

LETTER TO SHAREHOLDERS
NUMBER 10
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Cover photo:

The group company Kaba Gilgen delivered the automatic doors for the Mandalay Bay Trains in Las Vegas.

PROFITABILITY IMPROVED

Profits advance by 25%, sales by 8%

Dear Kaba shareholder

The systematic pursuit of the «Total Access – doorkeeping security and organization» strategy again brought about a significant improvement of the business result in financial 1998/99: Consolidated net

income advanced by 25% to close at CHF 27.7 million.

In the three years since it went public, Kaba has been able to generate a 22% average annual growth rate in earnings per share despite a ten-percent subscription rights capital increase in 1997.

The generally pleasing development of the Kaba Group and particularly the positive impact of the integration of acquired companies increased the EBIT margin, i.e. operating profit as a percentage of operating revenues, from 9.3% in the prior year to 10.1% in the year under review.

Kaba Group highlights as at the end of June			
(money figures in CHF million)	1998/99	1997/98	Change vs. prev. year
Consolidated sales	394.1	366.2	7.6%
Operating revenues	408.1	376.0	8.5%
Operating profit (EBIT)	41.3	35.0	18.0%
in % of operating revenues	10.1%	9.3%	
Consolidated net income	27.7	22.1	25.3%
in % of operating revenues	6.8%	5.9%	
Profit + depreciation	42.8	36.9	16.0%
in % of operating revenues	10.5%	9.8%	
Investments in fixed and intangible assets	17.0	15.4	10.4%
in % of profit + depreciation	39.7%	41.7%	
Investments in financial assets	25.4	5.7	345.6%
Total assets	331.6	316.1	4.9%
Shareholders' equity	117.9	104.0	13.4%
in % of total assets	35.6%	32.9%	
Return on equity			
Net income in % of shareholders' equity	23.5%	21.3%	
Net operating assets	184.5	172.0	7.3%
Return on net operating assets (RONOA)	22.4%	20.3%	
Operating profit (EBIT) in % of net operating assets			
Employees (average)	2135	2079	2.7%

EBIT in percent of net operating assets (Return On Net Operating Assets; RONOA) rose from 20.3% in the previous year to 22.4% in the year under review.

Operating revenues in the report year picked up by 8.5% to CHF 408.1 million; in comparison with the prior year, net sales increased by CHF 27.9 million to CHF 394.1 million, advancing by 7.6%. Of this amount, CHF 7.5 million is due to the first-time consolidation of Inform Objekt-schutz GmbH in Germany. Currency-adjusted internal growth in a comparable scope of consolidation would have been CHF 22.2 million or 6.1%.

The item investments in participations includes prepayments for the acquisition of the door systems companies in Great Britain (CHF 18.6 million) which did not become effective until July 1, 1999. Despite the partial recognition of the British acquisitions in the balance sheet as at June 30, 1999, total assets increased by only 5% in comparison with the prior year. The equity to total assets ratio further improved from 32.9% in the prior year to 35.6%.

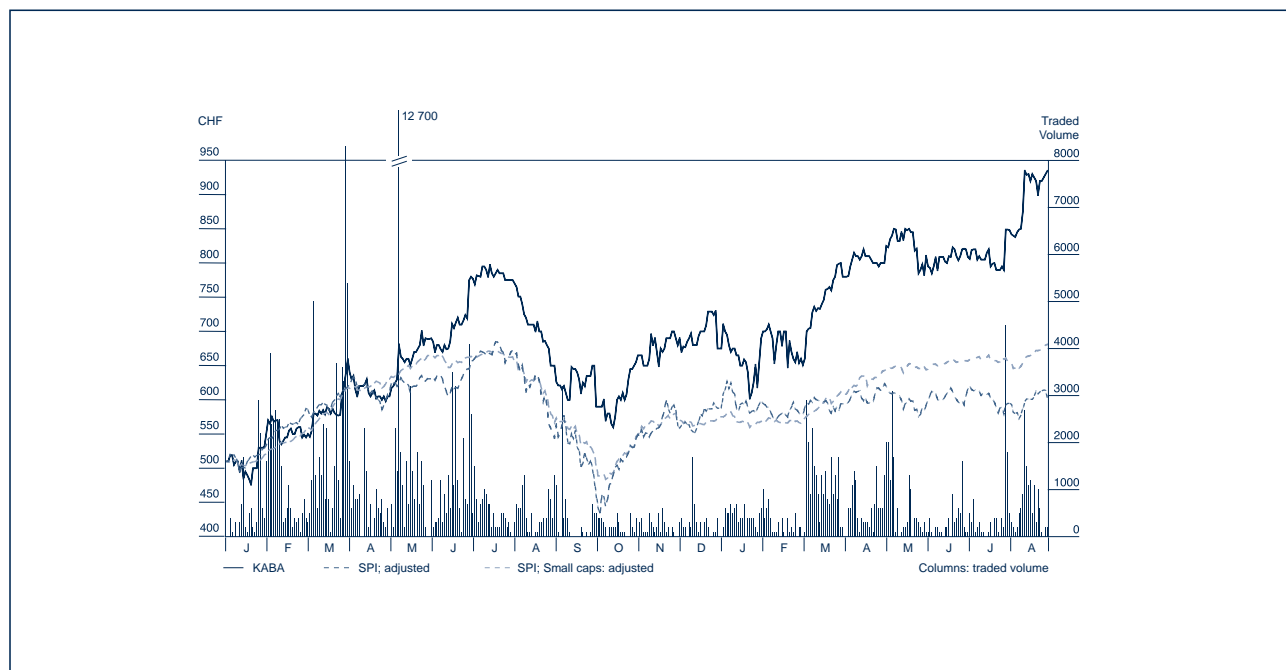
In July 1999, Kaba acquired Czeiger Benzing GmbH in Vienna. The acquisition of this sales company, the sole distribu-

