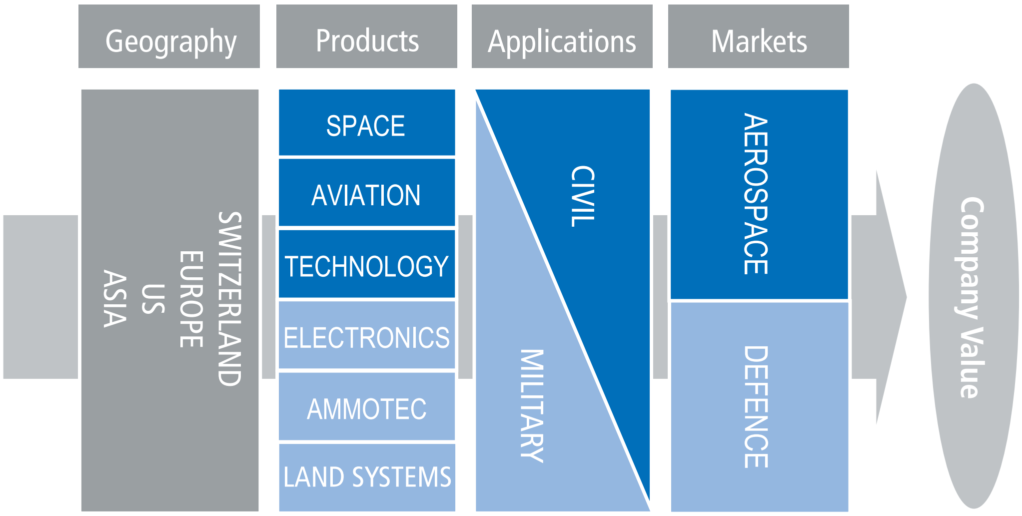
RUAG

Annual Report **2009**

Into the future with innovation.

RUAG is now focusing on two market segments: Aerospace and Defence. Its production facilities are located in the home market of Switzerland, as well as in Germany, Austria, Sweden, Hungary and the US.

Strategic focus



Aerospace

The Aerospace market segment comprises the Space, Aviation and Technology divisions. RUAG Space is Europe's largest independent space supplier. RUAG Aviation focuses on military and civil aviation. RUAG Technology provides components and services to the aviation, mechanical engineering, semiconductor and automotive industries.

Defence

The Defence market segment comprises the Electronics, Ammotec and Land Systems divisions. RUAG Electronics is IT partner to the Swiss Armed Forces and supplies training and command and control systems. RUAG Ammotec is a leading manufacturer of small calibre ammunition and pyrotechnic products. RUAG Land Systems specializes in heavy weapon systems, innovative protection technologies and command and control infrastructures.

Sales growth; decline in earnings

For RUAG, 2009 was all about focusing activities more closely on its core business in the Aerospace and Defence market segments. Net sales grew by 10.3% to CHF 1696 million. As a result of one-time charges of CHF 160 million in Aerostructures for impairment of fixed assets and inventories and for provisions, earnings before interest and taxes (EBIT) fell to CHF -113.3 million (previous year: CHF 57.1 million). This reflects the impact of the economic crisis on civil aircraft maintenance and in the automotive and semiconductor industry supply sector. Excluding one-time charges, EBIT came to CHF 45 million, 21% below the figure for the year-back period. Thanks to stringent financial management, at CHF 131 million, operating cash flow was well ahead of the previous year's figure (CHF 81 million).

Differing market developments

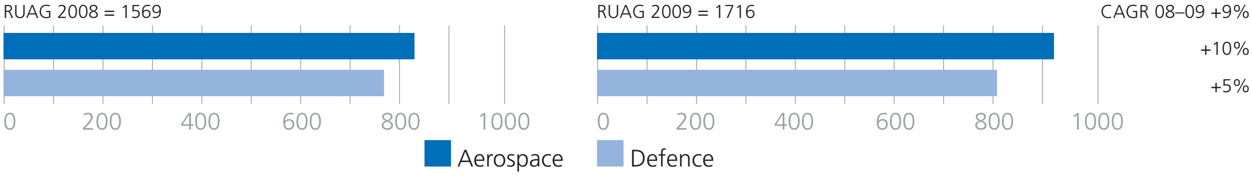
The Aerospace market segment (CHF 902.8 million, +9.7%) accounted for 49% of total invoiced sales; the Defence market segment (CHF 796.8 million, +4.6%) for 43%. The bulk of the increase came from the acquisition of Oerlikon Space AG completed at the end of June 2009. With 47% (46%) and 53% (54%) in civil and military applications respectively, sales remained well balanced. The Swiss Federal Department of Defence, Civil Protection and Sport (DDPS) remained the most important single customer, accounting for 36% of total sales (36%). Including one-time charges of CHF 160 million from the Technology division, EBIT for the Aerospace market segment amounted to CHF -189 million (+21 million). EBIT for the Defence market segment increased to CHF 65 million (CHF 39 million).

Overview of key figures

in CHF million	2009	2008	Change in %
Orders received	1872.1	1581.6	18.4%
Net sales	1695.5	1536.8	10.3%
Invoiced sales	1716.2	1569	9.4%
Cash flow	130.7	81	61.3%
Orders on hand	1783.1	1507.7	18.3%
EBIT	(113.3)	57.1	(298.3%)
Net profit	(106.8)	50.7	(310.5%)
Research and development expenses	148.9	123.4	20.7%
Employees as at 31/12	7534	6687	13.0%

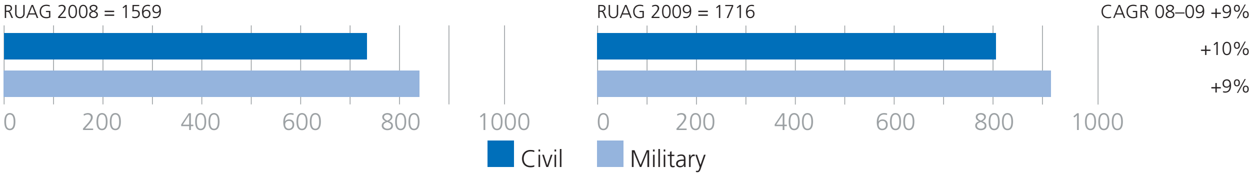
Invoiced sales

in CHF million



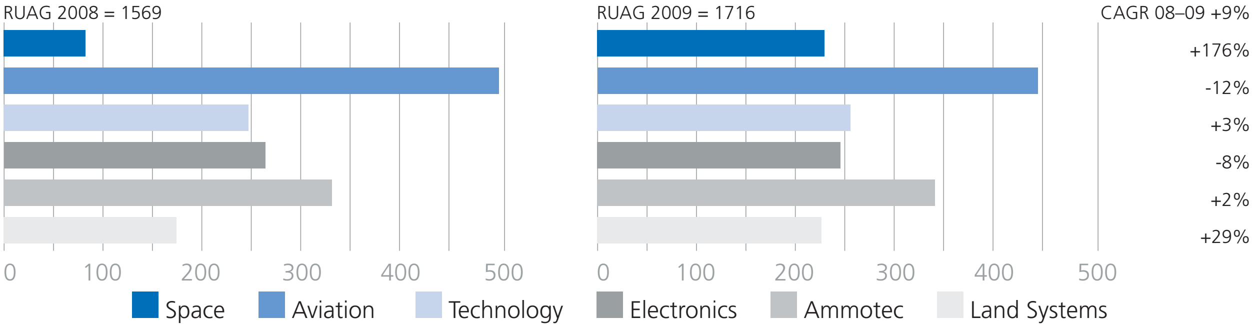
Sales by usage type

in CHF million



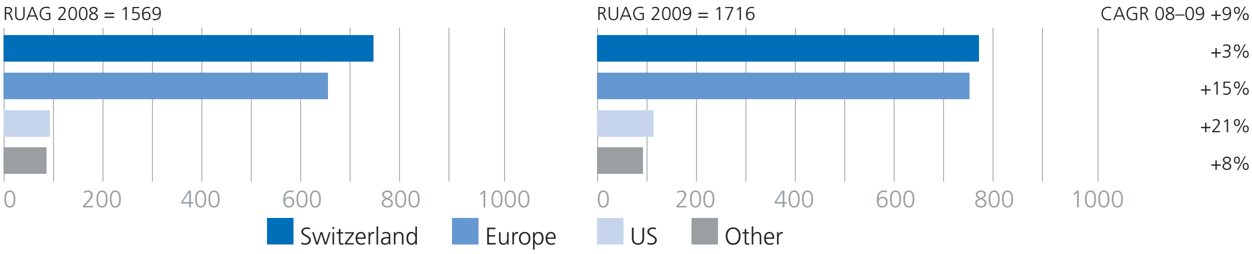
Sales by division

in CHF million



Sales by region

in CHF million



CAGR = cumulated average growth rate

Contents

The 2009 financial year at RUAG

A focus on the core business of the six divisions in the two market segments, Aerospace and Defence, coupled with systematic financial transparency and judicious minimization of risks provides a foundation for profitable international growth.

Reorientation

2009 was most certainly an eventful year at RUAG, which saw a new CEO take the company's helm, the strengthening of the space business through the acquisition of Oerlikon Space AG, the effects of the global economic crisis on the Aerospace market segment, successful business in the Defence market segment, RUAG's ten-year anniversary and the Swiss referendum on banning war materiel exports.

RUAG now operates in two market segments: Aerospace, with its three divisions of Space, Aviation and Technology, and Defence, with the three divisions Electronics, Ammotec and Land Systems. Operating income (EBIT) is reported for each of these two market segments for the first time in the 2009 Annual Report. A corresponding transparent breakdown by divisions is planned for 2010. RUAG is focussing more closely on its core business in the Aerospace and Defence segments while reducing risks in Aerostructures.

In financial year 2009, RUAG's net sales grew 10.3% to CHF 1696 million, thanks to the strengthening of the space business and the solid foundation in Defence. As a result of one-time charges of CHF 160 million in Aerostructures for impairment of fixed assets and inventories, and for provisions, earnings before interest and taxes fell to CHF -113.3 million. These figures reflect the impact of the economic crisis on civil aircraft maintenance (business jets) and in the automotive and semiconductor industry supply sector. Excluding these one-time charges, EBIT came to CHF 45 million, 21% below the figure for the year-back period. At CHF 131 million, operating cash flow was well ahead of the previous year's figure (CHF 81.0 million).

Action needed

In the Aerospace market segment, EBIT was weighed down by a one-time charge of CHF 160 million in the Technology division. Together with the negative EBIT from civil business jet maintenance, this brought EBIT for the segment to CHF -189 million. In the Defence market segment, earnings before interest and taxes (EBIT) improved to CHF 65 million compared to CHF 39 million for the previous year.

The Aerospace market segment (CHF 902.8 million, up 9.7% from the previous year) accounted for 49% of total sales; the Defence market segment (CHF 796.8 million, up 4.6% from the previous year) for 43%. The bulk of the increase came from the acquisition of Oerlikon Space AG completed at the end of June 2009. Organic growth without the boost from acquisitions came to 4.3%.

Sales remained evenly balanced between civil (47%; previous year: 46%) and military applications (53%; previous year: 54%). The Swiss Federal Department of Defence, Civil Protection and Sport (DDPS) remained the most important single customer, accounting for 36% of total sales (36%). 45% of total sales were generated in Switzerland (47%), 43% in Europe (41%) and 7% in the United States (6%).

Konrad Peter, Chairman of the Board of Directors (left)
and Dr Lukas Braunschweiler, CEO

Strengthening Space...

The Aerospace market segment, with its Space, Aviation and Technology divisions, clearly illustrates the robustness of various core areas of RUAG's business in the face of the economic crisis.

In the Space division (2009 sales: CHF 226 million, 12% of consolidated sales), the acquisition of Oerlikon Space AG effective 1 July 2009 was the single most important event of the year. The acquisition not only brought RUAG 380 highly qualified employees and over 40 years' experience in space technology, but also world-renowned leading technologies in such areas as payload fairings, ultra-light satellite structures, precision mechanisms and electro-optical satellite communications systems. The new additions perfectly complement the existing portfolio.

Established in 2009, the RUAG Space division, Europe's biggest independent space supplier, contributes substantially to practically every European space mission with its products, components and engineering services from Switzerland, Sweden and Austria. Innovative prowess and collaboration with universities and institutes play an especially important role.

Contracts to supply payload fairings for the second production batch of Ariane 5 launch vehicles, signed with European launch services group Arianespace in the summer of 2009, will furnish a solid revenue base for the next several years. The order comprises 35 fairings and will be worth CHF 250 million over a planned duration of six years.

...and Aviation

The core business of the RUAG Aviation division (CHF 438 million, 24%) is military and civil aircraft maintenance. The unit engages in systematic systems development, manufacturing and integration.

The military and civil aircraft maintenance business presented a sharp contrast during the year under review. In Military Aviation, as a partner to the Swiss Air Force, RUAG achieved solid growth by gaining new customers abroad. Successes included completion of the final assembly of 16 EC 635 light transport and training helicopters for the Swiss Air Force under contract to Eurocopter Deutschland, along with the commencement of an upgrade programme for 15 Super Puma helicopters (TH-89) that will continue through 2014. In addition to maintenance work on F-5 engines for various air forces, RUAG Aviation was also awarded a contract by the Dutch Air Force in 2009 to maintain its 13 Pilatus PC-7 aircraft.

In Business Aviation, price pressures and lower margins forced a strategy revision and business model optimization at the end of the year. RUAG Aviation responded by creating centres of excellence for specific aircraft types at the Agno, Berne-Belp, Geneva and Oberpfaffenhofen (Germany) sites. The Zurich-Kloten site will cease operations in early 2010 owing to its unfavourable cost structure.

One of RUAG Aviation's stated aims is the targeted development of new products. The maiden flight of the Dornier 228 NG (New Generation) in November 2009 is a major milestone in this strategy. The first deliveries to customers are scheduled for 2010.

Risk minimization in Aerostructures
In the RUAG Technology division (CHF 252 million, 14%), the economic crisis severely impacted the aircraft structural components business along with the automotive and semiconductor industry supply business, where work hours were cut for the entire year. The Plan-les-Ouates facility near Geneva experienced a sharp decline in aero engine structure manufacturing orders due to a shift in production back into the OEMs' own plants or to low-wage countries. This forced the site to refocus on its core competencies in manufacturing precision titanium and nickel components and led to the loss of some 50 jobs. The affected workers received support under RUAG's redundancy scheme.

Programme delays in major civil aircraft projects, a considerable drop in demand, customers backsourcing orders and unanticipated start-up costs for new projects led to a considerably poorer result in Aerostructures in 2009 than in the previous year. These factors called for a rethink of planning and a comprehensive risk assessment. As a result, one-time charges of CHF 160 million were undertaken in Aerostructures in 2009 for impairment of fixed assets and inventories and for provisions. The Board of Directors decided to refocus the business on profitable high-quality special products and niche applications and to sharply minimize the risks to RUAG as a global supply chain participant.

The method chosen for targeted minimization of risks in Aerostructures will be systematically pursued in 2010.

Stability...
Sales in the Defence market segment grew 4.6% to CHF 796.8 million. Earnings before interest and taxes (EBIT) improved to CHF 65 million as compared to CHF 39 million the previous year. All three divisions, RUAG Electronics (2009 sales: CHF 242 million, 13% of consolidated sales), RUAG Ammotec (CHF 336 million, 18%) and RUAG Land Systems (CHF 223 million, 12%), surpassed the prior-year figures.

Activities in Defence build on the foundation of RUAG's core business as a centre of excellence for the Swiss Armed Forces, and are actively aimed at achieving both domestic and international growth. RUAG's close partnership with the Swiss Armed Forces is an important success factor in these efforts.

RUAG Electronics won over customers in existing and new markets with its innovative products and services. The market adjustments in virtual simulation implemented in late 2008 resulted in promising repositioning in 2009. For instance, the first training simulators for the French Army's armoured personnel carrier units were delivered. Live simulation facilities in Bure and St. Luzisteig were also handed over to the Swiss Armed Forces. As part of a new order, the facilities will be expanded to enable training in urban terrain.

In the Homeland Security business unit, RUAG Electronics sold the PantherCommand® system to the first European customers. PantherCommand® was accepted in Freiburg, Germany in summer 2009. The Radar Centre of Excellence in Dübendorf was completed in 2009. In addition to servicing all of the Swiss Armed Forces' stationary and mobile radar airspace surveillance systems, RUAG is also responsible for maintaining equipment for Meteo-Schweiz, the Swiss national weather service.

...and an international presence

RUAG Ammotec selectively and successfully continued its international expansion in 2009. The acquisition of Hungary's MFS 2000 rounded out the unit's portfolio of revolver and pistol ammunition. Penetration of the US market advanced with the acquisition of assets and staff from Precision Ammunition LLC, giving RUAG not only forward-looking technologies but also a functioning distribution channel in the world's largest ammunition market. Hunting and sporting ammunition, on the other hand, suffered from the global economic contraction in 2009, as did actuator cartridges for the construction industry.

RUAG Land Systems successfully expanded its international business in 2009, building on a foundation of successful Swiss programmes such as the Leopard 2 midlife upgrade, production of armoured engineer vehicles and manufacture of protected command shelters. The first combat-enhanced Leopard 2 tanks were delivered to the Swiss Army under a contract that runs until 2012.
In the export business, a letter of intent for joint international marketing of the Leopard upgrade programme was signed with Leopard manufacturer Krauss-Maffei Wegmann. The concept has met with lively interest on the market. The acquisition of Germany's GEKE Schutztechnik GmbH represents a further international expansion of RUAG's protection business. Along with the Swiss Armed Forces, the German Bundeswehr is also a customer.

Focus and innovation

Corporate management is basing its strategy for the coming years on a foundation consisting of the two market segments and six divisions. The heart of this strategy is profitable, organic growth in the core activities of all divisions. To achieve this goal, an ever-increasing focus on customer needs will be brought to bear in all of the company's activities. Attention will also be devoted to financial transparency, and to risk management and reduction at all levels.

Innovative prowess will prove crucial for the lasting success of all the divisions and is being reinforced by means of appropriate investments, combined with the systematic management of all research and development efforts and collaboration with institutes and universities. At CHF 149 million, RUAG invested 21% more funds in research and development in 2009 than in the previous year.

Capable and motivated staff are a key component of corporate strategy. RUAG therefore equally supports skilled staff, technical college and university graduates and employees who have completed vocational training. The four core competencies of key account management, high-tech engineering, major project management and process optimization are systematically developed. Like the company's overall business policies towards customers and suppliers, employee representatives and social partners, RUAG's HR policy is based on the principles of transparency and reliability. Staff headcount rose 13% in 2009 to 7534, with acquisitions accounting for about half of the increase. Roughly 10% of employees in Switzerland are apprentices.

Outlook

Developing international business will be essential to RUAG's future success – all the more so as a further decline in the volume of Swiss Armed Forces orders is anticipated in the coming years. The legal basis for RUAG's activities abroad was unequivocally reaffirmed in the clear rejection of a war materiel export ban in a Swiss referendum in autumn 2009.

As technology partner to the Swiss Armed Forces, RUAG maintains an international network of relationships with key industrial partners and government agencies. Without this solid foundation in the defence industry, the Swiss Armed Forces would lose valuable expertise. RUAG's international activities therefore contribute significantly to Switzerland's security and independence.

In 2010, RUAG will continue to focus on its solid core business in Aerospace and Defence, while also optimizing profitability and cash and capital tie-up, and minimizing risks. The measures initiated in 2008 for consistently limiting risks and tightening the focus in Aerostructures will continue in 2010.

Activities in the military and government agencies markets and in institutional space flight, which are less exposed to the vagaries of the economy, will be a stabilizing factor in 2010. The aim of reinforcing the Space division is to achieve lasting sales growth.

On 1 June 2009, Dr Lukas Braunschweiler succeeded Toni J. Wicki, who had reached statutory retirement age, as CEO of the RUAG Group. Dr Braunschweiler has international management experience in various technology sectors. Since RUAG's inception in 1999, Toni J. Wicki has transformed it from the former state-owned and operated defence companies into a technology group that today enjoys worldwide acclaim in the Aerospace and Defence segments. He will continue to provide his expertise to RUAG on the Board of Directors until the 2010 annual shareholders' meeting. Both the Board of Directors and Executive Board offer Mr Wicki their thanks for his vision and commitment during the company's first 10 years.

The Board of Directors and Executive Board agree that RUAG faces significant challenges. Against this backdrop, we owe special thanks to our customers for their confidence and custom, to our owner the Swiss Confederation for a positive working relationship, and to our employees for their great dedication.

We look forward to achieving further progress for RUAG together with you.

