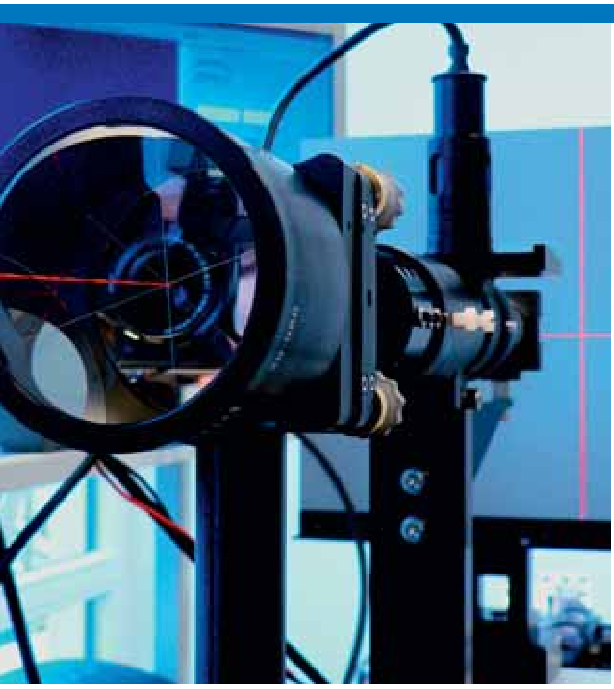
RUAG

Aerospace Defence Technology



Annual Report 2008

Contents

Konrad Peter, Chairman of the Board of Directors, and Toni J. Wicki, Chief Executive Officer

RUAG stable and well prepared for an increasingly challenging environment

Dear Reader,

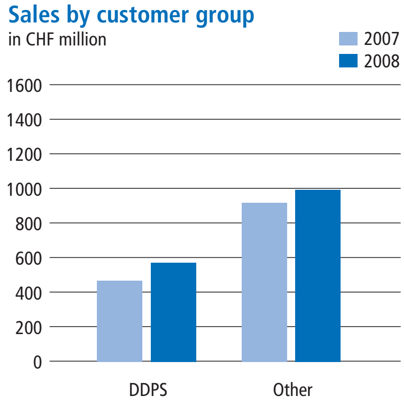
In accordance with the expectations of our owner, the Swiss Confederation, two missions form the basis of RUAG's core business. The first is providing materiel for the Swiss Armed Forces, combined with maintaining and further developing the technological capabilities needed for this task. The second is developing third-party business domestically and abroad in order to establish a broader and more integrated base for these key technologies.

Accordingly, RUAG's Aerospace and Defence & Security segments are solidly anchored in both the civilian and defence markets. Both segments have their technological focus in the Swiss Armed Forces and government agencies. As a result, RUAG, a joint stock company under private law, enjoys stability and balance because our business is in different markets and therefore subject to different economic cycles and not affected by the same fluctuations.

Our close partnership with the Swiss Armed Forces serves as an international quality seal, making it a key success factor for our third-party business. The latter serves to balance risk and provide stability and growth for RUAG. The Swiss Armed Forces, domestic and international partners and customers as well as our shareholder and our employees all benefit from the continual development of our strategic customer and partner relationships, the knowledge and skills acquired through them, and a strong, internationally competitive RUAG.

Overall RUAG can look back at a satisfactory financial year in 2008, particularly in light of the negative impacts of the financial and economic crisis. Net sales grew by 9.1% to CHF 1,536.8 million. Earnings before interest and taxes (EBIT), however, are disappointing. At CHF 57.1 million, this figure is 25.2% below the prior-year level. This unsatisfactory result is attributable to the exchange rate situation, aerostructure manufacturing costs and, in particular, the restructuring of the simulation business.

Sales by customer group
in CHF million



The Department of Defence, Civil Protection and Sport (DDPS) remains our single most important customer, accounting for 36.4% of all sales (prior year: 33.9%). The defence and civilian businesses remain roughly equal in their respective share of total sales.

Compared to the previous year, the percentage shifted slightly towards defence, which accounted for 4.3%. This temporary increase does not represent a trend reversal. Instead, it is attributable to the ramp-up of DDPS orders from the 2006 Armaments Programme, mainly the Panzer 87 Leopard upgrade project.

The share of third-party business declined slightly to 63.6% (prior year: 66.1%). But RUAG's most important markets continue to be in Switzerland and Europe (88.6% of sales, compared to 87.2% the previous year), with 5.9% of sales generated in North America.

Successful business areas included aircraft maintenance, space, small calibre ammunition for government agencies and hunting and sport, heavy weapon systems and command and protection systems.

The acquisition of Saab Space and its subsidiary Austrian Aerospace was a milestone in RUAG's history. Space was declared a strategic priority in RUAG's Strategy 2010. The acquisition significantly strengthens RUAG's position at European level, making it the most important independent supplier of spaceflight components in Europe.

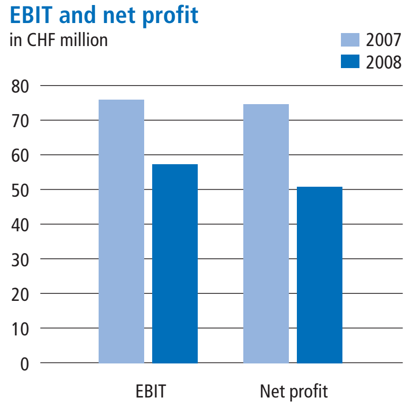
Challenging environment

Economic conditions during the year under review were challenging. In addition to investments in the development of new and existing lines of business, the causes of the disappointing earnings before interest and taxes included the drop in the U.S. dollar exchange rate, rise in raw material and energy prices, the changing market environment and the general economic slowdown.

Accordingly, reviews were initiated in certain specific areas, namely Aerostructures, Components and Simulation & Training.

Aerostructures was operationally combined with Components during the year under review and repositioned. RUAG expects synergies from the shared use of production facilities and technologies.

EBIT and net profit
in CHF million



The effects of the market erosion in the second half of the year were felt particularly strongly in this unit, specifically in connection with the semiconductor and automotive industries and in the production of aircraft and aircraft engine structures. Radical measures such as cost reduction programmes, cutting overtime and shutting facilities during the end-of-year holidays have been initiated with a view to restoring profitability in the medium term.

In Simulation & Training, a shift in the military simulation market from virtual simulation in closed facilities to live simulation in the field has required structural adjustments. Here the aim is likewise to restore profitability in the medium term. Despite all efforts, redundancies cannot be ruled out in 2009. Should it come down to this, RUAG's redundancy scheme will be applied.

Human resources

Total average employee headcount in 2008 was 6,310, a substantial 4.3% higher than the prior year figure of 6,050. The increase in the number of employees reflects both high capacity utilization and staff brought in with the acquisition of Saab Space in Sweden and Austria.

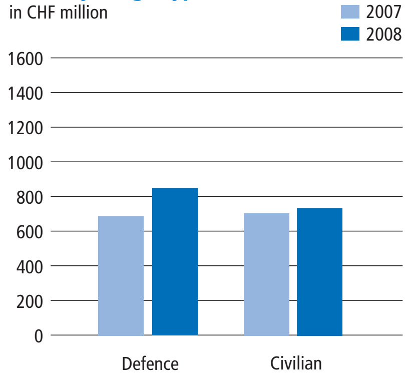
Training, especially of upcoming young talent, is a top priority at RUAG. Some 10% of our total headcount in Switzerland consists of trainees and apprentices. RUAG supports the SWISSCOMPETENCE Foundation (known as SwissSkills from November 2008), which coordinates the Swiss Skills Championships for young people in various professions, including multiskill mechanics, automation technicians and technical designers.

RUAG also opened an in-house training centre, RUAG Business Training, in Stans at the start of 2008. The centre hosts education and training programmes for all affiliates as well as RUAG management and young talent development courses.

New executives

Hans Bracher became Group Head of Human Resources on 1 May 2008, while Andreas P. Herren became CEO of RUAG Electronics on 1 September 2008. Both men also joined the Executive Board. Andreas Herren succeeded Ueli Emch, who retired on 31 August 2008 having reached the statutory retirement age.

Sales by usage type
in CHF million

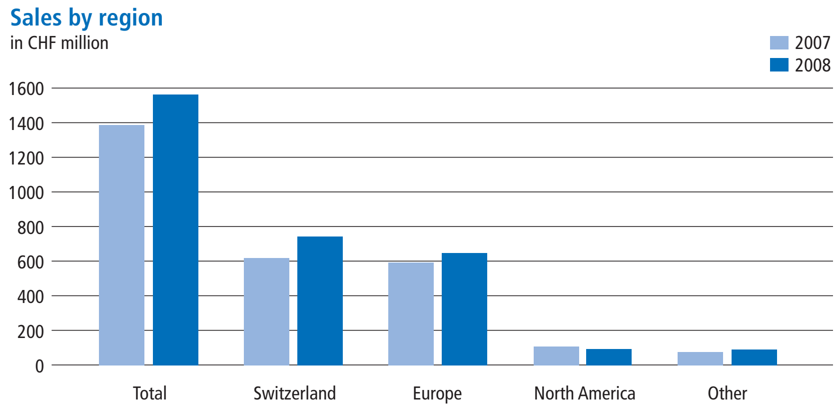


Pension fund

The pension fund reserve ratio was 90.1% as at 31 December 2008 (prior year: 109%). The decline was a consequence of the general economic slowdown and falling stock market prices. The Pension Fund Board of Trustees has initiated measures to prevent a further worsening of the reserve ratio and to enable an adequate reserve to be rebuilt in the medium term.

Overview of key figures

in CHF million	2008	2007	Change in %
Net sales	1,536.8	1,409.1	9.1%
EBIT	57.1	76.4	(25.2%)
Net profit (loss)	50.7	75.7	(33.0%)
Cash flow from operations	81.0	52.3	54.9%
Cash flow from investment	(120.5)	(80.0)	50.6%
Return on equity	6.6%	10.0%	(34.0%)
Orders received	1,581.6	1,684.3	(6.1%)
Orders on hand	1,507.7	1,394.0	8.2%
Employees (average)	6,310	6,050	4.3%
Research and development expenses	123.4	84.6	45.9%



Real estate unit

During 2008 RUAG's real estate units, which had previously been combined only organizationally, were legally placed under a separate company named RUAG Real Estate AG. The company commenced operations on 1 January 2009.

Internal control system

Pursuant to an amendment to the Swiss Code of Obligations, the internal control system (ICS) was documented on a binding basis for all affiliates with effect from 1 January 2008.

Annual General Meeting

Federal Councillor Samuel Schmid, Head of the Federal Department of Defence, Civil Protection and Sports, represented the shareholder at the Annual General Meeting held in May 2008. He praised the successful evolution of RUAG and thanked the Board of Directors, Executive Board and employees for their hard work. The consolidated financial statements for 2007 were approved, the actions of the governing bodies ratified and the distribution of a dividend resolved. The shareholder also approved the proposed compensation of the Board of Directors.

Statutory elections

The AGM confirmed the following through the statutory election process:

Dr Hans Lauri and DDPS representative Major General Andreas Bölsterli were confirmed as new members of the Executive Board with effect from 1 January 2008 and 1 September 2008 respectively.

Major General Jakob Baumann resigned from the Executive Board in May 2008 to assume his new duties as National Armament Director.

Referendum with far-reaching effects

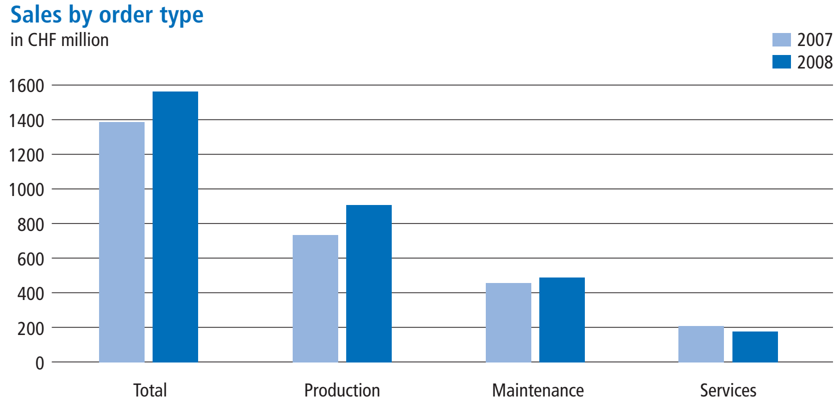
A popular initiative for the prohibition of exports of war materiel as demanded by the Group for a Switzerland Without Armed Forces (GsoA) would endanger security and destroy skilled jobs in Switzerland. While RUAG strictly observes the stringent export regime in effect for military materiel in its export activities, we oppose any further tightening of restrictions. Without a certain minimum domestic defence industrial base, the Swiss Armed Forces would lose valuable knowledge and skills and future growth would no longer be assured. Switzerland's reputation as a reliable business partner would also suffer in the civilian markets.

A prohibition of exports would severely impact the entire defence industry and its suppliers. RUAG's activities, namely the production of small calibre ammunition and the centre of excellence for heavy weapon systems, command and protection at its Thun site, would become unsustainable in the medium term. Moreover, any prohibition would also apply to the Simulation & Training division's export activities.

Outlook

Thanks to its broad base, RUAG should be relatively well-positioned even in difficult times. Its solid order book provides a good starting foundation for the current year. Exchange rate risk has generally been hedged against for current orders, and cost structures have been adjusted where exceptional uncertainty remains. Overall, RUAG has applied conservative, risk-conscious standards in planning.

Sales by order type
in CHF million



Nevertheless there is still general uncertainty about the future development of the economy. It is becoming increasingly clear that the crisis on the financial markets is spilling over into the real economy. Any significant and sustained contraction in the production of civil aircraft would have severe consequences for RUAG.

A word of thanks

The Strategy 2010 corporate strategy adopted by the Board of Directors in 2006 has proven successful. During the year under review the Board of Directors and Executive Board have kept strategic aims in view while advancing the business and giving due consideration to the expectations formulated by the Swiss Confederation as owner.

The Board of Directors would especially like to thank its customers for their trust and for their orders. Thanks are also due to the Swiss federal government for its cooperation, and to the Executive Board and the employees for their dedication and performance.

Konrad Peter
Chairman of the Board of Directors

Toni J. Wicki
Chief Executive Officer

A satisfactory year in view of the negative external factors

The performance of RUAG's various divisions varied substantially in 2008. Whereas most continued the positive trend established in previous year, several were slowed by external factors. The bottom line was a satisfactory and above all largely stable business result.

Despite the negative consequences of the financial and economic crisis, RUAG can look back on a generally satisfactory financial year in 2008, even though unfavourable external factors did constrain revenues in some areas. Net sales grew by a substantial 9.1% to CHF 1,536.8 million. However, earnings before interest and taxes (EBIT) were below expectations, declining by 25.2% to CHF 57.1 million.

RUAG currently has production facilities in Switzerland, Germany, Austria and Sweden. The average employee headcount for 2008 was 6,310, an increase of 4.3%.

Breakdown of sales

At 53.6% (49.3% in 2007), the split between the defence and civilian business has shifted slightly towards defence. Civilian business accounts for 46.4% of sales. The Swiss Federal Department of Defence, Civil Protection and Sport (DDPS) remains the Group's biggest single customer by far, accounting for 36.4% of sales. The slight 2.5% increase over 2007 in the DDPS's share of sales is primarily due to the ramp-up in 2008 of the major materiel upgrade programme for 134 Swiss Panzer 87 Leopard tanks.

Breaking sales down by region, Switzerland is slightly ahead of the rest of Europe with 47.2% (previous year: 44.1%) compared to 41.4% (43.1%). Other markets include the USA with a share of 5.9% (7.5%).

A breakdown of sales by order type likewise reveals a broad-based and stable distribution. Services accounted for 11.3% of sales in 2008 (14.5%), maintenance 30.9% (32.8%) and manufacturing 57.8% (52.7%).

Capital expenditure

RUAG's net capital expenditures in 2008 came to CHF 120.5 million. At CHF 123.4 million, research and development expenditure accounts for 8.0% of sales. As a technology group, RUAG depends heavily on innovation to differentiate itself from competitors.

The most significant accomplishments in 2008 included innovations in the manufacture of aircraft structural components, protective technology for armoured vehicles and development of new cartridges for construction equipment maker Hilti.

RUAG also spent significant sums to expand certain corporate units through acquisitions. The most important of these was the purchase of the Saab Group's space business. An investment in GEKE Schutztechnik GmbH, whose activities include developing protective elements for armoured vehicles for the German Bundeswehr, gives RUAG access to important expertise.

The economic environment

The financial crisis put the brakes on a global economic expansion that began in 2004. The year 2008 can be divided into two very different periods. Whereas the first half was marked by a sustained decline in the exchange rate of the U.S. dollar together with a steady rise in commodity prices, in the second half, after the start of the financial crisis, the dollar began to rise again as commodity prices collapsed. The first signs of a worldwide economic downturn have been apparent since late autumn. For RUAG, the weakening economy has so far made itself felt in only a few areas, such as aerostructures, automotive parts and semiconductors.

Costs at the Aerostructures unit, restructuring in the simulation business and exchange rate fluctuations had a greater impact on 2008 earnings. In particular, the decline of the dollar and commodity market volatility had negative effects.

Thanks to a broad base in various different markets and a secure anchor in the counter-cyclical defence and security business, the Group appears to be well-positioned to face up to the recession that is anticipated for the current year.

Expansion driven by domestic strength

Business operations by the Aerospace and Defence & Security segments in the civilian and defence markets last year were both characterized by efforts to secure a broader base for the divisions by developing new markets and customers. A glance at developments in each division reveals how RUAG's diversified market presence has given the Group a stable foundation for successful business even in a difficult market environment. Strategy 2010's commitment to expanding international business from a secure base in the Swiss home market is proceeding apace in practically every area. The Swiss Armed Forces are benefitting from RUAG's broad and expanding technological capabilities. If necessary, this will permit RUAG to make a significant contribution to an expansion of the Swiss Armed Forces. For its part, RUAG benefits from the substantial base volume provided by the DDPS as its largest single customer, from internationally competitive skills and production facilities and from the quality seal that RUAG's status as supplier to the Swiss Armed Forces represents on the international defence market.

Aerospace

This division's core business consists of combat effectiveness enhancement programmes, materiel upgrades and maintenance of the entire Swiss Air Force aircraft fleet. RUAG's mission is to contribute to ensuring the highest possible fleet availability for the Swiss Air Force.

Final assembly of light transport and training helicopters

A major project at the division is the recently begun final assembly of the Swiss Armed Forces' new light transport and training helicopter EC 635. After final assembly in Alpnach, the first 16 of the aircraft were delivered on schedule in August 2008. The contract runs until 2010.

By performing final assembly for the Swiss Air Force, RUAG is acquiring technical expertise for later maintenance work on the same helicopters. At the same time RUAG technicians are obtaining certification for the civilian version of this helicopter type, generating synergies for civilian aircraft maintenance.

Massive expansion of space activities

In the Space segment, a milestone was reached with the acquisition of the Swedish Saab Group's space activities, including subsidiary Austrian Aerospace. RUAG is now the largest independent space component supplier in Europe, and the acquisition brings RUAG Aerospace 500 new highly qualified employees. With operations in three countries, RUAG now stands as a strong strategic partner for space enterprises and government agencies. Since the acquisition took effect only in September 2008, however, its impact on earnings figures for the year under review is relatively minor.

Currency fluctuations hit Aerostructures and Components

Aerostructures was among the divisions with the strongest organic growth, but also one of the hardest hit by the fluctuations of the dollar.

Changes in supply and delivery contracts were undertaken in 2008 to minimize currency dependencies. As a cost-cutting measure, the Executive Board also decided to combine the production of high-quality, high-tech aircraft and engine assemblies with similar component production activities for the machine tool, semiconductor and automotive industries in the Components division.

For its part, Components was impacted by the economic slowdown that began in the second half of 2008. Orders from the automotive industry and the semiconductor sector in particular declined noticeably. The shared use of production facilities and technologies is expected to generate considerable synergies in the years ahead. Productivity enhancement and cost reduction programmes have also been initiated.

New customers: Bombardier and alternative energy providers

Moreover, winning Canadian manufacturer Bombardier as a new customer reduces Aerostructures' dependence on a few major buyers. RUAG will produce the aft fuselage for Bombardier's CRJ 700, 900 and 1000 regional jet series.

The division has also made inroads into new markets for the production of sophisticated metal components and won new customers, especially in the up-and-coming alternative energy sector.

Do 228 New Generation gets off to good start

The resumption of production of RUAG's Dornier 228 New Generation plane (Do 228 NG) got off to a promising start. Around ten orders and options have been received.

The Do 228 NG boasts state-of-the-art avionics, a glass cockpit and noise-reducing five-blade propellers. The maiden flight is scheduled for May 2009. Delivery of the first unit of the new aircraft, which is ideal for coastguard, special mission or island-hopping passenger transport operations, is expected at the beginning of 2010.

Expansion of business aircraft services

The civil aviation services unit was expanded and rechristened Aircraft Services Network in 2008. RUAG now offers seven-day, round-the-clock service for business aircraft at six locations: Berne-Belp, Geneva-Cointrin, Lugano-Agno, Oberpfaffenhofen, Stuttgart and Zurich-Kloten. RUAG Aerospace is currently certified as a service centre for 20 business aircraft types and series and performs maintenance for numerous other models as well. The Aircraft Services Network can perform practically any kind of work on aeroplanes at every location. Specialists are called in as needed.

Defence & security

For RUAG Land Systems, three significant events stood out during the year. The major contract for modernization of the Swiss Army's Panzer 87 Leopard tank is now in full gear and will keep the Thun facility operating at full capacity until 2011.

A second outstanding success was the first international sale of the Kodiak armoured engineer vehicle that is known in Switzerland as an armoured engineer and mine clearance vehicle and which was developed in collaboration with Germany's Rheinmetall Landsysteme.

The launch of the RUAG-developed LASSO (Light Armour System Against Shaped Ordnance) protective system for armoured vehicles was equally important, with an initial international sales success already booked. These successful sales of RUAG-developed products will provide a foundation on which to maintain the volume of business once the Leopard upgrade project is finished.

Start-up of major Leopard upgrade project

The upgrade of the Swiss Army's 134 Panzer 87 Leopard tanks is an exceptionally wide-ranging project. The main battle tanks are being equipped with a modern night vision system and an innovative system control device. The turret and weapons drives are being converted to electrical operation. RUAG is acting as general contractor, overseeing 40 other, mainly Swiss suppliers.

