Facts and figures in brief

- Kaba Group back on track with growth
- EBIT rises by 14.4% in local currencies, by 11.2% in CHF
- EBIT margin on sales improves from 11.2% to 12.3%
- Net income advances by 24.3% to CHF 56.8 million
- Profit target exceeded
- Dividend increase from CHF 3.00 to CHF 4.00 proposed
- Sales growth by 5.2% (currency-adjusted) in the second half of the year, by 2.3% for the report year, and by 1.8% in CHF
- Vigorous recovery of Door Systems Division with an EBIT gain of CHF 8.5 million
- High operating cash flow of CHF 91.6 million and reduction of net debt by CHF 77.8 million
- Kaba fit for the upswing
- Further profit growth projected

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<th>Key figures</th>
<th>2003/04</th>
<th>2002/03</th>
<th>2001/02</th>
<th>2000/01</th>
<th>1999/00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues (in CHF million)</td>
<td>998.3</td>
<td>983.8</td>
<td>1,025.9</td>
<td>714.5</td>
<td>546.8</td>
</tr>
<tr>
<td>EBIT (in CHF million)</td>
<td>120.9</td>
<td>108.7</td>
<td>123.0</td>
<td>68.2</td>
<td>52.8</td>
</tr>
<tr>
<td>Net income for the year (in CHF million)</td>
<td>56.8</td>
<td>45.7</td>
<td>61.8</td>
<td>41.9</td>
<td>34.5</td>
</tr>
<tr>
<td>Market capitalization (as at 30.6.2004, in CHF million)</td>
<td>924.0</td>
<td>689.0</td>
<td>1,142.0</td>
<td>1,266.0</td>
<td>1,179.0</td>
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<tr>
<td>Earnings per share (in CHF)</td>
<td>15.92</td>
<td>12.81</td>
<td>17.32</td>
<td>11.74</td>
<td>15.37</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Kaba Group Divisions</th>
<th>2003/04 in CHF million</th>
<th>2002/03 in CHF million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Door Systems</td>
<td>232.9 24%</td>
<td>220.2 23%</td>
</tr>
<tr>
<td>Data Collection</td>
<td>66.4 7%</td>
<td>65.0 7%</td>
</tr>
<tr>
<td><strong>Access Systems Europe</strong></td>
<td>263.8 27%</td>
<td>240.1 25%</td>
</tr>
<tr>
<td><strong>Access Systems Asia Pacific</strong></td>
<td>43.7 4%</td>
<td>44.1 4%</td>
</tr>
<tr>
<td><strong>Access + Key Systems Americas</strong></td>
<td>278.3 28%</td>
<td>300.9 31%</td>
</tr>
<tr>
<td>Access Systems total</td>
<td>585.8 59%</td>
<td>585.1 60%</td>
</tr>
<tr>
<td>Key + Ident Systems Europe</td>
<td>99.9 10%</td>
<td>96.9 10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>985.0 100%</strong></td>
<td><strong>967.2 100%</strong></td>
</tr>
</tbody>
</table>
Elections to the Board of Directors

The terms of office of Karina Dubs-Kuenzle, Maurice P. Andrien, and Rudolf W. Weber expire at the General Meeting on 26 October 2004. The Board of Directors proposes that they be reelected. Moreover, the Board of Directors will ask the General Meeting to approve the election of Rolf Dörig as a new member.

Rolf Dörig, Swiss citizen, born 1957, has been Chief Executive Officer of the Swiss Life Group since 2002. He is a member of the following bodies and organizations: executive committee of the Swiss Insurance Association, executive committee of economiesuisse, and executive board of the Zürich Chamber of Commerce. Rolf Dörig is on the board of directors of ANBE AG/Danzer Group, Baar, and president of the Grasshopper Club, Zürich.

From 1986 to 2002, Rolf Dörig worked for the Credit Suisse Group in various leading positions, lastly as Chairman Switzerland of the Credit Suisse Group.

He studied law at the University of Zürich, earning his LL.D. and obtaining admission to the bar in the canton of Zürich. In 1995, he complemented his education at Harvard Business School (AMP/ISMP).
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Welcome to the world of Kaba
Sustainably compatible with your requirements
Group Structure
«Total Access»
The Strategic Business Segments (SBS)
Welcome to the world of Kaba

Our 2003/04 annual report was dedicated to the topic of compatibility. For the Kaba Group, compatibility is more than a mere catchword. It’s part of our strategy of sustainability. Among the global suppliers, Kaba is the only company that guarantees its customers uncompromising sustainability of all products and systems. Every new development is upward compatible, making it possible for the customer to freely determine the extent and scheduling of a new investment. Because all «Total Access» components are compatible and interchangeable, Kaba is also the preferential partner for globally active customers who need to be highly flexible in the selection of their operating locations.
Sustainable compatibility as a selling proposition

The advantages of compatibility span a vast spectrum of areas. Compatibility sets clear goals to product development and generates synergies in manufacturing, logistics, marketing, and distribution. But above all, compatibility is a strong sales argument that can readily clinch deals especially in a time of growing demand across the board. Customers know that choosing Kaba is always the right decision, one that guarantees the greatest possible flexibility in the future. This confidence has been a crucial factor that enabled Kaba to directly profit from the rebounding demand in the security industry during the second half of financial 2003/04.

