Notes to the Consolidated Financial Statements

PRINCIPLES OF CONSOLIDATION AND VALUATION

1 General

The consolidated financial statements of the Kuehne & Nagel Group for the year ended December 31, 2001 were authorized for issue in accordance with a resolution of the Board of Directors on March 22, 2002. The ultimate parent company of the Kuehne & Nagel Group is Kuehne & Nagel International AG, a limited company incorporated in Schindellegi (Switzerland).

The nature of the business consists of international freight forwarding and contract logistic activities.

2 Summary of significant accounting policies

The consolidated financial statements of the Group are based on the individual financial statements of the consolidated subsidiaries as of December 31, 2001. Those financial statements have been prepared in accordance with uniform accounting policies issued by the Kuehne & Nagel Group which are conform with the requirements of the International Accounting Standards (IAS) and with the interpretations issued by the Standing Interpretations Committee of the International Accounting Standard Board (IASB) and with Swiss law. The consolidated financial statements of the Group have been prepared on a historical cost basis except for real estate properties in Germany (Revaluation in 1989), certain financial instruments and marketable securities which were included at fair market value.

No new standards have been introduced, as the standard IAS 39 Financial Instruments, has already been applied for in 2000. IAS 40, Investment Property, is not applicable for Kuehne & Nagel Group. Newly enacted interpretations of Standard Interpretation Committee (SIC) were also applied.

The financial statements under IAS contain certain assumptions and estimates which affect the figures shown in the present report. The true result may differ from these estimates.

3 Scope of consolidation

The major consolidated and associated companies are listed on pages 90–93. The material changes in the scope of consolidation in 2001 relate to the following companies:

	KN capital share acquired in per cent		Share capital in 1,000
Additions			
Acquisitions			
KN Flydistribusjon A/S, Oslo	50	NOK	2,800
Ameritel Marketing Services LLC, Hamden	100		–
USCO Contract Logistics LLC, Hamden	100		–
USCO Logistics Services Inc., Hamden	100	USD	4,720
USCO Distribution Services Inc., Hamden	100	USD	119
USCO Inc., Montreal	100		–
USCO Logistics (Canada) Inc., Calgary	100		–
Almacenadora USCO Logistics de Mexico S.A. DE C.V., México' D.F.	100	MXP	57,987
KN VIA Inc., Toronto	100	CAD	1,021
KN VIA (US) Inc., Jersey City	100	USD	655
Virtual Integration Associates México S.A. DE C.V., México' D.F.	100	MXP	645
Eurail Spedition Ges.m.b.H, Fuernitz	100	EUR	36
S.E.M.T. International SA, Paris	100	FRF	250
Sodetair S.A., Paris	100	EUR	460
Nacora & Weichert, Sao Paulo	55	BRL	60
Nacora Insurance Brokers Ltd., Singapore	30	SGD	100
Incorporations			
Kuehne & Nagel (NI) Ltd., Belfast	100	GBP	10
Nakutrans o.o.o., Moscow	100	RUR	278
ST – KN PTE Ltd., Singapore	51	SGD	200
KN Mars W.L.L., Bahrain	51	BHD	100
KN Europe Holding B.V. Rotterdam	100	EUR	18
Divestments			
Uniport Multipurpose Terminals B.V., Rotterdam	100		
Cargo Concept GmbH, Bad Hersfeld	51		

4 Principles of consolidation

The consolidated financial statements comprise the accounts of Kuehne & Nagel International AG (the ultimate parent company) and its subsidiaries in which the parent directly or indirectly holds more than 50 per cent of the voting rights or which are otherwise controlled by Kuehne & Nagel International AG. These subsidiaries are included in the consolidated financial statements according to the method of full consolidation. As a consequence, all assets, liabilities, expense and income are fully included. Intercompany turnover, expense and profit as well as receivables and payables are eliminated. Subsidiaries acquired within the financial year are accounted for according to the purchase method as of the date of takeover of control. The difference between the purchase price and the equity of the acquired subsidiary evaluated at the date of acquisition according to the group accounting policies, is capitalised as goodwill under "intangible assets" and written-off through the income statement.

The minority interest on equity as well as net income or loss is reported separately in the consolidated accounts.

Associated companies (including joint ventures) in which Kuehne & Nagel International AG holds directly or indirectly an interest between 20 per cent and 50 per cent are accounted for under the equity method and carried in the balance sheet at the equity-accounted amount or the lower recoverable amount. The share of income (loss) of associated companies is included in the income statement.

Investments in affiliated companies in which the group holds an interest of less than 20 per cent are recorded at fair value, less necessary depreciation as and when applicable. Since in numerous cases neither reliable nor timely presented year end reports from such companies are available, these companies are recorded at cost less immediate write-down. Income from such investments is included in the income statement under "other operational income" at the time respective profit distributions are actually received.

