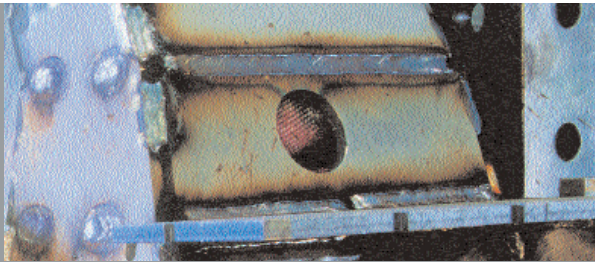


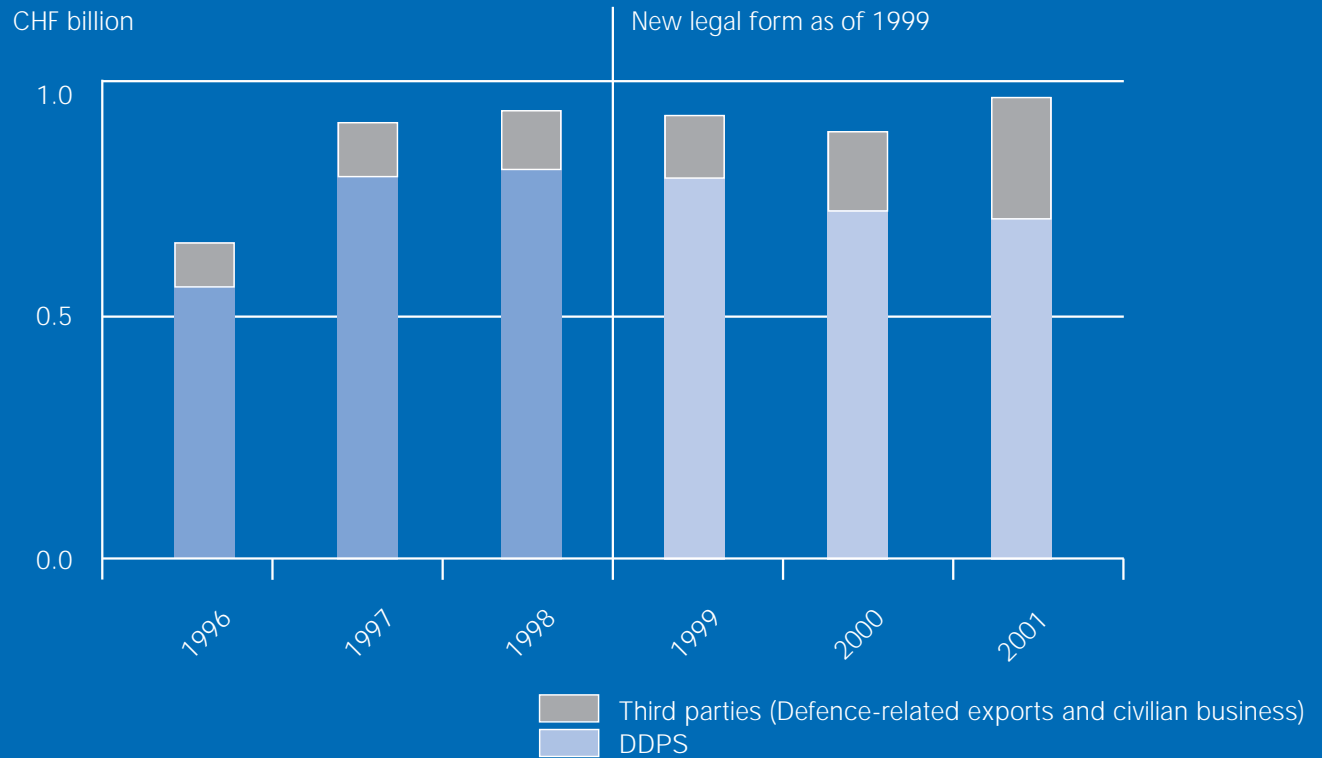
RUAG



ANNUAL REPORT 2001

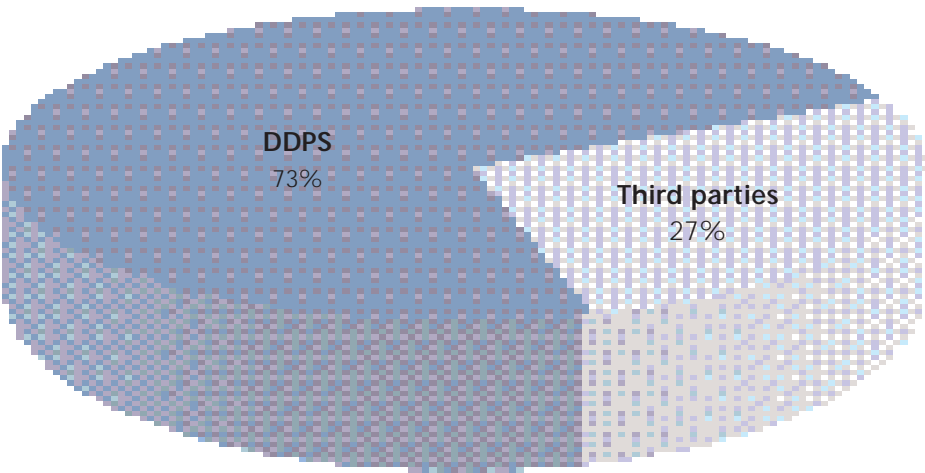
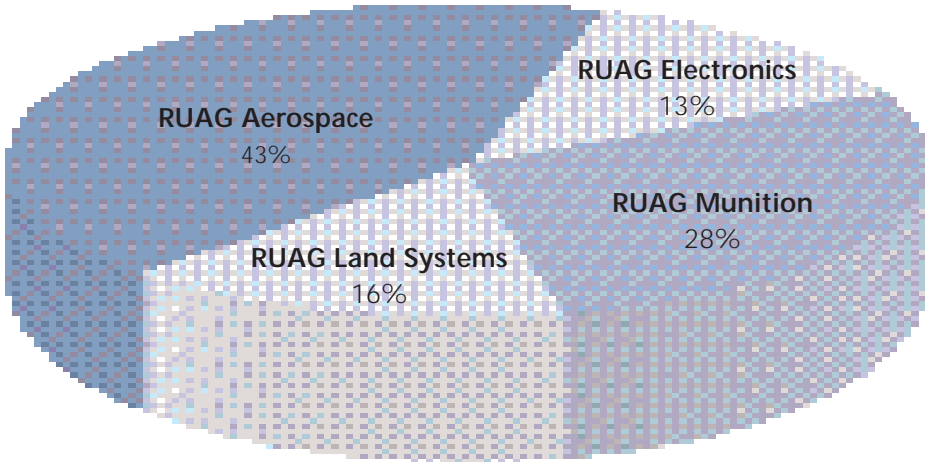
Key figures

Sales trends (Invoiced sales)



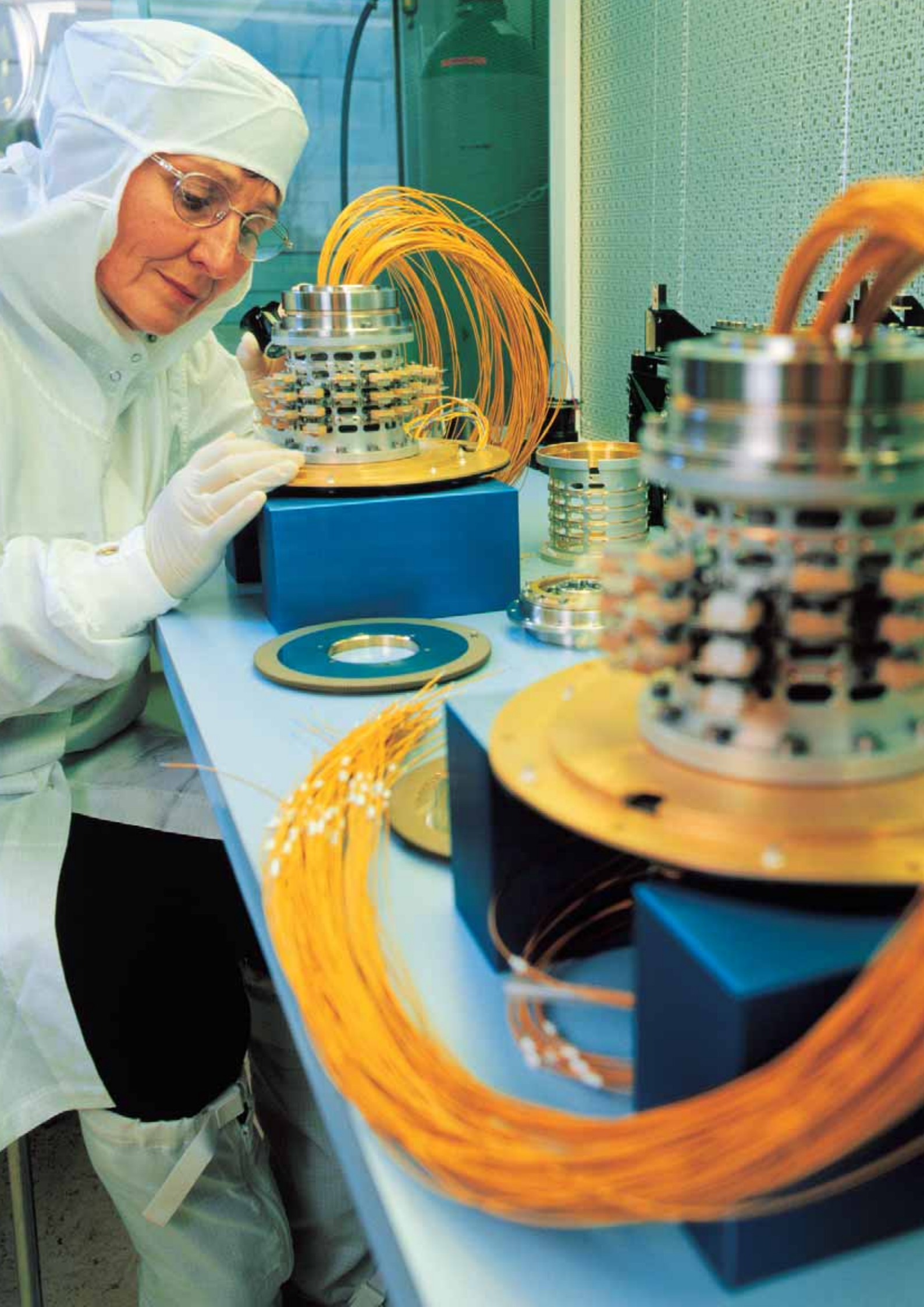
	1996	1997	1998	1999	2000	2001
Total	664	916	941	931	897	971
DDPS	569	800	815	797	728	706
Third parties	95	116	126	134	169	265
Third parties in%	14%	13%	13%	14%	19%	27%

