Financial Report
1999/2000

Schaffner Holding AG

SCHAFFNER

Dieser Geschäftsbericht ist auch in Deutsch erhältlich.

Contents

Schaffner Group

Consolidated balance sheet

in CHF 1000	note	30/9/00	30/9/99
Intangible assets	3, 33	9 098	9 276
Fixed assets	4	27 872	27 302
Investments	5	733	27
Other long-term assets	6	3 252	1 166
Non-current assets		**40 955**	**37 771**
Inventories	7	41 304	30 779
Trade receivables	8	42 071	35 625
Other receivables and accruals	9	12 753	5 645
Short-term investments	10	0	114
Cash and cash equivalents	11	9 435	7 019
Current assets		**105 563**	**79 182**
Total assets		**146 518**	**116 953**
Shareholders' equity	12, 33	**62 058**	**43 539**
Minority interests	13	**195**	**200**
Provisions	14	6 508	4 958
Long-term borrowings	15	36 827	31 672
Short-term borrowings	15	6 361	12 312
Interest-free liabilities	16	34 569	24 272
Total liabilities		**84 265**	**73 214**
Total liabilities and shareholders' equity		**146 518**	**116 953**

Schaffner Group

Statement of changes in consolidated equity capital

in CHF 1000	Share capital	Capital reserves	Cumulative translation differences	Retained earnings	Treasury shares	**Total share-holders' equity**
At 1/10/98	**31 600**	**52 537**	**265**	**–47 653**	**–1 586**	**35 163**
Restatement IAS 38				–2 527		–2 527
At 1/10/98 after restatement	**31 600**	**52 537**	**265**	**–50 180**	**–1 586**	**32 636**
Translation differences			316			316
Treasury shares				–397	741	344
Net profit				12 139		12 139
Dividend payment				–1 896		–1 896
At 30/9/99	**31 600**	**52 537**	**581**	**–40 334**	**–845**	**43 539**
Capital increase	55	104				159
Translation differences			517			517
Treasury shares				1 974	–2 797	–823
Net profit				21 172		21 172
Dividend payment				–2 506		–2 506
At 30/9/00	**31 655**	**52 641**	**1 098**	**–19 694**	**–3 642**	**62 058**

Schaffner Group

Consolidated income statement

in CHF 1000	note	1999/2000	1998/1999
Net sales	18	**184 892**	**150 703**
Change in inventory		8 040	–750
Output performance		**192 932**	**149 953**
Cost of materials		–81 499	–59 013
Personnel costs	20, 21	–58 296	–47 933
Depreciation of fixed assets	4	–4 957	–4 483
Other operating expenses	3, 14	–27 150	–23 196
Other operating income		1 728	1 759
EBITA	19	**22 758**	**17 087**
Goodwill depreciation	3	–1 084	–1 080
EBIT		**21 674**	**16 007**
Earnings from sale of subsidiaries after taxes	22	5 304	0
Financial income, net	23	–3 174	–3 308
EBT		**23 804**	**12 699**
Income taxes	24	–2 661	–542
Net profit before minority interests		**21 143**	**12 157**
Minority interests	13	**29**	**–18**
Net profit after minority interests		**21 172**	**12 139**
Earnings per share			
basic	31	33.96	19.33
diluted	31	33.30	19.21
Earnings per share before sale of subsidiaries			
basic	31	25.45	
diluted	31	24.96	

Schaffner Group

Consolidated cash flow statement

in CHF 1000	note	1999/2000	1998/1999
Net profit before minority interests		21 143	12 157
– Earnings from sale of subsidiaries before taxes	22	–5 724	0
+ Income taxes including taxes on sale of subsidiaries	22, 24	3 582	740
+ Interest expenses	23	2 269	2 428
Earnings before interest, taxes and earnings from sale of subsidiaries		21 270	15 325
+ Depreciation of fixed assets	4	4 957	4 483
+ Change in provisions (excl. tax provisions)		882	515
– Change in net working capital	25	–7 051	–1 614
– Taxes paid		–738	–490
– Interest paid		–2 294	–2 584
± Change in other cash flow items	26	–363	944
Cash flow from operating activities		**16 663**	**16 579**
– Capital expenditure (fixed assets)	4	–6 592	–4 044
+ Gain from sale of fixed assets		936	513
– Capital expenditure (intangible assets excl. development)	3	–442	–24
– Capitalization of development costs	3	–1 138	–1 067
± Change in short-term investments	10	114	–38
– Change in investments	2	–671	–162
– Change in loans and long-term assets		–824	–37
Cash flow from investing activities		**–8 617**	**–4 859**
– Share capital paid in and changes in treasury shares		–664	–152
– Dividend distributions		–2 506	–1 896
– Change in borrowings	27	–2 556	–7 544
Cash flow from financing activities		**–5 726**	**–9 592**
+ Translation differences on cash and cash equivalents		96	190
= **Change in cash and cash equivalents**		**2 416**	**2 318**
Cash and cash equivalents previous year	11	7 019	4 701
Cash and cash equivalents for the business year	11	9 435	7 019

Notes to the consolidated financial statements

Consolidation and valuation principles

Principles

The consolidated financial statements are based on the individual financial statements of the Schaffner Subsidiaries and Schaffner Holding AG as of 30 September, drawn up in accordance with the uniform guidelines of the Schaffner Group. Apart from the exception stated under note 12, the financial statements of the Schaffner Group have been prepared in conformity with the International Accounting Standards (IAS).

