Letter to Shareholders, 23 September 2002

Integration beats recession

- **Net income up 47.5 % and sales 50% higher thanks to first-time consolidation effect of Unican acquisition**
- **Kaba joins the sales billionaires for the first time**
- **EBIT and EBIT margin defy recession**
- **net free cash flow trebled**
- **significant debt reduction**

Dear Kaba shareholder

Kaba acquired the Unican Group in April 2001 and consolidated it into the income statement for the remaining three months of the 2000/01 financial year. The figures for 2001/02 are the first to show the enlarged Kaba (around half of which is former Unican) over a full financial year. The former Unican Group's results for July to March, now included in the income statement, produced a further acquisition-related surge in sales and net income for Kaba overall. Assets and liabilities for Unican companies had already been included in the balance sheet as at 30 June 2001.

Kaba Group key figures as at end-June

in CHF million	**2001/02**	**2000/01**	**Year-on-year change**
Group sales	1 027.0	683.6	50.2 %
Operating revenues	1 025.9	714.5	43.6 %
Income from operations before depreciation (EBITDA)	165.6	93.4	77.3 %
as % of operating revenues	*16.2 %*	*13.1 %*	
Income from operations (EBIT)	123.0	68.2	80.4 %
as % of operating revenues	*12.1 %*	*9.6 %*	
Net income	**61.8**	41.9	47.5 %
as % of operating revenues	*6.1 %*	*5.9 %*	
Income + depreciation	104.4	67.1	55.6 %
as % of operating revenues	*10.2 %*	*9.4 %*	
Investments in tangible and intangible assets	24.2	25.3	– 4.3 %
as % of income + depreciation	*23.2 %*	*37.7 %*	
Investments in shareholdings	20.2	860.6	–97.7 %
Total assets	765.6	964.3	–20.6 %
Shareholders' equity	–94.5	–118.2	20.1 %
as % of total assets	*–12.3 %*	*–12.3 %*	
Net operating assets	420.1	457.1	–8.1 %
Return on total assets (RONOA) Income from operations (EBIT) as % of net operating assets	**29.3 %**	14.9 %	
Number of employees (average)	6 402	3 816	67.8 %

The global economic climate began to cloud over shortly after the Unican acquisition. This forced the first capacity adjustments, in the USA in particular, as early as May 2001. Although the events of 11 September 2001 dramatically confirmed a need for security, investment activity still fell sharply as the economy slowed down. Against this backdrop, the Kaba Group, No. 3 in «Total Access» solutions with a comprehensive market presence, was forced to push ahead with integration, position itself globally and stand up to the global market leaders in a sector that was contracting almost across the board. The figures for the reporting period show that Kaba overcame these multiple challenges well.

Acquisitions lift sales by 50 %

Consolidated sales posted a year-on-year advance of 50.2 % or CHF 343.4 million to CHF 1027.0 million. The year-on-year rise owing to acquisitions amounted to CHF 357.2 million, with the first-time consolidation effect on sales made up of nine months of Unican, six months of Kaba Benzing in Miami and twelve months of our new distribution company in Poland. This must be set off against a CHF 15.2 million reduction in sales owing to the strengthening of the Swiss franc. Adjusted for currency and acquisition effects, sales at Kaba (excluding Unican) grew by CHF 1.4 million, i.e. currency and acquisition-adjusted sales held steady despite the recession.

Annual net income growth target of 20 % per share exceeded thanks to Unican

In the seven financial years since Kaba Holding AG was floated, the Group has not deviated from its vision of 20 % annual earnings growth. The consolidated financial statements as at 30 June 2002 report net income of CHF 61.8 million, i.e. 47.5 % higher than the previous year. Since the Initial Public Offering in 1995/96, Kaba has achieved steady income growth averaging 26 % per year.

If the figures are restated on a comparable basis to Kaba (excluding Unican), the 2 245 000 shares (prior to the 2001 capital increase) produced EPS of around CHF 13.95 for the 2000/01 financial year. In the year under review, EPS on the increased number of shares of 3 567 500 came to CHF 17.32. The acquisition of Unican consequently generated a 24 % rise in net income in the first year. This so far represents only a small proportion of the integration synergies that we detailed in our “Value Driving” integration brochure of March 2002.

From a current perspective, the late-2000 decision to acquire the Unican Group has proven to be the right one for several reasons. Firstly, the Unican companies have made the global implementation of the «Total Access» strategy both easier and faster. Secondly, Unican’s activities have given the Kaba Group’s profitability a substantial boost. Thirdly, Kaba shareholders who have been with the company since before the capital increase of 2001 have also benefited from the Unican takeover, as they have been spared the dilution of their shares and have been rewarded for their loyalty by above-average net income growth.

