Shareholder Newsletter Number 19
1 Half-Year Report
1 July to 31 December 2002

10 March 2003

EBIT margin improves up from 11.5% to 12.2% of sales

- **Significant increase of free cash flow from operations**
- **Net debt cut by CHF 45.5 million in first six months**
- **Sales decline in Swiss francs**
- **EBIT in Swiss francs held**
- **EBIT at comparable forex rates: +10%**

Dear Kaba shareholder,
Ladies and Gentlemen

In the first six months of financial 2002/03, Kaba was faced with a difficult market environment. Sales declined by 5.3% to CHF 490.1 million, but EBIT remained solid, closing at CHF 60.0 million. The EBIT margin (earnings in percent of sales) rose from 11.5% to 12.2%. At constant foreign exchange rates, comparable EBIT would have increased by 10% or CHF 5.7 million to CHF 64.2 million.

Acquisition- and currency-adjusted comparable sales increased by CHF 7.0 million or 1.4% versus the same prior-year period. The appreciation of the Swiss franc accounts for a currency translation loss of CHF 29.9 million or 5.8%. However, since Kaba not only sells products and services in all major currency blocs but also produces and finances itself in these regions, currency-related decreases in sales are at least partially offset by lower costs. A weaker Swiss franc, especially versus the US dollar, has a correspondingly positive impact on the results of the local companies.

Despite impressive local-currency growth rates in many areas and clear progress in operating profitability, consolidated net income fell short of the prior-period level and closed at CHF 26.8 million. The reason is a CHF 4.0 million increase in taxes (+37%) due to a tax rate hike, compared with the same period a year ago, from 27% to 35.6%. This increase is attributable to overproportional profit growth in North America. Conversely, net interest payable continued to decline.

Cash flow from operations almost tripled

With an increase from CHF 23.2 million to CHF 65.3 million, cash flow from operations nearly tripled versus the prior-year period. As at the end of December 2002, Kaba had thus already reached 72 % of the cash flow it generated in the twelve months of financial 2001/02. Net debt declined accordingly. In the six months between 30 June and 31 December, 2002, net debt fell from CHF 524.0 million to CHF 478.5 million, down by CHF 45.5 million.

The progress Kaba has made in this respect can be illustrated with the so-called debt ratio, a figure used by banks to determine the feasibility of debt service borne by a company. It is calculated by dividing net debt by EBITDA. Net debt is understood to mean the sum of debt for which interest must be paid, less short-term assets, which are equivalent to liquidity. EBITDA is earnings before interest, taxes, depreciation, and amortization.

In the past 12 months, Kaba generated EBITDA amounting to CHF 162.3 million. If we divide net debt of CHF 478.5 million by EBITDA, the debt ratio is 2.95. After the acquisition of Unican, this ratio at Kaba attained levels between 3.5 and 4 times EBITDA. Kaba's goal is to cut the ratio to 2 times EBITDA. Kaba is currently about mid-way in this debt reduction process and has already massively reduced the liabilities that had to be built up for the acquisition of Unican.

Divisional results comparable again

A year ago, Kaba portrayed the trends in the individual business sectors in comparison with prior-year figures as if Kaba and Unican had already been merged. One of the key issues at that time was to compare Kaba's key figures with the figures submitted by Unican.

Today, two years after the acquisition of Unican, all numbers are comparable again. For this reason, we are systematically presenting prior-year sales and EBIT trend comparison figures according to currently valid Kaba reporting conventions. We took into consideration that certain product groups and business lines in some countries have meanwhile been assigned to new divisions as a result of the integration process. Thus, unconditional comparability is restored and our reporting is fully transparent.