No upturn without fitness

The growth achieved in the reporting year did not fall in Kaba’s lap. It is the result of the Group’s continuous efforts to remain fit and ready for an upturn on the security market. In spite of declining revenues and profits in financial 2002/03, Kaba was far-sighted enough to invest in the expansion of its global technological leadership. It has always been aware that the successful implementation of its «Total Access» strategy tolerates no interruption. At the same time, production and distribution structures have been continuously optimized and adjusted to the evolving market requirements and customer preferences. Our sustainable and partly anti-cyclical investment policy, as well as our consistent determination to stay close to the market, have paid off impressively during 2004.

Overproportional increase of EBIT

After a slight decline in revenues during the first six months of financial 2003/04, the Kaba Group returned to robust growth in the second half of the year, posting a currency-adjusted increase of 5.2 % as at 30 June 2004. EBIT rose overproportionally by 11.2 % to CHF 120.9 million, indicating that the growth in sales was not a result of margin compromises. At constant exchange rates, Kaba’s EBIT growth in the reporting year was even greater, amounting to CHF 15.6 million or 14.4 %.

Consolidated net income was boosted by 24.3 % to CHF 56.8 million, CHF 2.8 million above the target of CHF 54 million envisaged by Kaba in the fall of 2003. This is particularly impressive because currency translation reduced EBIT expressed in Swiss francs by CHF 3.4 million.

High backlog, high market potential

While progress in the reporting year has been very encouraging, it must not distort our view of reality. Currency translation has again taken a significant chunk out of Kaba’s income. Moreover, the recovery of the security industry has not benefited all divisions and markets to the same extent. In some areas, the trend is still hesitant and unsatisfactory. Customers are deferring orders or pressing for conditions that erode our margins. In addition, Kaba’s objective to convince all customers of the advantages of the «Total Access» strategy is still far from being met. In this regard, there is a substantial backlog – but also a considerable untapped market potential.
Higher dividend

The Board of Directors proposes the payment of a dividend of CHF 4.00 per share of CHF 10.00 par. With this increase of the proposed dividend by CHF 1.00, the Board of Directors has factored in the positive development of net income and affirmed the conviction that the Kaba Group will benefit to an above-average extent from the revived demand on the security market. The proposed dividend entails a modest increase of the payout ratio from 23.4% to 25.1% of consolidated net income.

Our cordial thanks

The fact that Kaba has been able to benefit from the upturn in the security industry and expand its market share is first and foremost the accomplishment of our 6,000 employees. They deserve our sincere gratitude for their great commitment and dedication. But our thanks also go to our customers, business partners, shareowners, and other stakeholders. Collectively, they have all contributed to making financial 2003/04 a year that will be a pleasure to remember.

Rudolf Hauser
Chairman
of the Board of Directors

Ulrich Graf
President and CEO
Sustainably compatible with your requirements

Your requirements

Kaba’s mission is to fulfill your requirements. These requirements may be highly diverse. But the key question is always the same: Are Kaba’s services sustainably compatible with the stakeholder’s expectations?

A few examples: When you choose Kaba in your capacity as a customer, it is usually not because you are in search of a single product. What you actually need is a solution. And the solution should not only meet your current needs but also be compatible with already installed modules and ready for future upgrades or expansions. If you’re a financial analyst, an investment advisor, or a shareholder, your focus will be on the potential of the Kaba Group. To find Kaba equities attractive, you must be confident that Kaba has the ability to continuously tap and utilize this potential. And if you’re an employee, you want your personal ambitions to be compatible with the objectives of the company in the long term.

Our responses

Our specific responses are tailored to the target group, but they are always geared to sustainable compatibility. In this way, we provide customers with solutions that can be expanded two, three, or ten years from now. Every new Kaba product is compatible with the systems already installed. Our customers know and appreciate this advantage. It is no coincidence that Kaba generates 70% of its sales from the installed base of its customers.

The approach of sustained compatibility adopted by Kaba also serves our business partners and suppliers. They have recognized that the Kaba Group’s high standards are a convincing asset that strengthens their own competitiveness.

Fortunately, the financial community has also become aware of the strategic importance of group-wide compatibility. It is what distinguishes Kaba from conglomerates whose products and systems are incompatible, and also from smaller firms that offer insular technological solutions. Investment protection for customers is investment protection for investors.

Moreover, sustainable compatibility is Kaba’s principle when it comes to the interests of its employees, for example as regards their desire to optimize their work/life balance. Kaba offers advantageous job conditions, ongoing basic and advanced training, as well as interesting challenges and upward mobility.

If we define ethics as the doctrine of sustainable success, this approach meets the requirements of all Kaba Group stakeholders in both objective and moral respects.
Horizontal and vertical compatibility is at the heart of the «Total Access» strategy that has propelled Kaba into an undisputed leadership position in the global race of expertise and competencies. The real winners are the customers who benefit from Kaba’s guarantee of three-fold investment protection philosophy.

