

Annual Report 2004/2005



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Facts and figures in brief

- Profit closes at CHF 66.1 million (+40%)
- Market share gains in Europe
- Currency-adjusted EBIT increases by 5%
- EBIT margin rises from 12.1 to 12.4%
- Organic currency-adjusted sales growth at 2.1%
- Reduction of gross debt by CHF 103.4 million

Key Figures

in CHF million, except where indicated	2004/05	IFRS 2003/04	Swiss GAAP FER			
			2003/04	2002/03	2001/02	2000/01
Net sales	980.1	978.1	985.0	967.2	1'027.0	683.7
EBIT	121.5	118.3	120.9	108.7	123.0	68.2
Net profit	66.1	47.2	56.8	45.7	61.8	41.9
Market capitalisation (as at 30 June)	1'251.3	923.8	923.8	688.5	1'141.6	1'266.0
Earnings per share (in CHF)	18.5	13.2	15.9	12.8	17.3	11.7

Kaba Group Segments

in CHF million	Financial Year closed 30.6.2005	%	Financial Year closed 30.6.2004	
				%
Door Systems	252.7	26	233.0	24
Data Collection	75.9	8	75.4	8
Access Systems	408.7	42	415.4	42
Key+Ident Systems	215.7	22	223.4	23
Others/eliminations/finances	27.1	2	30.9	3
Total	980.1	100	978.1	100

Elections to the Board of Directors



The terms of office of Ulrich Graf and Gerhard Zeidler expire at the Annual General Meeting of October 25, 2005. The Board of Directors proposes that they be reelected. Moreover, the Board of Directors will ask the General Assembly to approve the election of Klaus Schmidt as a new member.

Klaus Schmidt, German citizen, born in 1958, is Chairman of the Board of Management of DEKRA AG and member of the supervisory board of several of its subsidiaries since 2003. Moreover, he is a member of the following bodies and organizations: Advisory Board, Deutsche Bank; Advisory Board, Gothaer Versicherungsbank; Horváth & Partner AG; Deputy Chairman, LHS Leasing- und Beteiligungsgesellschaft; and Norisko S.A., as Chairman.

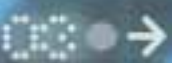
Klaus Schmidt has been with DEKRA AG since 1996, serving the company in various executive functions. The focal points of his activities were the restructuring, diversification, and internationalization of the group. Schmidt also assumed direct responsibility for the group's business in France and achieved a successful turnaround of the initially deficit-ridden DEKRA motor vehicle inspection network. Meanwhile, DEKRA France S.A.S. is DEKRA's most significant foreign operation. Previously, Klaus Schmidt was managing director of Alcatel Air Navigation Systems GmbH and held various positions with Standard Elektrik Lorenz AG (SEL Alcatel AG).

Klaus Schmidt received a degree in technically oriented business administration from the Technical University of Stuttgart. He rounded out his academic background in the MBA Program of the University of Oregon, USA, and completed the Advanced Management Program at INSEAD in Fontainebleau/Paris.





This is Kaba



Welcome to the world of Kaba



Farmers who do not sow cannot harvest. What is true for farmers applies to entrepreneurs as well. Those who do not invest will have nothing to sell and nothing to earn. But investing is not just a matter of money. For the seed to come to fruition, the time, place, and mode of investment must be well chosen. A full purse alone does not guarantee fat profits. A sustainably high return on investment depends on abilities best described by terms such as strategic thinking, foresight, technological competence, market familiarity, enthusiasm, organizational discipline, intuition, courage, patience, and endurance. Without false modesty, Kaba can present itself today as a company that has courageously sown for generations and has always been rewarded with a rich harvest.

Each lock is one-of-a-kind

Master key systems are an example of such an investment. Kaba has never manufactured simple, like-keyed individual locks but specialized from the outset in sophisticated lock systems involving equally sophisticated keying hierarchies. This requires ingenious cylinders with trillions of locking possibilities. With its many rows of tumblers and multi-tiered tumbler planes crafted with watchmaking accuracy, each Kaba lock is unique. As early as the 1980s, this mechanical marvel was complemented by a contact chip, the predecessor of the Legic high-security chip. The mechatronic key was born, combining the functions of locking, access control, and time & attendance recording. Common Identification (COM-ID) – the option of using keys and/or access control cards interoperably with access control readers and/or mechatronic or digital cylinders – began its victorious march. The ultimate achievement of traditional lock technology – mechatronics – had been combined with access control to form an absolutely compatible system.

Rudolf Hauser, Chairman of the Board of Directors (on the left)
Ulrich Graf, President and CEO (on the right)

In addition, access control software was developed to link traditional master key configurations with sophisticated electronic access control systems. And thanks to compatible technology, these systems also open automatically controlled doors: "Open Sesame", made by Kaba, is silent and immediate. Today, Kaba offers a unique, contiguous range of access control solutions throughout Europe, from the mechanical cylinder for a boat house up to integrated access control and time & attendance recording systems for globally active corporations.

«Total Access» as a cross-selling platform

Parallel with investments in new products, Kaba has also invested in markets. The initial step was the establishment of European distribution companies for individual products. These companies were then expanded into bases of support for «Total Access» solutions, i.e., for "doorkeeping security". This opened the door to effective and "natural" cross-selling: The door customer becomes a master key system customer, the master key system customer becomes an access control customer, and the access control customer becomes a customer for integrated systems.

Kaba has always backed up the diversity and flexibility at the front lines of the market with maximum synergies in research, development, production, and marketing. With only two master key system technologies, Kaba covers the entire European market. Thanks to modular cylinder manufacturing technology, locks that comply with all current EU standards can be supplied out of merely two production facilities in Austria. The generation of synergies has also been a consistent aim of Kaba's investments in corporate acquisitions.

Active role in the globalization process

While farmers usually sow only on their own land, a company must plant its seeds where it can expect to harvest the most attractive yield. Based on this insight, Kaba decided many years ago to venture into Japan, where it has developed a respectable installed base all on its own. In 2001, Kaba crossed the Atlantic and acquired Unican, a company that was comparable in terms of revenue to Kaba at the time and

whose strong profitability in the last few years has contributed substantially to the good performance of the extended Kaba Group.