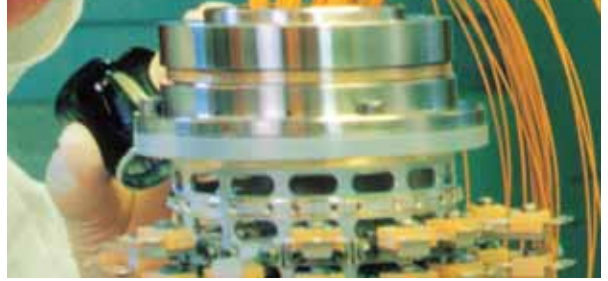
Classification of sales figures 2001
(Invoiced sales)



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RUAG

invests in the future

The RUAG technology group is a supplier of defence-related and civilian products and services. RUAG was established from the defence companies formerly owned by the Federal Government and has been operating as a private stock corporation since 1 January 1999. At the beginning of the year under review, business development at RUAG was muted. In the second quarter, the first signs of a broad-based economic downturn became apparent. The tragic events of 11 September in New York and Washington and other dramatic occurrences at home and abroad further increased the uncertainty in the markets in the second half of the year. RUAG has achieved a just satisfactory result in this unsettled environment.

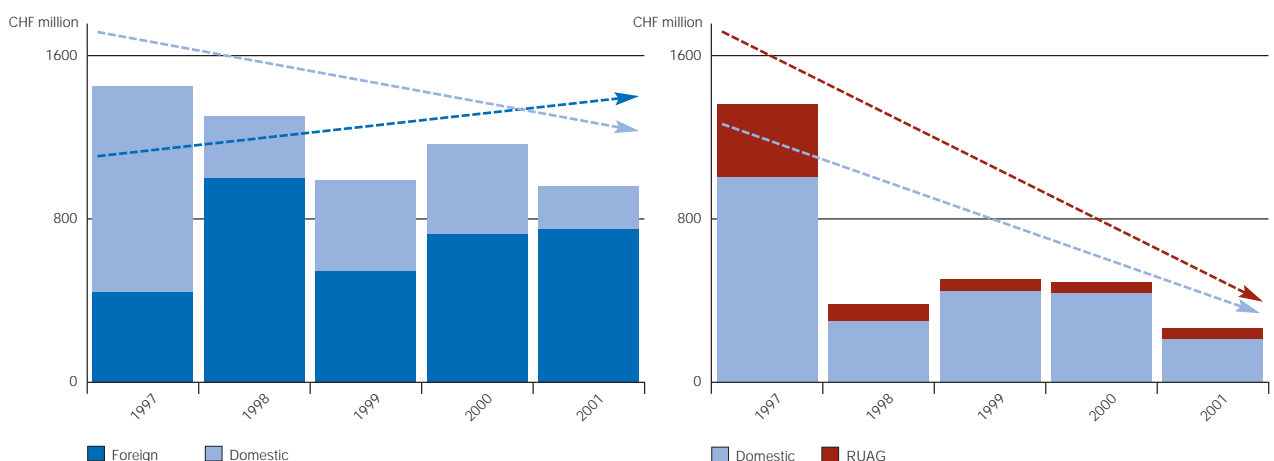
Market

Business with our main customer, the Federal Department of Defence, Protection of the Population and Sport (DDPS) continued to decline. Only around 73% of RUAG's 2001 sales were generated in the

traditional defence sector (compared with 81% in the previous year). At present there is no visible prospect of positive change in this longstanding downward trend in business with the DDPS. We have to report a particularly drastic drop in orders in the large-calibre ammunition sector, which is necessitating the transfer of ammunition production from Altdorf to Thun and its concentration there. The loss of traditional business in the defence technology sector can be partly compensated for by growth in third-party business, which is creating new and technologically more demanding jobs.

Analysis of RUAG's involvement in new procurement programmes for the Swiss Armed Forces underscores the negative trend mentioned above. RUAG's share of the Federal government's CHF 980 million defence-spending programme in 2001 amounted to CHF 52 million, or 5.3% of the total. The fact that the Swiss government owns a one hundred percent stake in RUAG Holding and has enshrined the inter-

Development of the foreign, domestic and RUAG shares of Swiss armament procurements





ests of the Swiss Armed Forces in its owner's strategy does not mean that RUAG is given preferential treatment with regard to new defence procurements. As a result, the focus of business with the DDPS is shifting towards industrial maintenance of military hardware to an increasingly large extent.

Decline in civilian business

In the civilian divisions, the slump in the semiconductor industry has impacted negatively on RUAG as a supplier. On the other hand, the production of formed components for the automotive industry presents a more stable picture. First signs of weakness in the civilian aerospace sector became apparent towards the end of the financial year.

Our relaunch as a technology group at the beginning of the year under the umbrella brand RUAG was well received by the market and quickly found acceptance.

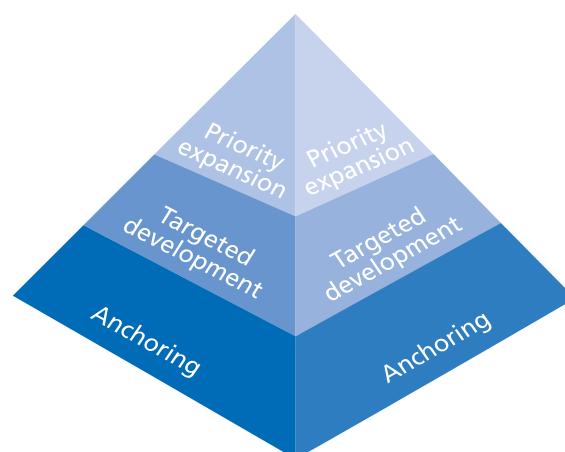
A state of flux

The global defence market remains in a state of flux. In view of falling or stagnating defence budgets on the one hand, and the high cost of researching and developing new systems on the other, the process of forging alliances and cooperative partnerships is ongoing.

Strategy confirmed

The RUAG corporate strategy put in place two years ago has been subjected to close scrutiny using strategy controlling and subsequently confirmed by the Board of Directors. Apart from efforts to consolidate and develop its military-related core business, RUAG

continues to pursue a focussed strategy of expansion in the following areas: aircraft and helicopter maintenance and aircraft structural components; guidance, information and communication systems; simulation and training systems; small-calibre ammunition.



Strategic acquisitions

In line with our strategy, we acquired, during the year under review, a majority interest in Sintro Electronics AG of Interlaken, a manufacturer of training simulators for military vehicles, artillery systems and anti-aircraft systems, by increasing our minority shareholding.

We also acquired Aircraft Service Bern/Belp AG (ASB), which is headquartered at Bern-Belp airport and is in the business of servicing civilian aircraft and helicopters. Finally, we purchased the Geneva-based company Derendinger & Cie. SA, which manufactures high-precision structural and engine components for the aviation industry. Derendinger and ASB have been added to RUAG Aerospace's portfolio.



The components business in Altdorf has been expanded through the acquisition of the make-to-order business of Roll Betec AG. This was renamed RUAG Components with effect from 1 December 2001.

Sales just top one billion francs

Consolidated net sales by the RUAG Group, including change in inventories and other operating revenues, amount to CHF 1,007 million, of which CHF 60 million is attributable to sales by majority interests acquired during the year under review; organic growth resulted in a sales increase from CHF 941 million to about 947 million compared with the previous year, and so fell somewhat short of expectations. Sales in third-party business (customers other than the Swiss Armed Forces) rose by almost CHF 100 million to CHF 265 million, about 25% of which is accounted for by organic growth.

Operating costs stable

At CHF 934 million, operating costs remained at 2000 levels measured against sales volume. They were tempered by the writing-back of a one-off provision of CHF 22 million that had been set aside in the previous year. Against this, there were additional charges due to non-recurring restructuring costs, most of which were incurred in connection with the new acquisitions.

Investments doubled

In 2001 RUAG invested about CHF 146 million (CHF 74 million in 2000), of which CHF 100 million was invested in fixed assets and CHF 46 million in shareholdings. This largely involved strategic investment projects for the further development of third-party

business, with the main emphasis on aerospace and metal processing. The renovation and modernization of the relevant plants and infrastructure are essential in order to compensate in part for the decline in defence business.

Earnings

Earnings before interest and taxes (EBIT) total CHF 74 million (CHF 79 million). Excluding the positive effect of the written-back CHF 22 million provision mentioned previously, operating profit amounts to CHF 52 million. This result falls short of expectations and reflects the difficult business situation in the year under review.

