2018

Annual Report

kardex group

The Kardex Group is a global industry partner for intralogistic solutions and a leading supplier of automated storage solutions and materials handling systems. The Group consists of the two entrepreneurially managed divisions, Kardex Remstar and Kardex Mlog.

Kardex Remstar develops, produces and maintains dynamic storage and retrieval systems, and Kardex Mlog offers integrated materials handling systems and automated high bay warehouses.

The two divisions are partners for their customers over the entire lifecycle of a product or solution. This begins with an assessment of customer requirements and continues via the planning, realization and implementation of customer-specific systems through to ensuring a high level of availability and low life cycle costs by means of customer-oriented lifecycle management.

Around 1 800 employees in over 30 countries worldwide work for the companies of the Kardex Group.

Kardex AG has been listed on the SIX Swiss Exchange since 1987. The Kardex Group applies the accounting standards of Swiss GAAP FER.

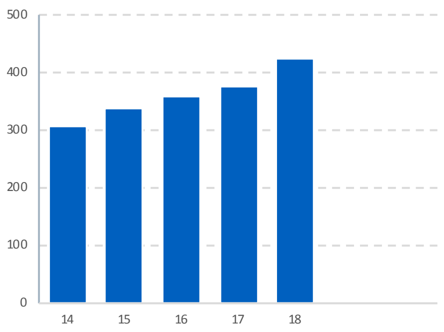
Contents

The Annual Report is published in German and English.
The financial section is published in English only.

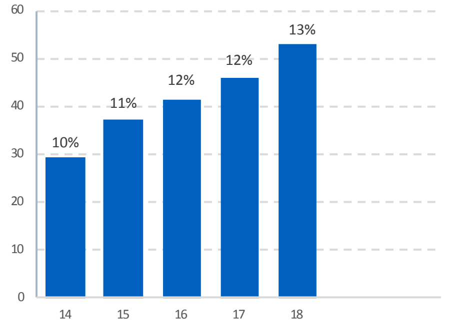
Figures indicated in brackets refer to the previous year.

Kardex Group at a glance

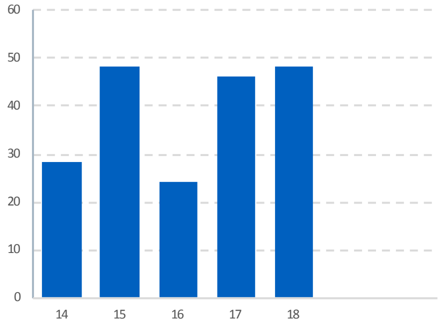
Net revenues
in EUR millions



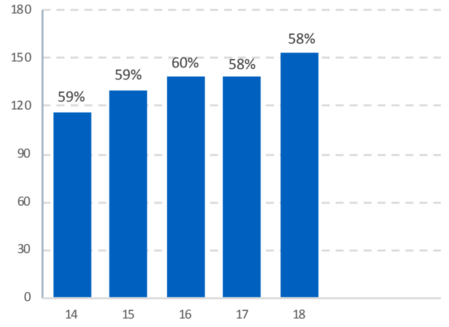
Operating result (EBIT) and EBIT margin
in EUR millions and in %



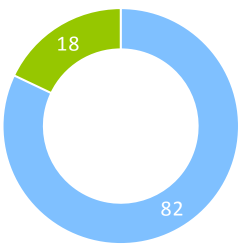
Net cash flow from operating activities
in EUR millions



Equity and equity ratio
in EUR millions and in %

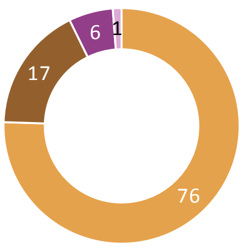


Net revenues by segment
2018 financial year in %



- Kardex Remstar
- Kardex Mlog

Net revenues by region
2018 financial year in %



- Europe
- Americas (North, Middle, South)
- Asia/Pacific
- Middle East and Africa

Highlights and key figures in 2018

Bookings and order backlog reach new record levels

Kardex Group increases revenue by 12.6% and EBIT by 15.7%

Kardex Remstar grows at double-digit rates

Kardex Mlog reaches new profitability level

Distribution to shareholders increases from CHF 3.60 to CHF 4.00

Key figures
EUR millions

1.1.-31.12.	2018		2017		+/-%
Bookings	481.2	113.7%	411.9	109.5%	16.8%
Order backlog (31.12.)	230.1	54.3%	173.6	46.2%	32.5%
Net revenues	423.4	100.0%	376.1	100.0%	12.6%
Gross profit	152.2	35.9%	135.7	36.1%	12.2%
OPEX	99.0	23.4%	89.7	23.9%	10.4%
EBITDA	59.0	13.9%	51.4	13.7%	14.8%
Operating result (EBIT)	53.2	12.6%	46.0	12.2%	15.7%
Result for the period (net profit)	38.3	9.0%	31.8	8.5%	20.4%
Net cash flow from operating activities	48.1		46.0		4.6%
Free cash flow	37.8		34.6		9.2%
ROCE	52.1%		46.9%		

	31.12.2018		31.12.2017		+/– %
Net working capital	63.9		64.6		-1.1%
Net cash	129.2		114.9		12.4%
Equity/Equity ratio	153.3	57.9%	139.0	57.9%	10.3%
Employees (FTE)	1 807		1 653		9.3%

	2018		2017		+/-%
Distribution per share (CHF)[1]	4.00		3.60		11.1%

[1] 2018: planned.

Report to the shareholders
Another successful year for Kardex

The Kardex Group continued its dynamic development in 2018. A largely positive economic environment and the Group's strong market position ensured a continued good level of bookings and full order books in both divisions. Despite some bottlenecks in the supply chain, which led to higher costs and extended project durations, revenue and profit development accelerated. Kardex Remstar made targeted investments to increase capacity. Kardex Mlog reached a new level of profitability.

At EUR 481.2 million, the Kardex Group's bookings were up 16.8% on the previous year and Group revenues increased to EUR 423.4 million, 12.6% more than in 2017. At 15.9%, the growth rate of the service business again exceeded the equally strong growth rate of new business of 11.0%. The Group's order backlog at yearend amounted to EUR 230.1 million, a new high. This is 32.5% more than the comparable figure at the end of the previous year. The number of employees in the group increased by 9.3% to 1 807 full-time equivalents during the year.

Further increase in EBIT margin

Gross profit at Group level rose by 12.2% to EUR 152.2 million, but remained almost unchanged in percentage terms at 35.9% (36.1%) due to higher procurement prices and wages as well as slightly lower sales margins. Operating costs increased only moderately, even though marketing and development expenses remained high, resulting in an operating income of EUR 53.2 million. In absolute and percentage terms, this corresponds to a new record with a plus of 15.7% and an EBIT margin of 12.6% (12.2%). As expected, the tax rate fell slightly to 25.6% (28.5%), while net profit increased by 20.4% to EUR 38.3 million. This result corresponds to a ROCE of 52.1% (46.9%).

Kardex Remstar continues dynamic growth

Demand increased in almost all of Kardex Remstar's target markets. New business was particularly dynamic in North America, China and the major European countries. Bookings increased in total by 13.2% to EUR 381.3 million. Due to the high order backlog, revenues rose by 14.8% to EUR 347.5 million. The service segment contributed EUR 100.0 million, which leads to a revenue share of 28.8%. Despite significantly higher material costs and increased personnel costs, the operating income rose by 14.9% to EUR 51.0 million due to the revenue increase and further efficiency gains in line with the revenue development. The EBIT margin remained at the previous year level of 14.7%. Kardex Remstar recorded a very high capacity utilization, resulting in longer project durations, which were in addition also driven by bottlenecks at suppliers. Capacities will therefore gradually be increased through targeted investments in the plants, thus ensuring that profitable growth can continue seamlessly in 2019 and beyond. In order to take account of Kardex Remstar's sustained positive performance, the targeted EBIT margin corridor will be increased to 8-16% (7-15%) over the business cycle.

Kardex Mlog increases operating income by more than 30%

In a positive environment with high investment activities in Central Europe, Kardex Mlog achieved three-figure bookings (EUR 100.0 million) for the first time, an increase of 33.2% compared to the previous year. Due to capacity bottlenecks at suppliers and construction delays on customer sites, the project duration in some cases extended to up to 18 months. As a result, reported revenues only rose by 3.1% to EUR 75.9 million. As efficiency gains were achieved at the same time and the share of the service business significantly increased to almost half of revenues (49.5%), the gross profit margin was substantially higher at 22.5%. This gratifying development led to a significant increase in operating income to EUR 5.1 million, 30.8% more than in the previous year. The EBIT margin increased from 5.3% to 6.7%. The record order backlog of EUR 73.2 million forms a solid basis for the planned profitable growth in the current fiscal year 2019. Based on this, the targeted EBIT margin corridor will be increased to 4-8% (4-6%) over the business cycle.

Balance sheet remains strong and free cash flow high

The Kardex Group's balance sheet remains solid and the balance sheet total at the end of the period was EUR 264.9 million (31.12.2017: EUR 240.2 million). The company is debt-free, has a net cash position of EUR 129.2 million and an equity ratio of 57.9% (57.9%). The free cash flow of EUR 37.8 million (EUR 34.6 million) was higher than in the previous year despite increased investments and a slightly higher level of receivables. It thereby approximately corresponded to the net profit generated by the Group.

Strengthened Leadership

Urs Siegenthaler took over from Jens Fankhänel as Head of Division Kardex Remstar with effect from 1 January 2019 and has since complemented the Kardex Group Management Board. This will allow Jens Fankhänel to focus more on strategic tasks as Group CEO. Urs Siegenthaler joined Kardex Remstar in the middle of 2011. He initially managed the Life Cycle Services function and is in charge of the New Business function since 2016. He is a key driver of the success of both functions.

Further increase in payout

The good annual result allows the Board of Directors to propose a distribution of CHF 4.00 per share to the Annual General Meeting. Since the current par value of the Kardex share is only CHF 0.45 and the capital reserves have also been exhausted, the payout will be made, for the first time since 2003, in the form of a dividend that is taxable also for Swiss private investors.

Outlook

The Board of Directors and the Group Management are confident about Kardex's future development. There are currently no signs of any change in the current market environment and the positive trends. The divisions have full order books and will continue to benefit from their strong position in the growing intralogistics market. The Kardex Group will continue to invest into people development, in its product and solution portfolio and in the digitization of its processes and services. In addition, the strong balance sheet allows to examine arising opportunities for the targeted strengthening of the Group.

Thank you

We would like to thank all our employees for their superb commitment in the last year and look back with pride and joy on what we have achieved together. In particular, we would like to emphasize the great flexibility of our colleagues around the world, who have worked additional shifts and weekends to ensure that we were able to offer our customers the best possible service. We would also like to thank our customers and partners for their excellent cooperation and our shareholders for their trust.

Philipp Buhofer
Chairman of the Board of Directors

Jens Fankhänel
Chief Executive Officer

Information on the Kardex share

Share capital and capital structure

	2018	2017	2016	2015	2014
Par value per share (CHF)	0.45	4.05	7.35	10.35	11.00
Total registered shares	7 730 000	7 730 000	7 730 000	7 730 000	7 730 000
Number of treasury shares	13 195	15 149	16 700	-	-
Number of dividend-bearing shares	7 716 805	7 714 851	7 713 300	7 730 000	7 730 000
Registered capital (CHF 1 000)	3 479	31 307	56 816	80 006	85 030
Total voting rights	7 716 805	7 714 851	7 713 300	7 730 000	7 730 000

Key stock exchange figures per share

CHF	2018	2017	2016	2015	2014
Share price high	180.00	120.00	99.90	82.00	47.55
Share price low	106.40	94.20	57.80	40.20	37.60
Closing rate	113.40	119.60	95.25	78.00	46.25
Average volume per trading day (no. of shares)	17 110	14 415	12 596	16 528	14 719
Market capitalization - CHF million (31.12.)	876.58	924.51	736.28	602.94	357.51

Key figures per share

CHF	2018	2017	2016	2015	2014
Earnings per share (EPS)[1] – basic	5.74	4.59	4.34	3.94	3.74
Earnings per share (EPS)[1] – diluted	5.74	4.59	4.34	3.94	3.74
Price earning ratio (closing rate)	19.80	26.12	21.95	19.79	12.34
Dividend[2]	4.00	-	-	-	1.65
Reduction of nominal value	-	3.60	3.30	3.00	0.65
Equity	22.36	21.17	19.18	18.10	18.01

1 Calculated by the generally accepted method (net result/average number of outstanding shares).

2 2018: Reimbursement by reduction of the nominal value as proposed to the Annual General Meeting to be held on 11 April 2019.

The registered shares of Kardex AG are traded by the Swiss Reporting Standard of SIX Swiss Exchange in Zurich, Switzerland. They are contained in the SPI (Swiss Performance Index).

Stock exchange symbol: KARN; Swiss securities number: 10083728; ISIN number: CH0100837282; Bloomberg: KARN SW Equity; Reuters: KARN.S. Current prices can be seen at www.kardex.com.

Share price performance

Kardex AG (Holding) share

On SIX Swiss Exchange 1 January 2018 to 31 January 2019 based on the daily closing price in CHF

● Registred shares of Kardex AG (KARN)
● Swiss Performance Index (SPI)

The value of the Kardex share decreasd by 5.2% from CHF 119.60 to CHF 113.40 in 2018. Kardex paid a reimbursement by reduction of the nominal value of CHF 3.60 per share in July 2018. The overall performance for the year was -2.2%.

Corporate calendar

Calendar of events Investor Relations	
2019 Annual General Meeting	11 April 2019
2019 Interim Report	30 July 2019
2019 Annual Report	5 March 2020
2020 Annual General Meeting	14 April 2020
2020 Interim Report	30 July 2020

Shareholder structure

As at 31 December 2018, there were 1 910 shareholders (2 052) entered in the share register. The following shareholders held 3% or more of the outstanding share capital of Kardex AG at year end:

	31.12.2018	31.12.2017
BURU Holding AG and Philipp Buhofer	23.6%	23.6%
Alantra Partners S.A.	8.4%	7.1%
Credit Suisse Funds AG		3.2%
Lombard Odier Asset Management (Switzerland) SA		3.2%

Contact share register

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Contact

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Thomas Reist, CFO
Edwin van der Geest, Investor Relations
Tel. +41 44 419 44 79
investor-relations@kardex.com

Division Kardex Remstar Double-digit growth in bookings, revenues and profit

Kardex Remstar further expanded its leading market position. In a dynamic economic environment, demand grew in almost all regions. Bookings increased by 13.2% to EUR 381.3 million, revenues rose by 14.8% to EUR 347.5 million and operating income (EBIT) reached a new high of EUR 51.0 million despite cost increases in materials and personnel. The high order backlog of EUR 157.1 million provides the foundation to continue this positive development in 2019.

30% growth in two years

The reduction of internal logistics costs has become an increasingly important competitive factor for Kardex Remstar customers. Intralogistics solutions from Kardex Remstar offer good returns, and investment activity remains high in many markets. In the reporting year, Kardex Remstar benefited from these positive conditions as well as from the investments made in the sales teams and sales methodology in previous years, as demonstrated by the 13.2% increase in bookings to EUR 381.3 million. Almost all markets contributed to this development. Revenues increased particularly strong in the major European countries, North America and China. In the Middle East and Africa, however, activities remained at a low level due to political and economic uncertainties. In South America, the activities launched in 2017 are developing well.

At around EUR 7 million, the OEM sales channel fell short of expectations, mainly due to internal organizational challenges and a lack of performance on the part of OEM partners.

Full order books

The combination of targeted growth initiatives and intensified interaction with customers resulted in very positive bookings. In new business, this was reflected by a 14.3% increase in bookings to EUR 270.9 million. The surge in revenues kept pace with this encouraging development despite some capacity bottlenecks and longer project durations, which were driven in particular by bottlenecks at suppliers. New business revenues rose by 17.6% to EUR 240.4 million. Kardex Remstar's order backlog increased by around 26% to EUR 157.1 million, ensuring a good start to 2019.

Service with enhanced digitization initiatives

Despite the strong growth in new business, Life Cycle Services accounted for a good 29% (30%) of total revenues, which corresponds to revenues of EUR 100.0 million. Around 15% of the services revenues were realized with modernization projects. The high level of service, the broad service portfolio and innovative applications led to above-average customer loyalty. At the end of the year, recurring maintenance contracts are in place for 45% of all customer installations younger than 10 years.

Similar to the previous year, targeted investments were made into Remote Support in order to expand the functionalities in the areas of Remote Analytics (a management tool to display the capacity utilization or maintenance intervals for customer installations) and Remote Assistance (electronic monitoring system for error display and analysis). Data processing is extensive and handling occurs through an intuitive-to-operate user interface. In addition, the web shop is continuously being expanded with the medium-term goal of offering an intelligent shopping cart that automatically recognizes and orders the necessary spare parts and organizes delivery or assembly.

EBIT margin consolidated at high level

Operating income (EBIT) increased in line with the revenues development and rose to EUR 51.0 million (EUR 44.4 million). The EBIT margin remains at the previous year level of 14.7%. Significantly higher material cost and increased personnel cost were offset by higher revenues, good cost management and further productivity improvements.

Consolidated key figures for the Kardex Remstar Division

EUR millions	2018		2017		+/-%
Bookings	381.3	109.7%	336.9	111.3%	13.2%
Order backlog (31.12.)	157.1	45.2%	124.6	41.2%	26.1%
Segment net revenues	347.5	100.0%	302.7	100.0%	14.8%
EBITDA	55.7	16.0%	49.0	16.2%	13.7%
Operating result (EBIT)	51.0	14.7%	44.4	14.7%	14.9%
ROCE	43.0%		39.2%		
Employees (FTE on 31.12.)	1 511		1 369		10.4%

Investments in capacity expansion

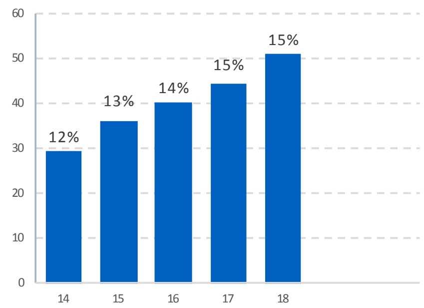
The continued high demand pushed the Bellheim and Neuburg plants to their capacity limits despite 3-shift operation and weekend production. Capacities are therefore being gradually increased through targeted investments, with the aim of switching back to 2-shift operation and at the same time having sufficient reserves to absorb the expected future growth. The recruiting and integration of qualified new personnel remains a constant challenge for the entire organization. It is therefore planned to focus on people development and employer branding in the following years and to increase efficiency in recruiting. In 2018, the total number of employees increased by 10.4% to 1 511 full-time equivalents.

