

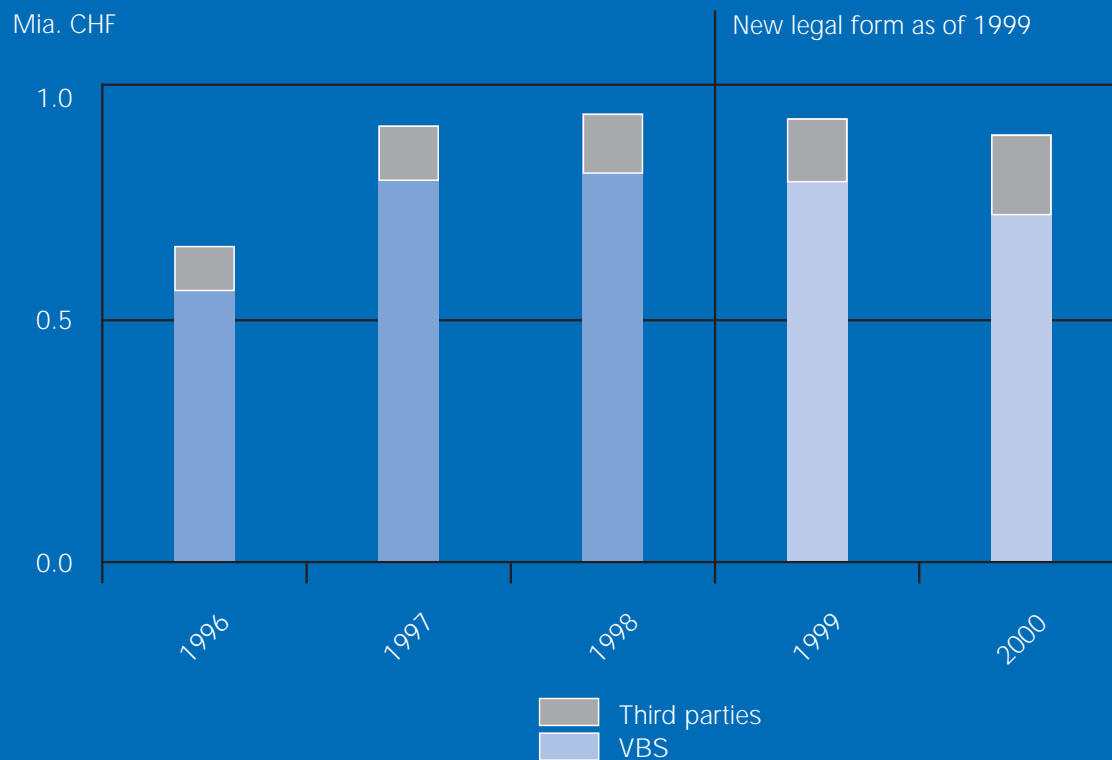
RUAG



ANNUAL REPORT 2000

Key figures

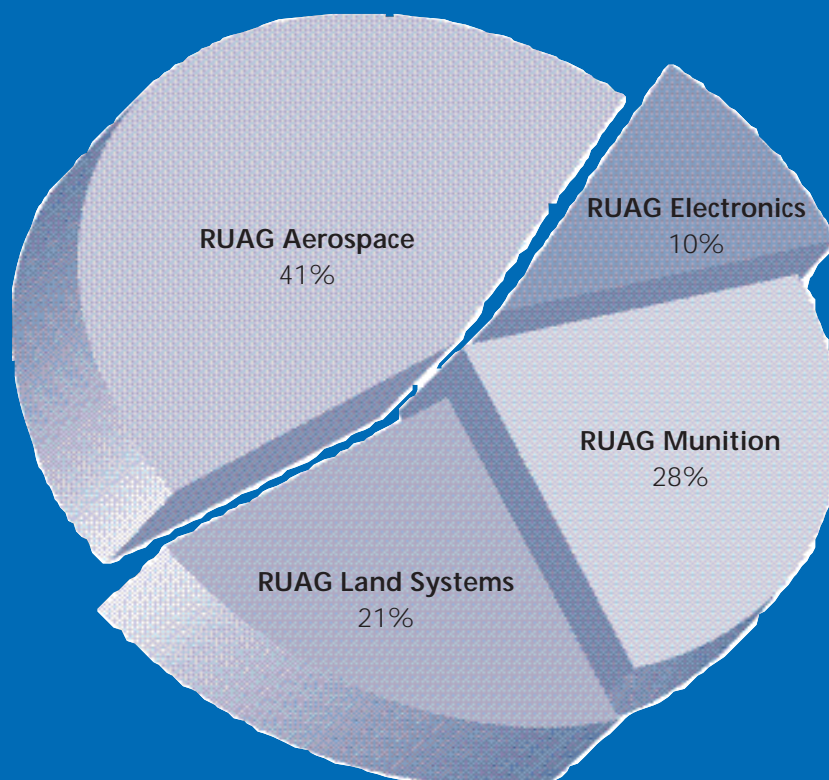
Turnover trends (Invoiced sales)



	1996	1997	1998	1999	2000
Total	664	916	941	931	897
VBS	569	800	815	797	728
Third parties	95	116	126	134	169
Third parties in%	14%	13%	13%	14%	19%

Classification of sales figures 2000

(Invoiced sales, unconsolidated)

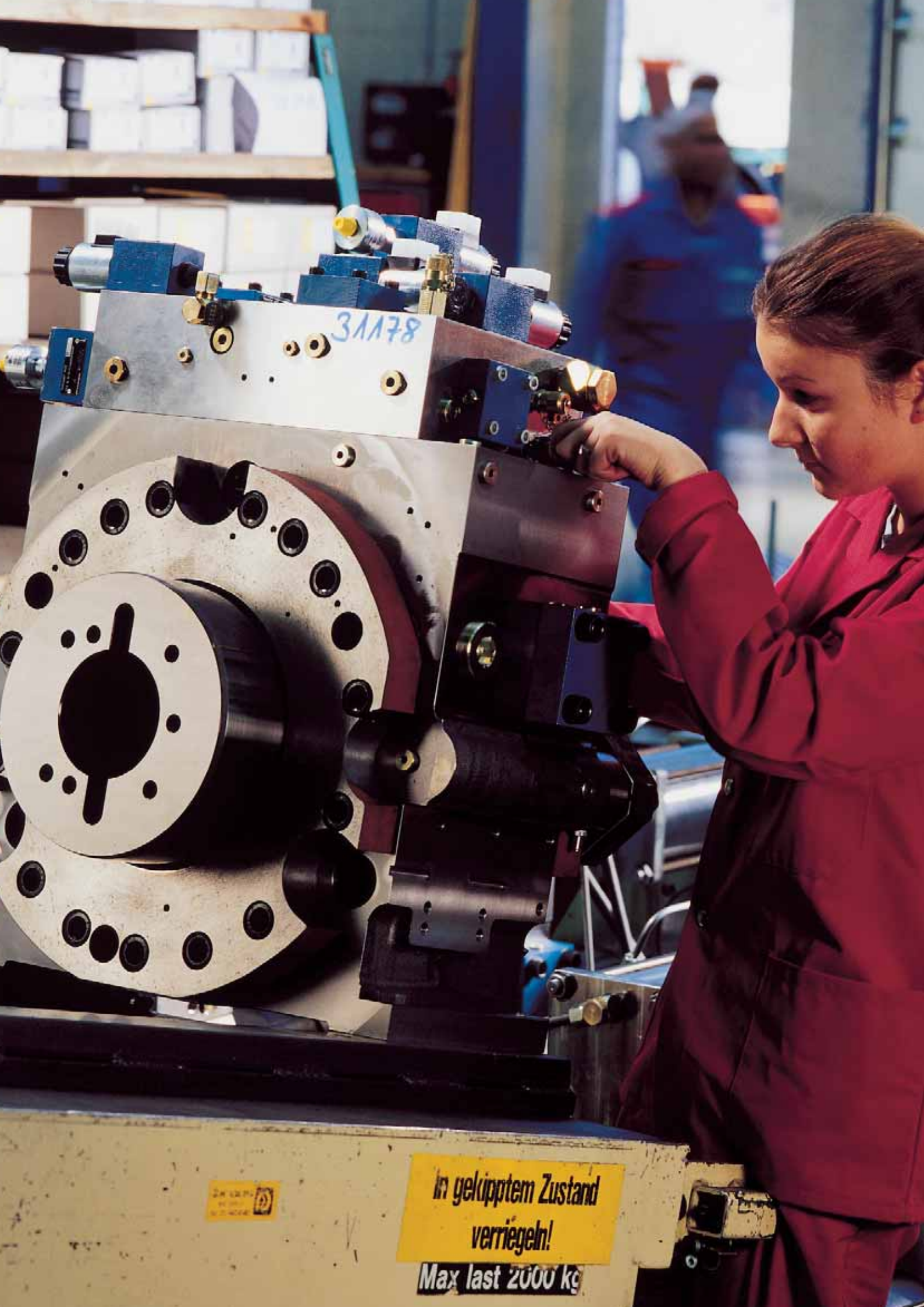


In million CHF	RUAG Electronics ¹	RUAG Aerospace	RUAG Munition	RUAG Land Systems	Consoli- dation	RUAG Group
Net sales	99	402	270	184	(13)	941
of which invoiced sales	92	372	253	192	(12)	897
of which other operating income and stock changes	6	31	17	(9)	(1)	44
Expenses	95	357	257	168	(11)	867
Operating profit	4	46	13	15	(3)	74
Additional operating surplus						5
Operating profit before interests and taxes (EBIT)						79
Interests, taxes and extraord. surplus						(12)
Consolidated net profit						67
Cash flow	3	79	23	15	6	125
Capital expenditure	18	22	18	5	11	74
Average total staff	448	1'699	1'092	589	15	3'843

¹ including New Impact Corp and Mocom Corp

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In gekipptem Zustand
verriegeln!