Konrad Peter
Chairman of the Board of Directors of RUAG Holding Ltd

Dr Lukas Braunschweiler
CEO of RUAG Holding Ltd

Space. The combination and targeted expansion of complementary technological capabilities in Switzerland, Sweden and Austria form the basis for global growth.

RUAG Space's core business

As Europe's largest independent space supplier, RUAG Space specializes in products and subsystems, components and engineering services for institutional and commercial space missions. The three national subsidiaries in Switzerland, Sweden and Austria focus on five product domains: structures and separation systems for launch vehicles, satellite structures, mechanisms and mechanical equipment, digital electronics for satellites and launch vehicles, satellite communications equipment and satellite instruments.

RUAG Space is the market leader in composite payload fairings, thermal insulation, separation systems and payload adapters. RUAG computers are used to control and monitor most European space missions. RUAG's precision mechanisms, thermal hardware, slip rings and spacecraft structures are decisive factors in the success of many international projects.

RUAG Space's core competencies comprise all aspects of space projects, including mission analysis, systems engineering, engineering services, precision manufacturing, assembly, component integration, system testing and support during the launch phase. Thanks to the broad complementary technological skills of RUAG Space's different sites, the company provides one-stop shopping for complete subsystem solutions and services.

Business performance

Despite the global economic situation, RUAG Space proved to be a stable pillar of growth for the RUAG Group in 2009. With the acquisition of Oerlikon Space AG effective 1 July, the division achieved annual sales of CHF 226 million.

The most important single event was the takeover of the OC Oerlikon technology group's space division. The acquisition not only brought RUAG 380 highly qualified employees and over 40 years' experience in space technology, but also leading world-renowned technologies in such areas as payload fairings, ultra-lightweight spacecraft structures, precision mechanisms and optical satellite communication systems. The new additions perfectly complement the existing portfolio.

Following an earlier significant expansion of space activities in 2008 with the purchase of Sweden's Saab Space AB and its Austrian subsidiary Austrian Aerospace GmbH, RUAG Space now possesses an even broader technology base.

RUAG Space in figures

Sales:	CHF 226 million
Employees:	1102
Sites:	Switzerland, Sweden, Austria

"WE SET STANDARDS IN THE INTERNATIONAL SPACE MARKET WITH OUR STRONG, TRI-NATIONAL PRODUCT PORTFOLIO."

DR PETER GUGGENBACH, CEO OF RUAG SPACE

Contracts to supply payload fairings for the second production batch of Ariane 5 launch vehicles, signed with European launch services group Arianespace in the summer of 2009, will provide a solid revenue base for the coming years. The order is for 35 fairings and will be worth a total of CHF 250 million over its scheduled term of six years.

A milestone was achieved in November 2009 with the first launch of the American Atlas V-400 launch vehicle with an adapter supplied by RUAG joining the rocket's main and upper stages. The composite structure is a pioneering example of RUAG's ability to apply knowledge developed in institutional programmes commercially in the world's largest space market. Future plans call for an average of three of these adapters for the Atlas V-400 to be delivered to the United States each year. RUAG Space has been producing payload fairings and separation systems for American launch vehicles such as Atlas V for some time.

All three national subsidiaries played a number of roles in Europe's biggest institutional project in recent years; the twin launch of the Herschel and Planck space telescopes. The European Space Agency's SMOS (Soil Moisture and Ocean Salinity) earth observation satellite, launched in early November 2009, likewise features core technologies from Austria, Sweden and Switzerland, such as a fibre-optic data transmission system, guidance and control computer, payload structure and thermal insulation. High-performance GPS receivers were also supplied for the first satellites in the European GMES programme (Global Monitoring for Environment and Security.

Innovations and initiatives

The first ever fibre-optic data transmission system for a European satellite is a perfect example of new developments in the product area of digital electronics for satellites and launch vehicles. The system is used for rapid data transmission inside the SMOS environmental research satellite. In the satellite structures, mechanisms and equipment product area, a mechanism for high-precision positioning of solar generators was also developed for the European Galileo satellite navigation system.

Manufacturers are increasingly turning to new electrical propulsion systems to generate thrust in space. RUAG Space is supplying the positioning mechanism for one such system, which will be used in the BepiColombo mission to Mercury scheduled for 2014. RUAG has also been commissioned to produce a laser altimeter for three-dimensional mapping of Mercury's surface for this mission.

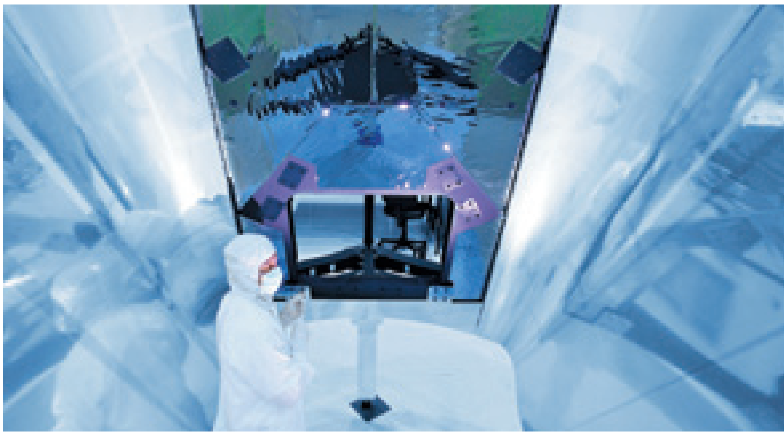
The high-quality, high-tech slip rings produced by RUAG Space are an example of how innovations developed for space can also be used in terrestrial applications. The Nyon site is the world market leader for slip rings used in space applications and is becoming increasingly successful in supplying precision products to commercial customers outside of the space business.

Outlook and strategy

With the boost to the space business from the acquisition of Oerlikon Space AG, Saab Space AB and Austrian Aerospace GmbH, the Space division has grown into a solid pillar of the RUAG Group. Especially in the currently uncertain global economic climate, the relatively long-term space business has proven to be a stabilizing factor for the Group.

RUAG Space's objective is to achieve lasting, steady sales growth based on the technological capabilities of the various national subsidiaries. To this end, the focus in 2010 is on optimizing national strengths with a view to achieving enhanced synergies between the three countries through targeted expansion in the five product areas.

This strategy also addresses exceptional growth opportunities for RUAG Space in the commercial space business, which already accounts for roughly half of the division's sales. To further expand this proportion, the focus currently lies on specific, promising future markets and on technological capabilities where RUAG already possesses extensive know-how. In particular, this includes structures and systems for launch vehicle upper stages and space communication technologies. In the institutional market, where the pace of development and expansion of technological capabilities is set, RUAG Space anticipates stable growth for the coming year of a magnitude comparable to that of recent years.



A successful flagship mission full of RUAG technology
The Herschel and Planck space telescopes launched together in May 2009 will investigate the origins of the universe. Many subsystems of this European flagship mission were supplied by RUAG. The central computer for controlling position and managing Herschel and Planck, and the Ariane launch vehicle's separation system and attitude and orbit control computer were made in Sweden. Austria supplied the sealing mechanism for the cooling system (cryostat), thermal insulation for the cryostat and the satellites, manufacturing and test tools as well as ground support equipment. Besides the launch vehicle's payload fairing, the structure and heat shield for the Planck telescope, the mechanical structure of Herschel's main scientific instrument and the cryostat mounting structure are all from Switzerland. The diverse contributions from all the sites demonstrate how the capabilities of the various national subsidiaries already complement one another to form a comprehensive product and service portfolio for customer projects.

Aviation. We are establishing an internationally leading position as a high-quality niche provider, specializing in the integral support of civil and military aircraft during their entire lifespan.

RUAG Aviation's core business

RUAG Aviation is a centre of excellence for civil and military aircraft maintenance and for aviation systems development, manufacturing and integration. Customers include the Swiss Air Force as well as international air forces and aircraft operators. The division's three business units, Military Aviation, Business Aviation and Products & Solutions, operate in various locations in Switzerland, Germany and the US.

The Military Aviation business unit specializes in integrated support for all fighter aircrafts, helicopters, training aircraft and reconnaissance drones operated by the Swiss Air Force and international customers in close collaboration with the manufacturers. In addition to maintenance, repair, overhaul and final assembly, this also includes engineering services, especially for upgrade programmes, electronic subsystems and developing electronic counter measure systems.

In the Business Aviation unit, RUAG provides comprehensive maintenance, repair, overhaul and system support services for business and executive jets as a certified partner of manufacturers such as Bombardier, Cessna, Dassault, Embraer and Piaggio.

The Products & Solutions business unit develops subsystems such as an automatic landing system for unmanned aerial vehicles, manufactures complex cable harnesses and performs avionics upgrades. It also produces the Do 228 NG, the updated version of the classic Dornier 228. In the Aerodynamics and Technology centres, the Innovation Support Unit operates state-of-the-art wind tunnel and test facility infrastructures.

Business performance

RUAG Aviation looks back on a busy year as a supplier of military and civil products and services. While Military Aviation turned in a very strong performance with double-digit growth abroad, Business Aviation was impacted by the effects of the financial and economic crisis.

The heart of RUAG's military aircraft maintenance operations is the servicing of all Swiss Air Force aircraft and helicopters. A final assembly project for 16 EC 635 light transport and training helicopters for the Swiss Air Force under contract to Eurocopter Deutschland was completed in 2009. Furthermore, the upgrade programme for 15 Super Puma helicopters (TH-89) that will continue through 2014 has now commenced. The foreign military aircraft maintenance business also turned in a pleasing performance. In addition to maintenance, repair and overhaul work on F-5 engines for various air forces, a contract was won for heavy maintenance on the 13 Pilatus PC-7 aircraft of the Royal Netherlands Air Force. Moreover, the company secured its first major order from a client abroad for a major check on military Cougar helicopters. RUAG will also equip the Slovenian Armed Forces' Cougar AS 532 with an electronic ISSYS defence system against guided missiles and laser-guided weapon systems.

RUAG Aviation in figures

Sales:	CHF 438 million
Employees:	1859
Sites:	Switzerland, Germany, USA

"FOCUS, MANAGEMENT AND FINANCE ARE OUR KEY FACTORS FOR LASTING SUCCESS."

DR PETER GUGGENBACH, CEO OF RUAG AVIATION

The impact of the global economic turbulence on business jet maintenance was particularly severe. A direct result of the decline in business flights was longer aircraft maintenance intervals. Short-time work had to be implemented in Berne-Belp in March 2009 but ended back in September as incoming orders picked up.

Ongoing cost pressures and lower margins demanded a rethinking of strategy and optimization of the business model at the mid-year point. Centres of excellence for Bombardier, Cessna, Dassault, Embraer and Piaggio aircraft with a yet stronger focus on customer needs are thus being established at the Agno, Berne-Belp, Geneva and Oberpfaffenhofen (Germany) sites. The Zurich-Kloten site will cease to operate during the first quarter of 2010 due to unfavourable cost structures.

Opportunities for the future have been opened up, for instance by the Agno site's certification as an official service partner for the Piaggio P180 Avanti. In addition, in partnership with aircraft interior outfitter List components & furniture GmbH (Austria), RUAG now offers one-pass aircraft maintenance and outfitting in the exclusive business and executive jet segment. This service enables customers to benefit from shorter outages and one-stop shopping.

Innovations and initiatives

For the Products & Solutions business unit, the maiden flight of the Do 228 NG in November 2009 following successful testing was a major milestone. The aircraft is configured to seat 19 people and is equipped with state-of-the-art avionics, a glass cockpit and a new five-bladed propeller. The first deliveries to customers are planned during 2010. Key product developments include OPATS (an automatic landing system for unmanned aerial vehicles), UTAAS (a modular sight and fire control system for ground combat vehicles) and the ALMA project, in which RUAG supplied panel adjusters for a giant telescope in Chile's Atacama Desert under contract to Thales Alenia Space Italy.

With its wind tunnels, the Innovation Support Unit provides experimental and theoretical services to internal and external customers for developing new products. The division often works closely in this field with universities, universities of applied sciences and development institutes. For example, a research project being conducted by Boeing and Rolls-Royce involves taking measurements on scale models to test a new aircraft propulsion system for fuel consumption characteristics and environmental impact.

Outlook and strategy

The global market situation will remain challenging for RUAG Aviation in 2010, particularly in the area of business and executive jet maintenance. The markets are not anticipated to recover quickly in this area.

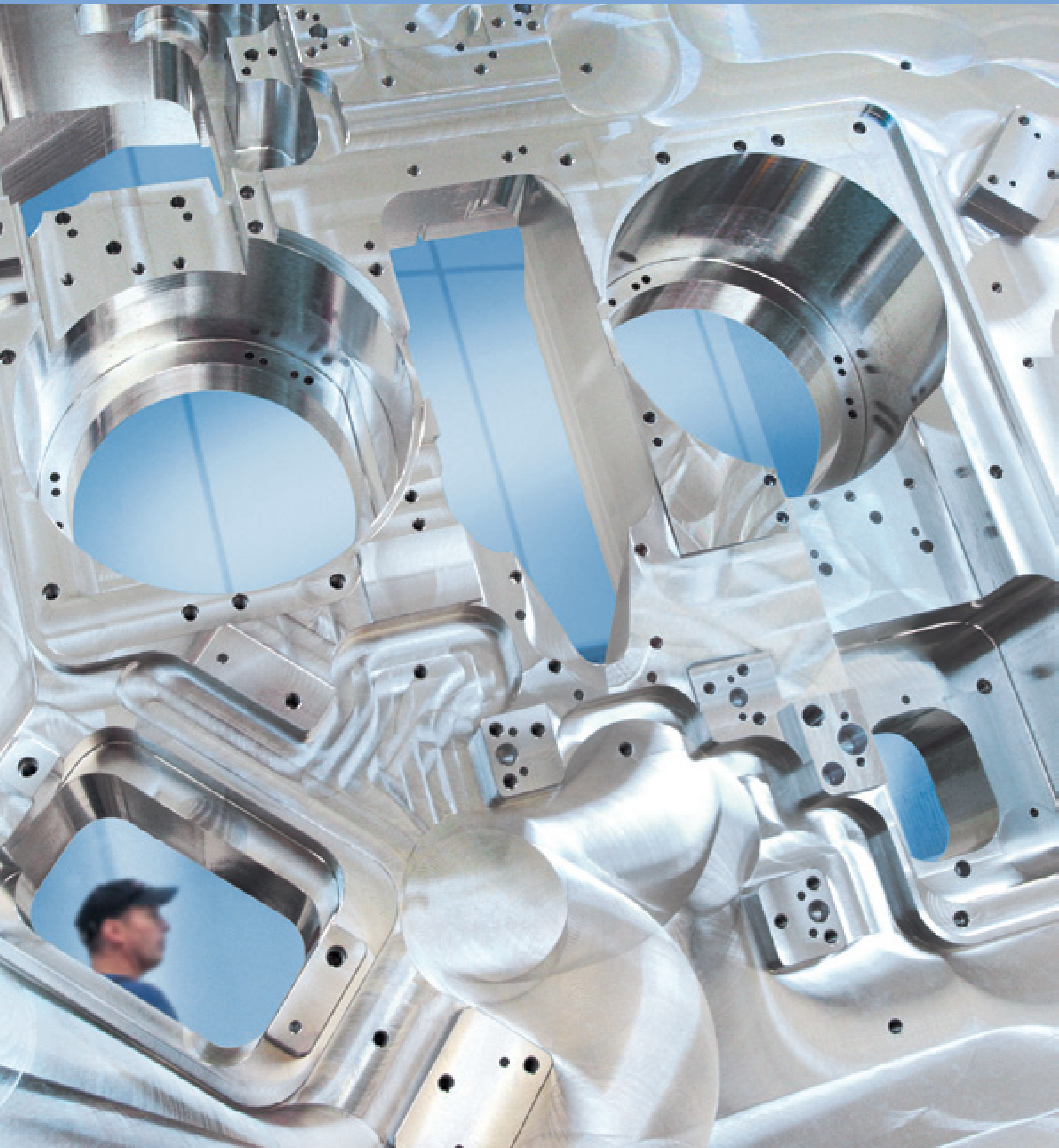
Military Aviation will continue to profile itself as a reliable partner and centre of excellence for the Swiss Air Force. Beyond this, the focus at Military Aviation is on expanding international business by providing comprehensive services over the entire aircraft life-cycle. These include upgrade and modernization programmes in particular, for which comprehensive expertise can be built up in projects with the Swiss Air Force.

RUAG Aviation is pursuing profitable growth through its strategic reorientation, which commenced in 2009, and greater value chain depth. Alongside the core competencies of upkeep and maintenance, the focus here in future will continue to lie on innovative new products.

The Do 228 NG takes off

RUAG's first own aircraft, the Do 228 NG (New Generation), took off in 2009. The updated version of the legendary Do 228 made its official maiden flight in Oberpfaffenhofen in November 2009. Equipped with state-of-the-art avionics, a glass cockpit and an optimized five-bladed propeller, the plane boasts outstanding payload capacity and range. Its short take-off capability and ability to take off and land on unpaved airstrips make it ideal for special missions, coastal and border patrol duty and short-haul passenger flights. An initial order to retrofit a Do 228 for German Naval Air Wing 3 with a glass cockpit and other upgrades was received in August 2009.

Technology. State-of-the-art production, materials research, measurement and engineering infrastructure form the basis for lasting partnerships as a key supplier to the global aviation, mechanical engineering, semiconductor and automotive industries.



RUAG Technology's core business

RUAG Technology supplies structural elements and quality components and services for customers in the aviation, automotive, semiconductor, energy and recycling industries. Activities are concentrated in five areas: Aerostructures, Mechanical Engineering, Coatings, Automotive and Environment.

With its extensive modern facilities, the division is able to perform the full range of development and production processes for highly complex aircraft and engine parts. RUAG Technology has also made a place for itself on the global market as a metalworking specialist.

At Aerostructures, the key activities are production of complete passenger aircraft tail sections for major customers such as Airbus and Bombardier, of wing and control components and of complex structural elements and parts for civil and military aircraft. As a centre of excellence for winglets, RUAG Technology is responsible for engineering and manufacturing all wingtip fences for the Airbus A320 and A380 family.

Mechanical Engineering produces high-precision structural elements and components for the mechanical and apparatus engineering industries, wind power and semiconductor industries and for aerospace, precision mechanics and tool manufacturing. Machining of large parts using state-of-the-art equipment is a specialty. The Coatings segment specializes in a wide array of chemical, electrolytic, electrochemical, lubrication and painting processes. Automotive focuses on metal forming for the automotive sector, while Environment performs industrial recycling of electrical and electronic equipment.

Business performance

The 2009 financial year presented several major challenges for RUAG Technology. The effects of the economic crisis severely impacted the Aerostructures business as well as the upstream supply business for the automotive and semiconductor industries. Sales and operating income were hit hard.

In response to the risky outlook in the division's operations for civil aircraft manufacturers, programme delays in major civil aircraft projects and unfavourable price and exchange rate trends, a comprehensive risk assessment was undertaken of all Aerostructures activities. Restructuring objectives centre on profitability, cash and capital tie-up, risk minimization and focus on core business. The Board of Directors has decided to focus RUAG Technology's operations on high-quality and profitable special products and niche applications, and to sharply reduce the risks to the RUAG Group as a global supply chain participant. In general, a palpable shift is becoming evident in the upstream supply market, either back to the OEMs' own production lines or to low-wage countries. Consequently, the Plan-les-Ouates facility near Geneva has been reconfigured to focus on production of precision titanium and nickel components. This entailed a loss of about 50 jobs during the year under review; the workers affected received support from RUAG's redundancy scheme.

RUAG Technology in figures

Sales:	CHF 252 million
Employees:	1335
Sites:	Switzerland, Germany

"OUR FIRST-CLASS TECHNOLOGY SKILLS GENERATE ADDED VALUE FOR OUR CUSTOMERS."

DR VIKTOR HAEFELI, CEO OF RUAG TECHNOLOGY

The situation at Aerostructures has considerably worsened and remains a very tough challenge for RUAG. Programme delays in major civil aircraft projects, a considerable drop in demand, relocation of production and unanticipated start-up costs for new projects led to a considerably poorer result in Aerostructures in 2009. As a result, one-time charges of CHF 160 m were undertaken in 2009 for impairment of fixed assets and inventories and for provisions.

Sales to the automotive and semiconductor industries also dropped sharply in 2009 as a result of the economic crisis. Initially, the unit was able to cushion some of the impact by encouraging staff to use up holiday and overtime hours, and reducing temporary staff. Employees leaving the affected units were not replaced. It also proved necessary to cut work hours for the entire year in individual units at the Altdorf site in response to declining orders.

Towards the end of the year, favourable signs were beginning to appear in the Mechanical Engineering unit's semiconductor business. New orders from long-time key account ASML (a manufacturer of wafer lithography equipment) picked up. The incipient economic recovery also led to an increase in automotive supply orders at the end of the year.

