Shareholder Newsletter No. 20
Report on financial
1 July 2002 to 30 June 2003

22 September 2003

Kaba cuts net debt by CHF 94 million

- **Exchange-rate-related decline of sales in Swiss francs by 5.8%**
- **Local-currency sales steady at prior-year level**
- **EBIT burdened due to appreciation of Swiss franc (CHF 10 million) and non-recurring restructuring costs of CHF 8 million**
- **Divisions, with exception of Door Systems, largely recession-proof**
- **Door Systems Division restructuring implemented and new management appointed**
- **Free operating cash flow picks up by one-third to CHF 123.4 million and net debt is cut by CHF 94 million**

Dear Kaba Shareholders,
dear Madam, dear Sir,

Despite an adverse market environment in financial 2002/03, Kaba pursued the integration of the Unican companies that were acquired in April 2001; this process has meanwhile been largely completed. Details are provided in our “Integration Report” dated March 2002 (see also www.kaba.com).

Not long after the acquisition, the economic scenario began to deteriorate worldwide. The first capacity adjustments, especially in the USA, became necessary as early as May 2001. Although the events of 11 September, 2001, pinpointed the need for security in a dramatic manner, capital spending dwindled perceptibly in step with the economic downswing and has not yet returned to normal levels. Accordingly, financial 2002/03 did not fulfill Kaba’s expectations in every respect. In particular, the much greater than anticipated magnitude of the extraordinary and non-recurring restructuring costs had a strong impact on earnings before interest and taxes (EBIT). Nonetheless, the Kaba Group succeeded in slightly increasing sales in local currencies and in minimizing the decline of the EBIT margin.

Apart from the Door Systems Division, Kaba demonstrated during the year under review that the Group can increase EBIT in local currencies even under distressing baseline conditions. With the restructuring program, which has been systematically implemented and fully expensed in 2002/03, Kaba has created an excellent starting position for future growth. The proven «Total Access» strategy and the focus on market segments with higher-grade products and services qualify Kaba as a security market player that stands to benefit from above-average leverage when demand rebounds.

It is out of this conviction that Kaba has intensively pursued the development of new products and applications during the year under review. At the same time, Kaba has defined certain procedures that will facilitate the servicing of existing and particularly of new markets. These forward-looking activities are all directly expensed. Therefore, the investments reported in our financial statements reflect only a part of our investments in the future.

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

in CHF million	2002/03	2001/02	Change versus previous year
Sales (net)	967.2	1,027.0	–5.8%
Operating revenues	983.8	1,025.9	–4.1%
Earnings before depreciation (EBITDA)	145.0	165.6	–12.4%
in % of operating revenues	*14.7%*	*16.2%*	
Operating profit (EBIT)	108.7	123.0	–11.6%
in % of operating revenues	*11.0%*	*12.1%*	
Consolidated net income	**45.7**	61.8	–26.1%
in % of operating revenues	***4.7%***	*6.1%*	
Net income (after tax) + depreciation	82.0	104.4	–21.5%
in % of operating revenues	*8.4%*	*10.2%*	
Non-recurring restructuring costs, expensed	8.0		
Net cash provided by operating activities	**123.4**	90.7	36.1%
Net cash used in investing activities	**–22.4**	–24.4	–8.2%
Divestments	**6.1**	6.1	
Free cash flow (net)	**107.1**	72.4	47.9%
Total assets	773.8	765.6	1.1%
Equity capital	–62.8	–94.5	33.5%
in % of total assets	*–8.1%*	*–12.3%*	
Net operating assets	359.0	420.1	–14.5%
Return on net operating assets (RONOA)			
Earnings before income and tax (EBIT) in % of net operating assets	30.3%	29.3%	
Number of employees (average)	6,185	6,402	–3.4%

EBIT decline caused by exchange rates and non-recurring costs

Expressed in Swiss francs, Kaba posted a 5.8% decline in sales to CHF 967.2 million. EBIT decreased by 11.6% or CHF 14.3 million to CHF 108.7 million. But CHF 10 million or 70% of the EBIT decline is due to the appreciation of the Swiss franc, mainly versus the US dollar. Additionally, EBIT was weakened by extraordinary restructuring costs in the order of CHF 8 million. Of this amount, CHF 5 million were caused by the Door Systems Division and CHF 3 million were allotted to the Access Systems Europe Division in France subsequent to the earlier door companies acquisition in Great Britain. The accounts for 2003/04 will not be burdened by these one-time restructuring costs of CHF 8 million.