Outlook 2019

Based on the high order backlog, the continued solid bookings, the capacity expansions and further efficiency enhancements, a continuation of the positive development is expected in the fiscal year 2019.

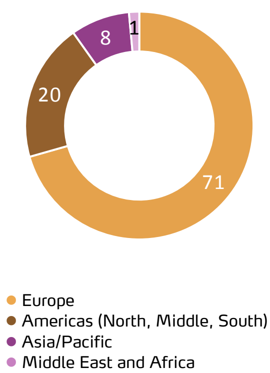
Operating result (EBIT)

in EUR millions



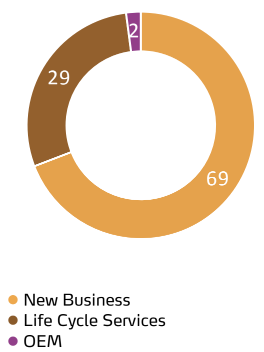
Net revenues by region

2018 financial year in %



Net revenues by business unit

2018 financial year in %



Division Kardex Mlog
Full order books and a new level of profitability

Kardex Mlog achieved good results in financial year 2018. In a positive environment, bookings increased by 33.2% to EUR 100.0 million, while revenues of EUR 75.9 million were up by 3.1% on the previous year. The gross profit margin rose to 22.5% and operating income reached EUR 5.1 million, equivalent to an EBIT margin of 6.7%. The record order backlog of EUR 73.2 million forms a very good basis for a continued profitable growth in 2019.

The market environment for intralogistics solutions in Central Europe was very good in the 2018 reporting period. Kardex Mlog benefited in particular from the high level of investment activities in Germany, Austria, Poland, Slovakia and the Czech Republic. Bookings therefore increased significantly by 33.2% to EUR 100.0 million. Reported revenues only increased by 3.1%, as in some cases the project duration period was extended to up to 18 months. Although internal efficiency was improved, capacity bottlenecks at suppliers and construction delays at customer sites could not be fully compensated. Total revenues amounted to EUR 75.9 million, which represents an increase of 3.1%. New business (integrated subsystems and products) contributed EUR 38.4 million (EUR 46.7 million) and service business EUR 37.5 million (EUR 26.9 million).

At EUR 73.2 million, the order books are more full than ever before and the order backlog grew by almost 50%. This has led to a positive start to the current fiscal year with a backlog that in partially extends into 2020. The quality of the orders is good and the balance between smaller and larger projects is right. In particular, the higher proportion of internal value added compared with previous years has a positive effect on margins. The total number of employees increased by almost 4.0% to 287 full-time equivalents.

Service share rises to almost 50%

The share of revenues of the service business rose to almost 50%, a trend that has intensified in recent quarters but is also partly attributable to the fact that the volume of new business fell due to project delays in the reporting year.

Due to many long-term contracts with a term of five to eight years, the service business offers predictability and stability. Due to economies of scale, it also contributes a overproportionally high share to the division's operating profit.

Expansion of sales and marketing

The german market remained Kardex Mlog's driving force, accounting for around 87% of revenues. In the mid term, the goal remains to significantly increase the share of revenues outside the domestic market. The investments made and planned in marketing and sales will make it possible to work more intensively on attractive industrial segments in Central Europe in the future.

EBIT margin 2018 above guidance corridor

Kardex Mlog made targeted investments to increase efficiencies and standardize processes in order to reduce complexity in the sales process and the realization of projects. Combined with the high capacity utilization throughout the reporting period and the significant shifts in the revenue mix between new business and service business, gross profit rose by 22.1% to EUR 17.1 million, corresponding to a margin of 22.5%. Operating income increased by 30.8% to EUR 5.1 million, corresponding to an EBIT margin of 6.7%. Thus, the communicated target range of 4-6% was exceeded for the first time.

Consolidated key figures for the Kardex Mlog Division

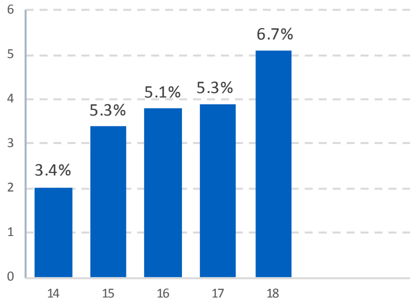
EUR millions	2018		2017		+/-%
Bookings	100.0	131.8%	75.1	102.0%	33.2%
Order backlog (31.12.)	73.2	96.4%	49.1	66.7%	49.1%
Segment net revenues	75.9	100.0%	73.6	100.0%	3.1%
EBITDA	5.9	7.8%	4.6	6.3%	28.3%
Operating result (EBIT)	5.1	6.7%	3.9	5.3%	30.8%
ROCE	54.8%		36.4%		
Employees (FTE on 31.12.)	287		276		4.0%

Outlook for 2019

The market environment in Kardex Mlog's target markets is currently robust. The high order backlog and focused sales activities will support the target achievement in 2019. Overall, Kardex Mlog expects further profitable growth in the fiscal year 2019 and a consolidation of the EBIT level achieved in 2018.

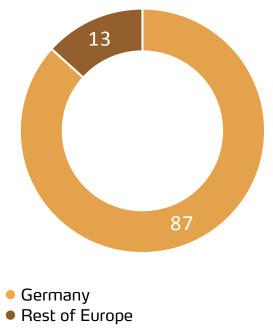
Operating result (EBIT)

in EUR millions



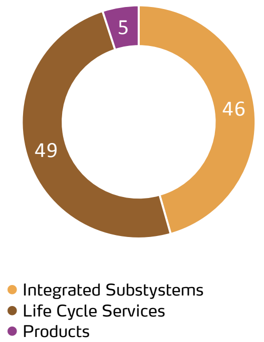
Net revenues by region

2018 financial year in %



Net revenues by business unit

2018 financial year in %



Corporate Governance

The Kardex Group is committed to the recognized principles of responsible corporate governance as published by economiesuisse in the Swiss Code of Best Practice for Corporate Governance. By acknowledging these principles, the Group's aim is to strengthen and increase confidence on a lasting basis in management and corporate policies which are pursued in the interests of present and future shareholders, investors, employees, business associates and the general public. Through defined internal controls and mechanisms for the monitoring of business processes, the Group seeks to achieve risk-controlled decisions and results, and has set itself the goal of ensuring comprehensive, transparent communication with all stakeholder groups.

The principles of corporate governance at the Kardex Group are defined in the Articles of Incorporation and the Kardex AG Organizational By-Laws, as well as in the Code of Conduct and other guidelines of the Kardex Group. The Group publishes further information on its website at www.kardex.com.

In the following section, as required by the guidelines of SIX Swiss Exchange, the Kardex Group provides information about its 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 Kardex Group publications. Any significant changes occurring between the balance sheet date and the publication of this report have been noted.

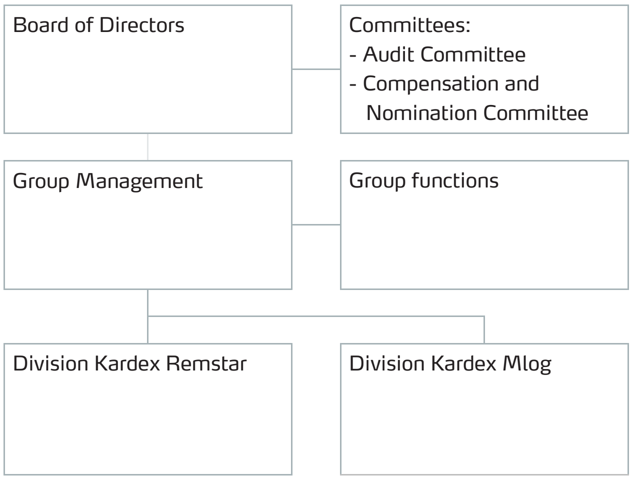
1. Group structure and shareholders

1.1 Group structure

1.1.1 Structure of Group operations

The Kardex Group is divided into the two divisions or segments Kardex Remstar and Kardex Mlog.

The Kardex Group is led by the Board of Directors and the Group Management, which consists of CEO Jens Fankhänel, CFO Thomas Reist and Hans-Jürgen Heitzer, Head of the Kardex Mlog division.



The division of responsibilities between the Board of Directors and the Group Management is explained in section 3.6, page 23.

1.1.2 Listed company in scope of consolidation

Company	Kardex AG
Registered office	Zurich, Switzerland
Listed at	SIX Swiss Exchange
Swiss security no.	10083728
ISIN	CH0100837282
Symbol	KARN
Market capitalization as at 31 December 2018	CHF 876.6 million

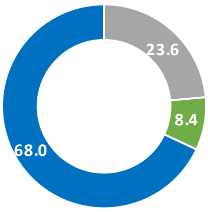
Kardex AG is the parent company of the Kardex Group, a public limited company under Swiss law and is headquartered in Zurich, Switzerland (hereinafter "the company"). The registered shares of Kardex AG are traded according to the Swiss Reporting Standard of the SIX Swiss Exchange in Zurich, Switzerland. The par value per share is CHF 0.45. The other companies in the scope of consolidation are not listed.

1.1.3 Non-listed companies in scope of consolidation

The companies directly and indirectly held by Kardex AG within the scope of consolidation of the Kardex Group are listed in the notes to the consolidated financial statements on pages 62 and 63 of the Annual Report.

1.2 Significant shareholders

As at 31 December 2018, there were 1 910 shareholders (2 052) entered in the company's share register. The registered shares are held largely by private shareholders who are in most cases resident in Switzerland. As at the balance sheet date (31 December 2018), the following shareholders had stakes equalling or exceeding 3% (in terms of capital held):



BURU Holding AG and Philipp Buhofer	23.6%
Alantra Partners S.A.	8.4 %
Other shareholders	68.0%

The company held 13 195 shares in Kardex AG at the balance sheet date (15 149). Other companies in the scope of consolidation did not hold any shares.

Shares pending registration of transfer amounted to 34.7% of the total as at 31 December 2018 (29.8%).

Reports of significant shareholders or groups of shareholders filed with the company and the Disclosure Office of SIX Swiss Exchange Ltd in accordance with article 120 or 121 of the Financial Market Infrastructure Act (FMIA) can be viewed on the Disclosure Office's publication platform at https://www.sixexchangeregulation.com/en/home/publications/significant-shareholders.html. No Shareholders' Agreement exists.

1.3 Cross-shareholdings

As of the balance sheet date, there are no cross-shareholdings.

2. Capital structure

Share capital and capital structure

	2018	2017	2016	2015	2014
Par value per share (CHF)	0.45	4.05	7.35	10.35	11.00
Total registered shares	7 730 000	7 730 000	7 730 000	7 730 000	7 730 000
Number of treasury shares	13 195	15 149	16 700	-	-
Number of dividend-bearing shares	7 716 805	7 714 851	7 713 300	7 730 000	7 730 000
Registered capital (CHF 1 000)	3 479	31 307	56 816	80 006	85 030
Total voting rights	7 716 805	7 714 851	7 713 300	7 730 000	7 730 000

Key share figures

The key share figures of the company are shown on page 6 of this Annual Report.

2.1 Ordinary capital

Kardex AG had ordinary capital of CHF 3 478 500 (number of shares: 7 730 000) as at 31 December 2018.

2.2 Authorized and conditional capital

The company had no authorized or conditional capital as at 31 December 2018.

2.3 Changes in capital

For an overview of the capital changes during the financial years 2014 to 2018, please see the table above "Share capital and capital structure" in section 2 and on page 6.

2.4 Shares, participation certificates and dividend policy

The company's 7 730 000 fully paid-up registered shares have a nominal value of CHF 0.45 (CHF 4.05) each. Each registered share corresponds to one vote at the General Meeting ("one share – one vote" principle) and is eligible for dividends. The right to apply the special rules concerning treasury shares held by the company is reserved, particularly in relation to the exception from the entitlement to dividends.

The company had no profit participation capital as at 31 December 2018.

As a rule, up to 75% of the operating result (operating net profit on the basis of the consolidated Group result) for the period is to be distributed to shareholders in accordance with a proposal of the Board of Directors to the General Meeting.

2.5 Profitparticipation certificates

The company had issued no profit participation certificates as at 31 December 2018.

2.6 Restrictions on transferability and nominee registrations

The registered shares of Kardex AG may be purchased by any legal or natural person. Nominee registrations are permitted. The purchasing of shares is subject to the following limitations on nominee registrations:

The company may refuse registration as a shareholder with voting rights in the share register if upon request the purchaser does not expressly declare that they hold the shares in their own name and for their own account. The Board of Directors is entitled to delete an entry in the share register with retroactive effect from the date of that entry if such entry was based on false information. It may hear the shareholder or beneficiary in question in advance. In each case, the shareholder or beneficiary in question must be immediately informed of the deletion.

The aforementioned limitations on nominee registrations are explicitly laid down in § 3 paras. 10 and 11 of the Articles of Incorporation. The Articles of Incorporation are available at https://www.kardex.com/nc/en/investor-relations/corporate-governance/articles-of-incorporation.html These provisions of the Articles of Incorporation may be rescinded by a simple decision of the General Meeting. The foregoing applies subject to any restrictions on transferability imposed by the law. In the year under review, an exception was granted based on § 9 para. 22, because a Custodian has missed a registration deadline.

2.7 Convertible bonds and options

As at 31 December 2018, the company had no convertible bonds or options outstanding.

3. Board of Directors

From left to right:
Ulrich Jakob Looser,
Felix Thöni,
Philipp Buhofer,
Walter T. Vogel,
Jakob Bleiker

3.1 Members of the Board of Directors

The Board of Directors of Kardex AG currently consists of five nonexecutive members. The Articles of Incorporation stipulate between three and seven members. Four nonexecutive members are independent in the sense of the Swiss Code of Best Practice for Corporate Governance and have not served on either the management board of Kardex AG or the management board of any subsidiary during the past three years. They have no or comparatively minor business interests with the Kardex Group. Philipp Buhofer holds significant shares in the Kardex Group, which, however, does not restrict his independence from the Company's point of view.

This view is shared by economiesuisse in the Swiss Code of Best Practice for Corporate Governance art. 14 (see https://www.economiesuisse.ch/sites/default/files/publications/economiesuisse_swisscode_d_web.pdf). Felix Thöni was Chairman of the Executive Committee until 21 April 2016 and thus an executive member of the Board of Directors. As such he is not independent in the year under review in the sense of the Swiss Code of Best Practice for Corporate Governance. From the Annual General Meeting 2019 onwards, after the cool-down period has expired, Felix Thöni is considered independent again.

Philipp Buhofer
1959, Swiss citizen,
HWV Horw/Lucerne

Member since 2004
Chairman since 2011

Since 1997
Independent entrepreneur
2002–2003
Delegate and Chairman of the Board of Directors, EPA AG, Zurich, Switzerland
1997–2002
Member of the Board of Directors, EPA AG, Zurich, Switzerland
1987–1997
Purchasing and Sales and member of Executive Management, EPA AG, Zurich, Switzerland
1984–1987
Procurement and Marketing, Metro International (Baar, Düsseldorf and Hong Kong)

Other directorship of listed company
- Cham Group AG, Cham, Switzerland*
- Schaffner Holding AG, Luterbach, Switzerland **

Other directorships of non-listed companies
- BURU Holding AG, Hagendorn, Switzerland **
- DAX Holding AG, Hagendorn, Switzerland **
- Rapid Holding AG, Dietikon, Switzerland (Chairman until AGM 2019, afterwards Member)

Felix Thöni
1959, Swiss citizen,
Dr. oec. HSG

Member since 2011
Executive Director from 2012 to 2016
Vice Chairman since 2016

Since 2010
Board Member, management consultant
2003–2009
CFO, Charles Vögele Holding AG, Pfäffikon, Switzerland
1992–2002
CFO, Carlo Gavazzi Holding AG, Steinhausen, Switzerland
1988–1991
Area Controller, Schindler Management AG, Ebikon, Switzerland

Other directorship of listed company
- Cham Group AG, Cham, Switzerland **

Other directorships of non-listed company
- Renergia Zentralschweiz AG, Perlen/ Root, Switzerland **

Jakob Bleiker
1957, Swiss citizen,
grad. phys. ETH, lic. oec. HSG

Member since 2012

Since 2018
Member of various Board of Directors
2017
Manager Business Unit Food, Bosch Packaging Technology, Robert Bosch GmbH, Beringen, Switzerland
2011–2016
Manager Confectionery and Food Division, Bosch Packaging Technology, Robert Bosch GmbH, Beringen, Switzerland
2004–2011
Manager Bosch Packaging Systems Division, Bosch Packaging Technology, Robert Bosch GmbH, Beringen, Switzerland
2002–2003
Manager Business Unit Sigpack Service and Specialty Market, SIG Holding AG, Neuhausen, Switzerland
1998–2002
Manager Customer Support Service and member of the Executive Board, Sulzer Textil AG, Rüti, Switzerland
1988–1998
Various management functions, Sulzer Group, Winterthur, Switzerland
1986–1987
Project Manager, Kannegiesser Maschinen AG, Ziefen, Switzerland

Other directorships of non-listed companies
- IQ-Plus Holding AG, Winterthur, Switzerland *
- Fagus Suisse AG, Les Breuleux, Switzerland **

* In the function as Chairman of the Board of Directors
** In the function as Member of the Board of Directors

Ulrich Jakob Looser
1957, Swiss citizen,
grad. phys. ETH, lic. oec. HSG

Member since 2012

Since 2009
Partner, Berg Looser Rauber & Partners (BLR & Partners), Thalwil, Switzerland
2001–2009
Chairman (since 2005), Accenture AG (Switzerland), Zurich, Switzerland
1987–2001
Partner (since 1993), McKinsey & Company Inc., Zurich, Switzerland
1983–1984
Software development, Spectrospin AG, Fällanden, Switzerland

Other directorship of listed company
- Straumann Holding AG, Basel, Switzerland **
- LEM, Fribourg, Switzerland **
- u-blox, Thalwil, Switzerland **

Other directorships of non-listed companies
- Bachofen Holding AG, Uster, Switzerland*
- Spross Entsorgungs Holding AG, Zurich, Switzerland**
- BLR & Partners AG, Thalwil, Switzerland *

Other activities at legal entities such as foundations and associations/consultancy roles/political offices
- University of Zurich, Zurich, Switzerland: University Council
- Member of the Board of economiesuisse, Switzerland: Chairman of the Committee on Education and Research
- Swiss Association "Balgrist", Zurich, Switzerland: Member of the Board
- Swiss¬American Chamber of Commerce, Switzerland: Member Chapter "Doing business in the US"
- Swiss National Science Foundation (SNSF), Switzerland: Member of the Board of Trustees' Group Management

Walter T. Vogel
1957, Swiss citizen,
grad. mechanical engineer, ETH Zurich

Member since 2006

Since 2015
Member of various Boards of Directors
2007–2015
CEO, Aebi Schmidt Holding AG, Frauenfeld, Switzerland
2003–2007
CEO, Von Roll Holding AG, Gerlafingen, Switzerland
1999–2003
Head of the Infratec Division and member of Group Management, Von Roll Group, Gerlafingen, Switzerland
1995–1999
Head of Direct Fastenings Business Unit and member of extended Group Management, Hilti AG, Schaan, Liechtenstein
1992–1995
Director of Marketing and Sales and member of Executive Management, Aliva AG, Widen, Switzerland

Other directorships of non-listed companies
- Skyguide SA, Meyrin, Switzerland *
- SAK Holding AG, St. Gallen, Switzerland *

Other activities at legal entities such as foundations and associations
- Aero Club der Schweiz, Lucerne, Switzerland

3.2 Other activities and interests

The other activities and interests of each member of the Board of Directors are shown in section 3.1 and comply with the regulations of the Articles of Incorporation as they are expressly stated in § 13 para. 4 or listed in section 3.3 of this report.

