

Annual Report 2002/2003



**SCHAFFNER**

safety for electronic systems

Cover photo. Schaffner components and test systems such as the new "Modula" system platform ensure that electrical and electronic systems function properly and without endangering people's health and safety.

Dieser Geschäftsbericht ist auch in Deutsch erhältlich.  
This Annual Report is also available in German.  
The German version is legally binding.



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Schaffner components like the FN 2415 EMC filter ensure that the control units of modern transport systems such as elevators, conveyors and travelators function free of interference day in, day out, all around the world, guaranteeing comfort and security in our daily lives.



## Profile

As the density and complexity of electronic systems rise, ensuring their proper functioning at all times and thus guaranteeing people's well-being becomes both more crucial and more challenging:

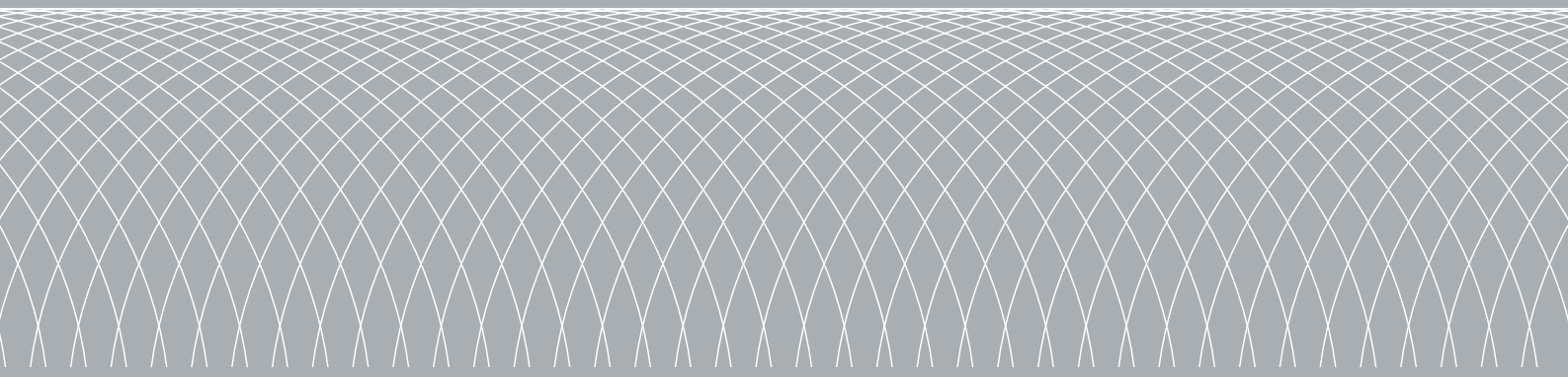


**Schaffner** is the international leader in electromagnetic compatibility (EMC), focusing on high-growth sectors such as automotive, building automation, industrial and consumer electronics, aerospace, medical technology, power supplies, telecommunications and transportation as well as the public sector. Its core competence is ensuring electromagnetic compatibility in its role as a supplier by leveraging its extensive experience and the right technologies to guarantee that different electronic systems are able to work together smoothly.

**Schaffner** strives to secure and expand on its leading market positions as a global provider through a programme of innovation, a constant drive for quality, cost-efficient practices and customer-focused logistics.

**Schaffner** develops, produces and markets standard and customer-specific components, modules, test systems and test facilities. Customer relationship management and product marketing are handled by an in-house engineering and sales organization that spans the globe as well as with the help of external partners.

**Schaffner** accords high priority to its corporate social responsibility and is strongly committed to ethical and environmental principles in generating added value for all stakeholder groups, i.e. customers, employees, shareholders, partners, suppliers and government bodies.



The innovative "Optimo" device tests the fibre optics used for in-vehicle communications set-ups. It is used in the authorized repair networks of the large automotive groups to test infotainment systems (audio, communication and navigation).



## QUALITY POLICY

### Customer satisfaction through superior quality.

The Schaffner Group is a Switzerland-based, internationally active company committed to providing its customers with superior quality. Our quality standards enable us to achieve superior performance and set us apart from our competitors, as well as building the basis for success and long-term, sustained growth.

For us, this means:

– **Quality and stakeholders**

We create **sustainable added value** for customers, employees and shareholders.

We understand their global needs and expectations and know how to meet them successfully.

– **Quality and management**

We strive for **continuous improvement** in our products, processes, systems and services. Based on excellence and careful resource allocation we create the foundations for long-term success. As managers, we live up to this commitment on a day-to-day basis.

– **Quality and employees**

**Get it right first time!** This is our common motto for all functions, areas and tasks. With measurable goals, transparent communication, ongoing training and a team-oriented working culture, we create the necessary prerequisites.

## The Schaffner Share

Key share figures	02/03	01/02	00/01	99/00	98/99
	Number of shares (par value CHF 50)	635,940	635,940	635,940	633,100
Weighted average number of outstanding shares	622,028	632,672	626,681	623,436	627,984
Net earnings per share before reappraisals in CHF	2.09	-9.10	16.92	33.96	19.33
Net earnings per share in CHF	-13.25	-9.10	-	-	-
Shareholders' equity per share in CHF	68.88	81.61	100.37	98.02	68.77
Dividend per share in CHF	0.00 <sup>1</sup>	0.00	3.50	5.00	4.00
Free float in %	96.1	96.5	97.6	n.a.	n.a.
<b>Stock market prices<sup>2</sup></b>					
12-month high in CHF	230.00	460.00	620.00	474.00	221.00
12-month low in CHF	90.00	198.00	261.00	187.00	131.50
Year-end in CHF	203.00	216.00	320.00	464.00	186.00
<b>Stock market capitalization<sup>2</sup></b>					
12-month high in CHF million	145	293	394	300	140
12-month low in CHF million	57	126	166	118	83
Year-end in CHF million	129	137	204	294	118

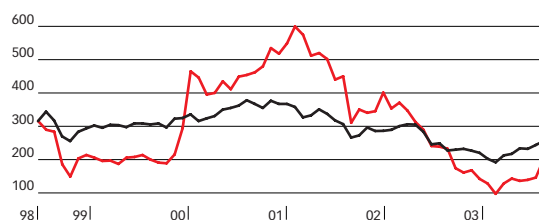
<sup>1</sup> As per the proposal of the Board of Directors to the Annual General Meeting of Shareholders to be held on 9 January 2004

<sup>2</sup> Fiscal year from 1 October to 30 September (source: Datastream)

<sup>3</sup> Source: SWX Swiss Exchange

### Share price performance 17.6.98 to 30.9.03<sup>3</sup>

CHF

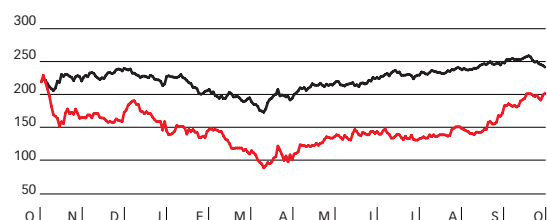


— Schaffner registered shares

— Swiss Performance Index

### Share price performance 1.10.02 to 30.9.03<sup>3</sup>

CHF



**Share trading.** The registered shares of Schaffner Holding AG are traded on SWX Swiss Exchange under the securities number 906 209.

**Ticker symbols.** Telekurs: SAHN, Reuters: SAHNn, Bloomberg: SAHN SW

For more information on the Schaffner share, please see page 37 of the Finance Report.



# SCHAFFNER GROUP

## Key figures

in CHF 1,000

	02/03	01/02	00/01	99/00	98/99
<b>Net sales</b>	<b>163,350</b>	<b>159,309</b>	<b>177,235</b>	<b>184,892</b>	<b>150,703</b>
Components business	109,252	109,139	122,890	144,133	105,417
Test Systems business	54,098	50,170	54,345	40,759	45,286
<b>Corporate output</b>	<b>159,317</b>	<b>153,806</b>	<b>177,193</b>	<b>192,932</b>	<b>149,953</b>
<b>Gross profit<sup>1</sup></b>	<b>71,178</b>	<b>65,254</b>	<b>71,878</b>	<b>79,811</b>	<b>66,418</b>
as % of net sales	43.6	41.0	40.6	43.2	44.1
<b>Restructuring</b>	<b>1,849</b>	<b>-4,535</b>	<b>-1,498</b>	-	-
<b>EBITA<sup>2</sup></b>	<b>7,502</b>	<b>-2,110</b>	<b>13,610</b>	<b>22,758</b>	<b>17,087</b>
as % of corporate output	4.7	-1.4	7.7	11.8	11.4
<b>EBIT</b>	<b>4,762</b>	<b>-4,768</b>	<b>12,176</b>	<b>21,674</b>	<b>16,007</b>
as % of corporate output	3.0	-3.1	6.9	11.2	10.7
<b>Net profit/loss before reappraisals</b>	<b>1,282</b>	<b>-5,757</b>	<b>9,654</b>	<b>21,172</b>	<b>12,139</b>
as % of corporate output	0.8	-3.7	5.4	11.0	8.1
<b>Net profit/loss</b>	<b>-8,243</b>	<b>-5,757</b>	<b>9,654</b>	<b>21,172</b>	<b>12,139</b>
as % of corporate output	-5.2	-3.7	5.4	11.0	8.1
<b>Total assets</b>	<b>126,354</b>	<b>141,095</b>	<b>132,350</b>	<b>146,518</b>	<b>116,953</b>
<b>Shareholders' equity</b>	<b>43,801</b>	<b>51,897</b>	<b>63,831</b>	<b>62,058</b>	<b>43,539</b>
as % of total assets	34.7	36.8	48.2	42.4	37.2
<b>Number of employees (annual average)</b>	<b>1,749</b>	<b>1,640</b>	<b>1,746</b>	<b>1,586</b>	<b>1,244</b>
<b>Number of employees (as at 30 September)</b>	<b>1,856</b>	<b>1,607</b>	<b>1,435</b>	<b>1,922</b>	<b>1,196</b>

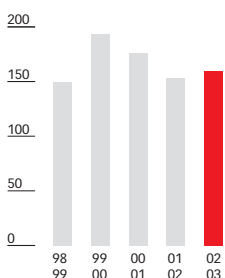
<sup>1</sup> Until 1999/2000 excluding cost of service revenues

<sup>2</sup> Until 1999/2000 including operating currency difference

<sup>3</sup> Net profit/loss before reappraisals

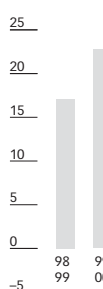
### Corporate output

in CHF million



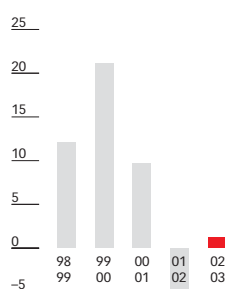
### EBITA<sup>2</sup>

in CHF million



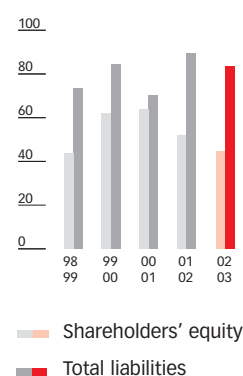
### Net profit/loss<sup>3</sup>

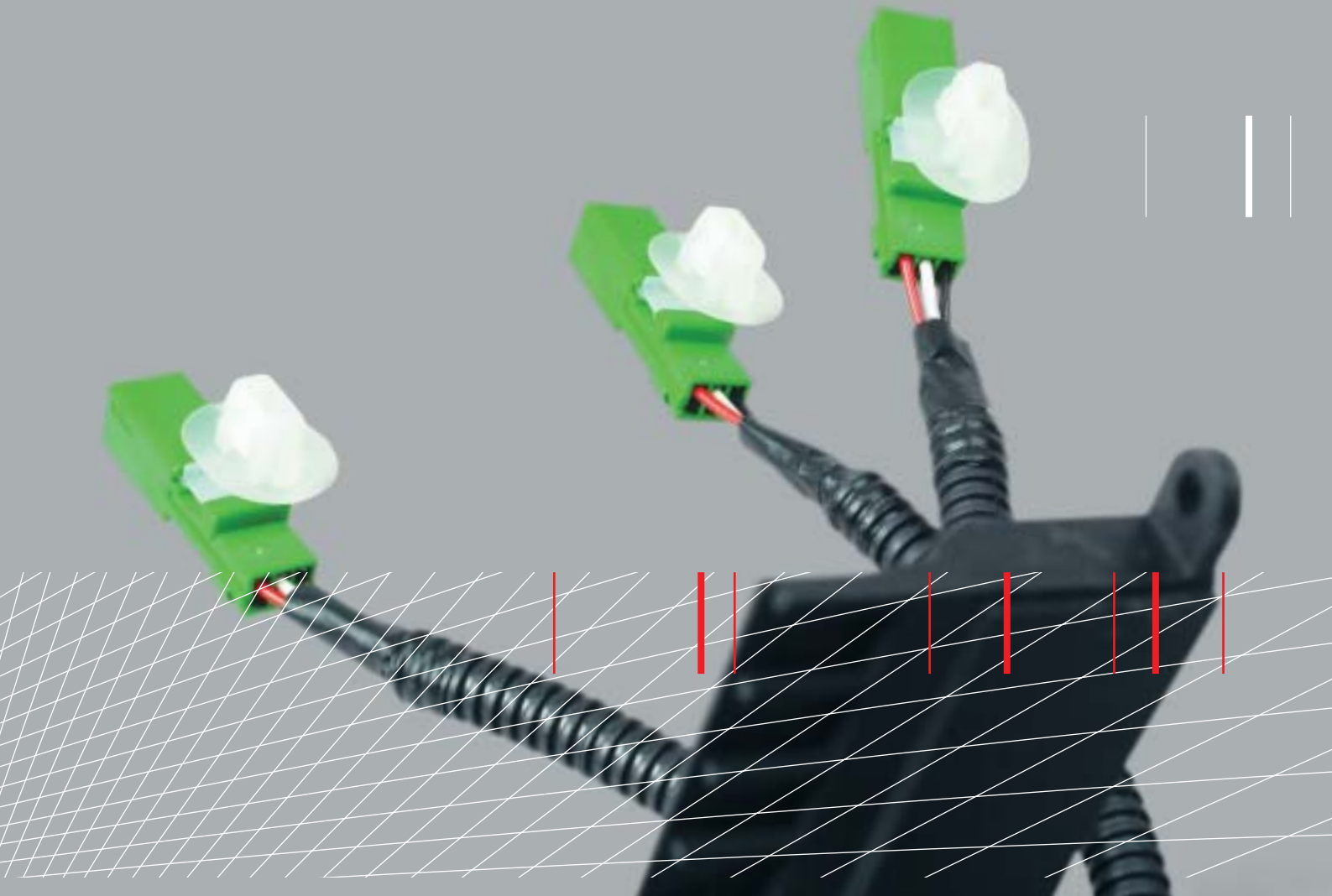
in CHF million



### Shareholders' equity/total liabilities

in CHF million





With over 1.5 million antennas for keyless access systems in vehicles, the Schaffner Group has established itself very quickly as a respected partner in the international automotive supplier and OEM markets with its ISO/TS 16949:2002 certified production facility in Thailand.



## TO OUR Shareholders

**Back on track for growth.** With sales (adjusted for currency effects) up 4.3% at CHF 163.4 million and a like-for-like net result of CHF 1.3 million (2001/2002: CHF –5.8 million), the Schaffner Group got back on track for growth in fiscal 2002/2003.

The restructuring that had become necessary due to the slump on the technology markets was implemented quickly and decisively, leading to a significant increase in efficiency. This lowered the break-even threshold considerably. However, the reappraisal of individual balance sheet positions resulted in a net loss of CHF –8.2 million. Assuming that the positive trend in new orders is sustained over the long term, we expect to see a continued improvement in results.

