Annual Report 2005
Second amended version

Development

KARDEX

Annual Report 2005

KARDEX

Contents

Kardex Remstar Group at a glance

Group

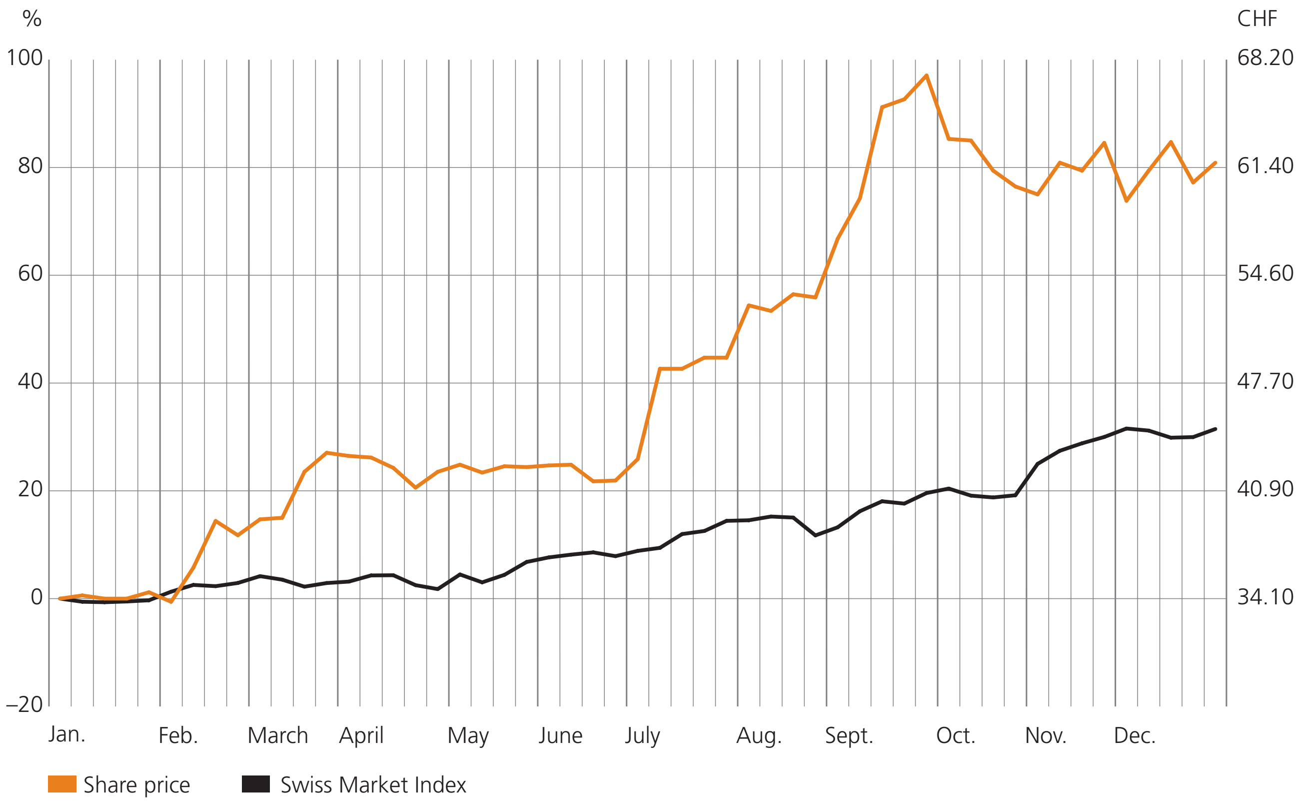
EUR m.	2005	2004
Bookings	447.2	391.6
Backlog (31 December)	125.8	106.1
Net revenues	425.3	389.8
Operating result	–29.1	8.2
Operating result in %	–6.8	2.1
Operating result before depreciation and impairment	–0.4	21.2
Operating result before depreciation and impairment in %	–0.1	5.4
Net result	–34.2	1.6
Net result in %	–8.0	0.4
Capital expenditure	12.2	9.3
Net cash flow from operating activities	31.1	–1.9
Net cash flow from operating activities in %	7.3	–0.5
Net financial debt	32.9	46.2
Equity (31 December)	90.3	125.6
Equity ratio in %	31.5	41.8
Number of employees (31 December)	2 073	1 991

Divisions

EUR m.	2005	2004	+/– %
KRM			
Bookings	204.0	177.4	+ 15.0
Segment net revenues	191.5	179.8	+ 6.5
Operating result	12.8	9.0	+ 42.2
Number of employees (31 December)	1 170	1 159	+ 0.9
AFT			
Bookings	103.6	95.4	+ 8.6
Segment net revenues	99.1	92.8	+ 6.8
Operating result	– 48.4	– 2.9	– 1 569.0
Number of employees (31 December)	352	327	+ 7.6
Stow			
Bookings	127.9	107.8	+ 18.6
Segment net revenues	125.2	109.2	+ 14.7
Operating result	6.4	2.4	+ 166.7
Number of employees (31 December)	507	458	+ 10.7

Kardex AG (Holding): the share

Price movements on Zurich Stock Exchange 2005



CHF		2005	2004	+/– %
Share				
Closing rate		61.50	34.10	+80.4
High		67.00	38.75	+72.9
Low		33.80	26.00	+30.0
Market capitalization (31 December)	CHF m.	346.10	191.90	+80.4

Per share			
Net result[1]	–9.40	0.49	
Par value reduction	–[2]	0.74	
Net cash flow from operating activities[1]	8.56	–0.59	
Number of shares (31 December)	5 627 453	5 627 453	

[1] – Translation income statement at average rates.
– For details of earnings per share see note 4.26.

[2] According to the proposal for the appropriation of retained earnings from the Board of Directors.

Report of the Board of Directors

Michael Funk
Chairman of the Board of Directors

Richard Flury
Chief Executive Officer

Ladies and Gentlemen

This edition of the 2005 Annual Report for the Kardex Remstar International Group is the second amended version. It replaces the first version distributed between 27 April 2006 and 11 May 2006.

Even in that first version of the 2005 Annual Report, the Board of Directors pointed out the high losses incurred by the Industrial Automation and Conveyor Technology Division (AFT). The loss reported back then of approximately EUR 11 million has unfortunately also since proved to be incorrect. New information that came to light in May 2006 prompted a reappraisal of AFT's current projects and agreements (in excess of 100), and made it clear that the statements already published would require substantial readjustment. The Group subsequently lodged a request with the Swiss Stock Exchange for a suspension of trading in its shares for Friday, 12 May 2006. On 14 May 2006, it announced that the magnitude of the adjustment before allowing for goodwill would be in the region of EUR 20 to 25 million and that it would be postponing the General Meeting scheduled for 22 May 2006, probably until the second half of August.

This period was necessary firstly for Kardex Management and external experts from KPMG to carry out a thorough documentation and revaluation of all the projects, some of which were highly complex, and, secondly, to restate and audit the consolidated statements for 2005. All items in the accounts relevant to the AFT Division and the transition from Swiss GAAP FER accounting standards to IFRS have been reassessed. The definitive figure for the corrections, excluding adjustments for goodwill, amounted to EUR 23.5 million.

In view of the findings that emerged during revision of the consolidated financial statements for 2005 and the estimates based on these regarding AFT's future results, the Board of Directors has likewise revised the division's medium-term planning. As a result of the impairment test conducted on this basis, the goodwill positions for the whole of AFT, amounting to EUR 22.1 million, had to be reassessed in their entirety.

As part of the revision of the consolidated financial statements, the statements for the Group's two other divisions, Dynamic Storage and Retrieval Systems (KRM) and Static Storage Systems (Stow), were re-examined along with AFT's. The figures originally published were confirmed. Any changes in figures from the balance sheet and income statement are attributable to adjustments made during the transition from Swiss GAAP FER to IFRS.

All in all, the correction to shareholders' equity amounted to EUR 42.5 million, which mainly affected the Group result for 2005 but was reflected to a lesser degree in the Group result for 2004 and the IFRS opening balance for 1 January 2004.

The newly drawn-up consolidated financial figures for fiscal 2005 show sales of EUR 425.3 million (2004: EUR 389.8 million) and a loss for the year of EUR 34.2 million (2004: EUR 1.6 million profit).

As a consequence of the loss shown for the year, the Board of Directors has decided to retract its proposal to the General Meeting for a projected par value payback.

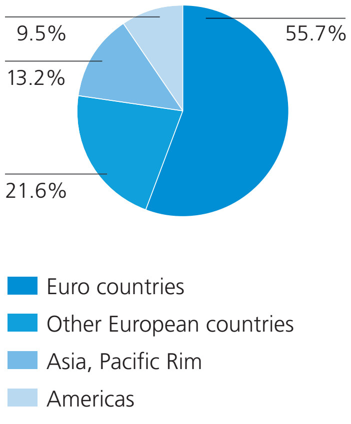
Although fiscal 2005 was clouded by the unexpected major problems affecting the AFT Division (Industrial Automation and Conveyor Technology), there was a silver lining in the very encouraging results reported by the KRM (Dynamic Storage and Retrieval Systems) and Stow (Static Storage Systems) Divisions.

The handover of power at the top of the company went according to plan. Jos De Vuyst, formerly head of the Stow Division, had taken over his responsibilities as COO of the Kardex Remstar Group on 1 January 2005 as the successor designate of CEO Richard Flury. In the course of the year, he familiarized himself with the international structures and operations of the Kardex divisions and subsidiaries. The Board of Directors transferred responsibility for overall operative management to Jos De Vuyst on 1 January 2006. The complexity of the situation in the AFT Division, however, necessitated his taking charge of the restructuring of the AFT Division alongside his duties as CEO of the entire Group.

A number of changes are also scheduled in the Board of Directors. After 19 years as a member of the Board of Kardex AG (Holding), Dr. Peter Isler has announced his intention to step down from his position at the 2006 General Meeting. His expertise in matters of international and contractual law was invaluable to the Kardex Remstar Group during a period of intensive acquisition activity.

The 2006 General Meeting will also see the retirement of the two undersigned from the Board of Directors. Michael Funk joined Kardex in 1992 when Industrieholding Cham AG acquired the majority shareholding. Since 2001, he has served as Chairman of the Board. Richard Flury, the former Chief Executive Officer, took charge of Kardex at the end of 1979 and has seen it grow from a small amalgamation of companies into a medium-sized Group

Net revenues by markets



Group

All three divisions contributed to the 9.1% growth in consolidated net revenues in 2005. The strongest growth was posted by the Stow Division with an increase of 14.7%, followed by the AFT Division with 6.8% and the KRM Division with a rise of 6.5%. From 2006 onwards, the activities of the small but profitable STE Division (Special-Purpose Handling Systems), which were reported separately in the last Annual Report, will be allocated to the main divisions according to the nature of the activity.

Although the Dynamic Storage and Retrieval Systems Division (KRM) and the Static Storage Systems Division (Stow) far exceeded their revenue and profit targets for 2005, the Group as a whole was unable to achieve its targeted profit growth. This was because of the above-mentioned operating losses of the Industrial Automation and Conveyor Technology Division (AFT), which reported an operating loss (incl. goodwill adjustments) of EUR 48.4 million.

The negative result posted by the AFT Division and the problems confronting it are a sad reflection of the unusual commitment and hard work shown by its employees. The Board of Directors wishes to take this opportunity to offer its sincere thanks to all members of staff who have carried out their duties responsibly and successfully.

Dynamic Storage and Retrieval Systems Division (KRM)

The oldest division of the Kardex Remstar Group, and the largest in terms of sales, comprising the Kardex, Remstar and Megamat brands, achieved further growth in the year under review with clearly increased profits. Streamlining measures at the Bellheim plant and investments in product and software development and in the worldwide distribution network are beginning to pay off. Sales grew from EUR 179.8 million to EUR 191.5 million, a rise of 6.5% compared with the previous year. The division's share of total Group sales amounted to 44.6% (previous year: 45.6%). EBIT improved by an impressive 42.2% from EUR 9.0 million to EUR 12.8 million.

Industrial Automation and Conveyor Technology Division (AFT)

The AFT Division's sales increased by 6.8% from EUR 92.8 million to EUR 99.1 million. Its share of total Group sales was 23.3%, compared with 23.8% the previous year. The bitter pill to swallow is that this encouraging sales growth was not reflected in improved profits, but actually led to a huge loss. Serious miscalculations, overly optimistic margin estimates, defective project management and controlling, as well as quality and design errors resulted in negative margins. The division incurred unforeseen high additional costs, which were necessary to commission major systems and keep customers satisfied. Internal errors of judgement and inadequate performance led to additional liabilities and increased material costs and personnel expenses. As a result, the Group parted company with the head of the AFT Division and further members of divisional management at the end of 2005.

Static Storage Systems Division (Stow)

The Stow Division can look back on a very successful year. Sales grew by 14.7% from EUR 109.2 million to EUR 125.2 million. When one takes into account the fact that steel prices and prices structures were lower than the previous year, it is clear that the increase in volume must have been even more pronounced. The share of total Group sales was 29.4%, compared with 27.9% the previous year. Operating profit (EBIT) was almost three times higher than the previous year. The secret of Stow's success lies not only in storage-systems engineering and distribution, but above all in being able to maintain cost leadership in series production.

Jos De Vuyst
since 1 January 2006 CEO
of the Kardex Remstar Group

Outlook for fiscal 2006

In the logistics field, Kardex Remstar sees itself as a Group of companies with strong international brands in the material handling systems and products sector. For the KRM Division, the focal point for 2006 is profitable growth. Innovative products such as the KARDEX Puma automated storage system should contribute. For the Stow Division, the emphasis is on growth and the struggle for improved margins. To handle the increased volumes and further reduce manufacturing costs, a second, almost fully automated plant went on stream in Belgium in January 2006. A further new plant in China is at the planning stage. The AFT Division, led by Group CEO Jos De Vuyst, is working hard to achieve the turnaround. The Division can rely on sought-after products, loyal customers and a portfolio of prestigious projects. One of the main focuses here will be on eliminating the weaknesses recognized in the division's organization. Apart from this, back at the start of 2006, the Board of Directors decided to subject AFT's strategy to a comprehensive reappraisal.

Board of Directors elections

At the General Meeting on 31 August 2006, Richard Flury, Michael Funk and Dr. Peter Isler will be stepping down from their seats on the Board. The Meeting will be asked to approve Mr. Walter T. Vogel of Maienfeld/Graubünden, a graduate in mechanical engineering of the Swiss Federal Institute of Technology and CEO of Von Roll Holding AG, Gerlafingen, as a member of the Board.

Michael Funk
Chairman of the Board of Directors

Richard Flury
Chief Executive Officer

Dynamic Storage and Retrieval Systems Division (KRM)

Visions. Ideas. Solutions.

The Dynamic Storage and Retrieval Systems Division (KRM) focuses primarily on the production, global distribution, installation, and maintenance of dynamic storage, retrieval, and distribution solutions. These logistics solutions are marketed under the Kardex, Remstar, and Megamat (KRM) brands and are used predominantly in industrial, commercial, and administrative environments. The systems are developed and manufactured at three Group-owned facilities in Bellheim (Pfalz, Germany), Neuburg (Bavaria, Germany) and Westbrook (Maine, USA). The division is headed by Jürg Müller.

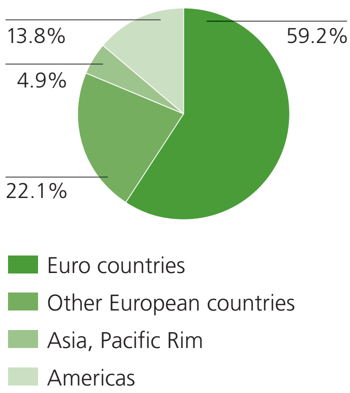
Jürg Müller, CEO

KRM customers all have the same vision: they do not want to have to go and fetch their stock, they want it to be exactly where they need it at the push of a button – in accordance with the principle of "stock to person," not "person to stock." This applies to retrieval systems for industrial production as much as to wholesale and retail warehouses, and administrative archives with mountains of files that have to be ready to hand at all times. KRM develops, produces and distributes computer-controlled, automatic storage systems which meet these criteria. Deploying various technologies, KRM has built up a fully comprehensive range of dynamic storage and retrieval systems which are offered in all sizes and for a wide variety of goods and applications. These intelligent systems not only convey storage and retrieval goods to the desired location, they can also be adapted to the specific dimensions of the site, offering substantial savings in space, time and personnel.

Looking back

KRM is the oldest division of the Kardex Remstar Group, and the largest in terms of sales. In fiscal 2005, the division increased its revenues by 6.5% from EUR 179.8 million to EUR 191.5 million, the largest increases in sales being achieved in the euro countries and the Americas. Incoming orders increased by 15.0% from EUR 177.4 million to EUR 204.0 million during the same period. EBIT was up by an impressive 42.2% from EUR 9.0 million to EUR 12.8 million. Streamlining measures at the Bellheim plant, the ongoing investments in product and software development and in the worldwide distribution network are beginning to pay off. At balance sheet date on 31 December 2005, KRM had 11 more employees than in the previous year.

Net revenues by markets



Consolidated key figures for the KRM Division

EUR m.	2005	2004	+/– %
Bookings	204.0	177.4	+15.0
Backlog	51.6	37.2	+38.7
Segment net revenues	191.5	179.8	+6.5
Operating result before depreciation and amortization	18.5	14.2	+30.3
Operating result	12.8	9.0	+42.2
Number of employees	1 170	1 159	+0.9

Challenges for KRM

A constant challenge is the adaptation of tried-and-tested systems to new applications, as well as the development of new products. Apart from fulfilling marketing requirements, new automatic storage systems increasingly have to offer specifications that allow modular initial configuration and expansion, as well as a high degree of automated manufacture. The Kardex, Remstar and Megamat brands, which is where the initials KRM come from, pursue different development strategies. Kardex has set up a permanent innovation team and maintains a specialist group to develop new technologies and systems on the basis of market analyses, from the initial idea through to series manufacture. The latest example is the KARDEX Puma, a completely new kind of storage system which makes it possible to utilize the whole depth of the available space, as well as the height and width. Megamat also works in close collaboration with customers to develop new customized solutions that can then be standardized and reproduced worldwide. The latest example is the MEGAsys line, a dynamic storage system for goods which must be kept in controlled atmospheres. Remstar is taking over Kardex's entire product range for the American markets. Another constant challenge is the automation of the manufacturing processes in our own plants. Even sophisticated and intelligent systems can be copied. That is why it is most important for KRM to ensure that its factory prices are competitive worldwide. Approximately EUR 6 million is currently being invested in further automation of the Bellheim plant. Another great challenge is the provision of after-sales service on the spot and the related strengthening of the international distribution network. Every KRM customer has the right to tailor-made project planning, expert assembly and reliable servicing of their installations.