The capital market has energetically supported the international growth of the Kaba Group. Long-term investors who are not primarily motivated by quick results and special situations have been doing well with Kaba. But not all investors are willing to exercise patience. Many expect a long-term strategy yet want short-term profits. However, even the best companies cannot always meet such expectations. Thus, while Kaba achieved organic, currency-adjusted growth of 4.9% in the first half of financial 2004/2005, it had to report stagnant sales (-0.6%) in the second half of the year. Where is Kaba heading in the medium and long term? The question is best answered by a look back at the company's long-term track record in growth and a look forward at the strategic objectives of the Kaba Group.

Kaba is solidly positioned

Assessing the worldwide security markets has become an increasingly difficult job in the last few years. Although these markets basically have a long-term perspective and, therefore, require long-term development strategies, they are not exempt from volatilities and situation-driven trading. In any case, the accuracy of short-term forecasts will tend to diminish. At the same time, however, the various stakeholders – from investors to employees, business partners, and customers – are by no means willing to scale down their expectations regarding, for instance, profit stability, job security, or product quality. The Kaba Group must, therefore, seek to position itself and act in such a way that it can fulfill these multiple expectations.

One measure in this context is the subdivision of the Group's activities into four business segments that are subordinated without exception to the common «Total Access» strategy. This organizational structure provides Kaba with a degree of flexibility and compatibility that is unique in the world. Simultaneously, the structure makes it possible to profitably satisfy a broad range of customer requirements. Of course, the structure itself must remain flexible enough to allow for periodic adjustments to changes in the market environment or to growth by acquisitions. In this respect, Kaba has repeatedly demonstrated remarkable adaptability. This will help the Kaba Group to systematically and successfully play out its strengths, even under difficult market conditions.

Higher dividend with payout in the form of a par value reduction

Based on the perceptibly higher consolidated net income generated during the year under review and as a token of Kaba's investor-friendly payout policy, the Board of Directors proposes to the Annual General Meeting of 25 October 2005 an increase of the dividend by CHF 0.80 to CHF 4.80 per share. The proposed distribution is to take the form of a reduction of the par value of currently CHF 10.00 per share by CHF 4.80 to CHF 5.20. This will enable many Kaba Holding AG shareholders to avoid the double taxation of dividends that is commonplace in Switzerland. It is expected that the amount of CHF 4.80 will be distributed in January 2006 after compliance with all formalities.

A word of gratitude

Our employees are certainly among the people most directly exposed to generally mounting expectations and accelerating market volatilities. In financial 2004/2005, they again delivered a consistently high level of performance and thus demonstrated their commitment to the company and its customers. We would like to thank our nearly 6,000 employees for their dedication to furthering our technological leadership and to tapping market opportunities for the continued growth of the Kaba Group.



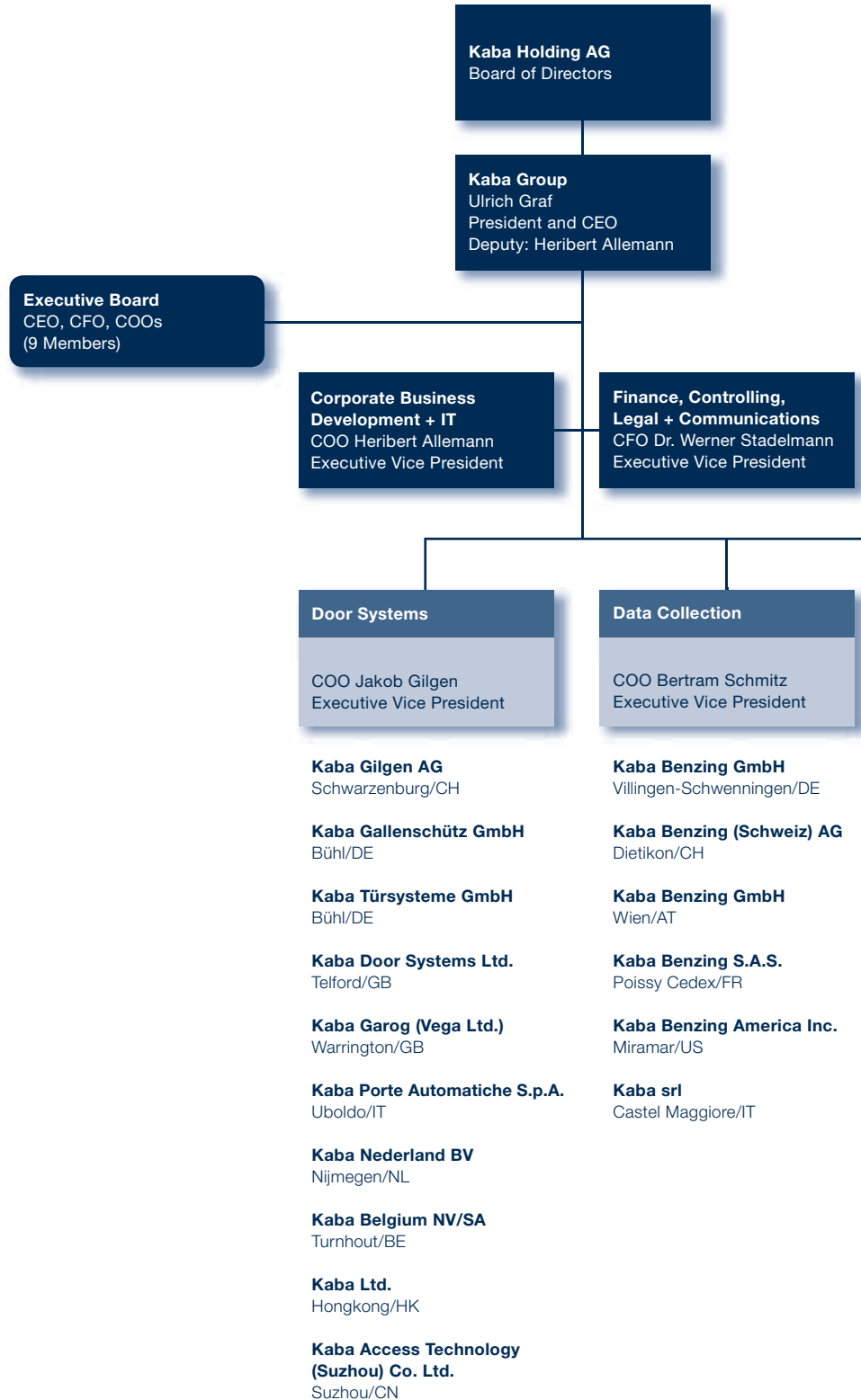
Rudolf Hauser
Chairman
of the Board of Directors