On the road to success again thanks to systematic strategy implementation. The Schaffner Group clearly displayed its technological and economic expertise in fiscal 2002/2003. Schaffner is a respected partner of the international automotive supplier industry, offering solutions to ensure the proper functioning of electronic systems in all phases of a vehicle's life cycle. Test systems have been used in the development of new models for years in order to guarantee electromagnetic compatibility in mass-produced vehicles. More and more volume cars from such manufacturers as Honda and Renault are using Schaffner components in keyless access systems for enhanced driver comfort. The new fibre optics tester, developed in conjunction with the major German carmakers, is the world's first production-ready device designed specifically for use in the big brands' extensive repair networks. These achievements, in some cases realized within very ambitious time frames, and the superior quality Schaffner offers – over 1.5 million flawless components for keyless access systems have been delivered since production began – have provided a solid platform for further projects in this attractive market. The Group expects additional potential to arise for automatic tyre-pressure monitoring solutions, and has also reinforced its position and strengthened customer retention in the telecommunications market. As a key partner for the world's leading providers of telecommunications technology, we will be playing an active role in efforts to build and expand new, high-performance networks. Last but not least, the Group has raised its profile in the industrial electronics segment, thanks in no small part to the acquisition of more global players as customers.



Alex Oechsli



Fritz Gantert

**Global presence and structural strength.** The Group achieved improvements in cost-efficiency, innovation and quality in the year under review. Our production centers in Hungary, Thailand and China meet exacting, internationally recognized quality and environmental standards (ISO/TS 16949:2002 and ISO 14001). The Group's global presence was strengthened further by the opening of a sales office in Taiwan and the expansion of the engineering and production centre in Shanghai. Order intake in the Chinese market rose by 244%. This was well in excess of the overall growth in the Chinese economy, which in itself was impressive. With more and more globally active customers outsourcing production to China, growth is set to remain strong going forward. China's appeal as a supply market also stems from its low sourcing costs. This is why we invested intensively in training for our regional partners in fiscal 2002/2003 with a view to making increasingly effective use of this potential.

**Reappraisal of individual balance sheet positions (IAS 8).** Following the appointment of Ernst & Young as sole, Group-wide auditors by the 2003 Annual General Meeting, the Board of Directors, Group Management and the auditors took the joint decision to partially amend the Group's valuation policy and reappraise several balance sheet positions from previous years in order to reflect the changed economic environment. This reappraisal resulted in an exceptional write-down of CHF 9.6 million on the like-for-like net result, leading to a reported net loss of CHF -8.2 million. The reappraisal does not affect the Group's cash flow and will have a positive impact on the like-for-like net result as early as the current fiscal year. For more information, please see pages 17 and 38 of the Finance Report.

**Dividend proposal.** The Board of Directors of Schaffner Holding AG will submit a proposal to the Annual General Meeting of Shareholders to pay no dividend for fiscal 2002/2003.

**Outlook.** The Schaffner Group's streamlined, more efficient structure is geared towards the new market conditions. Significantly lowering the break-even threshold, keeping tight reins on the use of working capital and reappraising

individual balance sheet positions will make it possible to successively increase profitability. The order backlog at the end of the fiscal year was 15% higher than the year-back figure, and the positive trend in new orders has continued in the first quarter of the new fiscal year. Assuming that the economic recovery – especially in the technology sector – continues, we expect to see a steady increase in sales and a further improvement in profitability in fiscal 2003/2004.

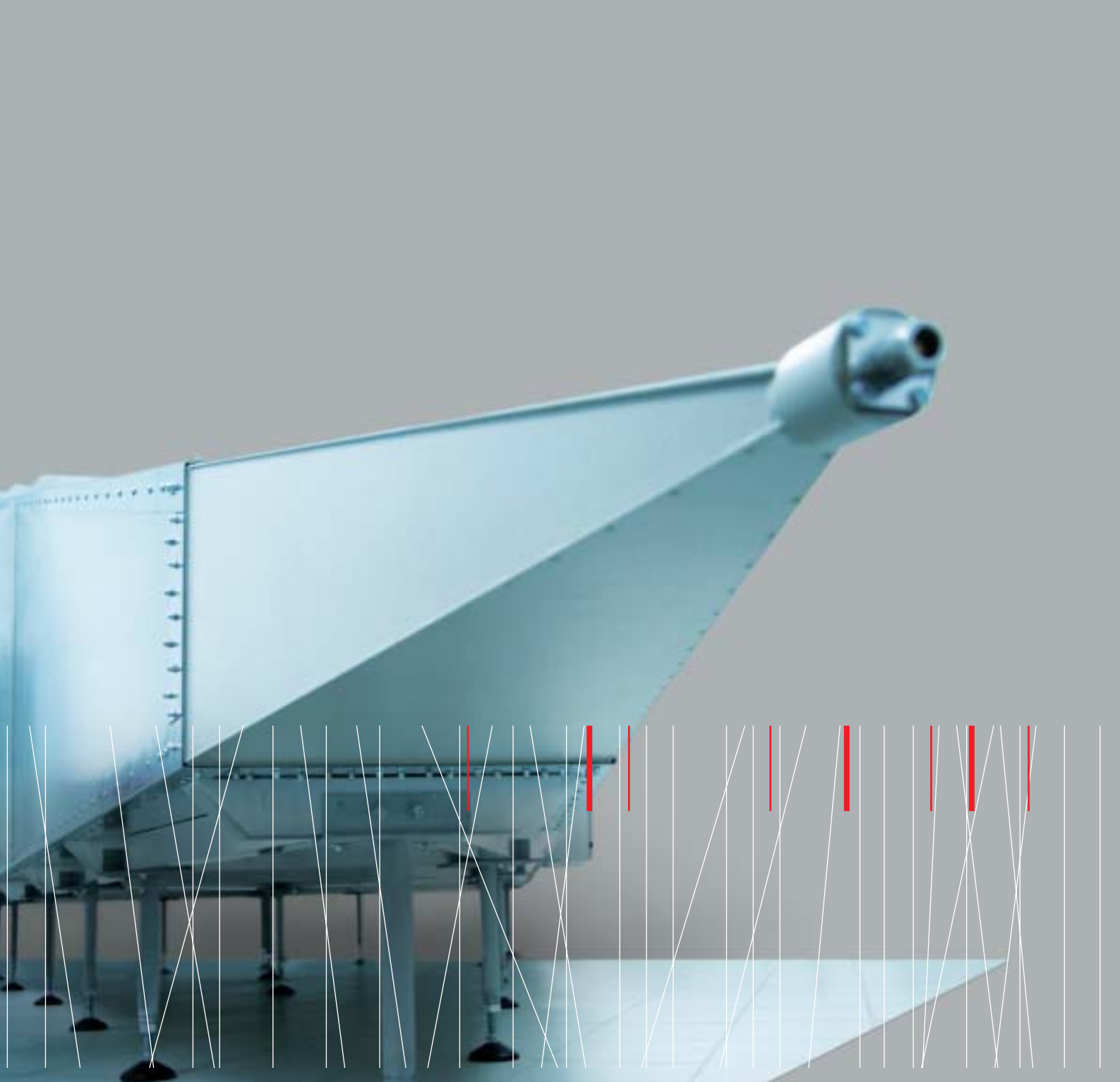
**Thanks.** On behalf of the Board of Directors, we would like to thank everyone who works for Schaffner. Their dedication, innovation and flair for quality have contributed significantly to getting the Group back on track for growth under its own steam against a difficult economic backdrop. Last but not least, our warmest thanks go out to our customers for their partnership and cooperation and to our shareholders for their faith in us. We promise to do everything in our power to earn your continued trust in the next fiscal year through further progress in everything we do.



Alex Oechslin  
Chairman of the Board of Directors



Fritz Gantert  
Delegate of the Board of Directors,  
President & Chief Executive Officer



There are sources of electromagnetic interferences all around us. Test systems and equipment such as GTEM cells measure interference reliably and help to provide safe, interference-free products for the industrial and consumer sectors.



## Long-term productivity and operating profitability strengthened.

In fiscal 2002/2003 (to September 30), the Schaffner Group increased its consolidated sales to CHF 163.4 million (2001/2002: CHF 159.3 million). Stringent management of working capital enabled the Group to reduce its interest-bearing debt by around CHF 10 million to CHF 49.5 million (CHF 59.4 million). Free cash flow doubled from CHF 4.5 million to around CHF 9 million. Despite the still difficult market environment and considerable investment in research and application development, earnings before interest, tax and amortization (EBITA) increased significantly to CHF 7.5 million (CHF -2.1 million). The EBIT figure also improved markedly, rising by CHF 9.6 million to CHF 4.8 million (CHF -4.8 million), and the like-for-like net result was up from CHF -5.8 million to CHF 1.3 million. However, the reappraisal of individual balance sheet positions resulted in an exceptional write-down of CHF 9.6 million, leading to a reported net loss of CHF -8.2 million (CHF -5.8 million).

Both businesses contributed to the positive results in fiscal 2002/2003. In line with the long-term trend, Components supplied about two thirds of the Group's sales (CHF 109.3 million) and Test Systems a third (CHF 54.1 million). Following Schaffner's successful entry into the automotive supplier industry, the automotive sector increased its share of sales by a full 4 percentage points from 6% in fiscal 2001/2002 to 10%. The most important sector was once again industrial electronics, which accounted for 57% of sales (2001/2002: 57%). Telecommunications is also a key sector, and its share of sales fell only slightly from 18% to 15% in fiscal 2002/2003 despite the precarious financial situation in this market. The automotive industry, industrial electronics and telecommunications are thus Schaffner's three main revenue drivers, contributing just under two thirds of Group sales. Aside from these, the Schaffner Group has a broad customer base spread across a variety of sectors. In geographical terms, excluding the Group's biggest single order to date for the refit of an entire EMC testing laboratory for Turkey's National Metrology Laboratory, 75% (67%) of Group sales were generated in Europe. The Asia-Pacific region supplied 14% (17%) of consolidated sales, and North America 13% (16%).

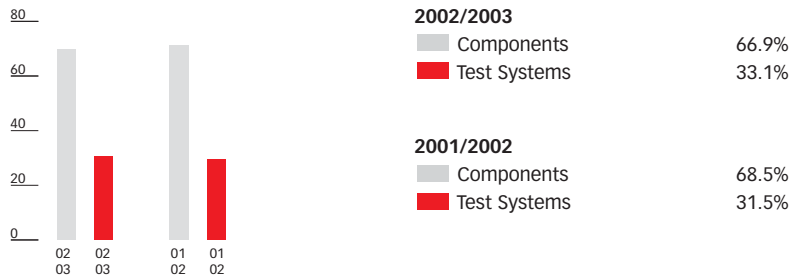
**Reappraisal of individual balance sheet positions under IAS 8.** The reappraisal under IAS 8 relates in particular to the adjustment of capitalized development costs and deferred tax assets, as well as to the standardization of inventory valuation methods. The goodwill of a subsidiary acquired in fiscal 1997/1998, which proved to no longer have any value following the dramatic collapse of the technology markets, has been written off in full. Provisions have also been made for liabilities to employees (years-of-service awards and legally prescribed severance payments in Thailand) stemming from previous years. In addition, the employer contribution reserve of the Swiss pension fund was shown as an asset in the consolidated financial statements for the first time. For more information, please see pages 17 and 38 of the Finance Report.

**Solid basis for further organic growth.** The minor improvement in orders that started in the middle of fiscal 2002/2003 continued through to the end of the year, and with an order book up roughly 15% on the year-back figure the Schaffner Group made a good start to the new fiscal year. The Test Systems business has a solid foundation on which to achieve its long-term profitability targets following the completion of its restructuring, together with a phase of intensive investment and the development of innovative products such as the new “Modula” system platform and the “Optimo” device for testing fibre optics in vehicles. The Components business, meanwhile, is set to profit from rising demand from the automotive supplier industry in fiscal 2003/2004, in particular for components for keyless access systems. Innovative product developments such as the unique, pluggable high-current power entry module with integrated EMC filter, which was developed in conjunction with the US company Anderson Power Products (APP), the world leader in electrical connectors, offer further opportunities. The Group plans to further bolster its strategic position in the Asian market in order to benefit from the growing trend towards global players outsourcing production to China as well as the huge resource potential inherent in the Asia-Pacific region as a whole.

Fritz Gantert  
President & Chief Executive Officer

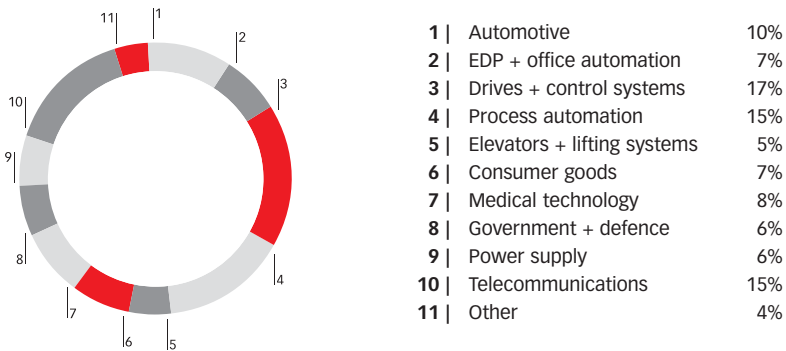


### Sales by core business



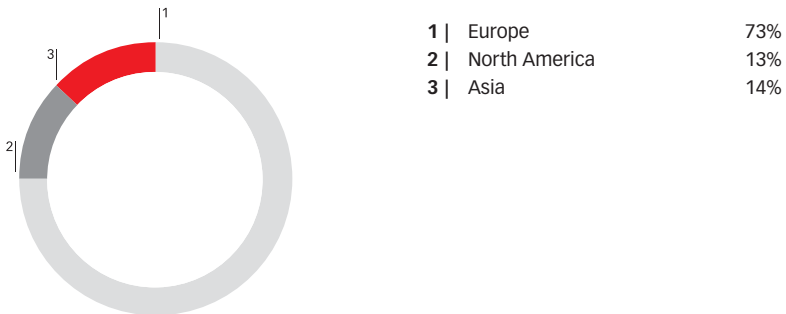
### Sales by sector

2002/2003



### Sales by core market<sup>1</sup>

2002/2003



<sup>1</sup> Excl. major project for the National Metrology Laboratory in Turkey



The increasing prevalence of electronic communications and IT applications makes effective EMC solutions essential. Schaffner components such as the "Acara" filter help to ensure that the communications infrastructure functions flawlessly, both today and tomorrow.



## COMPONENTS BUSINESS

### Adding value through proximity to customers.

The Components business posted sales of CHF 109.3 million in fiscal 2002/2003 (2001/2002: CHF 109.1 million). Order intake showed a rise of 3.1% year-on-year from CHF 108.9 million to CHF 111.1 million after currency adjustments. The positive book-to-bill (order intake to sales) ratio of 1.02 is testament to the business's logistical efficiency, a key success factor in the international components market. Components contributed 67% of the Schaffner Group's total consolidated sales.

**Automotive industry continues to gain importance.** The runaway success of Schaffner's antennas for keyless access systems in vehicles was one of the highlights of fiscal 2002/2003. We have established Schaffner very quickly indeed as a respected partner in the international automotive supplier and OEM markets. The share of sales accounted for by the automotive industry grew by 2.6 percentage points to 4% in the year under review. We expect the importance of the automotive sector with regard to components for both EMC and related applications to continue increasing at an above-average rate. As far as the sector mix is concerned, drives and control systems was the largest sector for Components, accounting for 23% of sales. Process automation contributed 20% of sales, telecommunications 18%. Customers from the other eight sectors made up just over one third of the business's sales. The Components business thus continues to enjoy strong support across a broad front in the marketplace.