3.3 Number of permissible activities

In accordance with § 13 para. 4 of the Articles of Incorporation, the number of mandates held by members of the Board of Directors on the highest management and administrative bodies of legal entities registered in the Commercial Register or a corresponding foreign register outside the Kardex Group is limited to the following number of mandates and was complied with by all members of the Board of Directors during the reporting period:

- 5 for listed companies;
- 10 for non-listed companies;
- 15 for other legal entities such as foundations and Associations.

Mandates fulfilled in different legal entities of a single group or on behalf of this group will be considered collectively as one mandate. These limitations may be temporarily exceeded by at most one mandate for a period of no longer than six months.

If a member of the company's Board of Directors also belongs to its management board, the regulations governing the relevant number of permissible activities for members of the Board shall be applicable.

The number of mandates stipulated in the Articles Incorporation was complied with by the members of the Board of Directors in the reporting period as well as in the previous year.

The members of the Board of Directors, together with their mandate at Kardex AG, held the following number of directorships at listed companies as of the reporting date:

Name	Chairman	Member
Philipp Buhofer	2	1
Felix Thöni		2
Jakob Bleiker		1
Ulrich Jakob Looser		4
Walter T. Vogel		1

3.4 Elections and terms of office

3.4.1 Principles of the election procedure and restrictions on term of office

The members of the Board of Directors are elected by the General Meeting annually, each for a term of office of one year, or until the end of the next Ordinary General Meeting. There is no limit to the number of times a member may be reelected. If by-elections are held, new members serve out the term of office of their predecessors. Once they reach the age of 70, members of the Board of Directors retire from the Board of Directors automatically with effect from the next Ordinary General Meeting.

With regard to the appointment of the Chairman of the Board of Directors, the members of the Compensation and Nomination Committee and the independent proxy advisor, the Articles of Incorporation comply with the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance).

3.4.2 Initial election and remaining term of office of each member of the Board of Directors

Name	Year elected	Term expires
Philipp Buhofer	2004	2019
Felix Thöni	2011	2019
Jakob Bleiker	2012	2019
Ulrich Jakob Looser	2012	2019
Walter T. Vogel	2006	2019

3.5 Internal organization

The non-transferable and irrevocable statutory duties of the Board of Directors are described in the Swiss law on obligations art. 716a and are laid down in the Articles of Incorporation and the Organizational Regulations of the Company. The Organizational Regulations can be viewed at https://www.kardex.com/nc/en/investor-relations/corporate-governance/organization-regulation.html.

In particular, the Board of Directors of the Company has the following duties and powers:
- the strategic orientation, organization and management of the Kardex Group;
- Structuring the financial and accounting system as well as financial planning and control;
- Appointment and dismissal of the members of Group Management and the company's authorised signatories;
- Regular review of business activities;
- Passing resolutions on matters that have not been reserved or transferred to another body by law, the Articles of Incorporationor regulations;
- Formulation and preparation of proposals to the General Meeting of Shareholders

3.5.1 Allocation of tasks within the Board of Directors
Philipp Buhofer has served as Chairman of the Board of Directors since the 2011 General Meeting and Felix Thöni as Vice Chairman since 2016. The two permanent committees of the Board of Directors are headed by Jakob Bleiker (Audit Committee) and Ulrich Jakob Looser (Compensation and Nomination Committee). There are no other committees.

3.5.2 Composition, duties and authority of the Board committees
Two permanent committees, the Audit Committee (AC) and the Compensation and Nomination Committee (CNC), exist to assist the Board of Directors in or prepare it for important decisions.

The committees are constituted as follows:

Name	AC	CNC
Philipp Buhofer		
Felix Thöni	Member	Member
Jakob Bleiker	Chairman	
Ulrich Jakob Looser	Member	Chairman
Walter T. Vogel		Member

According to the Organizational By-Laws Art. 3.9, the Board of Directors may set up other committees to help it carry out its duties more efficiently. It appoints the chairmen 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 assigned to the committees remains with the full Board of Directors.

Audit Committee
The Audit Committee is composed of two to five members of the Board of Directors who are elected by the Board of Directors for a term of one year. The majority, including the Chairman, shall be experienced in financial and accounting matters. The Board of Directors appoints the Chairman of the Audit Committee, who may not at the same time be Chairman of the Board of Directors. The current members of the Audit Committee are Jakob Bleiker as Chairman and Felix Thöni and Ulrich Jakob Looser as members.

The Audit Committee supports the Board of Directors in its duties of ultimate supervision, with particular regard to monitoring the integrity of the financial statements, the annual and interim reports, the internal control system for accounting processes, risk management and the auditing activities of the external and internal auditors. The Audit Committee is primarily responsible for the following tasks:

- critically reviews the annual and interim financial statements, consulting the external auditors and the members of the Group Management or other management personnel, and submits a proposal to the Board of Directors for approval or rejection;
- assesses the auditing activities, audit plan, independence and remuneration of the external auditors as well as their cooperation with the finance and control officers of the company and discusses their reports and recommendations;
- makes an assessment of the functioning of the internal control system and the reliability of the reporting;
- monitors compliance with legislation, internal guidelines and other provisions;
- submits proposals to the full Board of Directors when necessary, if it notices a need for action in the course of its activities.

The duties and responsibilities of the Audit Committee are defined in the Organizational Regulations art. 3.9.1.

Compensation and Nomination Committee
The Compensation and Nomination Committee consists of two to five members who are members of the Board of Directors and elected by the Annual General Meeting. The Board of Directors appoints the Chairman of the Compensation and Nomination Committee. At the invitation of the Chairman, other persons attend the meetings.

The Compensation and Nomination Committee advises and submits proposals to the full Board of Directors primarily in the following areas:

- fundamental personnel issues within the Kardex Group;
- appointments to the Board of Directors and key positions within the Group;
- approval of conditions of employment for members of the Group Management (in particular compensation);
- defining fundamental parameters with regard to performance-related payments within the Kardex Group;
- setting individual performance-related payments to members of the Group Management;
- monitoring salary structure and salary development overall as well as individual total remunerations received which exceed a specific amount to be set by the committee;
- compliance with official and/or supervisory regulations concerning publication of remunerations received by the members of the Board of Directors and the Group Management.

The duties and responsibilities of the Compensation and Nomination Committee are defined in the Organizational Regulations art. 3.9.2.

3.5.3 Procedures of the Board of Directors and its committees

Board of Directors
The Board of Directors 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 Group Management, ensures that all stakeholders receive any necessary information in good time.

The Board of Directors meets regularly and as often as business requires in regular meetings which generally last half a day to a day. The Board of Directors also meets once a year for a two-to-three-day strategy session. In the year under review the Board met for six meetings and one three-day strategy session. The meetings lasted between one hour (constituent meeting following the General Meeting) and three days. All members of the Group Management are invited to the regular meetings of the Board of Directors. In addition to the Group Management, the strategy and budget sessions are also attended by finance managers from the divisions. The Board may invite other management personnel or external advisors to attend as needed when dealing with specific issues. Written documentation on the agenda items specified by the Chairman or at the request of the Group Management is submitted to the Board of Directors well in advance of meetings.

Audit Committee
The Audit Committee meets as often as required, but as a rule three times a year. At the invitation of the Chairman of the Audit Committee, the CEO, CFO of the Kardex Group and, if necessary, other employees from the finance department attend. The external auditors attend all meetings. In the year under review, the Audit Committee

met on three occasions. These meetings generally lasted half a day.

The Audit Committee reports to the full Board of Directors and puts forward proposals to them when necessary.

Compensation and Nomination Committee
The Compensation and Nomination Committee meets as often as required by business, but generally twice a year. In the year under review, the Compensation and Nomination Committee held two meetings, generally lasting half a day.

The Compensation and Nomination Committee reports to the full Board of Directors and puts forward proposals to them when necessary.

3.6 Definition of areas of responsibility

The Kardex AG Board of Directors is the supreme managerial and supervisory body of the company and the Kardex Group. It bears ultimate responsibility for managing, supervising and monitoring the Group Management, which is responsible for the Kardex Group's management. In essence, it is responsible for decisions concerning corporate strategy and organizational structure as well as determining the corporate policy. The Board of Directors is responsible for appointing and dismissing members of the Group Management, defining finance and accounting, as well as approving long-term plans and annual as well as investment budgets. The Board of Directors delegates management of the company and the Kardex Group as a whole in full to the Group Management chaired by the CEO, unless otherwise specified by law, the Articles of Incorporation or the Organizational By-Laws. The Board has also appointed a CFO and a Head of Division for each division. The Group Management manages the Kardex Group on the basis of the strategy adopted by the Board of Directors. The duties and authority of the Group Management are laid down in the Organizational ByLaws art. 4.

The Group Management bears primary responsibility for developing Group strategy for the attention of the Board of Directors, for the operational management of the company, its overall financial results and for the implementation of the strategy and resulting action plan adopted by the Board of Directors. The CFO is also responsible for financial, tax and capital management and is accountable for the development and implementation of the principles, regulations and limits of risk control. He is also responsible for creating transparency in respect of financial results and accountable for timely, high-quality financial reporting. Each Head of Division bears overall responsibility for his division and the management, results and risks thereof.

3.7 Information and control instruments to monitor the Group Management

Board of Directors
The Board of Directors is informed about the course of business and important business events by the Group Management at every Board meeting. In addition the Vice Chairman of the Board of Directors meets the CEO and CFO every month to discuss the course of business.This enables the Board to carry out its supervisory duties regarding the Group's strategic and operational progress.

Further instruments that enable to monitor and control the Group Management are:

- monthly financial reporting from the heads of division and the CFO on current business performance;
- periodic information concerning the revenue and results figures expected by the divisions in the current financial year;
- annual strategic analyses of the individual divisions and the Group as a whole, prepared by the Group Management, together with a long-term plan revised by the Group Management;
- annual revision of the business risk matrix for the Kardex Group by the Group Management. The risk matrix describes and evaluates the risks to the Kardex Group in the following categories and defines risk control measures: environment, corporate strategy, corporate management, production, market, information technology, finance and compliance;
- special reports by the Group Management on important investments, acquisitions and cooperative agreements;
- briefing of the Board of Directors by the Group Management on significant developments.

Audit Committee
The Audit Committee reports as a rule three times a year to the Board of Directors on matters concerning finance and accounting, accounting standards, compliance (laws and processes), as well as internal and external auditing. It also reviews the financial reporting processes.

Internal audit function
The internal audit function is integrated into the finance function of the holding company and the controlling processes of the divisions. The internal auditors support the various organizational units in achieving targets related to the maintenance and improvement of the internal control systems. When the internal investigations have been completed, the CFO submits a report to the Audit Committee detailing actual or suspected irregularities.

Measures based on the reports described in this section and submitted to the above-mentioned bodies are placed on the agenda for the relevant meetings and handled in succession.

4. Group Management

4.1 Members of the Group Management

The Group Management currently comprises three members and manages the operational business of the Kardex Group. The Group Management currently comprises three members and manages the operational business of the Kardex Group. Jens Fankhänel is Chairman of the Group Management in his capacity as CEO. In addition, the CFO and the Head of the Kardex Mlog division are also members of the Group Management. The management structure can be seen in section 1.1.1 of this report on page 14. Before assuming their current position Jens Fankhänel and Thomas Reist worked for the Group in the functions as outlined below. From 1 January 2019, Urs Siegenthaler, previously Head of New Business at Kardex Remstar, will assume the role of Head of Kardex Remstar Division and complement the Group Management.

Jens Fankhänel
Chief Executive Officer &
Head of Kardex Remstar Division

1965, German citizen
University degree in Electrical Engineering/ Specialization in Automation Engineering and Technical Cybernetics, Germany

Since 2016
CEO of Kardex Group
2011–2018
Head of Kardex Remstar Division
2008–2010
Managing Director WDS Region Europe 1, Swisslog AG, Buchs, Switzerland
2005–2008
Vice President and CEO Hub Central Europe, Dematic GmbH & Co. KG, Offenbach, Germany
2002–2005
Managing Director, Swisslog Australia, Epping, Australia
1994–2002
Senior Consultant/Director, i+o GmbH, Heidelberg, Germany

Other activities
None

Thomas Reist
Chief Financial Officer

1971, Swiss citizen
MAS in Corporate Finance / Bachelor of Science FH in Business Administration, FHNW Zurich / Olten, Switzerland

Since 2016
CFO of Kardex Group
2011–2016
Head of Finance & Controlling on holding level, Kardex AG, Zurich, Switzerland
2001–2011
Group Controller / Head of Finance & Controlling / Department Head Finance, Angst+Pfister AG, Zurich, Switzerland / Paris, France
1998–2001
Head of Finance & Controlling / Controller, Zimex Aviation AG, Zurich, Switzerland

Other activities
None

Hans-Jürgen Heitzer
Head of Kardex Mlog Division

1962, German citizen
grad. mechanical engineer, Aachen Technical University, Germany

Since 2011
Head of Kardex Mlog Division
2010–2011
Managing Director, Mlog Logistics GmbH, Neuenstadt, Germany
2002–2009
Managing Director, Locanis AG, Unterföhring, Germany
2000–2001
Division Manager Distribution and Project Management automatic high rack storage systems, MAN Logistics, Heilbronn, Germany
1996–2000
Division Manager Systems, Mannesmann Dematic, South Africa
1989–1996
Project Manager "overall projects", Mannesmann Dematic, Offenbach, Germany

Other activities
None

4.2 Other activities and interests

The members of the Group Management do not engage in any other activities relevant to the Kardex Group. In particular, they do not engage in any activities in management or supervisory bodies, they do not perform any long-term executive or advisory functions and they do not perform any official functions or hold any political office. No relevant interests exist.

The regulations of the Articles of Incorporation as they are expressly stated in § 13 para. 5 or listed in section 4.3 of this report have been observed.

4.3 Number of permissible activities

Subject to exceptional approval from the Board of Directors, the number of mandates in the highest management and governing bodies of legal entities outside the Kardex Group which are entered in the commercial register or a comparable foreign register is limited for members of the management board pursuant to § 13 para. 5 of the Articles of Incorporation to a total of ten mandates, a maximum of two of which may be in listed companies.

Mandates fulfilled in different legal entities of a single group or single legal entity or on behalf of this group will be considered collectively as one mandate. These limitations may be temporarily exceeded by at most one mandate per category for a period of no longer than six months.

The number of mandates as regulated in the Articles of Incorporation was complied with by the members of the Group Management in the reporting period as well as in the previous year.

4.4 Management contracts

The company and its subsidiaries have no management contracts with third parties.

5. Compensations, shareholdings and loans

5.1 Content and method of determining compensation and shareholding programs

Information on compensation, shareholdings and loans is provided in the Compensation Report on page 35 et seqq.

6. Shareholders' participation rights

6.1 Voting right restrictions and representation

On 31 December 2018, 1 910 shareholders were entered in the share register. The majority of these had their registered office or domicile in Switzerland. Each Kardex AG registered 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 written proxy by an independent voting proxy, another shareholder with voting rights or a third party.

The Board of Directors sets out the requirements for powers of attorney and instructions to independent voting proxies and may also provide for the issuing of powers of attorney and instructions by electronic means without a qualified electronic signature.

6.2 Statutory quorums

Unless the law or Articles of Incorporation provide otherwise, the General Meeting passes its resolutions and conducts its elections by an absolute majority of the votes cast (with abstentions, unmarked ballots and invalid ballots not deemed to be cast). In the event of a tied vote, the Chairman of the General Meeting has the casting vote.

The company's Articles of Incorporation do not prescribe specific quorums other than those required by company law.

6.3 Convocation of General Meetings

The General Meeting is called by the Board of Directors at least 20 days prior to the date of the meeting by way of a notice published in the company's official publication, the Swiss Commercial Gazette.

In addition to the meeting date, time and venue, the announcement must state the items to be discussed and the resolutions proposed by the Board of Directors and shareholders who have requested a General Meeting or put forward an item for inclusion on the agenda.

No resolution may be passed on items that have not been announced in this way, except for requests to convene an extraordinary General Meeting and carry out a special audit at the wish of a shareholder.

Extraordinary General Meetings may be convened by the Board of Directors or at the request of the auditor. Shareholders representing at least one-tenth of the share capital may also request in writing that an extraordinary General Meeting be convened, setting forth the items and the proposals.

6.4 Inclusion of items on the agenda

Shareholders representing at least 1% of the shares issued may request in writing that items be added to the agenda, specifying the proposed resolutions. Such items must be submitted to the Board of Directors in writing at least 40 days before the General Meeting.