Max last 2000 kg



A satisfactory performance in a turbulent environment

RUAG can look back on another satisfactory year. It was able to continue the positive trend set in the previous year – its first year as a private company – mainly as a result of cost-cutting measures. A more favourable overall economic climate was only partly responsible for the company's result.

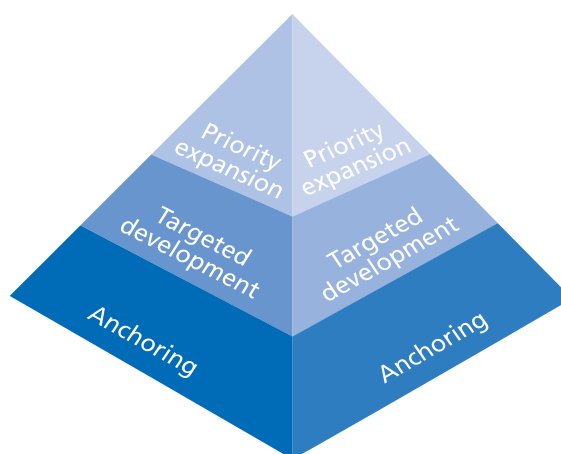
Market

RUAG's core activity is defence technology, which generated around 81% of sales in 2000. The key factors affecting demand in this sector are the assessed level of threat, political trends and the state of public finances. Globalisation in defence technology is partly the result of changes in the relative importance of these factors. The European corporate landscape has also undergone changes over the past year, with many Swiss defence technology companies changing hands. Against this turbulent background, the activity of suppliers of the size of RUAG – placed at number 52 in a survey of the world's hundred largest suppliers of defence goods – is facing increasing challenges.

The level of trade with our main defence technology customer, the Swiss Federal Department of Defence, Civil Protection and Sports (VBS), was down again, as expected. Orders in arms production in particular fell short of expectations as a result of structural reforms and the reduction in the size of the army. Trade with the VBS has shifted more towards industrial maintenance of army equipment.

Group strategy

During the past financial year RUAG has been successful in meeting the requirements laid down in the Federal Council's owner's strategy, namely securing technical know-how for the benefit of the Swiss army.



In 1999 the Board of Directors adopted a group strategy based on the following targets:

RUAG intends

- to expand in selected areas of defence activity;
- to further develop areas that are suitable for expansion;
- to secure its position in areas required by the armed forces;
- to move out of other areas;
- to boost the proportion of its sales generated by third-party customers;
- to open up access to the European defence market as a matter of priority;
- to actively exploit opportunities in related civilian areas;
- to be ready for any suitable association with principally European partners.



The first steps in implementing this group strategy were successfully taken in the 2000 financial year. A majority holding was taken in three companies. Two of these strengthen our position in the aerospace sector.

In line with strategy, the Board of Directors approved another comprehensive package of rationalisation, replacement and expansion measures for structural component production activities at the Emmen site. This creates the conditions for a further improvement in productivity and a significant rise in sales.

The structural component production division manufactures products for the aerospace industry, from design and assembly to production of the entire structural component group.

New corporate design

The previous corporate design, which has gradually been moving closer to an image suitable for a privately run group during the process of privatisation, has now been simplified in order to reflect RUAG's international activities. Our group now trades under the global brand name RUAG.

So far...

RUAG
SUISSE

SE

SF

SM

SW

New:

RUAG

RUAG
Electronics

RUAG
Aerospace

RUAG
Munition

RUAG
Land Systems

We now operate as a single brand rather than as distinct companies. By focusing on the RUAG brand we anticipate a marked improvement in recognition both by the market as a whole and by our past trading partners; we also expect to simplify marketing and to gain quicker access to new customers.



A rise in third-party business

In the year under review RUAG's consolidated sales stood at CHF 941 million; this includes changes to the inventory and other operating income. This is slightly down on the previous year's figure (CHF 962 million). The decline is due to the expected fall in orders from the Swiss department of defence. We achieved a marked rise in third-party business (sales to customers other than the Swiss Army); this figure rose from CHF 134 million last year to stand at CHF 169 million. Third-party sales were up in RUAG Aerospace and were very strong in RUAG Land Systems and RUAG Munition.

At CHF 867 million, expenditure was below last year's figure of CHF 910 million both in absolute terms and as a proportion of sales. However, it should be pointed out that expenditure on staff contains an unplanned payment of CHF 22 million to the Swiss Federal Pension Fund (PKB) for pensioners who are remaining in this fund.

Investments

We invested around CHF 74 million in the period under review (CHF 55 million previous year). Most of this investment related to plant and equipment purchased in order to help us implement our strategy, as well as purchases aimed at renewing and modernising our facilities; investments in other companies represent much smaller proportion of our investment expenditure.

Result

Earnings before interest and tax (EBIT) stand at around CHF 79 million, a marked improvement on the previous year (CHF 56 million). EBIT as a proportion of net sales is there-

fore 8.4% (5.8% previous year). The group's net profit after tax is CHF 67 million (CHF 42.5 million previous year) despite the extraordinary contribution to the civil service pension fund mentioned above.

The consolidated accounts are drawn up in accordance with FER standards. The Board of Directors has decided to adopt the IAS (International Accounting Standards) from the start of 2002.

Recapitalisation

The Federal Assembly has approved proposals for RUAG to raise new capital. The relevant change in the law was passed by both houses of Parliament in 2000. The Federal Council will issue the decree in the light of the circumstances prevailing at the time. The purpose of this move is to increase RUAG's share capital and (to a much greater extent) to increase RUAG's staff pension fund to take account of its obligations as calculated by FER or IAS standards.

Staff

The average size of the workforce was around 3,800, practically unchanged on the previous year. The general upturn in the economy and the low rate of unemployment in Switzerland have already led to a tightening of the labour market for highly skilled staff. This means that a larger number of positions in the Aerospace and Electronics divisions stand vacant.



Prospects

The level of orders has fallen compared to the position before the year-end date; at the end of the period under review, the order books contained orders worth around 76% of a full year's billed sales. The situation can still be considered satisfactory, since several orders that were expected from the Department of Defence in 2000 were postponed to the following year. Orders from our main customer are likely to continue to fall. It has been impossible to plan adequately for this, as the effects of the government's plans to reform the army on the demand for RUAG's services are not yet sufficiently clear. We intend to adapt to this situation by continuing to implement the measures laid down in the group strategy, focusing on expansion and development.

Until these efforts bear fruit, we may well see some drop in sales in the medium term, to which we will have to find an appropriate response.

Thanks

The Board of Directors thanks the group's customers for their confidence and their orders; the Federal Council and Parliament for agreeing to the recapitalisation; the management and all the staff of the group for their outstanding achievements in the past financial year. As a Swiss high-tech concern and a supplier of military and civilian products and services, we will do everything we can to make RUAG a successful brand that embodies quality and excellent customer benefit.

Dr Walter Bürgi
CEO

Toni J. Wicki
Chairman of the Board of Directors



Significant changes in HR policy

The image of a uniform workforce, which dominated the process of industrialisation in the first half of the twentieth century, is a thing of the past. People nowadays want to be able to express their individuality at the workplace, and to expand their professional and personal horizons. They want to be able to identify with their job and enjoy their work. This observation sets the tone for any successful personnel management style and depends on creating the right framework for the employer/employee relationship and giving the Human Resources department the tools it needs.

The transition is complete

Two years ago RUAG changed its status from a state-owned enterprise to a private company. The Swiss Confederation, as the former employer and present majority shareholder, adopted a decree covering the shift in personnel matters, such as changing the status of employees from civil servants to employees of a private company. This decree remained in force until the end of 2000 and helped to ensure that the transition ran smoothly and was completed on time, while also giving our colleagues a high level of security during the transition process.

Collective agreement

In the year under review we conducted negotiations with the former collective bargaining partners that culminated in the signature of a collective agreement to take the place of the transitional arrangements described above; this collective agreement is the first in RUAG's history. This fulfils another of the requirements of the Federal Council's owner's strategy.

The purpose of the RUAG collective agreement is to contribute to the positive development of our company and the welfare of the employees on whom it depends. It lays the foundation for employment rights and obligations in tune with the modern world. Industrial peace is guaranteed for the duration of the contract. The content of the contract draws heavily on the contract governing the Swiss engineering industry. This was a deliberate choice, looking ahead to the next step that we plan to take: following discussions with staff representatives and trade unions, the Board has decided that RUAG will join SWISSMEM, the leading representative body of the Swiss mechanical and electrical engineering industries, in 2003. As a result, RUAG will become a signatory to the collective agreement governing that sector. This is why the RUAG collective agreement has been set up for a limited duration.



New management and salary scheme

New steps have been taken on the pay front as well. All preparations have been completed so that on 1 January 2001 the previous government pay negotiation scheme will be replaced by the «RUAG dialogue». Dialogue, the systematic exchange of views between employees and their superiors, will lie at the heart of the new management and salary scheme. Salaries will now take account of performance.

The new salary and management scheme demands openness, which we consider a vital element in RUAG's corporate culture. We expect the introduction of the «RUAG dialogue» to make our company more attractive and therefore more competitive on the labour market.

