisory Board and counsel and provide guidance to the Supervisory Board in the Supervisory Board's responsibility with respect to remuneration policy for the Company, including remuneration of the Company's Executive Management Committee, and shall participate in other actions related to remuneration as directed by the Supervisory Board, including the annual performance evaluation of the Executive Management Committee.

The Remuneration Committee met twice in 2008. The Committee discussed as main items the compensation of the extended Board of Managing Directors / Executive Management Committee.

The responsibilities of the Remuneration Committee shall include the following:

### Remuneration Policy

- The Remuneration Committee shall review the objectives, structure, cost and administration of all remuneration policies and programs regarding the Company's remuneration policy and with respect to the Company's Executive Management Committee.

### Stock Option Plans

- The Remuneration Committee shall review and make recommendations to the Supervisory Board with respect to the Company's policy and plans with respect to the grant of stock options or other stock awards.
- The Remuneration Committee shall review any proposals from the Board of Managing Directors for the grant of stock awards.
- Grant of stock options by the Board of Managing Directors should require the prior approval of the Remuneration Committee, though the Remuneration Committee should have the discretion to pre-approve certain types and quantities of option issuances.

### **Board of Managing Directors**

- The Remuneration Committee shall be responsible for negotiating and approving any employment agreements, amendments to employments, or other agreements for remuneration to be entered into between the Company and any member of the Company's Executive Management.
- The Remuneration Committee shall monitor the appropriateness of the remuneration of the Executive Management Committee, including base salaries, incentive compensation, stock options, stock awards and other forms of compensation, including direct and indirect incentives and benefits.

### **Performance Evaluations**

- The Remuneration Committee shall evaluate the performance of the Executive Management Committee and communicate such evaluation to the respective members of the Executive Management Committee.

### **Selection and Appointment Committee**

The Selection and Appointment Committee is composed of Michael Phillips (Chairman), Hervé Defforey, Ralf Gruss, Dr. Philipp Gusinde, Dr. Bernd Malmström and Christoph Schoeller.

The Selection and Appointment Committee met once in 2008.

The Selection and Appointment Committee shall provide assistance to and oversight of the Supervisory Board in connection with the Supervisory Board fulfilling its responsibility to the shareholders, other stakeholders and the investment community with respect to selection and appointment of Managing Directors, other members of the Executive Management Committee and members of the Supervisory Board for the Company.

The responsibilities of the Selection and Appointment Committee shall include management succession planning and review of management development.

## **Remuneration**

### **Summary Remuneration Report**

The amount and structure of the remuneration which the members of the Board of Managing Directors and the Executive Management receive from the Company for their work is as such that the Company can retain its highly qualified and expert managers. The remuneration of the Company's management consists of a fixed and a variable part. The variable part is linked to previously-determined, measurable and influenceable targets, which must be achieved partly in the short term and partly in the long term. The variable part of the remuneration is designed to strengthen management's commitment to the Company and its objectives. The remuneration structure is such that it promotes



the interests of the Company in the medium and long term, does not encourage management members to act in their own interests and neglect the interests of the Company and does not 'reward' failing management members upon termination of their employment. The level and structure of remuneration is determined in the light of, among other things, the results, the share price performance and other developments relevant to the Company.

### **Remuneration of members of the Board of Managing Directors**

The Board of Managing Directors received in 2008 a total compensation of Euro 3.0 million or US \$4.4 million.

Mr. Helmut Hoerz received 400,000 stock options, which will vest over three years dependant on performance.

No loans from the Company or pension schemes are provided to members of the Board of Managing Directors.

It is expected that the remuneration policy will remain unchanged during 2009.

### **Employment agreements with the Members of the Board of Managing Directors / Executive Management Committee**

The members of the Board of Managing Directors / Executive Management Committee are bound by the terms of an employment agreement. The employment agreements provide for a comprehensive remuneration plan that includes base salary and executive bonus.

Mr. Terpstra is compensated in accordance with a service agreement dated September 1, 2005.

### **Remuneration of the members of the Supervisory Board**

The General Meeting of Shareholders approved on August 18, 2005 an amendment to the remuneration of the Directors of the Supervisory Board.

Effective as of the date of that meeting, no remuneration shall (and has) be(en) paid to any then appointed member of the Supervisory Board. Each member shall however be reimbursed for travel expenses reasonably incurred in connection with meetings of the Supervisory Board, meetings of any committee of the Supervisory Board, or otherwise in connection with actual Supervisory Board service.

On a General Meeting of Shareholders held on December 15, 2005, Mr. Bernd Malmström was appointed as a member of the Supervisory Board. Mr. Malmström is entitled to an annual remuneration of Euro 80,000 or USD 117,848. Since his appointment as chairman

to the Supervisory Board he is entitled to an annual remuneration of Euro 160,000 or USD 235,696. The remuneration policy for all other members of the Supervisory Board as approved by the General Meeting of Shareholders on August 18, 2005 continues to apply.

For 2008, the Supervisory Board received the following compensation:

<b>Name</b>	<b>Remuneration in USD</b>	<b>Out of pocket expenses in USD</b>
Dr. Bernd Malmström	235,696	8,927
Michael Phillips	-	5,223
Christoph Schoeller	-	5,304
Hervé Defforey	-	-
Ralf Gruss	-	9,929
Dr. Philipp Gusinde	-	13,452
<b>Total</b>	<b>235,696</b>	<b>42,835</b>

No stock options or loans from the Company or pension schemes are provided to the members of the Supervisory Board.

It is expected that the remuneration policy will remain unchanged during 2009.

## Appreciation

The Supervisory Board would like to express its thanks to the Board of Managing Directors and all the employees of the Company for their continued contribution and commitment in 2008.

Amsterdam, February 20, 2009

The Supervisory Board



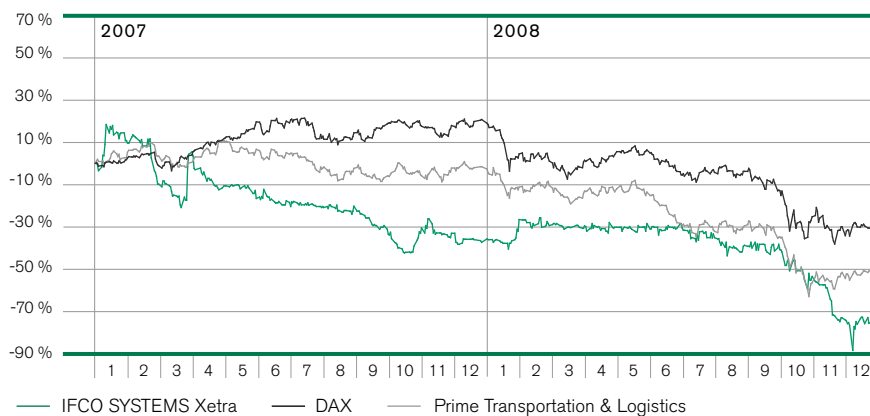
## Share price development

The shares of IFCO SYSTEMS are listed on the Prime Standard Germany as well as the industry subindex "Transportation & Logistics". Our share price (ticker symbol: IFE1) decreased 57.1% during 2008. On December 30, 2008, the IFCO SYSTEMS share closed at €3.00 at the Xetra Stock Exchange. On February 20, 2009, our shares closed at €2.00 per share.

The following tables list the historic sales prices (in €) for our ordinary shares on the Xetra Stock Exchange for the periods indicated.

IFCO Share Xetra	High	Low	Close
First Quarter 2007	13.25	8.70	11.67
Second Quarter 2007	11.90	8.88	9.20
Third Quarter 2007	9.19	7.66	7.90
Fourth Quarter 2007	8.52	6.10	7.00
First Quarter 2008	8.40	6.50	7.75
Second Quarter 2008	8.05	7.40	7.85
Third Quarter 2008	7.99	6.10	6.90
Fourth Quarter 2008	6.71	2.45	3.00

During 2008 the German Stock Index (DAX) decreased by 40.4% and the "Transportation & Logistics" index decreased by 47.9%.



## Ordinary shares

Our ordinary share, which confers the right to cast one vote in the general meeting, has a nominal value of €0.01 per ordinary bearer share. As of December 31, 2008 and December 31, 2007, we had 54,222,214 ordinary bearer shares outstanding (see Consolidated Statements of Shareholders' Equity). We had approximately 54.0 million ordinary bearer shares outstanding on our German share register and approximately 0.2 million registered ordinary shares outstanding on our New York share register. The Securities Identification Number of our shares is 157 670.

## Share buyback

The Board of Managing Directors resolved on November 14, 2006 to make use of the authorization of the Extraordinary Shareholders' Meeting, held on October 24, 2006, to repurchase up to 1,606,336 shares of the Company either through the Stock Exchange or from one or more individual shareholders through private transactions. The acquisition price should not be lower than EUR 0.01 and should not exceed the average stock exchange price at the Frankfurt Stock Exchange during five stock exchange days prior to the day of the acquisition by more than 10%. The repurchased shares should be used exclusively to serve the options of the 2000 Stock Option Plan of the Company dated March 7, 2000. As the shares will be transferred to employees of the Company, the free float will not be reduced. The authorization for the repurchase expired April 24, 2008, with the Company having repurchased 826,927 shares.

The Board of Managing Directors resolved on April 25, 2008 to make use of the authorization of the Annual General Shareholders' Meeting, held on March 19, 2008, to repurchase further 2,000,000 shares of the Company either through the Stock Exchange or from one or more individual shareholders through private transactions. The acquisition price shall not be lower than EUR 0.01 and shall not exceed the average stock exchange price at the Frankfurt Stock Exchange during five stock exchange days prior to the day of the acquisition by more than 10%. The new share buyback started on April 25, 2008 subsequent to the expiry of the old share buyback program on April 24, 2008. The authorization for the repurchase is given until September 18, 2009. Bayerische Hypo- und Vereinsbank AG, Munich has been authorized to carry out the purchases from the stock market and will independently and without any influence by IFCO SYSTEMS N.V. decide upon the amount of shares to be purchased as well as the price and time of purchase.

As of February 20, 2009 IFCO SYSTEMS had repurchased 431,446 shares of the Company by the new share buyback program and records a total of 749,039 shares as treasury shares.

## Shareholder structure

There were no major changes to the Company's shareholder structure in 2008.

As of February 20, 2009, 88.9% of IFCO SYSTEMS ordinary shares continue to be held by Island International Investment Limited Partnership (Island LP) with Cortese N.V. (a Netherlands Antilles company) as the Managing General Partner of Island LP. Cortese N.V. is beneficially owned by the limited partnerships which collectively make up the Apax Europe V Fund. The ultimate controlling party of these limited partnerships is considered to be Apax Europe V GP Co. Limited, the General Partner of Apax Europe V GP L.P., the General Partner of the limited partnerships. Apax Europe V GP Co. Limited is a company registered in Guernsey.

Executive Management of IFCO SYSTEMS continues indirectly to own 8.4% of the share capital of IFCO SYSTEMS.



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# Financial Reporting



# Management's discussion and analysis

## Basis of presentation

To help the stakeholders of IFCO SYSTEMS N.V. (IFCO SYSTEMS or the Company) to understand and follow the progress of our group and to comply with all International Financial Reporting Standards (IFRS) as adopted by the European Union, we present our financial results both on a group level and in business segments which match our operational structure. Our primary business segments, whose financial results are described in greater detail below, are:

- RPC Management Services – our reusable plastic container (RPC) services business in Europe and North and South America.
- Pallet Management Services – our pallet management, repair and recycling services business in North America.
- Corporate – provides various financial, tax, internal audit and organizational services to the operating segments.

The Management's Discussion and Analysis that follows sets the context for fiscal 2008 with a summary of highlights for the year and in comparison to 2007. We also discuss important operational topics including cash flows, liquidity and capital resources and risk management. The discussion concludes with our outlook for 2009.

In addition to measuring key group and segment level cash flow metrics, we measure the profitability of our segments through the use of operating EBITDA and EBIT measures. Our management uses EBITDA and EBIT as key operating measures because they measure operating profits before certain non-operating items, such as ICE related expenses, net financing costs, foreign currency gains and losses, discontinued operations, stock-based compensation expense and income taxes. We believe that the exclusion of these items from segment measurement is appropriate because (1) these items are managed centrally, not by segment members (see analysis of corporate items below), (2) these items are not necessarily indicative of the operating results of our businesses and (3) operating results excluding these items allow investors to see our businesses as they are measured by management. Other companies may use different measures or calculate these measures differently, and their figures may not be comparable to ours. See "Other financial reconciliations" herein for further details on our calculation of EBITDA and EBIT.

The functional currency of the North American operations is the US Dollar, functional currency of the South American operations is the individual local currency and the primary functional currency of IFCO SYSTEMS N.V. and for most of the European operations is the Euro, the currency of their primary economic environment in which they operate. Those functional currencies reflect the respective regional currency influence on sales prices for goods and services, influences on labor, material and other costs and the currency in which funds from financing activities are generated.

The Company's presentation currency is the US Dollar, because the main portion of the revenues and associated expenses do occur in US Dollar. Therefore, our assets, liabilities, revenues and expenses are subject to exchange rate fluctuations between the US Dollar, which is our group level presentation currency, and the Euro. Exchange rate fluctuations occur, to a lesser extent, as a result of certain subsidiaries operating in other countries and using other functional currencies.

Significant exchange rate volatility has existed from 2007 to 2008 between the Euro and the US Dollar. Accordingly, we have described certain comparative information below as currency adjusted information, whereby 2007 income statement and balance sheet figures have been translated to US Dollars using applicable 2008 currency exchange rates. Unless otherwise noted, no 2007 figures in tabular form are currency adjusted.

IFCO SYSTEMS GmbH, an indirect subsidiary of IFCO SYSTEMS N.V., acquired all of the shares of STECO Holding GmbH and its subsidiaries during 2008. We refer to this acquired group as STECO herein (See Notes for further information of this acquisition). STECO was consolidated for the first time commencing April 16, 2008. Accordingly, 2007 results do not reflect STECO activities and 2008 only include the post acquisition period. For further information see RPC Management Services business development.

Beginning in 2008, the Company made a classification change of its income statement by reclassifying the costs relating to the ICE investigation (see Notes – Litigation) from general and administrative expenses to a separate line below operating result, due to the magnitude and the non recurring character of these expenses. The Company also made reclassifications within the cash flow statement by separating the cash flows related to the ICE investigation from other operating activities. The comparative 2007 figures for the income statement and cash flow statement were reclassified accordingly.

The consolidated financial statements of IFCO SYSTEMS are affected not only by the Company's operational performance but also by three exceptional business events, which have effects on the financial analysis, comparison to prior year and the understanding of the consolidated financial statements. Those events are:

- First time consolidation of STECO effective April 16, 2008
- Termination of a large retailer contract effective January 1, 2008
- Settlement of the ICE investigation in late December 2008

The Company has made the accounting of these events transparent and provides explanation where applicable.

## Group financial highlights – fiscal 2008 compared to fiscal 2007

### Operations data

US \$ in thousands, except per share amounts	2008	2007	% Change
Revenues	735,888	692,548	6.3%
Gross profit	132,177	122,606	7.8%
Gross profit margin	18.0%	17.7%	
Selling, general and administrative expenses <sup>(1)</sup>	72,130	59,047	22.2%
Selling, general and administrative expenses as a percentage of revenues	9.8%	8.5%	
EBITDA	111,044	107,090	3.7%
EBITDA margin	15.1%	15.5%	
EBIT	67,795	66,535	1.9%
EBIT margin	9.2%	9.6%	
Profit from continuing operations before taxes	4,522	38,263	(88.2%)
Net (loss) profit	(6,038)	27,107	
(Loss) profit per share from continuing operations – basic	(0.13)	0.52	
(Loss) profit per share from continuing operations – diluted	(0.13)	0.51	
Net (loss) profit per share – basic	(0.11)	0.50	
Net (loss) profit per share – diluted	(0.11)	0.50	
Operating cash flows excluding changes in working capital excluding ICE <sup>(2)</sup>	105,741	106,031	(0.3%)
Operating cash flows from continuing operations excluding ICE <sup>(2)</sup>	65,349	121,913	(46.4%)
Capital expenditures from continuing operations <sup>(3)</sup>	88,953	77,499	14.8%
Return on capital employed (ROCE)	14.7%	17.2%	

### Balance sheet data

US \$ in thousands	December 31, 2008	December 31, 2007	% Change
Cash and cash equivalents	31,506	35,511	(11.3%)
Property, plant and equipment	435,691	392,179	11.1%
Total debt <sup>(4)</sup>	291,494	199,317	46.2%
Net debt <sup>(5)</sup>	259,988	163,806	58.7%
Net debt currency adjusted	259,988	156,330	66.3%
Shareholders equity	243,323	254,626	(4.4%)
Headcount of continuing operations (as of the respective balance sheet dates)	4,255	4,141	2.8%

<sup>(1)</sup> The Company reclassified the Income Statement of 2007 regarding ICE related expenses of US \$5.9 million, which are presented in a separate line.

<sup>(2)</sup> Operating cash flows presented above are prior to interest and income tax payments. The Company reclassified the Cash Flow Statement of 2007 regarding the cash used for ICE of US \$4.1 million, which is presented in a separate line.

<sup>(3)</sup> 2008 includes cash paid for the acquisition of STECO, net of cash acquired (US \$30.8 million).

<sup>(4)</sup> Total debt includes all interest bearing debt and current and non-current finance lease obligations.

<sup>(5)</sup> Net debt includes cash and cash equivalents, all interest bearing debt and current and non-current finance lease obligations.

## Cash flows

US \$ in thousands	2008	2007 <sup>(1)</sup>
Cash and cash equivalents, beginning of period	35,511	27,337
<b>Operating cash flows:</b>		
Cash generated from continuing operations, excluding the cash flow effect of changes in working capital and income tax payments and excluding ICE	105,741	106,031
Cash flow effect of changes in working capital	(40,392)	15,882
Operating cash flows of continuing operations, prior to income tax payments and excluding ICE	65,349	121,913
Cash used for ICE	(8,207)	(4,147)
Operating cash flows of continuing operations, prior to income tax payments and including ICE	57,142	117,766
Income taxes paid	(5,782)	(6,905)
Operating cash flows of continuing operations	51,360	110,861
Operating cash flows of discontinued operations	(1,200)	(1,756)
	50,160	109,105
<b>Investing cash flows: <sup>(2)</sup></b>	<b>(88,776)</b>	<b>(77,436)</b>
<b>Financing cash flows:</b>	<b>34,865</b>	<b>(25,749)</b>
Effect of exchange rate changes on cash and cash equivalents	(254)	2,254
Cash and cash equivalents, end of period	31,506	35,511

<sup>(1)</sup> The Company reclassified the Cash Flow Statement of 2007 regarding the cash used for ICE of US \$4.1 million, which is presented in a separate line.

<sup>(2)</sup> 2008 includes cash paid for the acquisition of STECO, net of cash acquired (US \$30.8 million).