2009 proved a good year for the Environment unit. Continual process optimization led to more efficient operation of the modern equipment used to recover recyclable materials from electronic waste, refrigeration equipment, washing machines and dishwashers. RUAG'S environmentally safe disposal of refrigerators eliminates 400,000 tonnes of CO_2eq, or 1% of Switzerland's carbon dioxide emissions per year.

Innovations and initiatives

RUAG Technology boasts a full team of process specialists as well as material research and measurement infrastructure. These assets provide a foundation from which to generate customer value above and beyond the typical supplier relationship. The division's capabilities include protection against corrosion, lubricating coatings, nanocomposites, material engineering, metal-ceramic-carbon-glass-aramid fibre composites, FEM (finite element method) simulations, chemical analysis, hardness, wear and tear testing and metallographic testing. These capabilities give RUAG engineers the ability to develop, design and industrialize prototypes and components or products for the aviation and machine industries based on customer specifications.

For example, in 2009 a prototype aluminium vacuum chamber for the upcoming EUV process used in lithographic wafer fabrication was developed in close collaboration with long-time customer ASML. The EUV process will be used to etch nanometre-scale structural elements into the next generation of computer chips. Another example is the co-development and construction of an innovative gearbox for a wind turbine manufacturer.

The division also launched its own first product, the Turningator. This mobile lathe is equipped with turning, boring, milling and grinding tools for on-site maintenance work on large-scale machinery, eliminating the need for time-consuming disassembly, transport and reassembly by the customer.

Outlook and strategy

In Aerostructures, supplying civil aircraft manufacturers is increasingly seen as a very high-risk business due to programme delays in major civil aircraft projects, intensifying competitive pressures from low-wage countries and unfavourable price and exchange rate developments. In response, in 2010 the unit will continue to systematically implement and further strengthen the measures for improvement initiated in 2008.

At the Mechanical Engineering, Coatings and Automotive units, RUAG Technology expects the moderate recovery that began in late 2009 to continue this year. Still, markets will remain below the record levels of 2007 and 2008 for some time.

Management efforts will therefore focus on ongoing process optimization, penetrating new markets and increasing added value. Priority will be given to developing innovative products and solutions. Moreover, ever-shorter work order cycles require increased flexibility in production to ensure a swift response to changing customer demands.

Innovative product and service in one

RUAG Technology is marketing the Turningator mobile lathe to operators and maintenance organizations for large-scale machinery such as power plants. The CNC-controlled device is capable of overhauling heavy machine parts on-site, minimizing customer equipment downtimes. A power plant outage can cost several hundred thousand Swiss francs every day. Since the Turningator uses the workpiece as the machine bed, it can operate either horizontally or vertically. In combination with different dimensions and a modular design, this makes the turning, milling, boring and grinding centre extremely versatile. RUAG Technology supplies the globally mobile Turningator not only as a product but also a service package, including qualified specialists to carry out repairs or support the customer's staff.

Electronics. Our wide-ranging expertise as a strategic IT and electronics provider to the Swiss Armed Forces enables us to develop innovative products and services for the global security market.

RUAG Electronics' core business
The capabilities of the Electronics division are developing, manufacturing and integrating complex IT-based systems and providing active support during their entire lifecycle. As an innovation-driven IT company, RUAG Electronics offers products and services for the military and civil security market through its three business units Simulation & Training (S&T), Network Enabled Operations (NEO) and Homeland Security (HLS). Products and services for the Swiss Armed Forces and other domestic customers provide a foundation for a growing presence on international markets.

The Network Enabled Operations business unit is a product-neutral technology partner with responsibility for integrating, operating and maintaining the electronic command and control, communication, radar and reconnaissance systems (C4ISTAR) of the Swiss Armed Forces and related systems for civil organizations.

Simulation & Training is among the leading international producers of virtual and live training products and services for land forces. These range from advice, customer-specific design and engineering to implementation, support and operation of training facilities in Switzerland and abroad.

Homeland Security focuses on products and services for government agencies, rescue and security organizations. These include the RUAG-developed PantherCommand® operational command system and services related to the POLYCOM security radio network.

Business performance
RUAG Electronics succeeded in practically maintaining its sales in a challenging market environment. Financial performance improved thanks to the successful conclusion of customer projects and the market alignment of Simulation & Training together with the associated measures, such as ceasing operations at the Unterseen site near Interlaken.

In the Simulation & Training business unit, several successfully completed projects underscore a positive trend.
In the Live Training business area, the first of two combat training centres was officially handed over to the Swiss Army in July 2009. The laser-based simulation support platforms for combat training (SIMUG) enable realistic training of soldiers and vehicles. In the Virtual Training business area, the first of a total of 12 systems for individual, team and unit training with armoured combat vehicles was delivered to the French Armed Forces. A fundamental feature of this project is that the simulators and the actual vehicles are being delivered at the same time, meaning that troops can be trained efficiently in using their new equipment.

The launch of the Gladiator system in December 2009, the first live training product for the global market, is a further sign of things to come. The laser-based personal harness enables safe training of units.

RUAG Electronics in figures

Sales:	CHF 242 million
Employees:	730
Sites:	Switzerland, Germany

"KEY INNOVATIONS ARE BORN IN CLOSE COLLABORATION WITH OUR CUSTOMERS."

ANDREAS P. HERREN, CEO OF RUAG ELECTRONICS

The Network Enabled Operations (NEO) business unit turned in a very solid performance. As a vendor-neutral centre for integration, maintenance and expertise, this unit services some 130 communication, command and control, radar and reconnaissance systems for the Swiss Armed Forces. The construction of the Radar Centre of Excellence in Dübendorf begun in 2008 was completed last year. The centre brings together expertise and technical equipment for maintaining radar systems. In addition to servicing all of the Swiss Armed Forces' stationary and mobile radar airspace surveillance systems, NEO is also responsible for maintaining equipment for MeteoSchweiz, the Swiss national weather service. REGA, the Swiss air rescue guard also uses the centre's comprehensive services. The specialized knowledge of the staff at the centre of excellence is also helpful in evaluating new systems, such as for the precision approach and landing systems at Swiss Air Force air bases in 2009.

For the Homeland Security business unit, the NATO summit in Germany provided an ideal opportunity to demonstrate the capabilities of the PantherCommand® operational command system in an international setting. In just six weeks, a system comprising several hundred individual components was integrated into the existing IT infrastructure of the state police headquarters in Freiburg. The 16,000 deployed personnel were therefore able to keep the personal and overall security situation of the 26 heads of state and government at the summit in hand during every phase of operations.

Innovations and initiatives

Development initiatives at RUAG Electronics, especially at the Simulation & Training and Homeland Security business units, are focused on internationally competitive products. This requires a high degree of standardization and integration capability along with extensive modular functionalities at a competitive price. In 2009, this was achieved in an exemplary way with the Gladiator live simulation harness.

To ensure that these objectives are met as efficiently as possible for all products, efforts are underway to establish a uniform IT platform that will serve as a basis for all development work. Training systems and products for the government agency market will build in a modular fashion on a common, standardized framework. This approach will unlock synergies and increase market agility.

RUAG Electronics' technology research focuses on components that provide a competitive advantage or that are not available on the market with the required specifications. For instance, in the Live Training business segment, laser technologies are being developed that will enable even more compact and better-performing components to be provided.

Other areas in which COTS (commercial off-the-shelf) technologies are being adapted to suit the specific needs of RUAG Electronics are indoor positioning for applications to protect critical infrastructures, and data communication for several thousand participants in extremely close quarters at training sites, using live simulators.

Outlook and strategy

Overall, RUAG Electronics anticipates that the favourable developments of the past year will continue in 2010. In particular, market-driven adjustments will be completed at Simulation & Training and a stable foundation will be achieved once more in all projects during the course of the year.

For the Live Training business area, the two SIM KIUG projects agreed with the Swiss Armed Forces under the 2009 armaments programme are a bellwether. They comprise two live simulation facilities for house-to-house combat and will secure a considerable proportion of sales and jobs through 2011. Since RUAG Electronics has also been appointed as an external service provider for operating the existing SIMUG facilities, the SIM KIUG projects also spell long-term opportunities to expand the service business. In future, the division will increasingly position itself on the international market as a total service provider for military training, using its own product innovations as tools within a comprehensive range of services.

In the area of services for the Swiss Armed Forces' military command and control, communication and reconnaissance systems, a moderate contraction in the volume of orders is expected owing to general pressures on the public budget. Based on the limited growth opportunities, RUAG Electronics focuses on optimization activities of existing systems.

Simulation training area

Live simulation in urban terrain

The contract to build two laser-based live training systems in Bure and Walenstadt for operations in urban terrain (SIM KIUG) awarded by the Swiss Armed Forces under the 2009 armaments programme is a milestone for RUAG Electronics. It will drive further development of the company's expertise, making it possible to add simulator products for operational training in buildings and enclosed spaces to its international product portfolio. The SIM KIUG projects will run until 2011 and are worth over CHF 120 million in total. They will make it possible to coordinate exercises not only for combat troops including armour, artillery and mortar units, but also for medical services, engineer and logistic units deployed under combat conditions, and to carry out efficient after-action reviews using modern IT systems. In addition to the exercise platforms, RUAG also supplies laser simulators to equip the systems.

Ammotec. We are expanding our worldwide market leadership by focusing on high-quality, small-calibre ammunition for military, government organizations, hunting and sport, and on innovative pyrotechnic applications for industry.

RUAG Ammotec's core business

RUAG Ammotec specializes in high-quality pyrotechnic products for military and civil markets and for industry. Activities include developing and manufacturing small-calibre ammunition for hunting and sport as well as armed forces and government organizations. The company's products are renowned for their ultimate dependability, precision and optimally engineered effect. The company also offers environmentally safe disposal of pyrotechnic products.

RUAG Ammotec is the European market leader in hunting and sport ammunition. Its hunting ammunition includes a broad range of classic brands such as RWS, Rottweil, GECO, Norma and Hirtenberger. Among sporting marksmen, numerous Olympic medals and world records underscore the world-class quality of RUAG Ammotec's products, especially those sold under the RWS and Norma brands.

For security forces and armed forces, RUAG Ammotec supplies high-precision ammunition across the entire small-calibre spectrum, including special-purpose ammunition under the SWISS P brand. Alongside the Swiss Armed Forces, government customers include many security forces in European countries. A wide range of small-calibre ammunition for various operational and training applications is available for government organizations. RUAG Ammotec also produces a unique line of low-pollutant, NATO-qualified small-calibre ammunition for military and government organizations.

Building on its ammunition expertise and a systematic strategy of innovation, RUAG Ammotec develops products such as actuator cartridges for fastening technologies and safety systems.

Business performance

Following the strong growth of previous years, RUAG Ammotec achieved a further increase in sales in 2009. This was accomplished despite the overall weakness of the global economy, which primarily impacted the civil hunting and sporting market and sales of actuator cartridges in the industrial market. The declining trend in these areas was more than offset by increases in military and especially government orders and penetration of new markets. Unfavourable exchange rate effects were also balanced out.

Two forward-looking acquisitions were concluded in 2009. The purchase of Hungary's MFS 2000 completes a product portfolio focused on small-calibre ammunition for small arms. Moreover, MFS 2000 will facilitate access to the new EU countries in Eastern Europe and provide more flexible production capabilities.

RUAG Ammotec's market position was also significantly enhanced by the acquisition of assets and staff from Precision Ammunition LLC. Its activities will be consolidated under the newly founded company, RUAG Ammotec USA. The acquisition provides RUAG both with innovative technologies and a functioning distribution channel in the key US market.

RUAG Ammotec in figures

Sales:	CHF 336 million
Employees:	1696
Sites:	Switzerland, Germany, Hungary, Sweden, USA, France, Austria, Great Britain, Belgium

"OUR INNOVATIVE PROWESS ENABLES US TO ACHIEVE THE HIGHEST QUALITY AND OPENS UP NEW MARKET OPPORTUNITIES."

CYRIL KUBELKA, CEO OF RUAG AMMOTEC

A contract to supply 9-mm pistol ammunition to the Dutch Federal and Military Police over a ten-year period is a perfect example of RUAG Ammotec's successful government business in Europe. RUAG also scored further sales successes in France. This sustained growth is driven by the growing needs of law enforcement organizations for ammunition that is not only highly precise but also causes minimal collateral damage on bystanders and officers. RUAG Ammotec is able to optimally meet these demands with low-pollutant, high-quality products. The follow-up contract to supply training ammunition for the British infantry in the face of fierce international competition is further evidence for the high performance of RUAG products.

In the hunting and sporting segment, a major supply contract was concluded for the RWS R50 rimfire cartridge. This represents a significant expansion for RUAG Ammotec in the high-quality, small-calibre ammunition market. Encouraging sales successes were also achieved in the United States pistol and revolver ammunition segment last year when several specialized units such as the Pentagon Police chose RUAG ammunition.

Innovations and initiatives

Leadership in technology and quality are the foundations of RUAG Ammotec's success. To maintain it, the company invests some 6% of sales (and rising) in research and development of new products. Among the most important results of these efforts by the three research departments in Fürth (Germany), Thun (Switzerland) and Åmotfors (Sweden) in 2009 was the RWS Silver Selection line of rifle cartridges in the hunting and sporting segment. Thanks to innovative developments in the powder, this top-quality round provides high performance even under extreme weather conditions.

Another new development is Flash Control, which massively reduces muzzle flash without compromising performance. As a result, there is minimal impact on the marksman's low-light visual acuity. Further in-house developments include completion of the 4.6-mm x 30 ammunition line for the military market and development of a new type of training ammunition for government organizations.

Significant funds were also invested in production in 2009. For example, the company has built capacity for a new generation of actuator cartridges for the construction industry to meet an expected increase in demand for this innovative product in the coming years. Production capacity for 9-mm and 5.56-mm rounds was also expanded, and additional investments were made in production facilities in the United States.

Outlook and strategy

Overall, RUAG Ammotec anticipates solid business performance in 2010 at a continuing high level. Demand from the government organizations market should be particularly strong, as it was in 2009. With its high-quality products, RUAG Ammotec is ideally positioned to meet the growing needs of Europe's police forces for safe, high-performance small-calibre ammunition. The division also continues to expect a good level of demand for its high-quality ammunition from the military market in 2010.

Owing to the continuing global economic crisis in 2010, further declines in sales are anticipated in certain segments of the hunting and sporting business. The aim is to offset this by penetrating new markets such as the United States, with the result that a stable level of sales is also anticipated overall in this area too. The same applies in industrial pyrotechnics, where tapping new markets and market segments with new, innovative products will likewise make up for declining sales of actuator cartridges due to the continuing worldwide slump in construction.

A forward-looking presence in the US market

With the acquisition of assets and personnel of the US company Precision Ammunition LLC, RUAG Ammotec has obtained a working bridgehead for expanding business in the US. With its own local sales presence, the division will be able to sell its products more efficiently and cultivate the market more systematically. In particular, the purchase of Hungary's MFS 2000 has resulted in a revolver and pistol ammunition product range well-suited to the requirements of the American market. Additional production capacity is therefore being established in the United States in 2010. Moreover, patents acquired from Precision Ammunition LLC will be crucial for the expansion of RUAG Ammotec's technology leadership. One such technology for innovative training ammunition will not only mean significantly less wear and tear on shooting range infrastructure but also provide marksmen with better protection from stray rounds.

Land Systems. Our valuable position as strategic technology partner to the Swiss Armed Forces is enabling us to achieve international expansion in the areas of Heavy Weapon Systems, Protection and Command and Control.

RUAG Land Systems' core business

RUAG Land Systems is one of the strategic technology partners of the Swiss Armed Forces. Its activities focus on the three business areas of Heavy Weapon Systems, Protection and Command and Control. As a specialist in the modernization and maintenance of heavy weapon systems, RUAG Land Systems is providing the midlife upgrade that will ensure that the Swiss Armed Forces' Leopard 2 main battle tanks are equipped with state-of-the-art technology and stand ready for future training and operations. Based on solutions developed in Switzerland, RUAG also markets upgrade and combat value enhancement programmes internationally. RUAG Land Systems manufactures the Kodiak Armoured Engineer Vehicle, which it developed in collaboration with Rheinmetall Landsysteme. The Kodiak is the leading vehicle for combat engineering work among countries that use the Leopard 2.

Other key products and services include solutions for enhancing the combat value of artillery systems, maintenance and support for a wide range of armoured vehicles and development of systems to protect vehicles against ballistic threats. These include effective lightweight protection systems made of high-performance materials that can be quickly and easily installed. Activities in the Command and Control business unit centre on developing innovative NEMP-protected and EMC-compatible shelters, and on producing modular, specially hardened control and display systems.

RUAG Land Systems' products and projects are developed using state-of-the-art computer simulations. Extensive testing in environmental simulation and material testing facilities, as well as electromagnetic compatibility tests and radar signature measurements ensures that they meet the toughest quality requirements.

Business performance

RUAG Land Systems performed well in all business areas in 2009. Sales grew substantially. The single most important project was the Leopard 2 midlife upgrade in the Heavy Weapon Systems business area. Delivery of the first finished units to the customer marked a major milestone in this contract, which runs through 2012.

Looking forward to the mid-term business horizon, a number of major export successes were achieved. For instance, a letter of intent was signed with Leopard manufacturer Krauss-Maffei Wegmann for joint international marketing of the Leopard upgrade programme. The concept is meeting with active interest on the part of other Leopard-using nations as well.

An important milestone was also reached in the other major Swiss programme, the delivery of twelve Kodiak armoured engineer vehicles. The first unit of this special armoured vehicle, based on the Leopard 2 and developed in collaboration with Rheinmetall, was handed over to the Swiss Army for verification. In addition, a supply contract for 14 Kodiaks was negotiated with another Leopard-using country for signing in the first quarter of 2010. RUAG Land Systems will be responsible for all welding work, a number of mechanical and electrical assemblies and part of the logistics under this project, which will run through 2014.

RUAG Land Systems in figures

Sales:	CHF 223 million
Employees:	557
Sites:	Switzerland, Germany

"OUR SYSTEMS EXPERTISE FROM PROGRAMMES IN SWITZERLAND SETS US APART ON THE INTERNATIONAL MARKET."

URS BREITMEIER, CEO OF RUAG LAND SYSTEMS

In terms of protection projects, major contracts included an order for 216 protective superstructures for the Protected Personnel Carrier (GMTF) procured by the Swiss Armed Forces under the 2008 armaments programme and an initial short run of anti-landmine protection modules for the German Bundeswehr's 400 Puma infantry fighting vehicles. The GMTF contract is the first joint project with MOWAG, part of US conglomerate General Dynamics.

The protection contract for the German Puma infantry fighting vehicle illustrates the synergies gained by acquiring a majority interest in Germany's GEKE Schutztechnik GmbH. The new SidePRO-EFP (explosive formed projectiles) protection module against improvised explosive devices (IED) is also based on GEKE technology.

The Command and Control business unit also successfully delivered the around 50 command shelters ordered by the Swiss Armed Forces under the 2006 armaments programme. The containers form part of the Swiss Army command information system (FIS Heer) project, which digitally links all army command levels. RUAG Land Systems is supplying the NEMP protected and EMC tested mobile infrastructures for this project and providing logistical support.

Innovations and initiatives

RUAG Land Systems acquired fresh expertise in the protection field through its purchase of a majority interest in GEKE Schutztechnik GmbH (GST). This will guarantee a steady stream of innovative products in the future as well in response to the recurring threats that arise in asymmetrical conflicts. Combat troops today find themselves in the midst of a race to confront new threats with adequate protection systems.

In 2009, RUAG Land Systems developed SidePRO-EFP and SidePRO-RPG, two modules offering protection against improvised explosive devices and hollow-charge grenades respectively. SidePRO-EFP is based on GEKE technology. Its sandwich construction both cushions the pressure wave and disrupts the effect of the hollow-charge jet. SidePRO-RPG supplements the SidePRO-LASSO protective module against widely used anti-tank weapons, providing a higher level of protection.

In the Command and Control business unit, the protected command shelters developed for the Swiss Armed Forces as part of the FIS Heer project are being redesigned for the international market as a modular system that can be set atop a simple base version in line with specific customer requirements. This makes it possible to meet different needs, ranging from varying degrees of electromagnetic compatibility and EMP protection through to ballistic protection.

Outlook and strategy

RUAG Land Systems expects market conditions similar to those last year to prevail in 2010. Extensive programmes for the Swiss Armed Forces will keep the order books filled through 2011, after which the focus will lie more strongly on compensating for declining orders in Switzerland with international business. In the Heavy Weapon Systems business unit, several projects to supply Kodiak armoured engineer vehicles and for the Leopard 2 midlife upgrade programme are at an advanced stage of negotiations. As a result, the internationalization of activities based on collaboration with strategic platform producers is well underway. The same is true of the modular shelter, the basic version of which was developed for the Swiss Armed Forces under the FIS HE project.