Operating profit has been affected by the reversal of a provision of CHF 42 million. These provisions were formed to cover the eventuality that RUAG, which was then an affiliated organization of the Federal Pension Fund, would be proportionately liable for any shortfall in the fund's reserves. This risk no longer exists due to amendment of the applicable legislation.

As a consequence of this one-off extraordinary income, the consolidated financial statements show an above-average overall company result (net profit) of about CHF 82 million (CHF 67 million).

Last time to ARR standards

The consolidated financial statements for 2001 were prepared according to SWISS GAAP ARR standards for the last time. As of 2002 the annual financial statements will conform to IAS (International Accounting Standards).



Under the terms of a Parliament-approved recapitalization of RUAG, the Swiss Confederation, as principal shareholder, has increased the share capital of RUAG Holding from CHF 290 million to 340 million.

Human resources

The average headcount over the year increased from the 2000 figure of 3800 to about 4200 as a result of the acquisitions. In view of the deteriorating economic outlook and the possible need for restructuring, an "agreement on socially acceptable measures" was negotiated with employee representatives in the second half of the year. This came into effect on 1 January 2002 and remains in force until 31 December 2003. The measures agreed are intended to cushion the social impact of any redundancies that may be necessary in addition to satisfying a socio-political requirement of the owner's strategy.

The six non-executive members of the Board of Directors received compensation totalling CHF 0.5 million. Including bonuses, the salaries paid to the eight members of the Board of Directors amount to CHF 2.5 million.

Parliament and the Stock Exchange Admission office are currently discussing the introduction of an obligation to disclose compensation paid to the top managers of Swiss companies. If such a requirement is introduced, RUAG will publish the appropriate figures in the required form.

Outlook

The order situation at the end of the period under review was significantly better than a year ago. Orders on hand stand at the equivalent of almost one year's

revenues (76% in 2000). However, it should be remembered that certain orders, particularly in the aerospace sector, were carried out late due to the lack of staff with specialist skills, which proved extremely difficult to recruit last year. The easing of the labour market that has since occurred is expected to defuse this situation. The effects of the Armed Forces XXI reform project on the defence industry and hence on RUAG did not assume any quantifiable form during the year under review, although it is to be assumed that the munitions business in particular will come under increasing pressure.

A word of thanks

The Board of Directors would like to thank RUAG's customers for their confidence in the Group and for their orders. RUAG attaches the highest priority to customer satisfaction. We also wish to express our thanks to RUAG's owner, the Swiss Confederation, for its understanding cooperation, and to the Executive Board and employees for their professional dedication in a turbulent environment marked by constant change.

Walter Bürgi
Chairman of the Board of Directors

Toni J. Wicki
CEO



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

The Board of Directors of RUAG

Chairman:

Dr Walter Bürgi, elected until Annual General Meeting (AGM) 2003

CEO:

Toni J. Wicki, elected until AGM 2003

Members:

Philippe Bruggisser lic.rer.pol. (until September 2001)

Dr Hanspeter Käser, elected until AGM 2003

Hans-Ulrich Scherrer, Chief of General Staff, elected until AGM 2003

Peter Siegenthaler lic.rer.pol., elected until AGM 2004

Roland Zimmerli lic.oec.publ., elected until AGM 2003

Audit Committee:

Dr Walter Bürgi, Toni J. Wicki, Peter Siegenthaler, Roland Zimmerli

Staff Committee:

Dr Walter Bürgi, Toni J. Wicki, Roland Zimmerli

The Executive Board of RUAG

CEO:

Toni J. Wicki

Members:

Peter Schneuwly (Aerospace)

Ueli Emch (Electronics)

Stephan Kocher (Land Systems)

Paul A. Moser (Munition)

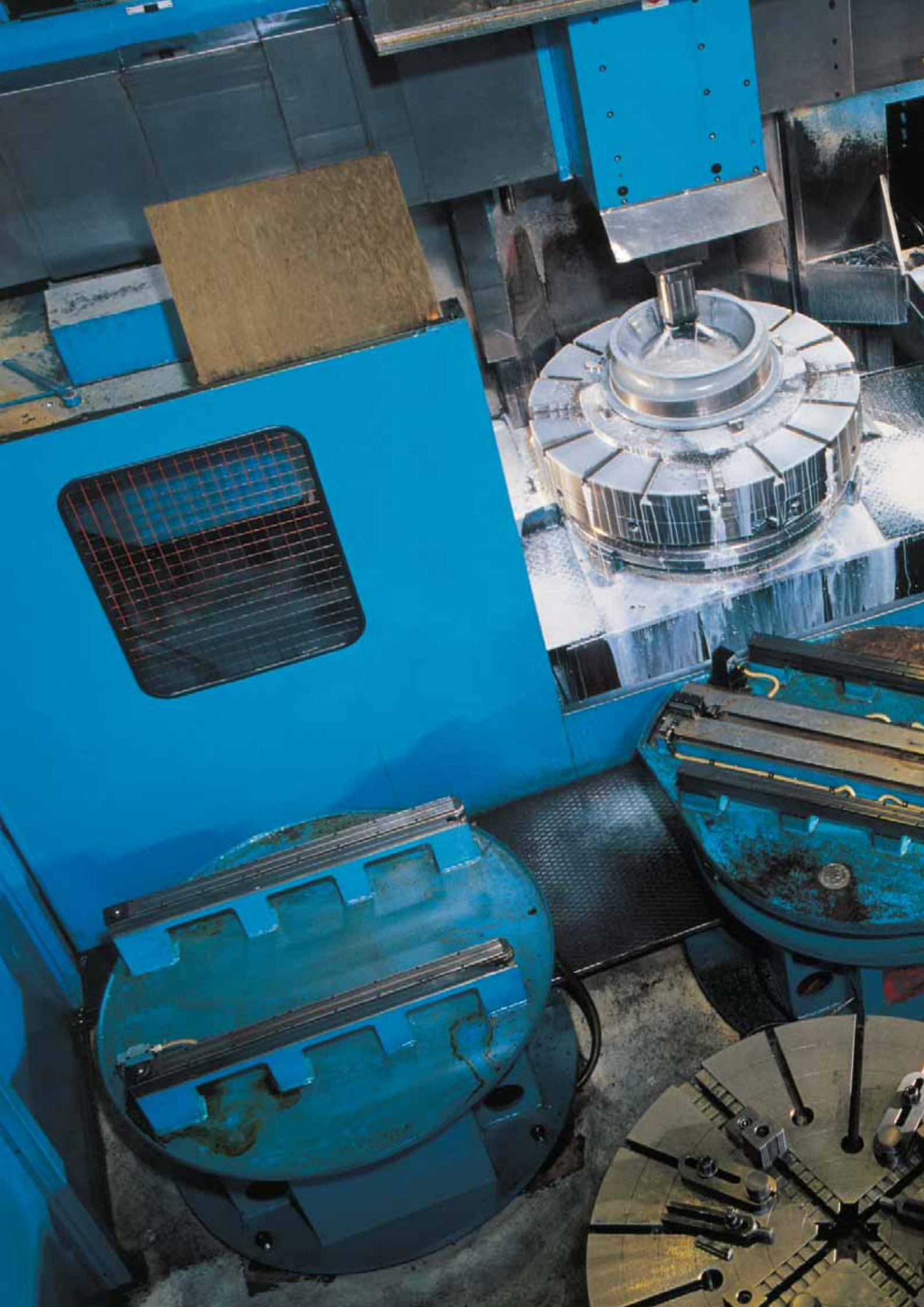
Martin Stahel (Services)

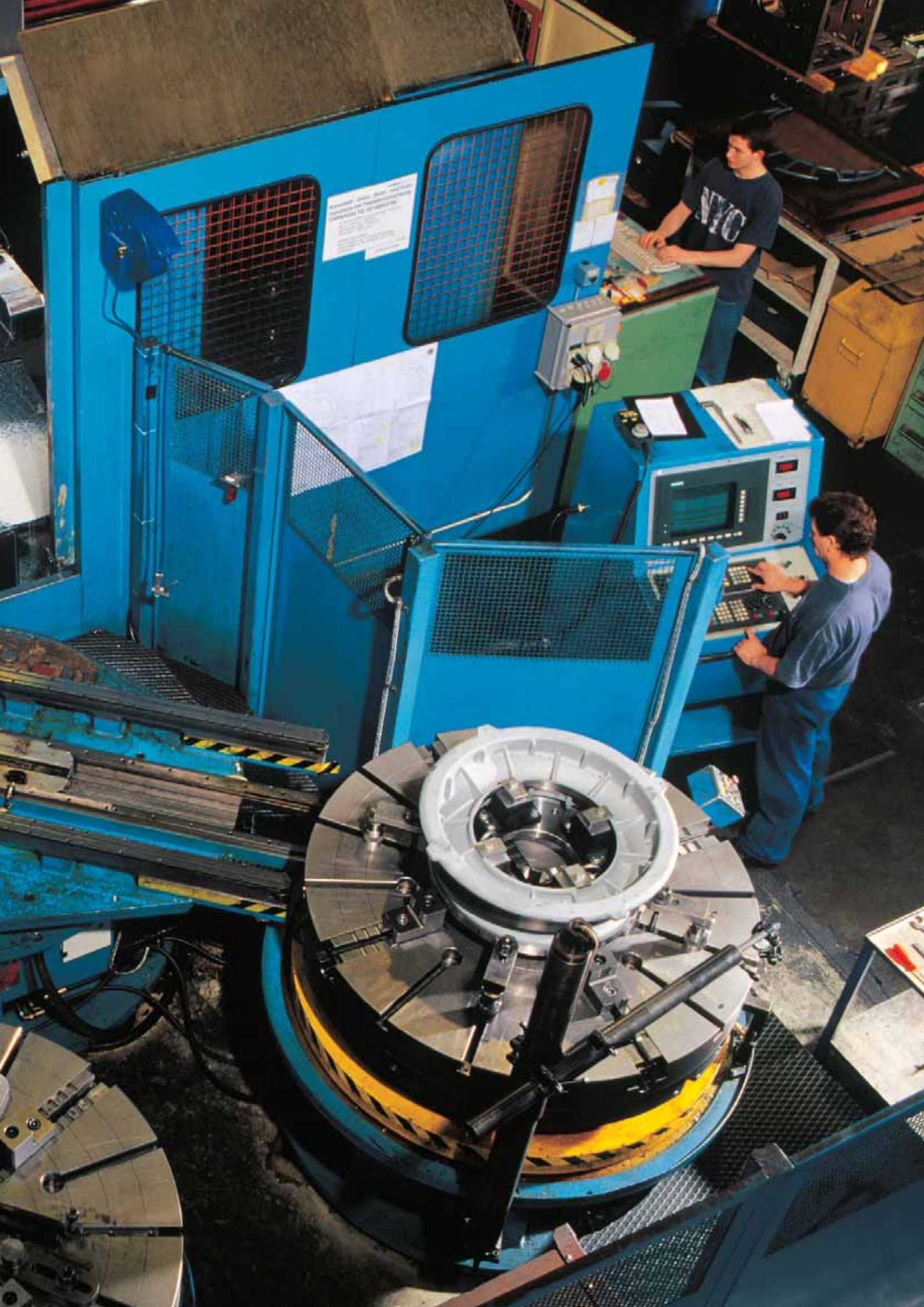
Kurt Dolder (Finances)

