

Shareholder Newsletter No. 21
1st Half-Year Report
1 July to 31 December 2003



Kaba Group holds EBIT and profit margins

- **Free operating cash flow for the report period remains firm at CHF 56.5 million**
- **Net debt reduced by CHF 35.7 million in first half year**
- **Currency-adjusted sales and EBIT at prior-year level**
- **Turnaround of Door Systems Division**

Dear Kaba Shareholders,
dear Madam, dear Sir,

In the first six months of financial 2003/2004, the Kaba Group generated sales of CHF 482.4 million, 1.6% less than in the prior-year period. The slight decline mainly reflects the depreciation of the US dollar versus the Swiss franc but is also a consequence of the sustained sluggishness of the economy and hesitant capital spending in the customer community. EBIT slipped from CHF 60.0 million to CHF 57.9 million due to the currency developments. The EBIT margin (operating profit in % of operating revenues) closed at 11.8%, nearly at the prior-year level of 12.0%. At constant exchange rates, EBIT (CHF 59.8 million versus CHF 60.0 million a year ago) and the EBIT margin remained virtually unchanged.

Comparable currency-adjusted sales for the period declined by CHF 2.7 million or 0.6%. The parity changes, chiefly the strong Swiss franc versus the US dollar, reduced foreign-currency sales by a translation loss of CHF 5.0 million or 1.0%. At the same time, the firm franc also reduced expenses because Kaba operates local production facilities, obtains local financing, and pays local taxes in all key currency regions.

Expressed in local currencies, the changes in sales reported by the individual divisions ranged from +9.6% (Asia Pacific) and -8.5% (Data Collection). Although the Door Systems and Access Systems Europe Divisions have achieved the anticipated progress in operating profitability, the reported half-year profit of CHF 26.2 million falls slightly short of the prior-period result (CHF 26.8 million).

Cash flow remains at high level

Operating cash flow closed at CHF 56.5 million, remaining at a reassuringly high level. Accordingly, net debt declined from CHF 430.5 million as at 30 June 2003, to CHF 394.8 million as at 31 December 2003. Thus, the net debt reduction for the report period was CHF 35.7 million (previous year: CHF 45.5 million).

In addition to cash flow from sales revenues (profit plus depreciation, CHF 45.5 million), further improvements of net current asset management contributed another CHF 11.0 million to operating cash flow. While this contribution is below the prior-period level of CHF 17.8 million, it corresponds to expectations.

Since the acquisition of Unican three years ago, Kaba's debt has been trimmed to a level that is appropriate for a globally active corporation of Kaba's size. Nonetheless, we intend to continue using free cash flow to further reduce debt.

Notes to the results of the individual divisions, see sales and EBIT trend table on next page.

Sales and EBIT trend

in CHF million/%

Divisions	Reporting Half-Year July to December 2003				Prior Half-Year July to December 2003			Growth Net sales	whereof currency impact	Currency adjusted internal Growth Net sales
	Net sales	EBIT currency adjusted	EBIT	EBIT in % Net sales	Net sales	EBIT	EBIT in % Net sales			
Door Systems	116.2	4.2	4.4	3.8%	112.1	0.7	0.6%	4.1 3.7%	0.5 0.4%	3.6 3.2%
Data Collection	32.6	4.5	4.7	14.4%	35.1	6.0	17.1%	-2.5 -7.1%	0.5 1.4%	-3.0 -8.5%
<i>Access Systems Europe</i>	<i>130.6</i>	<i>16.7</i>	<i>16.9</i>	<i>12.9%</i>	<i>122.8</i>	<i>14.4</i>	<i>11.7%</i>	<i>7.8</i> <i>6.4%</i>	<i>3.0</i> <i>2.4%</i>	<i>4.8</i> <i>3.9%</i>
<i>Access Systems Asia Pacific</i>	<i>23.9</i>	<i>2.3</i>	<i>2.0</i>	<i>8.4%</i>	<i>21.9</i>	<i>1.2</i>	<i>5.5%</i>	<i>2.0</i> <i>9.1%</i>	<i>-0.1</i> <i>-0.5%</i>	<i>2.1</i> <i>9.6%</i>
<i>Access + Key Systems Americas</i>	<i>133.4</i>	<i>27.5</i>	<i>25.1</i>	<i>18.8%</i>	<i>151.9</i>	<i>29.5</i>	<i>19.4%</i>	<i>-18.5</i> <i>-12.2%</i>	<i>-11.0</i> <i>-7.2%</i>	<i>-7.5</i> <i>-4.9%</i>
Access Systems total	287.9	46.5	44.0	15.3%	296.6	45.1	15.2%	-8.7 -2.9%	-8.1 -2.7%	-0.6 -0.2%
Key Systems Europe	45.7	4.6	4.8	10.5%	46.3	8.2	17.7%	-0.6 -1.3%	2.1 4.5%	-2.7 -5.8%
Kaba Group consolidated	482.4	59.8	57.9	12.0%	490.1	60.0	12.2%	-7.7 -1.6%	-5.0 -1.0%	-2.7 -0.6%

