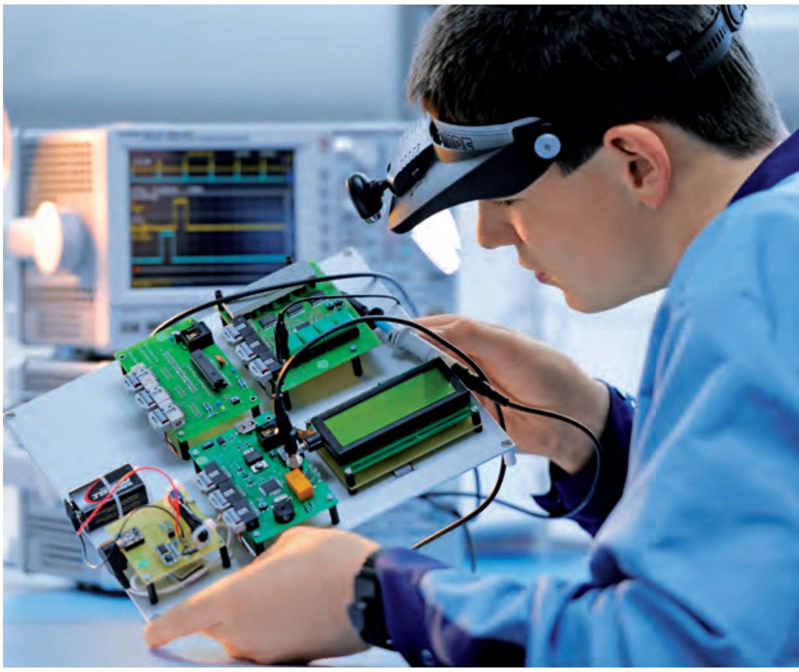
RUAG

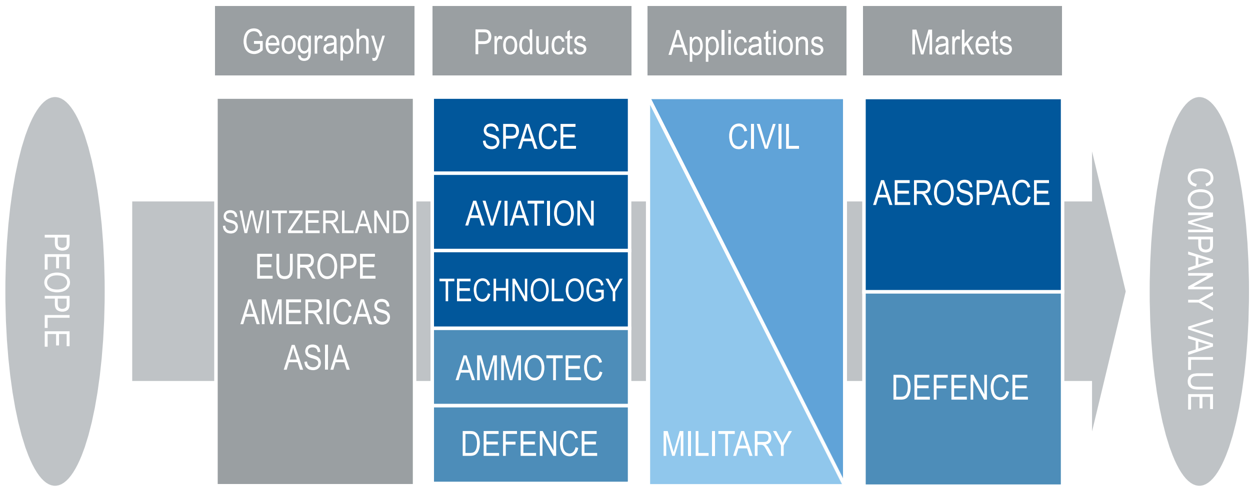


Annual Report **2010**

Into the future with innovation.

RUAG's activities centre around its two market segments, Aerospace and Defence. Its production facilities are located in Switzerland, Germany, Austria, Sweden, Hungary and the USA.