Explanation of terms

A Subsidiary is a company over which Schaffner Holding AG, Luterbach, directly or indirectly exercises control. An Associated Company is a company in which Schaffner Holding AG, Luterbach, directly or indirectly, exercises a significant influence.

Long-term borrowings refer to all liabilities with maturities of more than one year, and short-term borrowings refer to all liabilities with maturities of one year or less. Short-term borrowings also include those parts of long-term financial liabilities maturing within one year. All interest-bearing liabilities are included under borrowings.

The financial statements are denominated in Swiss Francs. All other currencies are deemed to be foreign currencies for the Schaffner Group.

Consolidation principles

The consolidated financial statements incorporate the financial statements of Schaffner Holding AG and of the Subsidiaries and Associated Companies.

Subsidiaries are consolidated using the full consolidation method. Applying this method, 100% of assets and liabilities and of income and expenses are included, and the interests of minority shareholders are reported separately in the balance sheet and income statement. Associated Companies are consolidated under the equity method with the pro-rata shareholders' equity in the balance sheet, and the pro-rata profit in the income statement.

Intra-Group assets and liabilities as well as income and expenses are set off against each other. Intra-Group intermediate profits on inventories and fixed assets are eliminated. Companies acquired during the reporting period are included in the consolidated financial statements effective from the actual date of their acquisition. Similarly, companies disposed of during the reporting period remain included in the consolidated financial statements until the transaction has been effectively completed.

Foreign currency translation

All assets and liabilities in the balance sheets of foreign Subsidiaries drawn up in foreign currency are translated at the year-end rate (qualifying date rate) in Swiss Francs (CHF). Expenses, income and cash flows are translated at average annual rates into Swiss Francs, which correspond approximately to the actual transaction rates. Translation differences arising from the application of different exchange rates for the balance sheet and the income statement are posted to Group retained earnings without affecting income and are shown in the statement of shareholders' equity as cumulative translation differences.

Foreign currency transactions

Foreign currency transactions by Subsidiaries are translated at the market rate prevailing at the time. The assets and liabilities concerned are translated at the year-end rates. Gains and losses arising from the transactions as well as from the translation of monetary assets and liabilities in foreign currencies are recorded as income or expenses in the income statement.

Intangible assets

Intangible assets comprise mainly goodwill on companies acquired, capitalized expenses for development and software purchased. Apart from goodwill, these are depreciated over a period of three to five years using the straight-line method.

Goodwill

At the date of the initial consolidation, the assets and liabilities of a Subsidiary included for the first time in the consolidation are valued in accordance with uniform principles. Any positive difference between the purchase price and net assets of the acquired Subsidiary is termed goodwill. Goodwill is capitalized and depreciated its useful life by using the straight-line method. An exception to this principle was made for the goodwill arising from the purchase of Schaffner EMV AG by Schaffner Holding AG as per note 12.

Research and development costs

Research and development costs are charged to the income statement when incurred, except for major development projects where the market potential can be reasonably estimated, which is normally the case just before their market introduction. Such development costs are capitalized and depreciated over the life of the product, subject to a maximum of five years.

Fixed assets

Fixed assets are valued at historical production or acquisition cost and depreciated over their estimated useful life, using the straight-line method:

Land	none
Buildings	10 – 40 years
Machinery and equipment	5 – 10 years
Furniture and fixtures	5 – 10 years
EDP hardware	3 – 5 years
Vehicles	3 – 5 years

Leasing agreements under which a Subsidiary assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the market value of the asset or, if lower, at the present value of the lease payments. At the same time the corresponding leasing obligations are included in long-term borrowings. The interest part of the leasing rates is charged to the income statement. Payments made under operating leasing agreements are charged to the income statement in equal instalments over the life of the contract.

Borrowing costs arising from the construction of an asset are recognized as an expense in the income statement in the period when they occur.

Inventories

Inventory is valued at the lower of cost and net realizable value using the weighted average method. Work in process and finished goods include the cost of material and calculated production overhead.

Trade receivables

The balance sheet carrying value corresponds to the nominal value less appropriate value adjustments for claims where recovery is difficult or impossible (doubtful debtors provision).

Short-term investments

These are split into two positions: marketable securities and other securities. Marketable securities contain shares listed on the stock exchange and are valued at market price. Other securities contain shares which are not (yet) listed and are valued at the lower of cost or market.

Treasury shares are presented as a deduction from equity.

Cash and cash equivalents

Cash and cash equivalents consist of cash, deposits on postal and bank accounts as well as of call and short-term deposits.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions for warranty claims are made based on business experience.

Revenue recognition

Sales are generally recognized in the income statement upon delivery with the exception of sales of large projects whose construction and delivery are extended over more than one accounting period. Such large project sales are valued according to the rules of the percentage of completion method, whereby sales revenue is recognized in proportion of the stage of completion.

Pension obligations

The Schaffner Group operates several pension plans throughout the world. The pension plans are generally funded by payments from employees and by the relevant Subsidiares, taking account of the recommendations of independent qualified actuaries. The accumulated assets of the plans are normally held in separate trustee-administered funds. If the assets are not held in such funds, then those assets whose purpose is to secure future pension obligations are recognized as Other Long-Term Assets in the balance sheet and the corresponding pension obligation is shown in Provisions.