6.5 Entry in the share register

In the invitation to the General Meeting, the Board of Directors states the cut-off date by which shareholders must be entered in the share register to be entitled to participate in and vote at the meeting.

7. Changes of control and defense mechanisms

7.1 Duty to make an offer

In accordance with § 4 of the company's Articles of Incorporation, a purchaser of Kardex AG shares is only obliged to make a public offer under the terms of article 135 (the optingup clause) of the Financial Market Infrastructure Act (FMIA) if his holding exceeds 49% of the company's voting stock.

7.2 Change-of-control clauses

There are no change-of-control clauses.

8. Statutory auditors

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

8.1.1 Time of assumption of existing audit mandate
The auditors are elected by the General Meeting for a period of one year. PricewaterhouseCoopers AG, Zurich, Switzerland have been the company's statutory auditors since 2014.

8.1.2 Time of assumption of office by the auditor in charge of the existing audit mandate
The auditor in charge, Thomas Wallmer, has been responsible for the mandate since the General Meeting on 23 April 2015. The auditor in charge may exercise his mandate for a maximum of seven years and resume the same mandate after a break of three years.

8.2 Audit fees

In the 2018 financial year, PricewaterhouseCoopers provided audit services to the value of CHF 434.4 thousand (CHF 403.4 thousand). These amounts include expenses.

8.3 Additional fees

PricewaterhouseCoopers was also paid fees totalling CHF 75.1 thousand (CHF 183.3 thousand) for non-audit-related services. The entire amount relates to the design and management of the transfer price concept, tax advice and support for M&A projects.

8.4 Information tools of the external auditors

The Audit Committee verifies the licensing, independence and performance of the auditors on behalf of the Board of Directors and proposes the appointment and, where necessary, discharge of auditors to be appointed or discharged by the General Meeting. The Audit Committee monitors the auditing of the annual financial statements of Kardex AG and the consolidated financial statements by the auditors. As part of their audit services, the statutory auditors provide the Audit Committee with regular written and verbal feedback on their findings and suggestions for improving the accounting and the internal control system. These are summarized in a comprehensive report by the auditors to the full Board of Directors (also containing the management letter). The Audit Committee generally meets the external auditors three times a year (three times in the year under review) to determine the audit scope. It ensures compliance with the mandatory rotation of the auditor in charge. The Audit Committee also reviews the amount of the fees paid to the auditors and their composition, broken down into audit services and non-audit-related services. The full Board of Directors is informed via the Audit Committee.

9. Information policy

The company is committed to an open information policy and provides shareholders, the capital market, employees and all stakeholders with open, transparent and timely information. The information policy accords with the requirements of the Swiss stock exchange (SIX Swiss Exchange) as well as the relevant statutory requirements. As a company listed on SIX Swiss Exchange, Kardex AG also publishes information relevant to its stock price in accordance with article 53 of the Listing Rules (ad hoc publicity).

The Group publishes a report on its activities every six months in February/March and July/August. All publications are available in electronic form. The Annual and Interim Reports are published on the company's website and printed and delivered on request. Press releases are additionally issued on a regular basis. Kardex maintains a dialogue with investors, analysts and the media at special events, telephone conferences and road shows.

Media and analysts are informed about the annual and half-year results by telephone conference. The General Meeting is held in Zurich, Switzerland.

Information is sent electronically or by e-mail to SIX Swiss Exchange, the Swiss Commercial Gazette (the company's official publication medium) and other relevant national business publications. It is also published simultaneously on the Group website at www.kardex.com. In addition, interested parties can register at https://www.kardex.com/nc/en/investor-relations/email-service-contact/information-service-subscription.html and will receive the requested information by e-mail.

The prime responsibility for corporate communications bears the President of the Group Management. The company's official publication medium is the Swiss Commercial Gazette. Information published in connection with the maintenance of registered share listings on SIX Swiss Exchange complies with SIX Swiss Exchange's Listing Rules and their implementing decrees. These can be found at https://www.six-exchange- regulation.com. The website www.kardex.com provides detailed, up-to-date information about the Group, its products and contact information.

The contact addresses can be found on page 7 of this report.

Calendar of events for Investor Relations

2019 Annual General Meeting	11 April 2019
2019 Interim Report	30 July 2019
2019 Annual Report	5 March 2020
2020 Annual General Meeting	14 April 2020
2020 Interim Report	30 July 2020

Remuneration Report

1. Content and method of determining compensation and shareholding programs

1.1 Guiding principles

The success of the Kardex Group depends very much on the quality and commitment of the members of the Board of Directors and of the Group Management. The aim of the compensation policy is to attract and retain qualified staff in both bodies. Performance-related compensation is an important element in achieving this objective. The most important principles of this are:

- remuneration should be performance-dependent and in line with the market;
- decisions on remuneration should be transparent and comprehensible;
- remuneration should be linked to the business success of the company / division.

1.2 Responsibilities

At the beginning of each term of office, the Compensation and Nomination Committee (section 3.5.2 of this report on page 21 et seqq.) submits proposals to the full Board of Directors concerning the nature and amount of the annual emoluments of the members of the Board of Directors (section 3.2.1, page 37) and a proposal concerning the compensation for the members of the Group Management (section 3.2.2, page 37). Moreover, in consultation with the full Board of Directors, the Compensation and Nomination Committee prepares targets for the members of the Group Management and submits a proposal to the Board of Directors concerning the structure of variable compensation of the members of the Group Management. The full Board of Directors in turn annually submits proposals for approval to the General Meeting regarding the following maximum total amounts:

- Total remuneration for the Board of Directors for the period until the next Ordinary General Meeting;
- Total remuneration for the management board for the Ordinary General Meeting in the following financial year.

In addition, the Board of Directors may submit proposals to the General Meeting for approval regarding maximum total amounts or individual remuneration elements for other time periods. Proposals may also be submitted relating to additional amounts for special remuneration elements as well as additional conditional proposals.

The total remuneration for the Board of Directors and management board is approved with an absolute majority of the votes cast (with abstentions, unmarked ballots and invalid ballots not deemed to be cast).

If an amount is not approved by the General Meeting, the Board of Directors rules on how to proceed. In particular, it is authorized to call an extraordinary General Meeting, or to set a maximum total amount or multiple maximum partial amounts (taking all relevant factors into account) and submit them to the next General Meeting for approval. The company may adjust remuneration within a maximum total or partial amount set in this way, subject to approval from the General Meeting.

At the end of the financial year, the Compensation and Nomination Committee reviews the attainment of the defined targets by the members of the Group Management, and the Board of Directors, at the request of the Compensation and Nomination Committee, approves the actual variable compensation as part of the maximum total remuneration authorized by the General Meeting.

The Board of Directors submits the annual remuneration report to the General Meeting for consultative approval.

1.3 System of compensation

1.3.1.1 Members of the Board of Directors

The members of the Board of Directors receive a fixed annual fee for their work, in particular for preparing and participating in meetings and for their work on the committees, which is divided into a fixed basic fee and an addition fixed fee that is a function of their position and membership of committees. In addition to the fixed fee, they may also be compensated for the time spent on special projects or duties, at agreed daily rates in line with market conditions, provided that the Board of Directors agrees to this in advance.

The fixed basic and additional fee is set according to the criteria of the responsibility assumed, the complexity of the task, the demands in terms of specialist expertise and personal qualities and the expected time to be involved. In addition, publicly accessible information from comparable Swiss industrial companies listed on SIX Swiss Exchange which are of similar size and have international production and market organizations is taken into account.

At least 20% and at most 100% of the fixed fee is paid in shares. The remainder is paid in cash. The share price is calculated based on the weighted average price of the preceding month (usually September). These shares cannot be traded for three years and are therefore priced at a markdown of 16%. For the purposes of reporting the compensation in the remuneration report on page 36, the value of the shares without the markdown is shown.

New members of the Board of Directors normally receive compensation from the month in which they assumed the relevant function. Departing members of the Board of Directors receive remuneration until the end of the month of their departure.

1.3.2 Members of the Group Management

The members of the Group Management receive remuneration consisting of fixed cash emoluments and individual variable performance and resultrelated payments. The fixed cash emoluments consist of a basic salary, a flat-rate expense allowance and a company car. In addition, a salary-related contribution is paid into the pension scheme.

The basic salary is determined taking account of the tasks and responsibility assigned, the qualifications and experience required and the market environment. The weighting of the criteria cited is discretionary. In addition, in setting the form and amount of the salary components, due account is taken of publicly accessible information from comparable Swiss industrial companies listed on the SIX Swiss Exchange which are of similar size and have international production and market organizations. As in the previous year, no external consultants were coopted for compensation issues during the year under review.

The individual variable performance and result-related remuneration is determined on the basis of the fulfilment of the individual performance targets and the business success of the company or division, based on the target adopted by the Board of Directors. At the beginning of the year, the Compensation and Nomination Committee proposes to the Board of Directors the individual performance targets for the members of the Group Management. After the end of the financial year, the Compensation and Nomination Committee assesses the fulfilment of these targets and criteria and, based on this, submits to the Board of Directors a proposal for the variable compensation. For the CEO and CFO, the weighting of the variable component is 100% for attainment of the financial targets (EBIT) of the Kardex Group and for the Head of the Kardex Mlog division it is 70% for attainment of the financial targets (EBIT and other profitability indicators) of Kardex Mlog and 30% for attainment of personal quality-related targets.

The members of the Group Management may draw up to 100% of their variable compensation in Kardex AG shares. The share price is based on the weighted average price in December of the year under review. These shares cannot be traded for three years and are therefore priced at a markdown of 16%. For the purposes of reporting the compensation in the remuneration report on page 36, the value of the shares without the markdown is shown.

In performing their duties, members of the Group Management are in part also members of the Board of Directors of subsidiaries of the company within the Group. No emoluments or compensation are paid for these activities.

New members of the Group Management normally receive compensation from the month in which they assumed the relevant function. Departing members of the Group Management receive remuneration until the end of the month of their departure.

1.4 Notice periods

Members of the Board of Directors are elected by the General Meeting for a term of one year. All members of the Group Management have employment contracts with periods of notice below twelve months. Members of the Board of Directors and the Group Management are not entitled to any contractual severance payments or other remuneration or benefits in connection with their departure.

2. Regulations of the Articles of Incorporation

2.1 Principles regarding remuneration for members of the Board of Directors and the Group Management

The company's Articles of Incorporation provide for fixed remuneration for members of the Board of Directors, and remuneration consisting of fixed and variable (performance-based) elements for members of the Group Management. If members of the Board of Directors also belong to the Group Management, they will be subject solely to the remuneration regulations for members of the Group Management (§ 18b para. 1 and § 18c para. 1 of the Articles of Incorporation).

The following statuary principles apply to variable remuneration for members of the Group Management (§ 18c paras. 2 and 3 of the Articles of Incorporation):

- variable remuneration can include short-term and long-term remuneration elements;
- short-term performance-based remuneration elements are based on individual performance goals and/or the economic success of the company or a division;
- long-term remuneration elements are based on objective performance values aligned with the strategic goals, the attainment of which is generally assessed over a period of several years.

Both members of the Board of Directors and members of the Group Management may be paid remuneration entirely or partly in company shares or (for members of the Group Management) in comparable instruments or units. The procedures for this (award date, valuation, blocking periods etc.) are set by the Board of Directors (§ 18b para. 2 and § 18c paras. 4 and 5 of the Articles of Incorporation).

As regards responsibility for setting and approving remuneration, please refer to the statements made in section 1.2 on page 32 of this report. If members of the Group Management join the Group Management or take on additional tasks during a period for which management board remuneration has already been approved, the company is empowered to arrange an additional sum per member amounting to a maximum of 40% of the approved total amount for management board remuneration if the approved total amount is insufficient to cover this member's remuneration. The adjusted additional amount does not have to be approved by the General Meeting and may be used for all forms of remuneration, including compensation for any disadvantage resulting from the change of job (§ 18e para. 3 of the Articles of Incorporation).

2.2 Loans, credits and pension benefits provided to members of the Board of Directors and the Group Management

The company's Articles of Incorporation do not provide for the possibility of granting loans or credits to members of the Board of Directors and the Group Management. However, pension amounts and benefits paid to pension institutions other than occupation pension schemes or similar institutions abroad for the benefit of members of the Board of Directors or the Group Management are permitted. Pension benefits such as these are deemed to be remuneration as described in § 18b para. 1 and § 18c para. 1 of the Articles of Incorporation, in so far as they are approved by the General Meeting, either individually or as part of a total amount (§ 18d of the Articles of Incorporation).

2.3 General Meeting vote regarding remuneration

As regards regulations under the Articles of Incorporation regarding General Meeting votes on remuneration, please refer to the statements made in section 1.2 on page 32 of this report.

3. Remunerations 2018

3.1 Compensation

The remuneration report discloses the remuneration paid directly or indirectly and participation rights to current or former members of the Board of Directors, members of Group Management and related parties. This remuneration report is audited by the external auditors and submitted by the Board of Directors to the General Meeting for consultative approval.

No loans, credits or securities were provided to current or former members of the Board of Directors and Group Management or related parties in either the year under review or the previous year. Furthermore, no claims against these parties were waived and there are no loans or credits due for repayment from them. No compensation was paid to former members of the Board of Directors or Group Management.

Compensation 2018

CHF 1 000 Name	Function	Payments in cash	Payments in shares Number	 Value	Social security	Additional tasks	**Total compensation**
Board of Directors							
Philipp Buhofer	Chairman	144.0	259	42.9	20.2	9.0	**216.1**
Felix Thöni	Vice Chairman	92.3	166	27.5	65.9	221.4	**407.1**
Jakob Bleiker	Member	73.7	132	21.8	10.6	-	**106.1**
Ulrich Jakob Looser	Member	58.9	283	46.8	11.2	-	**116.9**
Walter T. Vogel	Member	58.7	181	30.0	9.7	-	**98.4**
Total Board of Directors		**427.6**	**1 021**	**169.0**	**117.6**	**230.4**	**944.6**

CHF 1 000 Name	Function	Base salary in cash	Variable salary in cash	in shares Number	 Value	Social security	**Total compensation**
Group Management							
Jens Fankhänel[1]	CEO	552.9	750.0	-	-	182.3	**1 485.2**
Total Group Management		**1 178.2**	**1 299.9**	**308**	**35.4**	**283.6**	**2 797.1**

[1] Highest compensation.

Compensation 2017

CHF 1 000 Name	Function	Payments in cash	Payments in shares Number	 Value	Social security	Additional tasks	**Total compensation**
Board of Directors							
Philipp Buhofer	Chairman	148.7	415	44.3	20.8	18.7	**232.5**
Felix Thöni	Vice Chairman	90.8	253	27.0	64.9	209.1	**391.8**
Jakob Bleiker	Member	73.6	205	21.9	10.6	-	**106.1**
Ulrich Jakob Looser	Member	52.2	389	41.5	10.0	-	**103.7**
Walter T. Vogel	Member	60.3	289	30.8	10.0	-	**101.1**
Total Board of Directors		**425.6**	**1 551**	**165.5**	**116.3**	**227.8**	**935.2**

CHF 1 000 Name	Function	Base salary in cash	Variable salary in cash	in shares Number	 Value	Social security	**Total compensation**
Group Management / Executive Committee							
Jens Fankhänel[1]	CEO	534.1	667.5	933.0	107.2	178.7	**1 487.5**
Total Group Management / Executive Committee		**1 108.2**	**1 025.3**	**933.0**	**107.2**	**273.4**	**2 514.1**

[1] Highest compensation.

3.2 Explanatory notes on the remuneration report and the compensation

The remuneration disclosed in section 3.1 includes the relevant remuneration for the year under review as a whole. The reported variable elements of remuneration relate to the reporting year which has ended (accrual principle). The variable emoluments are allocated and paid out according to the target attainment for the year
under review described in sections 1.3.2, on page 33.

The members of the Board of Directors receive a fixed fee for full periods of office for their work with the full Board of Directors and an additional fixed fee as a function of their position and membership of the two permanent committees.

Board of Directors' fees	in CHF
Basic salary	72 000
+	
Chairman Board of Directors	108 000
Vice Chairman Board of Directors	24 000
Chairman AC	20 000
Chairman CNC	20 000
Member AC	10 000
Member CNC	10 000

The fixed fees of the Board of Directors were deliberately set without preventive and lump-sum reserve positions. They also receive compensation for the actual time spent on specific additional tasks, which the Board of Directors delegates to individual members of the Board rather than to Group Management members or external consultants. In the year under review, Philipp Buhofer was compensated for time spent on participating in decision-making meetings regarding M&A projects and individual business reviews. Felix Thöni received compensation for supporting selected M&A projects, for his involvement in the preparation of the strategy meeting and for his participation in the monthly business review meetings with the management.

The members of the Board of Directors, the Executive Director, and the members of the Executive Committee or Group Management are granted allotted shares at a markdown of 16% to compensate for the blocking period of three years (section 1.3.1 and section 1.3.2). This reduction, accepted in Switzerland for tax purposes, reflects the economic value reduction of a share blocked for three years. In Switzerland, however, the inclusion of the value of the allocated shares, excluding the markdown, in the remuneration report has evolved as a proven method, which is why the value of the allocated shares in the remuneration report is taken into consideration in the weighted average price of the preceding month.

3.2.1 Members of the Board of Directors

There were no new or departing members in either the year under review or the previous year. In addition to the emolument received as members of the Board of Directors, the members of the Board of Directors received a cash remuneration for their supporting activities based on actual time spent, shown separately in section 3.1.

The shares allotted during the year under review are valued in the remuneration report at the weighted average price for the month of August of CHF 165.48 per share (CHF 106.68). Compensation of the Board of Directors remained at the same level in the year under review as in the previous year. The 2018 General Meeting approved the maximum total remuneration for the Board of Directors of CHF 1 050.0 thousand for the period between the 2018 General Meeting and the 2019 General Meeting. The current remuneration amounted to CHF 944.6 thousand (CHF 935.2 thousand), CHF 105.4 thousand below the approved maximum total remuneration.

3.2.2 Members of the Executive Committee or Group Management

The Group Management has consisted of three members (CEO, CFO and Head of the Kardex Mlog division).

The maximum individual variable remuneration to which the CEO is entitled is based on around 145% of the basic salary. For the other two members of Group Management, the maximum individual variable compensation is 100% of the base salary. The quantitative target is based on the strategic goals. In order to achieve the maximum variable compensation, the annual targets must be significantly exceeded.