KARDEX

Opportunities for KRM

KRM has a range of products and services which finds customers right across the industrialized world. KRM systems are used wherever construction, automation, modernization and rationalization are taking place, and wherever space is tight or costly. The division still generates most of its sales in the traditional European markets. KRM expects more growth in the emerging markets of Eastern Europe, China and India and now has an established sales and service network present at more than 40 locations worldwide. New subsidiaries, which went on stream at the beginning of 2006, have been established in Poland and Slovakia.

The KRM strategy

KRM aims to achieve sales growth through its hardware and software offering, through its presence in all major and key emerging markets and by strengthening its marketing organizations. On the acquisition front, the focus is on the industry segment. To increase the rate of growth, KRM is establishing its own subsidiaries or building up its network of distributors in all key markets. The division's products are sold in the American markets under the Remstar and Megastar brands, both directly and through a reseller network. Increased volumes inevitably lead to higher loading of plant capacity, which has a positive impact on the gross margin and results in higher profitability.

Looking forward

Incoming orders at 31 December 2005 amounted to EUR 51.6 million, 38.7% higher than the previous year. The KRM Division is confident of achieving a further substantial improvement in results in fiscal 2006. Among the indicators that point in this direction are a successful first six months, further investment in automation at the Bellheim plant and the interest in new products.

Illustration left:
KARDEX Puma, an innovative, automated storage system which makes it possible to utilize the whole depth of a room, as well as the height and width. KARDEX Puma is being shown for the first time at the Hannover Messe 2006 in Hanover, Germany.

Industrial Automation and Conveyor Technology Division (AFT)

Visions. Ideas. Solutions.

The key activities of the Industrial Automation and Conveyor Technology Division (AFT) are the engineering, production, global distribution, installation, and maintenance of ceiling and floor conveyor systems, together with the lifting and logistics equipment required primarily by the automobile industry. These products are developed and manufactured in Schopfheim (Baden-Württemberg, Germany), Bautzen (Saxony, Germany) and Seoul (South Korea). The division is headed by Jos De Vuyst.

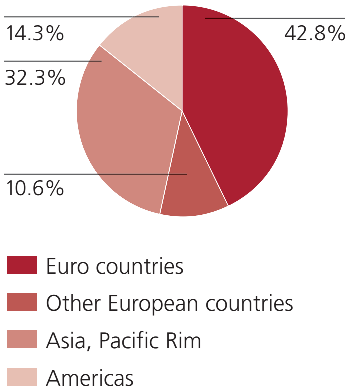
Jos De Vuyst, CEO

AFT customers have visions. Customers in the automotive industry, for example, design revolutionary cars with irresistible styling, great performance and lower fuel consumption, all for affordable prices. To manufacture vehicles like these, carmakers are building innovative car plants with extensively automated production lines. And they need specialized, flexible partners to develop and install such intelligent production lines. The aim is to turn the wishful thinking of car drivers into reality faster than ever and to reduce time-to-market continuously. For the automotive industry and suppliers such as the AFT Division of the Kardex Remstar Group, the parameters for success are dictated by worldwide market trends.

Looking back

In fiscal 2005, the AFT Division increased its sales by 6.8% from EUR 92.8 million to EUR 99.1 million, the main improvements coming in two markets, Other European countries and the Americas. Incoming orders rose during the same period by 8.6% from EUR 95.4 million to EUR 103.6 million. Unfortunately, it was not possible to square the operating profit (EBIT) with the growth in revenues. Quite the opposite, in fact: AFT recorded an unexpectedly serious loss of EUR 30.0 million (before impairment for goodwill). The factors that led to this poor result and its repercussions are described in full in the report of the Board of Directors. It was also the reason for the Group's parting company with the head of the division and responsible members of management before the end of 2005. At balance sheet date on 31 December 2005, AFT employed 25 more people than the previous year.

Net revenues by markets



Consolidated key figures for the AFT Division

EUR m.	2005	2004	+/– %
Bookings	103.6	95.4	+8.6
Backlog	48.2	43.6	+10.6
Segment net revenues	99.1	92.8	+6.8
Operating result before depreciation and amortization (incl. impairment for goodwill)	–28.5	2.1	–1457.1
Operating result	–48.4	–2.9	–1569.0
Number of employees	352	327	+7.6

Challenges for AFT

Traditionally, the automotive industry is the biggest market for AFT products. Using intelligent engineering, AFT develops individual systems that incorporate standardized components, customized steel structures and control software. AFT project management takes responsibility for the realization of a system from start to finish. The challenge for the AFT specialists is a considerable one, made all the greater by time and pricing pressures. This forces AFT to be highly dynamic, innovative and creative in all areas. The strong foundation is provided by solid know-how, high-demand products, loyal customers and a portfolio of prestigious projects. However, conveyor systems engineering requires constant upgrading to meet changing requirements, and products and systems have to be further developed and improved. Above all, the manufacture and procurement of system elements and components must be kept under constant review for the purposes of cost optimization. The goal of project management is to increase efficiency.

Opportunities for AFT

Rigorous though the demands of the partnership with the automotive industry no doubt are, they enable AFT to work successfully with other industries and market segments. For example, in every company and at every site where fork-lift trucks with drivers are used, driverless AFT transport systems can do the same work for much longer and more cost-effectively. There are opportunities for AFT in taking greater advantage of synergies with other areas of expertise within the Kardex

Remstar Group. Kardex Remstar, through its KRM and Stow Divisions, has immense experience in international production and procurement as well as in opening up new fields of activity and markets. AFT's sister divisions are cost leaders in manufacture and pioneers in worldwide marketing.

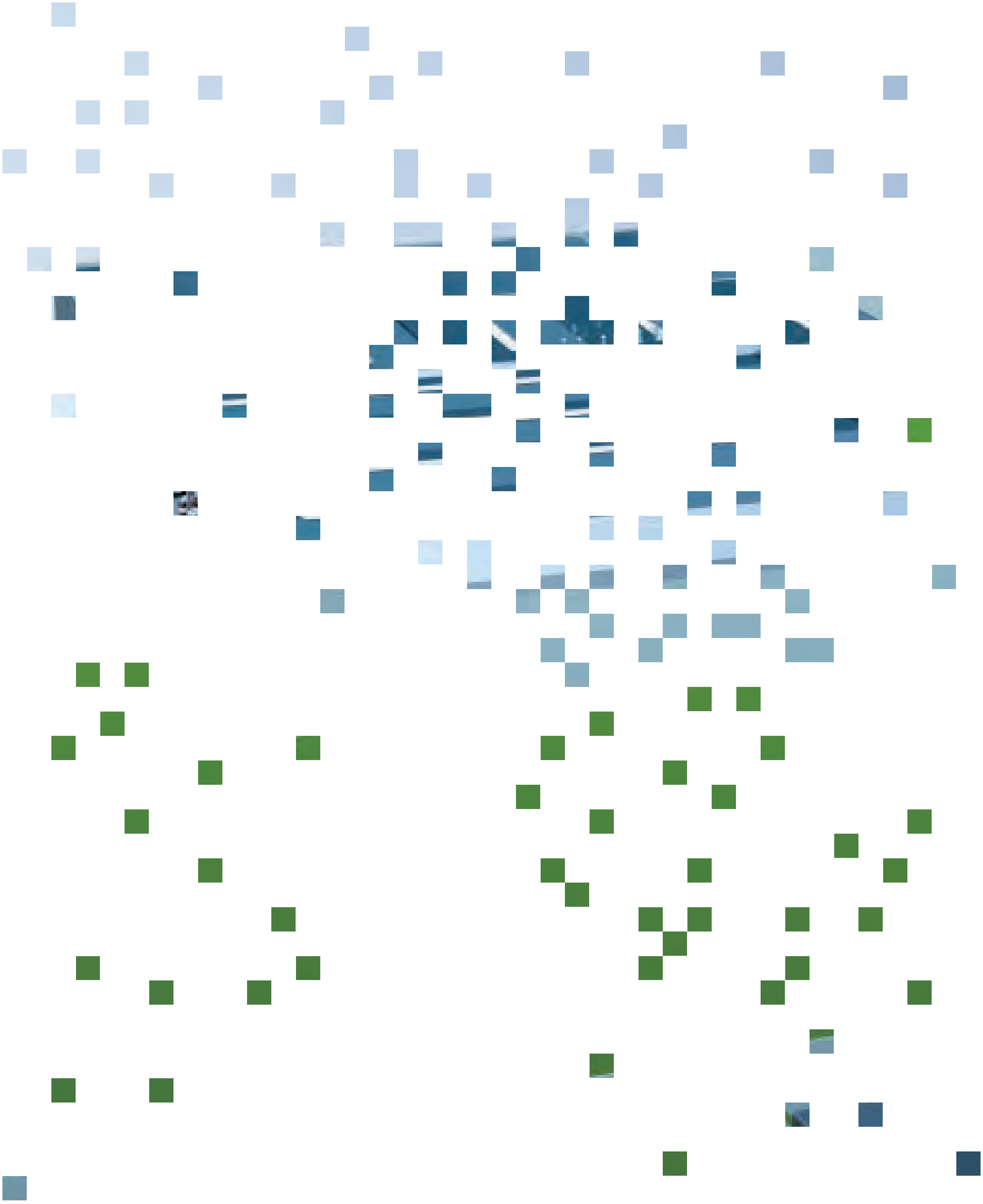
The AFT strategy

AFT's strategic aim is to strengthen its position in the automotive industry by using new products together with tried-and-tested systems that can be re-engineered to lower the cost of manufacture. With the help of distribution and engineering specialists from other industries, the division is planning to open up new areas of activity and to replicate successful transport solutions using standardized systems in various other markets. The focus will remain on the division's two key markets in Eastern Europe and the Far East. Significant reductions in project running costs can be achieved through process optimization, more centralized management and the concentration of production sites.

Looking forward

Under the leadership of Group CEO Jos De Vuyst, AFT is working hard to achieve the turnaround. Measures have been taken at management level and in relation to operational processes and divisional structures. A thoroughgoing review of the previous strategy is in progress. In view of the unsatisfactory profit situation, the priority is more on achieving adequate margins and less on volume.

Illustration left:
At Kaeser Kompressoren GmbH in Coburg (Germany), AFT transport systems with inductive power transmission and guidance ensure automatic transport of compressors from one building to another.



Static Storage Systems Division (Stow)

Visions. Ideas. Solutions.

The core activity of the Static Storage Systems Division (Stow) is the manufacture of storage shelving typically used in high-bay warehouses. The most important customer segments include general contractors specializing in logistics, large corporations, and logistics service suppliers (warehouses). The plants in Wevelgem and Dottenijs (Belgium) as well as Shanghai (China) are globally recognized as models of automated high-volume production. Engineering, distribution, and on-site assembly are handled by the division's own distribution companies in the key markets. The division is headed by Hans De Staercke.

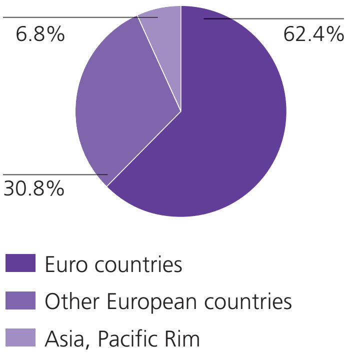
Hans De Staercke, CEO

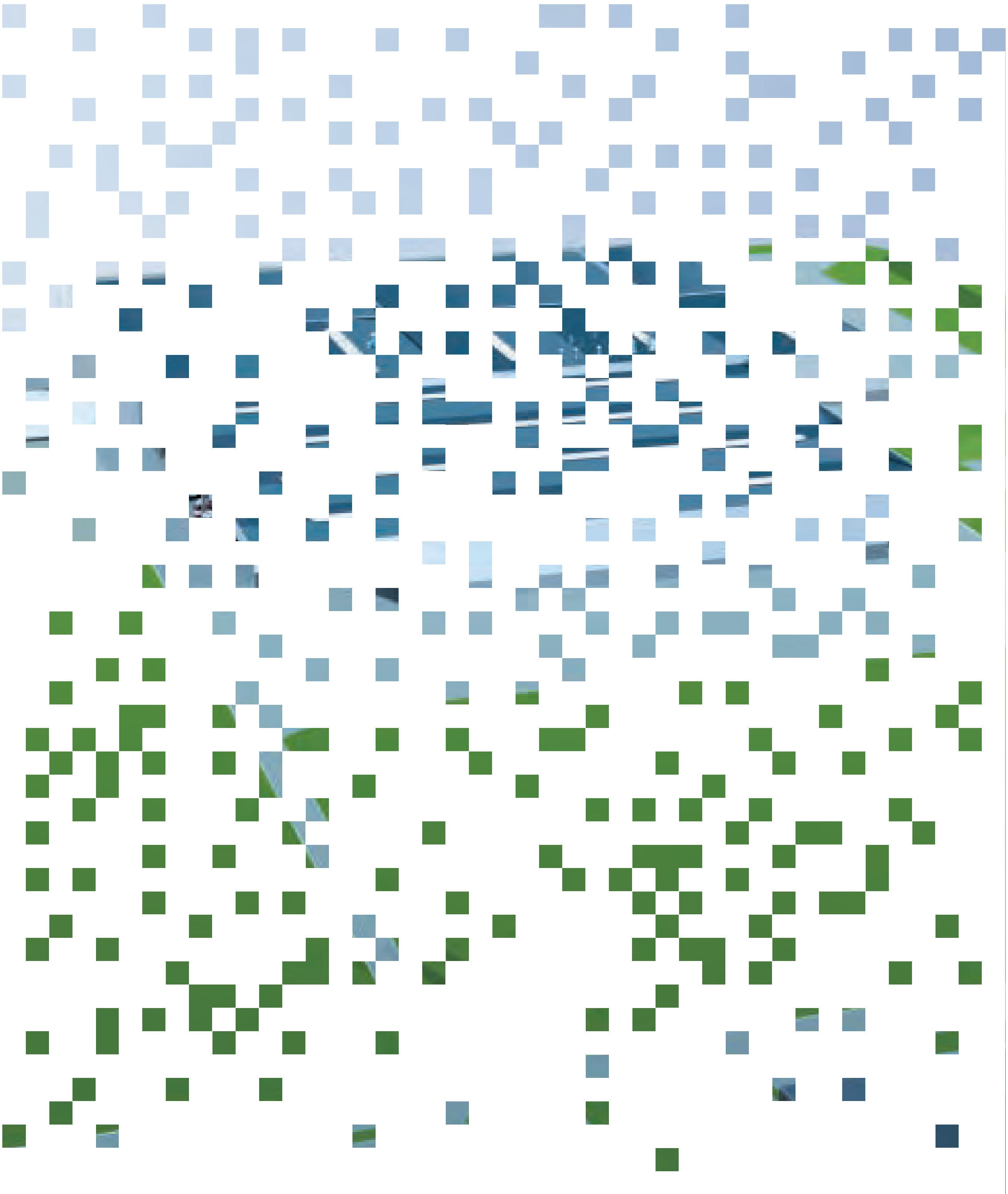
Stow customers all share the same vision: they want to be as close as possible to their customers. In order to remain competitive, they have to optimize their delivery to customers on a permanent basis. That means improved distribution and more efficient storage and transport logistics. Development of the regional infrastructure is always the first concern when new markets are opened up. Apart from the transport routes, the main elements of a region's infrastructure are central and local storage facilities for various types of goods. The storage facilities are built mostly by logistics contractors, logistics service suppliers, wholesalers and major national and international players. Stow's expertise is focused on customized, creative engineering, flexible system solutions and the assembly of high-bay warehouses to high specifications.

Looking back

The Stow Division increased its revenues from EUR 109.2 million to EUR 125.2 million in 2005, a rise of 14.7%, the lion's share of the growth coming from the euro countries and the rest of Europe. Stow had already achieved record sales figures with double-digit growth the previous year, although operating profit (EBIT) was unsatisfactory. Fiscal 2005 is a different story. Stow succeeded in increasing EBIT by an encouraging 166.7% from EUR 2.4 million to EUR 6.4 million. Systematic cost management and a slight fall in steel prices resulted in a higher gross margin. At balance sheet date on 31 December 2005, Stow had 49 more employees than in the previous year.