## Operations

- 2008 revenues on a group level increased by US \$43.3 million, or 6.3%, to US \$735.9 million. RPC Management Services' revenues increased by US \$27.4 million, or 8.3%, to US \$358.3 million compared to 2007, largely as a result of the STECO acquisition and solid organic growth, partially offset by the effects of a terminated European RPC contract in late 2007. Excluding the effects of the STECO acquisition and the termination of the retailer contract, RPC Europe grew organically by 12.2% compared to 2007. Pallet Management Services' 2008 revenues grew by US \$16.0 million, or 4.4%, to US \$377.6 million. Healthy volume gains were partially offset by regionally slower demand and accompanying lower prices as the US economy weakened throughout 2008.
- Gross profit margin on a group level increased by 0.3 percentage points to 18.0%. RPC Management Services' gross profit margin dropped from 23.2% to 21.7% in 2008, with improvements in the RPC US gross profit margin more than offset by a reduction in the European RPC gross profit margin. Following the termination of a RPC retailer contract, lower European trip volumes have reduced fixed cost leverages. RPC Management Services' gross profit margin was also negatively affected by the STECO acquisition, as STECO's business was operating at a comparatively lower gross

profit margin pre-acquisition. Operating synergies from this acquisition have already affected and will continue to positively impact margins in upcoming quarters. RPC Management Services' gross profit margin has improved significantly each quarter of 2008, starting with 17.2% in Q1 2008, improving to 20.4% in Q2 2008 and 22.6% in Q3 2008 and reaching 25.3% in Q4 2008. The Pallet Management Services segment gross profit margin continued to increase, although economic weakness has resulted in reduced growth and increased pricing pressure in a number of regions of the North American market. Additionally, average fuel costs increased in 2008 compared to 2007, although these costs fell sharply in the latter half of 2008.

- Selling, general and administrative expenses (SG&A) increased by US \$13.1 million, or 22.2%, to US \$72.1 million, primarily due to the STECO acquisition. SG&A as a percentage of revenues increased from 8.5% in 2007 to 9.8% in 2008. Excluding the impact of the STECO acquisition, SG&A expenses would have grown by US \$5.6 million or SG&A as a percentage of revenues would have increased from 8.5% in 2007 to 9.3% in 2008.
- EBITDA increased by US \$4.0 million, or 3.7%, to US \$111.0 million during 2008, and EBITDA margin declined slightly to 15.1% in 2008 from 15.5% in 2007. The Company's EBITDA margin was negatively impacted by the STECO acquisition, as STECO's business was operating at a comparatively lower EBITDA margin pre-acquisition. IFCO SYSTEMS believes that the EBITDA margin contribution of the STECO acquisition will improve further as planned synergies are expected to be realized in 2009.
- EBIT increased by US \$1.3 million, or 1.9%, to US \$67.8 million.
- Net profit of US \$27.1 million in 2007 fell to a net loss of US \$6.0 million in 2008. The effects of increased EBIT and a positive variance from discontinued operations were more than offset by non-recurring STECO costs (e.g. professional fees, severance payments), increased net interest expenses, and most of all due to the Company's legal defense and settlement of the ICE investigation, which resulted in recorded expenses of US \$25.8 million (see Notes – Litigation). Excluding the expenses resulting from the ICE matter, the Company would have reported a net profit of US \$19.8 million.
- Excluding the effect of discontinued operations, basic profit per ordinary share decreased from a profit of US \$0.52 in 2007 to a loss of US \$0.13 in 2008. Excluding the expenses related to the ICE legal defense costs and settlement, 2008 profit per share would have been US \$0.35.

## Liquidity and Cash Flows

- Cash generated from continuing operations, excluding the cash flow effect of changes in working capital, income tax payments and ICE related cash payments, decreased slightly by US \$0.3 million. Operating cash flow improvements in RPC US and Pallet Management Services were offset by the cash flow effects of the terminated RPC retailer contract in Europe.
- The operating cash flows from continuing operations before income tax payments and excluding ICE decreased by US \$56.6 million, or 46.4%, to US \$65.3 million in 2008. This decline was primarily caused by the usage of working capital in RPC Europe, as reduced refundable deposit levels and payables followed the termination of a RPC retailer contract in Europe and higher inventory levels in our Pallet Management Services business segment.
- Our capital expenditures increased by US \$11.5 million, or 14.8%, to US \$89.0 million, due to the STECO acquisition in 2008. However, operating capital expenditure levels, excluding both the acquisition of the shares in IFCO SYSTEMS Argentina S.A. in 2007 and the STECO acquisition in 2008, decreased by US \$17.6 million, or 23.3% to US \$58.1 million as compared to US \$75.8 million in 2007.
- Cash funds decreased by US \$4.0 million, or 11.3%, to US \$31.5 million at December 31, 2008 compared to December 31, 2007.
- Net debt on a currency adjusted basis increased from US \$156.3 million at the end of 2007 by US \$103.7 million to US \$260.0 million at the end of 2008. This increase is the result of the acquisition of STECO (purchase price and assumption of STECO's debt) and the working capital effects following the termination of a retailer contract in RPC Europe.
- As of December 31, 2008, IFCO SYSTEMS' shareholders' equity amounted to US \$243.3 million, or 27.4% of total assets, as compared to US \$254.6 million, or 31.6% of total assets, as of December 31, 2007.

## Return on Capital Employed

- We measure the return on invested capital of our business segments based on Return on Capital Employed (ROCE). We calculate ROCE by dividing the last twelve months' reported EBIT by the total average book value of the capital employed which would be required to fund the measured business unit during this measurement period. We only consider our continuing operations' EBIT and average book value to calculate ROCE.
- ROCE from continuing operations decreased to a level of 14.7% in 2008 after 17.2% in 2007. While our operational performance in 2008 compared to 2007 was relatively stable our Capital Employed increased significantly, primarily as a result of the STECO acquisition. While ROCE in our US operations increased, our European operations' ROCE were negatively affected by the STECO acquisition.

## Segment information

### RPC Management Services

US \$ in thousands, except RPC data	2008	2007	
Revenues	358,282	330,904	8.3%
Gross profit	77,706	76,880	1.1%
Gross profit margin	21.7%	23.2%	
EBITDA	87,472	88,632	(1.3%)
EBITDA margin	24.4%	26.8%	
EBIT	50,419	53,656	(6.0%)
EBIT margin	14.1%	16.2%	
Income from operations	46,997	53,680	(12.4%)
Operating cash flows	50,092	108,577	(53.9%)
Capital expenditures			
- RPCs	51,777	66,515	(22.2%)
- Other	2,936	6,152	(52.3%)
- Cash paid for acquisition, net of cash acquired	30,808	1,712	1,699.5%
	85,521	74,379	15.0%
Property, plant and equipment, net			
- RPCs	386,456	348,035	11.0%
- Other	27,019	22,969	17.6%
	413,475	371,004	11.4%
Total RPC trips (in millions)	398.2	383.0	4.0%
RPC pool size (end of period, in millions)	96.5	85.1	13.4%
Average RPC annualized turns	4.39	4.66	(5.8%)
# of sanitation and service centers	59	43	37.2%
Headcount, end of year	855	566	51.1%
Currency Adjusted:			
Revenues	358,282	349,507	2.5%
Gross profit	77,706	81,703	(4.9%)
EBITDA	87,472	93,583	(6.5%)
EBIT	50,419	57,149	(11.8%)

### Revenues

RPC Management Services' revenues in 2008 grew by US \$27.4 million, or 8.3%, to US \$358.3 million compared to 2007. RPC Europe has benefited by the STECO acquisition and the organic growth of 12.2% in its existing retailer base, offset by lower volumes resulting from a terminated RPC retailer contract, which led to slightly decreased revenues on a currency adjusted basis. RPC US revenues significantly increased due to higher volumes resulting from both increased retail penetration and higher market share. The Company believes that these underlying favorable RPC business development and organic growth trends support the sustainability and strength of the Company's RPC



business model. The loss of one of the major RPC retailer contracts was covered partly already in 2008 and based on the Company's expectations will be covered in 2009 by new contracts and organic growth.

The acquisition of STECO has broadened IFCO SYSTEMS' European service offering to include Portugal and the Central Eastern European countries.

- Total trips increased by 15.2 million, or 4.0%, to 398.2 million in 2008, as a result of:
  - In Europe trip volume declined compared to prior year. Our traditionally strong markets in Spain, Switzerland and Norway continued to perform in line with expectations. Germany is significantly affected by the loss of a RPC retailer contract compared to prior year, however performed in line with our expectations.
  - Trip development in the United States increased by 23.4% during 2008, resulting in further gains of our RPC US services market leadership position.
  - The Company's South American trip volume increased by 23.5% as a result of new business in Brazil started in Q4 2008.
- Our worldwide average per trip pricing levels declined during 2008, primarily due to increased volume of local businesses with lower price.
- The annualized turns of our global RPC pool were 4.39 turns during 2008 compared to 4.66 in 2007. A terminated RPC retailer contract in Europe has created a temporarily oversized RPC pool in Europe, reducing our reported turn rates. The Company is active and has initiated further measurements to increase turn rates of the RPC pool.
- The reported 2008 pool size of 96.5 million units includes with 11.2 million units the STECO pool acquired in 2008. Therefore, the growth in the RPC pool during 2008 is primarily attributable to the acquisition of the STECO pool in Europe, continued growth in our RPC US business and the start-up of a new RPC pool in the Brazilian market. The RPC pool in Europe, excluding the acquisition of the STECO RPC pool, declined as a consequence of lower trip volume.

#### **Operational expenses and profitability**

- RPC Management Services' gross profit increased by US \$0.8 million, or 1.1%, to US \$77.7 million in 2008. Gross profit margin dropped by 1.5 percentage points to 21.7% in 2008. Gross profit margin in RPC Europe decreased due to lower fixed cost leverages following a terminated RPC retailer contract, higher relative depreciation charges following the STECO acquisition, and higher transportation costs as a percentage of revenue. RPC Management Services' gross profit margin was also negatively affected by the comparably lower margins of the acquired STECO business, where expected synergies with our existing European infrastructure have already contributed in second half of 2008 and will improve margins in the upcoming quarters. The gross profit margin increase in the RPC US business resulted primarily from greater fixed cost leverage and lower relative depreciation charges. RPC Management Services' gross profit margin has improved each quarter of 2008 as illustrated in the following table:

Period	Gross profit margin
Q1 2008	17.2%
Q2 2008	20.4%
Q3 2008	22.6%
Q4 2008	25.3%

- This segments' SG&A costs increased on a currency adjusted basis by US \$6.9 million or 26.5%, primarily as a result of the acquired STECO business and investments in sales and marketing efforts starting in second half of 2007 and lower marketing allowances received. Eliminating the effects resulting from the first time consolidation of STECO, SG&A of the RPC business would have increased by 2.8%.
- As a result of the items discussed above, our RPC Management Services EBITDA decreased by 1.3% to US \$87.5 million in 2008.
- Our RPC Management Services EBIT decreased by US \$3.2 million, or 6.0%, to US \$50.4 million in 2008.

#### Liquidity and Cash Flows

- Cash generated from continuing operations, excluding the cash flow effect of changes in working capital and income tax payments, decreased by US \$4.4 million. Positive cash flow developments in RPC US were more than offset by the effects following the termination of a RPC retailer contract in Europe.
- Our RPC Management Services segment operating cash flows decreased significantly by US \$58.5 million, or 53.9%, to US \$50.1 million in 2008. This decline was primarily caused by the usage of working capital, as reduced refundable deposit levels and payables followed the termination of a RPC retailer contract in Europe.
- Our capital expenditures for RPCs decreased by US \$14.7 million, or 22.2%, to US \$51.8 million. Capital expenditures in RPC Europe decreased significantly by 45.4% compared to 2007, as a consequence of reduced trip volume in Europe. Including the cash paid for the STECO acquisition in 2008 and the South America acquisition in 2007, our capital expenditure levels increased by 15.0% to US \$85.5 million in 2008.
- We believe that our future RPC Management Services operating cash flows will be adequate to fund the capital expenditures required to support this segments' growth plans. The Company has a number of initiatives to more closely correlate its RPC capital expenditures with current and planned trip volume development in order to generate higher returns on its invested capital.

## Pallet Management Services

US \$ in thousands	2008	2007	% Change
Revenues	377,606	361,644	4.4%
Gross profit	54,471	45,726	19.1%
Gross profit margin	14.4%	12.6%	
EBITDA	31,203	23,282	34.0%
EBITDA margin	8.3%	6.4%	
EBIT	25,007	17,703	41.3%
EBIT margin	6.6%	4.9%	
Income from operations	24,342	11,940	103.9%
Operating cash flows excluding ICE	30,311	28,904	4.9%
Operating cash flows including ICE	22,104	24,757	(10.7%)
Capital expenditures	1,902	2,105	(9.6%)
Property, plant and equipment	18,673	19,646	(5.0%)
# of service centers	155	144	7.6%
Headcount, end of year	3,392	3,567	(4.9%)

### Revenues

Our Pallet Management Services segment revenues increased by US \$16.0 million, or 4.4%, compared to 2007, with revenues of US \$377.6 million in 2008. Revenues in our Pallet Management Services division have improved as a result of the Company's focus on volume growth and a continuing expansion of its service offerings. These gains were partially offset by regionally slower demand and accompanied lower prices resulting from an increasingly weak US economy throughout 2008.

Our past experience has shown us that the development of the total pallet market is closely linked to the inflation adjusted development of the US gross domestic product (GDP), which has grown at an average rate of approximately 1.7% during the last 2 years. However, the rapidly weakening economy led to a real GDP decrease of 0.5% in the third quarter and, according to advance estimates, a decrease of 3.8% in the fourth quarter of 2008. This decline has resulted in lower customer demand and increased pricing pressure. However, the Company believes that the key business drivers which have resulted in our Pallet Management Services segment outpacing the general market development in recent years have not changed during 2008. These key growth drivers are listed as follows:

- Growth of our National Sales accounts, which provide us with both pallet core supply and new sales opportunities. Our extensive geographic network and industry expertise uniquely allow IFCO SYSTEMS to provide value-added offerings to certain of our customers and business partners.

- Development of our national network to provide growth opportunities in new markets. We opened 11 new service locations during 2008, bringing our total number of customer service locations to 155 as we also have added new reverse logistics operations at or near certain of our retail partners' distribution centers.
- Increase the breadth of our service offerings. We believe our deep industry knowledge and geographic network positions us to take advantage of new customer and market requirements in a timely and thorough manner. The rapid development of our Warehouse Logistics and Management services division is a testament to our ability to provide value-added solutions for our customers.

#### **Operational expenses and profitability**

- Gross profit margin of the Pallet Management Services business segment increased by 1.8 percentage points to 14.4% in 2008. The gross profit margin improvement during 2008 is primarily due to higher volumes, lower average material acquisition costs resulting from weaker demand, improved material utilization, and improved labor efficiency. These gains were partially offset by more acute economic weakness in certain regions that reduced operating profitability levels.
- Total SG&A expenses increased during 2008 by US \$1.6 million, or 5.8%, primarily as a result of higher personnel costs, higher travel expenses and an increase in bad debt provisions.
- As a result of the items discussed above, our Pallet Management Services EBITDA increased significantly by US \$7.9 million, or 34.0%, to US \$31.2 million in 2008.
- EBIT grew by US \$7.3 million, or 41.3%, to US \$25.0 million in 2008.

#### **Liquidity and Cash Flows**

- Pallet Management Services segment operating cash flows excluding ICE effects increased by US \$1.4 million, or 4.9%, to US \$30.3 million in 2008. Operating cash flows before working capital consideration increased by US \$6.9 million, or 29.7%, to US \$30.3 million in 2008. Excluding ICE effects, cash flows attributable to changes in working capital generated US \$0.04 million during 2008 compared to US \$5.5 million in 2007, due to higher inventory levels in 2008.
- Pallet Management Services segment operating cash flows including ICE effects decreased by US \$2.7 million, or 10.7%, to US \$22.1 million in 2008. The ICE investigation led to total expenses of US \$25.8 million in 2008 (2007, US \$5.9 million), an increase in working capital changes by US \$17.6 million (2007, US \$1.8 million) in other current and non-current liabilities (US \$17.9 million settlement payments) as well as provisions (legal expenses). As a result, cash outflows from the ICE investigation totaled US \$8.2 million in 2008, compared to US \$4.1 million in 2007.

- The Pallet Management Services segment has continued to acquire certain operating equipment which had previously been leased, some through a finance leasing program, continued during 2008. We believe these investments provide better long-term economic return relative to operating leases.
- As in prior years, we believe this business segment will continue to be able to operate effectively in the future with relatively modest capital expenditure requirements.

## Corporate

US \$ in thousands	2008	2007	% Change
Loss from operations	9,536	6,501	46.7%
Net finance costs	27,921	21,859	27.7%
Foreign currency (loss) gain, net	(3,585)	899	
Income tax provision	11,712	10,229	14.5%
Income (loss) from discontinued operations	1,152	(927)	

### Loss from operations

Loss from operations of our corporate activities increased by US \$3.0 million in 2008, mainly because of an additional member to the Board of Managing Directors in the position of Chief Sales Officer Europe, increased non-variable remuneration for our Managing Directors and extended corporate functions within the group.

### Net finance costs

Our net borrowing costs increased by US \$6.1 million, primarily as a result of the higher average usage of our working capital facility, the interest on the STECO sellers' note and increased interest for finance lease obligations and factoring during 2008 as compared to 2007.

### Foreign currency (loss) gain, net

Our foreign currency gains and losses are the result of exchange rate fluctuations between the Euro and other local European currencies, the Euro and the US Dollar and between the Euro and the Brazil Real.

### Income taxes

During 2008 and 2007, our recorded consolidated income tax provision differs from the amount which would be calculated by applying statutory rates to our profit before income taxes. This is principally a result of our legal entities in the local tax jurisdictions in which we operate being allowed to recognize certain deductions for tax purposes, principally depreciation of our RPCs at a faster rate, and amortization of goodwill than we recognize these items in our IFRS consolidated financial statements. We believe that these accelerated income tax deductions, together with other items, will result in reporting taxable losses in 2008 in many of our principal tax jurisdictions, and in minimal taxable income in other jurisdictions. Additionally, as of December 31, 2008, our European and United States operations had substantial net operating loss carryforwards.

The deferred tax expenses in 2008 are mainly caused by the use of available deferred tax assets in the United States. See Notes to consolidated financial statements for further description and analysis of income taxes.

**Discontinued operations**

In February 2002, we completed the sale of a majority of the assets of our industrial container services operations to Industrial Container Services, Inc. (ICS).

During Q3 2003, two lawsuits were filed, naming as defendants the Company and certain of its subsidiaries as well as a number of the customers, ICS and certain affiliates of ICS, based upon alleged discharges of contaminants, toxic substances and chemicals from one of our drum facilities in Chicago on or before mid-2001. In the beginning of Q2 2007, the class action allegations were dismissed from one of the cases and a group of unnamed class members filed a separate lawsuit patterned after the other two against certain subsidiaries of the Company. IFCO SYSTEMS N.V. itself was not named a party in this separate lawsuit. At this stage, the Company cannot accurately assess the potential merit or consequences of these claims. The Company intends to defend these claims vigorously. However, if these claims have a negative outcome to the Company or to parties to whom the Company owes indemnities, such claims could have a material adverse effect on the Company's business, liquidity, results of operation and financial condition. The legal costs and other costs which may be required in defending these lawsuits were accrued based on management's best estimate in the amount of US \$1.1 million by the end of 2008 (2007: US \$0.9 million). In 2008, these costs were offset by the recognition of US \$2.1 million in estimated amounts due to the Company under insurance policies which require reimbursement of eligible legal defense costs.