Notes on the results of the individual divisions (see table Sales and EBIT development):

Sales and EBIT trend

in CHF million / %

Kaba Group consolidated	Reporting Half-Year July to December 2002				Prior Half-Year July to December 2001							
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	112.1	0.4	0.7	0.6%	117.2	3.8	3.2%	–5.1 –4.4%	–2.3 –2.0%	–2.8 –2.4%		–2.8 –2.4%
Data Collection	35.1	6.1	6.0	17.1%	32.7	4.0	12.2%	2.4 7.3%	–1.2 –3.7%	3.6 11.0%	1.9 5.8%	1.7 5.2%
Access Systems Europe	*122.8*	*14.7*	*14.4*	*11.7%*	*119.8*	*15.9*	*13.3%*	*3.0* *2.5%*	*–1.3* *–1.1%*	*4.3* *3.6%*		*4.3* *3.6%*
Access Systems Asia Pacific	*21.9*	*1.4*	*1.2*	*5.5%*	*24.7*	*1.3*	*5.3%*	*–2.8* *–11.3%*	*–2.0* *–8.1%*	*–0.8* *–3.2%*		*–0.8* *–3.2%*
Access + Key Systems Americas	*151.9*	*33.4*	*29.5*	*19.4%*	*168.4*	*24.9*	*14.8%*	*–16.5* *–9.8%*	*–22.0* *–13.1%*	*5.5* *3.3%*		*5.5* *3.3%*
Access Systems total	296.6	49.5	45.1	15.2%	312.9	42.1	13.5%	–16.3 –5.2%	–25.3 –8.1%	9.0 2.9%		9.0 2.9%
Key Systems Europe	46.3	8.2	8.2	17.7%	48.1	8.6	17.9%	–1.8 –3.7%	–0.9 –1.9%	–0.9 –1.9%		–0.9 –1.9%
Kaba Group comparable	**490.1**	**64.2**	**60.0**	**12.2%**	**510.9**	**58.5**	**11.5%**	**–20.8** –4.1%	**–29.7** –5.8%	**8.9** 1.7%	**1.9**	**7.0** 1.4%
Consolidation adjustment prior year					6.7	0.8	11.9%	–6.7	–0.2	–6.5		–6.5
Kaba Group consolidated	**490.1**	**64.2**	**60.0**	**12.2%**	**517.6**	**59.3**	**11.5%**	**–27.5** **–5.3%**	**–29.9** **–5.8%**	**2.4** **0.5%**	**1.9** **0.4%**	**0.5** **0.1%**

Door Systems Division falls short of expectations

The Door Systems Division failed to meet expected sales and profitability goals during the period under review. Sales expressed in local currencies declined by 2.4% The operating results of the companies in Great Britain and Germany were not satisfactory and in addition reflect restructuring cost burdens. Business in both countries is sluggish, following the general pattern of the economy in general and the slump of the construction industry in particular. Among all Kaba divisions, Door Systems is most exposed to fluctuations in building activity. Intensified organizational and to some extent structural measures will be implemented to strengthen the Door Systems Division in the coming months and bring its EBIT margin closer to the Kaba Group average in the future.

Data Collection Division grows by 5.2% in local currency and improves EBIT margin from 12.2% to 17.1%

The Data Collection Division posted 11.0% sales growth in local currencies. After the adjustment of this figure to eliminate the effect of the acquisition of Kaba Benzing France, internal growth would have been 5.2%. At the same time, the division was able to boost absolute EBIT by 50% to CHF 6.0 million. The EBIT margin improved from 12.2% to 17.1%. This is due mainly to the positive impact of productivity-enhancement measures at the parent company in Germany as well as at the software development and sales company in Miami, Florida. The EBIT margin has thus returned to the level it had before the establishment of the company in Miami and the sales company in France. The platform for future growth has been substantially strengthened.

Access Systems Divisions overall post 2.9% growth in local currencies and increase EBIT by 17.6%

The Access Systems Divisions include the mechanical and mechatronic masterkey systems as well as electronic access control by regions. Additionally, the Access+Key Systems Americas Division still includes the key duplication business in America.