People who thought that the European Union (EU), an association of most European countries, would swiftly bring about a unification of norms and standards were in for some big surprises. A traveler still needs an extensive set of adapters to use the power sockets in the various countries of Europe. Sometimes, it even takes a transformer to adapt the local mains voltage to the electrical rating of an appliance. A similar state of affairs prevails in security technology. In locking technology, cylinders and keys of the same family are interchangeable. But when it comes to electronics, many products run into compatibility problems. Locking technology (predominantly mechanical) and access technology (electronically controlled) are still offered as separate disciplines by most providers. As a result, users are forced to employ several different identification media. Procedures becomes more complex and vulnerable, operating and maintenance costs are higher, and acceptance among users is lower.
The Kaba way: systematic and sustainable compatibility

As a company that develops its products from the perspective of users and customers, Kaba chose a different approach from the very beginning, an approach that is aptly named «Total Access» strategy.

The systematic implementation of the «Total Access» strategy already begins when new products and product families are still in the design stage. One of the top priorities for Kaba’s developers is to make new modules compatible with all existing and future products. To implement this strategy without compromise, all companies of the Kaba Group must be sufficiently integrated to produce systems, processes, and methods that are compatible with each other. Regardless of whether a company develops, manufactures, advises, or sells, it cannot be an outsider; any insular solution would undermine the «Total Access» philosophy.

Total integration of mechanical locking technology and electronic access control

Kaba is the only provider worldwide with the capability of uniting locking technology and access control within a single, user-friendly system. Two core competencies help Kaba achieve this goal:

- Mechatronic locking cylinders based on the Legic RFID technology
  They merge mechanical functions with electronic convenience. Identification criteria and authorization capabilities can be programmed and modified quickly and securely at any point in time.

- Com-ID (Common Identification Media)
  Com-ID is a globally protected Kaba technology that uses one single identification medium (key, card, or a combination of the two) and the associated authorization management to sustainably control access to buildings, facilities, or networks.

What customers need

Investments in security are usually made with a medium- to long-term perspective. However, in the course of time, certain parameters – some of which cannot be influenced – will make changes necessary. Residential and business facilities alike are subject to such changing requirements.

For Kaba customers, these changes are nothing to worry about because they know that they can adapt their installed modules and systems at any time. Exactly why, when, and to what extent such a change is necessary cannot be anticipated and doesn’t even really matter. New requirements may arise when a company expands or integrates acquired firms, when the risk scenario and the security needs change, or when greater user convenience is desired. In each of these cases, the new modules and systems are compatible with the Kaba solution already installed.

For Kaba customers, sustainable compatibility within the scope of the «Total Access» strategy simply means investment protection. More precisely, this investment protection is three-fold:

- Horizontal compatibility across all existing modules
- Vertical compatibility between existing and subsequently added modules
- Continuity of the Kaba Group as a guarantee of professional worldwide customer service

It is no coincidence that the Kaba Group generates about 70% of its sales within the installed base of existing customers. Kaba’s employees are aware of the responsibility this entails. With their know-how and their personal commitment, they make sure that Kaba remains a global leader in the competitive competence arena.
What is «Total Access»?

Kaba produces and markets components in the following three domains: mechanical and mechatronic cylinders and locking systems, electronic access systems and data collection as well as security and automatic doors.

Driven by the market demand for greater security and convenience, but also by new technical capabilities, the three domains are growing together. However, this necessitates the interoperability of the components. The resulting market is referred to as the «Total Access» market.

Under the term Integrated Systems, Kaba also provides the entire range of engineering services for secure and convenient doorkeeping solutions for customers who want all-in-one «Total Access» solutions from a single source.
The following Strategic Business Segments service the markets by customer category and jointly implement the «Total Access» strategy.

**SBS Access Control**

The product portfolio of Access Control, our largest business segment by sales, includes mechanical and mechatronic locks and cylinders, masterkey systems, and the control software of integrated access systems for general commercial applications. It also contains market-specific products such as pushbutton locks, which are widely popular mainly in the USA and in Asia Pacific. Kaba’s electronic PowerLever locks have gained global fame; they require neither batteries nor wiring to a power source. The ability to combine masterkey systems with access control has resulted in interesting innovations that have created a significant competitive edge for Kaba.

**SBS Safe + Container Locks (prev. Safe Locks)**

Kaba is the leading manufacturer of high-security and safe locks. The product line extends from purely mechanical and combination locks to sophisticated electronic devices and redundant high-security locks. The portfolio also contains an extensive line of bolt assemblies. Locks for the manufacturers of ATMs (Automatic Teller Machines) provide selective access to a machine’s individual compartments during specific time windows, logging all successful and attempted access transactions.

**SBS Lodging Systems (prev. Hotel Locks)**

The dependability of Kaba systems appeals mainly to large, internationally active hotel groups. Apart from access control, Kaba products also cover applications such as cashless purchases or authorization time-window management.

**SBS Door Systems**

This business segment is focused on security doors and automatic doors. The respective markets are serviced in different ways. Together with platform screen doors, automatic doors focused in new market segments have the greatest growth potential of the overall market.

