Shareholder Newsletter No. 24
Financial year
1 July 2004 to 30 June 2005

19 September 2005

KABA®

Kaba increases profit by 40% – Market share gains in Europe

Financial statement as at 30.6.2005 pursuant to IFRS

- Profit closes at CHF 66.1 million (+40%)
- 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

Dear shareholders,
Ladies and gentlemen

Last spring, Kaba had already applied the International Financial Reporting Standards (IFRS) to its semi-annual report as at 31.12.2004. The report that follows is the first IFRS-compatible statement for a full financial year.

Key figures of the Kaba Group as at the end of June

	2004/2005 in CHF million to IFRS	**2003/2004 in CHF million to IFRS**	**Change vs. previous year**
Consolidated net sales	**980.1**	**978.1**	0.2%
Earnings before depreciation (EBITDA)	**152.8**	**151.1**	1.1%
in % of sales	***15.6%***	***15.5%***	
Operating profit (EBIT)	**121.5**	**118.3**	2.7%
in % of sales	***12.4%***	***12.1%***	
Consolidated net profit	66.1	47.2	40.0%
in % of sales	***6.8%***	***4.8%***	
Net cash provided by operating activities	**85.5**	**115.9**	–26.2%
Net cash used in investing activities	**–28.5**	**–27.0**	5.6%
Free cash flow (net)	**57.0**	**88.9**	–35.9%
Total assets	**680.2**	**729.6**	–6.8%
Shareholders' equity	**+32.3**	**–28.8**	N/A
in % of total assets	***+4.8%***	***–4.0%***	
Net operating assets	**347.0**	**334.7**	3.7%
Return on net operating assets (RONOA): Operating profit (EBIT) in % of net operating assets	***35.0%***	***35.3%***	*–0.9%*
Number of employees (average)	**5,836**	**5,889**	–0.9%

The Kaba Group's currency-adjusted sales rose by 2.1% in financial 2004/2005, but due to the sustained weakness of the dollar, sales increased by only CHF 2 million to CHF 980.1 million. In comparison with the previous year, the average exchange rates applied in financial 2004/2005 declined from CHF 1.30 to CHF 1.22 (–6.7%) in the US dollar and from CHF 1.549 to CHF 1.540 (–0.6%) in the euro. Depreciation, especially of the dollar, cost Kaba CHF 18.5 million in sales.

Consolidated EBIT rose overproportionally by 2.7% to CHF 121.5 million. This growth originates from a one-time effect caused by the adjustment of Swiss pension funds to a rise in life expectancy. In the year under review, the new calculation basis made a positive contribution of CHF 7.8 million to EBIT. The increase in currency-adjusted EBIT was even higher, advancing by 5% to CHF 124.2 million. In other words, depreciation, mainly of the US dollar, trimmed EBIT by CHF 2.7 million. The EBIT margin (operating profit in % of sales) rose to 12.4% from 12.1% a year ago.

In comparison with the prior year, consolidated net profit, restated pursuant to IFRS, rose by CHF 18.9 million or 40% to CHF 66.1 million. This is all the more remarkable as a non-recurring charge of CHF 7.9 million for the dissolution of a syndicated loan was incurred in 2004/2005 within the scope of a refinancing plan. Apart from higher earnings, the increase in consolidated net profit is attributable to two other factors: First, net financing costs, despite the extraordinary charge of CHF 7.9 million, declined by CHF 8.4 million. Among other reasons, this reduction resulted from a CHF 71.8 million cut in liquidity (due to the new financing scheme) and a cut in net debt by a further amount of CHF 31.6 million. Second, taxes declined by CHF 7.3 million, causing the taxation rate of 38.9% on pre-tax profits to decrease to 25.6%. The significant non-recurring reduction of the tax burden is a consequence of legal and structural measures implemented after the dissolution of the syndicated loan. These measures brought about an improvement in the offsettability of profits and losses.

Reporting by business segments

Pursuant to IFRS, Kaba no longer reports by division but by business segment instead. The divisions were congruent with companies, but the segments are congruent with products. This can mean that the results of a company with several product lines are reflected in the results of more than one segment.

Due to the transition of reporting standards from Swiss GAAP FER to IFRS, the costs incurred by Group headquarters are no longer charged to the individual segments (divisions) but expensed in the segment reporting statement as a lump sum. This change has eased the financial budgets of the segments and will have a positive impact on their operating profits (segment EBITs).

Door Systems segment reports ongoing growth momentum

The Door Systems segment systematically and successfully pursued its realignment program. Sales in local currencies picked up by 8.9% in 2004/2005, the highest growth rate of all Kaba Group segments. EBIT in the last 12 months doubled to CHF 19.3 million (previous year: CHF 8.9 million) and boosted the EBIT margin from 3.8% to 7.6%. The above-mentioned adjustment effect related to Swiss pension funds contributed CHF 3.5 million to the rise in EBIT. The Door Systems segment has again become an important source of income for the Kaba Group.

Data Collection feels weakness of German market

The Data Collection segment, which comprises the business operations of Kaba Benzing, suffered from an unexpected slump of Germany's growth dynamic in the second half of the year. While currency-adjusted growth in the first half of the year amounted to 5.3 %, the rate in the second half dropped to –1.3 %. German customers in particular are waiting for the political situation to clear up and postponed major orders. In the USA, Data Collection also reported declining demand and was negatively impacted by the very low dollar exchange rate. Conversely, market development activities in non-German-speaking Europe proceeded as planned. In some cases, growth rates were even in double-digit territory. Due to the lower utilization of production capacity in Villingen-Schwenningen, the EBIT margin declined from 12.9 % a year ago to 9.4 % for 2004/2005.