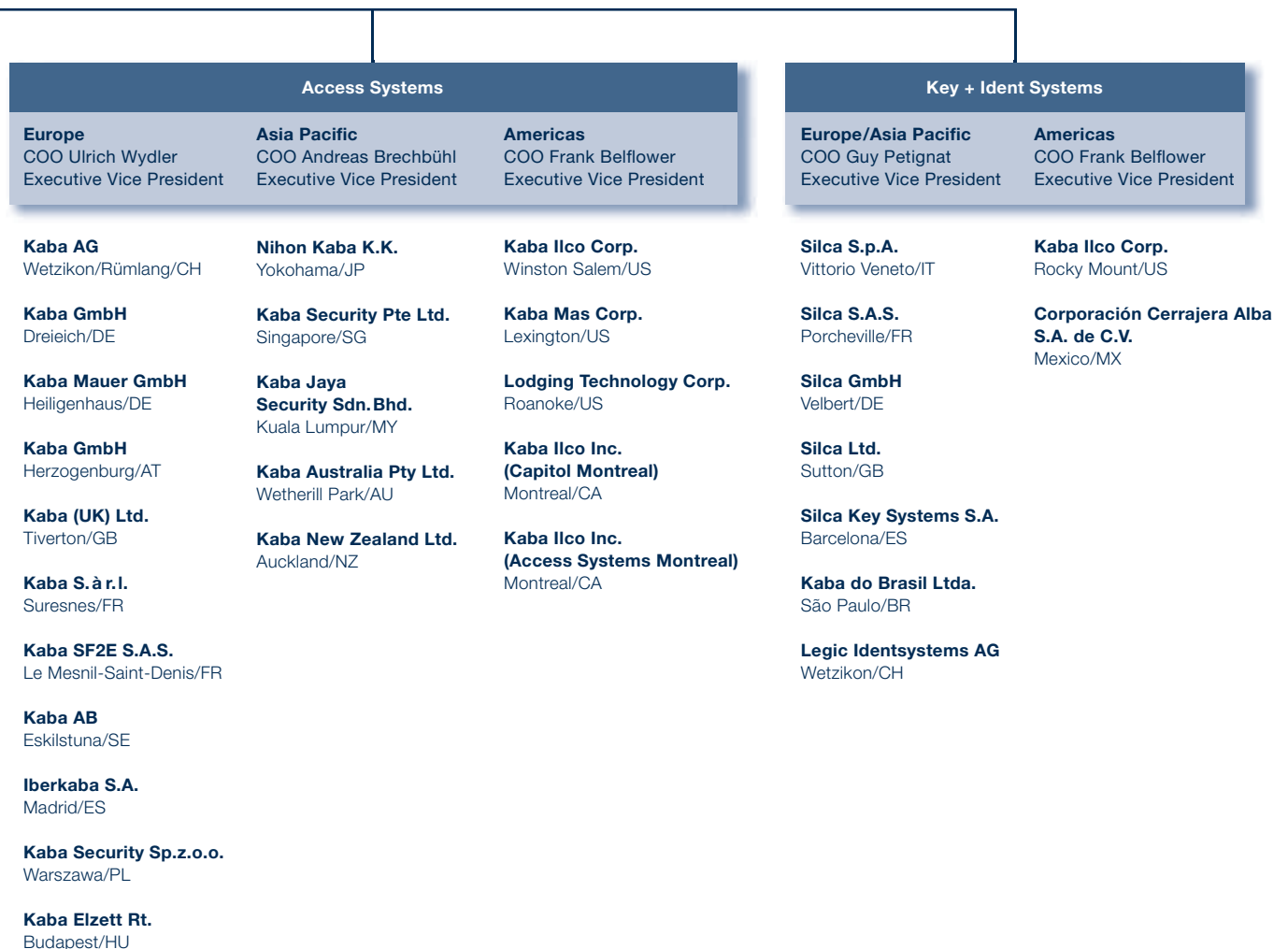


Ulrich Graf
President
and CEO

Group Structure

As per 1 July 2005





Group organization by segments



Financial reporting by segments

Prior to the transition to IFRS, Kaba systematically submitted financial reports on the basis of the Group's divisional structure. The divisions were equivalent to companies, and whether or not a company sold another division's products was immaterial. Pursuant to IFRS, however, business segments are defined by products. In earlier annual reports and investors' handbooks, Kaba had already described such a structure. One of its consequences is that an individual company which makes products of different types will appear in more than one product segment. This approach prioritizes the homogeneity of business segments by products.

Kaba's reporting covers four segments

- Access Systems
- Door Systems
- Data Collection
- Key + Ident Systems

Market servicing through Strategic Business Segments (SBS)

The following Strategic Business Segments service the markets by customer need and jointly implement the «Total Access» strategy.

Segment Access Systems

SBS Access Control

The product portfolio of Access Control, our largest business segment by sales, includes mechanical and mechanical 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

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.

Management Board from left to right:

Heribert Allemann, Chief Operating Officer, Head Corporate business development & IT. Deputy Chief Executive Officer

Ulrich Wydler, Chief Operating Officer, Access Systems Europe Division

Andreas Brechbühl, Chief Operating Officer, Access Systems Asia Pacific Division (as of 1 July 2005)

Frank Belflower, Chief Operating Officer, Access Systems Americas Division

Bertram Schmitz, Chief Operating Officer, Data Collection Division

Dr. Werner Stadelmann, Chief Financial Officer, Finance Division

Ulrich Graf, President and Chief Executive Officer

Jakob Gilgen, Chief Operating Officer, Door Systems Division

Guy Petignat, Chief Operating Officer, Key+Ident Systems Europe Division

SBS Lodging Systems

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.

Door Systems segment*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.

Data Collection segment*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.

Key + Ident Systems segment*SBS Key Systems*

Kaba is the world market leader in the replacement key business. With its Silca and Ilco product lines, Kaba can serve its customers with an extensive range 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.