## Financial reconciliations

In addition to measuring key group and segment level cash flow metrics, we measure the profitability of our segments through the use of operating EBITDA and EBIT measures (see reconciliation of our IFRS net profit to our EBITDA and EBIT below). Our management uses EBITDA and EBIT as key operating measures because they measure operating profits before certain non-operating items, such as ICE related expenses, net financing costs, foreign currency gains and losses, discontinued operations, stock-based compensation expense and income taxes. We believe that the exclusion of these items from segment measurement is appropriate because (1) these items are managed centrally, not by segment members (see analysis of corporate items above), (2) these items are not necessarily indicative of the operating results of our businesses and (3) operating results excluding these items allow investors to see our businesses as they are measured by management. Other companies may use different measures or calculate these measures differently, and their figures may not be comparable to ours.

### Reconciliation of Net profit to EBITDA:

US \$ in thousands	2008	2007
Net profit	(6,038)	27,107
Net finance costs	27,921	21,859
Income tax provision	11,712	10,229
Depreciation expense	42,053	39,991
Amortization of other assets	1,196	564
Stock-based compensation expense	431	339
Foreign currency loss (gain)	3,585	(899)
Nonrecurring items <sup>(1)</sup>	31,336	6,973
(Income) loss from discontinued operations	(1,152)	927
<b>EBITDA</b>	<b>111,044</b>	<b>107,090</b>

### Reconciliation of EBITDA to EBIT:

US \$ in thousands	2008	2007
EBITDA	111,044	107,090
Depreciation expense	(42,053)	(39,991)
Amortization of other assets	(1,196)	(564)
<b>EBIT</b>	<b>67,795</b>	<b>66,535</b>

<sup>(1)</sup> 2007 nonrecurring items consist primarily of the legal costs associated with the ICE investigation and restructuring costs for depots in RPC Europe, partially offset by the gain associated with the closure of the seafood business in RPC Europe and the reversal of a recorded accrual for the litigation issue with Asto Consulting Innovative Marketing S.A. 2008 nonrecurring items consist primarily of the settlement and legal costs associated with the ICE investigation (US \$25.8 million) and start-up costs for IFCO SYSTEMS do Brasil Serviços de Embalagem Ltda, severance payments and the operating result of ILD Logistik + Transport GmbH, which was a part of the STECO acquisition, however will be liquidated.



## Summary information by continuing business segment

US \$ in thousands	2008	2007	% Change
<b>Revenues:</b>			
RPC Management Services	358,282	330,904	8.3%
Pallet Management Services	377,606	361,644	4.4%
	<b>735,888</b>	<b>692,548</b>	<b>6.3%</b>
<b>Gross profit:</b>			
RPC Management Services	77,706	76,880	1.1%
Pallet Management Services	54,471	45,726	19.1%
	<b>132,177</b>	<b>122,606</b>	<b>7.8%</b>
<b>EBITDA:</b>			
RPC Management Services	87,472	88,632	(1.3%)
Pallet Management Services	31,203	23,282	34.0%
Operations subtotal	<b>118,675</b>	<b>111,914</b>	<b>6.0%</b>
Corporate	(7,631)	(4,824)	58.2%
	<b>111,044</b>	<b>107,090</b>	<b>3.7%</b>
<b>EBIT:</b>			
RPC Management Services	50,419	53,656	(6.0%)
Pallet Management Services	25,007	17,703	41.3%
Operations subtotal	<b>75,426</b>	<b>71,359</b>	<b>5.7%</b>
Corporate	(7,631)	(4,824)	58.2%
	<b>67,795</b>	<b>66,535</b>	<b>1.9%</b>
<b>Operating cash flows:</b>			
RPC Management Services	50,092	108,577	(53.9%)
Pallet Management Services	22,104	24,757	(10.7%)
Operations subtotal	<b>72,196</b>	<b>133,334</b>	<b>(45.9%)</b>
Corporate	(15,054)	(15,568)	(3.3%)
	<b>57,142</b>	<b>117,766</b>	<b>(51.5%)</b>
<b>Capital expenditures:</b>			
RPC Management Services	85,521	74,379	15.0%
Pallet Management Services	1,902	2,105	(9.6%)
Operations subtotal	<b>87,423</b>	<b>76,484</b>	<b>14.3%</b>
Corporate	1,530	1,015	50.7%
	<b>88,953</b>	<b>77,499</b>	<b>14.8%</b>
<b>Personnel:</b>			
	December 31, 2008	December 31, 2007	
RPC Management Services	855	566	51.1%
Pallet Management Services	3,392	3,567	(4.9%)
Operations subtotal	<b>4,247</b>	<b>4,133</b>	<b>2.8%</b>
Corporate	8	8	0.0%
	<b>4,255</b>	<b>4,141</b>	<b>2.8%</b>

## 2002 – 2008 Financial summary

US \$ in thousands	US GAAP		2004	2005	2006	2007	IFRS 2008
	2002	2003					
<b>Statement of income data:</b>							
Revenue	360,990	399,154	471,859	576,274	647,236	692,548	<b>735,888</b>
Cost of sales	310,448	337,361	387,632	460,065	538,270	569,942	<b>603,711</b>
<b>Gross profit</b>	<b>50,542</b>	<b>61,793</b>	<b>84,227</b>	<b>116,209</b>	<b>108,966</b>	<b>122,606</b>	<b>132,177</b>
Selling, general and administrative expenses	40,662	36,371	39,561	48,938	48,975	59,047	<b>72,130</b>
Stock-based compensation expense	–	–	1,857	1,545	667	339	<b>431</b>
Amortization of goodwill and other intangible assets	1,143	950	246	179	279	564	<b>1,196</b>
Other operating expense (income), net	1,023	1,101	550	(681)	(73)	(2,407)	<b>(3,383)</b>
<b>Income from operations</b>	<b>7,714</b>	<b>23,371</b>	<b>42,013</b>	<b>66,228</b>	<b>59,118</b>	<b>65,063</b>	<b>61,803</b>
Net gain of RPC pool adjustment	–	–	–	–	11,396	–	–
Net interest cost	(33,132)	(14,783)	(16,116)	(17,561)	(18,682)	(21,239)	<b>(26,867)</b>
Factoring charges	(447)	(372)	(232)	(320)	(439)	(620)	<b>(1,054)</b>
Gain on debt extinguishment	91,408	1,050	–	–	–	–	–
Foreign currency (loss) gain	(45,032)	(556)	2,638	(2,488)	(2)	899	<b>(3,585)</b>
Income (loss) from equity entities, net	(9)	914	386	977	265	446	<b>(220)</b>
Other income (expense), net	187	(15)	232	(274)	(140)	(342)	<b>271</b>
ICE related expenses	–	–	–	–	(7,079)	(5,944)	<b>(25,826)</b>
<b>Net income from continuing operations before income taxes and cumulative effect of changes in accounting principle</b>	<b>20,689</b>	<b>9,609</b>	<b>28,921</b>	<b>46,562</b>	<b>44,437</b>	<b>38,263</b>	<b>4,522</b>
Income tax (provision) benefit	(1,294)	2,157	(37)	(2,006)	(6,485)	(10,229)	<b>(11,712)</b>
<b>Net income (loss) from continuing operations before cumulative effect of changes in accounting principle</b>	<b>19,395</b>	<b>11,766</b>	<b>28,884</b>	<b>44,556</b>	<b>37,952</b>	<b>28,034</b>	<b>(7,190)</b>
Net (loss) income from discontinued operations	(15,113)	(945)	3,253	(3,651)	(665)	(927)	<b>1,152</b>
Cumulative effect of change in accounting principle	(39,857)	–	–	–	–	–	–
<b>Net (loss) income</b>	<b>(35,575)</b>	<b>10,821</b>	<b>32,137</b>	<b>40,905</b>	<b>37,287</b>	<b>27,107</b>	<b>(6,038)</b>
<b>Other financial data:</b>							
Capital expenditures from continuing operations, including cash paid for acquisitions	20,691	32,699	66,068	83,947	101,300	77,499	<b>88,953</b>
Total debt, including finance lease obligations	124,410	162,092	172,499	153,881	177,499	199,317	<b>291,494</b>
Net debt	104,751	105,303	108,134	92,913	150,162	163,806	<b>259,988</b>
Total assets	445,526	517,791	610,933	630,481	698,341	806,237	<b>887,709</b>
Shareholders' equity	110,103	119,828	154,917	201,469	233,858	254,626	<b>243,323</b>

IFCO SYSTEMS prepared its consolidated financial information in accordance with generally accepted accounting principles of the United States (US-GAAP) through 2004. Beginning Q1 2005, the Company adopted International Financial Reporting Standards (IFRS) as its group accounting standard and retroactively applied those standards to January 1, 2004. Consequently, the financial information included herein for the years 2002 and 2003 is based on US-GAAP, while the data for the years 2004 to 2008 is in compliance with IFRS.

## Liquidity and capital resources

The following table summarizes our commitments under interest-bearing debt agreements as of December 31, 2008, as well as our cash and cash equivalents and net debt as of that date.

US \$ in thousands	Payments due within				Total
	1 year	2-3 years	4-5 years	5+ years	
Senior Secured Notes, net of deferred financing costs	–	150,972	–	–	150,972
Present value of finance lease obligations	21,244	26,163	7,371	1,143	55,921
Working capital facility, net of deferred financing costs	62,123	–	–	–	62,123
Sellers' note	–	16,935	–	–	16,935
Other, net of deferred financing costs	3,707	1,378	458	–	5,543
<b>Total</b>					<b>291,494</b>
Cash and cash equivalents					31,506
<b>Net debt</b>					<b>259,988</b>

See Notes to the consolidated financial statements for further discussion of our debt agreements and sources of liquidity.

### Other contractual obligations and commercial commitments

The following table summarizes our commitments for future expenditures related to operating leases as of December 31, 2008.

US \$ in thousands	Payments due within				Total
	1 year	2-3 years	4-5 years	5+ years	
Operating lease commitments	19,196	23,576	10,044	3,369	56,185

See Notes to the consolidated financial statements for further discussion of these items.

### Future liquidity prospects

Our sources of liquidity currently include cash from operations, cash and cash equivalents on hand and amounts available under the working capital facility and certain factoring agreements. As of February 20, 2009, our liquidity was US \$22.9 million. We believe that our sources are sufficient to finance our future capital and operational requirements in accordance with our business plans.

## Risk management

Our internal risk management policies are integral parts of how we plan and execute our business strategies. We use a comprehensive set of internal risk management and control systems to anticipate, measure, monitor and manage our exposure to risk. The most important of these are our enterprise-wide processes for strategic planning, management

reporting and internal audit. We assess the installed control systems as adequate and effective. The coordination of these processes and procedures are intended to ensure that our Board of Managing Directors, Executive Management Committee and Supervisory Board are informed about material risks on a timely basis.

The Company is emphasizing the internal audit function which covers both its European and USA business activities. Additionally, a compliance officer function is installed to oversee the Company's corporate compliance programs.

Below we describe the major categories of risks that could materially affect our business, our strategies, our financial condition and our results of operations. The risks we describe here are not necessarily the only ones we face. Additional risks not known to us, or that we now consider less significant, could also adversely affect our business.

#### **Competition**

We face competition in all industry sectors in which we operate. We expect aggressive competition from other reusable container providers and from the traditional packaging companies, in particular producers of cardboard boxes. In addition, there are relatively few barriers that prevent entry on a local or regional level into the traditional packaging and pallet industries. The effect of this competition could limit our ability to grow, increase pricing pressure on our products and otherwise affect our financial results.

The market for pallet recycling services is highly fragmented and competitive, resulting in intense pricing competition. Other pallet systems may include pallets fabricated from non-wooden components like plastic as cost-effective, durable alternatives to wooden pallets. Increased competition from pallet pooling companies or providers of other alternatives to wooden pallets could make it more difficult for us to attract and retain customers and may force us to reduce prices, which may decrease our profitability.

#### **Retail relationships**

Our RPC Management Services business segment is dependent on our relationships with a relatively small number of large retailers. Our inability to maintain these relationships or cultivate new relationships on similar terms will impair our ability to remain competitive in the markets in which we operate.

Our Pallet Management Services business segment sources the majority of our pallets for reconstruction from businesses that use pallets, including large and small retailers.

The loss of one or more of these retail relationships would have a material negative impact on our revenues, profitability and cash flows.

#### **RPC Management Services' pool risks**

Despite our experience with container pooling and transport, and the relative durability and reliability of RPCs, our pool of RPCs is subject to shrinkage due to unforeseen loss and damage during transport in the product distribution cycle. Increased loss of or damage to RPCs may increase our costs in maintaining our current RPC Management Services' pool, thus requiring additional capital investments, which could limit our profitability. We have implemented operational, logistic and analytical tools in order to reduce and minimize those risks. Additionally our depreciation policy considers these risks.

**Supplier risk**

We procure our green RPCs used in our RPC Management Services' business exclusively from two suppliers under separate contracts for our European and US businesses. Our RPC Management Services' operations depend upon obtaining deliveries of RPCs on a timely basis and on commercially reasonable terms. We have maintained long-term relationships with these suppliers. If these suppliers ever become unwilling or unable to supply us with RPCs at all or on conditions acceptable to us, we may be unable to find alternative suppliers on a timely or cost-effective basis. This would limit our ability to supply our customers with RPCs on a timely basis and, thus, adversely affect our results of operations. However, if these contracts were terminated, IFCO SYSTEMS has the right to use the RPC production moulds and has access to the mould's design drawings.

**Credit risk**

We provide certain of our customers customary financing for our sales to them. We face a number of general risks in providing this financing, including delayed payments from customers or difficulties in the collection of receivables. We manage these credit risks using defined processes for assessing customer creditworthiness and through our group emphasis on collecting receivables fully and timely.

**Environmental risk**

Our operations are subject to various environmental laws and regulations, including those dealing with the handling and disposal of waste products, fuel storage and air quality. Failure to comply with such laws and regulations can have serious consequences, including civil and criminal fines and penalties, and orders to limit or shut down operations. We manage these risks with strict internal procedures and through our internal management reporting tools.

See Notes to the consolidated financial statements for further discussion of existing environmental matters.

**Foreign currency risk**

Foreign currency risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates.

**Non cash foreign currency risk**

As currency exchange rates change, translation of the financial statements of our international businesses into US Dollars and Euros affects year-to-year comparability of our results of operations. Appreciation of the US Dollar, our presentation currency, against the Euro decreases our revenues and costs as reported in our financial statements for those operations that have a functional currency other than the US Dollar. Conversely, depreciation of the US Dollar against the Euro increases our revenues and costs. The appreciation or depreciation of the US Dollar against the Euro, therefore, impacts our reported results.

Aside from the US Dollar, our reporting currency, the Euro is our other primary functional currency. The following table summarizes the value of the Euro relative to the US Dollar.

	As of December 31		Average for Fiscal Year	
	2008	2007	2008	2007
US Dollar relative to 1 Euro	1.3919	1.4603	1.4731	1.3708

### Cash foreign currency risk

Our operating subsidiaries in countries other than those countries participating in the European Monetary Union and adopting the Euro as their national currency use their local currency as their functional currency. Transactions between those European countries which do not use the Euro as their national currency and countries which do use the Euro as their national currency might result in a cash foreign currency risk.

We incur currency transaction risk whenever one of our operating subsidiaries enters into either a purchase or sales transaction using a currency other than its functional currency. Our currency risk arises from foreign currency receivables as well as from firm commitments to purchase services and supplies in the future in currencies other than the subsidiary's functional currency. Additionally, the intercompany financing between IFCO SYSTEMS N.V. and IFCO SYSTEMS North America Inc. is subject to currency transaction risk.

### Interest rate risk

The Company's exposure to the risk of changes in market interest rates is limited and relates only to the working capital facility. The majority of the Company's interest bearing debt (Senior Secured Notes) has fixed interest rates.

### Refinancing risk

The Company's Euro 110 million Senior Secured Notes mature in October 2010 and the Euro 65 million Working Capital Facility in July 2010. Given the recent developments in the worldwide financial markets, we might face a risk to refinance this instrument on the High Yield market. The Company will therefore contemplate other refinancing alternatives as well.

### Commodity price risk

We are subject to market risk with respect to certain commodities. Plastic granulate is a significant component of cost of goods sold for our RPCs, used pallets are the principal raw material cost in our Pallet Management Services business segment, and energy, particularly diesel fuel, represents a significant cost in each of our key business segments. To the extent that we purchase new RPCs made from new, virgin material instead of recycled RPCs, any increase in the cost of new granulate will increase cost of goods sold resulting in decreased profitability unless there is a corresponding increase in the prices we charge our customers. Similarly, increases in energy costs or in the cost of used pallets could create pressure on our gross margin if we do not increase customer prices. We may be limited in the scope and timing of cost increases, if any, that we are able to pass along to customers. In addition, price increases could reduce revenues if lower volumes result.

We do not enter into futures contracts on commodity markets to hedge our exposure to the commodities described above.

**Acquisitions and dispositions**

IFCO SYSTEMS GmbH, an indirect subsidiary of IFCO SYSTEMS N.V., acquired all of the shares of STECO Holding GmbH and its subsidiaries, one of Europe's notable RPC service providers, during 2008. We refer to this acquired group as STECO herein (See Notes for further information of this acquisition). STECO was consolidated for the first time commencing April 16, 2008.

The Company owned 49.0% of an Argentine RPC systems operation. IFCO SYSTEMS GmbH together with IFCO SYSTEMS Holding GmbH acquired 51.0% of the shares of IFCO SYSTEMS Argentina S.A. in 2007. As a result, the indirect subsidiaries of the Company now own 100.0% of the share capital of IFCO SYSTEMS Argentina S.A.. IFCO SYSTEMS Argentina S.A. also owns a majority interest in IFCO SYSTEMS Uruguay and IFCO SYSTEMS Chile. These companies in South America were consolidated in the financial statements for the entire year in 2007.

**Research and development**

We are engaged in ongoing product improvement efforts with our RPC Management Services' suppliers and customers to make our RPCs more durable and handling-efficient with a lower cost per trip and to develop new products. These research and development efforts are conducted by the supplier pursuant to the terms of the applicable supply agreements and do not involve separate research and development expenditures.

We are developing tracking and tracing applications to use technology to track the location and the content of our RPCs, pallets and other conveyances. We believe that such a tracking technology can improve supply chain planning and asset utilization, automate warehousing and logistics processes and provide more current information on new pricing strategies and implementation. With respect to any technology selected for testing and possible implementation, we will consider various factors, including field effectiveness, ease of use and cost.