5 Foreign exchange translation

Year end accounts of subsidiaries which are prepared in local currencies were translated into CHF (group currency) as of year end. Assets and liabilities are translated at year end exchange rates and all items included in the income statement and cash flow at average exchange rates for the year. Exchange differences originating from such translation methods have no impact in the income statement since they are directly posted to equity. Unrealised currency differences occurring at group level are also treated without impact in the income statement. Transactions in foreign currencies within individual subsidiaries are translated into local currency at actual rates of the day of transaction, assets and liabilities at year end rates. Exchange differences originating thereof are included in the income statement.

Goodwill and fair value adjustments arising on the acquisition of an foreign entity are treated as assets and liabilities of the acquiring company and are recorded at the exchange rate at the date of the transaction.

The major foreign currency conversion rates applied are as follows:

INCOME STATEMENT AND CASH FLOW

(Average rates for the year)

Currency	2001 CHF	Variance per cent	2000 CHF	Variance per cent
EURO 1.–	1.51009	(3,2)	1.56022	(2,4)
USD 1.–	1.68862	0,1	1.68656	12,4

BALANCE SHEET (year end rates)

Currency	2001 CHF	Variance per cent	2000 CHF	Variance per cent
EURO 1.–	1.48060	(2,7)	1.52130	(5,1)
USD 1.–	1.67830	2,5	1.63700	2,6

6 Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:
- Financial assets held for trading are valued at their market value. Any value adjustments are recorded in the income statement (finance result) for the respective reporting period
- Financial investments held to maturity. These are investments with a fixed term which the company intents to hold to maturity which are valued at amortised cost.
- Financial instruments/investments available for sale, which include all financial instruments/investments not assignable to one of the above-mentioned categories. Financial instruments/investments available for sale are recognised at market value, changes in value (after tax) are being recorded in the equity.

7 Financial risk management objectives and policies

The company 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 company does not hold or issue derivative financial instruments for trading purposes.

Interest rate risk

The company's exposure to market risk for changes in interest rates relates primarily to the company's investment portfolio. The company does not use derivative financial instruments to hedge its interest rate risk in investment portfolio. The portfolio includes mainly bonds with active markets to insure portfolio liquidity.

Currency risk

The company sells its services on a worldwide basis and, as a result, is exposed to movements in foreign currency exchange rates. Derivative financial instruments (foreign exchange contracts) are in use to hedge the foreign exchange exposure, in relations to the monthly payments in order to settle the outstanding balances to the Kuehne & Nagel internal clearing system, centralised at head office which are not material for the Group, and a CHF denominated intercompany loan.

Market risk

Changes of fair values in financial assets, liabilities or financial instruments may have an impact on the earnings and the equity of the group.

Credit risk

The company considers its credit risk to be minimal as excess liquidity is invested in bonds and short term deposits with first class financial institutions. In respect of trade receivables, it is considered that the level of bad debt provision and/or the credit insurance is sufficient to cover potential credit risk.

8 Segment Reporting

The segment reporting reflects the structure of the Kuehne & Nagel Group. The primary segmentation covers the business fields "Seafreight", "Airfreight", "International Overland", "Rail", "Customs Brokerage", "Warehousing", "Distribution", "Special Logistics" and "Insurance Broker".

The secondary segmentation represents geographical areas.

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

9 Financial statement presentation and method of valuation

Fixed assets (owned)

Properties and buildings are included in the balance sheet at cost less accumulated depreciation. Deviating from this principle, a number of selected properties and buildings in Germany were revalued in 1989 due to a restructuring of the German operations and based on prudent valuation at fair market values. All other fixed assets are also included in the consolidated accounts at cost less accumulated depreciation. The depreciation is calculated on a straight line basis considering the expected useful lifetime of the individual fixed asset items. The carrying amounts are reviewed at each balance sheet date undergoing an impairment test and where required a respective impairment charge is booked. Interest expense on loans for buildings under construction, as well as cost of maintenance without value increasing effect are charged directly to the income statement. The following depreciation rates are applicable for the major fixed asset categories:

	per cent
Buildings	2 1/2
Vehicles	25
Leasehold improvements	33 1/3
Office machines	25
IT hardware	33 1/3
Office furniture	20

Financial leases

Properties and buildings not owned by the Group, for which through the provisions contained in the long-term lease contracts a majority of risks and rewards incident to ownership are conveyed to the lessee, are included at cost less accumulated depreciation. The interest and depreciation portion of the lease payments is expensed through the income statement.

Operating lease payments are treated as operating cost and charged to the income statement as incurred.

Intangible assets

Expenses for software are capitalised and fully written-off in the year of purchase, because useful life is considered to be less than one year, due to the fast technological development.

Goodwill from acquisitions of financial investments is capitalised and in case of smaller acquisitions with a goodwill of less than CHF 5 million completely written-off in the year of purchase. The goodwill of the acquisition of USCO is capitalised and amortised over a period of 15 years, which is considered the useful life of this acquisition.

Work in process
Disbursement relating to business transactions neither concluded nor invoiced to clients at year end, are capitalised at cost. This asset consists of short term transactions only which will be billed to clients within one month at the latest.