For defined benefit plans, the pension costs are assessed by applying the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the expected service lives of employees in accordance with the advice of qualified actuaries who carry out the valuations of the plans. The Schaffner Group implemented IAS 19 (revised) Employee Benefits in the Annual Report 1999/2000. No adjustments for transitional liabilities to retained earnings had to be made.

The Schaffner Group's contributions to the defined contribution plans are charged to the income statement in the year to which they relate.

Actuarial gains are depreciated in the Profit and loss statement over the remaining average service years.

Income taxes

Tax provisions are made on the basis of reported profits for the period for which they are payable. They are calculated in conformity with the tax laws prevailing in the individual countries.

Provision for deferred taxes is made based on the comprehensive and the liability method. Under the liability method, actual or announced future tax rates and laws are applied. The comprehensive method allows for all temporary differences arising between financial statement and income tax reporting. The principal temporary differences arise from depreciation of fixed assets and from other depreciation and valuation adjustments allowable for tax purposes.

Government grants

Revenue-based grants are credited against the relevant expense in the period in which the expense is incurred.

Government grants on fixed assets are netted off against the subsidized fixed asset.

Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, trade creditors, leases and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Schaffner Holding AG or its subsidiaries can also be parties to financial instruments which reduce exposure to fluctuations in foreign currency exchange and interest rates. These instruments, which mainly comprise foreign currency forward contracts, interest rate swap agreements or interest rate CAP agreements, are not recognized in the financial statements on inception. The sole purpose of these instruments is to reduce risk exposure.

Foreign currency forward contracts protect the Schaffner Group from movements in exchange rates by establishing the rate at which foreign currency assets or liabilities will be settled. Any increase or decrease in the amount required to settle the foreign currency assets or liabilities is offset by a corresponding movement in the value of the forward exchange contract. The gains and losses from the settlement of foreign currency assets or liabilities and from the settlement of foreign currency forward contracts are therefore offset for financial reporting purposes and are not recognized as such in the financial statements.

Interest rate swap agreements and interest rate CAP agreements protect the Schaffner Group from movements in interest rates. Any differential to be paid or received on an interest rate swap agreement is recognized as a component of interest expense or revenue over the period of the agreement. Any premium or fee to be paid for an interest rate CAP agreement is recognized as financial expense and any differential to be received from such an agreement is recognized as financial income over the period of the agreement.

Gains and losses on early termination of interest rate swap agreements or on interest rate CAP agreements are taken to the income statement.

1. Foreign currencies

The following exchange rates were applied for the translation of foreign currencies:

		Balance sheet		Income statement	
		30/9/00	30/9/99	1999/2000	1998/1999
Country	Currency	CHF	CHF	CHF	CHF
Great Britain	100 GBP	255.24	247.54	256.8608	238.1108
Japan	10 000 JPY	160.05	140.82	156.0000	125.9400
Singapore	100 SGD	99.23	88.44	96.8463	86.8095
Sweden	1000 SEK	179.55	183.58	186.7250	178.6830
Thailand	1000 THB	40.99	36.71	42.3690	39.1320
USA	100 USD	172.61	150.35	165.5442	146.5367
EMU	100 EUR	152.61	160.01	157.7800	160.3367

2. Consolidation scope

Schaffner Altrac AG, Dietikon (Switzerland), was sold to the German Fortec group as per 30 September 2000. The sales price amounted to CHF 8,0 million.

3. Intangible assets

in CHF 1000	Development cost	Software and rights	Goodwill	Total
Historical cost at 1/10/99	**2 130**	**1 120**	**9 029**	**12 279**
Capital expenditure	1 138	442		1 580
Disposals	–3			–3
Translation differences	–86	–50		–136
Historical cost at 30/9/00	**3 179**	**1 512**	**9 029**	**13 720**
Accumulated depreciation at 1/10/99	**–161**	**–1 088**	**–1 754**	**–3 003**
Depreciation	–530	–68	–1 084	–1 682
Disposals	3			3
Translation differences	9	51		60
Accumulated depreciation at 30/9/00	**–679**	**–1 105**	**–2 838**	**–4 622**
Net book value at 30/9/00	**2 500**	**407**	**6 191**	**9 098**

Goodwill is depreciated over a period of five to ten years. For start-up costs see also note 33.

4. Fixed assets

in CHF 1000	Land and buildings	Machinery and equipment	EDP	Furniture and fixtures	Vehicles	Construction in progress	**Total**
Historical cost at 1/10/99	**33 164**	**27 923**	**5 326**	**7 723**	**1 821**	**86**	**76 043**
Capital expenditure	308	2 506	974	1 201	296	1 307	6 592
Disposals	–40	–4 542	–646	–1 584	–571		–7 383
Transfers	1 406					–1 406	0
Translation differences	143	475	–62	73	6	13	648
Change in consolidation scope	–8	–55	–680	–426	–136		–1 305
Historical cost at 30/9/00	**34 973**	**26 307**	**4 912**	**6 987**	**1 416**	**0**	**74 595**
Accumulated depreciation at 1/10/99	**–17 615**	**–20 715**	**–3 423**	**–5 870**	**–1 118**	**0**	**–48 741**
Depreciation	–1 014	–1 954	–1 067	–631	–291		–4 957
Disposals	40	3 579	613	1 521	420		6 173
Translation differences	–65	–177	25	–62	1		–278
Change in consolidation scope		40	629	307	104		1 080
Accumulated depreciation at 30/9/00	**–18 654**	**–19 227**	**–3 223**	**–4 735**	**–884**	**0**	**–46 723**
Net book value at 30/9/00	**16 319**	**7 080**	**1 689**	**2 252**	**532**	**0**	**27 872**