Separate social benefits scheme

Social benefits in Switzerland are paid for jointly by employers and employees as a demonstration of solidarity. Company pensions are intended to work with the state pension and personal savings to help people retire from active life free from material cares. RUAG employees are covered by the Swiss Federal Pension Fund, the pension fund of the previous employer. On privatisation, RUAG took steps to set up its own pension provision.

Considerable progress has been made in the 2000 financial year, and the RUAG pension fund will open on 1 July 2001. Employees who retire before that date will remain in the Swiss Federal Pension Fund.

The group's Board of Directors and management put the decision to change to a vote among the workforce. 77% of policyholders voted, with 91% voting in favour of setting up a RUAG pension fund. The Board and management take this clear majority as a demonstration of confidence. The RUAG pension fund will pay benefits in line with those paid by other modern pension schemes. Work has begun to endow the fund with the necessary financial resources. Parliamentary approval of an amendment to the law is a further important step in the privatisation process.

Protecting the owner's interests

The 2000 financial year saw the introduction of the collective agreement of employment, the new management and salary scheme and the creation of a separate pension fund: important personnel policy decisions and actions that will have a significant impact on day-to-day life in the group and on corporate culture. In its owner's strategy published in 1999, the Swiss government expressed the hope that RUAG would pursue «a progressive and socially responsible personnel policy» after it had completed the change to a private company. RUAG believes that it has met this challenge.



The Board of Directors of RUAG (from left to right): Dr Hanspeter Käser, Roland Zimmerli, Peter Siegenthaler, Dr Walter Bürgi, Hans-Ulrich Scherrer, Toni J. Wicki, Philippe Bruggisser

The Board of Directors of RUAG

Chairman: Dr Walter Bürgi

CEO: Toni J. Wicki

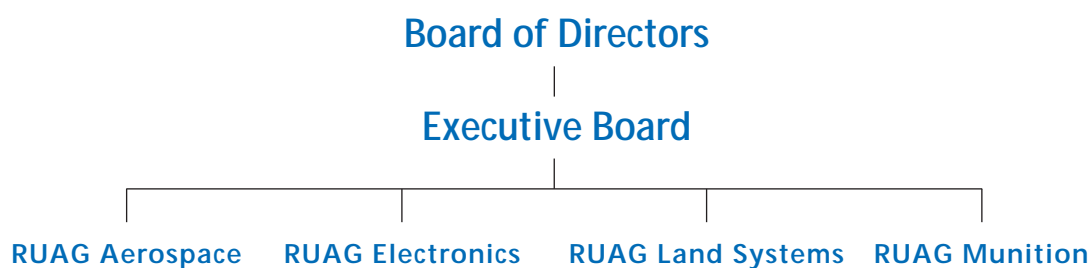
Members: Philippe Bruggisser lic.rer.pol.; Dr Ulrich Gygi (until 15 June 2000); Peter Siegenthaler lic.rer.pol. (from 15 June 2000); Dr Hanspeter Käser; Hans-Ulrich Scherrer, Chief of General Staff; Roland Zimmerli lic.rer.pol.

The Executive Board of RUAG

CEO: Toni J. Wicki

Members: Dr Werner Glanzmann (until 31 March 2000); Peter Schneuwly (from 1 April 2000) (Aerospace); Ueli Emch (Electronics); Stephan Kocher (Land Systems); Paul A. Moser (Munition); Martin Stahel (Services); Kurt Dolder (Finances); Eduard Knecht (Human Resources)

Bruno Frangi (Communications); Thomas Kopp (Law)









RUAG Aerospace expands in the third-party market



Peter Schneuwly

During 2000, RUAG Aerospace intensified its focus on the market. We were able to increase the extent of our collaboration with our main customer, the Swiss Armed Forces, and secure our position in the export market. Further progress was made in reengineering our processes and structures, which have now been given clear direction by the Total Quality Management (TQM) philosophy.

Complete satisfaction

In addition to maintenance work, appreciable system improvements have been carried out on helicopters, combat and training aircraft, drone systems, flight simulators, anti-aircraft and guided weapon systems as well as on command and guidance systems, to the complete satisfaction of the customer. Transferring maintenance work on the Tiger combat aircraft from Interlaken to Emmen means that one of the EMD-95's far-reaching restructuring measures is now complete.

Transport helicopter assembly line

The start of the final assembly of the transport helicopter is an important milestone. The assembly line has been fully operational since February 2000 and the contract will be completed in 2002. We have been able to provide the technical support requested for the FLORAKO procurement project, the new airspace surveillance and flight control system. Work connected with the handover and servicing of the system is going according to plan.

Increase in third-party business

Third-party sales have risen to CHF 81 million, representing an increase of 39% over the previous year. Production of assemblies for civilian aircraft has been expanded. Our Airbus, Boeing and Pilatus programmes are going well with high production rates.

The award of the world-wide maintenance licence for Tiger combat aircraft has opened up new opportunities to us. We have already successfully tied up the first contracts. With our Sun Aircraft Services and AC Aerotechnik subsidiaries, we have been successful in expanding our range



of maintenance services in the helicopter and small aircraft sector.

Concluding a multi-year contract to repair Sidewinder homing warheads for the U.S. Airforce is a considerable and pleasing export success. The contract for the maintenance work on the communications network and the mission control system for the civilian rescue flight has opened up new avenues and represents a real challenge.

Aerospace market: direct access

Integrating the payload fairing for the Ariane 4 and Ariane 5 launchers continues to make up the main part of our work in the aerospace business. We have been able to make a successful start on a new contract with the integration of the first components for the payload fairing for the American Atlas V launchers. The incorporation of the two newly acquired companies, HTS (Wallisellen) and ATLAS/MECANEX (Nyon), has given us direct access to the aerospace market and will make it increasingly possible in future for us to offer integrated overall solutions in this niche market. This will strengthen our position.

Further development of core competencies

We have been able to further extend our range of products in the aerodynamics sector. Successful wind tunnel trials have been conducted for both the aerospace and the automobile industry. Analytical flow calculations, simulation procedures and structural and fatigue engineering are among RUAG Aerospace's core competencies. Long-term collaborative contracts with well-known car and transport aircraft manufacturers for wind tunnel trials and the complete fuselage fatigue trial for the F/A 18 combat aircraft represent a firm basis for consolidating and further developing these core competencies.

Outlook

The effects of our ongoing marketing efforts, the improvements made to our processes and the intensified efforts of both management and workforce to implement our strategy all lead the management to look to the future with confidence.



RUAG Electronics expands its market presence in the simulator sector



Ueli Emch

Together with its partners, RUAG Electronics has been able to greatly expand its presence in the market for the development, manufacture, integration and maintenance of simulators and training systems.

Comprehensive training

In autumn 2000, successful user trials were conducted on the prototypes of the combat effectiveness enhanced firing training system developed for the M109 self-propelled howitzer under contract for the Defence Procurement Agency.

Unique simulation system

In collaboration with the German company C.O.E.L., we have developed a unique type of combined arms combat outdoor training simulator called SIMUG (Simulation Support for Field Training Exercises). The Swiss Armed Forces have therefore decided to procure a trial system.

In the autumn, we staged a customer event lasting several days jointly with the Armed Forces so as to present CODARTS®, the export version of SIMUG, to interested parties from 15 countries.

In addition, we also received the Swiss Armed Forces' contract to develop a two-way laser simulation system for the new armoured personnel carrier during the 2000 financial year.

Driving simulator installed

As the system maintainer for training simulators, we successfully maintained our share of our main traditional market, the Federal Department of Defence, during 2000. As well as maintenance work on the SIMUG project mentioned above, we provided extensive assistance in preparing and supporting the operation of the system.

Integrating the driving simulator for trucks represented an important milestone. This project allowed us to perform pioneering work for the prime contractor, Oerlikon-Contraves Defense. The complex simulator cabs were set up on site in Bremgarten, Bière and Payerne and successfully brought into use. It is planned to equip other sites within Switzerland.



Value of orders doubled

Communications systems maintenance for the Department of Defence and the Armed Forces was a priority for RUAG Electronics and its comprehensive range of services. We have exploited complementary synergies to expand our service offering in the domestic government and private-sector markets. At CHF 3.2 million, the value of orders received almost doubled on the previous year (CHF 1.7 million).

Expansion of service offering

As part of the changeover from analogue to digital trunked radio, RUAG Electronics intends to start offering complete service packages. Specialists have been given appropriate training on new systems.

We configured and installed the whole IT infrastructure for a NATO «Partnership for Peace» command post exercise held in Switzerland.

In the audio/video sector, the takeover of Telex Communication AG, Ipsach, was completed. Its activities were combined with our own at the Bern site.

Outlook

RUAG Electronics is well placed to strengthen its position in the two areas of «simulation and training» and «telematics». Gradual expansion is assured both by a comprehensive range of services and by state-of-the-art in-house products which have been granted qualification. To this end, structures and processes are being optimised and systematically geared to the market. However, the most important factor in achieving success remains our competent and well-motivated staff who, through their united efforts, are determined to attain our ambitious goals.



RUAG Land Systems – an efficient and capable partner



Stephan Kocher

RUAG Land Systems has entered the new millennium much strengthened. Thanks to a spirit of willingness and cooperation on the part of all employees, challenges have been met and the objectives set out achieved.

