Annual Report 2006

KARDEX

REMSTAR

MEGAMAT

STOW

KARDEX

Contents

Kardex Remstar Group at a glance

Continued operations

EUR millions	2006	2005
Bookings	388.0	343.6
Backlog (31 December)	88.5	77.6
Net revenues	379.1	326.2
Operating result	18.6	18.3
Operating result in %	4.9	5.6
Operating result before depreciation	28.5	27.1
Operating result before depreciation in %	7.5	8.3
Net result	13.5	14.6
Net result in %	3.6	4.5
Capital expenditure	27.1	9.9
Net cash flow from operating activities	15.7	37.9
Net cash flow from operating activities in %	4.1	11.6
Net financial debt	65.8	32.9
Equity (31 December)	55.8	90.3
Equity ratio in %	19.2	31.5
Number of employees (31 December)	1 832	1 721

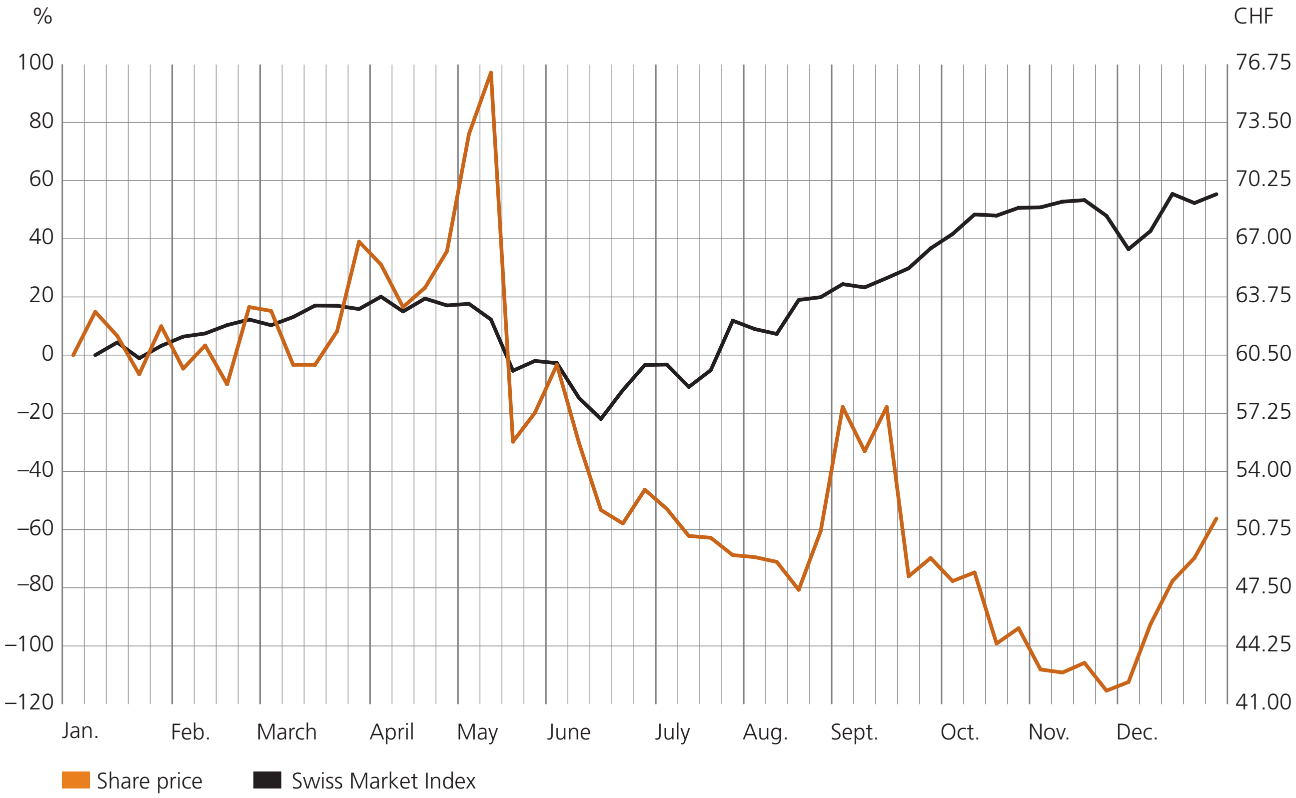
The figures apply solely to continued operations. Figures for 2005 were adjusted where necessary.

Continued operations

EUR millions	2006	2005	+/– %
KRM			
Bookings	227.0	204.0	+11.3
Segment net revenues	221.0	191.5	+15.4
Operating result	18.4	12.8	+43.8
Number of employees (31 December)	1 235	1 170	+5.6
Stow			
Bookings	158.3	137.1	+15.5
Segment net revenues	159.3	133.5	+19.3
Operating result	2.2	6.9	–68.1
Number of employees (31 December)	568	523	+8.6

Kardex AG (Holding): the share

Price movements on SWX Swiss Exchange 2006



CHF		2006	2005	+/– %
Share				
Closing rate		52.00	61.50	–15.5
High		75.50	67.00	+12.7
Low		41.50	33.80	+22.8
Market capitalization (31 December)	CHF millions	292.63	346.10	–15.5

Per share			
Net result[1]	–9.29	–9.40	
Net cash flow from operating activities[1]	–2.60	8.56	
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.

Report of the Board of Directors

Leo Steiner
Chairman of the Board of Directors

Jos De Vuyst
Chief Executive Officer

Ladies and Gentlemen

In view of developments in the AFT Division (Industrial Automation and Conveyor Technology), fiscal 2006 was a year of transition. Failure to recognize the serious nature of developments at AFT and to react before it was too late led to an enormous aggregate loss for the past two years. After carrying out a systematic risk analysis, the massive outflow of funds involved and the extreme difficulty of engineering a turnaround persuaded the Board of Directors and the Management Board to sell off the AFT Division. Under the circumstances, the sale of the division to the German Certina Group on 21 February 2007 was an acceptable solution. In this Annual Report, AFT is shown as a discontinued operation. Notes referring specifically to AFT can be found in the section "Financial Reporting 2006" on pages 17 to 21.

Strong market position consolidated

In fiscal 2006, the Kardex Group reported a substantial 16.2% increase in net revenues to EUR 379.1 million for its two continued operations, the KRM Division (Dynamic Storage and Retrieval Systems) and Stow (Static Storage Systems). Both divisions contributed towards this encouraging growth: KRM with +15.4% and Stow with +19.3%. Of Group net revenues, 58% was accounted for by KRM and 42% by Stow. At EUR 388.0 million, bookings were up 13% on the previous year and, at the end of the year, the Kardex Group had an order backlog of EUR 88.5 million.

EBIT remains at previous-year level

At EUR 18.6 million, operating profit (EBIT) remained at the same level as the previous year. The EBIT margin slid from 5.6% to 4.9%, mainly as a result of start-up problems at the new Stow factory and a sharp rise in the price of steel that could only be passed onto the market after some delay. The net result for continued operations fell from EUR 14.6 million to EUR 13.5 million, mainly because of increased interest expense resulting from the Group's higher level of debt. With net revenues of EUR 76.1 million in the year under review, AFT, the Group's discontinued operation, posted a net result of EUR –46.7 million. The net result for the Kardex Group as a whole was EUR –33.2 million.

Restructuring a burden on equity

Despite the enormous financial strain imposed by the discontinued operation, Kardex focused all its resources on its two successful divisions, KRM and Stow. Nevertheless, the separation from AFT has left its mark on the balance sheet: Equity fell from EUR 90.3 million to EUR 55.8 million and, at the end of the fiscal year, the equity ratio was at 19.2%.

Dividend proposal

In view of the results and the enormous challenges still facing the Group as part of its restructuring and realignment programme, the Board of Directors will ask the Ordinary General Meeting to forgo a dividend this year.

Board of Directors strengthened

The General Meeting will be asked to approve the appointment of Martin Wipfli, a lawyer from Wassen in the canton of Uri, to the Board of Directors. Martin Wipfli a managing partner of Baryon AG, Zurich, and Chairman of the Board of Directors at NEBAG, Zurich.

Outlook

With the sale of AFT, the Kardex Group has aligned its operations to the successful international business with logistics products and laid the foundations for profitable growth with KRM and Stow. In the months ahead, the Board of Directors and the Management Board will be working to streamline the Kardex Group's strategy in the interest of all its stakeholders. Initial results are expected in the second half of 2007.

The Kardex brand's key products

Kardex Lektriever®
is an automated filing solution for office applications helping to bridge the technology gap between physical and digital information.

Kardex Industriever®
is an automated vertical carousel which can act as a central inventory store or an online manufacturing solution.

Kardex Lektriever®

Kardex Industriever®

Kardex Shuttle® XP
is an automated vertical lift module designed to optimize floor space utilization and maximize productivity in stock picking and replenishment.

Kardex Shuttle® XPlus
is a development within the Shuttle® XP family where up to 4 modules can be served by one common extractor enabling more than one worker to access the same unit.

Kardex Shuttle® XP

Kardex Shuttle® XPlus

Kardex Shuttle® XPcrane
is a development within the Shuttle® XP family enabling a higher number of modules to be linked together by use of an internal crane creating high-speed picking solutions.

Kardex Puma®
combines the technologies used in its high ceiling products and incorporates these in the Puma bringing floor space and productivity savings to those with ceiling heights less than 4 metres.

Kardex Shuttle® XPcrane

Kardex Puma®

KRM (Dynamic Storage and Retrieval Systems Division)

Profile

The KRM Division is a world leader in the development, production and maintenance of computer-controlled, flexibly designed storage, retrieval and distribution systems that are marketed under the Kardex, Remstar and Megamat brands. KRM logistics solutions are geared primarily towards customers in industrial production, commerce, administration and the service sector.

Jürg Müller
Head of the KRM Division

Record year for KRM

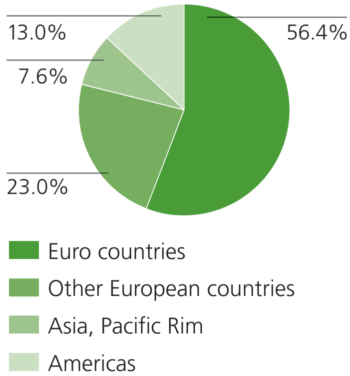
In fiscal year 2006 the KRM Division reported a 15.4% increase in net revenues to EUR 221.0 million, the highest in its history. The operating result increased strongly for the second time in succession and, at EUR 18.4 million, exceeded the 2005 figure by 43.8%. The EBIT margin stood at 8.3% and this latest increase was in line with corporate strategy. A significant role in this encouraging development for the KRM Division was played by ongoing automation at the Bellheim factory in Germany as well as continued investment in product and software development.

The KRM Division made use of the good economic environment during the year under review. The company grew in its traditionally strong European market, as well as in the USA, eastern Europe and Asian growth markets like China and India. Bookings in 2006 increased by 11.3% to EUR 227.0 million. The backlog on 31 December 2006 stood at EUR 58.4 million.

At 56.4%, the lion's share of KRM's net revenues last year was generated by the euro zone, with the rest of Europe accounting for 23.0%. The American markets contributed 13.0%, while the big growth markets in Asian – China and India in particular – accounted for 7.6% of KRM's net revenues.

During the year under review, investments in property, plant and equipment rose sharply from EUR 4.3 million to EUR 10.1 million, which was equivalent to approximately 5% of the KRM Division's net revenues.

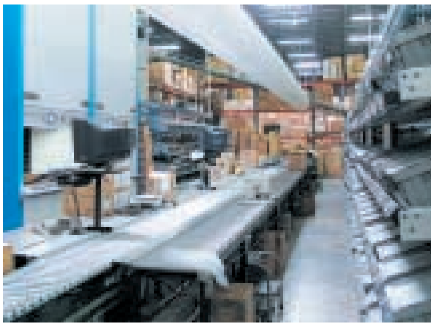
Net revenues by markets



The Remstar brand’s key products

Shuttle® XP VLM
Provides 100% dynamic one-inch incremental storage. The system automatically locates and retrieves stored items with a push of a button or a scan of a bar code.