**SBS Data Collection**

Kaba is a global technology leader and Europe’s market leader in enterprise data collection as well as time + attendance recording. The Group is only just beginning to develop the promising markets in North America and Asia Pacific. Kaba Benzing cooperates with specialized systems and software vendors, offering their customers tailor-made solutions. As a certified SAP Partner, Kaba Benzing can provide attractive solutions that integrate seamlessly into SAP environments.

**SBS Key Systems**

Kaba is the world market leader in replacement keys. With its Silca and Ilco range, Kaba can serve its customers with an extensive line of mechanical, electronic, and industrial key cutting and coding machines. The Kaba Group’s leadership position is strengthened by a dense global network of customers and dealers as well as close collaboration with OEMs (Original Equipment Manufacturers) in the automobile industry.

**SBS Identification Systems**

In the challenging global market for electronic identification systems, Kaba occupies a leading position with its Legic product line. The heart of Legic identification systems is an electronic no-contact authorization medium. Integrated in a key, badge, ID card, or bracelet, it conveniently and securely covers virtually every operational need in the domains of identification, organization, verification, and cashless payment transactions.
Stakeholders

Customers
Employees
Business Partners
Investors
“Kaba helps us strengthen the loyalty of our customers toward Kaba Ilco products as well as toward IDN.”

Mike Groover, President & CEO, IDN Inc., Grapevine, Texas, USA

Focusing on the customer’s customer:
For Mike Groover, head of a distribution and logistics organization that supplies North America with Kaba products, Kaba is a partner that strengthens customer loyalty.

What are the key assets behind the continuity of a 75-year customer relationship? The most important one, according to Mike Groover, President & CEO of IDN Inc. in Grapevine, TX, has been Kaba’s contribution to cementing the relationship between IDN and its customer community. “Kaba supports our sales with creative and effective sales promotion programs that strengthen the loyalty of our customers toward Kaba Ilco products and toward IDN alike.”

As a distribution and logistics organization with six regional companies and 46 distribution centers, serving locksmiths and specialized dealers throughout North America, IDN depends on the active and professional support of its suppliers. With Kaba, Mike Groover’s experience has been excellent. “The field service people thoroughly acquaint our sales teams with the various product lines and closely cooperate with us in developing growth-intensive and profitable markets.”

As regards the future development of IDN, Groover thinks a spirit of partnership with a leading-edge company such as Kaba is crucial. “With Kaba Ilco’s innovative products and broad product range, we can offer our customers the equipment needed to adapt their existing locking systems to the future requirements of electronic access control”, explains IDN’s CEO.
As head of quality assurance and procurement at Nihon Kaba K.K. in Yokohama, Japan, Mitsuo Sato abhors a job half done. “I stand fully behind the objectives of my supervisor, Mr. Kato, and behind the policy of the entire Kaba Group”, declares the 50-year old electronics graduate of Shibaura Institute of Technology. Mitsuo Sato worked in the quality management department of electronics firm Akai for 24 years before joining Kaba four years ago.

“My ambition is to undertake every imaginable effort to guarantee top product quality and customer satisfaction”, Sato explains. By aspiring to this goal, he not only wants to do himself and his family a favor but also assume social responsibility and contribute to making society better. What Sato likes about his working environment is that it always offers opportunities for self-improvement.

“I am proud to have the privilege of working for the Kaba Group and under the Kaba brand.”
Mitsuo Sato, Senior Manager of Quality Assurance and Procurement, Nihon Kaba K.K., Yokohama, Japan
For eleven years, Kaba GmbH in Herzogenburg (including its predecessor Gebrüder Grundmann Schliesstechnik) has been cooperating with the Geschützte Werkstätte (GW) St. Pölten GmbH. In the course of this relationship, Kaba has become the fourth-largest customer of this industrial firm established in 1981. Three out of four GW employees are handicapped persons.

“Kaba has become an important factor for the employment of handicapped people”, Fritz Schuster, one of the two managing directors, notes approvingly. But Schuster points out that GW St. Pölten is a Kaba customer as well, installing Kaba products in its new operating facility.

As Kaba outsourced part of its assembly operations, GW extended its warehousing capacity to include the respective raw materials, semi-finished and finished products. “This has also led to a certain measure of know-how transfer between Kaba and GW St. Pölten in the area of logistics, something we’re quite happy about”, Fritz Schuster confirms.

Hands-on solidarity: Thanks to Kaba, a protected workshop for handicapped people in St. Pölten (Lower Austria) can employ five to ten persons.
For Joerg de Vries-Hippen, Director CIO-European Equities RCM in Frankfurt, the top investment priority is quite simply “absolute performance”. Kaba shares are increasingly matching this criterion. “We are really warming up to Kaba and beginning to build positions”, de Vries-Hippen said.

He states several reasons why the timing is just right. A market environment in the process of normalizing its equity valuations finds late-cycle companies such as Kaba an attractive option. “The economic rebound has made it easier for customers to operate their own businesses. As a result, they tend to refocus on home-turf issues such as security”, de Vries-Hippen reasons.