Focus on the assembly sector

The assembly sector was characterised by several main areas of activity. These were the combat effectiveness enhancement contracts for the M 109 self-propelled howitzers for the Swiss Armed Forces, then the improvements to the transmission and steering mechanism of the M 113 armoured personnel carriers, the installation of the integrated artillery command and fire control system and the integration of a new radio set into wheeled and tracked vehicles. We were also heavily committed to the repair of complete systems and system assemblies. Despite capacity bottlenecks, these contracts were successfully completed within cost limits and deadlines, and to the required quality. The Bison fortress gun project was completed. At the end of the year, the procurement contract for 186 armoured personnel carriers was awarded. We have been entrusted with building up the industrial base in Switzerland and with the final assembly of the vehicles. Preparations are running at top speed.

Pleasing orders position

Orders from the civilian sector also enjoyed a pleasing trend. This led RUAG Land Systems to create a new profit centre providing additional component assembly jobs. This profit centre was set up in Uetendorf (Canton of Bern) because the Thun site no longer had adequate space to cope with an increase in production. Assembling the injection moulding machine components for the production of CDs on behalf of Netstal of Glarus now takes place there under optimum production process conditions.

Innovation and great flexibility

The logistics vehicles and container profit centre was able to book and handle a number of interesting and complex orders; the medical supply, for example, for use in peace-keeping operations undertaken by the Federal Department of Defence. These containers are manufactured in collaboration with Modulmed (Brüssel). In the middle of the year, a prototype of a new materiel container, named «Magafant», was handed over to the Swiss Armed Forces for user trials at an armoured infantry recruit school.

Export activities enhanced

We were able to enhance our export activities thanks to stronger marketing and systems management. We were able, for example, to supply Austria with barrel insert systems for tanks. Components for modernising M 109 self-propelled howitzers were delivered to the United Arab



Emirates. In addition, RUAG Land Systems was appointed by the Swedish armaments procurement agency as the repair agency for Leopard 2 tank assemblies.

Research and development

Our niche products provide us with an attractive range of items which are also of interest to foreign armed forces. The 120 mm compact canon for tanks and the 120 mm Bighorn mortar attracted great international interest. As before, the range of services we can provide for modernising M 109 self-propelled howitzers is still well received by the market. With a view to further export opportunities, the development branch is working for example on ways of allowing these systems to better withstand deployment in desert regions.

The Leopard 2 A7 combat effectiveness maintenance project progressed to the extent that, under a joint consortium arrangement with Krauss-Maffei Wegmann, we have been able to produce a comprehensive feasibility study on behalf of the Defence Procurement Agency. This means that it should be possible to carry out the next development stages precisely in accordance with the needs and priorities of the user.

As regards the armoured vehicles in service with the Swiss Armed Forces, it would seem that a «changing of the guard» is taking place. The periods during which both the 68/88 tank and the older M 113 armoured personnel carriers will be withdrawn from service have now either been

planned or partially decided on. At the same time it is intended to procure appropriate logistic vehicles based on the Leopard 87 tank chassis. We are strongly committed to supporting the «Buffalo» armoured recovery vehicle and the armoured engineer vehicle procurement projects. This should create the preconditions that will one day allow RUAG Land Systems to fully assume the function of the materiel competence centre for the Leopard 87 tank system family.

Outlook

In the medium term, we cannot expect any major projects for the Swiss Armed Forces that would involve any great value-added element for RUAG Land Systems. The main thrust of our activity will be directed towards developing the export markets, and, in addition, we are tendering for the construction of the armoured engineer vehicle and the Leopard 2 A7 effectiveness maintenance programme. If a contract is successfully concluded, this project will lead to significant capacity utilisation. As seen today, any possible capacity underutilisation which may emerge beyond 2004 ought if possible to be compensated for by third-party contracts.



RUAG Munition targets customer needs even more closely



Paul A. Moser

RUAG Munition is targeting the future requirements of the Swiss Armed Forces, the international defence technology market and the development of civilian areas of business. Spelling out our strategy in precise terms and implementing it in practice is designed to achieve internal and external growth.

From one to three pillars

We regard ourselves as a defence manufacturer, and as an important element of Swiss security policy and of the Armed Forces by meeting their needs and by ensuring the existence of the necessary know-how. In anticipation of a further reduction of requirements in Armed Forces XXI, reinforcing our international commitment takes a very high priority.

Our civilian activities – metalworking and component manufacture and recycling and environmental technology – are being given a further strong boost and are developing in a highly promising manner.

New markets in our sights

Our main customer, the Swiss Armed Forces or the Defence Procurement Agency within the Department of Defence, will, of course, both now and in future, be provided with high-quality, value-for-money services.

- However, our top-quality military products, such as hollow-charge warheads, special ammunition for police and special units, hand grenades and fragmentation munitions, special charges for mine clearance and canister rounds are also much in demand on the world market. The successful export of hand grenades to the UK and of 60 mm fragmentation munitions for the US Armed Forces illustrate how we grasp those opportunities which are presented.
- In the metalworking segment, the procurement of an additional 2,500-ton press will significantly expand our forming capacity. In addition, an appreciable productivity enhancement will be attained by automating and networking the remaining operating resources and by concentrating plant and machinery.
- The Recycling Centre is successfully disposing of refrigeration and electronic equipment in an environmentally-acceptable manner. We act as the Federal Department of Defence's reliable partner in dismantling ammunition and liquidating vehicles and materiel.



Open to collaborative ventures

RUAG Munition is open to proposals for close collaborative cooperation in all its activities and areas of business both at product and project level as well as at the strategic level.

- The strengths and commercial relationships of various different partners can produce optimum results through the joint development and marketing of products, as illustrated by the 120 mm mortar canister ammunition.
- Far-reaching collaborative and supply contracts with other companies – for metal components for the automobile industry for example – can strengthen the parties' joint position in the market.
- Joint ventures and shareholdings in companies such as Nitrochemie AG and Buck Neue Technologien GmbH have consolidated our position within the international defence technology industry.

Focus on market and customer

By consistently focusing on the market and its customers, RUAG Munition has completed its transition from a state-owned arms concern to a private-sector industrial enterprise. This far-reaching change is manifest not only in the structural changes which have taken place, but above all in its new strategic direction and – most crucially of all – in its market-focused behaviour.

Outlook

In the medium term, RUAG Munition aims to generate an appreciable part of its sales among customers other than the Swiss Armed Forces. In the defence technology area it intends to do this with its own products and by international cooperation, and, in the civilian commercial segments – especially in the metalworking area – by a targeted expansion of its capacity.

Subsidiaries and affiliates

Subsidiaries

- Atlas Holding Corp
- HTS Corp
- Mekanex Corp
- Mocom Corp
- New Impact Corp
- Sun Aircraft Corp
- Telex Corp

Not consolidated subsidiaries and affiliates

- RUAG Management Corp
- AC Aerotechnik Corp
- Batrec Industrie Corp
- Buck Neue Technologien Co. Ltd BNT
- CFS Engineering Corp
- DCT Corp
- Mekanex USA Inc.
- Nitrochemie Corp Wimmis
- Nitrochemie Wimmis Corp
- Nitrochemie Aschau Co. Ltd
- Resh Verwertungs Corp
- Sintro Electronics Corp
- TÜV (Schweiz) Corp
- Von Roll Betec Corp



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Consolidated financial statements

Overview of key figures

in million CHF

	2000	1999	Change in %
Incoming orders	813.6	851.4	(4%)
Order backlog	682.1	815.7	(16%)
Net sales	941.2	962.1	(2%)
Expenses for material and services	285.9	317.2	(10%)
in % of net turnover	30.4%	33.0%	
Operating profit before interests and taxes	79.2	55.9	42%
in % of net turnover	8.4%	5.8%	
Consolidated net profit	67.0	42.5	58%
in % of net turnover	7.1%	4.4%	
Cash flow	125.0	112.0	12%
Shareholder's equity	405.0	338.0	20%
in % of balance sheet total	38.3%	34.0%	
Earnings-equity ratio ¹	18.0%	13.4%	
Capital expenditure²	73.8	54.6	35%
Depreciation	41.8	51.4	(19%)
Research and development costs	31.2	31.3	(0%)
in % of net turnover	3.3%	3.3%	
Staff expenses	422.9	400.6	6%
in % of net turnover	44.9%	41.6%	
Total staff end December	3'936	3'752	
Total staff (annual average)	3'843	3'829	

¹ Consolidated net profit 1.1.- 31.12.

(Shareholder's equity 1.1. + Shareholder's equity 31.12.) : 2

² incl. capital expenditure in subsidiaries and affiliates

Consolidated financial statements

Consolidated income statement as of 31 December in million CHF

	Notes	2000	1999
Invoiced sales	1	896.7	930.4
Other operating income	2	48.9	38.9
Stock changes		(4.4)	(7.2)
Net sales		941.2	962.1
Expenses for material and services		(285.9)	(317.2)
Staff expenses	3	(422.9)	(400.6)
Premise expenses		(3.9)	(4.3)
Maintenance and repair of fixed assets		(22.3)	(24.5)
Energy and disposal expenses		(13.1)	(10.7)
Insurance premium and contributions		(3.4)	(4.4)
Administrative and computer system expenses		(25.9)	(22.6)
Marketing expenses		(6.5)	(4.7)
Other operating expenses	4	(44.3)	(73.5)
Depreciations fixed assets		(38.6)	(47.6)
Operating expenses		(866.7)	(910.1)
Operating profit		74.5	52.0
Additional operating surplus	5	4.8	3.9
Operating profit before interest and taxes		79.2	55.9
Financial surplus	6	6.3	3.4
Extraordinary surplus	7	(0.3)	(3.4)
Operating profit before taxes		85.3	55.9
Income tax	8	(18.3)	(13.4)
Consolidated net profit		67.0	42.5
Minority interests in net profit		0.2	0.0
Group profit		66.8	42.5

For the year 2000 and in modification of the presentation in the last year's financial report the extraordinary surplus is listed above the operating profit before taxes. As a consequence the operating profit before interests and taxes of the previous year amounts to 55.9 million CHF compared to 52.5 million CHF in the financial report 1999.