**Strategic partnerships with global market leaders.** Innovation, quality, logistical efficiency and cost discipline are the values the Components business strives to uphold. Our internal processes are systematically geared to these objectives. In addition to the continuation of our policy of strict cost control, the reporting year saw a lot of work on innovation, technology, establishing strategic cooperations with leading partners and further enhancing customer relationships. Schaffner's wide range of passive EMC components is being supplemented more and more with solutions for technically related areas and even with active components. The unique, patented high-current power connector with integrated EMC filter, developed in conjunction with the US company Anderson Power Products, represents a milestone for the business. This product was designed for use in electricity networks with high currents and offers significant cost savings in assembly and operation. The capacity to develop and produce switches

based on surface mount technology (SMT) was set up with the aid of another partner. This technology is primarily employed in the manufacture of components for keyless access systems. We have also developed other innovative filters and electronics products on behalf of and in close collaboration with long-standing customers from the drives and control systems sector. Working together with leading international customers right from the development stage allows both our customers and us to shorten time to market considerably. Coupled with geographical diversification, which also ensures proximity to markets and customers, this makes for long-term added value on both sides.

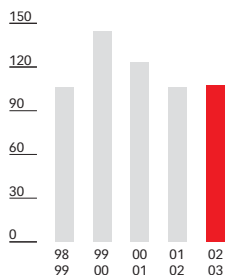
**Expansion in Asia, a region enjoying rapid growth.** Further expansion of Schaffner's presence in Asia, especially China, is ensuring that the Group is well positioned in the market that is showing the strongest growth for electronic components. Demand for Schaffner components is rising steadily in Asia for two reasons: the continuing trend toward global firms outsourcing production to China and the widespread adoption of such binding standards as the Chinese Compulsory Certification. Furthermore, the region offers exceptionally good resources in terms of labour, expertise and purchasing. We are increasingly making use of this potential, in particular as far as purchasing is concerned, through specific training and integration of suppliers.

**Outlook.** The Components business has put a great deal of effort into adapting to the new market conditions. Working with customers and partners, we are pushing ahead with the development of innovative solutions within the core technology area of EMC, as well as in related applications, at an impressive rate and with the level of quality demanded by the very highest international standards. Our global development, production and support structure constitutes a platform for us to provide on-site assistance to customers in key markets. At the same time, the increasing integration of Schaffner components allows us to achieve a steady rise in added value.

Roland Küpfer  
Executive Vice President Components

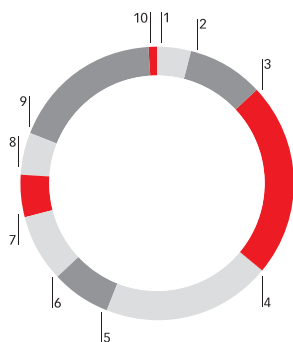
### Sales trend in the Components business

in CHF million



### Sales by sector

2002/2003



1	Automotive	4%
2	EDP + office automation	9%
3	Drives + control systems	23%
4	Process automation	20%
5	Elevators + lifting systems	7%
6	Consumer goods	8%
7	Medical technology	5%
8	Power supply	5%
9	Telecommunications	18%
10	Other	1%



The Schaffner Group's test equipment and test systems guarantee the highest possible level of quality and safety for electronic devices in a wide range of fields, including medical. The new "Modula" system platform sets new standards in EMC testing with regard to precision, efficiency, flexibility and user-friendliness.



## Test systems business

**Sharp rise in order intake.** The Test Systems business achieved sales of CHF 54.1 million after adjustment for currency effects in fiscal 2002/2003 (2001/2002: CHF 50.2 million). This represents growth of 11%. Order intake was 15% higher than the year-back figure at CHF 56.6 million (CHF 50.6 million). The book-to-bill ratio was thus 1.05. The Test Systems business contributed 33% of the Schaffner Group's consolidated sales.

**Strong market position.** The Test Systems business has a broad market base, serving a wide range of customers in 11 sectors. The importance of the automotive industry increased further in the year under review; it provided the largest share of the business's sales (24%) for the first time. Government and defence contracts contributed 20% of sales. These two sectors together thus accounted for almost half the total Test Systems sales figure in fiscal 2002/2003. The cyclical nature of this business is clearly illustrated by the completion of the Schaffner Group's biggest ever single order in the reporting year, which involved a complete refit of an EMC testing laboratory for the National Metrology Laboratory in Turkey. Thanks to this major project, the "other" sector contributed 17% of sales. The eight remaining sectors all contributed less than 15% of total Test Systems sales.

**Focus on innovation and quality.** The restructuring was completed on schedule in the year under review, creating a sound basis on which to successively increase the sales and profitability of the Test Systems business in the new market conditions. In addition to strict cost management and efficient processes, we focused in particular on sustainably enhancing innovation and quality in the reporting year. We presented our new "Modula" system platform in April 2003. "Modula" sets new standards in EMC conducted immunity test equipment with regard to efficiency, flexibility and user-friendliness. Its modular design allows it to be configured easily to individual customers' needs and integrated into a wide variety of hardware environments. A raft of additional new developments in automotive EMC, upgrades to the leading "Compliance 3" EMC laboratory software and the NSG 438 30 kV ESD gun launched in the previous year have enabled Schaffner to secure its position in the EMC test systems market.

**The automotive industry: a growth market.** We believe the automotive industry holds long-term growth potential. The electronics used in motor vehicles are becoming ever more complex, leading to a steady increase in the need for testing. The necessity of ensuring that vehicle components and subassemblies function properly at all times is making testing a more and more important part of any large manufacturer's supply network. We further extended our cooperation with leading car and commercial vehicle makers in the year under review with our Cable and ElectroEmulation Test Systems product line. The unveiling of the "Optimo" testing device has highlighted the significance of a related field, namely the testing of in-vehicle communication systems, fibre optics-based, which has been developed by our engineers in tandem with Germany's top car makers. "Optimo" represents a strategic milestone for Schaffner in that we now have solutions for all three phases in a vehicle's life cycle: development, production and after-sales. "Optimo" is an innovative device intended for use in the extensive repair networks of the large automotive groups to test infotainment systems (audio, communication and navigation) in vehicles with MOST (Media Oriented System Transport) technology. MOST has up to now been deployed primarily in European luxury cars. The first "Optimo" devices have already been delivered to European manufacturers. Marketing efforts are now underway in the USA and Japan. We expect the potential market for "Optimo" to grow rapidly around the world and across all classes of vehicle in line with the increasing number of infotainment systems offered.

**Asia – another growth market.** The considerable expansion of the Schaffner Group's Asian presence has created additional market potential for the Test Systems business. As binding EMC norms gradually become established and global players relocate more of their production overseas, especially to China, demand for Schaffner test systems from Asia is set to continue growing.

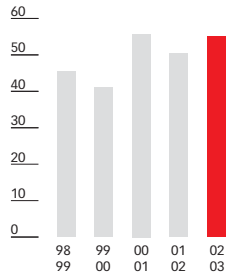
**Outlook.** The Test Systems business will further expand its positions in the global EMC market (in particular in Asia) and the automotive and aerospace industries. Innovative products will successively bolster our range of test systems for EMC and related applications. As a solution provider, we concentrate on engineering expertise, product quality and support. The Schaffner Group's growing strength in Asia will be used to make the most of the market potential inherent in this region. We will nevertheless continue to attach a great deal of importance to maintaining a broad market base.

Matthias Zwicky  
Executive Vice President Test Systems



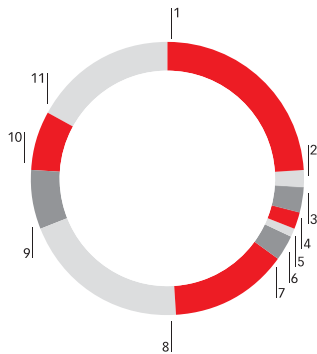
### Sales trend in the Test Systems business

in CHF million

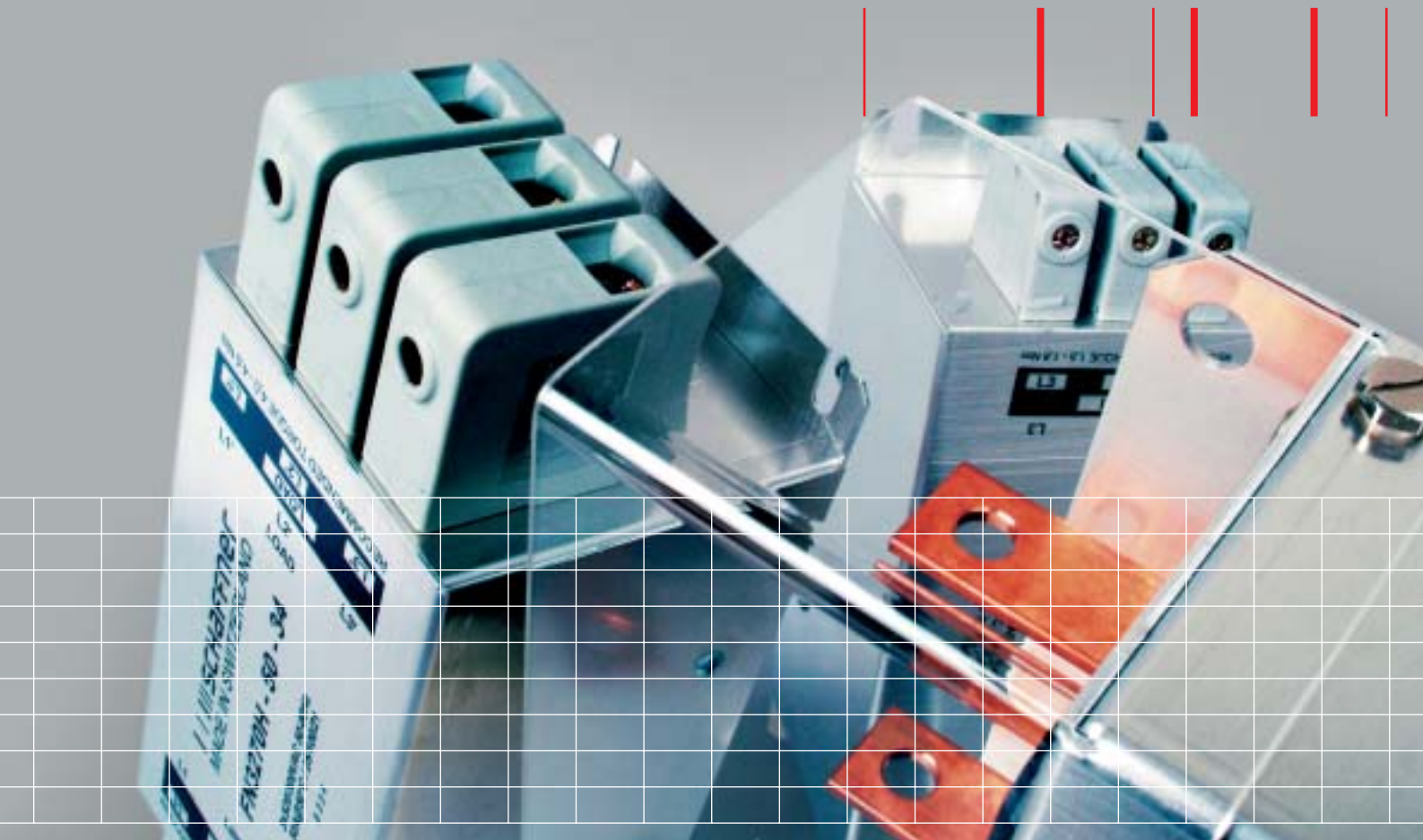


### Sales by sector

2002/2003



1	Automotive	24%
2	EDP + office automation	2%
3	Drives + control systems	3%
4	Process automation	2%
5	Elevators + lifting systems	1%
6	Consumer goods	3%
7	Medical technology	14%
8	Government + defence	20%
9	Power supply	7%
10	Telecommunications	7%
11	Other	17%



The potential for electromagnetic interference is present all around us at all times. Schaffner components like the FN 3270 EMC filter ensure that state-of-the-art industrial electronics and industrial production facilities always function flawlessly.



## CORPORATE GOVERNANCE

**Corporate responsibility.** Corporate governance nowadays requires decision-making competence and efficiency at the very highest level of management as well as a system of checks and balances between leadership and control on the one hand and transparent communication with all target groups on the other. Schaffner's Board of Directors and Group Management are committed to upholding these principles and have organized themselves to comply with the latest corporate governance standards.

Based on SWX Swiss Exchange's "Directive governing information on corporate governance" and economiesuisse's "Swiss Code of Best Practice", this Annual Report is intended to inform the reader as comprehensively as possible about the Schaffner Group's management and organizational approaches. In addition to the brief overview of the Group's corporate governance structures given on the next double page, more detailed information on the topic can be found in the Finance Report on pages 2 to 15 or on our website at [www.schaffner.com](http://www.schaffner.com).

**Board of Directors.** On 30 September 2005, the Board of Directors of Schaffner Holding AG was composed as follows:

	since	elected until
<b>Alex Oechslin, Chairman</b> Retired, Group Chief Executive Officer up to 31 July 2001	1998	2006
<b>Fritz Gantert, Delegate</b> President & CEO of the Schaffner Group	2002	2006
<b>Peter Leuthold</b> Emeritus Professor of Information Technology & former Head of the Institute for Communications Technology at the Federal Institute of Technology in Zurich	1998	2006
<b>Peter E. Rüd</b> Consultant, former Delegate of the Board of Directors & CEO of Phoenix Mecano AG, Stein am Rhein	1998	2006
<b>Robert Scherer</b> Retired, former member of the Executive Board of SIG Schweizerische Industrie-Gesellschaft Holding AG, Neuhausen am Rheinfall	1998	2006
<b>Robert F. Spoerry</b> Chairman, President & CEO of Mettler-Toledo International Inc., Greifensee	1998	2006
<b>Leo Steiner</b> Delegate of the Board of Directors & CEO of Komax Holding AG, Dierikon	2002	2006

**Secretary to the Board**

**Martin Zwysig**

Executive Vice President & CFO of the Schaffner Group

**Committees of the Board of Directors**

Audit Committee

**Members**

Robert Scherer, Chairman  
Peter E. Rüd

Compensation Committee

Alex Oechslin, Chairman  
Robert F. Spoerry  
Leo Steiner



**Group Management.** On 30 September 2003, Schaffner's Group Management comprised the following members:

<b>Fritz Gantert</b> (1958)	President & Chief Executive Officer Joined the Schaffner Group in 2001
<b>Martin Zwyssig</b> (1965)	Executive Vice President & Chief Financial Officer Joined the Schaffner Group in 2003
<b>Roland K�pfer</b> (1958)	Executive Vice President Components Joined the Schaffner Group in 2001
<b>Richard M�ller</b> (1942)	Executive Vice President Business Development Joined the Schaffner Group in 1982
<b>Matthias Zwicky</b> (1956)	Executive Vice President Test Systems Joined the Schaffner Group in 2000