Net revenues by markets



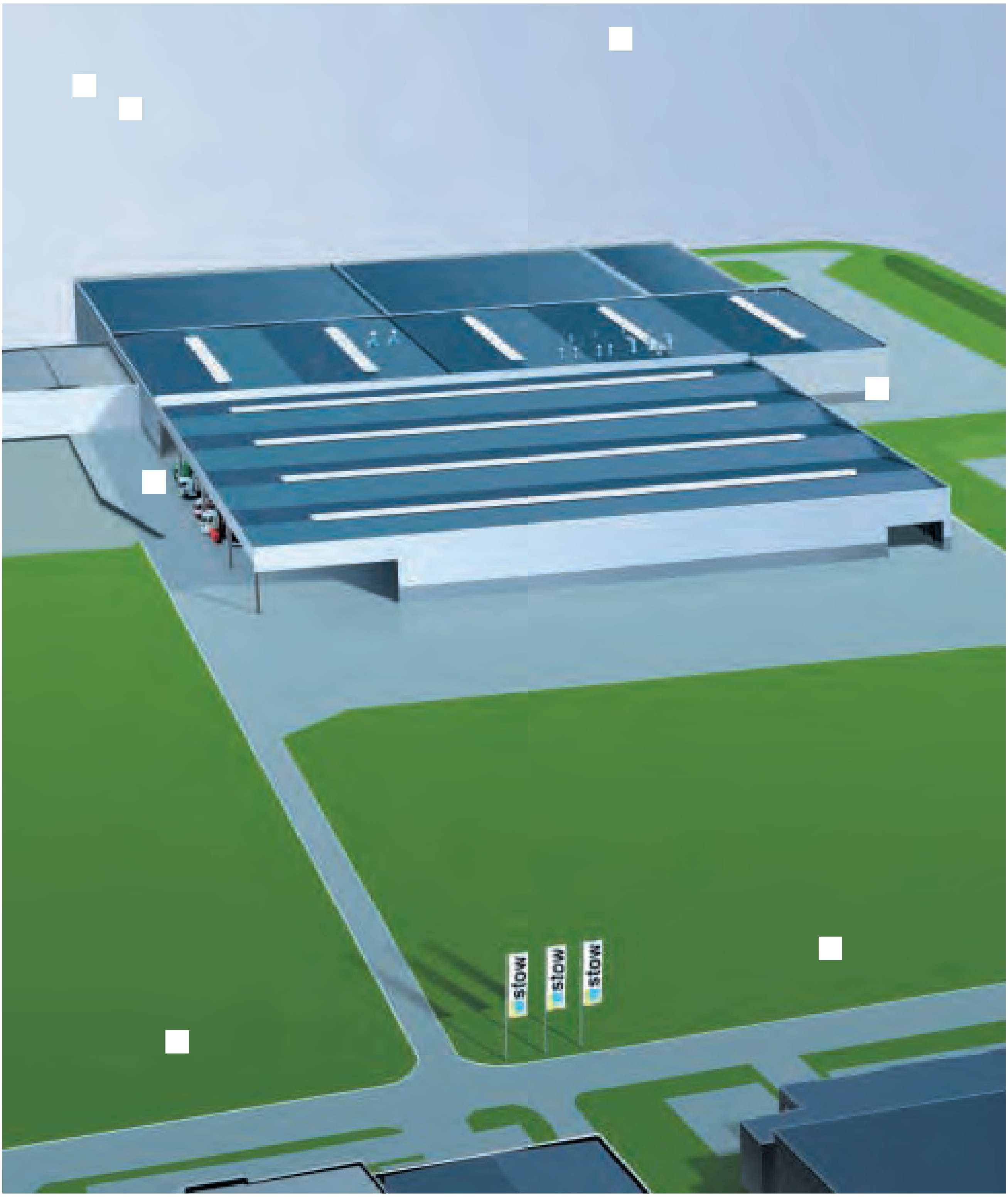


Consolidated key figures for the Stow Division

EUR m.	2005	2004	+/– %
Bookings	127.9	107.8	+ 18.6
Backlog	21.5	20.8	+ 3.4
Segment net revenues	125.2	109.2	+ 14.7
Operating result before depreciation and amortization	9.2	4.8	+ 91.7
Operating result	6.4	2.4	+ 166.7
Number of employees	507	458	+ 10.7

Challenges for Stow

About 90 percent of an individually planned and custom-built, high-bay storage system from Stow is made up of system elements which can be mass-produced almost fully automatically. A first great challenge for Stow is the continual optimization of its manufacturing processes. The system elements have to be further developed and upgraded to widen their area of application. New factories have to be designed and engineered to produce these elements to the highest quality standards, at the lowest possible cost. In January 2006, the latest Stow plant started operations in Belgium. The degree of automation is higher than ever. The production lines are much more flexible. They can be switched over from one process to another with a minimum of delay. Throughput times are also significantly shorter. And advanced automation in the area of storage and retrieval – using driverless AFT transport systems, please note – makes it feasible to run the factory using a three-shift system and during weekends. A second major challenge lies in the continuous training and reskilling of the workforce. New production concepts mean new, highly specialized jobs: the greater the degree of automation at a plant, the greater the demands on the employees responsible for the control and monitoring of operations. A particular challenge for Stow engineers are the special demands arising from the push into new regions – for example earthquake protection – and the ever shorter planning and construction lead times that the market requires. The development of new software for rapid costing of entire projects will significantly enhance the efficiency of the planning process in the near future.


stow
stow
stow

Opportunities for Stow

Stow is widening its range of opportunities by developing new system elements that allow even higher storage systems to be built with more levels for heavy goods. A promising new segment is opening up through the introduction of Miniload small-scale, automatic systems for storage and handling of small parts, with potential customers among retailers and wide-range wholesalers. The newly acquired flexibility and acknowledged cost leadership in production are creating opportunities in a completely new customer category: custom manufacturing. Stow is producing systems for suppliers of logistics solutions, whose own strengths lie in areas such as system integration, planning and distribution.

The Stow strategy

Stow is pursuing a growth strategy. To attain its growth targets, the division develops innovative products, opens up new areas of application, diversifies its portfolio of activities and invests in new markets. The division is strengthening its distribution networks in nearly all regions, but above all in its traditional markets in Europe, the new EU member countries, Eastern Europe and China. In the key market of Spain, a new sales office was established at the end of 2005. Production capacity is being expanded from 85 000 tons to a total of 135 000 tons per year to meet the growing demand. The new factory in China, currently at the planning stage, will come on stream at the end of 2006 or in early 2007. Stow aims to increase profitability through long-term cost leadership in production, shorter planning lead times and a smart sourcing concept for steel and special parts. The US dollar-based markets are supplied from plants in China in order to achieve adequate gross margins.

Looking forward

The Stow Division has started the new financial year in an optimistic frame of mind. For 2006, it has again set the target of double-digit growth for all results. Stow's confidence is based on a healthy flow of incoming orders, the modest upturn in the world economy and a production platform that is strengthened by the new factory in Belgium.

Illustration left:
Stow's new, fully automated factory in Dottenijs (Belgium) started operations in January 2006 with a total annual production capacity of some 120 000 tons and a workforce of around 170.

Financial statements 2005

Contents

Significant changes from the previous year

Restatement of consolidated financial statements for 2004 and corrected version of financial statements for 2005

In spring 2006, Group Management discovered fundamental errors in the valuation of projects being managed by the AFT Division. As a result, the original Annual Report for 2005 was retracted and revised. Note 4.2 contains details of the adjustments made.

IFRS

Effective 31 December 2005, the Kardex Remstar Group prepared its first consolidated financial statements using International Financial Reporting Standards (IFRS). Accordingly, previous-year figures were restated and thus are not comparable with the figures reported under Swiss GAAP FER.

Notes

To enhance readability, various items in the income statement and the balance sheet have been grouped together. These items are disclosed separately in the notes.

Euro

For the first time ever, the Group's consolidated financial statements are shown in euros. This will enhance the assessment of the Group's performance and financial position, compared with the former reporting currency, the Swiss franc.

Kardex AG's financial statements will continue to be stated in Swiss francs in accordance with the requirements of the Swiss Code of Obligations.

Segments

The Group's activities are divided between three divisions: KRM, AFT and Stow. In contrast with the prior year Swiss GAAP FER financial statements, the small Special-Purpose Handling Systems Division (STE) will now no longer be disclosed separately. From 2006, these companies will be managed by one of the three main divisions.

Consolidated income statement

EUR m.	Notes	2005	2004
Net revenues	4.3, 4.5	425.3	389.8
Cost of goods sold and services provided		–356.9	–303.1
Gross profit		**68.4**	**86.7**
Marketing and sales expenses		–45.9	–43.2
Administrative expenses		–30.8	–27.2
Development expenses		–3.1	–3.1
Other operating income and expenses	4.6	–17.7	–5.0
Operating result	4.3	**–29.1**	**8.2**
Financial income	4.8	1.9	0.6
Financial expense	4.9	–4.6	–5.8
Result before tax		**–31.8**	**3.0**
Income tax	4.10	–2.4	–1.4
Net result		**–34.2**	**1.6**
– of which attributable to shareholders of Kardex AG		–34.2	1.6
– of which attributable to minority shareholders		–	–
Basic loss/earnings per share (EUR)	4.26	–6.07	0.32
Diluted loss/earnings per share (EUR)	4.26	–6.07	0.32

Consolidated balance sheet

EUR m.	Notes	31.12.2005	31.12.2004
Property, plant and equipment	4.11	60.4	60.6
Goodwill	4.11, 4.12	28.8	46.9
Other intangible assets	4.11	6.3	4.3
Financial assets	4.13	0.3	0.9
Deferred tax assets	4.14	4.9	3.6
Non-current assets		**100.7**	**116.3**
Inventories and construction contracts	4.15	61.2	51.5
Accounts receivable	4.16	91.9	104.6
Income tax receivables		0.7	0.2
Other receivables and prepaid expenses	4.17	7.5	8.6
Cash and cash equivalents	4.18	24.6	19.0
Current assets		**185.9**	**183.9**
Assets		**286.6**	**300.2**
Share capital		48.7	51.3
Reserves		41.6	74.3
Treasury shares		–	–
Equity excluding minority interests		**90.3**	**125.6**
Minority interests		–	–
Equity		**90.3**	**125.6**
Long-term financial liabilities	4.19	20.9	40.8
Pension plan liabilities	4.20	6.0	4.9
Deferred tax liabilities	4.14	4.2	5.0
Non-current provisions	4.21	2.2	2.2
Other long-term financial liabilities		0.4	0.5
Non-current liabilities		**33.7**	**53.4**
Accounts payable		76.7	58.7
Current financial liabilities	4.19	36.6	24.4
Income tax payables		2.8	2.8
Current provisions	4.21	3.5	0.8
Other current liabilities and accruals	4.22	43.0	34.5
Current liabilities		**162.6**	**121.2**
Liabilities		**196.3**	**174.6**
Equity and liabilities		**286.6**	**300.2**

Consolidated cash flow statement

EUR m.	2005	2004
Operating result	–29.1	8.2
Depreciation and impairment on property, plant and equipment and intangible assets	28.7	13.0
Changes in provisions and pension plan liabilities	3.7	–0.1
Other non-cash items	4.3	–1.1
Cash flow before change in net current assets	**7.6**	**20.0**
Change in net current assets	27.9	–18.4
Cash flow from operating activities	**35.5**	**1.6**
Taxes paid	–4.4	–3.5
Net cash flow from operating activities	**31.1**	**–1.9**
Purchase of property, plant and equipment	–7.4	–6.3
Sale of property, plant and equipment	0.9	1.0
Purchase of intangible and financial assets	–4.5	–2.3
Sale of intangible and financial assets	0.6	0.2
Interest received	0.2	0.2
Net cash flow from investing activities	**–10.2**	**–7.2**
Capital increase	–	39.2
Reduction of par value	–2.6	–
Purchase of treasury shares	–	–
Increase in long-term financial liabilities	5.0	1.8
Repayment of long-term financial liabilities	–7.0	–10.5
Change in current financial liabilities	–7.2	–11.7
Interest paid	–3.9	–3.4
Dividends paid	–	–1.5
Net cash flow from financing activities	**–15.7**	**13.9**
Effect of exchange rate changes on cash and cash equivalents	0.4	–
Net change in cash and cash equivalents	**5.6**	**4.8**
Cash and cash equivalents at 1 January	19.0	14.2
Cash and cash equivalents at 31 December	24.6	19.0
Net change in cash and cash equivalents	**5.6**	**4.8**

Change in consolidated shareholders' equity

EUR m.	Share capital[5]	Participation capital	Capital reserves	Retained earnings	Hedging reserves	Cumulative translation difference	Total reserves	Treasury shares	Minority interests[6]	Equity
31 December 2003, Swiss GAAP FER	**24.0**	**27.2**	**55.4**	**–3.1**	**–**	**–**	**52.3**	**–**	**–**	**103.5**
Transition to IFRS[1]	–	–	–	–17.4	–	–	–17.4	–	–	–17.4
1 January 2004, IFRS before correction of Annual Report	**24.0**	**27.2**	**55.4**	**–20.5**	**–**	**–**	**34.9**	**–**	**–**	**86.1**
Restatement of transition to IFRS[1]	–	–	–	2.4	–	–	2.4	–	–	2.4
Correction of errors at AFT[1]	–	–	–	–1.7	–	–	–1.7	–	–	–1.7
1 January 2004, IFRS, revised	**24.0**	**27.2**	**55.4**	**–19.8**	**–**	**–**	**35.6**	**–**	**–**	**86.8**
Capital increase[2]	27.3	–27.2	25.2	15.2	–	–	40.4	–	–	40.5
Cost of capital increase[2]	–	–	–1.3	–	–	–	–1.3	–	–	–1.3
Exchange rate differences[3]	–	–	–	–	–	–0.5	–0.5	–	–	–0.5
Dividends	–	–	–	–1.5	–	–	–1.5	–	–	–1.5
Net income	–	–	–	1.6	–	–	1.6	–	–	1.6
31 December 2004	**51.3**	**–**	**79.3**	**–4.5**	**–**	**–0.5**	**74.3**	**–**	**–**	**125.6**
Treasury shares[4]	–	–	–	–	–	–	–	–	–	–
Exchange rate differences[3]	–	–	–	–	–	1.5	1.5	–	–	1.5
Reduction of par value	–2.6	–	–	–	–	–	–	–	–	–2.6
Net loss	–	–	–	–34.2	–	–	–34.2	–	–	–34.2
31 December 2005	**48.7**	**–**	**79.3**	**–38.7**	**–**	**1.0**	**41.6**	**–**	**–**	**90.3**

1 See notes 4.1 and 4.2.

2 As part of the merger with Tuxedo Invest AG in 2004, shareholders decided to convert participation certificates into bearer shares and to introduce a standard bearer share. This was followed by a five-for-one bearer share split to reduce the par value and, finally, a capital increase to facilitate the merger. On 31 December 2004, the fully paid-in share capital consisted of 5 627 453 bearer shares, each with a par value of CHF 14.24. The Group published detailed information about the merger with Tuxedo Invest AG in the shareholders' brochure of 19 April 2004.

3 This item also includes exchange rate differences arising from net investments in foreign operation less deferred tax.

4 In fiscal 2005, Kardex AG purchased treasury shares to the amount of EUR 42 000.

5 5 627 453 bearer shares at par value CHF 13.50 at 31 December 2005.

6 Negative minority interests are attributed to main shareholders if there is no binding obligation on the minority shareholders to inject further capital equal to their share of the negative equity when called upon to do so, or if they would be unable to do so.

Notes to the consolidated financial statements

1. General information

The consolidated financial statements of the Kardex Remstar Group include Kardex AG (referred to as the "Company") and its subsidiaries (referred to collectively as the "Group"). Kardex AG is the Group's parent company, a limited company under Swiss law, which is entered in the Commercial Registry in Zurich, Switzerland, and is also headquartered there. The company is listed on the SWX Swiss Exchange.

The Group's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS, formerly IAS) and comply with Swiss law. These are the Group's first consolidated financial statements under IFRS and are in accordance with IFRS 1 (First-Time Adoption of International Financial Reporting Standards). The significant accounting policies that follow were applied consistently to all the periods covered by these financial statements as well as for the opening balance sheet on 1 January 2004. Details of the effects of the transition to IFRS on the Group's assets, the financial position and profitability, as well as on cash flow, is disclosed in note 4.1.

In spring 2006, Group Management discovered fundamental errors in the valuation of projects being managed by the AFT Division. Consequently, the original Annual Report for 2005 was retracted and revised. Note 4.2 contains details of the adjustments made.

2. Significant accounting policies

2.1 Changes in accounting principles

New standards and interpretations published in the course of 2005 but not yet applicable to these consolidated financial statements were not applied. The early adoption of the new standards would have no significant influence on the results.

The changes in question are as follows:

- IFRS 7 Financial Instruments: Disclosures (from 2007): This standard replaces IAS 32 (Financial Instruments: Presentation) and has no influence on valuation. However, it will require sensitivity analyses by significant financial risks.

– IAS 39 Financial Instruments: Recognition and Measurement (from 2006): There are changes in the fair value option, which permits companies to assess certain financial instruments voluntarily by designation at fair value, and in cash flow hedging. Currently, no impact is expected from these two changes in the standard.
– The other changes will have little if any effect on the Kardex consolidated financial statements for 2006 (from 2006/2007). IFRS 4 – Insurance Contracts, IFRS 6 – Exploration for and Evaluation of Mineral Resources, IAS 1 – Presentation of Financial Statements, IAS 16 – Property, Plant and Equipment, IAS 19 – Employee Benefits, IAS 21 – The Effects of Changes in Foreign Exchange Rates, IAS 24 – Related Party Disclosures, IAS 38 – Intangible Assets, IFRIC 4 – Determining whether an Arrangement contains a Lease, IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, IFRIC 6 – Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment and IFRIC 7 – Applying the Restatement Approach in IAS 29 Financial Reporting in Hyperinflationary Economies.

2.2 Basis of preparation

Consolidation is based on the individual Group companies' audited financial statements, prepared on a consistent basis. Balance sheet date for all Group companies is 31 December. The consolidated financial statements are prepared on a historical cost basis with the exception of the following assets and liabilities, which are stated at their fair value:
– derivative financial instruments
– financial instruments and financial assets held for trading
– financial instruments and financial assets classified as available for sale.

Non-current assets are stated at the lower of historical cost or market. Disposal groups held for sale are stated at the lower of carrying amount or market value less costs to sell.

2.3 Significant estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported value of assets and liabilities, contingent assets and contingent liabilities, and revenues and expenses. Areas where estimates could have a significant influence on carrying amount include assumptions made in calculating the value in use of goodwill, expected future cash flow from capitalized development costs, evaluation of construction contracts and assessments of deferred taxes. Actual results may differ from these estimates.

2.4 Consolidation principles

The Group's consolidated financial statements include Kardex AG as well as all domestic and foreign subsidiaries in which the Company holds a direct or indirect ownership. Acquisitions are accounted for using the purchase method.

All subsidiaries in which the Group controls more than 50% of the voting stock or is able to exercise a controlling influence on the company's business or financial position are accounted for using the full consolidation method, which incorporates assets and liabilities as well as revenues and expenses in their entirety. Minority interests in equity and net income are stated separately. Negative minority interests are attributed to the main shareholders if there is no binding obligation on the minority shareholder to inject further capital equal to his share of the negative equity when called upon to do so, or if he would be unable to do so.

Companies acquired or sold are included in the Group's financial statements from the date of purchase or until the date of sale. Internal balances, transactions and profits not realized by third parties are eliminated in the consolidation process.

Investments in associated companies in which the Group has a significant but not controlling interest as well as joint ventures are consolidated using the equity method. As required by this method, proportional profits or losses, as well as net assets, is shown in the Group's financial statements.