Trade receivables
Trade receivables are reported at the anticipated realisation value. The required amount of provision for bad debts is determined based on an ageing analysis by applying the following allowances:

		per cent
outstanding accounts	0–180 days	2
outstanding accounts	181–360 days	50
outstanding accounts	over 360 days	100
doubtful accounts		100

Marketable securities
Marketable securities are carried at market value. Exchange differences were recorded in the income statement.

Cash and cash equivalents
Cash and cash equivalent comprise of cash at bank and in hand and short term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalent consist as defined above.

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 which can be estimated.

Pension plans, severance payments and share participations plans
All major subsidiaries 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. In Germany legal requirements call for the companies to directly carry the pension plan commitments, and therefore a respective liability is to be included in the balance sheet. The level of the provision for pension plans is determined in an opinion issued by independent actuaries respecting recognised rules of actuarial mathematics.

The anticipated cost for probable severance payments, as legally requested in certain countries, are also provided for.

No compensation cost is recognized in the financial statements for options or shares granted to employees from the employee share purchase and option plan.

Derivative financial instruments
Derivative financial instruments are carried at market value.

Revenue recognition
The revenue is recognised after completion and billing of a business transaction to the client.

Taxes

All taxes (on income, profit, capital and real estate) are provided for. The level of the provision is calculated based on the tax laws and rates prevailing in the individual countries.

The provision for deferred tax liabilities is recorded following the "comprehensive liability" method. As a consequence, all temporary differences between fiscal rules and group accounting policies are considered in the preparation of the year end accounts. Non recoverable withholding tax on anticipated or probable next year's profit distributions by subsidiaries are also recorded under deferred tax liabilities.

Deferred tax assets originate from temporary differences between the consolidated and the fiscal balance sheet. They include income tax on additions to the provision for pension plans which are at present not tax deductible as well as tax on provisions effected at group level. Deferred tax assets from losses carried forward in subsidiaries, as well as from other timing differences are only capitalised, if their realisation is expected in the foreseeable future.

NOTES TO THE INCOME STATEMENT

10 Personnel expenses

CHF '000	2001	2000
Salaries and wages	739,714	618,650
Social expense and employee benefits	189,639	158,886
Pension plan expense (including portion of defined contribution plans)	26,494	21,707
	955,847	799,243

11 Selling, general and administrative expenses

CHF '000	2001	2000
Administrative expense	84,872	70,171
Communication expense	59,330	54,585
Travel and promotion expense	49,026	39,610
Vehicle expense	42,718	44,433
Operational expense	38,648	38,807
Facility expense	172,457	120,725
Provision for bad debt and collection expense [1]	12,157	18,132
	459,208	386,463

[1] Specification Provision for bad debt and collection expense

	2001	2000
Addition to provision for bad debts (note 23)	8,616	16,255
Recovery of receivables previously written-off	(831)	(1,396)
Expense for credit inquiries	1,491	1,358
Expense for premiums to credit insurers	2,581	1,352
Collection expense	300	563
	12,157	18,132

12 Other operational income

CHF '000	2001	2000
Gain on sale of fixed assets	2,995	7,888
Profit on sale of consolidated companies	11,715	419
Dividend received from affiliated companies	2,293	2,446
Loss on sale of fixed assets	(900)	(626)
Write-down of affiliated companies	(1,515)	(3,908)
Write-down loans	(226)	(4,107)
Income/(Expense)	14,362	2,112

13 Depreciation and amortisation

The depreciation of fixed assets and the amortisation of goodwill and software are shown in the notes 18 and 19 (pages 76 and 77).

14 Finance result

CHF '000	2001	2000
Interest income	24,442	20,087
Interest expense	(11,554)	(14,207)
Exchange difference, net	1,841	(10,310)
Income/(Expense)	14,729	(4,430)

15 Income Tax

CHF '000	31/12/2001	31/12/2000
Deferred tax assets		
– on provision for pension plans	7,618	8,387
– on losses carry forward	4,367	2,583
– on other liabilities	2,735	3,700
	14,720	14,670

Deferred tax assets for unused tax losses carry forward and expected tax credits from timing differences are only recognised to the extend that it is probable that future taxable profits will be available against which the assets can be utilised.

The recognised deferred tax assets related to tax losses carry forward, used by the end of 2002 at the latest.

CHF '000	31/12/2001	31/12/2000
Unrecognised deferred tax assets		
– on losses carry forward	25,464	28,527
– on valuation and timing differences	31,275	22,569
	56,739	51,096

In view of the fact that the realisation of the essential part of the deferred tax assets are considered to be unlikely, a capitalisation of the respective amounts was not effected.