**Statutory and Group auditors.** Ernst & Young AG, Bern.



## GROUP COMPANIES

	Components					Test Systems				
	Production	Marketing and Sales	Application Engineering	Research and Development	Logistics	Production	Marketing and Sales	Application Engineering	Research and Development	Logistics
<b>Headquarters</b>										
Schaffner Holding AG										
<b>Eurologistics Center</b>										
Schaffner EMC S.A.S.					■					■
<b>EUROPE</b>										
<i>Finland</i>										
Schaffner Oy	■	■	■	■	■					
<i>France</i>										
Schaffner EMC S.A.S.		■	■				■			
<i>Germany</i>										
Schaffner Electrotest GmbH <sup>1</sup>						■	■	■	■	■
Schaffner EMV GmbH		■	■							
<i>Hungary</i>										
Schaffner EMV Hungary Kft.	■									
<i>Ireland</i>										
Schaffner Limited						■	■	■	■	■
<i>Italy</i>										
Schaffner Electrotest S.r.l.							■	■		
Schaffner EMC S.r.l.		■	■							
<i>Netherlands</i>										
Schaffner Electrotest BV							■			
<i>Sweden</i>										
Schaffner EMC AB		■	■							
<i>Switzerland</i>										
Schaffner EMV AG	■	■	■	■		■	■	■	■	
<i>UK</i>										
Schaffner Ltd.		■	■				■			
Schaffner EMC Systems Ltd.						■	■	■		■
<b>ASIA/USA</b>										
<i>China</i>										
Schaffner Beijing							■			
Schaffner EMC Ltd. Shanghai	■	■	■		■	■		■		■
<i>Japan</i>										
Schaffner EMC K.K.		■	■		■		■			■
<i>Singapore</i>										
Schaffner EMC Pte. Ltd.		■	■		■		■			■
<i>Thailand</i>										
Schaffner EMC Co. Ltd.	■		■							
<i>USA</i>										
Schaffner EMC Inc.		■	■		■		■			■

<sup>1</sup> In fiscal 2002/2003 Schaffner EMC-Systems GmbH was integrated into Schaffner Electrotest GmbH

## Addresses

### Headquarters

#### Schaffner Holding AG

Nordstrasse 11  
CH-4542 Luterbach  
T +41 32 681 66 26  
F +41 32 681 66 30

### Eurologistics Center

#### Schaffner EMC S.A.S.

1A, Avenue de Suisse  
Boîte postale 16  
FR-68311 Illzach  
T +33 3 89 31 04 00  
F +33 3 89 31 04 01

### EUROPE

#### Finland

##### Schaffner Oy

Tynninkuja 7  
FI-08700 Virkkala  
T +358 19 35 72 71  
F +358 19 32 66 10

#### France

##### Schaffner EMC S.A.S.

43, rue Michel Carré  
Boîte postale 133  
FR-95103 Argenteuil  
T +33 1 34 34 30 60  
F +33 1 39 47 02 28

#### Germany

##### Schaffner Electrotest GmbH

Hafenstrasse 1  
Postfach 1633  
DE-97877 Wertheim  
T +49 9342 87 50  
F +49 9342 87 51 75

##### Schaffner Electrotest GmbH

Landsberger Strasse 255  
DE-12623 Berlin  
T +49 30 56 59 88 35  
F +49 30 56 59 88 34

#### Schaffner EMV GmbH

Schoemperlenstrasse 12B  
DE-76185 Karlsruhe  
T +49 721 56 91 0  
F +49 721 56 91 10

#### Hungary

##### Schaffner EMV Hungary Kft.

Nap u.1  
HU-6000 Kecskemét  
T +36 76 50 05 40  
F +36 76 50 05 49

#### Ireland

##### Schaffner Limited

Lonsdale Road  
National Technology Park  
IE-Limerick  
T +353 61 33 22 33  
F +353 61 33 25 84

#### Italy

##### Schaffner Electrotest S.r.l.

P.zza Martiri della Libertà 32  
IT-25032 Chiari  
T +39 030 71 00 29 9  
F +39 030 71 00 41 9

##### Schaffner EMC S.r.l.

Via Galileo Galilei, 47  
IT-20092 Cinisello  
Balsamo (Mi)  
T +39 02 66 04 30 45/47  
F +39 02 61 23 943

#### Netherlands

##### Schaffner Electrotest BV

Eindstraat 53, 5151 AE  
Postbus 89, 5150 AB  
NL-Drunen  
T +31 416 69 08 08  
F +31 416 54 41 98

#### Sweden

##### Schaffner EMC AB

Turebergstorg 1, 6  
SE-19147 Sollentuna  
T +46 8 57 92 11 21/22  
F +46 8 92 96 90

#### Switzerland

##### Schaffner EMV AG

Nordstrasse 11  
CH-4542 Luterbach  
T +41 32 681 66 26  
F +41 32 681 66 41

#### UK

##### Schaffner Ltd.

Ashville Way  
Molly Millar's Lane  
Wokingham  
UK-Berkshire RG41 2PL  
T +44 118 97 70 07 0  
F +44 118 97 92 96 9

##### Schaffner EMC

**Systems Ltd.**  
Broadwood Test Centre  
Rusper Road  
Capel  
UK-Surrey RH5 5HF  
T +44 1306 71 33 33  
F +44 1306 71 33 03

#### ASIA/USA

#### China

##### Schaffner Beijing

Room 507  
Bright China Chang An  
Building  
No. 7 Jianguomennei Dajie  
CN-100005 Beijing  
T +86 10 65 10 17 61/62  
F +86 10 65 10 17 63

#### Schaffner EMC Ltd.

##### Shanghai

No. 1-39 East Kang Qiao  
Road  
Kang Qiao Industrial Park  
Pudong  
CN-Shanghai, 201315  
T +86 21 58 13 92 92  
F +86 21 58 13 92 81

#### Japan

##### Schaffner EMC K.K.

8F Tosen Bldg.  
1-6-2 Oohashi Meguro-ku  
JP-Tokyo 153-0044  
T +81 3 54 56 01 80  
F +81 3 54 56 89 30

#### Singapore

##### Schaffner EMC Pte. Ltd.

Blk 3015A Ubi Road 1  
# 05-09 Kampong Ubi  
Industrial Estate  
Singapore 408705  
T +65 63 77 32 83  
F +65 63 77 32 81

#### Thailand

##### Schaffner EMC Co. Ltd.

Northern Region Industrial  
Estate  
67 Moo 4 Tambon Ban Klang  
Amphur Muang P.O. Box 14  
TH-Lamphun 51000  
T +66 53 58 11 04  
F +66 53 58 10 19

#### USA

##### Schaffner EMC Inc.

52 Mayfield Avenue  
Edison, New Jersey 08837  
US  
T +1 732 22 59 53 3  
(800 367 55 66)  
F +1 732 22 54 78 9



Finance Report 2002/2003



SCHAFFNER

safety for electronic systems

The Finance Report 2002/2003 is an integral part of the Annual Report 2002/2003 and available in German as well.

Der Finanzbericht 2002/2003 ist integrierender Bestandteil des Geschäftsberichts 2002/2003. Er ist auch in Deutsch erhältlich.

December 2003

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# CORPORATE GOVERNANCE and FINANCE REPORT OF SCHAFFNER GROUP

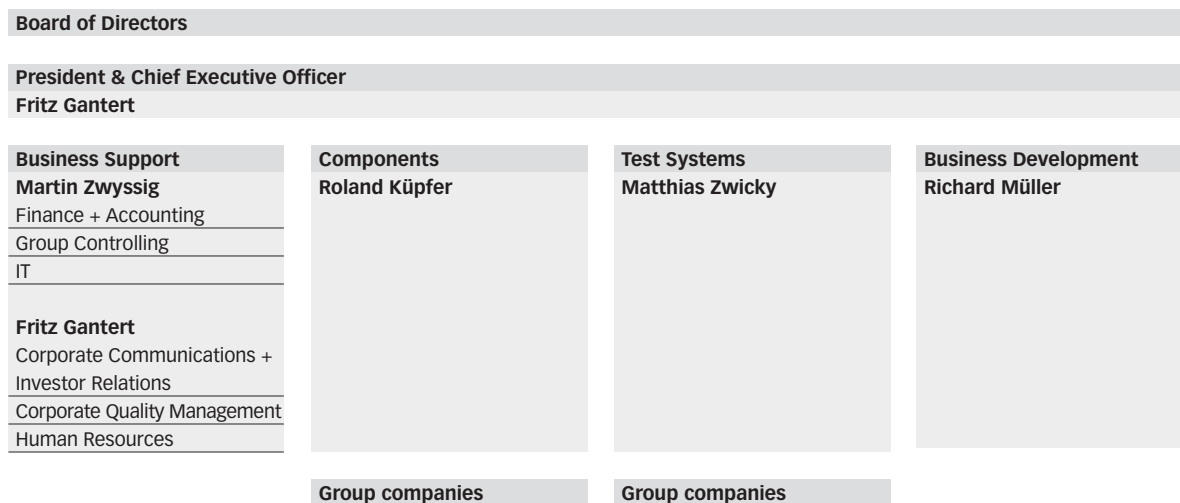
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41	Finance Report of Schaffner Holding AG



## Group structure and shareholders

### Management structure



**Companies of the Schaffner Group.** The following companies were included in the Schaffner Group's scope of consolidation as of 30 September 2003:

Company	Base	Capital in 1,000	Holding in %
Schaffner Holding AG	CH-Luterbach	CHF 31,797	100
Schaffner EMV AG	CH-Luterbach	CHF 14,000	100
Schaffner Oy	FI-Lohja	EUR 34	100
Schaffner EMC S.A.S.	FR-Illzach	EUR 2,000	100 <sup>1</sup>
Schaffner EMC Systems Ltd.	UK-Capel	GBP 1,300	100
Schaffner Ltd.	UK-Wokingham	GBP 260	100
Schaffner EMV Hungary Kft.	HU-Kecskemet	HUF 13,000	100 <sup>2</sup>
Schaffner Limited	IE-Limerick	IEP 1,899	100
Schaffner EMC S.r.l.	IT-Milan	EUR 98	100
Schaffner EMC AB	SE-Sollentuna	SEK 200	100
Schaffner EMC Inc.	US-Edison N.J.	USD 805	100
Schaffner EMC Ltd.	CN-Shanghai	USD 1,000	100
Schaffner EMC K.K.	JP-Tokyo	JPY 10,000	100
Schaffner EMC Pte. Ltd.	Singapore	SGD 600	95
Schaffner EMC Co. Ltd.	TH-Lamphun	THB 140,000	100
Schaffner Deutschland Holding GmbH	DE-Wertheim	EUR 25	100
Schaffner Deutschland Holding GmbH & Co. KG	DE-Wertheim	EUR 10,000	100
Schaffner EMV GmbH	DE-Karlsruhe	EUR 511	100
Schaffner Electrotest GmbH	DE-Wertheim	EUR 2,045	100
Schaffner Electrotest S.r.l.	IT-Milan	EUR 10	95
Schaffner Electrotest BV	NL-Drunen	EUR 18	100

<sup>1</sup> 14% held by Schaffner Electrotest GmbH, DE-Wertheim

<sup>2</sup> 2% held by Schaffner Holding AG, CH-Luterbach

For further information on the above companies, see page 29 of the Annual Report 2002/2003.

Schaffner Holding AG is a public listed company under Swiss law. Its ordinary share capital of CHF 31,797,000 is divided into 635,940 registered shares with par value CHF 50 each. The registered shares of Schaffner Holding AG are traded on the main segment of SWX Swiss Exchange under the securities number 906 209. The stock market capitalization as of 30 September 2003 was CHF 129.098 million based on the number of shares in circulation.

Ticker symbols:

- Telekurs: SAHN
- Reuters: SAHNn
- Bloomberg: SAHN SW

**Significant shareholders.** Schaffner Holding AG had approximately 2,100 registered shareholders on 30 September 2003. The following shareholder holds 5% or more of the share capital and voting rights on the accounting cut-off date:

- Julius Baer Multistock SA, Luxembourg: 7%

No transactions subject to a disclosure obligation under Art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA) took place in the year under review.

The free float is 96%.

**Cross-shareholdings.** No cross-shareholdings with other public listed companies exist.

## Capital structure

<b>Ordinary share capital</b>	<b>CHF 31,797,000</b>
	Divided into 635,940 registered shares with par value CHF 50 each.
	The share capital is fully paid up.
	Each share grants the owner one vote at the Annual General Meeting of Shareholders.
<b>Conditional share capital</b>	<b>CHF 1,067,000 (for employee share option plan)</b>
	Divided into 21,340 registered shares with par value CHF 50 each.
	Shareholders' pre-emptive rights are excluded.

For more information on the conditional share capital, see page 36, and on the employee share option plan, see pages 12 and 36 of the Finance Report.

**Changes in capital.** The changes in the share capital, capital reserves, retained earnings and consolidated equity are listed on page 21 of this Finance Report and on page 13 of the Finance Report 2001/2002.

**Limitations to transferability and nominee registrations.** Anyone registered in the Share Register is considered to be a shareholder or beneficial owner. Anyone purchasing registered shares is registered by the Board of Directors in the Share Register on request as a shareholder with voting rights, provided they expressly declare that the shares have been bought and will be held for their own account.

The Board of Directors registers nominees with voting rights in the Share Register up to a maximum of 5% of the share capital recorded in the Commercial Register. Above this limit, registered shares of nominees with voting rights are only registered in the Share Register if the nominee discloses the names, addresses and holdings of the persons for whose account he or she holds 5% or more of the registered share capital. Nominees are persons who do not expressly declare in their registration request that they are holding the shares for their own account. The Board of Directors is entitled to conclude agreements with nominees regarding reporting obligations within the scope of the applicable law. The Board may grant exceptions to the nominee ruling on a case-by-case basis.

Legal entities and legal communities connected by capital, voting rights, management or in any other way are regarded as a single purchaser, as are all natural persons, legal entities or legal communities acting in a coordinated manner by agreement, as a syndicate or in any other way with a view to circumventing the nominee ruling.

The Company may cancel registrations in the Share Register and backdate such cancellation to the date of registration request if such registrations are found to be based on false information given by the purchaser. In such case, the purchaser must be informed immediately of the cancellation.

The registration restrictions described above also apply to shares bought or subscribed via the exercise of pre-emptive rights, conversion rights or options.

## Board of Directors

**Members.** The Board of Directors of Schaffner Holding AG is primarily composed of independent, external members. Its membership on 30 September 2005 was as follows:

	Since	Elected until
<b>Alex Oechslin, Chairman</b>	1998	2006
<b>Fritz Gantert, Delegate*</b>	2002	2006
<b>Peter Leuthold</b>	1998	2006
<b>Peter E. Rüd</b>	1998	2006
<b>Robert Scherer</b>	1998	2006
<b>Robert F. Spoerry</b>	1998	2006
<b>Leo Steiner</b>	2002	2006
<b>Secretary to the Board: Martin Zwysig</b>		

\* Executive member

### Information on the members of the Board of Directors

#### **Alex Oechslin, Chairman**

1954, Swiss.

Ph.D. in ME, ETH Zurich.

Retired.

With the Schaffner Group since 1981, Group CEO up to 31 July 2001.

Other mandates on the boards of listed companies:

Member of the Board of Directors of Comet Holding AG, Berne.

#### **Fritz Gantert, Delegate**

1958, Swiss.

Ph.D. in ME, ETH Zurich.

Worked for Ascom from 1988 to 1998, then for Sarna Kunststoff Holding AG from 1998 to 2001.

President & Chief Executive Officer of the Schaffner Group since 1 August 2001.

**Peter Leuthold**

1937, Swiss.

Prof. and Ph.D. in EE, ETH Zurich.

Emeritus Professor of Information Technology and former Head of the Institute for Communications Technology at the ETH Zurich.

**Peter E. Rüd**

1945, Swiss.

BSc in Engineering, degree course in Industrial Management at the ISZ/SIB.

Consultant.

Worked for Phoenix Mecano Group, Stein am Rhein, from 1982 to 2001, acting as Chief Executive from 1992 to 1999 and as Delegate of the Board of Directors and CEO from 2000 to 2001.

**Robert Scherer**

1940, Swiss.

Business diploma.

Retired.

Member of the Executive Board of SIG Schweizerische Industrie-Gesellschaft Holding AG, Neuhausen am Rheinfall, from 1998 to 2000 and Group Controller up to 2000.

**Robert F. Spoerry**

1955, Swiss.