2.5 Foreign currency conversion

2.5.1 Functional and reporting currency

The Group's consolidated financial statements are presented for the first time in million euros. The euro is Kardex AG's functional currency and the reporting currency of the Group. The reason for this change is that the Group's cash flows and transactions are denominated mainly in euros. The functional currency of a subsidiary is the currency of its primary operating environment.

2.5.2 Foreign currency transactions

Foreign currency transactions are translated into a Group company's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, unless they are shown under equity related to hedges of cash flows or balance sheet items.

2.5.3 Financial statements of subsidiaries

The assets and liabilities of subsidiaries whose financial statements are denominated in currencies other than the euro are converted for consolidation purposes as follows:

– Assets and liabilities are converted on balance sheet date at the exchange rate prevailing on that date.
– Revenues and expenses as well as cash flows are converted at the average exchange rate.
– Equity is converted at historical rates.

All resulting translation differences are shown separately under equity (cumulative translation differences).

2.5.4 Net investment in subsidiaries

Exchange differences arising from the translation of net investments in subsidiaries or of financial liabilities and other currency instruments used to hedge such investments are shown, net of deferred tax, under equity (cumulative translation difference) and do not affect the income statement. If a subsidiary is sold, its cumulative translation differences are included in the income statement as a part of the profit or loss arising from the sale.

2.6 Derivative financial instruments and hedging transactions

The Group uses derivative financial instruments exclusively to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Derivative financial instruments are recognized at fair value when contracts are entered into and in subsequent reporting periods. The way in which the resulting gains or losses are shown depends on whether the derivate qualifies for hedge accounting or is reported for trading purposes.

- Derivatives that do not qualify for hedge accounting: changes resulting from revaluation of derivatives are shown directly in the income statement.
- Hedging transactions: changes in the market value of a derivative financial instrument that qualifies as a fair value hedge and proves to be highly effective are shown, together with the change in fair value of the hedged balance sheet position, in the income statement. Changes in the fair value of a derivative financial instrument that qualifies as a cash flow hedge and shows the hedging transaction to be highly effective, are shown under equity. If the intended transaction leads to the subsequent disclosure of a non-financial position in the balance sheet – under property, plant and equipment, for example – the gains or losses resulting from changes in valuation, and previously shown under equity, are transferred to the appropriate item in the balance sheet. Changes in value resulting from hedging a cash flow and shown under equity are included in the income statement during the period in which the cash flow (e.g. interest payments) from the hedged underlying business appears in the income statement.

2.7 Property, plant and equipment

2.7.1 Owned assets

Items of property, plant and equipment are stated at acquisition or construction cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment. The financing costs related to an asset under construction are not capitalized.

2.7.2 Leased assets

Leasing agreements in which the Group assumes the risks and rewards of ownership are treated as finance leases. These assets are stated at an amount equal to the lower of their fair value or the present value of the minimum lease payments at the beginning of the lease, less accumulated depreciation and impairment loss. Obligations arising from finance leasing are shown as liabilities.

2.7.3 Subsequent costs

Major renovation or modernization work, as well as expenses that extend the estimated useful life of property, plant or equipment, are capitalized. Repairs and maintenance costs are shown directly under operating expenses.

2.7.4 Depreciation

Depreciation is charged to the income statement on a straight-line basis over the following periods:

Buildings	25–50 years
Machinery and production tools	4–10 years
Equipment and motor vehicles	6–12 years
Information technology	3 years

Depreciation expense is included under Cost of goods sold and services provided, Marketing and sales expenses, Administrative expenses and Development expenses.

The residual value is reassessed annually. Profits and losses arising from the sale of property, plant and equipment are shown in the income statement.

2.8 Intangible assets

2.8.1 Goodwill

Goodwill, the difference between the cost of acquisitions and the fair value of the net assets acquired, results from the purchase of subsidiaries, associates and joint ventures. All business combinations are shown in the financial statements using the purchase method. For acquisitions prior to 1 January 2004, goodwill is disclosed net, as acquisition cost less accumulated depreciation and impairment loss, i.e. at the amount calculated under Swiss GAAP FER. For acquisitions after 1 January 2004, goodwill is recorded at historical cost less accumulated impairment loss.

2.8.2 Research and development

Expenditure on research activities related to new technologies or know-how is recognized in the income statement as an expense, as incurred.

Development costs which relate to the design or production of new or substantially improved products and processes, are capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. Development costs are stated at cost less accumulated amortization and impairment loss.

2.8.3 Other intangible assets

Other intangible assets are stated at cost less accumulated amortization and impairment loss.

2.8.4 Subsequent expenditure

Subsequent expenditure on existing intangible assets is capitalized only when it increases the future economic benefits of the assets. All other expenditure is expensed at the time incurred.

2.8.5 Amortization

Amortization of intangible assets is charged to the income statement on a straight-line basis over their estimated useful lives. Goodwill and intangible assets with an indefinite useful life are not amortized. Amortization of intangible assets takes place from the date they are available for use. Their estimated useful lives are as follows:

Capitalized development costs	3 years
Licences and patents	5 years
Capitalized software	5 years

Amortization is included under Cost of goods sold and services provided, Marketing and sales expenses, Administrative expenses and Development expenses.

2.9 Investments

Investments are valued as follows:
– financial assets at fair value
– loans and receivables at amortized cost
– investments held to maturity at amortized cost
– financial assets available for sale at the lower of carrying value or market value less costs to sell.

The classification of investments depends on the purpose for which they were acquired. Management determinates the classification of its investments at initial recognition and re-evaluates these designations at every reporting date.

2.10 Impairment of assets

Goodwill and other intangible assets that have an indefinite useful life are tested annually for impairment. Property, plant and equipment and other long-term assets, including intangible assets with indefinite and finite useful lives as well as goodwill, are tested for impairment whenever there are indications that their carrying amount may exceed their recoverable amount. Assets whose carrying amount exceeds their recoverable amount is reduced to their recoverable amount. The recoverable amount is either the asset's market value less costs to sell or the value in use of the asset based on expected future cash flow, whichever is higher.

2.11 Accounts receivable

Accounts receivable are stated at cost. In cases where it is doubtful whether the asset is recoverable, an adjustment is made based on the estimated recoverable amount.

2.12 Inventories

Inventories are stated at the lower of cost or market. Cost is calculated on a weighted-average basis and includes purchase cost as well as the transport of inventories. In the case of inventories manufactured by the Group, production costs also include an appropriate share of overhead. Adjustments are made for items with a low turnover ratio and for slow-moving items.

2.13 Construction contracts

Provided that the revenues and expenses arising from construction contracts can be reliably estimated, sales are recognized using the percentage-of-completion method: the revenues and expenses are shown proportionately to the degree of completion in the income statement. The degree of completion is calculated using the cost-to-cost method, i.e. by calculating the ratio between the project costs incurred to date and the estimated overall cost of the project. Foreseeable losses from construction contracts are immediately recognized in the income statement.

2.14 Cash and cash equivalents

Cash and cash equivalents comprises cash balances, postal and bank account balances and other liquid investments with a maximum total maturity of three months.

2.15 Treasury shares

If the company repurchases its own shares, the payments, including directly rated costs, are shown as deductions in equity. Any profits or losses arising from transactions with treasury shares are recorded in equity.

2.16 Dividends

Dividends are recognized as a liability in the period in which they are approved.

2.17 Liabilities

Liabilities entered into are initially stated at fair value less any transaction costs and in future periods using the amortized cost method. Differences between cash flow (after deduction of transaction costs) and the amount repaid are shown in the income statement using the effective interest method during the liability’s entire term.

2.18 Employee benefits

There are several employee pension plans within the Group, each of which complies with legal requirements for the country in question. These plans are funded by contributions from employees and employers.

2.18.1 Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement, as incurred. The recognized expense is the employer's contributions.

2.18.2 Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan. The pension cost is calculated annually by actuaries using the projected unit credit method. The obligation is discounted to the present value and reduced by the fair value of the existing plan assets. The discount rate applied is the interest rate for liabilities prevailing on balance sheet date, with similar maturities as the liabilities existing for the Group. Any surplus or deficit in the fair value of the plan assets compared with the present value of the defined benefit obligation is stated in the balance sheet as an asset or liability after taking into account all unrecognized actuarial gains or losses and past service costs. However, an asset is only capitalized to the extent in which a future economic benefit is available to the Group.

All actuarial gains and losses were recognized upon transition to IFRS at 1 January 2004. Actuarial gains and losses arising subsequent to 1 January 2004 are accounted for using the corridor method, i.e. to the extent they exceed the higher of 10% of the present value of the defined benefit obligation or the fair value of the plan assets. Such gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

2.18.3 Other long-term benefits to employees

Other long-term benefits to employees included deferred compensations which Group companies are legally obliged to pay in the countries in question. The cost of these are accrued as personnel expenses. The corresponding obligations are disclosed with pension plan liabilities.

2.19 Provisions

Provisions are made
– insofar as the Group has, or may have, an actual or possible obligation (legal or constructive) due to past events,
– insofar as it is probable that fulfilment of this liability will lead to an outflow of resources,
– insofar as the extent of the liability can be reliably estimated.

2.19.1 Warranties

The provision for warranty risks from the sale of products and services is based on information about warranties from earlier periods and available production dates.

2.19.2 Restructuring

Restructuring costs are stated in the period in which an official, detailed restructuring plan is available to the Group, which is implemented or officially announced. No provision is made for future operating losses. Restructuring costs are shown under other operating expenses.

2.19.3 Site restoration

Provisions are made if it is probable that the Group will be obliged to restore a site and if the costs can be estimated.

2.19.4 Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the estimated cost of meeting its obligations under the contract.

2.20 Accounts payable and other current liabilities

Accounts payable and other current liabilities are recorded at cost.

2.21 Revenues from goods sold and services rendered

Net revenues include all revenues from products and services less items such as rebates, other agreed discounts and value-added tax. Revenue from the sale of goods is recognized when the risks and rewards of ownership have transferred to the buyer. Provided that income and expenses arising from construction contracts can be reliably estimated, the resulting revenues are reported using the percentage-of-completion method. Revenues from services is recognized according to its stage of completion. No revenue is recognized if there is significant uncertainty regarding recovery of the consideration due, associated costs or the possible return of goods.

2.22 Government grants

Asset-related government grants are deducted from the carrying amount of the asset. Government grants are recognized as revenue during the period in which the subsidized expense occurs.

2.23 Operating lease payments

Payments made under operating leases are recognized in the income statement using a straight-line basis over the term of the lease.

2.24 Finance lease payments

Minimum lease payments are allocated between the financing costs and repayment of the principal. The finance costs are allocated to each period during the lease term to produce a constant periodic rate of interest over the remaining balance of the liability.

2.25 Financing

Net financing costs comprise interest expense on borrowings and finance leasing, interest earned on investments, earnings from discounts and expenses, gains and losses from foreign currency conversions, as well as gains and losses from derivative financial instruments used for exchange rate hedging, all of which are recognized in the income statement. Interest income is recognized in the income statement as it accrues, using the effective interest method.

2.26 Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement unless it relates to items recognized directly in equity. Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable related to previous years. Income tax is calculated using tax rates already in force or substantially enacted at the balance sheet date. Deferred tax is calculated using the balance sheet liability method on the basis of tax rates already in force or substantially enacted at the balance sheet date and is based on temporary differences between IFRS carrying value and the tax base. Tax savings on future taxable income and other deferred income tax and based on losses carried forward are recognized only to the extent to which it is probable that future taxable profits will be available.

2.27 Segment reporting

The primary segment reporting format is the Group's internal organization, management and financial reporting structure; the secondary segment reporting format is its geographical structure. Segment results are determined at an operating result level. Operating assets and liabilities that can be allocated either directly to the segments, or for which there are reasonable grounds for doing so, are stated in the corresponding divisions or geographical markets. Intra-group transactions are charged at arm's length. Eliminations apply to internal balances between the various divisions or with Group headquarters.

The Group consists of the following three segments:
- The Dynamic Storage and Retrieval Systems Division (KRM) focuses primarily on the production, global distribution, installation, and maintenance of dynamic storage, retrieval, and distribution solutions. These logistics solutions are marketed under the Kardex, Remstar, and Megamat (KRM) brands and are used predominantly in industrial, commercial, and administrative environments.
- The key activities of the Industrial Automation and Conveyor Technology Division (AFT) are the engineering, production, global distribution, installation, and maintenance of ceiling and floor conveyor systems, together with the lifting and logistics equipment required primarily by the automobile industry.
- The core activity of the Static Storage Systems Division (Stow) is the manufacture of storage shelving typically used in high-bay warehouses. The most important customer segments include general contractors specializing in logistics, large corporations, and logistics service suppliers (warehouses).

3. Financial risk management

The Group is exposed to credit, liquidity and market risks in the normal course of its business. Derivative financial instruments are used only to hedge exposure to fluctuation in foreign exchange rates and interest rates.

3.1 Credit risk

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

Investments are allowed only in liquid securities and only with high-credit-quality financial institutions. Transactions involving derivative financial instruments are with counterparties who have a sound credit rating. Given the counterparties' high credit ratings, management does not expect any of them to fail to meet their obligations.

At balance sheet date there were no significant credit cluster risks. The maximum exposure to credit risk is shown in the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

3.2 Liquidity risk

Prudent liquidity risk management requires that the Group maintains sufficient liquid assets and the availability of funding through an adequate level of contractual credit facilities. The Group has agreed sufficient credit lines with its credit institutions.

3.3 Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the euro. The currencies giving rise to this risk are primarily the Swiss franc, pound sterling and US dollar.

The Group uses forward exchange contracts to hedge its foreign currency risk. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

3.4 Price risk

The Group is exposed to a market price risk. Management endeavors to pass on any fluctuations to the market.

3.5 Interest risk

The Group takes out long and short-term loans at both floating and fixed-interest rates. Group treasury is responsible for monitoring interest rate movements continuously and for optimizing future interest expenses.

4. Notes to the consolidated financial statements

4.1 Transition to IFRS

These are the Group's first consolidated financial statements under IFRS.

When preparing the IFRS opening balance sheet as at 1 January 2004 and the comparative figures for the 2004 financial statements, the Group has restated the figures published previously under Swiss GAAP FER.

An explanation of the effects of the transition to IFRS on the Group financial position, results and cash flows can be found in the following overview and notes:

4.1.1 Reconciliation of net income

EUR m.			Fiscal 2004
Net income under Swiss GAAP FER		A	**6.0**
IAS 2	Inventories	B	–
IAS 11	Construction contracts	C	–5.9
IAS 12	Income taxes	D	2.2
IAS 16	Property, plant and equipment	E	–0.2
IAS 19	Employee benefits	F	0.1
IAS 37	Provisions	G	0.2
IAS 38	Intangible assets	H	–0.5
IAS 39	Financial instruments	I	0.3
IFRS 3	Business combinations	J	–0.6
Net income under IFRS			**1.6**

4.1.2 Reconciliation of equity

EUR m.			31.12.2004	31.12.2004	01.01.2004 Opening balance sheet	01.01.2004 Opening balance sheet
Equity under Swiss GAAP FER		A		**146.7**		**103.5**
IAS 2	Inventories	B	–1.7		–2.1	
IAS 11	Construction contracts	C	–5.3		–3.2	
IAS 12	Income taxes	D	0.6		–0.2	
IAS 16	Property, plant and equipment	E	–2.2		–2.0	
IAS 19	Employee benefits	F	–2.7		–2.8	
IAS 37	Provisions	G	–1.7		–1.9	
IAS 38	Intangible assets	H	–2.7		–2.2	
IAS 39	Financial instruments	I	–2.4		–2.7	
IFRS 3	Business combinations	J	0.2		0.2	
Other		K	–0.5		–0.5	
Total transition to IFRS				–18.4		–17.4
Equity under IFRS before correction of Annual Report				**128.3**		**86.1**
IAS 2	Inventories	B	1.6		1.6	
IAS 12	Income taxes	D	–1.1		–1.1	
IAS 37	Provisions	G	0.8		0.8	
IAS 39	Financial instruments	I	1.1		1.1	
Total adjustments to IFRS transition				2.4		2.4
IAS 2	Inventories	B	–0.4		–	
IAS 11	Construction contracts	C	–6.4		–2.6	
IAS 12	Income taxes	D	2.3		0.9	
IFRS 3	Business combinations	J	–0.6		–	
Total correction of errors				–5.1		–1.7
Equity under IFRS new				**125.6**		**86.8**

4.1.3 General notes on the reconciliation to IFRS

IFRS 1 permits new users to take advantage of some relief in relation to previous guidelines. The Kardex Remstar Group has made use of this as follows:

– Business combinations:
  There was no revaluation in relation to business combinations entered into before the transition to IFRS (1 January 2004).

– Fair value or revaluation as deemed cost:
  Carrying amounts of fixed assets comparable with the fair value on transition to IFRS were used as deemed cost in the opening IFRS balance sheet.
– Employee benefits:
  The cumulative actuarial gains and losses were recognized in the opening IFRS balance sheet.
– Cumulative translation differences:
  All translation differences were set to zero at the date of transition to IFRS.

4.1.4 Details of the reconciliation tables

A The Group converted its consolidated financial statements from Swiss francs to euros at the date of transition to IFRS. The resulting currency translation effects are recognized in the opening Swiss GAAP FER balances.

B For the opening IFRS balance sheet on 1 January 2004, the application of adjusted and consistent internal valuation principles necessitated an additional provision for inventories with a low turnover ratio and for slow-moving items.

C Under IFRS, the stage of completion for construction contracts is recognized using the cost-to-cost method. Under Swiss GAAP FER, the project status was recognized on the basis of technical progress reports. Furthermore, errors before taxes amounting to EUR 3.8 million (2004: EUR 2.6 million) were corrected retroactively in the valuation of various AFT-managed projects. This figure also includes adjustments to provisions for expected losses, see note 4.2.

D Revaluation of deferred tax assets and liabilities on all temporary differences between the tax balance sheets and IFRS balance sheets resulted in a net decrease in equity at 1 January 2004. Significant components include the impact on income tax positions arising from the transition to IFRS, the consistent calculation of deferred income taxes on tax-deductible loss carryforwards, and the tax effects of the corrections listed in note 4.2.