Access Systems reports brisk growth in Europe, stagnation in America, and downtrend in Asia Pacific

The Access Systems segment comprises mechanical and mechatronic locking systems, access control systems, and hotel and safe locks. The key cutting business in America is no longer part of this segment but instead (as was already the case in the report on the first half of the year) is now allocated to the Key + Ident Systems segment. This applies to financial 2004/2005 and to the prior-year period.

During the year under review, Access Systems generated 0.5 % sales growth in local currencies and firmed the EBIT margin from 20 % to 21 %. Expressed in constant exchange rates, EBIT advanced more briskly than sales, adding 6.6 % to close at CHF 88.4 million. This segment posted a gain of CHF 2.8 million from the pension fund effect.

Access Systems posts 6.4 % growth in Europe and further EBIT margin gain

In Europe, the Access Systems segment increased local-currency sales by 6.4 % to CHF 246.5 million and reported encouraging market share gains in most regions. While sales picked up by 7.8 % in the first half of the year, the advance in the second half eased to 5 %, which is still clearly higher than market growth. The demand for safe locks imported by Kaba Americas remained brisk.

Once again, the EBIT margin trend was overproportional. This reassuring development was fueled by an even more systematic alignment of the «Total Access» strategy to customer needs, growing demand, and the persistent pursuit of the productivity enhancement programs.

With its «Total Access» strategy, Kaba has been doing pioneering groundwork in Europe for more than ten years, bringing the individual access control domains closer together. Meanwhile, this trend has embraced the entire market and will accelerate as digital cylinder and door furniture solutions are progressively introduced. As the provider of the world's most comprehensive and innovative access control product line, Kaba is sparing no effort to further expand its marketing position within and outside Europe.

In America, Access Systems increases EBIT margin despite pause in growth

Currency-adjusted sales in the Americas stagnated at the prior-year level but, expressed in Swiss francs, slumped by CHF 8.2 million due to the renewed weakness of the dollar and closed at CHF 145.3 million. Currency-adjusted EBIT picked up. While currency-adjusted growth surged to 9.9 % in the first half of the year, this gain evaporated again in the second half. The sales trend reflects the typical volatility of markets that are characterized by relatively large and attractive contracts. High-security locks, safe locks, hotel locks, pushbutton locks, and replacement cylinders are exposed to these market forces. In America, Access Systems was able to benefit from major orders last year and in the first six months of the year under review, but these orders resulted in a negative basis effect in the second six-month period. During financial 2004/2005, Kaba also successfully launched a number of new products in the Americas, but the innovations were slow to penetrate our markets.

The Canadian companies, which predominantly export to the USA, were able to hold sales at more or less previous-year levels, but their earnings suffered from the firm Canadian dollar.

In Asia Pacific, Access Systems feels a slump in demand and expedites market development

In the first half of the year under review in the Asia Pacific region, the market was very unresponsive, and the substitution of mechanical products by electronic and mechatronic solutions escalated. These two factors were responsible for a 28.2 % slump in local-currency sales. In the second half of the year, the decline was cushioned and closed at –11.9 %. In the first six months, EBIT decreased by CHF 1.7 million but returned to the black in the second half of the year. Andreas Brechbühl, who has been heading up Asia Pacific at its headquarters in Hong Kong since 1 July 2005, has already initiated several measures designed to generate a sustainably positive operating result in the years ahead.

Although Access Systems Asia Pacific only generated 3.5 % of consolidated sales during the year under review, Kaba believes that these markets offer significant potentials. They were not exploited as planned in financial 2004/2005 because the products imported from Europe and America were exposed to pricing pressure. With the aim of cutting production costs, Kaba is currently building an assembly plant for sliding doors in China. Local assembly paves the way to more extensive and more cost-effective procurement on site and strengthens Kaba's competitiveness in Asia.

At the end of financial 2003/2004, the Japanese market showed signs of saturation in mechanical locks, and this trend continued into the year under review. The lock manufacturers and dealers serviced by Kaba were forced to cut their inventories. Kaba's ability to combine mechanical locking systems, mechatronic locks, and electronic access control solutions will prove to be a competitive edge. However, unlike sales of mechanical locks, Kaba's sales of mechatronic locks and sophisticated electronic access control systems are still below par in these markets. An intensification of the market development effort, which will incur additional costs, has been launched.

Key + Ident Systems (including Key Systems Americas) stagnates and reports erosion of EBIT margin

To comply with the new IFRS segment reporting principle, Key + Ident Systems (as was already the case in the report for the first half of the year) includes not only the European Silca business but also Ilco's key cutting business in the Americas (previously in the Access + Key Systems Americas Division) as well as the Legic RFID smartcard business (previously in the Access Systems Europe Division). The Legic RFID transponder business includes the development and licensing of Legic components to more than 180 external as well as internal licensees. Key customers include the Kaba production companies operated by Access Systems in Europe and by Data Collection, but also Assa Abloy, Ingersoll Rand, Honeywell, Tyco and Selecta.