As of December 31, 2008 we have capitalized US \$5.6 million in hardware and associated research and development. We started to implement this technology in the RPC US business in October 2005.

Given the nature of the Pallet Management Services operations, we do not have any material product research and development expenditures.



## Legal proceedings

See Notes to the consolidated financial statements for discussion of these items.

## Outlook

As the financial crisis that unfolded in 2008 spreads to the worldwide economy, it is expected that the global economic environment will be very challenging in 2009. While we anticipate the economy in both Europe and the United States, our two key markets, to decline overall in 2009, it is expected that these economies will begin to recover later in 2009.

It is expected that our RPC Management Services business will not materially suffer from the worldwide economic downturn, as the grocery retail industry, which is our main customer base, will not be as strongly affected as other industries.

Therefore, the European RPC Management Services business will continue to leverage our leadership position and market experience to meet or exceed overall market development. We will increase our sales initiatives and continue to expand geographic presence in Western Europe, Central Eastern Europe and South America. In the United States, we expect an increase in the overall RPC penetration among grocery retailers and expect to grow in excess of this market development. Based on our solid RPC business model, the RPC Management Services businesses is expected to grow in 2009. Therefore, we will continue to invest in our RPC pool during 2009. These investments, however, will be carefully aligned with our business development and are targeted to increase the return on our invested capital.

We expect that Pallet Management Services business will be negatively affected by the overall economic decline in the United States in 2009, both in terms of lower volumes resulting from reduced economic activity and pressure on prices from this lower demand. However, we remain confident that the key competitive advantages of Pallet Management Services business – the breadth of service offerings, the national network and the value proposition at a national and local level – have not changed and will allow our Pallet Management Services segment to increase market share in 2009 and sustain our existing leadership position.

Although the economic environment in 2009 will remain uncertain for a large part of the year, we believe that the above described trends will result in increased revenues and profitability in 2009 as compared to 2008.

Financially, we are in a position to be able to fund our capital, operational and debt service requirements through our own operational cash flows.

### **Subsequent events**

No subsequent events occurred between December 31, 2008 and the authorization date of our 2008 annual report which the Company believes would have a material effect on the consolidated financial statements or footnotes herein.

### **Responsibility Statement**

To the best of our knowledge, and in accordance with all International Financial Reporting Standards (IFRS) as adopted by the European Union, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the Company's management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.



## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements 2008 which are part of the financial statements of IFCO SYSTEMS N.V., Amsterdam, which comprise the consolidated balance sheet as at December 31, 2008, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management's discussion and analysis in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law, which includes an equivalent of International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of IFCO SYSTEMS N.V. as at December 31, 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

## **Report on other legal and regulatory requirements**

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management's discussion and analysis is consistent with the consolidated financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Eindhoven, February 25, 2009

Ernst & Young Accountants LLP

P.J.A. Gabriëls

# IFCO SYSTEMS N.V. and subsidiaries consolidated balance sheets

US \$ in thousands	Notes	December 31, 2008	December 31, 2007
<b>Assets</b>			
<b>Non-current assets:</b>			
Goodwill	(4, 7)	205,317	159,458
Intangible assets	(7)	3,488	714
Property, plant and equipment, net	(6)	435,691	392,179
Investment in an associate	(5)	2,460	2,899
Deferred tax asset	(12)	6,857	11,593
Other assets		453	406
<b>Total non-current assets</b>		<b>654,266</b>	<b>567,249</b>
<b>Current assets:</b>			
Receivables, net	(7)	158,823	166,387
Inventories	(7)	17,535	11,710
Other current assets	(7)	25,579	25,380
Cash and cash equivalents		31,506	35,511
<b>Total current assets</b>		<b>233,443</b>	<b>238,988</b>
<b>Total assets</b>		<b>887,709</b>	<b>806,237</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent:</b>			
Ordinary share capital, €0.01 par value, 100,000,000 shares authorized; 54,222,214 issued and outstanding as of 2008 and 2007, respectively		583	583
Treasury shares		(8,150)	(3,205)
Paid in capital	(7)	521,966	522,545
Other reserves	(7)	(4,562)	(4,821)
Retained earnings		(266,514)	(260,476)
<b>Total equity</b>		<b>243,323</b>	<b>254,626</b>
<b>Non-current liabilities:</b>			
Interest bearing loans and borrowings, net of current maturities	(11)	169,743	156,822
Finance lease obligations, net of current maturities	(11)	34,677	21,615
Deferred tax liability	(12)	9,317	11,209
Other liabilities	(7)	15,309	-
<b>Total non-current liabilities</b>		<b>229,046</b>	<b>189,646</b>
<b>Current liabilities:</b>			
Current maturities of interest bearing loans and borrowings	(11)	65,830	3,424
Current maturities of finance lease obligations	(11)	21,244	17,456
Provisions	(7, 14)	15,494	11,694
Refundable deposits	(7)	133,046	140,183
Trade and other payables	(7)	128,576	142,170
Income tax payable		3,255	3,401
Other liabilities	(7)	47,895	43,637
<b>Total current liabilities</b>		<b>415,340</b>	<b>361,965</b>
<b>Total liabilities</b>		<b>644,386</b>	<b>551,611</b>
<b>Total equity and liabilities</b>		<b>887,709</b>	<b>806,237</b>

# IFCO SYSTEMS N.V.

## and subsidiaries consolidated income statements

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US \$ in thousands, except share and per share amounts	Notes	Year ended December 31, 2008	Year ended December 31, 2007 <sup>(1)</sup>
<b>Revenues:</b>			
RPC Management Services		358,282	330,904
Pallet Management Services		377,606	361,644
<b>Total revenues</b>		<b>735,888</b>	<b>692,548</b>
<b>Cost of sales:</b>			
	(8)		
RPC Management Services		280,576	254,024
Pallet Management Services		323,135	315,918
<b>Total cost of sales</b>		<b>603,711</b>	<b>569,942</b>
<b>Gross profit:</b>			
RPC Management Services		77,706	76,880
Pallet Management Services		54,471	45,726
<b>Total gross profit</b>		<b>132,177</b>	<b>122,606</b>
Selling expenses	(8)	20,665	14,763
General and administrative expenses	(8)	51,465	44,284
Stock-based compensation expense	(8, 15)	431	339
Amortization of other assets	(8)	1,196	564
Other operating income		(4,129)	(2,580)
Other operating expense		746	173
<b>Profit from operating activities</b>		<b>61,803</b>	<b>65,063</b>
ICE related expenses		(25,826)	(5,944)
Foreign currency gain		3,194	2,579
Foreign currency loss		(6,779)	(1,680)
(Loss) income from equity entity	(5)	(220)	446
Other income		644	35
Other loss		(373)	(377)
		<b>(29,360)</b>	<b>(4,941)</b>
Interest expense	(8)	(27,350)	(21,429)
Interest income	(8)	483	190
Factoring charges	(11)	(1,054)	(620)
<b>Result of finance activities</b>		<b>(27,921)</b>	<b>(21,859)</b>
<b>Profit from continuing operations before taxes</b>		<b>4,522</b>	<b>38,263</b>
Current income tax provision	(12)	(5,233)	(5,096)
Deferred income tax provision	(12)	(6,479)	(5,133)
Income tax provision	(12)	<b>(11,712)</b>	<b>(10,229)</b>
(Loss) profit before discontinued operations		<b>(7,190)</b>	<b>28,034</b>
Income (loss) from discontinued operations	(9)	1,152	(927)
<b>Net (loss) profit</b>		<b>(6,038)</b>	<b>27,107</b>
(Loss) profit per share from continuing operations – basic		(0.13)	0.52
(Loss) profit per share from continuing operations – diluted		(0.13)	0.51
Net (loss) profit per share – basic		(0.11)	0.50
Net (loss) profit per share – diluted		(0.11)	0.50
Shares on which net profit is calculated:	(10)		
Basic <sup>(2)</sup>		53,718,928	54,061,165
Effect of dilutive stock options		150,991	519,755
<b>Diluted</b>		<b>53,869,919</b>	<b>54,580,920</b>

<sup>(1)</sup> Certain numbers shown here do not correspond to the 2007 income statement and reflect reclassifications made as detailed in Note 1.

<sup>(2)</sup> Average outstanding shares during the period.



# IFCO SYSTEMS N.V. and subsidiaries consolidated statements of changes in equity

US \$ in thousands, except share amounts	Ordinary Shares	Treasury Shares	Ordinary Shares Amount	Treasury Shares Amount	Paid in Capital	Retained earnings	Other reserves	Total Equity
<b>Balance at January 1, 2007</b>	<b>54,222,214</b>	<b>135,924</b>	<b>583</b>	<b>(1,798)</b>	<b>525,016</b>	<b>(287,583)</b>	<b>(2,360)</b>	<b>233,858</b>
Stock-based compensation expense	-	-	-	-	339	-	-	339
Buyback of treasury shares	-	375,689	-	(4,806)	-	-	-	(4,806)
Exercise of stock options funded by treasury shares	-	(241,667)	-	3,399	(2,626)	-	-	773
Exercise of warrants	-	-	-	-	(14)	-	-	(14)
Current and future tax deduction from stock option exercise	-	-	-	-	(170)	-	-	(170)
Currency translation differences	-	-	-	-	-	-	(2,461)	(2,461)
Net profit	-	-	-	-	-	27,107	-	27,107
<b>Total income and expenses for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,107</b>	<b>(2,461)</b>	<b>24,646</b>
<b>Balance at December 31, 2007</b>	<b>54,222,214</b>	<b>269,946</b>	<b>583</b>	<b>(3,205)</b>	<b>522,545</b>	<b>(260,476)</b>	<b>(4,821)</b>	<b>254,626</b>
Stock-based compensation expense	-	-	-	-	431	-	-	431
Buyback of treasury shares	-	548,426	-	(5,964)	-	-	-	(5,964)
Exercise of stock options funded by treasury shares	-	(69,333)	-	1,019	(778)	-	-	241
Current and future tax deduction from stock option exercise	-	-	-	-	(232)	-	-	(232)
Currency translation differences	-	-	-	-	-	-	259	259
Net loss	-	-	-	-	-	(6,038)	-	(6,038)
<b>Total income and expenses for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,038)</b>	<b>259</b>	<b>(5,779)</b>
<b>Balance at December 31, 2008</b>	<b>54,222,214</b>	<b>749,039</b>	<b>583</b>	<b>(8,150)</b>	<b>521,966</b>	<b>(266,514)</b>	<b>(4,562)</b>	<b>243,323</b>

# IFCO SYSTEMS N.V.

## and subsidiaries consolidated cash flow statements

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US \$ in thousands	Notes	Year ended December 31,	
		2008	2007 <sup>(1)</sup>
<b>Cash flows from continuing operating activities:</b>			
Net profit		(6,038)	27,107
ICE related expenses		25,826	5,944
Adjustments for:			
Depreciation and amortization expense of property, plant and equipment		42,053	39,991
Amortization of other assets	(8)	1,196	564
Stock-based compensation expense	(8, 15)	431	339
Foreign currency loss (gain), net	(8)	3,585	(899)
Current income tax provision	(12)	5,233	5,096
Deferred income tax provision	(12)	6,479	5,133
Loss (income) from equity entity	(5)	220	(446)
(Income) loss on sale of property, plant and equipment		(13)	416
Interest expense	(8)	27,350	21,429
Interest income	(8)	(483)	(190)
Factoring charges	(11)	1,054	620
(Income) loss from discontinued operations	(9)	(1,152)	927
Cash generated from continuing operations, excluding the cash flow effect of changes in working capital and excluding ICE		<b>105,741</b>	<b>106,031</b>
<b>Changes in working capital of continuing operations:</b>			
Receivables		17,415	(9,496)
Inventories		(5,773)	1,986
Trade and other payables		(24,027)	12,948
Refundable deposits		(604)	9,608
Other assets and liabilities		(27,403)	836
Cash flow effect of changes in operating assets and liabilities of continuing operations		<b>(40,392)</b>	<b>15,882</b>
Cash generated from continuing operations before income tax payments and excluding ICE		<b>65,349</b>	<b>121,913</b>
Cash used for ICE		(8,207)	(4,147)
Cash generated from continuing operations before income tax payments and including ICE		<b>57,142</b>	<b>117,766</b>
Income taxes paid		(5,782)	(6,905)
Cash generated from continuing operating activities		<b>51,360</b>	<b>110,861</b>
Cash used in discontinued operations		(1,200)	(1,756)
<b>Net cash generated from operating activities</b>		<b>50,160</b>	<b>109,105</b>
<b>Cash flows from investing activities:</b>			
Purchase of RPCs		(51,777)	(66,515)
Purchase of property, plant and equipment		(6,368)	(9,272)
Acquisition of STECO Holding GmbH and its subsidiaries, net of cash acquired	(3)	(30,808)	-
Acquisition of IFCO SYSTEMS Argentina S.A. and its subsidiaries, net of cash acquired	(3)	-	(1,712)
Total capital expenditures		<b>(88,953)</b>	<b>(77,499)</b>
Proceeds from sale of property, plant and equipment		177	63
<b>Net cash used in investing activities</b>		<b>(88,776)</b>	<b>(77,436)</b>
<b>Cash flows from financing activities:</b>			
Principal payments of long-term debt		(45)	(45)
Interest paid		(24,861)	(20,671)
Interest received		517	183
Proceeds from exercise of stock options		241	773
Principal payments of finance lease obligations		(22,931)	(17,162)
Proceeds from sale-leaseback transactions		25,537	15,600
Net proceeds from use of working capital facility	(11)	62,371	380
Payments for treasury share buyback		(5,964)	(4,807)
<b>Net cash generated from (used in) financing activities</b>		<b>34,865</b>	<b>(25,749)</b>
Effect of exchange rate changes on cash and cash equivalents		(254)	2,254
Net (decrease) increase in cash and cash equivalents		(4,005)	8,174
Cash and cash equivalents, beginning of period		35,511	27,337
<b>Cash and cash equivalents, end of period</b>		<b>31,506</b>	<b>35,511</b>

<sup>(1)</sup> Certain numbers shown here do not correspond to the 2007 cash flow statement and reflect reclassifications made as detailed in Note 1.

# Notes to consolidated financial statements

(US \$ in thousands, except per share amounts or unless otherwise stated)

## 1. Business, organization and basis of presentation

The consolidated financial statements of IFCO SYSTEMS N.V. (IFCO SYSTEMS or the Company) for the year ended December 31, 2008 were authorized by the Board of Managing Directors on February 20, 2009.

IFCO SYSTEMS N.V. is a Netherlands holding company for the following operating companies: IFCO SYSTEMS GmbH and its subsidiaries in Europe and South America, IFCO SYSTEMS North America, Inc. and its subsidiaries. The Company's headquarter is located in Amsterdam, Evert van de Beekstraat 310, 1118 CX Schiphol Centrum, the Netherlands. Its European operations headquarters are in Munich, Germany, and its North American operations headquarters are in Houston, Texas.

In Europe, North America and South America, IFCO SYSTEMS is involved in the organization and administration of the rental, distribution and purchase of reusable plastic containers (RPC) and offers a comprehensive RPC Management Services system. After the Company has collected, sanitized and cleaned the RPCs, they are rented primarily to producers of fresh fruit and vegetables in exchange for a one-time usage fee. The producers' goods are transported in the RPCs to various intermediaries and ultimately to retailers for sale to consumers. IFCO SYSTEMS delivers the empty RPCs to customers' bulk warehouses and collects the empty RPCs from regional service points again.

Aside from the RPC Management Services business in the United States, IFCO SYSTEMS North America principally offers Pallet Management Services. The wide range of Pallet Management Services offerings range from consultancy services and comprehensive pallet services programs including, on or off site sort/repair of pallets, reverse logistics services to web-based tracking/data management services.

The functional currency of the North American operations is the US Dollar, functional currency of the South American operations is the individual local currency and the primary functional currency of IFCO SYSTEMS N.V. and for most of the European operations is the Euro, the currency of their primary economic environment in which they operate. Those functional currencies reflect the respective regional currency influence on sales prices for goods and services, influences on labor, material and other costs and the currency in which funds from financing activities are generated.

The Company's presentation currency is the US Dollar, because the main portion of the revenues and associated expenses do occur in US Dollar. Therefore, the Company's assets, liabilities, revenues and expenses are subject to exchange rate fluctuations between the US Dollar, which is the Company's group level presentation currency, and the Euro. Exchange rate fluctuations occur, to a lesser extent, as a result of certain subsidiaries operating in other countries and using other functional currencies.

In 2008, the Company made changes in the presentation of the income statement. These changes reflect only certain reclassifications. Some items of income and expense are now presented separately in the income statement itself and no longer in the notes. The Company redefined the result of finance activities, which now contains interest expense, interest income and factoring charges. In the income statement, the Company used a subtotal "Profit from operating activities" that is a non-GAAP measure and not as such defined by IFRS. The subtotal excludes all costs relating to the ICE investigation (see Notes – Litigation), which therefore were reclassified from general and administrative expenses to a separate line outside the operating result due to the magnitude and the non recurring character of these expenses. The Company also made changes in the presentation of the cash flow statement. The Company made reclassifications within the cash flow statement for the ICE investigation. The comparative 2007 figures for the income statement and cash flow statement were reclassified accordingly.

## 2. Summary of significant accounting policies

### Statement of compliance

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with all International Financial Reporting Standards (IFRS) as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

### Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year except as follows:

The Company has adopted the following new and amended IFRS standards and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company. They did however give rise to additional disclosures.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 - Service Concession Arrangements
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding and their Interaction
- Amendments to IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures

The principle effects of these changes are as follows:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The Company has adopted the IFRIC Interpretation in 2008 for the first time insofar as it applies to consolidated financial statements. This interpretation requires

arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Company amended its accounting policy accordingly. The Company has not issued instruments caught by this interpretation.

- **IFRIC 12 – Service Concession Arrangements**

The IFRIC issued IFRIC 12 in November 2006. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Company is an operator and, therefore, this interpretation has no impact on the Company.

- **IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding and their Interaction**

IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Company has currently no defined benefit schemes and, therefore, this interpretation has no impact on the financial position or performance of the Company.

- **Amendments to IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures**

An amendment to the standard, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The changes in IFRS 7 require additional disclosures about the situations in which any such reclassification is made, and the effects on the financial statements.

**Future changes in accounting policies (\*endorsed by the EU as of February 17, 2009)**

- **IAS 1 – Presentation of Financial Statements - Revised\***

The revised standard was issued in September 2007 and becomes effective for financial years beginning on or after January 1, 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single, or in two linked statements. The Company is still evaluating whether it will have one or two statements.

- **IAS 23 – Borrowing Costs – Revised\***

A revised IAS 23 Borrowing cost was issued in March 2007, and becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial

period of time to get ready for its intended use or sale. In accordance with the transitional requirement in the Standard, the Company will adopt this prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

- **IAS 27 Consolidated and Separate Financial Statements**

The revised IAS 27 was issued in January 2008 and becomes effective for financial years beginning on or after July 1, 2009. Within the scope of revision of valuation and accounting regulations for business combinations, IASB and FASB enhanced IAS 27. The modifications primarily concern the accounting of interests without control (minority interests), that will participate in the consolidated losses in full amount in the future, and of transactions, which lead to the loss of control over a subsidiary and whose impact will affect profit or loss in future. Consequences from the sale of interest that do not imply the loss of control are, in contrast, to be recognized in equity. The transitional provisions provide for several exceptions from the basically retrospective adoption of this revision.