The unrecognised deferred tax assets related to tax losses carried forward, expire by the end of the following years:

Year	CHF '000
2002	245
2003	972
2004	409
2005	444
2006 and later	23,394
	25,464

CHF '000	31/12/2001	31/12/2000
Deferred tax liabilities		
– on non recoverable withholding tax relating to anticipated distributions from subsidiaries	3,336	6,121
– on depreciation of financial investments	5,090	4,171
– on depreciation of fixed assets and provision for bad debts	3,720	4,035
– on 1989 revaluation of properties and buildings in Germany	–	3,983
	12,146	18,310

CHF '000	2001	2000
Expense related to current income tax	72,258	62,636
Expense related to deferred income tax	(5,190)	4,556
	67,068	67,192

Calculation of the applicable tax rate

CHF '000	**2001**	**2000**
Income before tax according to the income statement as of December 31	227,738	193,802
add non tax allowable depreciation of goodwill	16,216	5,496
less tax free gain on sale of subsidiary	(10,911)	–
add current year losses to be taxwise compensated with future profits	17,760	22,072
less current year income taxwise compensated with losses carried forward from previous years	(22,372)	(10,782)
Adjusted income before tax	**228,431**	**210,588**
Tax according to income statement	67,068	67,192
in relation to income before tax according to the income statement of TCHF 227,738 and TCHF 193,802 respectively **= effective tax rate**	**29.4%**	**34.7%**
in relation to the adjusted income before tax of TCHF 228,431 and TCHF 210,588 respectively **= applicable tax rate**	**29.4%**	**31.9%**

The applicable tax rate in 2000 resulted to be 2.8 per cent below the effective tax rate. This is mainly due to the effect of reduction of income tax rates mainly in European countries.

16 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.

CHF '000	**2001**	**2000**
Net profit	160,462	125,852
Weighted average number of ordinary shares on issue applicable to basic earnings per share	23,083,182	23,063,200
Effect of dilutive securities: Share options	(2,242)	N.A.
Adjusted weighted number of ordinary shares applicable to diluted earnings per share	23,080,940	N.A.
Basic earnings per share	6,951	5,457
Diluted earnings per share	6,952	N.A.

Notes to the Balance Sheet

17 **Non current assets**

The development of non current assets in 2001 is shown on pages 76 and 77 of the Financial Statements.

Disclosure of significant matters is included in the footnotes on the above mentioned pages.

18 **Fixed asstes**

CHF '000	1/1/2001	Exchange difference	Additions	Disposals	Additions from initial consolidation	Adjust-ments/ Transfers	31/12/2001
Properties, including buildings on third parties' properties	374,287	(10,482)	47,737	(19,855)	37,815	–	429,502[2]
Properties, buildings under financial leases	87,317	(2,336)	–	(12,277)	–	–	72,704
Other fixed assets, operating and office equipment	279,409	(6,259)	53,523	(47,105)	101,240	–	380,808
At cost[1]	**741,013**	**(19,077)**	**101,260**	**(79,237)**	**139,055**	**–**	**883,014[6]**
Properties, including buildings on third parties' properties	91,807	(2,352)	10,341	(4,199)	7,476	481	103,554[3]
Properties, buildings under financial leases	44,747	(1,235)	1,934	(7,795)	–	–	37,651
Other fixed assets, operating and office equipment	189,838	(4,474)	54,110	(37,494)	49,180	–	251,160
Accumulated depreciation	**326,392**	**(8,061)**	**66,385[5]**	**(49,488)**	**56,656**	**481**	**392,365**
Net book value	**414,621**	**(11,016)**	**34,875**	**(29,749)**	**82,399[7]**	**(481)**	**490,649[4]**

[1] at historical cost
[2] thereof revaluation in 1989 of properties and buildings in Germany TCHF 15,078, credited to the capital reserve
[3] of which accumulated depreciation on revaluation of properties and buildings in Germany TCHF 5,778 debited to the capital reserve
[4] fire insurance value as of December 31, 2001 TCHF 697,763
[5] in agreement with income statement
[6] of which pledged assets to secure own liabilities:
– net book value of properties and buildings TCHF 16,113
– mortgages:
total nominal value and deposited TCHF 15,250
outstanding liabilities (note 32) TCHF 7,336
[7] of which acquisition USCO TCHF 79,504 (see note 37) and TCHF 2,895 for other small acquisitions.

19 Intangible assets[2]

CHF '000	1/1/2001	Exchange difference	Additions	Disposals	Additions from initial consolidation	Adjust-ments/ Transfers	31/12/2001
Goodwill from acquisitions of consolidated companies	5,496	–	499,998	–	–	–	505,494
Software	21,213	–	18,966	–	–	–	40,179
At cost	**26,709**	**–**	**518,964**	**–**	**–**	**–**	**545,673**
Goodwill from acquisitions of consolidated companies	5,496	–	31,326	–	–	–	36,822
Software	21,213		18,966	–	–	–	40,179
Accumulated amortisation	**26,709**	**–**	**50,292**[1]	**–**	**–**	**–**	**77,001**
Net book value	**–**	**–**	**468,672**	**–**	**–**	**–**	**468,672**

[1] in agreement with income statement
[2] valuation of intangible assets (note 9)