In the Protection business unit, a structured development management process has enabled regular development of new innovative products to meet a rapidly evolving series of new threats. The expertise contributed by engineers from GST further reinforces the innovative drive of the protection specialists at RUAG Land Systems. At least two more new modules will be launched in 2010.

A potential midlife upgrade programme for the Swiss Armed Forces' Infantry Fighting Vehicle 2000 lies farther ahead. RUAG Land Systems has already begun to develop the systems expertise required for this project.

Market access, technology and experience

A product for the international market and a contract awarded by the German Bundeswehr: the acquisition of a majority interest in Germany's GEKE Schutztechnik GmbH (GST), completed in March 2009, is already bearing fruit. The new RUAG subsidiary's MinePro protection module won the first part of a major Bundeswehr contract to provide 400 Puma infantry fighting vehicles with additional protection against landmines. GST's expertise in composite technology has already been incorporated into a new product – SidePRO-EFP, a protection module against improvised hollow-charge grenades. Thanks to GST, RUAG can benefit directly from the experience of the German Armed Forces when developing protective systems to counteract the specific threats of asymmetrical conflicts. As a result, RUAG is able to develop effective protection modules against newly arising threats very rapidly, and can thus provide state-of-the-art protection solutions for the Swiss Armed Forces as well.

Human Resources. Innovation requires highly qualified staff at all levels. RUAG's HR policy provides equally attractive development opportunities for skilled staff and university graduates in all areas of the company.

Foundation for success

RUAG's HR policy builds on the foundation of the corporate strategy, with the company's two market segments Aerospace and Defence, six divisions and its focus on innovation. The strategy centres on profitable organic growth resulting from the core activities of the divisions. Activities are continuously aligned with customer needs.

Skilled, motivated employees are vital for implementing RUAG's corporate strategy. Attracting, retaining and helping these employees to further develop their skills are therefore decisive for success. Human Resources' activities focus on four core competencies: key account management, high-tech engineering, major project implementation and process optimization. Central, internationally certified training courses are offered for this purpose where available, with a view to establishing Group-wide standards.

Well-trained skilled staff who receive licences and certificates for their performance in customer projects while working at RUAG are just as crucial as qualified university graduates. RUAG therefore equally fosters the talents of skilled staff, technical college and university graduates and employees. RUAG actively supports dual education systems that combine job training with study in countries where such systems are in place.

RUAG's human resource policy carries the four corporate values of Precision, Reliability, Passion and Versatility right through to the individual employee level, facilitating internal collaboration and strengthening relationships with customers and partners. This process also includes continuous, attentive and constructive dialogue with social partners and employee representatives.

Active training and development

Supporting trainees is a top priority at RUAG. Some 10% of its Swiss workforce consists of apprentices. The professional development of apprentices is also actively supported in Germany, which operates a dual education system similar to that in Switzerland. Special training centres staffed with full-time apprenticeship supervisors are available to the trainees. These centres can also be used by other companies on occasion. The high quality of vocational training at RUAG is reflected in the successes achieved at the WorldSkills Competition in 2003 and 2009, where in each case a RUAG apprentice succeeded in winning a silver medal against competitors from Asia who in some cases received extensive coaching prior to the event.

In addition to training its own apprentices, RUAG is also involved in various vocational training initiatives. For instance, RUAG is one of the main sponsors of the SwissSkills foundation. RUAG also sponsors Swissmem and Swiss Mechanics, which organize national skills competitions in Switzerland. This underlines the value of vocational training at RUAG and in society.

RUAG supports the multi-year Internet campaign at www.tecmania.ch launched in 2009 by Swissmem, the organization of Swiss mechanical and electrical engineering industries. The website provides young professionals and educators with information and opportunities to actively exchange information in the field of basic technical training and continuing development.

"STAFF SKILLS AND PERSONAL COMMITMENT ARE THE DRIVING FORCE BEHIND OUR COMPANY."

HANS BRACHER, DIRECTOR OF CORPORATE HR

Attractive employer
RUAG's appeal as a potential employer of university graduates is also a key focus when recruiting staff. RUAG's broad range of activities has earned it a good reputation among junior engineers in particular. Efforts are underway to further improve this position through coordinated and intensified university outreach.
This goal applies to all countries where RUAG operates production facilities.

A further buttress of RUAG's HR policy is generous investment in ongoing internal training for employees. The main focus in this area lies on a current project to establish three career paths of equal status for managers, project managers and technical experts. Project managers and technical experts thus have the opportunity to advance from junior to advanced to senior level, like their peers at the equivalent management levels. These career paths are aimed in particular at securing the necessary skills in the long term, and retaining employees with specialist knowledge.

Harmonized management culture
As a multinational company with a very broad range of activities, a harmonized management philosophy and a shared cultural foundation are vital to RUAG. These not only enable effective management but also facilitate collaboration in joint project teams and between different divisions and countries. An important tool for this foundation is the three-stage, modular leadership programme, which is carried out centrally for all divisions and support units.

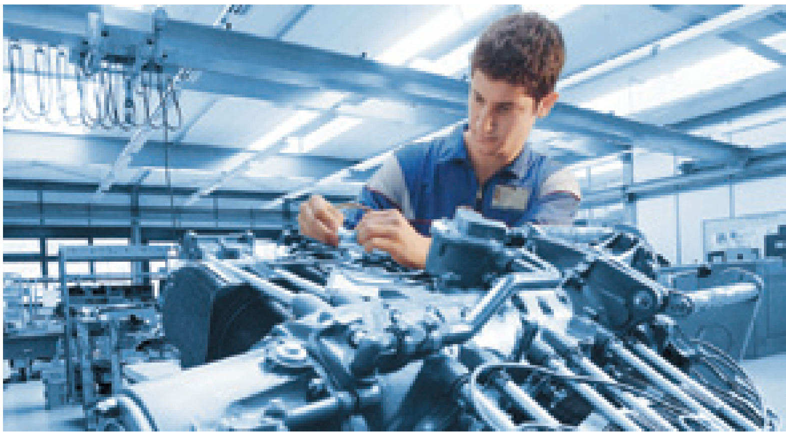
In five modules, Leadership I provides junior managers with the knowledge they need concerning the leadership, organizational, communication and management principles in place at RUAG. Topics such as teambuilding, change management, work-life balance and conflict management are also discussed, giving participants tools and codes of conduct for everyday work. The Leadership II programme for middle managers deals with the topics from the first level in greater depth and places an additional focus on leadership, strategic management and developing management style. The areas of financial management, project management, communication and marketing and sales are addressed in greater detail.
The leadership programme is aimed at helping to develop potential top managers.

Focus on staff

Another focal point is training existing staff at all levels. The in-house RUAG Business Training Center in Stans, inaugurated in 2008, helps to serve this purpose. The main aim of training is to increase internal mobility within the company. In pursuit of this goal, RUAG is establishing uniform, internationally recognized management processes and investing systematically in employee language training. This enhances the labour market value of individual employees and is essential for communication across national frontiers, and thus for mutual interchange of knowledge within an international technology group.

Division-specific management and process training seminars are also held at the RUAG Business Training Center. These two-days modular courses, which are designed to complement the Leadership programme, provide training on topics such as management by objectives, how to conduct target-setting meetings, Manager Desktop tools and divisional strategy.

RUAG also sets great store by the health of its employees. In 2009, a Group-wide health management system was initiated, which supports employees with preventative activities and active case management. The first measures will be put into action after an analysis phase in 2010. In addition, employees will have access to professional counselling via an external provider.



World vice-champion – the tip of the iceberg

André Reusser of RUAG Land Systems won the silver medal in Mechanical Engineering Design – CAD at the 2009 WorldSkills Competition in Calgary, Canada. This makes him RUAG's second WorldSkills medallist following Markus Lempen, who took second place in Industrial Electronics in 2003.

RUAG places its top apprentices on the Swiss Selection Team, where 14 trainees are currently receiving additional instruction from experienced apprenticeship supervisors with the aim of qualifying in the Swiss Skills Championships for the next WorldSkills Competition in London in 2011. By forming the Swiss Selection Team and providing active support to the SwissSkills foundation, which oversees the Swiss team at the WorldSkills Competition, RUAG is raising its appeal for apprentices within the company and interested school leavers.

Contents

Overview of key figures

in CHF million	2009	2008
Orders received	**1,872.1**	**1,581.6**
Orders on hand	**1,783.1**	**1,507.7**
Net sales	**1,695.5**	**1,536.8**
Operating income	**1,722.2**	**1,560.9**
Expenses for materials and services	(649.8)	(539.3)
Personnel expenses	(776.5)	(693.1)
Other operating (expenses) income	(257.7)	(206.5)
EBITDA before one-time charges[1]	125.2	-
EBITDA[2]	**38.2**	**122.0**
EBITDA as % of operating income	2.2%	7.8%
EBIT before one-time charges[1]	45.0	-
EBIT[3]	**(113.3)**	**57.1**
EBIT as % of operating income	(6.6%)	3.7%
Net profit (loss)	**(106.8)**	**50.7**
Net profit (loss) as % of operating income	(6.2%)	3.2%
Cash flow from operations	**130.7**	**81.0**
Cash flow from investment	**(229.9)**	**(120.5)**
Free cash flow	**(99.2)**	**(39.5)**
Cash flow from financial activities	**90.5**	**31.8**
Shareholder's equity before minority interests	**660.5**	**762.8**
Shareholder's equity as % of balance sheet total	37.3%	48.1%
Return on equity[4]	(15.0%)	6.6%
Depreciation and amortization[5]	**142.7**	**64.9**
Goodwill impairment	8.9	**-**
Research and development expenses	**148.9**	**123.4**
as % of operating income	8.6%	7.9%
Net sales per employee in CHF	233,781	243,552
Value added per employee in CHF	127,867	150,607
Employees at end December	7,534	6,687
Employees (annual average)	7,253	6,310
No. of registered shares (par value CHF 1,000)	340,000	340,000
Earnings (loss) per registered share	-314.02	149.15
Distributed dividend per registered share	29.41	44.12
Distribution ratio[6]	(9.4%)	29.6%
Book value per registered share	1,943	2,244

[1] One-time charges are described in Note 38, page 90
[2] EBITDA = Earnings before interest, taxes, depreciation/amortization and goodwill impairment
[3] EBIT = Earnings before interest and taxes
[4] Net profit as % of average shareholder's equity
[5] Depreciation of fixed assets and amortization of intangible assets
[6] Paid dividend as a ratio of consolidated net profit (loss)

Five-year overview

in CHF million	2009	2008	2007	2006	2005
Orders received	**1,872.1**	**1,581.6**	**1,684.3**	**1,658.7**	**1,230.0**
Orders on hand	**1,783.1**	**1,507.7**	**1,394.0**	**1,111.8**	**699.0**
Net sales	**1,695.5**	**1,536.8**	**1,409.1**	**1,247.3**	**1,193.5**
EBIT[1]	**(113.3)**	**57.1**	**76.4**	**70.7**	**19.1**
EBIT as % of operating income	(6.6%)	3.7%	5.4%	5.7%	1.6%
Net profit (loss)	**(106.8)**	**50.7**	**75.7**	**69.3**	**(18.7)**
Net profit (loss) as % of net sales	(6.2%)	3.2%	5.4%	5.6%	(1.6%)
Cash flow from operations	**130.7**	**81.0**	**52.3**	**105.2**	**82.0**
Cash flow from investment	**(229.9)**	**(120.5)**	**(80.0)**	**(99.8)**	**(46.2)**
Free cash flow	**(99.2)**	**(39.5)**	**(27.7)**	**5.4**	**35.8**
Cash flow from financial activities	**90.5**	**31.8**	**52.8**	**(47.7)**	**(49.6)**
Shareholder's equity before minority interests	**660.5**	**762.8**	**784.1**	**728.9**	**656.6**
Shareholder's equity as % of balance sheet total	37.3%	48.1%	54.5%	59.4%	55.4%
Return on equity[2]	(15.0%)	6.6%	10.0%	9.5%	(2.8%)
Research and development expenses	**148.9**	**123.4**	**84.6**	**76.2**	**47.9**
as % of net sales	8.6%	7.9%	6.0%	6.1%	4.0%
Employees at end December	7,534	6,687	6,104	5,720	5,577
Employees (annual average)	7,253	6,310	6,050	5,677	5,640

[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	2009	2008	Change in %
Net sales	6	**1,695.5**	**1,536.8**	10.3%
Own work capitalized		13.2	4.7	182.8%
Change in inventories and work in progress		13.4	19.4	(30.9%)
Operating performance		1,722.2	1,560.9	10.3%
Cost of materials and services		(649.8)	(539.3)	20.5%
Personnel expenses	7	(776.5)	(693.1)	12.0%
Other operating expenses	8	(257.7)	(206.5)	24.8%
EBITDA[1]		**38.2**	**122.0**	(68.7%)
Depreciation and amortization	17,18	(142.7)	(64.9)	(120.0%)
Goodwill impairment	18	(8.9)	-	-
EBIT[2]		**(113.3)**	**57.1**	(298.3%)
Financial income	10	1.0	2.1	(53.4%)
Financial expenses	10	(5.4)	(4.2)	(27.8%)
Profit (loss) from affiliates	19	1.8	3.6	(50.7%)
Profit (loss) before taxes		**(116.0)**	**58.6**	(297.9%)
Income taxes	11	(1.2)	(13.0)	(90.5%)
Deferred tax income (expense)	13	10.2	5.1	-
Minority interests		0.3	(0.0)	-
Profit (loss) from continuing operations		**(106.8)**	**50.7**	(310.5%)
Profit (loss) from discontinued operations	5	-	-	-
Net profit (loss)		**(106.8)**	**50.7**	(310.5%)
of which attributable to:				
RUAG		**(107.0)**	**50.7**	(311.1%)
Minority interests		0.3	(0.0)	-
Net profit (loss)		**(106.8)**	**50.7**	(310.5%)

[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 49 to 93 form an integral part of the consolidated financial statements.

Program delays in major civil aircraft projects, a considerable drop in customer demand, customers backsourcing orders and unanticipated start-up costs for new projects led to a significant deterioration in earnings at the Aerostructures unit in 2009. These factors called for a rethink of planning and a comprehensive risk assessment. Owing to the poor prospects and start-up costs, one-time charges of CHF 160 million in the Aerostructures unit had to be taken into account. These charges include impairment of fixed assets, intangible assets and goodwill of CHF 73.2 million, value adjustments to inventories of CHF 28.3 million, provisions of CHF 49.9 million and other costs of CHF 8.9 million.

Consolidated statement of comprehensive income 1 January to 31 December[1]

in CHF million	2009	2008	Change in %
Financial assets held for sale	-	-	-
Hedge accounting	12.7	(14.9)	(185.0%)
Profit (loss) due to revaluation	-	-	-
Other effects recognized directly in equity[2]	(1.7)	-	-
Translation differences	-	-	-
Tax effects	(0.0)	-	-
(Expense) income recognized directly in equity	10.9	(14.9)	(185.6%)
Net profit (loss) as per income statement	(106.8)	50.7	310.5%
Total comprehensive income	**(95.8)**	**35.8**	362.6%
Attributable to:			
RUAG	(96.1)	35.8	362.6%
Minority interests	0.3	(0.0)	-
Total comprehensive income	**(95.8)**	**35.8**	362.6%

[1] Consolidated statement of comprehensive income in accordance with IAS 1R

[2] Owing to the application of IAS 19, Nitrochemie Wimmis AG (equity company) recognized changes in equity in financial year 2009. The proportional effect for RUAG is shown under "Other effects recognized directly in equity".

The notes to the consolidated financial statements on pages 49 to 93 form an integral part of the consolidated financial statements.

Consolidated balance sheet as per 31 December

in CHF million	Note	2009	2008	Change in %
Cash and cash equivalents	13	68.9	65.3	5.5%
Short-term financial assets	14	9.2	7.4	25.5%
Accounts receivable	15	383.2	423.4	(9.5%)
Prepaid income taxes		4.6	8.1	(43.4%)
Prepaid expenses		17.5	16.8	4.4%
Inventories and work in progress	16	443.3	394.5	12.4%
Current assets		**926.8**	**915.5**	1.2%
Fixed assets	17	474.4	433.0	9.5%
Investment property	17	82.8	95.5	(13.3%)
Intangible assets	18	119.6	37.4	220.0%
Goodwill	18	88.4	43.9	101.5%
Affiliates	19	38.5	40.8	(5.6%)
Long-term financial assets	20	3.3	3.1	3.4%
Deferred tax assets		26.6	17.9	48.0%
Fixed assets		**833.5**	**671.6**	24.1%
Assets held for sale	17	10.0	-	-
TOTAL ASSETS		**1,770.3**	**1,587.1**	11.5%
Short-term financial liabilities	21	247.2	101.6	143.2%
Other short-term liabilities	22	23.4	30.6	(23.6%)
Accounts payable	23	359.2	321.4	11.8%
Current tax liabilities		11.0	18.0	(39.2%)
Prepaid income		161.4	69.5	132.2%
Current provisions	26	132.1	94.2	40.2%
Short-term liabilities		**934.2**	**635.5**	47.0%
Long-term financial liabilities	24	0.9	62.8	(98.6%)
Other long-term liabilities	25	2.7	3.7	(27.3%)
Long-term provisions	26	110.2	93.3	18.1%
Deferred tax liabilities		60.7	28.5	113.1%
Long-term liabilities		**174.5**	**188.3**	(7.3%)
Share capital		340.0	340.0	-
Paid-up premium		5.5	5.5	(2.2%)
Retained earnings		334.8	453.5	(25.1%)
Other reserves		(2.1)	(14.9)	37.5%
Translation differences		(17.6)	(21.2)	16.9%
Shareholder's equity before minority interests		**660.5**	**762.8**	(13.4%)
Minority interests		**1.1**	**0.5**	101.2%
Total shareholder's equity after minority interests		**661.6**	**763.4**	(13.3%)
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,770.3**	**1,587.1**	11.5%

The notes to the consolidated financial statements on pages 49 to 93 form an integral part of the consolidated financial statements.

Consolidated cash flow statement 1 January to 31 December

in CHF million	Note	2009	2008
Net profit (loss)		**(106.8)**	**50.7**
Depreciation and amortization	17, 18	142.7	64.9
Goodwill impairment	18	8.9	-
Change in long-term provisions and deferred taxes	26	0.9	7.3
Utilization of provisions	26	(2.7)	(6.7)
Profit applicable to affiliated companies	19	(1.8)	(3.6)
Other items not affecting expenses		(1.7)	-
Change in working capital[1]		85.5	(33.3)
Revised net proceeds from sale of assets		0.5	(0.4)
Financial income received		(1.0)	(2.1)
Financial expenses paid		6.2	4.2
Cash flow from operations[2]		**130.7**	**81.0**
Investment in movable fixed assets[3]	17	(46.1)	(44.7)
Investment in immovable fixed assets	17	(38.9)	(24.4)
Investment in intangible assets	18	(2.7)	(1.2)
Investment in holdings	5, 18	(146.1)	(58.7)
Disposal of movable fixed assets		1.0	1.2
Disposal of immovable fixed assets		0.1	0.7
Disposal of intangible assets		0.0	0.0
Disposal of holdings		-	3.4
Dividends received from equity holdings	19	2.8	3.3
Dividends received from unconsolidated holdings	19	0.0	-
Increase in third-party financial investments (fair value)		-	-
Decrease in third-party financial investments (fair value)		-	-
Cash flow from investment		**(229.9)**	**(120.5)**
Free cash flow		**(99.2)**	**(39.5)**
Net increase (decrease) in capital[4]		(0.0)	0.0
Increase in third-party financial assets		0.1	(0.0)
Decrease in third-party financial assets		1.7	3.6
Increase in third-party financial liabilities		125.1	130.0
Decrease in third-party financial liabilities		(20.4)	(81.5)
Lease payments from financial leases		(4.6)	(3.2)
Financial income received		1.0	2.1
Financial expenses paid		(6.2)	(4.2)
Dividends paid to shareholder		(10.0)	(15.0)
Cash flow from financial activities		**86.7**	**31.8**
Exchange-rate differences in cash and cash equivalents		0.4	(4.4)
Cash and cash equivalents acquired (sold)	5	15.6	21.4
Changes in cash and cash equivalents		**3.6**	**9.3**
Cash and cash equivalents at start of period		65.3	56.0
Cash and cash equivalents at end of period		69.0	65.3

[1] Excludes short-term financial assets and short-term financial liabilities and other liabilities

[2] Including income taxes of CHF 8.5 million (previous year CHF 3.9 million) paid in the year under review

[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 49 to 93 form an integral part of the consolidated financial statements.