Not counting the Door Systems Division, Group EBIT at constant exchange rates rose from CHF 112.8 million in the prior year by 7.1% to CHF 120.8 million in the reporting period. The EBIT margin (operating profit in % of sales), not including Door Systems, increased from 14.3% to 14.7%.

Even though growth rates in local currencies were reassuring in many instances and further significant progress was made as regards operating profitability, reported net income at CHF 45.7 million trails the previous-year result (CHF 61.8 million) by about one-forth. This is due to a 11.7% tax liability increase to CHF 23.9 million, despite lower pre-tax earnings. The increment reflects a rise of the tax rate from 26% to 34% due to overproportional earnings increases in America and at the same time concurrent losses in Europe which cannot be offset for the time being.

Improved operations and significantly higher free cash flow

Encouragingly enough, EBIT relative to return on net operating assets (RONOA) increased from 29.3% a year ago to 30.3%. The improvement of this ratio is noteworthy, particularly in view of the difficult economic environment, the adverse exchange rate situation, and the extraordinary restructuring costs incurred.

Despite unfavorable conditions, operating cash flow (referred to as “Net cash provided by operating activities” in the consolidated statement of cash flows) again rose by one third to close at CHF 123.4 million. Parts of this amount were used to finance investments in fixed assets and intangible assets worth CHF 22.4 million (PY: CHF 24.4 million). During the year under review, assets worth CHF 6.1 million were sold (same amount as in the prior year). The result is a 47.9% gain in net free cash flow (without investments in holdings) to CHF 107.1 million. This significant advance is primarily attributable to further enhancements in the management of working capital.

Another massive reduction of net debt

The amount of free cash flow generated allowed a further reduction of net debt, which amounted to CHF 524 million as at 30 June 2002. In the year under review, net debt was cut further by CHF 94 million to close at CHF 430.5 million as at 30 June 2003.

Progress in this respect is demonstrated by the so-called debt ratio which banks use to determine a company's ability to service debt. It is calculated by dividing net debt by EBITDA. Net debt is the sum of all serviceable debt minus current assets which can be regarded as cash equivalents. EBITDA is operating profit before depreciation and amortization.

In the past 12 months, KABA generated CHF 145 million EBITDA. If Kaba's net debt of CHF 430 million is divided by EBITDA, the ratio amounts to 2.97. After the acquisition of Unican, this debt ratio rose to the range of 3.5 to 4 times EBITDA. Kaba's objective is to reduce the ratio to 2.

Divisional results comparable again

A year ago in this publication, we informed you on the development of the individual divisions in comparison with prior-year figures calculated as if Kaba and Unican had already been merged in that prior year. The focus of reporting at that time was on the comparison of Kaba figures with the figures provided by Unican.

Today, two years after the acquisition of Unican, all figures are comparable again. For this reason, in the sales and EBIT trend table, we are systematically presenting all prior-year figures pursuant to the currently applicable Kaba classifications. In this context, we have taken into consideration that some product groups and business lines in several countries have meanwhile switched divisions within the scope of the integration process. Thus, full comparability has been restored in order to provide maximum transparence.

Notes on the results of the individual divisions (see sales and EBIT trend table):