Remstar Vertical Carousel
is designed to maximize the use of overhead space and can recover up to 75% of the floor space required for traditional shelving systems.



Shuttle® XP VLM

Remstar Vertical Carousel

Remstar Horizontal Carousel
is the right choice for order picking, buffering, consolidation, kitting, work in progress, and stock room applications for distribution, manufacturing, retail and warehouses.

MediaStation® Electric Lateral File
is an automated office filing and storage system that provides 100% accessibility, up to 60% floor space savings and 56% increases in productivity.

Remstar Horizontal Carousel

MediaStation® Electric Lateral File

FastPic® Inventory Management Software
offers “plug & play” software and middleware which can interface with the majority of tier one and tier two WMS (Warehouse Management System) and ERP (Enterprise Resource Planning) providers.

Remstar Quick Pick®
pick-to-light family of products is designed to direct pickers to an exact location which dramatically improves workers productivity and helps achieve 100% picking accuracy.

FastPic® Inventory Management Software

Remstar QuickPick®

Consolidated key figures for the KRM Division

EUR millions	2006	2005	+/– %
Bookings	227.0	204.0	+11.3
Backlog	58.4	51.6	+13.2
Segment net revenues	221.0	191.5	+15.4
Operating result before depreciation and amortization	24.0	18.5	+29.7
Operating result	18.4	12.8	+43.8
Number of employees	1 235	1 170	+5.6

A heterogeneous division structure

As part of an integration policy the KRM Division's structure has grown in recent years and is now heterogeneous, as to be expected:

Kardex is the biggest unit in the KRM Division and has traditionally been strongly represented in all European markets. With its modern, highly automated factory in Bellheim, Germany, Kardex has a low-cost, highly efficient production facility. Kardex invests in an Innovation and Product Development Team that examines market trends and on the basis of this analyses, it develops new technologies, taking the germ of an idea right through to series production. A perfect recent example is Kardex Puma, a revolutionary, flexibly designed storage system that makes optimum use not only of the height and width of a room but also its depth.

Essentially, **Remstar** and Kardex have an identical product and service portfolio. However, Remstar manufactures and markets horizontal carousel shelf systems. Remstar is responsible for the distribution, service and support of Kardex products in the American markets.

Megamat, like Kardex, is very firmly rooted in the European market. The Megamat range is geared to customized applications: A current example is the Megasys range, a dynamic shelving system for goods that need to be stored under controlled atmospheric conditions. Compared with the highly automated production lines at Kardex, the Megamat focuses much more strongly on smaller and more individual products.

The Megamat brand's key products

Megamat®
is an automated storage unit for industrial products or tools, which works according to the Goods-to-Man principle.

Megalift®
is an automated, compact-design high-bay racking used for a variety of specialized applications in manufacturing, warehouse and distribution sectors.

Megamat®

Megalift®

Megasys Clean
is a storage system integrated within a ventilation system to safeguard the specified clean room classification as determined by regulatory bodies such as the FDA.

Megasys Dry
supplies state-of-the-art dry storage systems to keep components and spare parts, e.g. for the electronic industry printed circuit boards in a dry atmosphere for a period of three to a maximum of ten years.

Megasys Clean

Megasys Dry

Integrated Solutions
Where Megamat works closely with high-level systems integrators providing automated solutions for a range of applications across a broad spectrum of industry sectors.

Integrated Solutions
Incorporating synergistic products which are sourced, integrated and project managed by Megamat consultants.

Integrated Solutions

Integrated Solutions

International growth potential

The KRM Division has a wide, state-of-the-art range of computer-controlled, flexibly designed storage, retrieval and distribution systems. This offers customers worldwide unique logistics solutions combined with a highly efficient service and support structure. KRM systems can be used whenever and wherever construction, automation, modernization and rationalization call for them. KRM systems can be used flexibly to make considerable cost savings for customers, particularly when space is limited and where the cost of premises and personnel is high. With a flow of new ideas and solutions in the hardware and software sector, the KRM Division is continuously opening up new markets. The company is currently making substantial investments in sales and distribution to expand its presence, particularly in the growth markets of eastern Europe and Asia, the USA and the industrial sector.

Looking forward

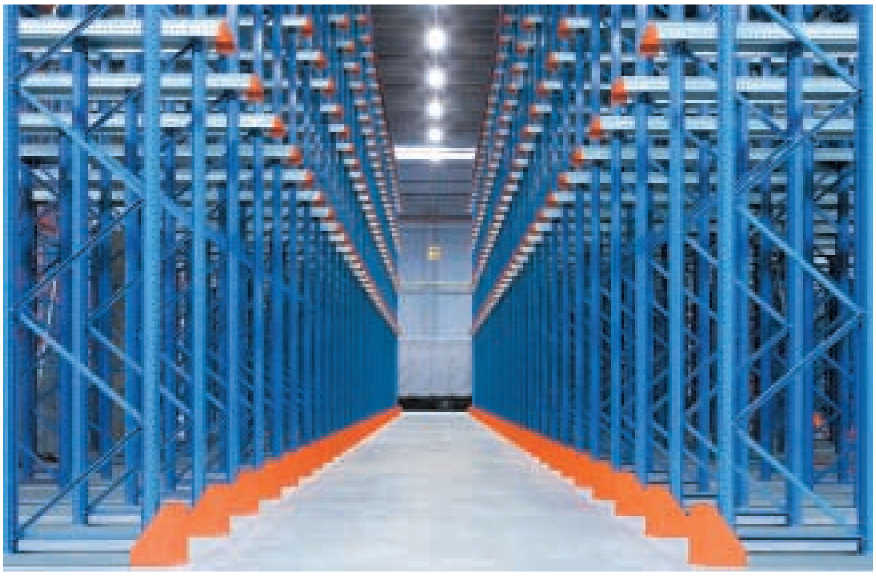
In its traditional sales regions, the KRM Division will continue to grow at a rate in line with market developments. However, KRM is expecting significantly higher growth from its markets in the USA and Russia as well as long-term expansion in the Asian region, above all China and India. As a leading player in the world's markets, KRM operates internationally with its global customers, helping them to build up new markets with solutions that offer a high standard of reliability, as well as an efficient international service and support structure. Further potential for sustainable, profitable growth in line with KRM's targets is expected from ever-tighter structures, further automation at production plants and successful measures taken to rationalize distribution.

The Stow brand's key systems

Pal Rack
is designed for optimized storage of palletized goods of different sizes and weights in all kinds of industry.

Pal Rack

Drive-In
is designed for optimal space utilization and with its matrix structure it is ideal for block stacking.



Drive-In

Stow (Static Storage Systems Division)

Profile

The core activity of the Stow Division is the manufacturing of the storage solutions typically used in high-bay warehouses. Its most important customer groups include general contractors specializing in logistics, large corporations and logistics service suppliers (warehouses).

Hans De Staercke
Head of the Stow Division

After initial difficulties a strong final quarter

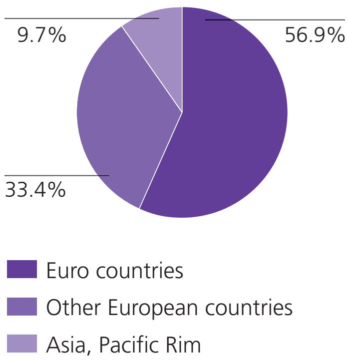
The Stow Division can look back on a highly varied fiscal 2006. Compared with the previous year, net revenues in 2006 rose markedly by 19.3% to EUR 159.3 million. The operating result, on the other hand, was a disappointment and slumped from EUR 6.9 million to EUR 2.2 million. The EBIT margin of 1.4% was below target. The reasons for the Stow Division's unsatisfactory profitability were mainly the start-up troubles experienced at the new automated Belgian factory as well as increases in steel prices that could only be passed on to the market with some delay. These challenges have now been overcome and the Stow Division finished the year on a strong note with production volumes and margins both meeting their targets.

During the year under review, the Stow Division profited from encouraging economic conditions in most of its markets. Stow took in some impressive orders, including a number from internationally active logistics companies as well as a furniture store with worldwide operations. In addition to this, a framework agreement concluded with a major OEM customer in 2005 was continued. At EUR 158.3 million, bookings were a clear 15.5% up on the previous year. At the end of the year, the Stow Division had bookings of EUR 28.6 million.

In the course of this year, too, the major share of the Division's revenues – 56.9% – was generated by the euro markets and 33.4% in the other European markets. The growth markets in Asia and the Pacific Rim contributed 9.7%.

During the year under review, investments in property, plant and equipment as well as intangible assets rose sharply from EUR 5.4 million to EUR 17.0 million, which was equivalent to approximately 11% of the Stow Division's net revenues.

Net revenues by markets



The Stow brand's key systems

Midi Rack
is designed for storage of light to medium duty products. Its modular system enables the use in different storage solutions.

Midi Rack

Mini Load
is an automated storage and retrieval system for small goods in distribution and production areas.

Mini Load

Consolidated key figures for the Stow Division

EUR millions	2006	2005	+/– %
Bookings	158.3	137.1	+15.5
Backlog	28.6	25.0	+14.4
Segment net revenues	159.3	133.5	+19.3
Operating result before depreciation and amortization	6.3	9.7	–35.1
Operating result	2.2	6.9	–68.1
Number of employees	568	523	+8.6

Leading in automated series production

With its new production facility in Belgium as well as the completion of a new plant in China scheduled for fiscal 2008, the Stow Division leads in the automated series production of static storage systems. The greater part of an individually planned and custom-built high-bay storage system from Stow consists of system elements that are produced fully automatically. In order to remain competitive in a market that reacts extremely sensitively to prices, immense importance is attached to the continuous improvement of production processes and high process quality. Immensely high demands are also placed on the flexibility and throughput time of production lines. Today, the Stow Division has an annual production capacity of some 125 000 tonnes. With its own production facilities in Belgium and China, the company has good chances of further cutting its production costs, with shorter project planning phases, finely tuned transport channels and a flexible purchasing concept. The Stow Division's factories in the euro and dollar regions have a further advantage in that they are able to react flexibly to exchange rates.

Attractive market potential

The Stow Division is pursuing a sustainable growth strategy. In its core regions, primarily Europe, Russia and China, it is successively expanding its market position. In addition to this, the market potential of static storage systems from Stow is increasing parallel to expansion of the global supply chains of internationally active corporations. In order to remain competitive, these companies are compelled to improve the quality of supply to their customers and to make their distribution as well

The Stow brand's key systems

Stowshelf
is designed for light- to medium-duty storage with a flexible structure for applications in industry and offices.

Stowshelf

Mezza-Stow
is developed for the construction of system floors, easy to expand, move or modify.

Mezza-Stow

as their warehousing and transport logistics increasingly efficient. Apart from transport facilities, then, the basic infrastructure in new markets includes central and regional warehousing facilities, which are established mainly by general logistics contractors, logistics service companies and bulk distributors as well as major national and international companies. With its customized engineering, a flexible range of systems and an efficient installation organization based on the use of the company's own and experienced outsourced teams, the Stow Division is a one-stop shop for efficient high-bay storage solutions. Additional market potential for Stow comes too from new system elements that will facilitate the construction of even higher storage systems, incorporating more levels and designed for heavier items. An attractive and highly promising business areas is also opening up with the development of Miniload, an automatic storage system designed for the storage of small items, which will appeal to customers in the commercial sector and major retailers. In view of its higher flexibility and cost-efficient production, the Miniload concept will open up an additional customer segment to the Stow Division: suppliers of logistics solutions who perceive their strengths more in system integration and in planning or distribution are integrating Stow shelf storage system solutions in their own individual ranges.

Looking forward

With its new, fully automatic factory in Belgium Stow now has a state-of-the-art production facility in the euro zone as well as a highly efficient production line in China. With the commissioning of the new Chinese factory in Shanghai scheduled for 2008, the Stow Division's overall production capacity will be increased to 135 000 tonnes. Stow thus has the foundations for long-term, profitable growth. Additional growth potential can also be opened up by systematically extending the company's operations to new industrial and geographical markets.