Consolidated statement of equity

in CHF million

	Share capital	Paid-up premium	Retained earnings	Other reserves[1]	Translation differences	Minority interests	Total share-holder's equity
Balance sheet value on 31 December 2007	**340.0**	**1.4**	**441.1**	**-**	**21.4**	**0.5**	**804.4**
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	-	-	-	(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	-	-	-	-	-	-	-
Translation 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**
Restatement	-	-	-	-	-	-	-
Balance sheet value on 1 January 2009	**340.0**	**5.5**	**453.5**	**(14.9)**	**(21.2)**	**0.5**	**763.4**
Change[2]	-	-	(1.9)	-	-	(0.1)	(2.0)
Net profit (loss)	-	-	(106.8)	-	-	(0.3)	(107.0)
Direct recognition of (expenditure) income in shareholder's equity, net after taxes	-	-	0.1	12.8	-	-	12.9
Total profit and loss recognized in 2009	**-**	**-**	**(108.6)**	**12.8**	**-**	**(0.3)**	**(96.1)**
Earnings distribution from 2008 results	-	-	(10.0)	-	-	0.0	(10.0)
Buyout of minority interests	-	-	(0.1)	-	-	-	(0.1)
Minority interests from first-time consolidation	-	-	-	-	-	0.9	0.9
Translation differences	-	-	0.0	-	3.6	-	3.6
Balance sheet value on 31 December 2009	**340.0**	**5.5**	**334.8**	**(2.1)**	**(17.6)**	**1.1**	**661.6**

[1] *Treatment of financial instruments (IAS 39)*
In 2008 RUAG changed the way of booking 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 measured at fair value; the effective portion of the change in fair value of the hedging instrument is recognized directly in equity under "other reserves", while the ineffective portion is recognized in the income statement under "other operating expenses". Due to the occurrence of the underlying transactions, CHF 8.8 million was booked out of other reserves under shareholder's equity in 2009 and shown under other operating income (in the previous year, CHF 3.5 million was shown under other operating expenses).

The other reserves of CHF 2.1 million (previous year: CHF -14.9 million) shown in the balance sheet as per 31 December 2009 comprise 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.

[2] *Change in retained earnings*
Owing to the application of IAS 19, Nitrochemie Wimmis AG (equity company) recognized changes in equity in financial year 2009. The proportional effect for RUAG is shown in retained earnings under "Change".

During the year under review, CHF 10.0 million (previous year CHF 15.0 million) was distributed to the shareholder as dividends. This is equivalent to a dividend per share of CHF 29.41 (previous year CHF 44.12).

The notes to the consolidated financial statements on pages 49 to 93 form an integral part of the consolidated financial statements.

Accounting principles

1 Business activities and relationship with the Swiss Confederation

RUAG Holding Ltd is a Swiss joint-stock company with headquarters in Berne. It is wholly owned by the Swiss Confederation. RUAG Holding Ltd 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. According to this 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 Ltd. Under the terms of the Federal Act on State-Owned Armaments Companies, any reduction in the Confederation's shareholding to less than the majority would require a change in 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 by 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 Sport (DDPS), and procures services from the same. The DDPS is RUAG's largest customer. The procurement contracts awarded by the DDPS for defence equipment 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	3
IAS 1 A	Presentation of Financial Statements: Current/non-current classification of convertible instruments	01.01.2010	2010	2
IAS 7 A	Statement of Cash Flows: Classification of expenditures on unrecognized assets	01.01.2010	2010	4
IAS 17 A	Leases: Classification of leases of land and buildings	01.01.2010	2010	2
IAS 18 A	Revenue: Determining whether an entity is acting as a principal or as an agent	n/a	n/a	4
IAS 23 R	Borrowing Costs	01.01.2009	2009	1
IAS 24	Related Party Disclosures	01.01.2011	2011	4
IAS 27 A	Consolidated and Separate Financial Statements	01.07.2009	2009	1
IAS 32 and IAS 1 A	Changes to statements on callable financial instruments and obligations arising on liquidation	01.01.2009	2009	1
IAS 36 A	Impairment of Assets: Unit of accounting for goodwill impairment test	01.01.2010	2010	4
IAS 38 A	Intangible Assets: Additional consequential amendments arising from revised IFRS 3; Measuring the fair value of an intangible asset acquired in a business combination	01.07.2009	2009	1
IAS 39	Financial instruments: Recognition and Measurement – changes to risk positions that qualify for hedge accounting	01.07.2009	2009	1
IAS 39 A	Financial Instruments: Bifurcation of an embedded foreign currency derivative; scope exemption for business combination contracts; cash flow hedge accounting	01.01.2010	2010	4
IFRS 1 and IAS 27 A	Determination of historical cost of a holding – first-time application	01.01.2009	2009	5
IFRS 2 A	Share-based Payment: Scope of IFRS 2 and revised IFRS 3	01.07.2009	2009	1
IFRS 3 A	Business Combinations	01.07.2009	2009	5
IFRS 5 A	Non-current Assets Held for Sale and Discontinued Operations: Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations	01.01.2010	2010	2
IFRS 7	Financial Instruments: Disclosures	01.01.2009	2009	3

		Implementation	Application	Effect
IFRS 8	Operating Segments	01.01.2009	2009	4
IFRS 8 A	Operating Segments: Disclosure of information about segment assets	01.01.2010	2010	4
IFRS 9	Financial Instruments: Classification and measurement	01.01.2013	2013	4
IFRIC 9	Reassessment of embedded derivatives: Scope of IFRS 9 and revised IFRS 3	01.07.2009	2009	1
IFRIC 13	Customer Loyalty Programmes	01.07.2008	2009	1
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction	01.01.2011	2011	2
IFRIC 15	Agreements for the Construction of Real Estate	01.01.2009	2009	1
IFRIC 16	Hedges of a Net Investment in a Foreign Operation: Amendment to the restriction on the entity that can hold hedging instruments	01.01.2009	2009	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
[5] Adopted early

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 93.

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 statements. 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 (less than 20 percent 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 seller 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 seller'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 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, minus any cost of disposal. Where the carrying amount is more than the higher of fair value minus disposal 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 in the process assesses 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 exchange rate applicable on the balance sheet date. The resulting translation 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 translation 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. Translation 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 translation differences. In the event of a sale of a foreign subsidiary or affiliate, cumulative translation 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 of booking financial and hedging instruments. Changes in the value of instruments used to hedge the cash flows from an anticipated transaction or firm commitment and which offer an effective hedge have since been booked under cash flow hedge.

Hedging instruments are measured at fair value; the effective portion of the change in fair value of the hedging instrument is recognized directly in equity under “other reserves”, while the ineffective portion is recognized in the 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 current hedges of RUAG 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 per 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

Cash and cash equivalents 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), minus 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.

In the Space division (Aerospace market segment), the milestone method is applied in relation to the Zurich production facility. Here, project milestones are defined on the basis of individual customer contracts; upon reaching these milestones, services performed are invoiced to the customer and revenues and income are therefore realized on a pro-rata basis.

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.

Revenues from services provided are recognized in the income statement on the basis of the state of execution as at the balance sheet date.

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

Fixed and intangible assets are measured at acquisition cost minus 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 investment properties. Properties are shown at the cost of acquisition minus 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	5 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, minus any cost of disposal. Where the carrying amount is more than the higher of fair value minus 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 liability; and

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

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 determined.

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 contributions system as defined by law. This provides statutory coverage for retirement, death and disability. 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 Sport (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 Sport (DDPS), and procures services from the same. The DDPS is RUAG's largest customer. The procurement contracts awarded by the DDPS for armament products and services are subject to civil law. The process of awarding such 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 for 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

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

Identified risks are quantified (in terms of probability of occurrence and impact) and entered on a risk map. This risk map is discussed periodically by the Board of Directors and the Audit Committee. 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 cash and cash equivalents. 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 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 (CHF). Accordingly, RUAG's foreign currency 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 which are used 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 2009, 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 16.8% (previous year: 40.1%) of total trade receivables as at 31 December 2009. This is the only concentrated credit risk that exceeds 5% of trade receivables. The nominal value of trade receivables minus 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 cash and cash equivalents 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.

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 cash and cash equivalents, short- and long-term financial assets minus 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 2009 the figure was 21.8% (previous year: 9.4%).

3.3 Fair value measurement

Following the amendments to IFRS 7 Financial Instruments, which came into force on 1 January 2009, fair value measurement disclosures for financial instruments are based on the following three-level hierarchy:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2).

c) Inputs for assets or liabilities that are not based on observable market data (unobservable inputs) (Level 3)

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 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 fixed assets, 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 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. To ensure construction contracts are treated uniformly, measurement methods were harmonized in the year under review. The change in these measurement methods has a positive effect of CHF 8.5 million on the result for the period.

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 warranties 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 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.

Uncertainties regarding estimates in the Aerostructures unit

The one-time charges booked to the Aerostructures unit in the reporting year included significant assumptions and estimates used in calculating the book values of the related assets (fixed assets CHF 3 million, inventories and work in progress CHF 58 million, intangible assets CHF 0 million, goodwill CHF 0 million) and liabilities (provisions CHF 61 million). These are based on best estimates at the time of the approval of the consolidated financial statements for 2009. However, the management cannot exclude the possibility that the assumptions and estimates used may change during the next financial year, which may make it necessary to amend the book values of the related assets and liabilities significantly.

5 Corporate acquisitions/sales/mergers

Acquisitions

On 1 July 2009, RUAG took over the Space business unit of OC Oerlikon by acquiring 100% of Oerlikon Space AG. The purchase significantly strengthens RUAG's position in the European and US aerospace industry. With headquarters in Zurich, Oerlikon Space is one of the most important manufacturers of payload fairings using composite materials technology. The company is also among the European suppliers of satellite structures as well as mechanical and electro-optical subsystems for space.

Following the completion of the acquisition, Oerlikon Space was renamed RUAG Space Ltd. The cash purchase price was CHF 133.1 million. In the first year, the companies acquired generated sales of CHF 88.6 million.

On 1 January 2009, RUAG acquired 100% of MFS 2000. The purchase of the Hungarian company bolsters RUAG's international position in the small-calibre ammunition business.

In 2009, RUAG acquired an additional 26% shareholding in GEKE Schutztechnik GmbH, with headquarters in Lichtenau, Germany. The company has been fully consolidated since the acquisition of the majority shareholding. The previous 25% interest in GEKE Schutztechnik GmbH had been stated as an equity interest as of the purchase date in 2008. GEKE develops innovative solutions in the protection and ammunition areas.

The Environment business unit acquired an additional 24% of SwissRepair AG, which is based in Dietikon, in the year under review. SwissRepair AG has been fully consolidated since the acquisition of the majority shareholding. The previous 28% interest in SwissRepair AG had been stated as an equity interest as of the purchase date in the previous year. The Environment business unit operates plants that recycle retail, commercial, trade and household electrical and electronic waste and offers successful integral disposal strategies for companies.

RUAG acquired Saab AB'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 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 first four months of their incorporation into the RUAG Group (Sep. – Dec. 2008), the acquired companies generated sales of CHF 47.3 million.

Mergers

In the year under review, RUAG Aerospace Ltd was merged with RUAG Components Ltd to form RUAG Switzerland Ltd. RUAG Electronics Ltd was also merged with Sintro Electronics AG. In the previous year, TSA Transairco SA was merged with RUAG Aerospace Ltd.

New companies
In the year under review, RUAG Ammotec USA Inc. was established in Tampa, Florida.

RUAG Sweden AB was formed as an acquisition company in the previous year in connection with the purchase of Saab's space activities.

Disposals
In 2008 the minority holding in Veolia Umwelt Service Schweiz AG was sold to the majority shareholder.

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 2009**	**Sale 2009**	**Acquisition 2008**	**Sale 2008**
Current assets	152.3	-	96.6	(3.4)
Fixed assets	83.4	-	14.0	-
Intangible assets	92.7	-	31.6	-
Goodwill	53.1	-	10.3	-
Short and long-term liabilities	(113.3)	-	(74.9)	-
Deferred tax liabilities	(32.3)	-	(9.0)	-
Acquired (sold) assets and liabilities	**235.8**	**-**	**68.6**	**(3.4)**
Agreed price	(241.5)	-	(58.8)	3.4
Escrow account	-	-	-	-
Assumption of financial liabilities	95.5	-	-	-
Translation differences	-	-	0.1	-
Gross cash (outflow) inflow	**(146.1)**	**-**	**(58.7)**	**3.4**
Cash and cash equivalents acquired (sold)	15.6	-	21.4	-
Net cash (outflow) inflow	**(130.4)**	**-**	**(37.3)**	**3.4**

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 and customer relationships following the acquisition.

	2009	2008
6 Net sales (in CHF million)		
Invoiced sales	1,716.2	1,569.0
Change in percentage of completion	(20.6)	(32.1)
Net sales	**1,695.5**	**1,536.8**
Department of Defence, Civil Protection and Sport (DDPS)	622.5	570.7
Third parties	1,093.8	998.2
Invoiced sales by customer group	**1,716.2**	**1,569.0**
Defence	914.7	840.8
Civil	801.5	728.2
Invoiced sales by type of use	**1,716.2**	**1,569.0**
Production	995.2	906.9
Maintenance	554.4	485.3
Services	166.6	176.8
Invoiced sales by type of order	**1,716.2**	**1,569.0**
Switzerland	765.2	740.5
Rest of Europe	745.6	649.7
Middle East	22.7	34.6
North America	113.0	93.1
South America	11.2	9.0
Asia / Pacific	44.0	34.4
Africa	14.6	7.7
Invoiced sales by region	**1,716.2**	**1,569.0**

7 Personnel expenses (in CHF million)		
Wages and salaries	(588.8)	(532.9)
Pension fund contributions	(38.6)	(32.3)
Other welfare payments	(89.1)	(72.2)
Contract personnel	(32.8)	(26.2)
Other personnel expenses	(27.3)	(29.5)
Total	**(776.5)**	**(693.1)**

8 Other operating expenses (in CHF million)		
Cost of premises	(32.9)	(28.4)
Maintenance and upkeep of fixed assets	(54.8)	(54.1)
Cost of energy and waste disposal	(14.6)	(25.1)
Property insurance and dues	(7.9)	(7.1)
Administration and IT expenses	(47.9)	(37.5)
Advertising expenses	(16.8)	(18.0)
Other operating expenses	(82.8)	(36.4)
Total	**(257.7)**	**(206.5)**

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.

	2009	2008
9 Research and development costs (in CHF million)		
Total	**(148.9)**	**(123.4)**

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.

	2009	2008
10 Financial income (in CHF million)		
Interest income	1.0	2.1
Realized capital gains	-	-
Realized gains on securities	-	-
Total	**1.0**	**2.1**

	2009	2008
Financial expenses (in CHF million)		
Interest expenses	(5.5)	(4.2)
Realized capital losses	-	-
Realized losses on securities	0.0	0.0
Impairments on financial assets	-	-
Total	**(5.4)**	**(4.2)**

	2009	2008
11 Income taxes (in CHF million)		
Income taxes		
Income taxes for current year	(1.2)	(13.0)
Deferred taxes		
(Accrual) and cancellation of transitory differences	10.2	5.1
Total effective tax income (expense)	**8.9**	**(7.9)**

On a loss before taxes, there was a tax income of CHF 8.9 million (previous year: CHF 7.9 million tax expense) in the year under review. Tax income arises mainly due to the capitalization of tax 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	2009	2008
Pretax (profit) loss	**(116.0)**	**58.6**
Expected weighted tax rate in %	25.5%	22.2%
Expected tax income (expense)	**29.5**	**(13.0)**
Emergence arising from time differences	(1.3)	(0.7)
Use of unrecognized tax loss carry-forwards from previous years	6.8	1.1
Capitalized (non-capitalized) tax losses from the current year	(23.2)	1.4
Expenses not recognized under tax regulations	(13.1)	0.1
Tax-free income	5.3	2.5
Income taxed at reduced rates	-	(0.0)
Increase (reduction) in tax rate	0.7	0.0
Change in applicable tax rates	(0.0)	0.0
Tax credits/debits from prior periods	7.3	0.7
Goodwill impairment	-	-
Difference versus effective tax rate	(3.2)	-
Total effective tax income (expense)	**8.9**	**(7.9)**

Tax loss carry-forwards by date of expiry		
2009	-	1.7
2010	7.6	7.2
2011	12.8	5.0
2012	36.5	51.2
2013	30.6	1.0
2014	-	0.3
2015	0.2	7.7
after 2015	136.4	0.0
Total	**224.1**	**74.0**
Possible tax effect of loss carry-forwards	47.1	15.5
of which capitalized as deferred tax assets	14.6	6.6
of which non-capitalized	32.4	8.9

In addition, there are temporary differences in goodwill in the amount of CHF 13.4 million (previous year CHF 15.6 million). The tax claim on these temporary differences in the amount of CHF 4.1 million (previous year CHF 4.8 million) was not capitalized.

12 **Deferred tax expenses** (in CHF million)		
Emergence/dissolution arising from time differences of the current period	3.5	4.7
Change due to an adjustment of the tax rate	0.4	(0.0)
Capitalization of tax loss carry-forwards	10.1	2.3
Use of capitalized, deferred taxes	(3.9)	(2.0)
Translation differences	0.0	-
Total	**10.2**	**5.1**

	2009	2008
13 Cash and cash equivalents (in CHF million)		
Cash	0.4	1.4
Sight balances with banks	68.0	63.2
Money-market investments	0.5	0.7
Total	**68.9**	**65.3**

Currencies of cash and cash equivalents (in CHF million)		
CHF	8.1	23.9
EUR	31.9	16.7
USD	11.5	12.0
GBP	4.5	1.4
SEK	12.5	11.2
HUF	0.4	-
Total cash and cash equivalents	**68.9**	**65.3**

14 Short-term financial assets (in CHF million)		
Short-term third-party assets	9.2	7.4
Total	**9.2**	**7.4**

Short-term financial assets comprise the value of open foreign currency hedging transactions (cf. financial instruments, Note 36, page 84).

Currencies of short-term financial assets (in CHF million)		
CHF	0.1	0.2
EUR	3.6	0.3
USD	5.4	5.5
GBP	0.1	1.4
SEK	0.1	-
HUF	-	-
Total short-term financial assets	**9.2**	**7.4**

15 Accounts receivable (in CHF million)		
Trade accounts receivable	318.5	329.4
Accounts receivable from affiliates	0.0	0.0
Advance payments to suppliers	53.5	69.1
Advance payments to affiliates	-	-
Value adjustments[1]	(9.0)	(10.1)
Total trade accounts receivable	**363.0**	**388.4**
Short-term accounts receivable from shareholders	-	-
Short-term accounts receivable from government agencies	12.5	12.6
Other short-term accounts receivable	7.7	22.4
Total accounts receivable	**383.2**	**423.4**

[1] Change included in other operating expenses

Maturity structure of accounts receivable (in CHF million)	**2009**	**2008**
Not overdue	283.4	320.9
Overdue 1–30 days	64.4	60.5
Overdue 31–60 days	14.3	16.1
Overdue 61–90 days	5.3	3.5
Overdue 91–180 days	5.2	8.9
Overdue more than 180 days	10.6	13.4
Total	**383.2**	**423.4**

Currencies of receivables and prepayments (in CHF million)		
CHF	178.8	181.4
EUR	155.6	182.9
USD	44.1	50.8
GBP	3.1	1.9
SEK	1.1	6.5
HUF	0.5	-
Total	**383.2**	**423.4**

Charges for bad or doubtful debts contain individual value adjustments in the amount of CHF 9.0 million (previous year: CHF 10.1 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)		
Balance sheet value as at 1 January	(10.1)	(7.6)
Initial consolidation	-	(0.2)
Increase in charges	(7.4)	(3.9)
Call on charges	2.8	1.3
Release of charges	5.4	0.7
Eliminations	-	-
Currency differences	0.3	(0.4)
Balance sheet value as at 31 December	**(9.0)**	**(10.1)**
Charges for bad or doubtful debts	(9.0)	(10.1)
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.

16 Inventories and work in progress (in CHF million)	2009	2008
Raw materials and supplies	245.0	176.4
Work in progress at cost of production	80.9	72.6
Work in progress (percentage of completion)[1]	84.0	97.3
Semi-finished products	106.4	88.7
Finished products	62.0	61.0
Value adjustments	(134.9)	(101.5)
Total	**443.3**	**394.5**

The book value of all inventories stated at the agreed fair value minus disposal costs comes to CHF 184.0 million (previous year CHF 122.5 million). In the year under review, a total of CHF 419.6 million was booked to material costs (previous year CHF 360.9 million). The value adjustment for inventories treated as expenses came to CHF 59.3 million (previous year CHF 9.7 million). Upward revaluations of the net realizable value of inventories from value adjustments carried out in previous periods came to CHF 8.1 million in the year under review (previous year CHF 0.3 million).

