Annual Report 2005

KUEHNE+NAGEL

Exciting prospects.

No matter how you look at it: Kuehne + Nagel is a global player with exciting prospects. Our more than 40,000 employees around the globe see us as an attractive employer offering excellent career prospects. Our customers see us as a partner who meets the growing challenges of an increasingly global market with boldness, creativity and passion. Our business associates value us as a long-standing and reliable partner. And our competitors see in us an innovator whom they find hard to trump, and who, thanks to our award-winning logistics ideas, again and again raises the standards in the industry. How do you see us?

GROUP KEY DATA ►

KUEHNE + NAGEL GROUP KEY DATA

(CHF million)	2001	2002	2003	2004	2005
Turnover	8,435.0	8,805.0	9,548.0	11,563.1	14,048.9
Gross profit	1,727.0	1,911.2	2,064.3	2,322.5	2,769.0
% of turnover	20.5	21.7	21.6	20.1	19.7
EBITA[1]	244.3	276.8	315.9	381.3	453.9
% of gross profit	14.1	14.5	15.3	16.4	16.4
EBIT[1]	213.0	17.3	281.0	317.5	429.1
% of gross profit	12.3	0.9	13.6	13.7	15.5
EBT[1]	227.7	4.5	286.1	344.1	445.9
% of gross profit	13.2	0.2	13.9	14.8	16.1
Net earnings for the year[1]	160.5	0.1	195.7	238.1	315.0
% of gross profit	9.3	0.0	9.5	10.3	11.4
Depreciation, amortisation and impairment	116.7	362.5	137.2	156.1	132.4
% of gross profit	6.8	19.0	6.6	6.7	4.8
Operational cash flow[2]	274.3	364.5	426.5	487.7	574.5
% of gross profit	15.9	19.1	20.7	21.0	20.8
Capital expenditures	620.2	170.0	178.3	162.2	249.0
% of operational cash flow	226.1	46.9	41.8	33.3	43.3
Balance sheet total	2,385.8	2,693.9	2,719.9	2,843.1	4,221.4
Non current assets	1,005.4	747.8	770.3	825.5	993.1
Equity[1]	985.0	877.0	1,012.7	802.3	1,601.0
% of total assets	41.3	32.6	37.2	28.2	37.9
Employees at year end	17,412	17,689	19,004	21,193	25,607
Personnel expense[1]	955.8	1,042.8	1,130.1	1,271.9	1,499.9
% of gross profit	55.3	54.6	54.7	54.8	54.2
Gross profit in CHF 000 per employee	99.2	108.0	108.6	109.6	108.1
Manpower expense in CHF 000 per employee[1]	54.9	59.0	59.5	60.0	58.6

NET EARNINGS PER SHARE (NOMINAL CHF 5)

	2001	2002	2003	2004	2005
Consolidated net income for the year (Kuehne + Nagel share)[3]	6.95	0.01	8.44	11.02	13.45
Distributable net income for the year[3]	2.91	3.00	3.50	4.58	5.50
Distribution in the following year	2.90	3.00	3.50	4.50	5.50
in % of the consolidated net income for the year	42%	n/a	41%	41%	41%

DEVELOPMENT OF SHARE PRICE

	2001	2002	2003	2004	2005
Zurich (high/low in CHF)	103/59	118/76	160/82	252/142	371/231
Average trading volume per day	8,189	9,310	4,810	9,509	23,619

1 adjusted for comparison purposes (2004)
2 adjusted for comparison purposes (2003 and 2004)
3 excluding treasury shares

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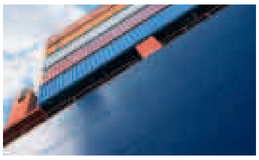
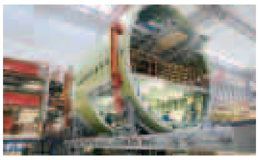






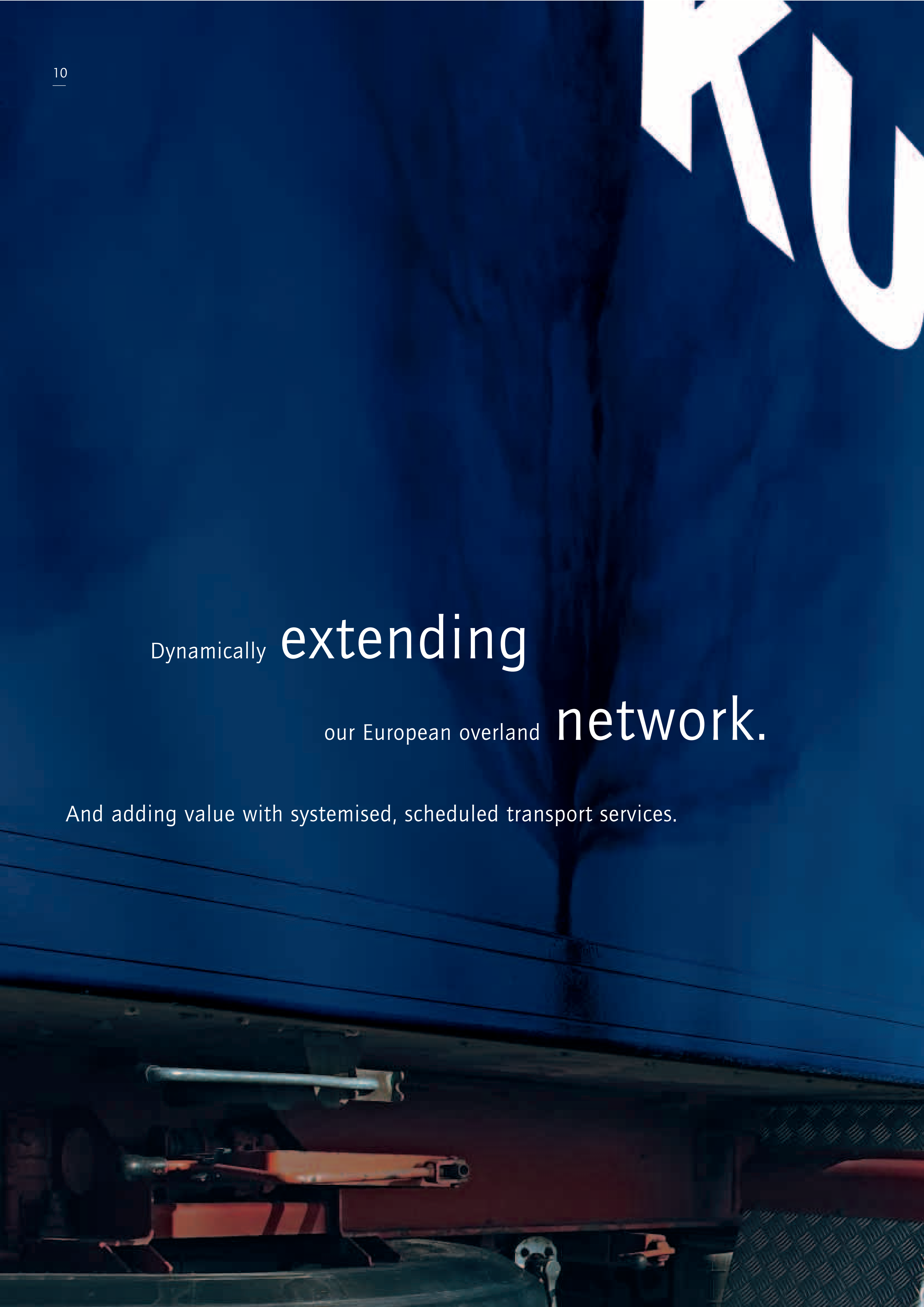
Staying market leader. Long term.

Growing twice as fast as the market.

Landing resounding successes

with reliable solutions.

Offering our customers new prospects with innovative products.



Dynamically extending

our European overland network.

And adding value with systemised, scheduled transport services.


EHNE+NAGEL

Raising competitiveness without harming the environment.

With our trail-blazing intermodal services.

Exploiting innovative power as a growth driver.

Consistently putting into practice ideas that lead the way in contract logistics.


JIG NO. 06
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BOARD OF DIRECTORS

- Klaus-Michael Kuehne, Schindellegi
  Executive Chairman
- Bernd Wrede, Hamburg
  Vice Chairman
- Prof. Dr. Otto Gellert, Hamburg
- Dr. Joachim Hausser, Munich
- Dr. Willy Kissling, Hurden
- Dr. Georg Obermeier, Munich
- Dr. Alfred Pfeiffer, Trostberg
- Bruno Salzmann, Pfäffikon
- Dr. Thomas Staehelin, Basel
- Hans Lerch, Uetikon am See

Board of Directors and Management Board

KUEHNE + NAGEL INTERNATIONAL AG, SCHINDELLEGI, SWITZERLAND

MANAGEMENT BOARD

- Klaus Herms, Schindellegi
  Chief Executive Officer
- Ewald Kaiser, Hamburg
- Gerard van Kesteren, Schindellegi
- Martin Kolbe, Hamburg
- Reinhard Lange, Schindellegi
- Klaus-Dieter Pietsch, Schindellegi
- Dirk Reich, Schindellegi

Status December 31, 2005

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

2005 – Another year of success for the Kuehne + Nagel Group

Dear Madam, dear Sir,

In 2005, the Kuehne + Nagel Group was again able to achieve above-average growth rates. With turnover up 21.5 per cent, the operational result increased by 19.0 per cent. Compared with the previous year, net earnings improved 32.3 per cent to CHF 315 million. The company's success is based on three pillars: global logistics capabilities, a convincing product portfolio and a customer-focused business strategy.

Shareholder structure

In October 2005, approximately 7 per cent of the 10 per cent treasury shares held by Kuehne + Nagel International AG were placed with institutional investors. Subsequent to this transaction, the shareholder structure is as follows:

• Kuehne Holding AG Kuehne Holding AG is in the sole ownership of Klaus-Michael Kuehne of Schindellegi, Switzerland	55.75 per cent
• Treasury shares	2.39 per cent
• Free float	41.86 per cent
	100.00 per cent

Board of Directors

At the Annual General Meeting held on May 2, 2005, Hans Lerch of Uetikon, Switzerland, was elected to the Board of Directors, which now comprises ten members. Klaus-Michael Kuehne remains Executive Chairman of the Board of Directors, and Bernd Wrede its Vice Chairman.

Management Board

Effective as of June 30, 2005, Dr. Axel Hansen, and effective as of December 31, 2005, Thomas Engel stepped down from the Management Board. The Board of Directors wishes to thank both gentlemen for their many years of successful work for the company. New members of the Management Board are Ewald Kaiser, effective as of October 1, 2005, and Martin Kolbe, effective as of November 1, 2005. Ewald Kaiser is responsible for the business unit Rail & Road Logistics, and Martin Kolbe heads the Group's IT activities. The Management Board continues to consist of seven members headed by Chief Executive Officer Klaus Herms.

Major achievements

The highlight of the business year 2005 was the agreement reached with Los Angeles-based Platinum Equity Group to acquire the entire share capital of the ACR Group. ACR is a contract logistics company with operations in 11 European countries and well positioned particularly in the British and French markets. ACR has 2.5 million square metres of warehouse space under management and employs approximately 15,000 staff. The acquisition took effect on January 1, 2006, and as of that date ACR will be included in the Kuehne + Nagel Group's scope of consolidated companies.

The takeover of the ACR Group sees Kuehne + Nagel taking a great step towards achieving a leading position in the global contract logistics market. ACR's activities fully complement Kuehne + Nagel's existing service offerings in this business field.

Results

As previous years, 2005 was characterised by above-average increases in turnover, operational results and net earnings. The global seafreight business performed strongest, followed by airfreight and contract logistics, with the latter recording a remarkable upswing. Spearheaded by China, Asia-Pacific again represented the strongest growth region. But also in Europe, the Americas, the Middle East and Central Asia, high volume growth and exceptional results were achieved.

European road operations are still under development; thus a lower-than-average contribution to the overall results was recorded.

Dividend

Reflecting the Kuehne + Nagel Group's good performance, the Board of Directors suggests a dividend increase from CHF 4.50 to CHF 5.50. The proposal will be made at the Annual General Meeting on May 2, 2006.

Business performance

1.9 million TEU (20' container units) were shipped by sea, marking a 19.4 per cent growth compared with 2004. Exports from China to Europe and to North America, respectively, accounted for the strongest increase.

In airfreight, a 9.4 per cent increase in volume was achieved with a series of significant customer wins contributing to this performance.

Contract logistics business largely was driven by the extension of existing accounts into new markets. This led to the realisation of considerable volume increases in several European countries, as well as in Canada and the United States. New warehouses were established in Kiev/Ukraine, Helsinki/Finland and Norrköping/Sweden. Facility extensions were put into operation in Leipzig/Germany and Salzburg/Austria. In the year under review, Kuehne + Nagel had 3.5 million square metres of warehouse space under management worldwide.

The European rail market was characterised by fierce competition, and some set-backs were experienced. Structural changes have been initiated in this business field.

The expansion of European road activities was accelerated by the acquisition of the firms Häring Service Company AG, Grafenau; Zippert-Gruppe, Hamburg and Dortmund; and Gebr. Mönkemöller GmbH & Co. KG, Bielefeld and Dietzenbach. In addition, Kuehne + Nagel extended its stake in WM Cargonet GmbH & Co. KG, Bocholt, and acquired the remaining 60 per cent of shares. The company is now strongly positioned in the German groupage network IDS, which will serve as the foundation for further development.

The Nacora Group, Kuehne + Nagel's insurance broker subsidiary operating in close to 30 countries, performed as projected and realised good results.

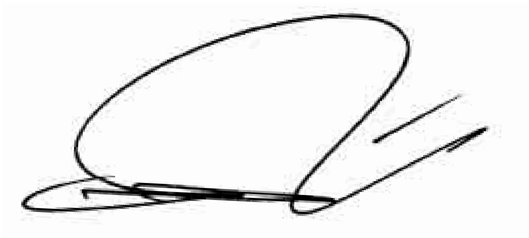
Summary and outlook

Continued growth in world trade provided the framework for the Kuehne + Nagel Group's unchanged good performance. The company operates in more than 100 countries and is an optimal partner to industry and trade with its close-knit network of offices and integrated services. IT-based sea and airfreight solutions, the growing significance of European overland activities and value-added services in contract logistics combined to generate increases in demand and further extend the customer base.

While the acquisition of ACR presents a challenge, it is expected to complete rapidly the integration, allowing Kuehne + Nagel to take full advantage of the synergies, particularly an increase of warehousing and distribution business in Europe and the Asia-Pacific region. This merger has considerably strengthened both Kuehne + Nagel's contract logistics know-how and its management capabilities.

The expansion of European overland activities remains a high priority. The medium-term objective is to close the gap and join the market leaders in Europe. Earnings achieved in this business unit are methodically reinvested in the further extension of overland operations.

The Board of Directors expresses its appreciation to the Management Board and the entire staff worldwide for their excellent work and the achieved successes. This appreciation is also extended to all customers and business partners for their cooperation and the confidence placed in the organisation.



KLAUS-MICHAEL KUEHNE
EXECUTIVE CHAIRMAN OF THE BOARD OF DIRECTORS

REINHARD LANGE
Sea & Air Logistics

GERARD VAN KESTEREN
Chief Financial Officer

DIRK REICH
Contract Logistics

KLAUS HERMS
Chief Executive Officer

EWALD KAISER
Rail & Road Logistics

MARTIN KOLBE
Chief Information Officer

KLAUS-DIETER PIETSCH
Human Resources

Sustained growth

The Kuehne + Nagel Group maintained the first quarter's pace of expansion through the end of 2005, achieving excellent results. This performance and the strategic investments made during the year will ensure future success.

In 2005, Kuehne + Nagel again took full advantage of its global network to generate above-average growth. It was supported by increasing global trade levels driven by further reduction of customs tariffs and trade barriers. In addition, the Group's wide range of services and comprehensive logistics capabilities allowed it to capture opportunities from growing trends in outsourcing.

Performance of business units

Sea & Air Logistics

Kuehne + Nagel achieved its target of organically growing the sea and airfreight operations at more than twice the market rate. The intensified competitive environment made this accomplishment all the more remarkable. New business was won in all key industries while maintaining relationships with existing customers through contract extensions. For a great part, this was due to the continued development of IT-based solutions and increased sales performance.

Efficient management of the strong volume growth and securing capacity in line with demand were essential for Kuehne + Nagel's success. As in previous years, these challenges were successfully addressed to the benefit of customers.

In these two core business fields, Kuehne + Nagel's 2006 objective is to again considerably outperform the market, while maintaining its industry-leading operational margins. This can only be realised through strict cost management and productivity increases. As in the past, Kuehne + Nagel will continue to drive expansion by organic growth; strategic acquisitions will be considered when they may further strengthen certain niche segments.

Rail & Road Logistics

Within the scope of Kuehne + Nagel's integrated logistics offering, rail and road activities are growing in importance. This was underlined by the appointment of Ewald Kaiser – since 2001 Managing Director of Kuehne + Nagel's German organisation – to the Management Board of Kuehne + Nagel International AG, responsible for the business unit Rail & Road Logistics.

In Germany, Europe's key market for road transportation, selected acquisitions enhanced Kuehne + Nagel's national overland network and accelerated volume growth. High costs caused by the integration of these takeovers, however, led to the expected temporary decline in operational results.

Ongoing IT and process standardisation will generate productivity increases and cost reduction in 2006. In addition, the creation of European hubs will help to streamline transport operations, thereby achieving a considerable network optimisation.

Further acquisitions are being considered, particularly in the traditional European export markets, to efficiently leverage the network's capacity. Selected takeovers in Eastern Europe also are being evaluated.

In rail business, the focus will be on the systematic development of innovative rail logistics and intermodal concepts.

Contract Logistics

Contract Logistics delivered significantly improved results, due to efficient utilisation of warehouse capacities company-wide and a strong performance by the North American operations.

Kuehne + Nagel completed the acquisition of the ACR Group as of January 1, 2006, fulfilling the growth strategy announced in 2004. The company is now among the top five global contract logistics providers. ACR, a profitable company, effectively complements Kuehne + Nagel's business in many respects. The integration is anticipated to be completed in the second half of 2006, supported by a new European organisational structure consisting of five regions.

To continue the expansion of the contract logistics business and to enhance cross-selling activities, further investments are planned, particularly in Asia-Pacific, South America and Eastern Europe. Additionally, industry-specific logistics concepts will be developed and implemented to secure sustained growth.

Insurance Broker

Nacora, the insurance broker subsidiary, maintained good levels of profitability. The focus on cargo insurance, its core competency, and an extension of its global presence gained the company new market shares.

Regions

All Kuehne + Nagel regions successfully increased market shares in 2005 by taking advantage of their strong market positions, as well as through effective cross-selling activities and interaction. In Europe and North America, significant growth was recorded in all key areas of business; in Central and South America, dynamic expansion of sea and airfreight activities continued; and in Africa, the Middle East and Central Asia, the project, energy and oil businesses delivered good results. The strong growth of transport volume in Asia-Pacific – especially in China, India, Japan and Australia – benefited the Kuehne + Nagel organisation worldwide.

Targeted, carefully evaluated investments and development projects will support the continuity of the strong performance across the regions and business fields.

Ensuring sustained growth

Kuehne + Nagel remains committed to its integrated logistics strategy. It will maintain its focus on solutions that meet current international logistics requirements, while anticipating customers' future global logistics needs.

The ACR acquisition enhances the company's ability to deliver intelligent integrated logistics solutions. Against this background, and thanks to Kuehne + Nagel's highly qualified staff and managers as well as its innovative power, the Management Board is confident of achieving sustained growth in 2006.

KLAUS HERMS
CHIEF EXECUTIVE OFFICER

Status Report

TURNOVER

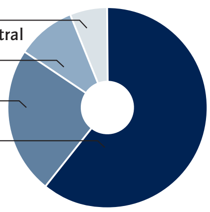
Exchange rate fluctuations, based on average yearly exchange rates, between 2004 and 2005 led to a slightly higher valuation of the Euro and the US Dollar and depending currencies (e.g. Hong Kong, Taiwan, Singapore as well as a number of countries in South America) of 0.2 per cent each against the Swiss Franc. When comparing the turnover in the income statement, the currency impact of the Swiss Franc in 2005 amounted to approximately plus 1.3 per cent.

In 2005, Kuehne + Nagel's turnover amounted to CHF 14,049 million (representing a 21.5 per cent increase versus 2004) and a net invoiced turnover of CHF 11,094 million (excluding customs duties and taxes) respectively. This increase was realised mainly by organic growth and partly by acquisitions (see note 41 of the Consolidated Financial Statements 2005).

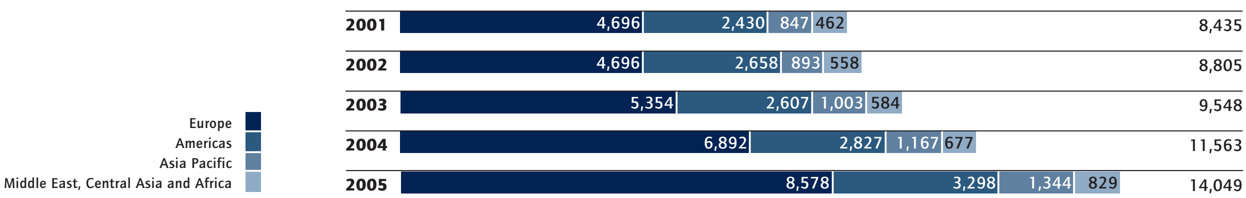
At regional level Europe increased its turnover by 24.5 per cent, the Americas by 16.6 per cent, Asia Pacific by 15.1 per cent and the Middle East, Central Asia and Africa by 22.4 per cent. At business unit level, Sea & Air Logistics reported a higher turnover of 20.7 per cent. Seafreight increased its turnover by 22.8, and the airfreight division by 15.7 per cent. Contract Logistics grew turnover by 14.0 per cent and Rail & Road Logistics by 31.9 per cent against the 2004 result.

REGIONAL TURNOVER

%	CHF MILLION	
5.9	829	Middle East, Central Asia and Africa
9.6	1,344	Asia Pacific
23.5	3,298	Americas
61.0	8,578	Europe



REGIONAL TURNOVER CHF MILLION



INCOME

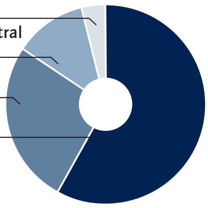
Gross profit, which in the logistic and forwarding industry provides a better indication of performance than turnover, reached CHF 2,769 million in 2005, up by 19.2 per cent compared to the previous year, of which plus 1.2 per cent were due to currency impact. Of the total gross profit, Sea & Air Logistics contributed 53.1 per cent, Contract Logistics, the other main pillar of the Group's business, 31.3 per cent and Rail & Road Logistics 14.4 per cent.

At regional level, Europe was the largest contributor to gross profit with 58.2 per cent, followed by the Americas with 26.3 per cent, and Asia Pacific with 11.6 per cent. The remaining balance of 3.9 per cent relates to the Middle East, Central Asia and Africa.

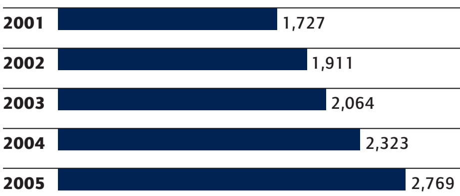
The operational cash flow – the sum of the net income for the year plus/minus non cash related transactions – increased from CHF 487.7 million in 2004 to CHF 574.5 million in 2005. EBITA in Rail & Road Logistics decreased by 84.5 per cent mainly due to acquisitions in Germany. Contract Logistics EBITA increased by 19.5 per cent (CHF 56.5 million versus CHF 47.3 million in 2004) realised by further recovery of its North America operation and improved profitability of the European network. The international business showed continued growth in both business fields (airfreight up by 8.7 per cent and seafreight by 32.9 per cent).

REGIONAL GROSS PROFIT

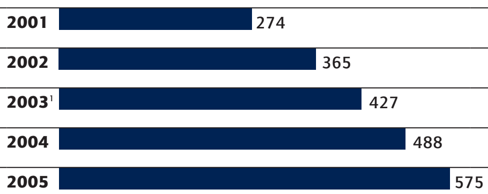
%	CHF MILLION	
3.9	105	Middle East, Central Asia and Africa
11.6	322	Asia Pacific
26.3	729	Americas
58.2	1,613	Europe



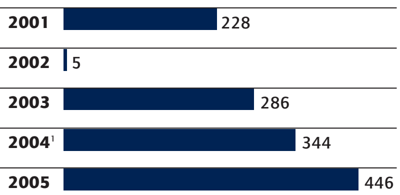
GROSS PROFIT CHF MILLION



OPERATIONAL CASH FLOW CHF MILLION



EARNINGS BEFORE TAX CHF MILLION

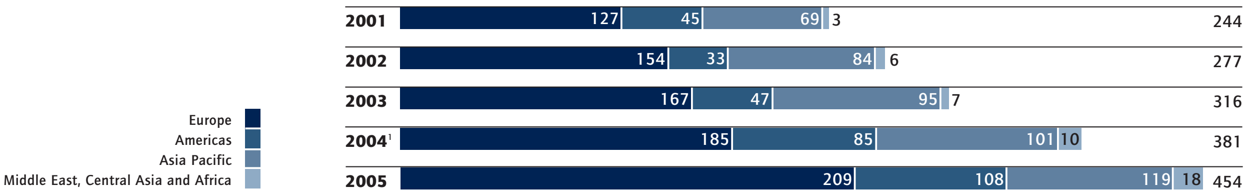


[1] adjusted for comparison purposes

All regions were able to improve EBITA substantially. Major increases have been realised by the Americas (CHF 22.8 million or 26.7 per cent), by Europe (CHF 24.4 million or 13.2 per cent) and by Asia Pacific (CHF 17.7 million or 17.6 per cent).