International sales success for Kodiak AEV

The Kodiak armoured engineer vehicle, developed jointly with Rheinmetall Landsysteme, represents a major business success. Built based on the Leopard chassis, this heavy combat support vehicle found its first international buyers in the Netherlands and Sweden in 2008. The Swiss approach of building specialized armoured vehicles based on the Leopard platform used by numerous NATO military organizations appears to be gaining adherents.

Impressive protection system, expanded expertise

RUAG Land Systems also successfully expanded its range of protective systems. The latest development in this area is LASSO, which provides additional protection for armoured vehicles against the anti-tank weapons widely used in international conflicts.

This product has also achieved its first international sales success: the Danish army is using it to protect some of its armoured vehicles.

RUAG's investment in Germany's GEKE Schutztechnik GmbH, which produces protective elements for armoured vehicles for the German Bundeswehr, further expands RUAG's expertise in this promising defence technology field.

With the growing number of international peacekeeping and peace support missions, the armed forces involved have a growing need for better protection for their troops.

Growth and restructuring at Electronics

At RUAG Electronics, 2008 was marked by two events: the international debut of the PantherCommand® command system for first-response organizations and the restructuring of land-based simulation systems for infantry training in response to changing market conditions. Essentially this involved concentrating available capabilities, primarily for virtual simulators used to train combat vehicle crews in closed rooms, in one location.

In the network-enabled operations field, RUAG Electronics further expanded its comprehensive range of services for all electronic command systems and for the Swiss Armed Forces' radar infrastructure. The Integrated and Modular Engagement System for the Swiss Soldier (IMESS) is a joint project between RUAG Electronics and RUAG Land Systems to enhance troops' networked capabilities using modern electronic communications.

PantherCommand® breaks through in Germany

As part of its technology initiative, RUAG Electronics developed a network-centric operations management system for civilian rescue and security agencies. The result is an efficient command system that has been named PantherCommand®. In 2008 this command system underwent a "baptism by fire" when it was used by various Swiss police forces during the EURO 2008 football championship. A further milestone was reached in November, when the police of the German federal state of Hessen purchased the system for its response teams.

Furthermore, the Baden-Württemberg police are also set to introduce the system in spring 2009. This means that some of the 14,000 police who will be on duty during a NATO summit in Germany will be managed with PantherCommand®. The unique system has clearly found its niche on the international market.

Shift from virtual to live simulation

In the Simulation & Training sector, constantly changing market conditions and declining demand over the past few years have necessitated fundamental restructuring. The market for virtual simulation systems is stagnating following an extended period of strong demand.

The outlook for live systems, which support troop training in actual terrain, remains promising. RUAG Electronics will remain active in both product areas after restructuring, but will place greater emphasis on live simulation. In particular, the organization is concentrating on further development and international sales of its CODARTS® live simulation system, which supports realistic combat exercises involving hundreds of troops and vehicles both in the field and in house-to-house fighting.

Meanwhile RUAG Electronics is gradually reducing its value chain depth in virtual simulation systems. A few redundancies as a consequence of the restructuring cannot be ruled out during the year. Should it come down to this, RUAG's redundancy scheme will be applied.

Focus on small calibre ammunition a success

RUAG Ammotec's small calibre ammunition business has a very successful year behind it. RUAG further extended its market lead as a manufacturer of small calibre ammunition for armed forces and government agencies in Europe as well as the hunting and sport markets.

Overall results have well exceeded the unit's ambitious targets. A focus on the high end of the market has proven effective. For example, the great majority of police sharpshooters now use RUAG ammunition of a quality that is being acknowledged by the global government agencies market. Moreover, the need for high-quality ammunition is growing both for government agencies and – with out of area missions growing more frequent – military forces.

Accordingly, results for the military and police markets in 2008 were excellent: a new sales record was set thanks to a greatly expanded product range and higher production capacity. RUAG reinforced and expanded its market position in numerous countries including France, the UK, Poland and overseas countries.

In future RUAG Ammotec will further extend its market leadership by adding new speciality products to its standard range. In addition to new calibres and projectile types, these include lead-free and low-pollutant options, a RUAG Ammotec speciality.

Long-term industrial pyrotechnics partnership with Hilti

In the field of industrial pyrotechnics, the signing of a long-term supply contract with Liechtenstein construction equipment producer Hilti is noteworthy. The contract involves joint development of propellant cartridges for powder-actuated fastening systems.

RUAG Ammotec is investing in modern production facilities to secure a distinct market position for itself and Hilti.

Outlook for 2009

Economic developments for the current year are difficult to predict. While forecasts agree that a general recession is imminent, it is less clear how this will affect RUAG's various markets and industries. Further contraction is to be expected in the automotive industry and the level of orders from the semiconductor industry is likely to be low.

Aerostructures important, military and government agencies market stable

Developments in commercial aircraft manufacturing are also important for RUAG. At the start of the year, the volume of outstanding orders from major producers is still satisfactory. However, various signs point to potential cancellations due to the global business credit crunch. The scope of these cancellations is uncertain as various stimulus packages for European aircraft manufacturers are being discussed. The automotive sector may receive similar aid.

By contrast, the armed forces and government agencies market appears largely stable. All in all, a strong order book promises a good starting foundation for RUAG in 2009. Exchange rate risk has generally been hedged against for current orders, and conservative and risk-conscious planning has been applied in adjusting cost structures in those areas where uncertainty is greatest.

Key political decision on Tiger fighter aircraft replacement

Apart from the referendum on whether to prohibit exports of war materiel, 2009 will see a political decision taken in a further matter of major importance for RUAG's future.

Evaluation of the three candidates to replace a portion of the F-5 Tiger fighter aircraft fleet, the Eurofighter, Gripen and Rafale, will be completed in 2009. The decision will pave the way for as much as CHF 2.2 billion in business under a forthcoming Armaments Programme. RUAG has established relationships with all three suppliers, seeking both to carry out final assembly of the aircraft selected in preparation for later maintenance and to take part in offset transactions.

Final assembly for the Tiger's successor and the other offset transactions will not only secure a large number of jobs at RUAG, but will also be a source of decisive technology capabilities in the decades ahead.


3223
12232

Exploiting domestic strength and synergies for growth

RUAG's corporate strategy focuses on the Aerospace and Defence & Security segments in the civilian and military markets. Both follow the technological priorities of the Swiss Armed Forces and government agencies. They also provide a foundation for third-party business in Switzerland and abroad.

The articles in this section of our Annual Report describe how RUAG subsidiaries forged forward into international markets during the past year with products developed for the domestic market and how they are pursuing further development. By exploiting synergies, these efforts are opening new business opportunities.

Two-way advantages

In 2008 RUAG systematically developed its civilian and defence business on the international market in alignment with the technological capabilities it has developed for the Swiss Armed Forces and government agencies. In return, the Swiss Armed Forces benefit from greater production volumes and capacities and from technological expertise that RUAG has expanded in its international and non-military activities.

Back to the future with the Dornier 228 New Generation

The first aeroplane produced by RUAG Aerospace, a modernized version of the classic Dornier 228, is on schedule. The first production unit will be delivered to the customer at the beginning of 2010.

A year and a half after the decision to resume production of a modernized (NG or "New Generation") version of the legendary Dornier 228-212, ten orders and options have already been received. Intensive negotiations are under way with other prospects. Among the customers is the Mexican airline Air Cancun, which will deploy the aircraft for a major tourism company on the Yucatan Peninsula.

A test version of the Dornier 228 NG made its maiden flight in November 2008. Additional certification flights are scheduled to commence in May 2009. Delivery of the first unit of the new aircraft, which is ideal for exploratory missions, coastguard and island-hopping passenger transport operations, to a customer is expected at the beginning of 2010.

India and Germany

Production of structural components is currently in top gear at the plant of RUAG's partner, Hindustan Aeronautics Limited in Kanpur, India. The Indian company has been manufacturing the original Do 228 under licence since 1986. This move was in response to an order from the Indian government in 1983 for a total of 150 Do 228s for use as light transporters. The Indians were won over by the Dornier's exceptional performance under difficult conditions.

Updated and more powerful

The first parts are expected to arrive in Oberpfaffenhofen during the first quarter of 2009 for final assembly and outfitting. Unlike its predecessor, the new Dornier 228 will boast state-of-the-art digital avionics and a glass cockpit. The newly developed five-blade propeller will reduce noise emissions, and the plane will boast a greater range and improved takeoff and landing performance.

Longstanding expertise

Although the Do 228 NG is the first aeroplane to be produced by RUAG, the divisions involved have a store of aircraft manufacturing expertise that has been accumulated over many years. For example, the Federal Aircraft Factory in Emmen developed aircraft for the Swiss Air Force until the 1950s. Since then regular final assembly activities have further enhanced these competencies. The original manufacturer of the Do 228 is Fairchild Dornier, which RUAG acquired in 2002.

Assembly work on an Airbus tail cone in Oberpfaffenhofen.

Expanded position in the space business

Following the acquisition of Saab Space and Austrian Aerospace, RUAG Aerospace is positioned as the leading European provider of space products, with a significantly expanded range of goods and services.

In September 2008, RUAG Aerospace acquired Sweden's Saab Space and its subsidiary Austrian Aerospace. The companies' products and capabilities are a perfect fit. The acquisition will enable the three RUAG Aerospace national companies to offer a wider range of goods and services to customers from a single source and to assume responsibility for trans-national sub-projects with a wider range of products.

The Space business unit of RUAG Aerospace Switzerland, which has facilities in Emmen, Wallisellen and Nyon, has positioned itself as a successful niche provider. Its focus is on mechanical components, instruments and structures for satellites, launch vehicles and items for use on the International Space Station. One example of the Swiss business unit's core competency is the development and manufacture of high-grade slip rings that transmit electric power generated by movable solar sails to the satellite without cables.

Pan European provider

RUAG Aerospace Sweden employs some 360 people at sites in Gothenburg and Linköping and has been involved in the space business for 30 years. Activities focus primarily on computer systems, antennas and microwave electronics for satellites as well as on satellite adapters and separation systems for launch vehicles. Separation systems from Sweden have been used in over 400 in-orbit separations. RUAG Aerospace Austria, with facilities in Vienna and Berndorf, employs 130 people and was a wholly owned subsidiary of Saab Space before the acquisition. The company is a recognized specialist in digital signal processing electronics, thermal insulation for satellites, and tools and devices such as transport containers for working with satellites on the ground.

Greater value in consort

The RUAG Aerospace national companies have developed and delivered a wide range of projects and products for numerous spaceflight projects, including the major European satellite navigation system Galileo. Sweden will supply signal processing units and antennas for inter-satellite communications for the next four satellites in Galileo's orbital test phase. Various processor boards and thermal insulation for the satellites will be supplied from Austria. Switzerland will deliver all slip rings for transmission of electric power from the solar panels.

By combining resources from the three countries, RUAG Aerospace has positioned itself as an independent European supplier to the space industry and is able to offer a greater range of goods, services and know-how.

RUAG Aerospace is supplying various components for Galileo, the European satellite navigation system. ▶


Photo: ESA

International, civilian and Swiss-based

Extensive final assembly and modernization orders from the Swiss Armed Forces are bringing RUAG Aerospace broad-based expertise in dealing with a wide variety of aircraft and helicopter models as well as close partnerships with their manufacturers. This forms the basis for international orders and RUAG's civil aircraft maintenance business.

RUAG Aerospace's military aviation activities in 2008 centred on the final assembly of sixteen EC 635 Eurocopters and the upgrading of fifteen TH-89 Super Puma helicopters for the Swiss Air Force. As the materiel competence centre, RUAG Aerospace provided professional support to the Swiss Air Force, armasuisse and the Armed Forces Logistics Organization and ensured that materiel and aircraft were available as required by the Air Force.

The Swiss parliament's decision to maintain the capabilities of the Air Force's 33 F/A-18s will strengthen the order situation over the next few years. International successes are having a positive impact on the expertise we are able to offer the Swiss Armed Forces and are helping to reduce the cost of Swiss programmes.

Civilian opportunities

For example, it will be possible to use the new paint spray booth that was set up in Alpnach for the EC 635 helicopter final assembly line to paint various helicopter types up to the size of a Super Puma or Cougar in a cost-efficient, environmentally friendly fashion. Furthermore, RUAG service engineers have been certified for both the military (EC 635) and civilian (EC 135) versions of Eurocopter's light training and transport helicopter by the manufacturer and the Federal Office of Civil Aviation. The first civilian EC 135 is already being maintained by RUAG specialists at Basel airport.

New helicopter cockpits

A prototype for the Super Puma transport helicopter upgrade programme is currently being built. The upgraded Super Pumas will feature a new glass cockpit. The aircrafts' electronics and avionics will also be modernized to include a flight management system, state-of-the-art radio systems and instrumentation that is compatible with day and night vision devices.

Adapting the cockpit layout to that of more recent Cougar models and the EC 635 will enable crews to swap between helicopters more easily. The order is strengthening RUAG's expertise in dealing with Super Pumas and Cougars, helping us to execute other air forces' upgrades on these models.

Electronics and sensors

The same applies to the upcoming modernization of Switzerland's F/A-18 fighter aircraft fleet. To date RUAG has carried out components maintenance work on F/A-18s belonging to the Finnish, Kuwaiti and Malaysian air forces. By maintaining the F/A-18's capabilities, the company its expanding its systems knowledge and international market position. Specifically, the software, tactical infrared sensors, radar warning system, cockpit displays, GPS receiver and data recording systems of these twelve-year-old aircraft are being upgraded.

Firm position in aerostructures

RUAG has a strong base in the aerostructures sector. Last year, the Group succeeded in broadening the base of its Aerostructures unit and in strengthening its position as a partner to aircraft manufacturers. By focusing on high-potential structures and applying specialized know-how, RUAG has established itself as a development partner.

The aerostructures market is currently in a phase of upheaval. The major aircraft manufacturers are currently reducing the number of suppliers and outsourcing increasingly complex work packages. Furthermore, they are entrusting ever-larger development tasks to their suppliers.

High innovation

RUAG is well equipped for this change, as the company has vast expertise in aerostructures. At its Emmen, Geneva and Oberpfaffenhofen sites, the Aerostructures unit has for years been producing components and integrated assemblies for prestigious manufacturers such as Boeing, Airbus and Pilatus. Thanks to its high product and process innovation and broad range of services, RUAG succeeded last year in further bolstering its strong position in aerostructures.

Additional string to RUAG'S bow

One milestone in the expansion of RUAG's share of the civil aviation market is intensified collaboration with the Canadian company Bombardier, the world's third-largest aircraft manufacturer. In addition to its current role as an authorized service centre for the Bombardier Challenger and Global Express business jets, RUAG is now also manufacturing the rear fuselage section for the Bombardier CRJ 700, 900 and 1000 regional airliners. Around half of the components for the Bombardier rear fuselage are produced at RUAG facilities, the other half being sourced from international suppliers.

Entire fuselage section

However, this order, on which around 100 specialists at RUAG are working, includes other activities besides procurement and manufacturing of parts and components. It also comprises subassembly, final assembly and surface protection. The first fuselage sections have now been delivered. The order is strategically important for RUAG, as it signifies expansion of its customer portfolio, thus further broadening the foundations of the Aerostructures unit.

From supplier to partner

RUAG produces a range of components for the different Airbus aircraft families. For example, RUAG builds various panels, fuselage sections, the tail cone and the wing tips for the A320 family, as well as a smaller fuselage section and air inlets for the Airbus A330 and A340 at Emmen and Oberpfaffenhofen.

As a result of intensive acquisition activity, Emmen in particular is becoming a specialist in certain components. Drawing on its existing skills, RUAG can establish itself as a development partner and thus secure long-term capacity usage at the site.

Sophisticated hybrid structures

RUAG also celebrated successes in its core segment of hybrid structural components last year; these include a contract for manufacturing the winglets, ailerons and spoilers for the new Gulfstream G650 long-range business jet. These complex components are made of carbon fibre composites and aluminium.

Series production from 2010

The parts are produced at RUAG's Emmen site and assembled to form a finished product before being shipped to Spirit AeroSystems in the US (a subsidiary of the Canadian group Onex), which produces the wings for the G650. Following completion of the first test components, batch deliveries are set to commence in 2010.

Modernization and protective technologies

The Swiss Panzer 87 Leopard tank upgrade programme and the Kodiak armoured engineer vehicle offer RUAG Land Systems major opportunities in the international marketplace.

The first modernized Leopard tank was delivered to the armasuisse procurement agency in late autumn. Between now and the end of 2011, as decided in the 2006 Armaments Programme, all 134 of the Swiss Army's main battle tanks slated for deployment in the 08/11 Development Step will be equipped with a modern thermographic camera and an innovative systems operation module and prepared for installation of a command information system in Thun. The turret and weapons drives will also be converted to electric power. RUAG Land Systems will coordinate some 40 mostly Swiss subcontractors in this project.

Valuable know-how

The major Leopard II upgrade project will not only keep the company working at full capacity until the end of 2011, it will also further deepen RUAG's expertise in these systems. This will give RUAG Land Systems the capacity to develop its own products based on the widely used Leopard platform, such as the Kodiak armoured engineer vehicle developed in conjunction with Germany's Rheinmetall Landsysteme. The upgrade programme also seems to be attracting international interest. It is being presented to other Leopard users in conjunction with the original manufacturer, Krauss-Maffei Wegmann.

Kodiak concept

The Swiss approach of building a number of specialized armoured vehicles on the same chassis is compelling. The Netherlands and Sweden have followed Switzerland in ordering ten and six systems respectively. Many armed forces, experiencing a growing number of deployments outside their home countries, increasingly need a heavy tracked support vehicle for passage through hazardous roadless terrain.

High-potential protective system

For similar reasons, international market prospects for a second RUAG Land Systems development focus are also good. Force protection in peacekeeping and peace support operations is steadily growing in importance. RUAG's LASSO (Light Armour System Against Shaped Ordnance) is a further protective technology providing efficient protection of armoured vehicles against the common RPG-7 anti-tank weapon. This product has also achieved its first international sales success: the Danish army is using LASSO to enhance the shielding of its M 113 armoured personnel carriers, which are currently deployed in Afghanistan.

Intensified activity

During the past year RUAG Land Systems further reinforced its position in the promising field of protective technologies by acquiring a majority interest in Germany's GEKE Schutztechnik GmbH. GEKE played a major role in developing protective components for the German Bundeswehr's Leopard II main battle tanks and is also involved in the latest generation of infantry fighting vehicles.

The Swiss Army's 134 Panzer 87 Leopard tanks are having state-of-the-art electronics installed.

Strong demand for realistic exercises

RUAG Electronics aims to conquer foreign markets with realistic live combat simulation systems developed for the Swiss Armed Forces.

The global military simulations market is increasingly evolving in the direction of live simulations with real soldiers, buildings and vehicles in the field. As a result, RUAG Electronics is adjusting its strategy and strengthening its engagement in the live simulation field.

The basis for these efforts is a scalable platform developed under contract for the Swiss Army that enables commanders to lead up to 600 troops and 100 vehicles in realistic combat. The first complete simulation facility at the Bure training ground is currently under construction. It will be handed over to the Swiss Armed Forces in 2009. A second facility will be completed in St. Luzisteig by 2010.

Live simulators feature a high degree of realism with effects such as smoke, flashes and detonation odours. Events are recorded chronologically, enabling later objective assessment and discussion of the course of an exercise. The platform is being offered with growing success on the international market under the name CODARTS®. Several countries, including NATO member-state France, have already purchased individual modules and complete systems.

Panther gets a foothold in Germany

Successful sales in Germany underline the potential of the PantherCommand® command system in the government agencies and rescue and safety market. The key is RUAG Electronics' closeness to the customer and expertise in networked command systems.

As part of its technology initiative, RUAG Electronics has developed a network-enabled command system for the government agencies and first responders market. The result is PantherCommand®, an efficient command system that integrates reconnaissance, command and effector systems. Police, ambulance and fire-fighters can use the system to transmit information, images and data on the location of deployed resources to command centres, laptops and PDAs in real time. During EURO 2008 several Swiss police organizations discovered the effectiveness of the command system, and word soon spread beyond the borders of Switzerland. Since late November the police of the German state of Hessen have also been using PantherCommand® to manage deployed forces.

This spring a second German police organization will implement the system. The Baden-Württemberg State Police will use PantherCommand® during the upcoming NATO summit to efficiently command a portion of the 14,000 police officers who will be deployed.

Making the most of European consolidation

Like the entire European defence technology market, the ammunition market is undergoing consolidation. By concentrating activities, RUAG Ammotec has successfully established itself in recent years as the European small calibre market leader. Successes in France illustrate how RUAG can continue to grow market share.

It is an ambitious goal: at least one type of RUAG Ammotec ammunition in use by every military and police organization in a friendly country. To reach it will require a comprehensive small-calibre product range that surpasses its competitors in precision, reliability, effectiveness and materials used. Further differentiators include adherence to delivery deadlines and vendor reputation. RUAG Ammotec France provides an example of how, step by step, RUAG can proceed from this foundation to gain a foothold in a new market.

Step by step

When RUAG Ammotec acquired the ammunition business of Germany's renowned Dynamit Nobel in 2002, neither company had a presence in the government agencies markets in France or the Benelux countries. But market analysis suggested strong potential for high-end ammunition, particularly among civilian law enforcement organizations. The French police were looking for ammunition to meet increasingly stringent safety and dependability requirements in civilian use. By taking part in several public tenders, RUAG Ammotec France managed to persuade the authorities of the high quality and dependability of RUAG products. The accuracy and distinct safety advantages of RUAG deformable bullets, for both law enforcement personnel and passers-by, drew particular notice. Each contract won enhanced the standing of the RUAG brand.

Increasingly stringent requirements

Next RUAG Ammotec tackled the military market, again with a focus on the high-quality segment in order to establish the company brand. The special ammunition used by snipers and special forces has to be absolutely accurate. At present RUAG is expanding its activities to other parts of the military. International trends are working in RUAG's favour: since many armed forces take part in global peacekeeping and peace supporting missions, the need for accurate and dependable ammunition to protect armed forces' own troops and fulfil the mission grows. With RUAG's profile enhanced by association with the special ammunition, the company is now well-positioned to bid on larger infantry ammunition contracts. Overall, unit sales in France have grown from zero to last year's 20 million rounds in only a few years.