«Total Access» – Security as a system

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 become 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

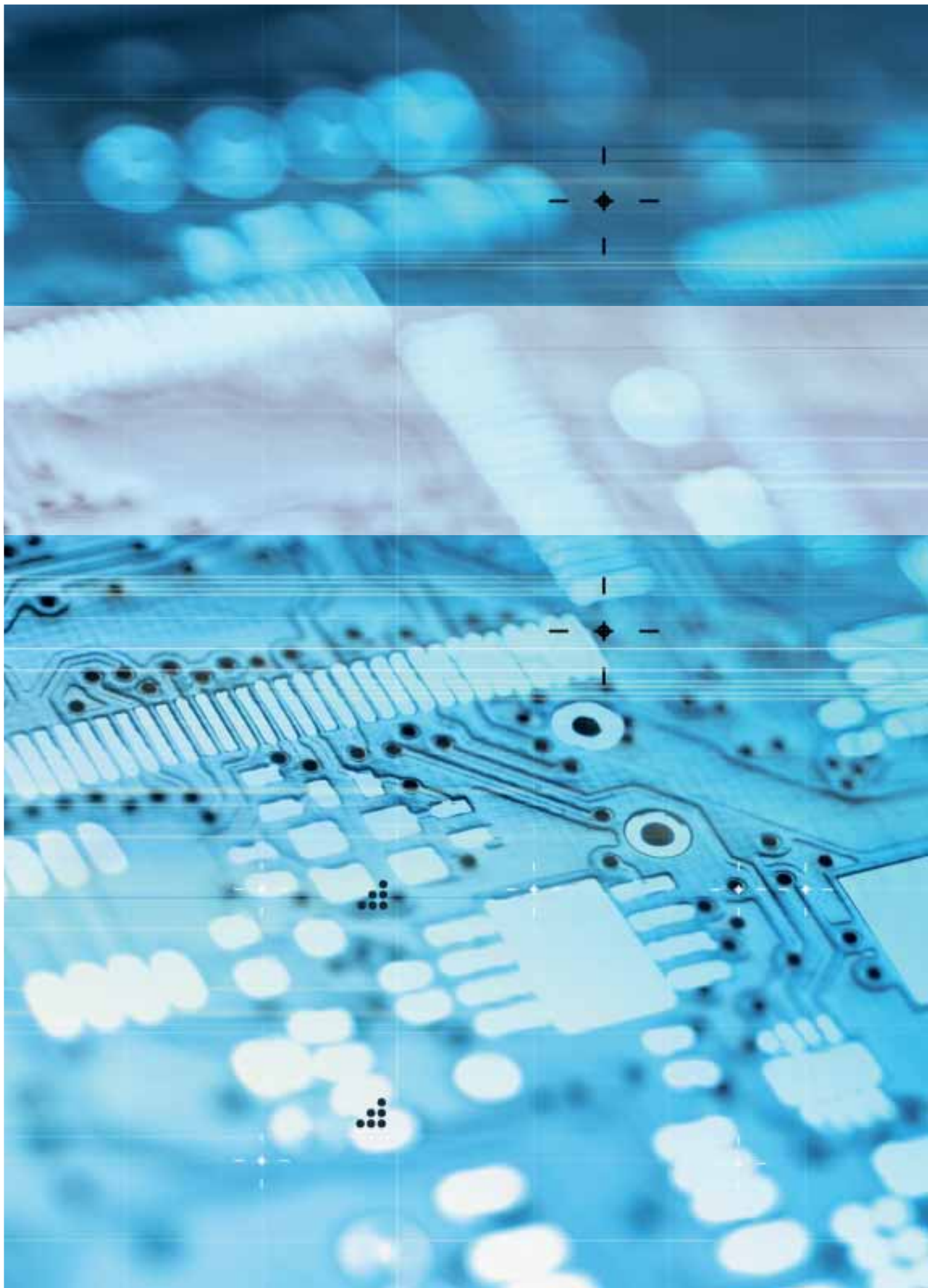
Investments in security are usually made with a medium- to long-term perspective. However, in the course of time, certain parameters – some of which cannot be influenced – will make changes necessary. Residential and business facilities alike are subject to such changing requirements.

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

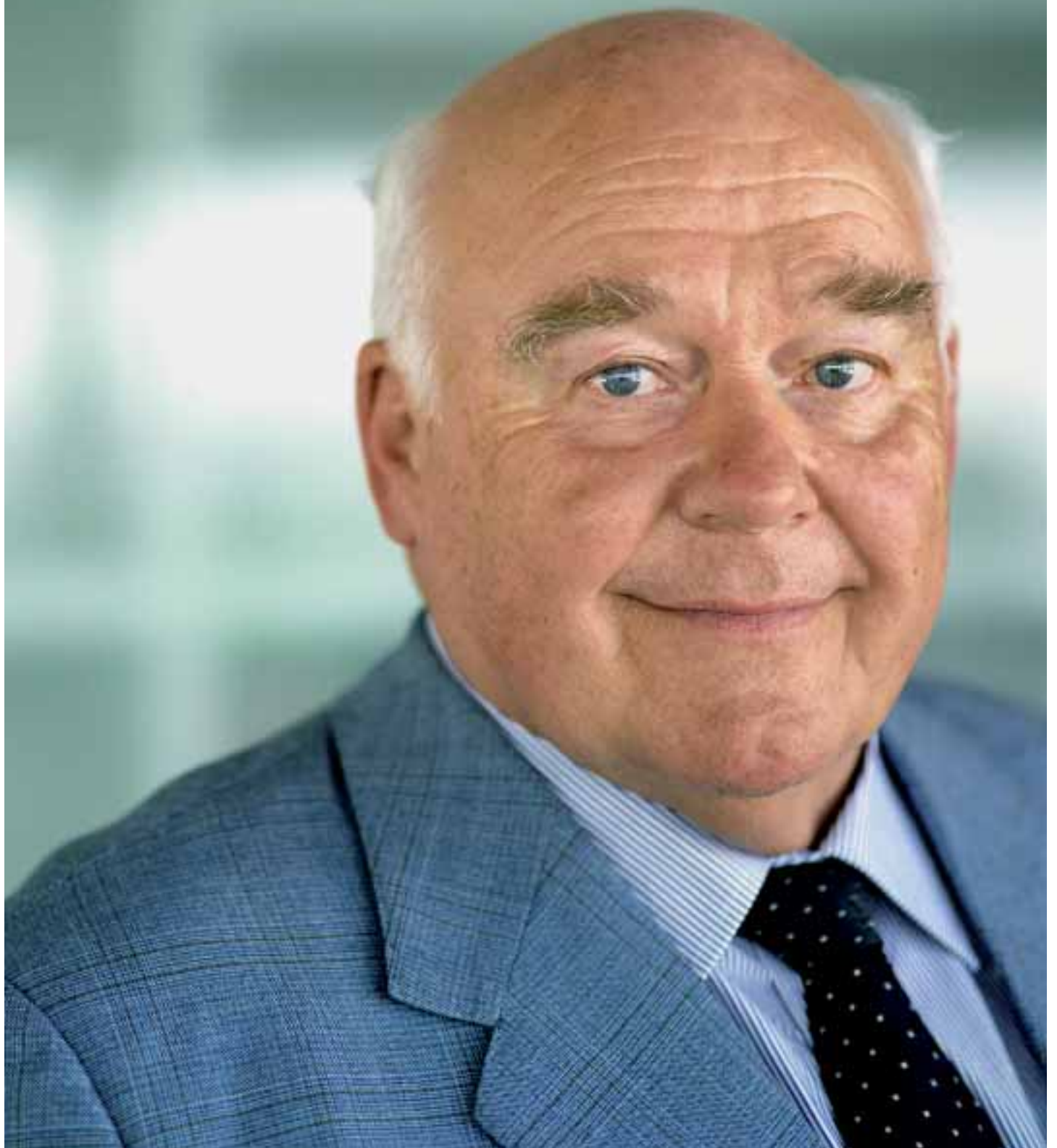
It is no coincidence that the Kaba Group generates about 70% of its sales within the installed base of existing customers. Kaba's employees are aware of the responsibility this entails. With their know-how and their personal commitment, they make sure that Kaba remains a global leader in the competitive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