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General comments

Reto Welte
Chief Financial Officer

On 13 December 2006 the Board of Directors of Kardex AG decided to sell off the AFT Division. After being unable to reach agreement with the purchaser about the conditions for the sale in a contract signed on 22 December 2006, the AFT Division was sold to Certina Holding AG, a German company, with effect from 21 February 2007. In the 2006 Annual Report of Kardex AG, the results for the AFT Division are shown separately under the position "Discontinued operations". The results for continued operations include the KRM (Dynamic Storage and Retrieval Systems) and Stow (Static Storage Systems) Divisions, as well as the holding and financial companies.

Continued operations

Net revenues

The healthy state of the logistics markets in Europe, the USA and Asia positively influenced the development of the Kardex Group's continued operations in fiscal 2006. The Kardex Group's net revenues increased by 16.2% to EUR 379.1 million over comparable figures for 2005 (EUR 326.2). Both continued operations made a contribution to this pleasing growth in revenues. KRM pushed up its revenues by 15.4% to EUR 221.0 million (EUR 191.5 million) and Stow by 19.3% to EUR 159.3 million (EUR 133.5 million). Geographically speaking, Europe's share of net revenues decreased slightly to 84.1% (84.6%). The share of the Asian markets rose to 8.4% (7.4%), while that of the Americas slipped to 7.5% (8.0%).

Gross margin

The gross margin fell to 24.8% (26.4%). The downturn was due mainly to the product mix as well as to an increase in the prices of some raw materials. While high-capacity utilization and ongoing process improvements enabled the KRM Division to increase its gross margin by 0.7 percentage points to 31.0% (30.3%), the Stow Division's gross margin fell to 15.8% (20.4%) mainly as a result of start-up problems at the new factory in Dottenijs, Belgium, as well as an increase in steel prices that could only be passed on to the market with some delay. Although these problems have now been solved, it was no longer possible to compensate for the shortfall by the end of the fiscal year.

Operating profit (EBIT)

During the period under review, the Kardex Group generated a slightly improved operating profit (EBIT) of EUR 18.6 million (EUR 18.3 million). The EBIT margin was 4.9% (5.6%). Despite higher net revenues, the EBIT margin fell below the previous year's level. This was due to high investments in marketing and distribution as well as reasons mentioned already in the section on gross margin. The substantial increase in the KRM Division's EBIT to EUR 18.4 million (EUR 12.8 million) was negatively influenced by the slump in the Stow Division's EBIT to EUR 2.2 million (EUR 6.9 million).

Financial result

The sharp rise in financial liabilities occasioned by the discontinued AFT Division pushed down the consolidated financial result by EUR 1.9 million.

Taxes

The tax rate fell to 16.1% (17.5%). Due to loss carryforwards from previous years, the tax rate fell slightly despite increases in earnings from some areas of business for specific companies.

Profit

The drop in profits from continued operations to EUR 13.5 million (EUR 14.6 million) is mainly a reflection of the change in the financial result.

Discontinued AFT Division

The AFT Division, which was sold with effect from 21 February 2007, generated net revenues of EUR 76.1 million in fiscal 2006 (EUR 99.1 million). The drop in revenues can be attributed to both internal and external factors: on the one hand, the company decided to reduce its order volume out of risk considerations; on the other, customers in the automobile industry were slightly hesitant when it came to investment, pushing down AFT sales. Once again, liabilities arising from the handling of existing projects led to further operating losses. As a consequence, the operating result for fiscal 2006 before depreciation was a loss of EUR –22.2 million (EUR –28.5 million). The combined effect of measures taken in connection with the sale of the division, namely the valuation of assets at fair value less costs to sell of EUR –20.6 million, together with the creation of provisions for warranties amounting to EUR –4.4 million, pushed the result down by EUR –25.0 million. As a result, the overall loss for the discontinued AFT Division amounted to EUR –46.7 million. In the balance sheet, assets and liabilities of the discontinued AFT Division are shown as "assets held for sale" and "liabilities related to assets held for sale" respectively. On 31 December 2006, these comprised the following:

EUR millions	31.12.2006
– Property, plant and equipment	2.9
– Inventories and construction contracts	10.0
– Trade accounts receivable	10.0
– Other current assets	5.9
Total assets	**28.8**
– Non-current liabilities	2.6
– Current liabilities	39.9
Total liabilities	**42.5**

Consolidated balance sheet of the Kardex Group

At 31 December 2006, total assets increased slightly over the previous year to EUR 290.6 million. (EUR 286.6 million). Cash and cash equivalents remained at the same level as the previous year. The rise in net revenues led to a slight increase in trade accounts receivable. As a result of extension work at the Stow Division's Belgian factory in Dottenijs as well as ongoing automation of production processes at the KRM production facility in Bellheim, there was another significant increase in property, plant and equipment. Of the intangible assets, a total of EUR 28.8 is goodwill from acquisitions. As required by the relevant accounting standards, goodwill from acquisitions was subject to no further depreciation; in addition, there was no need for impairments. Non-current liabilities remained at the previous year's level, although there was a shift from liabilities to banks in favour of finance leasing. Total current liabilities increased during the year under review to EUR 201.3 million (EUR 162.6 million). At the same time, the Kardex Group's short-term bank loans rose by EUR 38.6 million to EUR 43.9 million (EUR 5.3 million). The lion's share of interest-bearing liabilities is thus made up of short- and long-term bank loans amounting to EUR 75.0 million. During the year under review, equity fell by EUR 34.5 million to EUR 55.8 million (EUR 90.3 million), mainly because of the negative result of EUR –33.2 million (EUR –34.2 million), caused by very high losses amounting to EUR –46.7 million of the discontinued AFT Division's operations. As a result, the Kardex Group's equity ratio stands at 19.2% (31.5%).

Consolidated cash flow statement

The consolidated cash flow statement shows a cash flow from operating activities of EUR –9.3 million (EUR 31.1 million), which is about EUR 40 million lower than the comparable figure of the previous year. While cash flow before change in net current assets increased, the increase in net working capital had a negative effect, resulting in a net cash flow from operating activities of EUR –9.3 million (EUR 31.1 million). Altogether, net spending on investments in property, plant and equipment totalled EUR 14.3 million (EUR 7.4 million). Most of this went on the extension to the Stow Division's new factory in Dottenijs, Belgium, as well as investments in replacement equipment and extensions for Kardex production at the KRM Division in Bellheim, Germany. These investments, together with the increase in net current assets, related to the growth in net revenues, were financed by short-term loans and leasing. Total cash and cash equivalents rose by EUR 3.4 million compared with the figure at the beginning of the year.

Consolidated income statement

EUR millions	Notes	2006	2005
Continued operations			
Net revenues	4.2, 4.4	379.1	326.2
Cost of goods sold and services provided		–285.0	–240.0
Gross profit		**94.1**	**86.2**
Marketing and sales expenses		–46.4	–40.6
Administrative expenses		–25.8	–23.5
Development expenses		–2.3	–3.1
Other operating income	4.5	1.2	1.9
Other operating expenses	4.6	–2.2	–2.6
Operating result	4.2	**18.6**	**18.3**
Financial income	4.8	1.0	1.4
Financial expense	4.9	–3.5	–2.0
Result before tax		**16.1**	**17.7**
Income tax	4.10	–2.6	–3.1
Result from continued operations		**13.5**	**14.6**
Result from discontinued operation (after tax)	4.1	–46.7	–48.8
Net result		**–33.2**	**–34.2**
Earnings per share for continued operations			
– basic (EUR)	4.26	2.40	2.59
– diluted (EUR)	4.26	2.40	2.59
Loss per share Group			
– basic (EUR)	4.26	–5.91	–6.07
– diluted (EUR)	4.26	–5.91	–6.07

The previous year’s figures have been restated to reflect the presentation of the discontinued operation (cf. note 4.1).

Consolidated balance sheet

EUR millions	Notes	31.12.2006	31.12.2005
Property, plant and equipment	4.11	67.1	60.4
Goodwill	4.11, 4.12	28.8	28.8
Other intangible assets	4.11	3.7	6.3
Financial assets	4.13	0.6	0.3
Deferred tax assets	4.14	5.8	4.9
Non-current assets		**106.0**	**100.7**
Inventories and construction contracts	4.15	38.0	61.2
Trade accounts receivable	4.16	85.8	91.9
Income tax receivables		0.2	0.7
Other receivables and prepaid expenses	4.17	8.1	7.5
Cash and cash equivalents	4.18	23.7	24.6
Assets held for sale	4.1	28.8	–
Current assets		**184.6**	**185.9**
Assets		**290.6**	**286.6**
Share capital		48.7	48.7
Reserves		7.1	41.6
Treasury shares		–	–
Equity		**55.8**	**90.3**
Non-current financial liabilities	4.19	23.6	20.9
Pension liabilities	4.20	6.1	6.0
Deferred tax liabilities	4.14	2.9	4.2
Non-current provisions	4.21	0.7	2.2
Other non-current liabilities		0.2	0.4
Non-current liabilities		**33.5**	**33.7**
Trade accounts payable		50.1	76.7
Current financial liabilities	4.19	65.9	36.6
Income tax payables		2.9	2.8
Current provisions	4.21	8.0	3.5
Other current liabilities and accruals	4.22	31.9	43.0
Liabilities related to assets held for sale	4.1	42.5	–
Current liabilities		**201.3**	**162.6**
Liabilities		**234.8**	**196.3**
Equity and liabilities		**290.6**	**286.6**

Consolidated cash flow statement

EUR millions	Notes	2006	2005
Operating result (incl. discontinued operation)	4.2	–25.2	–29.1
Depreciation and impairment losses on property, plant and equipment, and intangible assets		17.1	28.7
Result of measuring current assets at fair value less costs to sell		15.0	–
Changes in provisions and pension liabilities		6.0	3.7
Other non-cash items		–4.4	4.3
Cash flow before change in net current assets		**8.5**	**7.6**
Change in net current assets		–14.8	27.9
Cash flow from operating activities		**–6.3**	**35.5**
Taxes paid		–3.0	–4.4
Net cash flow from operating activities		**–9.3**	**31.1**
Purchase of property, plant and equipment		–14.3	–7.4
Sale of property, plant and equipment		2.0	0.9
Purchase of intangible and financial assets		–2.7	–4.5
Sale of intangible and financial assets		0.5	0.6
Interest received		0.3	0.2
Net cash flow from investing activities		**–14.2**	**–10.2**
Repayment of par value		–	–2.6
Increase in long-term financial liabilities		1.2	5.0
Repayment of long-term financial liabilities		–3.5	–7.0
Increase in current financial liabilities		46.4	5.1
Decrease in current financial liabilities		–12.8	–12.3
Interest paid		–4.3	–3.9
Net cash flow from financing activities		**27.0**	**–15.7**
Effect of exchange rate changes on cash and cash equivalents		–0.1	0.4
Net change in cash and cash equivalents		**3.4**	**5.6**
Cash and cash equivalents at 1 January	4.18	24.6	19.0
Cash and cash equivalents at 31 December		28.0	24.6
– thereof continued operations	4.18	23.7	
– thereof discontinued operation		4.3	
Net change in cash and cash equivalents, Group		**3.4**	**5.6**

Consolidated statement of changes in equity

EUR millions	Share capital [3]	Capital reserves	Retained earnings	Cumulative translation differences	Total reserves	Treasury shares	Equity
31 December 2004	51.3	79.3	–4.5	–0.5	74.3	–	125.6
Exchange rate differences [1]	–	–	–	1.5	1.5	–	1.5
Income and expense recognized directly in equity	–	–	–	1.5	1.5	–	1.5
Net result	–	–	–34.2	–	–34.2	–	–34.2
Total recognized income and expense	–	–	–34.2	1.5	–32.7	–	–32.7
Treasury shares [2]	–	–	–	–	–	–	–
Repayment of par value	–2.6	–	–	–	–	–	–2.6
31 December 2005	48.7	79.3	–38.7	1.0	41.6	–	90.3
Exchange rate differences [1]	–	–	–	–1.3	–1.3	–	–1.3
Income and expense recognized directly in equity	–	–	–	–1.3	–1.3	–	–1.3
Net result	–	–	–33.2	–	–33.2	–	–33.2
Total recognized income and expense	–	–	–33.2	–1.3	–34.5	–	–34.5
Treasury shares [2]	–	–	–	–	–	–	–
31 December 2006	48.7	79.3	–71.9	–0.3	7.1	–	55.8

[1] This item also includes the exchange rate differences arising from net investments in foreign operations less deferred tax.