Decisive technology

RUAG's high production capacity, a legacy of the large Swiss Armed Forces order volumes of times past, will be a decisive factor in winning public bids for these infantry orders. But the key to long-term differentiation will be technology leadership. Here RUAG Ammotec stands out, for example in its expanding assortment of low-pollutant ammunition. To maintain its lead in innovation, RUAG is continually developing new projectiles and special products to reach new markets.

RUAG Ammotec will also continue to take an active part in the consolidation of the European small calibre ammunition market. For example, RUAG announced the acquisition of Hungarian manufacturer MFS 2000 in late 2008. The Hungarian market leader's range of pistol and revolver ammunition in new calibres will not only help strengthen individual product groups, but will also help RUAG Ammotec enter new markets in eastern Europe.

Industrial partnership

In addition to the European government agencies and military markets, RUAG also invested heavily in the development and production of new ignition technology and new facilities for actuator cartridges in 2008. RUAG Ammotec's long-term partnership with Hilti will enable it to further expand its industrial pyrotechnics activities and exploit synergies with its ammunition expertise to the full. The investment in new production facilities for these peerless products will pay off in the form of lower production costs.

Ongoing investment in young talent

Highly qualified employees are essential for a technology group, both on our assembly lines and in our research and development departments. Accordingly, RUAG invests in both career training and graduate marketing.

Qualified employees are one of RUAG's key success factors, as Strategy 2010 explicitly acknowledges. One example of our commitment to supporting up-and-coming talent is the high number of apprentices we train. For years trainees and apprentices have made up roughly 10% of RUAG's headcount, well above the Swiss industry average.

Currently RUAG is training over 370 apprentices in 16 occupations in Switzerland, from multiskill mechanics through technical design, plant and equipment technicians to IT technicians, commercial staff and logistics assistants.

In-house training

The high number of apprentices at RUAG is not only a way to meet our social responsibility as a large enterprise, but also an investment in quality assurance and long-term competitiveness. It is essential for us to be able call on the services of young talent who know the company from the ground up. Many of our production processes are so specialized that people with the requisite qualifications are hard to find on the labour market and recruitment and retraining costs are high. Thus RUAG makes every effort to provide ongoing jobs to individuals who complete their apprenticeships with us. The Land Systems division, for example, has for the past two years offered jobs to everyone who completed an apprenticeship in a technical field. Some 80% have accepted the offer.

Challenge and encourage

Support is provided even for trainees with weaker performance, in line with our policy of both challenging and encouraging employees. These individuals receive special counselling and tutoring. Especially talented apprentices in various technical occupations currently have the opportunity to take part in the RUAG Swiss Selection Team. Under this in-house support programme they receive special training for the Swiss and international skills championships.

Systematic marketing

Graduate research and development staff are just as important as qualified technical employees. RUAG is actively involved in graduate marketing, seeking to secure students' services as early as possible through presentations and other events.

In some cases RUAG provides students with opportunities to participate in interesting projects as interns. Students can also carry out semester and thesis projects under expert supervision. These are done in close collaboration with various universities of applied sciences and university institutes. This work is facilitated by the fact that several of our executives also teach at universities.

An apprentice helps to maintain one of the Swiss Air Force's Cougar helicopters.


NORMAL
MINI

Contents

◄ Metal components weighing up to 25 tonnes can be machined automatically at Altdorf.

Overview of key figures

in CHF million	2008	2007
Orders received	**1,581.6**	**1,684.3**
Orders on hand	**1,507.7**	**1,394.0**
Net sales	**1,536.8**	**1,409.1**
Operating income	**1,560.9**	**1,431.5**
Expenses for materials and services	(539.3)	(480.2)
Personnel expenses	(693.1)	(640.4)
Other operating (expenses) income	(206.5)	(176.8)
EBITDA[1]	**122.0**	**134.1**
EBITDA as % of operating income	7.8%	9.4%
EBIT[2]	**57.1**	**76.4**
EBIT as % of operating income	3.7%	5.4%
Net profit	**50.7**	**75.7**
Net profit as % of net sales	3.2%	5.4%
Cash flow from operations	**81.0**	**52.3**
Cash flow from investment	**(120.5)**	**(80.0)**
Free cash flow	**(39.5)**	**(27.7)**
Cash flow from financial activities	**31.8**	**52.8**
Shareholder's equity before minority interests	**762.8**	**784.1**
Shareholder's equity as % of balance sheet total	48.1%	54.5%
Return on equity[3]	6.6%	10.0%
Depreciation and amortization[4]	**64.9**	**57.7**
Goodwill impairment	**-**	**-**
Research and development expenses	**123.4**	**84.6**
as % of operating income	7.9%	6.0%
Net sales per employee in CHF	243,552	232,889
Value added per employee in CHF	150,607	147,559
Employees at end December	6,687	6,104
Employees (annual average)	6,310	6,050
No. of registered shares (par value CHF 1,000)	340,000	340,000
Earnings (loss) per registered share	149.15	222.54
Distributed dividend per registered share	44.12	20.59
Distribution ratio[5]	29.6%	9.3%
Book value per registered share	2,244	2,363

[1] EBITDA = Earnings before interest, taxes, depreciation/amortization and goodwill impairment
[2] EBIT = Earnings before interest and taxes
[3] Net profit as % of average shareholder's equity
[4] Depreciation of property, plant and equipment and amortization of intangible assets
[5] Paid dividend as a ratio of consolidated net profit (loss)

Five-year overview

in CHF million	2008	2007	2006	2005	2004
Orders received	**1,581.6**	**1,684.3**	**1,658.7**	**1,230.0**	**1,144.9**
Orders on hand	**1,507.7**	**1,394.0**	**1,111.8**	**699.0**	**739.4**
Net sales	**1,536.8**	**1,409.1**	**1,247.3**	**1,193.5**	**1,202.2**
EBIT [1]	**57.1**	**76.4**	**70.7**	**19.1**	**53.0**
EBIT as % of operating income	3.7%	5.4%	5.7%	1.6%	4.4%
Net profit	**50.7**	**75.7**	**69.3**	**(18.7)**	**29.1**
Net profit as % of net sales	3.2%	5.4%	5.6%	(1.6%)	2.4%
Cash flow from operations	**81.0**	**52.3**	**105.2**	**82.0**	**114.1**
Cash flow from investment	**(120.5)**	**(80.0)**	**(99.8)**	**(46.2)**	**(47.8)**
Free cash flow	**(39.5)**	**(27.7)**	**5.4**	**35.8**	**66.2**
Cash flow from financial activities	**31.8**	**52.8**	**(47.7)**	**(49.6)**	**(63.2)**
Shareholder's equity before minority interests	**762.8**	**784.1**	**728.9**	**656.6**	**688.8**
Shareholder's equity as % of balance sheet total	48.1%	54.5%	59.4%	55.4%	58.6%
Return on equity [2]	6.6%	10.0%	9.5%	(2.8%)	4.3%
Research and development expenses	**123.4**	**84.6**	**76.2**	**47.9**	**43.4**
as % of net sales	7.9%	6.0%	6.1%	4.0%	3.6%
Employees at end December	6,687	6,104	5,720	5,577	5,550
Employees (annual average)	6,310	6,050	5,677	5,640	5,557

[1] EBIT = Earnings before interest and taxes

[2] Net profit as % of average shareholder's equity

Consolidated income statement 1 January to 31 December

in CHF million	Note	2008	2007	Change in %
Net sales	7	**1,536.8**	**1,409.1**	9.1%
Own work capitalized		4.7	1.9	142.1%
Change in inventories and work in progress		19.4	20.5	(5.3%)
Operating performance		1,560.9	1,431.5	9.0%
Cost of materials and services		(539.3)	(480.2)	12.3%
Personnel expenses	8	(693.1)	(640.4)	8.2%
Other operating expenses	9	(206.5)	(176.8)	16.8%
EBITDA[1]		**122.0**	**134.1**	(9.0%)
Depreciation and amortization	18,19	(64.9)	(57.7)	12.4%
Goodwill impairment	19	-	-	-
EBIT[2]		**57.1**	**76.4**	(25.2%)
Financial income	11	2.1	3.0	(29.9%)
Financial expenses	11	(4.2)	(2.2)	90.7%
Profit (loss) from affiliates	20	3.6	4.8	(25.7%)
Profit before taxes		**58.6**	**82.0**	(28.5%)
Income taxes	12	(13.0)	(7.6)	70.3%
Deferred tax income (expense)	13	5.1	0.1	-
Profit from continuing operations		**50.7**	**74.4**	(31.9%)
Profit (loss) from discontinued operations	5	**-**	1.1	-
Net profit		**50.7**	**75.5**	(32.9%)
of which attributable to:				
RUAG		**50.7**	**75.7**	(167.0%)
Minority interests		(0.0)	(0.1)	(100.8%)
Net profit		**50.7**	**75.5**	(32.9%)

[1] EBITDA = Earnings before interest, taxes, depreciation/amortization and goodwill impairment
[2] EBIT = Earnings before interest and taxes

The notes to the consolidated financial statements on pages 34 to 73 form an integral part of the consolidated financial statements.

Consolidated balance sheet as at 31 December

in CHF million	Note	2008	2007	Change in %
Liquid assets	14	65.3	56.0	16.6%
Short-term financial assets	15	7.4	7.4	(1.0%)
Accounts receivable	16	423.4	353.2	19.9%
Prepaid income taxes		8.1	2.8	193.3%
Prepaid expenses		16.8	10.5	60.3%
Inventories and work in progress	17	394.5	372.9	5.8%
Current assets		**915.5**	**802.9**	14.0%
Tangible assets	18	433.0	422.8	2.4%
Investment property	18	95.5	97.2	(1.7%)
Intangible assets	19	37.4	18.2	105.1%
Goodwill	19	43.9	37.6	16.6%
Affiliates	20	40.8	42.8	(4.8%)
Long-term financial assets	21	3.1	3.6	(12.0%)
Deferred tax assets		17.9	13.1	37.5%
Fixed assets		**671.6**	**635.3**	5.7%
TOTAL ASSETS		**1,587.1**	**1,438.2**	10.4%
Short-term financial liabilities	22	101.6	83.2	22.1%
Other short-term liabilities	23	30.6	46.7	(34.4%)
Accounts payable	24	321.4	287.4	11.8%
Current tax liabilities		18.0	7.7	134.0%
Prepaid income		69.5	41.4	67.8%
Current provisions	27	94.2	91.1	3.4%
Short-term liabilities		**635.5**	**557.6**	14.0%
Long-term financial liabilities	25	62.8	5.9	957.9%
Other long-term liabilities	26	3.7	1.7	120.0%
Long-term provisions	27	93.3	62.9	48.3%
Deferred tax liabilities		28.5	25.4	12.0%
Long-term liabilities		**188.3**	**96.0**	96.2%
Share capital		340.0	340.0	-
Paid-up premium		5.5	5.5	(0.0%)
Retained earnings		453.5	417.4	8.6%
Revaluation reserve		(14.9)	-	-
Translation differences on reserves		(21.2)	21.2	(200.1%)
Shareholder's equity before minority interests		**762.8**	**784.1**	(2.7%)
Minority interests		**0.5**	**0.5**	(1.1%)
Total shareholder's equity after minority interests		**763.4**	**784.6**	(2.7%)
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,587.1**	**1,438.2**	10.4%

The notes to the consolidated financial statements on pages 34 to 73 form an integral part of the consolidated financial statements.

Consolidated cash flow statement 1 January to 31 December

in CHF million	Note	2008	2007
Net profit		**50.7**	**75.7**
Depreciation and amortization	18,19	64.9	57.7
Goodwill impairment	19	-	-
Change in long-term provisions and deferred taxes	27	7.3	11.3
Utilization of provisions	27	(6.7)	(23.5)
Profit applicable to affiliated companies	20	(3.6)	(4.0)
Other items not affecting expenses		-	(0.1)
Change in working capital[1]		(33.3)	(64.7)
Revised net proceeds from sale of assets		(0.4)	(0.1)
Financial income received		(2.1)	-
Financial expenses paid		4.2	-
Cash flow from operations[2]		**81.0**	**52.3**
Investment in movable fixed assets[3]	18	(44.7)	(43.5)
Investment in immovable fixed assets	18	(24.4)	(22.7)
Investment in intangible assets	19	(1.2)	(2.9)
Investment in holdings	6, 19	(58.7)	(13.9)
Disposal of movable fixed assets		1.2	1.2
Disposal of immovable fixed assets		0.7	0.1
Disposal of intangible assets		0.0	-
Disposal of holdings		3.4	0.0
Dividends received from equity holdings	20	3.3	1.8
Dividends received from unconsolidated holdings	20	-	-
Increase in third-party financial investments (fair value)		-	-
Decrease in third-party financial investments (fair value)		-	-
Cash flow from investment		**(120.5)**	**(80.0)**
Free cash flow		**(39.5)**	**(27.7)**
Net increase (decrease) in capital[4]		0.0	0.5
Increase in third-party financial assets		(0.0)	(3.8)
Decrease in third-party financial assets		3.6	6.4
Increase in third-party financial liabilities		130.0	67.9
Decrease in third-party financial liabilities		(81.5)	(7.5)
Lease payments from financial leases		(3.2)	(3.7)
Financial income received		2.1	-
Financial expenses paid		(4.2)	-
Dividends paid to shareholder		(15.0)	(7.0)
Cash flow from financial activities		**31.8**	**52.8**
Exchange-rate differences in cash and cash equivalents		(4.4)	0.3
Cash and cash equivalents acquired (sold)	6	21.4	1.9
Changes in liquid assets		**9.3**	**27.4**
Cash and cash equivalents at start of period		56.0	28.6
Cash and cash equivalents at end of period		65.3	56.0

[1] Excludes short-term financial assets and short-term financial liabilities and other liabilities
[2] Including income tax expenses of CHF 3.9 million (previous year: CHF 7.6 million)
[3] Actual leasing payments in the case of leases
[4] Less cost of raising capital (issuance expenses, etc.)

The notes to the consolidated financial statements on pages 34 to 73 form an integral part of the consolidated financial statements.

Consolidated statement of equity

in CHF million	Share capital	Paid-up premium	Retained earnings	Revaluation reserves	Translation differences	Minority interests	Total share-holder's equity
Balance sheet value on 31 December 2006	**340.0**	**5.5**	**368.3**	**-**	**15.2**	**1.0**	**729.9**
Restatement[1]	-	-	(19.2)	-	-	-	(19.2)
Balance sheet value on 1 January 2007	**340.0**	**5.5**	**349.1**	**-**	**15.2**	**1.0**	**710.7**
Change in share capital	-	-	-	-	-	-	-
Net profit (loss)	-	-	75.7	-	-	(0.1)	75.5
Direct recognition of expenditure (income) in shareholder's equity, net after taxes	-	-	-	-	-	-	-
Total profit and loss recognized in 2007	**-**	**-**	**75.7**	**-**	**-**	**(0.1)**	**75.5**
Earnings distribution from 2006 results	-	-	(7.0)	-	-	-	(7.0)
Buyout of minority interests	-	-	(0.1)	-	-	(1.0)	(1.1)
Minority interests from first-time consolidation	-	-	-	-	-	0.6	0.6
Conversion differences	-	-	(0.2)	-	6.0	-	5.8
Balance sheet value on 31 December 2007	**340.0**	**5.5**	**417.4**	**-**	**21.2**	**0.5**	**784.6**
Restatement	-	-	-	-	-	-	-
Balance sheet value on 1 January 2008	**340.0**	**5.5**	**417.4**	**-**	**21.2**	**0.5**	**784.6**
Change in share capital	-	(0.0)	0.0	-	-	(0.0)	(0.0)
Net profit (loss)	-	-	50.7	-	-	0.0	50.7
Direct recognition of expenditure (income) in shareholder's equity, net after taxes[2]	-	-	-	(14.9)	-	-	(14.9)
Total profit and loss recognized in 2008	**-**	**(0.0)**	**50.7**	**(14.9)**	**-**	**(0.0)**	**35.8**
Earnings distribution from 2007 results	-	-	(15.0)	-	-	-	(15.0)
Buyout of minority interests	-	-	-	-	-	-	-
Minority interests from first-time consolidation	-	-	-	-	-	-	-
Conversion differences	-	-	0.4	-	(42.4)	(0.0)	(42.0)
Balance sheet value on 31 December 2008	**340.0**	**5.5**	**453.5**	**(14.9)**	**(21.2)**	**0.5**	**763.4**

[1] *Long-service awards for employees (IAS 19)*
In the past RUAG recognized the cost of long-service awards for employees as an expense in the period in which the award was payable. This error was corrected in the restatement as of 1 January 2007. As of that date, liabilities for long-service awards are actuarially calculated and provisioned using the projected unit credit method in accordance with IAS 19. The provision is equal to the cash value of the benefit liability on the balance sheet date. The first entry for this provision as of 1 January 2007 was booked to retained earnings under shareholder's equity, net after taxes. All changes in liabilities since the first entry have been carried to the income statement. Net income fell by CHF 0.0 million in 2007, and changed by CHF 0.0 million in 2008.

[2] *Treatment of financial instruments (IAS 39)*
In 2008 RUAG changed the way it books financial and hedging instruments. As of 2008, changes in the value of derivatives that serve to hedge payment flows from a scheduled transaction or fixed liability and offer an effective hedge are booked by RUAG under cash flow hedge. Hedging instruments are valued at fair value; the effective portion of the change in fair value of the hedging instrument is reported in the revaluation reserves under shareholder's equity without affecting the operating result and the ineffective portion is reported in the consolidated income statement under "Other operating expenses". Due to the occurrence of the underlying transactions, CHF 3.5 million was booked out of the revaluation reserve under shareholder's equity in 2008 and shown under other operating expenses.

The revaluation reserve of a negative CHF 14.9 million shown in the balance sheet as at 31 December 2008 comprises the positive and negative replacement values of the open hedging instruments. The hedged underlying transactions incorporate expected, highly probable forecast transactions in foreign currencies. The underlying transactions are expected to occur within the next five years.

During the year under review, CHF 15.0 million (previous year CHF 7.0 million) was distributed to the shareholder as dividends. This is equivalent to a dividend per share of CHF 44.12 (previous year CHF 20.59).

The notes to the consolidated financial statements on pages 34 to 73 form an integral part of the consolidated financial statements.

Accounting principles

1 Business activities and relationship with the Swiss Confederation

RUAG Holding is a Swiss joint-stock company headquartered in Berne. It is wholly owned by the Swiss Confederation. RUAG Holding and its subsidiary companies (hereinafter referred to as "RUAG") are bound by the owner's strategy of the Swiss Federal Council. In March 2007, the Federal Council approved a new owner's strategy for RUAG, the state-owned defence technology company, for the period 2007 to 2010. In the strategy the Federal Council expects RUAG to direct its activities towards the key defence equipment and technologies – in particular system technologies – that are essential to Switzerland's national defence capability.

Relationship with the Swiss Confederation

The Swiss Confederation is the sole shareholder of RUAG Holding. Under the terms of the Federal Act on State-Owned Armaments Companies, any reduction in the Confederation's shareholding to less than that of a majority would require a change in the law. Such an amendment would require a vote in the Federal Assembly and under certain circumstances would also be subject to a referendum of the Swiss electorate. As sole shareholder, the Confederation exercises control over all decisions of the general meeting, including the election and remuneration of members of the Board of Directors and dividend resolutions.

Transactions with the Confederation

RUAG provides maintenance services and produces defence equipment for the Federal Department of Defence, Civil Protection and Sports (DDPS), and procures services from the same. The DDPS is RUAG's largest customer. The procurement contracts awarded by the DDPS for munitions and services are subject to civil law. The process of awarding contracts is subject to the Swiss Confederation's provisions regarding public procurement. These provisions apply to all suppliers of goods and services, and are based on the principle of free competition.

2 Key accounting principles

2.1 Format of presentation

RUAG's consolidated financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRS).

Effect of new or revised International Financial Reporting Standards and interpretations

		Implementation	Application	Effect
IAS 1 R	Presentation of Financial Statements: Disclosures about Transactions with Shareholders	01.01.2009	2009	2
IAS 23	Borrowing Costs	01.01.2009	2009	2
IAS 27 A	Consolidated and Separate Financial Statements	01.07.2009	2009	2
IAS 32 and IAS 1 A	Changes to statements on callable financial instruments and obligations arising on liquidation	01.01.2009	2009	2
IAS 39	Financial instruments: Recognition and Measurement – changes to risk positions that qualify for hedge accounting	01.07.2009	2009	2
IFRS 1 and IAS 27 A	Determination of historical cost of a holding – first-time application	01.01.2009	2009	2
IFRS 2 A	Share-based Payment	01.01.2009	2009	2
IFRS 3 A	Business Combinations	01.07.2009	2009	2
IFRS 8	Operating Segments	01.01.2009	2009	4
IFRIC 12	Service Concession Arrangements	01.01.2009	2009	2
IFRIC 13	Customer Loyalty Programmes	01.07.2009	2009	2
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01.01.2008	2008	1
IFRIC 15	Agreements for the Construction of Real Estate	01.01.2009	2009	2
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	01.10.2008	2008	1

[1] No effect on consolidated financial statements

[2] No anticipated effect on consolidated financial statements

[3] Supplementary disclosure in consolidated financial statements

[4] Anticipated supplementary disclosure in consolidated financial statements

2.2 Use of benchmarks such as EBITDA, EBIT and free cash flow

In the company's opinion, EBITDA, EBIT and free cash flow are important benchmarks which are of special significance to RUAG. EBITDA, EBIT and free cash flow do not constitute an IFRS-compliant benchmark for operating performance or liquidity, however, since the benchmarks have not been defined on a uniform basis. For this reason, the reported EBITDA, EBIT and free cash flow are not comparable with similarly termed benchmarks used by other companies.

2.3 Consolidation principles

RUAG's consolidated annual statements include all subsidiary companies which it directly or indirectly controls by a majority of the votes or by any other means. A list of all significant subsidiaries and affiliates can be found under Note 40 on page 73.

Capital is consolidated in accordance with the purchase method. The assets, liabilities, shareholder's equity, income and expenses of fully consolidated subsidiary companies, are included in their entirety in the consolidated annual accounts. The interests of third-party shareholders in the equity capital and profit are stated separately.

Subsidiaries and affiliates are consolidated with effect from the date of their acquisition, and eliminated from the consolidated financial statements as of the date of their sale.

All intra-Group receivables, liabilities, expenses and income, as well as unrealized interim profits, are eliminated on consolidation.