Eduard Knecht (Human Resources)

Bruno Frangi (Communications)

Thomas Kopp (Law)







RUAG Aerospace is active in the defence technology and civilian markets



Peter Schneuwly

RUAG Aerospace continued apace on the path to business excellence in the year under review. Customer and employee surveys were conducted to identify potential for improvement, appropriate action was taken and structures and processes were further reengineered.

DDPS is still our main customer

Our main focus during fiscal 2001 was on maintenance work and system enhancements on helicopters, combat and training aircraft, drone systems, flight simulators, anti-aircraft systems and command and guidance systems for our main customer, the Federal Department of Defence, Protection of the Population and Sport (DDPS).

A milestone was achieved in June, when the first Cougar transport helicopter to be completed on the RUAG Aerospace final assembly line was handed over to the Air Force. This significant order was completed on schedule in early 2002. In-house development work on the ISSYS integrated self-protection system for the Cougar allows us to utilize and consolidate our technical expertise.

An era came to an end with the completion of the disposal of the BL-64 anti-aircraft and guided weapon

system. Disposal work started on the FLORIDA system. RUAG Aerospace will provide the required technical support for the new FLORAKO airspace surveillance and flight control system. Work connected with the handover of the system and system maintenance and servicing is proceeding on schedule.

Market position will be strengthened through external growth

Sales in the third-party market continued to grow. In civilian aircraft maintenance, A-inspections were performed on Falcon 2000 and 900EX aircraft for the first time. The takeover of the Swisswings subsidiary ASB (Bern/Belp) to augment our own Sun Aircraft Services (Agno) and AC Aerotechnik (Buochs) subsidiaries represents an important addition to our maintenance capability.



In the drone business, the on-schedule delivery of a drone system to the Finnish Defence Forces marked the conclusion of an important project phase.



The production of assemblies for commercial aircraft remained at consistent levels. The final assembly of the first passenger stairway for the Boeing 717 aircraft and the signing of a multi-year contract with Boeing for the production of spare parts for the F/A-18 C/D aircraft were pleasing successes.

With the construction of a new production building and its consistent focus on island production, RUAG Aerospace is putting in place major elements for the efficient production of aircraft assemblies. It has significantly strengthened its position in the third-party market in conjunction with its subsidiary Derendinger & Cie. SA (Geneva), which received the «Golden Supplier» award from Boeing at the Paris Air Show. Derendinger is the first non-American company to be honoured in this way.

Atlas V makes a good start

In collaboration with the two subsidiaries HTS (Wallisellen) and Mecanex (Nyon), RUAG Aerospace has improved its direct access to the aerospace market and strengthened its position. Alongside the Ariane programmes, the Atlas V project for the American carrier rocket has also got away to a good start.

The order from SaabTech (Sweden) for the production – in collaboration with Swiss partner companies – of the fire control system for the Swiss Armed Forces' new armoured personnel carrier represents a gratifying sales success. The handover of three fixed stations to the air rescue service (Rega) has made a

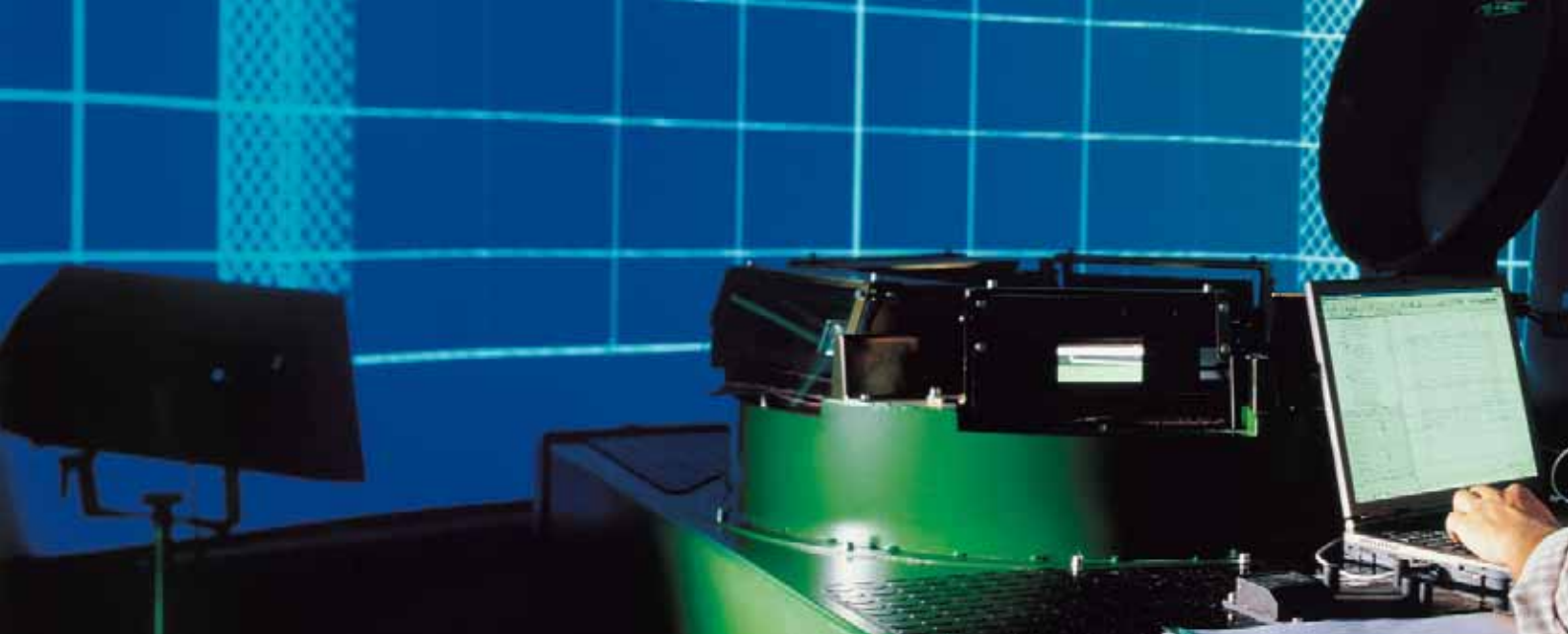
significant contribution to the expansion of their network.

Increased sales in the third-party market

The cyclical downturn in civilian aviation that was already evident in the summer was accelerated by the tragic attacks in the United States and has also left its mark on RUAG Aerospace. Nevertheless, the proportion of sales in the civilian sector has now risen to over 30%. This increase was generated partly in our traditional markets and partly by external growth. All business areas and subsidiaries played a role in this pleasing development. The different cycles in the civilian and military third-party market and in aerospace are helping to cushion the present downturn and to stabilize the overall business of RUAG Aerospace.

Outlook

The Federal Department of Defence, Protection of the Population and Sport will remain RUAG Aerospace's main customer in the future, despite the reductions that are expected to result from Armed Forces XXI. We shall therefore make every effort to improve our good cooperation on a continuous basis. The civilian sector will also be continuously developed through consistent implementation of our strategy in the direction of civilian aircraft maintenance, the construction of structural components and the maintenance of civilian guidance systems.



RUAG Electronics strengthens the simulation business



Ueli Emch

The takeover of Sintro Electronics AG of Interlaken, a company operating successfully in the training systems sector, has initiated a new phase for the Simulation & Training business unit of RUAG Electronics. Preparations for the integration of the new company were made in the second half.

The alliance with the Simulator business unit of RUAG Electronics is expected to generate major synergies. This pooling of expertise represents an important step towards breaking through in the hotly contested simulator market. Sintro's branch in the Middle East has enabled RUAG Electronics to substantially increase its export activities.

Consolidated position for telematics solutions

In telematics, RUAG Electronics was awarded an important contract to head up a consortium to formulate the installation, operation and maintenance concepts for Switzerland's new security network, Polycom. The object is to be able to offer the authorities and rescue and security organizations a full range of after-sales services for Polycom. RUAG Electronics also completed the integration of Mocom during the year under review, thus consolidating its position in the professional radio sector.

Successful simulator projects

RUAG Electronics is attracting considerable attention in Switzerland and other countries with its SIMUG Simulation Support for Field Training Exercises system. The Armaments Group at the Federal Department of Defence awarded RUAG Electronics a contract for the further development of the system. Export activities for the international version, known as CODARTS, were launched in various countries.