[2] In the course of financial 2006, Kardex AG purchased treasury shares in the amount of EUR 2.7 thousand (2005: EUR 42.0 thousand). The total holding of treasury shares was used in financial 2006 to compensate the Board of Directors (cf. note 4.30).

[3] 5,627,453 bearer shares at par value CHF 13.50 on 31 December 2006 and 2005.

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 registered and domiciled in Zurich, Switzerland. The Company is listed on the SWX Swiss Exchange.

The Group's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

2. Significant accounting policies

2.1 Changes in accounting policies

With effect from 1 January 2006, Kardex has applied the following standards, which have been published, amended or newly issued by the IASB:
– Amendment to IAS 19 Employee Benefits
– IAS 39 Financial Instruments: Recognition and Measurement
– IAS 21 The Effects of Changes in Foreign Exchange Rates
– IFRS 6 Exploration for and Evaluation of Mineral Resources

Apart from additional disclosures regarding employee benefits, these changes have no effect on the consolidated financial statements.

2.2 Future changes in accounting policies

The following new and revised standards and interpretations have been issued but will only become effective later and have not been early adopted in these consolidated financial statements. Their effects on the Kardex consolidated financial statements have not yet been systematically analyzed and the expected effects are merely an initial estimate on the part of the Management Board.

– IFRS 7 Financial Instruments: Disclosures (from 2007)
  This standard replaces the disclosure requirements of IAS 32 and has no influence on measurement. However, it requires sensitivity analyses of significant financial risks.
– IFRS 8 Operating Segments (from 2009): The effects of this standards on the Kardex consolidated financial statements cannot yet be determined with sufficient certainty.

Other changes will have only a marginal or no effect on the Kardex consolidated financial statements (applicable from 2007 or 2008): IAS 1 – Presentation of Financial Statements: Capital Disclosures, IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies, IFRIC 8 – Scope of IFRS 2, IFRIC 9 – Reassessment of Embedded Derivatives, IFRIC 10 – Interim Financial Reporting and Impairment, IFRIC 11 – IFRS 2: Group and Treasury Share Transactions, and IFRIC 12 – Service Concession Arrangements.

2.3 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 (disposal groups) held for sale are stated at the lower of their carrying amount or fair value less costs to sell.

2.4 Significant estimates

Preparing the consolidated financial statements requires management to make estimates and assumptions that affect reported earnings, expenses, assets, liabilities and contingent liabilities at the date of the financial statements. If these estimates and assumptions, made by management to the best of their knowledge at that date, subsequently transpire to diverge from the facts, the original estimates and assumptions are adjusted for the year in which the circumstances changed. The comparative information has, where necessary, been reclassified or extended.

2.4.1 Impairment of non-current assets

Apart from the periodic assessment of goodwill, the value of tangible assets and intangible assets is also reassessed when their carrying amount may no longer be covered as a result of events or changed circumstances. If such a situation arises, the value of the asset that could be recovered on the basis of expected future earnings is calculated. This is equivalent either to the present value of expected net future cash flows or the expected net sales price. If these values are lower than the current carrying amount, the latter is reduced to the same level as the newly calculated value. This impairment is recognized in the income statement. Assumptions important in these calculations are growth rates, margins and discount rates. The cash flows effectively achieved may differ considerably from the projected and discounted future values. Furthermore, an asset's useful life may decrease or its value impaired if property, plant and equipment are put to a different use, production facilities are relocated or relinquished or the medium-term inflow of revenues is lower than expected. The carrying amounts of property, plant and equipment, and of intangible assets, are stated in note 4.11.

2.4.2 Employee retirement benefit plans

Kardex maintains various types of employee retirement benefit plans. The majority of the company's employees are covered by these plans. In order to measure liabilities and expense, it is first necessary to establish from an economic point of view whether the plans are defined contribution or defined benefit plans. In the case of defined benefit plans, assumptions are made in order to estimate future developments. These include assumptions and estimates regarding the discount rates, the expected return on plan assets in the various countries and expected wage increase rates. The actuaries also use statistical data, such as mortality tables and staff turnover rates in the actuarial calculations they perform with a view to determining employee benefit obligations. If these parameters shift as a result of changes in the economic situation or new conditions in the markets, subsequent results may differ significantly from the actuarial reports and calculations. In the medium term, these can have a considerable influence on the expenses and income pertaining to employee retirement benefit plans. The carrying amount of pension assets and liabilities is explained in note 4.20.

2.4.3 Provisions for warranties and onerous contracts

In the course of their day-to-day operations, Group companies may become involved in litigation. Provisions for pending cases are made on the basis of the realistic expected cash outflow as indicated by the information available. Depending on the outcome of these cases, claims against the Group may arise that are not covered, or not completely covered, by provisions or insurance policies. The carrying amount of these provisions is explained in note 4.21.

2.4.4 Income tax

Income tax liabilities are measured based on the current interpretation of tax laws in force in the countries in question, the accuracy of these calculations being confirmed (or otherwise) by the final assessment or following an audit by the tax authorities. The latter can result in significant changes to the actual tax expense. Furthermore, the assessment regarding the capitalization of tax loss carryforwards requires a critical estimation of the probability of their being able to be set off against future profits, which are dependent on many different influences and developments.

2.5 Consolidation principles

The 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 operating or financial policies 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 result 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 were unable to do so.

Companies acquired or sold are included in the consolidated financial statements from the date of acquisition or until the date of sale. Intra-group 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 accounted for using the equity method. As required by this method, proportional profits or losses, as well as net assets, are recognized in the Group's financial statements.

2.6 Foreign currency translation

2.6.1 Functional and reporting currency

The consolidated financial statements are presented in million euros. The euro is Kardex AG's functional currency and the reporting currency of the Group. The functional currency of a subsidiary is the currency of its primary operating environment.

2.6.2 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 translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, unless they relate to cash flow hedges and are thus recognized in equity.

2.6.3 Financial statements of subsidiaries

The assets and liabilities of subsidiaries whose financial statements are prepared 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). 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.

2.6.4 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 recognized, net of deferred tax, in equity (cumulative translation differences) and do not affect the income statement. If a subsidiary is sold, the cumulative translation differences are included in the income statement as a part of the profit or loss arising from the sale.

2.7 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. Recognition of the resulting gains or losses 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 recognized directly in the income statement.
- Hedging transactions: changes in the fair value of a derivative financial instrument that qualifies as a fair value hedge and proves to be highly effective are recognized, together with the change in fair value of the hedged balance sheet position, in the income statement. The effective part of the changes in the fair value of a derivative financial instrument that qualifies as a cash flow hedge in a highly effective hedging transaction, are recognized directly in equity. If the forecasted transaction leads to the subsequent recognition of a non-financial item in the balance sheet – property, plant and equipment, for example – the gains or losses resulting from fair value changes previously included in equity, are transferred to the appropriate balance sheet item. Changes in value resulting from cash flow hedges recognized directly in equity are transferred to the income statement in the period in which the cash flow (e.g. interest payments) from the hedged transaction affects the income statement.

2.8 Property, plant and equipment

2.8.1 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. Borrowing costs related to an asset under construction are not capitalized.

2.8.2 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 recognized as liabilities.

2.8.3 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 recognized directly under operating expenses.

2.8.4 Depreciation

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

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

Depreciation expense is included in cost of goods sold and services provided, marketing and sales expenses, administrative expenses and development expenses.

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

2.9 Intangible assets

2.9.1 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 accounted for using the purchase method.

2.9.2 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 losses.

2.9.3 Other intangible assets

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

2.9.4 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.

2.9.5 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 begins at the date they are available for use. The estimated useful lives are as follows:

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

Amortization is included in cost of goods sold and services provided, marketing and sales expenses, administrative expenses and development expenses.

2.10 Financial assets

Financial assets are measured as follows:

– financial assets held for trading purposes at fair value, whereby changes in the fair value are immediately recognized in the income statement
– loans and receivables at amortized cost, whereby the difference between the issue and repayment amount is recognized in the income statement using the effective interest method over the period to maturity
– investments held to maturity at amortized cost
– financial assets available for sale at fair value, whereby unrealized gains and losses are recognized directly in retained earnings: in the event of their sale or impairment, they are transferred to the income statement.

The classification of financial assets depends on the purpose for which they were acquired. Management determines the classification at initial recognition.

2.11 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 non-current 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. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized. The recoverable amount is either the asset's fair value less costs to sell or the value in use of the asset based on expected future cash flow, whichever is higher.

2.12 Trade accounts receivable

Trade accounts receivable are stated at amortized cost, which is normally equivalent to their nominal value. In cases where it is doubtful whether the receivable is recoverable, an adjustment is made based on the estimated recoverable amount.

2.13 Inventories

Inventories are stated at the lower of cost or net realizable value. 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 lacking marketability and for slow-moving items.

2.14 Construction contracts

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

2.15 Cash and cash equivalents

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

2.16 Treasury shares

If the Company repurchases its own shares, the payments, including directly related costs, are deducted from equity. Any gains or losses arising from transactions with treasury shares are recognized within capital reserves.

2.17 Dividends

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

2.18 Liabilities

Liabilities are initially stated at fair value less any transaction costs and subsequently at amortized cost. Differences between the cash inflow (after deduction of transaction costs) and the redemption amount are recognized in the income statement using the effective interest method during the liability's term.

2.19 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.

2.19.1 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.

2.19.2 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 offset with the fair value of any plan assets. The discount rate applied is the interest rate for liabilities prevailing on balance sheet date, with similar maturities to the pension obligations of the Group. Any surplus or deficit in the fair value of 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 plan assets. Such gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

2.19.3 Other long-term benefits to employees

Other long-term benefits to employees include deferred compensations which Group companies are legally obliged to pay in the countries in question. The cost of these benefits is calculated on an actuarial basis and provided for at their present value under personnel expenses.The corresponding obligations are included in the position pension liabilities.

2.20 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 settlement of this obligation will lead to an outflow of resources,
- insofar as the extent of the obligation can be reliably estimated.

2.20.1 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 data.

2.20.2 Restructuring

Restructuring costs are provided for in the period in which an official, detailed restructuring plan is available to the Group, which is implemented or publicly announced. No provision is made for future operating losses. Restructuring costs are recognized/presented under other operating expenses.

2.20.3 Site restoration

Provisions are made when an obligation to restore a site becomes probable and the costs can be estimated.

2.20.4 Onerous contracts

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

2.21 Trade accounts payable and other current liabilities

Trade accounts payable and other current liabilities are stated at amortized cost, which is normally equivalent to their nominal value.

2.22 Revenues from goods sold and services rendered

Net revenues include all revenues from products sold and services provided 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 are recognized according to the 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.

2.23 Government grants

Asset-related government grants are deducted from the carrying amount of the asset. Government grants are recognized as income during the period in which the subsidized expenses are incurred.

2.24 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.

2.25 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 term of the liability.

2.26 Financing

Net financing costs comprise interest expense on borrowings and finance leasing, interest earned on investments, earnings and expenses from discounts, gains and losses from foreign currency translation, 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 and expense are recognized in the income statement as they accrue, using the effective interest method.

2.27 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 amounts and the tax base. Tax benefits on future taxable income resulting from tax losses carried forward and other temporary differences are recognized only to the extent to which it is probable that future taxable profits will be available.

2.28 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 relate either directly to the segments, or which can be allocated on a reasonable basis, are stated in the corresponding divisions or geographical markets. Intra-group transactions are effected on an arm's length basis. Eliminations relate to internal balances between the 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 various risk positions arising from existing assets and liabilities as well as from future commitments are recorded and managed centrally at Group level. 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 expects all of them to meet their obligations.

At balance sheet date no significant concentration of credit risk existed. 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 cash and cash equivalents 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 partially 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 renewed at maturity.