At 30/9/2000 as well as at 30/9/1999, no assets under finance leasing contracts were included in the net book value of total fixed assets. The fire insurance value of Group properties on 30/9/2000 amounted to CHF 37 953 000 (30/9/1999: CHF 35 507 000). The fire insurance value of the remaining fixed assets at 30/9/2000 amounted to CHF 37 723 000 (30/9/1999: CHF 38 367 000 exclusive of stocks).

At 30/9/2000 commitments for the acquisition of property, plant and equipment in the amount of CHF 287 000 existed (30/9/1999: CHF 72 000).

The depreciation of the year of CHF 4 957 000 in 1999/2000 (1998/99: CHF 4 483 000) contains the depreciation of fixed assets not used for operating purposes in the amount of CHF 513 000 (1998/99: CHF 474 000).

Neither in 1999/2000 nor in 1998/99 assets have been impaired or existing impairments reversed.

5. Investments

The balance sheet item Investments represents a minority stake of 20% of Schaffner Holding AG in Axium SA, Argences, France, which originated in the 1993/94 business year from the sale of the French heat sink production. The stake value rose by CHF 706 000 in the actual business year.

6. Other long-term assets

in CHF 1000	30/9/00	30/9/99
Present value of pension plan assets	349	316
Deferred tax assets	1 709	704
Loans	1 194	146
Total	**3 252**	**1 166**

7. Inventories

in CHF 1000	30/9/00	30/9/99
Raw materials	15 660	11 033
Work in process	6 211	5 908
Semi-finished and finished goods	19 433	13 838
Total	**41 304**	**30 779**

The total contains CHF 1 561 000 which are valued at net realizable value.

8. Trade receivables

in CHF 1000	30/9/00	30/9/99
Debtors	42 426	35 726
Doubtful debtors provision	–355	–101
Total	**42 071**	**35 625**

9. Other receivables and accruals

in CHF 1000	30/9/00	30/9/99
Taxes incl. withholding and value-added taxes	1 911	2 539
Other receivables	1 361	641
Receivables from sale of subsidiaries	8 000	0
Accruals	1 481	2 465
Total	**12 753**	**5 645**

10. Short-term investments

This item shows marketable securities in the amount of CHF 114 000 in the previous year.

11. Cash and cash equivalents

in CHF 1000	30/9/00	30/9/99
Short-term deposits	0	1 091
Banks, postal accounts, cash	9 435	5 928
Total	**9 435**	**7 019**

12. Shareholders' equity

In July 1996, Schaffner Holding AG purchased Schaffner EMV AG retroactively on 1 October 1995 from Elektrowatt AG at the price of CHF 85 000 000. Schaffner Holding AG was set up in spring of 1996 solely for this purpose, and apart from controlling Schaffner EMV AG (including subsidiary companies), it has no other activity.

On the initial consolidation of Schaffner EMV AG (including subsidiary companies) with Schaffner Holding AG, goodwill of CHF 68 170 000 was created. Because this goodwill was derived from a purely financial transaction, which had no effect on the operating activity of the Schaffner Group, it was set off in full in the consolidated opening balance sheet of Schaffner Holding AG, against the consolidated shareholders' equity.

On 2 June 1998 an extraordinary general meeting of shareholders decided to make a conditional increase in share capital of CHF 1 264 000, made up of 25 280 shares at par value of CHF 50.– each to cover open positions associated with an employee share option scheme (see also note 30). In the current business year 1100 shares at par value of CHF 50.– each have been issued in the context of the employee share option plan.

Further information to the share capital and the treasury shares is disclosed in the financial statements of Schaffner Holding AG.

Concerning start-up costs see also note 33.

13. Minority interests

As in the previous year, there exist minority interests of 35% in Schaffner EMC (Pte) Ltd. Singapore.

in CHF 1000	**30/9/00**	**30/9/99**
Beginning balance	200	191
Additions/Disposals	0	–23
Share of profit (loss)	–29	18
Translation differences	24	14
Dividend of previous year	0	0
Closing balance	**195**	**200**

14. Provisions

in CHF 1000	Warranty provisions	Deferred taxes	Provisions for employee benefits	Provisions from sale of subsidiaries	Total
Opening balance at 1/10/99	**39**	**3 310**	**1 609**	**0**	**4 958**
Additions	9	462	279	1 000	1 750
Use	0	0	–5	0	–5
Reversal unused amounts	0	–3	0	0	–3
Change in consolidation scope	0	–93	0	0	–93
Translation differences	–1	–14	–84	0	–99
Closing balance at 30/9/00	**47**	**3 662**	**1 799**	**1 000**	**6 508**

15. Borrowings

The average interest rate on loans amounted to 4.5% in 1999/2000 (4.3% in 1998/99).