Return on total assets reflects higher operating output

Despite the difficult economic climate, EBIT as a proportion of net operating assets (Return On Net Operating Assets; RONOA) for Kaba including Unican climbed to an all-time high of 29.3 %. Kaba reached a comparable high in 1999/00, with 27.5% (prior to the Unican acquisition). (Figures cannot be compared with those for 2000/01 as Unican was only partly consolidated.)

The EBIT margin, i.e. EBIT as a percentage of operating revenues, rose to 12.1 % in the year under review from 9.6 % in 2000/01. EBITDA advanced by as much as 3.1 % to 16.2 %.

High free cash flow allows significant debt reduction

Operating cash flow (referred to as "Net cash provided by operating activities" in the consolidated statement of cash flows) doubled to CHF 90,7 million from CHF 45.3 million the previous year. It was used to finance investments worth CHF 24.2 million mainly in tangible and intangible assets (previous year: CHF 25.4 million) and residual payments of CHF 20.2 million connected with the takeover of Unican. Assets worth CHF 6.1 million were disposed of (previous year: CHF 3.9 million), producing net free cash flow (excluding shareholdings) of CHF 72.6 million (CHF 23.8 million) in the year under review. This trebling of the previous year's figure is attributable mainly to the first-time full-year consolidation of Unican, although a significant reduction in current assets, particularly in the USA, also played a part.

Free cash flow was used to pay off bank loans. In December 2001, Kaba successfully placed an attractive convertible bond issue worth CHF 138 million, with a maturity of eight years, a 4 % coupon and 7 % real rate of interest. The proceeds were used to clear further bank debt, which has been cut by as much as CHF 251.1 million overall year-on-year thanks to additional currency effects.

The long-term bank loans of CHF 458.0 million reported as at 30 June 2002 are financed as part of a comprehensive credit package provided by a syndicate of around a dozen international banks and investors. In addition to the usual market conditions, the corresponding global agreement lays down specific, variable interest rate margins and fixed repayments and terms up to 2008/09.

Pro forma sales and EBIT growth

In the interests of the transparency that Kaba has been cultivating for many years now, the following pro forma divisional and consolidated results are presented as though Kaba and Unican had already merged the previous year. The figures have been adjusted to the divisional structure in place during the year under review (see the Sales and EBIT Growth table enclosed) in order to aid comparability further.

The figures reflect the fact that last year's Unican figures are still based on Canadian accounting principles. We have also had to make a range of assumptions. Nonetheless, while the figures are not 100 % exact, they do offer an accurate general reflection of how our business is progressing.

Door Systems Division

Adjusted for currency movements, the Door Systems Division grew by 5.7 % to CHF 232.3 million during the year under review. There were second-half increases in both absolute EBIT and EBIT margin compared with the first six months of the year.

Although sales of security doors recorded excellent growth in volume terms in the wake of 11 September 2001, margins were disappointing. Automatic doors and door systems in the UK that are sold mainly to the construction industry suffered from recessionary trends in Europe.

However, Kaba still managed to achieve a break-even operating result for its industrial doors operations in the UK. One of the main contributors to this success was the profitable nationwide service organization. In addition, the first half's non-recurring costs for special measures did not continue into the second half of the year. The deepening recession has slowed the recovery, however.

Data Collection Division

The Data Collection Division returned to its growth path. During the second half of the 2001/02 financial year it generated a 6.5% increase in sales (+0.8 % on an annual basis and adjusted for acquisition and currency effects) and improved its EBIT margin. This growth is due to intensive marketing, particularly in the USA, as well as to marked progress with the cost situation at Kaba Benzing Inc., Miami/USA.

Access Europe Division

The situation in Europe in the second half year did not worsen as much as had been feared. The currency-adjusted sales decline stabilized at – 4.7%, bringing the final figure close to that for the first half. Selective sales and structural improvements led to a year-on-year rise in the EBIT margin from 10.7 % to 11.5 %. Even absolute EBIT managed to record a slight increase of CHF 0.2 million to CHF 26.4 million. The integration projects of the Value Driver Initiative were one of the main success factors here.

Access Asia Pacific Division

The harsh economic climate in Japan, Singapore, Malaysia, Australia and New Zealand had a negative impact on the performance of the Asia Pacific Division. After last year's massive 215 % sales growth in Japan, the year under review brought a decline of 6 % in local currency terms. An increase of capacities in line with anticipated medium-term demand also squeezed margins further.