Stakeholders

Ulrich Bremi, Entrepreneur, Zürich



Why do you invest in Kaba stock?

“I only invest in companies that I know well. This lets me assess how the stock will perform. With Kaba, I am convinced that the worth of the company will rise, and I can cite three reasons: First, Kaba has been doing an outstanding job of positioning itself in the marketplace. Identification systems in the domain of access control are opening up a sustainably profitable market with perspectives. Second, Kaba is working hard to gain the front-running position in technology development and is globally recognized for that. You can see and hear that it is growing with its customers. And third, the management obviously identifies with the company. It appears to be smart and also pragmatic enough to combine imagination with down-to-earth realism. Kaba needs shareholders who think entrepreneurially and demand a lot from this company. It will rise to the occasion. That’s why I’m invested in this stock.”

Josef Felder, Chief Executive Officer Unique (Flughafen Zürich AG), Zürich



Why did Zürich Airport opt for Kaba locks?

At Unique, the operator of Zürich's intercontinental airport, security is paramount. Actually, a large airport's core competence is the ability to master risk. Beyond properly assessing risks, the objective is to minimize them. That's why choosing the right partners in the domain of security is so important to us. For the access systems of our highly diversified infrastructure, we want a partner who understands and accommodates our needs. From our perspective, Kaba is the right partner for the optimal implementation of our specific requirements. Kaba provides holistic solutions, not merely locks. And not least, Kaba is an ambassador of Swiss precision – I couldn't imagine a better match for the airport of Zürich as Switzerland's gateway to the world.

Barbara Cummings, Customer Service Manager, Kaba Ilco Corp., Rocky Mount



What makes a company successful?

“Customer satisfaction is the top priority!” Barbara Cummings joined Kaba Ilco in 1974 as a Production Control Clerk and during her career there held several positions in product line management within the marketing department. “With over 30 years of service, it goes without saying that I have seen many changes within the company as well as in business technology. What must stay the same though, is a strong focus on customer satisfaction. That’s why it’s important to remember your roots while embracing the challenge of change. When I was appointed Customer Service Manager in 2004, my experience and knowledge put me in a position to implement new methods; to ‘raise the bar’. Without hesitation, I can say that I’m proud of the support provided by the Customer Service Team and the quality of the products manufactured and sold by Kaba Ilco. That kind of pride is important for the success of a company.”

Burkhard Röhrig, Chief Executive Officer GFOS mbH, Essen



Why did you pick Kaba as your partner?

Kaba's global presence and innovative spirit are important pillars of our long-standing partnership. Kaba is the right ally for our plans – further sales growth and a pan-European business outlook. This year, for example, we were able to jointly win a major contract from a prominent retail organization that is active throughout Europe. It's an important step in the right direction. Kaba Benzing's extensive product line empowers the seamless integration of our software because Kaba's hardware is based on an open platform. Our modular subsystems and Kaba Benzing devices are a successful fit, especially in complex projects that involve sophisticated expectations with regard to security standards, technology, and functionality – and certainly dependability and quality as well. These assets give us a decisive competitive edge that will allow us to mutually handle many more projects. Together, we're strong: that's our motto for the future.





Financial Year 2004/2005

Report on financial 2004/2005

The Kaba Group succeeded in boosting consolidated net profit by 40% to CHF 66.1 million and gained market share in Europe. The sales and earnings trends of the individual segments were quite disparate.

In financial 2004/2005, the Kaba Group in local currencies posted organic sales growth of 2.1% and held currency-adjusted EBIT at the prior-year level. Despite negative currency translation effects, especially the continued weakness of the US dollar, reported EBIT rose from the previous year's CHF 118.3 million to CHF 121.5 million. The EBIT margin increased from 12.1% to 12.4%. The gain is a non-recurrent effect resulting from the adjustment of Swiss pension plan benefits to the rise in life expectancy. In the year under review, the adjustment contributed CHF 7.8 million to EBIT.

The trend in consolidated net income was also extremely positive. Although Kaba incurred a one-time refinancing charge of CHF 7.9 million in October 2004, reported profit (restated pursuant to IFRS) rose by CHF 18.9 million or 40% to CHF 66.1 million versus financial 2003/2004. The increase is due mainly to significantly lower financial expenses (as a consequence of the refinancing measures) and to a reduction of the tax burden by about CHF 7.3 million. The new financing scheme made it possible to cut cash and cash equivalents by CHF 71.8 million and net debt by a further amount of CHF 31.6 million. This reduced net debt to CHF 351.5 million.