[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	459.0	331.1
Accrued costs of current projects as at balance sheet date	705.1	516.4
+ Profit contribution from current projects as at the balance sheet date	161.2	44.3
= Accrued costs incurred including profit contribution	866.2	560.8
Share of partial invoicing	(747.1)	(426.9)
Total deferral from POC method[2]	119.1	133.9
Downpayments received from customers on POC orders (inluded in advance payments from customers)	110.8	172.8

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

Program delays in major civil aircraft projects, a considerable drop in customer demand, customers backsourcing orders and unanticipated start-up costs for new projects led to a significant deterioration in earnings at the Aerostructures unit in 2009. These factors called for a rethink of planning and a comprehensive risk assessment. Owing to the poor prospects and start-up costs, one-time charges of CHF 160 million in the Aerostructures unit had to be taken into account. These charges include impairment of fixed assets, intangible assets and goodwill of CHF 73.2 million, value adjustments to inventories of CHF 28.3 million, provisions of CHF 49.9 million and other costs of CHF 8.9 million.

17 **Fixed assets** (in CHF million)	Mach./tech. equipment	Leased assets[1]	Other fixed assets[2]	Land	Buildings	Assets under const.	**Fixed assets**
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)	**-**
Translation 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)	-	**-**
Translation 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**
Cost of acquisition							
As at 1 January 2009	**470.8**	**19.1**	**169.6**	**50.2**	**544.5**	**12.1**	**1,266.3**
Initial consolidation	14.6	-	22.0	32.8	120.7	2.2	**192.3**
Eliminations from scope of consolidation	-	-	(0.6)	(0.0)	0.5	0.0	**(0.1)**
Additions	30.5	-	15.6	0.1	12.3	23.2	**81.8**
Eliminations	(7.9)	(0.0)	(2.3)	(0.0)	(3.9)	-	**(14.1)**
Upward revaluation	-	-	-	-	-	-	**-**
Reclassifications	19.7	(10.3)	2.2	(7.0)	(43.1)	(5.9)	**(44.4)**
Translation differences	1.3	(0.0)	0.2	0.0	0.1	(0.2)	**1.5**
As at 31 December 2009	**528.9**	**8.9**	**206.8**	**76.1**	**631.3**	**31.5**	**1,483.3**
Cumulative value adjustment							
As at 1 January 2009	**320.5**	**10.5**	**131.7**	**0.1**	**370.4**	**-**	**833.3**
Initial consolidation	12.6	-	17.9	-	78.4	-	**108.9**
Eliminations from scope of consolidation	-	-	(0.4)	-	0.4	-	**(0.1)**
Scheduled depreciation	27.0	1.5	14.3	0.0	17.0	-	**59.9**
Impairment	58.8	2.5	2.1	-	0.4	-	**63.7**
Eliminations	(7.1)	-	(1.8)	-	(3.7)	-	**(12.6)**
Residual-value impairment	-	-	-	-	-	-	**-**
Reclassifications	5.4	(5.6)	0.1	-	(45.1)	-	**(45.2)**
Translation differences	0.8	(0.0)	0.3	0.0	0.1	-	**1.2**
As at 31 December 2009	**418.1**	**8.9**	**164.1**	**0.2**	**417.8**	**-**	**1,009.0**
Balance sheet value							
as at 1 January 2009	**150.2**	**8.7**	**37.9**	**50.0**	**174.1**	**12.1**	**433.0**
as at 31 December 2009	**110.8**	**-**	**42.7**	**75.9**	**213.4**	**31.5**	**474.4**

[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 2,433.3 million (previous year CHF 2,537.7 million).

Program delays in major civil aircraft projects, a considerable drop in customer demand, customers backsourcing orders and unanticipated start-up costs for new projects led to a significant deterioration in earnings at the Aerostructures unit in 2009. These factors called for a rethink of planning and a comprehensive risk assessment. Owing to the poor prospects and start-up costs, one-time charges of CHF 160 million in the Aerostructures unit had to be taken into account. These charges include impairment of fixed assets, intangible assets and goodwill of CHF 73.2 million, value adjustments to inventories of CHF 28.3 million, provisions of CHF 49.9 million and other costs of CHF 8.9 million.

Due to the deterioration in earnings in 2009 and poorer prospects for the Aerostructures unit (included in the Aerospace market segment), future cash flows had to be re-estimated. This re-estimation resulted in a lower realizable value (value in use) than the carrying amount, leading to an impairment of fixed assets – mainly machinery and technical equipment – in the amount of CHF 63.7 million. The cash-generating unit is the Aerostructures unit and, for the purpose of determining the value in use, a discount rate of 9% (previous year 9%) was used.

Immovable fixed assets qualifying as investment properties have the following acquisition and balance sheet values:

	2009	2008
Value at acquisition		
As at 1 January	**177.8**	**175.1**
Initial consolidation	-	-
Eliminations from scope of consolidation	-	-
Additions	3.3	2.7
Eliminations	-	-
Upward revaluation	-	-
Reclassifications	34.4	-
Translation differences	-	-
As at 31 December	**215.4**	**177.8**
Cumulative value adjustments		
As at 1 January	**82.3**	**77.9**
Initial consolidation	-	-
Eliminations from scope of consolidation	-	-
Scheduled depreciation	5.1	4.3
Impairment	-	-
Eliminations	-	-
Residual-value impairment	-	-
Reclassifications	45.2	-
Translation differences	-	-
As at 31 December	**132.6**	**82.3**
Balance sheet value		
as at 1 January	**95.5**	**97.2**
as at 31 December	**82.8**	**95.5**

The investment property has an estimated market value of CHF 174–200 million for 2008/2009. 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 19.2 million (CHF 17.0 million in the previous year) and the total real estate expenses to CHF 13.9 million (CHF 15.2 million in the previous year).

Majority-leased sites to third parties are classified as investment properties. In 2009, there were four such sites (Berne, Boden, Wimmis and Aigle). Agreed capital commitments as per 31 December 2009 amounted to CHF 0.2 million (CHF 0.3 million in the previous year). There were no agreed commitments in respect of maintenance work as per 31 December 2009 (previous year CHF 0.0 million).

In the year under review, real estate not required for operational purposes with a value of CHF 10.0 million was reclassified as assets held for sale. This had been acquired in connection with the acquisition of Oerlikon Space AG. The onward sale of this real estate was agreed in December 2009, transfer of which will probably be finalized in the first quarter of 2010 upon entry in the land register. This transaction does not affect the operating result.

18 Intangible assets/goodwill in CHF million	Patents	Brands and models	Licences and rights	Orders on hand and customer relationships	**Intang. assets**	**Goodwill**
Cost of acquisition						
As at 1 January 2008	11.3	12.5	11.8	-	**35.6**	**37.6**
Initial consolidation	-	-	-	26.4	**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	-	-	-	-	**-**	-
Translation differences	(0.3)	(1.2)	(0.9)	-	**(2.4)**	(4.0)
As at 31 December 2008	7.5	11.3	12.1	26.4	**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 depreciation	2.0	1.6	1.1	2.9	**7.7**	-
Impairment	-	-	-	-	**-**	-
Eliminations	(3.5)	-	(0.0)	-	**(3.5)**	-
Reclassifications	-	-	-	-	**-**	-
Translation differences	(0.1)	(0.4)	(0.7)	(0.4)	**(1.6)**	-
As at 31 December 2008	4.3	4.9	8.3	2.5	**20.0**	**-**
Cost of acquisition						
As at 1 January 2009	7.5	11.3	12.1	26.4	**57.3**	**43.9**
Initial consolidation	-	2.2	2.0	88.5	**92.7**	52.0
Eliminations from scope of consolidation	-	-	(0.0)	-	**(0.0)**	-
Additions	0.1	-	2.6	-	**2.7**	1.1
Eliminations	-	-	(1.0)	-	**(1.0)**	-
Upward revaluation	-	-	-	-	**-**	-
Reclassifications	-	-	-	-	**-**	-
Translation differences	(0.0)	1.0	(0.1)	(0.0)	**0.9**	0.3
As at 31 December 2009	7.7	14.5	15.6	114.9	**152.7**	**97.3**
Cumulative value adjustment	-	-	-	-	**-**	**-**
As at 1 January 2009	4.3	4.9	8.3	2.5	**20.0**	**-**
Initial consolidation	-	-	0.1	-	**0.1**	-
Eliminations from scope of consolidation	-	-	0.0	-	**0.0**	-
Scheduled amortization	0.6	2.1	2.0	8.6	**13.3**	-
Impairment	-	-	0.6	-	**0.6**	8.9
Eliminations	-	-	(1.0)	-	**(1.0)**	-
Reclassifications	-	-	-	-	**-**	-
Translation differences	(0.0)	0.1	(0.0)	(0.0)	**0.0**	-
As at 31 December 2009	4.9	7.1	10.0	11.1	**33.1**	**8.9**
Balance sheet value						
as at 1 January 2009	3.3	6.3	3.8	23.9	**37.4**	**43.9**
as at 31 December 2009	2.8	7.4	5.6	103.8	**119.6**	**88.4**

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%).

Program delays in major civil aircraft projects, a considerable drop in customer demand, customers backsourcing orders and unanticipated start-up costs for new projects led to a significant deterioration in earnings at the Aerostructures unit in 2009. These factors called for a rethink of planning and a comprehensive risk assessment. Owing to the poor prospects and start-up costs, one-time charges of CHF 160 million in the Aerostructures unit had to be taken into account. These charges include impairment of fixed assets, intangible assets and goodwill of CHF 73.2 million, value adjustments to inventories of CHF 28.3 million, provisions of CHF 49.9 million and other costs of CHF 8.9 million.

This re-estimation resulted in a complete impairment of the goodwill of the Aerostructures unit (cash-generating unit) in the amount of CHF 8.9 million as well as an impairment of licences and rights of CHF 0.6 million.

Goodwill is a result of acquisitions in the Aerospace and Defence market segments and breaks down as follows:

in CHF million	**2009**	**2008**
Aerospace	68.9	24.4
Defence	19.5	19.5
As at 31 December	**88.4**	**43.9**

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.

The goodwill of CHF 8.9 million in the Aerostructures cash generating unit in the Aerospace market segment was written down in full in the reporting year.

19 **Subsidiaries and affiliates** (in CHF million)

As at 1 January	**40.8**	**42.8**
Acquisitions	0.0	0.5
Initial consolidation	(0.4)	
Pro-rata results after taxes and minority interests	1.7	3.6
Dividends	(2.8)	(3.3)
Reclassifications	-	-
Other equity movements	(1.8)	-
Translation differences	1.0	(2.8)
As at 31 December	**38.5**	**40.8**

[1] Switch to full consolidation

The financial information from affiliated companies (100%) is as follows:

Aggregate financial information from affiliated companies (in CHF million)	**2009**	**2008**
Total assets	159.9	165.3
Total liabilities	75.1	73.7
Net assets	**84.8**	**91.6**
Sales	149.7	157.6
Profit	4.2	8.0

There are no contingent liabilities relating to affiliated companies.

20 Long-term financial assets (in CHF million)

Money-market investments	0.1	0.6
Lending	3.2	2.5
Lending to affiliates	-	-
Minority participations (fair value)	-	-
Value adjustments	(0.0)	(0.0)
Total	**3.3**	**3.1**

Currencies of long-term financial assets (in CHF million)		
CHF	0.4	0.5
EUR	0.9	1.6
USD	-	1.1
GBP	-	-
SEK	1.9	0.0
HUF	0.0	-
Total long-term financial assets	**3.3**	**3.1**

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

21 Short-term financial liabilities (in CHF million)

Due to banks	235.4	71.4
Financial liabilities to third parties	11.2	27.7
Financial liabilities in relation to affiliates	-	-
Financial liabilities in relation to staff welfare institutions	-	-
Leasing liabilities	0.6	2.5
Short-term component of long-term financial liabilities	-	-
Total	**247.2**	**101.6**

Two of the key financial figures (net debt/EBITDA ratio and equity ratio) relating to a long-term contractual credit agreement were in breach as per 31 December 2009, with the result that the agreement was classified as a short-term loan on the balance sheet date. Between the balance sheet date and the authorization of the financial statements for issue, the lender granted a period of grace for rectifying the breach of the conditions of the long-term credit agreement (Note 24, page 79 and Note 32, page 82).

Currencies of short-term financial liabilities (in CHF million)	**2009**	**2008**
CHF	223.3	96.6
EUR	9.7	0.1
USD	9.3	0.0
GBP	2.0	-
SEK	2.8	4.9
HUF	0.0	-
Total short-term financial liabilities	**247.2**	**101.6**

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

22 Other short-term liabilities (in CHF million)		
in relation to third parties	9.9	12.9
in relation to affiliates	0.0	-
in relation to government agencies	13.2	15.7
in relation to shareholders	-	-
in relation to pension institutions	0.4	2.1
Total	**23.4**	**30.6**

23 Accounts payable (in CHF million)		
Trade accounts payable	106.3	89.3
Accounts payable to affiliates	0.0	0.0
Advance payments from customers	252.9	232.1
Advance payments from affiliates	-	-
Total	**359.2**	**321.4**

Maturity structure of accounts payable (in CHF million)		
Not due	321.1	279.6
Overdue 1-30 days	20.9	33.6
Overdue 31-60 days	4.3	7.0
Overdue 61-90 days	0.9	0.7
Overdue 91-180 days	3.0	0.4
Overdue more than 180 days	9.1	0.1
Total accounts payable	**359.2**	**321.4**

Currencies of accounts payable (in CHF million)		
CHF	157.4	175.0
EUR	151.4	106.0
USD	27.6	23.7
GBP	0.8	0.3
SEK	21.3	16.4
HUF	0.7	-
Total accounts payable	**359.2**	**321.4**

24 Long-term financial liabilities (in CHF million)	2009	2008
Due to banks	0.8	60.0
Due to leasing companies	0.1	2.8
Loans secured by property	-	-
Bond issues	-	-
Liabilities in relation to affiliates	-	-
Total	**0.9**	**62.8**

Term to maturity of long-term financial liabilities		
up to 2 years	0.0	10.6
up to 3 years	0.0	13.0
up to 4 years	0.3	12.0
over 4 years	0.5	27.2
Total	**0.9**	**62.8**

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 2.97% (previous year 3.13%).

Currencies of long-term financial liabilities (in CHF million)		
CHF	0.2	62.8
EUR	0.7	-
USD	-	-
GBP	-	-
SEK	-	-
HUF	-	-
Total long-term financial liabilities	**0.9**	**62.8**

Long-term liabilities to banks include covenants concerning the net debt/EBITDA ratio, the debt servicing ratio (expressed as the relationship between free cash flow and amortization of interest-bearing financial debt plus net interest expense) and a covenant concerning a minimum equity ratio and maximum negative free cash flow.

Two of the key financial figures (net debt/EBITDA ratio and equity ratio) relating to a long-term contractual credit agreement were in breach as per 31 December 2009, with the result that the agreement was classified as a short-term loan on the balance sheet date. Between the balance sheet date and the authorization of the financial statements for issue, the lender granted a period of grace for rectifying the breach of the conditions of the long-term credit agreement (Note 21, page 77 and Note 32, page 82).

25 Other long-term liabilities (in CHF million)		
in relation to third parties	2.7	3.3
in relation to affiliates	-	-
in relation to shareholders	-	-
in relation to pension institutions	-	0.4
Total	**2.7**	**3.7**

26 Short-term provisions

in CHF million	Restructuring[1]	Pension commitments[2]	Losses on orders	Guarantees	Holiday and overtime	Loyalty bonuses and anniversary benefits[3]	Others[4]	**Total**
Balance sheet value on 1 January 2009	**12.0**	**0.4**	**11.0**	**12.8**	**32.8**	**-**	**25.2**	**94.2**
Initial consolidation	0.4	-	-	-	3.1	-	0.0	**3.6**
Eliminations from scope of consolidation	0.0	-	-	-	0.0	-	-	**0.0**
New formations	9.0	0.1	50.9	5.9	14.6	-	5.5	**86.0**
Released	(2.7)	(0.0)	(3.3)	(2.9)	(1.9)	-	(2.3)	**(13.1)**
Utilized	(4.7)	(0.0)	(6.2)	(3.4)	(6.6)	-	(6.2)	**(27.1)**
Reclassifications	-	-	0.6	0.9	-	-	(12.9)	**(11.4)**
Translation differences	0.0	(0.0)	(0.6)	0.0	0.2	-	0.2	**(0.1)**
Balance sheet value on 31 Dec. 2009	**14.0**	**0.4**	**52.4**	**13.4**	**42.3**	**-**	**9.5**	**132.1**

Long-term provisions

(in CHF million)	Restructuring[1]	Pension commitments[2]	Losses on orders	Guarantees	Holiday and overtime	Loyalty bonuses and anniversary benefits[3]	Others[4]	**Total**
Balance sheet value on 1 January 2009	**1.2**	**37.0**	**11.3**	**9.9**	**(0.0)**	**27.5**	**6.4**	**93.3**
Initial consolidation	-	4.9	5.9	0.5	-	1.2	-	**12.5**
Eliminations from scope of consolidation	-	-	-	-	-	-	-	**-**
New formations	0.1	4.2	4.9	1.9	-	2.0	5.7	**18.9**
Released	(0.1)	-	(9.8)	(1.4)	-	(0.1)	(0.7)	**(12.1)**
Utilized	(0.1)	(0.0)	(0.7)	(0.2)	-	(0.6)	(0.6)	**(2.2)**
Reclassifications	-	-	(0.6)	(0.9)	-	-	-	**(1.5)**
Translation differences	-	1.4	(0.1)	-	0.0	(0.0)	0.0	**1.3**
Balance sheet value on 31 Dec. 2009	**1.2**	**47.5**	**10.9**	**9.8**	**(0.0)**	**29.9**	**10.9**	**110.2**

Total provisions

(in CHF million)	Restructuring[1]	Pension commitments[2]	Losses on orders	Guarantees	Holiday and overtime	Loyalty bonuses and anniversary benefits[3]	Others[4]	**Total**
Balance sheet value on 1 January 2009	**13.2**	**37.4**	**22.3**	**22.6**	**32.8**	**27.5**	**31.6**	**187.6**
Initial consolidation	0.4	4.9	5.9	0.5	3.1	1.2	0.0	**16.0**
Eliminations from scope of consolidation	0.0	-	-	-	0.0	-	-	**0.0**
New formations	9.1	4.3	55.8	7.9	14.6	2.0	11.1	**104.9**
Released	(2.8)	(0.0)	(13.1)	(4.3)	(1.9)	(0.1)	(3.0)	**(25.2)**
Utilized	(4.8)	(0.1)	(6.9)	(3.5)	(6.6)	(0.6)	(6.7)	**(29.3)**
Reclassifications	-	-	-	(0.0)	-	-	(12.9)	**(12.9)**
Translation differences	0.0	1.4	(0.7)	0.0	0.2	(0.0)	0.2	**1.2**
Balance sheet value on 31 Dec. 2009	**15.2**	**48.0**	**63.3**	**23.2**	**42.3**	**29.9**	**20.4**	**242.3**

[1] The item “Provisions for restructuring” includes the restructuring liability resulting from the restructuring measures in 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 2009 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. In the year under review, a total of CHF 12.9 million was reclassified from other provisions to prepaid income

Program delays in major civil aircraft projects, a considerable drop in customer demand, customers backsourcing orders and unanticipated start-up costs for new projects led to a significant deterioration in earnings at the Aerostructures unit in 2009. These factors called for a rethink of planning and a comprehensive risk assessment. Owing to the poor prospects and start-up costs, one-time charges of CHF 160 million in the Aerostructures unit had to be taken into account. These charges include impairment of fixed assets, intangible assets and goodwill of CHF 73.2 million, value adjustments to inventories of CHF 28.3 million, provisions of CHF 49.9 million and other costs of CHF 8.9 million.

The comprehensive risk assessment for the overall Aerostructures unit (included in the Aerospace market segment) takes account of provisions for losses on orders of CHF 33.0 million and provisions for rents and dismantling costs of CHF 15.8 million.

27 **Contingent liabilities towards third parties** (in CHF million)	**2009**	**2008**
Guarantees	118.8	104.4
Warranty commitments	22.5	16.9
Total	**141.3**	**121.3**

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

28 **Additional contingent liabilities not stated on the balance sheet** (in CHF million)		
Warranty contracts[1]	-	-
Long-term rental and leasing agreements[2]	153.1	169.2
Letters of intent	4.3	4.3
Agreed contractual penalties (fines and premiums)[3]	17.2	24.6
Legal proceedings[4]	3.3	1.8
Bill commitments	-	-
Investment commitments fixed assets[5]	10.5	14.6
Other contingent liabilities	3.8	-
Total	**192.3**	**214.6**

[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.