On a worldwide scale, the Access Systems Divisions posted 2.9% growth in local currencies. The EBIT margin rose from 13.5% in the prior-year period to 15.2%. Absolute EBIT increased from CHF 42.1 million in the prior half-year to CHF 45.1 million in the first half of financial 2002/03. If the exchange rates had remained constant, EBIT for the period under review would even have reached CHF 49.5 million (+17.6%).

Access Systems Europe Division reports 3.6% sales growth in local currencies and a slight decline of the EBIT margin to 11.7%

The Access Systems Europe Division posted a 3.6% increase in sales expressed in local currencies. One of its key investment projects involved the contactless Legic identification system. In March 2003, Kaba will be presenting its upward compatible "Legic advant" product at CeBIT in Hannover. It is a new RFID-chip (Radio Frequency Identification) to ISO standards, which can be integrated in smartcards, smartkeys, and other media. In the medium term, it constitutes the basis for Kaba's «Total Access» strategy.

Restructuring measures as well as the expenditure related to a change of a general management position at our masterkey and electronic access control distribution company in France reduced the EBIT of the division by CHF 1.5 million and pushed the EBIT margin from 13.3 % in the prior-year period to 11.7 %. Despite a decrease in capital spending, the division succeeded in holding the operating margin of the running business at the previous-year level.

Access Systems Asia Pacific Division overcomes earnings weakness and matches prior-year EBIT

Southeast Asian currencies depreciated significantly versus the Swiss franc, depressing Kaba's sales by 8.1% in comparison with the previous-year period. While sales expressed in Swiss francs declined by 11.3 % to CHF 21.9 million, the downtrend expressed in local currencies was only 3.2 %. EBIT in local currencies remained stable, and the reported EBIT margin edged up from 5.3 % a year ago to 5.5 % for the period under review. The earnings slump in the second half of financial 2001/02 (negative EBIT margin) has been overcome.

Access+Key Systems Americas Division posts 3.3 % growth in local currencies and reports 34.1% EBIT gain

This division reported a decline in sales from CHF 168.4 to CHF 151.9 million, of which CHF 22.0 million or 13.1% are attributable to currency translation. In local currencies, the division posted an advance in sales by CHF 5.5 million or 3.3 %.

At 19.4 %, the EBIT margin remained at the high level of the immediately preceding six-month period; and it was 4.6 percentage points higher than in the same prior-year period. Absolute EBIT, expressed in Swiss francs, closed at CHF 29.5 million, clearly higher than the CHF 24.9 million reported for the first six months of the previous year. At constant exchange rates, EBIT would have closed at CHF 33.4 million (+34.1%). This means that the Access+Key Systems Americas Division, with 31% of the Kaba Group's consolidated sales, contributes about 50 % of consolidated EBIT.

Key Systems Europe Division keeps EBIT margin at high level despite 1.9 % decline in local-currency sales

To expedite the unification of the reporting system, the Silca companies were recognized for a seven-month time window in the prior-year period. The adjacent table indicates separately the sales and EBIT trends of this seventh prior-year month as a consolidation correction to simplify comparisons.

In the comparable six-month period, sales reported by the Key Systems Europe Division in local currencies declined by 1.9 %. However, the EBIT margin remained at a high level, closing at 17.7 %. This continues the margin progress of the past two years.

Kaba boosts consolidated EBIT margin from 11.5 % to 12.2 % of sales

On a consolidated basis and in local currencies, Kaba posted CHF 7.0 million or 1.4 % growth. This gain takes into account that the Key Systems Europe Division a year ago contributed to the result for seven rather than six months. Thus, the Kaba Group is back on a growth course despite difficult economic conditions.

While generating internal growth, Kaba has also posted productivity advances: The EBIT margin (earnings in percent of sales) picked up from 11.5 % in the prior year to 12.2 %, a gain of 0.7 percentage points.