Sales and EBIT trend

in CHF million / %

Kaba Group consolidated	**Reporting Period Full Year July 2002 to June 2003**				**Prior Year Full Year July 2001 to June 2002**							
Divisions	**Net Sales**	**EBIT currency adjusted**	**EBIT**	**EBIT in % Net Sales**	**Net Sales**	**EBIT**	**EBIT in % Net Sales**	**Growth Net Sales**	**whereof currency impact**	**Currency adjusted Growth Net Sales**	**whereof takeover Kaba Benzing France**	**Currency adjusted internal Growth Net Sales**
Door Systems	220.2	–2.1	–1.3	–0.6%	232.3	9.4	4.0%	–12.1 –5.2%	–4.4 –1.9%	–7.7 –3.3%		–7.7 –3.3%
Data Collection	65.0	7.7	7.6	11.7%	61.8	6.9	11.2%	3.2 5.2%	–1.8 –2.9%	5 8.1%	3.1 5.0%	1.9 3.1%
Access Systems Europe	*240.1*	*22.9*	*22.6*	*9.4%*	*240*	*26*	*10.8%*	*0.1* *0.0%*	*–1.1* *–0.5%*	*1.2* *0.5%*		*1.2* *0.5%*
Access Systems Asia Pacific	*44.1*	*4.1*	*3.5*	*7.9%*	*47.2*	*0.9*	*1.9%*	*–3.1* *–6.6%*	*–4.5* *–9.5%*	*1.4* *3.0%*		*1.4* *3.0%*
Access + Key Systems Americas	*300.9*	*69.6*	*59.8*	*19.9%*	*341.8*	*59.8*	*17.5%*	*–40.9* *–12.0%*	*–50.6* *–14.8%*	*9.7* *2.8%*		*9.7* *2.8%*
Access Systems total	585.1	96.6	85.9	14.7%	629.0	86.7	13.8%	–43.9 –7.0%	–56.2 –8.9%	12.3 2.0%		12.3 2.0%
Key Systems Europe	96.9	16.5	16.5	17.0%	97.2	19.2	19.8%	–0.3 –0.3%	–0.5 –0.5%	0.2 0.2%		0.2 0.2%
Kaba Group comparable	**967.2**	**118.7**	**108.7**	**11.2%**	**1,020.3**	**122.2**	**12.0%**	**–53.1** –5.2%	**–62.9** –6.2%	**9.8** 1.0%	**3.1** 0.3%	**6.7** 0.7%
Kaba Group comparable ex Door Systems	***747.0***	***120.8***	***110.0***	***14.7%***	***788.0***	***112.8***	***14.3%***	***–41.0*** *–5.2%*	***–58.5*** *–7.4%*	***17.5*** *2.2%*	***3.1*** *0.4%*	***14.4*** *1.8%*
Impact unification of closing date					6.7	0.8	11.9%	–6.7	–0.2	–6.5		–6.5
Kaba Group consolidated	**967.2**	**118.7**	**108.7**	**11.2%**	**1,027.0**	**123.0**	**12.0%**	**–59.8** **–5.8%**	**–63.1** **–6.1%**	**3.3** **0.3%**	**3.1** **0.3%**	**0.2** **0.0%**

Door Systems Division is being restructured

During the year under review, the Door Systems Division generated sales of CHF 220.2 million, currency-adjusted down 3.3% from the prior year.

The likelihood that the Door Systems Division would not attain its sales and earnings targets became clear when the anticipated economic rebound in England and Germany failed to materialize. In these markets, the recession in the construction industry was particularly intensive and stubborn. Among all Kaba divisions, Door Systems is most vulnerable to construction activity fluctuations.

In its semi-annual report as at 31 December 2002, Kaba had already issued a report on restructuring measures within the Door Systems Division and announced its objective of bringing the EBIT margin back to a level more commensurate with the Kaba Group average. Although the division in its principal markets was able to hold its market share in new systems business, it began to feel the pressure imposed on profit margins. This was countered with a project to streamline the distribution structures and channels, optimize business processes, and harmonize product lines. Particularly in the German and UK markets, these measures required the absorption of extraordinary and non-recurring restructuring costs of about CHF 5 million. In England, Kaba shut down the production site for manually operated door wings in Stockport as at the end of June 2003. We also improved efficiency in processing pending major customer orders. We expect these measures to have a positive impact in the short term and to create a sustainable enhancement of earnings potentials in the long term.

The non-recurring restructuring expenditure of CHF 5 million is composed of costs for job cuts, extraordinary depreciation, and value adjustments for discontinued product lines. Losses incurred in conjunction with ongoing orders are not contained in these figures. Subsequently, EBIT declined from CHF 9.4 million in the prior year to CHF –1.3 million in the year under review, and the EBIT margin fell from 4% to –0.6%.