E EUR 1.6 million of the reduction in this position in the IFRS opening balance sheet was due to the revaluation of various properties at their market value (EUR 35.6 million at 1 January 2004). Apart from this, the introduction of the components approach resulted in partial adjustments to the carrying amount and useful life of property, plant and equipment.

F On transition to IFRS, the Group had actuarial calculations prepared for all defined benefit plans and recognized any surpluses and deficits in the balance sheet. In particular, Swiss pension plans not recognized under Swiss GAAP FER qualify as defined benefit plans under IFRS and are now included. The biggest adjustments relate to pension schemes in Germany (EUR 1.2 million), UK (EUR 1.1 million) and Switzerland (EUR 0.3 million).

G For the opening IFRS balance sheet, the Group corrected a number of errors in the calculation of the warranty provision.

H More detailed external (IFRS) and internal guidelines on accounting for internal development costs and the adjustment of their expected useful lives resulted in a decrease in this position. Organization costs, which are capitalized under Swiss GAAP FER, do not qualify as assets under IFRS; accordingly, these costs were recognized in the IFRS income statement.

I A derivative not shown under Swiss GAAP FER was recognized under IFRS at market value as a financial debt amounting to EUR 0.3 million. Apart from this, errors in the valuation of Accounts receivable were corrected as part of revising the financial statements.

J The amortization of goodwill amounting to EUR 3.1 million recorded under Swiss GAAP FER in 2004 was reversed in accordance with IFRS principles. Furthermore, as part of the correction of errors made the previous year, the impairment test on AFT's goodwill position was re-performed. The required adjustment amounted to EUR 3.7 million; see also notes 4.2 and 4.6.

K The other entries comprise differences in various balance sheet items (EUR 0.5 million), inclusion of a previously not consolidated subsidiary, LT Engineering AG, Reinach, Switzerland (EUR –0.2 million), and the valuation of loans receivable at the balance sheet date (EUR 0.2 million). Under Swiss GAAP FER, loans were valued on the basis of lower of cost or market.

4.1.5 Cash flow statement

The cash flow statement under IFRS does not show any significant change from the figures under Swiss GAAP FER. The changes affect:

Securities totalling EUR 0.6 million, which were classified as cash under Swiss GAAP FER (for all reporting periods) are assigned to cash flow from investing activities under IFRS. Interest paid and received is now shown under cash flow from financing activities (formerly cash flow from operating activities). Apart from this, the organization costs listed under point H, which do not qualify as assets under IFRS, were reclassified from cash flow from investment activities to cash flow from operating activities (cash outflow EUR 0.4 million at 31 December 2004).

4.2 Restatement of the consolidated financial statements for 2004 and correction of the consolidated financial statements for 2005

In spring 2006, Group management discovered fundamental errors in the valuation of projects being managed by the AFT Division, some of which went as far back as 2003. As a result, the 2005 Annual Report, which had already been published, was retracted and redrafted. As part of the revised version, various additional corrections were made that affected inventories, work in progress, receivables and tax loss carry-forwards. All this required a reassessment of goodwill and the impairment calculation, which affected both fiscal 2004 and 2005. In addition, the transition from Swiss GAAP FER to IFRS was re-analyzed and, where necessary, adjusted. Any resulting changes in estimates were recognized in 2005. The adjustments and corrections, which were carried out in accordance with IAS 8 and IFRS 1, can be summarized as follows:

Restatement of net result

EUR m.	2005	2004
Net result before correction of Annual Report	**5.3**	**5.0**
4.2.1 Corrections to construction contract valuation and changes in estimates	−22.7	−4.2
4.2.2 Reversal of goodwill amortization	–	3.1
4.2.2 Goodwill impairment	−18.4	−3.7
4.2.3 Tax effect	1.6	1.4
Net result new	**−34.2**	**1.6**

Restatement of equity

EUR m.	31.12.2005	31.12.2004	01.01.2004
Equity before correction of Annual Report	**132.8**	**128.3**	**86.1**
4.2.1 Corrections to construction contract valuation and changes in estimates	−26.0	−3.3	0.9
4.2.2 Reversal of goodwill amortization	3.1	3.1	–
4.2.2 Goodwill impairment	−22.1	−3.7	–
4.2.3 Tax effect	3.0	1.4	−0.2
Effect of changes in exchange rate, rounding	−0.5	−0.2	–
Equity new	**90.3**	**125.6**	**86.8**

The adjustments and corrections are explained individually below:

4.2.1 Corrections to construction contract valuation and adjustment of estimates
As a result of calculation errors and the omission of contractual discounts, the margins or profits shown for various projects valued in accordance with the percentage-of-completion method since 2003 were overstated. In addition, no provisions had been made for losses expected on production contracts. There are indications that adjustments should have been made as early as the end of 2003 or the end of 2004, if all the information then available had been considered. As far as objectively possible, these errors were corrected in the appropriate preceding periods. Since these projects continued for several years, it is not objectively possible to assign them to the exact periods at the time when the consolidated financial statements were issued in 2005. The corrections before the impairment of goodwill amounting to EUR 22.7 million include valuation adjustments, some of which presumably also apply to the previous years. However, since it is not possible to determine with certainty to which period they apply, they are shown in 2005.

During the correction of the consolidated financial statements for 2005, it was discovered that inventories, work in process and accounts receivable had been overstated on 31 December 2005. Provisions and accruals were adjusted in the light of more recent information. These adjustments were made in accordance with IAS 10, Events after the balance sheet date.

Reanalysis of the transition from Swiss GAAP FER to IFRS revealed that a position amounting to EUR 3.5 million (1 January 2004, before tax) and reported as a change in accounting policy should be shown under Changes in estimates. In accordance with IFRS, this adjustment was recognized in the 2005 income statement.

4.2.2 Reversal of goodwill amortization and goodwill impairment

In the light of these new findings, the goodwill amounts for the AFT Division and AFT Korea were reassessed. As a result of the incorrect valuation of projects, there were errors in the assumptions made for the impairment test in 2004, and it was decided that test should be repeated. This resulted in an adjustment of EUR 3.7 million for 2004 and of EUR 18.4 million for 2005. The goodwill amortization amounting to EUR 3.1 million and originally planned for 2004 was reversed. Details about the impairment test can be found in note 4.12.

4.2.3 Effect on tax

Because of the much weaker result generated by the AFT Division, the recoverability of tax loss carryforwards has been reassessed. The corrections mentioned in 4.2.1 and 4.2.2 have necessitated the following adjustments to current and deferred tax:

EUR m.	2005	2004
Current tax	0.5	–
Deferred tax	1.1	1.4
Improvement in result	**1.6**	**1.4**

4.2.4 List of changes to consolidated financial statements

The corrected consolidated financial statements differ from the retracted version in the following positions:

Income statement

EUR m.	2005	2004
Net revenues	**–15.9**	**–5.7**
Cost of goods sold and services provided	–4.3	1.4
Marketing and sales expenses	–1.7	–
Administrative expenses [1]	–1.0	0.1
Other operating income and expenses	–18.2	–0.6
Income tax	1.6	1.4
Reduction in result	**–39.5**	**–3.4**

[1] Goodwill amortization was reclassified as Other operating income and expenses.

Balance sheet

EUR m.	31.12.2005	31.12.2004	01.01.2004
Goodwill	–19.1	–0.6	–
Deferred tax assets	1.4	0.3	–
Inventories and construction contracts	–15.8	1.2	0.7
Accounts receivable	–2.9	0.9	1.1
Financial liabilities	0.2	0.5	–
Deferred tax liabilities	1.1	1.1	–0.2
Provisions	–0.3	0.8	0.8
Other long-term financial liabilities	–0.1	–0.3	–
Accounts payable	–	–0.6	–0.7
Income tax payables	0.5	–	–
Other current liabilities and deferred income	–7.5	–6.0	–1.0
Change in equity	**–42.5**	**–2.7**	**0.7**

4.2.5 Change in earnings per share

As a result of the various adjustments, earnings per share change as follows:

EUR	2005	2004
Basic and diluted earnings per share before correction of Annual Report	0.93	1.01
Effect of adjustments	–7.00	–0.69
Basic and diluted earnings per share, new	–6.07	0.32

4.3 Segment reporting

Primary segment reporting format 2005: business segments

EUR m.	KRM	AFT	Stow	Other/ Finance[1]	Elimina-tions	Group
Bookings	204.0	103.6	127.9	11.7	–	447.2
Backlog	51.6	48.2	21.5	4.5	–	125.8
Net revenues, third party	189.6	99.1	125.0	11.6	–	425.3
Net revenues, with other divisions	1.9	–	0.2	–	–2.1	–
Segment net revenues	**191.5**	**99.1**	**125.2**	**11.6**	**–2.1**	**425.3**
Operating result	**12.8**	**–48.4**	**6.4**	**0.1**	**–**	**–29.1**
In % of segment net revenues	6.7	–48.8	5.1	0.9	–	–6.8
Operating result, depreciation and impairment	**18.5**	**–28.5**	**9.2**	**0.4**	**–**	**–0.4**
In % of segment net revenues	9.7	–28.8	7.3	3.4	–	–0.1
Segment assets	120.5	60.8	94.1	24.3	–13.1	286.6
Segment liabilities	40.5	52.0	34.0	82.9	–13.1	196.3
Capital expenditure	4.3	2.3	5.4	0.2	–	12.2
Depreciation and amortization of property, plant and equipment and intangible assets	5.7	1.5	2.8	0.3	–	10.3
Goodwill impairment	–	18.4	–	–	–	18.4
Employees	1 170	352	507	44	–	2 073

Secondary segment reporting format 2005: geographical segments

EUR m.	Euro countries	Other European countries	North, Central, South America	Asia, Pacific Rim	Others	Group
Net revenues, third party	237.0	91.9	40.3	56.1	–	425.3
Segment assets	204.2	39.7	20.0	15.1	7.6	286.6
Capital expenditure	10.9	0.7	0.3	0.3	–	12.2

[1] This column shows mainly the revenues and expenses, together with the assets and liabilities, of the parent company, together with other figures not allocable to individual divisions.

Primary segment reporting format 2004: business segments

EUR m.	KRM	AFT	Stow	Other/ Finance[1]	Elimina- tions	Group
Bookings	177.4	95.4	107.8	11.0	–	391.6
Backlog	37.2	43.6	20.8	4.5	–	106.1
Net revenues, third party	177.9	92.6	108.7	10.6	–	389.8
Net revenues, with other divisions	1.9	0.2	0.5	0.4	–3.0	–
Segment net revenues	**179.8**	**92.8**	**109.2**	**11.0**	**–3.0**	**389.8**
Operating result	**9.0**	**–2.9**	**2.4**	**–0.3**	**–**	**8.2**
In % of segment net revenues	5.0	–3.1	2.2	–2.7	–	2.1
Operating result, depreciation and impairment	**14.2**	**2.1**	**4.8**	**0.1**	**–**	**21.2**
In % of segment net revenues	7.9	2.3	4.4	0.9	–	5.4
Segment assets	128.5	83.4	82.3	16.8	–10.8	300.2
Segment liabilities	34.7	36.3	29.7	84.7	–10.8	174.6
Capital expenditure	4.7	1.9	2.6	0.1	–	9.3
Depreciation and amortization of property, plant and equipment and intangible assets	5.2	1.3	2.4	0.4	–	9.3
Goodwill impairment	–	3.7	–	–	–	3.7
Employees	1 159	327	458	47	–	1 991

Secondary segment reporting format 2004: geographical segments

EUR m.	Euro countries	Other European countries	North, Central, South America	Asia, Pacific Rim	Others	Group
Net revenues, third party	242.8	83.3	24.7	39.0	–	389.8
Segment assets	233.7	30.4	15.2	14.6	6.3	300.2
Capital expenditure	6.3	1.7	0.9	0.4	–	9.3

[1] This column shows mainly the revenues and expenses, together with the assets and liabilities, of the parent company, together with other figures not allocable to individual divisions.

4.4 Foreign currency translation

The main exchange rates for currency translation are:

	Average rates		Year-end rates	
	2005	2004	31.12.2005	31.12.2004
1 CHF (Swiss franc)	0.646	0.648	0.642	0.648
1 GBP (pound sterling)	1.463	1.474	1.458	1.412
1 USD (US dollar)	0.804	0.805	0.842	0.733

4.5 Net revenues

EUR m.	2005	2004
Products	356.7	329.6
Software	9.2	9.1
Services	59.4	51.1
Total net revenues	**425.3**	**389.8**

4.6 Other operating income and expenses

EUR m.	2005	2004
Profits from the sale of non-current assets	0.2	–
Other income	1.5	0.6
Other operating income	**1.7**	**0.6**
Restructuring costs	–0.7	–1.3
Goodwill impairment	–18.4	–3.7
Other expenses	–0.3	–0.6
Other operating expenses	**–19.4**	**–5.6**
Total other operating income and expenses	**–17.7**	**–5.0**

4.7 Personnel expenses

EUR m.	2005	2004
Salaries and wages	–76.1	–73.6
Social security contributions	–17.8	–15.0
Expenses for defined benefit plans	–1.2	–1.2
Expenses for defined contribution plans	–0.6	–0.5
Other personnel expenses	–6.1	–4.9
Total personnel expenses	–101.8	–95.2

4.8 Financial income

EUR m.	2005	2004
Interest income	0.2	0.2
Foreign exchange gains	0.5	–
Other financial income [1]	1.2	0.4
Total financial income	**1.9**	**0.6**

[1] Incl. discounts received.

4.9 Financial expenses

EUR m.	2005	2004
Interest expense	–3.7	–3.8
Foreign exchange losses	–	–0.9
Other financial expenses [1]	–0.9	–1.1
Total financial expenses	**–4.6**	**–5.8**

[1] Incl. discounts granted.

4.10 Income tax

EUR m.	2005	2004
Current tax	–4.5	–4.1
Deferred tax	2.1	2.7
Total income tax	–2.4	–1.4
Tax credit shown under equity	–	0.9

Analysis of tax expense				
Result before tax		–31.8		3.0
Expected tax expense based on weighted average tax rates	32.0%	10.2	35.9%	–1.1
Effect of expenses not deductible for tax purposes		–1.5		–0.1
Effect of tax assets not capitalized		–10.9		–0.3
Withholding taxes		–0.2		–
Other		–		0.1
Effective tax expense	–7.5%	–2.4	46.7%	–1.4

The effective tax rate of –7.5% (previous year: 46.7%) is attributable to the fact that some of the tax effect from loss carryforwards was not capitalized. This is because the probability of their recoverability is uncertain at present.

The calculated tax rate for the expected tax expense is the weighted average of local tax rates. These range from 4.3% to 40.0%. The change in the expected tax rate is attributable to changes in the allocations of profit.

4.11 Investment summary

4.11.1 Property, plant and equipment 2005

EUR m.	Land and buildings	Machinery and production tools	Equipment and motor vehicles	Information technology	Plant under construction	Total property, plant and equipment
Acquisition cost, 1 January	**49.7**	**56.9**	**6.7**	**8.3**	**1.3**	**122.9**
Additions	0.3	2.4	0.9	0.9	3.2	7.7
Disposals	−0.5	−0.7	−0.2	−1.3	–	−2.7
Reclassifications	–	0.8	–	0.1	−0.9	–
Exchange rate differences	0.5	0.7	0.1	0.1	–	1.4
31 December	**50.0**	**60.1**	**7.5**	**8.1**	**3.6**	**129.3**
Accumulated depreciation, 1 January	**−15.2**	**−37.5**	**−3.7**	**−5.9**	**–**	**−62.3**
Additions	−1.3	−4.3	−0.4	−1.8	–	−7.8
Disposals	0.2	0.7	0.1	1.0	–	2.0
Exchange rate differences	−0.1	−0.5	−0.1	−0.1	–	−0.8
31 December	**−16.4**	**−41.6**	**−4.1**	**−6.8**	**–**	**−68.9**
Net carrying amount, 1 January	34.5	19.4	3.0	2.4	1.3	60.6
Net carrying amount, 31 December	33.6	18.5	3.4	1.3	3.6	60.4
Carrying amount of fixed assets financed by leasing, 1 January	2.5	2.1	0.1	0.3	–	5.0
Carrying amount of fixed assets financed by leasing, 31 December	2.4	1.9	0.2	–	–	4.5

The insurance value of the fixed assets amounts to EUR 137.2 million.

Depreciation on property, plant and equipment is shown under Cost of goods sold and services provided (EUR 5.1 million), Marketing and sales expenses (EUR 0.5 million), Administrative expenses (EUR 2.1 million) and Development expenses (EUR 0.1 million).

Property, plant and equipment 2004

EUR m.	Land and buildings	Machinery and production tools	Equipment and motor vehicles	Information technology	Plant under construction	Total property, plant and equipment
Acquisition cost, 1 January	**49.2**	**56.0**	**6.4**	**7.7**	**0.2**	**119.5**
Additions	1.6	2.2	0.6	1.5	1.1	7.0
Disposals	–1.0	–1.0	–0.3	–0.9	–	–3.2
Reclassifications	–	–	–	–	–	–
Exchange rate differences	–0.1	–0.3	–	–	–	–0.4
31 December	**49.7**	**56.9**	**6.7**	**8.3**	**1.3**	**122.9**
Accumulated depreciation, 1 January	**–13.6**	**–34.4**	**–3.5**	**–5.8**	**–**	**–57.3**
Additions	–1.8	–4.3	–0.4	–0.9	–	–7.4
Disposals	0.2	1.0	0.2	0.8	–	2.2
Exchange rate differences	–	0.2	–	–	–	0.2
31 December	**–15.2**	**–37.5**	**–3.7**	**–5.9**	**–**	**–62.3**
Net carrying amount, 1 January	35.6	21.6	2.9	1.9	0.2	62.2
Net carrying amount, 31 December	34.5	19.4	3.0	2.4	1.3	60.6
Carrying amount of fixed assets financed by leasing, 1 January	2.9	2.0	–	0.5	–	5.4
Carrying amount of fixed assets financed by leasing, 31 December	2.5	2.1	0.1	0.3	–	5.0

The insurance value of the fixed assets amounts to EUR 134.0 million.

Depreciation on property, plant and equipment is shown under Cost of goods sold and services provided (EUR 4.8 million), Marketing and sales expenses (EUR 0.5 million), Administrative expenses (EUR 1.9 million) and Development expenses (EUR 0.2 million).