3.4 Interest rate 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.

As a means of partially hedging interest rate risk, the Group uses interest rate swaps. Interest rate swaps have maturity dates more than a year after balance sheet date. If necessary, interest rate swaps are renewed at maturity.

4. Notes to the consolidated financial statements

4.1 Non-current assets held for sale and discontinued operations

On 22 December 2006, Kardex signed an agreement to sell the AFT Division (Industrial Automation and Conveyor Technology).

In accordance with IFRS 5, disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell and presented separately under current assets (prospective application). The result from the discontinued operation is presented separately in the income statement.

The income statement for the previous year and the notes pertaining to them have been restated as necessary. The previous year's amounts in the notes relating to items in the balance sheet have not been restated and include the assets and liabilities of the AFT Division.

Assets held for sale and related liabilities

EUR millions	31.12.2006
Property plant and equipment	2.9
Inventories and construction contracts	10.0
Trade accounts receivable	10.0
Other current assets	5.9
Total assets	**28.8**
Non-current liabilities	2.6
Current liabilities	39.9
Total liabilities	**42.5**

Additional information about the discontinued operation

EUR millions	2006	2005
Net revenues	76.1	99.1
Expenses	–97.6	–130.2
Result from valuation of assets held for sale at fair value less costs to sell (incl. expense for warranty provisions)	–25.0	–
Goodwill impairment	–	–18.4
Result before tax	**–46.5**	**–49.5**
Income tax	–0.2	0.7
Result from discontinued operations	**–46.7**	**–48.8**
Loss per share, basic (EUR)	–8.31	–8.66
Loss per share, diluted (EUR)	–8.31	–8.66
Net cash flow from operating activities	–25.0	–6.8
Net cash flow from investing activities	0.1	–2.0
Net cash flow from financing activities	27.0	10.1

4.2 Segment reporting

Primary segment reporting format 2006: business segments

EUR millions	KRM	Stow[1]	Other/ Finance[1]	Elimina- tions	Con- tinued opera- tions	AFT (discon- tinued)	Elimina- tions	Group
Bookings	227.0	158.3	2.7	–	388.0	65.8	–	453.8
Order backlog	58.4	28.6	1.5	–	88.5	35.9	–	124.4
Net revenues, third party	219.0	158.8	2.0	–0.7	379.1	76.1	–	455.2
Net revenues, with other divisions	2.0	0.5	1.1	–3.6	–	–	–	–
Segment net revenues	**221.0**	**159.3**	**3.1**	**–4.3**	**379.1**	**76.1**	**–**	**455.2**
Operating result	**18.4**	**2.2**	**–1.4**	**–0.6**	**18.6**	**–44.4**	**0.6**	**–25.2**
In % of segment net revenues	8.3	1.4	–	–	4.9	–	–	–
Operating result before depreciation, amortization and impairment	**24.0**	**6.3**	**–1.2**	**–0.6**	**28.5**	**–22.2**	**0.6**	**6.9**
In % of segment net revenues	10.9	4.0	–	–	7.5	–	–	1.5
Segment assets	131.3	117.6	15.2	–1.3	262.8	27.8	–	290.6
Segment liabilities	42.8	55.4	103.2	–1.3	200.1	34.7	–	234.8
Capital expenditure	10.1	17.0	–	–	27.1	–	–	27.1
Depreciation and amortization of property, plant and equipment and intangible assets	5.6	4.1	0.2	–	9.9	1.6	–	11.5
Impairments[2]	–	–	–	–	–	20.6	–	20.6
Employees	1 235	568	29	–	1 832	299	–	2 131

Secondary segment reporting format 2006: geographical segments

EUR millions	Euro countries	Other European countries	North, Central, South America	Asia, Pacific Rim	Others	Group
Net revenues, third party	261.8	112.9	34.9	45.0	0.6	455.2
Segment assets	209.3	47.4	13.3	12.0	8.6	290.6
Capital expenditure	23.4	0.8	0.2	2.7	–	27.1

[1] This column shows mainly the revenues and expenses, together with the assets and liabilities, of the parent company, together with other amounts not allocable to individual divisions. In contrast to last year's Annual Report, two small companies that used to be shown under Other/Finances are now assigned to the Stow segment. Where necessary, the previous year's figures for segment reporting have been restated.

[2] The impairment amounts to EUR 5.6 million on property, plant and equipment, and intangible assets and EUR 15.0 million on current assets.

Primary segment reporting format 2005: business segments

EUR millions	KRM	Stow[1]	Other/ Finance[1]	Elimina-tions	Con-tinued opera-tions	AFT (discon-tinued)	Elimina-tions	Group
Bookings	204.0	137.1	2.5	–	343.6	103.6	–	447.2
Order backlog	51.6	25.0	1.0	–	77.6	48.2	–	125.8
Net revenues, third party	189.6	133.3	3.3	–	326.2	99.1	–	425.3
Net revenues, with other divisions	1.9	0.2	–	–2.1	–	–	–	–
Segment net revenues	**191.5**	**133.5**	**3.3**	**–2.1**	**326.2**	**99.1**	**–**	**425.3**
Operating result	**12.8**	**6.9**	**–0.4**	**–1.0**	**18.3**	**–48.4**	**1.0**	**–29.1**
In % of segment net revenues	6.7	5.2	–	–	5.6	–	–	–
Operating result before depreciation, amortization and impairment	**18.5**	**9.7**	**–0.1**	**–1.0**	**27.1**	**–28.5**	**1.0**	**–0.4**
In % of segment net revenues	9.7	7.3	–	–	8.3	–	–	–
Segment assets	120.5	96.9	21.5	–13.1	225.8	60.8	–	286.6
Segment liabilities	40.5	35.1	81.8	–13.1	144.3	52.0	–	196.3
Capital expenditure	4.3	5.4	0.2	–	9.9	2.3	–	12.2
Depreciation and amortization of property, plant and equipment and intangible assets	5.7	2.8	0.3	–	8.8	1.5	–	10.3
Goodwill impairment	–	–	–	–	–	18.4	–	18.4
Employees	1 170	523	28	–	1 721	352	–	2 073

Secondary segment reporting format 2005: geographical segments

EUR millions	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 amounts not allocable to individual divisions. In contrast to last year's Annual Report, two small companies that used to be shown under Other/Finances are now assigned to the Stow segment. Where necessary, the previous year's figures for segment reporting have been restated.

4.3 Foreign currency translation

The main exchange rates for currency translation are:

	Average rates		Year-end rates	
	2006	2005	31.12.2006	31.12.2005
1 CHF (Swiss franc)	0.636	0.646	0.622	0.642
1 GBP (pound sterling)	1.467	1.463	1.490	1.458
1 USD (US dollar)	0.797	0.804	0.760	0.842

4.4 Net revenues

EUR millions	2006	2005
Products	312.6	265.3
Software	9.3	9.2
Services	57.2	51.7
Total net revenues	**379.1**	**326.2**

4.5 Other operating income

EUR millions	2006	2005
Gains from the sale of non-current assets	0.1	0.2
Other income	1.1	1.7
Other operating income	**1.2**	**1.9**

4.6 Other operating expenses

EUR millions	2006	2005
Losses from the sale of non-current assets	–0.1	–
Restructuring costs	–	–0.7
Other expenses	–2.1	–1.9
Other operating expenses	**–2.2**	**–2.6**

4.7 Personnel expenses

EUR millions	2006	2005
Salaries and wages	–68.4	–60.3
Social security contributions	–17.2	–15.1
Expenses for defined benefit plans	–1.4	–1.0
Expenses for defined contribution plans	–0.1	–0.4
Other personnel expenses	–6.4	–5.9
Total personnel expenses	**–93.5**	**–82.7**

4.8 Financial income

EUR millions	2006	2005
Interest income	0.3	0.2
Foreign exchange gains, net	0.1	0.5
Other financial income [1]	0.6	0.7
Total financial income	**1.0**	**1.4**

[1] Incl. discounts received.

4.9 Financial expenses

EUR millions	2006	2005
Interest expense	–2.5	–1.2
Other financial expenses [1]	–1.0	–0.8
Total financial expenses	**–3.5**	**–2.0**

[1] Incl. discounts granted.

4.10 Income tax

EUR millions	2006	2005
Current tax	–4.3	–4.4
Deferred tax	1.7	1.3
Total income tax continued operations	–2.6	–3.1
Total income tax discontinued operation	–0.2	0.7
Total income tax	**–2.8**	**–2.4**
Income tax income recognized in equity	–	–

Analysis of tax expense (incl. discontinued operation)				
Result before tax		–30.4		–31.8
Expected tax expense based on weighted average tax rates	21.4%	6.5	32.0%	10.2
Effect of expenses not deductible for tax purposes		4.0		–1.5
Effect of tax assets not capitalized		–13.4		–10.9
Tax deducted at source		0.1		–0.2
Effective tax expense	**–9.2%**	**–2.8**	**–7.5%**	**–2.4**

The effective tax rate of –9.2% (previous year: –7.5%) 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 10.0% to 40.0%. The change in the expected tax rate is attributable to changes in the origin of profit.

4.11 Investment summary

4.11.1 Property, plant and equipment 2006

EUR millions	Land and buildings	Machinery and production tools	Equipment and vehicles	Information technology	Plant under construction	Total property, plant and equipment
Acquisition cost, 1 January	**50.0**	**60.1**	**7.5**	**8.1**	**3.6**	**129.3**
Additions	4.6	10.0	1.5	1.1	7.6	24.8
Disposals	–	–1.7	–0.5	–1.3	–0.9	–4.4
Reclassification as property, plant and equipment held for sale	–12.3	–3.1	–0.3	–1.7	–	–17.4
Other reclassifications	1.6	5.5	–0.5	0.3	–6.9	–
Exchange rate differences	–0.4	–0.3	–	–0.1	–0.1	–0.9
31 December	**43.5**	**70.5**	**7.7**	**6.4**	**3.3**	**131.4**
Accumulated depreciation, 1 January	**–16.4**	**–41.6**	**–4.1**	**–6.8**	**–**	**–68.9**
Additions	–1.3	–5.5	–0.6	–0.9	–	–8.3
Disposals	–	1.1	0.4	0.8	–	2.3
Impairment	–3.7	–0.4	–0.1	–0.1	–	–4.3
Reclassification as property, plant and equipment held for sale	9.4	3.1	0.3	1.7	–	14.5
Other reclassifications	–	0.1	–	–0.1	–	–
Exchange rate differences	0.1	0.2	–	0.1	–	0.4
31 December	**–11.9**	**–43.0**	**–4.1**	**–5.3**	**–**	**–64.3**
Net carrying amount, 1 January	33.6	18.5	3.4	1.3	3.6	60.4
Net carrying amount, 31 December	31.6	27.5	3.6	1.1	3.3	67.1
Carrying amount of fixed assets held under finance leases, 1 January	2.4	1.9	0.2	–	–	4.5
Carrying amount of fixed assets held under finance leases, 31 December	6.6	5.9	0.3	–	–	12.8

The insurance value of property, plant and equipment amounts to EUR 156.0 million.

The impairment of EUR 4.3 million results from valuing property, plant and equipment held for sale at fair value less costs to sell (cf. note 4.1).

Depreciation on property, plant and equipment relating to continued operations is included in cost of goods sold and services provided (EUR 6.1 million), marketing and sales (EUR 0.5 million), administrative expenses (EUR 0.9 million) and development expenses (EUR 0.1 million). Depreciation on property, plant and equipment for the discontinued operation amounts to EUR 0.7 million.

Additions to property, plant and equipment acquired through finance leases amount to EUR 10.5 million.

Property, plant and equipment 2005

EUR millions	Land and buildings	Machinery and production tools	Equipment and 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 held under finance leases, 1 January	2.5	2.1	0.1	0.3	–	5.0
Carrying amount of fixed assets held under finance leases, 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 relating to continued operations is included in cost of goods sold and services provided (EUR 4.8 million), marketing and sales (EUR 0.4 million), administrative expenses (EUR 1.7 million) and development expenses (EUR 0.1 million). Depreciation on property, plant and equipment for the discontinued operation amounts to EUR 0.8 million.