Kaba, he says, is very well positioned to benefit from the upturn. “With its leading-edge tech products and worldwide presence, the Kaba Group has become the company that sets the pace in security technology.” While the investment pro concedes other companies may generate higher sales, he sees Kaba’s strong reputation on the market as a result of typically Swiss virtues, such as dependability and a down-to-earth attitude.

Added value for investors:
Rekindled demand on the security market boosts Kaba’s business and share price.
Financial Year 2003/04

Report on financial
Divisions
Information
Report on financial 2003/04

The Kaba Group returned to a course of robust growth in financial 2003/04. The second half of the financial year was especially encouraging and resulted in an increase of consolidated net income by 24.3\% versus the prior year, thus exceeding the profit target.
During the year under review, the Kaba Group demonstrated that growth of customer demand generates not only more sales but also an overproportional increase of earnings. Compared to the prior year, consolidated net income rose by an impressive 24.3% to CHF 56.8 million, clearly exceeding Kaba’s profit target of CHF 54.0 million. EBIT closed at CHF 120.9 million (+11.2%), clearly outpacing the growth rate of sales which amounted to a currency-adjusted 2.3%. Expressed in Swiss francs, sales increased by 1.8% to CHF 985.0 million.

However, sales figures were negatively affected by the exchange rate of the US dollar, which depreciated versus the Swiss franc for the third consecutive year. During the year under report, the US currency weakened by 8%, reflected by a CHF 4.4 million decline of sales. This figure takes into account the favorable parity developments of most other currencies that are relevant to Kaba’s business.

**Door Systems Division makes an impressive rebound**

The Door Systems Division generated sales of CHF 232.9 million during the report year, corresponding to a currency-adjusted increase of 4.5%. Absolute EBIT closed at CHF 7.2 million, sharply contrasting with the negative result of CHF –1.3 million in the prior year. The absolute improvement of EBIT by CHF 8.5 million resulted in an EBIT margin of 3.1% (PY: –0.6%), confirming the success of the fundamental restructuring measures implemented in the door companies in England and Germany.

The UK door companies made significant progress in income and in operations reached the breakeven point. The German distribution company was able to massively improve its income situation but has not yet managed to break even. Kaba Gilgen AG, the Swiss company that generates about one-half of the sales of the Door Systems Division, continued its growth and further boosted its already high profitability. The Schwarzenburg-based company has again proven to be a powerful and reliable contributor to the Kaba Group’s earnings.

**Predominantly positive development of the other divisions**

The business trend was predominantly positive in the other divisions as well. With the exception of the Access + Key Systems Americas Division and the Access Systems Asia Pacific Division, all divisions reported growing sales. Access + Keys Americas faced a decline of sales by 7.5% or CHF 22.6 million. However, 6.3% of the decline was due to currency translation. The Access Systems Asia Pacific Division missed the prior-year sales result by 0.9%.

In contrast with the previous year, all divisions generated positive EBIT in financial 2003/04. The largest contribution to the absolute EBIT increase of the Kaba Group was made by the Access Systems Europe Division. Its EBIT rose by 38% to CHF 31.2 million. Sales closed at CHF 263.8 million, an increase of 9.9%, and the EBIT margin advanced from 9.4% to 11.8%.
Although the positive results were buoyed by a firmer euro, they illustrate the impressive success of Kaba’s two key forward strategies: a customer-friendly, technologically convincing range of «Total Access» solutions on the one hand, as well as efficient structures in production, distribution, and marketing on the other. The groundwork was laid by the Access Systems Europe Division which had unified its distribution activities in the prior year, concentrated its lock cylinder manufacturing locations, and introduced a new logistics concept. Under this concept, dealers in various countries are directly supplied by the production facility.

The great potential of tenacious marketing was demonstrated by the Data Collection Division. In the USA, the division reported a sales increase of 26% in local currency for financial 2003/04. Thanks to their widely acknowledged quality and functionality, Kaba Benzing’s terminal solutions are obviously gaining considerable popularity in the American marketplace. Within a period of just three years, the dedicated marketing efforts of Kaba Benzing in the USA have transformed the division from a little-known provider into a well-established brand and a market leader in subsystems for SAP R/3 HR (Human Resources).

**Marked increase of operating performance**

Progress in operating performance is documented by the Return On Net Operating Assets (RONOA). This indicator, which expresses the ratio between EBIT and net operating assets, increased from 30.3% in the prior year to 37.6% in the year under report. This is a remarkable step forward considering the difficult first semester and the adverse foreign-exchange circumstances.

Conversely, operating cash flow closed at CHF 114.5 million, falling short of the prior year’s CHF 123.4 million. This was anticipated because the amounts that originated from the reduction of working capital in financial 2002/03 were non-recurring in nature. Nevertheless, the optimized management of net current assets again made a contribution amounting to CHF 12.1 million. Investments in fixed and financial assets as well as intangible assets exceeded the prior-year level of CHF 26.3 million by 17.4%.

After investments (not including investments in holdings), net free cash flow closed at a high CHF 91.6 million (PY: CHF 107.1 million). It is likely that in the future, net free cash flow will correlate even more closely with the steadily improving business result.