Diploma degree in ME, ETH Zurich, and MBA, University of Chicago.

Chairman, President & CEO of Mettler-Toledo International Inc., Greifensee, since 1998.

Other mandates on the boards of listed companies:

Member of the Boards of Directors of Conzzeta Holding AG, Zurich, Eichhof Holding AG, Lucerne, and Phonak Holding AG, Stäfa.

**Leo Steiner**

1943, Swiss.

Diploma degree in ME, ETH Zurich.

Delegate of the Board of Directors of Komax Holding AG, Dierikon, and Komax Group CEO since 1992.

**Cross-directorships.** There are no cross-directorships with any other company.

**Election and term of office.** The members of the Board of Directors are elected by the Annual General Meeting of Shareholders for a term of four years. Members may offer themselves for re-election. The statutory maximum age is 70. The Board of Directors constitutes itself. It appoints a Chairman and a Secretary, who does not have to be a member of the Board.



**Internal organization.** The Board of Directors of Schaffner Holding AG is responsible for determining the Group's strategy. It reviews the company's underlying plans and objectives and identifies internal and external risks and opportunities. The tasks of the Board of Directors of Schaffner Holding AG and the division of powers between the Board and the Group Management are defined in the Swiss Code of Obligations, the company's Articles of Association and the Organization Regulations. The Organization Regulations are reviewed annually and amended if required.

The Board of Directors holds a half-day meeting at least four times a year and generally convenes for a full-day closed session once a year. It undertakes to ensure that all members are mutually and comprehensively informed at all times.

The Board of Directors has a quorum when the majority of its members participates in spoken discussions and votes. Its decisions are passed by a simple majority vote. If the vote is tied, the Chairman casts the deciding vote. The Board is authorized to pass decisions in connection with capital increases regardless of the number of members present. The Board may also pass decisions regarding proposals submitted to it by written vote insofar as no member requests a spoken discussion. In this case, the decision is passed if it is supported by the majority of all Board members.

The Board of Directors met five times in fiscal 2002/2003. The Audit Committee and Compensation Committee each met twice. The CFO was present at both Audit Committee meetings, the CEO was present at one meeting of the Compensation Committee.

**Committees.** In order to fulfill its supervisory role as efficiently and effectively as possible, the Board of Directors of Schaffner Holding AG has established the committees detailed below. The latter are primarily tasked with providing specialist input to form the basis of the decisions passed by the Board. The committees are made up exclusively of non-executive directors. They meet as often as necessary and inform the Board as to their findings and proposals at the normal Board meetings. They may also inform the Chairman or Delegate of the Board at any time in cases of urgency. Outside the normal Board meetings, the directors who sit on the committees also work directly with the Group Management. The term of office of committee members normally coincides with the four-year term of their director's mandate. If required, however, new committees can be appointed or existing ones reorganized or wound up.

**Audit Committee**

	Term
<b>Robert Scherer (Chairman)</b>	2002–2006
<b>Peter E. Rüd</b>	2002–2006

The Audit Committee assists the Group Management in dealing with financial matters. In particular, it provides the Board with expert opinions on the following responsibilities of the Group Management:

- accuracy and clarity of Group accounts,
- the financial part of the annual budget,
- the annual consolidated financial statements
- and other major tasks assigned to the finance department.

The Audit Committee takes receipt of the reports submitted by the statutory and Group auditors on behalf of the Board and provides the Board with its opinion on their contents.

**Compensation Committee**

	Term
<b>Alex Oechsli (Chairman)</b>	2002–2006
<b>Robert F. Spoerry</b>	2002–2006
<b>Leo Steiner</b>	2002–2006

The Compensation Committee submits proposals to the Board concerning the nature and amount of annual directors' fees at the start of each term of office. It also submits proposals concerning the remuneration of each individual member of the Group Management to the Board for approval on an annual basis.

In addition, the Compensation Committee reviews applications for the promotion of employees to the Group Management and for the recruitment or dismissal of Group Management members. When a new member is to be recruited for the Group Management, members of the Compensation Committee take part in the process of assessing candidates.

**Division of powers.** Within the scope of the applicable legal and statutory provisions, the Board of Directors has delegated the operational management of the Schaffner Group to the Group Management, which is chaired by the Delegate of the Board of Directors (CEO). The Group Management is responsible for implementing Group policies in line with the guidelines set out by the Board of Directors. Its tasks and powers are defined in the Organization Regulations.

**Group Management information and controlling instruments.** The Group Management provides the Board with a written report on Schaffner's business every month. Reports include details of the individual accounts of all Group companies, which are shown consolidated in the balance sheet and the income and cash flow statements. Results are compared to prior year and budgeted figures. The Board discusses the monthly reports at its meetings.

**Principles and organization of management.** The Schaffner Group divides its activities into three areas: Corporate (comprising Business Support departments), two businesses (Components and Test Systems) and Business Development. Corporate is jointly managed by the CEO (Corporate Communications & Investor Relations, Corporate Quality Management, Human Resources) and the CFO (Finance & Accounting, Group Controlling, IT), while the two businesses and Business Development are each managed by an Executive Vice President. In accordance with the principle of decentralized management, the Schaffner Group delegates decision-making powers to the lowest possible function and encourages its staff to act entrepreneurially in line with their rank.

The Group Management is headed by the CEO and comprises the CFO, the Executive Vice Presidents of the two businesses and the Executive Vice President Business Development. It is responsible for achieving annual targets and implementing medium and long-term goals, as well as for process planning, controlling and applying Group-wide standards.

The CEO formulates the Group strategy for the attention of the Board of Directors and is responsible for the implementation of this strategy. He sets the targets for the businesses and Business Development.

The CFO defines the framework for all strategic and operational controlling activities, takes care of the Group's financing, optimizes its tax structure and supports the CEO and the Group Management in all financial matters.

The Executive Vice Presidents are responsible for achieving the short and medium-term targets set for their areas of authority. This includes in particular achieving a leading position in selected market segments.

## Group Management

**Members.** On 30 September 2003, Schaffner's Group Management comprised the following members:

		Joined the Schaffner Group
<b>Fritz Gantert</b>	President & Chief Executive Officer	2001
<b>Martin Zwyssig</b>	Executive Vice President & Chief Financial Officer	2003
<b>Roland K�pfer</b>	Executive Vice President Components	2001
<b>Richard M�ller</b>	Executive Vice President Business Development	1982
<b>Matthias Zwicky</b>	Executive Vice President Test Systems	2000

**Changes in the Group Management.** Martin Zwyssig was appointed Executive Vice President & Chief Financial Officer of the Schaffner Group on 1 April 2003, replacing Beat Zwahlen who left the company on 31 May 2003.

### Information on the members of the Group Management

#### **Fritz Gantert**

1958, Swiss.

Ph.D. in ME, ETH Zurich.

Various management functions at Ascom, including Managing Director of Ascom Autelca AG; member of Group Management and Head of the Sarnamotive division of Sarna Kunststoff Holding AG.

President & Chief Executive Officer of the Schaffner Group since 1 August 2001.

Directorships: Delegate of the Board of Directors of Schaffner Holding AG, Luterbach.

#### **Martin Zwysig**

1965, Swiss.

Ph.D. in Economics, University of St. Gallen.

Sarna Kunststoff Holding AG, Head of Controlling for the Sarnatech/Sarnamotive division; EMS-Togo Group, member of the Executive Board and Head of Finance & Controlling.

Executive Vice President & Chief Financial Officer of the Schaffner Group since 1 April 2003.

#### **Roland Küpfer**

1958, Swiss.

BSc in Engineering; MBA GSBA Zurich/MBA SUNY, Albany, USA.

Various management functions at Ascom; Haag-Streit AG, Managing Director.

Executive Vice President Components of the Schaffner Group since 1 November 2001.

#### **Richard Müller**

1942, Swiss.

BSc in Engineering.

With the Schaffner Group since 1982; Executive Vice President Business Development since 1 July 2000.

#### **Matthias Zwicky**

1956, Swiss.

Ph.D. in EE, ETH Zurich.

Schaffner EMV AG, Head of Development Components; IUB Ingenieurunternehmung AG, Electrical and Electromechanical Engineering; Aare Tessin AG (Atel), member of the Executive Board and Head of Energy Technology.

Executive Vice President Test Systems of the Schaffner Group since 1 July 2000.

**Management agreements.** Schaffner Holding AG and its Group companies have no management agreements with third parties.

## Compensation, shareholdings and loans

**Content and determination of compensation and share option plans.** Based on proposals made by the Compensation Committee, the Board of Directors

- determines the amount of the fixed remuneration paid to its members and
- defines the fixed remunerations and the conditions for the profit-related component (bonus) for the Delegate of the Board of Directors (CEO) and the members of the Group Management.

Extraordinary efforts beyond the scope of normal directorial duties of the members of the Board of Directors may be remunerated separately.

The bonuses paid to the Delegate of the Board of Directors (CEO) and CFO depend mainly on the Group result and free cash flow as well as on the achievement of the personal targets.

The bonuses paid to the Executive Vice Presidents depend mainly on the Group result and the operating income of the respective businesses as well as on the achievement of the personal targets.

**Compensation of active members of corporate bodies.** The following total compensation was paid to active members of the Group's corporate bodies in fiscal 2002/2003:

CHF 1,717,652	Executive members of the Board of Directors and members of the Group Management
CHF 207,000	Non-executive members of the Board of Directors

The above amounts do not include option allocations. For information on the employee share option plan, see pages 12 and 36 of the Finance Report.

The members of the Group Management are entitled to company cars.

**Severance payments.** No severance payments were made in fiscal 2002/2003.

**Compensation of former members of corporate bodies.** No compensation was paid to former members of corporate bodies in fiscal 2002/2003.

**Share allocations.** No shares were allocated to members of the Board of Directors or the Group Management in the year under review.

**Shareholdings.** The members of the Board of Directors and the Group Management held the following number of Schaffner Holding AG registered shares on 30 September 2003:

1,497 shares	Executive members of the Board of Directors and members of the Group Management
6,820 shares	Non-executive members of the Board of Directors

**Options.** A total of 4,500 options with a strike price of CHF 159 each were issued to members of the Board of Directors and the Group Management in fiscal 2002/2003.

Executive members of the Board of Directors and members of the Group Management

Issue date	Options issued	Strike price	Expiry	Exercised
30.09.1998	1,000	145.00	30.09.2008	0
25.11.1999	400	212.50	25.11.2009	0
15.12.2000	1,500	543.00	15.12.2010	0
04.12.2001	1,500	295.50	04.12.2011	0
20.11.2002	3,300	159.00	20.11.2012	0
<b>Total</b>	<b>7,700</b>			<b>0</b>

Non-executive members of the Board of Directors

Issue date	Options issued	Strike price	Expiry	Exercised
30.09.1998	3,000	145.00	30.09.2008	400
25.11.1999	900	212.50	25.11.2009	60
15.12.2000	400	543.00	15.12.2010	0
04.12.2001	1,000	295.50	04.12.2011	0
20.11.2002	1,200	159.00	20.11.2012	0
<b>Total</b>	<b>6,500</b>			<b>460</b>

For more information on the employee share option plan, see page 36 of the Finance Report.

**Additional fees and remunerations.** No additional fees or remunerations were paid to members of the Board of Directors or the Group Management in fiscal 2002/2003.

**Loans to members of corporate bodies.** There were no outstanding loans to members of the Group's corporate bodies on the accounting cut-off date.

**Highest total compensation.** The highest total compensation paid to a member of the Board of Directors in fiscal 2002/2003 was made up as follows:

CHF 438,000	Total compensation
No. 1,500	Options

## Shareholders' rights

**Limitation of voting rights and entry in the Share Register.** Voting rights are not limited in any way. All shareholders whose names are entered in the Group's Share Register 20 days before the Annual General Meeting of Shareholders are entitled to vote.

**Statutory quorums.** The Articles of Association contain no provisions that deviate from the applicable law.

**Convening and agenda of the Annual General Meeting of Shareholders.** The agenda is sent out together with the invitations at least 20 days before the Annual General Meeting of Shareholders. Decisions cannot be passed on unannounced agenda items unless an extraordinary general meeting or special audit is called.

## Changes in control and defense measures

**Offer obligation.** The Articles of Association of Schaffner Holding AG contain neither an opting-out clause nor an opting-up clause. Any individual or entity acquiring one third (33 $\frac{1}{3}$ %) of the share capital of Schaffner Holding AG is obliged under Art. 32 of the Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA) to submit a public offer to purchase the remaining shares.

**Clauses on changes of control.** Upon a change of control (as defined below), any and all options then outstanding shall become fully and immediately exercisable by members of the employee share option plan (Board of Directors, Group Management, middle managers and employees). For the purpose of this provision, 'change in control' means any of the following:

- the acquisition, directly or indirectly, by any person or entity of such number of shares of the Company which according to Art. 32 of the Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA) would trigger the obligation of such offeror to make an offer to acquire all listed shares of the Company or
- the sales of all or a substantial proportion of all of the Company's assets.

## Auditors

**Duration of the mandate and term of office of the auditor in charge.** Statutory and Group auditors are elected by the Annual General Meeting of Shareholders every year.

In accordance with a resolution passed at the Annual General Meeting of Shareholders on 9 January 2003, PricewaterhouseCoopers AG, Zurich, which had acted as statutory and Group auditor from 1998 to 2002, was replaced by Ernst & Young AG, Berne. Roland Ruprecht is the auditor in charge of the mandate for Ernst & Young AG, Berne.

**Audit fees.** Ernst & Young AG charged fees totaling CHF 335,000 for its audit work in fiscal 2002/2003.

**Additional fees.** In fiscal 2002/2003 additional fees in the amount of CHF 20,263 were paid to Ernst & Young AG.

**Audit supervision and control instruments.** The Audit Committee assesses the work done and fees charged by the statutory and Group auditors, as well as their impartiality, every year and submits a proposal to the Board of Directors concerning which external auditors should be presented for election by the Annual General Meeting of Shareholders.

The Audit Committee also reviews the scope of the external audit, the audit plans and the relevant procedures every year. The results of each audit are discussed with the external auditors.

## Information policy

Schaffner Holding AG informs its shareholders, the media, financial analysts and other groups with an interest in the capital market equitably and with maximum transparency. To this end, it employs the following instruments:

- Annual Report and Interim Report, prepared in accordance with the International Financial Reporting Standards;
- Presentation of annual results to media representatives and analysts;
- Annual General Meeting of Shareholders;
- Press releases concerning quarterly order intake and sales figures, plus reports on significant events lying within the SWX ad-hoc reporting requirement;
- Conference calls;
- Roadshows for institutional investors and
- The website [www.schaffner.com](http://www.schaffner.com), which includes up-to-date information on the company and the price of its registered shares.



**Official organ of publication.** Swiss Commercial Gazette (Schweizerisches Handelsamtsblatt, SHAB).

**Articles of Association.** The company's Articles of Association can be downloaded from [www.schaffner.com](http://www.schaffner.com).

**Investor Relations contacts**

- Fritz Gantert, President & Chief Executive Officer of the Schaffner Group  
([fgantert@schaffner.com](mailto:fgantert@schaffner.com)) and
- Martin Zwyssig, Executive Vice President & Chief Financial Officer of the Schaffner Group  
([mzwyssig@schaffner.com](mailto:mzwyssig@schaffner.com))

**Calendar of events**

<b>09.01.2004</b>	Publication of first quarter 2003/2004 sales and order intake
<b>09.01.2004</b>	Annual General Meeting of Shareholders, 4.30 pm, Landhaus, Solothurn
<b>13.05.2004</b>	Publication of 2003/2004 Interim Report, Conference call
<b>09.07.2004</b>	Publication of third quarter 2003/2004 sales and order intake
<b>03.11.2004</b>	Publication of fourth quarter 2003/2004 sales and order intake
<b>15.12.2004</b>	Publication of Annual Report 2003/2004, Financial Press Conference
<b>12.01.2005</b>	Annual General Meeting of Shareholders, 4.30 pm, Landhaus, Solothurn



**Free cash flow increased significantly and balance sheet optimized.** The Schaffner Group had two primary financial goals for fiscal 2002/2003: to improve profitability and to manage its capital more efficiently with a view to achieving optimal liquidity and reducing its gearing to a considerable extent. The reappraisal of individual balance sheet positions resulted in a net loss.