Overall, the currency-adjusted sales decline in the Asia Pacific Division amounted to 7.9 %, while EBIT dropped from CHF 6.0 million to CHF 0.9 million.

Access Americas Division

While sales at Access Americas fell in currency-adjusted terms by 14.9 % to CHF 341.8 million, the EBIT margin rose from 12.8 % last year to 17.5 % for 2001 / 02. Absolute EBIT improved by around 11 % year-on-year from CHF 53.9 million to CHF 59.8 million.

This impressive growth is the result of the Value Driver Initiative, as we have already described and quantified in our Integration Report of March 2002 (see www.kaba.com / Integration Report). The significant rise in the profitability of Access Americas is evidence that Kaba has not only determined the integration projects correctly, but also implemented them single-mindedly. A range of clearly defined and often relatively small projects has contributed to this impressive success – from the turnaround of Kaba Ilco Montreal and the profitable launch of new products to the exploitation of distribution synergies for existing Kaba products in the USA, the optimization of logistics in both cost and time terms and the dismantling of the previous holding company in Canada. The responsibility for implementing this carefully structured package of measures has been entrusted to an excellent local management team with a pragmatic approach, a high level of cost-consciousness and a sharp focus on profits.

Access Systems (subtotal)

The term "Access Systems" covers both mechanical and mechatronic locking systems and electronic access controls. Global activities are spread across the Access Europe, Access Asia Pacific and Access Americas Divisions.

The Access Systems Divisions as a total suffered a fall in sales in local currency terms of 10.9 % to CHF 619.1 million. The drop was caused primarily by the challenging market in the USA and Canada and the restructuring of our range of products in Europe and North America. Successful implementation of the integration project meant that the EBIT margin expanded more quickly in the second half (+3.5 %) than in the first six months of the year (+0.9 %). The EBIT margin for the whole of the year under review advanced from 11.9 % to 14.1 %, corresponding to an annualized increase of 2.2 %. Absolute EBIT was up by CHF 1.0 million to CHF 87.1 million, but rose by as much as CHF 4.5 million, if currency effects are eliminated (5.2 % currency adjusted increase compared to the pro forma year-back figure).

Division Key Systems Europe

Sales at the Silca companies were up by a currency-adjusted 8.8 % to CHF 111.3 million. Here too, the EBIT margin improved – from 17.3 % to 17.5 %. Absolute EBIT thus also increased, by 7% to CHF 19.5 million. This result reflects the very stable business in key blanks and transponder keys, and the successful realignment of the cost structure to the recession-related decline in key duplicating machines.

Consolidated financial statements reveal positive effects of integration

A comparison between the Kaba Group as it is today and pro forma figures for Kaba and Unican for last year produces a currency-adjusted decline in sales of 5.1%. This is attributable to the difficult economic environment and more margin-aware sales activities that place profitability before the maximization of sales volumes. As a result, the comparable EBIT margin rose from 11.3% to 12.0%. In nominal terms, absolute EBIT fell from CHF 125.2 million to CHF 123.0 million, although in this comparison the appreciation of the Swiss franc reduced EBIT by CHF 4.1 million. At constant exchange rates, last year's EBIT of CHF 125.2 million compares with a result of CHF 127.1 million for the year just ended. This means that the operating result was not only maintained but actually improved by CHF 1.9 million or +1.5% in absolute terms. In other words, the positive integration effects within the Kaba group outweigh the recessionary tendencies in the economy.

Dividend unchanged

The Board of Directors is proposing a dividend of CHF 3.00 per share with a par value of CHF 10.00. This distribution, which is the same as last year, reflects the stability in income from operations (EBIT) of today's Kaba Group (including Unican) in comparison with both companies' year-back results. The proposed dividend also takes due account of the debt situation and the strategic challenges that the Kaba Group faces after the acquisition of Unican.

Integration successes will also shape Kaba's future

The takeover of Unican has made Kaba a global player. The company is now in an excellent position in Europe, North America and the Asia Pacific region to continue its above-average growth in the future. The Kaba Group currently employs around 6300 people.