Door Systems makes significant progress

The turnaround of the Door Systems Division is now clearly visible. Local-currency sales picked up by 3.2%. The EBIT margin improved from 0.6% in the prior-year period to 3.8% in the report period. Absolute EBIT for the past six months climbed to CHF 4.4 million and reflects the significant progress made versus the first half year of financial 2002/2003 when EBIT amounted to just CHF 0.7 million, after deduction of CHF 1.7 million in restructuring costs. Jakob Gilgen, who has been responsible for the Door Systems Division since 1st July 2003, can rely on a highly motivated management team, which is moving forward to retransform the division into a solid, predictable mainstay of the Kaba Group in terms of revenues and earnings.

Data Collection picks up steam after a weak start

The Data Collection Division – it comprises the business operations of Kaba Benzing – had to absorb an 8.5% decline of local-currency sales compared to an excellent, highly profitable prior-year period. The EBIT margin dipped from 17.1% to a still respectable 14.4%.

Customers were very reluctant, particularly in the first quarter of financial 2003/2004. In the course of the second quarter, however, the order books began to fill up. For this reason, several major contracts will not affect sales until the second half of financial 2003/2004. The operating profit in November and December even outperformed the record values of the prior-year period. This suggests that a trend reversal has taken place and that the figures for the second half of the year will outstrip those of the prior-year period.

The systematic market development effort in the Middle East during the past months is promising to yield interesting potentials in the mid-term.

Access Systems hold sales and EBIT margin steady

The Access Systems Divisions comprise the mechanical and mechatronic locking systems as well as electronic access control in separate regions. Moreover, the Access + Key Systems Americas Division still contains the key duplication business in the Americas.

The Access Systems Divisions were able to hold their local-currency sales steady on a global basis. The aggregate EBIT margin increased slightly from 15.2% in the same prior-year period to 15.3%. For currency translation reasons, absolute EBIT declined from CHF 45.1 million a year ago to CHF 44.0 million. At constant exchange rates, EBIT for the period under review would have advanced by 3% to CHF 46.5 million.

Access Systems Europe posts local-currency growth of 3.9% and pushes the EBIT margin by 1.2% to 12.9%

The Access Systems Europe Division expanded its local-currency sales by 3.9% and boosted EBIT by 16% to CHF 16.7 million. 6% of EBIT growth is attributable to efficiency-enhancing programs. Additionally, the Division's result reflects the elimination of previous-period restructuring charges amounting to CHF 1.5 million. The EBIT margin rose from 11.7% to 12.9%.

Access Systems Asia Pacific reports 10% local-currency sales growth and 92% EBIT growth

Thanks to the above-average growth momentum in Japan, local-currency sales picked up by 9.6% and EBIT by 92%. The Far Eastern markets outside Japan remain difficult.

Access + Key Systems Americas posts a 4.9% decline in local-currency sales and a slightly lower EBIT margin of 18.8%

Sales dropped from CHF 151.9 to CHF 133.4 million. Of this difference of CHF 18.5 million, currency translation accounted for CHF 11.0 million. Expressed in local currencies, sales decreased by CHF 7.5 million or 4.9%. In particular, the sales of key blanks and mechanical products closed lower than at the end of the prior-year period. Sales of high-security locks fulfilled expectations. The EBIT margin eased slightly versus the same period a year ago, from 19.4% to 18.8%.