Free cash flow made it possible to further reduce net debt by CHF 77.8 million. As a result, net debt went down from CHF 430.5 million to CHF 352.7 million within only one year (as at 30 June 2004), reaching a level that is quite comfortable for a globally active corporation of Kaba’s size.
Outlook

All indicators point toward an imminent boost of sales within the industry, driven by growing security needs as well as rebounding economies in most markets. The growth in demand will be particularly beneficial to companies which, like Kaba, offer customized comprehensive solutions, including competent implementation.

After the perceptible acceleration of demand during the first six months of 2004, we expect an increase for financial 2004/05 (ending 30 June 2005) that exceeds the growth rates of the economies where the Kaba Group is active.

Experience confirms that organic growth allows Kaba to achieve overproportional EBIT margin growth. For this reason, earnings growth is likely to outperform sales growth as well.
Large picture:
The Munich airport relies on Kaba security doors

From left to right:
Controlled access with Kaba tripod barriers – pedestrian management at the airport

Thief-proof parking for bicycles – thanks to access authorization exclusively for rail passengers

Aesthetic appeal and elegance:
Security doors for Lloyds TSB Bank, London
Door Systems Division
Successful realignment delivers results

Despite a stubbornly sluggish market, systematic realignment measures helped the Door Systems Division achieve an increase in sales and an impressive surge in EBIT.

Kaba Gilgen AG, the Swiss company that generates about half the sales of the Door Systems Division, again reported growth and was able to further raise its already high level of profitability.

The British door companies made visible progress in terms of earnings and attained the breakeven point in operations. This positive development is attributable to many systematic corrective measures, including a decentralization of marketing activities and a market-driven segmentation of the product lines. Further improvements of the earnings situation will take hold as the measures are implemented.

The German company that manufactures security doors again closed the year with successful results. It began to service foreign markets and won several new customers. Kaba Türsysteme, the German distribution company, massively improved its earnings situation but the breakeven point has not yet been attained. Although representative surveys confirm a definite market share gain for Kaba doors in Germany, the scenario is characterized by a lack of demand and thus suffers from pressure on margins. The Kaba Door Systems Division in Germany is moving into financial 2004/05 with a leaner organization that creates an ideal platform for further earnings gains as the year unfolds.

In the year under review, several new products were developed, some of which have already been successfully introduced on the market. A highlight is the new airport barrier which enables a secure and efficient separation between the landside and airside zones of airports. The system meets the standards imposed by aviation authorities and is designed for user-friendliness. The first large orders have already been implemented in Denmark and Sweden.

In China, Kaba continued to expand the distribution structure and began to develop its own production capacities. These are integrated into the Regional Market Organizations (RMO) where sales activities and all central functions are concentrated.
At the Hamburg seaport, Eurogate deploys Kaba Benzing time + attendance as well as access control products.

From left to right:
The Bedanet 9540 PDC3 terminal handles all contemporary enterprise data collection needs

The entry-level Bedanet 9320 terminal for modern time + attendance applications

Biometric identification with the Bedanet 9120 FP terminal
Data Collection Division
Prior-year result exceeded

After a rather slack first semester, the Data Collection Division picked up momentum in the second half of the year. Both revenue and EBIT topped prior-year levels, and earnings even grew overproportionally.

While sales in Germany, the division’s largest market, remained steady despite the economic slump, they doubled in England. In the USA, hardware and software sales also achieved sizeable gains. Due to their proven quality and functionality, Kaba Benzing’s terminal solutions are becoming increasingly popular among US customers. Virtually unknown in the USA just three years ago, Kaba Benzing today is an established brand, and the company is the market leader for SAP R/3 HR (Human Resources) subsystems.

In the Middle East, the first «Total Access» presentation at the 2003 Security & Safety Fair in Abu Dhabi generated lively interest among customers. Two projects have already been successfully finalized: a major project for an Arab air carrier and a biometry solution for an Arab bank. Kaba’s Dubai branch, established in the fall of 2004, is expected to conclude further contracts soon.

Its new modular hardware/software platform makes Kaba Benzing a technology leader. The pressing need among prospective customers to contain and reduce costs is met by the flexible IT integration of time + attendance management, access control, and enterprise data collection. The solutions are integrated seamlessly into the customer’s already existing IT infrastructure. The hardware/software platform is based on open industry standards and is designed to accommodate the integration of new technologies in the future. Kaba Benzing’s modular Java software library has meanwhile reached such an advanced stage that it is already being used by large customers for the development of their own terminal solutions. So far, no other provider has been able to offer such an advantage.

Key projects in financial 2003/04 included Goodridge Aerospace, USA (three divisions), Cooper Industries, USA (60 branch offices), Portugal Telecom, 25 BMW companies, and all three major airports in Ireland.

Relying on its technology leadership and its network of over 200 implementation partners, the Data Collection Division expects further growth in sales and earnings as the business year unfolds.
Large picture:
A Lower Austrian mansion in the St. Pölten district: some 9,000 Kaba cylinders

From left to right:
Kaba penta – high-end mechanical security
Kaba eloegic locks – mechatronics with proven Legic technology
Electronic double-knob cylinder – contactless activation and visual access verification
Access Systems Europe Division

Clearly on the growth track

The Access Systems Europe Division can look back on a very successful financial year. The systematic implementation of the «Total Access» strategy and a sustainable increase in efficiency have resulted in organic growth of 7.5% as well as in a dramatic improvement of profitability. The positive trend gained momentum as the economy gradually rebounded in the second half of 2003/04.