The Key + Ident Systems segment also experienced a slump in growth during the second half of the year as opposed to the first six months. In Europe, annual sales expressed in local currencies increased by 1.9 % to CHF 120.1 million. The productivity enhancement measures launched a year ago caused an overproportional increase of the EBIT margin. The key cutting business in America generated CHF 98.9 million in sales. Key duplication businesses kept very lean inventories, which resulted in a currency-adjusted decline in sales of 4.1%. The escalation in raw material prices reduced the EBIT margin. The profitability improvement plans introduced earlier, including pricing leverage and cost cuts, have been intensified. Overall, the EBIT margin of the Key+Ident Systems segment declined from 13.8% a year ago to 11.7% in the year under review.

High free cash flow and sizeable debt reduction

During the year under review, net cash provided by operating activities closed at CHF 85.5 million, visibly less than CHF 115.9 million a year earlier. In financial 2003/2004, net working capital declined and boosted cash flow, but this year, the trend went in the opposite direction. Free cash flow in 2004/2005 was affected by a CHF 7.5 million increase in inventories (CHF 14.3 million in the first half of the year as at 31 December 2004). The higher inventories are attributable to the introduction of new products and to an optimized procurement approach for raw materials and semifinished products.

In the wake of the refinancing plan implemented in October 2004, Kaba was able to cut liquidity by CHF 115.6 million as at 30.6.2004 to CHF 43.8 million as at 30.6.2005. With these funds, augmented by operating cash flow, the Group cut its gross debt from CHF 454.9 million as at 30.6.2004 to CHF 351.5 million as at 30.06.2005. Yet again, Kaba has been able to massively reduce debt, this time by CHF 103.4 million.

Consolidated balance sheet contains no goodwill

The decline in consolidated assets, partially due to currency translation, has continued. As at 30.6.2005, total assets closed at CHF 680.2 million, CHF 49.4 million or 7% less than a year earlier. In the many years during which Kaba reported pursuant to Swiss GAAP FER, goodwill from acquisitions was directly offset with shareholders' equity, and for this reason, negative shareholders' equity ensued in the consolidation process for several years. The switch to IFRS does not change this situation. Now, as at 30.6.2005, the onging generation of profit has brought shareholders' equity back to the black. Future earnings will continue to strengthen shareholders' equity. The true soundness of the consolidated balance sheet can be gauged by the fact that Kaba's net debt is very low in comparison with operating EBIT before depreciation (EBITDA).

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. We assume 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 new financial period will not deviate significantly from the scenario that affected the Kaba Group overall in the second half of 2004/2005. The benefit adjustments of the pension funds and the resultant rise in EBIT by CHF 7.8 million are one-time events and affected only the year under review.

The refinancing charge of CHF 7.9 million incurred in the first six months of 2004/2005 was also a one-time expenditure; this will have a positive effect on the income of the current financial year. On the other hand, the taxation rate is likely to return to a bracket 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 positive and unchanged assessment of the Group's long-term prospects.

The Board of Directors proposes a higher dividend and a payout in the form of a par-value reduction

In view of the considerably higher consolidated net profit generated in the year under review and as a token of its investor-friendly payout policy, the Board of Directors will propose to the Annual Meeting on 25 October 2005 a dividend of CHF 4.80 per share, up CHF 0.80 from the previous year. The payout is to be implemented in the form of a reduction of the par value per share from CHF 10 by CHF 4.80 to CHF 5.20. This approach allows many Kaba Holding AG shareholders to avoid the double taxation of dividends that is levied in Switzerland. After all formalities have been taken care of, the amount of CHF 4.80 will be paid out to shareholders probably in January 2006.

Elections to the Board of Directors

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

Klaus Schmidt, a German citizen born in 1958, has been chairman of the board of management of DEKRA AG and a 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; Chairman, Horvath & Partner AG; Deputy Chairman, LHS Leasing- und Beteiligungsgesellschaft; and Chairman, Norisko SA.

Klaus Schmidt has been with DEKRA AG since 1996, serving the company in various executive functions. The focal points of his activities have been the restructuring, diversification, and internationalization of the group. Schmidt also assumed direct responsibility for the group's business in France and engineered 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 with an MBA from the University of Oregon, USA, and completed the Advanced Management Program at INSEAD in Fontainebleau/Paris.

Extension of authorized share capital

On 21 October 2003, the General Meeting approved the issuance of authorized share capital represented by 350,000 shares to enhance the credibility and maneuverability of Kaba with respect to possible acquisition negotiations and to facilitate access to companies that match the Kaba Group's acquisition strategy. This authorized share capital will now lapse unused at the end of October 2005 as set forth in the applicable provisions of Swiss Corporation Law. Since the original reasons for the approval remain valid, the Board of Directors proposes to the General Meeting an extension of the authorized capital until 25 October 2007.

Re-approval of conditional share capital for employee participation plans

Subsequent to the merger with Unican in the spring of 2001, the Board of Directors had at its disposal conditional share capital represented by 60,000 shares for employee participation plans. In the meantime, these 60,000 shares have been issued or reserved within the scope of an option plan that extends across several management levels. To make it possible for the company to continue to offer participation schemes to employees in the coming years, the Board of Directors proposes to the General Meeting on 25 October 2005 to re-approve the creation of conditional share capital represented by 60,000 shares.

Reduction of agenda-setting quorum

The General Meeting on 25 October 2005 will be asked to ratify a reduction of the quorum required for the submission of agenda items to 0.5 % of the par value of outstanding shares. So far, shares with a par value of CHF 1 million or a current market value of nearly CHF 35 million were needed to place an item on the agenda of the General Meeting. The new quorum would allow shareholders representing just under 18,000 shares to submit an item. At a share price of CHF 350, this corresponds to a market value of CHF 6.3 million.