20 Financial assets

CHF '000	1/1/2001	Exchange difference	Additions	Disposals	Additions from initial consolidation	Adjust-ments/ Transfers	31/12/2001
Investments in associated companies[2]	22,900	(869)	–	(706)	–	1,637[1]	22,962
Investments in affiliated companies	–	–	–	–	–	10,959[4]	10,959
At cost	**22,900**	**(869)**	**–**	**(706)**[3]	**–**	**12,596**	**33,921**
Investments in associated companies	2,558	–	–	–	–	–	2,558
Investments in affiliated companies	–	–	–	–	–	–	–
Accumulated amortisation	**2,558**	**–**	**–**	**–**	**–**	**–**	**2,558**
Net book value	**20,342**	**(869)**	**–**	**(706)**	**–**	**12,596**	**31,363**

[1] KN share of 2001 result of TCHF 3,337 net of dividends received TCHF 1,700
[2] investments valued applying the equity method
[3] transfer to consolidated investments due to purchase of remaining 50 per cent
[4] transfer from financial instruments TCHF 9,840 and revaluation adjustment of TCHF 1,119

21 Financial instruments

In December 2000 the company entered into a put- and call-option agreement for the purchase of 5 per cent of the stock of SembCorp Logistics Ltd., Singapore at a fixed price. The fair value of the put-option was classified in the financial statement 2000 as financial instrument held for sale. The put-option was executed by the seller in February 2001. The purchase price amounted to TCHF 97,155. As the acquired shares are blocked for a period of 5 years and therefore cannot be sold or traded, the share price as traded at Singapore stock exchange cannot be considered to be the fair value. The fair value of SembCorp Logistics had been calculated based on earnings, considering risk factors such as investments in emerging markets, foreign currency transfer risks and restructuring costs in the capitalization rate and amounted to TCHF 9,840 (December 31, 2000). The difference between the cost and the fair market value had been charged to the capital reserves (net unrealised loss on financial instrument/assets available for sale).

In 2001 this financial instrument has been reclassified as investment in affiliated companies held for sale. The fair value has been recalculated as mentioned above using a capitalisation rate of 16.5 per cent and amounts to TCHF 10,959. The difference in fair value has been added to the capital reserves.

Market value of financial assets and liabilities

	2001		2000	
CHF million	**Net book value**	**Fair value**	**Net book value**	**Fair value**
Cash	247	247	731	731
Marketable securities	56	56	57	57
Forward currency contracts	12	12	–	–
Trade receivables	836	836	880	880
Other receivables	49	49	76	76
Prepayments	34	34	23	23
Investments in affiliated companies	11	11	–	–
Financial Instruments	–	–	10	10
Bank liabilities	99	99	104	104
Accounts payable	855	855	877	877
Other liabilities	222	222	320	320

22 Work in process

This position decreased in 2001, as a result of the continuous supervision of the invoicing procedures, from TCHF 186,819 in 2000 to TCHF 151,819 which represents a decreased billing delay of 5.4 working days (basis: 240 working days per year) against the previous year’s 6.6 days.

23 Trade receivables

Trade receivables outstanding as of year end averaged 37.8 days (2000: 40.4 days). The ageing of the receivables outstanding changed as follows:

Ageing Outstanding Account	2001 per cent	2000 per cent
0–180 days	95.5	96.1
181–360 days	1.6	1.6
over 360 days	0.6	0.5
Doubtful accounts	2.3	1.8
	100.0	100.0

The provision for bad debts increased in 2001 by TCHF 2,988 to TCHF 49,618. It represents 5.6 per cent of outstanding receivables as at of December 31, 2001 (2000: 5.0 per cent).

The movements in the provision for bad debts were as follows:

CHF ’000	2001	2000
Balance 1/1	46,630	36,398
add exchange difference	1,511	385
less write-off of non collectible receivables	(7,139)	(6,408)
add addition to provision (note 11)	8,616	16,255
Balance 31/12	49,618	46,630

24 Other receivables

CHF ’000	31/12/2001	31/12/2000
Receivables from associated and affiliated companies	22,052	38,529
Advances to employees	3,412	1,113
Receivables from tax authorities		
– refundable withholding tax	2,115	10,585
– refundable VAT	16,431	10,982
– advance payments of tax	2,228	4,138
Receivables from social security authorities	872	1,771
Receivables from insurance companies	945	629
Other receivables	1,390	8,516
	49,445	76,263

25 Marketable securities

Marketable securities consist nearly exclusively of fixed rate interest bearing debentures in EUR (58.7 per cent), in USD (29.8 per cent) due from a major Swiss bank in CHF (11.5 per cent). 96 per cent of those securities lie in custody at major Swiss and German banks. The marketable securities have been valued at fair market value.
All marketable securities are held as trade financial assets.

26 Derivative financial instruments

The standard requires to recognise all derivatives at fair market value.

	Contract or underlying amount		Positive fair value	
CHF million	**2001**	**2000**	**2001**	**2000**
Forward currency contracts	415	N.A.	427	N.A.