Consolidated financial statements

Consolidated balance sheet as of 31 December in million CHF

	Notes	2000	1999	Change in %
Liquid assets	9	134.5	161.3	(17%)
Accounts receivable	10	328.0	298.4	10%
Inventories and work in process	11	182.8	154.3	18%
Prepayments and accrued income		3.6	3.0	21%
Current assets		649.0	617.0	5%
in % of balance sheet total		61.3%	62.1%	
Investments in subsidiaries and affiliates	12	49.2	49.4	(0%)
Financial assets		0.7	0.4	64%
Property, plant and equipments	25	70.9	68.6	3%
Property, land and buildings	25	276.0	249.9	10%
Intangible assets	13, 25	12.7	8.9	43%
Setting up costs		0.1	-	-
Fixed assets		409.6	377.2	9%
in % of balance sheet total		38.7%	37.9%	
TOTAL ASSETS		1'058.6	994.2	6%
Liabilities from sales and services		69.6	56.2	24%
Downpayments from customers		170.3	207.9	(18%)
Short-term financial liabilities		2.9	-	-
Other short-term liabilities		38.6	39.6	(3%)
Accrued liabilities and deferred income		37.9	41.4	(9%)
Current liabilities		319.2	345.1	(8%)
in % of balance sheet total		30.2%	34.7%	
Long-term financial liabilities	27	7.0	-	-
Other long-term liabilities	27	-	-	-
Provisions	26	327.4	311.1	5%
Non-current liabilities		334.4	311.1	7%
in % of balance sheet total		31.6%	31.3%	
Share capital		290.0	290.0	-
Capital reserves		46.0	5.5	737%
Profit/loss brought forward		2.0	-	-
Consolidated net profit		67.0	42.5	58%
Shareholder's equity	29	405.0	338.0	20%
in % of balance sheet total		38.3%	34.0%	
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		1'058.6	994.2	6%
Minority interest in shareholder's equity		0.4	0.2	68%

Condolidated cash flow statement as from 1 January to 31 December in million CHF

	Notes	2000	1999
Cash flow from business operations			
Consolidated net profit		67.0	42.5
Depreciation ¹		41.8	51.4
Variation of provisions		16.2	18.1
Cash flow		125.0	112.0
Change in current assets and liabilities (without liquid assets and short-term financial liabilities)		(77.8)	(69.5)
Cash flow from operations		47.2	42.5
Cash flow from capital expenditures			
Capital expenditure in subsidiaries and affiliates ²		(10.0)	(6.8)
Capital expenditure in other fixed assets	25	(63.8)	(47.8)
Sales of subsidiaries and affiliates ³		-	-
Sales of fixed assets	25	3.8	1.2
Cash flow from capital expenditures		(70.0)	(53.4)
Cash flow from financial operations			
Changes in short-term financial liabilities		-	-
Changes in long-term financial liabilities		-	-
Changes in other long-term liabilities		-	-
Dividend distribution		-	-
Other items		(4.4)	(2.9)
Cash flow from financial operations		(4.4)	(2.9)
Liquid assets taken over		0.4	0.8
Currency translation differences in liquid assets		-	-
Liquid assets at the beginning of the year		161.3	174.3
Liquid assets at the end of the year		134.5	161.3
Net change in liquid assets		(26.8)	(13.0)

¹ including depreciation of participations and depreciation of rented buildings

² less liquid assets taken over

³ less realized liquid assets

A General remarks

The group accounts of RUAG Switzerland Ltd. and its subsidiaries were based on the accounting and reporting principles of the recommendations (FER). Since the group is mainly active in Switzerland and most business is done in Swiss Francs, the consolidated accounts are drawn up in this currency.

B Principles of consolidation

In the annual accounts the RUAG Switzerland Ltd. and all subsidiary companies, in which it holds a direct or indirect interest of more than 50 % or exerts a decisive influence, are included. Companies acquired during the year under review are included in the consolidation at the time of the acquisition. Income and expenditures from disposal of subsidiaries are shown up to the time of the sale.

The consolidation of capital takes place according to the purchase method. Liabilities and shareholder's equity as well as income and expenses of fully consolidated companies are fully included in the consolidated annual accounts. Shares of third party shareholders in own capital and profit are shown separately.

If a goodwill results from acquisitions, it is activated and depreciated for a maximum period of 20 years. Important interests in which RUAG Switzerland Ltd. holds a direct or indirect share of 20 to 50 percent of the voting rights, are included in the group accounts using the equity method.

Interests, in which RUAG Switzerland Ltd. holds a direct or indirect share of less than 20 percent of the voting rights, are valued at the cost of acquisition or at the lower market value.

The individual accounts of the companies, on which the group accounts are based, are drawn up according to uniform group-wide principles. Transactions between consolidated companies have been eliminated from the group accounts.

Annual reporting of the individual companies usually ends as of 31 December. If the accounting date of a company deviates from this date, either an interim accounts statement or company accounts issued no more than three months prior to the group accounting date are included.

C Changes in accounting

In 2000 no changes in accounting were made.

D Change in scope of consolidation

RUAG Schweiz AG acquired the following new holdings during the last fiscal year:

Company	RUAG stake
Telex AG	100%
HTS AG	70%
Atlas Holding SA / Mekanex SA	100%

The transactions have been entered using the purchase method. All companies will be included in the consolidated financial statements as of 31 December 2000; i.e. the operating activities of the acquired companies will be recorded in the Group's income statement as of 1 January 2001. AC Aerotechnik AG and CFS Engineering SA are new ventures set up jointly with third parties.

E Use of estimated values

Drawing up the accounts in accordance with FER requires the group management to estimate values and to make assumptions influencing both the amounts of the stated assets and liabilities and the disclosure of contingent assets and contingent liabilities at the time the accounts are made up and the amount of income and expenses during the period under review. Even if these estimates are made to the best of the group management's knowledge regarding current events and future activities of the group, the actual results may ultimately differ from these estimated values.

F Net sales

The net sales includes proceeds from goods and services and other company income. The net sales proceeds are stated after sales tax or VAT respectively and after deduction of credit notes and discounts.

G Sales statement and profit taking

Sales from goods and services are booked upon performance. Sales proceeds from long-term orders are taken into account according to percentage of completion method. Depending on the order, the percentage is determined by means of deliveries, part deliveries or the status of rendered services. Foreseeable losses on long-term orders are deferred.

H Foreign currencies

Conversion of the annual accounts

The annual accounts of companies in currencies other than Swiss Francs are stated at the end-of-year exchange rate. For the income account the average annual exchange rate is used. Conversion results are offset against the equity capital. They have no effect on the gross company profits.

Transactions in foreign currencies

Transactions in foreign currencies are converted at the exchange rate applicable at the time of the transaction. Foreign currency claims and liabilities, which were secured by

forward transactions, are stated at the agreed exchange rate. Other foreign currency claims and liabilities are stated at the end-of-year exchange rate. Differences to the original exchange rate are shown in the income account.

I Financial instruments

During its normal course of business the group makes use of derivative financial instruments in order to counteract negative developments in foreign currencies. Various risk positions, composed of existing asset and deficit items, of future firm contractual obligations and of engagements accruing in the future, are centrally assessed and managed in view of the overall group risk.

Within the group's written foreign exchange hedging policy the risk management results are continuously observed. The group's risk management does not permit the use of financial instruments for trading purposes.

In order to cover the risk connected with the depreciation of money flows in foreign currencies for income account positions, the group mainly uses forward exchange and option contracts.

The costs connected with acquired option contracts (premiums) are entered as assets (if the premiums are paid at the beginning of the option) or liabilities (if the premiums are paid at the end of the option) and recorded as expenditure during the life of the option.

For written option contracts the obtained premium is adjusted and realized during the life of the option. The premium income serves as contra item to the premium expenditure of the corresponding acquired option contracts.

Profits and losses for hedging transactions directly connected to existing asset and deficit items, or for firm contractual obligations and engagements accruing in the future, are adjusted and charged to the income account at the same time as the underlying transaction.

J Liquid assets

The liquid assets include cash holdings, balances on postal cheque and bank accounts as well as investments with a maximum life of three months. They are stated at their nominal value. Together with the securities, the position liquid assets forms the fund in the money flow accounts.

K Securities

These are investments (shares and bonds) traded in highly liquid markets. Since they are held in order to invest liquid assets and can be converted to cash at any time, they are classified as securities in the trading stock and are assessed at

market value. Profits and losses are accounted for in the consolidated income account under the position financial income.

L Accounts receivable

This position is assessed at the realizable value after deduction of value adjustments for doubtful accounts receivable. These deductions either refer to specifically known accounts receivable or are based on historical studies regarding the risk of non-payment.

M Inventories and work in process

Inventories are shown at the cost of acquisition or manufacture or, if lower, at the net realizable selling price.

The cost of manufacture includes the entire cost of production including proportionate production overhead. All foreseeable exposures to loss from orders in progress are accounted for by economically reasonable value adjustments or provisions.

The valuation of inventories follows the FIFO-method (first-in, first-out) or the weighted average method.

Long-term production orders are valued according to the percentage of completion method (cf. G, Sales statement and profit taking).