4.11.2 Intangible assets 2005

EUR m.	Goodwill		Capitalized development costs	Capitalized software	Licences and patents	Total other intangible assets
Acquisition cost, 1 January	**50.6**		**5.5**	**4.4**	**1.3**	**11.2**
Additions	–		3.6	0.9	–	4.5
Disposals	–		–0.2	–0.3	–	–0.5
Reclassifications	–		–	–	–	–
Exchange rate differences	0.4		0.1	–	–	0.1
31 December	**51.0**		**9.0**	**5.0**	**1.3**	**15.3**
Accumulated depreciation, 1 January	**–3.7**		**–3.1**	**–2.9**	**–0.9**	**–6.9**
Additions	–		–1.7	–0.5	–0.3	–2.5
Disposals	–		0.5	–	–	0.5
Impairment	–18.4		–	–	–	–
Reclassifications	–		–	–	–	–
Exchange rate differences	–0.1		–0.1	–	–	–0.1
31 December	**–22.2**		**–4.4**	**–3.4**	**–1.2**	**–9.0**
Net carrying amount, 1 January	46.9		2.4	1.5	0.4	4.3
Net carrying amount, 31 December	28.8		4.6	1.6	0.1	6.3

Goodwill impairments amounting to EUR 18.4 million are shown in Other operating income and expenses (see note 4.6).

Amortization on Other intangible assets is shown under Cost of goods sold and services provided (EUR 2.3 million) and Administrative expenses (EUR 0.2 million).

Intangible assets 2004

EUR m.	Goodwill		Capitalized development costs	Capitalized software	Licences and patents	Total other intangible assets
Acquisition cost, 1 January	**50.4**		**4.2**	**3.5**	**1.3**	**9.0**
Additions	–		1.4	0.9	–	2.3
Disposals	–		–	–	–	–
Reclassifications	–		–	–	–	–
Exchange rate differences	0.2		–0.1	–	–	–0.1
31 December	**50.6**		**5.5**	**4.4**	**1.3**	**11.2**
Accumulated depreciation, 1 January	**–**		**–2.1**	**–2.3**	**–0.7**	**–5.1**
Additions	–		–1.1	–0.6	–0.2	–1.9
Disposals	–		–	–	–	–
Impairment	–3.7		–	–	–	–
Reclassifications	–		–	–	–	–
Exchange rate differences	–		0.1	–	–	0.1
31 December	**–3.7**		**–3.1**	**–2.9**	**–0.9**	**–6.9**
Net carrying amount, 1 January	50.4		2.1	1.2	0.6	3.9
Net carrying amount, 31 December	46.9		2.4	1.5	0.4	4.3

Goodwill impairments amounting to EUR 3.7 million are shown in Other operating income and expenses (see note 4.6).

Amortization on Other intangible assets is shown under Cost of goods sold and services provided (EUR 1.8 million) and Administrative expenses (EUR 0.1 million).

4.12 Goodwill

EUR m.	31.12.2005	31.12.2004
Megamat GmbH	5.7	5.7
AFT Division (excl. AFT Korea)	–	15.2
AFT Korea	–	2.9
Stow Division	23.1	23.1
Total goodwill	**28.8**	**46.9**

The goodwill acquired from acquisitions is allocated to individual cash-generating units made up of divisions or individual subsidiaries. The amount recoverable for a cash-generating unit is determined by calculating its value in use. Cash flow projections are based on the three-year plans drawn up by the Executive Board and approved by the Board of Directors.

Any calculation of the value in use of goodwill is affected by the following assumptions:
- Net sales: sales are projected on a regional basis. Depending on the cash-generating unit in question, expected growth rates are between –5.0% and +4.6%.
- Profit from operations: in the long term, profit from operations are expected to settle at a level of 1.4% to 6.6% of net sales.
- Weighted average cost of capital (WACC): The discount rate is based on a WACC that takes into account the specific risks of the cash-generating units. Equity costs were calculated on the basis of the interest on ten-year Swiss government bonds, which can be considered a risk-free interest rate. It also contains an appropriate risk surcharge for an equities portfolio. The different levels of risk in various countries and currencies were also taken into account. The historic beta of Kardex shares, based on a two-year regression, was applied in order to cover the systematic risk. Financing costs are equivalent to the effectively paid average interest, adjusted to show the proportionate taxation ratio of the divisions and/or subsidiaries.
- Growth rate: cash flows extending beyond the planning period are extrapolated; the growth rate employed is 1.0%. This growth rate does not exceed the long-term average for the markets in which the individual divisions operate. The gross profit margins calculated by the Executive Board are based on experience and are in line with expected business development.

Weighted average cost of capital (WACC) before tax

%	2005	2004
Megamat GmbH	12.2	11.9
AFT Division (excl. AFT Korea)	9.2	9.5
AFT Korea	14.6	14.0
Stow Division	11.5	10.9

The Board of Directors and the Executive Board consider the forecasts based on the impairment tests to be reasonable and justifiable. The recoverable value of goodwill depends on the target figures being achieved. Divergences from the expected amounts could cause changes in the recoverable value.

The value in use of Megamat GmbH and the Stow Division is considerably higher than their carrying value. In the view of the management and Board of Directors, no possible change in assumptions would produce a result in which their carrying values would exceed their values in use. This view, however, does not consider unforeseen circumstances.

The redrafting of the consolidated financial statements for 2005 (see also note 4.2) also included a new estimate of future results for the AFT Division and its subsidiary, AFT Korea. Management and the Board of Directors adjusted the medium-term planning accordingly. As a consequence of the errors made in the valuation of projects in the past, the impairment tests carried out in 2004 were repeated for this division. The impairment tests for 2005 resulted in the total impairment of the value of goodwill for AFT and AFT Korea, combined with an impairment of EUR 3.7 million reported for AFT on 31 December 2004. The impairments are shown under Other operating income and expenses (see note 4.6).

As a result of the AFT Division's unsatisfactory profitability levels, a reappraisal of its strategy is currently under way.

4.13 Investments

EUR m.	31.12.2005	31.12.2004
Investments	0.1	0.1
Other financial assets	0.2	0.8
Total investments	**0.3**	**0.9**

4.14 Deferred tax

	31.12.2005		31.12.2004	
EUR m.	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	0.7	4.8	0.6	4.1
Intangible assets	0.1	1.9	0.3	2.7
Financial assets	0.2	9.2	–	0.3
Inventories and construction contracts	0.9	1.0	1.1	–
Other assets	0.3	0.5	0.6	0.3
Provisions	1.3	2.2	0.7	0.8
Other liabilities	1.3	0.4	1.2	1.1
Capitalized loss carryforwards	15.9	–	3.4	–
Total deferred tax assets/tax liabilities	**20.7**	**20.0**	**7.9**	**9.3**
Netting of deferred tax	–15.8	–15.8	–4.3	–4.3
Net deferred tax assets/tax liabilities	**4.9**	**4.2**	**3.6**	**5.0**

Deferred tax assets are netted against deferred tax liabilities at individual company level.

Non-capitalized tax assets

EUR m.	31.12.2005	31.12.2004
From deductible temporary differences	4.1	–
From loss carryforwards after expiration		
1 year	–	0.7
2 to 5 years	4.0	1.9
Over 5 years	41.4	9.6
Total loss carryforwards	49.5	12.2

The tax effects of loss carryforwards were capitalized to the degree that it was likely they could be set off against future profits. Non-capitalized loss carryforwards mainly occur in Germany.

4.15 Inventories and construction contracts

EUR m.	31.12.2005	31.12.2004
Raw materials, supplies and other consumables	16.5	14.0
Finished goods	9.9	8.7
Spare parts	5.8	5.3
Work in process	22.7	18.2
Allowances for slow-moving items	–5.1	–1.4
Advance payments by customers	–13.3	–15.4
Construction contracts (POC)	15.9	12.9
Advance payments to suppliers	8.8	9.2
Total inventories and construction contracts	61.2	51.5

Details of construction contracts

EUR m.	31.12.2005	31.12.2004
Revenues from construction contracts (POC)	71.9	76.5
Accrued contract costs and recognized profit	63.9	36.8
Progress billings	–51.0	–23.9
Contracts in process net	**12.9**	**12.9**
Construction contracts with amount due from customers (underfinanced)	15.9	12.9
Construction contracts with amount due to customers (overfinanced) [1]	–3.0	–
Contracts in process net	**12.9**	**12.9**
Advances received (POC)	–	–
Retentions	4.1	6.3

[1] Shown in the balance sheet under Other short-term liabilities.

4.16 Accounts receivable

EUR m.	31.12.2005	31.12.2004
Accounts receivable	93.8	106.8
Allowances for doubtful accounts	–1.9	–2.2
Total accounts receivable	**91.9**	**104.6**

Accounts receivable are spread over a wide customer base and the three divisions.

4.17 Other receivables and prepaid expenses

EUR m.	31.12.2005	31.12.2004
VAT, withholding and other refundable tax	1.8	2.4
Guarantees	0.3	0.6
Other receivables	2.7	2.4
Prepaid expenses	2.7	3.2
Total other receivables and prepaid expenses	7.5	8.6

4.18 Cash and cash equivalents

EUR m.	31.12.2005	31.12.2004
Cash, postal and bank current accounts	24.6	18.8
Time deposits	–	0.2
Total cash and cash equivalents	24.6	19.0

Cash and cash equivalents by currency:		
CHF	0.6	1.2
EUR	14.5	12.4
GBP	2.3	3.2
USD	1.3	0.1
Others	5.9	2.1
Total cash and cash equivalents by currency	24.6	19.0

Of cash and cash equivalents, EUR 4.3 million (previous year: EUR 0.8 million) is currently recorded in countries with specific formalities and request procedures for transfers abroad. By complying with these requirements, the Group has these funds at its disposal.

4.19 Financial liabilities

Long-term financial liabilities

EUR m.	31.12.2005	31.12.2004
Banks	17.3	36.6
Finance lease liabilities	3.6	4.2
Total long-term financial liabilities	20.9	40.8

Long-term liabilities by currency:		
CHF	2.3	2.4
EUR	17.2	37.3
USD	1.3	0.7
Others	0.1	0.4
Total	**20.9**	**40.8**

Current financial liabilities

EUR m.	**31.12.2005**	**31.12.2004**
Liabilities with banks	4.0	9.2
Current bank loans	5.3	4.4
Other financial liabilities	1.8	1.6
Current portion of finance leasing	0.9	1.0
Current portion of long-term financial liabilities	24.6	8.2
Total current financial liabilities	**36.6**	**24.4**

Current liabilities by currency:		
CHF	0.2	0.2
EUR	32.8	19.8
USD	–	1.7
Others	3.6	2.7
Total	**36.6**	**24.4**

Total liabilities	**57.5**	**65.2**
Cash and cash equivalents	24.6	19.0
Net financial debt	**32.9**	**46.2**

Financial liabilities at year-end in all currencies had an average interest rate of 4.8% (previous year: 4.8%). Effective interest was equivalent to the nominal interest rate.

The adjustments required by the restatement in the previous year's financial statements have led to the partial breach of debt covenants and loan contracts agreed with various creditors. As a result, they have been reallocated from Long-term financial liabilities to Current financial liabilities.

The creditor banks have issued waivers for the contractual infringements. Other loans reclassified on 31 December 2005 and amounting to EUR 15.2 million can therefore be considered economically of a long-term nature.

4.20 Pension plan liabilities

EUR m.	31.12.2005	31.12.2004
Pension plan liabilities in defined benefit plans	3.6	3.4
Other long-term benefits to employees	2.4	1.5
Total pension plan liabilities	**6.0**	**4.9**

Details of pension plan liabilities in defined benefit plans

Present value of funded obligations	43.3	40.4
Fair value of plan assets	−40.3	−38.0
Benefit obligation in excess of plan assets	**3.0**	**2.4**
Unrecorded actuarial losses	−0.4	–
Unrecorded assets	1.0	1.0
Pension plan liabilities in defined benefit plans	**3.6**	**3.4**

Development of pension plan liabilities

EUR m.	2005	2004
1 January	**3.4**	**3.3**
Net periodic pension cost	1.2	1.2
Employees' contributions	−1.0	−1.1
31 December	**3.6**	**3.4**

Defined benefit plan costs

EUR m.	2005	2004
Current service cost	1.4	1.4
Interest expense	2.0	1.9
Expected return on plan assets	−1.7	−1.7
Employees' contributions	−0.5	−0.4
Total pension plan expense	**1.2**	**1.2**

Actuarial assumptions

Discount rate	4.7%	4.7%
Expected rate of return on plan assets	4.3%	4.6%
Expected rate of increase in future compensation levels	2.6%	2.6%
Expected rate of increase in future pension contributions	1.4%	1.4%

The return on plan assets amounted to EUR 1.9 million (previous year EUR 1.6 million).

There are defined benefit plan liabilities for the German companies, which are fully covered by the fair value at balance sheet date of life insurance policies taken out with other companies. The present value of this liability was calculated using actuarial methods as required by IAS 19 and amounts to EUR 19.3 million at the balance sheet date. The fair value of the life insurance policies was netted with provisions as plan assets in accordance with IAS 19.

4.21 Provisions

EUR m.	Warranties	Restructuring	Others	2005 Total	2004 Total
1 January	1.8	0.6	0.6	3.0	3.3
Additions	1.6	0.7	1.8	4.1	1.5
Utilized during year	−0.5	−0.6	−0.2	−1.3	−1.4
Reversal	−0.1	–	–	−0.1	−0.4
Exchange rate differences	–	–	–	–	–
31 December	2.8	0.7	2.2	5.7	3.0
Non-current portion	0.9	–	1.3	2.2	2.2
Current portion	1.9	0.7	0.9	3.5	0.8

The provision for warranties covers the cost of claims in connection with the repair or replacement of defective products. The actual amount is based on current sales and available data. The provisions will be used in the next one to two years.

Provisions for restructuring include severance pay, among other things, but are only recognized in the balance sheet if a plan exists that has been communicated to the individuals affected. Normally, the payments are due within a year.

4.22 Other current liabilities and accruals

EUR m.	31.12.2005	31.12.2004
VAT, withholding tax and other tax liabilities	5.1	4.3
Social security and pension plan liabilities	3.1	2.2
Other current liabilities	11.5	9.9
Personnel claims	6.8	5.4
Accruals	16.5	12.7
Total current liabilities and accruals	**43.0**	**34.5**

4.23 Financial instruments

EUR m.	31.12.2005	31.12.2004
Currency derivatives		
Contract volumes	14.3	26.6
Fair value (positive)	–	–
Fair value (negative)	0.3	–
Interest rate derivatives		
Contract volumes	7.0	–
Fair value (positive)	0.1	–
Fair value (negative)	–	–

The currency derivatives are used to hedge the US dollar, the euro and the pound sterling. The interest rate derivative provides long-term hedging for a loan in euros. The currency contracts and interest rate derivatives are shown in the balance sheet at replacement (i.e. market) value. Any profits and losses accruing are shown directly in the income statement.

4.24 Leasing liabilities

4.24.1 Operating leases

EUR m.	31.12.2005	31.12.2004
Cost of operating leases for the year	3.8	3.5

Future minimum payments for non-cancellable lease agreements:		
1 year	3.8	3.5
2 to 5 years	4.1	4.7
Over 5 years	–	–
Total future minimum payments for operative leases	7.9	8.2

Operating leases apply mainly to vehicles. Leasing contracts are agreed at current market conditions.

4.24.2 Finance leases

Future minimum lease payments for non-cancellable lease agreements:

EUR m.	Notes	31.12.2005	31.12.2004
1 year		1.1	1.3
2 to 5 years		2.9	3.4
Over 5 years		1.4	1.7
Total future minimum payments for finance leases		5.4	6.4
Interest		–0.9	–1.2
Fair value of finance leases		4.5	5.2
Long-term finance leases	4.19	3.6	4.2
Short-term finance leases	4.19	0.9	1.0
Total finance leases		4.5	5.2

Finance leases apply mainly to property, plant and equipment. Leasing contracts are agreed at current market conditions.

4.25 Future rental obligations

EUR m.	31.12.2005	31.12.2004
Rental cost for the year	4.2	4.1

Future obligations from non-cancellable rental agreements:		
1 year	1.6	2.0
2 to 5 years	3.1	4.3
Over 5 years	0.5	0.6
Total future rental obligations	**5.2**	**6.9**

4.26 Earnings per share

	2005	2004
Number of outstanding shares at the beginning of the financial year[1, 2]	5 627 453	3 997 500
Newly issued shares[2]	–	1 629 953
Purchases of treasury shares	1 250	–
Sales of treasury shares	–	–
Number of outstanding shares at the end of the financial year	5 626 203	5 627 453
Weighted average number of outstanding shares	**5 627 022**	**4 966 541**
Dilution effect	–	–
Diluted weighted average number of outstanding shares	**5 627 022**	**4 966 541**

[1] This figure includes the participation certificates converted into bearer shares and the five-for-one stock split (retroactive adjustment).

[2] The Group published detailed information about the merger with Tuxedo Invest AG in the shareholders' brochure of 19 April 2004.

4.26 Earnings per share (continued)

	2005	2004
Net result	–34 159 000	1 575 000
Weighted average of issued shares	5 627 022	4 966 541
Undiluted loss/earnings per share (EUR)	**–6.07**	**0.32**

Net result	–34 159 000	1 575 000
Weighted average of issued shares	5 627 022	4 966 541
Dilution effect	–	–
Diluted loss/earnings per share (EUR)	**–6.07**	**0.32**

4.27 Purchase commitments

EUR m.	31.12.2005	31.12.2004
Property, plant and equipment	13.6	1.6
Total purchase commitments	**13.6**	**1.6**

4.28 Contingencies

EUR m.	31.12.2005	31.12.2004
Total contingencies	**0.6**	**0.2**

4.29 Assets pledged or of limited disposability

EUR m.	31.12.2005	31.12.2004
Property, plant and equipment	41.0	43.3
Accounts receivable	9.4	11.9
Inventories	2.6	2.0
Total assets pledged or of limited disposability	**53.0**	**57.2**

The Group's obligation to purchase the remaining shares in the Stow Group, resulting from its acquisition of a 40% minority interest, is secured by a total of 150 000 shares in Stow International nv, Belgium. This obligation is shown as a liability.