**Profitability improved.** Net sales were up CHF 4.0 million year-on-year, causing the net result before reappraisal to rise by CHF 7.0 million to CHF 1.3 million despite higher overhead expenses, which were due, in part to engineering expenditure for projects in the automotive sector. The relationship between manufacturing costs and corporate output improved significantly, although it must be borne in mind that around CHF 2.8 million in expenditure on research and development and central services, which had previously been included in manufacturing costs, was no longer charged to subsidiaries. The reduction in manufacturing costs reflects the positive effects of centralizing materials procurement and significantly higher productivity at all locations. Earnings before interest, tax and goodwill amortization (EBITA) rose considerably by CHF 9.6 million to CHF 7.5 million, resulting in an EBITA margin of 4.7% (up from -1.4% in fiscal 2001/2002). After accounting for goodwill amortization of CHF 2.7 million (first and foremost for Schaffner Electrottest), financial income before tax and minority interests, the consolidated net profit before the reappraisal was CHF 1.3 million (up from CHF -5.8 million). The unfavorable macro-economic background led to an unsatisfactory earnings situation, pushing up the risk premium on the interest rates for bank loans. However, the consistent reduction in interest-bearing debt enabled the Group to maintain interest charges at prior-year levels. At the same time, foreign exchange losses were reduced from a net total of CHF 1.1 million in the previous year to CHF 0.2 million. We plan to make increasing use of active currency hedging in future in addition to the current practice of natural hedging. The tax rate was higher than in previous years due to the fact that the booking of deferred tax assets is now severely restricted under IFRS. Cash flow from operating activities increased from CHF 10.7 million to CHF 15.0 million, and free cash flow rose from CHF 4.5 million to CHF 9.2 million.

**Efficient capital management.** Given the negative result posted in the previous year and the provision of funds to meet financing requirements (in particular for the integration of Schaffner Electrottest), securing liquidity was especially important in the reporting year. We had to raise the proportion of interest-bearing debt on the balance sheet temporarily to 42% in the previous year. The gearing (ratio of net debt to equity) was 1.06. Thanks to strict management of cash and costs, and in particular a 17.2% reduction in inventories, we were able to reduce current assets by 6.0% year-on-year. Capital expenditure on tangible fixed assets was down by around 23.7% on the previous year at CHF 3.6 million. The capital turnover (ratio of net sales to total assets) improved to 1.29 as at 30 September 2003 (from 1.15 as at 30 September 2002). Positive cash flow of CHF 15.0 million from operating activities additionally allowed us to reduce our interest-bearing debt by 16.7% year-on-year to CHF 49.5 million (2001/2002: CHF 59.4 million).

**Reappraisal under IAS 8.** Following the appointment of Ernst & Young as sole, Group-wide auditors by the 2003 Annual General Meeting, the Board of Directors of Schaffner Holding AG, Schaffner Group Management and the auditors took the joint decision to partially amend the Group's valuation policy and reappraise several balance sheet positions from previous years in order to reflect the changed economic environment. This reappraisal resulted in an exceptional write-down of CHF 9.6 million on the like-for-like net result, leading to a reported net loss of CHF -8.2 million (CHF -5.8 million). The reappraisal does not affect the Group's cash flow and will have a positive impact on the like-for-like net result as early as the current fiscal year.

The reappraisal under IAS 8 relates in particular to the adjustment of capitalized development costs and deferred tax assets, as well as to the standardization of inventory valuation methods. The goodwill of a subsidiary acquired in fiscal 1997/1998, which proved to no longer have any value following the dramatic collapse of the technology markets, has been written off in full. Provisions have also been made for liabilities to employees (years-of-service awards and legally prescribed severance payments in Thailand) stemming from previous years. In addition, the employer contribution reserve of the Swiss pension fund was shown as an asset in the consolidated financial statements for the first time. For more information, please see page 38.

**Outlook.** Assuming that the minor improvement in the overall economy and the positive trend in demand seen in the second half of fiscal 2002/2003 prove to be sustainable, the Schaffner Group expects to see a significant increase in its EBITA margin. We intend to use stringent management of cash and costs, continued caution as regards capital expenditure and efficient capital management to reduce the amount of interest-bearing debt and aim for a gearing of less than 1.0 over the long term.

Martin Zwyszig  
Executive Vice President & Chief Financial Officer

# Schaffner GROUP

## Consolidated balance sheet

in CHF 1,000

	Note	30.9.2003 <sup>1</sup>	30.9.2002
Intangible assets	3	19,928	25,909
Tangible fixed assets	4	30,291	32,667
Investments		3	3
Other long-term assets	5	3,114	1,513
Deferred tax assets	16	329	3,725
<b>Fixed assets</b>		<b>53,665</b>	<b>63,817</b>
Inventories	6	28,283	34,148
Trade receivables	7	36,147	32,548
Tax receivables		3,187	3,081
Other receivables and accruals	8	1,790	3,070
Short-term investments		15	15
Cash and cash equivalents		3,267	4,416
<b>Current assets</b>		<b>72,689</b>	<b>77,278</b>
<b>Total assets</b>	17	<b>126,354</b>	<b>141,095</b>
<b>Shareholders' equity</b>		<b>43,801</b>	<b>51,897</b>
<b>Minority interests</b>		<b>9</b>	<b>30</b>
Provisions	9	4,731	5,780
Deferred tax liabilities	16	2,492	2,184
Long-term borrowings	10	42,239	53,614
<b>Long-term liabilities</b>		<b>49,462</b>	<b>61,578</b>
Short-term borrowings		7,231	5,755
Tax receivables		2,541	2,787
Interest-free liabilities	11	23,310	19,048
<b>Short-term liabilities</b>		<b>33,082</b>	<b>27,590</b>
<b>Total liabilities</b>		<b>82,544</b>	<b>89,168</b>
<b>Total liabilities and shareholders' equity</b>		<b>126,354</b>	<b>141,095</b>

<sup>1</sup> See also note 22, page 38

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated income statement

in CHF 1,000

	Note	2002/2003	2001/2002 <sup>1</sup>
<b>Net sales</b>	17	<b>163,350</b>	<b>159,309</b>
Change in inventory		-4,033	-5,503
<b>Corporate output</b>		<b>159,317</b>	<b>153,806</b>
Cost of goods		-92,172	-94,055
Marketing and sales		-25,041	-25,079
Research, development and application		-15,569	-14,466
Logistics		-2,990	-2,139
General and administration		-17,892	-15,642
Restructuring	21	1,849	-4,535
<b>EBITA</b>		<b>7,502</b>	<b>-2,110</b>
<b>Goodwill amortization</b>	3	<b>-2,740</b>	<b>-2,658</b>
<b>EBIT</b>		<b>4,762</b>	<b>-4,768</b>
Financial income	15	-2,654	-3,646
<b>EBT</b>		<b>2,108</b>	<b>-8,414</b>
Income taxes	16	-826	2,661
<b>Net profit/loss before reappraisals</b>		<b>1,282</b>	<b>-5,753</b>
Reappraisals	22	-9,540	0
<b>Net profit</b>		<b>-8,258</b>	<b>-5,753</b>
Minority interests		15	-4
<b>Net profit after minority interests</b>		<b>-8,243</b>	<b>-5,757</b>
Depreciation and amortization (without goodwill)	3, 4	-7,781	-7,495
Personnel expenses	13	-58,468	-58,675
<b>Earnings per share</b> in CHF			
basic	19	-13.25	-9.10
diluted	19	-13.25	-9.10

<sup>1</sup> Withholding taxes on intercompany dividends (60) were reclassified from the financial result into the income taxes

The accompanying notes are an integral part of the consolidated financial statements.

**Consolidated cash flow statement**

in CHF 1,000

	Note	2002/2003	2001/2002
Net profit after minority interests		8,243	-5,757
+ Depreciation of tangible fixed assets	4	5,679	5,784
+ Amortization of intangible assets	3	3,375	1,711
± Change in provisions		-1,180	2,269
± Change in inventory according to the balance sheet		5,865	6,152
± Change in accounts receivables according to the balance sheet		-2,425	113
± Change in short-term liabilities according to the balance sheet		4,016	-1,169
± Change in net working capital from acquisitions and disposals of Group companies		0	4,739
± Translation differences on net working capital		284	-1,653
+ Amortization of the period	3	5,342	2,658
± Change in deferred taxes	16	3,510	-3,835
± Change in other cash flow items		-1,211	-299
<b>Cash flow from operating activities</b>		<b>15,012</b>	<b>10,713</b>
- Capital expenditure (tangible fixed assets)	4	-3,590	-4,700
+ Gain from sale of tangible fixed assets		256	672
- Capital expenditure (intangible assets)	3	-2,704	-2,210
± Change in short-term investments		-1	0
± Change in Group companies		0	-15,008
± Change in loans and long-term assets		3	-64
<b>Cash flow from investing activities</b>		<b>-6,036</b>	<b>-21,310</b>
± Share capital paid in and changes in treasury shares		20	-1,866
- Dividend distributions		0	-2,185
± Change in borrowings		-10,528	15,939
<b>Cash flow from financing activities</b>		<b>-10,508</b>	<b>11,888</b>
± Translation differences on cash and cash equivalents		383	-167
<b>= Change in cash and cash equivalents</b>		<b>-1,149</b>	<b>1,124</b>
Cash and cash equivalents previous year		4,416	3,292
Cash and cash equivalents for the fiscal year		3,267	4,416
<b>Free cash flow<sup>1</sup></b>		<b>9,167</b>	<b>4,475</b>
Additional information			
Interest expense	15	2,073	2,135
Interest paid		-2,098	-1,907
Tax expense	16	1,521	1,174
Taxes paid		-763	-820

<sup>1</sup> Cash flow from operating activities minus net capital expenditures in tangible fixed and intangible assets  
(excl. 193 additional goodwill)

The accompanying notes are an integral part of the consolidated financial statements.

## Change in consolidated equity

in CHF 1,000

	Share capital	Capital reserves	Cumulative translation differences	Retained earnings	Treasury shares	Total shareholders' equity
<b>At 1.10.2001</b>	<b>31,797</b>	<b>53,129</b>	<b>-2,123</b>	<b>-12,102</b>	<b>-6,870</b>	<b>63,831</b>
Restatement IAS 39				-450		-450
Translation differences			-1,676			-1,676
Treasury shares				-1,864	-2	-1,866
Net profit/loss				-5,757		-5,757
Dividend payment				-2,185		-2,185
<b>At 30.9.2002</b>	<b>31,797</b>	<b>53,129</b>	<b>-3,799</b>	<b>-22,358</b>	<b>-6,872</b>	<b>51,897</b>
Translation differences			127			127
Treasury shares				-1,342	1,362	20
Net profit				-8,243		-8,243
Dividend payment				0		0
<b>At 30.9.2003</b>	<b>31,797</b>	<b>53,129</b>	<b>-3,672</b>	<b>-31,943</b>	<b>-5,510</b>	<b>43,801</b>

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

The accompanying notes are an integral part of the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCE REPORT

### Consolidation and valuation principles

**Principles.** The consolidated financial statements are based on the individual financial statements of the Schaffner Group companies and Schaffner Holding AG as of 30 September drawn up in accordance with the uniform guidelines of the Schaffner Group. The financial statements have been prepared in conformity with the International Financial Reporting Standards (IFRS).

**Explanation of terms.** A Group company 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.

**Reappraisals.** In the balance sheet, several valuation adjustments were made on capitalized development costs, deferred tax assets and on inventories. Impaired goodwill on a Group company was fully amortized. Provisions for holidays, years-of-service awards and severance payments were created. The employer contribution reserve in the Swiss pension fund was recognized as an asset in the consolidated financial statements.

According to the allowed alternative method of IAS 8 these reappraisals are reported on the income statement of fiscal 2002/2003.

**Consolidation principles.** The consolidated financial statements incorporate the financial statements of Schaffner Holding AG and of the Group companies and Associated companies.

Group companies 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 Group companies 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 exchange 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 Group companies 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 and software purchased. Apart from goodwill, these are amortized over a period of three to five years using the straight-line method.

**Acquisitions and goodwill.** Companies are consolidated from the date at which control is acquired. The identifiable assets and accounts payable are revalued and included according to the purchase method. Any difference between the cost of acquisition and the net assets acquired constitutes goodwill and is amortized straight-line over the expected useful life of maximum 20 years. In case of impairment tests showing the necessity of adjustments, the goodwill is impaired accordingly. If a subsidiary is sold, the difference between the selling price and the net assets plus the accumulated translation exchange differences is reported as operating profit in the consolidated profit and loss statement.

**Research and development cost.** Contract-related engineering costs are capitalized in work in progress. Other research and development expenses are immediately recognized in the profit and loss statement. Development costs for new products are not capitalized, since a future economic benefit can only be proven after successful market introduction.

**Tangible fixed assets.** Tangible 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 Group company 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.

The buildings not used for operational purposes are carried at cost less accumulated depreciation.

**Impairment of assets.** The recoverable amount of an asset is estimated as soon as signals of an impairment of an asset occur. In case the carrying amount of assets being higher than the recoverable amount, the impairment of the asset is recorded in the income statement. The recoverable amount is the higher of an asset's net selling price and its value in use, which corresponds to the present value of estimated future cash flows.

**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 value. Other securities contain shares which are not (yet) listed and are valued if possible at market, else at cost. 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, with original maturity of up to 90 days.

**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. The pro rata billings, including a conservatively estimated share of profit, are taken up in net sales and in trade accounts receivable after offset of advance payments received.

**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 Group companies, 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's contributions to the defined contribution plans are charged to the income statement in the year to which they relate. Actuarial gains or losses are amortized in the income statement over the remaining average service years.

**Borrowing costs.** Borrowing costs are recognised in the period in which they are incurred.

**Segment information.** The Schaffner Group concentrates on products and services in the market of electromagnetic compatibility. The value added is generated in a uniform organization, which is only divided into geographical sections. Segment information therefore shows the added value per region.

**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.

Deferred taxes are recognized in accordance with the comprehensive liability method. Thus, the impact on income taxes from temporary differences arising from differences between Group values and the corresponding tax basis is recorded as either non-current liability or non-current asset, using the effective or the expected local tax rates. The change in deferred tax assets and liabilities is recognized as income tax.

Passive deferred taxes are calculated on all taxable temporary differences.

Deferred tax assets including assets for unused tax loss carry-forwards and expected tax credits are only recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

**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 assets and liabilities.** Financial assets and liabilities are classified into the following categories:

- Financial assets held for trading.
- Financial investments held to maturity.
- Financial instruments available for sale, which include all financial instruments not assignable to one of the above-mentioned categories.
- Financial liabilities mainly comprise financial debts, which are valued at their (discounted) costs. Liabilities arising from trading activities, and derivatives, are valued at market values.

The first-time valuation of the financial assets are recognized at purchase cost, including transaction costs. All purchases and sales of financial assets are recognized on their trading date. Financial assets held for trading are valued at their market value. Any value adjustments are recorded in financial income/expense for the respective reporting period.

Financial instruments held to maturity are valued by the effective interest method, or at purchase cost.