Strategic focus



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

Defence
The Defence market segment comprises the Ammotec and Defence divisions. RUAG Ammotec is the global technology leader in primer systems for small calibre ammunition and an acknowledged specialist in pyrotechnic solutions. RUAG Defence specializes in heavy weapon systems, protection technologies, command and control systems and infrastructures, as well as laser and computer supported training systems for land forces.

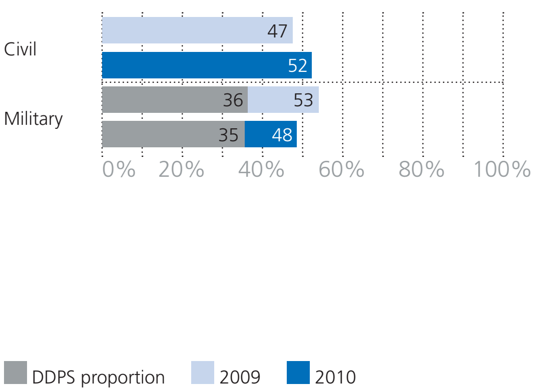
Return to profit

The 2010 financial year was marked by initial success in implementing RUAG's strategy of tightening its focus and minimizing risks, and thus returning to profit. Whereas in the previous year, RUAG had to grapple with serious problems in Aerostructures, Business Aviation and the automotive and semiconductor industry supply business, the Group boosted net sales by 6% in 2010 to CHF 1796 million. EBIT totalled CHF 98 million. Net profit reached a pleasing figure of CHF 92 million, and four of the Group's five operating divisions posted a positive EBIT. A turnaround was successfully instigated in all areas that were previously unprofitable. The number of employees rose by 2% to 7719. Due in particular to acquisitions, research and development expenses rocketed up by 27% to CHF 190 million.

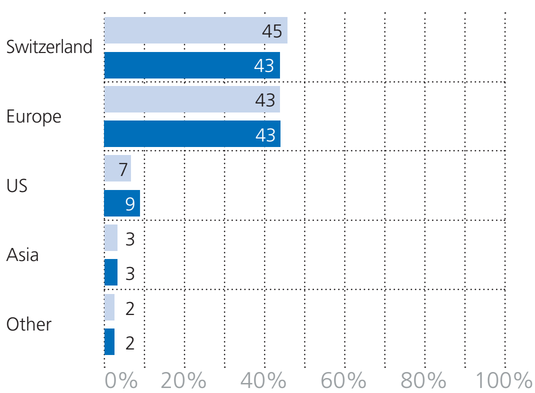
Global with strong Swiss roots

RUAG is set to achieve international growth with all five operating divisions. Building on RUAG's already strong presence in Germany, activities are progressively being expanded in Europe, North America and Asia. In 2010, the focus was on sustainably profitable core activities in aerospace and defence. At the same time, risks were minimized. An essential instrument for this purpose is transparent leadership on the basis of strict strategic and financial rules, which are expressed for the first time in segment reporting (at division level) in this Annual Report.