Jakob Gilgen, the former managing director of Kaba Gilgen AG in Schwarzenburg, assumed responsibility for the Door Systems Division on 1 July 2003. During the year under review, he already had the opportunity to supervise the restructuring measures. Moreover, further changes in management staffing have taken place in the UK and Germany.

In local currencies, the Data Collection Division grew by 3.1% and improved the EBIT margin from 11.2% to 11.7%

The Data Collection Division, which is identical with Kaba Benzing, remains in a growth phase. Adjusted for acquisitions and currency translation, the division's sales increased by 3.1% and the EBIT margin picked up from 11.2% to 11.7%. Sales in Germany stagnated, but the international distribution companies in Europe and the USA buoyed the division's growth.

With a systematic focus on its core business and an optimized international presence, Kaba Benzing succeeded in expanding its market and technology leadership in data collection. Together with its partners, it is in a position to integrate all industry-standard ERP systems, databases, and IT operating systems. The solutions developed by the Data Collection Divisions are based on open standards that also support the problem-free integration of third-party products (hardware and software); this makes them attractive to all parties in the marketplace.

The Access Systems Divisions reported currency-adjusted sales and EBIT growth of 2.0% and 11.4%, respectively

The three Access Systems Divisions serve their regional markets for mechanical and mechatronic locking systems as well as electronic access control. As in the prior year, the Access and Key Systems Americas Division also includes the key cutting business in America.

In local currencies, the Access Systems Divisions posted 2.0% growth on a global scale. They increased the EBIT margin from 13.8% to 14.7%. Absolute EBIT closed at CHF 85.9 million, just barely under the previous-year result (CHF 86.7 million). At constant exchange rates, EBIT would have increased by 11.4% to CHF 96.6 million.

The Access Systems Europe Division grew in local currency and kept the EBIT margin (before restructuring cost) at the prior-year level

In financial 2001/02, the Access Systems Europe Division posted a currency-adjusted decline in sales of 4.7% (chiefly because of product line harmonization after the acquisition of Unican). In the year under review, the sales trend stabilized at 0.5% growth.

Restructuring measures in France reduced currency-adjusted EBIT by CHF 3 million to CHF 22.9 million and trimmed the EBIT margin from 10.8% to 9.4%. Without the special effects mentioned before, EBIT and the EBIT margin would have closed at the previous-year level.

The restructuring requirement is associated with the acquisition of the British door systems companies in 1999. The acquisition package also included a French subsidiary which was merged by the then active management of the Door Systems Division with a Kaba subsidiary that was also active in the door market. The merger resulted in a single company that was integrated into the Access Systems Europe Division. The managers of the doors companies were dismissed. The new organization exhibited weaknesses that ultimately called for a restructuring plan involving extraordinary payroll costs as well as the need for value adjustments on assets.

In the adverse economic environment that prevailed in Europe, the Access Systems Europe Division successfully stood its ground. In the German-speaking countries of Europe as well as in Hungary and Spain, it gained considerable market share and even posted better results than a year earlier. Growth in Sweden and the UK markets trended below average.

The hotel market suffered a sizeable slump due to the Iraq war and the SARS epidemic. The market volume for hotel locks declined by more than 40%. However, the first signs of a recovery are emerging.

Sales with the systematically evolved Kaba and Gege elolegic mechatronic component families nearly doubled. The new dealer-installable Kaba exos sky access control system was successfully launched in eight countries. Despite the weak overall economy, there were no cuts in budgets for core technology developments. The new Legic advant transponder generation, which met with great interest during its debut at CeBIT 2003, has established new benchmarks in security and application flexibility and is uniquely compatible with the installed product base.

The Access Systems Asia Pacific Division grew by 3% in local currencies and boosted the EBIT margin from 1.9% to 7.9%

The currencies in Southeast Asia depreciated considerably versus the Swiss franc and trimmed sales by 9.5%. Since sales growth in local currencies closed at 3%, sales expressed in Swiss francs declined by only 6.6% to CHF 44.1 million. The slump in earnings has been overcome: EBIT in local currencies rose from CHF 0.9 million to CHF 4.1 million. The EBIT margin climbed from 1.9% to 7.9%. This gain is due mainly to the Japanese company. In the other markets, business remained sluggish.