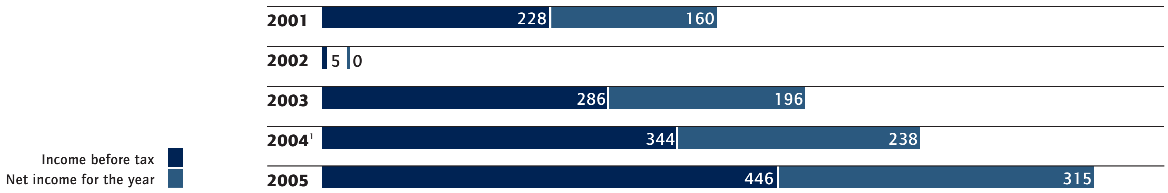
The increase of expenses (including depreciation) has been compensated by the growth of gross profit of 19.2 per cent, resulting in a stable EBITA margin (as a percentage of gross profit) of 16.4 per cent in 2004 as well as in 2005.

REGIONAL RESULTS EBITA CHF MILLION



[1] adjusted for comparison purposes

EARNINGS BEFORE TAX / NET EARNINGS FOR THE YEAR CHF MILLION



[1] adjusted for comparison purposes

OPERATIONAL EXPENSE CHF MILLION

[1] adjusted for comparison purposes

FINANCIAL POSITION

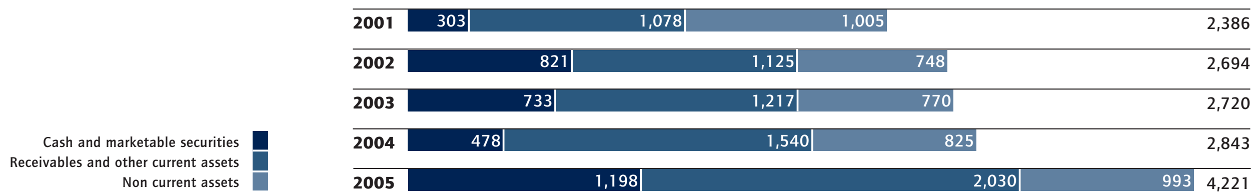
As a result of the sale of treasury shares (see statement of changes in equity) in the amount of CHF 484 million, the equity ratio increased from 28.2 per cent in 2004 to 37.9 per cent in 2005. Despite increased equity, the return on equity increased from 25.1 per cent in 2004 to 38.7 per cent in 2005, reflecting increased profitability on account of improved productivity.

The net-cash position (cash and cash equivalents less short term bank liabilities) amounted to CHF 1,124.6 million in 2005. The increase of CHF 727.1 million compared to 2004 was caused mainly by the sale of treasury shares as mentioned above. The main part of the total assets increase of almost 50 per cent to CHF 4,221.4 million is also related to the sale of treasury shares.

Trade receivables amounting to CHF 1,641.9 million represent the most significant asset of the Kuehne + Nagel Group. The days sales outstanding of 35.6 days in 2004 increased to 38.8 days in 2005.

Developments of other key figures on capital structure are shown in the adjacent table.

ASSETS AND CAPITAL STRUCTURE CHF MILLION

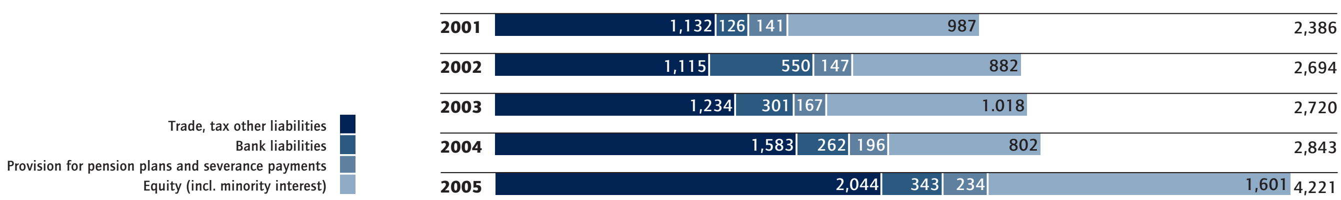


KUEHNE + NAGEL GROUP KEY FIGURES ON CAPITAL STRUCTURE

	2001	2002	2003	2004	2005
[1] Equity ratio	41.3%	32.6%	37.2%	28.2%	37.9%
[2] Return on equity	18.9%	0.0%	23.6%	25.1%	38.7%
[3] Self-financing ratio	720.8%	630.9%	743.9%	562.9%	1229.3%
[4] Debt ratio	58.6%	67.3%	62.6%	71.8%	62.1%
[5] Short-term ratio of indebtedness	50.6%	60.9%	56.0%	64.2%	55.7%
[6] Intensity of long-term indebtedness	8.0%	6.3%	6.6%	7.5%	6.4%
[7] Fixed asset coverage ratio	117.2%	140.7%	155.3%	123.1%	188.3%
[8] Working capital (CHF million)	173.3	304.6	426.1	191	877.1
[9] Receivable terms (in days)*	37.8	37.7	35.9	35.6	38.8
[10] Vendor terms (in days)*	42.6	41.9	39.6	38.4	41.1
[11] Intensity of capital expenditure	42.1%	27.8%	28.3%	29.1%	23.5%

[1] Total equity in relation to total assets at end of the year
[2] Net earnings for the year in relation to share + reserves + retained earnings as of 1.1. of the current year less dividend paid during the current year as of date of distribution + capital increase (incl. share premium) as of date of payment
[3] Reserves + retained earnings + net earnings for the year in relation to share capital
[4] Total liabilities + provisions in relation to total assets
[5] Short-term liabilities in relation to total assets
[6] Long-term liabilities + provisions for pension plans and severance payments in relation to total assets
[7] Total equity (including minority interest) + long-term liabilities + provisions for pension plans and severance payments in relation to non current assets
[8] Total current assets less short-term liabilities
[9] Turnover in relation to the receivables outstanding at end of current year
[10] Expenses for services from third parties in relation to trade liabilities/accrued trade expenses at end of current year
[11] Non current assets in relation to total assets
* 2003 and 2004 are restated to conform to the current period's presentation.

LIABILITIES CHF MILLION



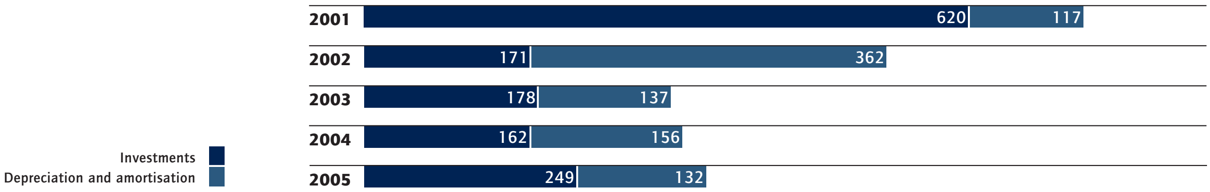
INVESTMENTS, DEPRECIATION AND AMORTISATION

In 2005, the Kuehne + Nagel Group invested a total of CHF 249.0 million for capital expenditures (CHF 189.6 million in fixed assets and CHF 22.8 million in software and other intangibles). Furthermore, CHF 36.6 million goodwill were acquired through business combinations.

All capital expenditures in 2005 were financed by the operational cash flow of CHF 574.5 million generated during the current year.

CHF 100.0 million were invested in properties and buildings, and CHF 89.6 million for other fixed assets, operating and office equipment.

INVESTMENTS AND AMORTISATION CHF MILLION



During the course of 2005 the following major investments were made in properties and buildings:

Region	CHF million	
Europe		
Bielefeld	15	Construction of a new logistics centre
Hamburg	14	Construction of the new logistics centre 'Hafen City'
Stuttgart	13	Extension of a logistics centre by 28,500 sqm of warehouse space
Stuttgart	8	Purchase of a logistics centre with 5,400 sqm of warehouse space
Leipzig	8	Construction of a new logistics centre
Bremen	5	Extension of the Airbus logistics centre
Geel	11	Construction of a new logistics centre with 45,000 sqm of warehouse space
Mejorada (Madrid)	10	Extension of a logistics centre by 8,000 sqm of warehouse space
Kiev	3	Extension of a logistics centre by 6,780 sqm of warehouse space
	87	
Asia Pacific		
Auckland	3	Construction of a new office building
Total	90	

Capital expenditures in operating and office equipment relate to the following categories:

	CHF million
Operating equipment	41
Vehicles	14
IT hardware	23
Office furniture and equipment	12
Total	**90**

The allocation by region is as follows:

	CHF million
Europe	59
Americas	19
Asia Pacific	7
Middle East, Central Asia and Africa	5
Total	**90**

Capital expenditures for intangibles amounted to CHF 59.4 million covering goodwill of CHF 36.6 million and other intangibles (customer lists, network, contracts and software) of CHF 22.8 million.

Depreciation and impairment losses in 2005 amounted to CHF 132.4 million and are recorded in the Consolidated Financial Statements as indicated in notes 8 and 10.

DEVELOPMENT OF CAPITAL EXPENDITURES, DEPRECIATION AND AMORTISATION OVER A PERIOD OF 5 YEARS

CHF million	2001	2002	2003	2004	2005
Capital expenditures					
Fixed assets					
Properties and buildings	48	46	63	51	100
Operating and office equipment	53	70	97	55	90
Intangible assets					
Goodwill	500	27	3	46	36
Intangible assets	19	27	15	10	23
	620	**170**	**178**	**162**	**249**
Depreciation and amortisation					
Fixed assets					
Buildings	12	15	12	14	16
Operating and office equipment	54	61	75	68	66
Intangible assets					
Goodwill	31	53	35	58	
Impairment of goodwill	–	206	–	6	25
Other intangibles	19	27	15	10	25
	116	**362**	**137**	**156**	**132**

INFORMATION TECHNOLOGY

2005 was characterised by considerably increased demands on Kuehne + Nagel's IT systems. Higher requirements for availability and quality of data and information accompanied strong growth in all business fields. Moreover, the volume of electronic data exchanged rose disproportionately, with the company's central computing centre processing more than 30 million EDI messages during the year. Kuehne + Nagel's standardised infrastructure, however, kept information logistics manageable and at a constantly high quality worldwide.

Consolidation of data centres continued

The year 2005 saw the successful consolidation of data centres in Europe and the Middle East. The company now operates three global IT centres. These and all Kuehne + Nagel branches are linked by a uniform and powerful network. Great importance has been attached to security; the company's security concept ranks among the leading systems in the industry.

Consistent system standardisation

Kuehne + Nagel remains committed to its strategy of standardising IT systems in all business fields. The introduction, for example, of new barcode-based overland transport software will enable rapid integration of newly acquired companies, creating the scale necessary to develop business successfully.

In contract logistics, the standardisation initiative was pursued with the introduction of the company's warehouse management system in North and South America as well as the Far East. A new transport management system was also launched to enable ongoing transport optimisation Europe-wide, thereby facilitating better resource utilisation and resulting in lower costs.

Expansion of web-based IT systems

Regarding the expansion of internet-based systems, the focus was on innovation and userfriendliness. It included completion and launch of the Web Supplier Portal, a system for retail and import sector customers that allows efficient supply chain monitoring and management. With this application, users can track all process steps in virtual realtime.

Worldwide, the functions of the electronic archive "KN e-File" were enhanced.
A multitude of transport and transport-relevant documents can now be viewed and accessed via the internet.

Focus on customer needs

Kuehne + Nagel's IT strategy is strongly focused on its customers' needs.
This requires – as does the strong growth experienced by individual business fields – continual adaptation of applications, infrastructure and organisation.

In 2006, as in the past, Kuehne + Nagel will concentrate on further system standardisation, as well as developing and introducing innovative web-based application software. The restructuring and consolidation of the IT platform will be continued with the objective of raising global productivity and catering to future growth.

LEAD LOGISTICS SOLUTIONS ON THE RISE

The trend of outsourcing logistics management functions to service providers continued in 2005. Many industrial and trading companies recognise the potential for added value that a specialised partner can deliver. The experience a lead logistics provider offers and, above all, the possibility to benefit from existing infrastructure and synergies are of considerable importance.

In 2005, the value of Kuehne + Nagel's lead logistics solutions was confirmed by the market, with contract awards from nine new customers for management of logistics services in Europe, America and worldwide. In addition, a leading international telecommunications company extended its contract with Kuehne + Nagel to manage global logistics operations by a further three years.

Optimisation and design

Tasks undertaken by Kuehne + Nagel as lead logistics provider include the optimisation of existing logistics structures. This entails analysing traffic flows and processes for managing procurement and distribution, redesigning networks and processes as well as integrating data flows. Through a combination of practical experience, conceptual know-how and IT-based simulation tools, an implementation plan is developed and accompanied by a cost-saving commitment. In addition, the logistics provider is increasingly taking on logistics management functions for new enterprises or their divisions. Last year, for example, a contract was signed with a leading aviation company that saw Kuehne + Nagel assume responsibility for the complete design of a new division’s logistics processes.

Realisation and efficiency improvement

After design come realisation and implementation of identified processes for raising service levels and reducing costs. In 2005, extensive projects were implemented with several customers in the high-tech, chemical and industrial goods industries. These initially centred on logistics management based on the designed process flows and selection of sub-contracted service providers. EDI integration of the latter ensures that optimisation potential can be utilised in day-to-day operations. Kuehne + Nagel's IT systems have been continually advanced over recent years and play an important role in raising service levels and reducing long-term costs.

Integral component of global Kuehne + Nagel service offering

Kuehne + Nagel's lead logistics solutions benefit from the company's global network, which enables it to turn economies of scale into customer benefits.

In 2005, international teams focused on optimising processes and network structures were stationed in direct proximity to customer decision-making centres and logistics hubs. These teams work closely with the Lead Logistics Control Centres in Luxembourg and Raleigh, North Carolina. At these locations, similar services are undertaken for several customers, including call centre operations, freight auditing and service procurement.

Outlook

Established structures, existing contracts and advanced sales cycles with several large customers signal further expansion of business volume in 2006. Continued extension of the service offering will focus on the growing market of trade and compliance services. Regionally, in addition to Europe and America, the Asian market will grow in importance. Establishment of a Lead Logistics Control Centre in India has begun.

QSHE: QUALITY, SAFETY, HEALTH, ENVIRONMENT AND SECURITY

Kuehne + Nagel has integrated the areas of quality, safety, health, environment and security in a comprehensive management system under the name "QSHE".

Successful ISO 9001 recertification

Following intensive audits around the globe, the independent certification body BVQI confirmed that all Kuehne + Nagel Group business processes and locations meet the highest quality standards, and re-certified the company in accordance with ISO 9001 for another three years. This placed Kuehne + Nagel among the few global logistics providers awarded this recognised seal of quality without interruption since 1995.

In the airfreight business, Kuehne + Nagel currently is the only logistics company that globally fulfils Cargo 2000 Phase 2 quality criteria. This certification also has been extended until 2008.

Ongoing quality improvement

Within its integrated QSHE management system, Kuehne + Nagel carries out regular internal audits. In 2005, more than 1,000 quality audits were performed, with the aim of identifying possible weaknesses and improving operational quality in all fields of activity. The company has developed a software program that records and evaluates proposals made for improvement. This ongoing control and optimisation process has delivered a significant increase in customer satisfaction, as surveys in all regions have confirmed.

Awards for quality

In 2005, Kuehne + Nagel received a number of quality awards, for example Sun Microsystems' "Meritorious Supply Performance Award for 2005", awarded to the US Kuehne + Nagel organisation for the second time because of its high quality IT-based spare parts logistics solution. In China and Portugal, Kuehne + Nagel received the "Seafreight Forwarder of the Year" and "Best Seafreight Forwarder of the Year 2005" awards, respectively, for the high quality of its value added services.

Safety and health management

Kuehne + Nagel not only strives to achieve the highest quality standards in all fields of activity, but is also committed to the health and safety of its employees and all others involved in the process chain. Moreover, certain industry sectors have their own high demands in this respect, which the company is able to fulfil through its QSHE management system.

Increasing security standards

Kuehne + Nagel has long been a member of the Technology Asset Protection Association (TAPA), an initiative to increase security standards in storage and distribution of high value products as well as reduce risk of theft. Several Kuehne + Nagel locations were certified with the highest A rating; many others fully meet the TAPA requirements even without special certification.

The company was an early participant in, and received certification from, the American customs authorities' security initiative "Customs-Trade Partnership Against Terrorism" (C-TPAT). In 2005, Kuehne + Nagel was again audited to comply with the high security requirements.

Within the security committee of Freight Forward International (FFI), an interest group of the leading global logistics providers, Kuehne + Nagel is working to achieve international harmonisation of global security standards.

Certified environment management systems

Interest in certified environment management systems is rising in the Kuehne + Nagel Group and is by no means restricted to Europe. In 2005, the number of locations certified to the environmental standard ISO 14001 climbed to over 100 in more than 20 countries. Further audits and certifications will be undertaken in the current year.

Environment-friendly transport services

Kuehne + Nagel's strategy – efficient capacity utilisation for all modes of transport, the bundling of goods' flows at logistics hubs and the deployment of multimodal traffic using rail and river barges – proved its worth from an ecological and an economic perspective.

Integration of the previously separately operating rail subsidiary Ferroviasped into the Kuehne + Nagel organisation in 2005 leveraged environment-friendly rail transport activities and strengthened the intermodal service offering. Transport volume was also raised in short sea and river shipping.

Facility ecology

New logistics centres beginning operation in 2005 take into consideration all aspects of resource preservation. In addition to ecological energy production, the company also attaches great importance to environmentally compatible waste disposal.

HUMAN RESOURCES

Kuehne + Nagel's corporate success is largely based on the dedication of its qualified, entrepreneurial employees. They are motivated to deliver top performance for customers and are proud to be part of one of the world's leading logistics companies.

Corporate culture

Professional skills, social competence, results-orientation and international mobility characterise Kuehne + Nagel's corporate culture. In accordance with the company's "Challenge and Promote" principle, employees at all levels are assigned responsibilities. In a challenging working environment, this allows talents to be developed to their fullest.

Human resource policy

At the core of Kuehne + Nagel's human resource policy is the systematic development and training of employees as well as the long-term retention of key performers.

The company supports professional development through career planning, international posting and job rotation. Its performance-based remuneration approach encourages results-orientation among employees. Executive staff receive a profit share and can participate in a long-term stock option programme.

The internationally implemented management model, "The Glocal Networker", provides the framework for Kuehne + Nagel's human resource management. It defines qualification criteria and ensures that, in addition to economic success, other factors are considered, such as achievements in improving and strengthening customer satisfaction, business development, leadership and process quality.

Education and further training

Lifelong learning is a basic requirement Kuehne + Nagel employees must accept in order to keep pace with rapidly changing customer demands and advances in technology. The Kuehne + Nagel Academy supports them in this by offering training programmes tailored to the respective business fields and their specific objectives. In 2005, 3,000 training events were held; they were offered either internationally, regionally or locally, depending on their type. An international team of career development specialists and coaches implements these training measures and ensures a uniform quality standard throughout the company. A programme for the systematic training of internal instructors was initiated in 2005.

Kuehne + Nagel also provides its employees with a web-based educational infrastructure offering more than 400 training modules. This learning platform additionally enables planning, execution and evaluation of online seminars, conferences and training sessions.

Management trainee recruitment and development

Career development begins with the identification of potential specialists and executives through campus recruitment. In 2005, Kuehne + Nagel hired more than 200 trainees from universities and colleges. Furthermore, 200 interns gained their first experience working in a global logistics company.

Currently, 100 trainees are taking part in Kuehne + Nagel's high potential programme, conducted in cooperation with the WHU Graduate School of Management in Koblenz-Vallendar. These trainees participate in a demanding performance-oriented selection process and represent a global talent pool for the Kuehne + Nagel Group.

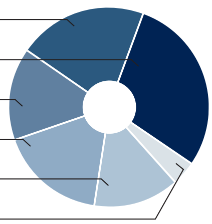
In the year under review, numerous company managers were enrolled in MBA, MSc or comparable courses as a specific preparation for general management tasks. Kuehne + Nagel supports such part time postgraduate studies as an integral part of individual career and company-wide succession planning.

Headcount

The number of employees on the Kuehne + Nagel Group payroll increased from 21,193 in 2004 to 25,607 in 2005, a growth of 20.8 per cent.

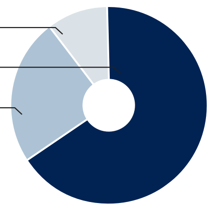
DURATION OF EMPLOYMENT

21%	< 1 year
29%	1-3 years
15%	4-5 years
17%	6-10 years
14%	11-25 years
4%	> 25 years



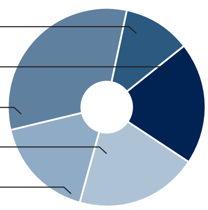
PERSONNEL STRUCTURE

10%	Management
66%	Salaried
24%	Waged



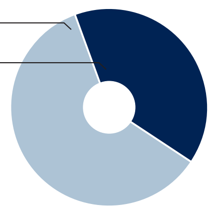
AGE

11%	> 50 years
20%	41-50 years
32%	31-40 years
20%	26-30 years
17%	< 25 years



PERSONNEL STRUCTURE

60%	Men
40%	Women



Considering the world

our market.

Offering career opportunities around the globe.

We offer anyone who is as dynamic and flexible as our company the best career perspectives anywhere. Because the world is not just our market. It's the perfect place to make a career.

Motivating the next **generation** of leaders.

Transferring **responsibility** from the word “go”.

Anyone taking the plunge into building a career with Kuehne + Nagel should be prepared for excellent training, an exciting international environment, a new challenge every day and a position of broad responsibility from day one.

People from more than 100 nations.

All of them speaking one language.

We employ people from more than 100 countries.

They all speak the same language: our customers'. And they can cross geographical boundaries with the very latest information technology. It's great that the world is getting smaller by the day.

Consistently investing in the most important resource: our employees.

The only constant factor in our business is permanent change. To keep pace with this, you have to keep learning. We enable our employees to do this through extensive investment in training and further education.

KÜHNE-STIFTUNG

Personally committed to training and further education

Through his public interest foundation, Klaus-Michael Kuehne sponsors the Kuehne Institute for Logistics at the University of St. Gallen as well as endowed chairs and competence centres at the Technical University of Hamburg-Harburg, the WHU Graduate School of Management in Koblenz-Vallendar and the Technical University of Berlin. In 2005, a budget of 5 million Swiss francs was allocated for this purpose. The first medical research project financially supported by the Kuehne Foundation also has been launched.

Kuehne Institute for Logistics at the University of St. Gallen
The first part-time postgraduate Executive MBA in Logistics, initiated by the Kuehne Institute for Logistics (KLOG) at the University of St. Gallen, was successfully concluded in October 2005. After a total of 100 training days and an extensive thesis, 30 graduates were ceremoniously awarded their university diplomas. In June 2005, the second EMBA course in logistics management started.

Due to its wide range of research activities as well as training and further education measures, KLOG has gained – within three years – an excellent reputation, not just in the industry, but also within the scientific community. An advisory board, formed in December 2005 and comprising representatives from trade, industry and the service sector, helps facilitate the exchange of information and ideas, while at the same time assuring close contact with current industry practice.

Kuehne Centre for Logistics Management at the WHU

At the Kuehne Centre for Logistics Management at the WHU Graduate School of Management in Koblenz-Vallendar, a chair in logistics management endowed by the Kuehne Foundation was established in May 2005. Teaching and research are largely inductive, i.e. deduced from practice and with an international approach. This is underlined by close cooperation with leading global companies. The curriculum consists of lectures and seminars in the field of logistics and supply chain management – with importance also being placed on networking with other institutions funded by the Foundation.

Hamburg School of Logistics

In September 2005, students from ten countries completed the first English language MBA in logistics management at the Hamburg School of Logistics, an institution set up as a public-private partnership between the Free and Hanseatic City of Hamburg, the Technical University of Hamburg-Harburg and the Kuehne Foundation. The diplomas were presented in a ceremony held at Hamburg's historic city hall. At the same time, the second MBA course commenced with participants from 12 countries. Additionally, a "Professional Program" was introduced for logistics employees with course modules of one to several days that cover topical issues and prepare for more advanced management tasks.

One highlight of the year 2005 was the Kuehne Foundation's "Logistics Day", organised by the Hamburg School of Logistics and held for the first time outside Switzerland. Entitled "Fit for the Future – Future-Oriented Logistics Concepts", the event offered more than 200 guests access to first-class speakers and highly interesting subjects.

Centre for International Logistics Networks at the Technical University of Berlin

In July 2005, the Faculty of Logistics at the Technical University of Berlin entered the circle of academic institutions supported by the Kuehne Foundation. The Centre for International Logistics Networks established there will initially focus on three subject areas: 1. Success strategies in the internationalisation of logistics systems and networks, 2. Integration strategies for international service provider networks and 3. Development of security strategies in international networks.

An example of excellent research work on topical issues was delivered by the Technical University of Berlin in a dissertation sponsored by the Kuehn Foundation. The subject was logistics in the context of international disaster relief and the development of a logistical reference model for responding to disasters. The research will be published in the current year in the Kuehne Foundation's "Logistics" series.