tor of Kaba Benzing products in Austria, made Kaba the leader in the production data acquisition market in this country. The company will be consolidated for the first time in financial 1999/2000. It will contribute CHF 2.5 million in sales.

EBIT gain expected

For 1999/2000, Kaba expects to report about CHF 500 million in operating revenues and is targeting the CHF 650 million mark for financial 2001/2002. However, this will require further acquisitions. The successful development of the components business, the penetration of the new

Evolution of the share rates (January 1998–August 1999)



systems integration market and the positive effects which originate from the integration of acquired companies will continue to produce EBIT gains.

In the new financial year, Kaba Group sales will increase by about CHF 80 million as a result of the acquisition of the British door systems companies effective July 1, 1999. A comprehensive productivity enhancement program has already been launched in the meantime. We expect that in financial 1999/00, Kaba Door Systems UK will not yet make a substantial contribution to EBIT, but thanks to further EBIT margin improvements elsewhere within the Kaba Group, EBIT expressed in absolute figures will rise. The consolidated EBIT margin will decline temporarily.

For financial 1999/00, we project sustained profit growth.

Successful strategy justifies dividend increase

International investors in particular rewarded the entrepreneurial success of Kaba, the step to the unified share structure and our exemplary investor relations with a Kaba registered share price gain of 22% in the first half of 1999.

In view of the encouraging development in the past and the good outlook for the new financial year, the Board of Directors proposes the payment of a dividend of CHF 12.50 (prior year CHF 11.50) per share for financial 1998/99.

Kaba can and intends to grow further within the scope of its successful «Total Access» strategy. The Group will benefit from the accelerating convergence of electronics and mechanical engineering. Kaba is excellently positioned to exploit this global growth market.

The turn-of-the-century benchmark of CHF 500 million in consolidated sales announced when Kaba went public three years ago will be attained in financial 1999/2000 with a balanced combination of internal and acquired growth. The profit projections set forth in the IPO phase have also been attained.

With this year's dividend proposal, Kaba is deliberately reducing to 25% the payout ratio of the dividend relative to consolidated net income. This decision takes into account the future funding requirements of our growth strategy. We intend to maintain the payout ratio at this year's level in the future.

Authorized capital increase by 50,000 shares expires unexercised

Within the scope of the motion to create a unified share structure and in addition to the already transacted subscription rights capital increase, the General Meeting of Shareholders which took place on October 27, 1997, ratified an authorized share capital increase by at most 50,000 unified registered shares at CHF 40 par. These shares were to be freely floated on the market at a price near the then prevailing market price under exclusion of subscription rights of all then current shareholders.

As announced in early 1998, the Board of Directors stated that the capital increase would not be implemented until a major acquisition was imminent. However, it proved possible to finance the recent acquisition of the door systems companies in Great Britain with liquidity, eliminating the need to issue further shares. Because of the 2-year statute of limitation stipulated by corporation law, the authorization will thus expire unused at the end of October 1999.

Conditional share capital for convertible bond or warrant issue

The Board of Directors proposes to the General Meeting on November 2, 1999, to pass the following resolution (see also agenda):

Creation of a conditional share capital consisting of 90,000 registered shares at CHF 40 par, with an aggregate par value of CHF 3.6 million, under exclusion of subscription rights of all shareholders of record, for the purpose of implementing a future convertible bond or warrant issue.