27 Cash and cash equivalent

CHF '000	**31/12/2001**	**31/12/2000**
Cash on hand	1,999	2,110
Current and deposit accounts with banks (incl. postal accounts)	244,611	728,907
	246,610	731,017

28 Share capital

	Balance 31/12/2001				1/1/2001
	Registered shares of nominal CHF 5 each Number	**CHF '000**	**Capital share per cent**	**Voting share per cent**	**Registered shares of nominal CHF 50 each Number**
Main shareholders					
K. M. Kuehne, Schindellegi	13,380,000	66,900	55.75	57.91	1,338,000
SembCorp Logistics Ltd., Singapore	4,800,000	24,000	20.00	20.77	480,000
Public shareholders	4,927,100	24,636	20.53	21.32	488,320
entitled to voting and dividend	**23,107,100**	**115,536**	**96.28**	**100.00**	**2,306,320**
Treasury shares	892,900	4,464	3.72	–	93,680
Total	24,000,000	120,000	100.00	100.00	2,400,000

Following the approval by the ordinary annual general assembly of Kuehne & Nagel International AG, Schindellegi/CH on May 15, 2001, the share split from CHF 50.– to CHF 5.– was completed in July 2001. The share capital now consists of 24 million shares of CHF 5.– nominal each.

Employee Share Purchase and Option Plan

During 2001, Kuehne & Nagel International AG implemented an Employee Share Purchase and Option Plan under which a maximum of 76,500 registered shares will be offered to members of Top Management. There will be four share offerings under this plan, the first having taken place at July 1, 2001, the other offerings being made available once a year, through 2004. The purchase price for the shares offered under this plan amounts to 90 per cent of the price corresponding to the average closing prices for one share at the SWX Swiss Exchange during the months of April to June. The shares are restricted for a period of three years before being released to the employee. In addition, for each share purchased under this plan, the company grants two options to the participants for the average price April to June. Each option entitles the participant to purchase one share of Kuehne & Nagel International AG. The vesting period starts with the day of grant and ends three years from that date. The options granted may be exercised after the vesting period during three years until the end of the option term.

The following table summarises information about share options outstanding at December 31, 2001:

	Exercise price	Number outstanding	Remaining life	Exercisable options
	CHF 92.60	87,800	5.5 years	0

29 Capital reserves and retained earnings

The development of the capital reserves and retained earnings in 2000 and 2001 is recorded in the consolidated statement of changes in equity on pages 64.

30 Minority interest

CHF '000	2001	2000
Balance 1/1	1,682	3,745
Dividends paid	(440)	(928)
Additions		
– Capital increases	–	14
– Acquisitions of shares in equity	471	80
Exchange difference	(2)	15
Disposals		
– Shares in equity	(189)	–
– Change in the scope of consolidation	–	(1,872)
Share in net income for the year	208	628
Balance 31/12	1,730	1,682

31 Provisions for pension plans and severance payments

CHF '000	Pension plans	Severance payments	Total
Balance 1/1/2001	131,309	8,837	140,146
Exchange difference	(4,234)	(614)	(4,848)
Usage	(9,563)	(1,949)	(11,512)
Additions	14,226	2,598	16,824
Balance 31/12/2001	131,738	8,872	140,610

Pension plans

The Group has some defined benefit pension plans predominantly in Germany and USA, 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 principal assumptions used in determining pension obligation for the Company's plans are shown below:

Principal assumptions used in determining pension obligation	2001 per cent	2000[1] per cent
Discount rate	2.5–6.0	2.5–6.0
Expected rate of return on plan assets	1.5–3.0	2.0–3.0
Future compensation and pension increases	2.0–4.0	2.0–4.0
Fluctuation rate	1.1–1.6	1.1–1.6

Development in CHF ’000

	2001	2000[1]
Net benefit expense		
– Current service cost	6,568	4,654
– Interest cost	10,058	8,526
– Contributions paid	–	(675)
– Actuarial (gains)/losses	1,100	(2,897)
– Expected return on net assets	(3,500)	(262)
Net benefit expense	14,226	9,346
Benefit liability		
– Present value of benefit obligation	175,347[2]	147,182
– Fair value of plan assets	(39,846)	(12,591)
– Funded status	135,501	134,591
– Unrecognized actuarial gains – net	(3,763)	767
Benefit liability	131,738	135,358
Movement in net benefit liability		
– Opening benefit liability	131,309[3]	139,559
– Net benefit expense (as above)	14,226	9,346
– Currency difference	(4,234)	(7,533)
– Benefits paid	(9,563)	(6,014)
Closing net benefit liability (as above)	131,738	135,358

[1] adjusted for comparison purposes
[2] thereof unfounded TCHF 136,224
[3] including addition of (TCHF 4,049) from acquisition

Severance payments

In certain European countries (such as Austria, Italy and the Netherlands) and in Turkey the recording of a provision for probable severance payments based on the years of service with the company of each employee is legally required.