First medical project funded

On the initiative of Mrs Christine Kuehne, member of the Kuehne Foundation Board of Trustees, a centre for allergy research was established at the University Children's Hospital Zurich in July 2005. It is the first privately funded research centre at the Children's Hospital and will receive 2 million Swiss Francs from the Kuehne Foundation over the next four years. The main focus of research is on investigating how allergies and inflammatory diseases originate, their consequences and their prevention.

THE PUBLIC INTEREST KUEHNE FOUNDATION, ESTABLISHED BY THE KUEHNE FAMILY IN 1976, HAS AS ITS SOLE DONOR KLAUS-MICHAEL KUEHNE, MAIN SHAREHOLDER OF THE KUEHNE + NAGEL GROUP.

750 offices
in more than 100 countries,
over 40,000 staff.

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Albania
Angola
Argentina
Australia
Austria
Azerbaijan

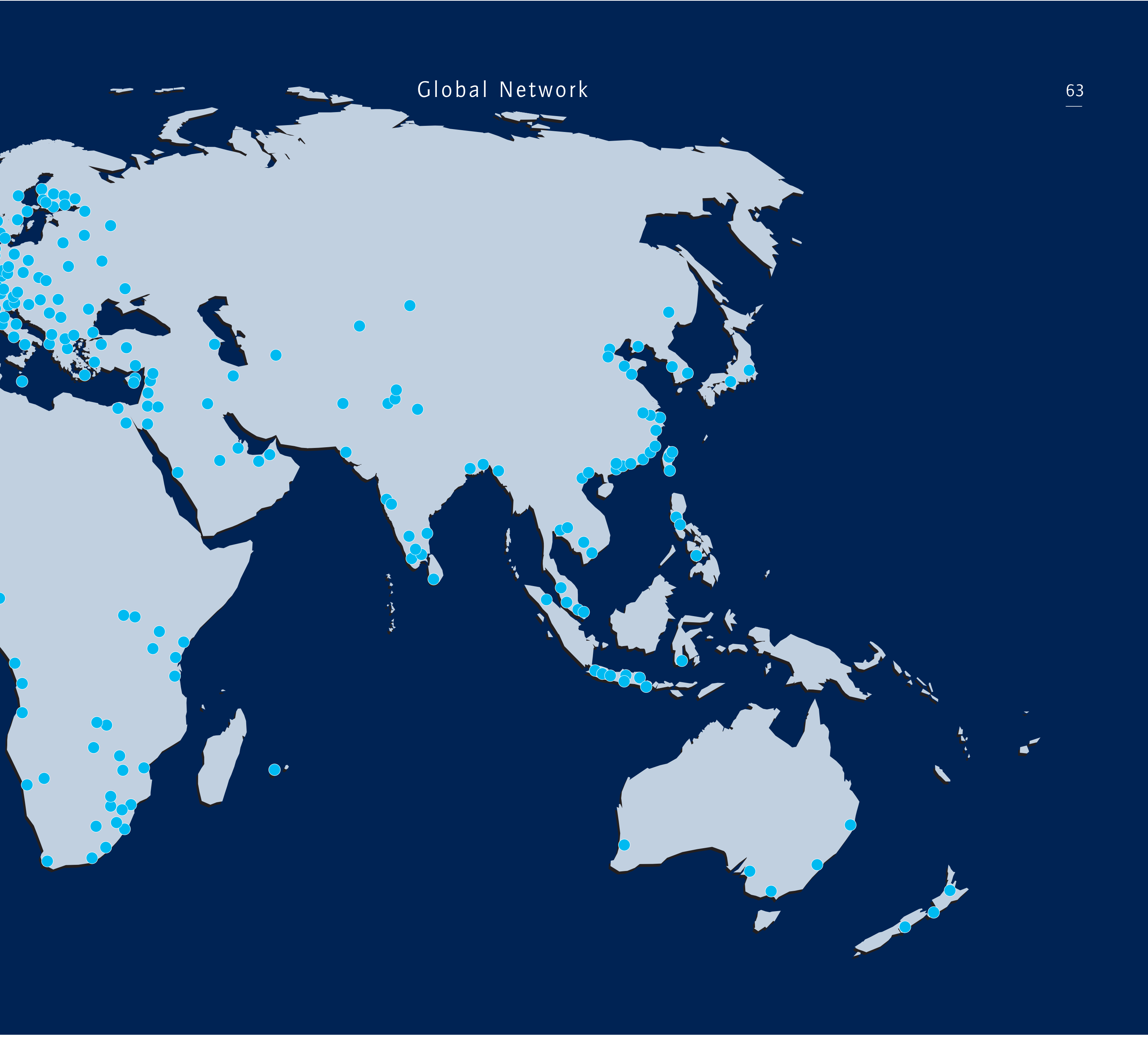
Bahrain
Bangladesh
Belarus
Belgium
Bolivia
Brazil
Bulgaria

Cambodia
Canada
Chile
China
Colombia
Costa Rica
Croatia
Cyprus
Czech Republic

Denmark
Dominican Republic

Ecuador
Egypt
El Salvador
Equatorial Guinea
Estonia

Status: May 2006



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Mexico
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United Kingdom
Uruguay
USA
Uzbekistan

Venezuela
Vietnam

Zambia
Zimbabwe

Reports of the Business Units

Record growth of more than 310,000 TEU in 2005

In the year under review, Kuehne + Nagel handled 1,910,000 TEU and again outperformed the market with an organic growth of 19.4 per cent over the previous year. This confirms Kuehne + Nagel's No. 1 position in the global seafreight business.

Container market

With an increase of approximately 9 per cent in 2005, the global container market did not match its dynamic development of the previous year. Despite a noticeable slowdown, the Asia-Europe relations generated the highest growth at 13 per cent, followed by the intra-Asian and transpacific routes. Export business between Europe and North America climbed a moderate 4 per cent.

Although expected bottlenecks in container handling in the major ports largely failed to materialise, all key ports in the United States and Europe were operating at their capacity limits.

Freight rates

In the fourth quarter of 2005, the number of container slots grew faster than global volume, putting pressure on seafreight rates towards the end of the year, particularly from Asia to Europe.

Kuehne + Nagel grows double the global container market

The record result in 2005 demonstrated the successful realisation of the company's strategy to grow twice as fast as the market. Kuehne + Nagel's seafreight operations in the Asia-Pacific region continued their excellent performance with volumes up 40 per cent in China, 30 per cent in India and 25 per cent in Australia/New Zealand.

In Europe, Kuehne + Nagel's export volume increased by approximately 14 per cent. Extraordinary growth of nearly 130 per cent was realised by the seafreight organisation in the Netherlands.

Due to its selective, strategic choice of carriers and the fostering of relationships with these business partners, Kuehne + Nagel had virtually no capacity problems in any trade lanes, offering customers a high level of flexibility.

Electronic processes gain importance

Internally and externally, electronic processes are having a positive impact on quality, productivity and reliability, making Kuehne + Nagel's products more attractive in the market and accelerating growth, while simultaneously improving efficiency and profitability. By the end of 2006, it is anticipated that most orders from customers and to service providers will be transmitted electronically.

The functionality of information logistics products brought together under the name KN Login was further expanded in 2005. Retail, high-tech and automotive customers benefited from new solutions tailored to their individual requirements.

Strong niche products

The strategic decision to develop a range of niche products is paying off; growth rates here are higher than in general cargo business.

In the wine & spirits segment, Kuehne + Nagel acquired the Danish wine forwarding company Ziegler & Co. ApS. in 2005 and secured encouraging business wins in Finland, thereby strengthening its market position in Scandinavia. The acquisition of Wm Martin & Co. Ltd. provided Kuehne + Nagel with a strong foothold in the Scottish market; the firm is well known for its specialised knowledge, particularly in the whisky industry. Major new contracts in the brewing industry contributed to an overall volume growth of 133 per cent.

In shipment of forestry products, an activity that demands specific operational know-how, Kuehne + Nagel also achieved above-average growth. Through acquisition of Aces Ltd. in the United States, the company gained entrance to the world's largest market for forestry products and is set to accelerate business in this niche industry.

PERFORMANCE SEAFREIGHT

CHF MILLION	2005	Margin	2004	Margin	Variance 2005/2004 per cent
Turnover	7,503.2	–	6,111.4	–	+22.8
Gross profit	943.5	12.6 %	780.9	12.8 %	+20.8
EBITA	243.3	3.2 %	183.1	3.0 %	+32.9
Number of operational staff	6,053	–	4,815	–	+25.7

Specialisation in reefer and perishables transport, combined with a global network and an experienced, efficient team, generated strong demand, resulting in 31 per cent more reefer containers being shipped in 2005.

Dynamic consolidated container business

Less than Container Load (LCL) transport is an important product in Kuehne + Nagel's seafreight portfolio. The focus of recent years has led to the logistics group operating its own LCL network today and steadily gaining market share. One successful initiative in this segment is the launch of Multi-Country Consolidation Services, by which consignments from different countries are gathered at central gateways in Asia, the Middle East and Europe, then sorted by receiving station, consolidated in containers and shipped. The establishment of a gateway at Port Klang, Malaysia, alone added more than 2,000 new routes to the Kuehne + Nagel LCL network. This innovative service reduces transit times, simplifies the cost structure and, at the same time, considerably cuts risk of damage.

River shipping

Water levels for river shipping were favourable in 2005. Volume forwarded on the Rhine, Main and Danube rivers was up by more than 20 per cent, for which additional river barge tonnage had to be chartered. The above-average performance led to a significant improvement in results.

Aid and relief logistics

The after-effects of the tsunami in Asia, the earthquake in Pakistan, the still unsettled situation in Iraq and persistent famine in several African countries placed great demands on the Kuehne + Nagel aid and relief logistics team in 2005. In every crisis region, its logistics competence and comprehensive service offering proved advantageous.

Oil, energy and project services

2005 was also a record year in this segment – in terms of freight volume and turnover. Compared with the previous year, operating profits more than doubled.

Thanks to its global team of experts, Kuehne + Nagel was successful in obtaining and carrying out a series of new contracts stemming from growing oil and gas industry investments brought about by the increased price of crude oil.

Outlook for 2006

2005 saw a major consolidation in the liner shipping industry, including the takeovers of P&O Nedlloyd by Maersk Sealand, CP Ships by Hapag Lloyd and Delmas by CMA CGM. In 2006, it is expected that capacities will grow faster than the global container market, as new ships enter service. These two factors will present the industry with new challenges.

In view of its leading position in the market, its highly qualified specialists and state-of-the-art IT applications, Kuehne + Nagel is confident to successfully address these challenges and achieve its ambitious growth targets.

Performing strong despite headwinds

Kuehne + Nagel maintained its successful course in airfreight. Despite a more challenging business environment in 2005, the company achieved its target of growing at least twice as fast as the market. Overall tonnage increased by 9.4 per cent to 654,000 tons.

Market development

After a strong first quarter, the global airfreight market experienced a slowdown and grew only by 3.2 per cent overall in 2005, compared with a 10 per cent growth in 2004. As a result of this development, rates dropped significantly on virtually all routes. Furthermore, the progressive rise in oil prices led to a dramatic increase in surcharges.

Kuehne + Nagel performance

Once again, Kuehne + Nagel realised its strongest volume growth in the Asia-Pacific region. In Shanghai, for example, export operations increased 34 per cent in comparison with 2004; in Japan, 23 per cent; and in Indonesia, 46 per cent. In contrast, a weaker export market in North America saw below-average development. Most European countries performed strongly, headed by the German airfreight division achieving record figures in turnover, tonnage and results. Special projects for the automotive industry supported above-average growth in air cargo from Latin America.

PERFORMANCE AIRFREIGHT

CHF MILLION	2005	Margin	2004	Margin	Variance 2005/2004 per cent
Turnover	3,010.8	–	2,601.4	–	+15.7
Gross profit	527.3	17.5 %	475.7	18.3 %	+10.8
EBITA	124.3	4.1 %	114.3	4.4 %	+8.7
Number of operational staff	3,167	–	2,758	–	+14.8

Success factor quality

During the past two years, Kuehne + Nagel has implemented the Cargo 2000 quality programme endorsed by the International Air Transport Association (IATA) and is spearheading this industry initiative. Currently, the company remains the only logistics provider capable of automated planning and monitoring of door-to-door airfreight shipments compliant with Cargo 2000 Phase 2 criteria.

Based on this quality concept, in 2005 Kuehne + Nagel launched an innovative product suite, offering customers highly efficient airfreight solutions tailored to their needs. These new door-to-door products differ by their respective transit times and are characterised by global standards and a transparent pricing system.

Aviation logistics

This special product performed strongly in 2005. Kuehne + Nagel earned the "German Logistics Award 2005" for its integrated logistics concept dedicated to the aviation industry. An important part of this solution is the transport of spare parts for airlines. Furthermore, in cooperation with a selected airline, Kuehne + Nagel succeeded in winning a major aircraft engine manufacturer as a customer.

Hotel logistics

Seamlessly following on from previous years of success, in 2005, Kuehne + Nagel hotel logistics operations' turnover and profits more than doubled. Key factors contributing to this growth were the setting up of a global sales network and the opening of a competency centre in Switzerland with worldwide operational responsibility. Leading international hotel chains awarded Kuehne + Nagel a number of demanding projects in Africa, Asia, Europe and the Middle East.

A new service launched in 2005 in the Middle East found wide acceptance; it entails supplying amenities to hotels on a regular basis. Kuehne + Nagel is responsible for the entire supply chain, including order management and procurement. Global roll-out of this innovative service is planned for 2006.

Outlook for 2006

Despite some uncertainty regarding market developments, Kuehne + Nagel will continue to pursue its goal of growing at least at twice the market rate. Innovative products and high process management efficiency provide the company with a competitive edge.

Integrated rail activities strengthen Kuehne + Nagel's position in the overland market

The integration of the wholly-owned subsidiary Ferroviasped into the Kuehne + Nagel Group's organisational structure, which began in 2004, was successfully completed in 2005. More than 60 operational Kuehne + Nagel offices and agencies in 23 countries form a network to provide environment-friendly, cost-efficient rail logistics solutions.

Business performance in Western Europe
Kuehne + Nagel's rail transport operations in Germany performed well. In addition to stabilising Nordic Rail activities with Finland, business in particular with countries of the Commonwealth of Independent States (CIS) and Central Asia could be expanded.

Unsatisfactory development, however, was experienced in Italy, as several projects already underway had to be cancelled due to production being relocated to other countries.

Successful activities in the new EU states
Kuehne + Nagel's rail division successfully seized business opportunities in the new European Union states, where the good rail infrastructure proved beneficial.

For example, rail transport activities with Romania were established under the lead of the rail operator NHN, a wholly-owned Kuehne + Nagel subsidiary in the Czech Republic. In 2005, approximately 450,000 tons of freight moved to and from Rumania, 300,000 tons of which were organised by NHN in block trains.

Expansion of Southeast European business
In cooperation with the Kuehne + Nagel-associated company Proodos, rail services were significantly expanded on the routes to Greece, Turkey and the Balkan states. Through the hubs in Sopron, Zalog, Villach and Kelebia, in cooperation with partners more than 3,000 block trains with a total freight load of approximately 2 million tons were dispatched.

Growth in intermodal traffic

To ease road and port congestion, Kuehne + Nagel concentrated on rail transport for the pre- and on-carriage of seafreight containers. For example, the Austrian national company organised approximately 1,000 block trains to and from the seaports of Hamburg and Rotterdam. For 700 of these trains on the Rotterdam route, private rail operators were used. In the United Kingdom, more than 70,000 TEU were transported by rail.

Business focus for 2006

In addition to providing cost-efficient rail transport concepts, efforts will focus on launching further block train projects and building greater intermodal traffic flows on several European routes.

Continued expansion

The expansion of national and european overland transport is playing an increasingly important role within the scope of integrated services offered by the Kuehne + Nagel Group.

Dynamic growth in groupage forwarding in Germany

As an export nation, Germany traditionally is the most important market for European road transport. Kuehne + Nagel continued its expansion in this country and enhanced its national network through acquisition of the firms Häring Service Company, Grafenau; and Gebr. Mönckemöller, Bielefeld / Dietzenbach. Additionally, the company strengthened its position within Germany's leading groupage network, IDS. Its consignment share in this network, measured in terms of outgoing volumes, climbed to 29 per cent, the equivalent of more than 2 million consignments a year.

Compared with the previous year, Kuehne + Nagel's groupage business grew by 6 per cent, while the German market as a whole showed only approximately 3 per cent growth. In cross-border traffic, the company realised a 10 per cent rise in transport volume. However, high costs from the integration of the acquired companies reduced the operational result substantially.

Creation of European hubs

To facilitate integration of the acquired companies and position itself for further volume growth, Kuehne + Nagel reorganised its European overland transport network, creating European hubs. This has streamlined transport operations and significantly optimised processes, improving productivity and market penetration.

"OnRoad" in Sweden

As driving force of the Swedish domestic distribution initiative “OnRoad”, Kuehne + Nagel injected new life to the Scandinavian market for transport services. The new network found favour among shippers and complements Kuehne + Nagel’s European overland transport activities.

In addition to expanded groupage operations throughout Europe, full- and part-load business also performed positively, increasing market shares. Further growth was achieved in the complex project business.

Focus on European overland network

In 2006, the focus will be on establishing a network in the major European markets. Standardisation of operational processes and products will continue, benefiting from the implementation of a customised IT solution.

PERFORMANCE RAIL & ROAD LOGISTICS

CHF MILLION	2005	Margin	2004	Margin	Variance 2005/2004 per cent
Turnover	2,094.5	–	1,587.8	–	+31.9
Gross profit	400.1	19.1	276.9	17.4	+44.5
EBITA	4.5	0.2	29.1	1.8	(84.5)
Number of operational staff	3,628	–	1,876	–	+93.4

Dynamic growth and innovation underlined by logistics award

On its way to a leading market position, Kuehne + Nagel boosted turnover growth to 14 per cent, while maintaining stable margins. In recognition of its investment in innovative products and processes, the company was honoured with the 2005 German Logistics Award.

2005 German Logistics Award

Kuehne + Nagel won the 2005 German Logistics Award for its integrated range of services tailored to the aviation industry. The logistics concept, developed during the last ten years through the transfer of established methods from other fields of application, focuses on the aircraft in all phases of its lifecycle. From development and manufacture, to operation, maintenance and inflight services, Kuehne + Nagel provides logistics services worldwide at the highest level.

The award-winning service not only comprises important contract logistics products, but also illustrates the successful transformation of Kuehne + Nagel from a freight forwarder to a provider of integrated logistics solutions. So far, Kuehne + Nagel is the only logistics company certified according to aviation industry specifications. Fulfilment of all requirements and norms pertaining to aviation law in this demanding sector is continually audited by German, European and American aviation authorities. Plans are under way to transfer the concept to further sectors.

Innovation as differentiating feature

Continuous research and development of innovative products and processes is deeply anchored in the Kuehne + Nagel corporate culture. In 2005, the product development and innovation process was standardised to avoid inefficiencies and permit efforts to be concentrated on specific customer requirements.

In 2005, the focus was on the implementation of production logistics for the aviation industry as well as starting up logistics centres in Bremen, Laupheim (near Ulm) and Madrid. Activities in Hamburg were expanded.

Further innovative developments included focus on global RFID-based supply chains, integration of reverse logistics with returns, repairs and quality control activities, globalisation of spare parts logistics, expansion of advanced retail solutions and vendor-managed inventory services.

The innovative power of the Kuehne + Nagel Group builds on the combination of a proven profit-centre structure, creative employees and a clearly structured, centrally managed innovation approach. A commitment to continuous innovation is one of the features that differentiate Kuehne + Nagel's contract logistics offering in the market.

Investment in information technology and standardisation

By the end of 2005, the standardised global warehouse management system had been installed for 180 customers in 35 countries. In 2006, it will be implemented in all countries with contract logistics activities, replacing individual applications in the United States, Canada and Germany. This will make Kuehne + Nagel the only contract logistics provider operating a standardised global warehouse management system in 50 countries. Furthermore, other applications are being consolidated and integrated in the globally standardised KN Login visibility platform.

Regional developments

In 2005, the worldwide Kuehne + Nagel contract logistics network comprised 235 locations with 3.5 million square metres in 50 countries. In the western hemisphere, a further large-scale investment was undertaken in Memphis, USA. For 2006, major projects are planned in Los Angeles, USA, and Campinas, Brazil. Building contract logistics capabilities in South America will be another focus.

In Europe, the acquisition of ACR Logistics will turn Kuehne + Nagel into one of the leading contract logistics providers. As a result of expanding business in Eastern Europe, important new customers could be won in Poland, Ukraine, Russia and Croatia.


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Asia remains the development focus of contract logistics. With the implementation of logistics services for a high-tech customer in Vietnam, the number of locations in the Asia-Pacific region grew to 26. Along with the expansion of activities throughout the region, China and India, being the major markets, will receive the most attention.

Quantum leap through acquisition of ACR Logistics

Following the takeover of ACR Logistics as of January 1, 2006, Kuehne + Nagel now manages more than 6 million square metres of warehouse space at 400 locations, with approximately 22,000 contract logistics employees. The acquisition represents an ideal geographical fit and provides additional management know-how and IT competence as well as enhancing growth potential through systematic cross-selling. With expected 2006 turnover in excess of CHF 3 billion, the company will be among the top five contract logistics providers worldwide. ACR Logistics' particular focus on the retail and fast moving consumer goods industries now provides Kuehne + Nagel with comprehensive capabilities in all key sectors.

Integration of ACR Logistics concludes the phase of major acquisitions in the field of contract logistics. A series of innovative business concepts will facilitate sustained organic growth.

PERFORMANCE CONTRACT LOGISTICS

CHF million	2005	Margin	2004	Margin	Variance 2005/2004 per cent
Turnover	1,334.4	–	1,170.8	–	+14.0
Gross profit	866.4	64.9 %	765.9	65.4 %	+13.1
EBITA	56.5	4.2 %	47.3	4.0 %	+19.5
Number of operational staff	7,078	–	5,553	–	+27.5

Expansion and specialisation generate further growth

The globally operating Nacora Group maintained its levels of profitability in 2005. Network expansion, focus on cargo insurance and international operations proved successful.

Insurance markets showed little consistency in 2005. Locally, a general drop in prices could be observed, while global markets came under pressure from a series of natural disasters, leading to a noticeable rise in rates by the middle of the year. The trend of customers demanding high service standards remained unbroken.

Network expansion

A new branch was set up in Japan, bringing the total number of Nacora Group offices in the world's most important trade and finance centres to 30. The network is to be expanded in 2006 with the formation of a company in Eastern Europe to serve this fast growing market with high quality insurance solutions. Further sales offices are also planned in Germany, Spain and Mexico.

PERFORMANCE INSURANCE BROKER / OTHER

CHF MILLION	2005	Margin	2004	Margin	Variance 2005/2004 per cent
Turnover	106.0	–	91.7	–	+15.6
Gross profit	31.7	29.9	23.1	25.2	+37.2
EBITA	25.3*	23.9	7.5	8.2	+237.3
Number of operational staff	137	–	131	–	+4.6

*CHF 12.0 million represents non recurring income, due to sale of properties, allocated to Other.

Focus on cargo insurance

For several years, the Nacora Group has concentrated on cargo insurance and has achieved sustained growth in this segment. This strategy continued in the year under review. To meet future high levels of demand, the sales organisation will be expanded.

An additional focus is the design of insurance solutions for customers in trade and industry. Here Nacora's target customer group is primarily comprised of medium-sized companies with international operations. These customers can benefit from the Nacora Group's network as well as the company's consulting and brokering capabilities.

High service level secures market shares

Customers increasingly regard high service levels as a value adding factor when engaging insurance brokers. This requires competent, motivated employees in all areas – consulting, sales, contract negotiation and claims settlement. Through its commitment to ongoing employee training and education, Nacora's high standards of quality continue to be maintained and strengthened.

Outlook

The ACR Logistics acquisition provides Nacora with the opportunity to secure additional insurance business.

The insurance broker group is well positioned to achieve sustained organic growth in the future.

Corporate Governance

Corporate Governance

Good corporate governance is an important and integral part of the management culture of the Kuehne + Nagel Group (the Group). The principles of corporate governance, as defined in the Directive on Information Relating to Corporate Governance of the SWX Swiss Exchange, are laid down in the Articles of Association, the Organisational Rules and the Committee Regulations of the holding company of the Group, Kuehne + Nagel International AG, Schindellegi, Switzerland. Furthermore, Kuehne + Nagel follows the continuously evolving worldwide best practice recommendations.

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1. Group structure

1.1.1. Group operational structure

The operational structure of the Group is divided into the following segments:

Primary segment, consisting of the business units:

- Sea & Air Logistics
- Rail & Road Logistics
- Contract Logistics
- Insurance Broker / other

Secondary segment, consisting of the geographical regions:

- Europe
- the Americas
- Asia Pacific
- the Middle East, Central Asia and Africa

For further information on the business fields, please refer to the sections Reports of the Business Units and the Consolidated Financial Statements, respectively.

1.1.2. Listed companies of the Group

The only listed company within the scope of the Group's consolidation is the ultimate holding company, Kuehne + Nagel International AG (KNI). KNI has its registered office in Schindellegi, Switzerland, and its shares are listed on the SWX Swiss Exchange. The company's market capitalisation as of December 31, 2005, amounted to CHF 8,892,000,000 (24,000,000 registered shares at CHF 370.50 per share).

Of the total KNI share capital, as of December 31, 2005,
– the free float consisted of 10,046,773 shares = 41.86 %,
– KNI-held treasury stock consisted of 573,227 shares = 2.39 %

KNI shares are traded under the symbol 'KNIN', the security number (Valorennummer) is 1254181 and ISIN is CH0012541816.