The individual variable remuneration amounts are based on the published key financial figures (section 1.3.2, on page 33) and for the head of the Kardex Mlog Division also on personal goals. In 2018, the targets set for Group Management for the defined key financial figures (EBIT of the Kardex Group and the Kardex Mlog Division respectively) were exceeded. In addition, the head of the Kardex Mlog Division was able to achieve his personal goals. The entire Group Management thus worked out almost the maximum variable compensation.

In the year under review, the Group Management received 2.7% of the variable components of the compensation in the form of shares (9.5%). This will only be paid in 2019.

The Articles of Incorporation of Kardex AG provide for the potential approval of remuneration by the General Meeting. The 2017 General Meeting approved maximum total remuneration of CHF 3 050 thousand (CHF 3 050 thousand) for the members of Group Management in the 2018 financial year. The actual total remuneration amounted to CHF 2 797 thousand (CHF 2 514 thousand), which was CHF 253 thousand (CHF 536 thousand) below the approved maximum remuneration.

3.3 Share proportions 2018

				Thereof with retention period of 3 years until:			
Name	Function	Number of shares	Voting interest in %	2019	2020	2021	**Total**
Board of Directors							
Philipp Buhofer[1]	Chairman	1 822 990	23.58%	731	415	259	**1 405**
Felix Thöni	Vice Chairman	33 381	0.43%	246	253	166	**665**
Jakob Bleiker	Member	4 951	0.06%	227	205	132	**564**
Ulrich Jakob Looser	Member	2 718	0.04%	215	389	283	**887**
Walter T. Vogel	Member	12 281	0.16%	324	289	181	**794**
Total Board of Directors		**1 876 321**	**24.27%**	**1 743**	**1 551**	**1 021**	**4 315**
Group Management							
Jens Fankhänel	CEO	3 933	0.05%	-	-	933	**933**
Thomas Reist	CFO	250	0.00%	-	-	-	**-**
Hans-Jürgen Heitzer	HoD Kardex Mlog	350	0.00%	-	-	-	**-**
Total Group Management		**4 533**	**0.05%**	**-**	**-**	**933**	**933**

[1] Including shares held by BURU Holding AG.

Auditors' report to the General Meeting

Report of the statutory auditor

to the General Meeting of Kardex AG

Zurich

We have audited the accompanying remuneration report of Kardex AG for the year ended 31 December 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) in chapter 3.1 of the remuneration report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of Kardex AG for the year ended 31 December 2018 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Thomas Wallmer	Dano Bollier
Audit expert Auditor in charge	Audit expert

Zurich, 1 March 2019

Financial reporting Kardex Group

Based on Swiss GAAP FER, figures reported in euros.

Consolidated income statement

EUR millions	Notes	2018	(%)	2017	(%)
Net revenues	3,5	**423.4**	**100.0%**	**376.1**	**100.0%**
Cost of goods sold and services provided		-271.2	-64.1%	-240.4	-63.9%
Gross profit		**152.2**	**35.9%**	**135.7**	**36.1%**
Sales and marketing expenses		-53.0	-12.5%	-48.1	-12.8%
Administrative expenses		-34.2	-8.1%	-31.3	-8.3%
R&D expenses		-11.4	-2.7%	-10.3	-2.7%
Other operating income	7	0.7	0.2%	1.3	0.3%
Other operating expenses	7	-1.1	-0.3%	-1.3	-0.3%
Operating result (EBIT)		**53.2**	**12.6%**	**46.0**	**12.2%**
Financial result, net	9	-1.7	-0.4%	-1.5	-0.4%
Result for the period before tax		**51.5**	**12.2%**	**44.5**	**11.8%**
Income tax expense	10	-13.2	-3.1%	-12.7	-3.4%
Result for the period		**38.3**	**9.0%**	**31.8**	**8.5%**
Earnings per share (EUR)[1]	19	4.97		4.13	

[1] No dilutive effect occurred in 2018 and 2017.

The notes to the consolidated financial statements from page 46 to page 70 represent an integral part of the Group's financial statements.

Consolidated balance sheet

EUR millions	Notes	31.12.2018	31.12.2017
Property, plant and equipment	11	33.0	28.2
Intangible assets	11	2.6	2.9
Financial assets	13	6.6	6.5
Non-current assets		**42.2**	**37.6**
Inventories and work in progress	14	15.0	12.7
Trade accounts receivable	15	62.5	60.6
Other receivables	16	11.4	10.6
Prepaid expenses		4.6	3.8
Cash and cash equivalents	17	129.2	114.9
Current assets		**222.7**	**202.6**
Assets		**264.9**	**240.2**
Share capital	18	2.5	21.9
Capital reserves		31.2	31.1
Retained earnings and translation differences		120.7	87.2
Treasury shares	18	-1.1	-1.2
Equity		**153.3**	**139.0**
Non-current provisions	22	19.4	18.4
Non-current liabilities		**19.4**	**18.4**
Trade accounts payable		14.2	13.8
Current provisions	22	4.9	7.8
Accruals	23	48.4	43.3
Other current liabilities	24	24.7	17.9
Current liabilities		**92.2**	**82.8**
Liabilities		**111.6**	**101.2**
Equity and liabilities		**264.9**	**240.2**

The notes to the consolidated financial statements from page 46 to page 70 represent an integral part of the Group's financial statements.

Consolidated cash flow statement

EUR millions	Notes	2018	2017
Result for the period		38.3	31.8
Depreciation and amortization	11	5.8	5.4
Changes in provisions and pension liabilities		-1.7	-0.1
Other non-cash items		-1.3	1.2
Change in inventories and work in progress	14	-2.0	5.7
Change in accounts receivable	15	-1.7	-7.7
Change in other receivables	16	-0.8	1.5
Change in prepaid expenses		-0.7	0.1
Change in accounts payable		0.3	-0.7
Change in accruals	23	5.0	7.6
Change in other current liabilities	24	6.9	1.2
Net cash flow from operating activities		**48.1**	**46.0**
Purchase of property, plant and equipment	11	-9.7	-5.3
Sale of property, plant and equipment		0.2	0.2
Purchase of intangible assets	11	-0.5	-1.7
Acquisition of organizations and investment in associated companies	29	-0.3	-4.6
Net cash flow from investing activities		**-10.3**	**-11.4**
Free cash flow		**37.8**	**34.6**
Disposal of treasury shares		0.2	0.1
Reduction of nominal value		-24.1	-23.5
Net cash flow from financing activities		**-23.9**	**-23.4**
Effect of currency translation differences on cash and cash equivalents		0.4	-2.0
Net change in cash and cash equivalents		**14.3**	**9.2**
Cash and cash equivalents at 1 January	17	114.9	105.7
Cash and cash equivalents at 31 December	17	129.2	114.9
Net change in cash and cash equivalents		**14.3**	**9.2**

The notes to the consolidated financial statements from page 46 to page 70 represent an integral part of the Group's financial statements.

Consolidated statement of changes in equity

EUR millions	Notes	Share capital	Capital reserves	Retained earnings	Translation differences	Treasury shares[1]	**Equity**
Opening balance 1 January 2017		**40.1**	**31.1**	**65.5**	**2.8**	**-1.3**	**138.2**
Result for the period		-	-	31.8	-	-	**31.8**
Acquisition of goodwill	12,29	-	-	-4.1	-	-	**-4.1**
Currency translation differences[2]		-	-	-	-3.6	-	**-3.6**
Disposal of treasury shares[3]	18	-	-	-	-	0.1	**0.1**
Reduction of nominal value[4]		-18.2	-	-5.3	-	-	**-23.5**
Valuation of hedging reserves		-	-	0.1	-	-	**0.1**
Closing balance 31 December 2017		**21.9**	**31.1**	**88.0**	**-0.8**	**-1.2**	**139.0**
Opening balance 1 January 2018		**21.9**	**31.1**	**88.0**	**-0.8**	**-1.2**	**139.0**
Result for the period		-	-	38.3	-	-	**38.3**
Acquisition of goodwill	12,29	-	-	-0.2	-	-	**-0.2**
Currency translation differences[2]		-	-	-	0.7	-	**0.7**
Disposal of treasury shares[3]	18	-	0.1	-	-	0.1	**0.2**
Reduction of nominal value[4]	18	-19.4	-	-4.7	-	-	**-24.1**
Valuation of hedging instruments	25	-	-	-0.6	-	-	**-0.6**
Closing balance 31 December 2018		**2.5**	**31.2**	**120.8**	**-0.1**	**-1.1**	**153.3**

1 Number of treasury shares held as of 31 December 2018: 13 195 (15 149).

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

3 As part of share-based remuneration, treasury shares were allocated in the amount of EUR 0.1 million (EUR 0.1 million). EUR 0.1 million (EUR 0.0 million) in "Capital reserves" related to gain from disposal treasury shares.

4 Effect of the difference between historical and spot rate has been recognized under "Retained earnings".

The notes to the consolidated financial statements from page 46 to page 70 represent an integral part of the Group's financial statements.

Notes to the consolidated financial statements

1. General information

The accompanying consolidated financial statements of the Kardex Group include Kardex AG and its subsidiaries (referred to collectively as the "Group" and individually as the "Group companies"). Kardex AG is the Group's parent company, a limited company under Swiss law, which is registered and domiciled in Zurich, Switzerland. Kardex AG is listed on SIX Swiss Exchange.

2. Significant accounting policies

Basis of preparation

The Group's consolidated financial statements were prepared in compliance with the provisions of Swiss company law and are in accordance with Swiss GAAP FER (FER) in their entirety.

Principles of consolidation

Consolidation is based on the individual Group companies' financial statements, as prepared on a consistent basis. The balance sheet date for all Group companies is 31 December with exception of Kardex India Storage Solutions Private Ltd., Bangalore, India and Kardex VCA Pty Ltd, Wodonga, Australia, where the balance sheet date for local GAAP closing is 31 March and 30 June respectively. The consolidated financial statements are prepared on a historical cost basis with the exception of derivative financial instruments, which may be stated at fair value.

The consolidated financial statements include Kardex AG as well as all domestic and foreign subsidiaries in which Kardex AG holds a direct or indirect ownership. Acquisitions are accounted for using the purchase method. All relevant subsidiaries in which the Group holds more than 50% of the voting rights or for which it is able to exercise a controlling influence on the subsidiary'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.

Intra-Group balances, transactions and profits not realized through third parties are eliminated in the consolidation process. Investments in associates, in which the Group holds voting rights of 20%-50%, are accounted for at equity. Kardex AG currently has no investments with voting rights of less than 20%, and it is not currently engaged in any joint ventures.

Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in millions of euros. The euro is Kardex AG's functional currency and the presentation currency of the Group because the Group's cash flows and transactions are denominated mainly in euros.

Foreign currency transactions

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Gains and losses resulting from transactions in foreign currencies and adjustments of foreign currency items as at the balance sheet date are recognized in the income statement.

Financial statements of subsidiaries in foreign currencies

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 translated on the balance sheet date at the exchange rate prevailing on that date;
- revenues and expenses as well as cash flows are translated at the average exchange rate;
- equity is translated at historical rates.

All resulting translation differences are shown separately under equity (translation differences). If a subsidiary is sold, its cumulative translation differences are included in the income statement as part of the gain or loss arising from the sale.

Foreign currency impacts on long-term intra-Group loans with equity characteristics are recognized in equity.

Derivative financial instruments and hedging transactions

The Group uses derivative financial instruments mainly to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. When designated hedges that qualify for hedge accounting treatment are initially recognized, they are classified either as hedging of the fair value of a specific asset or liability (Fair Value Hedge) or as hedging of projected highly probable cash flows arising from an expected future transaction (Cash Flow Hedge). Fluctuations in the market values of reported financial instruments or firm commitments are recognized in the result for the period. Fluctuations in the value of cash flow hedge items are recognized in accordance with the option in FER 27 in shareholders' equity. Amounts recognized in equity are recycled in the profit and loss statement in the periods when the hedged item affects gain or loss.

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at acquisition or construction cost less accumulated depreciation and impairment losses. The acquisition and construction cost includes all expenses directly attributable to the acquisition and necessary to bring the asset to working condition for its intended use. Interest expenses during the construction phase of property, plant and equipment are not capitalized.

Leased assets

Leasing agreements under which the Group company essentially assumes all the risks and rewards associated with the acquisition are treated as finance leases. These assets are stated at an amount equal to the lower of cost of acquisition/net fair value or present value of the future lease payments at the start of the agreement, less the accumulated depreciation and impairment loss. Obligations arising from finance leasing are recognized as liabilities.

Maintenance and renovation costs

Major renovation or modernization work, as well as expenses that significantly increase fair value or value in use, and expenditure that extends the estimated useful life of property, plant and equipment, are capitalized. Repairs and maintenance costs are recognized directly under operating expenses.

Depreciation

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

Buildings	20 to 40 years
Machinery and production tools	4 to 12 years
Equipment and vehicles	5 to 8 years
Information technology (hardware)	3 years

Depreciation of an item of property, plant or equipment begins when actual operational use commences. Property, plant and equipment under construction is not depreciated, but is regularly assessed for any indication of a need to apply impairment charges.

Depreciation expenses are included in "Cost of goods sold and services provided", "Marketing and sales expenses", "Administrative expenses" and "R&D expenses".

The residual value and the useful economic life of the property, plant and equipment are reviewed annually and adjusted where necessary. Gains and losses arising from the sale of property, plant and equipment are recognized in the income statement.

Intangible assets

Goodwill

Goodwill, the difference between the cost of acquisitions and the fair value of the net assets acquired, results from the purchase of subsidiaries and associates. Any goodwill that arises is offset against equity (retained earnings) at the time of acquisition. In case of the disposal of a subsidiary or associate, acquired goodwill offset against equity at an earlier date is stated at original cost to determine the gain or loss recognized in the income statement.

The effects of a theoretical capitalization of goodwill with scheduled amortization and any value adjustment impacting on the balance sheet and income statement over a useful life of five years are disclosed in the notes.

Intangible assets from development activities
Expenditure on development activities related to new technologies or know-how is recognized in the income statement in the period in which it is incurred.

Other intangible assets
Other internally generated or acquired intangible assets are capitalized where they will generate measurable benefits for the Group over several years. Such intangible assets are stated at cost of production or acquisition less accumulated amortization and impairment loss.

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

Amortization
Amortization of intangible assets is charged to the income statement on a straight-line basis over their estimated useful lives. Amortization of intangible assets begins on the date they are available for use. The estimated useful lives applied are as follows:

Licenses and patents	5 years
Trademark rights	5 years
Capitalized software	5 years
Other intangible assets	5 years

Amortization is included in "Cost of goods sold and services provided", "Marketing and sales expenses", "Administrative expenses" and "R&D expenses".

The residual value and the useful economic life of the intangible assets are reviewed annually and adjusted where necessary. Gains and losses arising from the sale of intangible assets are recognized in the income statement.

Financial assets
Financial assets are normally measured at acquisition cost less any impairments.

Impairment of assets
Property, plant and equipment and other non-current assets are tested as at each balance sheet date to determine whether any events or changes in circumstances have occurred that might indicate an impairment. Where such indications exist, an impairment test is conducted. If the carrying amount of the asset exceeds the recoverable amount, an impairment loss is recognized.

The recoverable amount is the higher of the net selling price and value in use of the asset. The recoverable amount is normally determined for each asset. If the asset in question does not generate any separate cash flows, the smallest possible group of assets that generate separate cash flows is tested. Where the impairment exceeds the residual carrying amount, a provision amounting to the remaining difference is created.

On each balance sheet date, impairments previously recorded are examined to establish whether the reasons that led to the impairment still apply to the same extent. If the reasons for an impairment no longer apply, the value will be reinstated up to a maximum of the carrying amount, as adjusted according to scheduled depreciation. The reverse booking is recognized in the income statement.

Trade accounts receivable and other current assets
Accounts receivable are stated at nominal value less any impairments. The value adjustment consists of individual allowances for specifically identified positions for which there are objective indications that the outstanding amount will not be received in full and of a collective allowance for positions that have been overdue for 180 days or longer.

Inventories

Inventories are stated at the lower of acquisition / production cost or fair value less costs to sell. Fair value less costs to sell is defined as the value of the sales proceeds less the remaining costs of production, sale and administration incurred until the time of sale. Inventories are valued on a weighted-average basis. The acquisition and production cost also includes the cost of purchase and transport of inventories. In the case of inventories manufactured by the Group, production costs also include an appropriate share of the overheads incurred. Adjustments are made for items lacking marketability and for slow-moving items.

Construction contracts

Provided contractual performance by the customer is highly probable and income and expenses arising from long-term construction contracts can be reliably estimated, the resulting revenues are reported using the percentage-of-completion method: the revenues and expenses are recognized in the income statement proportionally 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 as at the date of detection.

Underfinanced projects are recorded in the balance sheet under "Other receivables" while overfinanced positions report under "Other current liabilities".

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 from the balance sheet date.

Repurchase of treasury shares

If the Group 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 in equity (capital reserves).

Dividends

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

Liabilities

Liabilities are shown at their nominal value. The Group has no financial liability as per balance sheet date.

Employee benefits

Pension plans

There are several employee pension plans within the Group, each of which complies with the legal requirements for the country in question. A majority of employees are insured against the risk of old age, death and disability, whether through a defined benefit or defined contribution plan. These plans are funded by contributions from employees and employers.

Actual economic impacts of employee pension plans on the Group are calculated on the balance sheet date. The pension plan's financial position is relevant to the measurement of pension assets and pension liabilities.

In the case of Swiss pension plans, the latest financial statements prepared in accordance with FER 26 "Accounting of pension plans" constitute the basis. An economic obligation is carried as a liability if the conditions for the recognition of a provision are met. An economic benefit is capitalized if it is used for the Group's future employee benefit expenses. Freely disposable employer contribution reserves are capitalized. The economic impacts of pension fund surpluses and deficits and the change in any employer contribution reserves are recognized in the income statement together with the amounts accrued over the same period. These same principles are applied in the case of foreign pension plans.

Share-based payments

Share-based payments are recognized at fair value at the grant date and, until such time as entitlement is asserted, are charged to the corresponding positions in the income statement as personnel expenses. Since these remunerations are settled with equity capital instruments, the counter-entry is recognized in equity.

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.