4.30 Related parties

Related parties include members of the Executive Board and Board of Directors, important shareholders and companies under their control. There are no outstanding receivables from or liabilities towards these persons. No transactions of any significance were carried out with related parties or companies during the year under review or the previous year.

The maximum total compensation paid to the Executive Board and Board of Directors (including members who resigned in the course of the business year) was as follows:

EUR m.	2005	2004
Short-term employee benefits [1]	2.2	2.0
Termination benefits	0.1	0.2
Total compensation	**2.3**	**2.2**

[1] Of this, EUR 0.2 million each to non-executive directors.

4.31 Subsidiaries

Country	Finance, property, services	Development, production	Distribution, service	Company, headquarters	Currency	Share capital in local currency	Percentage holding	Held by:
Australia		■	■	Kardex VCA Pty Ltd., Wodonga	AUD	1 300 000	100	1
Austria			■	Kardex Austria GmbH, Vienna	EUR	300 000	100	1
			■	Stow GmbH Austria, Vienna	EUR	110 000	100	3
Belgium			■	AFT Benelux nv, Zandhoven	EUR	62 000	99 1	2 4
			■	S.A. Kardex nv, Forest/Brussels	EUR	348 736	100	1
	■	■	■	Stow International nv, Wevelgem	EUR	4 375 939	100	1
China			■	AFT Automation and Conveying Systems (Shanghai) Co. Ltd., Shanghai	CNY	1 654 000	100	2
		■	■	Shanghai Stow Storage Equipment Co. Ltd., Shanghai	CNY	62 731 000	100	3
Cyprus			■	Kardex Systems Ltd., Limassol	CYP	245 000	100	1
			■	KRI Logistics Ltd., Limassol	CYP	1 500	100	1
			■	Kardex Systems (Cyprus) Ltd., Limassol	EUR	34 000	100	11
Czech Republic			■	Kardex s.r.o., Prague	CZK	500 000	100	1
			■	Stow Ceska Republika s.r.o., Prague	CZK	500 000	100	3
Germany	■	■	■	AFT Automatisierungs- und Fördertechnik GmbH & Co. KG, Schopfheim	EUR	230 081	100	6
	■			AFT Verwaltungs GmbH, Schopfheim	EUR	25 000	100	6
	■			AFT Immobilien GmbH, Schopfheim	EUR	25 565	100	8
		■	■	AFT Förderanlagen Bautzen GmbH & Co. KG, Bautzen	EUR	204 517	100	2
		■	■	Bellheimer Metallwerk GmbH, Bellheim/Pfalz	EUR	4 243 722	74.7 25.3	6 7
		■	■	fam Fördertechnik GmbH, Memmingen	EUR	25 000	100	8
		■	■	GSS Global Software Solutions GmbH, Filderstadt	EUR	25 565	100	8
	■			Kardex Deutschland GmbH, Bellheim/Pfalz	EUR	511 292	100	1
	■			Kardex Megamat Beteiligungs GmbH, Neuburg/Kammel	EUR	5 113 431	100	8
			■	Kardex Organisationssysteme GmbH, Kronberg/Taunus	EUR	1 022 584	100	8
		■	■	Megamat GmbH, Neuburg/Kammel	EUR	2 045 167	100	6
			■	Stow Deutschland GmbH, Wiesbaden	EUR	511 400	100	3

■ Finance, property, services ■ Development, production ■ Distribution, service

4.31 Subsidiaries (continued)

Country				Company, headquarters	Currency	Share capital in local currency	Percentage holding	Held by:
Finland		■	■	Kardex Finland OY, Muurame	EUR	134 550	100	1
France			■	Kardex SAS, Neuilly-Plaisance Cedex	EUR	1 835 000	100	1
			■	Stow France S.A., Saint-Pierre du Perray	EUR	684 000	100	3
Hungary			■	Kardex Hungaria Kft., Budaörs	HUF	2 514 000	100	1
Ireland			■	Kardex Systems Ireland Ltd., Dublin	EUR	300 000	100	1
Italy			■	Kardex Te-Co S.p.A., Opera (Mi)	EUR	309 874	100	1
Mexico			■	AFT Automatización y Sistemas de Transportación de México S.A. de C.V., Mexico	MXP	50 000	90 10	2 4
Netherlands	■			Kardex Nederland bv, Woerden	EUR	90 756	100	1
			■	Kardex Systemen bv, Woerden	EUR	90 751	100	10
			■	Stow Nederland bv, Hoeven	EUR	18 152	100	3
Norway			■	Kardex System AS, Oslo	NOK	500 000	100	1
Poland			■	Stow Polska Sp.z.o.o., Warsaw	PLN	500 000	100	3
Slovakia			■	Stow Slovensko s.r.o., Bratislava	SKK	1 000 000	100	3
South Korea		■	■	Seo Kwang AFT Co. Ltd., Kyeonggi-Do	TKRW	1 780 000	100	2
Spain			■	ET Systems S.L., Sant Just Desvern (Barcelona)	EUR	150 000	100	1
			■	Kardex Sistemas S.A., San Fernando de Henares Madrid	EUR	300 506	100	1
Switzerland		■	■	Dreier Systemtechnik AG, Reinach	CHF	250 000	79.6	2
			■	Kardex Systems AG, Volketswil	CHF	1 000 000	100	1
	■			KRM Service AG, Volketswil	CHF	500 000	100	1
		■	■	LT Engineering AG, Reinach	CHF	100 000	100	5
	■			Sistemco AG, Cham	CHF	1 000 000	100	1
		■	■	System Schultheis AG, Rapperswil	CHF	500 000	100	1

■ Finance, property, services ■ Development, production ■ Distribution, service

Country				Company, headquarters	Currency	Share capital in local currency	Percentage holding	Held by:
UK			■	AFT Automation and Conveying Systems UK, Ltd., Telford Shropshire	GBP	30 000	100	2
	■			Kardex Holdings Ltd., Epping	GBP	1 828 000	100	1
			■	Megamat (UK) Ltd., Milton Keynes	GBP	1 000	100	1
			■	Stow U.K. Co. Ltd., Sunbury on Thames	GBP	220 000	100	3
USA			■	AFT Automation and Conveying Systems Ltd., Auburn Hills (Michigan)	USD	10 000	100	2
	■			MHAT Inc., Auburn Hills (Michigan)	USD	50 000	10 90	9 1
		■	■	Remstar International Inc., Westbrook (Maine)	USD	2 050 000	100	1

■ Finance, property, services ■ Development, production ■ Distribution, service

1 Kardex AG, Zurich, Switzerland
2 AFT Automatisierungs- und Fördertechnik GmbH & Co. KG, Schopfheim, Germany
3 Stow International nv, Wevelgem, Belgium
4 AFT Förderanlagen Bautzen GmbH & Co. KG, Bautzen, Germany
5 Dreier Systemtechnik AG, Reinach, Switzerland
6 Kardex Megamat Beteiligungs GmbH, Neuburg/Kammel, Germany
7 Kardex Organisationssysteme GmbH, Kronberg/Taunus, Germany
8 Kardex Deutschland GmbH, Bellheim, Germany
9 AFT Automation and Conveying Systems Ltd., Auburn Hills, USA
10 Kardex Nederland bv, Woerden, Netherlands
11 Kardex Holdings Ltd., Epping, UK

4.32 Events after the balance sheet date

No events have taken place since balance sheet date that are not taken into account in these financial statements (see also note 4.2) and would require an adjustment of the carrying values of the assets and liabilities disclosed here.

4.33 Release for publication and approval of the financial statements

The Board of Directors approved these financial statements on 28 July 2006. They must also be approved by the shareholders' General Meeting.

Report of the Group auditors

To the General Meeting of Kardex AG, Zurich

Report of the Group auditors

As auditors of the group, we have audited the consolidated financial statements (income statement, balance sheet, cash flow statement, changes of shareholders' equity and notes/pages 28 to 82) of Kardex 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 Swiss law.

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

Without qualifying our opinion we draw your attention to Note 1 "General information" in the Notes to the consolidated financial statements. For the reasons fully described in that note the previously issued Annual Report with the consolidated financial statements has been retracted and revised because errors have been discovered in the valuation of projects. The comparative financial information of the previous year has also been adjusted because of these errors. The impact of these adjustments is explained in Note 4.2 in the Notes to the consolidated financial statements. Accordingly, this report replaces our report of the group auditors dated March 14, 2006.

Zurich, July 28, 2006

ERNST & YOUNG

Daniel Wüst Swiss Certified Accountant (in charge of the audit)	Edgar Christen Swiss Certified Accountant

Income statement Kardex AG (Holding)

CHF m.	2005	2004
Income from subsidiaries	10.1	8.8
Financial income	7.6	5.8
Other income	–	0.4
Total income	**17.7**	**15.0**
Administrative expenses	–5.8	–5.5
Financial expenses	–1.5	–2.5
Expenses related to subsidiaries	–	–0.7
Impairment charge	–24.0	–2.0
Income tax	–0.2	–0.2
Total expenses	**–31.5**	**–10.9**
Net result	**–13.8**	**4.1**

Balance sheet Kardex AG (Holding)

CHF m.	31.12.2005	31.12.2004
Loans to Group companies	22.3	36.1
Investments in subsidiaries	227.0	227.0
Non-current assets	**249.3**	**263.1**
Receivables from Group companies	39.6	46.4
Prepaid expenses and other short-term receivables	0.3	0.2
Financial assets	–	0.9
Treasury shares	0.1	–
Cash and cash equivalents	12.6	1.2
Current assets	**52.6**	**48.7**
Assets	301.9	311.8
Share capital	76.0	80.1
General reserve	123.6	123.6
Free reserves	40.9	41.0
Reserve for treasury shares	0.1	–
Retained earnings	4.9	18.7
Equity	**245.5**	**263.4**
Long-term financial liabilities	**23.7**	**26.5**
Current financial liabilities	3.1	7.5
Payables to Group companies	25.2	10.0
Other payables	4.4	4.4
Current liabilities	**32.7**	**21.9**
Liabilities	**56.4**	**48.4**
Equity and liabilities	301.9	311.8

Notes
to the financial statements

In spring 2006, Group Management discovered fundamental errors in the valuation of projects being managed by the AFT Division. Consequently, the original Annual Report for 2005 (including the individual statement) was retracted and revised. As a result of the corrections, the loans to Group companies shown in these financial statements of Kardex AG have had to be reduced by a further CHF 20.0 million. In addition, Administrative expenses increased by CHF 0.4 million and tax expenditure was reduced by CHF 0.2 million.

In order to facilitate comparison with the current year, the impairments amounting to CHF 22.0 million and shown under Provisions in the preceding fiscal period are now netted directly with the loans to Group companies.

1. Accounting principles

The financial statements of Kardex AG comply with the requirements of the Swiss Code of Obligations.

2. Contingent liabilities

CHF m.	31.12.2005	31.12.2004
Contingent liabilities in favor of subsidiaries and third parties	22.1	41.7
Subordinated loans to Group companies	16.5	4.9

3. Securing of liabilities

The Group's obligation to purchase the remaining shares in the Stow Group, resulting from its acquisition of a 40% minority interest, is secured by a total of 150 000 shares (book value CHF 7.8 million) in Stow International nv, Belgium.

In view of the group taxation principle, all Swiss companies bear unlimited joint and several responsibility for value-added tax (in accordance with Art. 32, par. 1e of Swiss VAT legislation).

Kardex AG has joint responsibility for all liabilities arising from the cash-pooling agreement.

4. Liabilities towards pension funds

CHF m.	31.12.2005	31.12.2004
Liabilities towards pension funds	0.2	–

5. Subsidiaries

Kardex AG's interests in Group companies are listed on pages 79 to 81 of this report.

6. Treasury shares

Purchases of treasury shares amounted to CHF 0.1 million (previous year: 0). At the end of 2005, Kardex AG owned 1 250 of its own shares. 750 shares were purchased for CHF 38 800 in August and 500 for CHF 26 000 in September.

7. Significant shareholders on 31 December 2005, as defined by Art. 663c of the Swiss Code of Obligations

The following shareholders own more than 5% of the share capital of CHF 76.0 million (previous year CHF 80.1 million):

	31.12.2005	31.12.2004
Industrie Holding Cham AG	6.5%	12.0%
Buru Holding and Philipp Buhofer	18.2%	20.2%

8. Personnel expenses

CHF m.	2005	2004
Personnel expenses	2.8	2.7

Proposal for the appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors is proposing to the General Meeting to approve the following appropriation of retained earnings:

CHF m.	31.12.2005	31.12.2004
Balance brought forward	18.7	14.6
Net result	–13.8	4.1
Retained earnings	**4.9**	**18.7**
Balance to be carried forward	**4.9**	**18.7**
Par value reduction	–	4.1

The Board of Directors proposes that the CHF 4.9 million of retained earnings be carried forward.

Report of the statutory auditors

To the General Meeting of Kardex AG, Zurich

Report of the statutory auditors

As statutory auditors, we have audited the financial statements (income statement, balance sheet and notes/pages 84 to 88) of Kardex 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 Swiss law and the company's articles of incorporation.

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

Without qualifying our opinion we draw your attention to the Note to the 2005 financial statements according to which the 2005 statutory financial statements have been retracted and revised because errors have been discovered. The impact of these adjustments is explained in the Note to the statutory financial statements. Accordingly, this report replaces our report of the statutory auditors dated March 14, 2006.

Zurich, July 28, 2006

Ernst & Young

Daniel Wüst	Edgar Christen
Swiss Certified Accountant	Swiss Certified Accountant
(in charge of the audit)	

Corporate Governance

The Kardex Remstar Group is committed to the recognized principles of corporate governance as published in the Economiesuisse Swiss Code of Best Practice for Corporate Governance. By acknowledging these principles, the Group aims to strengthen and increase the trust shown towards the company by present and future shareholders, investors, employees, business associates and the general public. In order to meet these expectations, the Group regularly provides information about its operations and current events. Apart from its regular publications (half-yearly and annual reports), the Group publishes further details about the company on its website at www.kri-group.com

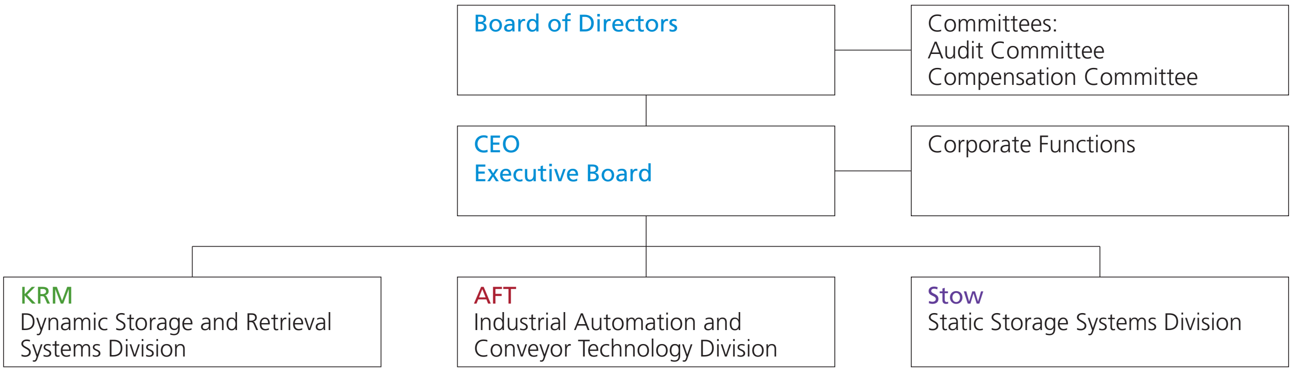
In the following section, as required by the guidelines, Kardex provides information about its own corporate governance. The information is organized as in the guidelines. To avoid redundancy and in the interests of readability, there are several cases where the reader is referred to other places in the Annual Report or other Group publications. Any significant changes occurring between balance sheet date and this report going to press have been noted.

1. Group structure and shareholders

1.1 Group structure

Kardex AG is a holding company of indeterminate duration under Swiss law and is headquartered in Zurich, Switzerland. It is listed in the main segment of the SWX Swiss Exchange (security no. 1 826 341, ISIN CH 001 826 341 5) and its market capitalization on 31 December 2005, amounted to CHF 346 088 000 (previous year CHF 191 896 000).

The Group is managed by the Board of Directors through the Chief Executive Officer and the management of the three operative divisions (KRM, AFT and Stow). The Board of Directors and the Executive Board are assisted in their work by various central Group functions.



With the exception of Kardex AG, the fully consolidated subsidiaries are non-listed companies. An overview of all the Group's directly and indirectly held interests is shown on pages 79 to 81.

1.2 Significant shareholders

Information about significant shareholders can be found in the notes to the consolidated financial statements of Kardex AG on page 87.

No shareholders' agreements or other agreements exist between significant shareholders and the Kardex Remstar Group.

1.3 Cross-shareholdings

There are no cross-shareholdings.

2. Capital structure

2.1 Capital

Kardex AG's capital amounts to CHF 75 971 000 divided into 5 627 453 fully paid-in bearer shares each with a par value of CHF 13.50. All shares are entitled to dividends and entitle the holder to one vote at the General Meeting.

2.2 Authorized and conditional capital

There was no authorized or conditional capital on 31 December 2005.

2.3 Capital changes

In the past three years, the following capital changes have taken place:

Date	Description	Number of shares	Par value	Number of participation certificates	Par value	Increase (CHF 000s)	Decrease (CHF 000s)	Capital (CHF 000s)
01.01.03	Initial inventory	375 000	100	424 500	100			79 950
17.05.04	Conversion of participation certificates into bearer shares	424 500	100	–424 500	100			
25.05.04	Par value reduction from CHF 100 to CHF 71.20 in 5:1 split	3 997 500	14.24					
25.05.04	Issue of bearer shares [1]	1 629 953	14.24			185		80 135
23.05.05	Capital decrease from CHF 14.24 to CHF 13.50	5 627 453	13.50				4 164	75 971

[1] The Group published detailed information about the merger with Tuxedo Invest AG in the shareholder's brochure of 19 April 2004.

2.4 Participation certificates and profit participation certificates

Kardex AG has issued neither participation nor profit participation certificates.

2.5 Convertible bonds and options

Kardex AG has no outstanding convertible bonds or options.