1.1.3. Non-listed companies in the Group's consolidation

The main subsidiaries and associated companies of the Group are disclosed in the appendix "Main consolidated companies, associates and joint ventures" to the Consolidated Financial Statements on pages 150–153, including particulars as to the country, name of company, location, share capital, Kuehne + Nagel's stake in per cent, and voting rights.

1.2. Main shareholders

The main shareholder of the Group is Kuehne Holding AG, Schindellegi, Switzerland, which holds 55.75 per cent of the KNI share capital and is 100 per cent owned by Klaus-Michael Kuehne.

1.3. Cross participations

As of December 31, 2005, there were no cross participations in existence.

2. CAPITAL STRUCTURE

2.1. Ordinary share capital as of December 31, 2005

The ordinary share capital of KNI amounts to CHF 120,000,000, divided into 24,000,000 registered shares of CHF 5 nominal value each.

2.2. Approved and conditional share capital

The Annual General Meeting held on May 12, 2004, agreed to the Board of Director's proposal to create an approved share capital of at most 4 million registered ordinary shares up to a maximum of CHF 20 million, restricted until May 11, 2006.

During the Annual General Meeting held on May 2, 2005, the decision was made to create an approved share capital of 2.4 million registered ordinary shares up to a maximum of CHF 12 million.

2.3. Change in capital over the past three years

During the years 2002 through 2005, there was no change in the capital structure of KNI.

2.4. Shares and participating certificates

As of December 31, 2005, 24,000,000 registered shares of CHF 5 nominal value each were outstanding. At the same date, no participating certificates were outstanding.

2.5. Participating certificates (Genussscheine)

As of December 31, 2005, there were no participating certificates outstanding.

2.6. Restrictions on transfer of shares and registration of nominees

All shares have equal voting rights and no preferential rights or similar entitlements exist. The Articles of Association do not provide for any limitations on the transfer of the shares. Nominees are entered in the share register only upon their written agreement to declare the names, addresses and shareholdings of the respective persons on whose account they are holding shares.

2.7. Convertible bonds and options

No convertible bonds were outstanding as of December 31, 2005, other than related to the Employee Share Purchase and Option Plan; see 5.6 below.

3. BOARD OF DIRECTORS

3.1. Members of the Board of Directors
3.2. Further activities and interests
3.3. Cross engagements

In the year under review, Hans Lerch of Uetikon was elected to the Board of Directors.

As of December 31, 2005, the Board of Directors consisted of ten members.

The personal particulars of the members of the Board of Directors are as follows:

KLAUS-MICHAEL KUEHNE, EXECUTIVE CHAIRMAN German, age 68

Trained as banker and freight forwarder.
Member of the Advisory Board of Hapag Lloyd AG, Hamburg; of Deutsche Bank AG, Hamburg; and of Credit Suisse, Zurich.
Positions within the Kuehne + Nagel Group:

1958–1966	Entrance into the family business, followed by various management positions
1966–1975	Chief Executive Officer of the Group
1975–1992	Delegate and member of the Board of Directors of KNI
1992–today	Executive Chairman of the Board of Directors of KNI, elected until the Annual General Meeting 2006, Chairman of the KNI Nomination and Compensation Committee

BERND WREDE, VICE CHAIRMAN German, age 62

Studied at the Universities of Würzburg and Hamburg. From 1982 to 2001, member of the Board of Hapag-Lloyd AG, Hamburg, and its Chairman as of 1993. Currently a management consultant.
He further is a member of the Supervisory Board of Bankgesellschaft Berlin AG, Berlin; Landesbank Berlin AG, Berlin; and Weberbank Privatbankiers KGaA, Berlin, as well as a member of the Board of Trustees of the ZEIT Foundation, Hamburg.
Positions within the Kuehne + Nagel Group:

1999–2002	Member of the Board of Directors of KNI
2002–today	Vice Chairman of the Board of Directors of KNI, elected until the Annual General Meeting 2008, Vice Chairman of the KNI Audit Committee, Member of the KNI Nomination and Compensation Committee

PROF. DR. OTTO GELLERT German, age 76

Holds a PhD and was promoted professor of business administration at the University of Hamburg. Since 1960, independent accountant, tax consultant and Managing Director of Prof. Dr. Otto Gellert Treuhand GmbH, Hamburg.
His other significant positions include memberships on ten different Supervisory Boards, Advisory Boards and Boards of Associates in Germany.
Positions within the Kuehne + Nagel Group:

1992–today	Member of the Board of Directors of KNI, elected until the Annual General Meeting 2006, Chairman of KNI's Audit Committee

DR. JOACHIM HAUSSER German, age 61

Holds a PhD in economics from the Université de Genève. Retired bank executive, currently an independent financial consultant.
His other significant positions are: Chairman of the Supervisory Board of Ludwig Beck am Rathauseck Textilhaus Feldmeier AG, Munich; and member of the Advisory Board of GETRAG Getriebe- und Zahnradfabrik Hermann Hagenmeyer GmbH & Cie, Ludwigsburg.
Positions within the Kuehne + Nagel Group:

1992–today	Member of the Board of Directors of KNI, elected until the Annual General Meeting 2006

DR. WILLY KISSLING Swiss, age 61

Holds a PhD in business administration from the University of Berne, and a PMD from Harvard Business School, Cambridge, USA. Formerly President and CEO of Landis & Gyr Corporation (1987-1996). From 1998 to 2005, Chairman and, until May 2002, CEO of Unaxis Corporation, Pfäffikon.
Other significant positions: Member of the Board of Directors of Holcim AG, Jona; and of Schneider Electric S.A., Paris.
Positions within the Kuehne + Nagel Group:

2003–today	Member of the Board of Directors of KNI, elected until the Annual General Meeting 2006

HANS LERCH Swiss, age 56

Trained in tourism and longtime career at Kuoni Reisen Holding AG: from 1972–1985, assignments in the Far East as well as various responsibilities at the company's headquarter, and from 1999–2005, President and CEO of Kuoni Reisen.
His other significant positions are: President and CRO of SR Technics Holding AG, President of the Administrative Board of Octagon Worldwide AG, Zurich; and President of the Foundation Board of Movemed Stiftung, Zurich.
Positions within the Kuehne + Nagel Group:

2005–today	Member of the Board of Directors of KNI, elected until the Annual General Meeting 2008.

DR. GEORG OBERMEIER German, age 64

Holds a PhD in business administration from the University of Munich. From 1989–1998, member of the Board of Directors of VIAG AG, Berlin/Munich, and as of 1995 its Chairman. 1999–2001, Executive Chairman of RHI AG, Vienna. Currently Managing Partner of Obermeier Consult GmbH, a consultancy for strategic issues.
His other significant positions include memberships on the Supervising Committees of the following companies: Energie-Control GmbH, Vienna, Regulierungsbehörde für Strom und Gas; Illbruck Elements GmbH, Munich; Rheinhold & Mahla AG München; and SKW Stahl-Metallurgie Holding GmbH, Unterneukirchen.
Positions within the Kuehne + Nagel Group:

1992–today	Member of the Board of Directors of KNI, elected until the Annual General Meeting 2006, Member of the KNI Nomination and Compensation Committee

DR. ALFRED PFEIFFER German, age 73

Holds a PhD in business administration from the University of Munich.
Formerly Chairman of the Board of VIAG AG, Munich, and Chairman of the Supervisory Board of several major industrial companies.
His other significant positions include: Member of the Board of Administration of Gerling AG, Cologne; and Honorary President of the Advisory Council of Union e.V., Munich.
Positions within the Kuehne + Nagel Group:

1992–today	Member of the Board of Directors of KNI, elected until the Annual General Meeting 2006

BRUNO SALZMANN Swiss, age 71

Education and employment as auditor. Held positions as Chief Accountant, senior Auditor, Financial Controller and General Manager with various Swiss and foreign companies.
Positions within the Kuehne + Nagel Group:

1976–1979	Divisional Controller
1979–1982	Group Controller and Head of Treasury
1982–1999	General Director Finance and Controlling of the Group until retirement
1999–today	Member of the Board of KNI, elected until the Annual General Meeting 2008, Member of KNI's Audit Committee

DR. THOMAS STAEHELIN Swiss, age 58

Holds a PhD in law from the University of Basel. Lawyer.
His other significant positions include: Vice Chairman of the Board of Directors of Siegfried Holding AG, Zofingen; member of the Board and President of the Audit Committee of Inficon Holding AG, Bad Ragaz; Chairman of the Board of Directors of Swissport International SA, Opfikon, and of Scobag AG, Basel; Vice Chairman of the Board of Directors of Lenzerheide Bergbahnen AG; member of the Administrative Board of Lantal Textiles, Langenthal; President of the Basel Chamber of Commerce; delegate to the Board of Directors of Vereinigung der Privaten Aktiengesellschaften, and member of the Swiss Foundation for Accounting and Reporting Recommendations (FER-SWISS GAAP).
Positions within the Kuehne + Nagel Group:

1978–today	Member of the Board of Directors KNI, elected until the Annual General General Meeting 2006, Member of the KNI Audit Committee

With the exception of the Executive Chairman of the Board of Directors, Klaus-Michael Kuehne, all members of the Board of Directors are non-executive directors and none of them serves as a member of the Management Board.

3.4. Election and duration of tenure

The election for board membership is carried out whenever a tenure expires. Instead of summary election of the whole Board of Directors, individual re-elections are held for each member. This allows shareholders to judge the contribution of each member of the Board of Directors separately.

Board members are elected for a period of three years. There are no limits regarding the number of terms of service or as to the age of the incumbents. The year of first election as well as the remaining period of the term in office, is quoted for each Board member under 3.1. above.

3.5. Internal organisation of the Board of Directors

According to the Articles of Association and Swiss corporate law, the main tasks of the Board of Directors comprise
- the strategic direction and management of the company,
- accounting matters,
- financial control and planning,
- appointing and dismissing Management Board members and other senior executives,
- supervisory control of business operations, and
- submission of proposals to the Annual General Meeting, including the financial statements of KNI as well as the Group.

Executive Chairman of the Board of Directors of KNI is Klaus-Michael Kuehne. He has been assigned specified powers by the Board. This particularly applies to the areas of investments, finance and accounting as well as personnel. The entire Board of Directors, however, is responsible for decisions on such above mentioned aspects that are of significant importance to the company. The scope of responsibilities of the Board of Directors and the Executive Chairman are stipulated in the Organisational Rules.

The Board of Directors convenes at least four times annually, with the Management Board being at least represented by the CEO and CFO of the Group. The Board of Directors has the discretion to invite other members of the Management Board to attend these meetings. In 2005, four full-day meetings took place.

In emergency cases, the Board of Directors can also take decisions by written circular resolutions.

Audit Committee

The Board of Directors elects four members for the Audit Committee from amongst itself.

The Audit Committee reviews and clears the quarterly financials prior to their issuance to the public. During the regular contacts between the Audit Committee and both the internal and the external auditors, the quality and functioning of the internal control mechanisms are continually reviewed and evaluated on the basis of written reports from the internal audit department, as well as verbal and/or written reports in form of management letters from the external auditors, in particular based on their interim audits prior to the year-end work, in order to set priorities for the year-end audit. Regular contact with the external auditors throughout the year enables the Audit Committee to obtain knowledge of problem areas at an early stage. This allows the timely introduction of corrective measures.

As of December 31, 2005, Prof. Dr. Otto Gellert has been chairing the Audit Committee, assisted by its Vice Chairman Bernd Wrede as well as Committee members Bruno Salzmann and Dr. Thomas Staehelin.

The Audit Committee annually holds at least six full-day meetings, of which at least three sessions are held in the presence of both the internal and the external auditors. In 2005, the Committee held seven meetings.

The Committee's chairman reports in detail to the other members of the Board of Directors about the topics discussed and the decisions taken and/or to be submitted to the entire Board of Directors for approval.

The Nomination and Compensation Committee

The Nomination and Compensation Committee consists of three members of the Board of Directors.

In the area of nomination, the Committee is responsible for securing the competent staffing of the Management Board. For this purpose, the Nomination Committee develops guidelines and criteria for the choice of candidates on the one hand, and on the other hand provides the initiatory gathering of information as well as the personnel review of potential candidates according to the guidelines developed earlier. The Committee prepares the adoption of a final resolution which is reserved to the Board of Directors.

In the field of compensation, the Committee defines the principles of compensation for the members of both the Board of Directors and the Management Board. The Committee recommends the amounts of compensation for each member of the Board of Directors. It moreover evaluates the individual performance of each member of the Management Board and approves their compensations in amount and composition.

As of December 31, 2005, Klaus-Michael Kuehne is the Nomination and Compensation Committee's chairman, with Bernd Wrede and Dr. Georg Obermeier as its additional members.

The Nomination and Compensation Committee usually convenes prior to the regular Board meetings for up to two hours. In 2005, the Committee convened four times for two hours each session.

The Board of Directors is informed by the Nomination and Compensation Committee about all issues discussed, in particular about all decisions within the competence of the Board of Directors.

3.6. Rules of competence between the Board of Directors and the Management Board

The Board of Directors has delegated the responsibility for the development, execution and supervision of the day-to-day operations of the Group and its associated companies to the Management Board, except those reserved by law, by the Articles of Association or by the Organisational Rules to the Annual General Meeting, the Audit Committee, the Board of Directors or the Chairman of the Board of Directors.

The Organisational Rules, dated May 10, 1999, lay down in detail the working mode of the Board of Directors, the Delegate and Chairman of the Board as well as the

Management Board. A catalogue of competencies between the Board of Directors and the Management Board outlines in detail the financial framework within which the Management Board can pursue its daily business.

3.7. Information and control system versus the Management Board

The Management Board informs the Board of Directors on a regular and timely basis about the course of business by means of a comprehensive financial management information system which provides monthly worldwide consolidated results by segment and country, including comparative actual, budgeted and prior-year figures, two weeks after a month's end at the latest.

4. MANAGEMENT BOARD

4.1. Members
4.2. Further activities

In 2005, Dr. Axel Hansen, General Counsel and Secretary of the Board of Directors, left the company. His function is no longer represented in the Management Board. Furthermore, Thomas Engel was succeeded by Martin Kolbe as Chief Information Officer.

Effective as of October 2005, Ewald Kaiser was appointed as Chief Operating Officer Rail & Road Logistics – a function formerly under the responsibility of Chief Executive Officer Klaus Herms.

The personal particulars of the members of the Management Board are as follows:

KLAUS HERMS German, age 64

Graduated in business administration from DAV, Bremen.
Other significant position: Member of the Advisory Board of Fraport, Frankfurt.
Positions within the Kuehne + Nagel Group:

1968–1969	Trainee in Bremen, Germany
1969–1974	Sales representative for project business Far East in Hong Kong
1974–1988	Regional Manager Far East in Hong Kong, established Kuehne + Nagel organisations in Indonesia, Japan, Korea, Malaysia, the Philippines, Sri Lanka and Thailand, additionally assuming responsibility for Kuehne + Nagel Australia and New Zealand in 1980
1988–1999	Line Chief Executive Asia-Pacific region and member of the Group Management of KNI, additionally assuming responsibility for Kuehne + Nagel's operations on the Indian subcontinent in 1988
1999–today	Chief Executive Officer (CEO), Chairman of the Management Board of KNI

GERARD VAN KESTEREN Dutch, age 56

Chartered accountant. Spent 17 years at Sara Lee Corporation in various management positions in finance, lastly as Director of Financial Planning and Analysis.
Positions within the Kuehne + Nagel Group:

1989–1999	Financial Controller Kuehne + Nagel Western Europe
1999–today	Chief Financial Officer (CFO)

EWALD KAISER German, age 44

Certified business economist and trained freight forwarder. 1991–1994 Chief Department Manager Rail & Road Logistics LEP International, Stuttgart.
1995–1998 Managing Director Birkart Int. UK, Netherlands, Poland.
Positions within the Kuehne + Nagel Group:

1979–1998	Trained as freight forwarder followed by several positions within the field of European overland transport, in Stuttgart, Germany.
1998–2001	Chief Executive Officer, Kuehne + Nagel UK
2001–2005	Chief Executive Officer, Kuehne + Nagel Germany
2005–today	Chief Operating Officer (COO) Rail & Road Logistics

MARTIN KOLBE German, age 44

Graduated computer scientist. Positions in IT management, including IT Field Manager with Deutsche Post World Net, responsible for DHL Europe and DHL Germany, as well as member of the Supervisory Board in several DPWN-associated companies.
Position within the Kuehne + Nagel Group:

2005–today	Chief Information Officer (CIO)

REINHARD LANGE German, age 56

Trained freight forwarder.
Positions within the Kuehne + Nagel Group:

1971–1985	Head of Seafreight Import, Bremen, Germany
1985–1990	Regional Director Seafreight Asia-Pacific, Hong Kong
1990–1995	Member of the German Management Board, responsible for seafreight and industrial packing
1995–1999	President and Chief Executive Officer of Kuehne + Nagel Ltd., Toronto, Canada
1999–today	Chief Operating Officer (COO) Sea & Air Logistics

KLAUS-DIETER PIETSCH German, age 64

Graduated in business administration. Held various positions in industry in human resources and information technology.
Positions within the Kuehne + Nagel Group:

1987–today	Executive Vice President Human Resources/ Quality Management

DIRK REICH German, age 42

Graduated from the Koblenz School of Corporate Management in Germany, and held various positions with Lufthansa AG and VIAG AG.
Positions within the Kuehne + Nagel Group:

1995–2001	Senior Vice President Corporate Development
2001–today	Executive Vice President Contract Logistics

5. COMPENSATION

5.1. Remuneration programme and Employee Share Purchase and Option Plan

The Board of Directors regulates the compensation, allocation of shares and granting of loans to the Board of Directors, while the Board of Directors' Nomination and Compensation Committee regulates such matters for the Management Board.

The incumbent members of the Board of Directors receive a total remuneration amounting to 1 per cent of the KNI net earnings for the year. Each member is guaranteed an annual compensation of CHF 30,000.

The members of the Management Board receive an income with a fixed and a profit-linked component and have the possibility to participate in the Employee Share Purchase and Option Plan.

5.2. Remuneration paid to current members of the Board of Directors and the Management Board of KNI

The total remuneration paid to members of the Board of Directors and the Management Board in the financial year 2005 amounted to CHF 12,720,654, of which CHF 11,995,539 were paid to the executive member of the Board of Directors and the members of the Management Board, and CHF 725,115 to the non-executive members of the Board of Directors.

No termination allowances were paid to any of the previous members of the Board of Directors.

5.3. Remuneration paid to former members of the Board of Directors and the Management Board of KNI

In 2005, an amount of CHF 1,615,234 was paid to former members of the Management Board, whereas no remuneration was paid to previous members of the Board of Directors.

5.4. Allocation of shares during 2005

In 2005, no shares were allocated to any members of either the Board of Directors or the Management Board and/or to parties closely associated with them other than disclosed under the Employee Share Purchase and Option Plan (see 5.6 below).

5.5. Shareholdings by members of the Board of Directors and the Management Board

As of December 31, 2005, the following numbers of KNI shares were held by members of the Board of Directors and the Management Board of KNI, distinguished between executive and non-executive members. No shareholdings were reported from parties closely associated with the mentioned Board members.

Executive members:		Number of KNI shares
Klaus-Michael Kuehne		13,406,000
Klaus Herms		17,000
Ewald Kaiser		2,500
Gerard van Kesteren		17,375
Reinhard Lange		4,250
Klaus-Dieter Pietsch		5,250
Dirk Reich		5,750
	Total	13,458,125

Non-executive members:		Number of KNI shares
Prof. Dr. Otto Gellert		400
Dr. Joachim Hausser		1
Dr. Willy Kissling		300
Hans Lerch		1,000
Dr. Georg Obermeier		100
Bruno Salzmann		40
Dr. Thomas Staehelin		2,000
	Total	3,841
	Total	13,461,966

5.6. Options

In 2001, KNI introduced an Employee Share Purchase and Option Plan for members of the KNI Management Board, by which they have the option to purchase a maximum of 49,950 registered shares. As of December 31, 2005, all members of the Management Board had participated and the total amount of shares was purchased at the agreed price of 90 per cent (plan 1 to 3), 95 per cent (plan 4) and 96.5 percent (plan 5) of the average share closing price quoted on the SWX Swiss Exchange between April and June of the respective year of purchase. The sale of the shares acquired under this plan is blocked for a period of three years after the date of purchase. Each share purchased is linked with two options carrying the right to purchase one KNI share for each option at the average price as outlined above. The option is blocked for three years from the date of subscription and thereafter can be exercised within the period of another three years. The option lapses after expiry of that period.

The prices to exercise the above options are quoted in Note 34 to the Consolidated Financial Statements on pages 137–139.

As of December 31, 2005, the members of the Management Board and parties closely linked to them held the following options.

Name	Date of allocation	Number of options	Locked period expires
Klaus Herms	2002	3,000	2005
	2003	3,000	2006
	2004	3,000	2007
	2005	4,000	2008
Ewald Kaiser	2003	1,500	2006
	2004	1,500	2007
	2005	1,500	2008
Gerard van Kesteren	2002	2,250	2005
	2003	2,250	2006
	2004	2,250	2007
	2005	3,000	2008
Reinhard Lange	2003	5,000	2006
	2004	2,000	2007
	2005	1,500	2008
Dirk Reich	2003	7,250	2006
	2004	2,250	2007
	2005	2,000	2008
Klaus-Dieter Pietsch	2003	2,250	2006
	2004	2,250	2007
	2005	3,000	2008
Total options allocated		54,750	

5.7. Additional fees and remuneration

Additionally, in the year 2005, the following remunerations requiring disclosure were paid to members of the Board of Directors for other services rendered.

Prof. Dr. Otto Gellert	CHF 204,553
Bruno Salzmann	CHF 111,500
Dr. Thomas Staehelin	CHF 123,226
Bernd Wrede	CHF 175,000
Total	**CHF 614,279**

5.8. Loans

In 2005, no loans were granted to members of the Board of Directors nor the Management Board of KNI nor associated parties, and no such loans were outstanding as per December 31, 2005.

5.9. Highest remuneration in 2005

The highest remuneration drawn by a member of the Board of Directors in 2005 amounted to CHF 4,361,144. No allocations of either shares or options were effected.

6. SHAREHOLDERS' RIGHT OF PARTICIPATION

6.1. Restrictions and delegation of voting rights

Each share equals one voting right. Restrictions on voting rights do not exist.

For resolutions concerning the discharge of the members of the Board of Directors, persons that currently take part in the company's management in any manner do not have a voting right. This restriction does not apply to members of the external auditing company.

Registered shares can only be represented at the Annual General Meeting by either shareholders or beneficiary owners whose personal particulars and size of shareholdings are listed in the KNI share register. Such shareholders and/or beneficiary owners who are not in a position to attend the Annual General Meeting are entitled to nominate a representative by a written proxy.

6.2. Statutory quorums

The legal rules on quorums and terms apply.

6.3. Calling of an Annual General Meeting

The calling of an Annual General Meeting is guided by the law. The agenda contains all necessary information needed to deliberate each item on the agenda. This particularly includes information for the appointment of new members to the Board of Directors and, in the event of changes to an article of memorandum, the announcement of the new wording.

6.4. Items to be added to the agenda of the Annual General Meeting

Shareholders owning shares with a total nominal value of at least CHF 1 million can request that items be added to the agenda up to 45 days prior to the date fixed for the Annual General Meeting, by submitting details of their proposals in writing.

6.5. Registration of shareholders in the KNI share register

Registered shares can only be represented at the Annual General Meetings by either shareholders or beneficiary owners whose personal particulars and size of shareholdings have been entered in the KNI share register. Such shareholders and/or beneficiary owners who are not in a position to attend the Annual General Meeting are entitled to nominate a representative by written proxy.

The share register remains closed for any movements during eight calendar days (including the day of the Meeting) preceding the date of the Annual General Meeting.

7. CHANGE OF CONTROL AND DEFENCE MEASURES

7.1. Offering obligation

There are no opting-out or opting-in rules provided for in the Articles of Association.

7.2. Clauses for change of control

No member of either the Board of Directors or the Management Board or other senior management staff has clauses on change of control in their employment contracts.

8. STATUTORY AUDITORS

8.1. Duration of mandate

KPMG Fides Peat, Zurich, initially adopted the mandate for the business year 2002 as per declaration of acceptance dated May 8, 2002. The re-election for the business year 2005 was confirmed with the declaration of acceptance dated March 11, 2005.

The audit partner-in-charge and responsible for the mandate, Mr. Roger Neininger, started his assignment on July 1, 2002.

8.2. Audit fees

According to the Group's financial records, the fees charged for auditing services for the year 2005 amounted to CHF 2.9 million.

8.3. Additional fees

In addition to the fees mentioned under 8.2., the statutory auditors are asked on a very restrictive basis to provide certain consulting services beyond the mandate of the annual audit. In 2005, an amount of CHF 0.1 million was incurred in this connection.

8.4. Supervisory and controlling instruments towards the statutory auditors

The performance of the work performed by the external statutory auditors is supervised, controlled and duly monitored by the Board of Directors' Audit Committee. The statutory auditors report regularly to the Audit Committee and attend the majority of Audit Committee meetings in the person of the audit partner-in-charge. For further details, refer to the comments under 3.5. to 3.7. above.

9. INFORMATION POLICY

The Kuehne + Nagel Group aspires to ensure a comprehensive and consistent information policy. The ambition is to attain high levels of transparency that meet worldwide accepted best practice standards.