Balance sheet contains no goodwill

Total assets declined further relative to the end-of-year figures as at 30 June 2002, to some extent as a result of currency translation.

With a multi-year track record in the consistent application of Swiss GAAP reporting practices, Kaba has always offset goodwill directly against equity each time it implemented an acquisition. The result is negative equity. If goodwill were to be capitalized, this would increase assets and equity by CHF 565.0 million, and the equity capital ratio would be 36.1% of total assets.

No major changes ahead

It became more difficult to do business in the course of the reporting period: Recession fears and uncertainties about the likelihood of a war against Iraq have all but paralyzed capital spending. Kaba felt this to differing degrees in the individual markets we serve. Nonetheless, expressed in local currencies, Kaba was able to generate growth and strengthen operating income.

We do not have any reliable information from the marketplace that would suggest an imminent rebound. Business has become more short-term, and more and more customers are postponing the finalization of contracts. We expect the second half of financial 2002/03 to follow a similar trend as in the first six months. In some markets, there is latitude for advances in sales and profitability. The fact that we consolidate in Swiss francs is likely to continue to be a handicap. While net interest payable is again expected to decline slightly, the fiscal burden will probably remain more or less constant.

Overall, there are currently no signs that suggest a better result for the second half of the running fiscal year than has been achieved in the period under review.

Integration of the Unican Group on track

With continuing successful milestones, the ongoing integration of Unican Security Systems Ltd. of Canada is making it clear how important this acquisition was for the Kaba Group. The keys manufactured by Ilco and Silca, the new line of transponder keys, as well as key cutting and coding systems for the lock and hardware markets ideally complement Kaba’s product portfolio. The strong presence of former Unican companies in the USA, Mexico, Italy, and Australia saved Kaba time-consuming development work in gaining access to important and promising markets.

The “Integration Report” dated March 2002 provides information on cost savings and synergies in this context (see also www.kaba.com/e/ir/ir1-e.pdf). We have made a distinction between market and product synergies as well as cost savings. Market synergies result mainly from cross-selling projects as well as structural changes of the market organization. Product synergies originate from streamlining product portfolios and from the specific alignment of products and product groups with given target markets. Cost savings are the consequence of structural adjustments, efficiency gains in the value-addition process, concentration effects in the procurement process, and various divestitures.

Overall, the integration projects are evolving as projected in March 2002. In financial 2001/02 (closing on 30 June 2002), the positive effects – particularly of the integration of the Access+Key Systems Americas Division – manifested themselves as a steep increase of the EBIT margin from 12.8 % to 17.5 %. Unfortunately, the solid earnings situation in the Americas is not adequately reflected in the financial statements because of the current strong Swiss franc.

Consolidated Interim Group Financial Statement

in CHF million	Reporting Half-Year July to December 2002	%	Prior Half-Year July to December 2001	%	Variance %
Sales net	490.1	98.4	517.6	101.0	–5.3
Changes in finished goods and work in progress	1.8	0.4	–12.8	–2.5	–114.1
Other operating revenues	6.0	1.2	7.9	1.5	–24.1
Operating revenues	**497.9**	100.0	512.7	100.0	–2.9
Material costs	–153.6	–30.9	–148.5	–29.0	3.4
Personnel costs	–186.9	–37.5	–198.3	–38.7	–5.7
Other operating expenses	–79.0	–15.9	–84.2	–16.4	–6.2
Income from operations before depreciation (EBITDA)	**78.4**	15.7	81.7	15.9	–4.0
Depreciation	–18.4	–3.7	–22.4	–4.4	–17.9
Income from operations (EBIT)	**60.0**	12.0	59.3	11.5	1.2
Financial income	1.8	0.4	4.9	1.0	–63.3
Financial expense	–20.2	–4.1	–24.2	–4.7	–16.5
Income before tax	**41.6**	8.3	40.0	7.8	4.0
Taxes	–14.8	–3.0	–10.8	–2.1	37.0
Net income for first half-year	**26.8**	5.3	29.2	5.7	–8.2
Net income applicable to minority interests	0.0		0.1		
Half-year income per share in CHF	7.5		8.2		–8.5
Half-year income + depreciation	45.2	9.1	51.6	10.1	–12.4
Investments in tangible and intangible assets	11.4		12.2		–6.6
Employees (average)	6288		6433		–2.3