32 Bank liabilities

CHF ’000	31/12/2001	31/12/2000
– Between 2–5 years	4,283	9,794
– After 5 years	7,872	17,222
	12,155	**27,016**
Of which secured by mortgages	7,336	4,676

33 Financial lease obligations[1]

CHF ’000	31/12/2001	31/12/2000
– Between 2–5 years	21,539	12,049
– After 5 years	5,592	18,299
	27,131	30,348

[1] Current portion amounting to TCHF 20,825 in 2001 included in short term bank liabilities

34 Trade liabilities / Accrued trade expenses / Deferred trade income

CHF '000	31/12/2001	31/12/2000
– Trade liabilities	450,955	449,054
– Accrued trade expenses	342,802	364,397
– Deferred trade income	60,776	63,554
	854,533	877,005

35 Other liabilities

CHF '000	31/12/2001	31/12/2000
Provision for other liabilities		
– Personnel expense, profit participation and untaken annual leave	89,585	71,440
– Other operational expense	61,299	48,679
– Interest payable	7,273	9,766
– Pending claims [1]	30,229	31,220
Liabilities due to associated and affiliated companies	7,168	6,683
Bills of exchange payable	206	101
Short term liabilities to SembCorp Logistics Ltd., Singapore	–	97,155
Other liabilities	38,097	55,422
	233,857	320,466

[1] The movements in the provision for pending claims were as follows:

CHF '000	31/12/2001	31/12/2000
Specification of pending claims		
Balance 1/1	31,220	22,259
– Payments/release of provision	(23,764)	(7,019)
– Additions	22,773	15,980
Balance 31/12	30,229	31,220

Some companies are defendant in multiple legal cases based on forwarding and logistic operations. In case the risk of a negative outcome has been considered to be more than likely by the corresponding legal advisers, the probable amount of future payments less insurance coverage has been accrued for. The statement of the timing of the corresponding settlements is not practicable, as the timing of final court decisions is unknown and dependent on long legal procedures. Some legal cases have been settled in the reporting period and corresponding payments have been made.

a) Primary reporting

CHF million	Turnover 2001	Turnover 2000	Gross profit 2001	Gross profit 2000	EBITDA 2001	EBITDA 2000	EBIT 2001	EBIT 2000
Seafreight	3,925.9	3,688.3	531.7	456.0	141.8	118.6	109.8	96.6
Airfreight	1,984.6	1,906.6	387.2	356.6	74.2	79.1	54.3	62.4
International Overland	472.4	484.9	81.4	82.8	10.1	9.7	6.9	6.9
Rail	229.5	198.9	21.0	17.1	7.6	8.7	4.8	6.2
Customs Brokerage	658.3	966.6	53.9	51.4	1.2	4.4	0.8	3.5
International Forwarding	**7,270.7**	**7,245.3**	**1,075.2**	**963.9**	**234.9**	**220.5**	**176.6**	**175.6**
Warehousing	644.5	423.8	501.2	302.4	57.9	36.2	6.7	8.3
Distribution	296.9	312.6	93.8	99.1	11.9	10.2	6.2	6.5
Contract Logistics	**941.4**	**736.4**	**595.0**	**401.5**	**69.8**	**46.4**	**12.9**	**14.8**
Special Logistics	146.6	242.9	31.3	64.5	13.5	0.0	12.9	(0.5)
Insurance Broker	76.3	22.8	25.5	22.8	11.5	8.9	10.6	8.3
Total KN Group	**8,435.0**	**8,247.4**	**1,727.0**	**1,452.7**	**329.7**	**275.8**	**213.0**	**198.2**

b) Secondary reporting

CHF million	Turnover 2001	Turnover 2000	Gross profit 2001	Gross profit 2000	EBITDA 2001	EBITDA 2000	EBIT 2001	EBIT 2000
Europe	4,695.5	4,642.7	922.2	885.0	178.6	147.9	110.7	98.0
North, Central and South America	2,430.2	2,322.0	554.8	354.7	71.2	64.7	34.2	51.2
Asia Pacific	847.3	906.2	203.5	186.0	76.1	61.9	65.5	50.3
Middle East and Africa	462.0	376.5	46.5	27.0	3.8	1.3	2.6	(1.3)
Total KN Group	**8,435.0**	**8,247.4**	**1,727.0**	**1,452.7**	**329.7**	**275.8**	**213.0**	**198.2**

CHF million	Assets 2001	Assets 2000	Liabilities 2001	Liabilities 2000	Investments 2001	Investments 2000	Depreciation 2001	Depreciation 2000	Non cash expenses 2001	Non cash expenses 2000
Seafreight	542.8	543.1	383.4	427.4	20.6	20.6	21.8	14.8	10.9	8.2
Airfreight	390.0	422.3	299.9	366.1	13.9	15.9	12.4	10.7	6.6	8.7
International Overland	78.2	90.9	74.1	86.2	4.2	3.7	3.3	2.9	1.7	1.0
Rail	37.1	33.6	38.7	39.7	3.4	2.3	3.4	0.8	0.3	2.1
Customs Brokerage	16.6	14.1	13.5	16.9	1.4	2.4	1.4	1.2	0.0	0.1
International Forwarding	**1,064.7**	**1,104.0**	**809.6**	**936.3**	**43.5**	**44.9**	**42.3**	**30.4**	**19.5**	**20.1**
Warehousing	831.7	349.8	311.6	291.3	565.8	71.0	64.9	38.9	8.5	2.8
Distribution	117.9	92.0	72.9	69.0	8.8	6.1	7.6	4.6	0.7	0.6
Contract Logistics	**949.6**	**441.8**	**384.5**	**360.3**	**574.6**	**77.1**	**72.5**	**43.5**	**9.2**	**3.4**
Special Logistics	20.8	37.2	16.3	28.3	1.2	3.0	1.0	3.0	0.8	0.2
Insurance Broker	27.1	27.8	14.2	18.4	0.9	0.9	0.9	0.6	0.1	0.1
Total KN Group	**2,062.2**	**1,610.8**	**1,224.6**	**1,343.3**	**620.2**	**125.9**	**116.7**	**77.5**	**29.6**	**23.8**