New laser simulator

Work on the development of the laser simulation system for the Swiss Armed Forces' new armoured personnel carrier pressed ahead. Initial verification trials were successful. The order for series production and



a sub-contract for an indoor simulator for the new armoured personnel carrier are in prospect.

The Armaments Group also conducted successful trials with the prototype firing training system for the Swiss artillery's combat effectiveness-enhanced self-propelled howitzer and commissioned RUAG Electronics to manufacture the production model for the Bière weapons site.

In its capacity as prime contractor, Sintro handed over a tactics simulator to the customer in the United Arab Emirates on schedule.

The «Specials» Division, which combines the product lines Pro Sound and Vision (event and multimedia services), Energy (battery maintenance and repair), Calibration (instrument calibration) and Eyewear (military and sports eyewear), worked systematically to strengthen its presence in the marketplace.

Positive overall result with e-business

New Impact AG, which is organizationally affiliated to RUAG Electronics, specializes in process-based e-business, e-finance and e-public business solutions. It successfully extended its leadership position in the year under review, despite the collapse of the market. New Impact AG received the award for the best ur-

ban e-government solution in Switzerland. It also implemented other important online solutions for Swiss Post, Swisscom and a major regional bank.

Outlook

RUAG Electronics has streamlined its management structures and further optimized its processes to make them fit for the continuing tough competition in the market. The systematic integration of the new acquisitions will provide RUAG Electronics with a stronger basis for further focussed expansion of its market position and technology.

The approach we have taken has paid off and will also allow us to adapt flexibly to changes in market and customer requirements in the future.



RUAG Land Systems enters a new era



Stephan Kocher

In the past, the activities of RUAG Land Systems were largely geared to established heavy weapons systems. However, the future development of the company is moving increasingly in the direction of lighter, highly mobile weapons systems for flexible deployment.

Final assembly of the new armoured personnel carrier

In the year under review, intensive work was carried out in preparation for the era of the Swiss Armed Forces' new CV 90/30 armoured personnel carrier. From 2002 onwards, RUAG Land Systems will carry out final assembly of the armoured personnel carrier, which has been developed by the Swedish company Hägglunds. It will also assemble the turret in Thun and provide the required industrial base for the subsequent industrial maintenance of the combat vehicle. The project will provide work for all functional units of the company in the years ahead, and, despite the rather small value-added element involved in assembly, should still be of significance for the future. RUAG Land Systems will thus be the Swiss Armed Forces' industrial backbone for the new armoured

personnel carrier – as it is for other tracked vehicles already in service.

Setting the course for future projects

The large-scale contract for the modernization of the M 109 self-propelled howitzer will reach completion at the end of 2002. This programme, which is intended to enhance combat effectiveness and extend service life, is attracting considerable attention in other countries as well.

We have already set our course for the future. RUAG Land Systems has been awarded the development contract for the Leopard 2 battle tank combat effectiveness maintenance programme of the Swiss Armed Forces. This will ensure continuity and the build-up of know-how in a core area.

Export efforts intensified

Export efforts were further intensified during 2001. We expanded our network of representatives and strengthened our presence at various military equipment exhibitions. Presentations and demonstrations abroad resulted in the submission of a number of bids.



We showed that the 120 mm Bighorn mortar, the 120 mm compact cannon and various technical modernization packages from RUAG Land Systems can fill the gaps that have arisen in many foreign armed forces due to a change in the threat situation or through funding restraints. The first results of this export drive are expected within the foreseeable future.



Research and development

Research and development at RUAG Land Systems is keeping pace with the rapid development of technology. Work on new types of armour and new artillery materials has produced outstanding results. The «19th International Symposium on Ballistics» in May 2001, which drew specialists from all over the world to Interlaken, demonstrated yet again that RUAG can match the best in the world in the ballistics sector. Every effort is being made to ensure that the company is able to maintain this position in the future.

Outlook

RUAG Land Systems can look forward confidently to the years ahead. The combat effectiveness maintenance programme for the Leopard 2 tank and other vehicles in this family, plus the new armoured personnel carrier are important challenges for the company to rise up to.



RUAG Munition completes ambitious reorganization



Paul A. Moser

The Federal Department of Defence is still the main customer of RUAG Munition. However, there has been a dramatic decline in ammunition orders from the Swiss Armed Forces; sales have halved in the past five years, and there are signs of further drastic reductions.

RUAG Munition has been particularly hard hit by the changes at its main customer.

Mapping out the future

Proactive measures have been taken to absorb the loss of sales revenues – about 200 million francs over ten years – by

- Marketing our technologically advanced military products to armed forces and authorities abroad
- Cooperating in armaments material development and procurement projects with partners in Switzerland and abroad
- Expanding the metalworking division.

Stamina required

RUAG Munition is on course for growth and success in all three of these strategic directions. However, the

development of international business – both military and civilian – poses a major challenge. Military procurement projects are subject to political and financial restraints in virtually every country and generally require time and stamina, to say nothing of competitive products. The civilian sector is subject to economic fluctuations and ways must be found to absorb temporary downturns.

In both business sectors, making the transition from a state-run enterprise to a diversified company with international operations is proving to be an exacting task.

The decision to relocate ammunition production from Altdorf to Thun over the next few years and, as a countermove, to build up RUAG Components, the Group's centre of excellence for metalworking, at Altdorf will involve changes, in some cases of a radical nature. Much will be demanded of the employees who will be responsible for implementing this reorganization.

Major contract completed successfully

Orders completed during the year under review were delivered on schedule, within budget, and in compliance with quality specifications.

The major contract to supply state-of-the-art hollow-



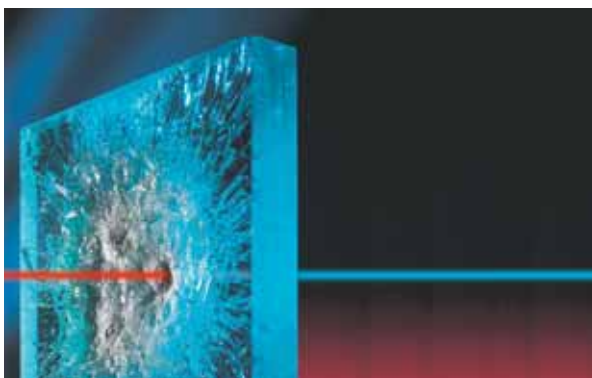
charge warheads for the new anti-tank grenade launcher introduced by the Swiss Armed Forces was completed successfully. Delivery of hand grenades to the UK is running on schedule, and the qualification batch has been delivered for the 60 mm fragmentation munitions procurement project in the United States.

New special ammunition well received on the market

Our small-calibre special ammunition is finding ever broader acceptance in the market. A family of special ammunition that satisfies even the highest requirements of special units, game and sports

The contract with the Swiss Armed Forces for the dismantling and disposal of ammunition, military equipment and military vehicles in an environmentally acceptable manner continues to run smoothly and within budget.

RUAG Munition is systematically pursuing its strategy in the small-calibre munitions area. In the large-calibre segment it is pooling resources with national and international partners in project- and product-specific alliances.



shooting enthusiasts has been developed on the basis of the high-precision Swiss standard ammunition.



RUAG Components – the civilian arm of RUAG Munition

Know-how acquired over decades of experience with military hardware is being applied to an increasing extent to civilian products. RUAG has therefore made it one of the core elements of its corporate strategy to actively grasp opportunities that arise in related civilian sectors. A promising technological crossover point has been specifically further developed over the past few years and spread across a broad basis.

Gaining a foothold as a supplier

Back at the beginning of the 1990s, RUAG began to capitalize on the mastery of cold metal forming technology that it had gained through munitions manufacturing by producing the first components for the automotive industry at its Altdorf location. The success of this move gave RUAG a foothold as a component supplier to one of the world's key industries. In an initial phase, available capacity was used to mitigate the effects of declining orders in the defence technology sector. Thanks to strategic investments, civilian business has developed satisfactorily since 1999.

Acquisition and concentration

In the first quarter of 2001, RUAG acquired Von Roll Betec AG in Thun, a company in which it already held a minority stake. This acquisition ideally complements RUAG's existing core competencies in metalworking

because it brings with it important machining technologies, outstanding technical expertise and long-term framework agreements. When the purchase was made, it was decided to concentrate the metalworking activities of RUAG Munition and Betec at the Altdorf location and to continue to run a scaled-down production engineering cell in Thun.

Centre of excellence

This required a new production centre. A purpose-built factory equipped with state-of-the-art systems and machinery was constructed on the Schächenwald industrial estate in Altdorf and completed within a few months. The phased start-up of production began in the late summer.

The centre of excellence for the specialized forming, processing and surface finishing of components has been operating independently under the name RUAG



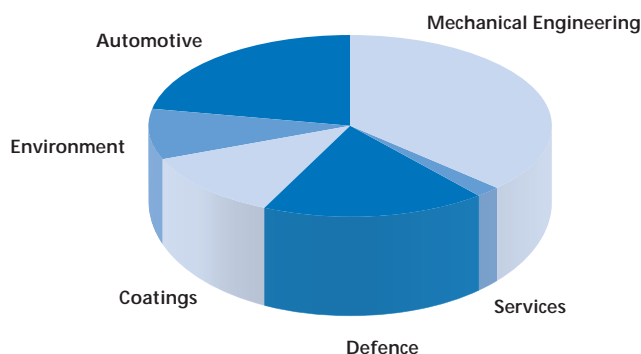
Components since 1 January 2002. In its initial configuration it has about 600 employees working in the



Automotive, Coatings, Mechanical Engineering, Defence and Environment business units. RUAG Components is expecting sales of around CHF 120 million in its first year.