N Fixed assets

The fixed assets are valued at the cost of acquisition less linear depreciations during the estimated utilization period. The depreciation periods are:

Buildings	20-60 years
Technical installations/machines	8-12 years
Furniture	10 years
Vehicles	5-10 years
Computer equipment	3-5 years

Expendable tools are not activated. Expenditure for the preservation of value of the fixed assets is charged directly to the income statement, valueadded expenditure is activated in the accounts.

The group checks durable tangible assets for decreases in value whenever economic events or changes indicate that the book value might be non-recoverable. If the sum of all future expected discounted money flows from a tangible asset is lower than its book value, the difference between the fair value and the book value of this tangible asset is charged to the income statement.

Leased tangible assets which are to be considered as financial leases, are activated at their intrinsic value (cash

value) or depreciated during the service life or the shorter leasing period. The respective leasing liabilities are shown as short- or long-term liabilities, depending on the term to maturity.

O Intangible assets

Intangible assets include licenses, patents, trade marks and similar rights taken over from third parties. These values are subject to straight-line depreciation during the expected service life, with a maximum of 5 years.

Moreover the intangible assets contain the goodwill from the acquisition of interests. This goodwill is subject to linear depreciation over a maximum period of 20 years at the expense of the income account.

The group checks intangible assets for decrease in value whenever economic events or changes indicate that the book value might be non-recoverable. If the sum of all future expected discounted cash flows is lower than the book value of the goodwill or of the intangible value, the difference between the fair value and the book value of the goodwill or of the intangible value is charged to the income statement.

Work and services effected for intangible assets are continually charged to the income statement.

P Provisions

The provisions take into account all recognizable risks from guarantees and contractual penalties, losses from current orders, pension funds, restructuring measures.

Q Income taxes

Provisions for capital and income taxes are formed according to the «comprehensive liability method» and consist of capital and income taxes to be paid plus the changes in deferred taxes for the current year. Deferred taxes into account the income tax effects of temporary differences between the rate of assets and deficits according to the group's accounting principles and the rate for tax purposes. As a precaution deferred tax credits are not activated.

Income taxes on income of group member companies (non-reimbursable taxes at source, so-called «basic taxes»), which are expected to be distributed to the parent company, are taken into account in the provisions. For income reinvested indefinitely or for income, which can essentially be received tax-free by the parent company, no provisions are formed.

R Research and development

Research and general development costs are recorded as expenditure affecting profit. Engineering and design costs, which can be allocated to specific supply contracts, are activated as orders in progress.

S Orders and order backlog

Orders and order backlog are recorded with the prices expected at the time when the order in question is filled.

Notes	2000	1999
1 Invoiced sales (in million CHF)		
Federal Department of Defense, Civil Protection and Sports (DDPS)	728.4	796.4
Domestic third parties	93.5	66.5
Foreign third parties	75.3	67.9
Value adjustment in accounts receivable	(0.6)	(0.4)
Invoiced sales	896.7	930.4
2 Other operating income (in million CHF)		
Claim of regular provisions	36.6	32.9
Proceeds from services	2.6	2.5
Proceeds from licenses	0.4	-
Other operating income	5.9	2.9
Company produced additions	3.4	0.6
Other operating income	48.9	38.9
3 Staff expenses (in million CHF)		
Wages and salaries	330.5	326.2
Pension fund premiums	37.8	20.9
Other social insurance payments	35.8	36.4
Temporary staff	10.9	10.4
Other staff expenses	8.0	6.7
Staff expenses	422.9	400.6
The expenditure on staff 2000 contains an unplanned payment of CHF 22 million to the Swiss Federal Pension Fund for pensioners who are remaining in this fund.		
4 Other operating expenses (in million CHF)		
Accumulation/dissolution of provisions	32.0	54.1
Additional operating expenses	12.4	19.4
Other operating expenses	44.3	73.5
In particular, the additional operating expenses include expenses for industrial safety, guard services and capital taxes.		
5 Additional operating surplus (in million CHF)		
Surplus from real property (properties rented out to third parties)	4.0	2.8
Surplus from subsidiaries and affiliates ¹	1.3	1.1
Surplus from the realization of fixed assets	(0.4)	-
Additional operating surplus	4.8	3.9

¹ Expenses and income from equity valuations

Notes	2000	1999
6 Financial surplus (in million CHF)		
Financial income	8.4	3.8
Financial expenses	(2.1)	(0.4)
Financial surplus	6.3	3.4
7 Extraordinary surplus (in million CHF)		
Extraordinary income	0.1	0.1
Extraordinary expenses ²	(0.4)	(3.5)
Extraordinary surplus	(0.3)	(3.4)
² In 1999: Retentions for storm damages (Lothar) and expected additional coverage capital payment in connection with the withdrawal of the Nitrochemie Wimmis Corp from the Swiss Federal Pension Fund.		
8 Income tax (in million CHF)		
Income tax	(18.3)	(20.8)
Deferred income tax	-	7.4
Income tax	(18.3)	(13.4)
Deferred income tax credits are not capitalized. RUAG has no tax-affecting losses.		
The profit before income tax is mainly generated in Switzerland. In the cantons different tax laws and rates apply. Therefore the weighted average of the expected tax rate can vary between periods, which is due to the profits and losses respectively generated in each canton. The actual tax rate, which is calculated by multiplying the local legal tax rate with the local taxable profit or loss, differed as follows from the expected tax rate:		
Expected tax rate	21%	24%
Non-deductible expenditure	-	-
Tax-exempt income	-	-
Income on which tax is paid at reduced rates	-	-
Actual tax rate	21%	24%

Notes	31.12.00	31.12.99
9 Liquid assets (in million CHF)		
Cash	0.4	0.2
Bank balance	40.1	20.1
Money market investments	94.1	141.0
Marketable securities	-	-
Liquid assets	134.5	161.3
10 Accounts receivable (in million CHF)		
Accounts receivable from sales and services	293.1	271.0
Downpayments to suppliers	11.9	16.3
Accounts receivable toward non-consolidated subsidiaries and affiliates	10.0	-
Other short-term accounts receivable	13.0	11.1
Accounts receivable	328.0	298.4
11 Inventories and work in process (in million CHF)		
Raw materials and supplies	54.2	47.2
Work in process	89.3	73.3
Semi-finished products	94.6	89.6
Finished products	7.2	9.4
Value adjustments	(62.4)	(65.2)
Inventories and work in progress	182.8	154.3
12 Investments in subsidiaries and affiliates (in million CHF)		
Subsidiaries and affiliates (20 to 50%)	42.5	42.7
Other minority interests (below 20%)	6.7	6.7
Investments in subsidiaries and affiliates	49.2	49.4
Subsidiaries and affiliates are valued according to the equity method, minority interests at the cost of acquisition or at the lower market value (cf. Principles of Consolidation, page 8).		
13 Intangible assets (in million CHF)		
Goodwill from consolidated subsidiaries	6.8	0.7
Goodwill from non-consolidated subsidiaries and affiliates	5.8	8.2
Intangible assets	12.7	8.9

In all cases the existing goodwill is depreciated over a period of 5 years.

Notes	31.12.00	31.12.99
14 Contingent liabilities (in million CHF)		
Guarantees	10.5	1.4
Warranty commitments	26.7	20.4
Pledgings in favour of third parties	-	-
Total contingent liabilities	37.2	21.8
15 Additional contingent liabilities not to be stated on the balance sheet (in million CHF)		
Warranty contracts	-	-
Long-term rental and leasing agreements	4.3	6.5
Letters of intent	-	-
Agreed contractual penalties (fines and premiums)	3.2	4.5
Law cases	-	-
Bill commitments	-	-
Total additional contingent liabilities not to be stated on the balance sheet	7.5	11.0
The valuation was made according to the probability and the amount of the future unilateral payments and costs exceeding the bilateral provisions.		
16 Assets under reservation of proprietary rights (in million CHF)		
Liquid assets	74.0	141.0
Accounts receivable and inventories	-	-
Property, plant and equipments	-	-
Property, land and buildings	-	-
Total assets under reservation of proprietary rights	74.0	141.0
The liquid assets of RUAG Switzerland Ltd. are – within the context of the Cash-Pooling – under reservation of proprietary rights corresponding to the effected investments in the money market. The reservation of proprietary rights serves the bank as a security for its debt against RUAG Switzerland Ltd.		
17 Fire insurance values of fixed assets (in million CHF)		
Property, plant and equipments	1'278.5	1'272.9
Property, land and buildings	1'019.7	1'001.8
Total fire insurance values	2'298.2	2'274.7
18 Liabilities toward social welfare institutions (in million CHF)		
Short-term liabilities toward social welfare institutions ¹	8.6	10.8
Long-term liabilities toward social welfare institutions ²	-	-
Total liabilities toward social welfare institutions	8.6	10.8

¹ Contained in the balance sheet position «Other short-term liabilities»

² Contained in the balance sheet position «Other long-term liabilities»

Notes	31.12.00	31.12.99
19 Own shares RUAG Switzerland Ltd. (in million CHF)		
All shares of RUAG Switzerland Ltd. are owned by the Swiss Confederation.		
20 Events after balance sheet date		
In January 2001 the foundation «VORSORGE RUAG» has formally been established. All employees of the group companies SE, SF, SM, SW and RUAG Switzerland Ltd will by 1 st July 2001 change from the Swiss Federal Insurance Fund to «VORSORGE RUAG».		
21 Transactions with related companies and persons (in million CHF)		
Claims from financial transactions	10.0	-
Liabilities from financial transactions	-	-
Total transactions with related companies and persons	10.0	-
Except for a short-term loan of 10 million CHF granted to Von Roll Betec Corp and for remunerations at market conditions to the board of directors no relevant transactions with related companies and persons took place. There were no loans between the group member companies and members of the board of directors.		
22 Commitments from leasing contracts (in million CHF)		
Property, plant and equipments	0.9	0.4
Property, land and buildings	-	-
Total commitments from leasing contracts	0.9	0.4
These are exclusively non-realized commitments operating leasing contracts. The future leasing commitments are not included in the balance sheet (cf. Note 28).		
23 Research and development costs (in million CHF)		
Research and development costs financed from own sources	20.4	18.1
Research and development costs financed from outside sources	10.8	13.2
Total research and development costs	31.2	31.3
Research and development costs are fully charged to the income statement.		