Financial instruments available for sale are recognized at market value, changes in market value (after tax) being recorded in shareholders' equity. At the time of sale, impairment, or other disposal, the accumulated gains and losses recorded in shareholders' equity are reported in financial income/expense for the current period.



Assets included in the balance sheet at a value other than market value are tested for impairment when indications of possible impairment exist. Impairment adjustments are recorded in the income statement. Financial assets are derecognized when Schaffner gives up its control over them. Financial liabilities are derecognized when they are repaid.

Long-term financial liabilities are valued by the effective interest method. The interest expense therefore includes not only the actual interest payments, but also the annual discounted amounts and pro rata transaction costs.

Derivative financial instruments are initially recognized at their purchase price including transaction costs. Sales and purchases are recorded on the date of trading and subsequently carried at market value.

**Risk management.** Due to the global business activities of the Schaffner Group, distribution and procurement transactions are entered into using different currencies and interest rates. Significant exposures arising from such transactions or corresponding balance sheet positions are recognized and managed centrally by the Group headquarters. For the hedging of those currency and interest rate risks derivative financial instruments are used.

Exchange rate risk management: The major part of the currency exchange risk is eliminated by setting off the transactions centrally. Major remaining risks, especially with long-term projects, are secured by term drafts in foreign currency based on risk estimation.

Interest rate risks: Due to the central financing of the Group, the drafts are mainly taken in Switzerland. Normally no interest rate hedging is entered into by the Schaffner Group.

Credit risks: Short-term bank accounts are with first-class institutes. The risk from accounts receivables is very low as the Schaffner Group has a very broad customer portfolio with first-class ratings.

**1. Foreign currencies.** The following exchange rates were applied for the translation of foreign currencies:

Country	Currency	Balance sheet		Income statement	
		30.9.2003	30.9.2002	2002/2003	2001/2002
		CHF	CHF	CHF	CHF
United Kingdom	100 GBP	219.42	231.73	221.03	235.39
Japan	10,000 JPY	118.49	121.22	115.79	126.99
Singapore	100 SGD	76.30	83.04	78.63	88.47
Sweden	1,000 SEK	170.38	159.17	164.12	158.97
Thailand	1,000 THB	32.98	34.12	32.53	36.94
USA	100 USD	132.01	147.59	137.75	159.83
EU	100 EUR	153.82	145.78	150.15	146.79
China	100 CNY	16.03	17.83	16.67	19.30
Hungary	10,000 HUF	60.52	59.89	60.35	59.78

**2. Scope of consolidation.** The scope of consolidation remained unchanged in fiscal 2002/2003. For further information on the scope of consolidation, see page 2 of the Finance Report.

3. Intangible assets	Development cost	Software and rights	Goodwill	Total
in CHF 1,000				
<b>Historical cost 1.10.2002</b>	<b>4,178</b>	<b>4,920</b>	<b>28,072</b>	<b>37,170</b>
Capital expenditure	0	2,511	193	2,704
Disposals	-2	0	0	-2
Translation differences	66	82	0	148
<b>Historical cost at 30.9.2003</b>	<b>4,242</b>	<b>7,513</b>	<b>28,265</b>	<b>40,020</b>
<b>Accumulated amortization at 1.10.2002</b>	<b>-2,073</b>	<b>-2,258</b>	<b>-6,930</b>	<b>-11,261</b>
Amortization	-2,125 <sup>1</sup>	-1,250	-5,342 <sup>2</sup>	-8,717
Disposals	0	0	0	0
Translation differences	-44	-70	0	-114
<b>Accumulated amortization at 30.9.2003</b>	<b>-4,242</b>	<b>-3,578</b>	<b>-12,272</b>	<b>-20,092</b>
<b>Net book value at 30.9.2003</b>	<b>0</b>	<b>3,935</b>	<b>15,993</b>	<b>19,928</b>

<sup>1</sup> Whereof reappraisals -1,273

<sup>2</sup> Whereof reappraisals -2,602

Goodwill is amortized over a period of five to ten years.

<b>4. Tangible fixed assets</b> in CHF 1,000	Land and buildings	Buildings not used for operational purposes	Machinery and equipment	EDP	Furniture and fixtures	Vehicles	Assets under construction	<b>Total</b>
<b>Historical cost</b>								
<b>1.10.2002</b>	<b>31,410</b>	<b>10,163</b>	<b>31,579</b>	<b>5,753</b>	<b>9,659</b>	<b>1,164</b>	<b>0</b>	<b>89,728</b>
Capital expenditure	162	0	2,311	470	452	137	58	3,590
Disposals	-27	0	-1,955	-148	-498	-177	-1	-2,806
Reclassification	3,406	-3,393	-40	3	44	1	-21	0
Translation differences	182	0	-11	-21	127	-1	0	276
<b>Historical cost</b>								
<b>30.9.2003</b>	<b>35,133</b>	<b>6,770</b>	<b>31,884</b>	<b>6,057</b>	<b>9,784</b>	<b>1,124</b>	<b>36</b>	<b>90,788</b>
<b>Accumulated depreciation</b>								
<b>1.10.2002</b>	<b>-17,571</b>	<b>-5,152</b>	<b>-22,885</b>	<b>-4,130</b>	<b>-6,534</b>	<b>-789</b>	<b>0</b>	<b>-57,061</b>
Depreciation	-1,085	-157	-2,698	-713	-894	-132	0	-5,679
Disposals	0	0	1,804	130	454	161	0	2,549
Reclassification	-1,485	1,485	-3	0	5	-2	0	0
Translation differences	-84	0	-111	3	-116	2	0	-306
<b>Accumulated depreciation</b>								
<b>30.9.2003</b>	<b>-20,225</b>	<b>-3,824</b>	<b>-23,893</b>	<b>-4,710</b>	<b>-7,085</b>	<b>-760</b>	<b>0</b>	<b>-60,497</b>
<b>Net book value</b>								
<b>30.9.2002</b>	<b>14,908</b>	<b>2,946</b>	<b>7,991</b>	<b>1,347</b>	<b>2,699</b>	<b>364</b>	<b>36</b>	<b>30,291</b>

At 30 September 2003 the assets under finance leasing contracts amounted to CHF 1,016,000 (previous year: CHF 561,000). The fire insurance value of Group properties on 30 September 2003 amounted to CHF 47,565,000 (30.9.02: CHF 44,325,000). The fire insurance value of other tangible fixed assets at 30 September 2003 amounted to CHF 47,181,000 (30.9.02: CHF 38,998,000). At per 30 September 2003 commitments to purchase tangible fixed assets amounting to CHF 244,000 (30.9.02: CHF 15,000) existed.

Neither in the current fiscal year nor in the previous year were assets impaired or existing impairments reversed.

The market value of the buildings not used for operational purposes amounted to approx. CHF 6.8 million at 30 September 2003. Related rental income amounted to CHF 0.644 million (previous year: CHF 0.653 million) in the current fiscal year, while rental-related expenses amounted to CHF 0.343 million (CHF 0.441 million).

**5. Other long-term assets**

in CHF 1,000

	30.9.2003	30.9.2002
Present value of pension plan assets <sup>1</sup>	2,804	1,189
Loans	0	28
Deposits and guarantees	310	296
<b>Total</b>	<b>3,114</b>	<b>1,513</b>

<sup>1</sup> See also note 14, page 32

**6. Inventories**

in CHF 1,000

	30.9.2003	30.9.2002
Raw materials	12,605	14,148
Work in process	3,765	4,463
Semi-finished and finished goods	11,913	15,537
<b>Total</b>	<b>28,283</b>	<b>34,148</b>

**7. Trade receivables**

in CHF 1,000

	30.9.2003	30.9.2002
Debtors	36,762	33,111
Doubtful debtors provision	-615	-563
<b>Total</b>	<b>36,147</b>	<b>32,548</b>

**8. Other receivables and accruals**

in CHF 1,000

	30.9.2003	30.9.2002
Other receivables	848	1,668
Accruals	942	1,402
<b>Total</b>	<b>1,790</b>	<b>3,070</b>

**9. Provisions**

in CHF 1,000

	Warranty provisions	Provisions for employee benefits <sup>1</sup>	Restructuring provisions <sup>2</sup>	Other provisions	<b>Total</b>
<b>Opening balance at 1.10.2002</b>	<b>190</b>	<b>2,100</b>	<b>3,440</b>	<b>50</b>	<b>5,780</b>
Additions	27	1,205	0	590	1,822
Use	0	0	-1,150	0	-1,150
Reversal unused amounts	0	-3	-1,849	0	-1,852
Translation differences	11	119	1	0	131
<b>Closing balance at 30.9.2003</b>	<b>228</b>	<b>3,421</b>	<b>442</b>	<b>640</b>	<b>4,731</b>

<sup>1</sup> See also note 14, page 32

<sup>2</sup> See also note 21, page 37



**10. Borrowings.** The average interest rate on loans amounted to 5.52 % in 2002/2003 (3.2 % in 2001/2002). Taking into consideration the interest swap expired on 30.9.2003, the average interest rate amounted to 5.0 % in 2002/2003 (3.8 % in 2001/2002).

The loans are placed with different credit institutions, the framework credit agreements being arranged on a long-term or an indefinite basis. Within these credit frameworks drafts with different durations are arranged, including short-term drafts. The credit framework agreements can be cancelled or the terms of interest be changed subject to non-compliance with certain covenants. These terms are no longer valid in the future due to a intended issue of a convertible bond of CHF 50 million (see note 25, page 58).

The maturity of the long-term borrowings is shown on the following table:

	30.9.2003	30.9.2002
in CHF 1,000		
Maturing within 2 years	34,237	46,700
Maturing within 3 years	3,750	2,500
Maturing within 4 years	0	2,500
Maturing within 5 years	406	0
Maturing in more than 5 years	3,846	1,914
	<b>42,239</b>	<b>53,614</b>

	30.9.2003	30.9.2002
<b>11. Interest-free liabilities</b>		
in CHF 1,000		
Trade payables	12,113	7,414
Other short-term liabilities	2,658	3,725
Accrued liabilities	8,539	7,909
<b>Total</b>	<b>23,310</b>	<b>19,048</b>

**12. Contingent liabilities, contingent assets and pledged assets.** To secure the liabilities of the Group, receivables in the amount of CHF 7,087,000 were pledged at 30 September 2003 (30.9.02: CHF 2,771,000). No contingent liabilities or contingent assets existed at the end of either the 2002/2003 or 2001/2002 fiscal year.

	2002/2003	2001/2002
<b>13. Personnel expenses and number of employees</b>		
in CHF 1,000		
Salaries and wages	48,457	48,995
Termination benefits	11	217
Social costs	5,832	5,443
Pension plans – defined contribution plans	2,774	2,578
Pension plans – defined benefit plans	1,394	1,442
<b>Total</b>	<b>58,468</b>	<b>58,675</b>
<b>Number of employees in full-time equivalents (average)</b>	<b>1,749</b>	<b>1,640</b>

**14. 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. The present value of obligations was evaluated by specialized actuaries as per 30 September 2002 and is being reviewed every two to three years.

As the over- and undercoverages do not fulfill the criteria for recognition they were not captured in the balance sheet. The greater part of the assets are funded in organizations legally independent of the Company. If the plan is unfunded, the relevant assets and liabilities are shown in the balance sheet.

The actuarial calculations in compliance with IAS 19 showed the following values:

	30.9.2003	30.9.2002
in CHF 1,000		
<b>Funded plans</b>		
Fair value of plan assets	36,668	34,664
Present value of obligations	-38,241	-36,514
<b>Net status of undercoverage</b>	<b>-1,573</b>	<b>-1,850</b>
Unrecognized actuarial loss	1,573	2,602
<b>Net status in balance sheet</b>	<b>0</b>	<b>752</b>
<b>Unfunded plans</b>		
Present value of obligations	3,421	1,930
Past service cost not yet recognized in balance sheet	0	-83
<b>Present value of pension plan liabilities recognized in balance sheet</b>	<b>3,421</b>	<b>1,847</b>

The plan assets contain shares of Schaffner Holding AG with a fair value of CHF 101,500 (previous year: CHF 108,000).

	30.9.2003	30.9.2002
in CHF 1,000		
<b>Amounts recognized in balance sheet</b>		
Present value of pension plan assets	1,326	1,189
Employer contribution reserve	1,478	0
Pension plan liabilities	3,421	1,847
<b>Changes of liabilities in balance sheet</b>		
Opening balance of pension plan liability	1,847	1,681
Pension cost	56	101
Past service cost	86	83
Translation differences	104	-18
<b>Closing balance of pension plan liability</b>	<b>2,093</b>	<b>1,847</b>
Other benefits to employees	1,328	253
<b>Closing balance of provision for employee benefits</b>	<b>3,421</b>	<b>2,100</b>

	2002/2003	2001/2002
in CHF 1,000		
<b>Expenses recognized in income statement</b>		
Current service cost	2,200	2,245
Interest cost	1,461	1,349
Expected return on plan assets	-1,824	-2,180
Past service cost	86	83
Employee contributions	-806	-807
<b>Total pension cost</b>	<b>1,117</b>	<b>690</b>
Not recognized as an asset	277	752
<b>Total expenses as per income statement</b>	<b>1,394</b>	<b>1,442</b>
<b>Principal actuarial assumptions (weighted)</b>		
Discount rate	4.05%	4.05%
Expected return on plan assets	5.05%	5.53%
Future salary increases	0.58%	0.58%
Future pension increases	0.05%	0.05%

	2002/2003	2001/2002
<b>15. Financial income</b>		
in CHF 1,000		
Interest income	126	79
Currency gains	2,525	295
<b>Total financial income</b>	<b>2,651</b>	<b>374</b>
Interest expenses	-2,073	-2,135
Other financial expenses	-503	-483
Currency losses	-2,729	-1,402
<b>Total financial expenses</b>	<b>-5,305</b>	<b>-4,020</b>
<b>Financial income (net)</b>	<b>-2,654</b>	<b>-3,646</b>

	2002/2003	2001/2002
<b>16. Taxes</b>		
in CHF 1,000		
Income taxes	-1,521	-1,174
Deferred taxes	695	3,835
<b>Total</b>	<b>-826</b>	<b>2,661</b>
Actual income taxes for the fiscal year	-761	-1,490
Changes in income taxes for other periods arising in the fiscal year	-760	316
<b>Total</b>	<b>-1,521</b>	<b>-1,174</b>

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

Expiry in 1 year	0	0
Expiry in 2 years	0	0
Expiry in 3 years	2,870	0
Expiry in 4 years	533	0
Expiry in 5 years	442	0
Expiry in more than 5 years	11,337	5,362
<b>Total</b>	<b>15,182</b>	<b>5,362</b>

Reconciliation from earnings before taxes (EBT) to effective tax expense:

EBT as per income statement (before income from sale of Group companies)	2,108	-8,414
Applicable tax rate	25.0%	25.0%
Expected tax at applicable tax rate	-527	2,104
Effect of utilization of prior year losses	-332	-756
Effect of tax rates other than applicable tax rate	-429	668
Effect of expenses not deductible for tax purposes	-488	-117
Effect of earnings which are not taxable	1,210	759
Others	-260	3
<b>Income taxes as per income statement</b>	<b>-826</b>	<b>2,661</b>

Deferred tax liabilities/assets are split to the following balance sheet positions as per 30 September:

	30.9.2003	30.9.2002
in CHF 1,000		
Intangible assets	555	557
Tangible fixed assets	1,779	1,344
Trade receivables	40	10
Provisions	0	275
Interest-free liabilities	-126	134
Tax losses	-85	-3,227
<b>Deferred tax liabilities/assets</b>	<b>2,163</b>	<b>1,541</b>
Whereof shown as deferred tax liabilities in Balance Sheet	-2,492	-2,184
Whereof shown as deferred tax assets in Balance Sheet	329	3,725

<b>17. Segment information</b>	<b>2002/2003</b>	<b>2001/2002</b>
in CHF 1,000		
<b>Sales by region</b>		
Europe	122,205	108,012
North America	19,656	24,852
Asia	21,489	26,445
<b>Total</b>	<b>163,350</b>	<b>159,309</b>
<b>Assets by region</b>		
Europe	105,128	115,739
North America	7,823	10,509
Asia	13,403	14,847
<b>Total</b>	<b>126,354</b>	<b>141,095</b>
<b>Capital expenditure by region (excl. goodwill)</b>		
Europe	4,811	5,357
North America	39	14
Asia	1,444	1,539
<b>Total</b>	<b>6,294</b>	<b>6,910</b>
<b>Employee equivalents per region (average)</b>		
Europe	647	675
North America	24	29
Asia	1,078	936
<b>Total</b>	<b>1,749</b>	<b>1,640</b>

**18. Employee share option plan.** Since 1 October 1998 share options have been granted to members of the Board of Directors and key management members, giving them the right to purchase shares in Schaffner Holding AG. The award of share options is regulated by the Employee Share Option Plan 1998 (ESOP), which bases itself as well on conditional share capital in the amount of CHF 1,067,000, representing 21,340 shares in Schaffner Holding AG with a nominal value of CHF 50 each, as on treasury shares. The ESOP's beneficiaries are allowed to exercise the first 20% of the options granted to them one year after having received the options, and thereafter another 20% in each consecutive year. After five years, all granted options can be exercised. Options expire after ten years at the latest.