Business units

RUAG Components is in the business of forming, processing and protecting. The Automotive business unit of RUAG Components specializes in the production of transmission parts. Solid metal forming activities focus on the manufacturing of commercial vehicle shafts and similar parts in the higher weight range. The sheet metal forming section shapes thick



metal sheets into casings and processes them into assemblies. Technologically demanding, high-precision parts for the machine-building, automotive and aerospace industries as well as metroframes and

base frames for the semiconductor industry are as much a part of the Mechanical Engineering business unit as customized solutions for plant engineering.

RUAG Components' ability to act as a complete supplier in certain niche areas is due in no small part to its Coatings business unit, which can call on a wide range of surface finishing processes. The new company's civilian product line-up is completed by the Environment business unit, which provides disposal services.

Logical step

Building up RUAG Components will involve considerable investment. The Group has systematically pursued this strategic step, despite the slackening of the economy that became apparent in the middle of the financial year. That it has been able to do so is very largely thanks to the trust placed in us by the customers, partners and suppliers who have made possible our success in the market to date.

Subsidiaries and affiliates

Subsidiaries

- Aircraft Service Belp Corp
- Atlas Holding Corp
- Derendinger & Cie Corp
- HTS Corp
- Mekanex Corp
- New Impact Corp
- Sintro Electronics Corp
- Sun Aircraft System Corp

Not consolidated subsidiaries and affiliates

- Business Park Bern Corp
- AC Aerotechnik Corp
- R.E.V. Entsorgungs Holding Schweiz Corp
- Buck Neue Technologien limited liability company
- CFS Engineering Corp
- DCT Corp
- Mekanex USA Inc.
- Nitrochemie AG Wimmis
- Nitrochemie Wimmis Corp
- Nitrochemie Aschau limited liability company
- Resh Verwertungs Corp



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Consolidated financial statements

Overview of key figures

in million CHF	2001	2000	Change in %
Incoming orders	1'020.4	813.6	25%
Order backlog	855.5	682.1	25%
Net sales	1'006.9	941.2	7%
Expenses for material and services	303.9	285.9	6%
in % of net turnover	30.2%	30.4%	
Operating profit before interests and taxes	73.5	79.2	(7%)
in % of net turnover	7.3%	8.4%	
Consolidated net profit	82.2	67.0	23%
in % of net turnover	8.2%	7.1%	
Cash flow	94.3	125.0	(25%)
Shareholder's equity	536.7	405.0	33%
in % of balance sheet total	48.4%	38.3%	
Earnings-equity ratio ¹	17.5%	18.0%	
Capital expenditure²	145.9	73.8	98%
Depreciation	58.9	41.8	41%
Research and development costs	39.3	31.2	26%
in % of net turnover	3.9%	3.3%	
Staff expenses	411.0	422.9	(3%)
in % of net turnover	40.8%	44.9%	
Total staff end December	4'179	3'936	
Total staff (annual average)	4'165	3'843	

Includes the participations acquired in fiscal year 2001 (page 8, section D).

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	2001	2000
Invoiced sales	1	970.7	896.7
Other operating income	2	51.6	48.9
Stock changes		(15.4)	(4.4)
Net sales		1'006.9	941.2
Expenses for material and services		(303.9)	(285.9)
Staff expenses	3	(411.0)	(422.9)
Premise expenses		(5.2)	(3.9)
Maintenance and repair of fixed assets		(29.4)	(22.3)
Energy and disposal expenses		(10.7)	(13.1)
Insurance premium and contributions		(4.1)	(3.4)
Administrative and computer system expenses		(33.6)	(25.9)
Marketing expenses		(10.5)	(6.5)
Other operating expenses	4	(73.7)	(44.3)
Depreciations fixed assets		(52.4)	(38.6)
Operating expenses		(934.4)	(866.7)
Operating profit		72.5	74.5
Additional operating surplus	5	1.0	4.8
Operating profit before interest and taxes		73.5	79.2
Financial surplus	6	2.6	6.3
Extraordinary surplus	7	42.0	(0.3)
Operating profit before taxes		118.2	85.3
Income tax	8	(35.9)	(18.3)
Consolidated net profit		82.2	67.0
Minority interests in net profit		0.2	0.2
Group profit		82.0	66.8

Consolidated financial statements

Consolidated balance sheet as of 31 December

in million CHF

	Notes	2001	2000	Change in %
Liquid assets	9	79.0	134.5	(41%)
Accounts receivable	10	310.8	328.0	(5%)
Inventories and work in process	11	214.8	182.8	18%
Prepayments and accrued income		3.5	3.6	(3%)
Current assets		608.2	649.0	(6%)
in % of balance sheet total		54.8%	61.3%	
Investments in subsidiaries and affiliates	12	37.6	49.2	(24%)
Financial assets		1.2	0.7	76%
Property, plant and equipments	25	117.5	70.9	66%
Property, land and buildings	25	317.2	276.0	15%
Intangible assets	13, 25	27.8	12.7	119%
Setting up costs		-	0.1	-
Fixed assets		501.1	409.6	22%
in % of balance sheet total		45.2%	38.7%	
TOTAL ASSETS		1'109.3	1'058.6	5%
Liabilities from sales and services		74.3	69.6	7%
Downpayments from customers		114.7	170.3	(33%)
Short-term financial liabilities		6.4	2.9	120%
Other short-term liabilities		23.5	38.6	(39%)
Accrued liabilities and deferred income		58.4	37.9	54%
Current liabilities		277.3	319.2	(13%)
in % of balance sheet total		25.0%	30.2%	
Long-term financial liabilities	27	9.8	7.0	40%
Other long-term liabilities	27	0.1	-	-
Provisions	26	285.4	327.4	(13%)
Non-current liabilities		295.3	334.4	(12%)
in % of balance sheet total		26.6%	31.6%	
Share capital		340.0	290.0	17%
Capital reserves		90.6	46.0	97%
Profit/loss brought forward		23.9	2.0	1121%
Consolidated net profit		82.2	67.0	23%
Shareholder's equity	29	536.7	405.0	33%
in % of balance sheet total		48.4%	38.3%	
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		1'109.3	1'058.6	5%
Minority interest in shareholder's equity		4.5	0.4	

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

Notes

Cash flow from business operations

Consolidated net profit	82.2	67.0
Depreciation ¹	58.9	41.8
Variation of provisions	(46.8)	16.2

Cash flow	94.3	125.0
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Change in current assets and liabilities (without liquid assets and short-term financial liabilities)	(40.4)	(77.8)
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Cash flow from business operations	53.9	47.2
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Cash flow from capital expenditures

Capital expenditure in subsidiaries and affiliates	(46.0)	(10.0)
Capital expenditure in other fixed assets	25 (99.9)	(63.8)
Sales of subsidiaries and affiliates	1.1	-
Sales of fixed assets	25 5.7	3.8

Cash flow from capital expenditures	(139.0)	(70.0)
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Cash flow from financial operations

Change in financial assets	(0.3)	-
Changes in short-term financial liabilities	(9.7)	-
Changes in long-term financial liabilities	(14.7)	-
Changes in other long-term liabilities	(3.9)	-
Capital increase	50.0	-
Dividend distribution	-	-
Other items	-	(4.4)

Cash flow from financial operations	21.3	(4.4)
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Liquid assets taken over	8.2	0.4
Currency translation differences in liquid assets	-	-

Liquid assets at the beginning of the year	134.5	161.3
Liquid assets at the end of the year	79.0	134.5

Net change in liquid assets	(55.6)	(26.8)
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¹ including depreciation of participations

A General remarks

The group accounts of RUAG Holding and its subsidiaries were based on the accounting and reporting recommendations (ARR).
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 Holding 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 Holding 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 Holding 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

In 2001 RUAG Holding acquired or increased the following participations:

Company	Purchase	New share
Derendinger & Cie Corp	70%	70%
ASB Corp	100%	100%
Von Roll Betec Corp (renamed RUAG Components)	66%	100%
Sintro Electronics Corp	46%	80%

The transactions have been reported using the purchase method. Von Roll Betec Corp has been included in the consolidated financial statements as of 1.1.2001, Derendinger, ASB and Sintro as of 1.7.2001 - i.e. the operational activities of the companies acquired during 2001 appear in the Group income statement as of 1 January or 1 July 2001. The 40% interest in TÜV (Schweiz) Corp was sold. The Mocom Corp and Telex Corp participations were merged with RUAG Electronics.

E Use of estimated values

Drawing up the accounts in accordance with ARR 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 li-

quid 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. Provisions are not be formed for reinvested sums that can be collected by the parent company essentially tax-free.

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

1 Invoiced sales (in million CHF)

Federal Department of Defense, Civil Protection and Sports (DDPS)	705.9	728.4
Third parties	264.8	168.3
Invoiced sales	970.7	896.7

2 Other operating income (in million CHF)

Claim of regular provisions	36.4	36.6
Proceeds from services	7.5	2.6
Proceeds from licenses	0.2	0.4
Other operating income	4.8	5.9
Company produced additions	2.7	3.4
Other operating income	51.6	48.9

3 Staff expenses (in million CHF)

Wages and salaries	352.7	330.5
Pension fund premiums	(0.3)	37.8
Other social insurance payments	37.9	35.8
Temporary staff	10.8	10.9
Other staff expenses	9.9	8.0
Staff expenses	411.0	422.9

The six non-executive members of the Board of Directors received compensation totalling CHF 0.5 million. Including bonuses, the salaries paid to the eight members of the Board of Directors amount to CHF 2.5 million. Pension fund contributions for 2000 contain an provision of around CHF 22 million to allow for inflation-indexing of pensions with the Federal Pension Fund (PKB). In 2001 this provision was reversed in favour of pension fund contributions and is reported in the income statement. The amount was defrayed by the newly established RUAG patronage foundation.