On the global market, Kaba is currently

- No. 1 in key blanks, key coding machines and transponder keys
- No. 1 in high-security locks
- No. 1 in electronic access systems in Europe
- No. 2 in locks and locking systems
- No. 2 in security and automatic doors
- No. 3 in hotel lock systems
- No. 3 in «Total Access» solutions

The Group's future will be determined first and foremost by the integration of the Unican companies into Kaba. In March 2001, Kaba launched the Value Driver Initiative aimed at identifying all synergy and value-adding potential and exploiting it rapidly and profitably. The initiative has already had a positive effect in the year under review and should continue to boost income from operations and free cash flow in the financial years to come.

Under positive economic circumstances we uphold our vision of average annual net income growth per share of 20%. Should economic growth improve soon during the 2002/03 financial year, we will be able to raise net income by this target amount over the coming twelve months. We are conscious, however, that the economic situation will remain difficult for some time to come, as there are no signs of a sustained recovery. With sales growth driven by the market, we cannot take anything for granted. We are nonetheless confident that integration synergies may enable us to achieve the increase in income from operations and free cash flow that we announced in the Integration Report of March 2002. Capitalizable investments will probably be close to the depreciation figure. We are anticipating a further increase in net income for the 2002/03 financial year.

Invitation to the Annual General Meeting on Tuesday, 22 October 2002, 3.00 p.m.

at Swissôtel, Am Marktplatz, Zurich-Oerlikon (opposite Zurich-Oerlikon railway station)

Shareholders will find the following documentation enclosed in preparation for the Annual General Meeting:

- Invitation with agenda and proposals from the Board of Directors
- Reply slip
- Reply envelope
- Annual Report 2001/02

To attend our Annual General Meeting, please complete the enclosed reply slip and return it to us as quickly as possible in the enclosed reply envelope. You will then receive your admission ticket and voting card, as well as a route map (for drivers) and timetable (for those arriving by train). As parking is limited, we recommend that you use public transport.

Investor's Handbook and Corporate Governance Report

We have expanded our reporting to shareholders once again. You will see that we have completely redesigned the Annual Report and the Financial Report to take greater account of the needs of all of the company's key stakeholder groups. Much appreciated by investors in Switzerland and abroad, an updated Investor's Handbook (2002/03 issue, 7th edition) has also been published. Finally, we have gathered all corporate governance information together in a separate publication. By doing so, we already comply with the corporate governance guidelines issued by SWX Swiss Exchange, even though they will not become binding on Kaba until the 2002/03 financial year.

All publications can be viewed or downloaded at our website, www.kaba.com.

Information schedule

Tuesday 22 October 2002, 3.00 p.m.	Annual General Meeting of Kaba Holding AG
March 2003	Letter to Shareholders and media release on the semi-annual results as at 31 December 2002
Monday 22 September 2003	Presentation for financial analysts Media conference on full-year results Letter to Shareholders with results for the 2002/03 financial year Dispatch of Annual Report Invitation to Annual General Meeting
Tuesday 21 October 2003, 3.00 p.m.	Annual General Meeting of Kaba Holding AG

We are looking forward to the next Annual General Meeting, when we will have the opportunity to present detailed reports on the 2001/02 financial year and our plans.