The Company expects that this standard will have no impact on the financial position or performance of the Company as the Company has currently no minority interests.

- **IAS 32 Financial Instruments – Presentation and IAS 1 Presentation of Financial Statements– Puttable Financial Instruments and Obligations Arising on Liquidation\***

These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after January 1, 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Company, as the Company has not issued such instruments.

- **IAS 39 Financial Instruments – Recognition and Measurement – Eligible Hedged Items**

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after July 1, 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendments) and IAS 27 Consolidated and Separate Financial Statements\***

The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after January 1, 2009. The revision to IAS 27 will have to be applied prospectively. The new requirements affect only the

parent's separate financial statement and do not have an impact on the consolidated financial statements. In December 2008 the IASB decided to change the effective date from January 1, 2009 to July 1, 2009. IFRS 1 retains the substance of the previous version, but within a changed structure.

- **IFRS 2 Share based Payment (Revised)\***

A revised IFRS 2 was issued in January 2008 and becomes effective for annual periods beginning on or after January 1, 2009. This revised standard clarifies the definition of a vesting condition and describes the treatment for an award that is effectively cancelled. The Company expects that this revised standard will have no impact on the Company's financial position or performance.

- **IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Revised)**

The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standard may be early applied. However, the Company does not intend to take advantage of this possibility.

- **IFRS 8 Operating Segments\***

IFRS 8 was issued in November 2006 and becomes effective for annual periods beginning on or after January 1, 2009. This standard requires disclosure information about the Company's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Company. The standard will have no impact on the segment presentation. However, there will be additional disclosure requirements.

- **IFRIC 13 Customer Loyalty Programmes**

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.



- **IFRIC 15 Agreement for the Construction of Real Estate**

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after January 1, 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Company does not conduct such activity.

- **IFRIC 16 Hedges of a Net Investment in a Foreign Operation**

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after October 1, 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. IFRIC 16 will have no impact on the financial position or performance of the Company, as the Company has not entered into hedges.

- **IFRIC 17 Distributions of Non-cash Assets to Owners**

IFRIC 17 was issued in November 2008 and becomes effective for financial years beginning on or after July 1, 2009. The interpretation is to be applied prospectively. The interpretation clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Furthermore it clarifies that an entity should measure the dividend payable at the fair value of the net assets to be distributed, and that an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions. IFRIC 17 will have no impact on the financial position or performance of the Company, as the Company does not pay pro rata distributions of non-cash assets to owners.

- **IFRIC 18 Transfers of Assets from Customers**

IFRIC 18 was issued in January 2009 and becomes effective for transfers of assets from customers received on or after July 1, 2009. The IFRIC clarifies the requirements of IFRSs for agreements in which an entity receive from a customer an item of property, plant and equipment that the entity must then use either to connect the customer or provide the customer with ongoing access to a supply of goods or services (such as supply of electricity, gas or water). In some cases, the entity receives cash from a customer which must be used only to acquire or construct the item of property, plant and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The Company expects that this IFRIC will have no impact on the financial position or performance of the Company.

### Improvements to IFRSs

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- **IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments:\***  
Recognition and Measurement are not automatically classified as current in the balance sheet.
- **IAS 8 Accounting Policies, Change in Accounting Estimates and Errors:**  
Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- **IAS 10 Events after the Reporting Period:\***  
Clarification that dividends declared after the end of the reporting period are not obligations.
- **IAS 16 Property, Plant and Equipment:\***  
Replace the term 'net selling price' with 'fair value less costs to sell'.  
Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- **IAS 18 Revenues:**  
Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- **IAS 19 Employee Benefits:\***  
Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.
- **IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:\***  
Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- **IAS 23 Borrowing Costs:\***  
The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' in to one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.

- **IAS 27 Consolidated and Separate Financial Statements:\***  
When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- **IAS 28 Investment in Associates:\***  
If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.  
An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.
- **IAS 29 Financial Reporting in Hyperinflationary economies:\***  
Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- **IAS 31 Interest in Joint Ventures:\***  
If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- **IAS 34 Interim Financial Reporting:\***  
Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.
- **IAS 36 Impairment of Assets:\***  
When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- **IAS 38 Intangible Assets:\***  
Expenditure on advertising and promotional activities is recognized as an expense when the Company either has the right to access the goods or has received the service.  
The reference to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed.
- **IAS 39 Financial Instruments: Recognition and Measurement:\***  
Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

- **IAS 40 Investment Property:\***

Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.

- **IAS 41 Agriculture:\***

Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced of the term 'point-of-sale costs' with 'costs to sell'.

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations\***

Paragraphs 8A and 36A were added.

- **IFRS 7 Financial Instrument: Disclosures:**

Removal of the reference to 'total interest income' as a component of finance costs.

The Company will not apply any of the above listed standards or interpretations before their effective dates.

## **Basis of consolidation**

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies. All inter-company balances and transactions have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Company has control.

## **Accounting principles**

### **Business combinations and goodwill**

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### **Investment in an associate**

The Company's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Company has significant influence.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Company's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortized or separately tested from impairment. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of the associates.

The financial statement of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its associates. The Company determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the income statement.

**Non-current assets held for sale and discontinued operations**

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated/amortized.

**Foreign currency transactions and translation**

The consolidated financial statements are presented in USD, which is the Company's presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency for most of the European subsidiaries is the EUR. The functional currency of the South American subsidiaries is the individual local currency. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Company at the rate of exchange ruling at the balance sheet date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

	As of December 31		Average for Fiscal Year	
	2008	2007	2008	2007
Euro relative to 1 CHF	1.4850	1.6547	1.5874	1.6425
Euro relative to 1 GBP	0.9525	0.7333	0.7963	0.6842
BRL relative to 1 US Dollar	2.3130	1.8322	1.7790	1.9473
US Dollar relative to 1 Euro	1.3919	1.4603	1.4731	1.3708

### Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

#### Rental income / Rendering of services

Revenues resulting from RPC related service fees are recognized once they can be measured reliably, the economic benefits associated with the transaction will flow to the Company, the stage of completion of the transaction at the balance sheet date can be measured reliably and the services related to prepare the RPC for a trip are complete and the RPC has been delivered to the producer.

Revenues resulting from RPC asset rental fees are recognized on a straight line basis over the average rental term of 30 calendar days per RPC. The contractual agreement is providing a one time use of the RPCs by the customer.

#### Sale of goods

Revenue from the sale of goods and recycled pallets is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

#### Interest income

Revenue is recognized as interest accrues (using the effective interest method). Interest income is included in finance revenue in the income statement.

### Taxes

#### Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

### Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.



### Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

### Share-based payments transactions

Employees and a member of the Board of Managing Directors of the Company receive remuneration in the form of share-based payment transactions, whereby beneficiaries render services as consideration for equity instruments ("equity-settled transactions"). Employees are granted performance units to receive either cash in Euro or shares currently existing or created by the Company ("cash settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured at the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. This is then capitalized or expensed as appropriate.

### Equity-settled transactions

The cost of equity-settled transactions with employees for awards granted after November 7, 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate option pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using an appropriate option pricing model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each balance sheet date up to and including the settlement date with changes in fair value recognized in the income statement.

#### Financial assets

##### Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchase or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and short-term deposits, trade and other receivables and loan and other receivables.

##### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

- **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that do not meet the hedge accounting criteria as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with gains or losses recognized in the income statement.

The Company has not designated any financial assets as at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

- **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

- **Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognized in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process. The Company did not have any held-to-maturity investments during the years ended December 31, 2008 and December 31, 2007.

- **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized, at which time the cumulative gain or loss recorded in equity is recognized in the income statement, or determined to be impaired, at which time the cumulative loss recorded in equity is recognized in the income statement.

## **Financial liabilities**

### **Initial recognition**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdraft, loans and borrowings.

### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that do not meet the hedge accounting criteria as defined by IAS 39.

Gains or losses on liabilities held for trading are recognized in the income statement.

The Company has not designated any financial liabilities as at fair value through profit or loss.

- **Loans and borrowings**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

- **Financial guarantee contracts**

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at a fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount recognized less cumulative amortization.

- **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

- **Fair value of financial instruments**

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

- **Amortized cost of financial instruments**

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

**Impairment of financial assets**

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in the interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Due from loans and advances to customers**

For amounts due from loans and advances to customers carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

### Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

### Derecognition of financial instruments

#### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired, or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that

the Company may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

#### Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognized after the date of the revaluation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Depreciation is calculated on a straight line basis over the useful life of the asset.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Included in property, plant and equipment is the Company's Reusable Plastic Container (RPC) pools. The Company takes historical information into consideration in determining an appropriate useful life for depreciating the RPC rental pools such as technical useful life, shrinkage, commercial useful life and market acceptance of crates. The limited factor for the determination is the commercial useful life and market acceptance of crates. Therefore, the Company depreciates its own RPCs of the pool for fruit and vegetables

to their residual value using the straight-line method over 10 years, however other RPC pools and the acquired CHEP RPC assets over periods ranging from 2 to 10 years.

The Company reviews its RPC pool residual value estimates quarterly, based on the development of the value of granulated RPCs.

As RPCs break or otherwise become unusable, the Company facilitates the conversion of the RPCs into plastic granulate inventory.

Expenditures for maintenance and repairs are charged to expense as incurred. Additions and replacements or betterments that increase capacity or extend useful lives are added to the cost of the asset. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in other (expense) income, net, in the accompanying consolidated income statements.

#### **Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of IFRIC 4.

#### **Group as a lessee**

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

#### **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.



The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

### **Inventories**

Inventories are valued at the lower of cost or net realizable value, with cost primarily determined on a weighted average basis. The cost of finished goods inventory includes direct materials, direct labor and overhead.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### **Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

The following criteria are also applied in assessing impairment of specific assets:

#### Goodwill

Goodwill is tested for impairment annually (as at October 1) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in the future periods.

#### Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

#### Cash and cash-equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

#### Deferred financing costs

According to IAS 39 'Financial Instruments: Recognition and Measurement', the Company nets deferred financing costs related to the issuance of the Company's debt obligations against those obligations on the Company's consolidated balance sheet.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income

statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

**Refundable deposits**

The Company receives deposits from certain non United States and South America customers upon RPC delivery that are classified as refundable deposits in the accompanying consolidated balance sheets. These deposits are refunded by the Company when the RPCs are returned.

**Significant accounting judgments, estimates and assumptions**

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Impairment of Non-financial Assets**

The Company's impairment test for goodwill is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units are further explained in Note 4.

**Deferred Tax Assets**

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on deferred taxes are disclosed in Note 12.

**RPC / Refundable deposits / Residual value**

Significant estimates made by management include useful lives and impairment for RPCs, the service obligation period of the RPC revenue cycle and the amount of deposit to be refunded (see accounting policies to property plant and equipment). The refundable deposit for RPCs is calculated under the assumption, that all RPCs in circulation have to be refunded or credited.

Effective July 1, 2008, the Company extended the useful life of its RPC pool from 8 years to 10 years as a result of the reduced turn rate of the RPC pool combined with a RPC pool, which is sufficient to cope with seasonal peaks. Accordingly, the estimated residual value of the RPCs has been increased, resulting in lower depreciation for the second half of 2008 in the amount of US \$4.4 million. Based on the Company's current property, plant and equipment balances, the Company estimates that this revised residual value will result in reduced depreciation expense in the amount of approximately US \$8.5 million per year in future years.

**Accounts Receivables**

The Company estimates the fair value of its accounts receivables considering the historical experience, the economic environment, the specific industry development, information provided by credit agencies and individual cognition of IFCO SYSTEMS' credit and collection procedures.

### 3. Business combinations

IFCO SYSTEMS GmbH, an indirect subsidiary of IFCO SYSTEMS N.V., acquired all of the shares of STECO Holding GmbH and its subsidiaries (STECO) on April 16, 2008.

The fair value of the identifiable assets and liabilities of STECO as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

US \$ in thousands	Previous carrying amount	Fair Value recognized on acquisition
Intangible assets	2,196	1,260
Property, plant and equipment	42,219	40,210
Land and buildings		
RPCs	32,977	33,951
Other non-current assets	315	315
<b>Total non-current assets</b>	<b>44,730</b>	<b>41,785</b>
Inventories	71	71
Receivables, net	23,573	23,573
Cash	1,165	1,165
Other current assets	303	303
Deferred tax assets		745
<b>Total current assets</b>	<b>25,112</b>	<b>25,857</b>
<b>Total assets</b>	<b>69,842</b>	<b>67,642</b>
Deferred tax liability		
Non Current maturities of borrowings	3,384	3,384
Finance-Lease-Obligation	13,752	13,752
<b>Total non-current assets</b>	<b>17,136</b>	<b>17,136</b>
Current maturities of borrowings	3,687	3,687
Provisions	9,550	10,728
Trade and other payables	24,445	24,445
Other liabilities	12,759	12,759
<b>Total current liabilities</b>	<b>50,441</b>	<b>51,619</b>
<b>Total liabilities</b>	<b>67,577</b>	<b>68,755</b>
<b>Net assets</b>		<b>(1,113)</b>
Goodwill		53,068
<b>Total consideration</b>		<b>51,955</b>
Cost		
Amount paid / to be paid		49,363
Costs associated with the acquisition		2,592
<b>Total</b>		<b>51,955</b>
Cash outflow on acquisition:		
Net cash acquired with the subsidiary		1,165
Cash paid		(31,973)
<b>Net cash outflow</b>		<b>(30,808)</b>

The final purchase price allocation of goodwill and assets acquired in the STECO purchase will be determined through an external independent valuation. Accordingly, the accounting for the business combination has been determined only provisionally because

the fair values to be assigned to the acquiree's identifiable assets, liabilities or / and contingent liabilities or the cost of the combination (see below) can only determined provisionally based on the Company's best estimate.

On April 16, 2008, STECO was consolidated for the first time. The consolidated financial statements include STECO's results for the nine month period ended December 31, 2008.

Some entities of the STECO group were merged into IFCO SYSTEMS during 2008. Therefore, IFCO SYSTEMS is not in a position to provide revenues and net profit of STECO from the date of acquisition and for the year, if the combination had taken place at the beginning of the year.

Prior to the acquisition, STECO decided about certain restructurings. The restructuring provision recognized above was a present obligation of STECO immediately prior to the business combination. The execution of the plan was not conditional upon it being acquired by the Company.

The goodwill of US \$53.1 million comprises the fair value of expected synergies arising from the acquisition.

The total cost of the STECO acquisition consists of a cash payment of US \$31.2 million, paid during Q2 2008, a sellers' note of US \$28.7 million, and costs directly attributable to the combination (US \$2.6 million). According to the Share Purchase Agreement and the regulations in regard of a purchase price adjustment, the nominal amount of the sellers' note of US \$28.7 million was reduced by US \$10.5 million to US \$18.2 million. The sellers' note, together with the accrued interest, will become due two years after the closing of the transaction.

#### 4. Impairment testing of goodwill

Goodwill acquired has been allocated to three cash-generating units:

- RPC Management Services Europe
- RPC Management Services United States
- Pallet Management Services

	RPC Management Services				Pallet Management Services		Other		Total	
	Europe		United States		2008	2007	2008	2007	2008	2007
	2008	2007	2008	2007						
Carrying amount of goodwill as of December 31	75,874	29,974	9,785	9,785	118,826	118,826	832	873	205,317	159,458

### **Carrying amount of goodwill allocated to each of the cash-generating-units**

Goodwill acquired through business combination in the amount of US \$47.3 million in connection with the acquisition of STECO has been allocated to RPC Management Services Europe.

#### **RPC Management Services Europe**

The recoverable amount of this cash-generating unit has been determined based on the value in use calculation using cash flow projections from financial budgets approved by Executive Management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 12.1% (2007: 10.2%) and cash flows beyond the five-year period are extrapolated using a 1.0% (2007: 2.0%) growth rate.

#### **RPC Management Services United States**

The recoverable amount of this cash-generating unit has been determined based on the value in use calculation using cash flow projections from financial budgets approved by Executive Management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 12.5% (2007: 13.0%) and cash flows beyond the five-year period are extrapolated using a 1.0% (2007: 2.7%) growth rate.

#### **Pallet Management Services**

The recoverable amount of this cash-generating unit has been determined based on the value in use calculation using cash flow projections from financial budgets approved by Executive Management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 10.2% (2007: 13.0%) and cash flows beyond the five-year period are extrapolated using a 1.0% (2007: 2.7%) growth rate.

### **Key assumptions used in value in use calculation for October 1, 2008 and 2007**

The company projected the cash flows for the five-year period based on detailed assumptions for every cash-generating unit and its specific markets. The model used is the same the company used in prior years providing a profit and loss account, balance sheet and cash flow statement as well as assumptions for key performance indicators.

The calculation of value in use is sensitive to the assumptions for

- Market share – as well as using industry data for growth rates, management assesses how the position of the three cash generating units, relative to its competitors, might change over the budget period.
- Gross margins – key elements for all three cash generating units are logistic costs (e.g. transportation, washing, labor) and material price development for Pallet Management Services. Based on average values achieved in prior periods, these costs are projected by including anticipated efficiency improvements and cost developments related to portfolio changes.
- Future investment needs in the RPC pool to replace broken and lost crates (shrinkage).

Management has assessed these factors and their possible future impacts very carefully to develop the projection.

The Company used rates on European sovereign bonds and BB-rated Euro industrial bonds as the risk free interest rate baseline. In order to cover the additional risks IFCO SYSTEMS, appropriate public market equity risk premiums and estimated risk premiums in relationship with the actual rating of the companies shares were used. The beta factor and the capital structure are based on a peer group analysis.

The Company's fourth quarter 2008 and 2007 annual testing indicated that there was no impairment of recorded goodwill.

## 5. Investment in an associate

The Company owns 33.3% of a Japanese RPC systems operation (IFCO Japan). The business processes of this operation is generally similar to the Company's other RPC Management Services businesses. The following tables list the total combined financial data of IFCO Japan of the RPC Management Services segment. During 2008 and 2007, the Company recognized approximately US \$0.2 million of loss and US \$0.4 million of income in the Company's consolidated statements of loss/income related to its contractually defined portions of the respective net result of this entity. IFCO Japan's fiscal year ended on December 31, 2008.