Access + Key Systems Americas is the largest unit of the Kaba Group. It contributes 28% of consolidated sales and 43% of consolidated EBIT.

Key Systems Europe takes 5.8% cut in local-currency sales and 7% EBIT margin decline

The Key Systems Europe Division books a third of its sales in US dollars and therefore clearly felt the weakness of the American currency. The depreciation of the dollar versus the prior-year period is responsible for about half of the decline in sales and EBIT. The other half ranges within the normal economic volatilities to which this business is exposed. The EBIT margin decreased from 17.7% in the previous-year period to 10.5%.

The lower EBIT margin also reflects previously announced investments into organizational improvements, process optimization, and the development of new products. In the medium term, these investments are expected to result in productivity-enhancement and growth potentials.

Within the scope of an innovation drive, Silca launched a forward-looking, transaction-based key duplication system. After the mechanical and computer-controlled systems, it represents the third generation in the key duplication business. The new system harnesses the Internet to transfer key-related data from a master database to computer-controlled key-cutting machines that can be located anywhere in the world. This technology opens up promising opportunities for the Key Systems Europe Division.

Currency-adjusted consolidated sales, EBIT, and profit margins held steady

Currency-adjusted consolidated sales for the period under review amounted to CHF 487.4 million as opposed to CHF 490.1 million a year ago. Thus, we were able to nearly hold sales expressed in local currencies (–0.6%). Currency-adjusted EBIT also remained virtually unchanged at CHF 59.8 million (previous year: CHF 60.0 million). Accordingly, the EBIT margin increased slightly to 12.3% in comparable currencies (previous year: 12.2%). At the same time, profit margins remained constant at 5.3% of operating revenues and 5.4% of sales.

Consolidated balance sheet contains no goodwill

Total consolidated assets decreased further, to some extent as a result of currency translation. On 31 December 2003, this item was CHF 85.0 million or 11% lower than on 30 June 2003.

As regards acquisitions, Kaba has a long-standing tradition in the consistent application of Swiss GAAP reporting standards, which allow that goodwill is offset directly against shareholders' equity on the date of

an acquisition. For this reason, the consolidated financial statements show negative shareholders' equity. If goodwill were to be capitalized, this would increase assets and equity by CHF 410.0 million and result in an equity ratio of 32.5% of total assets.

No tangible market rebounds ahead yet

Although there are some positive signs of a recovery, the data does not suggest that a broad-scale business uptrend is imminent for the security industry. No clear predictions can be made at this point as regards the influence of seasonal fluctuations on sales and income for the current financial year that ends on 30 June 2004. An analysis of semi-annual results since the Unican acquisition in 2001 shows that

the period from January to June tended to lag behind the Group's first half year (July to December) due to seasonal factors. Today, however, the Kaba Group is superbly positioned – technologically, organizationally, and financially – to sustainably benefit from a global upswing in the security industry as soon as it emerges.

Additionally, there is a lack of solid trends and forecasts with respect to exchange rates. During the 6-month reporting period, currency effects cost Kaba CHF 2.0 million in EBIT when the statement of income was translated into Swiss francs. We lost another CHF 2.0 million in the Key Systems Europe Division on US dollar prices in the export price list. If the average parity during the second half of the year were to drop to a level of 1 USD = CHF 1.25, comparable EBIT in the second half of financial 2003/2004 would decline by a further CHF 4.0 million in comparison with the first half of the year. Conversely, a depreciation of the Swiss franc – particularly versus the US dollar – would have a correspondingly positive impact.

Kaba expects the tax rate to remain more or less constant.