Annual reporting for all subsidiaries ends on 31 December.

Affiliates on which RUAG exerts a significant influence (normally 20 to 50 percent of direct or indirect voting rights), but which it does not control, are stated in accordance with the equity method. In such cases, the fair value of the net assets is calculated at the time of acquisition on a pro rata basis and reported as "Affiliated companies". In the reporting periods following the acquisition, this figure is adjusted to take account of RUAG's share in the additional capital generated or losses incurred.

The fair value of the established assets and liabilities of acquired companies can still be adjusted for the 12 months following the takeover date.

Significant positions and transactions with affiliated companies recorded using the equity method are shown separately as "Affiliated companies".

Affiliated companies on which RUAG does not exercise significant influence (20 percent or less of the direct or indirect voting rights) are stated at fair value and shown under "Long-term financial assets".

2.4 Intangible assets and goodwill

Acquired companies are consolidated in accordance with the purchase method. The acquisition cost is recognized as the sum of the fair values of the assets transferred to the acquiree and liabilities incurred or assumed on the transaction date, in addition to directly attributable costs.

Identifiable acquired assets, liabilities and contingent liabilities are reported in the balance sheet at their fair values on the date of acquisition, irrespective of the extent of any minority interests. Goodwill is measured by the Group as the excess of the cost of the acquisition over its share of the fair values of the acquiree's identifiable net assets. Companies acquired or sold during the financial year are recognized in the consolidated financial statements as of the date of acquisition or sale.

Under IFRS 3, it is assumed that goodwill and certain intangible assets have an unlimited useful life and they are therefore not subject to scheduled depreciation and amortization; instead, an impairment test is conducted at least once a year. The amount of any impairment is disclosed in the income statement under Goodwill impairment. Goodwill is the only position that RUAG reports with an unlimited service life.

Intangible assets with a limited useful life are subject to an impairment test as soon as specific events or general circumstances indicate that their carrying amount is no longer realizable. Where there is an indication of possible impairment, the Group measures fair value on the basis of expected future cash flows from use and eventual sale, less any cost of disposal. Where the carrying amount is more than the higher of fair value less selling costs and value in use, an impairment equivalent to the difference is shown in the Income Statement under depreciation and amortization. The impairment assessment is based on the smallest group of assets for which independent cash generating units are identifiable. The estimation of future discounted cash flows is based on the forecasts and assumptions of the Executive Board. Accordingly, the actual cash flows generated may differ sharply from these estimates.

2.5 Research and development costs

The Group examines the capitalization of development costs in each individual case and assesses in the process the inherent risk of new products and their development in the light of the uncertain nature of future benefits and the timing of returns. Contributions from third parties arising from contract development work are assigned to the period in which the corresponding development costs are incurred.

2.6 Foreign currencies

RUAG's consolidated financial statements are presented in Swiss francs (CHF). Transactions in foreign currencies are converted at the exchange rate applicable at the time of the transaction. Foreign-currency receivables and liabilities at the balance sheet date are converted at the applicable exchange rate on such balance sheet date. The resulting conversion differences are shown in the income statement.

Differences arising in the year under review from the conversion of shareholder's equity and long-term intra-Group financial transactions in connection with the net investments in foreign subsidiaries, in addition to retained profits and other equity items, are assigned directly to accumulated conversion differences under shareholder's equity.

The assets and liabilities of subsidiary companies and affiliated companies stated in accordance with the equity method, whose functional currency is not the Swiss franc, are converted into Swiss francs on consolidation at the exchange rate applicable on the balance sheet date. Income statements, cash flow statements and other fluctuating items are converted at the average exchange rate for the period under review. Conversion differences arising from the conversion of the annual statements of subsidiaries or affiliates are taken directly to consolidated equity capital and reported separately as cumulative conversion differences. In the event of a sale of a foreign subsidiary or affiliate, cumulative conversion differences are taken to the income statement as a component of the profit or loss from disposals.

2.7 Original derivative financial and hedging instruments

Derivative financial instruments are initially recognized in the balance sheet at cost, and thereafter re-measured at fair value. The way in which the gain or loss is measured depends on whether the instrument is used for the purpose of hedging a specific risk and the conditions for hedge accounting are met. The objective of hedge accounting is to ensure the change in value of the hedged position and hedge instrument is included in the income statement at the same time. To qualify for hedge accounting, a hedge transaction must meet strict conditions in terms of documentation, the probability of occurrence, the effectiveness of the hedging instrument and the accuracy of measurement.

When concluding a hedge transaction, the Group documents the relationship between hedging instruments and hedged positions, as well as the purpose and strategy of the hedge. The process also involves linking all hedging derivatives with specific assets and liabilities, or firm commitments and expected transactions (forecasted transactions). At inception as well as during the life of the hedge, the Group documents the extent to which the derivatives used for the hedge offset the change in fair value of the hedged position. When a contract is concluded, a derivative instrument qualifying for hedge accounting is defined as:

a) a hedge on the change in the fair value of a stated asset or a liability (fair value hedge),
or as

b) a hedge on cash flows from an anticipated transaction or firm commitment (cash flow hedge),
or as

c) a hedge on net investment in a foreign subsidiary.

Towards the end of 2008, RUAG changed the way it books financial and hedging instruments. Changes in the value of instruments used to hedge the cash flows from an anticipated transaction or firm commitment and offer an effective hedge have since been booked under cash flow hedge.

Hedging instruments are valued at fair value; the effective portion of the change in fair value of the hedging instrument is reported in the revaluation reserve under shareholder's equity without affecting the operating result and the ineffective portion is reported in the consolidated income statement under "Other operating expenses". Upon occurrence of the underlying transaction, the relevant hedging instrument is reclassified from shareholder's equity to the income statement.

The only hedges RUAG currently has are for payment flows from scheduled transactions or fixed liabilities (cash flow hedge).

Fair values of financial instruments (fair value valuation)
The fair value of a financial instrument is the price at which a party would accept the rights and/or obligations arising from the financial instrument from another party. The fair values were calculated on the basis of the market information available on the balance sheet date and using the methods given below, which are based on certain premises.

Securities: Fair values are obtained from stock market prices

Cash and cash equivalents: Given their short lifetime, the book values of cash and cash equivalents correspond to market values.

Financial liabilities: The fair values of long-term financial liabilities are calculated as the cash value of future cash flows. The current market interest rates for bonds with corresponding maturities are used for discounting purposes. Due to their short maturity, it is assumed that the book values for short-term financial liabilities correspond closely to market values.

Derivative instruments: The fair value of foreign currency forward transactions is determined on the basis of current benchmark prices as at the balance sheet date, taking account of forward premiums and discounts. Foreign currency options are valued using option pricing models. Fair values of interest rate hedging instruments are calculated on the basis of discounted, expected future cash flows. In this case, the market interest rates for the remaining lifetime of the financial instruments are used. Options are valued on the basis of generally recognized option pricing models.

2.8 Cash and cash equivalents

Liquid assets comprise cash and the balances in postal cheque and sight accounts with banks. They also include term deposits held with financial institutions and short-term money market investments with an initial term of three months. They are stated at par value.

2.9 Short-term financial assets

Short-term financial assets comprise term deposits held with financial institutions and short-term money market investments with an initial term of more than three months but no longer than twelve months (nominal value), the equivalent amount of outstanding currency hedging transactions (fair value) and lendings.

2.10 Accounts receivable

Trade receivables are valued at the original invoiced amount (amortized costs), less a value adjustment for doubtful accounts which is estimated on the basis of an analysis of receivables outstanding on the balance sheet date. Receivables judged to be non-recoverable are shown in the Income Statement under “Other operating expenses”.

2.11 Inventories and work in progress

Inventories are measured at the lower of cost and net realizable value. Cost includes all production costs including pro rata production overheads. All foreseeable exposures to loss from orders in progress are accounted for by economically reasonable value adjustments or provisions. The valuation of inventories follows the weighted average method or standard cost accounting. Standard costs are regularly monitored and, if any major discrepancies are observed, adjusted to the latest conditions. Provisions are made for hard-to-sell or slow-moving inventories. Non-saleable inventories are written off in full.

Long-term construction contracts are valued according to the percentage of completion method. Subject to the fulfilment of certain conditions, receivables and sales are stated in accordance with the percentage of completion method. Long-term construction contracts are defined as manufacturing orders where completion of the order extends over at least two reporting periods, calculated from the time the order is awarded to the time it is essentially completed.

The percentage of completion is derived from the relationship between the costs incurred by the order and the overall estimated cost of the order (cost-to-cost method). Losses from long-term construction contracts are calculated immediately and in full in the financial year in which the losses are identified, irrespective of the percentage of completion. Order costs and pro rata profits from long-term construction contracts which are valued according to the percentage of completion method are shown as work in progress (percentage of completion) as a component of inventories and work in progress. They are stated at the cost of production plus a pro rata profit that corresponds to the percentage of completion achieved.

If the conditions for applying the percentage of completion method are not fulfilled, valuation follows the completed contract method. In this case realization of income is generally permitted only when the associated risks have been transferred and the service has been provided. Semi-finished products and services in progress are stated in the Inventories and work in progress item.

2.12 Fixed and intangible assets and investment properties with a limited useful life

Fixed and intangible assets are measured at acquisition cost less accumulated depreciation and amortization calculated on a straight-line basis. Repair and maintenance costs are stated as an expense. Major renovations and other value-enhancing expenses are capitalized under fixed assets and depreciated over their estimated useful life. This principle also applies to factory buildings and income-yielding properties. Properties are shown at the cost of acquisition less accumulated depreciation calculated on a straight-line basis.

RUAG applies the following estimates of useful life:

	Useful life in years
Operating properties	20 to 60
Investment properties	40 to 60
Plant and machinery	8 to 12
Furniture	10
Motor vehicles	5 to 10
Computer hardware/software	3 to 5
Intangible assets	1 to 10

Impairment of fixed assets

The current value of fixed assets is reassessed whenever changes in circumstances or events indicate that the carrying amount may be overestimated. Where there is an indication of possible impairment, the Group measures fair value on the basis of expected future cash flows from use and eventual sale, less any cost of disposal. Where the carrying amount is more than the higher of fair value less selling costs and value in use, an impairment equivalent to the difference is stated as an expense. The impairment assessment is based on the smallest group of assets for which independent cash generating units are identifiable. These units correspond to the Group's divisions. The estimation of future discounted cash flows is based on the forecasts and assumptions of the Executive Board. Accordingly, the actual cash flows generated may differ sharply from these estimates.

Investment properties are reported at amortized costs.

2.13 Leases

Leased assets where the benefits and risk arising from ownership are essentially transferred to RUAG are capitalized at the lower of fair value of the leased asset and present value of the minimum lease payments on inception of the lease. Correspondingly, the estimated net cash value of future, non-cancellable lease payments is carried under liabilities arising from financial leasing arrangements. Assets under financial leases are depreciated over the shorter of their estimated useful life or the duration of the lease.

2.14 Provisions
Provisions are formed where, due to a past event:

a) RUAG has a current liability;

b) it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c) a reliable estimate can be made of the amount of the obligation.

Provisions for restructuring
Costs arising in connection with staff reduction programmes are treated as an expense when management has decided on a programme from which a probable liability has arisen and the amount of this liability can be estimated on a reliable basis. The terms and number of employees affected must have been determined. Plans for staffing reductions must either have been agreed with the social partners or with the individual employees affected before they can be entered in the income statement.

Provisions for losses on contracts
Losses from contracts are calculated immediately and in full in the financial year in which the losses are identified.

Provisions for warranties
Provisions for warranties are made in accordance with standard business practices. These are based on services provided in the past and on current contracts.

Provisions for leave and overtime credits
Employees' entitlements to leave and overtime credits are recorded and cut off on the balance sheet date.

2.15 Provisions for pension obligations
The projected-unit credit method is used throughout the Group. This method takes account of the number of completed years of service and the salary growth of the insured individuals up to the cut-off date for the calculation.

The majority of RUAG employees are insured under defined benefit pension schemes according to IAS 19 (revised). For its staff in Switzerland, RUAG pays contributions to VORSORGE RUAG, a pension institution set up in line with the Swiss defined contributions system. This provides statutory coverage for retirement, death and incapacity. The expenses and liabilities arising from the pension scheme are calculated using the actuarial principles of the projected unit credit method. This takes account of the numbers of years in service of employees up to the valuation cut-off date and makes assumptions as to future development of salaries.

The annual pension expenses are calculated on an actuarial basis. The latest actuarial valuation was carried out on the basis of data as at 1 January 2008. Current benefit entitlements are stated in the period of the income statement in which they arise. The effects of changes in the actuarial assumptions are stated on an equal basis in the income statement via the assumed average remaining service life of the insured individuals. The actuarial gains and losses to be stated on a pro rata basis correspond to the cumulative, non-stated actuarial gains and losses at the end of the previous reporting period, which exceeded the higher of the following amounts: 10% of the cash value of the defined benefit commitment at the time (prior to deduction of the scheme assets) and 10% of the fair value of the scheme assets at the time. The past service cost arising from changes in the scheme is stated as an expense on a straight-line basis over the average period until the vesting period. Insofar as qualifying rights are immediately vested, the corresponding expense is booked immediately.

RUAG pays premiums to various pension institutions for its subsidiaries abroad (essentially Germany and Sweden).

2.16 Borrowing costs

Borrowing costs to be deferred are recognized as an expense in the period in which they are incurred.

2.17 Income taxes/deferred taxation

Income taxes are recognized on an accrual basis. Deferred taxes are created in accordance with the comprehensive liability method. Accordingly, calculation is based on the temporary differences between the values of assets or liabilities as recognized by the revenue authorities and the values as stated in the consolidated financial statements, unless such temporary difference relates to participations in subsidiaries or affiliated companies where the timing of the offset can be controlled and it is likely that this will not occur in the foreseeable future. Furthermore, provided no profit distributions are anticipated, withholding taxes and other taxes on possible subsequent distributions are not measured since profits are generally reinvested. The Group's deferred tax claims or liabilities, as calculated on the basis of corresponding local tax rates, are stated under long-term assets (deferred tax assets) or long-term liabilities (deferred tax liabilities). The change in this item over the course of the year is recognized in the income statement, provided it relates to a position that is included in or disclosed under shareholder's equity. Deferred tax claims on a company's tax-deductible losses are taken into account to the extent that there are likely to be future profits against which they can be used. The tax rates are determined by the actual and anticipated tax rates in the relevant legal units.

2.18 Net sales

Net sales include the fair value of all receivables from the sale of goods and the rendering of services by RUAG in its ordinary business operations. The amount is shown after any deductions for value added tax, price reductions, rebates and discounts and intra-Group sales.

RUAG records its sales when the amounts can be measured reliably, future cash flows are likely and the specific criteria described below have been fulfilled.

Sale of goods

Revenues from the sale of goods are stated at the time of delivery or performance, i.e. when the relevant opportunities and risks are transferred to the buyer.

Rendering of services
Revenues from the rendering of services are determined on the basis of either time and material or a fixed price contract.

Sales on the basis of time and material, which are typical for service agreements in the maintenance business for the Federal Department of Defence, Civil Protection and Sports (DDPS), are measured on the basis of contractually agreed hourly rates and direct costs.

Revenue from fixed price agreements, when both the full costs incurred up to completion of the contract and the percentage of completion on the balance sheet date can be reliably measured, is reported on the basis of the percentage of completion method (POC) for the realized percentage of completion.

If the proceeds of a manufacturing contract cannot be reliably measured, revenue should be recognized only to the extent of the recoverable expenses and the costs incurred by the order recognized as an expense in the relevant period.

Other income
RUAG's other income, such as rental income and interest income, is stated on a time-proportionate basis, as is dividend income where the legal entitlement to payment has arisen.

2.19 Advance payments received
Advance payments are deferred and then realized when the corresponding services are provided.

2.20 Transactions with related parties
All business relationships with related parties are conducted at arm's length.

RUAG provides maintenance services and produces defence equipment for the Federal Department of Defence, Civil Protection and Sports (DDPS), and procures services from the same. The DDPS is RUAG's largest customer. The procurement contracts awarded by the DDPS for munitions and services are subject to civil law. The process of awarding contracts is subject to the Swiss Confederation's provisions regarding public procurement. These provisions apply to all suppliers of goods and services, and are based on the principle of free competition.

2.21 Other long-term benefits due to employees
Other long-term benefits due to employees include long-service awards. These are calculated using the projected unit credit method and are reported in the item "Provisions for loyalty bonuses and anniversary benefits".

3 Risk management and risk assessment

RUAG has a risk management system that differentiates between strategic and operational risks and focuses on the relevant topics. Risks are identified, assessed and monitored in the individual business units at all levels of the management structure. In order to minimize the individual risks, the appropriate measures are defined and implemented. The most significant risks aggregated from the divisions are monitored and controlled by the Executive Board.

The risks identified are quantified (in terms of probability of occurrence and impact) and entered on a risk map. This risk map is discussed by the Board of Directors and the Audit Committee at least once a year. Ongoing risk monitoring, supervision and control is the responsibility of the management.

3.1 Financial risk management

Financial risk management is a corporate function and is carried out by the Group Treasury department in compliance with the directives issued by the Board of Directors. Group Treasury identifies, evaluates and hedges against financial risks in close cooperation with the operating units.

Market risk

RUAG is exposed to market risks, notably those associated with changes in exchange rates, interest rates and market values of investments in liquid assets. The company monitors these risks continuously. The Group employs a number of derivative financial instruments to manage the volatility associated with these risks. The Group's objective is to reduce where appropriate fluctuations in its earnings and cash flows associated with changes in interest rates, exchange rates and the value of financial assets and the exchange rate risks of certain net investments in Group companies abroad.

In compliance with company policy, the company employs derivative financial instruments (e.g. foreign currency forward transactions, interest rate swaps, etc.) to manage risk. RUAG avoids any financial transaction in which the risk cannot be gauged at the time the transaction is concluded. The Group does not sell any assets that it does not own or does not know that it will own. RUAG sells only existing assets and hedges only existing transactions and (in the case of forward-looking hedges) future transactions that can be expected to materialize on the basis of past experience.

Currency risk

The consolidated financial statements are presented in Swiss francs. Accordingly, RUAG's foreign currency rate risk is largely confined to the USD and the EUR. In the case of transaction risk, it faces the risk of fluctuations in the value of foreign currencies between the date of a contractual agreement and the actual date of payment. Accordingly, RUAG employs different contracts to compensate for exchange rate-induced changes in asset values, commitments and future transactions. RUAG also employs forward transactions and currency options to hedge certain cash flows expected to be paid in foreign currency.

Net investments in foreign subsidiaries are long-term investments. Their market value changes as exchange rates fluctuate. Over the very long term, however, differences in inflation rates should offset the exchange rate fluctuations, with the result that adjustments in the market value of tangible investments abroad should compensate for any exchange rate-induced changes in value. For this reason, RUAG hedges its investments in foreign Group companies only in exceptional cases.

RUAG uses hedge accounting as defined in IAS 39.

Commodity price risk

Some of RUAG's prospective purchases of commodities (in particular copper, zinc, lead, aluminium and steel) that it uses as raw materials are exposed to price risk. Commodity price changes can affect the gross profit margins of the operations concerned. Therefore, RUAG uses commodity futures transactions to manage the price fluctuation risk of planned purchases.

Interest rate risk

RUAG is exposed to interest rate risks arising from the volatility of market interest rates. Sight deposits and money-market investments are subject to interest rate risks which could potentially have a negative effect on net income. Long-term financial liabilities largely comprise long-term loans from financial institutions and to a small extent leasing commitments.

Credit risk

Credit risks arise when customers are not in a position to fulfil their contractual commitments. To manage this risk RUAG periodically evaluates customers' financial reliability. In 2008, two customers accounted for roughly 36.3% and 5.9% of net Group sales. No other single customer accounts for 5% or more of net Group sales. The highest amount for trade receivables is equal to 40.1% (previous year: 40.0%) of total trade receivables as at 31 December 2008. This is the only concentrated credit risk that exceeds 5% of trade receivables. The nominal value of trade receivables less value adjustments is regarded as an approximation of the fair value of the receivables.

Counterparty risks

Counterparty risk comprises the risk of default on derivative financial instruments and money market transactions and the credit risk on current account balances and time deposits. RUAG reduces default risk and credit risk by choosing as counterparties only banks and financial institutions that have at least an AA credit rating when the transaction is concluded. These risks are strictly monitored to ensure that they remain within the prescribed parameters. Group guidelines ensure that the credit risk in respect of financial institutions is limited. RUAG does not expect any losses arising from counterparties' non-fulfilment of their contractual commitments.

Liquidity risks

Liquidity risk describes the risk that arises if the company is not in a position to fulfil its obligations when due or at a reasonable price. The Group Treasury is responsible for monitoring liquidity, financing and repayment. In addition, management controls maturities and guidelines in this connection. To maintain flexibility, RUAG manages its liquidity risk on a consolidated basis, drawing on social, tax and financial considerations and, if necessary, various funding sources. RUAG maintains on principle a liquidity reserve that exceeds the daily and monthly operating cash requirements. This includes maintaining adequate reserves of liquid resources as well as the availability of adequate open lines of credit. A rolling liquidity plan drawn up on the basis of expected cash flows is regularly updated.

The table below provides an analysis of the Group's net debt by due date from the balance sheet date to the contractual expiry date.

As at 31 December 2008

(in CHF million)	Note	up to 1 year	up to 2 years	up to 3 years	up to 4 years	over 4 years	Total
Liquid assets	14	65.3	-	-	-	-	**65.3**
Short-term financial assets[1]	15	0.1	-	-	-	-	**0.1**
Long-term financial assets	21	1.4	0.0	-	-	1.8	**3.1**
Short-term financial liabilities[1]	22	(73.9)	-	-	-	-	**(73.9)**
Long-term financial liabilities	25	-	(10.6)	(13.0)	(12.0)	(27.2)	**(62.8)**
Other long-term liabilities	26	-	(3.7)	-	-	-	**(3.7)**
Net debt		**(7.1)**	**(14.3)**	**(13.0)**	**(12.0)**	**(25.4)**	**(71.9)**

As at 31 December 2007

(in CHF million)							
Liquid assets	14	56.0	-	-	-	-	**56.0**
Short-term financial assets[1]	15	7.4	-	-	-	-	**7.4**
Long-term financial assets	21	-	3.6	-	-	-	**3.6**
Short-term financial liabilities[1]	22	(83.2)	-	-	-	-	**(83.2)**
Long-term financial liabilities	25	-	(3.7)	(1.6)	(0.6)	(0.1)	**(5.9)**
Other long-term liabilities	26	-	(1.7)	-	-	-	**(1.7)**
Net debt		**(19.8)**	**(1.8)**	**(1.6)**	**(0.6)**	**(0.1)**	**(23.8)**

[1] The cash flow hedges included in short-term financial assets and liabilities do not form part of net debt because they do not bear interest.