16. Interest-free liabilities

in CHF 1000	30/9/00	30/9/99
Trade payables	15 530	11 592
Other short-term liabilities	11 002	8 188
Accrued liabilities	2 596	1 539
Taxes incl. value-added tax	5 441	2 953
Total	**34 569**	**24 272**

17. Contingent liabilities, contingent assets and pledged assets

To secure own liabilities of the Group, receivables in the amount of CHF 2 742 000 were pledged at 30/9/2000 (CHF 2 077 000 at 30/9/1999). At the end of both the 1999/2000 and 1998/1999 business years, neither contingent liabilities nor contingent assets existed.

18. Net sales

in CHF 1000	1999/2000	1998/1999
Own sales companies	155 139	125 647
Distributors	29 753	25 056
Total	**184 892**	**150 703**

The category "distributors" covers the sales derived from direct deliveries from the Group's central warehouse in Illzach (France) to independent distributors.

19. Expenses by functions

in CHF 1000	1999/2000	in % of total expenses	in % of sales	1998/1999	in % of total expenses	in % of sales
Cost of goods and services sold	105 081	64.8%	56.8%	84 285	63.1%	55.9%
Currency transaction differences	–796	–0.5%	–0.4%	–1 330	–1.0%	–0.9%
Marketing and sales	27 499	17.0%	14.9%	23 857	17.9%	15.8%
Maintenance and support	3 226	2.0%	1.7%	2 435	1.8%	1.6%
Research, development and application	11 405	7.0%	6.2%	9 279	6.9%	6.2%
Capitalized development	–1 138	–0.7%	–0.6%	–1 067	–0.8%	–0.7%
General and Administration	15 672	9.7%	8.5%	14 700	11.0%	9.8%
Other income / expense	1 265	0.7%	0.6%	383	0.3%	0.3%
Net income from properties	–80	0.0%	0.0%	126	0.1%	0.1%
Restructuring expenses	0	0.0%	0.0%	948	0.7%	0.6%
Total	**162 134**	100.0%	87.7%	**133 616**	100.0%	88.7%

– = income + = cost

Net sales	184 892	150 703
Expenses by functions	–162 134	–133 616
EBITA	**22 758**	**17 087**

The presentation of the function of expenses has been reviewed to reflect the needs of modern financial analysis which lead to some reclassifications in the previous year. Concerning start-up costs see also note 33.

20. Personnel expenses and number of employees

in CHF 1000	1999/2000	1998/1999
Salaries and wages	49 669	40 657
Termination benefits	13	0
Social costs	4 743	3 690
Pension plans – defined contribution plans	2 445	2 267
Pension plans – defined benefit plans	1 426	1 319
Total personnel expenses	**58 296**	**47 933**

Number of employees in full-time equivalents

(Average of the year)	1999/2000	in % of all employees	1998/1999	in % of all employees
Production	1 208	76.1%	871	70.0%
Marketing and sales	151	9.5%	144	11.6%
Maintenance and support	28	1.8%	24	1.9%
Application support	105	6.6%	101	8.1%
Administration	95	6.0%	104	8.4%
Total employees by function	**1 587**	**100.0%**	**1 244**	**100.0%**
China	6	0.4%	6	0.5%
France	53	3.3%	52	4.2%
Germany	62	3.9%	65	5.2%
Great Britain	61	3.8%	61	4.9%
Ireland	102	6.4%	100	8.0%
Italy	4	0.3%	4	0.3%
Japan	8	0.5%	7	0.6%
Sweden	4	0.3%	4	0.3%
Switzerland	286	18.0%	258	20.7%
Singapore	8	0.5%	7	0.6%
Thailand	958	60.4%	639	51.4%
USA	35	2.2%	41	3.3%
Total employees by country	**1 587**	**100.0%**	**1 244**	**100.0%**

21. Pension plans and other post employment benefits

Apart from state pension plans there exist plans in the Group which are classified as defined benefit plans under IAS 19 (revised 1998). These plans have been valued by specialized actuaries as per 31 December 1999 and are being reviewed every two to three years.

The biggest part of the assets is funded in legally independent organizations from the company. The first application of IAS 19 (revised 1998) led to a transitional asset of CHF 3 176 269. As this asset does not fulfil the criteria for recognition it was not capitalized in the balance sheet. If the plan is unfunded, the relevant assets and liabilities are shown in the balance sheet.

The actuarial calculations showed the following values (in CHF):

Funded plans	**30/9/00**
Fair value of plan assets	40 563
Present value of obligations	–37 387
Net status of overcoverage	**3 176**
Amount not recognized as an asset	–3 176
Net status in balance sheet	**0**

Unfunded plans	
Present value of obligations	1 831
Past service cost not yet recognized in balance sheet	–259
Present value of pension plan liabilities recognized in balance sheet	**1 572**

The plan assets contain shares of Schaffner Holding AG with a fair value of CHF 324 800 (previous year: CHF 203 112).