Consolidated Interim Group Financial Statement

in CHF million	Reporting Half-Year July to December 2003		Prior Half-Year July to December 2002		Variance %
		%		%	
Sales (net)	482.4	98.6	490.1	98.4	-1.6
Changes in finished goods and work in progress	1.3	0.3	1.8	0.4	-27.8
Other operating revenues	5.6	1.1	6.0	1.2	-6.7
Operating revenues	489.3	100.0	497.9	100.0	-1.7
Material costs	-146.3	-29.9	-153.6	-30.9	-4.8
Personnel costs	-189.8	-38.8	-186.9	-37.5	1.6
Other operating expenses	-78.4	-16.0	-79.0	-15.9	-0.8
Income from operations before depreciation (EBITDA)	74.8	15.3	78.4	15.7	-4.6
Depreciation	-16.9	-3.5	-18.4	-3.7	-8.2
Income from operations (EBIT)	57.9	11.8	60.0	12.0	-3.5
Financial income	2.3	0.5	1.8	0.4	27.8
Financial expense	-19.5	-4.0	-20.2	-4.1	-3.5
Income before tax	40.7	8.3	41.6	8.3	-2.2
Taxes	-14.5	-3.0	-14.8	-3.0	-2.0
Net income for first half-year	26.2	5.3	26.8	5.3	-2.2
Net income applicable to minority interests	0.0		0.0		
Half-year income per share in CHF	7.3		7.5		-2.2
Half-year income + depreciation	43.1	8.8	45.2	9.1	-4.6
Investments in tangible and intangible assets	12.4		11.4		8.8
Employees (average)	5927		6288		-5.7

Consolidated Interim Group Balance Sheet

Assets

in CHF million	Reporting Half-Year closed 31.12.2003		Financial Year closed 30.6.2003		Prior Half-Year closed 31.12.2002	
		%		%		%
Intangible assets	6.4	0.9	6.0	0.8	5.9	0.8
Fixed assets						
Land and buildings	129.9	18.9	133.9	17.3	135.3	18.1
Machinery and equipment	52.5	7.6	56.9	7.4	57.9	7.7
Furniture and fixtures	28.6	4.2	30.2	3.9	30.8	4.1
Payments on account and construction in progress	1.6	0.2	1.5	0.2	3.2	0.4
Total fixed assets	212.6	30.9	222.5	28.8	227.2	30.3
Financial assets						
Non-consolidated participations	0.1	0.0	0.1	0.0	0.1	0.0
Long-term loans and securities	8.3	1.2	8.6	1.1	8.5	1.2
Total financial assets	8.4	1.2	8.7	1.1	8.6	1.2
Total long-term assets	227.4	33.0	237.2	30.7	241.7	32.3
Inventory	187.7	27.3	195.5	25.3	204.7	27.3
Receivables						
Trade accounts receivables	155.9	22.6	168.9	21.8	169.5	22.7
Other receivables	19.3	2.8	21.9	2.8	16.0	2.1
Accruals	6.1	0.9	5.5	0.7	5.9	0.8
Total receivables	181.3	26.3	196.3	25.3	191.4	25.6
Marketable securities	0.1	0.0	0.2	0.0	0.3	0.0
Cash and cash equivalents	92.2	13.4	144.6	18.7	110.9	14.8
Total current assets	461.3	67.0	536.6	69.3	507.3	67.7
Total assets	688.7	100.0	773.8	100.0	749.0	100.0

Consolidated Interim Group Balance Sheet

Shareholders' equity and liabilities

in CHF million	Reporting Half-Year closed 31.12.2003		Financial Year closed 30.6.2003		Prior Half-Year closed 31.12.2002	
		%		%		%
Shareholders' equity						
Capital stock	35.7	5.2	35.7	4.6	35.7	4.8
Additional paid-in capital	543.7	78.9	543.7	70.3	543.7	72.6
Retained earnings	-632.7	-91.9	-642.3	-83.0	-670.2	-89.5
Minority interests	0.1	0.0	0.1	0.0	0.1	0.0
Total shareholders' equity	-53.2	-7.8	-62.8	-8.1	-90.7	-12.1
Provisions						
Provisions for pensions and related obligations	29.8	4.3	29.0	3.7	26.4	3.4
Provisions for taxes	29.7	4.3	27.9	3.6	24.4	3.3
Other provisions	94.9	13.8	98.0	12.7	91.9	12.3
Total provisions	154.4	22.4	154.9	20.0	142.7	19.0
Long-term liabilities						
Bank loans	337.7	49.1	399.4	51.6	434.9	58.1
Convertible bond	143.8	20.9	141.4	18.3	139.1	18.6
Other long-term liabilities	3.5	0.5	3.7	0.5	5.2	0.7
Total long-term liabilities	485.0	70.5	544.5	70.4	579.2	77.4
Short-term liabilities						
Trade accounts payable	53.8	7.8	57.8	7.4	56.0	7.5
Due to banks	2.1	0.3	30.8	4.0	10.5	1.4
Other short-term liabilities	42.0	6.1	35.7	4.6	45.9	6.1
Accruals	4.6	0.7	12.9	1.7	5.4	0.7
Total short-term liabilities	102.5	14.9	137.2	17.7	117.8	15.7
Total shareholders' equity and liabilities	688.7	100.0	773.8	100.0	749.0	100.0

