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

### 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.

A handwritten signature in black ink, consisting of a large, stylized 'K' followed by a series of loops and a final horizontal stroke.

**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.

A handwritten signature in black ink, appearing to read 'K. Herms', is centered on the page. The signature is fluid and cursive, with a prominent initial 'K'.

**KLAUS HERMS**  
CHIEF EXECUTIVE OFFICER