Yours sincerely
On behalf of Kaba Holding AG

Rudolf Hauser
Chairman of the
Board of Directors

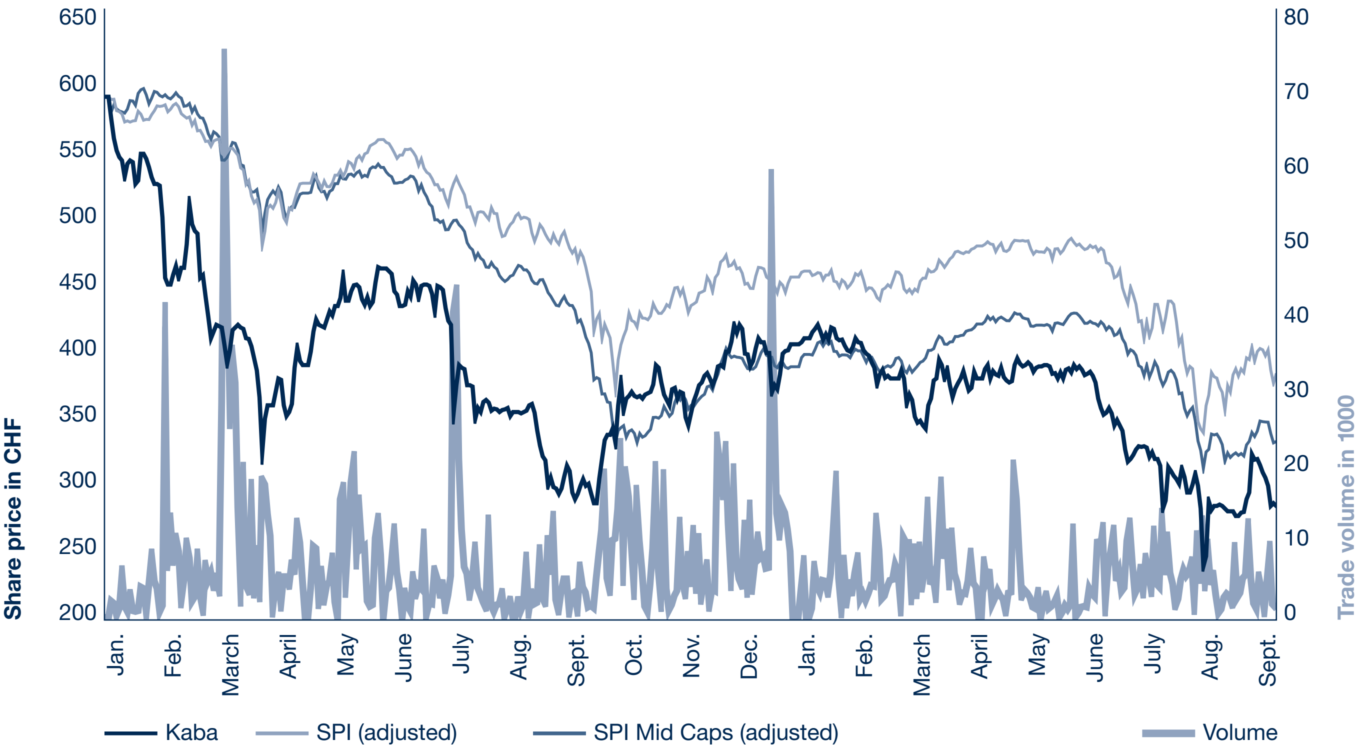
Ulrich Graf
President and CEO

Sales and EBIT-Development pro forma

in CHF million/%

Kaba Group consolidated	**12 months July 2001 to June 2002**			**July 2000 to June 2001 incl. Unican prev. year, pro forma**							
Divisions	**Net sales**	**EBIT**	**EBIT in % Net sales**	**Net sales**	**EBIT**	**EBIT in % Net sales**	**Growth Net sales**	**whereof currency impact**	**Currency adjusted Growth Net sales**	**whereof other takeovers**	**Currency adjusted internal Growth Net sales**
Door Systems	232.3	9.4	4.0 %	224.7	12.8	5.7 %	7.6 3.4 %	−5.2 −2.3 %	12.8 5.7 %		12.8 5.7 %
Data Collection	64.3	7.0	10.9 %	59	8.0	13.6 %	5.3 9.0 %	−1.9 −3.2 %	7.2 12.2 %	6.7 11.4 %	0.5 0.8 %
Access Europe	*230.1*	*26.4*	*11.5 %*	*244.5*	*26.2*	*10.7 %*	*−14.4* *−5.9 %*	*−4.0* *−1.6 %*	*−10.4* *−4.3 %*	*1.1* *−0.4 %*	*−11.5* *−4.7 %*
Access Asia Pacific	*47.2*	*0.9*	*1.9 %*	*56.9*	*6.0*	*10.5 %*	*−9.7* *−17.0 %*	*−5.2* *−9.1 %*	*−4.5* *−7.9 %*		*−4.5* *−7.9 %*
Access Americas	*341.8*	*59.8*	*17.5 %*	*421.3*	*53.9*	*12.8 %*	*−79.5* *−18.9 %*	*−16.6* *−3.9 %*	*−62.9* *−14.9 %*		*−62.9* *−14.9 %*
Access Systems total	619.1	87.1	14.1 %	722.7	86.1	11.9 %	−103.6 −14.3 %	−25.8 −3.6 %	−77.8 −10.8 %	1.1 0.2 %	−78.9 −10.9 %
Key Systems Europe	111.3	19.5	17.5 %	105.7	18.3	17.3 %	5.6 5.3 %	−3.7 −3.5 %	9.3 8.8 %		9.3 8.8 %
Kaba Group consolidated	**1027.0**	**123.0**	**12.0 %**	**1112.1**	**125.2**	**11.3 %**	**−85.1** **−7.7 %**	**−36.6** **−3.3 %**	**−48.5** **−4.4 %**	**7.8** **0.7 %**	**−56.3** **−5.1 %**

Development of share price



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

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