3.2 Capital risk management

In managing capital, RUAG's aims are to ensure that the company can continue its operating activities, that the owners receive an adequate return and that the balance sheet structure is optimized with regard to the cost of capital. RUAG can achieve these objectives by adjusting the dividends paid, by returning capital to the shareholder, by issuing new shares or selling assets for the purpose of repaying debt. RUAG monitors its capital structure on the basis of net debt and shareholder's equity, by measuring the ratio of net debt to shareholder's equity. Net debt is the sum of liquid resources, short- and long-term financial assets less short- and long-term financial liabilities and other long-term liabilities.

Aggregate capitalization is the sum of shareholder's equity and net debt. RUAG has set itself the long-term target of keeping net debt below 40% of shareholder's equity. At the end of 2008 the figure was 9.4% (previous year: 3.0%).

4 Critical accounting estimates and assumptions

Preparation of the consolidated annual accounts in accordance with generally recognized accounting principles requires the use of estimates and assumptions which influence the amount of the stated assets and liabilities and the associated disclosure of contingent assets and liabilities at the balance sheet date. At the same time, the Group makes estimates and assumptions relating to the future. Estimates made for accounting purposes may by definition differ from actual results.

Estimates and assessments are continuously analysed and are based partly on historical experience and partly also on other factors including the occurrence of possible future events. Key estimates and assumptions are made in particular about the following items:

Fixed assets, goodwill and intangible assets
Fixed and intangible assets are reviewed annually for signs of value impairment and estimates are made of the future cash flows expected to result from the use of these assets or their possible disposal. Actual cash flows may differ from the discounted future cash flows based on these estimates. Factors such as changes in the planned use of buildings, machinery and installations, site closures, technical obsolescence or lower-than-forecast sales of products, the rights to which have been capitalized, may shorten the estimated service life or result in a value impairment.

The Group reviews the value of its capitalized goodwill annually. The recoverable amount of cash-generating units is determined on the basis of value-in-use. At the same time estimates are made of future cash flows and assumptions are made to determine the capitalization rate.

Construction contracts
Estimates with a significant influence are made in evaluating long-term construction contracts by the percentage of completion method (POC). Although the estimates, such as the percentage of completion and estimated final cost of projects, are made to the best of the management's knowledge about current events and possible future measures, the actual results may ultimately differ from these estimates.

Provisions
As part of their ordinary business operations, Group companies are exposed to various risks. These are continuously assessed and provisions are set aside accordingly in light of the available information on the basis of the cash flow that can realistically be expected. For example, provisions for guarantees are determined on the basis of empirical values and provisions for litigation by means of a legal assessment.

Inventories and work in progress
The current value of inventories and work in progress is reassessed periodically. This involves classifying the individual items in terms of inventory sales ratios and valuing them accordingly.

Deferred tax assets
The possible application of existing and usable available loss carry-forwards is periodically assessed and valued. The basis for valuating the loss carry-forwards is a realistic performance planning on the part of the taxable entity. The assessment of future profit targets is based on a wide range of assumptions and estimates.

Pension obligations
Various actuarial assumptions are made in calculating pension obligations and the surplus or shortage of cover in accordance with IAS 19, e.g. the annual expected wage increases and pension adjustments, probability of withdrawal, expected mortality, etc.

5 Discontinued operations

At the end of 2005, RUAG resolved to conduct a phased withdrawal from the large calibre ammunition business. In compliance with IFRS 5, the large calibre ammunition business is disclosed under Discontinued operations.

In the previous year a CHF 1.1 million profit from discontinued operations including proceeds of sale is disclosed in relation to the large calibre ammunition business. No extraordinary depreciations were made during the year under review (previous year: CHF 0 million).

The large calibre ammunition business was sold to Saab Bofors Dynamics Switzerland Ltd (SBDS) with effect from 1 July 2007. RUAG holds a 5% interest in SBDS.

Income statement (in CHF million)	**2008**	**2007**
Total operating income	-	5.5
Material costs	-	(1.9)
Personnel costs	-	(3.8)
Other operating (expenses) income	-	1.7
Depreciation	-	(0.0)
EBIT	**-**	**1.5**
Financial expenses	-	(0.6)
Financial income	-	0.2
Income tax expenses	-	-
Profit from discontinued operations	**-**	**1.1**

Balance sheet (in CHF million)		
Liquid assets	-	-
Accounts receivable	-	-
Inventories and work in progress	-	-
Tangible assets	-	-
TOTAL ASSETS	**-**	**-**
Accounts payable	-	-
Short-term provisions	-	-
Shareholder's equity	-	-
TOTAL LIABILITY AND SHAREHOLDER'S EQUITY	**-**	**-**

The (net) attributable cash flows of the large calibre ammunition business amounted to:

Net attributable cash flows (in CHF million)		
Cash flow from operations	-	9.3
Cash flow from investment	-	-
Cash flow from financing activities	-	(9.0)

6 Corporate acquisitions/sales/mergers

Acquisitions

RUAG acquired SAAB's space activities as of 1 September 2008, thus strengthening its position in the space business. RUAG purchased the entire capital of the two companies: Saab Space AB, based in Gothenburg (Sweden), and Austrian Aerospace GmbH, based in Vienna (Austria). RUAG has thus acquired an internationally recognized supplier of high-quality space equipment such as computer systems, antennae and microwave electronics for satellites, as well as adapters and separation systems for rocket launchers – a supplier with over 30 years' experience in the space business – and is thereby rounding out its own space portfolio with new technologies and products.

After the acquisition, Saab Space AB was renamed RUAG Aerospace Sweden AB and Austrian Aerospace GmbH became RUAG Aerospace Austria GmbH.

The purchase price for the transaction on conclusion of the contract was SEK 335 million. RUAG will pay an additional consideration by the end of 2013 if certain agreed performance targets are met.

In the four months following their purchase, the newly acquired companies generated sales of CHF 47.3 million.

RUAG took a 25% stake in GEKE Schutztechnik GmbH based in Lichtenau, Germany, during 2008. The stake in GEKE Schutztechnik GmbH was consolidated as an equity holding as of the purchase date. GEKE develops innovative solutions in the areas of protection systems and munitions.

The Environment business area of RUAG Components AG acquired a 28% stake in SwissRepair AG, based in Dietikon. The stake in SwissRepair AG was consolidated as an equity holding as of the purchase date. The Environment business area of RUAG Components AG operates plants that recycle retail, commercial, trade and household electrical and electronic waste and offers successful end-to-end waste disposal concepts for enterprises.

In April 2007 RUAG acquired the entire capital of TSA Transairco SA, thereby strengthening its business jet maintenance network. The acquisition of TSA Transairco SA, a Dassault-approved Major Service Center for Falcon Business Jets, expands RUAG's offering. Not only does this strengthen RUAG's maintenance network, it also gives it a presence in Geneva, the Swiss airport with the highest frequency of business-jet traffic. The company was consolidated as of 1 May 2007 and has since been merged with RUAG Aerospace AG.

As of 1 January 2007, RUAG acquired the entire share capital of EURO ARMS BVBA, based in Boechout, Belgium, a wholesaler and supplier of small calibre ammunition in Belgium to the hunting, sport and government agencies markets. Since 1 January 2007 the company has been consolidated under the name RUAG Ammotec Benelux.

In the previous year, the remaining 5% of RUAG COEL GmbH – which had been acquired in 2006 – was purchased. The previous year also saw the acquisition of a 1.97% stake in ALPAR Flug- und Flugplatz Gesellschaft AG, Berne.

Mergers

In the year under review, TSA Transairco SA was merged with RUAG Aerospace AG. No mergers took place in the previous year.

New companies
RUAG Sweden AB was formed as an acquisition company in the year under review in connection with the purchase of SAAB's space activities.

In 2007 the Environment business area of RUAG Components bought a 55% stake in brings! AG based in Schattdorf. The Environment business area of RUAG Components operates plants that recycle retail, commercial, trade and household electrical and electronic waste and offer successful all-inclusive waste disposal concepts for enterprises. brings! AG commenced business operations on 1 July 2007 and has been consolidated since that date.

Disposals
In 2008 the minority holding in Veolia Umwelt Service Schweiz AG was sold to the majority shareholder. The large calibre ammunition business was sold to Saab Bofors Dynamics Switzerland Ltd (SBDS) with effect from 1 July 2007. RUAG holds a 5% interest in SBDS.

Effects of acquisitions/sales
Acquisitions and disposals had the following impact on RUAG's consolidated financial statements

Effects of acquisitions/sales (in CHF million)	**Acquisition 2008**	**Sale 2008**	**Acquisition 2007**	**Sale 2007**
Current assets	96.6	(3.4)	21.6	(6.5)
Property, plant and equipment	14.0	-	2.0	(0.0)
Intangible assets	31.6	-	2.5	-
Goodwill	10.3	-	-	-
Short and long-term liabilities	(74.9)	-	(12.1)	-
Deferred tax liabilities	(9.0)	-	-	-
Acquired (sold) assets and liabilities	**68.6**	**(3.4)**	**13.9**	**(6.5)**
Purchase price paid (received) in cash	(58.3)	3.4	(13.9)	6.5
Escrow account	-	-	-	-
Liquid assets acquired (sold)	21.4	-	1.9	-
Translation differences	0.1	-	-	-
Net cash (outflow) inflow	**(36.8)**	**3.4**	**(12.0)**	**6.5**

Net cash (outflow) inflow includes only acquisitions being fully consolidated for the first time.

Goodwill essentially reflects investment in technology expertise and transfer, together with the extended access to new markets following the acquisition.

	2008	2007
7 Net sales (in CHF million)		
Invoiced sales	1,569.0	1,386.9
Change in percentage of completion	(32.1)	22.2
Net sales	**1,536.8**	**1,409.1**
Department of Defence, Civil Protection and Sports (DDPS)	570.7	469.8
Third parties	998.2	917.0
Invoiced sales by customer group	**1,569.0**	**1,386.9**
Defence technology	840.8	683.9
Civilian	728.2	703.0
Invoiced sales by type of use	**1,569.0**	**1,386.9**
Production	906.9	730.7
Maintenance	485.3	455.6
Services	176.8	200.6
Invoiced sales by type of order	**1,569.0**	**1,386.9**
Switzerland	740.5	611.9
Rest of Europe	649.7	597.6
Middle East	34.6	12.2
North America	93.1	103.9
South America	9.0	33.5
Asia / Pacific	34.4	19.0
Africa	7.7	8.9
Invoiced sales by region	**1,569.0**	**1,386.9**
8 Personnel expenses (in CHF million)		
Wages and salaries	(532.9)	(497.5)
Pension fund contributions	(32.3)	(28.2)
Other welfare payments	(72.2)	(66.2)
Contract personnel	(26.2)	(27.2)
Other personnel expenses	(29.5)	(21.3)
Total	**(693.1)**	**(640.4)**
9 Other operating expenses (in CHF million)		
Cost of premises	(28.4)	(19.4)
Maintenance and upkeep of tangible assets	(54.1)	(49.3)
Cost of energy and waste disposal	(25.1)	(26.4)
Property insurance and dues	(7.1)	(8.1)
Administration and IT expenses	(37.5)	(38.0)
Advertising expenses	(18.0)	(17.5)
Other operating expenses	(36.4)	(18.2)
Total	**(206.5)**	**(176.8)**

Other operating expenses include in particular the cost of monitoring and maintaining operational security, capital taxes and expenses for the creation and release of provisions.

10 Research and development costs (in CHF million)	2008	2007
Total	**(123.4)**	**(84.6)**

The significant increase in research and development costs compared with the previous year stems primarily from aerospace activities, in particular the acquisition of Saab AB's space activities, as well as from command information systems activities.

The treatment of development costs is described under point 2.5 of the accounting principles. Any own work or work transferred to or required to be performed by third parties that was booked as expenditure during the year under review is grouped together and disclosed under research and development costs.

11 Financial income (in CHF million)	2008	2007
Interest income	2.1	2.2
Realized capital gains	-	0.8
Realized gains on securities	-	-
Total	**2.1**	**3.0**

Financial expenses (in CHF million)	2008	2007
Interest expenses	(4.2)	(2.2)
Realized capital losses	-	(0.0)
Realized losses on securities	0.0	-
Impairments on financial assets	-	(0.0)
Total	**(4.2)**	**(2.2)**

12 Income taxes (in CHF million)	2008	2007
Income taxes		
Income taxes for current year	(13.0)	(7.6)
Deferred taxes		
(Accrual) and cancellation of transitory differences	5.1	0.1
Total	**(7.9)**	**(7.6)**

At CHF 7.9 million, posted income tax was slightly higher than in the previous year (CHF 7.6 million), on lower pre-tax profit. The main reasons for the low tax rate in both years are the use of unrecognized tax loss carry-forwards from previous years and the capitalization of loss carry-forwards.

Deferred tax credits are only recorded for loss carry-forwards to the extent that they can probably be offset against future taxable profits. Individual countries (cantons in the case of Switzerland) operate different tax laws and different rates of tax. For this reason, the weighted average of the expected tax rate may vary between periods, which is attributable to the profits (or losses) generated in each individual country. The expected weighted tax rate, which is calculated by multiplying the local basic rate of tax by the local taxable profit (or loss), differed from the actual tax rate as follows:

(in CHF million)	**2008**	**2007**
Pretax profit (loss)	58.6	82.0
Expected weighted tax rate in %	22.2%	19.1%
Expected tax expenses	**(13.0)**	**(15.7)**
Emergence arising from time differences	(0.7)	-
Non-capitalized tax losses from previous years	1.1	3.0
Non-capitalized tax losses from the current year	1.4	3.9
Expenses not recognized under tax regulations	0.1	-
Tax-free income	2.5	-
Income taxed at reduced rates	(0.0)	1.9
Increase (reduction) in tax rate	0.0	-
Change in applicable tax rates	0.0	-
Tax credits/debits from prior periods	0.7	(0.7)
Goodwill Impairment	-	-
Actual income tax expenses	**(7.9)**	**(7.6)**
Tax loss carry-forwards by date of expiry		
2008	-	-
2009	1.7	1.2
2010	7.2	10.3
2011	5.0	9.3
2012	51.2	60.5
2013	1.0	2.5
2014	0.3	5.7
after 2014	7.7	-
Total	**74.0**	**89.5**
Possible tax effect of loss carry-forwards	15.5	18.8
of which capitalized as deferred tax assets	6.6	4.1
of which non-capitalized	8.9	14.7

In addition, there are temporary differences in goodwill in the amount of CHF 15.6 million (previous year CHF 19.4 million). The tax claim on these temporary differences in the amount of CHF 4.8 million (previous year CHF 6.0 million) was not capitalized.

13 Deferred tax expenses (in CHF million)	**2008**	**2007**
Emergence/dissolution arising from time differences of the current period	4.7	(2.4)
Change due to an adjustment of the tax rate	(0.0)	(0.3)
Use of tax loss carry-forwards	2.3	4.2
Reversal of capitalized, deferred taxes	(2.0)	(1.4)
Translation differences	(0.0)	-
Total	**5.1**	**0.1**

Deferred taxes on consolidated, affiliated companies and minority interests are not taken into account.

14 Liquid assets (in CHF million)		
Cash	1.4	0.7
Sight balances with banks	63.2	32.9
Money-market investments	0.7	22.4
Total	**65.3**	**56.0**

Currencies of liquid assets (in CHF million)		
CHF	23.9	10.3
EUR	16.7	31.0
USD	12.0	8.2
GBP	1.4	3.0
SEK	11.2	3.4
Total liquid assets	**65.3**	**56.0**

15 Short-term financial assets (in CHF million)		
Short-term third-party assets	7.4	7.4
Total	**7.4**	**7.4**

Short-term financial assets comprise the value of open foreign currency hedging transactions (cf. financial instruments, Note 37, page 68).

Currencies of short-term financial assets (in CHF million)		
CHF	0.2	3.2
EUR	0.3	0.2
USD	5.5	2.8
GBP	1.4	1.2
SEK	-	-
Total short-term financial assets	**7.4**	**7.4**

16 Accounts receivable (in CHF million)	**2008**	**2007**
Trade accounts receivable	329.4	275.4
Accounts receivable from affiliates	0.0	0.0
Advance payments to suppliers	69.1	68.4
Advance payments to affiliates	-	-
Value adjustments[1]	(10.1)	(7.6)
Total trade accounts receivable	**388.4**	**336.2**
Short-term accounts receivable from shareholders	-	-
Short-term accounts receivable from government agencies	12.6	8.7
Other short-term accounts receivable	22.4	8.4
Total accounts receivable	**423.4**	**353.2**

[1] Change included in other operating expenses

Maturity structure of accounts receivable (in CHF million)	**2008**	**2007**
Not overdue	320.9	273.6
Overdue 1-30 days	60.5	38.2
Overdue 31-60 days	16.1	11.6
Overdue 61-90 days	3.5	8.5
Overdue 91-180 days	8.9	11.4
Overdue more than 180 days	13.4	10.0
Total	**423.4**	**353.2**

Currencies of receivables and prepayments (in CHF million)	**2008**	**2007**
CHF	181.4	163.3
EUR	182.9	139.1
USD	50.8	43.2
GBP	1.9	6.5
SEK	6.5	1.1
Total	**423.4**	**353.2**

Charges for bad or doubtful debts contain individual value adjustments in the amount of CHF 10.1 million (previous year: CHF 7.6 million). Effective losses on receivables in each of the past two years were less than 0.2% of net sales.

Charges for bad or doubtful debts (in CHF million)	**2008**	**2007**
Balance sheet value as at 1 January	(7.6)	(5.6)
Initial consolidation	(0.2)	(2.4)
Increase in charges	(3.9)	(1.9)
Call on charges	1.3	1.7
Release of charges	0.7	0.6
Eliminations	-	-
Currency differences	(0.4)	(0.2)
Balance sheet value as at 31 December	**(10.1)**	**(7.6)**
Charges for bad or doubtful debts	(10.1)	(7.6)
Interest on bad or doubtful debts	-	-

Value impairments for delinquent trade receivables are held in a value adjustment account. No value adjustments are necessary for financial instruments in categories other than loans and receivables. Receivables judged to be non-recoverable are written off as losses.

17 Inventories and work in progress (in CHF million)		
Raw materials and supplies	176.4	174.9
Work in progress at cost of production	72.6	62.4
Work in progress (percentage of completion)[1]	97.3	93.0
Semi-finished products	88.7	84.3
Finished products	61.0	57.5
Value adjustments	(101.5)	(99.1)
Total	**394.5**	**372.9**

The book value of all inventories stated at the agreed fair value less disposal costs comes to CHF 122.5 million. In the year under review, a total of CHF 360.9 million was booked to material costs (previous year CHF 295.0 million). The value adjustment for inventories treated as expenses came to CHF 9.7 million. Upward revaluations of the net realizable value of inventories from value adjustments carried out in previous periods came to CHF 0.3 million in the year under review.

[1] The key figures for work in progress, which is valued using the percentage of completion method, are as follows:

Total sales from project orders in the year under review	331.1	236.5
Accrued costs of current projects as at balance sheet date	516.4	426.3
+ Profit contribution from current projects as at the balance sheet date	44.3	13.2
= Accrued costs incurred including profit contribution	560.8	439.5
Share of partial invoicing	(426.9)	(358.8)
Total deferral from POC method[2]	133.9	80.8
Downpayments received from customers on POC orders (inluded in advance payments from customers)	172.8	148.6

[2] Included in inventories and work in progress and prepaid expenses.

18 **Tangible assets** (in CHF million)	Mach./tech. equipment	Leased assets[1]	Other tangible assets[2]	Land	Buildings	Assets under const.	**Tangible assets**
Cost of acquisition							
As at 1 January 2007	**412.5**	**26.3**	**135.2**	**49.3**	**531.0**	**24.0**	**1,178.3**
Initial consolidation	2.6	-	3.9	-	-	-	**6.5**
Eliminations from scope of consolidation	(16.7)	-	(8.5)	-	-	0.0	**(25.2)**
Additions	12.0	2.6	10.5	0.8	14.2	23.7	**63.8**
Eliminations	(14.0)	(0.5)	(3.5)	(0.0)	(0.8)	(0.0)	**(18.8)**
Upward revaluation	-	-	-	-	-	-	**-**
Reclassifications	36.0	(4.4)	5.2	-	0.4	(37.2)	**-**
Conversion differences	1.0	(0.0)	0.4	0.0	0.2	0.2	**1.9**
As at 31 December 2007	**433.5**	**23.9**	**143.2**	**50.1**	**545.1**	**10.6**	**1,206.4**
Cumulative value adjustment							
As at 1 January 2007	**294.0**	**15.4**	**107.9**	**0.2**	**355.8**	**(0.0)**	**773.3**
Initial consolidation	2.0	-	2.9	-	-	-	**4.9**
Eliminations from scope of consolidation	(16.7)	-	(8.5)	-	-	-	**(25.2)**
Scheduled depreciation	20.4	2.0	10.0	0.0	14.2	-	**46.6**
Impairment	0.5	-	-	-	-	-	**0.5**
Eliminations	(12.7)	(0.5)	(3.0)	-	(0.7)	-	**(16.9)**
Residual-value impairment	-	-	-	-	-	-	**-**
Reclassifications	3.0	(4.1)	1.1	-	-	-	**-**
Conversion differences	0.3	(0.0)	0.2	(0.0)	(0.0)	-	**0.5**
As at 31 December 2007	**290.8**	**12.7**	**110.6**	**0.2**	**369.2**	**(0.0)**	**783.6**
Cost of acquisition							
As at 1 January 2008	**433.5**	**23.9**	**143.2**	**50.1**	**545.1**	**10.6**	**1,206.4**
Initial consolidation	19.3	-	18.1	-	3.8	-	**41.3**
Eliminations from scope of consolidation	-	-	-	-	(0.0)	-	**(0.0)**
Additions	28.4	-	14.2	0.3	12.2	8.6	**63.6**
Eliminations	(11.0)	(1.4)	(4.2)	(0.1)	(14.8)	-	**(31.5)**
Upward revaluation	-	-	0.3	-	-	-	**0.3**
Reclassifications	8.1	(3.4)	1.7	-	0.1	(6.4)	**-**
Conversion differences	(7.6)	(0.0)	(3.6)	(0.2)	(1.7)	(0.7)	**(13.8)**
As at 31 December 2008	**470.8**	**19.1**	**169.6**	**50.2**	**544.5**	**12.1**	**1,266.3**
Cumulative value adjustment							
As at 1 January 2008	**290.8**	**12.7**	**110.6**	**0.2**	**369.2**	**-**	**783.6**
Initial consolidation	15.3	-	16.0	-	2.9	-	**34.2**
Eliminations from scope of consolidation	-	-	-	-	-	-	**-**
Scheduled depreciation	24.5	1.8	11.7	0.0	14.8	-	**52.9**
Impairment	-	-	-	-	-	-	**-**
Eliminations	(10.1)	(1.4)	(3.9)	-	(14.6)	-	**(30.0)**
Residual-value impairment	-	-	-	-	-	-	**-**
Reclassifications	3.7	(2.7)	0.1	-	(1.2)	-	**-**
Conversion differences	(3.7)	(0.0)	(2.9)	(0.0)	(0.7)	-	**(7.3)**
As at 31 December 2008	**320.5**	**10.5**	**131.7**	**0.1**	**370.4**	**-**	**833.3**
Balance sheet value							
as at 1 January 2008	**142.7**	**11.2**	**32.5**	**50.0**	**175.8**	**10.6**	**422.8**
as at 31 December 2008	**150.2**	**8.7**	**37.9**	**50.0**	**174.1**	**12.1**	**433.0**

[1] Leased assets refers solely to machinery and technical equipment
[2] Furniture and fixtures, IT equipment, vehicles

The insurance value of the fixed assets is CHF 2,537.7 million (previous year CHF 2,490.9 million).