Additions to property, plant and equipment acquired through finance leases amount to EUR 0.3 million.

4.11.2 Intangible assets 2006

EUR millions	Goodwill		Capitalized development costs	Capitalized software	Licences and patents	Total other intangible assets
Acquisition cost, 1 January	51.0		**9.0**	**5.0**	**1.3**	15.3
Additions	–		1.0	1.1	0.2	2.3
Disposals	–		–0.3	–0.1	–	–0.4
Reclassifications	–		–3.6	–0.2	–0.1	–3.9
Exchange rate differences	–		–0.1	–	–	–0.1
31 December	51.0		**6.0**	**5.8**	**1.4**	13.2
Accumulated amortization, 1 January	–22.2		**–4.4**	**–3.4**	**–1.2**	–9.0
Additions	–		–2.4	–0.6	–0.2	–3.2
Disposals	–		–	–	–	–
Impairment	–		–1.2	–0.1	–	–1.3
Reclassifications	–		3.6	0.2	0.1	3.9
Exchange rate differences	–		0.1	–	–	0.1
31 December	–22.2		**–4.3**	**–3.9**	**–1.3**	–9.5
Net carrying amount, 1 January	28.8		4.6	1.6	0.1	6.3
Net carrying amount, 31 December	28.8		1.7	1.9	0.1	3.7

The impairment of EUR 1.3 million results from valuing intangible assets held for sale at fair value less costs to sell (cf. note 4.1).

Amortization of other intangible assets relating to continued operations is included in cost of goods sold and services provided (EUR 2.0 million) and administrative expenses (EUR 0.2 million). Amortization of other intangible assets for the discontinued operation amounts to EUR 1.0 million.

Intangible assets 2005

EUR millions	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 amortization, 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

Amortization of other intangible assets relating to continued operations is included in cost of goods sold and services provided (EUR 1.7 million) and administrative expenses (EUR 0.2 million). Amortization of other intangible assets for the discontinued operation amounts to EUR 0.6 million.

4.12 Goodwill

EUR millions	31.12.2006	31.12.2005
Megamat GmbH	5.7	5.7
AFT Division (excl. AFT Korea)	–	–
AFT Korea	–	–
Stow Division	23.1	23.1
Total goodwill	**28.8**	**28.8**

The goodwill acquired in acquisitions is allocated to individual cash-generating units made up of divisions or individual subsidiaries. The recoverable amount 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 Management Board and approved by the Board of Directors.

The 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 4.3% and 7.1%.
- Profit from operations: in the long term, profit from operations are expected to settle at a level of 3.8% to 4.8% 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 represent 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 Management Board are based on experience and are in line with expected business development.

Weighted average cost of capital (WACC) before tax

%	2006	2005
Megamat GmbH	11.2	12.2
AFT Division (excl. AFT Korea)	–	9.2
AFT Korea	–	14.6
Stow Division	11.2	11.5

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

The values in use of Megamat GmbH and the Stow Division are considerably higher than their carrying amount. In the view of the Management Board and Board of Directors, no possible change in assumptions would result in the carrying amounts exceeding their values in use. This excludes unforeseen circumstances.

The impairment tests carried out in fiscal 2005 resulted in a complete write-down of goodwill for AFT and AFT Korea. The impairments are included in the results for the discontinued operation (note 4.1).

4.13 Financial assets

EUR millions	31.12.2006	31.12.2005
Investments	0.1	0.1
Other financial assets	0.5	0.2
Total financial assets	**0.6**	**0.3**

4.14 Deferred tax

EUR millions	31.12.2006 Deferred tax assets	31.12.2006 Deferred tax liabilities	31.12.2005 Deferred tax assets	31.12.2005 Deferred tax liabilities
Property, plant and equipment	0.4	4.1	0.7	4.8
Intangible assets	0.1	1.4	0.1	1.9
Financial assets	–	9.1	0.2	9.2
Inventories and construction contracts	1.4	0.1	0.9	1.0
Other assets	0.5	0.4	0.3	0.5
Provisions	0.8	3.7	1.3	2.2
Other liabilities	1.4	0.9	1.3	0.4
Capitalized loss carryforwards	18.0	–	15.9	–
Total deferred tax assets/tax liabilities	**22.6**	**19.7**	**20.7**	**20.0**
Set-off	–16.8	–16.8	–15.8	–15.8
Net deferred tax assets/tax liabilities	**5.8**	**2.9**	**4.9**	**4.2**

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

Non-capitalized loss carryforwards

EUR millions	31.12.2006	31.12.2005
Loss carryforwards by expiration		
1 year	–	–
2 to 5 years	0.4	4.0
Over 5 years	75.4	41.4
Total loss carryforwards	**75.8**	**45.4**
Deductible temporary differences	**–**	**4.1**

The tax effects of loss carryforwards were capitalized to the degree that it was probable they could be set off against future profits. Non-capitalized loss carryforwards mainly relate to Germany and Switzerland.

The non-capitalized loss carryforwards at 31 December 2006 apply to continuing operations. The non-capitalized loss carryforwards at 31 December 2005 included EUR 22.1 million relating to the discontinued operation.

4.15 Inventories and construction contracts

EUR millions	31.12.2006	31.12.2005
Raw materials, supplies and other consumables	17.3	16.5
Finished goods	10.0	9.9
Spare parts	6.6	5.8
Work in process	16.0	22.7
Allowances	–4.0	–5.1
Advance payments by customers	–13.5	–13.3
Construction contracts (POC)	4.9	15.9
Advance payments to suppliers	0.7	8.8
Total inventories and construction contracts	**38.0**	**61.2**

Details of construction contracts

EUR millions	31.12.2006	31.12.2005
Revenues from construction contracts (POC)	65.4	71.9
– of which from continued operations	10.1	1.1
– of which from discontinued operation	55.3	70.8
Accrued contract costs and recognized profit	14.2	63.9
Progress billings	–9.9	–51.0
Contracts in process net	**4.3**	**12.9**
Construction contracts with amount due from customers (underfinanced)	4.9	15.9
Construction contracts with amount due to customers (overfinanced) [1]	–0.6	–3.0
Contracts in process net	**4.3**	**12.9**
Advances received (POC)	–	–
Retentions	0.1	4.1

[1] Included in Other short-term liabilities.

4.16 Trade accounts receivable

EUR millions	31.12.2006	31.12.2005
Trade accounts receivable	87.6	93.8
Allowances for doubtful accounts	–1.8	–1.9
Total trade accounts receivable	**85.8**	**91.9**

Trade accounts receivable by currency:		
CHF	1.6	6.9
EUR	58.9	51.1
GBP	8.6	13.0
USD	6.1	13.0
Others	10.6	7.9
Total	**85.8**	**91.9**

Trade accounts receivable are spread over a wide customer base.

4.17 Other receivables and prepaid expenses

EUR millions	31.12.2006	31.12.2005
VAT, withholding and other refundable tax	1.6	1.8
Guarantees	0.4	0.3
Other receivables	3.8	2.7
Prepaid expenses	2.3	2.7
Total other receivables and prepaid expenses	**8.1**	**7.5**

4.18 Cash and cash equivalents

EUR millions	31.12.2006	31.12.2005
Cash, postal and bank current accounts	22.2	24.6
Time deposits	1.5	–
Total cash and cash equivalents	**23.7**	**24.6**

Cash and cash equivalents by currency:		
CHF	0.7	0.6
EUR	17.6	14.5
GBP	1.9	2.3
USD	–	1.3
Others	3.5	5.9
Total cash and cash equivalents by currency	**23.7**	**24.6**

Of cash and cash equivalents, EUR 1.2 million (previous year: EUR 4.3 million) are currently held in China 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

Non-current financial liabilities

EUR millions	31.12.2006	31.12.2005
Banks	12.3	17.3
Finance lease liabilities	11.3	3.6
Total non-current financial liabilities	**23.6**	**20.9**

Non-current liabilities with banks by due date:

EUR millions	31.12.2006	31.12.2005
2 to 5 years	7.2	7.3
Over 5 years	5.1	10.0
Total	**12.3**	**17.3**

Non-current liabilities by currency:		
CHF	–	2.3
EUR	22.4	17.2
USD	1.1	1.3
Others	0.1	0.1
Total	**23.6**	**20.9**

Current financial liabilities

EUR millions	31.12.2006	31.12.2005
Liabilities with banks	0.7	4.0
Current bank loans	43.9	5.3
Other financial liabilities	1.3	1.8
Current portion of finance leasing	1.9	0.9
Current portion of non-current financial liabilities	18.1	24.6
Total current financial liabilities	**65.9**	**36.6**
Current financial liabilities by currency:		
CHF	0.3	0.2
EUR	65.0	32.8
USD	0.5	–
Others	0.1	3.6
Total	**65.9**	**36.6**
Total financial liabilities	**89.5**	**57.5**
Cash and cash equivalents	23.7	24.6
Net financial debt	**65.8**	**32.9**

Financial liabilities at year-end in all currencies had an average interest rate of 4.5% (previous year: 4.8%).

The interest rates of non-current liabilities with banks are fixed to maturity. Interest on the short-term part of non-current financial liabilities are variable. Current bank loans amounting to EUR 7.0 million are covered by interest rate derivatives, with the effect that interest until 2010 is fixed (cf. note 4.23).

The fair value of non-current bank loans as well as the short-term part of non-current financial liabilities amounts to EUR 30.0 million, with a carrying amount of EUR 30.4 million. For other financial liabilities, the amounts in the balance sheet are approximately equal to their fair value according to IFRS.

The losses in 2005 and 2006 reported by the AFT Division have led to the breach of debt covenants (Tangible Net Worth/Total Assets and Interest Bearing Debt/EBITDA) and loan contracts. At 31 December 2006, this led to reclassifications of non-current loans of EUR 13.2 million (previous year: EUR 15.2 million) to current financial liabilities.

The creditor banks have issued waivers with respect to the contractual infringements.

4.20 Pension liabilities

EUR millions	31.12.2006	31.12.2005
Pension liabilities relating to defined benefit plans	3.3	3.6
Other long-term benefits to employees	2.8	2.4
Total pension liabilities	**6.1**	**6.0**

Details of pension liabilities

Defined benefit plans		
Present value of funded obligations	45.8	42.3
Present value of unfunded obligations	1.1	1.0
Total present value of obligations	**46.9**	**43.3**
Fair value of plan assets	–37.1	–40.3
Benefit obligation in excess of plan assets	**9.8**	**3.0**
Unrecognized actuarial losses	–6.6	–0.4
Unrecognized assets	0.1	1.0
Pension liabilities in defined benefit plans	**3.3**	**3.6**

Allocation of plan assets:		
Shares	2.8	5.7
Bonds	1.5	0.7
Claims against insurance companies (incl. other financial investments)	29.2	33.7
Cash and cash equivalents	3.6	0.2
Total	**37.1**	**40.3**

Movement in the present value of obligations

Defined benefit plans

EUR millions	2006	2005
1 January	**43.3**	**40.4**
Current service cost	1.0	0.9
Interest expense	1.9	2.0
Benefits paid	–4.3	–1.5
Employees’ contributions	1.2	0.9
Exchange rate differences	–0.1	–
Reclassification as liabilities related to assets held for sale	–2.7	–
Actuarial losses	6.6	0.6
31 December	**46.9**	**43.3**

Movement in plan assets
Defined benefit plans

EUR millions	2006	2005
1 January	40.3	38.0
Expected return on plan assets	1.7	1.7
Employees' contributions	1.2	0.9
Employer's contributions	1.2	1.0
Benefits paid	–4.3	–1.5
Exchange rate differences	–0.2	–
Reclassification as liabilities related to assets held for sale	–2.0	–
Actuarial gains and losses	–0.8	0.2
31 December	37.1	40.3

Historical information

EUR millions	2006	2005
Experience adjustments on expected claims	0.5	0.9
Experience adjustments on plan assets	–1.6	–1.0

Expenses for defined benefit plans

EUR millions	2006	2005
Current service cost	1.0	0.9
Interest expense	1.9	2.0
Expected return on plan assets	–1.7	–1.7
Actuarial losses recognized	1.1	–
Effect of unrecognized assets according to paragraph 58a	–0.9	–
Total expenses for defined benefit plans[1]	1.4	1.2

The expense was included in the following items in the income statement:

Cost of goods sold and services provided	0.5	0.4
Marketing and sales expenses	0.3	0.3
Administrative expenses	0.6	0.5
Total	1.4	1.2

[1] In 2005, a total of EUR 0.2 million applied to the discontinued operation.