Amounts recognized in balance sheet	**30/9/00**
Present value of pension plan assets	349
Pension plan liabilities	1 572

Changes of assets and liabilities in balance sheet	
Beginning balance of pension plan liability	1 398
Pension cost	158
Past service cost	87
Translation differences	–71
Closing balance of pension plan liability	**1 572**
Other benefits to employees	227
Closing balance of provision for employee benefits	**1 799**

Expenses recognized in profit and loss statement	1999/2000
Current service cost	2 587
Interest cost	1 495
Expected return on plan assets	–2 231
Past service cost	87
Employee contributions	–698
Total pension cost	**1 240**
Not recognized as earnings (see explanation above)	186
Total as per income statement	**1 426**

Principal actuarial assumptions (weighted)	
Discount rate	4.05%
Expected return on plan assets	5.51%
Future salary increases	2.00%
Future pension increases	1.48%

22. Earnings from sale of subsidiaries

in CHF 1000	1999/2000	1998/1999
Proceeds from sale	8 000	0
Equity of subsidiary sold	–913	0
Provision for transfer risks	–1 000	0
Revaluation of inventory due to transfer	–363	0
Total earnings from sale of subsidiaries before taxes	**5 724**	**0**
Taxes on earnings from sale of subsidiaries	–420	0
Total earnings from sale of subsidiaries after taxes	**5 304**	**0**

23. Financial income

in CHF 1000	1999/2000	1998/1999
Interest income	326	309
Investment income	764	0
Total financial income	**1 090**	**309**
Interest expenses	–2 269	–2 428
Other financial expenses	–397	–1 110
Currency losses on borrowings (net)	–1 598	–79
Total financial expenses	**–4 264**	**–3 617**
Financial income (net)	**–3 174**	**–3 308**

24. Taxes

in CHF 1000	1999/2000	1998/1999
Current income taxes	–3 162	–740
Deferred income taxes	501	198
Total	**–2 661**	**–542**

Actual income taxes for the business year	–3 160	–1 109
Changes in income taxes for other periods arising in the business year	–2	369
Total	**–3 162**	**–740**

Unused tax losses for which no tax asset has been created:

Expiry in one year	0	0
Expiry in two years	0	24
Expiry in three years	0	0
Expiry in four years	8	4
Expiry in five years	0	0
Expiry in more than five years	0	2 638
Total	**8**	**2 666**

Reconciliation from pre-tax profit to effective tax expense:

Pre-tax profit (before earnings from sale of subsidiaries)	18 919	12 699
Applicable tax rate	20.9%	17.6%
Expected tax at applicable tax rate	–3 954	–2 235
Effect of change in tax rate	25	0
Effect of utilization of prior year losses	834	823
Effect of tax rates other than applicable tax rate	195	87
Effect of expenses not deductible for tax purposes	–106	–176
Effect of earnings which are not taxable	234	842
Effect of non-capitalization of actual year losses	0	–146
Others	111	263
Tax expense as per income statement	**–2 661**	**–542**

25. Change in net working capital (NWC)

in CHF 1000	1999/2000	1998/1999
NWC in opening balance sheet	47 777	45 622
– NWC in closing balance sheet	–61 559	–47 777
Change in NWC in balance sheet	**–13 782**	**–2 155**
+ Translation differences on NWC	241	431
+ Change in NWC from acquisition of subsidiaries	0	110
+ Change in NWC from disposal of subsidiaries	6 490	0
Change in NWC in cash flow statement	**–7 051**	**–1 614**

Allocation of change to balance sheet items:

Change in inventory	–10 525	4 771
Change in receivables and accruals	–13 554	–1 271
Change in interest-free liabilities	10 297	–5 655
Change in NWC in balance sheet	**–13 782**	**–2 155**

26. Other cash flow items

in CHF 1000	1999/2000	1998/1999
Loss on the sale of fixed assets	274	75
Currency transaction differences on borrowings	1 598	79
Goodwill depreciation	1 084	1 080
Non-cash investment in other long-term assets	–1 005	–704
Changes in tax accruals	–2 844	456
Changes in interest accruals	25	156
Changes in provisions for deferred taxes	505	–198
Other cash flow items	**–363**	**944**

27. Change in borrowings

in CHF 1000	1999/2000	1998/1999
Borrowings in closing balance sheet	43 188	43 984
– Borrowings in opening balance sheet	–43 984	–50 922
Change in borrowings in balance sheet	**–796**	**–6 938**
– Currency translation differences on borrowings	–162	–527
Change in borrowings from operating activities	**–958**	**–7 465**
– Currency transaction differences on borrowings	–1 598	–79
Change in borrowings in cash flow statement	**–2 556**	**–7 544**

28. Government grants

in CHF 1000	1999/2000	1998/1999
Grants related to income	0	–313
Grants related to assets	9	5

29. Segment information

The Schaffner Group concentrates on products and services in the market of electromagnetic compatibility which forms the primary segment. The geographical segment (secondary segment) is composed of Europe, North America, Asia and Rest of world. The activities exercised by the group companies are shown on page 35 and are split into the functions Development, Production, Sales and Distribution and by country of incorporation.

in CHF 1000	1999/2000	1998/1999
Sales by region		
Europe	122 381	102 540
North America	36 320	29 304
Asia	23 481	15 950
Rest of world	2 710	2 909
Total	**184 892**	**150 703**
Assets by region		
Europe	110 106	92 979
North America	17 405	12 429
Asia	19 007	11 545
Rest of world	0	0
Total	**146 518**	**116 953**
Capital expenditure by region		
Europe	4 823	3 418
North America	290	255
Asia	3 059	1 462
Rest of world	0	0
Total	**8 172**	**5 135**

30. Employee share option plan

Since 1 October 1998 share options are distributed to key management and members of the board of directors, giving the right to purchase shares in Schaffner Holding AG. The distribution of share options is regulated by the Employee Share Option Plan 1998 (ESOP), which bases itself on conditional share capital in the amount of CHF 1 264 000.–, representing 25 280 shares in Schaffner Holding AG with a nominal value of CHF 50.– each.