Consolidated Interim Group Balance Sheet
Assets

in CHF million	Reporting Half-Year closed 31.12.2002	%	Financial Year closed 30.6.2002	%	Prior Half-Year closed 31.12.2001	%
Intangible assets	**5.9**	0.8	5.2	0.7	5.7	0.7
Fixed assets						
Land and buildings	135.3	18.1	140.4	18.3	162.5	19.8
Machinery and equipment	57.9	7.7	64.5	8.4	67.0	8.2
Furniture and fixtures	30.8	4.1	33.6	4.4	36.9	4.5
Payments on account and construction in progress	3.2	0.4	3.4	0.5	2.3	0.3
Total fixed assets	**227.2**	30.3	241.9	31.6	268.7	32.8
Financial assets						
Non-consolidated participations	0.1	0.0	0.1	0.0	0.1	0.0
Long-term loans and securities	8.5	1.2	9.3	1.2	10.3	1.3
Total financial assets	**8.6**	1.2	9.4	1.2	10.4	1.3
Total long-term assets	**241.7**	32.3	256.5	33.5	284.8	34.8
Inventory	**204.7**	27.3	210.9	27.5	234.1	28.5
Receivables						
Trade accounts receivables	169.5	22.7	184.6	24.0	198.8	24.1
Other receivables	16.0	2.1	22.6	3.0	20.8	2.5
Accruals	5.9	0.8	5.1	0.7	7.0	0.9
Total receivables	**191.4**	25.6	212.3	27.7	226.6	27.5
Marketable securities	**0.3**	0.0	2.2	0.3	0.9	0.1
Cash and cash equivalents	**110.9**	14.8	83.7	11.0	74.9	9.1
Total current assets	**507.3**	67.7	509.1	66.5	536.5	65.2
Total assets	**749.0**	100.0	765.6	100.0	821.3	100.0

Consolidated Interim Group Balance Sheet
Shareholders' equity and liabilities

in CHF million	Reporting Half-Year closed 31.12.2002	%	Financial Year closed 30.6.2002	%	Prior Half-Year closed 31.12.2001	%
Shareholders' equity						
Capital stock	35.7	4.8	35.7	4.7	35.7	4.3
Additional paid-in capital	543.7	72.6	543.7	71.0	543.7	66.2
Retained earnings	–670.2	–89.5	–674.1	–88.0	–691.2	–84.2
Minority interests	0.1	0.0	0.2	0.0	0.2	0.0
Total shareholders' equity	**–90.7**	–12.1	–94.5	–12.3	–111.6	–13.7
Provisions						
Provisions for pensions and related obligations	26.4	3.4	26.6	3.5	27.0	3.3
Provisions for taxes	24.4	3.3	24.7	3.2	40.8	4.9
Other provisions	91.9	12.3	98.3	12.8	98.2	12.0
Total provisions	**142.7**	19.0	149.6	19.5	166.0	20.2
Long-term liabilities						
Bank loans	434.9	58.1	458.0	59.8	622.3	75.8
Convertible bond	139.1	18.6	136.8	17.9		
Other long-term liabilities	5.2	0.7	5.5	0.7	4.2	0.5
Total long-term liabilities	**579.2**	77.4	600.3	78.4	626.5	76.3
Short-term liabilities						
Trade accounts payable	56.0	7.5	53.6	7.0	60.0	7.3
Due to banks	10.5	1.4	9.6	1.3	33.7	4.1
Other short-term liabilities	45.9	6.1	34.5	4.5	41.6	5.1
Accruals	5.4	0.7	12.5	1.6	5.1	0.7
Total short-term liabilities	**117.8**	15.7	110.2	14.4	140.4	17.2
Total Shareholders' equity and liabilities	**749.0**	100.0	765.6	100.0	821.3	100.0