Consolidated Statement of Cash flows

8 March 2004

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in CHF million	Reporting Half-Year closed 31.12.2003	Financial Year closed 30.6.2003	Prior Half-Year closed 31.12.2002
Net income	26.2	45.7	26.8
Depreciation	16.9	36.3	18.4
Income statement positions not affecting cash	2.4	4.1	2.3
Change in inventory	4.3	8.4	-0.3
Change in receivables	11.6	14.4	13.7
Change in short-term liabilities	-5.0	10.7	8.8
Change in provisions	0.1	3.8	-4.4
Net cash provided by operating activities	56.5	123.4	65.3
Purchase of investments	-0.7	-2.4	-0.9
Purchase of fixed assets	-10.8	-18.9	-9.5
Purchase of financial assets	-0.8	-0.3	-0.3
Purchase of intangible assets	-1.6	-3.2	-1.9
Proceeds from sale of fixed assets	1.2	4.9	0.5
Proceeds from sale of financial assets	1.1	1.2	1.0
Net cash used in investing activities	-11.6	-18.7	-11.1
Change in short-term financial liabilities	-28.6	22.0	1.4
Change in long-term liabilities	-56.2	-55.1	-16.5
Dividends paid to third-party shareholders	0.0	-0.1	-0.1
Dividends paid	-10.7	-10.7	-10.7
Net cash from financing activities	-95.5	-43.9	-25.9
Net effect of currency translation/-consolidation	-1.8	-1.9	-3.0
Change in cash and cash equivalents; marketable securities	-52.5	58.9	25.3
Cash and cash equivalents; marketable securities			
Beginning balance, period under review	144.8	85.9	85.9
Ending balance, period under review	92.3	144.8	111.2

**Right on the market with
«Total Access»**

Kaba's «Total Access» strategy not only represents a compelling product/service mix for our markets but also stabilizes income in times of economic duress. Kaba is successful on a global scale as a manufacturer of components and single-source provider of problem-solving concepts in the mechanical and mechatronic segments of masterkey and locking systems as well as door systems. Kaba also holds a technological leadership position in the domains of identification, access, enterprise data collection, and door systems. «Total Access» addresses a market need for comprehensive access to buildings and facilities at a high security level combined with efficient organizational factors and maximized user convenience. The systematic upward-compatibility of new developments is Kaba's investment protection guarantee to the customer.

70% of all «Total Access» systems and components are installed in existing buildings and facilities. For this reason, Kaba is only conditionally exposed to economic cycles and to developments in the construction industry. The installed base of legacy equipment and systems stabilizes profits.