The ESOP's beneficiaries are allowed to exercise the first twenty percent of the options granted to them one year after having received the options, and thereafter another twenty percent in each consecutive year. After five years, all granted options can be exercised. Options expire latest after ten years. Beneficiaries who leave the Group can no longer exercise their options.

	1999/2000	1998/1999
Outstanding share options in number of options		
At beginning of the year	14 800	14 200
Granted	9 150	600
Exercised	–1 100	0
Expired / cancelled	–1 533	0
At the end of the year	**21 317**	**14 800**

In the business year 1999/2000 share options with an exercise price of CHF 212.50 have been granted. The earliest execution date of the 1999/2000 tranche is 25 November 2000, the entire tranche expires on 25 November 2009. Share options exercised in the business year led to a switch from conditional share capital to ordinary share capital of 1100 shares. The underlying exercise price was CHF 145.– which led to the following proceeds:

	1999/2000	1998/1999
in CHF 1000		
Share capital at par value	55 000	0
Share premium	104 500	0
Proceeds from exercised share options	**159 500**	**0**

The conditions of the share options outstanding at the end of the business year were the following:

	Exercise price	1999/2000	1998/1999
in number of options			
Expiry date 30/9/2008	145.00	11 767	13 600
Expiry date 2/12/2008	202.00	600	600
Expiry date 11/1/2009	208.00	600	600
Expriy date 25/11/2009	212.50	8 350	0
Total		**21 317**	**14 800**

31. Net profit per share

	1999/2000	1998/1999
Net profit after minority interests, in CHF 1000	21 172	12 139
Earnings from sale of subsidiaries, in CHF 1000	–5 304	0
Net profit before earnings from sale of subsidiaries, in CHF 1000	15 868	12 139
Weighted average number of outstanding shares	623 436	627 984
Basic earnings per share, in CHF	33.96	19.33
Basic earnings per share before earnings from sale of subsidiaries, in CHF	25.45	19.33
Options granted, number of shares	21 317	14 800
Discount factor in % of average market price	57.9%	25.4%
Relevant number of outstanding share options	12 337	3 766
Adjusted weighted average number of outstanding shares	635 773	631 750
Diluted earnings per share, in CHF	33.30	19.21
Diluted earnings per share before earnings from sale of subsidiaries, in CHF	24.96	19.21

32. Financial instruments

in CHF 1000	Currency	Face value	Market price	Expiry date	Strike
Interest rate swap	CHF	20 000	0	30/9/03	3.75%
Foreign currency forward contract THB/USD	THB	35 400	–12	div.	n/a
Foreign currency forward contract CHF/USD	USD	2 000	–54	30/3/01	n/a

The interest rate swaps were entered into to cover the interest rate risk on long-term borrowings.

The Schaffner Group has no significant concentration of credit risks. Derivative instruments are entered with and cash is placed with substantial financial institutions. The credit exposure of derivatives are represented by the net fair values of the open contracts.

33. Adoption of IAS 38

IAS 38 which becomes applicable for the first time for the business year 1999/2000 prescribes that start-up costs be not capitalized. Previously capitalized start-up costs which are not yet fully depreciated as per the first reporting period shown (1 October 1998) are to be reported as an adjustment to the opening balance of retained earnings (benchmark treatment). The Schaffner Group had capitalized start-up costs in the amount of CHF 2.527 million as per 1 October 1998. The relevant depreciation of CHF 1.210 million has been correspondingly eliminated in the business year 1998/1999 as well as the remaining net book value of CHF 1.317 million. In the business year 1999/2000 there would have been depreciations in the amount of CHF 1.317 million if the standard had not been introduced. These CHF 1.317 million would have brought the net book value to zero.

Schaffner Group

Report of the Group auditors

**To the general meeting
of Schaffner Holding AG, Luterbach**

As auditors of the group, we have audited the consolidated financial statements (balance sheet, statement of shareholders' equity, income statement, cash flow statement and notes) of Schaffner Holding AG for the year ended 30 September 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 and with the International Standards on Auditing issued by the International Federation of Accountants (IFAC), 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 International Accounting Standards (IAS) and comply with the law and the accounting provisions as contained in the Listing Rules of the Swiss Exchange, with the following exception:

As disclosed in the notes, goodwill arising from the acquisition of Schaffner EMV AG in July 1996 was charged directly against equity. According to International Accounting Standards goodwill should be recognized as an asset and amortized by recognizing it as an expense over its useful life.