Actuarial assumptions

	2006	2005
Discount rate	4.2%	4.7%
Expected rate of return on plan assets	4.9%	4.3%
Expected rate of increase in future compensation levels	2.9%	2.6%
Expected rate of increase in future pension levels	1.7%	1.4%

The effective return on plan assets was EUR 0.9 million (previous year EUR 1.9 million).

The expected long-term return on plan assets is 4.9%. The expected long-term rate of return is based on the portfolio as a whole and not the sum of individual returns from specific categories in the plan assets.

The expected contributions to defined-benefits plans for 2007 amount to EUR 1.2 million.

4.21 Provisions

EUR millions	War-ranties	Restruc-turing	Others	2006 Total	2005 Total
1 January	**2.8**	**0.7**	**2.2**	**5.7**	**3.0**
Additions	4.7	0.3	3.7	8.7	4.1
Utilization	–0.8	–0.6	–1.5	–2.9	–1.3
Reversal	–0.2	–0.1	–0.3	–0.6	–0.1
Reclassification as liabilities related to assets held for sale	–1.3	–0.3	–0.6	–2.2	–
Exchange rate differences	–	–	–	–	–
31 December	**5.2**	**–**	**3.5**	**8.7**	**5.7**
Non-current portion	**0.6**	**–**	**0.1**	**0.7**	**2.2**
Current portion	**4.6**	**–**	**3.4**	**8.0**	**3.5**

The provision for warranties covers the cost for guarantee claims. 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 millions	31.12.2006	31.12.2005
VAT, withholding tax and other tax liabilities	3.4	5.1
Social security and pension plan liabilities	1.6	3.1
Other current liabilities	3.8	11.5
Personnel claims	8.1	6.8
Accruals	15.0	16.5
Total current liabilities and accruals	**31.9**	**43.0**

4.23 Financial instruments

EUR millions	31.12.2006	31.12.2005
Currency derivatives		
Contract volumes	7.8	14.3
Fair value (positive)	–	–
Fair value (negative)	–	0.3
Interest rate derivatives		
Contract volumes	7.0	7.0
Fair value (positive)	0.2	0.1
Fair value (negative)	–	–

At 31.12.2006, EUR 0.4 million of the contract volume for currency derivatives applied to the discontinued operation.

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 recognized in the balance sheet at replacement (i.e. market) value. Any gains and losses accruing are recognized directly in the income statement.

4.24 Leasing obligations

4.24.1 Operating leases

EUR millions	31.12.2006	31.12.2005
Expense for operating leases for the year	3.8	3.8

Future minimum payments for non-cancellable lease agreements:		
1 year	3.7	3.8
2 to 5 years	5.1	4.1
Over 5 years	0.7	–
Total future minimum payments for operating leases	**9.5**	**7.9**

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

The expense for operating leases for 2006 includes EUR 0.3 million for discontinued operations. At 31.12.2006, EUR 0.7 million of the future minimum payments for non-cancellable lease agreements applied to discontinued operations.

4.24.2 Finance leases

Future minimum lease payments:

EUR millions	Notes	31.12.2006	31.12.2005
1 year		2.5	1.1
2 to 5 years		7.9	2.9
Over 5 years		5.7	1.4
Total future minimum payments for finance leases		**16.1**	**5.4**
Interest		–2.9	–0.9
Present value of finance leases		**13.2**	**4.5**
Long-term finance leases	4.19	11.3	3.6
Short-term finance leases	4.19	1.9	0.9
Total finance leases		**13.2**	**4.5**

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

The discontinued operation has no finance lease obligations.

4.25 Future rental obligations

EUR millions	31.12.2006	31.12.2005
Rental expense for the year	4.4	4.2

Future obligations from non-cancellable rental agreements:		
1 year	1.1	1.6
2 to 5 years	1.9	3.1
Over 5 years	0.2	0.5
Total future rental obligations	**3.2**	**5.2**

The rental expense for 2006 includes EUR 0.5 million for the discontinued operation. The discontinued operation had no obligations from non-cancellable rental agreements at 31.12.2006.

4.26 Earnings per share

	2006	2005
Number of outstanding shares at the beginning of the financial year	5 626 203	5 627 453
Purchases of treasury shares	–85	–1 250
Disposal of treasury shares	1 335	–
Number of outstanding shares at the end of the financial year	5 627 453	5 626 203
Weighted average number of outstanding shares	**5 626 258**	**5 627 022**
Dilution effect	–	–
Diluted weighted average number of outstanding shares	**5 626 258**	**5 627 022**
Net result Group	–33 231 000	–34 159 000
Basic loss per share (EUR)	**–5.91**	**–6.07**
Diluted loss per share (EUR)	**–5.91**	**–6.07**
Result of continuing operations	13 502 000	14 592 000
Basic earnings per share (EUR)	**2.40**	**2.59**
Diluted earnings per share (EUR)	**2.40**	**2.59**

4.27 Capital commitments

EUR millions	31.12.2006	31.12.2005
Property, plant and equipment	0.7	13.6
Total capital commitments	**0.7**	**13.6**

The capital commitments at 31.12.2006 apply exclusively to continued operations.

4.28 Contingent liabilities

EUR millions	31.12.2006	31.12.2005
Total contingent liabilities	**2.1**	**0.6**

EUR 1.5 million of contingent liabilities at 31.12.2006 apply to the discontinued operation.

4.29 Assets pledged or of restricted disposability

EUR millions	31.12.2006	31.12.2005
Property, plant and equipment	49.4	41.0
Trade accounts receivable	10.9	9.4
Inventories	3.6	2.6
Total assets pledged or of restricted disposability	**63.9**	**53.0**

At 31.12.2006, EUR 6.5 million of the assets pledged or of restricted disposability applied to discontinued operations.

The residual purchase commitment remaining from the acquisition of the 40% minority interests in the Stow Group is secured by 150 000 shares in Stow International nv, Belgium. The residual purchase commitment to EUR 1.3 million (previous year: EUR 1.5 million) is included in current financial liabilities.

4.30 Related parties

Related parties include members of the Management 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 total compensation to the Management Board and Board of Directors (including members who resigned in the course of the business year) was as follows:

EUR millions	2006	2005
Short-term benefits [1]	1.4	2.2
Termination benefits	0.1	0.1
Total compensation	**1.5**	**2.3**

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

Compensation to the members of the Board of Directors is fixed. 70 to 80% of compensation is paid in cash and the remaining 20 to 30% in Kardex shares. Shares are awarded at an amount 20% lower than the prevailing average price for the preceding month and cannot be traded for a period of three years. In 2006, compensation in the form of shares amounted to EUR 42.3 thousand.

4.31 Subsidiaries

Country				Company, domicile	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	11 375 939	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	EUR	486 484	100	1
			■	KRI Logistics Ltd., Limassol	EUR	27 400	100	1
			■	Kardex Systems (Cyprus) Ltd., Limassol	CYP	20 000	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
Finland		■	■	Kardex Finland OY, Muurame	EUR	134 550	100	1
France			■	Kardex SASU, Neuilly-Plaisance Cedex	EUR	1 835 000	100	1
			■	Stow France S.A., Saint-Pierre du Perray	EUR	684 000	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
			■	Kardex Office GmbH, Kronberg/Taunus	EUR	49 000	100	8
		■	■	fam Fördertechnik GmbH, Memmingen	EUR	25 000	100	8

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

4.31 Subsidiaries (continued)

Country				Company, domicile	Currency	Share capital in local currency	Percentage holding	Held by:
Germany		■	■	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
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
			■	Kardex Polska Sp. z.o.o., Warschau	PLN	200 000	100	1
Slovakia			■	Stow Slovensko s.r.o., Bratislava	SKK	1 000 000	100	3
			■	Kardex Slovensko s.r.o., Bratislava	SKK	200 000	100	1
South Korea		■	■	Seo Kwang AFT Co. Ltd., Kyeonggi-Do	TKRW	6 780 000	100	2
Spain			■	Storage Solution Iberica 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
Sweden			■	Kardex Scandinavia AB, Bromma	SEK	100 000	100	1
Switzerland		■	■	Dreier Systemtechnik AG, Reinach	CHF	250 000	100	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	2
	■			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, domicile	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

After being unable to reach agreement with the purchaser about the conditions for the sale in a contract signed on 22 December 2006, the AFT Division was sold at approximately the same conditions to Certina Holding AG, a German company, with effect from 21 February 2007. The assets and liabilities in question are presented as held for sale in the consolidated financial statements for 2006 (cf. also note 4.1).

No other events have taken place between 31 December 2006 and 3 April 2007 that would require an adjustment of the carrying amounts of assets and liabilities of the Kardex Group or need to be disclosed here.

4.33 Release for publication and approval of the financial statements

The Board of Directors approved these financial statements on 3 April 2007. They must also be approved by the shareholders' General Meeting.

Report of the group auditors

To the General Meeting of Kardex AG, Zurich

Zurich, 3 April 2007

Report of the group auditors

As group auditors, we have audited the consolidated financial statements of Kardex AG, Zurich, presented on pages 22 to 74 and consisting of the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and notes to the consolidated financial statements for the year ended 31 December 2006. The financial statements of the prior period were audited by other group auditors. In their report dated 28 July 2006, they expressed an unqualified opinion.

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 of 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 consolidated 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.

KPMG Ltd

Jürg Meisterhans
Swiss Certified Accountant
Auditor in Charge

Thomas Keusch
Swiss Certified Accountant

Income statement Kardex AG (Holding)

CHF millions	Notes	2006	2005
Income from investments		9.1	10.1
Financial income		5.1	7.6
Other income		0.3	–
Total income		**14.5**	**17.7**
Administrative expenses		–9.3	–5.8
Financial expenses		–3.4	–1.5
Income tax		–0.2	–0.2
Extraordinary expenses			
Losses related to investments	5	–32.6	–
Impairment charge	5	–40.0	–24.0
Waiver of debts	5	–63.2	–
Total expenses		**–148.7**	**–31.5**
Net result		**–134.2**	**–13.8**

Balance sheet Kardex AG (Holding)

CHF millions	Notes	31.12.2006	31.12.2005
Loans to Group companies	2	49.3	22.3
Investments	5	198.0	227.0
Non-current assets		**247.3**	**249.3**
Receivables from Group companies		3.8	39.6
Prepaid expenses and other short-term receivables		0.6	0.3
Treasury shares	6	–	0.1
Cash and cash equivalents		12.5	12.6
Current assets		**16.9**	**52.6**
Assets		**264.2**	**301.9**
Share capital		76.0	76.0
General reserve		123.6	123.6
Free reserve		41.0	40.9
Reserve for treasury shares	6	–	0.1
Retained earnings		–129.3	4.9
Equity		**111.3**	**245.5**
Non-current financial liabilities		21.2	23.7
Current financial liabilities		57.9	3.1
Payables to Group companies		35.6	25.2
Other payables		38.2	4.4
Current liabilities		**131.7**	**32.7**
Liabilities		**152.9**	**56.4**
Equity and liabilities		**264.2**	**301.9**

Notes
to the financial statements

1. Accounting principles

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

2. Contingent liabilities

CHF millions	31.12.2006	31.12.2005
Contingent liabilities in favour of subsidiaries and third parties	84.6	22.1
Subordinated loans to subsidiaries	10.9	16.5

3. Securing of liabilities

The residual purchase commitment remaining from the acquisition of the 40% minority interests in the Stow Group is secured by a total of 150,000 shares (carrying amount CHF 7.8 million) in Stow International nv, Belgium.

In view of the group taxation principle, all Swiss companies bear unlimited joint and several liability 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 millions	31.12.2006	31.12.2005
Liabilities towards pension funds	–	0.2

5. Subsidiaries

Kardex AG's interests in Group companies are listed on pages 71 to 73 of this report.