	2009	2008
29 Assets under reservation of proprietary rights (in CHF million)		
Cash and cash equivalents	-	-
Accounts receivable and inventories	2.7	-
Plant and equipment	0.0	11.3
Land and buildings	7.8	6.0
Total	**10.5**	**17.3**

In order to hedge claims arising from the credit agreement underlying long-term bank liabilities, the shares of RUAG Space Ltd and RUAG Sweden AB were pledged.

30 Fire insurance values (in CHF million)

Plant and equipment	1’423.3	1’345.2
Land and buildings	1’319.4	1’192.5
Total	**2’742.7**	**2’537.7**

31 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 Ltd are owned by the Swiss Confederation.

32 Events after the balance sheet date

Two of the key financial figures (net debt/EBITDA ratio and equity ratio) relating to a long-term contractual credit agreement were in breach as per 31 December 2009, with the result that the agreement was classified as a short-term loan on the balance sheet date. Between the balance sheet date and the authorization of the financial statements for issue, the lender granted a period of grace for rectifying the breach of the conditions of the long-term credit agreement (Note 21, page 77 and Note 24, page 79).

On 8 March 2010, the Board of Directors of RUAG Holding Ltd approved the consolidated financial statements for publication. The right to approve the consolidated financial statements rests with the annual shareholders’ meeting.

33 Transactions with closely connected individuals (in CHF million)

Claims in relation to closely connected individuals	53.6	127.2
Liabilities towards closely connected individuals	0.6	0.9
Advance payments	121.5	180.8
Short-term liabilities towards pension institutions	0.4	2.0
Long-term liabilities towards pension institutions	-	0.4

In the year under review, CHF 53.6 million of claims in relation to related parties (previous year: CHF 127.2 million) and CHF 0.6 million of liabilities towards related parties (previous year: CHF 0.9 million) are attributable to the DDPS. Invoiced sales to the DDPS totalled CHF 622.5 million (previous year: CHF 570.7 million) as stated in Note 6 on page 66. There were no loans between the Group companies and members of the Board of Directors. Liabilities towards pension institutions totalled CHF 0.9 million (previous year: CHF 2.4 million) as stated in Note 22 and 25 on pages 78 and 79. In the year under review, raw materials in the amount of CHF 1.3 million were ordered from affiliated companies (previous year: CHF 1.4 million).

34 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 2009 financial year amounted to CHF 0.53 million (previous year: CHF 0.55 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 CEO and the other members of the Executive Board for the 2009 financial year amounted to CHF 4.17 million (previous year: CHF 4.27 million). The 2009 total includes the former Chief Executive Officer, Toni Wicki, up to 31 May 2009, and the new CEO, Dr Lukas Braunschweiler, from 1 June 2009 onwards.

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 CEO for the 2009 financial year amounted to CHF 0.85 million (previous year: CHF 0.78 million). The 2009 total includes the former Chief Executive Officer, Toni Wicki (CHF 0.46 million), up to 31 May 2009, and the new CEO, Dr Lukas Braunschweiler (CHF 0.40 million), from 1 June 2009 onwards.

	Board of Directors		Highest total compensation[2]		Executive Board		Highest total compensation[2]	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Basic salary								
- Cash compensation[1]	0.53	0.55	0.14	0.15	2.81	2.64	0.48	0.44
- Employer contributions to pension funds	-	-	-	-	0.44	0.44	0.11	0.09
- Payments in kind	-	-	-	-	0.06	0.21	0.01	0.03
Performance-related component								
- Cash compensation[1]	-	-	-	-	0.90	0.98	0.26	0.21
- Shares	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
Total compensation	**0.53**	**0.55**	**0.14**	**0.15**	**4.21**	**4.27**	**0.86**	**0.78**
Ratio between performance-related component and cash compensation element	**-**	**-**	**-**	**-**	**32%**	**37%**	**54%**	**49%**

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

[2] In the case of the Board of Directors, the amount includes the compensation paid to the Chairman of the Board of Directors, Konrad Peter in respect of the year under review and the previous year; the highest total compensation for the Executive Board for 2008 is that paid to the former Chief Executive Officer, Toni Wicki.

35 **Future minimum commitments from financial leasing** (in CHF million)	**2009**	**2008**
Within 1 year	0.6	2.6
In more than 1 year, but less than 5	0.1	2.8
In more than 5 years	-	-
Total	**0.7**	**5.4**
Less interest component	(0.0)	(0.2)
Total leasing commitments carried as a liability	**0.7**	**5.3**

Future minimum commitments from operating leasing (in CHF million)		
Within 1 year	2.5	1.6
In more than 1 year, but less than 5	7.7	6.7
In more than 5 years	2.4	1.3
Total	**12.6**	**9.6**

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

36 Financial instruments (in CHF million)	**2009**	**2008**
Financial assets in current assets		
Held for trading purposes		
- Cash and cash equivalents	68.9	65.3
Loans and receivables		
- Accounts receivable	383.2	423.4
- Short-term financial assets	0.1	0.1
- Financial derivatives at fair value	9.2	7.3
- Other current assets	-	-
Available for sale		
- Minority interests	-	-
Total	**461.3**	**496.1**
Financial assets in fixed assets		
Held for trading purposes		
- Securities	-	-
Loans and receivables		
- Long-term financial assets	3.3	3.1
- Other fixed assets	-	-
Available for sale		
- Minority interests	38.5	40.8
Total	**41.7**	**43.9**
Short-term financial liabilities		
At amortized cost		
- Short-term financial liabilities	238.6	78.9
- Accounts payable	359.2	321.4
- Other short-term liabilities	-	-
At fair value in the income statement		
- Financial derivatives	8.6	22.7
Total	**606.4**	**423.1**
Long-term financial liabilities		
At amortized cost		
- Long-term financial liabilities	0.9	62.8
- Other long-term liabilities	2.7	3.7
At fair value in the income statement		
- Financial derivatives	-	-
Total	**3.6**	**66.5**

The financial derivatives measured at fair value consist exclusively of Level 2 instruments in accordance with IFRS 7.27 and are measured on the basis of models with mainly market-observable parameters.

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	2009	2008
Foreign currency hedging contracts	401.2	393.6
Interest rate hedging contracts	244.0	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		
- Cash and cash equivalents	0.4	0.7
Loans and receivables		
- Accounts receivable	0.0	0.1
- Financial assets	0.1	1.3
- Other current and fixed assets	-	-
Available for sale		
- Minority interests	-	-
At fair value in the income statement		
- Financial derivatives	-	-
Total interest income	**0.5**	**2.1**

Interest expenses (in CHF million)		
Held for trading purposes		
- Cash and cash equivalents	(0.2)	(0.1)
Loans and receivables		
- Receivables and prepayments	-	(0.1)
- Financial assets	(0.5)	(0.9)
At amortized cost		
- Accounts payable	(0.0)	-
- Financial liabilities	(4.8)	(3.0)
- Other short- and long-term financial liabilities	-	(0.1)
At fair value in the income statement		
- Financial derivatives	-	-
Total interest expenses	**(5.5)**	**(4.2)**

Liquidity risks

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 2009

in CHF million	Note	up to 1 year	up to 2 years	up to 3 years	up to 4 years	over 4 years	**Total**
Cash and cash equivalents	13	68.9	-	-	-	-	**68.9**
Short-term financial assets[1]	14	0.1	-	-	-	-	**0.1**
Long-term financial assets	20	0.3	0.2	0.2	0.2	2.5	**3.3**
Short-term financial liabilities[1]	21	(238.6)	-	-	-	-	**(238.6)**
Long-term financial liabilities	24	-	(0.0)	(0.0)	(0.3)	(0.5)	**(0.9)**
Other long-term liabilities	25	-	(2.7)	-	-	-	**(2.7)**
Net debt		**(169.2)**	**(2.6)**	**0.1**	**(0.2)**	**2.0**	**(169.9)**

As at 31 December 2008

in CHF million							
Cash and cash equivalents	13	65.3	-	-	-	-	**65.3**
Short-term financial assets[1]	14	0.1	-	-	-	-	**0.1**
Long-term financial assets	20	1.4	0.0	-	-	1.8	**3.1**
Short-term financial liabilities[1]	21	(73.9)	-	-	-	-	**(73.9)**
Long-term financial liabilities	24	-	(10.6)	(13.0)	(12.0)	(27.2)	**(62.8)**
Other long-term liabilities	25	-	(3.7)	-	-	-	**(3.7)**
Net debt		**(7.1)**	**(14.3)**	**(13.0)**	**(12.0)**	**(25.4)**	**(71.9)**

[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.

Two of the key financial figures (net debt/EBITDA ratio and equity ratio) relating to a long-term contractual credit agreement were in breach as per 31 December 2009, with the result that the agreement was classified as a short-term loan on the balance sheet date. Between the balance sheet date and the authorization of the financial statements for issue, the lender granted a period of grace for rectifying the breach of the conditions of the long-term credit agreement (Note 21, page 77, Note 24, page 79 and Note 32, page 82).

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 2009 would have reduced RUAG's earnings by an estimated CHF 2.7 million (previous year: CHF 1.0 million); a depreciation by the same amount would have improved RUAG's earnings by CHF 2.7 million (previous year: CHF 1.0 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% on 31 December 2009 in the prices of these commodities would have reduced RUAG's earnings by less than CHF 1.4 million (previous year: CHF 2.3 million), while the value of RUAG's inventories would have risen by at most CHF 0.9 million (previous year: CHF 0.9 million).

Interest rate risk

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

37 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 2009.

All pension schemes are based on local statutory provisions. CHF 38.6 million in total contributions was paid in the financial year (previous year: CHF 30.1 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 2008 and 2009.

Net benefit expenses (in CHF million)	**2009**	**2008**
Benefit entitlements granted[1]	57.8	55.5
Interest on employee benefit commitments	51.8	48.3
Expected return on assets	(65.9)	(72.9)
Amortized (gains)/losses	-	-
Expected staff contributions	(20.5)	(18.3)
Increase (decrease) in non-recognized assets plus recognition of (gain) loss in accordance with IAS 19.58A	10.6	16.8
Total	**33.9**	**29.4**

[1] Change in benefit commitments attributable to the period

Employer contributions for the 2010 financial year are expected at the estimated total of CHF 32.8 million (previous year: CHF 30.2 million).

As per 31 December 2009 (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 pension obligations and the pension schemes' assets as at 31 December 2008 and 2009 for the pension schemes in Switzerland, Germany and Sweden:

Pension agreements (in CHF million)	**2009**	**2008**
Pension obligations at beginning of the year	1,437.9	1,393.1
Benefit entitlements granted	37.4	37.2
Interest on employee benefit commitments	51.8	48.3
Employee contributions	20.5	18.3
Actuarial loss (profit)	(8.5)	(24.9)
Translation differences	1.1	
Changes to pension scheme	0.3	(25.1)
Changes to scope of consolidation	117.5	32.6
Pension payments	(39.1)	(41.7)
Cash value of benefit commitments at end of the year	**1,618.9**	**1,437.9**
Market value of benefit assets	1,617.7	1,326.6
(Deficient)/surplus cover	**(1.2)**	**(111.2)**

Development of pension assets (in CHF million)		
Fair value of assets at the beginning of the year	1,326.6	1,533.0
Actual return on assets	165.1	(211.1)
Translation differences	-	-
Employer contributions	31.1	27.8
Employee contributions	20.5	18.3
Changes in the scope of consolidation	113.6	-
Net pension benefits paid	(39.1)	(41.4)
Fair value of assets at the end of the year	**1,617.7**	**1,326.6**

Breakdown of plan assets as at 31 December (in %)	Long-term target		
Cash and cash equivalents	0 – 6%	2.7%	1.0%
Debt capital instruments (bonds)	44 – 62%	48.5%	61.1%
Equity capital instruments (shares)	20 – 38%	32.7%	22.8%
Other investments	13 – 22%	16.2%	15.1%
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 five years:

Multi-year overview (in CHF million)	**2009**	**2008**	**2007**	**2006**	**2005**
Cash value of benefit commitments at year-end	1,618.9	1,437.9	1,393.1	1,459.2	1,417.0
Market value of benefit assets	1,617.7	1,326.6	1,533.0	1,509.8	1,430.9
(Deficient)/surplus cover	(1.2)	(111.2)	139.9	50.6	13.9
Difference between expected and actual yield of the plan assets	99.1	(284.0)	(70.5)	6.9	117.6
Profit (loss) on revaluation of the benefit commitments	18.5	29.3	31.2	13.2	22.6

Summary of financial situation at year-end (in CHF million)	**2009**	**2008**
(Deficient)/surplus cover according to IAS 19	(1.2)	(111.2)
Non-amortized loss (profit)	10.0	78.0
Non-amortized first-time difference	-	-
Unrecognized assets	(51.4)	0.6
Prepaid assets (liabilities)	**(42.6)**	**(32.6)**

Change in assets (liabilities) (in CHF million)		
Prepaid assets (liabilities) at beginning of year	(32.6)	0.0
Net benefit expenses	(33.9)	(27.9)
Changes in scope of consolidation	(4.8)	(32.6)
Employer contributions	31.1	27.9
Translation differences	(2.4)	-
Prepaid assets (liabilities)	**(42.6)**	**(32.6)**

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

As at 31 December 2009 the employee benefit schemes owned no shares in RUAG Holding Ltd.

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.

38 Market segments (in CHF million)[1]

	AEROSPACE		DEFENCE	
Products and services	Military and civil aircraft maintenance, space, aerostructures and metalworking		Military and civil C2 systems, simulators and training systems, land systems and small-calibre ammunition	
	2009	**2008**	**2009**	**2008**
Invoiced sales to third parties	897.1	816.4	792.9	742.3
Invoiced sales by region	-	-	-	-
Switzerland	295.8	331.4	443.6	399.5
Rest of Europe	464.2	367.4	280.8	281.7
Middle East	7.5	9.5	15.1	25.1
North America	91.1	77.4	21.9	15.7
South America	10.9	8.9	0.3	0.1
Asia/Pacific	22.2	14.8	21.8	19.6
Africa	5.3	7.1	9.3	0.6
Invoiced sales to segments	5.7	6.1	4.0	19.6
Total invoiced sales	902.8	822.6	796.8	762.0
Operating income	925.5	830.9	779.4	745.6
Depreciation and amortization	(103.6)	(36.4)	(15.2)	(20.2)
EBIT	(189.4)	21.0	64.8	38.7
Financial income	1.2	0.9	0.5	1.1
Financial expenses	(8.8)	(13.3)	(4.6)	(8.9)
Net financial income	(7.6)	(12.3)	(4.1)	(7.9)
Participation income	(0.1)	(0.0)	-	-
Segment result before taxes	(197.1)	8.7	60.7	30.8
Net assets by region	274.4	496.2	139.9	185.7
Net assets – Switzerland	197.4	364.8	11.0	66.6
Net assets – rest of Europe	74.1	130.4	120.3	119.1
Net assets – North America	2.9	1.0	8.6	-
Employees (average)	4,036	3,758	2,972	2,748
Employees at end of December	4,297	3,765	2,983	2,751
Cash flow from investment	(171.7)	(30.0)	(35.6)	(32.6)

[1] Additional voluntary disclosure; does not correspond to requirements of IFRS 8 “Operating Segments”.

Program delays in major civil aircraft projects, a considerable drop in customer demand, customers backsourcing orders and unanticipated start-up costs for new projects led to a significant deterioration in earnings at the Aerostructures unit in 2009. These factors called for a rethink of planning and a comprehensive risk assessment. Owing to the poor prospects and start-up costs, one-time charges of CHF 160 million in the Aerostructures unit had to be taken into account. These charges include impairment of fixed assets, intangible assets and goodwill of CHF 73.2 million, value adjustments to inventories of CHF 28.3 million, provisions of CHF 49.9 million and other costs of CHF 8.9 million.

SERVICES		Intercompany		Group total	
Group Services: Human Resources, Finance, Legal, IT, Marketing, Communication, Internal Auditing and Real Estate		Intragroup eliminations (sales, interest and dividends)			
2009	**2008**	**2009**	**2008**	**2009**	**2008**
26.3	10.2	-	-	1,716.3	1,568.9
-	-	-	-	-	-
25.7	9.6	-	-	765.2	740.5
0.5	0.6	-	-	745.6	649.7
-	-	-	-	22.7	34.6
-	-	-	-	113.0	93.1
-	-	-	-	11.2	9.0
-	-	-	-	44.0	34.4
-	-	-	-	14.6	7.7
121.5	67.7	(131.2)	(93.4)	-	-
147.8	77.8	(131.2)	(93.4)	1,716.2	1,569.0
148.5	77.9	(131.2)	(93.4)	1,722.2	1,560.9
(23.9)	(8.2)	-	-	(142.7)	(64.9)
11.2	(2.6)	0.1	-	(113.3)	57.1
12.8	22.9	(13.5)	(22.8)	1.0	2.1
(5.5)	(4.8)	13.5	22.8	(5.4)	(4.2)
7.3	18.1	-	-	(4.4)	(2.1)
26.5	39.1	(24.7)	(35.5)	1.8	3.6
45.1	54.6	(24.6)	(35.5)	(116.0)	58.6
279.9	89.2	(0.1)	(0.1)	694.0	771.0
276.7	88.9	(0.4)	0.0	484.7	520.3
3.2	0.3	0.4	(0.1)	198.0	249.7
-	-	0.0	0.0	11.5	1.0
245	167	-	-	7,253	6,673
255	171	-	-	7,534	6,687
(22.5)	(57.9)	(0.0)	-	(229.9)	(120.5)

39 Exchange rates

	ISO code	2009 Annual average	2009 End-of-year rate	2008 Annual average	2008 End-of-year rate
US dollar	USD	1.0868	1.0300	1.0825	1.0571
Pound Sterling	GBP	1.6961	1.6635	1.9985	1.5319
Euro	EUR	1.5100	1.4837	1.5870	1.4889
Swedish krona	SEK	14.2300	14.4500	16.4900	13.6400
Hungarian forint	HUF	0.5392	0.5481		

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 AG[1]	**Berne**	**Switzerland**	**CHF**	**340,000,000**		**full**
Consolidated companies[2]						
RUAG Schweiz AG	Emmen	Switzerland	CHF	63,000,000	100.00%	full
Mecanex USA Inc.	Berlin, CT	USA	USD	1,500	100.00%	full
RUAG Germany 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 Space AG	Zurich	Switzerland	CHF	15,000,000	100.00%	full
RUAG Space AB	Gothenburg	Sweden	SEK	15,000,000	100.00%	full
RUAG Space 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
RUAG Land Systems AG	Thun	Switzerland	CHF	30,100,000	100.00%	full
RUAG Ammotec Germany 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
RUAG Ammotec USA Inc.	Tampa, FL	USA	USD	15,000	100.00%	full
Norma Precision AB	Amotfors	Sweden	SEK	2,500,000	100.00%	full
MFS 2000 Hungarian Ammunition Manufacturing Inc.	Sirok	Hungary	HUF	280,000	100.00%	full
RUAG Real Estate AG	Berne	Switzerland	CHF	8,000,000	100.00%	full
RUAG Services AG	Berne	Switzerland	CHF	100,000	100.00%	full
brings! AG	Schattdorf	Switzerland	CHF	100,000	55.00%	full
SwissRepair AG	Dietikon	Switzerland	CHF	100,000	52.00%	full
GEKE Schutztechnik GmbH	Lichtenau	Germany	EUR	100,000	51.00%	full
RUAG Aerospace GmbH	Zurich	Switzerland	CHF	20,000	100.00%	[4]
Associated companies[3]						
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
HTS GmbH	Coswig	Germany	EUR	26,000	24.62%	Equity
CFS Engineering SA	Lausanne	Switzerland	CHF	150,000	40.00%	[4]
Minority interests						
Saab Bofors Dynamics Switzerland AG	Thun	Switzerland	CHF	2,000,000	5.00%	[4]
Alpar, Flug- und Flugplatz-Gesellschaft AG	Berne	Switzerland	CHF	10,150,000	1.97%	[4]
Arianespace SA	Evry	France	EUR	395,010	0.01%	[4]
Arianespace Participation	Evry	France	EUR	21,918,756	3.44%	[4]

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

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers AG
Bahnhofplatz 10
Postfach
3001 Berne
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 AG
Berne

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of RUAG Holding AG, which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes (pages 44 to 93), for the year ended December 31, 2009.