Disparate sales trends

Business development in the year ended 30 June 2005 was everything but uniform. In the first six months, currency-adjusted consolidated sales picked up briskly by 4.9%, but this was followed by a surprising slump (–0.6%) in the second half of the year as opposed to a strong second half in the

previous year. The momentum exhibited by the individual segments was disparate as well. In America during the first half of the year, Access Systems advanced by no less than 9.9% expressed in dollars, but then had to surrender this gain in the second six-month period. To some extent, this downturn can also be explained by the basis effect of an extremely successful prior-year period. The sales declines posted by Access Systems Asia Pacific, expressed in local currencies, were 28.2% in the first half of the year and 11.9% in the second half of the year. Here, it was mainly the shift in demand from high-end mechanical locking systems to mechatronic and electronic access systems that had a negative impact. These downtrends are offset by significant gains in the Door Systems segment and in the subsegment Access Systems Europe. With a plus in local currencies of 8.9%, Door Systems generated more growth than any other segment, followed by Access Systems Europe with a gain of 6.4%. Despite the decline in demand in Germany and the USA, the Data Collection segment (Kaba Benzing) reported a 2% increase in currency-adjusted sales. Within the Key+Ident Systems segment, sales were not homogeneous, either, rising by 1.9% in local currencies in the segment's European markets but declining in North America, resulting in stagnation on the bottom line.

Incongruent EBIT

Regardless of the partially disappointing sales trend, consolidated earnings grew by 5% compared to the previous year. The Door Systems segment doubled absolute EBIT to CHF 19.3 million and raised the EBIT margin from 3.8% to 7.6%. The non-recurrent adjustment of Swiss pension plan benefits contributed CHF 3.5 million. The Access Systems segment pushed EBIT by 6.6% but still accounts for the lion's share – 71% – of consolidated earnings which closed at CHF 121.5 million. Due to massive raw material price increases and to declining sales in North America, the Key+Ident Systems segment had to post a decline of the EBIT margin. In Europe, however, the segment reported overproportional margin growth thanks to reorganization and productivity enhancement measures initiated some time ago. In the Data Collection segment, the smallest one in terms of sales, EBIT during the year under review declined from CHF 9.7 million to CHF 7.1 million.

Growth-promoting measures launched

During the year under review, the Kaba Group initiated numerous measures with the objective of eliminating growth weaknesses to the greatest extent possible and to expedite the Group's ability to seize market opportunities. Among them are the accelerated introduction of products and systems with a sizeable market demand and the further exploitation of cross-selling potentials. Another aim is to further improve the Group's competitiveness by systematically optimizing cost structures. One of the measures in this context is the development of a proprietary assembly plant

for sliding door drives in China. The products manufactured there increase the Kaba Group's pricing leverage in the Asian markets.

Outlook

From today's perspective, differences in growth between accounting periods and across segments and regions as we experienced them in the past financial year are likely to characterize the future trend as well. It is likely that the overall development of the markets of relevance to Kaba and of the Kaba Group as a whole in the first half of the current financial period will not deviate significantly from the scenario that affected the Group overall in the second half of 2004/2005. The adjustment of pension plan benefits during the year under review, which resulted in a positive EBIT effect of CHF 7.8 million, was a one-time event that will not come to bear in the current financial year.

The refinancing charge of CHF 7.9 million incurred in the first six months of 2004/2005 was a one-time expenditure; this will have a positive effect on the income of the current financial year. Conversely, the taxation rate is likely to return to a range of between 30% and 35% of consolidated income before taxes.

The Kaba Group has repeatedly demonstrated its ability to generate sustainably high earnings even under heterogeneous market conditions. This justifies a continuing positive appraisal of the longer-term business trend.

Large picture: Stopani AG, Neuenegg.



Segment Door Systems

The Door Systems segment has consistently pursued its realignment program and achieved high growth rates in sales and EBIT. The distribution structures were further optimized in the year under review. Additionally, the two manufacturing companies developed new, attractive products and solutions. Overall, this resulted in an enhanced market presence. The segment has a solid order backlog which suggests a continuation of the positive trend.

The realignment of the segment is making good progress; many measures have already been implemented within the scope of the ongoing turnaround. The result was a substantial increase in sales and an additional improvement in EBIT. Not least thanks to the consistent reinforcement of distribution, sales grew more briskly than the market average. In England, for example, Kaba Door Systems expanded its regional after-sales services and further decentralized its distribution.

In financial 2004/2005, the two manufacturing companies Kaba Gilgen AG in Schwarzenburg (Switzerland) and Kaba Gallenschütz GmbH in Bühl (Germany) were again very successful and demonstrated that they are in touch with the real-world needs of customers by launching various innovations and upgraded products. Examples of new developments include the Charon turnstile, the Orthos security interlock, and the new sliding door with an integrated windbreak.

Kaba Door Systems also increasingly managed to broaden its stature as a successful provider in large-scale projects. For instance, the segment supplied approximately 2000 tripod barriers for buses in Russia and 200 automatic drives for special tunnel gates in the NEAT railway project in Switzerland. For the Hong Kong and Paris subway systems, Kaba is building automatic platform screen doors to be incorporated in door systems of driverless subway trains. In Kaohsiung and Taipei (Taiwan), Kaba has been awarded additional sizeable projects whose implementation has already started.

Major projects are currently being tendered in the Asian region. The placement of orders for these projects will begin in 2006. Kaba Door Systems is actively engaged in the bidding process for these projects.

The establishment of the distribution and production structure in China is well underway. In a first step, Kaba Door Systems established the assembly of sliding doors for the Asian market and expanded its existing distribution operations in northern and southern China by a base in the greater Shanghai area.

The English distribution company was able to increase sales substantially but still needs to further streamline its management structures and internal procedures. For the current financial year, the company's baseline conditions are reassuring and should bring about a major improvement in earnings.

The German distribution company Kaba Türsysteme clearly increased its earnings and attained the breakeven point in operations. Despite the adverse market situation in Germany, the company was able to post a strong gain in new orders. Market shares were expanded.