During the year under report, the markets in Asia suffered from a weak economy which was compounded by SARS especially in Hong Kong, Taiwan, and Singapore. Conversely, business in Australia and New Zealand was robust and only weakened somewhat in the second half of Kaba's financial year. It is reassuring to note that the demand for security locks and security cylinders as well as electronic security solutions is rising in the Asia Pacific region. In Japan, this trend more than offsets the negative developments within the industry.

In spite of the difficult economic scenario, Kaba Japan strengthened its market position. By the end of 2002/03, the distribution network, continuously developed in the course of the years, had expanded to more than 650 licensed Kaba dealers. In combination with the strategic partnerships, this distribution network represents a solid platform for an expansion in the domain of electronic security solutions. Kaba has built up a special dealer network and undertook specific promotion measures for the successful market launch of Kaba legic-star and Exos sky, electronic security and access control solutions for private households and commercial applications.

The Access and Key Systems Americas Division posted increases of 2.8% in local-currency sales and 16.4% in EBIT

In 2002/03, this division reported a decline in sales by CHF 40.9 million to CHF 300.9 million. Foreign currency translation accounted for CHF 50.6 million or 14.8% of this decline. Expressed in local currencies, the division posted a sales gain of CHF 9.7 million or 2.8%.

The EBIT margin picked up by another 2.4 percentage points to close at 19.9%. Absolute EBIT – expressed in Swiss francs – was kept at prior-year level of CHF 59.8 million. But at constant foreign exchange rates, EBIT rose to CHF 69.6 million (+16.4%). Thus, the Access and Key Systems Americas Division contributes 31% to consolidated sales and 55% to the Kaba Group's EBIT.

High-security locks, sold mainly to public-sector organizations, were the key growth factor. In the construction and related industries as well as in the hospitality industry, the situation was characterized by hesitant capital spending. Depressed consumer sentiment also intensified competition. The excellent local-currency results are due to tight cost management as well as caution in spending and investments. Concurrently, the offensive with new products – to some extent based on Legic technology – was continued as described in the Integration Report, even though this burdens the margin in the short term. Product innovations are being pursued in all segments, from high-security locks to safe locks, and from access and hotel products to key cutting systems. At the same time, measures are being taken to enhance the recognition of the Kaba brand.

The Key Systems Europe Division kept local-currency sales steady

In the interest of a rapid unification of the reporting system, the Silca company was consolidated for a thirteen-month period in the prior year. The table on page 5 lists the sales and EBIT figures for the thirteenth prior-year month as a separate consolidation adjustment to simplify comparison.

During the comparable 12 months, the Key Systems Europe Division was able to maintain its local-currency sales (+0.2%). The EBIT margin declined from 19.8% to 17.0% but remains at a high level. The decline is mainly due to investments in organizational resources, i.e. in the division's future, and also to currency translation losses on US dollar prices in the export price list.

The program introduced two years ago to flexibilize the Group's response to customer requirements and to shorten delivery times was systematically evolved during the year under review. Within the scope of the Kaba Group's value driver program, the Key Systems Division has recently begun to cover a significant portion of the demand for key blanks. Where this is meaningful, the production of key blanks for all cylinder factories will be concentrated at the Silca site in Italy.

In the future, the strongly anchored Silca and Orion brands will be more clearly positioned and aligned with specific market segments and customer categories. With its innovation thrust, the Key Systems Division intends to penetrate the currently perceptible growth ceiling and create the prerequisites for vigorous sales growth.

Unchanged dividend

The Board of Directors proposes the payment of an unchanged dividend of CHF 3 per share with a par value of CHF 10. This dividend stability reflects the non-recurring nature of the high restructuring costs in the year under review and underscores our confidence that the earnings situation will improve again in response to the measures that have been initiated. In comparison with the prior year, this would increase the dividend payout from 17.3% to 23.4% of consolidated net income.

Motion to the General Meeting concerning the creation of authorized share capital

The Board of Directors of Kaba Holding AG has resolved to propose to the General Meeting of 21 October 2003, the creation of a maximum amount of CHF 3.5 million in authorized share capital. If the shareholders pass the motion, the Board of Directors will be authorized to issue no more than 350,000 new shares with a par value of CHF 10 each by no later than 21 October 2005.