The German-speaking market evolved at an above-average pace. A significant increase was achieved in the traditionally strong Swiss market, Kaba’s home turf. But Austria and Germany also posted double-digit sales growth and perceptible earnings increases despite a sometimes extremely difficult market environment. Other distribution markets in Europe reported solid gains as well. Only Sweden and Hungary failed to meet the ambitious objectives.

The restructuring in France had a positive impact. In the year under review, Kaba gained market share again. Sales and earnings are also clearly moving up in England. In financial 2004/05, further measures will be devoted to the development of Italy and the growth markets in the Middle East. Additionally, the Access Systems Europe Division is well prepared to address the anticipated upswing in the new EU member nations. In some countries, Kaba already has a local presence.

As expected, the hotel market has not yet recovered. However, an uptrend in bookings reported by tour operators suggest a trend reversal in hotel occupancy rates that should have positive repercussions for the second half of 2004/05. Moreover, Europe’s largest hotel accommodation provider, has appointed Kaba as its principal supplier.

The market for safe keys grew vigorously in the year under review. In particular, the demand for Cencon high-security locking systems for ATMs picked up decisively. Several major projects for prison door locks in Germany also contributed to the good result.

The division fared exceptionally well in access control, the domain with the greatest growth rates; its core competencies are cylinder systems, locking systems, and integrated systems.

All innovations are aligned with the twin-compatibility «Total Access» strategy: The vertical integration of mechanical, mechatronic, and electronic systems leads to compatible solutions for the protection of buildings and facilities, giving customers maximum flexibility as well as absolute investment protection. Horizontal integration networks all applications with controlled authorization on an ID medium or a mechatronic key based on the Legic RFID standard.

The demand among large companies for the solutions offered by trendsetter Kaba under the globally protected “Com-ID” brand is steadily growing. “Com-ID” considerably reduces lifecycle costs, increases user acceptance, enhances organizational efficiency, and makes it possible to digitally edit all user authorizations.
Large picture:
Towers of Le Meridien and Hilton, Kuala Lumpur. Both hotels are equipped with a Kaba quattro S cylinders

From left to right:
Kaba quattro – popular because patented and thus duplication-resistant

Leading safe manufacturers appreciate the advantages of the new Low Current (LC) series developed by Kaba Mas

Series 760 – Design and functionality at the hotel room door
Access Systems Asia Pacific Division

Security markets still under par

The signs of an economic recovery in Southeast Asia and Japan are unmistakable, but on the security market, demand has not yet picked up. Customer restraint also affected the year in business for the Access Systems Asia Pacific Division.

Despite the wait-and-see sentiment, the volume of new orders in financial 2003/04 increased by about 6% due to a further consolidation of Kaba’s market position in Japan and ongoing market servicing efforts in Australia. In Japan, Kaba can benefit from an extensive network of over 650 licensed distribution partners. This distribution structure is being refined on a continuous basis.

In Australia, Kaba’s market share and particularly its dealer network are growing, although slower than originally envisaged. In the year under review, Kaba introduced a Kaba Gege locking system for the mid-range market segment. This product, an attractive buy because of its excellent price/performance ratio and easy installation, has considerable potential on the Australian market and should help expedite the further expansion of Kaba’s distribution network there.

The New Zealand company reported moderate growth. The acquisition of new customers for hotel locks picked up perceptibly in both New Zealand itself and in the tourism centers on the Pacific islands. As in Australia, the demand for «Total Access» systems in New Zealand is gaining momentum as well.

In the report year, the Malaysia branch office was upgraded and transformed into an independent distribution and service company with the participation of a local partner. The measure puts Kaba in a position to bid for and successfully win projects in the public sector. Moreover, Kaba’s broader market presence provides a platform for the accelerated expansion of the Group’s indirect distribution channels.

In Singapore, growth was curbed by a difficult market environment and structural problems. Remedial measures are already underway.

In India and – in cooperation with the Door Systems Division – in the People’s Republic of China, the Access Systems Asia Pacific Division carried out various market surveys. The results will translate into tangible projects and thus initiate an effective debut for the division in these two highly promising and relevant markets.
Large picture:
The public library in Seattle, designed by star architect Rem Koolhaas, is secured with Kaba peaks cylinders.

From left to right:
Security features of the E-Plex 5000 can be managed with a wireless personal digital assistant (PDA).

Simple and effective – remote access with the Oracode 660K lock.

The Gitcon Series from Kaba Mas offers the cargo market secure locking and electronic seals; container access can be audited.
In local currencies, Access + Key Systems Americas posted a slight sales decline but a considerable EBITA gain. Of significance, the last quarter showed solid advances in revenues compared to the previous year.

The continued appreciation of the Canadian dollar against US currency eroded some areas. Our sales of furniture hardware and hotel locks manufactured in Canada are primarily invoiced in US dollars. These showed a ten percent negative effect against the prior year.