3. Board of Directors

3.1 Members of the Board, other activities and interests, cross-involvements

The Board of Directors of Kardex AG currently consists of six members (according to the Articles of Incorporation between three and seven), of whom five are independent in the sense of the Swiss Code of Best Practice for Corporate Governance.

Dr. Rudolf Huber was newly elected to the Board of Directors at the General Meeting on 23 May 2005. The Board of Directors thus consists of the following members:

Michael Funk [1]

Member of the Board of Directors since 1992, term expires 2007*

1941, Swiss citizen, grad. electrical engineer, ETH Zurich
Chairman since the 2001 General Meeting
Non-executive member
Since 1991 independent entrepreneur, Chairman of the Board of Directors and main shareholder in two SMEs
1969–1990 Oerlikon-Bührle Group Zurich (1988–1990 COO)
Member of the Board of Directors, among others, of Cicor Technologies, Industrieholding Cham AG, Reppisch-Werke AG

* Mr. Funk declared his intention to step down as a Board member at the 2006 General Meeting

Richard Flury [1]

Member of the Board of Directors since 1987, term expires 2007*

1942, Swiss citizen, business administrator
Vice-Chairman and CEO until 2006 General Meeting
1987–2005 CEO of the Kardex Remstar Group
1987 Initiator of the management buyout and IPO of the Kardex Remstar Group
1979–1987 CEO of Kardex Switzerland
Other directorships: Saia-Burgess Electronics Holding AG, BIBUS Holding AG

* Mr. Flury declared his intention to step down as a Board member at the 2006 General Meeting

Philipp Buhofer

Member of the Board of Directors since 2004, term expires 2007

1959, Swiss citizen, HWV Horw/Lucerne
Non-executive member
Since 1997 independent entrepreneur and board member with the companies listed below
1987–1997 EPA AG Zurich, since 1993 member of Executive Management
1984–1987 Metro International Düsseldorf and Hong Kong
Other directorships: BURU Holding AG, DAX Holding AG (SME industrial interests), Industrieholding Cham AG, RAPID Holding AG, Ziegler Papier AG

Dr. Rudolf Huber

Member of the Board of Directors since 2005, term expires 2008

1955, Swiss citizen, doctor of economics, University of Zurich
Non-executive member
Since 2005 independent entrepreneur, part-time lecturer at the Lucerne School of Economics
1992–2004 Geberit Group, member of executive management and CFO
1987–1992 Bucher Guyer AG Niederweningen, head of finance and IT as well as head of group finance of Bucher Holding AG, Niederweningen
1986–1987 Sibir AG Schlieren, head of controlling
Other directorships: Swiss Prime Site AG, Forbo Holding AG, Georg Fischer AG

Dr. Peter R. Isler[1]

Member of the Board of Directors since 1987, term expires 2008*

1946, Swiss citizen, LL.D., attorney-at-law, University of Zurich, Master of Laws, Harvard Law School USA
Non-executive member
Since 1977 Niederer Kraft & Frey Zurich, since 1981 as a partner
Member of the Attorney Examination Board of the canton of Zurich, lecturer in commercial and business law at the University of Zurich
Member of the Board of Directors, among others, of Bank Leu AG, Clariant AG, Schulthess Group AG

* Dr. Isler declared his intention to step down as a Board member at the 2006 General Meeting

Leo Steiner

Member of the Board of Directors since 2004, term expires 2007

1943, Swiss citizen, grad. mechanical engineer ETH Zurich, additional studies in business management
Non-executive member
Since 1992 CEO of Komax Holding AG and head of executive management with the Komax Group
Until 1991 Hayek Engineering & Management Consulting Zurich, Landis & Gyr Zug, Sulzer Escher-Wyss Zurich
Other directorships: Sarna Kunststoff Holding AG, Schaffner Holding AG

[1] At the General Meeting on 31 August 2006, Mr. Michael Funk, Richard Flury and Dr. Peter Isler will be stepping down from the Board of Directors. The Meeting will be asked to approve Mr. Walter T. Vogel as a new member of the Board of Directors. Mr. Vogel, 1957, is a Swiss citizen, a graduate in mechanical engineering ETH, CEO of Von Roll Holding AG, Gerlafingen, and a member of the Board of Directors of Stadler Stahlguss AG, Biel.

3.2 Cross-involvements

With the exception of the CEO, who is also the only executive member of the Board of Directors, no members of the Kardex Executive Board hold directorships on the boards of companies represented on the Kardex AG Board of Directors.

The involvement of members of the Kardex AG Board of Directors in the management boards of other listed companies can be seen in the details about individual members of the Board on pages 93 to 95 (Members of the Board of Directors).

3.3 Elections and terms of office

The members of the Board of Directors are elected by the General Assembly at staggered intervals for a term of office of three years. There is no limit to the number of times a member may be re-elected. In the event of a by-election, new members are elected for the term of their predecessors. In accordance with the Organizational By-Laws and regardless of the point reached in their term of office, members of the Board of Directors who have turned 70 must tender their resignation at the next ordinary General Meeting.

3.4 Internal organization

3.4.1 Allocation of tasks within the Board of Directors

Kardex AG's Board of Directors is the supreme managerial and supervisory body of the holding company and the Group.

The Board of Directors appoints a Chairman and a Vice-Chairman, each for a period of one year, from within its own ranks. It convenes by invitation of the Chairman or a member representing him, or at the request of one of its members. Minutes detailing the Board's discussions and decisions are kept and signed by both the Chairman and the Secretary. The Secretary is appointed by the Board of Directors and need not be a member. The Chairman also presides over the General Meeting and, together with the Executive Board, ensures that shareholders and stakeholders receive any necessary information in good time.

Apart from the irrevocable legal requirements outlined in Art. 716a of the Swiss Code of Obligations, the Kardex AG Board of Directors has the following responsibilities in particular:

- making decision on issues that have not been reserved or transferred by law, the Articles of Incorporation or other regulations to another body
- defining the company's strategy and management
- financial planning and control
- appointment and dismissal of management and signatories
- regular review of business operations
- formulation and preparation of further motions to the General Meeting.

The Board of Directors meets regularly and as often as required by business but, in accordance with the articles of incorporation, at least four times each year. In 2005, the Board met on six occasions.

3.4.2 Board committees

Two permanent committees exist to assist or prepare the Board for important decisions: the Audit Committee and the Compensation Committee. The committees are constituted as follows:

	Audit Committee	Compensation Committee
Philipp Buhofer	Member	
Michael Funk		Chairman
Dr. Rudolf Huber	Chairman	
Dr. Peter R. Isler	Member	
Leo Steiner		Member

According to the Organizational By-Laws, the Board of Directors may set up other committees to help it carry out its duties more efficiently. It appoints the Chairman and members of the committees and defines their duties. The committees report back to the Board of Directors on their activities. However, overall responsibility for the duties delegated to the committees remains with the Board of Directors.

3.4.2.1 Audit Committee

The Audit Committee comprises two or three non-executive members from the Board of Directors, who are elected by the same body for a period of two years. The majority, including the Chairman, should be experienced in financial matters and accounting. The Audit Committee appoints its own Chairman and meets as often as required, but at least three times a year. In 2005, it met on four occasions. The Audit Committee advises the Board of Directors as a whole mainly on the following matters:

- risk management and auditing
- accounting and financial reporting
- internal control systems and measures
- financial strategy, capital structure, financial objectives, financial planning and control
- M&A transactions and other business with major financial repercussions
- approval of half-yearly and annual reports in the name of the Board of Directors.

3.4.2.2 Compensation Committee

The Compensation Committee comprises two members from the Board of Directors: the Chairman and a non-executive member, elected by the Board from within its own ranks. The Chairman of the Board of Directors presides. The Compensation Committee meets at least once a year. In 2005, it met on two occasions. The Compensation Committee advises the Board of Directors mainly on the following matters:

- fundamental personnel issues within the Group
- the appointment of individuals to the Board of Directors and other jobs crucial to the Group's well-being
- basic criteria regarding the appointment of members of the Executive Board as well as salary, bonus and other incentive systems
- questions regarding the remuneration of the Board of Directors and members of the Executive Board
- questions regarding performance-related payments.

3.5 Definition of areas of responsibility

The Board of Directors has delegated responsibility for the running of day-to-day operations to the Group's Executive Board under the supervision of the executive member of the Board of Directors. The Board has also appointed a Chief Executive Officer for each division. Their duties and responsibilities are defined in the Organizational By-Laws. The Executive Board's main responsibilities are:
– operational management of the individual divisions
– ongoing implementation of the corporate strategy decided by the Board of Directors
– representation of the Kardex Remstar Group or its individual entities externally
– implementation of changes in the Group's organization with a view to optimizing performance
– promotion of an internal and external communications policy.

3.6 Information and control instruments vis-à-vis the Executive Board

Every meeting of the Board of Directors is attended by the CEO and executive member of the Board, who informs the other directors about daily business and important business-related events within the company. This enables the Board to carry its supervisory duties regarding the Group's strategic and operational progress. Other instruments that enable it to monitor and control the Executive Board's actions are:
– monthly reports from the Executive Board featuring key figures with comparisons against the previous year and budget together with a brief report by the executive member of the Board
– annual strategic analyses of the individual divisions together with a plan, amended each year, for the next few years
– annual revision of the business risk matrix for the Group as a whole and individual divisions
– special reports on important investments, acquisitions and cooperative agreements
– invitations to management to attend specific meetings of the Board of Directors
– invitations to the Group's external auditors to attend selected meetings of the Audit Committee.

4. Executive Board

The executive member of the Board of Directors and CEO is responsible for management of the holding company and of the Group. In addition, he is the head of the Executive Board, whose duties include preparing and advising on the affairs of Kardex AG and the Group.

Richard Flury

1942, Swiss citizen, business administrator
Vice-Chairman and CEO until 2006 General Meeting
1987–2005 CEO of the Kardex Remstar Group
1987 Initiator of the management buyout and IPO of the Kardex Remstar Group
1979–1987 CEO of Kardex Switzerland
Other directorships: Saia-Burgess Electronics Holding AG, BIBUS Holding AG

Jos De Vuyst

1963, Belgian citizen, grad. electrical engineer, RU Gent, MBA Vlerick Management School
Since 1 January 2006 CEO of the Kardex Remstar Group
Since mid-November 2005 CEO of the Industrial Automation and Conveyor Technology Division (AFT) and General Manager of AFT GmbH & Co. KG
2005 COO of the Kardex Remstar Group
2004 CEO of the Static Storage Systems Division (Stow) and CEO of Stow International nv
2001–2003 General Manager of the Static Storage Systems Division (Stow)
1996–2003 General Manager of Stow International nv
1989–1996 Financial Manager of Stow International nv

Rolf Juninger

1969, Swiss citizen, Graduate in Business Administration, University of Applied Sciences St. Gallen and Certified Public Accountant (CPA)
Since 1 July 2005 CFO of the Kardex Remstar Group
2000–2005 Head of Corporate Finance of the Kardex Remstar Group
1989–1999 Auditor with KPMG Zurich

Dr. Georges Pasche stood down from his position as CFO of the Kardex Remstar Group with effect from 30 June 2005.

Jürg Müller

1947 Swiss citizen, lic. oec. publ. University of Zurich
Since 1 July 2004 CEO of the Dynamic Storage and Retrieval Systems Division (KRM)
1994–2004 Regional Manager CEE (Central and Eastern Europe) of the Dynamic Storage and Retrieval Systems Division (KRM)
1992–1994 Head of Sales & Marketing NCR and AT&T (Switzerland)
1986–1991 Head of Trade & Industry Division NCR (Switzerland)

Hans De Staercke

1969, Belgian citizen, Licentiate Applied Economic Sciences State University Gent (RUG)
Since 2005 CEO of the Static Storage Systems Division (Stow) and CEO Stow International nv
1999–2004 General Manager of Stow Polska Sp.z.o.o., Warsaw (Poland)
1996–1999 Head of Sales Regional Gates Europe nv, Erembodegem (Belgium)
1994–1996 Head of Export Sales Bosal Benelux nv, Oevel (Belgium)

Mr. Michael Tatomir vacated his post as CEO of the Industrial Automation and Conveyor Technology Division (AFT) and as General Manager of AFT GmbH & Co. KG with effect from mid-November 2005.

The small Special-Purpose Handling Systems Division (STE) is no longer treated separately. This explains the absence of Mr. Thomas Membrez, former CEO of this Division and General Manager of System Schultheis AG, in the section on the Executive Board.

4.1 Management contracts

Kardex AG and its subsidiaries have no management contracts with third parties.

5. Compensations, shareholdings and loans

5.1 Content and method of determining compensation and of shareholding programs

Compensation to the non-executive members of the Board of Directors is paid at a fixed rate in cash. It is proposed annually in advance by the Compensation Committee and determined by the Board of Directors.

The executive member of the Board of Directors and the Executive Board receive compensation made up of a fixed basic salary and a variable component, which, if targets are achieved, amounts to a maximum of 20% of their fixed salary. The variable amount effectively paid is based on the extent to which individual and financial goals set in advance each year have been achieved. The Board of Directors approves the remuneration at the request of the Compensation Committee.

5.2 Compensation for acting members of governing bodies

In 2005, total compensation for the non-executive members of the Board of Directors amounted to CHF 313 000 (previous year: CHF 271 000). The total compensation paid to the executive member of the Board of Directors and the Executive Board in 2005 amounted to CHF 2 928 000 (previous year: CHF 2 917 000).

5.3 Compensation for former members of governing bodies

In 2005, no form of compensation was paid to former executive and non-executive members of governing bodies.

5.4 Share allotment in the year under review

In the year under review, no shares were allotted to the non-executive members of the Board of Directors, the executive member, or the other members of the Executive Board.

5.5 Share ownership

As of 31 December 2005, and by their own declaration, the non-executive members of the Board of Directors and parties closely linked to them held a total of 1 047 321 bearer shares in Kardex AG.

As of 31 December 2005, the executive member of the Board of Directors, the members of the Executive Board and parties closely linked to them held a total of 6 095 bearer shares in Kardex AG.

5.6 Options

As in previous years, no options were allotted to the members of the Board of Directors or of the Executive Board.

5.7 Additional fees and remunerations

In 2005, the law firm Niederer Kraft & Frey, Zurich, in which Dr. Peter R. Isler is one of 31 partners, invoiced Kardex AG for services amounting to CHF 83 000 (previous year: CHF 544 000).

5.8 Loans granted to governing bodies

Kardex AG and its subsidiaries granted no securities, loans, advances or credits to the members of the Board of Directors, the Executive Board or parties closely linked to them.

5.9 Highest total compensation

The highest total compensation paid to a member of the Board of Directors in 2005 was CHF 673 000 (previous year: CHF 637 000).

6. Shareholders' participation rights

6.1 Voting right restrictions and representation

Each Kardex AG bearer share entitles the holder to one vote at the General Meeting. There are no voting right restrictions. Furthermore, any shareholder has the right to have his shares represented at the General Meeting by a proxy authorized in writing.

6.2 Statutory quorums

The statutes of Kardex AG do not prescribe specific quorums other than those required by company law.

6.3 Convocation of General Meeting

In addition to the requirements of company law, the statutes require that any convocation of the General Meeting must be announced in the company's official mouthpiece.

6.4 Agenda

In addition to the requirements of company law, the company's statutes specify that items for inclusion on the agenda may be proposed only by shareholders representing shares worth at least CHF one million. Such items must be submitted to the Board of Directors at least sixty days before the General Meeting.

7. Changes of control and defence mechanisms

7.1 Obligation to make an offer

In accordance with Article 4 of Kardex AG's Articles of Incorporation, a purchaser of company shares is only obliged to make a public offer under the terms of Article 32 (the statutory opting-up clause) of the Swiss Stock Exchange Act (BEHG) if his holding exceeds 49% of the company's voting stock.

7.2 Change-of-control clause

There are no change-of-control clauses.

8. Auditors

8.1 Duration of the mandate and term of office of the auditor in charge

Ernst & Young AG, Zurich, have been Kardex AG's statutory auditors since 1987. The auditor in charge has been responsible for the mandate since 12 May 2006. The auditors are elected by the General Meeting for a period of one year.

8.2 Audit fees

In 2005, Ernst & Young provided audit services to the value of CHF 1 417 000 (previous year: CHF 775 000). Fees for audit services of other auditors amounted to CHF 503 000 (previous year: CHF 390 000).

8.3 Additional fees

Ernst & Young was also paid fees totalling CHF 385 000 (previous year: CHF 180 000) for non-audit-related services.

8.4 Supervisory and control instruments vis-à-vis the auditors

The statutory auditors are supervised by the Audit Committee. As part of their audit services, they provide the Audit Committee with regular feedback on their findings and suggestions for improvement. The Audit Committee also meets the external auditors at least twice a year to assess the auditors' activities on an annual basis. It relies here on its experience in working with the external auditors and their own quality assurance measures in carrying out their duties and ensures that the auditor in charge is suitably qualified and independent. The Audit Committee also reviews the auditor's fees.

9. Information policy

Kardex AG is committed to an open information policy and provides shareholders, the capital market, employees and the general public with open, transparent and timely information about the Group's activities. As an SWX Swiss Exchange-listed company, it also publishes information relevant to its stock price in accordance with ad-hoc publicity Art. 72 of the listing regulations.

The Group publishes a report on its activities every six months. Apart from this, at the end of January/beginning of February, the company publishes its unaudited results for the preceding year. All publications are available in electronic form; the Half-Year Report and the Annual Report are also available in printed form.

The annual analysts' meeting and the General Meeting are both held in Zurich, Switzerland.

Information is sent by e-mail or fax to the SWX, to the Swiss Commercial Gazette (the company's official mouthpiece) and other relevant national business publications. It is also published simultaneously on the Group website at www.kri-group.com. In addition, interested parties who have registered on the website can receive the requested information by e-mail.

The company's official mouthpiece is the Swiss Commercial Gazette. Information published in connection with the maintenance of bearer share listings on the SWX Swiss Exchange complies with the SWX Swiss Exchange's listing regulations. These can be found on www.swx.com.

The website www.kri-group.com provides up-to-date information about the Group, products and contact information.

Group companies, addresses and contacts

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General Managers: Jürg Müller, Pavel Kraus

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General Manager: Jari Kaiho

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General Manager: Guillaume Doré

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