US \$ in thousands	As of December 31, 2008	As of December 31, 2007
Total assets	46,172	31,769
Total liabilities	38,537	24,761
Total equity	7,635	7,008

US \$ in thousands	Year ended December 31, 2008	Year ended December 31, 2007
Revenue	24,481	21,399
Gross profit	2,936	7,274
(Loss) income from operations	(1,466)	3,785
Net (loss) income	(982)	1,405



## 6. Property, plant and equipment

Property, plant and equipment consist of the following:

US \$ in thousands	Estimated Useful Lives in Years	As of December 31,	
		2008	2007
Land		832	832
Buildings and improvements	15-40	10,000	8,335
RPCs	2-10	570,162	503,354
Machinery and equipment	4-10	62,374	55,643
Furniture and fixtures	4-10	8,129	7,713
Tractors and trailers	5-6	25,542	23,424
		<b>677,039</b>	<b>599,301</b>
Less: Accumulated depreciation, amortization and impairment		(241,348)	(207,122)
		<b>435,691</b>	<b>392,179</b>

The movement in the Company's property, plant and equipment during 2008 is as follows:

US \$ in thousands	Land	Buildings	RPCs	Machinery and Equipment	Furniture and Fixtures	Tractors and Trailers	Total
Net book value, January 1, 2008	832	2,753	348,035	26,598	1,644	12,317	392,179
Currency translation loss	–	(21)	(14,848)	(713)	(36)	–	(15,618)
Additions	–	1,636	58,733	7,429	1,015	3,299	72,112
Additions business combination STECO	–	347	32,029	5,054	1,107	–	38,537
Retirements	–	(39)	(12)	(57)	(18)	(38)	(164)
Depreciation and shrinkage	–	(1,314)	(37,481)	(6,672)	(1,633)	(4,255)	(51,355)
<b>Net book value, December 31, 2008</b>	<b>832</b>	<b>3,362</b>	<b>386,456</b>	<b>31,639</b>	<b>2,079</b>	<b>11,323</b>	<b>435,691</b>
Historical cost	832	10,000	570,162	62,374	8,129	25,542	677,039
Accumulated depreciation and amortization	–	(6,638)	(183,706)	(30,735)	(6,050)	(14,219)	(241,348)
<b>Net book value, December 31, 2008</b>	<b>832</b>	<b>3,362</b>	<b>386,456</b>	<b>31,639</b>	<b>2,079</b>	<b>11,323</b>	<b>435,691</b>

The movement in the Company's property, plant and equipment during 2007 is as follows:

US \$ in thousands	Land	Buildings	RPCs	Machinery and Equipment	Furniture and Fixtures	Tractors and Trailers	Total
Net book value, January 1, 2007	832	2,632	288,105	21,198	1,658	10,934	325,359
Currency translation gain	–	10	24,763	1,187	67	–	26,027
Additions	–	817	64,448	9,095	651	4,457	79,468
Additions business combination IFCO Argentina S.A.	–	18	2,224	379	467	–	3,088
Retirements	–	(91)	(37)	(195)	(98)	(38)	(459)
Transfer	–	262	–	(1,011)	–	749	–
Depreciation and shrinkage	–	(895)	(31,468)	(4,055)	(1,101)	(3,785)	(41,304)
Net book value, December 31, 2007	832	2,753	348,035	26,598	1,644	12,317	392,179
Historical cost	832	8,335	503,354	55,643	7,713	23,424	599,301
Accumulated depreciation and amortization	–	(5,582)	(155,319)	(29,045)	(6,069)	(11,107)	(207,122)
Net book value, December 31, 2007	832	2,753	348,035	26,598	1,644	12,317	392,179

Of the RPCs above, cost of US \$64.3 million and US \$47.7 million and accumulated amortization of US \$13.1 million and US \$7.7 million are held under finance leases as of December 31, 2008 and 2007, respectively.

Of the tractors and trailers above, cost of US \$19.1 million and US \$16.5 million and accumulated amortization of US \$8.9 million and US \$5.4 million are held under finance leases as of December 31, 2008 and 2007, respectively.

Of the machinery and equipment above, cost of US \$1.0 million and accumulated amortization of US \$0.1 million are held under finance leases as of December 31, 2008.

## 7. Detail of certain balance sheet accounts

### Goodwill

The changes in the carrying amount of goodwill are as follows for 2008 and 2007:

US \$ in thousands	2008	2007
Beginning balance	159,458	155,699
(Decrease) increase due to foreign exchange translation	(4,204)	2,968
Additions from the business combinations	50,063	791
Ending balance	205,317	159,458

### Intangible assets

US \$ in thousands	2008	2007
Net book value, January 1, 2008	714	591
Currency translation loss	(41)	(48)
Additions	4,834	322
Depreciation	(2,019)	(151)
<b>Net book value, December 31, 2008</b>	<b>3,488</b>	<b>714</b>
Historical cost	10,823	7,415
Accumulated amortization and impairment	(7,335)	(6,701)
<b>Net book value, December 31, 2008</b>	<b>3,488</b>	<b>714</b>

In 2007, the Company acquired a customer base related to the acquisition of IFCO Argentina S.A. in the amount of US \$0.3 million, which was amortized over two years.

In 2008, the additional intangible assets in the amount of US \$1.2 million relate to the STECO acquisition.

The useful lives of the remaining intangible assets are between two and three years.

### Receivables

The major components of receivables are as follows:

US \$ in thousands	As of December 31, 2008	As of December 31, 2007
Trade receivables	163,749	171,120
Less: Allowance for doubtful accounts	(4,926)	(4,733)
	<b>158,823</b>	<b>166,387</b>

Trade receivables are non-interest bearing and are generally on 30 to 90 day terms.

The Company's allowance for doubtful accounts, which the Company reserves for and updates based on its best estimates of potentially uncollectible accounts, consists of the following:

US \$ in thousands	As of December 31, 2008	As of December 31, 2007
Beginning balance	4,733	4,935
Write-offs	(1,980)	(1,589)
Additional provisions	2,364	953
(Decrease) increase due to foreign exchange translation	(191)	434
<b>Ending balance</b>	<b>4,926</b>	<b>4,733</b>

As of December 31, 2008 and December 31, 2007, the aging of past due trade receivables is as follows:

US \$ in thousands	Total	Neither past due nor impaired	Past due but not impaired			
			< 30 days	30-60 days	60-90days	> 90 days
2008	158,823	94,946	43,050	12,268	3,844	4,715
2007	166,387	103,891	46,774	10,682	2,972	2,068

### Inventories

The major components of Pallet Management Services inventories are as follows:

US \$ in thousands	As of December 31, 2008	As of December 31, 2007
Raw materials (at cost)	3,162	3,857
Finished goods (at cost)	14,373	7,853
Total inventories	17,535	11,710

### Other current assets

The major component of other current assets is European value-added tax receivables, which have a balance of US \$13.7 million (2007: US \$18.8 million). Due to the short maturity of these assets, their book value approximates their fair value.

### Cash and cash equivalents

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

### Paid in Capital

Paid in capital mainly includes capital surplus from the issuance of stock. There are no restrictions on the use of the paid in capital.

### Other reserves

Other reserves as outlined in the statement of changes in equity relate to currency related differences.

### Other non-current liabilities

The Company recorded a non-current liability of US \$15.3 million for the payments due in 2010 to 2012 resulting from the ICE settlement (see Notes – Litigation).

## Provisions

US \$ in thousands	Employee bonus	Self-insurance reserves	Discontinued operations	Restructuring	Professional fees	Total
Beginning balance	2,805	5,413	778	–	2,698	11,694
Arising during the year	3,231	10,590	(1,152)	7,325	10,080	30,074
Utilized	(3,294)	(10,396)	892	(1,146)	(10,148)	(24,092)
Unused amounts reversed	(131)	–	–	(1,833)	–	(1,964)
Exchange adjustments	(16)	–	–	(202)	–	(218)
Ending balance	2,595	5,607	518	4,144	2,630	15,494

The employee bonus for 2008 will be paid during March and April 2009.

A provision of US \$3.5 million is recognized for restructuring in the acquired STECO group (see Note 3 – Business combinations) and US \$0.6 million for Pallet Management Services plant closures.

See Notes to commitments and contingencies for a brief description of provisions for insurance and discontinued operations.

## Refundable deposit

The Company accrues Euro 1.50 for each European RPC in circulation. The carrying amount of the refundable deposit is US \$133.0 million as of December 31, 2008 (US \$140.2 million as of December 31, 2007) and is based on the assumption that all RPCs in circulation will be recollected.

## Trade and other payables

Trade and other payables are US \$128.6 million at December 31, 2008 (2007: US \$142.2 million). Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms.

## Other current liabilities

The major components of other current liabilities are as follows:

US \$ in thousands	As of December 31, 2008	As of December 31, 2007
Interest payable	8,029	8,338
Logistic remuneration	5,514	11,327
ICE settlement payment	2,565	–
Other	31,787	23,972
	<b>47,895</b>	<b>43,637</b>

Due to their short term maturity, the book value of the other current liabilities and trade and other payables approximates fair value.

Interest on the majority of the Company's debt is normally funded semi-annually. Other payables are non-interest bearing and have an average term of six months.

## 8. Detail of certain income statement accounts

The following table contains a breakdown of certain income statement accounts:

US \$ in thousands	Year ended December 31, 2008	Year ended December 31, 2007
<b>Included in cost of sales:</b>		
Depreciation	39,908	38,642
Employee benefits expense	116,236	107,913
Costs of inventories recognized as an expense	156,652	154,631
<b>Included in selling expenses:</b>		
Employee benefits expense	14,534	9,620
<b>Included in general and administrative expenses:</b>		
Depreciation	2,145	1,349
Employee benefits expense	28,814	21,055

Stock based compensation expenses as outlined in the income statement mainly relate to general and administrative expenses.

Amortization of other assets as outlined in the income statement mainly relate to general and administrative expenses.

The major components of interest expense (on a historical cost basis) are as follows:

US \$ in thousands	Year ended December 31, 2008	Year ended December 31, 2007
Senior Secured Notes	16,821	15,677
Working capital facility	4,110	945
Finance leases	2,967	2,111
Amortization of capitalized debt issuance costs	2,068	1,787
Interest on sellers' note	957	-
Fees for bank guarantees	163	385
Interest on tax payments	2	160
Other interest	262	364
	<b>27,350</b>	<b>21,429</b>

The major components of interest income (on a historical cost basis) are as follows:

US \$ in thousands	Year ended December 31, 2008	Year ended December 31, 2007
Interest on bank accounts	343	134
Interest on tax payments	119	5
Income on sale of securities	15	31
Other interest	6	20
	<b>483</b>	<b>190</b>

## 9. Discontinued operations

In February 2002, the Company completed the sale of a majority of the assets of the industrial container services operations to Industrial Container Services, LLC (the Buyer).

During 2007 and 2008, the Company accrued net provisions in the amount of US \$0.9 million and US \$1.1 million, respectively, primarily based on actual and estimated legal costs and other costs which may be required in defending certain claims relating to the Acme barrel facility in Chicago, Illinois (see Notes – Litigation). In 2008, these costs were offset by the recognition of US \$2.1 million in estimated amounts due to the Company under insurance policies which require reimbursement of eligible legal defense costs. As of December 31, 2008, the Company has a remaining discontinued operations liability of approximately US \$0.4 million, primarily relating to anticipated legal defense costs of these claims, which is included in provisions in the accompanying consolidated balance sheet. As of December 31, 2008, the Company has a discontinued operations receivable of US \$2.1 million, due to the above mentioned insurance reimbursement of eligible legal defense costs, which is included in other current assets in the accompanying consolidated balance sheet.

## 10. Earnings per share

Basic earnings per share amounts are calculated by dividing net (loss) profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding adjusted by the number of shares bought back during the year.

Diluted earnings per share amounts are calculated by dividing the net (loss) profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding adjusted by the number of shares bought back during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

US \$ in thousands	As of December 31, 2008	As of December 31, 2007
Net (loss) profit attributable to ordinary equity holders of the parent from continuing operations	(7,190)	28,034
Profit (loss) attributable to ordinary equity holders of the parent from discontinued operations	1,152	(927)
<b>Net (loss) profit attributable to ordinary equity holders of the parent</b>	<b>(6,038)</b>	<b>27,107</b>
Weighted average number of ordinary shares for basic earnings per share	53,718,928	54,061,165
Effect of dilution:		
Stock options	150,991	519,755
<b>Weighted average number of ordinary shares adjusted for the effect of dilution</b>	<b>53,869,919</b>	<b>54,580,920</b>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the authorization date of the Company's consolidated financial statements.

## 11. Debt

### Senior Secured Notes

On October 10, 2003, the Company issued 10 3/8% Guaranteed Senior Secured Notes in the principal amount of €110.0 million in a private placement. The Senior Secured Notes mature on October 15, 2010, and are senior secured obligations of IFCO SYSTEMS ranking equally with other existing or future senior secured indebtedness in right of payment. Interest at the rate of 10 3/8% per year from the date of issuance is payable semi annually in arrears on each June 30 and December 31. No principal payments are due under the Senior Secured Notes until maturity on October 15, 2010. The Senior Secured Notes are secured by a first priority lien on substantially all of the Company's assets, except the assets of IFCO SYSTEMS GmbH and its subsidiaries. The Senior Secured Notes are guaranteed by most of the Company's subsidiaries. All of the subsidiary guarantees of the Senior Secured Notes (other than that of IFCO SYSTEMS GmbH, the guarantee of which is unsecured) are secured by substantially all of the assets of such subsidiary guarantors, including pledges of the stock of most of the Company's subsidiaries. The carrying amount of assets pledged is US \$182.4 million.

The Senior Secured Notes became redeemable on October 15, 2006 with a redemption price equal to the principal amount thereof plus accrued and unpaid interest and a redemption premium (initially 110.4%) and certain additional amounts. The redemption price declined to 105.2% on October 15, 2007, to 102.6% on October 15, 2008 and will decline to 100.0% on October 15, 2009 and thereafter until maturity.

The indenture governing the Senior Secured Notes allows the Company to issue additional notes in an aggregate principal amount of up to €50.0 million under the same security package as the Senior Secured Notes, but only to the extent that the Company meets certain interest coverage ratios on a pro forma basis considering the issuance of the additional notes and that no default or event of default will have occurred as a consequence of the additional indebtedness being incurred.

If a change of control of greater than 50.0% of the Company's voting stock occurs, each holder of the Senior Secured Notes may individually require the Company to purchase their notes at a purchase price in cash equal to 101.0% of the principal amount of the Senior Secured Notes plus accrued and unpaid interest. A change of control, as defined, does not include a change in ownership if the sale of voting stock to an acquirer is made by holders who received this stock in connection with the conversion of the former Senior Subordinated Notes.

The indenture governing the Senior Secured Notes contains a number of covenants that, among other things, limit the Company and its subsidiaries' ability to incur additional debt, make certain restricted payments, create certain liens, dispose of assets and



subsidiary capital stock, merge or consolidate, issue guarantees, pay dividends and otherwise restrict certain corporate activities. The Senior Secured Notes also limit the Company's obligations under finance leases to the greater of €25.0 million or 5% of total assets. The Senior Secured Notes also contain customary events of default, including non-payment of principal, interest or fees, material inaccuracy of certain representations and warranties, violation of covenants, cross-default to certain other debt, certain events of bankruptcy and insolvency, material judgments and a change of control in certain circumstances.

The Senior Secured Notes are not listed on a public market. The fair value of the Senior Secured Notes is based on a price quotation of 85.5% of the nominal value at the balance sheet date.

#### **Working Capital Facility**

Since Q1 2004, one of the Company's indirect European subsidiaries has been a party to a €44.0 million credit facility (the Facility). The purpose of the Facility was to provide a mechanism to secure certain letters of credit which the Company had issued and to provide for liquidity as necessary for capital or working capital requirements. On July 27, 2007, the Facility was renewed and the maturity date was extended until July 2010. On January 28, 2008 the Facility was amended so that the cash line was increased from €24.0 million to €33.0 million and the letters of credit line was reduced from €20.0 million to €11.0 million. On June 23, 2008, the Facility was increased to €65.0 million, with a cash line of €54.0 million and up to €11.0 million in issued letters of credit. On November 10, 2008 the Facility was amended so that the cash line was reduced from €54.0 million to €52.5 million, and the letters of credit line was increased from €11.0 million to €12.5 million. On February 17, 2009 the Facility was amended in regard of covenants in order to provide higher headroom to the Company in an uncertain economic environment.

Outstanding cash borrowings, which are limited to €52.5 million (US \$73.1 million based on exchange rates as of December 31, 2008), accrue interest at a variable rate of interest based on the Euro Over Night Index Average (Eonia), with interest payable quarterly. Due to the variability of this interest rate basis, the Company is exposed to interest rate fluctuations in that respect.

The carrying amount of assets of the Company's European operations pledged under the Facility is US \$72.0 million. The latest repayment date for the secured Facility is July 2010.

If a change of control of greater than 50.0% of the Company's voting stock occurs, the lender is entitled to decide on the continuance of the Facility.

The working capital facility agreement contains financial covenants as EBITDA leverage, interest coverage and magnitude of EBITDA and refundable deposit levels.

As of December 31, 2008, there were US \$63.1 million outstanding cash borrowings and approximately US \$15.0 million in outstanding letters of credit under the Facility.

**Maturities of debt**

Long-term debt consists of the following:

US \$ in thousands	As of December 31, 2008	As of December 31, 2007
Senior secured notes	153,408	160,947
Sellers' note	16,935	–
Other	1,903	34
	<b>172,246</b>	<b>160,981</b>
Less: deferred financing costs	(2,503)	(4,159)
	<b>169,743</b>	<b>156,822</b>

The maturities of long-term debt are as follows as of December 31, 2008 and December 31, 2007:

US \$ in thousands	Amount 2008	Amount 2007
2009	–	34
2010	171,042	160,947
2011	746	–
2012	458	–
2013	–	–
	<b>172,246</b>	<b>160,981</b>

The Company has assumed that an accelerated maturity of the long term debt caused by a change of control will not occur.

**Receivable factoring**

Subsidiaries of IFCO SYSTEMS Europe entered into non-recourse factoring agreements under which these European subsidiaries may offer all of their trade receivables to third-party factoring companies. Under the factoring agreements, the sales price is the nominal value of the receivable less a factoring fee. The third-party factoring companies have the right to collect the receivables and bear the collection risk. Under these agreements, there is a factoring fee ranging from 0.10% to 0.25% of the nominal value of the factored receivables and the interest rate on cash advances relating to factored receivables at rates ranging from 4.29% to 5.79% as of December 31, 2008. The Company's European subsidiaries incurred factoring charges and factoring-related interest charges of US \$1.0 million and US \$0.6 million during 2008 and 2007, respectively, which are shown as factoring charges in the accompanying consolidated statements of income.

**Finance lease obligations**

The Company has entered into leases with unaffiliated third parties principally for RPCs in Europe that are accounted for as finance leases. The RPC finance leases are part of sale-leaseback transactions in which the Company has sold the RPCs to third parties, which then leases them back to the Company. The RPC finance leases cover approximately 12.3 million RPCs as of December 31, 2008. Upon termination of certain of these leases, the Company has the option to repurchase the RPCs. All of these lease agreements require the Company to repurchase the leased RPCs on the lessor's demand.

The Company has also entered in finance leases covering certain operating equipment. These contracts have bargain purchase options at the end of the lease period, which the Company intends to exercise.