We successfully closed our Connecticut operations, merging production into our two North Carolina operations. The effect of infrastructure elimination and manufacturing consolidation will have an ongoing positive impact on operating results. In today’s manufacturing environment, it is critical to have focus and critical mass in most products.

Key Systems continues to develop and market value-added products. One example is a new line of Nascar keys. Stock car racing, with Nascar the preeminent circuit, is now the largest spectator sport in America. In the area of keys and replacement cylinders, we continue to develop new OEM customers. In close cooperation with Silca, our distribution network has been successful in bringing transponder technology to the North American key replacement market.

Safe and container locks continue to enjoy good success in the government high-security lock and ATM lock businesses. We have improved the products and our customers’ perception of quality and dependability. We are just entering the cargo lock market with a line of unique high-tech products. Our new Gitcon product line should provide new revenue and expanded market opportunities.

Lodging Systems has just started to show positive market development. With the release of our new card encoding system and further product development, we are looking forward to a recovering market. A new lock utilizing our “Oracode” technology will soon be ready for release and shows great promise.

Access Control sales remained at the prior-year level. However, the future is encouraging, as we have completed work on new key control products as well as a new electronic pushbutton lock. The E-Plex (electronic pushbutton lock) is the second in a series and is based on last year’s new Simplex 5000 mechanical lock platform. E-Plex is an exciting new access control product that has been engineered for extremely easy installation. It will be the basis for an evolving line utilizing Legic technology.

Giving employees a strong sense of involvement and responsibility encourages loyalty and commitment. Of interest, over 51% of our Ilco Rocky Mount workforce has more than ten years of service and this operation just celebrated its first employees with more than 30 years of service to the company. While all of our employees strive diligently to maintain and lower costs, we have started a new initiative “Lean Thinking”. Basically, this is a common-sense approach that focuses on minimizing costs by eliminating non-valued added activities. Using multifunctional teams of employees to analyze a work process from start to finish, we have already started to streamline operations. This program will allow us to maintain our contribution level.
The vivid images on keys and keychains create colorful associations: An ideal blend of technical functionality and lifestyle elements.

Small picture left hand:
The Bravo nuovo key cutting machine introduced in the spring of 2004 has already become a bestseller.
For the Key + Ident Systems Europe Division, financial 2003/04 was anything but uniform. In the first semester, margins plummeted due to the continuing depreciation of the US dollar and a simultaneous drop in unit sales of key cutting machines and key blanks. Contrary to the previous year, the currency-related losses could not be compensated by higher output. The result was further burdened by substantial investments in product development, process optimization, and reorganization measures at the Silca factory in Italy.

In the second semester, unit sales of both key cutting machines and key blanks massively surged and resulted in a dramatic increase of revenues versus the first half-year. Demand was particularly brisk in the OEM segment which grew overproportionally. The EBIT margin rose clearly above first-semester levels, but the progress achieved in the second half of the year was not sufficient to compensate for the initial decline.

The two new key cutting machines, IDEA and Bravo nuovo, were launched on the market after their debut at the Cologne hardware show in March 2004. They became genuine blockbusters and clearly outperformed the projected sales figures. At the Cologne show, the most important venue for the Key + Ident Systems Division, Kaba also presented the new and revolutionary transaction concept for secure key duplication, which attracted great interest in the hardware trade and among industrial users. Instead of requiring the physical shipment of duplicate keys, this innovative technology – developed by Silca – allows the data needed to reproduce keys to be distributed and sold via the Internet. It combines high security with the convenience of replacement keys that are produced by the locksmiths and can thus be made immediately available. The new solution offers measurable benefits and convenience to all partners in the value-adding chain – from the cylinder manufacturer and the lock trade to the consumer. Transponder car keys, for instance, can be produced with much higher reliability. Silca has yet again managed to assert itself as a premier innovator in key duplication.
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Information Schedule

Tuesday  
26 October 2004, 3.00 p.m.
Annual General Meeting of Kaba Holding AG

March 2005
Letter to Shareholders and media release
on the semi-annual results as at 31 December 2004

Monday  
19 September 2005
Presentation for financial analysts
Financial Media conference
Letter to Shareholders with results for the 2004/05 financial year
Dispatch of Annual Report
Invitation to Annual General Meeting

Tuesday  
25 October 2005, 3.00 p.m.
Annual General Meeting of Kaba Holding AG
Stakeholder Media

- Annual Report
- Financial Report
- Corporate Governance
- Letter to Shareholders
- Investor’s Handbook

Security Update, customer’s magazine
www.kaba.com
This communication contains certain forward-looking statements including statements using the words “believes”, “assumes”, “expects” or formulations of a similar kind. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which could lead to substantial differences between the actual future results, the financial situation, the development or performance of the Company and those either expressed or implied by such statements. Such factors include, among other things: competition from other companies, the effects and risks of new technologies, the Company’s continuing capital requirements, financing costs, delays in the integration of acquisitions, changes in the operating expenses, the Company’s ability to recruit and retain qualified employees, unfavourable changes to the applicable tax laws, and other factors identified in this communication. In view of these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company accepts no obligation to continue to report or update such forward-looking statements or adjust them to future events or developments.