CHF million	Assets 2001	Assets 2000	Liabilities 2001	Liabilities 2000	Investments 2001	Investments 2000	Depreciation 2001	Depreciation 2000	Non cash expenses 2001	Non cash expenses 2000
Europe	952.6	1,101.2	863.0	989.3	85.7	92.6	71.9	59.4	22.2	19.1
North, Central and South America	849.2	292.0	191.1	180.8	522.4	16.6	36.5	10.1	4.1	1.9
Asia Pacific	207.6	157.0	131.4	128.3	7.4	9.4	5.9	6.4	1.8	1.4
Middle East and Africa	52.8	60.6	39.1	44.9	4.7	7.3	2.4	1.6	1.5	1.4
Total KN Group	**2,062.2**	**1,610.8**	**1,224.6**	**1,343.3**	**620.2**	**125.9**	**116.7**	**77.5**	**29.6**	**23.8**

NOTES TO THE CASH FLOW STATEMENT

37 Acquisition of the USCO Logistics Group

The fair value of the assets acquired and liabilities assumed of the consolidated USCO Logistics Group in the US, Canada and Mexico as at August 1, 2001 were:

CHF '000	2001
Acquired cash	2,231
Trade receivables and current assets	77,509
Fixed assets	79,504
Subtotal assets	**159,244**
Trade payables and other short term liabilities	(39,275)
Bank liabilities	(22,508)
Long term liabilities	(37,686)
Subtotal net assets	**59,775**
Goodwill	485,027
Purchase price	**544,802**
Acquired cash	(2,231)
Cash flow from USCO acquisition	**542,571**

OTHER NOTES

38 Personnel

	31/12/2001 Number	31/12/2000 Number
Europe	8,603	8,167
North, Central and South America	5,957	3,132
Asia Pacific	1,964	1,867
Middle East and Africa	888	599
	17,412	13,765

39 Contingent liabilities

As of year end the following contingent liabilities existed:	31/12/2001 CHF '000	31/12/2000 CHF '000
Guarantees in favour of third parties	11,487	17,111
Contingent liabilities under unrecorded claim	37,850	–
	49,337	17,711

Some Kuehne & Nagel companies are defendants in various court cases. Based on respective legal advice, the management is of the opinion that the possible outcome of those proceedings will have no material effect on the financial situation of the Kuehne & Nagel Group beyond the existing provision for pending claims (note 35) of TCHF 30,229 (2000: TCHF 31,220).

In addition to the purchase price paid to the previous shareholders of USCO, an earnout payment maybe due in 2003 based on 2001 and 2002 EBITDA of the acquired companies.

40 Other financial commitments

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

CHF '000	Year	Properties and buildings	Operating and office equipment	TOTAL
	2002	122,148	21,854	144,002
	2003	87,854	14,343	102,197
	2004	78,821	4,863	83,684
	2005	73,858	1,363	75,221
	2006	36,835	439	37,274
	2007–2011	194,426	54	194,480
Total		593,942	42,916	636,858

41 Other information

The total remuneration paid to the members of the Board of Directors and of the Management Board of Kuehne & Nagel International AG, Schindellegi, Switzerland (see page 13) amounted in 2001 to:

– Board of Directors TCHF 597
– Management Board TCHF 9,236

The above amounts include pension plan contributions.

As of December 31, 2001 neither loans nor any other commitments were outstanding towards members of the Board of Directors. Five members of the Management Board received interest bearing loans amounting to TCHF 916 to be repaid in May 2002.

42 Related parties transactions

Freight forwarding and logistics transactions with associated companies are conducted at arms length.

Report of the Group Auditors to the General Meeting of Kuehne & Nagel International AG, Schindellegi, Switzerland

As auditors of the group, we have audited the consolidated financial statements consisting of the consolidated balance sheet, consolidated statement of income, consolidated cash flow statement, consolidated statement of changes in equity and the notes to the consolidated financial statements (pages 61 to 93) of Kuehne & Nagel International AG for the year ended December 31, 2001.

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 auditing standards promulgated by the Swiss profession and with the International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC) 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 International Accounting Standards (IAS) and comply with the Swiss law.

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

Zurich, March 22, 2002

ERNST & YOUNG AG

Yves Vontobel Certified Accountant (in charge of the audit)	Michael Bugs Certified Accountant (in charge of the audit)