The present value of minimum lease payments was as follows as of December 31, 2008

US \$ in thousands	1 year	2-3 years	4-5 years	5+ years	Total
Total future minimum lease payments	23,750	29,281	7,926	1,170	62,127
Less amounts representing interest at 2.52%-10.70%	(2,506)	(3,118)	(555)	(27)	(6,206)
	21,244	26,163	7,371	1,143	55,921

The present value of minimum lease payments was as follows as of December 31, 2007

US \$ in thousands	1 year	2-3 years	4-5 years	5+ years	Total
Total future minimum lease payments	19,175	21,457	1,273	-	41,905
Less amounts representing interest at 2.52%-10.70%	(1,719)	(1,088)	(27)	-	(2,834)
	17,456	20,369	1,246	-	39,071

#### Financial risk management objectives and policies

The Company's principal liabilities, other than derivatives, comprise senior secured notes, working capital facility and finance leases. The main purpose of these financial liabilities is to fund the Company's operations. The Company has various other financial assets and liabilities such as trade receivables, cash and short term deposits, refundable deposit and trade payables, which arise directly from its operations.

The main risk arising from the Company's financial instruments are as follows. There are no significant concentrations of credit risk within the Company.

#### Interest rate risk

The Company's exposure to the risk of changes in market interest rates is limited and relates only to the working capital facility. The majority of the Company's interest bearing debt (Senior Secured Notes) has fixed interest rates. Due to the "interest fix" debt structure, the Company is not engaged in any interest risk hedging agreements. The Company does monitor the interest rate development of the capital markets and does assess its options under the existing debt structure.

**Interest rate risk table**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax. There is no impact on the Company's equity.

US \$ in thousands	Increase /decrease in basis points	Effect on profit before tax
<b>2008</b>		
EONIA	+20	95
EONIA	-20	(95)
<b>2007</b>		
EONIA	+20	25
EONIA	-20	(25)

**Foreign currency risk**

Foreign currency risk is the risk that the Company will incur economic losses due to adverse changes in foreign currency exchange rates.

Aside from the US Dollar, the Company's reporting currency, the Euro is the Company's other primary functional currency. The following table summarizes the value of the Euro relative to the US Dollar.

	As of December 31		Average for Fiscal Year	
	2008	2007	2008	2007
US Dollar relative to 1 Euro	1.3919	1.4603	1.4731	1.3708

**Non monetary foreign currency risk**

As currency exchange rates change, translation of the financial statements of the Company's international businesses into US Dollars and Euros affects year-to-year comparability of the Company's results of operations. Appreciation of the US Dollar, the Company's presentation currency, against the Euro decreases the Company's revenues and costs as reported in the Company's financial statements for those operations that have a functional currency other than the US Dollar. Conversely, depreciation of the US Dollar against the Euro increases the Company's revenues and costs. The appreciation or depreciation of the US Dollar against the Euro, therefore, impacts the Company's reported results.

**Monetary foreign currency risk**

The Company incurs currency transaction risk whenever one of the Company's operating subsidiaries enters into either a purchase or sales transaction using a currency other than its functional currency. The Company's currency risk arises from foreign currency receivables as well as from firm commitments to purchase services and supplies in the future in currencies other than the subsidiary's functional currency. Additionally, the intercompany financing between IFCO SYSTEMS N.V. and IFCO SYSTEMS North America is subject to currency transaction risk. The Company's operating subsidiaries in countries other than those countries participating in the European Monetary Union and adopting the Euro as their national currency use their local currency as their functional currency.

During 2003, the Company entered into a forward exchange contract in order to offset the cash flow variability related to changes in exchange rates on certain intercompany transactions. The forward exchange contract expired at December 31, 2006.

#### Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 7. For transactions that do not occur in the country of the relevant operating unit, the Company does not offer credit terms without the approval of the Head of Credit Control. Where applicable the Company uses third party credit insurance to limit its exposure to credit risk. There are no significant concentrations of credit risk within the Company.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

#### Liquidity risk

The Company monitors its risk to a shortage of funds using a 12 month forward looking weekly recurring liquidity planning tool. This tool considers the maturity of both its financial investments (capital expenditure), financial liabilities (refundable deposit, trade payables, other financial liabilities) and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of the working capital facility and finance leases. The Company's policy is to provide sufficient financial headroom in order to run its operations and to fund its capital expenditure in a safe financial environment. The Company monitors the maturity of its financial debt and secures prolongation or substitution in due time.

The table below summarizes the aging of the Company's financial liabilities at December 31, 2008 and December 31, 2007 based on contractual undiscounted payments.

US \$ in thousands	Less than 1 year	2 to 3 years	4 to 5 years	5+ years	Total
<b>Year ended December 31, 2008</b>					
Interest bearing loans and borrowings:					
Senior Secured Notes	-	150,972	-	-	150,972
Working capital facility	62,123	-	-	-	62,123
Sellers' note	-	16,935	-	-	16,935
Others	3,707	1,378	458	-	5,543
Finance lease obligations	21,244	26,163	7,371	1,143	55,921
Trade and other payables	128,576	-	-	-	128,576
Other liabilities	47,895	-	-	-	47,895
<b>Year ended December 31, 2007</b>					
Interest bearing loans and borrowings:					
Senior Secured Notes	-	156,893	-	-	156,893
Working capital facility	3,233	-	-	-	3,233
Others	191	(71)	-	-	120
Finance lease obligations	17,456	20,369	1,246	-	39,071
Trade and other payables	142,170	-	-	-	142,170
Other liabilities	43,637	-	-	-	43,637

### Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the acquisition of STECO. No changes were made in the objectives, policies or processing during the years 2008 and 2007.

The Company has introduced a Value Based Management tool in order to assess the return of its planned investments.

The Company monitors capital using Return on Capital Employed (ROCE). The Company's target is to reach a ROCE level of 15% at least. The Company calculates ROCE by dividing the last twelve months' reported EBIT by the total average book value of the capital employed which would be required to fund the measured business unit during this measurement period. The Company only considers its continuing operations' EBIT and average book value to calculate ROCE.

The Company measures the profitability of its segments through the use of operating EBITDA and EBIT measures. The Company uses EBITDA and EBIT as key operating measures because it measures operating profits before certain non-operating items, such as net financing costs, foreign currency gains and losses, discontinued operations, stock-based compensation expense and income taxes.

US \$ in thousands	2008	2007
Average book value of the capital employed	461,549	387,135
EBIT	67,795	66,535
ROCE	14.7%	17.2%

### Financial Instruments

Set out below is a comparison by class of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements:

US \$ in thousands	Carrying amount 2008	Carrying amount 2007	Fair Value 2008	Fair Value 2007
<b>Financial assets</b>				
Cash	31,506	35,511	31,506	35,511
Receivables, net	158,823	166,387	158,823	166,387
<b>Financial liabilities</b>				
Interest bearing loans and borrowings:				
Senior Secured Notes	150,972	156,893	128,771	156,893
Working capital facility	62,123	3,233	62,123	3,233
Sellers' note	16,935	–	16,935	–
Others	5,543	120	5,543	120
Finance lease obligations	55,921	39,071	55,921	39,071
Trade and other payables	128,576	142,170	128,576	142,170
Other liabilities	47,895	43,637	47,895	43,637

See Notes – Debt Senior Secured Notes for more information on the determination of the fair value of these financial instruments.

## 12. Income taxes

The major components of the Company's income tax provision for the years ended December 31, 2008 and 2007 are:

US \$ in thousands	Year ended December 31, 2008	Year ended December 31, 2007
Current income tax provision:		
Germany:		
Current income tax charge	1,742	1,272
Adjustments in respect of current income tax of previous years	29	(813)
	<b>1,771</b>	<b>459</b>
Foreign:		
Current income tax charge	3,457	4,748
Adjustments in respect of current income tax of previous years	5	(111)
	3,462	4,637
Net current income tax provision	<b>5,233</b>	5,096
Net deferred income tax provision	<b>6,479</b>	5,133
Income tax provision reported in the consolidated income statement	<b>11,712</b>	<b>10,229</b>

The differences in income taxes provided and the amounts determined by applying the appropriate group tax rates to income from continuing operations before income taxes result from the following:

US \$ in thousands	Year ended December 31, 2008	Year ended December 31, 2007
Net profit before tax from continuing operations	4,522	38,263
Tax provision at group rate (29.0% for 2008 and 38.0% for 2007)	1,311	14,540
Increase (decrease) resulting from:		
Unrecognized tax losses	17,734	1,144
Tax rate changes for deferred tax calculation	-	(1,103)
Differences between group tax rates and local statutory tax rates	(3,994)	(2,076)
Non-deductible expenses / tax-exempt income	(714)	371
Tax adjustments from prior years	184	(924)
Other	(2,809)	(1,723)
Income tax provision reported in the consolidated income statement	<b>11,712</b>	<b>10,229</b>



The decrease of the tax rate in Germany from approximately 38% in 2007 to approximately 29% in 2008 has affected the deferred taxes for 2007 and the tax rate reconciliation.

Components of the Company's net deferred tax assets and liabilities are as follows:

US \$ in thousands	At December 31, 2008	At December 31, 2007
<b>Deferred income tax assets:</b>		
Carryforward losses	71,372	68,393
Capitalized RPC cost	12,821	8,928
Interest limitation	4,318	6,119
Stock option deductions	87	493
Loss from discontinued operations	194	292
Allowance for doubtful accounts	294	247
Inventory basis differences	696	372
Other accruals and reserves	11,287	4,037
Other	2,809	1,240
Subtotal deferred income tax assets	<b>103,878</b>	<b>90,121</b>
Netted with deferred income tax liabilities	(97,021)	(78,528)
<b>Total deferred income tax assets</b>	<b>6,857</b>	<b>11,593</b>
<b>Deferred income tax liabilities:</b>		
Accelerated depreciation	99,637	84,956
Loan costs	596	1,206
Other	6,105	3,575
Subtotal deferred income tax liabilities	<b>106,338</b>	<b>89,737</b>
Netted with deferred income tax assets	(97,021)	(78,528)
<b>Total deferred income tax liabilities</b>	<b>9,317</b>	<b>11,209</b>
<b>Deferred income tax asset, net</b>	<b>(2,460)</b>	<b>384</b>

The stock option deductions (US \$0.5 million) and the relating effects to net operating losses (US \$0.5 million) had been recorded to equity (US \$0.2 million) as well as the foreign currency adjustments. All other changes are recorded in income.

At December 31, 2008, the Company has net corporate operating loss carryforwards available as follows:

US \$ in thousands	Amount
Germany	237,383
United States	149,771
Other European countries	177,147
<b>Total</b>	<b>564,301</b>

The corporate loss carryforwards attributable to German operations, together with additional trade tax carryforwards (approximately US \$177.1 million available as of December 31, 2008), do not expire. The loss carryforwards attributable to United States operations expire between 2021 and 2028. In the United States loss carryforwards expire generally after 20 years. The loss carryforwards attributable to other European countries' operations expire as follows; approximately US \$3.2 million expire between

2009 and 2011, approximately US \$92.7 million expire between 2012 and 2017 and the remainder does not expire. All loss carryforwards are available to offset future taxable income in their respective tax jurisdiction; however, loss carryforwards attributable to the United States are subject to a limitation of use under Internal Revenue Code Section 382 and loss carryforwards attributable to Germany are subject to a limitation under German Income Tax Code Section 10d. The Company has developed certain tax planning strategies to reduce the effects of loss carryforward limitations in future years. All loss carryforwards still require final validation from the respective local taxing authorities and may be adjusted upon further review.

During 2007 and 2008, the Company capitalized certain deferred tax assets in the United States and Germany, as the Company's operating results have increased the likelihood that these deferred tax assets will be utilized over the next three (2007: three) years. The Company has a capitalized deferred tax asset based on the projected use of loss carry forwards over the next three years in amount of US \$10 million in Germany and US \$54 million in the United States. A positive taxable income over the next three years is probable due to positive operating results already achieved in 2008 in the United States and Germany and due to the tax planning strategy in regard of the depreciation volume for RPCs in Germany. No deferred tax assets are capitalized for loss carry forwards in the total amount of US \$345 million, thereof approximately US \$103 million in Germany, approximately US \$65 million in the United States, and approximately US \$177 million in the European countries.

### 13. Related parties

#### Shareholders

As of February 20, 2009, 88.9% of IFCO SYSTEMS ordinary shares continue to be held by Island International Investment Limited Partnership (Island LP) with Cortese N.V. (a Netherlands Antilles company) as the Managing General Partner of Island LP. Cortese N.V. is beneficially owned by the limited partnerships which collectively make up the Apax Europe V Fund. The ultimate controlling party of these limited partnerships is considered to be Apax Europe V GP Co. Limited, the General Partner of Apax Europe V GP L.P., the General Partner of the limited partnerships. Apax Europe V GP Co. Limited is a company registered in Guernsey. Executive Management of IFCO SYSTEMS continues indirectly to own 8.4% of the share capital of IFCO SYSTEMS.

#### Supervisory Board

Name	Position
Dr. Bernd Malmström	Chairman
Michael Phillips	Vice Chairman I
Christoph Schoeller	Vice Chairman II
Hervé Defforey	
Ralf Gruss	
Dr. Philipp Gusinde	

Mr. Malmström became member of the Supervisory Board of the Company in December 2005. Mr. Malmström is entitled to an annual remuneration of Euro 80,000 or US \$1 17,848. He was elected as chairman of the Supervisory Board on September 26, 2006. Since his appointment as chairman to the Supervisory Board he is entitled to an annual remuneration of Euro 160,000 or US \$235,696 (2007: US \$219,328).

#### Board of Managing Directors / Executive Management Committee

Name	Position
Karl Pohler	Managing Director (Chairman)
Douwe Terpstra	Managing Director
Helmut Hoerz	Managing Director (since April 2008)
Michael W. Nimtsch	Managing Director
Wolfgang Orgeldinger	Managing Director
David S. Russell	Managing Director

2008 total cash compensation for the Company's Board of Managing Directors was approximately US \$4.4 million (US \$2.1 million in 2007), consisting of US \$4.2 million (US \$2.1 million in 2007) in base salaries and US \$0.2 million in cash incentives for 2008. For 2007, there were no variable cash incentives. During 2008, IFCO SYSTEMS recorded total stock based compensation expense of US \$0.3 million for the stock options of Mr. Hoerz. During 2007, IFCO SYSTEMS recorded total stock based compensation expense of US \$0.1 million for the management share incentive plan. See Notes to employee benefit plans for the stock option expenses related to the management share incentive plan. Total compensation for the Company's Board of Managing Directors was approximately US \$4.7 million (US \$2.2 million in 2007).

#### Employment agreements

The Company has entered into employment agreements with the members of the Board of Managing Directors. Effective January 1, 2008, the members of the Board of Managing Directors entered into new employment agreements that extend for 4 additional years, up to December 31, 2011. The base salary commitment for the Board of Managing Directors under the terms of these agreements is payable as follows:

US \$ in thousands	Amount
2009	4,559
2010	4,504
2011	4,504
<b>Total</b>	<b>13,567</b>

Except transactions related to service agreements and compensation of out of pocket expenses, there were no transactions between the Company and related parties during the financial year.

**Relationships between parent and subsidiaries**

All of the following investments are 100% interests unless otherwise stated and all entities are incorporated in their respective countries:

IFCO Online GmbH (Germany)

IFCO SYSTEMS Netherlands B.V. (Netherlands)

IFCO SYSTEMS Luxembourg S.à.r.l (Luxembourg)

- IFCO SYSTEMS Hungary Kft. (Hungary)
  - IFCO PS Management Holding, Inc. (USA)
- IFCO SYSTEMS Management GmbH (Germany)
  - IFCO SYSTEMS Holding GmbH (Germany)
    - IFCO SYSTEMS GmbH (Germany)
      - IFCO SYSTEMS Skandinavien A/S (Denmark)
      - IFCO SYSTEMS UK Ltd. (Great Britain)
      - IFCO SYSTEMS France S.A.S. (France)
      - IFCO SYSTEMS (Schweiz) GmbH (Switzerland)
      - IFCO SYSTEMS Oesterreich GmbH (Austria)
      - IFCO SYSTEMS Italia S.r.l. (Italy)
        - STECO Italia Plastic Logistic Systems S.r.l. (Italy)
          - POOL.IT.srl (Italy)
      - IFCO SYSTEMS Espana Srl. (Spain)
        - STECO Logistica S.L. (Spain)
      - IFCO SYSTEMS Hellas Ltd (Greece)
      - IFCO SYSTEMS Poland Sp. z o.o. (Poland)
      - IFCO Lojistik Sistemleri Tic.Ltd.Sti (Turkey)
      - IFCO SYSTEMS Austria GmbH (Austria)
        - STECO International Pool Logistics GmbH (Austria)
        - STECO Österreich Plastic Logistic Systems GmbH (Austria)
        - IFCO SYSTEMS Portugal Lda (Portugal)
        - STECO Slovakia s.r.o. (Slovakia)
        - STECO France S.a.r.l. (France)
        - STECO Hungary Kft. (Hungary)
        - STECO Uluslararası Plastik Ambalaj Lojistik LTD STI (Turkey)
      - ILD Logistik + Transport GmbH (Germany)
    - IFCO SYSTEMS Asia Ltd. (Hong Kong)
    - IFCO Japan Inc. (33,3%) (Japan)
    - IFCO SYSTEMS Argentina S.A. (Argentina)
      - IFCO Chile S.A. (Chile)
      - IFCO Uruguay S.A. (Uruguay)
      - IFCO SYSTEMS do Brasil Servicos de Embalagem LTDA (Brasil)
    - IFCO do Brasil Embalagens LTDA (Brasil)
- IFCO SYSTEMS North America, Inc. (USA)
  - IFCO N.A. Finance Co. (USA)
  - Reusable Container Company, LLC (USA)
  - Pallet Companies, Inc. (USA)
    - Pallet Subs, Inc. (USA)
    - Texas Pallet de Mexico S.A. de C.V. (USA)
  - Drum Holding Company, Inc. (USA)
    - Drum Subs, Inc. (USA)
    - Illinois Drum, Inc. (USA)
    - Zellwood Drum, Inc. (USA)
    - Chicago Drum, Inc. (USA)
    - DSF Realty I, Inc. (USA)
    - DSF Realty II, Inc. (USA)
- IFCO SYSTEMS Canada, Inc. (Canada)

## 14. Commitments and contingencies

### Litigation

#### ACME

In May and June 2003, two lawsuits were filed in Illinois state court in Cook County, naming as defendants the Company and certain of its subsidiaries as well as a number of the customers, ICS and certain affiliates of ICS, based upon alleged discharges of contaminants, toxic substances and chemicals from the Acme Barrel facility on or before mid-2001. The first lawsuit was filed in May 2003 on behalf of approximately 481 plaintiffs, individually and on behalf of a putative class of people alleged to have been exposed to releases from the facility. In addition to claims of bodily injury, the suit includes wrongful death claims. The second lawsuit, filed in June 2003, is a wrongful death action alleging the cause of death as exposure to releases from the facility based on the decedent's employment in a building across the street from the facility. The plaintiffs in each lawsuit seek unspecified damages. At this stage, the Company cannot accurately assess the potential merit or consequences of these claims. Although the Company believes claims such as these are typically fact-intensive and can take years to resolve, it can provide no assurance about the timing of any resolution of these claims. Some of the other named defendants are former customers of Acme Barrel, which the Company had agreed to indemnify and hold harmless against certain environmental liabilities, and the Company cannot assess the extent to which any such customers will incur liability or become entitled to indemnification from us. The Company has agreed to assume the defense of ICS, its parent and certain affiliates, which have been named as defendants, on the basis that the claims could give rise to a claim covered by the indemnity in the agreement for the sale of Acme Barrel. Additionally, some customer defendants have filed cross-claims against certain Acme defendants. The Company cannot predict what actions other defendants might take or whether such actions would be prejudicial to the Company. The Company intends to defend the litigation vigorously. However, if these claims are determined adversely to the Company or to parties to whom the Company owes indemnities, such claims could have a material adverse effect on the Company's business, liquidity, results of operation and financial condition. As of December 31, 2008 a provision of US \$0.4 million (2007: US \$0.3 million) was recorded for estimated future legal defense costs. During July 2006, one of the Company's subsidiaries was notified of a lawsuit filed by the city of Chicago against one of the Company's subsidiaries requesting that it demolish or otherwise repair the Chicago drum property to a condition suitable to the city of Chicago. The Company also accrued the estimated demolition costs of the Chicago drum facility as had been requested by the city of Chicago. During 2007, the facility demolition was completed, the costs were funded, and the city of Chicago dismissed its complaint against the Company.