The order backlog of Door Systems as at 30 June 2005 clearly exceeds the prior-year level and justifies expectations that the segment will continue to evolve well in the new financial year.

Large picture: Bauerfeind AG, Zeulenroda.



Segment Data Collection

The financial year of the Data Collection segment in Europe was characterized by reluctant investment activity, primarily due to economic and political uncertainties in Germany. The segment nevertheless succeeded in increasing its sales volume, mainly through strong growth in the areas of software und after-sales services. Business with the Americas failed to make a positive contribution to the result.

Due to the recession cycle in the manufacturing industry, many of our customers postponed new purchases and continued to use their existing systems. This has led to a lower demand for Kaba Benzing hardware. But the segment's companies achieved substantial increases in sales of software and services of integrated solutions, which resulted in moderate overall growth.

In the Americas, operating income failed to meet the high expectations. Nonetheless, it was possible to further strengthen the strategically important market leadership in SAP subsystems. The Kaba Benzing time and attendance control terminals are equipped with an SAP-certified interface which guarantees the flawless transfer of data between individual SAP modules and the data collection periphery. In the year under review, our market share in the USA in this sector has grown to nearly 90%.

Kaba Benzing promotes the integration of technology and partner relationships. The segment has currently more than 100 partners in Germany and more than 40 in Switzerland. In the USA, it won SSA global as a new alliance partner. Such partnerships are of crucial importance in this field of business. The commitment to long-term partnership alliances and a partnership-oriented corporate culture distinguishes Kaba Benzing from its competitors.

Kaba Benzing enjoys long-lasting business relationships with many of its customers. Turbine Fuel Technologies in the US became the 8th separate unit within Goodrich Corporation (North America) to purchase a Kaba Benzing solution since 2002.

In France, Auchan, a Kaba Benzing customer for more than 10 years, selected Kaba Benzing for another project involving 1,000 terminals for time and attendance and access control and 50,000 Legic cards to be installed over several years in about 130 supermarkets across France. The project will be implemented in multiple stages over the next few years.

Our investment in the Middle East has generated the first project: The police department of the Emirate of Abu Dhabi is using our new fingerprint terminals with Exos.

At the end of financial 2004/2005, Kaba Benzing signed a global agreement with Volvo for a worldwide roll-out of Kaba Benzing's subsystem for SAP commencing in the next financial year. At BMW, we have installed our solution together with partners in more than 20 countries. Our expectation is to roll out this solution in more than 80 countries within the next years.

Large picture: Industriepark Griesheim, Frankfurt am Main.



Segment Access Systems: Europe

The Access Systems segment has again achieved organic growth in Europe that clearly exceeds the market average. At the same time, it further improved its EBIT margin substantially. This reassuring development resulted from the ongoing optimization of the «Total Access» strategy, the growing demand for security systems, and the systematic continuation of the productivity enhancement programs.

In the most important markets, Switzerland and Austria, Kaba managed to further expand its broad market share by complementing its product range with compatible mechanical and electronic components. In both countries, the systems business grew at doubledigit rates and profitability was appreciably improved. In Germany, potentially the largest market, sales to the specialized security trade closed at an above-average level. By contrast, the systems business suffered a setback due to sluggish equipment spending.

The highest growth rates were achieved in England and Spain. In these countries, the Kaba organizations, after years of systematic development, have reached critical mass and are increasing their earnings overproportionally.

After a few difficult years, the distribution company in France has returned to a solid growth course and is reporting positive income from operations. In Hungary, the restructuring program is delivering the first successful results.

Encouraging developments were reported from the new markets Poland, Italy, and the Middle East, where Kaba has been locally present for a year and has already implemented several interesting projects. The «Access Systems» segment has received orders from India for the first time. This up-and-coming industrial country is an important benchmark for the competitiveness of Kaba hightech products outside of Europe.

Although the recovery of the hotel market has been sluggish, sales and EBIT picked up in comparison with the previous year. The EBIT margin clearly outperformed the industry average. Reassuring growth rates were also achieved in the niche market of safe locks. The demand for sophisticated,

networked systems for structured and monitored access to automatic teller machines is on the advance.

With the pioneering «Total Access» strategy, Kaba for over a decade has pursued the integration of its specific access control business segments. This trend has meanwhile spread to the entire market and will be additionally accelerated by the introduction of the digital line of cylinder and door hardware solutions.

With the most comprehensive and innovative product range on the access control market worldwide, Kaba will succeed in its endeavor to further expand its market position in Europe and overseas. The newly launched Virtual Networking solution will contribute to this success. Relying on the data transfer between an online access system and non-wired locking devices via the read/write function of the authorization medium (electronic key or personal ID card), Virtual Networking by Kaba is designed for cost-effective installation in existing buildings or facilities without maximum-security requirements.

Large picture: Disneyland, Hong Kong.



Segment Access Systems: Asia Pacific

Access Systems in Asia Pacific was able last year to benefit from the growth momentum in the field of electronic and mechatronic access systems. However, this encouraging development was counterbalanced by the adverse growth trend in the market for mechanical products, especially in Japan. The management was restructured and new officers were appointed.

In the Asia Pacific region, the financial year was characterized by a stagnant demand for mechanical products in the upper price range. On the other hand, growth in the market for mechatronics and electronic access control appears to be accelerating. The capability of combining mechanical locking systems, mechatronic locks, and electronic access control is becoming more and more important as a growth driver. Electronic access control is increasingly perceived as a subsystem within integrated security solutions that incorporate alarm systems, burglary protection, and CCTV; the progressive availability of broadband networks and IP technologies is expediting this integration process as well.

In Japan, Kaba was able to benefit from the growth momentum in the segment of premium products thanks to the recently launch of mechatronic cylinders and locks as well as integrated access control solutions. But this positive trend could not make up for the substantial decline in mechanical products. The demand for mechanical security cylinders fell sharply from prior-year figures. We are confident, however, that the market will stabilize again, albeit at a lower level.

In Southeast Asia, the technological trend is similar to Japan's. Here too, mechanical systems remained static at prior-year levels, and future growth can be expected primarily in the segments of mechatronics, electronic access control, and integrated security solutions.

In Australia and New Zealand, the expansion of the dealer network with key services has continued to make good progress and enabled us to further strengthen our organization.