Invitation to the General Meeting of Shareholders on Tuesday, 25 October 2005, 3 pm at the Mövenpick Hotel Zurich Regensdorf in 8105 Regensdorf

Please note that the General Meeting will take place at the Mövenpick Hotel in Regensdorf and not, as previously, at the Swissôtel in Zurich Oerlikon.

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

- Invitation with agenda and proposals by the Board of Directors
- Reply form
- Reply envelope
- Order form for documentation

If you wish to attend the General Meeting, please complete the attached reply form and return it to us as quickly 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.

The Kaba Group's reporting policy

Yet again, our reporting is very extensive. As widely requested by our shareholders, we have resolved to limit our correspondence to the Shareholder Newsletter. As last year, please find enclosed a form that allows you to order the following publications:

- Annual Report with financial statements and Corporate Governance brochure
- Investors' Handbook
- Sustainability Charta

You can also view and/or download all of these publications at www.kaba.com.

Thank you for your interest and confidence in the Kaba Group.

With kind regards,
Kaba Holding AG

Rudolf Hauser
Chairman of the Board

Ulrich Graf
President and CEO

Consolidated income statement

in CHF million except per share amounts	Note	Financial Year closed 30.6.2005	%	Financial Year closed 30.6.2004	%
Net Sales	6	**980.1**	**100.0**	**978.1**	**100.0**
Changes in finished goods and work in progress		1.4	0.1	7.6	0.8
Other operating income	7	12.3	1.3	12.8	1.3
Material expenses	8	−297.8	−30.4	−301.2	−30.8
Personnel expenses	9	−376.7	−38.4	−382.7	−39.1
Other operating expenses	10	−166.5	−17.0	−163.5	−16.7
Depreciation and amortisation	17, 18	−31.3	−3.2	−32.8	−3.4
Operating profit (EBIT)		**121.5**	**12.4**	**118.3**	**12.1**
Financial expenses	11	−33.6	−3.4	−42.1	−4.3
Financial income	12	0.9	0.1	1.0	0.1
Profit before taxes		**88.8**	**9.1**	**77.2**	**7.9**
Income taxes	13	−22.7	−2.3	−30.0	−3.1
Net profit before minority interests		**66.1**	**6.8**	**47.2**	**4.8**
Net profit applicable to minority interests	3	0.1		0.1	
Net profit excluding minority interests		66.0		47.1	
Basic earnings per share (in CHF)	4	18.5		13.2	
Diluted earnings per share (in CHF)	4	18.4		13.2	

Consolidated balance sheet
Assets

in CHF million	Note	Financial Year closed 30.6.2005	%	Financial Year closed 30.6.2004	%
Current assets					
Cash and cash equivalents		43.8	6.4	115.6	15.8
Accounts receivable trade	14	184.9	27.2	177.4	24.3
Inventories	15	181.8	26.7	171.2	23.5
Current income taxes		4.3	0.6	2.2	0.3
Other current assets	16	25.1	3.7	24.2	3.3
Total current assets		**439.9**	**64.6**	**490.6**	**67.2**
Non-current assets					
Property, plant and equipment	17	198.6	29.2	204.3	28.0
Goodwill and other intangible assets	18	12.6	1.9	7.8	1.1
Non-current financial assets	19	4.0	0.6	2.6	0.4
Deferred income taxes	25	25.1	3.7	24.3	3.3
Total non-current assets		**240.3**	**35.4**	**239.0**	**32.8**
Total assets		**680.2**	**100.0**	**729.6**	**100.0**

Consolidated balance sheet
Liabilities and equity

in CHF million	Note	Financial Year closed 30.6.2005	%	Financial Year closed 30.6.2004	%
Current liabilities					
Current borrowings	20	206.4	30.3	9.1	1.2
Accounts payable trade		63.7	9.4	60.7	8.3
Current income taxes		16.1	2.4	16.1	2.2
Accrued and other current liabilities	21	130.5	19.2	132.2	18.1
Provisions	22	11.2	1.6	12.8	1.8
Total current liabilities		**427.9**	**62.9**	**230.9**	**31.6**
Non-current liabilities					
Non-current borrowings	20	145.1	21.3	445.8	61.1
Accrued pension cost and benefits	23	55.3	8.1	65.5	9.0
Deferred income taxes	25	17.8	2.6	13.2	1.8
Other non-current liabilities		1.8	0.3	3.0	0.5
Total non-current liabilities		**220.0**	**32.3**	**527.5**	**72.4**
Total liabilities		**647.9**	**95.2**	**758.4**	**104.0**
Equity					
Share capital	4	35.8	5.3	35.7	4.9
Additional paid-in capital		545.3	80.2	545.0	74.7
Equity conversion element of convertible bond		9.3	1.3	9.3	1.3
Retained earnings		–560.6	–82.4	–618.5	–84.8
Cumulative translation adjustment		2.3	0.4	–0.5	–0.1
Total shareholders' equity (excl. Minority interests)		**32.1**	**4.8**	**–29.0**	**–4.0**
Minority interests		0.2		0.2	
Total equity		**32.3**	**4.8**	**–28.8**	**–4.0**
Total liabilities and equity		**680.2**	**100.0**	**729.6**	**100.0**