	2002/2003	2001/2002
Outstanding share options in number of options		
At beginning of the year	33,097	25,997
Granted	8,900	9,100
Exercised	0	-1,200
Expired/cancelled	-367	-800
<b>At end of the year</b>	<b>41,630</b>	<b>33,097</b>
Of which covered by conditional capital	21,340	21,340
Of which covered by treasury shares	20,290	11,757

In the 2002/2003 fiscal year, share options with an exercise price of CHF 159 (2001/2002: CHF 295.50) were granted. The earliest execution date of the options granted in 2002/2003 is 20 November 2003, and all of the options granted in 2002/2003 expire on 20 November 2012. The share options were issued without being considered in the fair value of the income statement.

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

	Exercise price	2002/2003	2001/2002
Outstanding share options in number of options			
Expiry date 30.09.2008	145.00	9,067	9,067
Expiry date 02.12.2008	202.00	360	360
Expiry date 11.01.2009	208.00	360	360
Expiry date 25.11.2009	212.50	6,543	6,710
Expiry date 01.12.2010	465.00	600	600
Expiry date 15.12.2010	543.00	6,600	6,600
Expiry date 25.06.2011	472.00	600	600
Expiry date 04.12.2011	295.50	8,600	8,800
Expiry date 20.11.2012	159.00	8,900	0
<b>Total</b>		<b>41,630</b>	<b>33,097</b>

19. Net profit per share	before reappraisals		
	2002/2003	2002/2003	2001/2002
Net profit after minority interests, in CHF 1,000	1,297	-8,243	-5,757
Weighted average number of outstanding shares	622,028	622,028	632,672
Basic earnings per share, in CHF	2.09	-13.25	-9.10
Options granted, number of shares	41,630	41,630	33,097
Discount factor	0.9%	0.9%	23.2%
Relevant number of outstanding share options	361	361	7,689
Adjusted weighted average number of outstanding shares	622,389	622,389	640,361
Diluted earnings per share, in CHF	2.08	-13.25	-9.10

**20. Financial instruments.** Fair values of financial instruments correspond to the carrying value. No derivative financial instruments were held at the end of the fiscal year.

**21. Restructuring expenses.** The restructurings announced and provided for in the previous year have been basically completed in fiscal 2002/2003. The remaining provision is reserved for the not yet fully completed second phase in the UK (Wokingham and Capel).

	Impact on		
	Balance sheet 30.9.2003	Income statement 2002/2003	in CHF 1,000
<b>22. Reappraisals (IAS 8)</b> Corrections of the previous year's values carried out in the current fiscal year			
<b>Capitalized development costs</b>	Intangible assets	Amortization	-1,273
Up to fiscal 2000/2001, various development costs had been capitalized in the subsidiaries in Switzerland, Germany, the UK and Ireland. This practice was discontinued last year, but the residual values were not written off. The correction of the previous year's values was carried out in the current fiscal year.			
<b>Deferred tax assets</b>	Provisions/ Deferred taxes	Income taxes	-4,794
Up to fiscal 2001/2002, deferred taxes on losses carried forward were carried as assets on the balance sheet. Since in some subsidiaries the realization of losses carried forward was not realistic already in the previous year, this was corrected in the 2002/2003 accounts.			
<b>Goodwill</b>	Intangible assets	Amortization	-2,602
In view of the unsatisfactory profitability of an English subsidiary acquired in fiscal 1997/1998, the goodwill has been reviewed retroactively and the residual value based on value in use written off in full.			
<b>Inventory valuation</b>	Inventories	Cost of goods	-1,312
The first-time consistent application of a uniform, Group-wide inventory valuation policy resulted in upward and downward valuation adjustments in the various inventory locations.			
<b>Employee benefits</b>	Provisions	Personnel expenses	-1,037
Provisions for years-of-service awards and severance payments were insufficient and needed to be increased.			
<b>Employer contribution reserve</b>	Other long-term assets	Personnel expenses	1,478
In Switzerland, the long-standing employer contribution reserve in the pension fund was also recognized as an asset in the consolidated financial statements.			
<b>Total</b>			-9,540

If these reappraisals had been recognized in the previous year, the loss of 2001/2002 would have been increased by CHF 1.4 million.

**23. Related parties.** All business transactions with related parties have been held "at arm's length". Neither with the major shareholders nor with other related parties have unusual transactions taken place during the periods reported.

**24. Release of the consolidated financial statements for publication.** The consolidated financial statements were released for publication by the Board of Directors of Schaffner Holding AG on 4 December 2003.

**25. Events after the balance sheet date.** The Board of Directors has decided on 4 December 2003 to issue a convertible bond.



## 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, income statement, statement of cash flows, statement of changes in equity and notes) on pages 18 to 38 of the Schaffner Group for the year ended September 30, 2003. The prior year corresponding figures were audited by other Group auditors.

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 Swiss profession and with the International Standards on Auditing (ISA), 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 Financial Reporting Standards (IFRS) and comply with Swiss law.

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

Ernst & Young Ltd

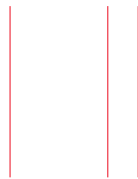


Manuel Aeby  
Swiss Certified Accountant  
(in charge of the audit)



Roland Ruprecht  
Swiss Certified Accountant  
(in charge of the audit)

Berne, 5 December 2003



# FINANCE REPORT OF SCHAFFNER HOLDING AG

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**Balance sheet**

in CHF 1,000

	30.9.2003	30.9.2002
Investments	85,001	85,001
<b>Fixed assets</b>	<b>85,001</b>	<b>85,001</b>
Receivables from Group companies	2,295	2,430
Receivables from third parties and accruals	118	141
Short-term investments and deposits	4,993	5,245
Cash and cash equivalents	59	9
<b>Current assets</b>	<b>7,465</b>	<b>7,825</b>
<b>Total assets</b>	<b>92,466</b>	<b>92,826</b>
Share capital	31,797	31,797
Legal reserves	315	315
Reserve for treasury shares	5,510	6,872
Share premium	50,357	50,357
Retained earnings	4,201	2,496
Net profit/loss of the year	-375	343
<b>Shareholders' equity</b>	<b>91,805</b>	<b>92,180</b>
Other third-party liabilities	145	420
Accrued liabilities	516	226
<b>Total liabilities</b>	<b>661</b>	<b>646</b>
<b>Total liabilities and shareholders' equity</b>	<b>92,466</b>	<b>92,826</b>

## Income statement

in CHF 1,000

	2002/2003	2001/2002
Dividends	560	840
Other income	6,633	6,611
<b>Total income</b>	<b>7,193</b>	<b>7,451</b>
Personnel expenses	-3,871	-3,409
Operating expenses	-3,546	-2,198
Interest expenses	-4	-1
Other financial expenses	-220	-1,637
Interest income	79	142
Currency transaction gains and losses on borrowings (net)	0	1
Income taxes	-6	-6
<b>Net profit/loss</b>	<b>-375</b>	<b>343</b>

## NOTES OF THE FINANCIAL STATEMENTS

## Contingent liabilities

in CHF 1,000

Joint liability for Group companies

30.9.2003

30.9.2002

74,250

89,717

**Conditional share capital.** 21,340 shares at par value of CHF 50 each, i.e. CHF 1,067,000 in total. At 30 September 2003 41,630 share options were open conferring the right to buy one registered share in Schaffner Holding AG. In fiscal 2002/2003 no options were exercised out of conditional share capital.

**Investments.** Schaffner EMV AG, Luterbach, Switzerland: 100 % of share capital of CHF 14.0 million. Schaffner EMV Kft., Kecskemét, Hungary: 2 % of share capital of HUF 13.0 million.

**Information about treasury shares.** At 30 September 2003 Schaffner Holding AG held 24,598 treasury shares (30.9.02: 22,419) at an average purchase price of CHF 224 (previous year: CHF 283) each. The special reserve for treasury shares therefore amounts to CHF 5,509,952. In the balance sheet treasury shares are valued at the year-end rate per 30 September 2003 of CHF 205. In fiscal 2002/2003 no options were exercised out of treasury shares.

Important shareholders	30.9.2003	Capital stake	30.9.2002	Capital stake
	Number of shares		Number of shares	
Julius Baer Multistock	44,287	7.0%	47,574	7.5%
Shareholders with a stake of less than 5%	567,055	89.1%	532,947	89%
<b>Free float</b>	<b>611,342</b>	<b>96.1%</b>	<b>613,521</b>	<b>96.5%</b>
Treasury shares	24,598	3.9%	22,419	3.5%
<b>Total shares</b>	<b>635,940</b>	<b>100%</b>	<b>635,940</b>	<b>100%</b>

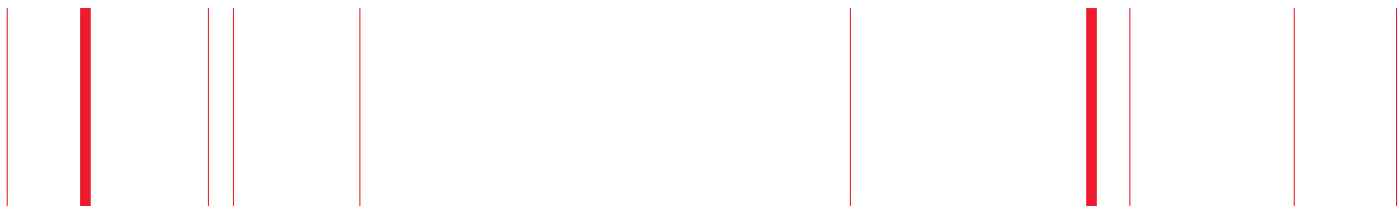
There are no further facts that require to be reported under Art. 663b of the Swiss Code of Obligations.

## PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS

The Board of Directors proposes to the Annual General Meeting that the retained earnings be appropriated as follows:

in CHF 1,000	2002/2003	2001/2002
Net profit/loss of the business year	-375	343
Retained earnings carried forward	2,837	2,496
Changes in reserves for treasury shares	1,362	-2
<b>Retained earnings at disposal of Annual General Meeting of Shareholders</b>	<b>3,824</b>	<b>2,837</b>
<b>Dividend of CHF 0 gross per registered share*</b>	<b>0</b>	<b>0</b>
<b>To be carried forward</b>	<b>3,824</b>	<b>2,837</b>
Total registered shares issued	635,940	635,940
Shares held by the company or its subsidiaries	-24,598	-22,419
Dividend-bearing shares	611,342	613,521

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



## 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) on pages 42 to 45 of Schaffner Holding AG for the year ended September 30, 2003. The prior year corresponding figures were audited by other auditors.

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 comply with Swiss law and the company's articles of incorporation. Furthermore, we confirm that the proposal of the Board of Directors to offset the loss shown in the balance sheet against the general legal reserves complies with Swiss law and the company's articles of incorporation.

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

Ernst & Young Ltd



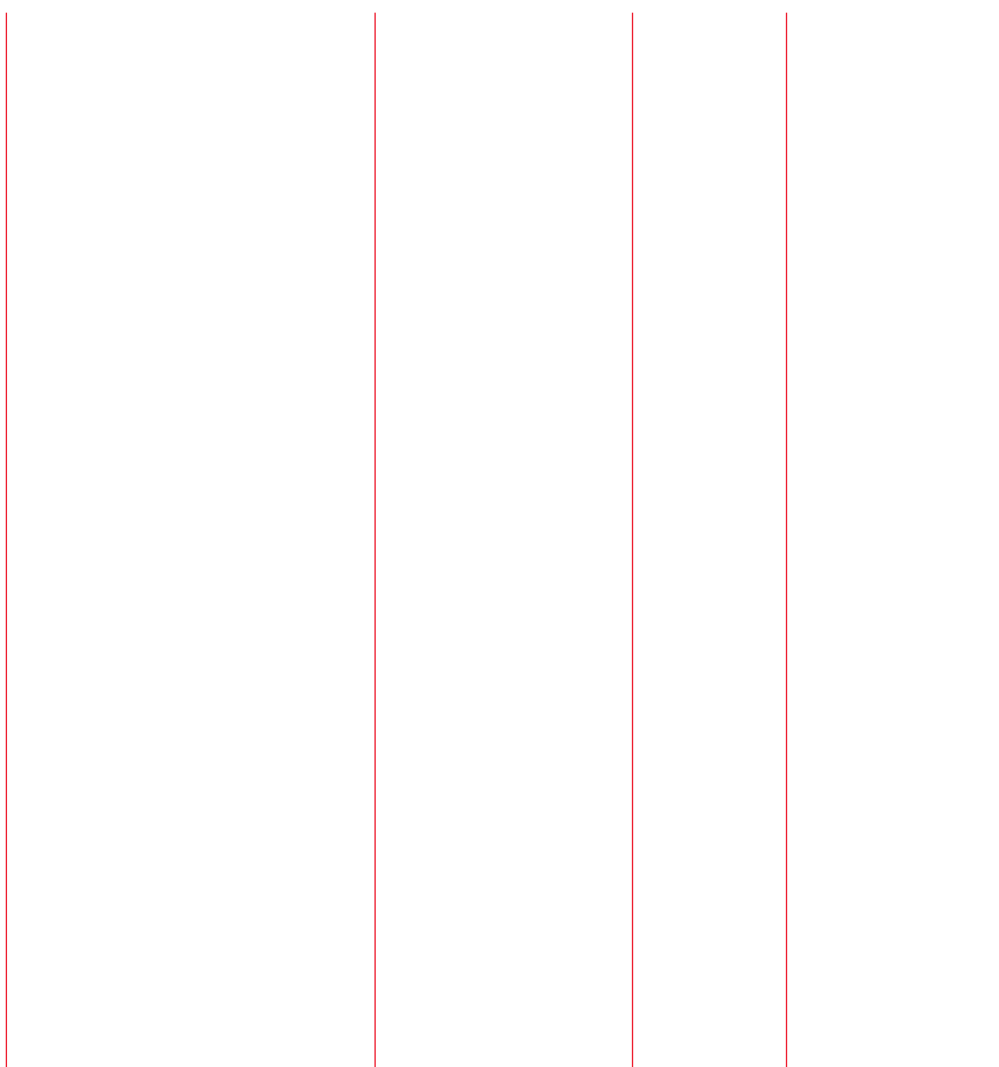
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Berne, 5 December 2003







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