To this end, Kuehne + Nagel uses print media and, in particular, its corporate website, www.kuehne-nagel.com, where up-to-date information is available.

This information contains an overall presentation of the company. In addition to detailed financial data, among other things this includes information on environmental and security matters, which are of increasing importance.

Furthermore, Kuehne + Nagel provides up-to-date information on significant, business-related occurrences and organisational changes, and is continually updating all general information on the company.

The Annual Report covering the past financial year is available for download in extracts or in its entirety in English and German. In addition, detailed contact information per field of activity is available to any interested persons.

Kuehne + Nagel publishes its quarterly financial data on its corporate website. Prior to the first quarterly results being released, the financial calendar is published announcing the dates of the upcoming quarterly reports as well as of the Annual General Meeting.

Consolidated Financial Statements

INCOME STATEMENT

CHF million	Note	2005	2004
Invoiced turnover	40	**14,048.9**	**11,563.1**
Customs duties and taxes		(2,955.3)	(2,442.3)
Net invoiced turnover		**11,093.6**	**9,120.8**
Net expense for services from third parties		(8,324.6)	(6,798.3)
Gross profit		**2,769.0**	**2,322.5**
Personnel expenses	18	(1,499.9)	(1,271.9)
Selling, general and administrative expenses	19	(721.7)	(580.5)
Other operating income, net	20	14.1	3.5
EBITDA		**561.5**	**473.6**
Depreciation of property, plant and equipment and amortisation of intangibles	24/25	(107.6)	(92.3)
EBITA		**453.9**	**381.3**
Amortisation of goodwill	25	–	(57.7)
Impairment of goodwill	25	(24.8)	(6.1)
EBIT		**429.1**	**317.5**
Financial income	21	23.4	34.7
Financial expenses	21	(17.5)	(14.3)
Result from associates and joint ventures		10.9	6.2
Earnings before tax (EBT)		**445.9**	**344.1**
Income tax	22	(127.5)	(103.5)
Earnings for the year		**318.4**	**240.6**
Attributable to:			
Equity holders of the parent		**315.0**	**238.1**
Minority interest		3.4	2.5
Earnings for the year		**318.4**	**240.6**
Basic earnings per share in CHF	23	14.35	10.44
Diluted earnings per share in CHF	23	14.26	10.38

Certain comparatives were reclassified and restated to conform to the current period's presentation.

BALANCE SHEET

CHF million	Note	31/12/2005	31/12/2004
ASSETS			
Property, plant and equipment	24	698.6	629.7
Goodwill	25	133.6	105.7
Other intangibles	25	70.0	12.7
Investments in associate and joint ventures	26	18.6	22.3
Deferred tax assets	22	72.3	55.1
Non Current Assets		**993.1**	**825.5**
Prepayments and deposits		54.6	39.5
Work in progress	27	270.7	211.0
Trade receivables	28	1,641.9	1,226.5
Other receivables	29	63.2	62.7
Marketable securities	30	–	15.7
Cash and cash equivalents	31	1,197.9	462.2
Current Assets		**3,228.3**	**2,017.6**
Total Assets		**4,221.4**	**2,843.1**

Certain comparatives were reclassified to conform to the current period's presentation.

CHF million	Note	31/12/2005	31/12/2004
LIABILITIES AND EQUITY			
Share capital	32	120.0	120.0
Reserves and retained earnings		1,160.1	437.4
Earnings for the year		315.0	238.1
Total equity attributable to the equity holders of the parent		**1,595.1**	**795.5**
Minority interest		5.9	6.8
Total equity		**1,601.0**	**802.3**
Provisions for pension plans and severance payments	33	219.7	182.1
Deferred tax liabilities	22	20.7	12.4
Bank liabilities	35	14.9	6.1
Finance lease obligations	36	13.9	13.6
Non Current Liabilities		**269.2**	**214.2**
Bank and other interest bearing liabilities	31	327.6	255.6
Trade payables/Accrued trade expenses/Deferred income	37	1,537.0	1,193.7
Current tax liabilities		100.0	70.4
Provisions	38	60.0	48.3
Other liabilities	39	326.6	258.6
Current Liabilities		**2,351.2**	**1,826.6**
Total Liabilities and Equity		**4,221.4**	**2,843.1**

Certain comparatives were reclassified to conform to the current period's presentation.

Schindellegi, March 10, 2006

KUEHNE + NAGEL INTERNATIONAL AG

Klaus Herms	Gerard van Kesteren
CEO	CFO

STATEMENT OF CHANGES IN EQUITY

CHF million	Share capital	Share premium	Net unrealised (loss)/gain on available for sale investments	Treasury shares[1]	Cumulative translation adjustment	Retained earnings	Totel equity attributable to the equity holders of parent	Minority interest	Total equity
Balance 1/1/2004	120.0	454.1	20.1	(64.4)	(71.9)	554.8	1,012.7	5.4	1,018.1
Unrealised gain on 5% SembLog investment	–	–	(20.1)	–	–	–	(20.1)	–	(20.1)
Foreign exchange differences	–	–	–	–	(27.0)	–	(27.0)	–	(27.0)
Net expense recognised directly in equity	**–**	**–**	**(20.1)**	**–**	**(27.0)**	**–**	**(47.1)**	**–**	**(47.1)**
Earnings for the year	–	–	–	–	–	238.1	238.1	2.5	240.6
Total recognised income and expense for the year	**–**	**–**	**(20.1)**	**–**	**(27.0)**	**238.1**	**191.0**	**2.5**	**193.5**
Movements in treasury shares[1] a) Purchase of treasury shares	–	–	–	(340.3)	–	–	(340.3)	–	(340.3)
b) Disposal of treasury shares (employee share purchase and option plan)	–	4.2	–	6.4	–	–	10.6	–	10.6
Dividend paid[2]	–	–	–	–	–	(81.2)	(81.2)	(0.5)	(81.7)
Effect of employee share purchase and option plan	–	–	–	–	–	2.7	2.7	–	2.7
Changes in minority interest	–	–	–	–	–	–	–	(0.6)	(0.6)
Balance 31/12/2004	**120.0**	**458.3**	**–**	**(398.3)**	**(98.9)**	**714.4**	**795.5**	**6.8**	**802.3**
Balance 01/01/2005	120.0	458.3	–	(398.3)	(98.9)	714.4	795.5	6.8	802.3
Foreign exchange differences	–	–	–	–	74.8	–	74.8	–	74.8
Net income recognised directly in equity	**–**	**–**	**–**	**–**	**74.8**	**–**	**74.8**	**–**	**74.8**
Earnings for the year	–	–	–	–	–	315.0	315.0	3.4	318.4
Total recognised income and expense for the year	**–**	**–**	**–**	**–**	**74.8**	**315.0**	**389.8**	**3.4**	**393.2**
Movements in treasury shares[1] a) Secondary placement	–	201.2	–	282.8	–	–	484.0	–	484.0
b) Disposal of treasury shares (employee share purchase and option plan)	–	(1.2)	–	20.1	–	–	18.9	–	18.9
Dividend paid[2]	–	–	–	–	–	(97.5)	(97.5)	(2.7)	(100.2)
Effect of employee share purchase and option plan	–	–	–	–	–	4.4	4.4	–	4.4
Changes in minority interest	–	–	–	–	–	–	–	(1.6)	(1.6)
Balance 31/12/2005	**120.0**	**658.3**	**–**	**(95.4)**	**(24.1)**	**936.3**	**1,595.1**	**5.9**	**1,601.0**

Certain comparatives were reclassified and restated to conform to the current period's presentation.

[1] Refer to note 32

[2] The proposed dividend payment subject to approval by the ordinary Shareholders' meeting is as follows:

Year	per share	CHF million	
2006	CHF 5.50	128.8	(2005: CHF 4.50 per share amounting to CHF 97.5 million)

CASH FLOW STATEMENT

CHF million	Note	2005	2004
Cash flow from operating activities			
Earnings for the year		318.4	240.6
Non cash transactions:			
Income tax	22	127.5	103.5
Financial income	21	(23.4)	(34.7)
Financial expenses	21	17.5	14.3
Profit an sale of marketable securities		(1.4)	–
Result from associates and joint ventures		(10.9)	(6.2)
Depreciation of property, plant, equipment and amortisation of intangibles	24/25	107.6	92.3
Equity settled share based compensation expenses	18	4.4	2.7
Profit on disposal of property, plant and equipment	20	(17.3)	(5.1)
Loss on disposal of property, plant and equipment	20	3.2	1.6
Amortisation of goodwill	25	–	57.7
Impairment of goodwill	25	24.8	6.1
Net addition to provision for pension plans and severance payments		24.1	14.9
Total operational cash flow		**574.5**	**487.7**
(Increase)/decrease work in progress		(40.8)	(58.4)
(Increase)/decrease receivables, prepayments and deposits		(278.6)	(263.0)
Increase/(decrease) tax liabilities less tax assets		33.3	7.3
Increase/(decrease) other liabilities		74.2	90.7
Increase/(decrease) trade payables, accrued trade expenses		164.0	190.6
Income taxes paid		(115.2)	(95.6)
Total cash flow from operating activities		**411.4**	**359.3**
Cash flow from investing activities			
Capital expenditure			
– Property, plant and equipment		(187.2)	(108.7)
– Intangibles		(22.6)	(9.6)
Disposal of property, plant and equipment		109.8	57.5
Disposal of marketable securities		17.1	10.6
Acquisition of consolidated companies, net of cash acquired	41	(84.3)	(108.0)
Acquisition of associates		–	(4.4)
Disposal of associates		–	35.8
Interest received	21	16.3	8.8
Dividend received from associates and joint ventures		10.4	4.9
Total cash flow from investing activities		**(140.5)**	**(113.1)**
Cash flow from financing activities			
Increase/(decrease) bank liabilities (non-current)		39.2	(51.0)
Interest paid	21	(17.5)	(9.9)
Acquisition of treasury shares		–	(340.3)
Disposal of treasury shares		514.9	10.6
Dividend paid to shareholders of the company		(97.5)	(81.2)
Dividend paid to minority shareholders		(2.7)	(0.5)
Total cash flow from financing activities		**436.4**	**(472.3)**
Exchange difference on cash and cash equivalents		19.8	4.9
Increase/(decrease) in cash and cash equivalents		**727.1**	**(221.2)**
Net cash and cash equivalents at the beginning of the year	**31**	**397.5**	**618.7**
Net cash and cash equivalents at the end of the year	**31**	**1,124.6**	**397.5**

Certain comparatives were reclassified and restated to conform to the current period's presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES

1 ORGANISATION

Kuehne + Nagel International AG (the Company) is incorporated in Schindellegi (Feusisberg), Switzerland. The Company is one of the world's leading global logistics providers. Its strong market position lays in the Sea & Air Logistics, Rail & Road Logistics and Contract Logistics.

The consolidated financial statements of the Company for the year ended December 31, 2005 comprise the Company, its consolidated Companies and its interests in associates and joint ventures (the Group).

2 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

3 BASIS OF PREPARATION

The consolidated financial statements are presented in Swiss francs (CHF) million. The consolidated financial statements are based on the individual financial statements of the consolidated companies as of December 31, 2005. Those financial statements have been prepared in accordance with uniform accounting policies issued by the Group which comply with the requirements of the International Financial Reporting Standards (IFRS) and with Swiss law. The consolidated financial statements are prepared on a historical cost basis except for certain financial instruments and marketable securities which are stated at fair value. Non-current assets and disposal groups held for sale are stated at the lower of the carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The true result may differ from these estimates. Judgments made by management in the application of IFRS that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 50.

The accounting policies are the same as those applied in the consolidated financial statements for the year ended December 31, 2004 except for the fact that the Group as of January 1, 2005 adopted all the applicable standards that were revised in IASB's improvements project, revised IAS 32 Financial Instruments: Presentation and Disclosure, revised IAS 39 Financial Instruments: Recognition and Measurement, revised IAS 36 Impairment of Assets, revised IAS 38 Intangible Assets, IFRS 2 Share-based Payment, IFRS 3 Business Combinations and IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations. Certain comparatives were reclassified and restated to conform to the current year's presentation.

The most significant effects of adopting the new and revised standards are described below.

IFRS 2 Share-based Payment

Kuehne + Nagel has a employee share purchase and option plan that allows Group employees to acquire shares of the Company. The employees can buy shares with a small reduction of the actual share price. There are no vesting conditions. The shares are restricted for a period of three years before being released to the employees. In addition, for each share purchased under this plan, the Company grants two options to the participants. Each option entitles the participant to purchase one share of Kuehne + Nagel International AG at a specified price. The options vest three years after the grant date and can be exercised during the three-year period starting on the vesting date. The options cannot be settled in cash.

The Group applied IFRS 2 to its employee share purchase and option plan as of January 1, 2005, except for shares and options that were granted before November 7, 2002 and for shares and options that had vested before January 1, 2005. The recognition and measurement principles in IFRS 2 were not applied to these shares and options in accordance with the transitional rules in IFRS 2.

For share purchase plans with a small reduction, IFRS 2 requires the difference between the fair value of the shares at purchase date and the purchase price of the shares to be recognised as a personnel expense with a corresponding increase in equity. In respect of options, IFRS 2 requires the fair value of options granted to be recognised as a personnel expense with a corresponding increase in equity. Up to December 31, 2004 no charge for the employee share purchase and option plan was recognised in the Group's consolidated financial statements.

From January 1, 2005, the Group calculates fair value of the granted options using the lattice binominal model, taking into account the terms and conditions upon which the options were granted. Expectation of early exercise are incorporated in to the model. The fair value of the options is measured at grant date and spread over the relevant vesting periods. The amount recognised as a personnel expense is adjusted to reflect actual and expected levels of vesting.

The effect of accounting for the share option plan under IFRS 2 did not have an effect on opening retained earnings. Personnel expenses increased by CHF 1.9 million for the year ended December 31, 2004 and by CHF 3.9 million for the year ended December 31, 2005, while the earnings for the same periods decreased with the same amounts. Comparative figures were restated. The effect of adopting IFRS 2 had an impact on the share purchase plan of CHF 0.5 million (CHF 0.8 million in 2004), representing the rebate granted on the purchase price of the shares. Earnings per share in 2004 decresed by CHF 0.11 and diluted earnings per share decreased by CHF 0.12.

IFRS 3 Business Combinations and IAS 36 Impairment of Assets

As of January 1, 2005, all goodwill is stated at cost less accumulated impairment losses. As of this date, the carrying amount of accumulated amortisation on goodwill was eliminated against the related goodwill. Goodwill was allocated to cash-generating units and is no longer amortized over its estimated useful live. According to IAS 36 goodwill has to be tested for impairment at least annually, irrespective of whether there is any indication that it may be impaired. Reversal of any impairment losses on goodwill is no longer allowed.

The new accounting policy on goodwill was applied already in 2004 for acquisitions that took place on or after March 31, 2004. The revised guidance in IFRS 3 on acquisition accounting has also been applied since that date. Intangible assets in acquired companies have been accounted for in accordance with the guidance in revised IAS 38 Intangible Assets (see below).

IAS 38 Intangible Assets

Revised IAS 38 has been applied to account for intangible assets acquired in business combinations for which the agreement date is on or after March 31, 2004. Under revised IAS 38, the Group was required to change its accounting for intangible assets. As a result, intangible assets are recognised separately from goodwill. Intangible assets acquired in a business combination must be recognised separately from goodwill and amortised over its useful life if they are subject to contractual or legal rights or are separately transferable and their fair value can be reliably estimated. As of January 1, 2005, all intangible assets are accounted for in accordance with revised IAS 38. The same new criteria that apply for intangible assets acquired in a business combination apply for intangible assets acquired separately.

Intangible assets continue to be stated at cost less accumulated amortization and, if any, less impairment losses.

IAS 1 Presentation of Financial Instruments and IAS 27 Consolidated and Separate Financial Statements

The adoption of revised IAS 1 and 27 led to a different presentation of minority interest in the balance sheet, income statement and the statement of changes in equity. Comparative figures were reclassified to conform to the new presentation.

Other

The adoption of revised IAS 32 and 39 on financial instruments did not have a material impact on the consolidated financial statements. IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations did not have any impact on this year.

Adoption of new standards in 2006

The following new and revised Standards and Interpretations have been issued, but are not yet effective and are not applied early in these consolidated financial statements. Their impact on the consolidated financial statements of the Group has not yet been systematically analysed. The expected effects as disclosed below the table reflect a first assessment by Group management.

Standard/Interpretation	Assesment	Effective date	Planned application by Kuehne + Nagel Group
Amendment to IAS 19 – Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures	**	January 1, 2006	Reporting year 2006
Amendments to IAS 39 – Financial Instruments: Recognition and Measurement:			
– Cash Flow Hedge Accounting of Forecast Intragroup Transactions	*	January 1, 2006	Reporting year 2006
– The Fair Value Option	*	January 1, 2006	Reporting year 2006
– Financial Guarantee Contracts (also applies to IFRS 4)	*	January 1, 2006	Reporting year 2006
Amendment to IAS 21 – The Effects of Changes in Foreign Exchange Rates	***	January 1, 2006	Reporting year 2006
IFRS 6 – Exploration for and Evaluation of Mineral Resources	*	January 1, 2006	Reporting year 2006
IFRIC 4 – Determining whether an Arrangement Contains a Lease	***	January 1, 2006	Reporting year 2006
IFRIC 6 – Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	*	December 1, 2005	Reporting year 2006
IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	*	March 1, 2006	Reporting year 2007
IFRIC 8 – Scope of IFRS 2	*	May 1, 2006	Reporting year 2007
IFRIC 9 – Reassessment of Embedded Derivatives	*	June 1, 2006	Reporting year 2007
IFRS 7 – Financial Instruments: Disclosures	**	January 1, 2007	Reporting year 2007
Amendment to IAS 1 – Presentation of Financial Statements: Capital Disclosures	**	January 1, 2007	Reporting year 2007

* No or no significant impacts are expected on the consolidated financial statements of the Group.

** Mainly additional disclosures are expected in the consolidated financial statements of the Group.

*** The impacts on the consolidated financial statements of the Group can not yet be determined with sufficient reliability.

4 SCOPE OF CONSOLIDATION

The main consolidated companies, associates and joint ventures are listed on pages 150–153. The significant changes in the scope of consolidation in 2005 relate to the following companies:

	Capital share * acquired in per cent equals voting rights	Currency	Share capital in 1,000 LC	Acquisition/ Incorporation Date
Acquisitions				
Häring Group, Germany[2]	100	EUR	4,300	01/01/2005
PT Kuehne + Nagel Sigma Trans, Indonesia[1]	45	IDR	389,000	01/01/2005
Kuehne + Nagel (Mauritius) Ltd., Mauritius[3]	10	MUR	4,000	01/01/2005
Mönkemöller Group, Germany[2]	100	EUR	1,645	01/06/2005
WM Cargonet Group, Germany[4]	60	EUR	750	01/07/2005
Ziegler & Co. ApS, Denmark[5]	100	DKK	200	01/11/2005
Nacora (Malaysia) Sdn. Bhd, Malaysia[6]	30	MYR	100	01/12/2005
Incorporation				
Kuehne + Nagel (Nigeria) Ltd, Nigeria	100	NGN	0	01/01/2005
Kuehne + Nagel (Equatorial Guinea) Ltd., Equatorial Guinea	100	CFA	1046	01/01/2005
Kuehne + Nagel d.o.o., Slovenia	100	SIT	2,410	31/03/2005
Kuehne + Nagel Ibrakom L.L.P, Kazakhstan	60	KZT	680	01/06/2005
Kuehne + Nagel S.A., Nicaragua	100	NIO	10	21/06/2005
Kuehne + Nagel Investments B.V., Netherlands	100	EUR	50	14/07/2005
Pact Benelux B.V., Netherlands	60	EUR	18	01/08/2005
Kuehne + Nagel (Pty) Ltd, Lesotho	100	ZAR	1	08/09/2005
Kuehne + Nagel Logistics NV, Belgium	100	EUR	61	12/09/2005
Kuehne + Nagel S.A., Honduras	100	HNL	25	01/11/2005
Kuehne + Nagel Participations Sarl, France	100	EUR	5,300	14/12/2005

* For capital share as per December 31, 2005, please refer to the list of main consolidated companies on pages 150 to 153. There were no significant divestments in the year 2005.

1 The Kuehne + Nagel Group previously owned 50% of the share capital in PT Kuehne + Nagel Sigma Trans, and applied the equity accounting method. The main activity is Sea & Air Logistics.

2 The main activity of these companies is overland transport and logistics services.

3 The Kuehne + Nagel Group previously owned 51% of the share capital in Kuehne + Nagel (Mauritius) Ltd. The main activity is Sea and Air Logistics.

4 The Kuehne + Nagel Group previously owned 40% of the share capital in WM Cargonet Group and applied the equity accounting method. The main activity is overland transport and logistic services.

5 The Kuehne + Nagel Group acquired 100% of share capital of Ziegler & Co. ApS, Denmark. The main activity is Sea & Air Logistics.

6 The Kuehne + Nagel Group previously owned 70% of the share capital in Nacora (Malaysia) Sdn. Bhd. The main activity is Insurance Brokerage.

5 PRINCIPLES OF CONSOLIDATION

Consolidated companies are all entities which Kuehne + Nagel International AG has the ability to control. Control exists when a Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Consolidated companies are included in the consolidated financial statements by the full consolidation method. As a consequence, all assets, liabilities, expense and income are fully included. Consolidated companies acquired within the financial year are accounted for according to the purchase method as of the date of take-over of control. The difference between the purchase price and the Group's share of the fair values of the acquired net assets at the date of acquisition is recognised as goodwill.

The minority interest in equity as well as earnings for the period is reported separately in the consolidated financial statements.

Associates and joint ventures

Associates are those entities in which the Group is able to exercise a significant influence over the financial and operating policies. Joint ventures are those entities that are subject to contractually established joint control. Associates and joint ventures are accounted for under the equity method and carried in the balance sheet at the equity-accounted amount or, if lower, recoverable amount. The Group's share of income (loss) of associates and joint ventures is included in the income statement.

Transactions eliminated on consolidation

Intra-group balances, transactions, income and expenses are eliminated in preparing the consolidated financial statements.

Foreign exchange translation

Year end financial statements of consolidated companies are prepared in their respective functional currencies and translated into CHF (the Group's reporting currency) as of year end. Assets and liabilities, including goodwill and fair value adjustments arising on consolidation, are translated at year end exchange rates and all items included in the income statement are translated at average exchange rates for the year, which approximate actual rates. Exchange differences originating from such translation methods have no impact on the income statement since they are directly recognised in equity.

Transactions in foreign currencies within individual subsidiaries are translated into the functional currency at actual rates of the transaction day. Monetary assets and liabilities are translated at year end rates. Non-monetary assets and liabilities that are stated at historical cost are translated at actual rates of the transaction day. Non-monetary assets and liabilities that are stated at fair value are translated at the rate at the date the values are determined. Exchange differences arising on the translation are included in the income statement.

The major foreign currency conversion rates applied are as follows:

INCOME STATEMENT AND CASH FLOW STATEMENT

(average rates for the year)

Currency	2005 CHF	Variance per cent	2004 CHF
EURO 1.–	1.5486	0.2	1.5451
USD 1.–	1.2432	0.2	1.2411

BALANCE SHEET

(year end rates)

Currency	2005 CHF	Variance per cent	2004 CHF
EURO 1.–	1.5585	0.9	1.5440
USD 1.–	1.3159	16.3	1.1318

6 FINANCIAL ASSETS AND LIABILITIES

The accounting policy applied to financial instruments depends on how they are classified. Financial assets and liabilities are classified into the following categories:

- Financial assets or liabilities **held for trading** (marketable securities) are those that are acquired or held with an intention to be sold in the near term to generate a profit from fluctuations in their fair value. All derivatives are classified as held for trading. Trading instruments are measured at their fair value at the balance sheet date. Any changes in fair value are recognised in the income statement (financial result) for the respective reporting period.
- **Loans and receivables** are carried at amortised cost calculated using the effective interest rate method, less allowances for impairment (see below).
- Financial assets/investments **available for sale** include all financial assets/investments not assigned to one of the above-mentioned categories. These include investments in affiliates that are not associates or joint ventures and investments in bonds and notes. Financial assets/investments available for sale are recognised at fair value, changes in value (after tax) are recognised directly in equity until the assets are sold, at which time the amount reported in equity is transferred to the income statement.
- **Financial liabilities** that are not at fair value through profit or loss are carried at amortised cost calculated using the effective interest rate method.

The fair value of investments held for trading and investments available for sale is their quoted bid price at the balance sheet date.

Derivatives and hedge accounting

Derivative financial instruments (foreign exchange contracts) are used to hedge the foreign exchange exposures on outstanding balances in the Group's internal clearing system, centralized at head office. Given that the Group's hedging activities are limited to hedges of recognised foreign currency monetary items, the Group does not apply hedge accounting. Derivatives held to hedge foreign currency exposures are carried at fair value and all changes in fair value are recognised immediately in the income statement. All derivatives with a positive fair value are shown as other receivables, while all derivatives with a negative fair value are shown as other liabilities.

Impairment of financial assets

If there is any indication that a financial asset (loan, receivable or financial asset/investment available for sale) may be impaired, its recoverable amount is calculated.

The recoverable amount of the Group's loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

Trade receivables are reported at their anticipated recoverable amounts. The allowance for bad debts is determined based on individual basis, or on a portfolio basis, where there is objective evidence that impairment losses have been incurred.