If the time effect is significant, long-term provisions at the present value of probable future cash outflows will be created.

Warranties

The provision for warranty risks from the sale of products and services is based on information about warranties from earlier periods and on punctual consideration of individual cases.

Restructuring

Restructuring costs are provided for the period in which an official, detailed restructuring plan is available to the Group and the management must have raised a valid expectation that it will carry out the restructuring or the restructuring plan is announced. No provision is made for future operating losses.

Revenues from goods sold and services provided

Net revenues include all revenues from products sold and services provided less items such as early payer discounts, 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, which is most frequently after finalized installation or based on accepted international commercial terms, such as EXW, FOB or DDP. Provided that the conditions are met (see "Construction contracts"), the revenues resulting from construction contracts 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 the collectability of the consideration due, associated costs or the possible return of goods.

Operating lease payments

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

Finance lease payments

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

Funding

Net financing costs comprise interest expense on borrowings and pension liabilities, interest earned on investments, gains and losses from foreign currency translation, as well as gains and losses from derivative financial instruments used for exchange rate hedging (unless designated as cash flow hedge). All of which with the exception of cash flow hedges are recognized in the income statement. Interest income and expense as well as gains or losses from interest rate hedging are recognized in the income statement as they accrue.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement unless it relates to items recognized 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 FER carrying amounts and the tax base. Deferred income tax assets and liabilities are netted only if they relate to the same taxable entity. Tax savings due to tax loss carryforwards on future taxable income are not recognized.

Earnings per share

Earnings per share are calculated by dividing the consolidated net result attributable to the shareholders of Kardex AG by the weighted average number of shares outstanding during the reporting period. The diluted earnings per share figure additionally includes the shares that might arise following the exercising of option rights.

3. Segment reporting

The Group is a global industry partner for intralogistic solutions and a leading supplier of automated storage solutions and materials handling systems. The Group consists of the two entrepreneurially managed divisions, Kardex Remstar and Kardex Mlog. Kardex Remstar develops, produces and maintains dynamic storage and retrieval systems, and Kardex Mlog offers integrated materials handling systems and automated high bay warehouses. The two divisions are partners for their customers over the entire lifecycle of a product or solution.

3.1 Segment reporting 2018
Income statement

	Operating segments				
EUR millions	Kardex Remstar	Kardex Mlog	Kardex AG (Holding)	Eliminations	**Kardex Group**
Bookings	381.3	100.0	-	-0.1	**481.2**
Net revenues, third party					
- Europe	247.7	75.2	-	-	**322.9**
- Americas	68.8	0.7	-	-	**69.5**
- Asia/Pacific	25.9	-	-	-	**25.9**
- Middle East and Africa	5.1	-	-	-	**5.1**
Total net revenues, third party	**347.5**	**75.9**	**-**	**-**	**423.4**
Net revenues, with other operating segments	-	-	-	-	-
Net revenues[1]	**347.5**	**75.9**	**-**	**-**	**423.4**
Cost of goods sold and services provided	-212.4	-58.8	-	-	**-271.2**
Gross profit	**135.1**	**17.1**	**-**	**-**	**152.2**
Gross profit margin	38.9%	22.5%			35.9%
Sales and marketing expenses	-46.3	-6.7	-	-	**-53.0**
Administrative expenses	-27.1	-4.3	-5.3	2.5	**-34.2**
R&D expenses	-10.3	-1.1	-	-	**-11.4**
Other operating income	0.6	0.1	2.5	-2.5	**0.7**
Other operating expenses	-1.0	-	-0.1	-	**-1.1**
Operating result (EBIT)	**51.0**	**5.1**	**-2.9**	**-**	**53.2**
EBIT margin	14.7%	6.7%			12.6%
Depreciation and amortization	4.7	0.8	0.3	-	**5.8**
EBITDA	**55.7**	**5.9**	**-2.6**	**-**	**59.0**
EBITDA margin	16.0%	7.8%			13.9%

[1] The revenues comprise EUR 285.9 million from New Business and EUR 137.5 million from Life Cycle Services.

3.2 Segment reporting 2017

Income statement

EUR millions	Operating segments: Kardex Remstar	Operating segments: Kardex Mlog	Kardex AG (Holding)	Eliminations	**Kardex Group**
Bookings	**336.9**	**75.1**	**-**	**-0.1**	**411.9**
Net revenues, third party					
- Europe	219.7	73.6	-	-	**293.3**
- Americas	54.8	-	-	-	**54.8**
- Asia/Pacific	23.4	-	-	-	**23.4**
- Middle East and Africa	4.6	-	-	-	**4.6**
Total net revenues, third party	**302.5**	**73.6**	**-**	**-**	**376.1**
Net revenues, with other operating segments	0.2	-	-	-0.2	-
Net revenues[1]	**302.7**	**73.6**	**-**	**-0.2**	**376.1**
Cost of goods sold and services provided	-181.0	-59.6	-	0.2	**-240.4**
Gross profit	**121.7**	**14.0**	**-**	**-**	**135.7**
Gross profit margin	40.2%	19.0%			36.1%
Sales and marketing expenses	-42.4	-5.7	-	-	**-48.1**
Administrative expenses	-25.5	-3.6	-4.5	2.3	**-31.3**
R&D expenses	-9.4	-0.9	-	-	**-10.3**
Other operating income	1.2	0.1	2.3	-2.3	**1.3**
Other operating expenses	-1.2	-	-0.1	-	**-1.3**
Operating result (EBIT)	**44.4**	**3.9**	**-2.3**	**-**	**46.0**
EBIT margin	14.7%	5.3%			12.2%
Depreciation and amortization	4.6	0.7	0.1	-	**5.4**
EBITDA	**49.0**	**4.6**	**-2.2**	**-**	**51.4**
EBITDA margin	16.2%	6.3%			13.7%

[1] The revenues comprise EUR 257.5 million from New Business and EUR 118.6 million from Life Cycle Services.

4. Foreign currency translation

The main exchange rates for currency translation are:

	Average rate		Year-end rates	
in EUR	2018	2017	31.12.2018	31.12.2017
1 CHF	0.866	0.900	0.887	0.849
1 CNY	0.128	0.131	0.128	0.128
1 GBP	1.130	1.141	1.110	1.129
1 USD	0.847	0.886	0.879	0.841

5. Long-term construction contracts

EUR millions	2018	2017
Revenues from construction contracts (POC)	54.6	53.4

6. Personnel expenses

EUR millions	2018	2017
Salaries and wages	-115.5	-104.0
Social security contributions	-22.6	-20.1
Retirement and pension plan costs	-2.7	-2.6
Other personnel expenses	-9.4	-8.1
Total personnel expenses	**-150.2**	**-134.8**

7. Other operating income and expenses

EUR millions	2018	2017
Gains from non-current assets sold	0.1	0.2
Scrap sales[1]	-	0.6
Insurance compensation	0.1	-
Write-off customer's credit notes	0.1	-
Other income	0.4	0.5
Total other operating income	**0.7**	**1.3**
Taxes other than income taxes	-0.7	-0.5
Contribution to pension schemes	-0.5	-0.5
Legal and other expenses	0.2	-0.6
Restructuring expenses	-0.1	0.3
Total other operating expenses	**-1.1**	**-1.3**

[1] From 2018 onwards the income of scrap sales is reported under "Cost of goods sold and services provided", it sums up to EUR 0.7 million for the period under review.

8. Restructuring expenses

The restructuring expenses recognized in the year under review totaling EUR 0.1 million (income of EUR 0.3 million) were recognized in the income statement and are reported as "Other operating expenses". In the prior year the income in "Restructuring expenses" refers to a release of unused provisions from previous years.

9. Financial result, net

EUR millions	2018	2017
Interest income	0.2	0.2
Other financial income	0.6	0.1
Total financial income	**0.8**	**0.3**
Interest expense	-1.5	-0.8
Foreign exchange losses (net)	-0.5	-0.5
Other financial expenses	-0.5	-0.5
Total financial expenses	**-2.5**	**-1.8**
Total financial result, net	**-1.7**	**-1.5**

Interest expenses is mainly related to Mlog Logistics GmbH, Neuenstadt am Kocher, Germany, for pension schemes without own assets.

10. Income tax expense and tax losses carryforward

10.1 Income tax expense

EUR millions	2018	2017
Current income tax	-13.5	-11.6
Deferred income tax	0.3	-1.1
Total income tax expense	**-13.2**	**-12.7**

The effective tax rate of 25.6% has decreased since previous year (28.5%). The decrease in the year under review is mainly attributable to the lower US tax rate.

10.2 Analysis of income tax expense

The variance between the expected income tax expense, based on the expected income tax rate, and the effective income tax expense recorded in the consolidated income statement depends on the following determining factors. The Group's expected income tax rate is based on the result for the period before tax and the tax rate pertaining to each individual subsidiary at the respective fiscal year.

EUR millions	2018	2017
Result for the period before tax	**51.5**	**44.5**
Expected income tax rate	25.2%	26.7%
Expected income tax expense	-13.0	-11.9
Use of unrecognized tax losses carryforward	0.8	1.0
Effect of change in tax rates	0.1	-0.8
Effect of non-recognition of tax losses in current year	-0.2	-0.3
Income tax of prior periods, net	-0.3	0.2
Other	-0.6	-0.9
Effective income tax expense	**-13.2**	**-12.7**
Effective income tax rate	25.6%	28.5%

10.3 Tax losses carryforward

Deferred tax assets from tax losses carryforward are not capitalized. The tax losses carryforward expire as follows:

EUR millions	31.12.2018	31.12.2017
Tax losses carryforward by expiration		
Following year	0.1	0.1
In 2 to 5 years	1.9	2.1
After 5 years	0.3	0.5
Not expiring	7.6	10.7
Total tax losses carryforward	**9.9**	**13.4**

Remaining tax losses carryforward mainly relate to Germany, Italy, Norway and Finland. On 31 December 2018, the non-capitalized tax effects on losses carryforward amounted to EUR 2.5 million (EUR 3.4 million).

11. Property, plant, equipment and intangible assets

11.1 Property, plant and equipment 2018

EUR millions	Undeveloped properties	Land and buildings	Machinery and production tools	Equipment and vehicles	Information technology	Under construction	**Property, plant and equipment**
Acquisition cost, 1 January	**4.4**	**24.2**	**47.1**	**4.0**	**6.8**	**1.4**	**87.9**
Acquisition of organizations	-	-	0.1	-	-	-	**0.1**
Additions	-	0.4	3.9	1.1	1.1	3.2	**9.7**
Disposals	-	-	-0.5	-	-0.1	-	**-0.6**
Reclassifications	-	0.2	0.3	0.1	-	-0.6	**-**
Exchange rate differences	-	-	0.1	0.1	0.1	-0.1	**0.2**
31 December	**4.4**	**24.8**	**51.0**	**5.3**	**7.9**	**3.9**	**97.3**
Accumulated depreciation, 1 January	**-**	**-16.2**	**-35.1**	**-3.0**	**-5.4**	**-**	**-59.7**
Additions	-	-0.7	-3.3	-0.2	-0.8	-	**-5.0**
Disposals	-	-	0.5	-	0.1	-	**0.6**
Exchange rate differences	-	-	-0.1	-0.1	-	-	**-0.2**
31 December	**-**	**-16.9**	**-38.0**	**-3.3**	**-6.1**	**-**	**-64.3**
Net carrying amount, 1 January	4.4	8.0	12.0	1.0	1.4	1.4	**28.2**
Net carrying amount, 31 December	4.4	7.9	13.0	2.0	1.8	3.9	**33.0**

Depreciation of property, plant and equipment is included in the following items: EUR 3.4 million in “Cost of goods sold and services provided”, EUR 0.2 million in “Sales and marketing expenses”, EUR 1.2 million in “Administrative expenses” and EUR 0.2 million in “R&D expenses”.

11.2 Property, plant and equipment 2017

EUR millions	Undeveloped properties	Land and buildings	Machinery and production tools	Equipment and vehicles	Information technology	Under construction	**Property, plant and equipment**
Acquisition cost, 1 January	**4.3**	**24.4**	**44.9**	**3.8**	**6.5**	**2.4**	**86.3**
Acquisition of organizations	-	-	0.1	0.1	-	-	**0.2**
Additions	0.1	0.1	3.0	0.2	0.6	1.5	**5.5**
Disposals	-	-	-2.7	-0.1	-0.3	-	**-3.1**
Reclassifications	-	-	2.2	0.3	-	-2.5	**-**
Exchange rate differences	-	-0.3	-0.4	-0.3	-	-	**-1.0**
31 December	**4.4**	**24.2**	**47.1**	**4.0**	**6.8**	**1.4**	**87.9**
Accumulated depreciation, 1 January	**-**	**-15.7**	**-34.9**	**-3.0**	**-5.1**	**-**	**-58.7**
Additions	-	-0.7	-3.0	-0.2	-0.7	-	**-4.6**
Disposals	-	-	2.7	0.1	0.3	-	**3.1**
Exchange rate differences	-	0.2	0.1	0.1	0.1	-	**0.5**
31 December	**-**	**-16.2**	**-35.1**	**-3.0**	**-5.4**	**-**	**-59.7**
Net carrying amount, 1 January	4.3	8.7	10.0	0.8	1.4	2.4	**27.6**
Net carrying amount, 31 December	4.4	8.0	12.0	1.0	1.4	1.4	**28.2**

Depreciation of property, plant and equipment is included in the following items: EUR 3.2 million in “Cost of goods sold and services provided”, EUR 0.2 million in “Sales and marketing expenses”, EUR 1.1 million in “Administrative expenses” and EUR 0.1 million in “R&D expenses”.

11.3 Intangible assets in 2018

EUR millions	Capitalized development costs	Capitalized software	Patents, licenses and other intangible assets	**Intangible assets**
Acquisition cost, 1 January	**1.3**	**12.5**	**1.5**	**15.3**
Additions	-	0.5	-	**0.5**
Disposals	-	-	-	**-**
Exchange rate differences	-	-	-	**-**
31 December	**1.3**	**13.0**	**1.5**	**15.8**
Accumulated amortization, 1 January	**-1.3**	**-9.8**	**-1.3**	**-12.4**
Additions	-	-0.7	-0.1	**-0.8**
Disposals	-	-	-	**-**
Exchange rate differences	-	-	-	**-**
31 December	**-1.3**	**-10.5**	**-1.4**	**-13.2**
Net carrying amount, 1 January	-	2.7	0.2	**2.9**
Net carrying amount, 31 December	-	2.5	0.1	**2.6**

Amortization of intangible assets is included in the following item: EUR 0.8 million in “Administrative expenses”.

11.4 Intangible assets in 2017

EUR millions	Capitalized development costs	Capitalized software	Patents, licenses and other intangible assets	**Intangible assets**
Acquisition cost, 1 January	**1.3**	**11.0**	**1.5**	**13.8**
Additions	-	1.5	-	**1.5**
Disposals	-	-	-0.1	**-0.1**
Exchange rate differences	-	-	0.1	**0.1**
31 December	**1.3**	**12.5**	**1.5**	**15.3**
Accumulated amortization, 1 January	**-1.3**	**-9.3**	**-1.2**	**-11.8**
Additions	-	-0.7	-0.1	**-0.8**
Disposals	-	-	0.1	**0.1**
Exchange rate differences	-	0.2	-0.1	**0.1**
31 December	**-1.3**	**-9.8**	**-1.3**	**-12.4**
Net carrying amount, 1 January	-	1.7	0.3	**2.0**
Net carrying amount, 31 December	-	2.7	0.2	**2.9**

Amortization of intangible assets is included in the following items: EUR 0.1 Mio. in “Cost of goods sold and services provided” and EUR 0.7 million in “Administrative expenses”.

12. Treatment of goodwill

Goodwill is fully offset against retained earnings at the time of acquisition. Based on FER 30.16 the impact of theoretical capitalization on equity and the net result are documented below. Goodwill is theoretically amortized on a straight-line basis over 5 years.

Theoretical movement schedule for goodwill:

EUR millions	2018	2017
Acquisition value of goodwill, 1 January	**42.1**	**38.5**
Additions from acquisitions of subsidiaries and associates[1]	0.2	4.1
Exchange rate differences	0.1	-0.5
Acquisition value of goodwill, 31 December	**42.4**	**42.1**
Accumulated amortization, 1 January	**-38.5**	**-38.4**
Amortization expense	-0.8	-0.4
Exchange rate differences	-	0.3
Accumulated amortization, 31 December	**-39.3**	**-38.5**
Net book value goodwill, 1 January	3.6	0.1
Net book value goodwill, 31 December	3.1	3.6

[1] 2017: thereof EUR 0.7 million from the acquisition of associated companies.

Impact of theoretical capitalization on income statement:

EUR millions	2018	2017
Net income according to income statement	38.3	31.8
Amortization of goodwill	-0.8	-0.4
Theoretical net income incl. amortization of goodwill	**37.5**	**31.4**

Impact of theoretical capitalization on balance sheet:

EUR millions	2018	2017
Equity according to balance sheet, 31 December	**153.3**	**139.0**
Capitalization of goodwill from prior periods	3.6	0.1
Change of goodwill in reporting period	-0.5	3.5
Theoretical equity incl. net book value of goodwill, 31 December	**156.4**	**142.6**

13. Financial assets

EUR millions	31.12.2018	31.12.2017
Other financial assets	2.6	2.6
Deferred tax assets	4.0	3.9
Total financial assets	**6.6**	**6.5**

14. Inventories and work in process

EUR millions	31.12.2018	31.12.2017
Raw materials, supplies and other consumables	9.9	8.1
Finished goods	3.1	3.4
Spare parts	7.7	7.2
Work in progress	23.4	14.2
Allowances	-6.1	-5.5
Advance payments from customers	-26.3	-17.0
Advance payments to suppliers	3.3	2.3
Total inventories and work in progress	**15.0**	**12.7**

15. Trade accounts receivable

EUR millions	31.12.2018	31.12.2017
Trade accounts receivable	63.5	61.2
Allowances for doubtful accounts	-1.0	-0.6
Total trade accounts receivable	**62.5**	**60.6**

Trade accounts receivable are distributed over a widely scattered customer base. Management does not expect any material losses on receivables.

Allowances on trade accounts receivable are made mainly on a case-by-case basis; a collective allowance for positions that have been overdue for 180 days and longer is also made.