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, 2009 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 8, 2010

Income statement 1 January to 31 December

in CHF million	2009	2008
Income from subsidiaries and affiliates	22.8	40.2
Financial income	73.5	79.8
Income from securities	-	-
Income from the sale of subsidiaries and affiliates	-	-
Income from services	12.4	13.0
Total income	**108.8**	**133.0**
Expenses for subsidiaries and affiliates	-	-
Financial expenses	(53.7)	(54.9)
Losses from securities	-	-
Personnel expenses	(7.3)	(7.5)
Administrative expenses	(10.5)	(7.8)
Depreciation and amortization	(0.2)	(0.2)
Other expenses	-	-
Taxes	(1.4)	(2.2)
Total expenses	**(73.1)**	**(72.5)**
Profit for the year	**35.7**	**60.5**

Balance sheet before profit appropriation as per 31 December

in CHF million	2009	2008
Cash and cash equivalents	14.8	30.7
Accounts receivable:		
Third parties	0.1	0.1
Group companies	608.0	420.8
Prepayments and accrued income:		
Third parties	1.5	0.0
Group companies	-	-
Current assets	**624.4**	**451.5**
as % of balance sheet total	49.5%	52.5%
Investments in subsidiaries and affiliates	637.4	408.8
Financial assets:		
Third parties	-	-
Group companies	-	-
Plant and equipment	0.3	0.3
Fixed assets	**637.7**	**409.1**
as % of balance sheet total	50.5%	47.5%
ASSETS	**1,262.1**	**860.7**
Short-term financial liabilities:		
Third parties	235.5	72.7
Group member companies	275.9	0.2
Accruals and deferred income:		
Third parties	1.3	3.3
Group companies	-	0.0
Long-term financial liabilities:		
Third parties	-	60.0
Group companies	-	-
Provisions	1.5	2.2
Liabilities	**514.2**	**138.4**
as % of balance sheet total	40.7%	16.1%
Share capital	340.0	340.0
Statutory reserve	34.1	31.0
Voluntary reserve	-	-
Profit brought forward	338.2	290.8
Profit for the year	35.7	60.5
Shareholder's equity	**747.9**	**722.2**
as % of balance sheet total	59.3%	83.9%
LIABILITIES	**1,262.1**	**860.7**

Contingent liabilities towards third parties (in CHF million)	2009	2008
Guarantees	107.6	98.5
Warranty commitments	4.9	5.7
Total	**112.5**	**104.1**

The guarantee liabilities are primarily performance and advance payment guarantees from operational business. The warranty commitments relate to bank guarantees which RUAG Holding Ltd 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	0.4
Letters of intent	-	-
Agreed contractual penalties (fines and premiums)	-	-
Legal proceedings	-	-
Bill commitments	-	-
Subordinated accounts receivable from Group companies	-	-
Capital commitments	-	-
Total	**0.4**	**0.4**

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)		
Cash and cash equivalents	-	-
Accounts receivable and inventories	-	-
Movable and immovable fixed assets	-	-
Affiliates	247.2	18.6
Total	**247.2**	**18.6**

In order to hedge claims arising from the credit agreement underlying long-term bank liabilities, the shares of RUAG Space Ltd and RUAG Sweden AB were pledged.

Net presentation of foreign currency forward transactions (in CHF million)		
Contract volumes of outstanding foreign currency forward transactions	781.9	781.0
Positive replacement values	8.3	26.6
Negative replacement values	8.0	25.8
Net replacement values	0.3	0.8

In the financial statements prepared under commercial law, the net principle is used for foreign currency forward transactions.

Liabilities towards staff welfare institutions (in CHF million)		
Short-term liabilities towards staff welfare institutions[1]	-	-
Long-term liabilities towards staff welfare institutions	-	-
Total	**0.0**	**0.0**

[1] Included in Accruals and deferred income

Treasury shares of RUAG Holding

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

Events after the balance sheet date

Two of the key financial figures (net debt/EBITDA ratio and equity ratio) relating to a long-term contractual credit agreement were in breach as per 31 December 2009, with the result that the agreement was classified as a short-term loan on the balance sheet date. After the balance sheet date the lender granted a period of grace for rectifying the breach of the conditions of the long-term credit agreement.

Subsidiaries and affiliates (position as per 31 December 2009)[1]

Company	Head office	Country	Share capital	(100%)	Shareholding
RUAG Schweiz AG	Emmen	Switzerland	CHF	63,000,000	100.00%
RUAG Space AG	Zurich	Switzerland	CHF	15,000,000	100.00%
RUAG Aerospace Deutschland GmbH	Wessling	Germany	EUR	25,000	100.00%
RUAG Electronics AG	Berne	Switzerland	CHF	4,100,000	100.00%
RUAG Land Systems AG	Thun	Switzerland	CHF	30,100,000	100.00%
RUAG Ammotec AG	Thun	Switzerland	CHF	12,000,000	100.00%
RUAG Real Estate AG	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 AG	Thun	Switzerland	CHF	2,000,000	5.00%
Alpar, Flug- und Flugplatz-Gesellschaft AG	Berne	Switzerland	CHF	10,150,000	1.97%

[1] On 1 July 2009, RUAG took over the Space business unit of OC Oerlikon by acquiring 100% of Oerlikon Space AG. 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.

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 periodically by the Board of Directors and the Audit Committee. Ongoing risk monitoring, supervision and control is the responsibility of the management.

Proposed appropriation of balance sheet profit

in CHF million	2009	2008
Profit for the year	35.7	60.5
+ profit brought forward from previous year	338.2	290.8
Profit at the disposal of the general meeting	**373.9**	**351.2**

The Board of Directors proposes the following appropriation

Dividend	-	10.0
Allocation to statutory reserve	1.8	3.1
Carried over to new account	**372.1**	**338.2**

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 AG
Berne

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of RUAG Holding AG, which comprise the income statement, balance sheet and notes (pages 96 to 99), for the year ended December 31, 2009.

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, 2009 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.

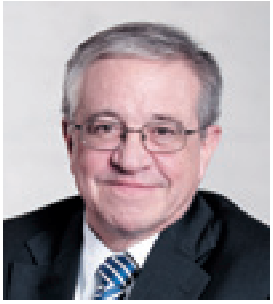
PricewaterhouseCoopers AG

Rolf Johner	René Jenni
Audit expert	Audit expert
Auditor in charge	

Berne, March 8, 2010

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 2009.


CHAIRMAN,
KONRAD PETER


VICE-CHAIRMAN,
DR HANSPETER KÄSER


ANDREAS BÖLSTERLI


PAUL HÄRING

Board of Directors

The duties of the Board of Directors of RUAG Holding Ltd 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 Ltd consists of seven non-executive members who have no material business relationship with the RUAG Group. The list on page 103 provides information about the name, age, position, date of appointment and remaining term in office of each member of the Board of Directors.

Cross directorships

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

Election and term of office

The Board of Directors of RUAG Holding Ltd 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.

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) and Executive Board. Together with the Executive Board, the CEO is responsible for the overall management of the RUAG Group and for all matters not delegated to another governing body of the company by law, the Articles of Association, the Federal Council's owner's strategy or the Regulations Governing Organization and Operations.

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

DR HANS LAURI

HANS-PETER SCHWALD

TONI J. WICKI

- The appointment and dismissal of the CEO, other 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 2009 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 CEO. 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 operating executives of the company and regularly visits one or more of RUAG's sites.

Board of Directors

Name	Born	Position	Member since	Elected until
Konrad Peter	1946	Chairman, non-executive	2002	2010
Dr Hanspeter Käser	1943	Vice-Chairman since 5/05/04, non-executive	1999	2011
Toni J. Wicki	1944	CEO until 31/05/09; non-executive member from 1/06/09	1999	2011
Hans-Peter Schwald	1959	Non-executive member	2002	2010
Paul Häring	1957	Non-executive member	2004	2012
Dr Hans Lauri	1944	Non-executive member	2008	2012
Andreas Bölsterli	1953	Non-executive member	2008	2012

Changes on the Board of Directors

Changes will occur on the Board of Directors as of the 2010 annual shareholders' meeting. The owner has decided to no longer delegate a representative to RUAG's Board of Directors. Major General Andreas Bölsterli, who has taken on a different function in the DDPS, is therefore stepping down from the Board. Having initiated his successor, Toni J. Wicki will also step down from the Board of Directors as of the annual shareholders' meeting on 6 May 2010.

The Board of Directors and Executive Board would like to thank both gentlemen for their commitment. Special thanks are due to Toni J. Wicki for transforming RUAG into an international technology group.

Committees

The Board of Directors has formed an Audit Committee and a Compensation Committee and elected chairmen. The committees meet regularly and prepare business for the full Board of Directors, draft proposals in respect thereof and implement resolutions of the Board of Directors as required. 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 (at least) three non-executive members of the Board of Directors: Dr 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. As a rule, the meetings are also attended by the CEO, Chief Staff Coordinator, Group CFO, internal auditor and representatives of the statutory auditors.

The main task of the Audit Committee is to ensure a comprehensive and efficient audit strategy for RUAG Holding Ltd and the RUAG Group. The duties of the Audit Committee include:

- Assessing processes in the risk and control environment (internal control system)
- Monitoring financial reporting
- Assessing the internal and external auditors
- Defining and approving the focal points of the audit
- Accepting the audit report and any recommendations of the statutory 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 as which external auditor should be recommended to the annual shareholders' meeting for appointment; assessing the performance, fees and independence of the external auditors and examining the compatibility of audit activities with any consultancy mandates. The representatives of the statutory auditors recuse themselves during deliberation of these matters.

The Audit Committee regulates, supervises and commissions the internal auditor. 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 (at least) three non-executive members of the Board of Directors: Dr Hans Lauri (Chairman), Konrad Peter and Hans-Peter Schwald. The Compensation Committee meets regularly, although it may also be convened by the Chairman as and when business requires. As a rule, the meetings are also attended by the CEO and Director of Corporate HR. The main task of the Compensation Committee is to propose the outlines of human resource policies and planning to the full Board of Directors and to present proposals on the selection and compensation of Executive Board members. This also includes preparing resolutions of the full Board in the areas of management development, compensation system and policies, objective setting, pension fund matters and social partnership.

Finally, the Committee is tasked with proposing the compensation of members of the Board of Directors. The final decision is taken by the annual shareholders' meeting at the proposal of the Board of Directors in line with the guidelines set forth by the Swiss federal government.

Information and control instruments in relation to the Executive Board

The Management Information System (MIS) of the RUAG Group is structured as follows: The separate financial statements (balance sheet, income statement and cash flow statement) of the individual subsidiaries/divisions are compiled on a monthly, quarterly, semi-annual and annual basis. These figures are consolidated for each segment and for the Group as a whole and compared with the budget. The budget, which represents the first year of a rolling four-year plan, is examined in the form of a feasibility forecast based on quarterly results.

The CEO submits a written monthly report on budget compliance to the Board of Directors.

Executive Board

Management organization

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

Executive Board

Name	Born	Position		Member since
Toni J. Wicki	1944	Chief Executive Officer	Until 31/05/09	1999
Dr Lukas Braunschweiler	1956	Chief Executive Officer	From 01/06/2009	2009
Toni J. Wicki	1944	Member, CEO of RUAG Space and Aviation	ad interim, 01/08/08 to 31/05/09	2009
Martin Stahel	1946	Member, Chief Staff Coordinator		2000
Urs Kiener	1965	Member, Group CFO		2002
Cyril Kubelka	1963	Member, CEO of RUAG Ammotec		2004
Urs Breitmeier	1963	Member, CEO of RUAG Land Systems		2006
Dr Viktor Haefeli	1966	Member, CEO of RUAG Technology		2006
Hans Bracher	1962	Member, Director of Corporate HR		2008
Andreas P. Herren	1960	Member, CEO of RUAG Electronics		2008
Dr. Peter Guggenbach	1962	Member, CEO of RUAG Space and Aviation	From 01/04/09	2009

Management structure

RUAG Holding Ltd
Board of Directors

CEO
Dr Lukas Braunschweiler

Executive Board
5 CEOs, Senior Vice President Corporate Services, Group CFO, Director of Corporate HR (9 members)

General Secretariat
Thomas Kopp

Group Services
Martin Stahel

Finance
Urs Kiener

Human Resources
Hans Bracher

Communications
Christiane Schneider

Marketing
Martin Stahel

Legal
Thomas Kopp

IT Services
Oliver Meyer

Internal Auditing*
Heinz Saurenmann

Space	Aviation	Technology	Electronics	Ammotec	Land Systems
Dr Peter Guggenbach	Dr Peter Guggenbach	Dr Viktor Haefeli	Andreas P. Herren	Cyril Kubelka	Urs Breitmeier
CEO	CEO	CEO	CEO	CEO	CEO

* The internal auditor is appointed directly by the Audit Committee.

The Group CEO, Divisional CEOs, Chief Staff Coordinator, Group CFO and Director of Corporate HR sit on the Executive Board (9 members).

CEO
The CEO 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.

At the proposal of the CEO, the full Board of Directors decides on the four-year corporate plan, annual budget, individual projects, separate and consolidated financial statements and human resource issues.

The CEO regularly submits reports to the Board of Directors on business performance, anticipated business matters and risks, as well as changes at the more junior management level. The members of the Board of Directors may request and review further information on operations as provided by the law and the Articles of Association. The CEO must inform the Chairman of the Board of Directors immediately of any significant unanticipated events and developments.

The CEO regularly assesses 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 105 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 Ltd and its subsidiaries with any third parties.

Compensation, profit-sharing and loans

Compensation and compensation policies

The members of the Board of Directors receive compensation 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 in line with the guidelines of the Swiss federal government. The CEO and other members of the Executive Board of the RUAG Group are compensated in part on the basis of performance. This 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 attainment of various measurable, individually agreed goals. Goals are defined annually and in advance.

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

Compensation for incumbent company officers

The total emoluments (excluding employer contributions to statutory retirement and survivors' insurance (AHV)) paid to non-executive members of the Board of Directors in the 2009 financial year amounted to CHF 0.53 million (previous year: CHF 0.55 million).

The total emoluments (including all employer contributions to pension funds other than to the AHV or similar state social insurance contributions) paid to the CEO and the other members of the Executive Board for the 2009 financial year amounted to CHF 4.21 million (previous year: CHF 4.27 million). The 2009 total includes the former Chief Executive Officer, Toni J. Wicki, up to 31 May 2009, and the new CEO, Dr Lukas Braunschweiler, from 1 June 2009 onwards.

In the 2009 financial year, no severance payments were made to non-executive members of the Board of Directors or members of the Executive Board who had terminated their function with the company.

Highest total compensation

The total compensation (excluding employer contributions to the AHV) paid to the Chairman of the Board of Directors for the 2009 financial year was CHF 0.14 million (previous year: CHF 0.15 million). The total compensation (including all employer contributions to pension funds, excluding employer contributions to the AHV) paid to the CEO for the 2009 financial year was CHF 0.86 million (previous year: CHF 0.78 million). The 2009 total includes the former Chief Executive Officer, Toni J. Wicki, up to 31 May 2009 (CHF 0.46 million), and the new CEO Dr Lukas Braunschweiler, from 1 June 2009 onwards (CHF 0.40 million).

Additional information on fixed and performance-based compensation components can be found in the Financial Report, page 82, note 34.

Compensation for former company officers
Following their departure, no compensation was paid during the financial year to non-executive members of the Board of Directors or members of the Executive Board who left during the reporting period or earlier.

Additional fees and remuneration
During the 2009 financial year, the members of the Board of Directors and Executive Board and/or related persons received no appreciable fees or other remuneration for additional services rendered to RUAG Holding Ltd or any of its subsidiaries.

Loans to members of governing bodies
The members of the Board of Directors and Executive Board and/or related persons are or were during the year under review not involved in any transactions outside the normal business activities of RUAG Holding Ltd or any of its subsidiaries, or in other transactions unusual in form and content but of material importance for RUAG Holding Ltd.

As at 31 December 2009, RUAG Holding Ltd 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 persons.

Capital structure
The share capital of RUAG Holding Ltd amounts to CHF 340 million, comprising 340,000 fully paid-up registered shares, each with a par value of CHF 1,000. As at 31 December 2009, RUAG Holding Ltd did not have any conditional or authorized capital, nor had it issued participation or dividend right certificates. The registered shares of RUAG Holding Ltd are not listed.

Changes to capital in the last three financial years
No changes to capital have been decided upon.

Shares, share register
Each registered share entitles its bearer to one vote at the annual shareholders' meeting of RUAG Holding Ltd. The voting right may only be exercised provided that the shareholder is recorded in the RUAG Holding Ltd share register as a shareholder with voting rights. The registered shares carry full entitlement to dividends.

In place of shares, the Company may issue certificates. It may also elect to issue neither shares nor certificates. In this case, the shareholder is entitled at any time to demand issuance of a statement of shares held. The Board of Directors keeps a register of shareholders.

Shareholder structure
Shareholder
The Swiss Confederation holds 100% of shares and thus all voting rights to RUAG Holding Ltd. The Federal Department of Defence, Civil Protection and Sport (DDPS) exercises the Confederation's shareholder interests.

During the year under review, the Articles of Association were amended to the effect that a member of the Board of Directors is no longer required to be a shareholder (qualifying shares eliminated).

Subsidiaries and affiliates

RUAG Group

Aerospace			Defence			
Space	**Aviation**	**Technology**	**Electronics**	**Ammotec**	**Land Systems**	**Services**
	RUAG Switzerland Ltd*		RUAG Electronics Ltd	RUAG Ammotec Deutschland GmbH	RUAG Land Systems AG	RUAG Holding Ltd
RUAG Space Ltd	RUAG Aerospace Services GmbH	RUAG Aerospace Structures GmbH	RUAG COEL GmbH	RUAG Ammotec GmbH	GEKE Schutztechnik GmbH	RUAG Deutschland GmbH
RUAG Space AB	CFS Engineering SA	«brings!» AG		RUAG Ammotec AG		RUAG Sweden AB
RUAG Space GmbH		SwissRepair AG		Norma Precision AB		RUAG Real Estate AG
Mecanex Inc.				MFS 2000		RUAG Services AG
RUAG Aerospace USA Inc.				RUAG Ammotec USA Inc.		Nitrochemie AG
HTS GmbH				RUAG Ammotec UK Ltd		Nitrochemie Wimmis AG
				RUAG Ammotec France S.A.S.		Nitrochemie Aschau GmbH
				RUAG Ammotec Austria GmbH		Saab Bofors Dynamics Switzerland Ltd
				RUAG Ammotec Benelux		Alpar, Flug- und Flugplatz-Gesellschaft AG, Bern

= Majority interests = Minority interests

* comprises Space, Aviation and Technology activities

For detailed information of subsidiaries and shareholdings, see page 93 of the Financial Report.

Owner's strategy of the Federal Council

The 2007–2010 owner's strategy of the Federal Council establishes the transparent, binding framework that enables RUAG Holding Ltd and its subsidiaries to fulfil their duties on a commercial basis while taking account of broader interests. The owner's strategy is enshrined in the Articles of Association of RUAG Holding Ltd.

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

Swiss Confederation representation on the Board of Directors

A DDPS representative (Andreas Bölsterli during the year under review) sits on the Board of Directors of RUAG Holding Ltd.

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

At the annual shareholders' meeting of RUAG Holding Ltd, each registered share carries one vote. A shareholder may be represented by another shareholder only by written proxy.

Qualified majorities

The following resolutions are subject to decision by qualified majority 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 the annual shareholders' meeting

The annual shareholders' meeting is convened and its agenda set as governed by law and by the Articles of Association.

Change in control and defensive measures

Obligation to make an offer

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

Change of control clauses

Any disposal of the capital or voting majority of the Swiss Confederation in RUAG Holding Ltd to third parties requires the approval of the Federal Assembly (by simple federal decree, not subject to referendum, Art. 3 Para. 3, Federal Act on State-Owned Defence Companies (BGRB)). In all other respects, there are no specific clauses concerning a change of control of RUAG Holding Ltd.

Pension fund

The pension fund cover ratio as at 31 December 2009 was 100.8% (prior year: 90.1%). The fund's financial situation had thus eased somewhat by the end of 2009. In addition to measures adopted by the Board of Trustees, this encouraging development was also a consequence of the recovery on the equity markets. A suitable reserve will be established with a view to ensuring financial stability in the long term.

Statutory auditors

Duration of mandate and term of office of head auditor

PricewaterhouseCoopers AG, Berne have been RUAG's statutory auditors since 1999.

The head auditor, Rolf Johner, has been responsible for the audit mandate since 2007.

Audit fees and additional expenses

PricewaterhouseCoopers invoiced the RUAG Group CHF 1.2 million (previous year: CHF 1.1 million) during the 2009 financial year for services related to the audit of the annual financial statements of RUAG Holding Ltd and its subsidiaries and of the consolidated financial statements of the RUAG Group.

In addition, PricewaterhouseCoopers billed the RUAG Group CHF 1.0 million (previous year: CHF 0.7 million) in respect of audit-related services, tax advisory and due diligence services.

Supervisory and controlling tools in relation to auditing

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

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	31/12/2009
Annual press conference	25/03/2010
Annual shareholders' meeting	06/05/2010

The Annual Report containing the financial statements for the year ended 31 December 2009 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