Where an asset's recoverable amount is less than its carrying amount, the asset is written down to its recoverable amount. All resultant impairment losses (after, for available for sale equity securities, reversing previous revaluations recognised in equity) are recognised in the income statement.

An impairment loss in respect of a financial asset is reversed if there is a subsequent increase in recoverable amount that can be related objectively to an event occurring after the impairment loss was recognised. Reversals of impairment losses are recognised in the income statement, with the exception for reversals of impairment losses on available for sale equity securities.

7 SEGMENT REPORTING

The segment reporting reflects the structure of the Group.

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The primary segmentation covers the business fields Sea & Air Logistics, Rail & Road Logistics, Contract Logistics and Insurance Broker/Other.

The secondary segmentation represents the main geographical areas.

Assets and liabilities cover all operating balance sheet positions which are directly, or on a reasonable basis, attributable to a segment.

8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are included in the consolidated financial statements at cost less accumulated depreciation and accumulated impairment losses (see note 12). The depreciation is calculated on a straight line basis considering the expected useful life of the individual assets. The following depreciation rates are applicable for the major categories:

	Per cent
Buildings	2½
Vehicles	20–25
Leasehold improvements	33⅓
Office machines	25
IT hardware	33⅓
Office furniture	20

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognised in the income statement as an expense as incurred.

9 LEASES

Leases that transfer substantially all the risks and rewards of ownership of the leased asset to the Group are classified as finance leases. Other leases are classified as operating leases.

Assets leased under finance leases are included at the present value of the future minimum lease payments or their fair value if lower, less accumulated depreciation and accumulated impairment losses. Leased assets are depreciated over the shorter of the lease term and their useful lives. The interest portion of the lease payments is expensed through the income statement based on the effective interest rate inherent in the lease.

Operating lease payments are treated as operating cost and charged to the income statement on a straight line basis over the lease period unless another basis is more appropriate to reflect the pattern of benefits to be derived from the leased asset.

10 INTANGIBLES10 INTANGIBLES

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired, and is allocated to cash generating units. Goodwill is stated at cost less accumulated impairment losses. Goodwill is tested annually for impairment. The impairment test may be performed at any time during an annual period, provided it is performed at the same time every year. The Group will test its goodwill for impairment at year-end. However, if there is an indication that goodwill would be impaired at any other point in time, an impairment test will be performed.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

Other intangibles

Other identifiable intangibles (i.e. software, customer lists, customer contracts, etc.) purchased from third parties or acquired in a business combination are separately recognised as other intangibles, and are stated at cost less accumulated amortisation and accumulated impairment losses. Other intangibles acquired in a business combination are recognised separately from goodwill if they are subject to contractual or legal rights or are separately transferable and their fair value can be reliably estimated. Software is amortised over its estimated useful life, maximum 3 years. Other intangibles are amortised on a straight line basis over their estimated useful life (5–10 years maximum). There are no intangibles with indefinite useful life recognised in the Group’s Balance Sheet.

11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of cash at banks and in hand and short term deposits with a term of three months or less from the date of acquisition. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash at banks and in hand and short-term deposits less bank overdrafts.

12 IMPAIRMENTS

The carrying amounts of the Group's investments in consolidated companies, associates and joint ventures and its intangibles and property, plant and equipment, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Goodwill is tested for impairment every year. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment losses

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

13 PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

14 PENSION PLANS, SEVERANCE PAYMENTS AND SHARE PARTICIPATION PLANS

Some consolidated companies maintain pension plans in favour of their personnel in addition to the legally imposed social insurance schemes. The pension plans partly exist as independent trusts and are operated either under a defined contribution or under a defined benefit plan.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by an independent, qualified actuary using the projected unit credit method.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Severance payments

The Group provides severance benefits to employees, as legally required in certain countries, which are accounted for as severance payments if material.

IFRS 2 Share based compensation

The employee share purchase and option plan allows Group employees to acquire shares of the Company. For further details on the Group's employee share purchase and option plan / share based compensation refer to note 3 and note 34 respectively.

15 REVENUE RECOGNITION

The income statement presentation reflects the unique nature of the income generated by an entity operating in the logistics and forwarding business. Turnover from services rendered is recognised in the income statement when the related services are performed and invoiced. In case the order has not been yet completed and not invoiced, the incurred costs are deferred and included under work in progress.

The gross profit, which represents the difference between the turnover and the services rendered by third parties, provides a better indication of performance in the logistic and forwarding industry than turnover.

16 TAXES

All taxes on income, profit, capital and real estate are provided for. The level of the provision is calculated based on the tax rates enacted or substantially enacted at the balance sheet date.

Both current and deferred tax is recognised in the income statement, except to the extent that the tax relates to items recognised directly in equity, in which case it is recognised in equity.

The provision for deferred tax is recognised following the comprehensive balance sheet liability method. As a consequence, all temporary differences between the consolidated and fiscal balance sheets are considered in the preparation of the year end accounts.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Non recoverable withholding tax on anticipated or probable next year's profit distributions by subsidiaries is also recorded under deferred tax liabilities.

A deferred tax asset in respect of temporary differences or tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

17 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than from continuing use. The asset (or disposal group) must be available for immediate sale in its present condition and the sale must be highly probable. Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in the income statement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations, or is a company acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

NOTES TO THE INCOME STATEMENT

18 PERSONNEL EXPENSES

CHF million	2005	2004
Salaries and wages	1,198.7	1,002.2
Social expenses and employee benefits	238.0	211.9
Expenses for employee share purchase and option plan	4.4	2.7
Pension plan expenses		
• Defined benefit plans	34.8	25.0
• Defined contribution plans	17.7	18.9
Other	6.3	11.2
	1,499.9	1,271.9

19 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

CHF million	2005	2004
Administrative expenses	129.8	106.2
Communication expenses	80.9	59.8
Travel and promotion expenses	66.3	57.1
Vehicle expenses	78.3	58.4
Operating expenses	76.0	60.3
Facility expenses	270.1	226.6
Bad debt and collection expenses	20.3	12.1
	721.7	580.5

20 OTHER OPERATING INCOME, NET

CHF million	2005	2004
Profit on disposal of property, plant and equipment	17.3	5.1
Loss on disposal of property, plant and equipment	(3.2)	(1.6)
	14.1	**3.5**

21 FINANCIAL INCOME AND EXPENSES

CHF million	2005	2004
Interest income	16.3	8.8
Exchange difference, net	7.1	–
Net result from unwinding of cross-shareholding arrangement-Semblog	–	25.9
Financial income	**23.4**	**34.7**
Interest expenses	(17.5)	(9.9)
Exchange difference, net	–	(4.4)
Financial expenses	**(17.5)**	**(14.3)**
Net financing result	**5.9**	**20.4**

22 INCOME TAX

CHF million	2005	2004
Current tax expense		
• in current year	124.3	118.7
• under/(over) provided in prior years	(4.0)	0.1
	120.3	**118.8**
Deferred tax expense		
• changes in temporary differences	(8.9)	(22.3)
• changes in tax losses recognised	1.2	1.4
• write down of deferred tax assets	14.9	5.6
	7.2	**(15.3)**
Income tax expense in income statement	**127.5**	**103.5**

Tax in the amount of CHF 11.9 million representing tax on the gain on disposal of treasury shares was recognised directly in equity.

Reconciliation of the effective tax rate

CHF million	2005	2004
Earnings before tax according to the income statement as of December 31	445.9	344.1
Income Tax	**117.9**	**100.6**
Expected tax rate	**26.4%**	**29.2%**
Tax effect on:		
• tax exempted income/expense	3.9	(5.6)
• tax losses utilised	(4.5)	(11.7)
• write down of deferred tax assets	14.9	5.6
• changes in tax rate for previously recognised deferred tax assets	1.6	5.3
• under/(over)provision in prior years	(4.0)	0.1
• other	(2.3)	9.2
Income tax	**127.5**	**103.5**
Effective tax rate	**28.6%**	**30.1%**

CHF million	31/12/2005	31/12/2004
Deferred tax assets		
• on provision for pension plans	17.7	13.5
• on tax losses carried forward	7.0	8.2
• on other temporary differences	47.6	33.4
	72.3	**55.1**

The recognised deferred tax assets relating to tax losses carried forward are expected to be used by the end of 2007 at the latest.

CHF million	31/12/2005	31/12/2004
Unrecognised deferred tax assets		
• on tax losses	16.7	23.5
• deductible temporary differences	101.5	79.8
	118.2	**103.3**

Realisation of the above deferred tax assets is considered unlikely, so that they have not been recognised. The unrecognised deductible temporary differences do not have an expiry date. The unrecognised deferred tax assets relating to tax losses expire by the end of the following years:

Year	CHF million
2006	0.7
2007	0.2
2008	0.1
2009	0.3
2010 and later	15.4
Total	**16.7**

CHF million	31/12/2005	31/12/2004
Deferred tax liabilities		
• on non recoverable withholding tax relating to anticipated distributions from subsidiaries	0.7	0.8
• on amortisation of financial investments	3.8	6.9
• on depreciation of property, plant and equipment and provision for bad debts	16.2	4.7
	20.7	**12.4**

23 EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations for the years ended December 31.

	2005	2004
Earnings for the year attributable to the equity holders of the parent in CHF million	315.0	238.1
Weighted average number of ordinary shares outstanding during the year	21,947,288	22,814,014
Effect of dilutive shares:		
Share options	138,382	115,519
Adjusted weighted number of ordinary shares applicable to diluted earnings per share	22,085,670	22,929,533
Basic earnings per share in CHF	**14.35**	**10.44**
Diluted earnings per share in CHF	**14.26**	**10.38**

NOTES TO THE BALANCE SHEET

24 PROPERTY, PLANT AND EQUIPMENT

CHF million	Properties, including buildings on third parties' land	Properties, buildings under finance leases	Other operating and office equipment	Total
Cost				
Balance as of January 1, 2005	617.6	65.8	385.7	1,069.1
Additions through business combinations	23.5	–	8.2	31.7
Other additions	100.0	–	89.6	189.6
Disposals	(92.1)	(54.5)	(65.6)	(212.2)
Adjustments/transfers	(0.4)	–	(1.9)	(2.3)
Effect of movements in foreign exchange	24.7	0.1	26.5	51.3
Balance as of December 31, 2005	**673.3**	**11.4**	**442.5**	**1,127.2**
Depreciation and impairment losses				
Balance as of January 1, 2005	120.5	33.8	285.1	439.4
Depreciation charge for the year	15.9	0.4	65.8	82.1
Disposals	(32.8)	(33.8)	(52.5)	(119.1)
Adjustments/Transfers	0.3	–	(2.6)	(2.3)
Effect of movements in foreign exchange	6.1	0.1	22.3	28.5
Balance as of December 31, 2005	**110.0**	**0.5**	**318.1**	**428.6**
Carrying amount				
As of January 1, 2005	**497.1**	**32.0**	**100.6**	**629.7**
As of December 31, 2005	**563.3**	**10.9**	**124.4**	**698.6**

Fire insurance value as of December 31, 2005 CHF 985 million. No property, plant and equipment were pledged and no restriction on title exists as of December 31, 2005.

CHF million	Properties, including buildings on third parties' land	Properties, buildings under finance leases	Other operating and office equipment	Total
Cost				
Balance as of January 1, 2004	509.9	55.0	411.6	976.5
Additions through business combinations	84.8	11.3	21.1	117.2
Other additions	51.1	–	55.6	106.7
Disposals	(14.7)	–	(94.9)	(109.6)
Adjustments/transfers	(7.4)	–	7.2	(0.2)
Effect of movements in foreign exchange	(6.1)	(0.5)	(14.9)	(21.5)
Balance as of December 31, 2004	**617.6**	**65.8**	**385.7**	**1,069.1**
Depreciation and impairment losses				
Balance as of January 1, 2004	113.3	33.8	278.5	425.6
Depreciation charge for the year	13.5	0.3	68.7	82.5
Disposals	(4.6)	–	(52.0)	(56.6)
Effect of movements in foreign exchange	(1.7)	(0.3)	(10.1)	(12.1)
Balance as of December 31, 2004	**120.5**	**33.8**	**285.1**	**439.4**
Carrying amount				
As of January 1, 2004	**396.6**	**21.2**	**133.1**	**550.9**
As of December 31, 2004	**497.1**	**32.0**	**100.6**	**629.7**

Fire insurance value as of December 31, 2004 CHF 845 million. No property, plant and equipment were pledged and no restriction on title exists as of December 31, 2004.

25 GOODWILL AND OTHER INTANGIBLES

CHF million	Goodwill		Other intangibles
Cost			
Balance as of January 1, 2005	423.8		39.3
Elimination of accumulated goodwill amortisation	(318.1)		–
Balance as of January 1, 2005, restated	105.7		42.7
Additions through business combinations	36.6	**	63.3
Other additions	–		22.8
Disposals	–		(6.0)
Adjustments/transfers	–		2.3
Effects of movements in foreign exchange	52.9		1.1
Balance as of December 31, 2005	**195.2**		**122.8**
Amortisation and impairment losses			
Balance as of January 1, 2005	318.1		26.6
Elimination of accumulated goodwill amortisation	(318.1)		–
Balance as of January 1, 2005, restated	–		30.0
Amortisation charge for the year	–		25.5
Impairment loss	24.8	***	–
Disposals	–		(2.7)
Adjustments/transfers	–		2.3
Effect of movements in foreign exchange	36.8		1.1
Balance as of December 31, 2005	**61.6**		**52.8**
Carrying amount			
As of January 1, 2005	**105.7**		**12.7**
As of December 31, 2005	**133.6**	*	**70.0**

* CHF 116.1 million of the total goodwill as of December 31, 2005, relates to the acquisition of USCO Logistics Inc. in July 2001, CHF 5.9 million to the acquisition of Pracht in January 2004 and CHF 11.6 million to the acquisition of Mönkemöller in June 2005.

** Goodwill arose on acquisition of the Häring Group and the Mönkemöller Group because certain intangible assets did not meet the IFRS 3 criteria for recognition as intangible assets at the date of acquisition. These assets are mainly represented by management expertise, work force, distribution channels and geographic presence.

*** In 2005, an impairment charge of CHF 24.8 million was recorded, relating to an impairment of goodwill that arose upon the acquisition of the Häring Group. The anticipated level of profitability at the date of acquisition at January 1, 2005 has not been achieved. The future expected cash flows were also worse than originally anticipated; this led the Group to assess the recoverable amount of the Häring operations. Based on the impairment test performed, the total carrying amount of goodwill of CHF 24.8 million was fully written off. The estimate of the recoverable amount was based on value in use, determined using the discount rate of 8 percent.

Other intangibles mainly comprise of customer contracts/lists and logistic networks based on contractual agreements and as well of software.

As a result of changes in the IFRS accounting rules and the recent acquisitions, the Group's operating income is increasingly impacted by amortisation of intangibles other than for software (amortization of software for the year 2005 amounted to CHF 14.0 Mio. – 2004: CHF 9.1 Mio.). No impairment of other intangibles was recorded in 2005. The following shows the impact per Segment:

	Airfreight		Rail & Road Logistics		Contract Logistics	
	2005	2004	2005	2004	2005	2004
EBITA	**124.3**	**114.3**	**4.5**	**29.1**	**56.5**	**47.3**
Amortisation of other intangibles excluding software	2.0	–	8.8	0.7	0.7	–
EBITA excluding the above items	**126.3**	**114.3**	**13.3**	**29.8**	**57.2**	**47.3**

Goodwill has been allocated to the Group's cash generating units. Significant carrying amounts of goodwill are allocated to cash generating units as follows:

Cash generating units within	2005	2004
Contracts Logistics	120.5	100.0
Rail & Road Logistics	13.1	5.7
	133.6	105.7

For the goodwill allocated to above cash generating units, the impairment tests are based on calculations of value in use. Cash flow projections based on actual operating results and the five year business plans have been used as input in the calculations. Cash flows for the remaining period are extrapolated using an adequate growth rate that is consistent with the long term average growth rate of industry. A pretax discount rate of 8–12 per cent has been used in discounting the projected cash flows. The recoverable amounts significantly exceed their carrying amounts.

The impairment loss of CHF 24.8 million recognised in 2005 relates to goodwill recorded on the acquisition of the Häring Group. The goodwill impaired in 2005 is allocated to the cash generating units within Contract Logistics CHF 6.2 million and Rail & Road Logistics CHF 18.6 million.

CHF million	Goodwill	Other intangibles
Cost		
Balance as of January 1, 2004	409.6	60.7
Additions through business combinations	45.9	13.4
Other additions	–	9.6
Disposals	–	(44.4)
Adjustments/transfers	–	0.2
Effects of movements in foreign exchange	(31.7)	(0.2)
Balance as of December 31, 2004	**423.8**	**39.3**
Amortisation and impairment losses		
Balance as of January 1, 2004	276.3	60.7
Amortisation charge for the year	57.7	9.8
Impairment loss	6.1	–
Disposals	–	(43.6)
Adjustments/transfers	–	–
Effect of movements in foreign exchange	(22.0)	(0.3)
Balance as of December 31, 2004	**318.1**	**26.6**
Carrying amount		
As of January 1, 2004	**133.3**	–
As of December 31, 2004	**105.7**	**12.7**

In 2004, an impairment charge of CHF 6.1 million was recorded relating to various acquisitions made in 2004. The estimates of recoverable amounts were based on value in use.

26 INVESTMENTS IN ASSOCIATE AND JOINT VENTURES

As per December 31, 2005 the following investments in joint ventures are held (all with 50% voting rights/KN share):
Hellenic & International Transport Company Proodos S.A., Athens, Greece
Arion Real Estate & Commercial S.A., Athens, Greece
Sindos S.A. Warehousing & Logistics, Thessaloniki, Greece
Kuehne + Nagel-ITS S.A.L., Beirut, Lebanon
Orient Transport Company Ltd., Jeddah, Saudi Arabia
Cologic S.A., Luxembourg

The table below provides summary financial information on joint ventures (100 per cent).

CHF million	31/12/2005	31/12/2004
Total Assets/Liabilities	101.5	81.3
Net invoiced Turnover	256.5	243.6
Earnings for the year	7.4	4.6

No investments in associates was recognised at December 31, 2005. WM Cargonet Group was previously accounted for as associate (see note 4).

CHF million	31/12/2005	31/12/2004
Joint Ventures	18.6	17.9
Associate	–	4.4
	18.6	**22.3**

27 WORK IN PROGRESS

This position increased from CHF 211.0 million in 2004 to CHF 270.7 million in 2005 which represents a billing delay of 5.8 working days against the previous year's 5.6 days, see note 15.

28 TRADE RECEIVABLES

Trade receivables outstanding as of the year-end averaged 38.8 days (2004: 35.6 days). 93.4 per cent (2004: 94.0 per cent) of the total trade receivables were outstanding between 1 and 90 days.

During the reporting period, CHF 7.5 million receivables have been written down. The majority of all billing is done in local currency and is mainly in EUR, USD and GBP.

Trade receivables of CHF 155.2 million (2004: CHF 131.7 million) are pledged as security for own bank liabilities mainly in the United States and South Africa.

29 OTHER RECEIVABLES

CHF million	31/12/2005	31/12/2004
Advances to employees	2.2	1.4
Receivables from tax authorities in respect of:		
• refundable withholding tax	1.2	1.3
• refundable VAT	26.7	23.2
• advance payments of tax	7.5	7.4
Receivables from social security authorities	3.2	2.9
Receivables from insurance companies	0.3	1.0
Other	22.1	25.5
	63.2	**62.7**

30 MARKETABLE SECURITIES

All marketable securities of CHF 15.7 million as per December 31, 2004 were sold during the reporting period and no other marketable securities were added in the year 2005.

31 CASH AND CASH EQUIVALENTS/BANK LIABILITIES (SHORT-TERM)

a. Cash and short term bank accounts

CHF million	31/12/2005	31/12/2004
Cash on hand and current and deposit accounts with banks	1,197.9	462.2
	1,197.9	**462.2**

The majority of the above mentioned amounts are held in commercial banks.

The majority of cash and cash equivalents are managed centrally in order to limit currency risk. A netting system and a Group cash pool is in place which also further reduce the currency exposure. Most of the bank balances held by Group companies are in their local currencies, which are mainly in CHF, EUR, USD and GBP.

b. Short term bank liabilities

CHF million	31/12/2005	31/12/2004
Bank liabilities (short term)	73.3	64.7
Short term overdraft facility not included in cash and cash equivalents	254.3	190.9
	327.6	**255.6**

Short term bank liabilities include long term loans and finance lease liabilities due for payment within 12 months of CHF 45.2 million (2004: CHF 6.6 million)

32 EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT

	Balance 31/12/2005				1/1/2005
	Registered shares of nominal CHF 5 each Number	CHF million	Capital share per cent	Voting share per cent	Registered shares of nominal CHF 5 each Number
Main shareholders:					
Kuehne Holding AG, Schindellegi	13,380,000	66.9	55.75	57.10	13,380,000
Public shareholders	10,046,773	50.2	41.86	42.90	8,226,000
entitled to voting rights and dividend	**23,426,773**	**117.1**	**97.61**	**100.00**	**21,606,000**
Treasury shares[1]	573,227	2.9	2.39	–	2,394,000
Total	**24,000,000**	**120.0**	**100.00**	**–**	**24,000,000**

[1] On December 31, 2005, the Company had 573,227 treasury shares, of which 303,978 are blocked under the Employee Share Purchase and Option Plan. Refer to note 34 for more information about the Employee Share Purchase and Option Plan.

In 2005, the Group sold 120,773 (2004: 87,426) treasury shares for CHF 18.9 million (2004: CHF 10.6 million) under the Employee Share Option and Purchase Plan and 1.7 million treasury shares were successfully offered to institutional investors for CHF 484 million to partly finance the purchase of ACR in 2006 (see note 49).

The Annual General Meeting held on May 12, 2004 approved the Board of Directors proposal to realise an approved share capital increase of 4 million registered shares up to a maximum of CHF 20 million restricted for a period of two years.

The Annual General Meeting, held on May 2, 2005, approved the Board of Directors proposal to realise a conditional share capital increase of 2.4 million registered shares up to a maximum of CHF 12 million and to add section 3.4 in the article of incorporation.

So far no use has been made of these rights. There is no resolution of the Board of Directors outstanding for a further issuance of either approved or conditional share capital.

33 PROVISIONS FOR PENSION PLANS AND SEVERANCE PAYMENTS

CHF million	Pension plans	Severance Payments	Total
Balance as of January 1, 2004	154.6	12.5	167.1
Provisions made	25.0	4.1	29.1
Provisions used	(11.1)	(3.1)	(14.2)
Effect of movements in foreign exchange	0.6	(0.5)	0.1
Balance as of December 31, 2004	**169.1**	**13.0**	**182.1**
Additions through business combinations	10.5	–	10.5
Provisions made	34.8	8.9	43.7
Provisions used	(15.2)	(4.2)	(19.4)
Effect of movements in foreign exchange	1.7	1.1	2.8
Balance as of December 31, 2005	**200.9**	**18.8**	**219.7**

Pension plans

The Group maintains defined benefit pension plans predominantly in Germany and Benelux, as well as defined contribution plans in some other countries. Retirements benefits vary from plan to plan reflecting applicable local practices and legal requirements. Retirement benefits are based on years of credited service and the compensation as defined.

The funded status of CHF 235.3 million, as included below, includes an amount of CHF 214.9 million in Germany where the assets are not allocated specifically to the pension plan.

The principal assumptions used in determining the liability for defined benefit obligations for the Group's plans are shown below:

Principal assumptions used in determining the net pension obligation	2005 per cent	2004 per cent
Discount rate	2.0–5.5	2.0–6.5
Expected rate of return on plan assets	1.5–4.5	1.5–5.0
Future compensation and pension increases	1.5–4.5	1.5–4.0
Fluctuation rate	1.5–2.0	1.5–2.0

Development CHF million	2005	2004
Net expense		
• Current service cost	10.2	6.7
• Interest cost	11.1	11.1
• Actuarial (gains)/losses	13.4	(2.4)
• Expected return on plan assets	0.1	9.6
Net expense recognised as personnel expense (Note 18)	**34.8**	**25.0**
Liability for defined benefit obligations		
• Present value obligation	273.7	218.0
• Fair value of plan assets	(38.4)	(44.0)
Funded status	235.3	174.0
• Unrecognized actuarial gains – net	(34.4)	(4.9)
Liability for defined benefit obligations	**200.9**	**169.1**
Movement in net liability for defined benefit obligations		
• Opening liability	169.1	154.6
• Additions through business combinations	10.5	–
• Net expense (as above)	34.8	25.0
• Exchange differences	1.7	0.6
• Contributions paid	(15.2)	(11.1)
Closing liability for defined benefit obligations	**200.9**	**169.1**

34 EMPLOYEE SHARE PURCHASE AND OPTION PLAN

In 2001, the Group implemented an employee share purchase and option plan. This plan allows Group employees to acquire shares of the Company. The employees can buy shares with a small reduction of the actual share price. The price of the shares is 90–96.5 per cent of the share price corresponding to the average closing price of one share at the SWX Swiss Exchange during the months April to June. There are no vesting conditions. The shares are restricted for a period of three years before being released to the employees. In addition, for each share purchased under this plan, the Company grants two options to the participants. Each option entitles the participant to purchase one share of Kuehne + Nagel International AG at a specified price. The exercise price is 100 per cent of the share price corresponding to the average closing price of one share at the SWX Swiss Exchange during the months April to June. The options vest three years after the grant date and can be exercised during the three-year period starting on the vesting date. The options cannot be settled in cash.