16. Other receivables

EUR millions	31.12.2018	31.12.2017
Construction contracts with amounts due from customers (un-derfinanced – POC)[1]	5.3	3.8
Income tax receivables	1.3	1.0
VAT, withholding and other refundable tax	1.8	2.6
Guarantees paid in cash	0.1	-
Advance payments	1.3	1.5
Other receivables	1.6	1.7
Total other receivables	**11.4**	**10.6**

[1] Thereof EUR 25.6 million (EUR 25.6 million) prepayments from customers.

17. Cash and cash equivalents

EUR millions	31.12.2018	31.12.2017
Cash, postal and bank current accounts	128.9	114.7
Time deposits	0.3	0.2
Total cash and cash equivalents	**129.2**	**114.9**

Of cash and cash equivalents, EUR 2.0 million (EUR 1.9 million) is currently held in countries with specific formalities and request procedures for transfers abroad. By complying with these requirements, the Group has these funds at its disposal.

18. Share capital

	Nominal value per share (CHF)	Number of shares	Share capital in EUR millions	Number of treasury shares	Treasury shares in EUR millions
Opening balance 1 January 2017	**7.35**	**7 730 000**	**40.1**	**16 700**	**1.3**
Additions	-	-	-	-	-
Disposals / reduction of nominal value	-3.30	-	-18.2	-1 551	-0.1
Closing balance 31 December 2017	**4.05**	**7 730 000**	**21.9**	**15 149**	**1.2**
Opening balance 1 January 2018	**4.05**	**7 730 000**	**21.9**	**15 149**	**1.2**
Additions	-	-	-	-	-
Disposals / reduction of nominal value	-3.60	-	-19.4	-1 954	-0.1
Closing balance 31 December 2018	**0.45**	**7 730 000**	**2.5**	**13 195**	**1.1**

As at 31 December 2018, there were 7 730 000 (7 730 000) fully paid up registered shares with a nominal value of CHF 0.45 (CHF 4.05) outstanding.

The capital reserves comprise premiums as well as gains/losses from transactions with treasury shares.

In the period under review the Group Management drew 933 (0) shares from the Company's holdings of treasury shares. In the period under review, the Board of Directors, as part of their compensation for 2018/2019, drew 1 021 (1 551) shares from the Company's holdings of treasury shares. As at 31 December 2018, Kardex AG held 13 195 (15 149) treasury shares, which were purchased at an average share price of CHF 84.31 each.

The equity comprises EUR 19.8 million (EUR 19.8 million) in non-distributable reserves.

19. Earnings per share

	2018	2017
No. of outstanding shares, 1 January	**7 714 851**	**7 713 300**
Disposal of treasury shares	1 954	1 551
No. of outstanding shares, 31 December	**7 716 805**	**7 714 851**
Weighted average number of outstanding shares	**7 715 905**	**7 713 743**
Result for the period (EUR 1 000)	**38 326**	**31 847**
Basic earnings per share (EUR)	**4.97**	**4.13**
Diluted earnings per share (EUR)[1]	**4.97**	**4.13**

[1] No dilutive effect occurred in 2018 and 2017, the diluted result per share is the same as the basic result per share (result of the period/average number of outstanding shares).

20. Financial liabilities

Kardex AG has entered into bilateral uncommitted credit lines with its main banks in the total amount of EUR 40 million. All bilateral uncommitted credit lines are available to Kardex AG for the issuance of guarantees and in the form of overdrafts or fixed advances.

EUR 0.8 million (EUR 0.8 million) of these bilateral credit lines have been utilized in the form of guarantees as of 31 December 2018 whereas no cash advance has been drawn.

No collateral was provided for all these lines of credit. All lines of credit rank pari passu.

21. Pension plans

Employees and former employees receive different employee benefits and retirement pensions, which are determined in accordance with the legislative provisions in the countries concerned. Some companies in the Group are not direct risk-takers as being members of collective foundations. These pension plans are funded by contributions from both the employer and the employee. The private pension plans in Switzerland and the Netherlands are structured for the purpose of building up retirement assets to be converted into fixed retirement pensions and supplementary risk benefits. The Swiss subsidiaries are affiliated to a collective pension plan where the surplus/deficit cannot be determined per individual contract but it can be stated that based on the preliminary, non-audited figures as per 31 December 2018 the coverage of the collective plan as a whole amounts to 108.0% (112.9%).

Some of the pension plans are made into independent schemes, especially in Germany, Italy and the UK. In addition to the independent schemes in Germany there are also schemes where the companies are direct risk-takers. In Italy, in addition to the independent scheme, also a firm percentage of the salary is provided for at the nominal value to cover the risk of age. All other pension liabilities are discounted by rates between 1.0% and 3.7% as the time factor has a significant impact. Measurement and recognition of all the above mentioned plans comply with FER 16.

EUR millions	Pension plans without surplus/deficit	Pension plans with deficit	Pension institutions without own assets	**Total**
Economic part of the Group 1 January 2017	**-0.5**	**-**	**-12.5**	**-13.0**
Change to prior period or recognized in the result of the period, respectively	-0.1	-	-0.5	**-0.6**
Economic part of the Group 31 December 2017	**-0.6**	**-**	**-13.0**	**-13.6**
Economic part of the Group 1 January 2018	**-0.6**	**-**	**-13.0**	**-13.6**
Change to prior period or recognized in the result of the period, respectively	-0.1	-	-0.9	**-1.0**
Economic part of the Group 31 December 2018	**-0.7**	**-**	**-13.9**	**-14.6**
Pension benefit expenses within personnel expenses 2017	-2.2	-	-0.4	**-2.6**
Change to prior period or recognized in the result of the period, respectively	-0.1	-	-0.5	**-0.6**
Contributions concerning the period 2017	**-2.1**	**-**	**0.1**	**-2.0**
Pension benefit expenses within personnel expenses 2018	-2.4	-	-0.3	**-2.7**
Change to prior period or recognized in the result of the period, respectively	-0.1	-	-0.9	**-1.0**
Contributions concerning the period 2018	**-2.3**	**-**	**0.6**	**-1.7**

22. Provisions

EUR millions	Deferred tax liabilities	Legal disputes and contractual penalties	Warranties	Retirement and other employee benefit obligations	Restructuring	Others	**Provisions**
Opening balance 1 January 2017	**0.3**	**0.2**	**5.4**	**17.7**	**1.5**	**1.2**	**26.3**
Additions	0.1	-	1.9	3.3	0.1	0.9	**6.3**
Utilization	-	-0.1	-1.8	-2.5	-0.4	-0.1	**-4.9**
Reversal	-	-	-0.1	-0.4	-0.5	-0.5	**-1.5**
Closing balance 31 December 2017	**0.4**	**0.1**	**5.4**	**18.1**	**0.7**	**1.5**	**26.2**
Non-current provisions	0.4	0.1	1.6	16.0	0.1	0.2	**18.4**
Current provisions	-	-	3.8	2.1	0.6	1.3	**7.8**
Opening balance 1 January 2018	**0.4**	**0.1**	**5.4**	**18.1**	**0.7**	**1.5**	**26.2**
Additions	-	0.1	1.4	3.6	0.2	0.3	**5.6**
Utilization	-	-	-0.4	-2.6	-0.5	-0.7	**-4.2**
Reversal	-0.2	-0.1	-2.5	-0.3	-	-0.2	**-3.3**
Closing balance 31 December 2018	**0.2**	**0.1**	**3.9**	**18.8**	**0.4**	**0.9**	**24.3**
Non-current provisions	0.2	0.1	1.7	16.9	-	0.5	**19.4**
Current provisions	-	-	2.2	1.9	0.4	0.4	**4.9**

Deferred tax liabilities are shown net after offsetting them against deferred tax assets. Netting takes place at individual company level.

The provisions for legal disputes and contractual penalties relate to ongoing proceedings and include provisions for contractual obligations.

The provision for warranties covers the cost for guarantee claims. The actual amount is based on current sales and available data. Experience shows that most of the provisions will be used in the following one to two years. For employee benefit obligations, see note 21.

Remaining provisions for restructuring relate to measures for adjusting cost structures in subsidiaries. Provisions for restructuring include severance payments and are only recognized in the balance sheet once the management must have raised a valid expectation that it will carry out the restructuring or the restructuring plan is announced. Normally the expenses fall due within one to two years.

23. Accruals

EUR millions	31.12.2018	31.12.2017
Accrued expenses	9.8	9.6
Accrued vacation and overtime pay	6.0	5.6
Accruals for salaries, variable compensations etc.	12.1	11.0
Accrual for income tax < 1 year	6.2	4.2
Deferred income	14.3	12.9
Total accruals	**48.4**	**43.3**

The position “Accrued expenses” contains expenses that have occurred in the period under review but the corresponding invoices have not been received yet. “Deferred income” consists of recorded invoices to customers based on maintenance and service contracts where services have not yet been fully provided as per balance sheet date.

24. Other current liabilities

EUR millions	31.12.2018	31.12.2017
VAT, withholding tax and other tax liabilities	8.0	9.2
Construction contracts with amounts due to customers (overfinanced – POC)[1]	9.2	3.8
Social security and pension plan liabilities	1.2	1.1
Employee claims	1.4	1.3
Other financial liabilities	1.0	-
Other current liabilities	3.9	2.5
Total other current liabilities	**24.7**	**17.9**

[1] Thereof EUR 14.6 million (EUR 10.3 million) prepayments from customers.

25. Derivative financial instruments

EUR millions	31.12.2018	31.12.2017
Currency derivatives (hedging)		
Contract or nominal value	22.2	16.4
Positive fair value[1]	-	0.1
Negative fair value[1]	0.9	-

[1] EUR -0.6 million (EUR 0.1 million) from equity and EUR -0.3 million (EUR 0.0 million) from income statement.

The currency derivatives are mainly used to hedge the foreign currency risk on accounts receivable in US dollar.

26. Operating leases

EUR millions	31.12.2018	31.12.2017
Expense for operating leases for the year	10.0	8.8
Future minimum payments for non-cancellable lease agreements		
Up to 1 year	6.3	5.9
1 to 5 years	12.6	11.9
Over 5 years	7.8	8.2
Total future minimum payments for operating leases	**26.7**	**26.0**

Operating leases apply mainly to vehicles and rents on buildings. Leasing contracts are agreed at current market conditions.

27. Contingent liabilities

The Group is currently involved in various litigations arising in the course of business. The Group does not anticipate that the outcome of these proceedings, either individually or in total, will have a material effect on its financial or income situation.

The total amount of guarantees in favor of third parties was EUR 42.2 million as at 31 December 2018 (EUR 27.9 million).

28. Related parties

Related parties (natural persons or legal entities) are defined as any party directly or indirectly able to exercise significant influence over the organization as it makes financial or operational decisions. Organizations that are in turn directly or indirectly controlled by the same related parties are also deemed to be related parties. With the exception of the pension plans (see note 21), there were no outstanding receivables from or liabilities towards these parties. No material transactions were carried out with related parties during the year under review or the previous year. All transactions carried out with related parties fulfilled the arm's length principle.

Disclosures of compensation and shareholdings in accordance with the Swiss Code of Obligations may be found in the Remuneration Report on page 35 to 38 and in the notes to the financial statements of Kardex AG.

29. Change in consolidation scope

In March 2018, Kardex Systems Romania SRL, Timisoara, Romania was built-up to strengthen the presence of the Kardex Remstar Division in Romania and is a 100% subsidiary of Kardex AG, Zurich, Switzerland.

In May 2018, L.T.G GmbH, Isernhagen, Germany was established mainly to develop the OEM-service-business of the Kardex Remstar Division and is a 100% subsidiary of Kardex Germany GmbH, Bellheim, Germany. L.T.G GmbH acquired the business assets of the german OEM-service-provider L.T.G Lager.Technik.Gerk, Isernhagen. Most of the purchase price of EUR 0.3 million represents goodwill and is allocated to equity.

In September 2018, Kardex Portugal, Unipessoal Lda, Porto, Portugal was founded to further develop the Portugese market for the Kardex Remstar Division and is a 100% subsidiary of Kardex AG, Zurich, Switzerland.

In April 2017, Kardex Production USA Inc., Westbrook (Maine), USA, acquired 100% of the shares of the service company AHT Services Group, LLC, Cornelius (North Carolina), USA. The purchase price represented mainly goodwill and was allocated to equity. Therewith the Group acquired net assets of EUR 0.5 milllion (property, plant and equipment of EUR 0.2 million, inventories of EUR 0.3 million, receivables from third parties of EUR 0.7 million, cash and cash equivalents of EUR 0.2 million, payables from third parties of EUR 0.2 million and accruals of EUR 0.7 million).

In June 2017, Kardex South-America SAS, Bogotá, Colombia, was founded with the aim of developing the region South America and is a 100% subsidiary of Kardex AG, Zurich, Switzerland.

In December 2017, Kardex AG, Zurich, acquired 33% of the shares of SumoBox AB, Västerås, Sweden, which specializes in the production of boxes, bins and other kinds of containers. The purchase price represented mainly goodwill and was allocated to equity.

30. Subsidiaries and associates

Country	Finance, property,	Development, production	Distribution, service	Company, domicile	Division	Employees (FTE)	Currency	Proportional share capital in local currency	Percentage holding	Held by
AT			*	Kardex Austria GmbH, Vienna	Kardex Remstar	27	EUR	300 000	100	1
AU[9]		*	*	Kardex VCA Pty Ltd, Wodonga	Kardex Remstar	16	AUD	700 000	100	1
BE			*	S.A. Kardex nv, Dilbeek	Kardex Remstar	18	EUR	507 895	100	1
CH			*	Kardex Systems AG, Volketswil	Kardex Remstar	43	CHF	1 000 000	100	1
	*			KRM Service AG, Zurich	Kardex Remstar	23	CHF	500 000	100	1
CN			*	Kardex Logistic System (Beijing) Co. Ltd., Beijing	Kardex Remstar	48	CNY	1 675 040	100	1
CO			*	Kardex South-America SAS, Bogotá	Kardex Remstar	5	COP	72 000 000	100	1
CY	*		*	Kardex Systems Ltd., Limassol	Kardex Remstar	14	EUR	418 950	100	1
CZ			*	Kardex s.r.o., Prague	Kardex Remstar	41	CZK	500 000	100	1
DE	*	*	*	Kardex Produktion Deutschland GmbH, Neuburg/Kammel	Kardex Remstar	487	EUR	8 567 760	87.47 12.53	4 3
		*	*	Kardex Software GmbH, Wörth am Rhein	Kardex Remstar	50	EUR	26 000	100	4
	*			Kardex Germany GmbH, Bellheim/Pfalz	Kardex Remstar	53	EUR	511 292	100	1
	*		*	Kardex Deutschland GmbH, Neuburg/Kammel	Kardex Remstar	171	EUR	1 386 310	26.2 73.8	2 4
			*	Kardex Business Partner GmbH, Neuburg/Kammel	Kardex Remstar	5	EUR	25 000	100	4
			*	L.T.G GmbH, Isernhagen	Kardex Remstar	13	EUR	25 000	100	4
		*	*	Mlog Logistics GmbH, Neuenstadt am Kocher	Kardex Mlog	287	EUR	50 000	100	4
DK			*	Kardex Danmark A/S, Odense	Kardex Remstar	9	DKK	500 000	100	1
ES			*	Kardex Sistemas S.A., San Fernando de Henares, Madrid	Kardex Remstar	37	EUR	142 900	100	1
FI			*	Kardex Finland OY, Jyväskylä	Kardex Remstar	10	EUR	134 550	100	1
FR			*	Kardex France SASU, Neuilly-Plaisance Cedex	Kardex Remstar	70	EUR	1 835 000	100	1

Country	Finance, property,	Development, production	Distribution, service	Company, domicile	Division	Employees (FTE)	Currency	Proportional share capital in local currency	Percentage holding	Held by
HU			*	Kardex Hungaria Kft., Budaörs	Kardex Remstar	13	HUF	3 000 000	100	1
IE			*	Kardex Systems Ireland Ltd., Dublin	Kardex Remstar	-	EUR	300 000	100	1
IN[8]			*	Kardex India Storage Solutions Private Ltd., Bangalore	Kardex Remstar	27	INR	26 143 500	99.0 1.0	1 7
IT			*	Kardex Italia S.p.A., Opera (Mi)	Kardex Remstar	34	EUR	310 000	100	6
MY			*	Kardex Malaysia Sdn Bhd, Kuala Lumpur	Kardex Remstar	15	MYR	1 000 000	100	1
NL			*	Kardex Systemen bv, Woerden	Kardex Remstar	40	EUR	90 756	100	1
NO			*	Kardex Norge AS, Kjeller	Kardex Remstar	21	NOK	2 550 000	100	1
PL			*	Kardex Polska Sp.z.o.o., Warsaw	Kardex Remstar	9	PLN	1 250 000	100	1
PT			*	KARDEX PORTUGAL, UNIPESSOAL LDA, Porto	Kardex Remstar	-	EUR	18 000	100	1
RO			*	Kardex Systems Romania SRL, Timisoara	Kardex Remstar	4	RON	1 200 000	100	1
SE			*	Kardex Sverige AB, Göteborg	Kardex Remstar	27	SEK	100 000	100	1
		*	*	SumoBox AB, Västerås[10]	Kardex Remstar	2	SEK	16 500	33	1
SG			*	Kardex Far East Private Ltd., Singapore	Kardex Remstar	-	SGD	1 550 000	100	1
TR			*	Kardex Turkey Depolama Sistemleri Ltd. Sti., Istanbul	Kardex Remstar	16	TRY	1 350 000	99.5 0.5	1 6
UK			*	Kardex Systems (UK) Ltd., Hertford	Kardex Remstar	67	GBP	828 000	100	1
US			*	Kardex Remstar, LLC, Westbrook (Maine)	Kardex Remstar	67	USD	100	100	5
	*	*	*	Kardex Production USA, Inc., Westbrook (Maine)	Kardex Remstar	12	USD	1 000	100	1
			*	AHT Services Group, LLC, Cornelius (North Carolina)	Kardex Remstar	21	USD	554 000	100	5

1 Kardex AG, Zurich, Switzerland.

2 Kardex Produktion Deutschland GmbH, Neuburg/Kammel, Germany.

3 Kardex Deutschland GmbH, Neuburg/Kammel, Germany.

4 Kardex Germany GmbH, Bellheim, Germany.

5 Kardex Production USA Inc., Westbrook, USA.

6 KRM Service AG, Zurich, Switzerland.

7 Kardex Systems Ltd., Limassol, Cyprus.

8 Balance sheet date for local GAAP closing is 31 March.

9 Balance sheet date for local GAAP closing is 30 June.

10 SumoBox AB, Västerås at equity.

31. Risk management

As part of its duty to supervise the Company, the Board of Directors performs a systematic risk assessment at least once a year. The risk assessment was based on a company-specific risk universe and on information obtained from interviews with division and Group Management. Risks were recorded according to their likelihood, reputational risk and potential financial impact. This process is supported by a risk matrix that describes and values the substantial risks valid for the Group according to the following categories: external environment, strategy, management and leadership, production, market and sales, information technology and finance and compliance. Measures in order to cope with these risks are also contained in the risk matrix. The Board of Directors noted the report of the Group Management on group-wide risk management at the meeting on 19 December 2018 and approved the measures contained therein.