Kaba's position in the premium segment favors price perception – in contrast with providers in the mass-market segments. Nonetheless, our competitiveness is being challenged by imported products, largely from Europe and the USA. To remain competitive and successfully achieve our market development targets, we are envisaging the expansion of production capacities in Asia. Several projects with this aim are being planned or are already underway. They will significantly strengthen Kaba's position in these markets during the next few years.

In this context, it was decided last year to headquarter the management of Access Systems in Asia Pacific in Hong Kong. This makes it possible to coordinate the activities in the Pacific region from a local base. Additionally, the companies in the region are now being headed up by a joint management. An important step in this process was the appointment of Andreas Brechbühl as new CEO of Access Systems in Asia Pacific. With Mr. Brechbühl, Kaba was able to enlist a top executive with profound experience in the Asian markets.

¹ CCTV = Closed Circuit Television

² IP = Internet Protocol

Large picture: Renaissance Tower, Dallas, Texas.



Segment Access Systems: Americas

Sales of Access Systems in the Americas segment remained at the previous year's high level. Currency-adjusted EBIT increased, but the continued depreciation of the dollar had a negative impact on translation into Swiss francs. Supported by state-of-the-art products and a market servicing offensive, Access Systems has launched in the Americas measures to return to a growth course.

According to IFRS, with the introduction of the new segment reporting concept, the businesses of the former Access+Key Systems Americas Division were split up. The Access Systems segment in the Americas discussed here comprises electronic access systems, mechanical and mechatronic locking systems, as well as hotel and security locks, whereas the American key duplication business is now part of the Key+Ident Systems segment.

During the year under review, sales remained roughly at the previous year's high level. Whereas the demand for security and safe locks, hotel locks, push-button locks, and replacement cylinders rose sharply in the first half of the year, business was less brisk in the second half. Public-sector customers in particular were hesitant with orders in the high-security domain. The potential of the Gitcon (Goods in Transit Lock) product line for the security and monitoring of freight and cargo could not yet be fully exploited because public-sector markets often develop slowly. The fluctuations are mainly due to the fact that the Access Systems segment focuses on attractive niche markets with clearly defined target groups and is, therefore, largely subject to the metrics of the capital goods industry. Measures to intensify the marketing of these extremely technologically attractive products have been initiated. They include a reinforcement of the end-user relationship in combination with training seminars where Kaba can directly demonstrate the product benefits to the customers in the lodging industry.

Sales of locking systems for hotels and residential buildings advanced in financial 2004/2005, although the weakness of the US dollar versus the Canadian dollar had a negative

impact. The first implementations of the new Atlas system are complete and have elicited a very favorable response from operators and users. Atlas stands for "Advanced Technology Lodging Access Control System", an access control system for hotel applications developed together with IBM. Atlas is equally suitable for small boutique hotels and large-scale hotel complexes. The system is expandable for up to 16,000 guest rooms and 50 workstations.

The new model of the Oracode push-button lock is already well established in the multiple-dwelling market. This web-based product is being further refined for applications in the condo/apartment and commercial premises markets. The option of controlling access during specific time windows from remote locations via special software makes Oracode a candidate for a wide range of applications.

Driven by the increased demand for the E-Plex electronic push-button lock, sales of access systems have developed favorably. This product is based on the wireless LectroBolt technology patented by Kaba. The product line will be expanded by various innovations this coming fall.

The "Lean Thinking" program, launched in financial 2003/2004 to continuously optimize costs, quality, availability, and customer utility, is being intensified.

Large picture: Silca keys.



Segment Key+Ident Systems

In the identification systems business, the Key+Ident Systems segment achieved double-digit sales growth and an overproportional earnings increase. Sustained momentum is expected from the launch of the new Legic advant platform. The key systems business held up well in Europe but suffered in North America due to the steep rise in raw material prices and a decline in sales.

According to IFRS, within the scope of the new segment reporting concept, Key+Ident Systems not only includes the European Silca business but also Ilco's key cutting business in the Americas (formerly part of the Access and Key Systems Americas Division).

During the year under review, the Legic technology platform was successfully refined, and the new generation, Legic advant, is now ready for release. For Kaba, this represents a decisive breakthrough in technological development and underscores the company's pioneering role in the field of 13.56 MHz RFID technology.

In financial 2004/2005, the Italian Silca business was able to benefit from the product innovations of the last two years. In the first year after their launch, the IDEA and Bravo nuovo key cutting machines met with strong demand and contributed significantly to the positive result of the key cutting machine business. The web-based key duplication concept, presented last year as a worldwide novelty, was commercialized for the first time in cooperation with Kaba Austria. Further projects, among others in the market of replacement car keys, are in advanced stages of development or are about to be launched on the market.

The key duplication business reported a strong first semester, but sales growth bottomed out in the second half of the financial year. Due to the switch of the Cologne hardware show – the most important European show for this segment – from an annual to a biannual cycle, the growth impact usually emanating from shows was missing in the second half of the year.

With the aim of sustainably safe-guarding and optimizing profit margins in the European key duplication business, Silca has introduced an additional efficiency improvement program effective July 1, 2005. The program is called "Lean Enterprise" and includes, among other measures, the introduction of SAP across the entire European key business. This will result in optimized processes and additional productivity enhancement effects.

While Kaba does not expect any significant momentum on the European market in the near future, promising opportunities are arising in threshold countries, such as China, India, and South America. Key+Ident Systems is closely monitoring these developments.

Ilco's American key cutting business suffered in the year under review from substantial increases in raw material prices and a decline in sales. Measures to improve productivity and profitability have been intensified. Business with original equipment manufacturers was successfully expanded. Sales of "painted keys" by Ilco, a key collection with the emblems of football teams, increased yet again.

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Information Schedule

Tuesday, 25 October 2005, 3.00 p.m.

Annual General Meeting of Kaba Holding AG

March 2006

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

Monday, 18 September 2006

Financial Media conference
Letter to Shareholders with results
for the 2005/2006 financial year
Dispatch of Annual Report
Invitation to Annual General Meeting

Tuesday, 24 October 2006, 3.00 p.m.

Annual General Meeting of Kaba Holding AG

Communicative devices

Annual Report
Financial Report
Corporate Governance
Letter to Shareholders
Investor's Handbook

Security Update, customer's magazine
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