#### ING

ING Barings Limited has claimed the reimbursement of approximately US \$1.6 million in expenses incurred during the Company's financial restructuring in 2001 and 2002. During 2005, the District Court of Amsterdam awarded ING's claim and the Company

paid €1.2 million (US \$1.4 million). The Company filed an appeal in November 2005. The respective court hearing took place on February 7, 2007. On October 28, 2008, the Amsterdam Court of Appeal dismissed the Company's appeal regarding the ING litigation.

### **ICE**

On April 19, 2006, a number of sites and facilities of certain U.S. subsidiaries of the Company ("the U.S. Subsidiaries") were searched by agents from U.S. Immigration and Customs Enforcement ("ICE"), the investigative arm of the U.S. Department of Homeland Security ("DHS"), in connection with allegations of the hiring of illegal aliens not eligible for employment in the U.S.. On December 19, 2008, the U.S. Subsidiaries entered into a "non-prosecution" agreement ("Non-Prosecution Agreement") with the U.S. Attorney's Office for the Northern District of New York ("U.S. Attorney"), in which the U.S. Attorney agreed it would not criminally prosecute the U.S. Subsidiaries for offenses arising out of the immigration enforcement action. The Non-Prosecution Agreement also resolves with the U.S. Department of Labor any issues related to the failure to pay certain workers overtime compensation. The U.S. Subsidiaries agreed to undertake certain compliance and cooperation obligations and to pay approximately US \$20.7 million, structured to require payment of approximately US \$2.6 million by January 15, 2009, US \$6.1 million in January 2010, US \$6.0 million in January 2011, and US \$6.0 million in January 2012. The Company has agreed to guarantee the making of these payments by the U.S. Subsidiaries. The Non-Prosecution Agreement does not affect the prosecution of any individual current or former employees. Subsequent to the entering of the Non-Prosecution Agreement, the U.S. Attorney dismissed previously filed indictments against four employees of the U.S. Subsidiaries and then filed new indictments against those four employees as well as three additional employees of the U.S. Subsidiaries. As of December 31, 2008 a provision of US \$2.1 million (2007: US \$1.2 million) was recorded for future estimable legal defense costs. As of December 31, 2008 a current liability of US \$2.6 million was recorded for the payment January 15, 2009 and a non-current liability of US \$15.2 million was recorded for the payments in 2010 to 2012.

The Company is a defendant in various other legal matters arising in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate resolution of these matters is not expected to have a material effect on the accompanying consolidated financial statements.

### **Insurance**

The Company carries a broad range of insurance, including general and business auto liability, directors and officers, commercial property, business interruption and a general umbrella policy.

IFCO SYSTEMS North America is self-insured for certain medical claims up to US \$0.1 million per person per year and is self-insured for workers compensation claims up to US \$0.3 million per incident per year. Provisions for expected future payments are accrued based on IFCO SYSTEMS North America's estimate of its aggregate liability for all open and unreported claims. Management has accrued US \$5.6 million and US \$5.3 million as of December 31, 2008 and 2007, respectively, and believes this amount is adequate to cover known and unreported medical and workers compensation claims.

## Leasing arrangements

The Company leases certain facilities and machinery under noncancellable operating leases. Lease payments are expensed on a straight-line basis over the term of the lease. Minimum future rental payments under these leases as of December 31, 2008, are as follows:

US \$ in thousands	Amount 2008	Amount 2007
2008	–	21,260
2009	19,196	14,600
2010	13,877	10,442
2011	9,699	7,130
2012	5,991	3,926
2013	4,053	–
Thereafter	3,369	1,960
	<b>56,185</b>	<b>59,318</b>

Expenses under operating leases were approximately US \$26.2 million and US \$23.4 million for 2008 and 2007, respectively.

## 15. Employee benefit plans

### Stock option plan

In March 2000, the Company's Board of Directors (the Board) approved the 2000 Stock Option Plan, (the Stock Option Plan). The Stock Option Plan provides for the granting of stock options to directors, executive officers and other employees of the Company and terminates in March 2010. In general, the terms of the option awards are established by the Board.

During 2003, the Board granted options to purchase an aggregate of approximately 1.5 million ordinary shares of the Company to certain managers and members of the Board. The exercise price for each of these options was equal to the value of the Company's ordinary shares on the date of issuance. The options expire between 3 and 5 years from the date of their vesting.

During 2004, the Board granted options to purchase an aggregate of approximately 0.8 million ordinary shares of the Company to certain managers. The exercise price for each of these options was equal to the value of the Company's ordinary shares on the date of issuance. The options expire 5 years from the date of their vesting, which is contingent upon certain defined operational targets being met during each of 2004, 2005 and 2006.

During 2005, the Board of Managing Directors granted options to purchase an aggregate of approximately 0.04 million ordinary shares of the Company to certain managers. The exercise price for each of these options was equal to the value of the Company's ordinary shares on the date of issuance. The options expire 5 years from the date of their vesting, which is contingent upon certain defined operational targets being met during each of 2005 through 2009.

During 2006, the Board of Managing Directors granted options to purchase an aggregate of approximately 0.1 million ordinary shares of the Company to certain managers. The exercise price for each of these options was equal to the value of the Company's ordinary shares on the date of issuance. The options expire 5 years from the date of their vesting, which is contingent upon certain defined operational targets being met during each of 2007, 2008 and 2009.

During 2008, the Board of Managing Directors granted options to purchase an aggregate of approximately 0.4 million ordinary shares of the Company to certain managers and with the permission of the remuneration committee to a member of the Board of Managing Directors. The exercise price for each of these options was equal to the value of the Company's ordinary shares on the date of issuance. The options expire 5 years from the date of their vesting, which is contingent upon certain defined operational targets being met during each of 2008, 2009 and 2010.

During 2008 and 2007, the Company recorded total stock based compensation expense of US \$0.4 million and US \$0.3 million, respectively. The portion of that expense arising from equity-settled share-based payment transactions was US \$0.4 million in 2008 (US \$0.2 million in 2007).



US \$, except number of options	Year ended December 31, 2008			Year ended December 31, 2007		
	Number of Options	Exercise Price Range	Weighted Average Exercise Price	Number of Options	Exercise Price Range	Weighted Average Exercise Price
Outstanding, beginning of period	850,934	2.31 – 14.62	5.66	1,175,601	2.09 – 13.21	4.75
Granted	427,500	10.59 – 12.25	12.14	–	–	–
Exercised	(69,333) <sup>(2)</sup>	2.36 – 7.74	3.47	(241,667) <sup>(1)</sup>	2.07 – 7.06	3.19
Forfeited	(240,230)	4.28 – 15.54	7.70	(83,000)	2.05 – 14.25	5.87
Outstanding, end of period	968,871 <sup>(3)</sup>	2.20 – 13.93	7.83	850,934	2.31 – 14.62	5.66
Options exercisable at end of year	488,036		4.00	603,401		4.18
Weighted average fair value of options granted during year	3.35			–		
Weighted average remaining contractual life of options, outstanding at end of period			4.14			3.61

<sup>(1)</sup> The weighted average share price at the date of exercise for the options exercised is US \$12.90.

<sup>(2)</sup> The weighted average share price at the date of exercise for the options exercised is US \$11.82.

<sup>(3)</sup> Additional are options over 171,996 shares that have not been recognized in accordance with IFRS 2 as the options were granted on or before November 7, 2002.

Fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	1st grant	2nd grant
Risk free interest rate	4.61%	4.62%
Dividend yield	3.00%	3.00%
Volatility factor	29.1%	29.1%
Weighted average expected life	7.50 years	7.00 years

At the grant date, the expected volatility of the Company reflected the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

### Management share incentive plan

In January 2003, the Board adopted the 2003 Management Share Incentive Plan (MSIP), pursuant to which IFCO SYSTEMS granted options to purchase an aggregate of 2.3 million ordinary shares of IFCO SYSTEMS to certain Executive Managers. The share awards were allocated in three tranches, each with different vesting terms. One third of these options vested immediately and the remaining options vested based upon future equity value targets of IFCO SYSTEMS. During August 2004, the Executive Managers exercised approximately 1.1 million vested MSIP options. IFCO SYSTEMS' principal shareholder, Island LP, agreed to purchase the shares resulting from this option exercise at €2.75 per share. The Executive Management team used the net proceeds from these transactions, along with private funds, to acquire an investment in Island LP, which represents an aggregate indirect shareholding of approximately 8.4% of the

share capital of IFCO SYSTEMS as of December 31, 2008. The remaining unexercised 1.2 million stock options under the MSIP were cancelled. During 2007, IFCO SYSTEMS recorded ultimately total stock based compensation expense of US \$0.1 million under this program. Fair value was estimated using the Black-Scholes option-pricing model.

#### Performance units program

In March 2008, the Company's Remuneration Committee approved the IFCO SYSTEMS N.V. Performance Units Program 2008, (the Performance Units Program). The Performance Units Program provides for the granting of performance units to employees of the Company or its subsidiaries in the United States, Europe and other countries and terminates December 31, 2010. In general, the terms of the performance unit awards are established by the Board of Managing Directors.

During 2008, the Board of Managing Directors granted approximately 0.4 million performance units to receive either cash in Euro or shares currently existing or created by the Company to certain managers. The performance target for each of these performance units was equal to the value of the Company's ordinary shares on the date of issuance. The performance units expire December 31, 2010, which is contingent upon certain defined operational targets being met during each of 2008, 2009 and 2010.

The Company measured the fair value of the liability of these share based payment transactions with cash alternatives at each reporting date during 2008, with any changes in fair value recognized in profit or loss for the period. For 2008 the Company recorded no stock based compensation expense for the performance units.

The fair value of the performance units was remeasured at December 31, 2008 using the Black-Scholes option-pricing model using the following assumptions:

	December 31, 2008
Risk free interest rate	1.81%
Dividend yield	3.00%
Volatility factor	41.9%
Weighted average expected life	2.00 years

#### Employee benefit plan

IFCO SYSTEMS North America sponsors a defined contribution profit-sharing plan (the Plan). Eligible employees may contribute up to the maximum amount permitted under Internal Revenue Service regulations to their account. The Company matches the contributions of participating employees on the basis of the percentages specified in the Plan. The employee and Company matching contributions are invested at the direction of the individual employee. Employer contributions to the plan were US \$1.6 million and US \$1.4 million during 2008 and 2007.

#### German annuity assurance

The Company has paid and expensed US \$0.9 million during 2008 and US \$1.0 million during 2007 for German annuity assurance.

## 16. Business segments

The Company has adopted IAS 14, "Segment Reporting". The Company is organized based on the products and services that it offers. Under this organization structure, the Company's continuing operations includes two primary business segments: the RPC Management Services operations (RPC Management Services) and the Pallet Management Services operations (Pallet Management Services). The RPC Management Services segment rent RPCs primarily for use in agricultural markets. The Pallet Management Services segment recycles wooden pallets in the United States. The Corporate column contains corporate related items not allocated to reportable segments. The Pallet Pooling segment, which leased pallets in Canada primarily for use in agricultural and industrial markets, is shown as a discontinued operation, as it was sold during 2005.

The accounting policies for the segments are the same as those described in Notes-Summary of significant accounting policies.

US \$ in thousands	Year ended December 31, 2008					
	Continuing Operations		Unallocated Corporate	Total	Discontinued Operation Pallet Pooling	Total Operations
	RPC Management Services	Pallet Management Services				
Revenues	358,282	377,606	–	735,888	–	735,888
<b>Results</b>						
Income (loss) from operations	46,997	24,342	(9,536)	61,803	–	61,803
ICE related expenses				(25,826)		(25,826)
Foreign currency loss, net				(3,585)		(3,585)
Loss from equity entity, net				(220)		(220)
Other income, net				271		271
				(29,360)		(29,360)
Interest expense				(27,350)		(27,350)
Interest income				483		483
Factoring charges				(1,054)		(1,054)
Result of finance activities				(27,921)		(27,921)
Profit from continuing operations before taxes				4,522		4,522
Income tax provision				(11,712)		(11,712)
Loss before discontinued operations				(7,190)		(7,190)
Income from discontinued operations				1,152		1,152
Net loss				(6,038)		(6,038)
<b>Assets and liabilities</b>						
Total assets	664,560	197,501	25,647	887,708	1	887,709
Total liabilities	407,174	55,887	181,325	644,386	–	644,386
Goodwill	86,491	118,826	–	205,317	–	205,317
<b>Other segment information</b>						
Capital expenditures	(85,521)	(1,902)	(1,530)	(88,953)	–	(88,953)
Operating cash flows	50,092	22,104	(15,054)	57,142	–	57,142
Investing cash flows	(85,486)	(1,760)	(1,530)	(88,776)	–	(88,776)
Financing cash flows	36,417	(20,365)	18,813	34,865	–	34,865

US \$ in thousands	Year ended December 31, 2007					
	Continuing Operations		Unallocated	Total	Discontinued Operation	Total Operations
	RPC Management Services	Pallet Management Services	Corporate		Pallet Pooling	
<b>Revenues</b>	330,904	361,644	–	692,548	–	692,548
<b>Results</b>						
Income (loss) from operations	53,680	17,884	(6,501)	65,063	–	65,063
ICE related expenses				(5,944)		(5,944)
Foreign currency gain, net				899		899
Income from equity entity, net				446		446
Other loss, net				(342)		(342)
				(4,941)		(4,941)
Interest expense				(21,429)		(21,429)
Interest income				190		190
Factoring charges				(620)		(620)
Result of finance activities				(21,859)		(21,859)
Profit from continuing operations before taxes				38,263		38,263
Income tax provision				(10,229)		(10,229)
Profit before discontinued operations				28,034		28,034
Loss from discontinued operations				(927)		(927)
Net profit				27,107		27,107
<b>Assets and liabilities</b>						
Total assets	583,200	196,841	26,195	806,236	1	806,237
Total liabilities	332,288	38,657	180,666	551,611	–	551,611
Goodwill	40,632	118,826	–	159,458	–	159,458
<b>Other segment information</b>						
Capital expenditures	(74,379)	(2,105)	(1,015)	(77,499)	–	(77,499)
Operating cash flows	108,577	24,757	(15,568)	117,766	–	117,766
Investing cash flows	(74,316)	(2,105)	(1,015)	(77,436)	–	(77,436)
Financing cash flows	(24,796)	(22,669)	21,716	(25,749)	–	(25,749)

The Company's revenue by country, based on the location of the customer, is as follows:

US \$ in thousands	Year ended December 31, 2008	Year ended December 31, 2007
Spain	86,090	52,303
Italy	47,202	42,389
Germany	40,929	72,254
Switzerland	39,409	31,491
France	19,712	18,758
Norway	17,335	15,029
United Kingdom	12,406	13,745
South America	5,962	3,794
Netherlands	4,972	9,409
Other	12,829	13,160
Europe and rest of world	<b>286,846</b>	<b>272,332</b>
United States	449,042	420,216
Consolidated	<b>735,888</b>	<b>692,548</b>

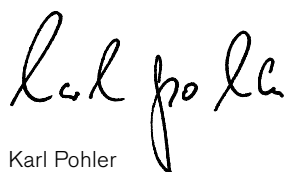
The Company's total assets by geographical segments are as follows:

US \$ in thousands	Year ended December 31, 2008	Year ended December 31, 2007
Europe and rest of world	576,683	510,359
United States	311,025	295,877
Canada	1	1
Consolidated	<b>887,709</b>	<b>806,237</b>

The Company's capital expenditures from continuing operations by geographical segment are as follows:

US \$ in thousands	Year ended December 31, 2008	Year ended December 31, 2007
Europe (2008 includes the cash paid for the acquisition of STECO, net of cash acquired; 2007 includes the cash paid for the acquisition of IFCO SYSTEMS Argentina S.A., net of cash acquired)	60,036	55,279
United States	28,917	22,220
Consolidated	<b>88,953</b>	<b>77,499</b>

Amsterdam, February 20, 2009



Karl Pohler  
Chief Executive Officer



Michael W. Nimtsch  
Chief Financial Officer



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# Annex

## Cautionary note

### **Cautionary note regarding forward looking statements**

Some of the statements contained in this report discuss future expectations, contain projections of results of operations or financial condition of IFCO SYSTEMS, or state other forward-looking information. These statements may include financial information and/or statements for periods following the period covered by this report. You can find many of these statements by looking for words like believes, expects, anticipates, estimates, or similar expressions used in this report.

These forward-looking statements may be affected by known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions that we believe to be reasonable. Risks and uncertainties are included in a separate section of this report.

Important factors that could cause our actual results to be materially different from the forward-looking statements are also discussed throughout this report.





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March 2009	Press and analyst's conference on annual results
March 2009	General meeting of shareholders for the fiscal year 2008
May 2009	Publication of the 1st quarterly report
August 2009	Publication of the 2nd quarterly report
November 2009	Publication of the 3rd quarterly report
February 2010	Publication of the 2009 annual report

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\* Preliminary dates. You will find the exact dates at:  
<http://www.ifcosystems.de> or <http://www.ifcosystems.com>

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If you like to order additional copies of this annual report in German or English or if you like to read these reports and up-to-date shareholder information, please visit us at: <http://www.ifcosystems.de> or <http://www.ifcosystems.com>

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In addition to an annual report at the end of each fiscal year, IFCO SYSTEMS N.V. publishes quarterly reports, supplemented by press releases. A press conference as well as an annual analysts' conference give the journalists and analysts additional opportunities to review developments of our business. The annual report as well as quarterly reports are filed with Deutsche Börse (German Stock Exchange) and the Netherlands Authority for the Financial Markets. All of these financial reports are available on the Internet at: <http://www.ifcosystems.de> or <http://www.ifcosystems.com>

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