Consolidated statement of cash flows

in CHF million	Note	Financial Year closed 30.6.2005	Financial Year closed 30.6.2004
Net profit		**66.1**	**47.2**
Depreciation and amortisation	17, 18	31.3	32.8
Income tax expenses	13	22.7	30.0
Interest expenses	11	31.6	32.7
Interest income	12	–0.6	–0.9
Exchange differences on loans		0.0	6.7
Loss (gain) on disposal of fixed assets, net		–0.3	–0.1
Change in accounts receivable trade		–4.8	4.4
Change in inventories		–7.5	–0.6
Change in other current assets		–1.5	–0.5
Change in accounts payable trade		2.2	3.7
Change in accrued pension cost		–11.2	0.1
Change in accrued and other current liabilities		4.0	6.5
Cash generated from operations		**132.0**	**162.0**
Income taxes paid		–19.2	–20.7
Interest paid		–27.9	–26.3
Interest received		0.6	0.9
Net cash from operating activities		**85.5**	**115.9**
Cash flows from investing activities			
Purchase of property plant and equipment	17	–21.0	–22.4
Proceeds from sale of property plant and equipment	17	2.0	1.6
Acquisition of subsidiaries, net of cash acquired	5, 17, 18	–0.8	–2.5
Sale of investment in associated companies		0.0	0.1
Purchases of other intangible assets	18	–7.4	–3.8
Decrease of other non-current financial assets		0.9	0.0
Increase of other non-current financial assets		–2.2	0.0
Net cash used in investing activities		**–28.5**	**–27.0**

Consolidated statement of cash flows

continued

in CHF million	Note	Financial Year closed 30.6.2005	Financial Year closed 30.6.2004
Cash flows from financing activities			
Issuance (repayment) of short-term debt, net	20	196.7	–27.9
Repayment of long-term debt	20	–305.8	–77.9
Decrease in other non-current liabilities		–0.4	–0.1
Dividends paid to minority shareholders		–0.1	–0.1
Treasury stock re-issued for cash		0.0	0.2
New shares issued		0.3	1.3
Dividends paid to company's shareholders		–14.3	–10.7
Net cash used in financing activities		**–123.5**	**–115.2**
Translation exchange differences		–5.3	–2.7
Net increase (decrease) in cash and cash equivalents		**–71.8**	**–29.0**
Cash and cash equivalents at beginning of period		115.6	144.6
Cash and cash equivalents at end of period		43.8	115.6
Net increase (decrease) in cash and cash equivalents		**–71.8**	**–29.0**

Consolidated changes in equity for financial year 2004/2005

In CHF million	Share capital	Additional paid-in capital	Equity convers. element of conv. bond	Hedging reserve	Retained earnings	Treasury stock	Cumul. translation adjustm.	Minority interests	Total equity
Financial Year closed 30.6.2004									
Opening Balance at 1.7.2003	**35.7**	**543.7**	**9.3**	**–13.8**	**–648.8**	**–0.2**	**0.0**	**0.2**	**–73.9**
Net profit					47.1			0.1	47.2
Dividend paid					–10.7			–0.1	–10.8
New shares issued		1.3							1.3
Treasury stock re-issued						0.2			0.2
Changes in fair value of hedging instruments				9.6					9.6
Tax effect on changes in fair value of hedging instruments				–2.0					–2.0
Translation adjustments							–0.4		–0.4
Balance at 30.6.2004	**35.7**	**545.0**	**9.3**	**–6.2**	**–612.4**	**0.0**	**–0.4**	**0.2**	**–28.8**
Financial year closed 30.6.2005									
Balance at 30.6.2004	**35.7**	**545.0**	**9.3**	**–6.2**	**–612.4**	**0.0**	**–0.4**	**0.2**	**–28.8**
Net profit					66.0			0.1	66.1
Dividend paid					–14.3			–0.1	–14.4
New shares issued	0.1	0.3							0.4
Changes in fair value of hedging instruments				7.3					7.3
Tax effect on changes in fair value of hedging instruments				–1.1					–1.1
Translation adjustments					0.1		2.7		2.8
Balance at 30.6.2005	**35.8**	**545.3**	**9.3**	**0.0**	**–560.6**	**0.0**	**2.3**	**0.2**	**32.3**

Transition from Swiss GAAP FER to IFRS

1. Reconciliation of net profit

in CHF million		Financial Year closed 30.6.2004
Net profit before minority interests per Swiss GAAP FER		**56.8**
2) IAS 12	Deferred income taxes	–2.9
3) IAS 18	Revenue recognition	–0.4
4) IAS 19	Pensions	2.3
5) IAS 21	Net investment in a foreign operation	–6.7
6) IAS 32	Convertible bond	–1.2
7) IAS 37	Provisions	–0.3
8) IAS 39	Derivative financial instruments	–0.5
9) IAS 8	Enhanced coverage of uniform accounting policies	0.0
All other		0.1
Net profit before minority interests per IFRS		**47.2**

2. Reconciliation of equity

in CHF million		Financial Year closed 30.6.2005	Opening Balance per 1.7.2003
Equity per Swiss GAAP FER		**–24.0**	**–62.8**
Translation exchange differences		0.3	0.0
2) IAS 12	Deferred income taxes	17.7	22.8
3) IAS 18	Revenue recognition	–1.7	–1.3
12) IAS 19	Long term employee benefits	–1.6	–1.6
4) IAS 19	Pensions	–32.3	–34.6
5) IAS 21	Net investment in a foreign operation	0.0	0.0
6) IAS 32	Convertible bond	10.7	11.9
7) IAS 37	Provisions	11.8	12.1
8) IAS 39	Derivative financial instruments	–7.7	–16.7
9) IAS 8	Enhanced coverage of uniform accounting policies	–2.3	–1.6
10) IFRS 1	Contingent payment on acquisition prior to first time application of IFRS	–0.3	–2.0
11) IFRS 3	Business Combinations	0.5	0.0
All other		0.1	0.1
Treasury stock		0.0	–0.2
Equity per IFRS		**–28.8**	**–73.9**