4 Other operating expenses (in million CHF)

Accumulation/dissolution of provisions	49.6	32.0
Additional operating expenses	24.1	12.4
Other operating expenses	73.7	44.3

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	4.0
Surplus from subsidiaries and affiliates ¹	(2.0)	1.3
Surplus from the realization of fixed assets	(1.0)	(0.4)
Additional operating surplus	1.0	4.8

¹ Expenses and income from equity valuations

Notes	2001	2000
6 Financial surplus (in million CHF)		
Financial income	9.6	8.4
Financial expenses	(7.0)	(2.1)
Financial surplus	2.6	6.3
7 Extraordinary surplus (in million CHF)		
Extraordinary income	42.0	0.1
Extraordinary expenses	-	(0.4)
Extraordinary surplus	42.0	(0.3)
<p>The extraordinary surplus of CHF 42 million represents a reversed provision that was originally intended to cover an actuarial reserve deficit in the Federal Pension Fund arising from the introduction of the vested benefits law. The federal government assumed the obligation during 2001.</p>		
8 Income tax (in million CHF)		
Income tax	(29.7)	(18.3)
Deferred income tax	(6.2)	-
Income tax	(35.9)	(18.3)
<p>Deferred tax credits are not recognized as assets. The Group has CHF 18.3 million in usable tax losses carried forward.</p>		
<p>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 effective tax burden calculated by multiplying the local statutory tax rate by the local taxable profit or loss differed from the expected tax burden in the following ways:</p>		
Expected tax burden	30%	21%
Non-deductible expenditure	-	-
Tax-exempt income	-	-
Income on which tax is paid at reduced rates	-	-
Actual tax burden	30%	21%

The previous year's tax provision was too low. It was corrected during the year under review.

Notes	2001	2000
9 Liquid assets (in million CHF)		
Cash	0.3	0.4
Bank balance	22.4	40.1
Money market investments	56.3	94.1
Marketable securities	-	-
Liquid assets	79.0	134.5
10 Accounts receivable (in million CHF)		
Accounts receivable from sales and services	263.8	293.1
Downpayments to suppliers	38.7	11.9
Accounts receivable toward non-consolidated subsidiaries and affiliates	0.1	10.0
Other short-term accounts receivable	8.3	13.0
Accounts receivable	310.8	328.0
11 Inventories and work in process (in million CHF)		
Raw materials and supplies	62.9	54.2
Work in process	119.0	89.3
Semi-finished products	90.0	94.6
Finished products	10.6	7.2
Value adjustments	(67.7)	(62.4)
Inventories and work in progress	214.8	182.8
12 Investments in subsidiaries and affiliates (in million CHF)		
Subsidiaries and affiliates (20 to 50%)	34.1	42.5
Other minority interests (below 20%)	3.5	6.7
Investments in subsidiaries and affiliates	37.6	49.2
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	26.1	6.8
Goodwill from non-consolidated subsidiaries and affiliates	1.7	5.8
Intangible assets	27.8	12.7

As a rule the existing goodwill is depreciated over a period of 5 years, as planned.
The residual goodwill from the acquisition of Atlas Holding SA and Mecanex SA was completely amortized in 2001 as the result of an impairment test.

Notes	2001	2000
14 Contingent liabilities (in million CHF)		
Guarantees	27.1	10.5
Warranty commitments	15.7	26.7
Pledgings in favour of third parties	-	-
Total contingent liabilities	42.7	37.2
15 Additional contingent liabilities not to be stated on the balance sheet (in million CHF)		
Warranty contracts	-	-
Long-term rental and leasing agreements	13.1	4.3
Letters of intent	-	-
Agreed contractual penalties (fines and premiums)	17.4	3.2
Law cases	-	-
Bill commitments	-	-
Total additional contingent liabilities not to be stated on the balance sheet	30.4	7.5
Evaluation is based on the probability and amount of future unilateral payments and costs in excess of the provision listed in the balance sheet. Possible obligations arising from pending legal proceedings are adequately covered by provisions.		
16 Assets under reservation of proprietary rights (in million CHF)		
Liquid assets	33.1	74.0
Accounts receivable and inventories	1.5	-
Property, plant and equipments	-	-
Property, land and buildings	4.4	-
Total assets under reservation of proprietary rights	39.0	74.0
The liquid assets of RUAG Holding 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 Holding.		
17 Fire insurance values of fixed assets (in million CHF)		
Property, plant and equipments	1'353.1	1'278.5
Property, land and buildings	1'044.9	1'019.7
Total fire insurance values	2'398.0	2'298.2
18 Liabilities toward social welfare institutions (in million CHF)		
Short-term liabilities toward social welfare institutions ¹	3.6	8.6
Long-term liabilities toward social welfare institutions ²	-	-
Total liabilities toward social welfare institutions	3.6	8.6

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

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

Notes	2001	2000
19 Own shares RUAG Holding (in million CHF)		
All shares of RUAG Holding are owned by the Swiss Confederation.		
20 Events after balance sheet date		
No significant events occurred between the balance sheet date and the preparation of the Annual Report.		
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
With the exception of the fees paid to the Board of Directors, there were no relevant transactions with related companies or persons. In 2000 a short-term loan of CHF 10 million was paid to the then minority holding Von Roll Betec Corp. There were no loans between Group companies and members of the Board of Directors.		
22 Commitments from leasing contracts (in million CHF)		
Property, plant and equipments	0.7	0.9
Property, land and buildings	-	-
Total commitments from leasing contracts	0.7	0.9
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	27.4	20.4
Research and development costs financed from outside sources	11.9	10.8
Total research and development costs	39.3	31.2
Research and development costs are not recognized as assets, but charged in their full amount to the income statement.		

Notes

24 Financial instruments

(in million CHF)	2001			2000		
	Contract value	Replacement value	Average maturity	Contract value	Replacement value	Average maturity
Forward exchange transactions	8.2	0.0	1 month	0.6	0.0	4 months
Foreign exchange option transactions	-	-	-	-	-	-
Cross currency swaps	-	-	-	-	-	-
Hedging of interests	-	-	-	-	-	-
Other instruments	-	-	-	-	-	-
Total financial instruments	8.2	0.0	1 month	0.6	0.0	4 months

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 dollars and euros). 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 (in million CHF)

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.	427.8	36.2	11.1	-	475.0	653.1	18.9	1'147.1
Capital expenditure	52.4	4.9	2.1	0.1	59.5	40.3	30.1	129.9
Disinvestments	(23.3)	(8.1)	(0.7)	-	(32.1)	(2.1)	-	(34.1)
Transfers	0.2	0.8	0.2	-	1.2	(1.2)	-	-
Currency translation	-	-	-	-	-	-	-	-
Initial consolidation	70.4	2.5	0.5	6.9	80.4	19.4	-	99.8
Balance-sheet val. 31.12.	527.6	36.4	13.1	7.0	584.1	709.6	49.0	1'342.6

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.	370.9	24.9	8.4	-	404.2	377.1	6.2	787.5
Regular depreciations	15.3	7.8	0.9	0.6	24.5	16.4	9.3	50.2
Irregular depreciations	0.1	-	-	-	0.1	-	5.7	5.8
Extraordinary depreciations	-	-	-	-	-	-	-	-
Outflows from disinvestments	(17.9)	(8.1)	(0.7)	-	(26.7)	(2.1)	-	(28.8)
Transfers	-	0.1	(0.1)	-	-	-	-	-
Currency translation	-	-	-	-	-	-	-	-
Initial consolidation	60.6	1.9	0.5	1.7	64.6	0.9	-	65.6
Balance-sheet val. 31.12.	428.8	26.6	9.0	2.3	466.6	392.4	21.2	880.2

Book value 1.1.	56.9	11.3	2.7	-	70.9	276.0	12.7	359.6
Book value 31.12	98.8	9.8	4.2	4.7	117.5	317.2	27.8	462.4

¹ incl. furniture, equipment and fixed assets under construction

² incl. buildings under construction

26 Changes in provisions (in million CHF)

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.	140.1	60.2	25.0	21.8	13.2	12.3	54.8	327.4
New provisions	20.0	29.4	6.2	6.6	19.4	21.8	19.3	122.6
Writing back unused	(70.8)	(7.0)	(2.6)	(1.9)	(0.9)	(5.1)	(4.3)	(92.7)
Claim	(17.0)	(26.9)	(0.8)	(0.3)	(11.5)	(4.5)	(15.8)	(76.8)
Initial consolidation	-	0.5	0.1	1.5	0.3	1.6	0.9	4.8
Balance-sheet val. 31.12.	72.3	56.2	27.8	27.5	20.5	26.1	55.0	285.4

³ Mainly provisions for restructurings and inherited problems

Notes

27 Maturity long-term liabilities (in million CHF)

	up to 1 year	over 1 year	over 2 years	over 3 years	over 4 years	Total
Long-term financial liabilities	5.5	1.4	2.5	0.4	-	9.8
Other long-term liabilities	0.1	-	-	-	-	0.1

28 Maturity of leasing liabilities¹ (in million CHF)

	up to 1 year	over 1 year	over 2 years	over 3 years	over 4 years	Total
Property, plant and equipments	0.2	0.3	0.2	-	-	0.7
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 (in million CHF)

	Share capital	Capital reserves	Retained earnings	Profit/loss brought forward	Total
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 resp. 1.1.2001	290.0	5.5	109.5	-	405.0
Changes in share capital	50.0	-	-	-	-
Consolidated net profit	-	-	82.2	-	82.2
Dividend distribution	-	-	-	-	-
Currency translation	-	-	-	-	-
Other changes ²	-	(0.5)	-	-	-
Equity capital 31.12.2001	340.0	5.0	191.7	-	536.7

Minority interest in shareholder's equity 31.12.2001	4.5
--	-----

² Stamp duty (1%) in connection with the CHF 50 million capital increase.