32. Release for publication and approval of the financial statements

The Board of Directors approved these financial statements on 1 March 2019 and released them for publication. They must also be approved by the Shareholders General Meeting.

33. Events after the balance sheet date

No events took place between 31 December 2018 and 1 March 2019 that would require an adjustment to the book value of Kardex AG's assets, liabilities or equity or need to be disclosed here.

Report of the statutory auditor on the consolidated financial statements

Report of the statutory auditor

to the General Meeting of Kardex AG

Zurich

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Kardex AG and its subsidiaries (the Group), which comprise the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year ended 31 December 2018, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 42 to 70) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: EUR 2'575'000

We concluded full scope audit work at 6 reporting units in 4 countries. Our audit scope addressed 44% of the Group's total net revenues and 70% of the Group's total assets.

In addition, specified procedures were performed on a further 2 reporting units in 2 countries representing a further 17% of the Group's total net revenues and 11% of the Group's total assets.

Moreover, early statutory audits were performed on a further 7 reporting units in 6 countries representing a further 16% of the Group's total net revenues and 7% of the Group's total assets, which enables the Group audit team to take indirect comfort from this work.

As key audit matter the following area of focus has been identified:

Revenue recognition on long-term construction contracts (percentage of completion accounting)

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	EUR 2'575'000
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above EUR 250'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Following our assessment of the risk of material misstatement to the Group financial statements, we selected 8 reporting units which represent the principal business units within the Group's two reportable segments. 6 of these reporting units were subject to a full scope audit, and 2 were subject to specific scope audit procedures. The reporting units subject to full scope audit and specific scope audit procedures accounted for 61% of the Group's total net revenues and 81% of the Group's total assets.

In addition to this work, 7 component teams were instructed to complete their statutory audits on a timely basis and to report any significant findings to the Group team. This enables the Group team to take indirect comfort on this work, especially where the reporting frameworks align. For the remaining reporting units, we performed other procedures to test or assess that there were no significant risks of material misstatement in these reporting units in relation to the Group financial statements.

To ensure sufficient and appropriate involvement of the Group team, we held conference calls with the component teams that performed full scope audits and specific scope audit procedures during the different phases of the audit. In addition, we held conference calls with selected component teams that were subject to early statutory audit. We discussed the risks identified and challenged the audit approach on significant risk areas relevant to each reporting unit. Furthermore, we obtained a memorandum of examination from all full scope component teams and discussed the results and impact on the consolidated financial statements and challenged their conclusions. Moreover, throughout the year, we had regular calls with the German component team, which is responsible for the most important reporting unit of the Group.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition on long-term construction contracts (percentage of completion accounting)

Key audit matter	*How our audit addressed the key audit matter*
A significant portion of Kardex Group revenues are generated from long-term contracts. This includes the construction of complex integrated materials handling systems and automated high-bay warehouses. Revenues and related costs from such contracts are recognized by applying the percentage of completion (PoC) method. The PoC method allows the recognition of revenues by reference to the stage of completion of the contract. As set out in note 5 on page 54 of the annual report, revenues from long-term construction contracts subject to PoC accounting amount to EUR 54.6m in the year 2018. This represents 13% of the Group's total net revenues. We focused on this area mainly due to the size of revenues generated from long-term construction contracts. Furthermore, the application of the PoC method is complex and involves both judgement by management, in assessing whether the criteria set out in the accounting standards have been met, and estimates, related to the stage of completion, total project costs and the costs to complete the contract. The principal risks include: • the potential manipulation risk of results to achieve predefined performance targets through management's use of estimates and judgments in relation to such long-term projects; • incorrect or inappropriate accounting for the percentage of completion, change orders, expected costs to complete, estimated project margin and risk contingencies; Please refer to note 2 on page 49 of the annual report 2018 for the description of the accounting policy for construction contracts.	As part of our work, we obtained an understanding of the methodology applied, the internal processes and the controls used to determine the percentage of completion. We evaluated the processes and technical systems used to record actual costs incurred and tested the manual controls and automated controls implemented in the systems. As part of our audit, we focussed on management's judgement in applying the methodology and the estimates made to determine the amount of revenue to be recorded in their project calculations. • We obtained and reviewed project source documents such as contracts, budgets and project calculations. • We tested the calculation of stage of completion including testing the costs incurred and recorded against the contract for occurrence and accuracy, assessing the basis for determining the costs to complete and total contract cost and then reperforming the percentage of completion calculation. • We challenged management in respect of the reasonableness of judgements made regarding the cost to complete estimate and the timing of recognition of change orders as well as the assessments around projects behind schedule and the adequacy of contingency provisions to mitigate contract specific risks. • We also assessed whether management's policies and processes for making these estimates continue to be appropriate and are applied consistently over time and to contracts of a similar nature. On the basis of the audit procedures above, we have gained sufficient evidence to address the risk of material misstatements in revenue recognition on long-term construction contracts (PoC).

Responsibilities of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Thomas Wallmer	Dano Bollier
Audit expert Auditor in charge	Audit expert

Zurich, 1 March 2019

Financial reporting Kardex AG

Based on Swiss Code of Oblidations, figures reported in Swiss francs.

Income statement of Kardex AG

CHF millions	Notes	2018	2017
Income from investments		39.6	68.4
Licensing income		7.2	6.0
Other operating income		2.8	2.6
Total operating income		**49.6**	**77.0**
Licensing expenses		-0.1	-0.1
Personnel expenses		-3.4	-3.0
Other operating expenses		-2.3	-2.3
Depreciation and amortization		-0.2	-0.1
Impairment on loans to Group companies	3	0.2	1.4
Impairment on investments	4	7.0	-3.3
Total operating expenses		**1.2**	**-7.4**
Operating result (EBIT)		**50.8**	**69.6**
Financial income		1.2	0.7
Financial expenses		-0.2	-0.2
Foreign exchange losses/gains (net)	5	-6.2	15.6
Result for the period before tax		**45.6**	**85.7**
Tax expense		-1.2	-0.5
Result for the period		**44.4**	**85.2**

Balance sheet of Kardex AG

CHF millions	Notes	31.12.2018	31.12.2017
Cash and cash equivalents		105.8	105.7
Other current receivables from Group companies		13.4	7.8
Other current receivables third		0.1	0.2
Prepaid expenses		0.4	0.2
Current assets		**119.7**	**113.9**
Loans to Group companies	3	50.0	40.4
Investments	4	148.5	147.4
Intangible assets		0.5	0.2
Property, plant and equipment		0.1	0.3
Non-current assets		**199.1**	**188.3**
Assets		**318.8**	**302.2**
Other current payables to Group companies		57.7	55.8
Other current payables third		1.2	0.2
Accruals		4.8	7.9
Current liabilities		**63.7**	**63.9**
Liabilities		**63.7**	**63.9**
Share capital		3.5	31.3
Treasury shares	6	-1.1	-1.3
Statutory retained earnings		17.0	17.0
Unrestricted reserve		20.2	20.2
Retained earnings		171.1	85.9
Result for the period		44.4	85.2
Equity		**255.1**	**238.3**
Equity and liabilities		**318.8**	**302.2**

Notes to the financial statements of Kardex AG

1. Significant accounting policies

Basis of preparation
The financial statements of Kardex AG comply with the requirements of the Swiss Code of Obligations and follow the recognized accounting principles.

Foreign currencies
The euro is Kardex AG's functional currency and the presentation currency of the Group because the Group's cash flows and transactions are denominated mainly in euros. The accounts of Kardex AG are presented in millions of Swiss francs.

Foreign currency translation
As at 31 December, the annual financial statements are translated into Swiss francs by applying the following principles, whereas translation differences are recognized in accordance with the imparity principle (provisioning of unrealized gains):
- assets and liabilities (including shareholdings and loans to Group companies) are translated at closing rates;
- the income statement and movements in equity capital are translated at average year-end rates;
- equity capital is translated at historical rates.

Cash and cash equivalents
"Cash and cash equivalents" comprise bank account balances and other liquid investments with a maximum total maturity of three months from the balance sheet date.

Investments
"Investments" comprise shareholdings in intercompany and shareholdings in associates which are carried at cost. The purchase price includes the acquisition price of the shares but also additional cost of acquisition. An impairment is recognized for each individual investment whenever the fair value of a shareholding, based on the earnings value (weighted two times) and the net asset value (weighted one time), falls below the investment value.

Other current payables to Group companies
This position contains euro cash-pool balances in favor of the counterparty of Kardex AG. Participants of the euro cash-pool are all Group companies with a significant transaction volume in euro. Interest rate applied are at market level.

2. Employees

The averaged number of full-time equivalents at Kardex AG amounted to 9.0 in 2018 (8.1).

3. Loans to Group companies

The impairment of loans to subsidiaries was released by CHF 0.2 million (released CHF 1.4 million) which is mainly due to repayments of impaired credit facilities. The position loans to Group companies increased based on additional loans granted to German subsidaries.

4. Investments

Investments are made up entirely of shareholdings of Kardex AG in subsidiaries which are listed on pages 68 and 69 of this report.

During the period under review the fully-owned subsidiaries Kardex Systems Romania SRL,Timișoara, Romania, and KARDEX PORTUGAL, UNIPESSOAL LDA, Porto, Portugal, were established. In prior year the fully owned subsidiary Kardex South-America SAS, Bogotá, Colombia, was founded. At 31 December 2018 Kardex AG held minority interest of 33% in Sumobox AB, Västerås Sweden, which were acquired in prior year and held as investments in associates.

The value of investments compared to prior year was negatively impacted by the decrease of the euro against the Swiss franc. This was overcompensated by the release of the impairment of investments by CHF 7.0 million. In 2017 CHF 3.3 million impairment of investments in subsidiaries was built, of which CHF 3.9 million were recognized and CHF 0.6 million derecognized.

5. Foreign exchange gains/losses (net)

Foreign exchange losses (net) of CHF 6.2 million were recognized (gain of CHF 15.6 million) as a result of the appreciation of the Swiss franc against many other currencies in connection with investments outside Switzerland.

6. Treasury shares

Kardex AG held 13 195 treasury shares with a value of CHF 1.1 million at 31 December 2018 (CHF 1.3 million).

Treasury shares underwent the following movements:

	Number	Price per share in CHF	**Total CHF 1 000**
Opening balance 1 January 2017	**16 700**	**84.31**	**1 408.0**
Purchases	-	-	-
Disposals	-1 551	84.31	**-130.8**
Closing balance 31 December 2017	**15 149**	**84.31**	**1 277.2**
Opening balance 1 January 2018	**15 149**	**84.31**	**1 277.2**
Disposals	-1 954	84.31	**-164.7**
Closing balance 31 December 2018	**13 195**	**84.31**	**1 112.5**

7. Liabilities towards pension funds

Kardex AG had no liabilities towards pension funds as at 31 December 2018 (0).

8. Release of hidden reserves

During the period under review, no hidden reserves were released.

9. Significant shareholders as defined by Art. 663c of the Swiss Code of Obligations

The following shareholders owned more than 3% of the share capital of CHF 3 478 500 as at 31 December 2018 respectively CHF 31 306 500 as at 31 December 2017.

	31.12.2018	31.12.2017
BURU Holding AG and Philipp Buhofer	23.6%	23.6%
Alantra Partners S.A.	8.4%	7.1%
Credit Suisse Funds AG		3.2%
Lombard Odier Asset Management (Switzerland) SA		3.2%

10. Operating leases

Operating leases apply mainly to vehicles and rents on buildings. Leasing contracts are agreed at current market conditions.

CHF millions	31.12.2018	31.12.2017
Expense for operating leases for the year	0.3	0.3
Future minimum payments for non-cancellable lease agreements		
Up to 1 year	0.4	0.3
1 to 5 years	1.4	0.7
Total future minimum payments for operating leases	**1.8**	**1.0**

11. Securing of liabilities

In view of the group taxation principle, all Swiss companies bear unlimited joint and several liability for value-added tax (in accordance with Art. 15, § 1c of Swiss VAT legislation).

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

12. Contingent liabilities

CHF millions	31.12.2018	31.12.2017
Contingent liabilities in favor of subsidiaries and third parties	3.4	4.3
Subordinated loans to subsidiaries	1.1	1.1

13. Events after the balance sheet date

No events took place between 31 December 2018 and 1 March 2019 that would require an adjustment to the book value of Kardex AG's assets, liabilities or equity or are subject to disclosure here.

14. Shareholdings and grants

Shareholdings of members of the Board of Directors, the Group Management and related parties.

Related parties and companies comprise family members and individuals or companies that can exert a significant influence.

Other than compensation payments and ordinary contributions to the various pension plans for members of the Board of Directors and Group Management, no significant transactions with related parties and companies took place.

Board of Directors and Group Management 2018

Name	Function	Number of shares	Voting interest in %	Thereof with retention period of 3 years until: 2019	2020	2021	Total
Board of Directors							
Philipp Buhofer[1]	Chairman	1 822 990	23.58%	731	415	259	**1 405**
Felix Thöni	Vice Chairman	33 381	0.43%	246	253	166	**665**
Jakob Bleiker	Member	4 951	0.06%	227	205	132	**564**
Ulrich Jakob Looser	Member	2 718	0.04%	215	389	283	**887**
Walter T. Vogel	Member	12 281	0.16%	324	289	181	**794**
Total Board of Directors		**1 876 321**	**24.27%**	**1 743**	**1 551**	**1 021**	**4 315**
Group Management							
Jens Fankhänel	CEO	3 933	0.05%	-	-	933	**933**
Thomas Reist	CFO	250	0.00%	-	-	-	**-**
Hans-Jürgen Heitzer	HoD Kardex Mlog	350	0.00%	-	-	-	**-**
Total Group Management		**4 533**	**0.05%**	**-**	**-**	**933**	**933**

[1] Including shares held by BURU Holding AG.

Board of Directors and Group Management 2017

Name	Function	Number of shares	Voting interest in %	Thereof with retention period of 3 years until: 2018	2019	2020	Total
Board of Directors							
Philipp Buhofer[1]	Chairman	1 822 731	23.58%	1 083	731	415	**2 229**
Felix Thöni	Vice Chairman	33 215	0.43%	394	246	253	**893**
Jakob Bleiker	Member	4 819	0.06%	851	227	205	**1 283**
Ulrich Jakob Looser	Member	2 435	0.03%	315	215	389	**919**
Walter T. Vogel	Member	15 000	0.19%	565	324	289	**1 178**
Total Board of Directors		**1 878 200**	**24.29%**	**3 208**	**1 743**	**1 551**	**6 502**
Group Management							
Jens Fankhänel	CEO	6 000	0.08%	-	-	-	**-**
Thomas Reist	CFO	250	0.00%	-	-	-	**-**
Hans-Jürgen Heitzer	HoD Kardex Mlog	350	0.00%	-	-	-	**-**
Total Group Management		**6 600**	**0.08%**	**-**	**-**	**-**	**-**

[1] Including shares held by BURU Holding AG.

In the period under review, the Board of Directors, as part of their compensation for the 2018/2019 term, were granted 1 954 (1 551) shares equivalent to the amount of CHF 164.7 thousand (CHF 130.8 thousand) instead of remuneration in cash. In the same period the Group Management were granted 933 (0) shares equivalent to the amount of CHF 107.2 thousand (CHF 0.0 thousand) as part of the variable compensation of 2017 instead of remuneration in cash.

Proposal of the Board of Directors to the Annual General Meeting

1. Appropriation of retained earnings

The Board of Directors will propose to the General Meeting a dividend of CHF 4.00 per share totaling to CHF 30.9 million be paid out and CHF 184.6 million be carried forward.

CHF millions	31.12.2018
Balance brought forward	171.1
Result for the period	44.4
Net result	**215.5**
Net result at the disposal of the General Meeting	**215.5**
Dividend	30.9
Balance to be carried forward	184.6

Report of the statutory auditor on the financial statements

pwc

Report of the statutory auditor

to the General Meeting of Kardex AG

Zurich

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Kardex AG, which comprise the income statement, balance sheet and notes for the year ended 31 December 2018, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 76 to 81) as at 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for opinion
We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 3'180'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

Valuation of investments in subsidiaries

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They

are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 3'180'000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because Kardex AG is a holding company which holds mainly investments in subsidiaries. The profit of a holding company fluctuates depending on the decision of paying up dividends. Furthermore total assets is a generally accepted benchmark to determine the materiality according to audit standards. We chose 1% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with the Audit Committee that we would report to them misstatements above CHF 318'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in subsidiaries

Key audit matter	*How our audit addressed the key audit matter*
Investments in subsidiaries amount to CHF 148.5m as of 31 December 2018. In the reporting period impairments of investments in subsidiaries in the amount of CHF 7m were released. Investments in subsidiaries are carried at historical cost less required impairments and are valued on an individual basis. We focused on this area due to the size and significance of the position (46.6% of total assets). Please refer to notes 1 and 4 on page 78 of the annual report 2018 for the description of the accounting policy for investments.	Management calculates the value of each investment based on the earnings value (weighted two times) and the net asset value (weighted one time). We have compared the book values with the corresponding equity values. The profits used for calculation were compared with the previous year figures and the current values. Furthermore, we challenged the discount rate used to calculate the earnings value by assessing the cost of capital for comparable organisations, as well as considering territory specific factors. On the basis of the audit procedures above, we have gained sufficient evidence to address the risk of material misstatements in valuation of investments in subsidiaries.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Thomas Wallmer	Dano Bollier
Audit expert Auditor in charge	Audit expert

Zurich, 1 March 2019

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