3. Reconciliation of cash flow statement

Under IFRS the cash flow statement was prepared by using average exchange rates to convert the balance items whereas under Swiss GAAP FER ending rates were used. Therefore individual line items vary but with no overall material impact on the following line items:

30.6.2004 in CHF million	IFRS	Swiss GAAP FER
Net cash provided by operating acitvities	115.9	114.5
Net cash used in investing activities	–27.0	–25.3
Net cash used in financing activities	–115.2	–115.7
Net increase (decrease) in cash and cash equivalents	–29.0	–29.1

4. Transition explanations

Kaba Group has elected the following optional exemptions from full retrospective application:

Business Combination exemption
Kaba Group has elected to use the business combination exemption in IFRS 1 and will not restate business combinations that took place prior to the 1 July 2003 transition date.

Employee benefit exemption
Kaba Group has elected to recognize all cumulative actuarial gains and losses at the 1 July 2003 transition date.

Cumulative translation differences exemption
Kaba Group has elected to use the exemption of setting the previously accumulated cumulative translation to zero. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

2) IAS 12 Deferred income taxes
Under Swiss GAAP FER Kaba Group elected to abstain from capitalising any deferred income tax assets from both the carryforward of unused tax losses and from the deductible temporary differences. According to IAS 12 deferred income taxes are recognised for all carryforward of unused tax losses as well as from deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. At the transition date 1 July 2003, the deferred tax asset relating to loss carryforwards amount to approximately CHF 6 million. Further significant equity impacts related to deferred taxes arise e.g. from

- recognising deferred tax assets from deductible temporary differences,
- the application of IAS 19 (Pensions) and IAS 39 (Hedge Accounting) related to interest rate swaps as referred to in note 8 below,
- the effect on the elimination of intercompany profits on inventory as well as
- the impact on deferred taxes of all other valuation differences between IFRS and Swiss GAAP FER.

3) IAS 18 Revenue recognition
Under Swiss GAAP FER revenue was recognised separately for certain elements of contracts which were invoiced to and paid by customers independently from each other. According to IAS 18 revenue for such contracts is only recognised when all elements are complete.

4) IAS 19 Pensions

Under Swiss GAAP FER Swiss and Italian pension plans were treated as defined contribution plans. Under a defined contribution plan the pension plan obligation is determined by the contribution payable for the period. Under IAS 19 these plans are treated as defined benefit plans and, accordingly, an actuarial valuation was performed in the course of transition. Under a defined benefit plan actuarial assumptions are required to measure the obligations and the expense. As a result a pension liability was recognized under IFRS, but was not recognized under Swiss GAAP FER, which used a cash basis.

The different treatment mainly of the Swiss pension plans under Swiss GAAP FER and IFRS accounts for about CHF 23 million of the related impact on equity at the transition date which approximately represents the funded status (excess of the present value of the obligation [CHF 193 million] over fair value of planned assets [CHF 170 million]). The net periodic pension cost according to IFRS for the full year 2003/2004 amounts to CHF 4.2 million whereas the contribution paid by the employer was CHF 6.6 million.

The following actuarial assumptions for the Swiss pension plans were applied:

Discount rate	3.5 %
Expected net return on plan assets	4.25 %
Projected average future salary increases	2.5 %
Projected pension benefit increases	0.5 %

The remaining impact on equity is the result of Kaba's decision to recognize at the 1 July 2003 transition date all cumulative actuarial gains and losses of pension plans (approximately CHF 7 million) which were considered defined benefit plans even under Swiss GAAP FER.

5) IAS 21 Net investment in a foreign operation

Under Swiss GAAP FER intercompany loans were generally considered as part of a net investment in a foreign operation. Foreign exchange gains and losses were recorded in equity and transferred to the income statement only on disposal of the net investment. Applying IAS 21 foreign exchange gains and losses in relation to intercompany loans are normally recognised in the income statement. As from 1 July 2004 Kaba is hedging intercompany loans against currency fluctuations.

6) IAS 32 Convertible bond issuance (compound instruments)

Contrary to IAS 32 no equity element was recorded on initial recognition of the convertible bond under Swiss GAAP FER. Under IAS 32 a convertible bond is required to be separated into a liability and equity component. The additional amount to be amortized due to this equity component is reflected in the difference between interest expenses under IFRS and Swiss GAAP FER. At the issue date the equity component amounted to CHF 13.3 million. The difference in accumulated interests between Swiss GAAP FER and IFRS on the transition date amounted to 1.4 million, the net equity impact to CHF 11.9 million and the liability element to CHF 129.5 million. The liability element is increased periodically in future periods reflecting amortised cost at each balance sheet date.

7) IAS 37 Provisions

Under Swiss GAAP FER provisions were recognised when an outflow of resources seemed possible. Applying IAS 37 a provision is only recognised when an entity has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. A provision for environmental risks in the amount of CHF 10 million which was recorded under Swiss GAAP FER but does not qualify as a provision under IFRS accounts for the major part of the impact on equity.