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

Sincerely yours,
Kaba Holding AG

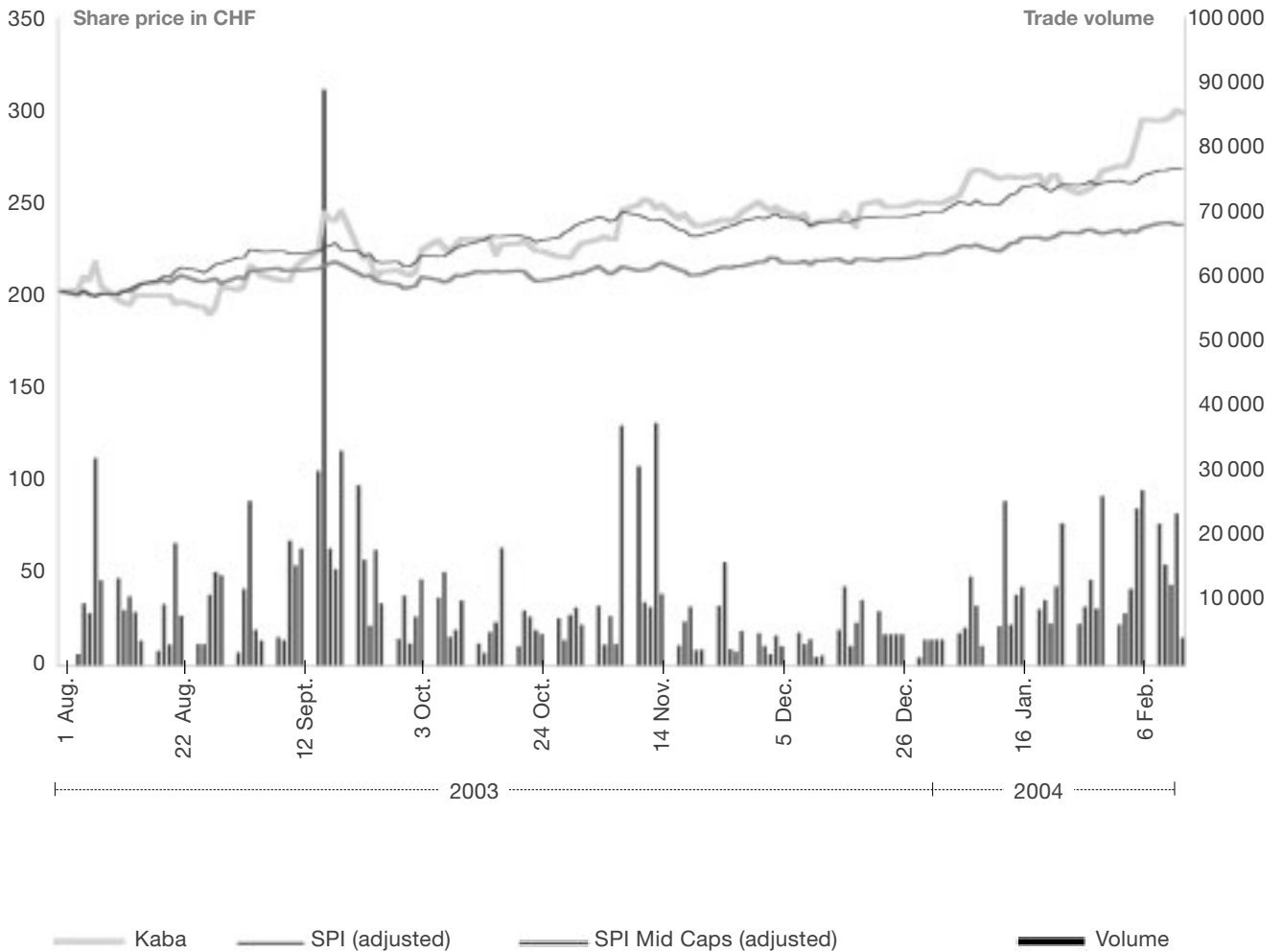


Rudolf Hauser
Chairman of the
Board of Directors



Ulrich Graf
President and CEO

Development of share price



Information

- Monday** Presentation for financial analysts
20 September 2004 Financial press conference
Shareholder Newsletter with the results
of financial 2003/2004
and the Outlook for financial 2004/2005
Mailing of Annual Report
Invitation to Annual General Meeting
- Tuesday** Annual General Meeting
26 October 2004, 3 p.m. of Kaba Holding AG
- First half of March 2005** Shareholder Newsletter and press release
on the semi-annual results as at 31 December 2004

Please visit our Web site. At www.kaba.com, you will find a ticker with the current price of Kaba shares, our latest press releases, the Annual Report as at 30 June 2003, and our informative Investor's Handbook. 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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