No unscheduled impairments are included under tangible assets in 2008 (previous year CHF 0.5 million).

Intangible fixed assets include investment property with the following acquisition and balance sheet values:

	2008	2007
Value at acquisition		
As at 1 January	**175.1**	**171.7**
Initial consolidation	-	-
Eliminations from scope of consolidation	-	-
Additions	2.7	3.4
Eliminations	-	(0.0)
Upward revaluation	-	-
Reclassifications	-	(0.0)
Conversion differences	-	-
As at 31 December	**177.8**	**175.1**
Cumulative value adjustments		
As at 1 January	**77.9**	**73.7**
Initial consolidation	-	-
Eliminations from scope of consolidation	-	-
Scheduled depreciation	4.3	4.2
Impairment	-	-
Eliminations	-	-
Residual-value impairment	-	-
Reclassifications	-	-
Conversion differences	-	-
As at 31 December	**82.3**	**77.9**
Balance sheet value		
as at 1 January	**97.2**	**98.0**
as at 31 December	**95.5**	**97.2**

The investment property has an estimated market value of CHF 175 – 195 million for 2007/2008. No market valuation by an expert was carried out in the year under review. The rental and other earnings from the investment property amounts to CHF 17.0 million (CHF 16.7 million in the previous year) and the total real estate expenses to CHF 15.2 million (CHF 13.8 million in the previous year).

The sites in Berne, Brunnen and Aigle owned by RUAG Real Estate AG count as investment property. Agreed capital commitments as at 31 December 2008 amounted to CHF 0.3 million (CHF 0.3 million in the previous year). There were no agreed commitments in respect of maintenance work as at 31 December 2008 (previous year CHF 0.0 million).

19 Intangible assets/goodwill (in CHF million)	Patents and know-how	Brands and models	Licences and rights	**Intang. assets**	**Goodwill**
Cost of acquisition					
As at 1 January 2007	6.8	11.8	7.5	**26.1**	**37.3**
Initial consolidation	4.8	0.3	1.2	**6.3**	-
Eliminations from scope of consolidation	-	-	-	**-**	-
Additions	0.0	-	1.8	**1.9**	-
Eliminations	(0.4)	-	(0.6)	**(1.0)**	-
Reclassifications	-	-	1.7	**1.7**	-
Conversion differences	0.1	0.4	0.2	**0.6**	0.3
As at 31 December 2007	11.3	12.5	11.8	**35.6**	**37.6**
Cumulative value adjustment					
As at 1 January 2007	3.5	1.7	5.5	**10.7**	**-**
Initial consolidation	-	-	0.2	**0.2**	-
Eliminations from scope of consolidation	-	-	-	**-**	-
Scheduled amortization	2.7	2.0	1.8	**6.5**	-
Impairment	-	-	-	**-**	-
Eliminations	(0.4)	-	(0.6)	**(1.0)**	-
Reclassifications	-	-	0.8	**0.8**	-
Conversion differences	0.0	0.1	0.1	**0.2**	-
As at 31 December 2007	5.8	3.7	7.9	**17.4**	**-**
Cost of acquisition					
As at 1 January 2008	11.3	12.5	11.8	**35.6**	**37.6**
Initial consolidation	-	17.0	9.4	**26.4**	10.3
Eliminations from scope of consolidation	-	-	-	**-**	-
Additions	-	-	1.2	**1.2**	-
Eliminations	(3.5)	-	(0.0)	**(3.5)**	(0.0)
Upward revaluation	-	-	-	**-**	-
Reclassifications	-	-	-	**-**	-
Conversion differences	(0.3)	(1.2)	(0.9)	**(2.4)**	(4.0)
As at 31 December 2008	7.5	28.3	21.5	**57.3**	**43.9**
Cumulative value adjustment					
As at 1 January 2008	5.8	3.7	7.9	**17.4**	**-**
Initial consolidation	-	-	-	**-**	-
Eliminations from scope of consolidation	-	-	-	**-**	-
Scheduled amortization	2.0	3.5	2.1	**7.7**	-
Impairment	-	-	-	**-**	-
Eliminations	(3.5)	-	(0.0)	**(3.5)**	-
Residual-value impairment	-	-	-	**-**	-
Reclassifications	-	-	-	**-**	-
Conversion differences	(0.1)	(0.8)	(0.8)	**(1.6)**	-
As at 31 December 2008	4.3	6.5	9.2	**20.0**	**0.0**
Balance sheet value					
as at 1 January 2008	5.5	8.8	3.9	**18.2**	**37.6**
as at 31 December 2008	3.3	21.8	12.3	**37.4**	**43.9**

The recoverable amount of cash generating units is determined on the basis of their value in use. Value in use is derived from the value of future cash flows from a cash generating unit corresponding to the relevant Group division. The value of future cash flows is based on management-approved medium-term planning covering a four-year period. Cash flows after this four-year period are extrapolated without the incorporation of a growth rate. Cash flows are discounted at an average rate of 9% (previous year 9%).

Goodwill is a result of acquisitions in the Aerospace, Electronics und Ammotec units and breaks down as follows:

(in CHF million)	**2008**	**2007**
Aerospace	24.4	16.8
Electronics	3.6	3.5
Ammotec	15.9	17.3
As at 31 December	**43.9**	**37.6**

Depreciation, amortization and impairment of intangible assets are disclosed in the income statement under Depreciation and amortization; impairment of goodwill is disclosed under Goodwill impairment.

20 Subsidiaries and affiliates (in CHF million)		
As at 1 January	**42.8**	**40.6**
Acquisitions	0.5	-
Pro-rata results after taxes and minority interests	3.6	3.9
Dividends	(3.3)	(1.8)
Reclassifications	-	-
Other equity movements	-	-
Conversion differences	(2.8)	0.1
As at 31 December	**40.8**	**42.8**

The pro rata financial information from affiliated companies is as follows:

Aggregate financial information from affiliated companies (in CHF million)		
Total assets	73.9	79.2
Total liabilities	32.5	36.3
Net assets	**41.4**	**42.8**
Sales	70.3	79.0
Profit	3.6	3.9

There are no contingent liabilities relating to affiliated companies.

21 Long-term financial assets (in CHF million)	2008	2007
Money-market investments	0.6	0.1
Lending	2.5	3.5
Lending to affiliates	-	-
Minority participations (fair value)	-	-
Value adjustments	(0.0)	(0.0)
Total	**3.1**	**3.6**

Currencies of long-term financial assets (in CHF million)	2008	2007
CHF	0.5	0.6
EUR	1.6	1.2
USD	1.1	1.8
GBP	-	-
SEK	0.0	-
Total long-term financial assets	**3.1**	**3.6**

The fair value of the long-term financial liabilities corresponds to the carrying amount.

22 Short-term financial liabilities (in CHF million)	2008	2007
Due to banks	71.4	80.1
Financial liabilities to third parties	27.7	-
Financial liabilities in relation to affiliates	-	-
Financial liabilities in relation to staff welfare institutions	-	-
Leasing liabilities	2.5	3.2
Short-term component of long-term financial liabilities	-	-
Total	**101.6**	**83.2**

Currencies of short-term financial liabilities (in CHF million)	2008	2007
CHF	96.6	83.2
EUR	0.1	0.1
USD	0.0	-
GBP	-	-
SEK	4.9	-
Total short-term financial liabilities	**101.6**	**83.2**

The fair value of the short-term financial liabilities corresponds to the carrying amount.

	2008	2007
23 Other short-term liabilities (in CHF million)		
in relation to third parties	12.9	29.0
in relation to affiliates	-	-
in relation to government agencies	15.7	16.0
in relation to shareholders	-	0.1
in relation to pension institutions	2.1	1.5
Total	**30.6**	**46.7**

	2008	2007
24 Accounts payable (in CHF million)		
Trade accounts payable	89.3	92.7
Accounts payable to affiliates	0.0	0.0
Advance payments from customers	232.1	194.7
Advance payments from affiliates	-	-
Total	**321.4**	**287.4**

	2008	2007
Maturity structure of accounts payable (in CHF million)		
Not due	279.6	226.3
Overdue 1-30 days	33.6	54.9
Overdue 31-60 days	7.0	5.0
Overdue 61-90 days	0.7	1.2
Overdue 91-180 days	0.4	0.0
Overdue more than 180 days	0.1	0.1
Total accounts payable	**321.4**	**287.4**

	2008	2007
Currencies of accounts payable (in CHF million)		
CHF	175.0	162.2
EUR	106.0	99.1
USD	23.7	21.9
GBP	0.3	2.4
SEK	16.4	1.7
Total accounts payable	**321.4**	**287.4**

	2008	2007
25 Long-term financial liabilities (in CHF million)		
Due to banks	60.0	-
Due to leasing companies	2.8	5.9
Loans secured by property	-	-
Bond issues	-	-
Liabilities in relation to affiliates	-	-
Total	**62.8**	**5.9**
Term to maturity of long-term financial liabilities		
up to 2 years	10.6	3.7
up to 3 years	13.0	1.6
up to 4 years	12.0	0.6
over 4 years	27.2	0.1
Total	**62.8**	**5.9**

The fair value of the long-term financial liabilities corresponds to the carrying amount. The average rate of interest on long-term financial liabilities in the year under review was 3.13% (previous year 3.58%).

Currencies of long-term financial liabilities (in CHF million)		
CHF	62.8	5.9
EUR	-	-
USD	-	-
GBP	-	-
SEK	-	-
Total long-term financial liabilities	**62.8**	**5.9**
26 Other long-term liabilities (in CHF million)		
in relation to third parties	3.3	1.3
in relation to affiliates	-	-
in relation to shareholders	-	-
in relation to pension institutions	0.4	0.4
Total	**3.7**	**1.7**

27 Short-term provisions

(in CHF million)

	Restruc-turing	Pension commit-ments[2]	Losses on orders	Guarantees	Holiday and overtime	Loyalty bonuses and anniversary benefits[3]	Others[4]	Total
Balance sheet value on 1 January 2008	**7.3**	**-**	**9.9**	**16.6**	**28.8**	**-**	**28.6**	**91.1**
Initial consolidation	0.3	0.5	1.6	-	5.0	-	0.6	**8.0**
Eliminations from scope of consolidation	-	-	-	-	-	-	-	**-**
New formations	6.7	0.0	6.9	4.1	9.6	-	14.7	**42.0**
Released	(1.2)	(0.1)	(1.7)	(6.1)	(2.4)	-	(2.8)	**(14.3)**
Utilized	(1.6)	(0.0)	(5.3)	(2.0)	(7.1)	-	(13.9)	**(29.9)**
Reclassifications	0.8	-	-	0.8	-	-	-	**1.6**
Conversion differences	(0.3)	0.0	(0.4)	(0.6)	(1.0)	-	(2.0)	**(4.3)**
Balance sheet value on 31 Dec. 2008	**12.0**	**0.4**	**11.0**	**12.8**	**32.8**	**-**	**25.2**	**94.2**

Long-term provisions

(in CHF million)

	Restruc-turing	Pension commit-ments[2]	Losses on orders	Guarantees	Holiday and overtime	Loyalty bonuses and anniversary benefits[3]	Others[4]	Total
Balance sheet value on 1 January 2008	**2.1**	**16.6**	**5.9**	**6.0**	**-**	**23.8**	**8.5**	**62.9**
Initial consolidation	-	21.2	-	-	-	0.5	3.8	**25.6**
Eliminations from scope of consolidation	-	-	-	-	-	-	-	**-**
New formations	0.1	1.5	7.7	5.0	-	2.1	0.6	**17.1**
Released	(0.2)	(0.0)	-	(0.3)	-	(0.1)	(0.7)	**(1.3)**
Utilized	-	-	(2.2)	(0.0)	-	(1.8)	(2.2)	**(6.3)**
Reclassifications	(0.8)	-	-	(0.8)	-	3.0	(3.0)	**(1.6)**
Conversion differences	-	(2.3)	(0.1)	-	-	(0.1)	(0.6)	**(3.0)**
Balance sheet value on 31 Dec. 2008	**1.2**	**37.0**	**11.3**	**9.9**	**-**	**27.5**	**6.4**	**93.3**

Total provisions

(in CHF million)

	Restruc-turing	Pension commit-ments[2]	Losses on orders	Guarantees	Holiday and overtime	Loyalty bonuses and anniversary benefits[3]	Others[4]	Total
Balance sheet value on 1 January 2008	**9.4**	**16.6**	**15.8**	**22.6**	**28.8**	**23.8**	**37.1**	**154.0**
Initial consolidation	0.3	21.7	1.6	-	5.0	0.5	4.4	**33.6**
Eliminations from scope of consolidation	-	-	-	-	-	-	-	**-**
New formations	6.9	1.6	14.6	9.1	9.6	2.1	15.3	**59.1**
Released	(1.4)	(0.2)	(1.7)	(6.4)	(2.4)	(0.1)	(3.5)	**(15.6)**
Utilized	(1.6)	(0.0)	(7.5)	(2.0)	(7.1)	(1.8)	(16.1)	**(36.2)**
Reclassifications	-	-	-	-	-	3.0	(3.0)	**-**
Conversion differences	(0.3)	(2.2)	(0.5)	(0.6)	(1.0)	(0.1)	(2.6)	**(7.3)**
Balance sheet value on 31 Dec. 2008	**13.2**	**37.4**	**22.3**	**22.6**	**32.8**	**27.5**	**31.6**	**187.6**

[1] The item "Provisions for restructuring" includes the restructuring liability arising from the restructuring of the Simulation & Training division. Falling demand for products in the "virtual" business area covered by Simulation & Training led to this segment having to be resized and restructured.

[2] Pension liabilities relate to liabilities from pension arrangements for foreign companies.

[3] The statement as at 31 December 2008 in respect of the provision of long-service awards for employees completing many years with the company, entered under the item "Provisions for loyalty bonuses and anniversary benefits", was based on the following assumptions: a discounting interest rate of 3.50% (previous year: 3.50%) and other actuarial assumptions on matters such as staff turnover, mortality rates, probability of becoming disabled and retirement age.

[4] The other provisions include mainly bonuses, incentive payments and performance premiums, follow-up costs for projects, deferred costs for partial retirement, and the framework agreements (ERA) in Germany concerning remuneration for services. The framework agreement concerning remuneration for services puts into effect a wage policy reform project for workers and white-collar employees in Germany. An ERA ensures that workers receive equal pay for equal work.

28 **Contingent liabilities towards third parties** (in CHF million)	**2008**	**2007**
Guarantees	104.4	87.2
Warranty commitments	16.9	26.7
Total	**121.3**	**113.9**

The guarantee liabilities are primarily performance and advance payment guarantees from operational business. Guarantee liabilities are exclusively in the form of bank guarantees.

29 **Additional contingent liabilities not stated on the balance sheet** (in CHF million)	2008	2007
Warranty contracts[1]	-	-
Long-term rental and leasing agreements[2]	169.2	136.3
Letters of intent	4.3	-
Agreed contractual penalties (fines and premiums)[3]	24.6	36.5
Legal proceedings[4]	1.8	3.6
Bill commitments	-	-
Investment commitments fixed assets[5]	14.6	9.1
Other contingent liabilities	-	-
Total	**214.6**	**185.6**

[1] Warranty contracts: As manufacturer, RUAG undertakes to rectify through repair or replacement products and services that it has delivered and in which manufacturer's faults appear within a defined period from the date of sale. Warranty obligations are treated in accordance with standard business practices and provisions for warranty obligations are recognized in the balance sheet under provisions for warranties. Provisions for warranties are recognized at the level of the best estimate of the cost of removing faults in products sold under warranty before the balance sheet date. The possibility of an outflow of resources over and above the recognized provisions for warranties is currently estimated to be improbable.

[2] Long-term rental and leasing agreements: The amount for the long-term rental and leasing agreements corresponds to the contractually agreed rental and lease payments to RUAG for the defined duration of the agreement.

[3] Agreed contractual penalties: By the nature of its operations RUAG has to deal with contractual penalties. The amounts reported reflect the contractual penalties of all agreements as at the balance sheet date. These commitments are regularly reassessed. As soon as it is probable that an outflow of resources will arise, provision is made for it. The possibility of an outflow of resources over and above the recognized provisions is currently estimated to be improbable.

[4] Legal proceedings: Open or potential legal proceedings are processed by the legal department and regularly monitored as to the probability of a future outflow of resources. As soon as it is probable that an outflow of resources will arise, provision is made for it. The possibility of an outflow of resources over and above the recognized provisions is currently estimated to be improbable.

[5] Investment commitments: Investment commitments include the value of investments to which RUAG has committed as at the balance sheet date.

	2008	2007
30 Assets under reservation of proprietary rights (in CHF million)		
Liquid assets	-	-
Accounts receivable and inventories	-	1.6
Plant and equipment	11.3	13.1
Land and buildings	6.0	6.0
Total	**17.3**	**20.8**

	2008	2007
31 Fire insurance values (in CHF million)		
Plant and equipment	1,345.2	1,322.1
Land and buildings	1,192.5	1,168.8
Total	**2,537.7**	**2,490.9**

32 Share capital

There are a total of 340,000 fully paid-up shares with a par value of CHF 1,000 each. There is no conditional share capital. All shares in RUAG Holding are owned by the Swiss Confederation.

33 Events after the balance sheet date

No significant events took place after the balance sheet date.

On 11 March 2009, the Board of Directors of RUAG Holding approved the consolidated financial statements for publication. The right to approve the consolidated financial statements rests with the annual shareholders' meeting.

	2008	2007
34 Transactions with closely connected individuals (in CHF million)		
Claims in relation to closely connected individuals	127.2	110.3
Liabilities towards closely connected individuals	0.9	0.9
Advance payments	180.8	170.9
Short-term liabilities towards pension institutions	2.0	1.5
Long-term liabilities towards pension institutions	0.4	0.4

In the year under review, CHF 127.2 million of claims in relation to related parties (previous year: CHF 110.3 million) and CHF 0.9 million of liabilities towards related parties (previous year: CHF 0.9 million) are attributable to the DDPS. Invoiced sales to the DDPS totalled CHF 570.7 million (previous year: CHF 469.8 million) as stated in Note 7 on page 51. There were no loans between the Group companies and members of the Board of Directors. Liabilities towards pension institutions totalled CHF 2.4 million (previous year: CHF 1.9 million) as stated in Note 23 and 26 on pages 62 and 63. In the year under review, raw materials in the amount of CHF 1.4 million were ordered from affiliated companies (previous year: CHF 1.1 million).

35 Remuneration for management members in key positions (in CHF million)

The overall emoluments (excluding employer contributions to statutory retirement and survivors' insurance) paid to the non-executive members of the Board of Directors for the 2008 financial year amounted to CHF 0.55 million (previous year: CHF 0.45 million). The overall emoluments (including all employer contributions to pension funds, excluding employer contributions to statutory retirement and survivors' insurance or similar state social insurance contributions) paid to the executive member of the Board of Directors and the other members of the Executive Board for the 2008 financial year amounted to CHF 4.27 million (previous year: CHF 4.38 million).

	Board of Directors (only non-executive members)		**Executive Board** (incl. executive member of the Board of Directors)		**Maximum overall compensation** (to executive member of the Board of Directors)	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Basic salary						
- Cash compensation[1]	0.47	0.45	2.64	2.56	0.44	0.43
- Employer contributions to pension funds	-	-	0.44	0.46	0.09	0.10
- Payments in kind	0.08	-	0.21	0.22	0.03	0.03
Performance-related component						
- Cash compensation[1]	-	-	0.98	1.14	0.21	0.27
- Shares	-	-	-	-		-
- Options	-	-	-	-		-
Total compensation	**0.55**	**0.45**	**4.27**	**4.38**	**0.78**	**0.83**
Ratio between performance-related component and cash compensation element	**-**	**-**	**37%**	**45%**	**49%**	**64%**

[1] Excluding employer contributions to statutory retirement and survivors' insurance or similar state social insurance contributions.

The highest total compensation (including all employer contributions to pension funds, excluding employer contributions to statutory retirement and survivors' insurance) of CHF 0.78 million was paid to the executive member of the Board of Directors (previous year: CHF 0.83 million).

36 Future minimum commitments from financial leasing (in CHF million)

	2008	**2007**
Within 1 year	2.6	4.1
In more than 1 year, but less than 5	2.8	5.5
In more than 5 years	-	-
Total	**5.4**	**9.6**

Future minimum commitments from operating leasing (in CHF million)

	2008	**2007**
Within 1 year	1.6	1.6
In more than 1 year, but less than 5	6.7	4.1
In more than 5 years	1.3	0.5
Total	**9.6**	**6.2**

These items relate exclusively to non-capitalized liabilities arising from operating leasing contracts. Future leasing commitments are not reported on the balance sheet.