8) IAS 39 Derivative financial instruments

Under Swiss GAAP FER the fair value of derivative financial instruments was disclosed in the notes to the financial statements only. Under IAS 39 derivative financial instruments are initially recognised at cost and subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether hedge accounting was applied or not:

a) Certain derivative transactions do not qualify for hedge accounting and the changes in fair value should be recorded in the income statement.
b) Certain derivative transactions qualify for cash flow hedges and the gains and losses are deferred in equity (effective portion) and will be recognized in the income statement according to the revenue/expense recognition of the underlying hedged item.

The difference in equity between Swiss GAAP FER and IFRS relates mainly to swaps in interest rates in connection with long term syndicate bank loans. These loans were repaid and the swaps terminated in October 2004. The remaining fair value at the termination date in the amount of approximately CHF 5.5 million was recognised in the income statement of the reporting period.

9) IAS 8 Uniform accounting policies

According to IAS 8 an entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions. Even if this principle was applied already under Swiss GAAP FER an extension of uniform accounting principles in relation to the calculation of warranty provisions, bad debt allowances, inventory allowances for slow moving items, the permitted range for useful lives of tangible fixed assets and the specification of which contracts shall be considered construction contracts was introduced as from the transition date.

10) IFRS 1 Contingent payment on acquisitions prior to first time application of IFRS

Under Swiss GAAP FER goodwill was recognized as a deduction from equity, and contingent payments on acquisitions were disclosed only in the notes. With the application of IFRS 1 contingent payments are recognised in retained earnings on the later of the transition date or the date when they became probable.

11) IFRS 3 Business combinations

With the application of IFRS 3 intangible assets were identified and recognised which were designated as goodwill and set off directly from retained earnings under Swiss GAAP FER.

12) IAS 19 Long term employee benefits

Under Swiss GAAP FER certain long term employee benefits, mainly jubilee bonuses, were recorded in the period in which the employee was entitled to the benefit. Under IFRS these long term employee benefits are measured using a simplified method in accordance with IAS 19 and recognised as a liability in the balance sheet.

Changes in Cash Flow Statement

Under IFRS the cash flow statement was prepared applying average foreign exchange rates to convert cash flows from assets and liabilities, whereas under Swiss GAAP FER foreign exchange rates at the end of the accounting period were applied. Therefore individual line items vary.

Contrary to IFRS, under Swiss GAAP FER the fund included marketable securities. Due to the small amount of such securities the impact on the fund is immaterial.