Only the net influx is allocated to shareholders' equity

Notes

30 Employee benefits (ARR 16)

The purpose of ARR 16 is to depict the economic effects of employee benefit schemes on the company's financial and earnings positions. This involves no intervention in legal matters relating to employee benefits and no prejudicing of decisions by the responsible institutions.

All significant Group companies have been part of VORSORGE RUAG since 1 July 2001. All benefit plans comply with legal requirements. Pensioners who retired before 1 July 2001 and therefore remain in the Federal pension scheme (Publica) were also included.

The assets of the benefit schemes are administered separately from the Group. The Group accounts should not therefore be used to form prejudices about the benefit schemes. The benefits paid are dependent on the individual retirement savings credits (for retiring employees) and the insured wage (for payment of invalidity and survivors' benefits).

Pension policies (in million CHF)	2001	2000
Pension claims acquired ¹	39.2	39.6
Interest on pension obligations	101.2	102.4
Forecast return on assets	(97.0)	(88.2)
Non-redeemed (excess)/deficient cover	23.4	23.4
Forecast employee contributions	(16.3)	(17.2)
Other (profits), losses and redemptions	-	-
Total pension expenses	50.5	60.0
Annual expenses with full and immediate compensation for deficient cover	198.6	252.9

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 2000 and 31 December 2001:

Pension policies (in million CHF)	2001	2000
Pension obligations at start of year	2'064.5	2'046.6
Pension claims acquired	39.2	39.6
Interest on pension obligations	101.2	102.4
Actuarial (profit)/loss	170.6	(17.5)
Changes to pension plan	-	-
Changes to scope of consolidation	-	-
Pension payments	(115.0)	(106.7)
Other	-	-
Cash value of pension obligations at year-end	2'260.6	2'064.5
Market value of pension assets	2'089.1	1'886.0
Excess (deficient) cover	(171.5)	(178.4)

Annex with notes concerning the consolidated financial statements

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

Pension policies (in million CHF)	2001	2000
Discount rate	4.5%	5.0%
Expected long-term return on assets	6.0%	5.0%
Annual salary increases	2.5%	2.5%
Annual pension adjustments ¹	1.5%	1.0%

¹ 2002: 0.9%; 2003: 1.3%; from 2004: 1.5%

Compensation for deficient cover as per ARR 16 (CHF 171.5 million as at 31 December 2001) 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 2002. This is the reason that no provision for deficient cover has been made in the consolidated balance sheet.

Exchange rates used for currency translations		2001		2000	
	ISO-Code	Annual average	End-of-year rate	Annual average	End-of-year rate
US Dollars	USD	1.6875	1.6840	1.6890	1.6380
EURO	EUR	1.5104	1.4813	1.5576	1.5224
Pounds Sterling	GBP	2.4285	2.4360	2.5565	2.4390

Notes

List of subsidiaries and affiliates (status 31.12.2001)

Company		Domicile		Capital stock (100%)	Capital shares
RUAG Holding	Bern	Switzerland	CHF	340'000'000	
Consolidated companies ¹					
RUAG Aerospace	Emmen	Switzerland	CHF	47'000'000	100.00%
RUAG Components ²	Thun	Switzerland	CHF	4'000'000	100.00%
RUAG Electronics	Bern	Switzerland	CHF	12'000'000	100.00%
RUAG Land Systems	Thun	Switzerland	CHF	42'000'000	100.00%
RUAG Munition	Thun	Switzerland	CHF	40'000'000	100.00%
Aircraft Service Belp Corp	Belp	Switzerland	CHF	200'000	100.00%
Atlas Holding Corp	Nyon	Switzerland	CHF	800'000	100.00%
Derendinger & Cie Corp	Genf	Switzerland	CHF	6'000'000	70.00%
HTS Corp	Wallisellen	Switzerland	CHF	650'000	70.00%
Mecanex Corp ³	Nyon	Switzerland	CHF	700'000	100.00%
New Impact Corp	Bern	Switzerland	CHF	100'000	100.00%
Sintro Electronics Corp ³	Unterseen	Switzerland	CHF	2'000'000	80.00%
Sun Aircraft Services Corp ⁴	Agno	Switzerland	CHF	100'000	100.00%
Not consolidated companies ⁵					
Business Park Bern Corp ⁶	Bern	Switzerland	CHF	100'000	100.00%
AC Aerotechnik Corp ⁴	Buochs	Switzerland	CHF	250'000	60.00%
R.E.V. Entsorgungs Holding Schweiz Corp	Wimmis	Switzerland	CHF	8'000'000	13.98%
Buck Neue Technologien limited					
liability company	Neuenburg	Germany	EUR	3'404'000	16.00%
CFS Engineering Corp ⁴	Lausanne	Switzerland	CHF	150'000	40.00%
DCT Corp ⁷	Thun	Switzerland	CHF	150'000	26.67%
Mecanex USA Inc. ³	Wilmington/Delaware	UASA	USD	1'500	85.00%
Nitrochemie Corp Wimmis ⁸	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 ⁹	Bern	Switzerland	CHF	190'000	52.63%

¹ Full consolidation according to the purchase method

² Formerly Von Roll Betec Corp.

³ Shareholder: Atlas Holding Corp

⁴ Shareholder: RUAG Aerospace

⁵ 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

⁶ Inactive bare-shell company (formerly RUAG Management AG)

⁷ Shareholder: RUAG Land Systems

⁸ Management company

⁹ Shareholder: RUAG Munition

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

Report of the group auditors to the general meeting of RUAG Holding, 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 Holding for the year ended December 31, 2001.

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 Financial Reporting Standards Swiss GAAP 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, 19 March 2002

Financial statements of RUAG Holding

Income statement as from 31 December (in million CHF)	2001	2000
Income from subsidiaries and affiliates	33.2	19.6
Financial income	8.3	7.1
Income from securities	-	-
Income from sale subsidiaries and affiliates	1.1	-
Income from services	12.0	7.8
Total income	54.6	34.5
Expenses for subsidiaries and affiliates	(3.0)	(0.1)
Financial expenses	(1.1)	(2.2)
Loss from securities	-	-
Administrative expenses	(12.5)	(8.2)
Depreciations	(0.7)	(0.4)
Other expenses	-	-
Taxes	(0.5)	(0.4)
Total expenses	(17.8)	(11.3)
Year's profit	36.8	23.2

Balance sheet before distribution of profits
as of 31 December in million CHF

	2001	2000	Changes in %
Liquid assets	17.6	78.0	
Accounts receivable:			
Third parties	0.4	17.4	
Group member companies	6.5	6.9	
Prepayments and accrued income:			
Third parties	0.1	0.2	
Group member companies	6.2	-	
Current assets	30.8	102.4	(70%)
in % of balance sheet total	7.1%	25.2%	
Investments in subsidiaries and affiliates	264.4	215.3	
Financial assets:			
Third parties	-	0.4	
Group member companies	128.8	79.6	
Property, plant and equipments	0.5	0.8	
Intangible assets	6.6	6.6	
Setting up costs	1.3	1.2	
Fixed assets	401.7	304.0	32%
in % of balance sheet total	92.9%	74.8%	
TOTAL ASSETS	432.4	406.3	6%
Short-term financial liabilities:			
Third parties	0.3	1.0	
Group member companies	1.1	13.4	
Accrued liabilities and deferred income:			
Third parties	0.7	1.2	
Group member companies	1.1	-	
Long-term financial liabilities:			
Third parties	-	-	
Group member companies	17.1	65.0	
Provisions	0.5	0.8	
Liabilities	20.7	81.4	(75%)
in % of balance sheet total	4.8%	20.0%	
Share capital	340.0	290.0	
Legal reserve	11.0	9.7	
Voluntary reserve	-	-	
Profit brought forward	23.9	2.0	
Year's profit	36.8	23.2	
Shareholder's equity	411.7	324.9	
in % of balance sheet total	95.2%	80.0%	
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	432.4	406.3	6%

Notes	2001	2000
1 Contingent liabilities (in million CHF)		
Guarantees	26.8	10.3
Warranty commitments	-	-
Pledgings in favour of third parties	-	-
Total contingent liabilities toward third parties	26.8	10.3
2 Additional contingent liabilities not to be stated on the balance sheet (in million CHF)		
Warranty contracts	-	-
Long-term rental and leasing agreements	0.4	0.6
Letters of intent	-	-
Agreed contractual penalties	-	-
Law cases	-	-
Bill commitments	-	-
Total additional contingent liabilities not to be stated on the balance sheet	0.4	0.6
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
4 Assets under reservation of proprietary rights (in million CHF)		
Liquid assets	33.0	74.0
Accounts receivable and inventories	1.5	-
Property, plant and equipments	-	-
Property, land and buildings	-	-
Total assets under reservation of proprietary rights	34.5	74.0
The liquid assets of RUAG Holding 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 Holding.		
5 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 Included in "Accrued liabilities and deferred income"		
6 Own share RUAG Holding (in million CHF)		
All shares of RUAG Holding are owned by the Swiss Confederation.		
7 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 31.12.2001)

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

Proposed allocation of profit (in million CHF)	2001	2000
Years' profit	36.8	23.2
+ amount brought over from previous year	23.9	2.0
Profit at the disposal of the general assembly	60.7	25.2
The board of directors proposes the following allocation		
Dividend distribution	7.0	-
Allocation to legal reserve	1.8	1.3
Brought over to new accounts	51.9	23.9

Report of the statutory auditors to the general meeting of RUAG Holding, 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 Holding for the year ended December 31, 2001.

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, 19 March 2002



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