Kaba has no imminent intention of implementing acquisitions. The purpose of the authorized capital is to boost the credibility and leverage of Kaba in view of possible acquisition negotiations and to facilitate Kaba's access to companies that match the acquisition strategy of the Kaba Group. As the long-standing acquisition experience of the Kaba Group affirms, potential takeover candidates in a very early phase make the commencement of sales negotiations contingent on the interested party's ability to credibly substantiate the availability of acquisition funds. Authorized capital is an optimum instrument in such cases. Any acquisition would be restricted to companies that can accelerate the implementation of the «Total Access» strategy, strengthen the Kaba Group's earnings potential, and have a positive impact on the development of earnings per share.

This motion for the preemptive creation of authorized capital is being submitted at a point in time when Kaba – as mentioned further above – has significantly reduced net debt since the acquisition of the Unican Group in April 2001 and is approaching, as planned, its target debt ceiling of no more than 2 times EBITDA.

Outlook

Economic uncertainties and depleted budgets continue to paralyze investment activity in the markets served by Kaba. Business has become more short-term, and customers are increasingly postponing the finalization of contracts. At present, we see no signs that suggest an imminent improvement of the situation and therefore expect financial 2003/04 to follow the patterns of the year under review. In some markets, it will be possible to achieve progress in terms of sales and profitability, but consolidation in Swiss francs could once again prove to be a hindrance. While net debt servicing costs will continue to decline to some degree, the tax burden is likely to remain more or less constant.

Overall, there are no reasons at present to anticipate a better operating result for the new financial year than was achieved in 2002/03. On the positive side, the one-time restructuring charges of CHF 5 million for the Door Systems Division and of CHF 3 million for the Access Systems Europe Division will not be incurred in the new financial year.

In the long run, the security market will grow perceptibly faster than the gross national product. This applies in particular to high-grade products and integrated solutions, i.e. to the segments in which Kaba is predominantly active. Experience shows that internal growth allows Kaba to overproportionally increase the EBIT margin. In a positive economic environment and with the support of possible future acquisitions, we can reaffirm our long-term target of double-digit average earnings growth per annum and per share.

Consolidated Group Income Statement

in CHF million	Note	2002/03	%	2001/02	%
Sales (net)	3.1	967.2	98.3	1,027.0	100.1
Changes in finished goods and work in progress		0.8	0.1	–17.3	–1.7
Other operating revenues	3.2	15.8	1.6	16.2	1.6
Operating revenues		**983.8**	100.0	1,025.9	100.0
Material costs	3.3	–300.1	–30.5	–299.2	–29.1
Personnel costs	3.4	–379.2	–38.6	–393.0	–38.3
Other operating expenses	3.6	–159.5	–16.2	–168.1	–16.4
Income from operations before depreciation		**145.0**	14.7	165.6	16.2
Depreciation	3.5	–36.3	–3.7	–42.6	–4.1
Income from operations		**108.7**	11.0	123.0	12.1
Financial income	3.7	1.6	0.2	7.2	0.7
Financial expense	3.8	–40.7	–4.1	–47.0	–4.6
Income before tax		**69.6**	7.1	83.2	8.2
Taxes	3.9	–23.9	–2.4	–21.4	–2.1
Net income		**45.7**	4.7	61.8	6.1
Net income applicable to minority interests		0.1	0.0	0.1	0.0
Net income after taxes plus depreciation		**82.0**	8.4	104.4	10.2