The issue terms and scope of such a convertible bond or warrant issue will be defined in conjunction with an acquisition on the basis of the actual, then current capital and equity requirements.

By substituting the authorized capital increase with conditional capital, Kaba will remain poised for acquisitions. The convertible bond or warrant issue will allow Kaba to apply more flexible and cost-effective forms of financing. Thus, during the integration phase of an acquired company, Kaba can benefit from the leverage of lower-cost financing with

borrowed capital. The issue of shares can be postponed until the profit contribution of the integrated acquired company no longer results in profit dilution. Moreover, equity can be recognized later at a higher price than on the acquisition date.

This new financing opportunity optimally addresses the interests of shareholders within the «Total Access» growth strategy. Additionally, it represents an alternative investment with an attractive opportunity profile for Kaba investors.

Invitation to the General Meeting of Shareholders on Tuesday, November 2, 1999, at 3 PM

(Swissôtel – formerly Hotel International – Am Marktplatz, Zürich-Oerlikon, across the street from the Zürich-Oerlikon railway station)

Our shareholders are receiving the following enclosures for the General Meeting:

- Invitation with agenda and proposals by the Board of Directors
- Reply form
- Reply envelope
- Annual report 1998/99
- Order card for Investor's Handbook
- Security update No. 2/99

If you wish to attend the General Meeting, please complete the enclosed reply form and return it to us as soon as possible with the reply envelope. You will then receive your admission card and ballot as well as a map with directions for motorists and a timetable for train connections. Since the number of available parking spaces is limited, we recommend the use of public transportation.

Investor's Handbook, 4th edition 1999

The response among the recipients of our Investor's Handbook was overwhelmingly positive. The publication elucidates the business strategy of the Group and helps readers better understand the perspectives and growth potential of the Kaba Group.

In 1999, Pro Swiss Invest, an interest group, ranked Kaba second in terms of investor relations (previous year: third). We are particularly proud of this because this year, no fewer than 39 companies were judged by the new, stricter criteria. Within this more sophisticated framework, Kaba's higher ranking is very encouraging.

Moreover, the Swiss Society for Financial Analysis and Asset Management ranked us second among the candidates for the Mercury Award. The Society's experts characterized Kaba's information policy as «exemplary» and our Investor's Handbook as a «model».

You can order the new Investor's Handbook in English or German with the enclosed order card or via the Internet (www.kaba.com).

Information schedule

September 27, 1999, Monday
Presentation for financial analysts
Financial press conference
Letter to shareholders announcing the results of financial 1998/99 of the Kaba Group (closing date June 30) and of Kaba Holding Ltd (new: closing date June 30), and outlook for financial 1999/2000
Mailing of annual report
Invitation to General Meeting

November 2, 1999
Tuesday, 3 PM
General Meeting of Kaba Holding Ltd

March 2000
Letter to shareholders and press release on semiannual results as at December 31, 1999

September 25, 2000, Monday
Presentation for financial analysts
Financial press conference
Letter to shareholders announcing the results of financial 1999/2000
Mailing of annual report
Invitation to General Meeting

October 24, 2000
Tuesday, 3 PM
General Meeting of Kaba Holding Ltd

We look forward to welcoming you at our next General Meeting which will give us the opportunity to report in detail on financial 1998/99 and acquaint you with our intentions for the future.

Sincerely yours,

On behalf of Kaba Holding Ltd



Creed Kuenzle
Chairman of the Board



Ulrich Graf
President



«Total Access» modules are the Kaba Group's key performers



Kerberos turn-styles

The venues for big public events such as sport stadia, trade fairs or amusement parks must meet high security standards: Such locations are today expected to feature state-of-the-art access control and sophisticated systems to single people out. For countless event managers Kaba Gallenschütz turn-styles are the products of choice. They comply with the high security and safety standards required and they are very robust, too. Yet, the turn-styles meet also the visitors' expectations in terms of esthetic design and ease of use.



Kaba elostar time

The field of possible applications of Kaba elostar has been enlarged by a new service package «time» which offers a unique combination of a mechanical locking system and an electronic chip. This provides a double security which can keep doors locked at specific times should this be required for organizational reasons. When entrance and exit movements need to be traceable, Kaba elostar time serves as an electronic memory.



Kaba Bedanet

Kaba Bedanet is a world premiere presented by Kaba Benzing: This time management terminal is the first of its kind that can be operated via the Internet. Bedanet, based on the computer language Java, harnesses network computer technologies and offers a programming platform for many future uses in intra-, inter- or extranet solutions.