Notes

24 Financial instruments

	2000			1999		
(in million CHF)	Contract value	Replacement value	Average maturity	Contract value	Replacement value	Average maturity
Forward exchange transactions	0.6	0.0	4 months	1.0	0.0	2 months
Foreign exchange option transactions	-	-	-	-	-	-
Cross currency swaps	-	-	-	-	-	-
Hedging of interests	-	-	-	-	-	-
Other instruments	-	-	-	-	-	-
Total financial instruments	0.6	0.0	-	1.0	0.0	-

For negative replacement values (individual positions) the respective provisions set up and value adjustments were made. At present no financial instruments for hedging of interest rates are used.

The contract value of derivative instruments at the end of the year refers to the engagement of the group in such instruments, but does not represent the market risk. Regardless whether financial security is provided for a foreign currency transaction, the party is subject to the risk of creditability of the counterparty (its ability to fulfill its part of the contract). This risk can be measured by the costs for «replacement», which the party would lose if the contract party failed to perform. The values given are based on gross values and include concluded transactions which have not yet come to maturity.

Not all foreign currency positions were hedged. Foreign currency contracts were not operated in a speculative manner, but with first-class financial institutes in order to reduce operational exchange risks.

RUAG uses forward exchange transactions, foreign exchange option transactions and swap transactions mainly to hedge existing asset and liability items, future contractual commitments and future commitments in foreign currencies (mainly US-Dollar and Euro). The management and recording of the different risk positions is done centrally by the treasury for the entire RUAG.

Notes

25 Changes of fixed assets

Historical acquisition cost	Machinery/ techn. equipment ¹	Computer systems	Vehicles	Leasing equipment	Property, plant and equipments	Property, land and buildings ²	Intangible assets	Total
Balance-sheet value 1.1.	424.0	45.3	10.3	-	479.6	623.5	12.6	1'115.7
Capital expenditure	20.6	5.5	1.2	-	27.3	34.8	1.7	63.8
Disinvestments	(15.2)	(16.0)	(0.5)	-	(31.8)	(11.4)	-	(43.2)
Transfers	(3.5)	0.7	0.1	-	(2.7)	0.9	-	(1.8)
Currency translation	-	-	-	-	-	-	-	-
Initial consolidation	1.9	0.7	0.0	-	2.6	5.4	4.7	12.6
Balance-sheet val. 31.12.	427.8	36.2	11.1	-	475.0	653.1	18.9	1'147.1

Accumulated value adjustments	Machinery/ techn. equipment ¹	Computer systems	Vehicles	Leasing equipment	Property, plant and equipments	Property, land and buildings ²	Intangible assets	Total
Balance-sheet value 1.1.	371.6	31.4	8.0	-	411.0	373.6	3.7	788.3
Regular depreciations	14.1	8.8	0.8	-	23.7	14.2	2.5	40.5
Irregular depreciations	0.3	0.1	-	-	0.5	0.0	-	0.5
Extraordinary depreciations	-	-	-	-	-	-	-	-
Outflows from disinvestments	(13.1)	(14.9)	(0.4)	-	(28.4)	(11.0)	-	(39.5)
Transfers	(2.0)	0.2	0.0	-	(1.8)	0.0	-	(1.8)
Currency translation	-	-	-	-	-	-	-	-
Initial consolidation	(0.1)	(0.7)	0.0	-	(0.8)	0.3	-	(0.6)
Balance-sheet val. 31.12.	370.9	24.9	8.4	-	404.2	377.1	6.2	787.5

Book value 1.1.	52.4	13.9	2.3	-	68.6	249.9	8.9	327.4
Book value 31.12	56.9	11.3	2.7	-	70.9	276.0	12.7	359.6

¹ incl. furniture, equipment and fixed assets under construction

² incl. buildings under construction

26 Changes in provisions

Provision category	Social plan and old age pension scheme	Loss-making transactions	Guaranteeing	Holidays and overtime	Capital- and income tax	Deferred taxes	Others ³	Total
Balance-sheet value 1.1.	143.8	61.0	22.0	16.8	20.9	(7.3)	53.9	311.1
New provisions	20.0	29.6	4.9	7.7	(1.1)	19.6	7.9	88.6
Writing back unused	(2.2)	(9.4)	(1.2)	(1.4)	(4.0)	-	(2.7)	(20.9)
Claim	(21.5)	(20.9)	(0.8)	(1.3)	(2.8)	-	(5.0)	(52.3)
Initial consolidation	-	-	-	0.0	0.1	-	0.6	0.8
Balance-sheet val. 31.12.	140.1	60.2	25.0	21.8	13.2	12.3	54.8	327.4

³ Mainly provisions for restructurings and inherited problems

Notes

27 Maturity long-term liabilities

	over 1 year	over 2 years	over 3 years	over 4 years	over 5 years	Total
Long-term financial liabilities	7.0	-	-	-	-	7.0
Other long-term liabilities	-	-	-	-	-	-

28 Maturity of leasing liabilities¹

	over 1 year	over 2 years	over 3 years	over 4 years	over 5 years	Total
Property, plant and equipments	0.3	0.2	0.2	0.2	-	0.9
Property, land and buildings	-	-	-	-	-	-

¹ Non-realized liabilities from operating leasing contracts. The future leasing liabilities are not included in the balance sheet.

29 Changes of shareholder's equity

	Share capital	Capital reserves	Retained earnings	Profit/loss brought forward	Total
Equity capital 1.1. 1999	290.0	8.5	-	-	298.5
Changes in share capital	-	-	-	-	-
Consolidated net profit	-	-	42.5	-	42.5
Dividend distribution	-	-	-	-	-
Currency translation	-	-	-	-	-
Other changes	-	(3.0)	-	-	(3.0)
Equity capital 31.12.1999 resp. 1.1.2000	290.0	5.5	42.5	-	338.0
Changes in share capital	-	-	-	-	-
Consolidated net profit	-	-	67.0	-	67.0
Dividend distribution	-	-	-	-	-
Currency translation	-	-	-	-	-
Other changes	-	-	-	-	-
Equity capital 31.12.2000	290.0	5.5	109.5	-	405.0
Minority interest in shareholder's equity 31.12.2000					0.4

Notes

30 Staff pension schemes (ARR 16)

One of the aims of ARR 16, the latest version of the Swiss Accounting and Reporting Regulations, is the reporting of the financial impact of staff pension schemes on the assets and earnings of a company. ARR 16 takes a purely economic view and does not interfere in any issues governed by pension law or prejudice decisions taken by the relevant institutions.

All the major group companies are affiliated to the Swiss Federal Pension Fund. All pensions schemes are based on statutory requirements.

The pension schemes' assets are managed independently from those of the Group. The consolidated financial statements thus do not give or imply any information on the pension funds. The Swiss Federal Pension Fund is a defined benefit scheme. Benefits thus depend on the number of years of service with the company, age and pensionable salary.

Pension policies (in million CHF)	2000	1999
Pension claims acquired ¹	39.6	39.8
Interest on pension obligations	102.4	101.6
Forecast return on assets	(88.2)	(91.1)
Non-redeemed (excess)/deficient cover	23.4	18.0
Forecast employee contributions	(17.2)	(17.4)
Other (profits), losses and redemptions	-	-
Total pension expenses	60.0	51.0
Annual expenses with full and immediate compensation for deficient cover	252.9	261.8
¹ Change in benefit obligations allocable to the accounting period		
The following table includes changes in projected pension obligations and budgeted assets and shows the pension schemes' assets as at 31 December 1999 and 31 December 2000:		
Pension policies (in million CHF)		
Pension obligations at start of year	2'084.5	2'046.6
Pension claims acquired	39.6	39.8
Forecast employee contributions	17.2	17.4
Actuarial (profit)/loss	67.7	70.4
Changes to pension plan	-	-
Changes to scope of consolidation	-	-
Pension payments	(106.7)	(89.6)
Other	-	-
Cash value of pension obligations at year-end	2'102.4	2'084.5
Market value of pension assets	1'886.0	1'855.7
Excess (deficient) cover	(216.3)	(228.8)

Pension obligations are valued on the basis of the following actuarial assumptions:

Pension policies (in million CHF)	2000	1999
Discount rate	5.0%	5.0%
Expected long-term return on assets	5.0%	5.0%
Annual salary increases	2.5%	2.5%
Annual pension adjustments	1.0%	1.0%

Compensation for deficient cover as per ARR 16 (CHF 216.3 million as at 31 December 2000) is provided under the Swiss federal law on the federal arms companies. The Federal Council will take a decision on compensation for this deficient cover on the basis of these special legal provisions. Sufficient cover will thus be available in 2001. This is the reason that no provision for deficient cover has been made in the consolidated balance sheet.