Consolidated Group Balance Sheet
Assets

in CHF million	Note	30.6.2003	%	30.6.2002	%
Intangible assets	2.2	**6.0**	0.8	5.2	0.7
Fixed assets					
Land and buildings		133.9	17.3	140.4	18.3
Machinery and equipment		56.9	7.4	64.5	8.4
Furniture and fixtures		30.2	3.9	33.6	4.4
Payments on account and construction in progress		1.5	0.2	3.4	0.5
Total	2.2	**222.5**	28.8	241.9	31.6
Financial assets					
Non-consolidated participations		0.1	0.0	0.1	0.0
Long-term loans and securities	2.2	8.6	1.1	9.3	1.2
Total	2.3	**8.7**	1.1	9.4	1.2
Total long-term assets		**237.2**	30.7	256.5	33.5
Inventory	2.4	**195.5**	25.3	210.9	27.5
Receivables					
Trade accounts receivables	2.5	168.9	21.8	184.6	24.0
Other receivables	2.6	21.9	2.8	22.6	3.0
Accruals		5.5	0.7	5.1	0.7
Total		**196.3**	25.3	212.3	27.7
Marketable securities	2.7	**0.2**	0.0	2.2	0.3
Cash and cash equivalents		**144.6**	18.7	83.7	11.0
Total current assets		**536.6**	69.3	509.1	66.5
Total assets	2.1, 5.1	**773.8**	100.0	765.6	100.0

Consolidated Group Balance Sheet
Shareholders’ equity and liabilities

in CHF million	Note	30.6.2003	%	30.6.2002	%
Shareholders’ equity					
Capital stock		35.7	4.6	35.7	4.7
Additional paid-in capital		543.7	70.3	543.7	71.0
Retained earnings	2.9	–642.3	–83.0	–674.1	–88.0
Minority interests		0.1	0.0	0.2	0.0
Total	2.8	**–62.8**	–8.1	–94.5	–12.3
Provisions					
Provisions for pensions and related obligations		29.0	3.7	26.6	3.5
Provisions for taxes		27.9	3.6	24.7	3.2
Other provisions		98.0	12.7	98.3	12.8
Total	2.10	**154.9**	20.0	149.6	19.5
Long-term liabilities					
Bank loans		399.4	51.6	458.0	59.8
Convertible bond		141.4	18.3	136.8	17.9
Other long-term liabilities		3.7	0.5	5.5	0.7
Total	2.11	**544.5**	70.4	600.3	78.4
Short-term liabilities					
Trade accounts payable		57.8	7.4	53.6	7.0
Due to banks		30.8	4.0	9.6	1.3
Other short-term liabilities		35.7	4.6	34.5	4.5
Accruals		12.9	1.7	12.5	1.6
Total	2.12	**137.2**	17.7	110.2	14.4
Total shareholders’ equity and liabilities	5.1, 5.2	**773.8**	100.0	765.6	100.0

Consolidated Statement of Cash Flows

in CHF million	Note	2002/03	2001/02
Net income		45.7	61.8
Depreciation		36.3	42.6
Income statement positions not affecting cash		4.1	1.6
Change in inventory		8.4	14.5
Change in receivables		14.4	12.2
Change in short-term liabilities		10.7	–29.9
Change in provisions		3.8	–12.1
Net cash provided by operating activities		**123.4**	90.7
Purchase/advance financing of investments		–2.4	–20.2
Purchase of fixed assets		–18.9	–22.2
Purchase of financial assets		–0.3	–0.2
Purchase of intangible assets		–3.2	–2.0
Proceeds from sale of fixed assets		4.9	3.2
Proceeds from sale of financial assets		1.2	2.9
Net cash used in investing activities		**–18.7**	–38.5
Change in short-term financial liabilities		22.0	–7.0
Convertible bond		0.0	134.8
Change in long-term liabilities		–55.1	–229.0
Dividends paid to third-party shareholders		–0.1	0.0
Dividends paid		–10.7	–10.7
Net cash from financing activities		**–43.9**	–111.9
Net effect of currency translation/-consolidation		**–1.9**	–4.1
Change in cash and cash equivalents; marketable securities	4.	**58.9**	–63.8
Cash and cash equivalents; marketable securities			
Beginning balance, year under review		**85.9**	149.7
Ending balance, year under review		**144.8**	85.9

Invitation to the General Meeting of Shareholders on Tuesday, 21 October 2003, at 3 pm

Swissôtel, Am Marktplatz, Zürich-Oerlikon, opposite the Zürich-Oerlikon train station

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

- Invitation with agenda and proposals by the Board of Directors
- Reply form
- Reply envelope
- Order form for the Annual Report 2002/03

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.