Consolidated Statement of Cash Flows

in CHF million	Reporting Half-Year closed 31.12.2002	Financial Year closed 30.6.2002	Prior Half-Year closed 31.12.2001
Net income	26.8	61.8	29.2
Depreciation	18.4	42.6	22.4
Income statement positions not affecting cash	2.3	1.6	0.6
Change in inventory	–0.3	14.5	8.4
Change in receivables	13.7	12.2	10.0
Change in short-term liabilities	8.8	–29.9	–33.3
Change in provisions	–4.4	–12.1	–14.1
Net cash provided by operating activities	**65.3**	90.7	23.2
Purchase of investments	–0.9	–20.2	–16.5
Purchase of fixed assets	–9.5	–22.2	–11.2
Purchase of financial assets	–0.3	–0.2	0.0
Purchase of intangible assets	–1.9	–2.0	–1.0
Proceeds from sale of fixed assets	0.5	3.2	2.3
Proceeds from sale of financial assets	1.0	2.9	2.3
Net cash used in investing activities	**–11.1**	–38.5	–24.1
Change in short-term financial liabilities	1.4	–7.0	18.6
Convertible bond	0.0	134.8	
Change in long-term liabilities	–16.5	–229.0	–84.9
Change in capital	0.0	0.0	0.0
Dividends paid to third-party shareholders	–0.1	0.0	0.0
Dividends paid	–10.7	–10.7	–10.7
Net cash from financing activities	**–25.9**	–111.9	–77.1
Net effect of currency translation/-consolidation	**–3.0**	–4.1	4.0
Change in cash and cash equivalents; marketable securities	**25.3**	–63.8	–74.0
Cash and cash equivalents; marketable securities			
Beginning balance, period under review	**85.9**	149.7	149.7
Ending balance, period under review	**111.2**	85.9	75.7

Discounting the special situation in France, our Access Systems Europe Division posted internal growth of 3.6 % in local currency and was able to keep the EBIT margin at the prior-year level. Kaba's Value Driver projects contributed to this encouraging development as well. They are being implemented in a very hostile environment but are now beginning to take hold in Europe as well, even though the results are partially masked by adverse economic developments.

Right on target with «Total Access»

The Kaba «Total Access» strategy is not merely a convincing selling proposition in the marketplace, it also has positive effects on income. Kaba is an internationally successful component manufacturer and single-source problem solver («Total Access») in the mechanical and mechatronic segments of locking, masterkeying, and door systems. It is a technology leader in identification, access, and enterprise data collection solutions as well. «Total Access» addresses the market demand for comprehensive access to buildings and facilities with a high level of security, combined with organizational efficiency and maximum user convenience. Kaba protects the customer's investment with consistently upward-compatible developments and extensive support.

Because 70 % of all «Total Access» systems and components are installed in existing buildings and facilities, Kaba's exposure to economic cycles and the trend of the construction industry is limited. The installed base of sold products and systems tends to stabilize earnings.