Exchange rates used for currency translations		2000		1999	
	ISO-Code	Annual average	End-of-year rate	Annual average	End-of-year rate
US Dollars	USD	1.6890	1.6380	1.5024	1.5875
EURO	EUR	1.5576	1.5224	1.6004	1.6051
Pounds Sterling	GBP	2.5565	2.4390	2.4308	2.5820

Notes

List of subsidiaries and affiliates (status 31.12.2000)

Company		Domicile		Capital stock (100%)	Capital shares
RUAG Switzerland Ltd.	Bern	Switzerland	CHF	290'000'000	
Consolidated companies ¹					
SE Swiss Electronics Enterprise Corp	Bern	Switzerland	CHF	12'000'000	100.00%
SF Swiss Aircraft and Systems					
Enterprise Corp	Emmen	Switzerland	CHF	47'000'000	100.00%
SM Swiss Ammunition Enterprise Corp	Thun	Switzerland	CHF	40'000'000	100.00%
SW Swiss Ordnance Enterprise Corp	Thun	Switzerland	CHF	42'000'000	100.00%
Atlas Holding Corp	Nyon	Switzerland	CHF	800'000	100.00%
HTS Corp	Wallisellen	Switzerland	CHF	650'000	70.00%
Mecanex Corp ²	Nyon	Switzerland	CHF	700'000	100.00%
Mocom Corp	Bern	Switzerland	CHF	100'000	70.00%
New Impact Corp	Bern	Switzerland	CHF	100'000	100.00%
Sun Aircraft Corp ³	Agno	Switzerland	CHF	100'000	100.00%
Telex Corp	Bern	Switzerland	CHF	100'000	100.00%
Not consolidated subsidiaries and affiliates ⁴					
RUAG Management Corp ⁵	Bern	Switzerland	CHF	100'000	100.00%
AC Aerotechnik Corp ³	Buochs	Switzerland	CHF	250'000	60.00%
Batrec Industrie Corp	Wimmis	Switzerland	CHF	18'010'000	12.40%
Buck Neue Technologien limited					
liability company	Neuenburg	Germany	DEM	6'657'700	16.00%
CFS Engineering Corp ³	Lausanne	Switzerland	CHF	150'000	40.00%
DCT Corp ⁶	Thun	Switzerland	CHF	150'000	26.67%
Mecanex USA Inc. ²	Wilmington/Delaware	United States	USD	1'500	85.00%
Nitrochemie Corp Wimmis ⁷	Wimmis	Switzerland	CHF	1'000'000	49.00%
Nitrochemie Wimmis Corp	Wimmis	Switzerland	CHF	25'000'000	45.00%
Nitrochemie Aschau limited					
liability company	Aschau	Germany	EUR	7'700'000	45.00%
Resh Verwertungs Corp ⁸	Bern	Switzerland	CHF	190'000	52.63%
Sintro Electronics Corp	Unterseen	Switzerland	CHF	2'000'000	33.34%
TüV (Schweiz) Corp	Thun	Switzerland	CHF	2'500'000	40.00%
Von Roll Betec Corp	Thun	Switzerland	CHF	4'000'000	34.00%

¹ Full consolidation according to the purchase method
² Shareholder: Atlas Holding Corp
³ Shareholder: SF Swiss Aircraft and Systems Enterprise Corp
⁴ Interests between 20 and 50% are valued according to the equity method
Interests of less than 20% are valued at the cost of acquisition or at the lower market value
⁵ Inactive bare-shell company
⁶ Shareholder: SW Swiss Ordnance Enterprise Corp
⁷ Management company
⁸ Shareholder: SM Swiss Ammunition Enterprise Corp

Changes in the scope of consolidation cf section D, page 8.

Report of the group auditors to the general meeting of RUAG Switzerland Ltd, Bern

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows and notes) on page 5 to 21 of RUAG Switzerland Ltd for the year ended 31.12.2000.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession in Switzerland, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Accounting and Reporting Recommendations (ARR) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Hanspeter Gerber

Hans Peter Linder

Bern, 1st March 2001

Financial statements of RUAG Switzerland Ltd.

Income statement as from 31. Dezember (in million CHF)	2000	1999
Income from subsidiaries and affiliates	19.6	1.7
Financial income	7.1	5.4
Income from securities	-	-
Income from sale subsidiaries and affiliates	-	-
Income from services	7.8	5.1
Total income	34.5	12.2
Expenses for subsidiaries and affiliates	(0.1)	(0.1)
Financial expenses	(2.2)	(1.9)
Loss from securities	-	-
Administrative expenses	(8.2)	(5.0)
Depreciations	(0.4)	(0.6)
Other expenses	-	(2.4)
Taxes	(0.4)	(0.2)
Total expenses	(11.3)	(10.2)
Year's profit	23.2	2.0

Balance sheet before distribution of profits as of 31. Dezember in million CHF

	31.12.00	31.12.99	Changes in %
Liquid assets	78.0	76.2	
Accounts receivable:			
Third parties	17.4	0.6	
Group member companies	6.9	2.1	
Prepayments and accrued income:			
Third parties	0.2	0.5	
Group member companies	-	-	
Current assets	102.4	79.4	29%
in % of balance sheet total	25.2%	21.5%	
Investments in subsidiaries and affiliates	215.3	205.5	
Financial assets:			
Third parties	0.4	0.4	
Group member companies	79.6	75.0	
Property, plant and equipments	0.8	0.3	
Intangible assets	6.6	6.6	
Setting up costs	1.2	1.4	
Fixed assets	304.0	289.2	5%
in % of balance sheet total	74.8%	78.5%	
TOTAL ASSETS	406.3	368.6	10%
Short-term financial liabilities:			
Third parties	1.0	-	
Group member companies	13.4	-	
Accrued liabilities and deferred income:			
Third parties	1.2	1.2	
Group member companies	-	0.1	
Long-term financial liabilities:			
Third parties	-	-	
Group member companies	65.0	65.0	
Provisions	0.8	0.6	
Liabilities	81.4	66.9	(22%)
in % of balance sheet total	20.0%	18.1%	
Share capital	290.0	290.0	
Legal reserve	9.7	9.7	
Voluntary reserve	-	-	
Profit brought forward	2.0	-	
Year's profit	23.2	2.0	
Shareholder's equity	324.9	301.7	
in % of balance sheet total	80.0%	81.9%	
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	406.3	368.6	10%

Annex with notes concerning the consolidated financial statements

Notes

	2000	1999
1 Contingent liabilities (in million CHF)		
Guarantees	10.3	0.9
Warranty commitments	-	-
Pledgings in favour of third parties	-	-
Total contingent liabilities toward third parties	10.3	0.9
2 Additional contingent liabilities not to be stated on the balance sheet (in million CHF)		
Warranty contracts	-	-
Long-term rental and leasing agreements	0.6	0.4
Letters of intent	-	-
Agreed contractual penalties	-	-
Law cases	-	-
Bill commitments	-	-
Total additional contingent liabilities not to be stated on the balance sheet	0.6	0.4
The valuation was made according to the probability and the amount of future unilateral payments and costs exceeding the bilateral provisions.		
3 Fire insurance values of fixed assets (in million CHF)		
Property, plant and equipments	0.5	0.5
Property, land and buildings	-	-
Total fire insurance values	0.5	0.5
16 Assets under reservation of proprietary rights (in million CHF)		
Liquid assets	74.0	141.0
Accounts receivable and inventories	-	-
Property, plant and equipments	-	-
Property, land and buildings	-	-
Total assets under reservation of proprietary rights	74.0	141.0
The liquid assets of RUAG Switzerland Ltd. are – within the context of the Cash-Pooling – under reservation of proprietary rights corresponding to the effected investments in the money market. The reservation of proprietary rights serves the bank as a security for its debt against RUAG Switzerland Ltd.		
4 Liabilities toward social welfare institutions (in millions CHF)		
Short-term liabilities toward social welfare institutions ¹	-	-
Long-term liabilities toward social welfare institutions	-	-
Total liabilities toward social welfare institutions	-	-

¹ Enthalten in der Bilanzposition «Passive Rechnungsabgrenzungen»

5 Own share RUAG Switzerland Ltd. (in million CHF)

All shares of RUAG Switzerland Ltd. are owned by the Swiss Confederation.

6 Events after balance sheet date

Between the balance sheet date and the preparation of the annual report no important events occurred.

List of subsidiaries and affiliates (status 31.12.2000)

The list of subsidiaries and affiliates of RUAG Switzerland Ltd. corresponds to the list shown on page 21.

Proposed allocation of profit (in million CHF)	2000	1999
Years' profit	23.2	1.9
+ amount brought over from previous year	2.0	0.1
Profit at the disposal of the general assembly	25.2	2.0
The board of directors proposes the following allocation		
Dividend distribution	-	-
Allocation to legal reserve	-	-
Brought over to new accounts	25.2	2.0

Report of the statutory auditors to the general meeting of RUAG Switzerland Ltd, Bern

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) on page 23 to 26 of RUAG Switzerland Ltd for the year ended 31.12.2000.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

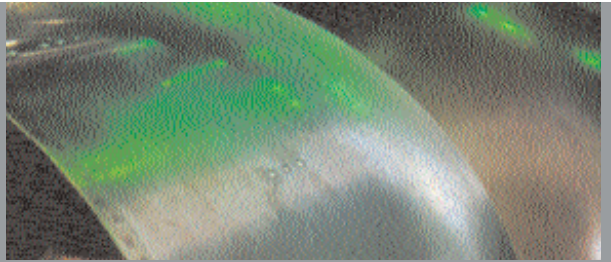
Hanspeter Gerber

Hans Peter Linder

Bern, 21st March 2001



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