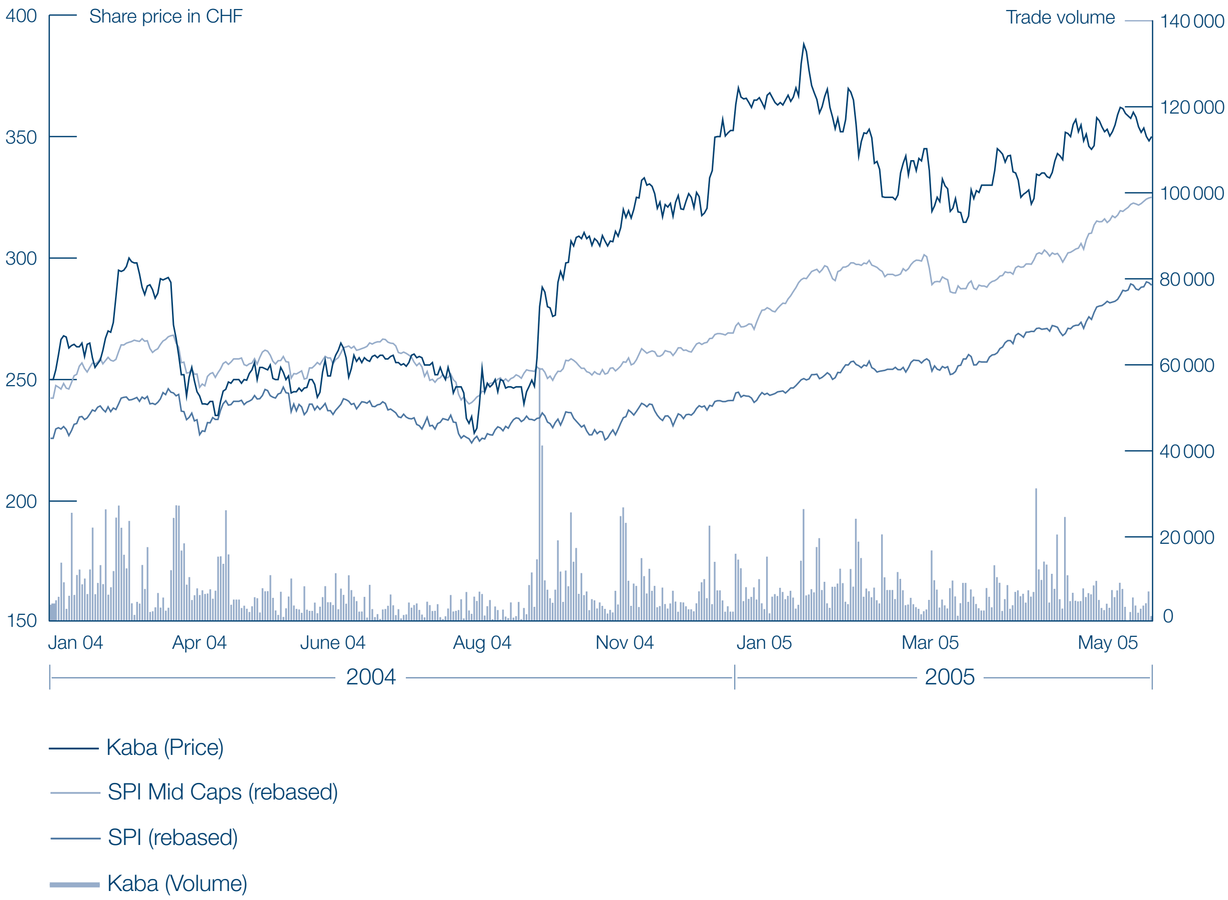
Segment reporting – full year

Kaba Group consolidated in CHF million	Door Systems	Data Collection	Access Systems	Key+Ident Systems	Other/ Eliminations/ Finance	Group
Prior year closed 30.6.2004						
Net sales third parties	231.4	73.2	413.3	219.2	41.0	978.1
Intercompany sales	1.6	2.2	2.1	4.2	–10.1	0.0
Total segment sales	**233.0**	**75.4**	**415.4**	**223.4**	**30.9**	**978.1**
Segment operating profit	**8.9**	**9.7**	**82.9**	**30.8**	**–14.0**	**118.3**
in % of segment sales	3.8%	12.9%	20.0%	13.8%	N/A	12.1%
Financial year closed 30.6.2005						
Net sales third parties	250.6	74.0	405.7	211.2	38.6	980.1
Intercompany sales	2.1	1.9	3.0	4.5	–11.5	0.0
Total segment sales	**252.7**	**75.9**	**408.7**	**215.7**	**27.1**	**980.1**
Segment operating profit	**19.3**	**7.1**	**85.8**	**25.2**	**–15.9**	**121.5**
in % of segment sales	7.6%	9.4%	21.0%	11.7%	N/A	12.4%
Segment operating profit currency adjusted	**19.1**	**7.0**	**88.4**	**25.9**	**–16.2**	**124.2**
Growth segment sales	19.7	0.5	–6.7	–7.7	–3.8	2.0
in %	8.5%	0.7%	–1.6%	–3.4%	N/A	0.2%
Whereof currency impact	–0.9	–1.0	–8.9	–7.7		–18.5
in %	–0.4%	–1.3%	–2.1%	–3.4%	N/A	–1.9%
Currency adjusted internal growth segment sales	20.6	1.5	2.2	0.0	–3.8	20.5
in %	8.9%	2.0%	0.5%	0.0%	N/A	2.1%

Segment reporting – 2nd half year

Kaba Group consolidated in CHF million	Door Systems	Data Collection	Access Systems	Key+Ident Systems	Other/ Eliminations/ Finance	Group
Prior half-year closed 30.6.2004						
Net sales third parties	114.4	36.9	206.3	116.1	22.7	496.4
Intercompany sales	0.4	0.9	0.9	2.1	–4.3	0.0
Total segment sales	**114.8**	**37.8**	**207.2**	**118.2**	**18.4**	**496.4**
Segment operating profit	**3.8**	**4.1**	**42.2**	**18.4**	**–7.5**	**61.0**
in % of segment sales	3.3%	10.8%	20.4%	15.6%	–40.7%	12.3%
Reporting half-year closed 30.6.2004						
Net sales third parties	122.8	36.0	200.0	109.2	19.6	487.6
Intercompany sales	1.4	1.0	1.9	2.1	–6.4	0.0
Total segment sales	**124.2**	**37.0**	**201.9**	**111.3**	**13.2**	**487.6**
Segment operating profit	**9.5**	**2.1**	**37.8**	**13.2**	**–6.8**	**55.9**
in % of segment sales	7.6%	5.9%	18.7%	11.9%	–51.5%	11.5%
Segment operating profit currency adjusted	**9.3**	**2.1**	**38.5**	**13.5**	**–7.1**	**56.3**
Growth segment sales	9.4	–0.8	–5.3	–6.9	–5.2	–8.8
in %	8.2%	–2.1%	–2.6%	–5.8%	N/A	–1.8%
Whereof currency impact	–0.7	–0.3	–2.6	–2.7	0.4	–5.9
in %	–0.6%	–0.8%	–1.3%	–2.3%	N/A	–1.2%
Currency adjusted internal growth segment sales	10.1	–0.5	–2.7	–4.2	–5.6	–2.9
in %	8.8%	–1.3%	–1.3%	–3.6%	N/A	–0.6%

Stock price trend



Agenda

25 October 2005, Tuesday, 3 pm
General Meeting of Kaba Holding AG at the Mövenpick Hotel in Regensdorf

6 March 2006, Monday
Shareholder Newsletter and media release on the interim financial report as at 31.12.2005

18 September 2006, Monday
Presentation for financial analysts
Financial press conference
Shareholder Newsletter with the results of financial 2005/2006 and
Outlook for financial 2006/2007
Mailing of Annual Report
Invitation to the General Meeting

24 October 2006, Tuesday, 3 pm
General Meeting of Kaba Holding AG

You are invited to visit our website www.kaba.com. Apart from the current price of Kaba stock, you will find the latest media releases, the annual report as at 30.6.2005, the recently published Kaba Sustainability Charta and the popular Investors' Handbook. Our website also showcases new Kaba products and systems that will conveniently enhance your personal safety.

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