Shares granted

The fair value of the shares granted is measured at the market price of the Company's shares, adjusted to take into terms and conditions upon which the shares will be granted, such as blocking periods. 45,123 shares were granted in 2005 (2004: 41,326).

CHF	2005	2004
Fair value of shares granted at measurement date	267.00	180.50

The difference between the fair value of the shares at purchase date and the purchase price of the shares is recognised as a personnel expense (2005: CHF 0.5 million, 2004: CHF 0.8 million) with a corresponding increase in equity.

Options

The terms and conditions of the granted options are as follows:

Grant date	Exercise period	Number issued	Exercise price CHF	Number outstanding as of Dec 31, 2005	Number outstanding as of Dec 31, 2004
June 30, 2001	July 1, 2004– June 30, 2007	87,800	92.60	3,350	41,700
June 30, 2002	July 1, 2005– June 30, 2008	77,650	111.00	36,650	75,450
June 30, 2003	July 1, 2006– June 30, 2009	92,580	94.50	91,080	91,080
June 30, 2004	July 1, 2007– June 30, 2010	82,652	175.00	82,652	82,652
June 30, 2005	July 1, 2008– June 30, 2011	90,246	259.00	90,246	–
Total		**430,928**		**303,978**	**290,882**

The vesting condition is employment during the three year vesting period. The number and weighted average exercise prices of shares options are as follows:

	2005		2004	
	Weighted average exercise price (CHF)	Number of options	Weighted average exercise price (CHF)	Number of options
Options outstanding at January 1,	121.40	**290,882**	98.80	**258,030**
Options granted during the year	259.00	90,246	175.00	82,652
Options cancelled during the year	111.00	(1,500)	104.30	(3,700)
Options exercised during the year	101.70	(75.650)	92.60	(46,100)
Options outstanding at December 31,	167.20	**303,978**	121.40	**290,882**
Options exercisable at December 31,		40,000		41,700

The weighted average contractual life of the options outstanding at December 31, 2005 is 3.8 years (2004: 3.2 years). The options outstanding at December 31, 2005 have an exercise price in the range of CHF 92.60 to CHF 259.00 (2004: CHF 92.60 to CHF 175.00).

CHF	2005	2004
Fair value of options granted at measurement date	76.82	62.08
Share price	267.00	180.50
Exercise price	259.00	175.00
Expected volatility	31.57%	33.36%
Option life	6 years	6 years
Dividend yield	1.56%	1.75%
Risk-free interest rate (based on Swiss government bonds)	1.81%	2.61%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. The share options are granted under a service condition. Service conditions are not taken into account in the grant date fair value measurement of the services received.

Employee expenses

CHF million	2005	2004
Expense arising from employee share purchase	0.5	0.8
Expense arising from employee option plan	3.9	1.9
Total expense recognised as personnel expenses	**4.4**	**2.7**

35 NON-CURRENT BANK LIABILITIES

CHF million	31/12/2005	31/12/2004
– Between 1–5 years	3.5	5.0
– After 5 years	11.4	1.1
	14.9	**6.1**

The majority of above loans are in DKK and EUR and are on terms of prevailing market conditions.

36 FINANCE LEASE OBLIGATIONS

	2005			2004		
CHF million	Payments	Interest	Principal	Payments	Interest	Principal
Less than 1 year	2.7	0.7	2.0			
Between 1 and 5 years	4.4	2.1	2.3	6.1	2.3	3.8
After 5 years	13.8	4.2	9.6	14.4	4.6	9.8
	20.9	**7.0**	**13.9**	**20.5**	**6.9**	**13.6**

37 TRADE PAYABLES/ ACCRUED TRADE EXPENSES/ DEFERRED INCOME

CHF million	31/12/2005	31/12/2004
• Trade payables	829.9	619.1
• Accrued trade expenses	626.3	497.8
• Deferred income	80.8	76.8
	1,537.0	**1,193.7**

38 PROVISIONS

CHF million	Claim Provision*	Provision for deductible of transport liability insurance**	Other	Total Provisions
Balance 1/1/2004	23.0	–	2.4	25.4
Provisions used/reversed	(3.5)	–	(0.1)	(3.6)
Provisions made	10.3	9.0	7.2	26.5
Effect of movements in foreign exchange	–	–	–	–
Balance 31/12/2004	**29.8**	**9.0**	**9.5**	**48.3**
Balance 1/1/2005	29.8	9.0	9.5	48.3
Provisions used/reversed	(13.4)	–	(10.5)	(23.9)
Provisions made	6.9	10.8	16.4	34.1
Effect of movements in foreign exchange	0.6	–	0.9	1.5
Balance 31/12/2005	**23.9**	**19.8**	**16.3**	**60.0**

* Some companies are involved in legal cases based on forwarding and logistic operations. Some legal cases have been settled in the reporting period and corresponding payments have been made.

**An additional provision for deductible transport liability has been recognised for the current year's exposure.

39 OTHER LIABILITIES

CHF million	31/12/2005	31/12/2004
• Personnel expenses incl. profit participation and untaken annual leave	157.7	130.8
• Provision for tax liabilities	22.6	16.6
• Other operating expenses	97.5	74.3
• Interest payable	5.3	5.3
• Social security	20.8	20.5
• Other	22.7	11.1
	326.6	**258.6**

40 SEGMENT REPORTING

a) Primary reporting	Invoiced turnover		Gross profit		EBITA		EBIT*	
CHF million	2005	2004	2005	2004	2005	2004	2005	2004
Seafreight	7,503.2	6,111.4	943.5	780.9	243.3	183.1	243.3	180.4
Airfreight	3,010.8	2,601.4	527.3	475.7	124.3	114.3	124.3	108.5
Sea & Air Logistics	10,514.0	8,712.8	1,470.8	1,256.6	367.6	297.4	367.6	288.9
Rail & Road Logistics	2,094.5	1,587.8	400.1	276.9	4.5	29.1	(14.1)	6.6
Contract Logistics	1,334.4	1,170.8	866.4	765.9	56.5	47.3	50.3	14.5
Insurance Broker/Other	106.0	91.7	31.7	23.1	25.3	7.5	25.3	7.5
Total Group	**14,048.9**	**11,563.1**	**2,769.0**	**2,322.5**	**453.9**	**381.3**	**429.1**	**317.5**

* In 2004 amortisation and impairment of goodwill in the amount of CHF 63.8 million was recorded and allocated to Seafreight (CHF 2.7 million), Airfreight (CHF 5.8 million), Rail & Road Logistics (CHF 22.5 million) and Contract Logistics (CHF 32.8 million). Impairment of goodwill (Häring Group of companies – see note 25) impacted the EBIT in 2005 by CHF 24.8 million of which CHF 18.6 million has been allocated to Rail & Road Logistics and CHF 6.2 million to Contract Logistics.

The result from associate and joint ventures for 2005 of CHF 10.9 million (2004 CHF 6.2 million) is allocated as follows:

	2005	2004
Sea & Air Logistics	2.6	2.7
Rail & Road Logistics	7.4	2.2
Contract Logistics	0.9	1.3
Total	10.9	6.2

	Assets		Liabilities		Capital Expenditure		Depreciation/ Amortisation/ Impairment		Non cash expenses	
CHF million	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Seafreight	955.8	744.9	904.2	675.1	21.0	26.7	17.2	22.9	14.0	17.4
Airfreight	725.6	721.3	435.7	366.4	16.8	17.1	14.3	17.2	9.4	9.6
Sea & Air Logistics	1,681.4	1,466.2	1,339.9	1,041.5	37.8	43.8	31.5	40.1	23.4	27.0
Rail & Road Logistics	579.1	439.9	395.1	252.2	88.7	33.2	44.0	30.0	12.4	3.0
Contract Logistics	630.8	359.7	376.9	368.0	122.2	85.1	56.6	85.7	26.3	16.5
Insurance Broker	52.6	36.3	46.6	27.7	0.3	0.1	0.3	0.3	15.7	9.1
Unallocated corporate	1,277.5	541.0	2,062.9	1,153.7	–	–	–	–	–	–
Total Group	**4,221.4**	**2,843.1**	**4,221.4**	**2,843.1**	**249.0**	**162.2**	**132.4**	**156.1**	**77.8**	**55.6**

b) Secondary reporting

CHF million	Invoiced turnover 2005	Invoiced turnover 2004	Gross profit 2005	Gross profit 2004	EBITA 2005	EBITA 2004	EBIT 2005	EBIT 2004
Europe	8,578.2	6,891.6	1,612.5	1,304.9	209.1	184.7	184.3	150.8
Americas	3,297.4	2,826.9	729.0	673.1	108.2	85.4	108.2	61.0
Asia Pacific	1,344.2	1,167.5	322.3	260.3	118.5	100.8	118.5	100.8
Middle East, Central Asia and Africa	829.1	677.1	105.2	84.2	18.1	10.4	18.1	4.9
Total Group	**14,048.9**	**11,563.1**	**2,769.0**	**2,322.5**	**453.9**	**381.3**	**429.1**	**317.5**

CHF million	Assets 2005	Assets 2004	Liabilities 2005	Liabilities 2004	Capital Expenditure 2005	Capital Expenditure 2004	Depreciation/ Amortisation/ Impairment 2005	Depreciation/ Amortisation/ Impairment 2004	Non cash expenses 2005	Non cash expenses 2004
Europe	1,743.0	1,158.6	1,547.2	1,219.0	223.1	136.8	106.4	95.4	59.4	38.3
Americas	672.7	615.5	298.9	213.6	13.5	9.9	16.9	47.3	17.1	2.7
Asia Pacific	377.0	377.2	223.8	168.5	7.5	5.5	4.9	8.8	1.2	12.1
Middle East, Central Asia and Africa	151.2	141.8	88.6	79.4	4.9	10.0	4.2	4.6	0.1	2.5
Unallocated corporate	1,277.5	550.0	2,062.9	1,162.6	–	–	–	–	–	–
Total Group	**4,221.4**	**2,843.1**	**4,221.4**	**2,843.1**	**249.0**	**162.2**	**132.4**	**156.1**	**77.8**	**55.6**

NOTES TO THE CASH FLOW STATEMENT

41 ACQUISITON OF CONSOLIDATED COMPANIES

During the year, a number of consolidated companies and additional shares in already consolidated companies were acquired (see note 4) which had the following effect on the Group's assets and liabilities:

	2005			2004
CHF million	Carrying amounts	Fair value adjustments	Recognised values	Recognised values
Property, plant and equipment	31.5	–	31.5	117.2
Intangibles	–	62.7	62.7	13.4
Financial investments	14.9	(14.9)	–	–
Trade receivables and current assets	80.7	–	80.7	54.8
Acquired cash and cash equivalents, net	(0.5)	–	(0.5)	(5.0)
Subtotal assets	**126.6**	**47.8**	**174.4**	**180.4**
Trade payables and other short term liabilities	(97.9)	–	(97.9)	(72.5)
Non-current liabilities	(27.4)	(3.2)	(30.6)	(50.8)
Subtotal net identifiable assets and liabilities	**1.3**	**44.6**	**45.9**	**57.1**
Goodwill			36.3	45.9
Decrease in Minority interest			1.6	–
Purchase price, paid in cash, net			**83.8**	**103.0**
Acquired cash and cash equivalents			0.5	5.0
Net cash out flow			**84.3**	**108.0**

In the 2005 half year consolidated financial statements, the initial accounting for the acquisitions made in 2005 was only determined provisionally. No adjustments to these values were deemed necessary after having finalised the purchase accounting in the second half of the year.

The acquired subsidiaries accounted for CHF 37.9 million of losses to the consolidated earnings for the year. If all the acquisitions had occurred on January 1, 2005 Group invoiced turnover would have been CHF 14,194.8 million and earnings for the year would have been CHF 318.6 million.

OTHER NOTES

42 PERSONNEL (YEAR END SITUATION, UNAUDITED)

Number	31/12/2005	31/12/2004
Europe	14,392	11,092
Americas	5,568	5,481
Asia Pacific	3,946	3,107
Middle East, Central Asia and Africa	1,701	1,513
Total	**25,607**	**21,193**

43 CONTINGENT LIABILITIES

As of year end the following contingent liabilities existed:

CHF million	31/12/2005	31/12/2004
Guarantees in favour of clients and others	8.1	4.5
Contingencies under unrecorded claims	12.1	31.0
Total	**20.2**	**35.5**

44 OTHER FINANCIAL COMMITMENTS

As of year end the following financial commitments existed in respect of non cancellable long term operating leases and rental contracts.

As of 31/12/2005

CHF million Year	Properties and buildings	Operating and office equipment	Total
2006	163.1	26.5	189.6
2007–2010	376.6	25.5	402.1
Later	238.1	0.2	238.3
Total	**777.8**	**52.2**	**830.0**

The Group leases a number of warehouse facilities under operating leases. The leases run for a fixed period and none of the leases includes contingent rentals.

As of 31/12/2004

CHF million Year	Properties and buildings	Operating and office equipment	Total
2005	130.2	21.7	151.9
2006–2009	271.8	20.6	292.4
Later	183.0	–	183.0
Total	**585.0**	**42.3**	**627.3**

45 CAPITAL COMMITMENTS

As of year end the following financial commitments existed in respect of non cancellable purchase contracts.

CHF million	31/12/2005	31/12/2004
Spain	–	11.1
New Zealand	–	1.8
Germany	40.3	4.6
Belgium	29.1	–
Other	–	0.8
Total	**69.4**	**18.3**

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to market risk, including primarily changes in interest rates and currency exchange rates and uses foreign exchange contracts in connection with its risk management activities. The Group does not hold or issue derivative financial instruments for trading purposes.

Interest rate risks

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's investment portfolio. The portfolio includes mainly bonds traded in active markets to ensure portfolio liquidity. The Group's interest rate exposure on its liabilities is limited due to the short term nature of most of the borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk in the investment portfolio.

Currency risks

The Group sells its services on a worldwide basis and, as a result, is exposed to movements in foreign currency exchange rates, mainly EUR, USD and GBP. Derivative financial instruments (foreign exchange contracts) are in use to hedge the foreign exchange exposure on recognised monetary items. As of year-end, there were no material derivative instruments outstanding. Monthly payments are conducted through a Group clearing system in EUR, which facilitates monitoring and control of group-wide exchange exposures. Forecast transactions are not hedged.

Market risks

Changes of fair values in financial assets or liabilities may have an impact on the profit and the equity of the Group. The exposures are not significant because the Group does not conduct significant financial or investing activities.

Credit risks

The Group considers its credit risk to be minimal as excess liquidity is invested in bonds and short term deposits with first class financial institutions.

The Group has strict credit approval and monitoring procedures in place. Credit approval is necessary before credit is given to any customer. The Group conducts business on a world wide basis and there are no significant concentrations of credit risks. In respect of trade receivables, it is considered that the credit insurance is sufficient to cover potential credit risk concentrations.

47 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial assets and liabilities are approximately the carrying amounts.

48 RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its consolidated companies, joint ventures and with its directors and executive officers.

The Group's operations involve operating activities between the parent company and its consolidated companies and between the consolidated companies due to the nature of business. Overheads are to a certain extent also charged to the consolidated companies based on their use of services provided. All these transactions are eliminated upon consolidation. There were no significant transactions between the Group and its joint ventures and other related parties.

Transactions with related parties are conducted at arm's length.

The total remuneration paid to the members of the Board of Directors and of the Management Board of Kuehne + Nagel International AG, Schindellegi, Switzerland amounted in 2005 to:

- Management Board CHF 9.2 million
- Board of Directors CHF 5.7 million

As of December 31, 2005, no loans or any other commitments were outstanding towards members of the Board of Directors nor of the Management Board. Members of the Board and the Management Board control 56% (2004: 56%) of the voting shares of the Company.

The following compensation has been paid to key management personnel by category:

	Management Board		Board of Directors	
CHF million	2005	2004	2005	2004
Wages, salaries and other short-term employee benefits	8.2	6.4	5.7	5.1
Post-employment benefits	0.3	0.4	–	–
Equity compensation benefits	0.7	0.9	–	–
Total Key Management Compensation	**9.2**	**7.7**	**5.7**	**5.1**

For other related parties refer to note 32 outlining shareholder's structure and pages 150 to 153 listing the main consolidated companies, associates and joint ventures.

49 POST BALANCE SHEET EVENTS

Effective January 1, 2006, Kuehne + Nagel International AG, Switzerland, acquired 100% of the shares of ACR Logistics Holdings B.V. (ACR) headquartered in Paris, France. ACR Logistics ranks among the leading contract providers in Europe with a leading market position in Great Britain, France, Italy and the Benelux. ACR Logistics operates at 140 locations in 11 countries, wherein it manages 2.2 million sqm of warehouse space. ACR Logistics has a strong presence on the retail, telecommunication, industrial and fast moving consumer goods markets. ACR employed about 15,000 employees in the year 2005.

The company will be consolidated as per January 1, 2006. The purchase price for 100% of the shares of ACR Logistics Holding B.V. in the amount of EUR 440 million has been paid in cash (see note 32).

50 ACCOUNTING ESTIMATES AND JUDGMENTS

The Management has carefully considered the development, selection and disclosure of the Group's accounting policies and estimates and the application of these policies and estimates.

Purchase accounting

Intangible assets acquired in a business combination are required to be recognised separately from goodwill and amortised over their useful life if they are subject to contractual or legal rights or are separately transferable and their fair value can be reliably estimated. The Group has separately identified from goodwill and recognised customer lists, customer contacts, extended geographical logistic networks based on contractual agreements in the acquisitions made in 2005 (see note 25).

The fair value of these acquired intangible assets is based on valuation techniques. The valuation models require input based on assumptions about the future. Management uses its best knowledge to estimate fair value of acquired intangible assets on acquisition date. The value of intangible assets is tested for impairment when there is an indication that they might be impaired (see below). The management must also make assumptions about the useful life of the acquired intangible assets, which might be effected by factors such as increased competition.

Carrying amount of goodwill, other intangibles and property, plant and equipment

The Group tests its goodwill with a total carrying amount of CHF 133.6 million for impairment every year as disclosed in note 10. An impairment loss of CHF 24.8 million was recognised in 2005. The Group also assesses annually whether there are any indicators that other intangible assets (as well as property, plant and equipment) are impaired. In such a case, the assets are tested for impairment. The carrying amount of other intangibles is CHF 70 million and of property, plant and equipment is CHF 698.6 million.

The impairment tests are normally based on value in use calculations. These calculations involve a variety of assumptions such as estimates of future cash in and outflows and choice of a discount rate. Actual cash flows might for example differ significantly from management's current best estimate. Changes in assessed presence or absence of competitors, technological obsolescence etc. might impact the future cash flows and result in recognition of impairment losses.

Accrued expenses and deferred income

Freight forwarding orders which are completed and for which the costs are not fully received are accrued for expected costs based on best estimate. The orders which are not complete on account of pending service or orders for which revenue is earned and relevant costs can not be estimated, the related revenue is deferred. The Group management's judgment is involved in the estimate of costs and deferral of revenue and their completeness.

Income tax

Judgement and estimates are required when determining deferred, as well as current, tax assets and liabilities. Management believes that its estimates, based on for example interpretation of tax laws, are reasonable. Changes in tax laws and rates, interpretations of tax laws, earnings before tax, taxable profit etc. might have an impact on the amounts recognised as tax assets and liabilities.

The Group has recognised a deferred net tax asset of CHF 51.6 million. The Group also has unrecognised deferred tax assets relating to tax losses and deductible temporary differences of CHF 118.2 million (see note 22). Based on estimates of the probability of releasing these tax benefits, available taxable temporary differences, periods of reversals of such differences etc. management does not believe that the criteria to recognise deferred tax assets are met.

51 RESOLUTION OF THE BOARD OF DIRECTORS

The consolidated financial statements of Kuehne + Nagel International AG were authorised for issue by the Board of Directors on March 10, 2006. A resolution to approve the consolidated financial statements will be proposed at the annual meeting of shareholders on May 2, 2006.

REPORT OF THE GROUP AUDITORS TO THE GENERAL MEETING OF KUEHNE + NAGEL INTERNATIONAL AG, SCHINDELLEGI, SWITZERLAND

As group auditors, we have audited the consolidated financial statements (consisting of the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and the notes to the consolidated financial statements on pages 107 to 148 of Kuehne + Nagel International AG for the year ended December 31, 2005.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with the Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG Fides Peat

Günter Haag	Roger Neininger
Swiss Certified Accountant	*Swiss Certified Accountant*
	Auditor in Charge

Zurich, March 10, 2006

MAIN CONSOLIDATED COMPANIES, ASSOCIATES AND JOINT VENTURES*

Country	Name of the company	Location	Currency	Share capital (in 1,000)	Kuehne + Nagel share (in per cent)
HOLDING- AND MANAGEMENT COMPANIES					
Switzerland	Kuehne + Nagel International AG	Schindellegi	CHF	120,000	100
	Kuehne + Nagel Management AG	Schindellegi	CHF	1,000	100
	Kuehne + Nagel Internationale Transporte AG	Schindellegi	CHF	750	100
	Kuehne + Nagel Liegenschaften AG	Schindellegi	CHF	500	100
	Kuehne + Nagel Treasury AG	Schindellegi	CHF	1,500	100
	Nacora Holding AG	Schindellegi	CHF	500	100
	Nacora Agencies AG	Schindellegi	CHF	400	100
	Kuehne + Nagel Asia Pacific Holding AG	Schindellegi	CHF	2,500	100
OPERATING COMPANIES					
Europe					
Albania	Transalbania Ltd.	Tirana	ALL	9,300	51
Austria	Kuehne + Nagel Speditions AG	Vienna	EUR	1,090	100
	Kuehne + Nagel Ges.m.b.H.	Vienna	EUR	1,820	100
Belgium	Kuehne + Nagel NV	Antwerp	EUR	6,337	100
	Kuehne + Nagel Logistics NV	Antwerp	EUR	61	100
	Nacora Insurance Brokers NV	Brussels	EUR	240	100
Bulgaria	Kuehne + Nagel e.o.o.d.	Sofia	BGL	365	100
Croatia	Kuehne + Nagel d.o.o.	Zagreb	HRK	4,300	100
Cyprus	Nakufreight Ltd.	Nicosia	CYP	10	70
Czech Republic	Kuehne + Nagel spol. s.r.o.	Prague	CZK	11,000	100
	NHN spol. s.r.o.	Olomouc	CZK	10,000	100
Denmark	Kuehne + Nagel A/S	Copenhagen	DKK	5,000	100
	GT Spedition A/S	Aalborg	DKK	500	100
Estonia	Kuehne + Nagel Eesti OÜ	Tallinn	EEK	800	100
Finland	OY Kuehne + Nagel Ltd.	Helsinki	EUR	200	100
France	Kuehne + Nagel (France) S.A.	Paris	EUR	7,000	100
	Kuehne + Nagel S.A	Paris	EUR	38	100
	Transalfra S.A.R.L.	Paris	EUR	45	100
	Nacora (France) S.A.	Paris	EUR	40	100
	Kuehne + Nagel Participations Sarl, France	Paris	EUR	5,300	100
Germany	Kuehne + Nagel (AG & Co.) KG	Bremen	EUR	15,000	100
	Cargopack Verpackungsgesellschaft für Industriegüter GmbH	Bremen	EUR	307	100
	Kuehne + Nagel Airlift GmbH	Frankfurt	EUR	256	100
	Kuehne + Nagel Beteiligungs-AG	Bremen	EUR	10,277	100
	Kuehne + Nagel Euroshipping GmbH	Regensburg	EUR	256	100
	Stute Verkehrs GmbH	Bremen	EUR	1,023	100
	Pact GmbH	Hamburg	EUR	50	100
	CS Parts GmbH	Bremen	EUR	1,550	50
	Häring Service Company AG	Grafenau	EUR	4,300	100
	Zippert Logistik + Spedition GmbH & Co. KG	Hamburg	EUR	2,000	100
	Gebr. Mönkemöller GmbH & Co. KG	Bielefeld	EUR	827	100
	Gebr. Mönkemöller & Rieck Speditionsges.mbH & Co. KG	Dietzenbach	EUR	767	100
	WM Cargonet GmbH & Co. KG	Bocholt	EUR	238	100
	WM Sea Air Transport GmbH	Duisburg	EUR	512	100
	Pracht Spedition + Logistik GmbH	Haiger	EUR	7,700	100
	Nacora Versicherungsmakler GmbH	Hamburg	EUR	77	100
	Gustav F. Hübener GmbH	Hamburg	EUR	26	100