"Losses related to subsidiaries" amounting to CHF 32.6 million apply to expenses in connection with the sale of the AFT Division.

In 2006, the principle used for measuring subsidiaries was changed from group to individual assessment. This resulted in a further adjustment to the value of subsidiaries amounting to CHF 40.0 million.

The waivers of debts amounting to CHF 63.2 million apply to the cancellation of loans and receivables due from AFT companies.

6. Treasury shares

	Number	Price per share in CHF	Total
31 December 2004	–	–	–
Additions 2005	1 250	51.84	64 800
31 December 2005	**1 250**	**51.84**	**64 800**
Additions 2006	85	49.80	4 233
Disposals 2006	–1 335	51.71	–69 033
31 December 2006	–	–	–

7. Significant shareholders on 31 December 2006, 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:

	31.12.2006	31.12.2005
Credit Suisse Asset Management Funds	5.1%	unknown
Buru Holding and Philipp Buhofer	18.2%	18.2%
Industrieholding Cham AG	unknown	6.5%

8. Personnel expenses

CHF millions	2006	2005
Personnel expenses	3.4	2.8

9. Events after the balance sheet date

The disposal of the AFT Division was completed at 21 February, 2007.

No other events have taken place between 31 December 2006 and 3 April 2007 that would require an adjustment of the carrying amounts of assets and liabilities of Kardex AG or need to be disclosed here.

Report of the statutory auditors

To the General Meeting of Kardex AG, Zurich

Zurich, 3 April 2007

Report of the statutory auditors

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes on pages 76 to 80) of Kardex AG, Zurich, for the year ended 31 December 2006. The financial statements of the prior period were audited by other auditors. In their report dated 28 July 2006, they expressed an unqualified opinion.

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 of 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 comply with Swiss law and the company's articles of incorporation association.

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

KPMG Ltd

Jürg Meisterhans
Swiss Certified Accountant
Auditor in Charge

Thomas Keusch
Swiss Certified Accountant

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.

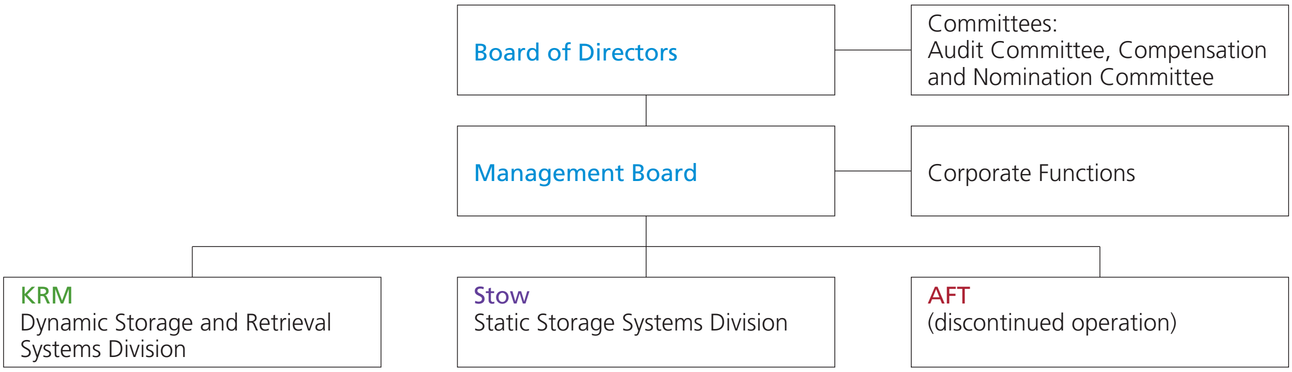
In the following section, as required by the guidelines, Kardex provides information about its own corporate governance. The information is organized as in the guidelines. To avoid redundancy and in the interests of readability, there are several cases where the reader is referred to other places in 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 2006, amounted to CHF 292,627 thousand (previous year CHF 346 088 thousand).

The Group is managed by the Board of Directors through the Management Board and the management of the operative divisions KRM and Stow. The Management Board is made up of the CEO, the CFO and the heads of the two divisions. The Board of Directors and the Management 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 71 to 73.

1.2 Significant shareholders

Information about significant shareholders can be found in the notes to the consolidated financial statements of Kardex AG on page 79.

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 thousand on 31 December 2006 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 2006.

2.3 Capital changes

In the past four 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 2005.

2.4 Participation certificates and profit participation certificates

Kardex AG has issued neither participation nor profit participation certificates by 31 December 2006.

2.5 Convertible bonds and options

Kardex AG has no outstanding convertible bonds or options on 31 December 2006.

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 four non-executive members (according to the Articles of Incorporation between three and seven), all of whom are independent in the sense of the Swiss Code of Best Practice for Corporate Governance. Walter T. Vogel was newly elected to the Board of Directors at the General Meeting on 31 August 2006. Messrs Richard Flury and Michael Funk together with Dr. Peter Isler retired from the Board of Directors at the General Meeting on 31 August 2006. The Board of Directors thus consists of the following members:

Leo Steiner

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

Chairman since the 2006 General Meeting

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: Schaffner Holding AG

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, lecturer at the University of St. Gallen, since 2006 president of the CFO Forum Switzerland
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, Wicor Holding AG, Zur Rose AG

Walter T. Vogel

Member of the Board of Directors since 2006, term expires 2009

1957, Swiss citizen, Dipl. Masch. Ing. ETH Zurich
Non-executive member
Since 2003 CEO Von Roll Holding AG
1999–2003 Von Roll Group, head of the Infratec division and member of Group management
1995–1999 HILTI AG, head of direct fastenings unit and member of extended Group management
1992–1995 Aliva AG, director of sales and marketing and member of the executive board
Other directorships: Stadler Stahlguss AG

It is proposed to the Annual General Meeting on May 24, 2007, that Martin Wipfli, 1963, Swiss citizen, lic. iur., attorney at law, be elected as a new member of the Board of Directors.

3.2 Cross-involvements

No members of the Kardex Management Board hold directorships on the boards of companies whose representatives are a member of the Board of Directors of Kardex AG.

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 85 and 86 (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 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 Management 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 2006, the Board met on 13 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 and Nomination Committee. The committees are constituted as follows:

	Audit Committee	Compensation and Nomination Committee
Philipp Buhofer	Member	
Leo Steiner		Chairman
Dr. Rudolf Huber	Chairman	
Walter T. Vogel		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 one year. 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 2006, it met on four occasions. The Audit Committee advises the Board of Directors as a whole mainly on the following matters:

– accounting and financial reporting (evaluation of half-yearly and annual reports on behalf of the Board of Directors)
– risk management and auditing
– internal control systems and measures
– financial strategy, capital structure, financial objectives, financial planning and control
– M&A transactions and other business with major financial impact.

3.4.2.2 Compensation and Nomination Committee

The Compensation and Nomination 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 and Nomination Committee meets at least once a year. In 2006, it met on one occasion. The Compensation and Nomination 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 to key positions in the Group
– basic criteria regarding the appointment of members of the Management Board as well as salary, bonus and other incentive systems
– questions regarding the remuneration of the Board of Directors and members of the Management Board
– questions regarding performance-related payments.

3.5 Definition of areas of responsibility

The Board of Directors has delegated responsibility for the operational management of the Group to the Management Board under the supervision of the CEO. The Board has also appointed two Heads of Division. The duties and responsibilities are defined in the Organizational By-Laws. The Management Board's main responsibilities are:
- operational management of the individual divisions
- optimization of the internal organization and processes
- external representation of the Kardex Remstar Group
- promotion of internal and external communication.

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

The Board of Directors is informed about the course of business and important business events by the CEO or other members of the Management Board at every Board Meeting. 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 Management Board's actions are:
- monthly reports from the Management Board featuring key figures with comparisons against the previous year and the budget together with a brief report by the CEO
- 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 the Group's external auditors to attend selected meetings of the Audit Committee.

4. Management Board

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

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
2005 COO of the Kardex Remstar Group
2004 CEO of the Stow Division (Static Storage Systems) and CEO of Stow International nv
2001–2003 General Manager of the Stow Division (Static Storage Systems)
1996–2003 General Manager of Stow International nv
1989–1996 Financial Manager of Stow International nv

Reto Welte

1959, Swiss citizen, lic. oec. HSG
Since 1 January 2007 CFO of the Kardex Remstar Group
2003–2006 CFO Feintool Gruppe
2002 CFO Gretag Imaging Group
2000–2001 co. don AG, Berlin
1991–2000 various financial functions with Alstom and head of the Medium Voltage Technology unit

Rolf Juninger stood down from his position as CFO of the Kardex Remstar Group with effect from 31 December 2006.

Jürg Müller

1947 Swiss citizen, lic. oec. publ. University of Zurich

Since 1 July 2004 Head of the KRM Division (Dynamic Storage and Retrieval Systems)

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 Head of the Stow Division (Static Storage Systems) 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)

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 programmes

Compensation to the members of the Board of Directors is paid at a fixed rate. It is proposed annually in advance by the Compensation and Nomination Committee and determined by the Board of Directors. 70 to 80% of compensation is paid in cash and the remaining 20 to 30% in Kardex stock. Shares thus obtained are priced 20% lower than the average price of the month before allocation and cannot be traded for a period of three years.

The Management Board receive compensation made up of a fixed basic salary and a variable component, which, if targets are achieved and depending on individual rank, amounts to a maximum of 30 to 45% of their fixed salary. At least 20% and a maximum of 50% of the variable amount is paid in stock. Shares thus obtained are priced 20% lower than the average price of the month before allocation and cannot be traded for a period of three years. 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 and Nomination Committee.

5.2 Compensation for acting members of governing bodies

In 2006, total compensation for the non-executive members of the Board of Directors amounted to CHF 289 thousand (previous year: CHF 313 thousand). The total compensation paid to the Management Board in 2006 amounted to CHF 1,941 thousand (previous year: CHF 2,928 thousand).

5.3 Compensation for former members of governing bodies

In 2006, no 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, 1,335 bearer shares of par value CHF 13.50 were allocated to the members of the Board of Directors as part of the compensation programme. At the time of going to press, no shares had been allocated to members of the Management Board.

5.5 Share ownership

As of 31 December 2006, and by their own declaration, the members of the Board of Directors and parties closely linked to them held a total of 1,042,656 bearer shares in Kardex AG.

As of 31 December 2006, the members of the Management Board and parties closely linked to them held a total of 850 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 Management Board.

5.7 Additional fees and remunerations

In 2006 the law firm Niederer Kraft & Frey, Zurich, where Dr. Peter R. Isler (who retired from the Board of Directors at the General Meeting on 31 August 2006) is one of 31 partners, invoiced Kardex AG for services amounting to CHF 111 thousand (previous year: CHF 83 thousand).

During the year under review, the Group paid Axega GmbH, Wädenswil, which is co-owned and managed by Kardex director Dr. Rudolf Huber, a total of CHF 79 thousand for financial services in connection with the AFT Division.

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 Management Board or parties closely linked to them.

5.9 Highest total compensation

The highest total compensation paid to a non-executive member of the Board of Directors in 2006 was CHF 69 thousand (previous year: CHF 112 thousand). These included 497 Kardex shares at the price of CHF 49.80, with a total value of CHF 25 thousand. The highest total compensation paid to a member of the Management Board in 2006 was CHF 612 thousand (previous year: CHF 637 thousand).

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 accordance with the requirements of company law, the company's Articles of Incorporation 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

KPMG Ltd, Zurich, have been Kardex AG's statutory auditors since 2006. The auditor in charge has been responsible for the mandate since the General Meeting on 31 August 2006. The auditors are elected by the General Meeting for a period of one year.

8.2 Audit fees

In 2006, KPMG provided audit services to the value of CHF 880 thousand (previous year: CHF 0). Fees for audit services of other auditors amounted to CHF 580 thousand (previous year: CHF 1,920 thousand).

8.3 Additional fees

KPMG was also paid fees totalling CHF 1,250 thousand (previous year: CHF 0) 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. 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

The addresses and contacts of the discontinued AFT Division are no longer listed.

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