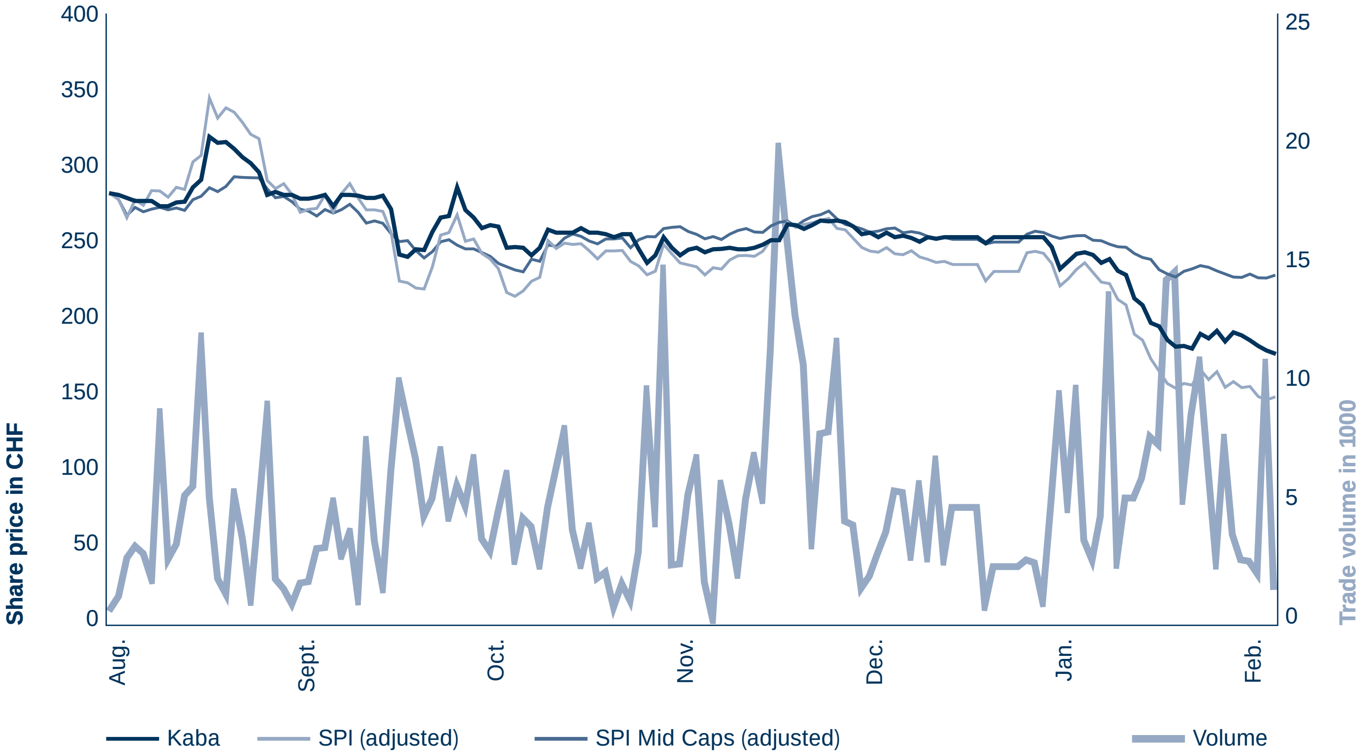
Thank you for your interest and your confidence in the Kaba Group.

Sincerely yours,
On behalf of Kaba Holding AG

Rudolf Hauser
Chairman
of the Board of Directors

Ulrich Graf
President and CEO

Development of share price



Information schedule

Monday 22 September 2003	Presentation for financial analysts Financial press conference Shareholder Newsletter announcing the results of financial 2002/03 and the outlook for financial 2003/2004 Publication of Annual Report Invitation to General Meeting
Tuesday 21 October 2003, 3 p.m.	General Meeting of Kaba Holding AG
1st half of March 2004	Shareholder Newsletter and press release on semiannual results as at 31 December 2003

Please visit our new web site at www.kaba.com where you will find a ticker with the current price of Kaba shares, our latest press releases, the Annual Report as at 30 June 2002, our informative Investor’s Handbook, and the “Integration Report” dated March 2002. You can also find out whom to contact for specific Kaba products. And finally, our site acquaints you with new Kaba products and systems that address your personal security and convenience needs.

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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Concept, Design and Realisation
Hasler Marketing & Kommunikation AG, Winterthur / CH

Print
Druckerei Albisrieden, Zürich

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