37 Financial instruments (in CHF million)

	2008	2007
Financial assets in current assets		
Held for trading purposes		
- Liquid assets	65.3	56.0
Loans and receivables		
- Accounts receivable	423.4	353.2
- Short-term financial assets	0.1	3.3
- Other current assets	7.3	4.2
Available for sale		
- Minority interests	-	-
Total	**496.1**	**416.7**

Financial assets in fixed assets		
Held for trading purposes		
- Securities	-	-
Loans and receivables		
- Long-term financial assets	3.1	3.6
- Other fixed assets	-	-
Available for sale		
- Minority interests	40.8	42.8
Total	**43.9**	**46.4**

Short-term financial liabilities		
At amortized cost		
- Short-term financial liabilities	78.9	82.9
- Accounts payable	321.4	287.4
- Other short-term liabilities	-	-
At fair value in the income statement		
- Financial derivatives	22.7	0.3
Total	**423.1**	**370.7**

Long-term financial liabilities		
At amortized cost		
- Long-term financial liabilities	62.8	5.9
- Other long-term liabilities	3.7	1.7
At fair value in the income statement		
- Financial derivatives	-	-
Total	**66.5**	**7.6**

The nominal volume of all derivative instruments is arrived at by multiplying the contract volumes by the agreed contract prices. The individual nominal volumes partly comprise opposing buy and sell contracts. Therefore, RUAG is only exposed to a market price risk at the substantially lower volume at which the buy and sell volumes differ at the peak.

As at 31 December the hedged nominal volume of all derivative instruments amounted to:

(in CHF million)	2008	2007
Foreign currency hedging contracts	393.6	95.6
Interest rate hedging contracts	120.0	-

In 2008 the extension of the hedging horizon, together with the acquisition of the space activities, led to a considerably higher volume in terms of foreign exchange hedging contracts.

Interest income (in CHF million)		
Held for trading purposes		
- Liquid assets	0.7	1.0
Loans and receivables		
- Accounts receivable	0.1	0.3
- Financial assets	1.3	0.7
- Other current and fixed assets	-	0.1
Available for sale		
- Minority interests	-	-
At fair value in the income statement		
- Financial derivatives	-	0.1
Total interest income	**2.1**	**2.2**

Interest expenses (in CHF million)		
Held for trading purposes		
- Liquid assets	(0.1)	(0.1)
Loans and receivables		
- Receivables and prepayments	(0.1)	-
- Financial assets	(0.9)	-
At amortized cost		
- Accounts payable	-	(0.0)
- Financial liabilities	(3.0)	(1.9)
- Other short- and long-term financial liabilities	(0.1)	(0.2)
At fair value in the income statement		
- Financial derivatives	-	(0.0)
Total interest expenses	**(4.2)**	**(2.2)**

Currency risk

The important currencies for RUAG are the euro and the US dollar. An appreciation of 5% in the value of the Swiss franc against the euro and US dollar compared to its value on 31 December 2008 would have reduced RUAG's earnings by an estimated CHF 1.0 million (previous year: CHF 1.8 million); a depreciation by the same amount would have improved RUAG's earnings by CHF 1.0 million (previous year: CHF 1.8 million).

Commodity price risk

RUAG uses primarily non-ferrous metals (copper, zinc and lead) and aluminium, steel and titanium. An across-the-board increase of 5% in the prices of these commodities would have reduced RUAG's earnings by CHF 2.3 million (previous year: CHF 2.1 million), while the value of RUAG's inventories would have risen by at most CHF 0.9 million (previous year: CHF 0.7 million).

Interest rate risk

At present RUAG is not subject to any notable interest rate risk.

38 Staff pensions

The company operates a number of independently administered pension schemes in addition to contributing to the legally mandated social security funds. Most of these schemes are financed externally, in units that are legally separate from the company. Group companies without sufficient assets in their schemes to cover pension benefits set aside appropriate reserves in the balance sheet.

Major pension schemes that are classed as defined benefit schemes under IAS 19 are valued by an independent insurance expert every year. The most recent technical assessment in accordance with IAS 19 was carried out on 1 January 2008.

All pension schemes are based on local statutory provisions. CHF 30.1 million in total contributions was paid in the financial year (previous year: CHF 28.1 million).

The following figures give an overview of the status of the defined benefits pension schemes with and without fund coverage as at 31 December 2007 and 2008.

Net benefit expenses (in CHF million)	**2008**	**2007**
Benefit entitlements granted[1]	55.5	58.7
Interest on employee benefit commitments	48.3	43.4
Expected return on assets	(72.9)	(72.2)
Non-amortized (surplus)/deficit	-	-
Expected staff contributions	(18.3)	(17.7)
Increase (decrease) in non-recognized assets	16.8	15.4
Total	**29.4**	**27.7**

[1] Change in benefit commitments attributable to the period

Employer contributions for the 2009 financial year are expected to total more than CHF 30.2 million (previous year: CHF 31.2 million).

As at 31 December 2008 (as was also the case at the end of the previous year) actuarial losses not yet amortized exceeded the cash value of pension obligations by less than 10% and were thus within the corridor stipulated by IAS 19.

The following table shows the changes in projected benefit obligations and budgeted assets, as well as the pension schemes' assets as at 31 December 2007 and 2008 for the pension schemes in Switzerland:

Pension agreements (in CHF million)	**2008**	**2007**
Pension obligations at beginning of the year	1,393.1	1,459.2
Benefit entitlements granted	37.2	41.1
Interest on employee benefit commitments	48.3	43.4
Employee contributions	18.3	17.7
Actuarial loss (profit)	(24.9)	(144.5)
Changes to pension scheme	(25.1)	-
Changes to scope of consolidation	32.6	-
Pension payments	(41.7)	(23.8)
Cash value of benefit commitments at end of the year	**1,437.9**	**1,393.1**
Market value of benefit assets	1,326.6	1,533.0
(Deficient)/surplus cover	**(111.2)**	**139.9**

Development of pension assets (in CHF million)		
Fair value of assets at the beginning of the year	1,533.0	1,509.8
Actual return on assets	(211.1)	1.7
Employer contributions	27.8	27.7
Employee contributions	18.3	17.7
Net pension benefits paid	(41.4)	(23.8)
Fair value of assets at the end of the year	**1,326.6**	**1,533.0**

Breakdown of plan assets as at 31 December (in %)	Long-term target		
Cash and cash equivalents	0 – 6%	1.0%	4.0%
Debt capital instruments (bonds)	44 – 62%	61.1%	52.6%
Equity capital instruments (shares)	20 – 38%	22.8%	32.1%
Other investments	13 – 22%	15.1%	11.2%
Total pension assets		**100.0%**	**100.0%**

The following table presents the cover of the performance-related pension obligations and the influence of deviations between expected and actual yield of the pension assets for the past four years:

Multi-year overview (in CHF million)	**2008**	**2007**	**2006**	**2005**
Cash value of benefit commitments at year-end	1,437.9	1,393.1	1,459.2	1,417.0
Market value of benefit assets	1,326.6	1,533.0	1,509.8	1,430.9
(Deficient)/surplus cover	(111.2)	139.9	50.6	13.9
Difference between expected and actual yield of the plan assets	(284.0)	(70.5)	6.9	117.6
Profit (loss) on revaluation of the benefit commitments	29.3	31.2	13.2	22.6

Summary of financial situation at year-end (in CHF million)	**2008**	**2007**
(Deficient)/surplus cover according to IAS 19	(111.2)	139.9
Non-amortized loss (profit)	78.0	39.1
Non-amortized first-time difference	-	-
Unrecognized assets	0.6	(179.0)
Prepaid assets (liabilities)	**(32.6)**	**-**

Change in assets (liabilities) (in CHF million)		
Prepaid assets (liabilities) at beginning of year	0.0	0.0
Net benefit expenses	(27.9)	(27.7)
Changes in scope of consolidation	(32.6)	-
Employer contributions	27.9	27.7
Prepaid assets (liabilities)	**32.6**	**0.0**

Employee benefit obligations carried in the balance sheet are included under long-term pension commitments.

As at 31 December 2008 the employee benefit schemes owned no shares in RUAG Holding.

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

Actuarial assumptions (in %)		
Discount rate	3.50%	3.50%
Expected long-term return on assets	4.75%	4.75%
Annual salary increases	2.00%	2.00%
Annual pension adjustments	0.75%	0.75%

To estimate the anticipated return on assets, periodic expectations – based on long-term empirical figures from the financial markets – are made regarding the long-term return and risk characteristics (volatility) of the various investment categories. The interdependencies between investment categories have also been estimated and taken into account.

39 Exchange rates	ISO code	**2008** Annual average	**2008** End-of-year rate	**2007** Annual average	**2007** End-of-year rate
Euro	EUR	1.5870	1.4889	1.6428	1.6561
US dollar	USD	1.0825	1.0571	1.2002	1.1253
Pound Sterling	GBP	1.9985	1.5319	2.4008	2.2546
Swedish krona	SEK	16.4900	13.6400	17.7500	17.5500

Exchange rates are used to convert the assets and liabilities of subsidiary companies and affiliates stated in accordance with the equity method whose currency of reporting is not the Swiss franc. At consolidation, assets and liabilities are converted into Swiss francs at end-of-year rates. The income statement, cash flow statement and other fluctuating positions are converted at annual average exchange rates.

40 Consolidated and affiliated companies and minority interests

Company	Head office	Country	Share capital	(100%)	Shareholding	Method of consolidation
RUAG Holding[1]	**Berne**	**Switzerland**	**CHF**	**340,000,000**		**full**
Consolidated companies[2]						
RUAG Aerospace AG	Emmen	Switzerland	CHF	47,000,000	100.00%	voll
AC Aerotechnik AG	Buochs	Switzerland	CHF	250,000	100.00%	full
Mecanex USA Inc.	Berlin, CT	USA	USD	1,500	100.00%	full
RUAG Deutschland GmbH	Wessling	Germany	EUR	1,000,000	100.00%	full
RUAG Aerospace Services GmbH	Wessling	Germany	EUR	1,000,000	100.00%	full
RUAG Aerospace Structures GmbH	Wessling	Germany	EUR	25,000	100.00%	full
RUAG Sweden AB	Gothenburg	Sweden	SEK	100,000	100.00%	full
RUAG Aerospace Sweden AB	Gothenburg	Sweden	SEK	15,000,000	100.00%	full
RUAG Aerospace Austria GmbH	Vienna	Austria	EUR	1,500,000	100.00%	full
RUAG Aerospace USA Inc.	El Segundo, CA	USA	USD	1,000	100.00%	full
RUAG Electronics AG	Berne	Switzerland	CHF	4,100,000	100.00%	full
RUAG COEL GmbH	Wedel	Germany	EUR	260,000	100.00%	full
Sintro Electronics AG	Unterseen	Switzerland	CHF	2,000,000	100.00%	full
RUAG Land Systems AG	Thun	Switzerland	CHF	30,100,000	100.00%	full
RUAG Components AG	Thun	Switzerland	CHF	16,000,000	100.00%	full
brings! AG	Schattdorf	Switzerland	CHF	100,000	55.00%	full
RUAG Ammotec Deutschland GmbH	Fürth	Germany	EUR	100,000	100.00%	full
RUAG Ammotec GmbH	Fürth	Germany	EUR	25,000	100.00%	full
RUAG Ammotec AG	Thun	Switzerland	CHF	12,000,000	100.00%	full
RUAG Ammotec Austria GmbH	Wiener Neudorf	Austria	EUR	298,000	100.00%	full
RUAG Ammotec France	Paris	France	EUR	1,000,000	100.00%	full
RUAG Ammotec UK Ltd.	Liskeard	England	GBP	15,000	100.00%	full
RUAG Ammotec Benelux BVBA	Boechout	Belgium	EUR	25,000	100.00%	full
Norma Precision AB	Amotfors	Sweden	SEK	2,500,000	100.00%	full
RUAG Real Estate AG[3]	Berne	Switzerland	CHF	8,000,000	100.00%	full
RUAG Services AG	Berne	Switzerland	CHF	100,000	100.00%	full
Associated companies[4]						
CFS Engineering SA	Lausanne	Switzerland	CHF	150,000	40.00%	[5]
HTS GmbH	Coswig	Germany	EUR	26,000	24.62%	Equity
SwissRepair AG	Dietikon	Switzerland	CHF	100,000	28.00%	Equity
Nitrochemie AG Wimmis	Wimmis	Switzerland	CHF	1,000,000	49.00%	Equity
Nitrochemie Wimmis AG	Wimmis	Switzerland	CHF	25,000,000	45.00%	Equity
Nitrochemie Aschau GmbH	Aschau	Germany	EUR	7,700,000	45.00%	Equity
GEKE Schutztechnologie GmbH	Lichtenau	Germany	EUR	100,000	25.00%	Equity
Minority interests						
Saab Bofors Dynamics Switzerland Ltd	Thun	Switzerland	CHF	2,000,000	5.00%	[5]
Alpar, Flug- und Flugplatz-Gesellschaft AG	Berne	Switzerland	CHF	10,150,000	1.97%	[5]

[1] RUAG Holding, Stauffacherstrasse 65, P.O. Box, CH-3000 Berne 22
[2] Fully consolidated in accordance with purchase method
[3] Businesspark Bern AG renamed as RUAG Real Estate AG
[4] Shareholdings of between 20 and 50% are valued according to the equity method
[5] Valued at cost since fair value cannot be reliably determined

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AG
Bahnhofplatz 10
Postfach
3001 Bern
Phone +41 58 792 75 00
Fax +41 58 792 75 10
www.pwc.ch

Report of the statutory auditor
to the general meeting of
RUAG Holding
Bern

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of RUAG Holding, which comprise the income statement, balance sheet, cash flow statement, statement of changes in equity and notes (pages 30 to 73), for the year ended December 31, 2008.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2008 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.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Rolf Johner	René Jenni
Audit expert	Audit expert
Auditor in charge	

Berne, March 11, 2009

Income statement 1 January to 31 December

in CHF million	2008	2007
Income from subsidiaries and affiliates	40.2	34.9
Financial income	79.8	40.8
Income from securities	-	-
Income from the sale of subsidiaries and affiliates	-	-
Income from services	13.0	11.6
Total income	**133.0**	**87.3**
Expenses for subsidiaries and affiliates	-	-
Financial expenses	(54.9)	(29.8)
Losses from securities	-	-
Personnel expenses	(7.5)	(6.4)
Administrative expenses	(7.8)	(6.6)
Depreciation	(0.2)	(0.2)
Other expenses	-	-
Taxes	(2.2)	(0.8)
Total expenses	**(72.5)**	**(43.8)**
Profit for the year	**60.5**	**43.5**

Balance sheet before profit appropriation as at 31 December

in CHF million	2008	2007
Liquid assets	30.7	22.7
Accounts receivable:		
Third parties	0.1	0.0
Group companies	420.8	350.4
Prepayments and accrued income:		
Third parties	0.0	0.3
Group companies	-	-
Current assets	**451.5**	**373.4**
as % of balance sheet total	52.5%	48.7%
Investments in subsidiaries and affiliates	408.8	392.5
Financial assets:		
Third parties	-	-
Group companies	-	-
Plant and equipment	0.3	0.4
Fixed assets	**409.1**	**392.9**
as % of balance sheet total	47.5%	51.3%
ASSETS	**860.7**	**766.3**
Short-term liabilities:		
Third parties	132.7	81.3
Group member companies	0.2	5.2
Accruals and deferred income:		
Third parties	3.3	2.9
Group companies	0.0	-
Long-term financial liabilities:		
Third parties	-	-
Group companies	-	-
Provisions	2.2	0.2
Liabilities	**138.4**	**89.5**
as % of balance sheet total	16.1%	11.7%
Share capital	340.0	340.0
Statutory reserve	31.0	28.8
Voluntary reserve	-	-
Profit brought forward	290.8	264.5
Profit for the year	60.5	43.5
Shareholder’s equity	**722.2**	**676.8**
as % of balance sheet total	83.9%	88.3%
LIABILITIES	**860.7**	**766.3**

Contingent liabilities towards third parties (in CHF million)	**2008**	**2007**
Guarantees	98.5	87.2
Warranty commitments	5.7	5.5
Total	**104.1**	**92.7**

The guarantee liabilities are primarily performance and advance payment guarantees from operational business. The warranty commitments relate to bank guarantees which RUAG Holding has issued in its own name in favour of RUAG Aerospace Services GmbH.

Additional contingent liabilities not stated on the balance sheet (in CHF million)		
Warranty contracts	-	-
Long-term rental and leasing agreements	0.4	0.3
Letters of intent	-	-
Agreed contractual penalties (fines and premiums)	-	-
Legal proceedings	-	-
Bill commitments	-	-
Subordinated accounts receivable from Group companies	-	-
Capital commitments	-	-
Total	**0.4**	**0.3**

The valuation is conducted on the basis of the probability and extent of future unilateral payments and costs exceeding the stated provisions. Capital commitments include the value of orders submitted for investments.

Fire insurance values of fixed assets (in CHF million)		
Plant and equipment	0.5	0.5
Land and buildings	-	-
Total	**0.5**	**0.5**

Assets under reservation of proprietary rights (in CHF million)		
Liquid assets	-	-
Accounts receivable and inventories	-	-
Plant and equipment	-	-
Land and buildings	-	-
Total	**0.0**	**0.0**

Net presentation of foreign currency forward transactions (in CHF million)		
Contract volumes of outstanding foreign currency forward transactions	781.0	236.0
Positive replacement values	26.6	3.8
Negative replacement values	25.8	3.4
Net replacement values	0.8	0.4

In the financial statements under commercial law, the net principle was applied to foreign currency forward transactions for the first time. This principle is to be systematically applied in future years. In the year under review, CHF 0.8 million was taken to income from net exposure.

Liabilities towards staff welfare institutions (in CHF million)		
Short-term liabilities towards staff welfare institutions	-	-
Long-term liabilities towards staff welfare institutions	-	-
Total	**0.0**	**0.0**

[1] Included in Accruals and deferred income

Own shares of RUAG Holding

All shares of RUAG Holding are owned by the Swiss Confederation.

Events after the balance sheet date

No significant events took place after the balance sheet date.

Subsidiaries and affiliates (position as at 31 December 2008)[1]

Company	Head office	Country	Share capital	(100%)	Shareholding
RUAG Aerospace AG	Emmen	Switzerland	CHF	47,000,000	100.00%
RUAG Aerospace Deutschland GmbH	Wessling	Germany	EUR	25,000	100.00%
RUAG Electronics AG	Berne	Switzerland	CHF	4,100,000	100.00%
Sintro Electronics AG	Unterseen	Switzerland	CHF	2,000,000	100.00%
RUAG Land Systems AG	Thun	Switzerland	CHF	30,100,000	100.00%
RUAG Components AG	Thun	Switzerland	CHF	16,000,000	100.00%
RUAG Ammotec AG	Thun	Switzerland	CHF	12,000,000	100.00%
RUAG Real Estate AG[2]	Berne	Switzerland	CHF	8,000,000	100.00%
RUAG Services AG	Berne	Switzerland	CHF	100,000	100.00%
RUAG Sweden AB	Gothenburg	Sweden	SEK	100,000	100.00%
Nitrochemie AG Wimmis	Wimmis	Switzerland	CHF	1,000,000	49.00%
Nitrochemie Wimmis AG	Wimmis	Switzerland	CHF	25,000,000	45.00%
Nitrochemie Aschau GmbH	Aschau	Germany	EUR	7,700,000	45.00%
Saab Bofors Dynamics Switzerland Ltd	Thun	Switzerland	CHF	2,000,000	5.00%
Alpar, Flug- und Flugplatz-Gesellschaft AG	Berne	Switzerland	CHF	10,150,000	1.97%

[1] RUAG Sweden AB was formed as an acquisition company in the year under review in connection with the purchase of SAAB's space activities. In 2008 the minority holding in Veolia Umwelt Service Schweiz AG was sold to the majority shareholder. The large calibre ammunition business headquartered in Thun was sold to Saab Bofors Dynamics Switzerland Ltd (SBDS) with effect from 1 July 2007. RUAG holds a 5% interest in SBDS. Similarly, in the year under review, RUAG bought a 1.97% interest in Alpar, Flug- und Flugplatz-Gesellschaft AG, Berne.

[2] Businesspark Bern AG renamed as RUAG Real Estate AG.

Risk management and risk assessment

RUAG has a risk management system that differentiates between strategic and operational risks and focuses on the relevant topics. Risks are identified, assessed and monitored in the individual business units at all levels of the management structure. In order to minimize the individual risks, the appropriate measures are defined and implemented. The most significant risks aggregated from the divisions are monitored and controlled by the Executive Board. The risks identified are quantified (in terms of probability of occurrence and impact) and entered on a risk map. This risk map is discussed by the Board of Directors and the Audit Committee at least once a year. Ongoing risk monitoring, supervision and control is the responsibility of the management.

Proposed appropriation of balance sheet profit

in CHF million	2008	2007
Profit for the year	60.5	43.5
+ profit brought forward from previous year	290.8	264.5
Profit at the disposal of the general meeting	**351.2**	**308.0**
The Board of Directors proposes the following appropriation		
Dividend	10.0	15.0
Allocation to statutory reserve	3.1	2.2
Carried over to new account	**338.2**	**290.8**

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AG
Bahnhofplatz 10
Postfach
3001 Bern
Phone +41 58 792 75 00
Fax +41 58 792 75 10
www.pwc.ch

Report of the statutory auditor
to the general meeting of
RUAG Holding
Bern

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of RUAG Holding, which comprise the income statement, balance sheet, and notes (pages 76 to 79), for the year ended December 31, 2008.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2008 comply with Swiss law and the company's articles of incorporation.

PRICEWATERHOUSECOOPERS

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Rolf Johner	René Jenni
Audit expert	Audit expert
Auditor in charge	

Berne, March 11, 2009

Board of Directors

Name	Born	Position	Member since	Elected until
1 Konrad Peter	1946	Chairman, non-executive	2002	2010
2 Toni J. Wicki	1944	Chief Executive Officer	1999	2011
3 Dr Hanspeter Käser	1943	Vice-Chairman as of 5 May 2004, non-executive	1999	2011
4 Hans-Peter Schwald	1959	Non-executive member	2002	2010
5 Paul Häring	1957	Non-executive member	2004	2012
6 Dr Hans Lauri	1944	Non-executive member	2008	2012
7 Andreas Bölsterli	1953	Non-executive member	2008	2012

The CVs of the members of the Board of Directors and the Executive Board can be found on our website, www.ruag.com.