The Kaba Group's reporting policy

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

- Annual Report with financial statement and Corporate Governance brochure
- Investor's Handbook

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

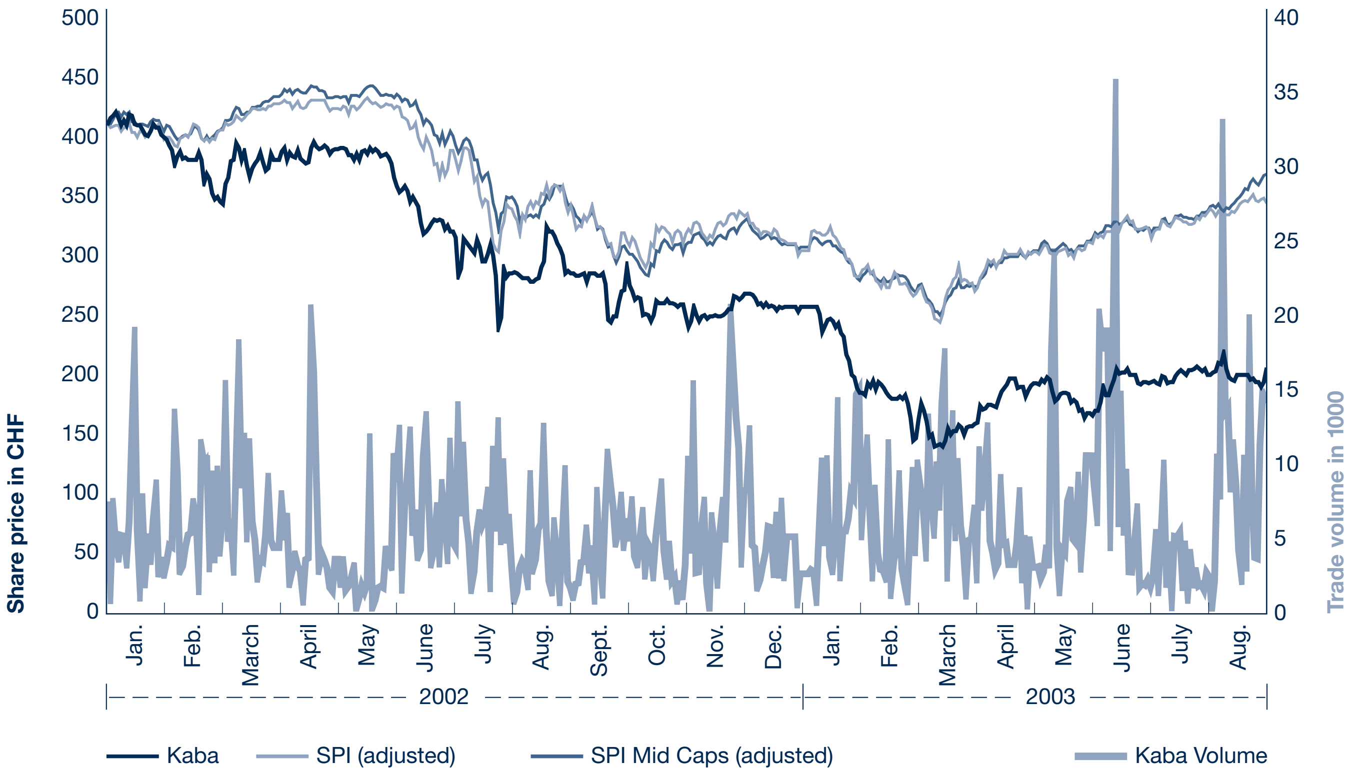
We look forward to the next General Meeting, which will give us the opportunity to report in detail about financial 2002/03 and our intentions for the future.

Yours truly,
Kaba Holding AG

Rudolf Hauser
Chairman
of the Board of Directors

Ulrich Graf
President and CEO

Development of share price



Information schedule

21 October 2003	General Meeting
Tuesday, 3 pm	of Kaba Holding AG
March 2004	Shareholder Newsletter and press release on semi-annual results
	as at 31 December 2003
20 September 2004	Presentation for financial analysts
Monday	Financial press conference
	Shareholder Newsletter with the results of financial 2003/04
	Mailing of Annual Report
	Invitation to General Meeting
26 October 2004	General Meeting
Tuesday, 3 pm	of Kaba Holding AG

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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