Country		Name of the company	Location	Currency	Share capital (in 1,000)	Kuehne + Nagel share (in per cent)
Greece	*	Arion Real Estate & Commercial S.A.	Athens	EUR	411	50
	*	Hellenic & International Transport Company 'Proodos' S.A.	Athens	EUR	3,900	50
	*	Sindos S.A. Warehousing & Logistics	Thessaloniki	EUR	4,549	50
Hungary		Kuehne + Nagel Kft.	Budapest	HUF	130,000	100
Ireland		Kuehne + Nagel (Ireland) Ltd.	Dublin	EUR	500	100
Italy		Kuehne + Nagel S.p.A.	Milan	EUR	4,589	100
Latvia		Kuehne + Nagel Latvia SIA	Riga	LVL	100	100
Luxembourg		Kuehne + Nagel S.a.r.l.	Luxembourg	EUR	5,750	100
		Kuehne + Nagel AG	Luxembourg	EUR	31	100
		Transfluvia GmbH	Luxembourg	EUR	250	100
		Kuehne + Nagel Investments S.a.r.l.	Luxembourg	EUR	50	100
Macedonia		Kuehne + Nagel d.o.o.e.l.	Skopje	MKD	8,232	100
Malta		Kuehne + Nagel Malta Ltd.	Hamrun	MTL	6	100
Netherlands		Kuehne + Nagel N.V.	Rotterdam	EUR	3,313	100
		Kuehne + Nagel Europe Holding B.V.	Rotterdam	EUR	18	100
		Stute International (Benelux) B.V.	Rotterdam	EUR	19	100
		Nether Cargo Services B.V.	Amsterdam	EUR	18	100
		Kuehne + Nagel Investments B.V.	Rotterdam	EUR	50	100
		Pact Benelux B.V.	Wijchen	EUR	18	60
		Nacora Assurantiekantoor B.V.	Rotterdam	EUR	45	100
Norway		Kuehne + Nagel AS	Oslo	NOK	3,100	100
Poland		Kuehne + Nagel sp.z.o.o.	Poznan	PLZ	18,350	100
Portugal		Kuehne + Nagel Lda.	Porto	EUR	160	100
Romania		Kuehne + Nagel Transport SRL	Bucharest	RON	100,000	100
Russia		ZAO Kuehne + Nagel	Moscow	RUR	274	100
		OOO Kuehne + Nagel	Moscow	RUR	4,107	100
		OOO Kuehne + Nagel Sakhalin	Sakhalin	RUR	500	100
		OOO Nakutrans .	Moscow	RUR	278	100
Serbia & Montenegro		Kuehne + Nagel d.o.o	Beograd	YUM	3,039	100
Slovakia		Kuehne + Nagel s.r.o.	Bratislava	SKK	9,150	100
		Ferroviasped Slovakia	Bratislava	SKK	5,000	100
Slovenia		Kuehne + Nagel d.o.o.	Ljubljana	SIT	2,410	100
Spain		Kuehne + Nagel S.A.	Madrid	EUR	3,191	100
		Nacora Correduria de Seguros S.A.	Barcelona	EUR	150	100
		Kuehne + Nagel Investments SL	Madrid	EUR	3	100
Sweden		Kuehne + Nagel A/B	Stockholm	SEK	500	100
		Kuehne + Nagel Investment AB	Stockholm	SEK	1000	100
		Nacora Assurans Finans Service AB	Stockholm	SEK	100	100
Switzerland		Kuehne + Nagel AG	Embrach	CHF	3,000	100
		Nacora Insurance Brokers AG	Embrach	CHF	100	100
		Max Renz AG	Embrach	CHF	100	100
Ukraine		Kuehne + Nagel Ltd.	Kiev	UAK	21,997	100
United Kingdom		Kuehne + Nagel (UK) Ltd.	London	GBP	5,120	100
		Kuehne + Nagel Ltd.	London	GBP	4,000	100
		Kuehne + Nagel (NI) Ltd.	Belfast	GBP	10	100
		Nacora Insurance Brokers Ltd.	London	GBP	150	100

Country	Name of the company	Location	Currency	Share capital (in 1,000)	Kuehne + Nagel share (in per cent)
North- and Central America					
Bermuda	Kuehne + Nagel Ltd.	Hamilton	USD	12	100
Canada	Kuehne + Nagel Canada Holding Inc.	Toronto	CAD	2,910	100
	Kuehne + Nagel Ltd.	Toronto	CAD	8,022	100
	Kuehne + Nagel Logistics Inc	Toronto	CAD	-	100
	Nacora Insurance Brokers Ltd.	Toronto	CAD	-	100
Costa Rica	Kuehne + Nagel S.A.	San Jose	CRC	1	100
El Salvador	Kuehne + Nagel S.A. de C.V.	San Salvador	USD	69	100
Guatemala	Kuehne + Nagel S.A.	Guatemala	GTQ	291	100
Honduras	Kuehne + Nagel S.A.	San Pedro Sula	HNL	25	100
Mexico	Kuehne + Nagel S.A de C.V.	México’ D.F.	MXP	24,447	100
	Almacenadora Kuehne & Nagel S.A de C.V.	México’ D.F.	MXP	35,440	100
	Kuehne + Nagel Servicios Administrativos S.A de C.V	México’ D.F.	MXP	50	100
Nicaragua	Kuehne + Nagel S.A.	Managua	NIO	10	100
Panama	Kuehne + Nagel S.A.	Panama	USD	1	100
USA	Kuehne + Nagel Investment Inc.	Jersey City	USD	1,400	100
	Kuehne + Nagel Inc.	Jersey City	USD	1,668	100
	Nacora Insurance Brokers Inc.	Wilmington	USD	25	100
South America					
Argentina	Kuehne + Nagel S.A.	Buenos Aires	ARS	2,000	100
	Kuehne + Nagel (South America) Management S.A.	Buenos Aires	ARS	12	100
Bolivia	Kuehne + Nagel Ltda.	Santa Cruz	BOB	260	100
Brazil	Kuehne + Nagel Servicos Logisticos Ltda.	Sao Paulo	BRL	8,728	100
	Kuehne + Nagel Gerenciamento de Servicos Ltda.	Sao Paulo	BRL	25	100
	Nacora Corretagens de Seguros Ltda.	Sao Paulo	BRL	344	100
Chile	Kuehne + Nagel Ltda.	Santiago	CLP	575,000	100
Colombia	Kuehne + Nagel S.A	Bogotá	COP	1,200,000	100
	Kuehne + Nagel Colombia Aduana Sia S.A	Bogotá	COP	595,000	100
Ecuador	Kuehne + Nagel S.A.	Quito	USD	7	100
Peru	Kuehne + Nagel S.A.	Lima	PEN	481	100
	Kuehne + Nagel Peru Aduanas S.A	Lima	PEN	173	100
Uruguay	Kuehne + Nagel S.A.	Montevideo	UYU	3,908	100
Venezuela	Kuehne + Nagel S.A.	Caracas	VEB	1,000,000	100
	Kuehne + Nagel Venezuela Aduanas C.A.	Caracas	VEB	2,000	100
Asia Pacific					
Australia	Kuehne + Nagel Pty Ltd.	Sydney	AUD	2,900	100
Bangladesh	Kuehne + Nagel Ltd.	Dhaka	BDT	10,000	100
Cambodia	Kuehne + Nagel Ltd.	Phnom Penh	USD	5	100
China	Kuehne + Nagel Ltd.	Shanghai	USD	1,477	100
	Kuehne + Nagel Logistics Ltd.	Shanghai	USD	200	100
	Kuehne + Nagel Ltd.	Hong Kong	HKD	1,560	100
	Kuehne + Nagel (Asia Pacific) Management Ltd.	Hong Kong	HKD	100	100
	Transpac Container System Ltd.	Hong Kong	HKD	100	100
	Nacora Insurance Brokers Ltd.	Hong Kong	HKD	500	70
India	Kuehne + Nagel Pvt. Ltd.	New Delhi	INR	40,000	100
Indonesia	PT. Kuehne + Nagel – Sigma Trans	Jakarta	IDR	865,000	95
Japan	Kuehne + Nagel Ltd.	Tokyo	JPY	80,000	100
Korea	Kuehne + Nagel Ltd.	Seoul	KRW	500,000	100

Country		Name of the company	Location	Currency	Share capital (in 1,000)	Kuehne + Nagel share (in per cent)
Macau		Kuehne + Nagel Ltd.	Macau	HKD	971	100
		Nacora Insurance Brokers Ltd.	Macau	HKD	53	51
Malaysia		Kuehne + Nagel Sdn. Bhd.	Kuala Lumpur	MYR	1,521	100
		Nacora (Malaysia) Sdn. Bhd.	Kuala Lumpur	MYR	100	70
New Zealand		Kuehne + Nagel Ltd.	Auckland	NZD	201	100
Pakistan		Kuehne + Nagel (Pvt) Ltd.	Karachi	PKR	2,000	100
Philippines		Kuehne + Nagel Inc.	Manila	PHP	5,000	100
		Ocean Sky Brokerage Inc.	Manila	PHP	2,000	100
Singapore		Kuehne + Nagel Pte. Ltd.	Singapore	SGD	500	100
		ST – Kuehne + Nagel PTE Ltd.	Singapore	SGD	200	51
		Nacora Insurance Agency Pte. Ltd.	Singapore	SGD	100	100
Sri Lanka		Kuehne + Nagel (Pvt) Ltd.	Colombo	LKR	2,502	100
Taiwan		Kuehne + Nagel Ltd.	Taipei	TWD	20,000	100
		Nacora Insurance Brokers Ltd.	Taipei	TWD	2,000	70
Thailand		Kuehne + Nagel Ltd.	Bangkok	THB	10,000	100

Middle East and Central Asia

Bahrain		Kuehne + Nagel W.l.l.	Manama	BHD	200	100
Egypt		Kuehne + Nagel Ltd.	Cairo	EGP	1,000	100
Israel		Amex Ltd.	Tel Aviv	NIS	2	75
Iran		Kala Navgan Shargh Co. Ltd.	Teheran	IRR	2	60
		Caspian Terminal Services (Qhesm) Ltd.	Qhesm Island	IRR	200	57
Jordan		Orient Transport Company Ltd.	Amman	JOD	300	100
Kazakhstan		Kuehne + Nagel Ibrakom L.L.P.	Almaty	KZT	680	60
Lebanon	*	Kuehne + Nagel-ITS S.A.L.	Beirut	LBP	113,000	50
Saudi Arabia	*	Orient Transport Company Ltd.	Jeddah	SAR	1,000	50
Turkey		Kuehne + Nagel Nakliyat Ltd. Sti.	Istanbul	TRL	3,720	100
UAE		Kuehne + Nagel L.L.C.	Dubai	AED	1,000	100
		Kuehne + Nagel L.L.C.	Abu Dhabi	AED	1,000	100
		Kuehne + Nagel Ibrakom FZCo., Jebel Ali Free Zone	Dubai	USD	273	60
		Ibrakom Cargo L.L.C.	Dubai	USD	82	60
		Lloyds Maritime & Trading Ltd.	London	USD	-	60

Africa

Angola		Kuehne + Nagel (Angola) Transitarios Lda	Luanda	AON	1,020	100
Equatorial Guinea		Kuehne + Nagel (Equatorial Guinea) Ltd.	Malabo	CFA	1046	100
Kenya		Kuehne + Nagel Ltd.	Nairobi	KES	63,995	100
Lesotho		Kuehne + Nagel (Pty) Ltd.	Maseru	ZAR	1	100
Malawi		Kuehne + Nagel Ltd.	Blantyre	MWK	500	100
Mauritius		Kuehne + Nagel (Mauritius) Ltd.	Port Louis	MUR	4,000	61
Mozambique		Kuehne + Nagel Mocambique Lda.	Beira	MZM	133	100
Namibia		Kuehne + Nagel (Pty) Ltd.	Windhoek	NAD	340	100
Nigeria		Kuehne + Nagel (Nigeria) Ltd.	Lagos	NGN	0	100
South Africa		Kuehne + Nagel (Pty) Ltd.	Johannesburg	ZAR	3,625	100
		Kuehne + Nagel Tsepisa Logistics (Pty) Ltd.	Johannesburg	ZAR	100	60
		Nacora Insurance Brokers (Pty) Ltd.	Johannesburg	ZAR	35	100
Tanzania		Kuehne + Nagel Ltd.	Dar es Salaam	TZS	525	100
Uganda		Kuehne + Nagel Ltd.	Kampala	UGX	418	100
Zambia		Kuehne + Nagel (Zambia) Ltd.	Lusaka	ZMK	85	100
Zimbabwe		Kuehne + Nagel (Zimbabwe) (Pvt) Ltd.	Harare	ZWD	–	100

Financial Statements

INCOME STATEMENT

CHF million	Note	2005	2004
Income			
Income from investments in group companies	1	342.5	76.3
Income from investments in associates and joint ventures		3.1	2.2
Income on sale of investments		0.9	–
Income on sale from investments in affiliated companies		–	1.4
Income from marketable securities		5.6	4.1
Income from sale of treasury shares		218.3	4.2
Interest income on loans receivable from group companies		5.0	2.6
Other finance income		2.0	2.2
Exchange gains		3.6	2.0
Result from unwinding of cross-shareholding		–	67.6
Income from recovery of receivables from group companies previously written-down		–	0.3
		581.0	**162.9**
Expenses			
Operating expenses		(9.4)	(38.7)
Other interest expenses		(0.3)	(0.9)
Interest expenses on liabilities towards group companies		(4.7)	(2.9)
Exchange losses		(6.2)	(8.7)
Write-down of investements in group companies	2	(433.0)	(10.4)
		(453.6)	**(61.6)**
Earnings before tax		**127.4**	**101.3**
Tax	3	(0.1)	(2.9)
Earnings for the year		**127.3**	**98.4**

BALANCE SHEET

CHF million	Note	31/12/2005	31/12/2004
ASSETS			
Investments in group companies	5	808.4	280.0
Non current assets		**808.4**	**280.0**
Prepayments		0.7	0.5
Receivables from group companies	6	356.7	428.3
Other receivables		5.2	2.3
Marketable securities	8	95.4	414.0
Cash and cash equivalents	9	100.8	79.9
Current assets		**558.8**	**925.0**
Total Assets		**1,367.2**	**1,205.0**

CHF million	Note	31/12/2005	31/12/2004
LIABILITIES AND EQUITY			
Share capital	10	120.0	120.0
Reserves	11	384.1	81.1
Reserve for treasury shares	12	95.4	398.3
Retained earnings	13	1.6	0.7
Earnings for the year		127.3	98.4
Equity		**728.4**	**698.5**
Provision for tax		2.4	2.7
Other provisions and accruals		2.4	11.7
Provisions		**4.8**	**14.4**
Liabilities towards group companies	7	634.0	492.1
Liabilities		**634.0**	**492.1**
Total Liabilities and Equity		**1,367.2**	**1,205.0**

Schindellegi, March 10, 2006

KUEHNE + NAGEL INTERNATIONAL AG

Klaus Herms — CEO

Gerard van Kesteren — CFO

NOTES TO THE FINANCIAL STATEMENTS 2005

GENERAL REMARKS

Kuehne + Nagel International AG directly or indirectly controls all of the companies which are fully consolidated in the group financial statements. For financial and economic assessment purposes, the group financial statements are of paramount importance. The financial statements of Kuehne + Nagel International AG included in this part of the annual report were prepared in accordance with the provisions of Swiss commercial law and serve as complementary information to the group financial statements.

FINANCIAL STATEMENT PRESENTATION AND PRINCIPLES OF VALUATION

Financial investments

The investments in subsidiaries, associates and joint ventures are recognised in the balance sheet at cost. Of these values write-downs are effected by using the maximum possibilities for depreciation as allowed under Swiss commercial law. Once a write-down has been recognised, the investment is not re-valued, even if the earning power and/or the year-end equity position subsequently improves.

Receivables

- From group companies
  The balances outstanding are recorded at their nominal value at year-end.
- Other
  Other receivables are recorded at their nominal value at year-end.

Marketable securities

Marketable securities are valued at fair market value or at year end stock exchange value respectively, except for the treasury shares, which are valued at cost. Marketable securities having a year-end market value below or above their cost or book value are revalued or written-down as applicable. Unrealised gains and losses are recognised in the income statement.

Provision for tax

All Swiss taxes on income and capital are provided for in the year-end accounts.

Liabilities

- Towards consolidated companies
  Liabilities due to consolidated companies are recorded at their nominal value at year-end.

NOTES TO THE INCOME STATEMENT

1 INCOME FROM INVESTMENTS IN CONSOLIDATED COMPANIES

The income from investments in consolidated companies relates to dividends received.

2 WRITE-DOWN OF INVESTMENTS IN CONSOLIDATED COMPANIES

The write-down of investments in consolidated companies is shown in the development of financial investments note 5.

3 TAX

CHF million	2005	2004
Income tax	0.1	2.6
Non recoverable foreign withholding tax	–	0.3
Total income tax	**0.1**	**2.9**

NOTES TO THE BALANCE SHEET

4 NON CURRENT ASSETS

The company's non current assets consist entirely of financial investments. The analysis of financial investments and their development in 2005 is shown on pages 162.

A schedule of the Group's main investments with indications of the paid-in share capital and Kuehne + Nagel's share in the respective equity is shown on pages 150–153 of the consolidated financial statements.

5 DEVELOPMENT OF INVESTMENTS

CHF million	Investments in consolidated companies	Investments in associates and joint ventures	Investments in affiliated companies	Total
Cost				
Balance January 1, 2005	1,028.3	1.7	1.3	1,031.3
Additions	1,009.5	(48.1)	–	961.4
Disposals	(6.9)	(1.6)	–	(8.5)
Balance December 31, 2005	**2,030.9**	**(48.0)**	**1.3**	**1,984.2**
Cumulative depreciation				
Balance January 1, 2005	748.3	1.7	1.3	751.3
Additions	481.1	(48.1)	–	433.0
Disposals	(6.9)	(1.6)	–	(8.5)
Balance December 31, 2005	**1,222.5**	**(48.0)**	**1.3**	**1,175.8**
Book value				
at January 1, 2005	**280.0**	–	–	**280.0**
at December 31, 2005	**808.4**	–	–	**808.4**

In 2005 the reorganisation in the European region was finalized by selling an associate. As a result of the transfer to a Sub-Holding a gain on sale of CHF 48.1 million has materialized and was booked against the above mentioned depreciation expense of the year amounting to CHF 481.1 million. The net depreciation charge disclosed in the income statement amounts to CHF 433 million.

The tax impact of the reorganisation was reviewed by the tax authority (Steuerverwaltung Schwyz, Schweiz) and it has since been confirmed that the whole transaction would not trigger any income tax. However, according to Circulation No. 10 of the Swiss tax authority income tax would arise, if one or several investments are fully or partly sold or liquidated until December 31, 2006.

6 RECEIVABLES FROM GROUP COMPANIES

CHF million	31/12/2005	31/12/2004
Kuehne + Nagel Treasury AG, Schindellegi	193.5	19.7
Kuehne + Nagel Liegenschaften AG, Schindellegi	21.3	20.7
Kuehne + Nagel Management AG, Schindellegi	62.1	–
Nacora Holding AG, Schindellegi	26.9	29.7
Kuehne + Nagel Europe Holding B.V., Rotterdam	48.9	158.6
Kuehne + Nagel A/S, Copenhagen	2.6	8.3
Kuehne + Nagel Nakliyat Ltd. Sti., Instanbul	1.4	2.9
Kuehne + Nagel Investment S.L., Madrid	–	23.5
Kuehne + Nagel N.V., Rotterdam	–	122.9
Kuehne + Nagel Investment S.a.r.L., Luxembourg	–	42.0
	356.7	**428.3**

7 LIABILITIES TOWARDS GROUP COMPANIES

CHF million	31/12/2005	31/12/2004
Kuehne + Nagel Treasury AG, Schindellegi	0.1	–
Nacora Holding AG, Schindellegi	0.1	–
Kuehne + Nagel Management AG, Schindellegi	161.4	51.8
Kuehne + Nagel Asia Pacific Holding AG, Schindellegi	101.8	73.4
Kuehne + Nagel Internationale Transporte AG, Schindellegi	49.1	30.2
Nacora Agencies AG, Schindellegi	4.9	2.9
Ferroviasped Holding AG, Schindellegi	–	4.8
Nacora Insurance Brokers AG, Embrach (Zürich)	0.5	–
Kuehne + Nagel AG, Embrach (Zürich)	6.8	–
Kuehne + Nagel Services Ltd., Tortola	–	19.0
Transfluvia N.V., Rotterdam	–	9.9
Kuehne + Nagel Investment AB, Stockholm	–	15.4
Kuehne + Nagel Ltd., Bermuda	–	284.7
Kuehne + Nagel B.V. Antwerp	309.3	–
	634.0	**492.1**

8 MARKETABLE SECURITIES

CHF million	31/12/2005	31/12/2004
Marketable securities are in following currencies:		
• Swiss Francs	–	7.3
• EURO	–	8.4
Total marketable securities	**–**	**15.7**
Treasury shares[1]	95.4	398.3
	95.4	**414.0**

[1] See note 12

9 CASH AND CASH EQUIVALENTS

CHF million	31/12/2005	31/12/2004
The bank deposits are in the following currencies:		
• Swiss Francs	78.1	73.9
• EURO	21.8	3.4
• US Dollar	0.9	2.6
	100.8	**79.9**

10 SHARE CAPITAL

	Registered shares at nominal CHF 5 each Number	CHF million
Balance 31/12/2005	24,000,000	120

For details refer to note 32 on page 134 of the consolidated financial statements.

The Annual General Meeting held on May 12, 2004 approved the Board of Directors proposal to realise an approved share capital increase of 4 million registered shares up to a maximum of CHF 20 million restricted for a period of 2 years.

The Annual General Meeting, held on May 2, 2005, approved the Board of Directors proposal to realise a conditional share capital increase of 2.4 million registered shares up to a maximum of CHF 12 million and to add section 3.4 in the article of incorporation.

So far no use has been made of these rights. There is no resolution of the Board of Directors outstanding for a further issuance of either approved or conditional share capital.

11 RESERVES

CHF million	Reserve	Legal reserve	Total reserves and retained earnings brought forward
Balance 1/1/2005	**21.1**	**60.0**	**81.1**
Additions from release of reserve for treasury shares[1]	303.0	–	303.0
Balance 31/12/2005	**324.1**	**60.0**	**384.1**

[1] See note 12

12 RESERVE FOR TREASURY SHARES

CHF million		
Balance 1/1/2005	2,394,000 shares (9.97 per cent)	398.3
Disposal of	(120,773) shares (0.50 per cent) employe share purchase and option plan	(20.1)
Sale of	(1,700,000) shares (7.08 per cent) public	282.8
Balance 31/12/2005	**573,227 shares (2.39 per cent)**	**95.4**

In agreement with the provisions of Swiss commercial law regarding the valuation of treasury shares, the company released a reserve equivalent to the purchase price of the treasury shares.

13 RETAINED EARNINGS

CHF million	
Balance 1/1/2004 (before appropriation of available earnings)	0.7
Net income 2004	98.4
Distribution of earnings 2004 (according to the resolution of the ordinary shareholders' meeting of 2/5/2005):	
• Dividend to shares holders	(97.5)
Balance 31/12/2004 (after appropriation of available earnings)	**1.6**

OTHER NOTES

14 CONTINGENT LIABILITIES

CHF million	31/12/2005	31/12/2004
As at year end the following contingent liabilities existed:		
• Guarantees in favour of third parties	0.2	0.2
	0.2	**0.2**

15 PROPOSAL OF THE BOARD OF DIRECTORS TO THE ORDINARY ANNUAL GENERAL MEETING MAY 2, 2006 RE: APPROPRIATION OF THE AVAILABLE EARNINGS 2005

CHF million	
Balance 1/1/2005 (before income for the year)	1.6
Net income 2005	127.3
Available earnings 31/12/2005	128.9
Distribution to the shareholders (representing CHF 5.50 per share[1])	(128.8)
Balance 31/12/2005 (after appropriation of available earnings)	**0.1**

[1] The total dividend amount covers all outstanding registered shares. However registered shares still held in treasury on the date of the dividend declaration are not eligible for dividend payments. In consequence, the reported total dividend amount may be correspondingly changed.

REPORT OF THE STATUTORY AUDITORS TO THE GENERAL MEETING OF KUEHNE + NAGEL INTERNATIONAL AG, SCHINDELLEGI

As statutory auditors, we have audited the accounting records and the financial statements income statement, balance sheet, and notes on pages 155 to 165 of Kuehne + Nagel International AG for the year ended December 31, 2005.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with the Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

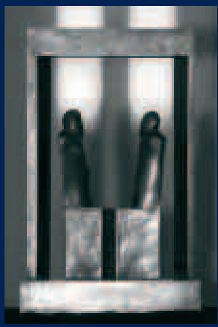
KPMG Fides Peat

Günter Haag	Roger Neininger
Swiss Certified Accountant	*Swiss Certified Accountant*
	Auditor in Charge

Zurich, March 10, 2006

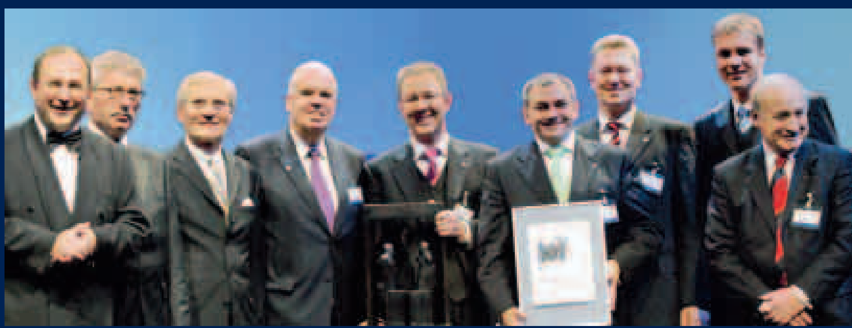
CORPORATE TIMETABLE 2006

13.03.2006	Press Conference 2005 result Analyst Conference 2005 result
24.04.2006	Announcement 1st Quarter 2006 result
02.05.2006	Annual General Meeting
08.05.2006	Dividend distribution
24.07.2006	Announcement Half Year 2006 result
23.10.2006	Announcement Nine Months 2006 result



GERMAN LOGISTICS AWARD 2005 GOES TO KUEHNE + NAGEL

Our excellent services also impressed the German Logistics Association. On October 20, 2005, at a reception ceremony held at the Deutsche Oper Berlin, Kuehne + Nagel was honoured with the German Logistics Award. The prestigious prize recognises our innovative, integrated logistics services for the aviation industry.



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