Executive Board

	Name	Born	Position		Member since
1	Toni J. Wicki	1944	Chief Executive Officer		1999
			ad interim, CEO RUAG Aerospace	from 01.08.2008	
	Dr Myriam Meyer	1962	Member, CEO RUAG Aerospace	until 31.07.2008	2005
2	Martin Stahel	1946	Member, Head Group Services		2000
3	Urs Kiener	1965	Member, Chief Financial Officer		2002
4	Cyril Kubelka	1963	Member, CEO RUAG Ammotec		2004
5	Dr Viktor Haefeli	1966	Member, CEO RUAG Components		2006
6	Urs Breitmeier	1963	Member, CEO RUAG Land Systems		2006
7	Andreas Herren	1960	Member, CEO RUAG Electronics	from 01.09.2008	2008
	Ueli Emch	1945	Member, CEO RUAG Electronics	until 31.08.2008	1999
8	Hans Bracher	1962	Member, Head Group Human Resources	from 01.05.2008	2008
	Eduard Knecht	1954	Member, Head Group Human Resources	until 31.01.2008	1999

Corporate management and control principles

The principles of management and control applied at the most senior level of the RUAG Group essentially follow the SIX Swiss Exchange Corporate Governance Directive. The Group has made certain adaptations and simplifications to reflect its shareholder structure. Unless otherwise specified, the information is applicable as at 31 December 2008.

Board of Directors

The duties of the Board of Directors of RUAG Holding are governed by the Swiss Code of Obligations, the Federal Council's owner's strategy, the Articles of Association and the Regulations Governing Organization and Operations.

The Board of Directors of RUAG Holding consists of seven individuals. The Chief Executive Officer is currently the sole executive member of the Board. The non-executive members have no material business relationship with the RUAG Group. The list on page 82 provides information about the name, age, position, date of appointment and remaining term in office of each member of the Board of Directors.

Conflicts of interest

The members of the Board of Directors of RUAG Holding do not sit on the board of any other listed company.

Election and term of office

The Board of Directors of RUAG Holding is elected by the annual shareholders' meeting. In accordance with the Articles of Association, the Board of Directors consists of at least three individuals. A majority of the members of the Board of Directors must be Swiss nationals domiciled in Switzerland. The members of the Board of Directors are elected for a four-year term and may be re-elected. The Board of Directors is responsible for defining the rotation of such elections.

Internal organization

The Board of Directors holds ultimate responsibility for the business strategy and overall management of the RUAG Group. It possesses supreme decision-making powers and determines the guidelines for strategy, organization, finance and accounting to be pursued by the RUAG Group. The Board of Directors has delegated the management of day-to-day business to the Chief Executive Officer (CEO), who is responsible for the overall management of the RUAG Group and for all matters not delegated to another corporate body under the terms of Swiss law, the Articles of Association, the owner's strategy of the Federal Council and the Regulations Governing Organization and Operation.

The main duties of the Board of Directors under the terms of the Swiss Code of Obligations and Articles of Association of RUAG Holding are:

- The strategic orientation and leadership of the RUAG Group in accordance with the owner's strategy of the Federal Council
- The structuring of the accounting system, financial controlling and financial planning
- The appointment and dismissal of members of the Executive Board and other senior executives
- Supreme oversight of business activities
- Production of the Annual Report, preparation of the annual shareholders' meeting and implementation of resolutions passed by the latter.

Decisions are taken by the Board of Directors as a whole. To assist the Board in its role, two committees have been formed: an Audit Committee and a Compensation Committee.

In the 2008 financial year the Board of Directors held regular meetings on six occasions and one extraordinary meeting. In addition, the committees met on seven occasions. The agenda for meetings of the Board of Directors is set by the Chairman in consultation with the Chief Executive Officer. Any member of the Board of Directors may request that an item be included on the agenda. The members are provided with documentation prior to each meeting to enable them to prepare for the items to be discussed. The Board of Directors maintains an exchange of views with the senior executives of the company and regularly visits one or more of RUAG's sites.

Committees

The Board of Directors has formed an Audit Committee and a Compensation Committee and elected chairmen. The committees meet regularly to draw up the minutes of meetings and recommendations for discussion at the regular meetings of the Board of Directors. The agenda of each committee's meetings is set by its chairman. The members of the committees are provided with documentation prior to the meetings to enable them to prepare for the items to be discussed.

Audit Committee

The Audit Committee is composed of three non-executive members of the Board of Directors: Hanspeter Käser (Chairman), Konrad Peter and Paul Häring. The members of the Audit Committee are experienced in financial and accounting matters. The Audit Committee meets regularly, although it may also be convened by the Chairman as and when business requires. The meetings are attended by the Chief Executive Officer, Head of Group Services, Chief Financial Officer, Internal Auditor and representatives of the external auditors.

The main duty of the Audit Committee is to ensure a comprehensive and efficient audit structure for RUAG Holding and the RUAG Group at the mandate of and in consultation with the full Board of Directors. The duties of the Audit Committee include:

- Assessing processes in the risk and monitoring environment (internal controlling system)

- Monitoring financial reporting

- Assessing the internal and external auditors

- Establishing and approving the main elements of the audit

- Acceptance of the audit report and any recommendations of the auditors prior to submission of the annual financial statements (individual and consolidated) to the full Board of Directors for approval

- Submitting a proposal to the full Board of Directors regarding which external firm should be proposed to the annual shareholders' meeting for election as auditor; assessing the service provided, remuneration and independence of the external auditors and examining the compatibility of audit activities with any consultancy mandates

The Audit Committee regulates and monitors internal auditing. It provides the full Board of Directors with a regular report on its activities and immediately informs the Board of any important matters.

Compensation Committee

The Compensation Committee is composed of three non-executive members of the Board of Directors: Hans Lauri (Chairman), Konrad Peter and Hans-Peter Schwald.

The Compensation Committee is responsible for personnel planning for the Executive Board and submitting nominations for vacant posts at this level to the full Board of Directors.

The Committee is also charged with proposing the compensation package for the members of the Board of Directors, determining remuneration policy for the members of the Executive Board and approving the emoluments of the members of the Executive Board. The Compensation Committee meets at least once a year.

Information and controlling tools in relation to the Executive Board

The Management Information System (MIS) of the RUAG Group is structured as follows: The subsidiaries' balance sheet, income statement and cash flow statement are compiled on a monthly, quarterly, semi-annual and annual basis. This information is consolidated for the various divisions and for the Group as a whole and compared to the budget. The budget, which represents the first year of a four-year plan for each subsidiary, is examined in the form of a feasibility forecast based on quarterly results.

The Chief Executive Officer provides the Board of Directors with a monthly written report on budget compliance.

Executive Board

Management organization

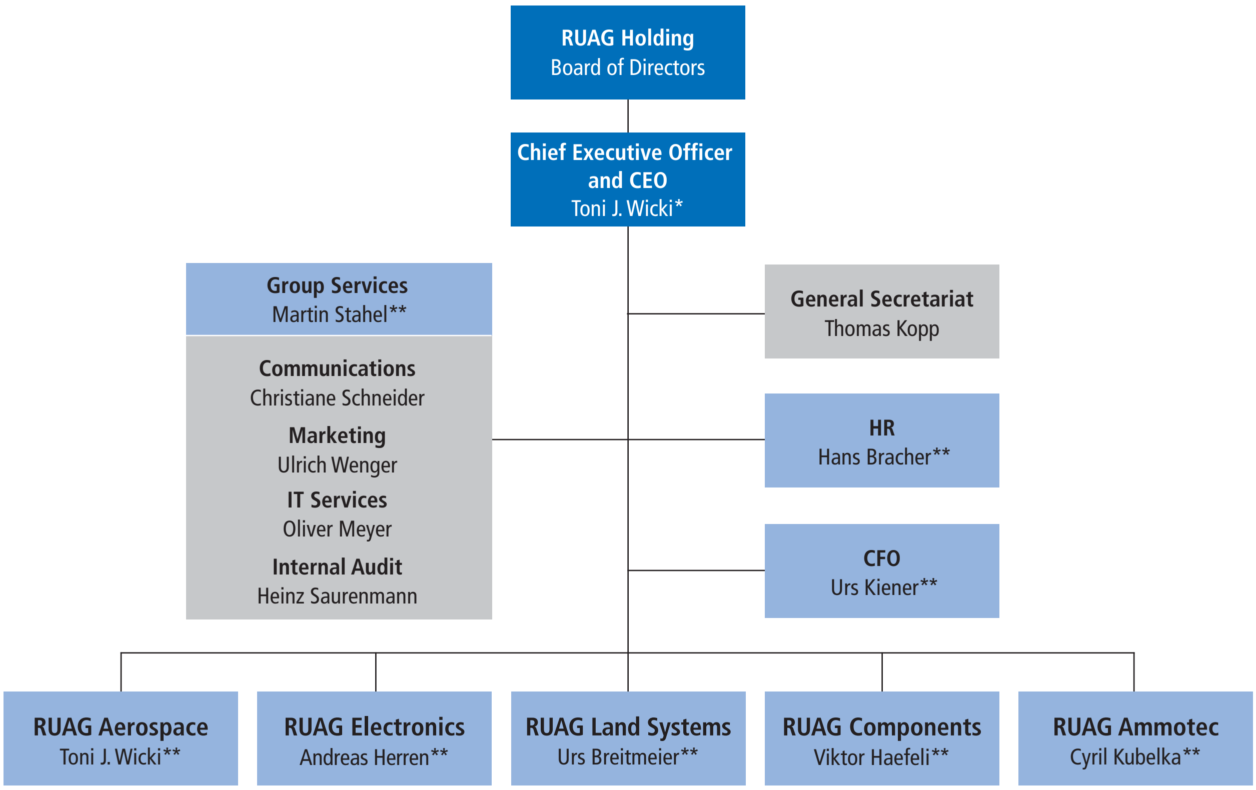
The Board of Directors has appointed an Executive Board under the chairmanship of the Chief Executive Officer. Its powers and duties are set out in the Regulations Governing Organization and Operations and in the description of the functions of the Chief Executive Officer. The Divisional Heads report to the Chief Executive Officer, who is responsible for overall management and cross-divisional cooperation.

The CEO, Divisional Heads, Head of Group Services, Chief Financial Officer and Head of Human Resources sit on the Executive Board (9 members).

Chief Executive Officer

The Chief Executive Officer manages the RUAG Group. He submits the RUAG Group's strategy, long- and medium-term objectives and management guidelines to the full Board of Directors for their approval.

Management structure



* Chairman of the Executive Board

** Member of the Executive Board

At the proposal of the Chief Executive Officer, the full Board of Directors decides the four-year corporate plan, annual budget, individual projects, individual and consolidated financial statements and human resources issues. At the request of the Chief Executive Officer, the Compensation Committee reviews the remuneration of the members of the Executive Board as well as insurance issues.

The Chief Executive Officer regularly provides reports to the Board of Directors on business performance, anticipated business matters and risks, and also changes at the more junior management level. The members of the Board of Directors may request and examine additional information. The Chief Executive Officer must inform the Chairman without delay of any significant unexpected developments.

The Chief Executive Officer regularly monitors whether the Articles of Association or the regulations and signatory powers issued by the Board of Directors require amendment and applies for such amendments to be made.

Members of the Executive Board

The list on page 83 provides information on the name, age, position and date of appointment of each member of the Executive Board.

Management contracts

No management contracts have been concluded by RUAG Holding and its subsidiaries with any third parties.

Compensation, profit-sharing and loans

Compensation and compensation policies

The members of the Board of Directors receive remuneration for their services as proposed each year by the Compensation Committee, submitted to the full Board of Directors for approval and ratified by the annual shareholders' meeting.

The Chief Executive Officer and Executive Board of the RUAG Group are compensated according to their performance. Their compensation consists of a fixed and a variable component. Employer contributions to pension funds are also taken into account. The variable component comprises between 0 and 60% of the fixed component and is based on the achievement of various measurable, individually agreed goals. Goals are defined annually and in advance. At the request of the Compensation Committee, the Board of Directors approves the remuneration of the members of the Executive Board.

There are no profit-sharing schemes that allow for the purchase of shares or stock options.

Compensation for incumbent company officers

The overall emoluments (excluding employer contributions to statutory retirement and survivors' insurance) paid to non-executive members of the Board of Directors in the 2008 financial year amounted to CHF 0.55 million (previous year: CHF 0.45 million).

The overall emoluments (including all employer contributions to pension funds, excluding employer contributions to statutory retirement and survivors' insurance or similar state social insurance contributions) paid to the executive member of the Board of Directors and the other members of the Executive Board for the 2008 financial year amounted to CHF 4.27 million (previous year: 4.38 million).

In the 2008 financial year, no severance compensation was paid to non-executive members of the Board of Directors or members of the Executive Board having terminated their function with the company.

Maximum overall compensation

The highest total compensation (including all employer contributions to pension funds, excluding employer contributions to statutory retirement and survivors' insurance) paid to the executive member of the Board of Directors for the 2008 financial year was CHF 0.78 million (previous year: CHF 0.83 million).

Additional information on the fixed and performance-based components of compensation are presented in the Financial Report, page 67, in note 35.

Compensation for former company officers

No compensation was paid during the financial year to non-executive members of the Board of Directors or members of the Executive Board having departed during the financial year, the prior-year period or previous to that after the departure of such members.

Additional fees and remuneration

During the 2008 financial year, the members of the Board of Directors and Executive Board and/or related parties received no appreciable fees or other remuneration for additional services provided to RUAG Holding or one of its subsidiaries.

Loans to members of governing bodies

The members of the Board of Directors or Executive Board and/or related parties are not, or were not, involved in transactions outside the normal business activities of RUAG Holding or one of its subsidiaries, or in any other transactions which are in some shape or form unusual yet material for RUAG Holding, during the current or preceding financial year.

As at 31 December 2008, RUAG Holding and its subsidiaries had not provided any securities, loans, advances or credits to the members of the Board of Directors or Executive Board and/or related parties.

Capital structure

The share capital of RUAG Holding amounts to CHF 340,000,000, comprising 340,000 fully paid-up registered shares, each with a par value of CHF 1,000. As at 31 December 2008, RUAG Holding did not have any conditional or authorized capital, nor had it issued participation or dividend-right certificates. The registered shares of RUAG Holding are not listed.

Changes to capital in the last three financial years

No changes to capital were decided.

Shares

Each registered share carries one vote at Annual General Meeting of RUAG Holding. The voting right may only be exercised if the shareholder is registered in the RUAG Holding share ledger as a shareholder with voting rights. The registered shares carry full dividend entitlement.

Share register

The Board of Directors keeps a register of shareholders.

Shareholder structure

Shareholders

The Swiss Confederation owns 100% of the share capital and all the voting rights in RUAG Holding. The Federal Department of Defence, Civil Protection and Sport represents shareholder interests of the Swiss Confederation pursuant to the Federal Act on State-Owned Armaments Companies, art. 3, section 2.

Owner's strategy of the Federal Council

The owner's strategy of the Federal Council establishes the transparent, binding framework which enables RUAG Holding and its subsidiaries to fulfil their duties on a commercial basis while taking account of broader interests. The owner's strategy is anchored in the Articles of Association of RUAG Holding.

In its owner's strategy the Federal Council lays down strategic objectives in the interest of Swiss national defence, expectations regarding cooperation and joint undertakings as well as human resource policy and financial objectives.

The Federal Council amended certain points of the owner's strategy in March 2007 and extended its validity to 2010.

Swiss Confederation representation on the Board of Directors

A representative of the Department of Defence, Civil Protection and Sport (DDPS; currently Andreas Bölsterli) serves on the RUAG Holding Board of Directors.

Cross-shareholdings

The RUAG Group has not entered into any cross-shareholdings with other companies, either in terms of capital or votes.

Codetermination rights of shareholders

Voting right restrictions and representation

Each registered share carries one vote at Annual General Meeting of RUAG Holding. A shareholder may be represented by another shareholder only by written proxy.

Statutory quorums

The following resolutions are subject to decision by statutory quorums in accordance with the Swiss Code of Obligations (art. 704):

- Changes to the purpose of the company
- Introduction of voting shares
- Restrictions on the transferability of registered shares
- Approved or conditional capital increase
- Capital increase out of equity in consideration of a contribution in kind or for the purpose of acquisition in kind and the granting of special benefits
- Restriction or abolition of subscription rights
- Relocation of the company's registered office
- Dissolution of the company without liquidation

Convening and setting the agenda of annual shareholders' meetings

The Annual General Meeting is convened and its agenda set in accordance with statutory provisions.

Change in control and defensive measures

Obligatory offer for sale

The Articles of Association contain no provisions concerning opting-out and opting-up in accordance with the Federal Act on Stock Exchanges and Securities Trading (SESTA art. 22).

Change in control clauses

Under the terms of the Federal Act on State-Owned Armaments Companies, any disposal of the capital or voting majority of the Swiss Confederation to third parties requires the approval of the Swiss parliament. Otherwise there are no specific clauses concerning a change in control of RUAG Holding.

Auditors

Duration of mandate and term of office for lead auditor

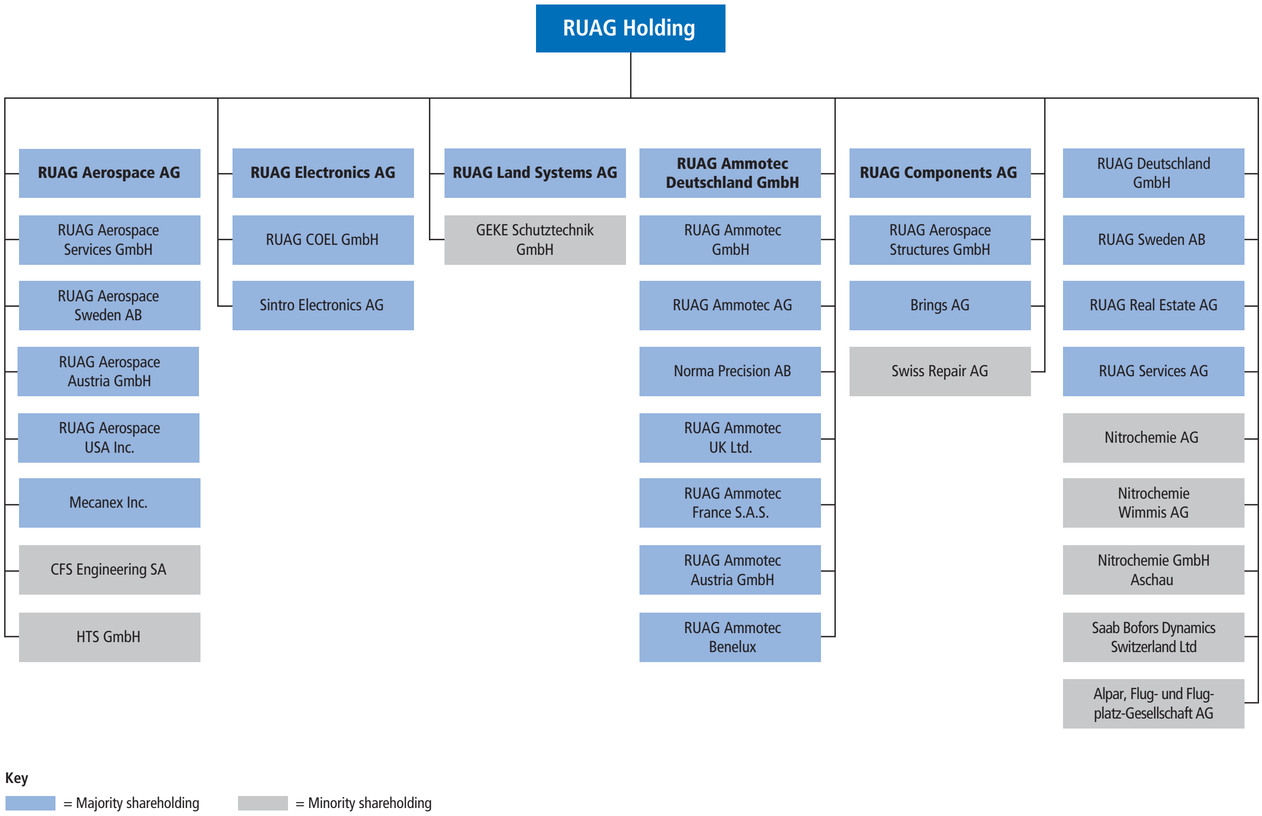
PricewaterhouseCoopers AG, Berne, have been auditors to RUAG since 1999. The lead auditor, Rolf Johner, has been responsible for the audit mandate since 2007.

Audit fees and additional expenses

In the 2008 financial year PricewaterhouseCoopers billed the RUAG Group CHF 0.9 million (previous year: CHF 0.8

Final inspection of a highly complex litho machine component for the semiconductor industry.

Subsidiaries and affiliates



Full details on subsidiaries and shareholdings can be found in the Finance Report on page 73.

million) for its services in connection with the auditing of the annual accounts of RUAG Holding and the Group companies as well as the auditing of the consolidated financial statements of the RUAG Group.

In addition PricewaterhouseCoopers billed the RUAG Group CHF 0.7 million (previous year: CHF 0.3 million) in respect of audit-related services, tax advisory as well as due diligence services.

Supervisory and controlling tools in relation to auditing

The Audit Committee of the Board of Directors evaluates the performance, fees and independence of the auditors on an annual basis and submits to the Board of Directors a proposal as to which external auditor should be recommended to the annual shareholders' meeting for appointment. The Audit Committee then monitors on an annual basis the scope of external auditing, the auditing plans and the relevant processes and in each case discusses the audit results with the external auditors.

Information policy

The RUAG Group pursues an open information policy in relation to the public and to the financial markets. The published figures extend beyond the statutory requirements in terms of transparency.

Forthcoming Events

ANNUAL RESULTS	31.12.2008
ANNUAL PRESS CONFERENCE	02.04.2009
ANNUAL SHAREHOLDERS' MEETING	06.05.2009

The Annual Report containing the annual financial statements for the year ended 31 December 2008 is sent to shareholders together with an invitation to the annual shareholders' meeting.

RUAG Holding Ltd.
Stauffacherstrasse 65
3000 Berne 22
Switzerland

info@ruag.com
www.ruag.com
+41 31 376 64 50