We recommend, in spite of the above exception, that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

P. Haller T. Samoel

Zurich, 24 November 2000

Financial statements of Schaffner Holding AG

Contents

Schaffner Holding AG

Balance sheet

in CHF 1000	30/9/00	30/9/99
Start-up costs	0	1 306
Investments	85 730	85 000
Non-current assets	**85 730**	**86 306**
Receivables from subsidiaries	7 372	8 077
Receivables from third parties and accruals	305	850
Short-term investments and term deposits	4 072	786
Cash and cash equivalents	228	40
Current assets	**11 977**	**9 753**
Total assets	**97 707**	**96 059**
Share capital	31 655	31 600
Legal reserves	315	315
Reserve for own shares	3 642	845
Share premium	50 024	49 919
Retained earnings	6 666	9 608
Net profit of the year	3 228	2 362
Shareholders’ equity	**95 530**	**94 649**
Accrued liabilities	2 177	1 410
Total liabilities	**2 177**	**1 410**
Total liabilities and shareholders’ equity	**97 707**	**96 059**

Schaffner Holding AG

Income statement

in CHF 1000	1999/2000	1998/1999
Dividends	840	2 380
Other income	7 146	4 571
Total income	**7 986**	**6 951**
Personnel expenses	–4 131	–2 563
Operating expenses	–1 818	–1 311
Depreciation of start-up costs	–1 306	–1 200
Interest expenses	–19	–1
Other financial expenses	–15	–53
Interest income	288	235
Other financial income	2 465	269
Currency transaction losses on borrowings (net)	0	1
Income taxes	–222	34
Net profit	**3 228**	**2 362**

Notes to the financial statements

in CHF 1000	30/9/00	30/9/99
Contingent liabilities		
Joint liability for group liabilities	98 462	96 000
Joint liability for third party	1 000	0

Conditional share capital

25 280 shares at par value of CHF 50.– each, i.e. CHF 1 264 000 in total. At 30/9/2000 21 317 share options were outstanding which give the right to buy one registered share in Schaffner Holding AG. In this business year 1100 share options have been exercised. Therefore, the conditional share capital has been reduced to CHF 1 209 000.

Investments

Schaffner EMV AG, Luterbach, Switzerland; 100% of share capital of CHF 14 million.

Information about own shares

At 30/9/2000 Schaffner Holding AG held 8775 own shares (30/9/1999: 4227) at an average purchase price of CHF 415.– (previous year: CHF 200.–) each. The special reserve for own shares therefore amounts to CHF 3 641 625.

Important shareholders	Number of shares	Capital stake
Julius Bär Multistock	40 000	6.4%
Various shareholders with a stake of less than 5%	584 325	93.6%
Total	**624 325**	**100.0%**
Own shares	8 775	
Total shares	**633 100**	

There are no further facts that require to be reported under Art. 663b of the Swiss Code of Obligations.

Proposal for the appropriation of retained earnings

in CHF 1000	1999/2000
The board of directors proposes to the Annual General Meeting that the retained earnings be appropriated as follows:	
Net profit of the 1999/2000 business year	3 228
Retained earnings brought forward	9 464
Changes in reserves for own shares held by the company or its subsidiaries	–2 797
Retained earnings at disposal of Annual General Meeting	**9 895**
Dividend of CHF 5.– gross per registered share *	**–3 122**
To be carried forward	**6 773**

* All shares which are not held by the company or one of its subsidiaries are dividend-bearing.

Total registered shares issued	633 100
Shares held by the company or its subsidiaries	–8 775
Dividend-bearing shares	624 325

Report of the statutory auditors

To the general meeting
of Schaffner Holding AG, Luterbach

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Schaffner Holding AG for the year ended 30 September 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 profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatements. 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 the financial statements and the proposed appropriation of available earnings comply with the law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

P. Haller T. Samoel

Zurich, 24 November 2000

Companies of the Schaffner Group

Company	Country	Capital (1000)	Interest	Activity
Schaffner Holding AG, Luterbach	Switzerland	CHF 31 655	100%	
Schaffner EMV AG, Luterbach	Switzerland	CHF 14 000	100%	▲ ■ ●
Schaffner Altrac AG, Dietikon[1]	Switzerland	CHF 250	100%	▲ ●
Schaffner EMV GmbH, Karlsruhe	Germany	EUR 511	100%	▲ ●
Schaffner MEB Berlin GmbH, Berlin	Germany	EUR 256	100%	▲ ■ ●
Schaffner SAS, Illzach	France	EUR 2 000	100%	▲ ●
Schaffner EMC Ltd., Wokingham	United Kingdom	GBP 260	100%	▲ ●
Schaffner-Chase EMC Ltd., Capel	United Kingdom	GBP 1 300	100%	▲ ■ ●
Schaffner Limited, Limerick	Ireland	EUR 549	100%	▲ ■ ●
Schaffner EMC AB, Sollentuna	Sweden	SEK 200	100%	●
Schaffner EMC Srl., Milan	Italy	EUR 98	100%	●
Schaffner EMC Inc., Springfield	USA	USD 805	100%	▲ ●
Schaffner EMC KK, Tokyo	Japan	JPY 10 000	65%	●
Schaffner EMC Pte. Ltd., Singapore	Singapore	SGD 600	100%	●
Schaffner EMC & Co. Ltd., Lamphun	Thailand	THB 140 000		■

▲ Development
■ Manufacturing
● Sales and distribution

[1] Sold as per 30 September 2000

The only direct interest held by Schaffner Holding AG is in Schaffner EMV AG, Luterbach. All the other companies of the Schaffner Group are controlled indirectly through Schaffner EMV AG.

SCHAFFNER

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