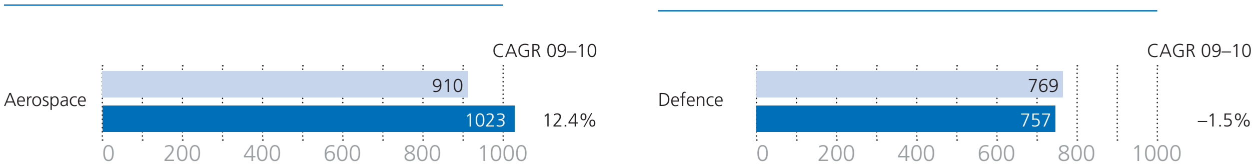
Sales by usage type
in %



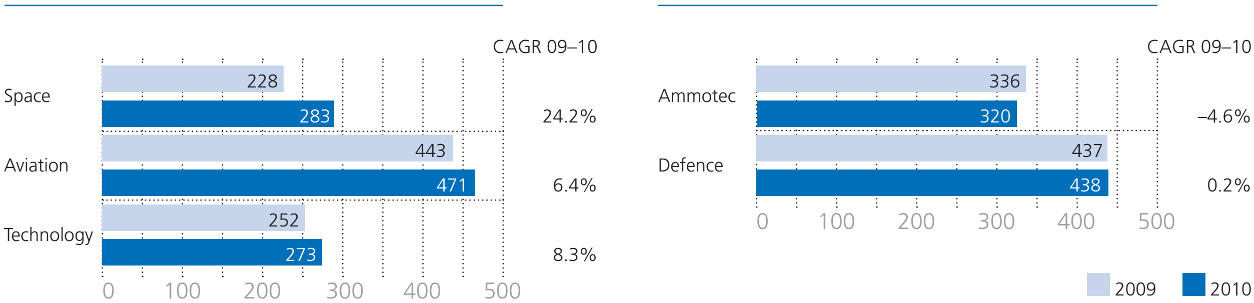
Sales by region
in %



Net sales by market segment
in CHF million



Net sales by division
in CHF million



CAGR = cumulated average growth rate

Detailed figures are provided in Note 39 to the consolidated financial statements, "Operating segments".

International growth in civil applications

Growth in net sales in 2010 originates mainly from the Aerospace market segment, whose contribution increased from 49% to 54% of total sales. Marked growth was achieved in particular in Space (owing to acquisitions), Military Aviation and Aerostructures. Consequently, the share of civil applications in total sales increased from 47% to 52% in 2010. In international terms, the proportion of net sales generated in North America was boosted from 7% to 9%, despite an inconsistent market environment characterized by an incipient recovery in the global economy and simultaneously rising raw material prices, cuts in government budgets and a difficult currency situation. In contrast, the proportion of sales generated in Switzerland fell by 2% to 43%. The proportion attributable to Europe (43%) and Asia/Pacific (3%) remained constant. The remaining countries contributed 2% (2%). This included South America, the Middle East and Africa.

Positive developments in the divisions

The various divisions developed differently in 2010. While RUAG Space generated net sales of CHF 283 million and EBIT of CHF 9 million, RUAG Aviation boosted net sales by 6% to CHF 471 million. Aviation reported EBIT of CHF –11 million. This includes one-time charges of CHF 30 million in the form of impairment losses and restructuring provisions. Technology's net sales grew by 8% to CHF 273 million, with EBIT of CHF 21 million. RUAG Ammotec's net sales fell to CHF 320 million (previous year: CHF 336 million). At CHF 31 million, EBIT almost reached the previous year's figure. The RUAG Defence division, established in 2011, posted consolidated net sales of CHF 438 million in 2010.

Overview of key figures
in CHF million

	2010	2009	Change in %
Orders received	1 713	1 872	–8.5%
Net sales	1 796	1 696	5.9%
Net cash flows from operating activities	130	131	–0.5%
Orders on hand	1 654	1 783	–7.3%
EBIT	98	–113	n.a.
EBITDA	194	38	409.2%
Net profit	92	–107	n.a.
Research and development expenses	190	149	27.3%
Employees as at 31 December	7 719	7 534	2.5%

Contents.

The 2010 financial year at RUAG.

The successful introduction of turnaround processes, long-term minimization of risk, and consistent implementation of the focus and innovation strategy enabled the company to move firmly back into profit.

Return to profit

The 2010 financial year was marked by initial success in implementing RUAG's strategy of tightening its focus and minimizing risks. Whereas in the previous year, RUAG had to grapple with serious problems in Aerostructures, Business Aviation and the automotive and semiconductor industry supply business, the company returned to profit in the first half of 2010.

In the 2010 financial year, RUAG boosted net sales by 6% to CHF 1796 million and moved firmly back into profit with EBIT of CHF 92 million. This result is the consequence of a consistent focus on the company's core Aerospace and Defence businesses and the associated minimization of risks. Four out of five divisions are making a profit. RUAG invested 10% of its sales in research and development.

The Aerospace market segment accounted for 54% of total sales (49%). Most of this growth can be attributed to acquisitions in the space business, to the military aircraft MRO business for the Swiss Air Force and international customers, and to Aerostructures. The Defence market segment accounted for 38% (43%) of total sales. This segment did not record any growth in 2010 because of cuts in defence budgets and delays in the delivery of the Kodiak armoured engineer and mine clearance vehicles for the Swiss Army. The Services segment generated 8% (8%) of total sales. This segment includes Real Estate and IT.

With 52% (47%) and 48% (53%) in civil and military applications respectively, sales remained well balanced. The Swiss Federal Department of Defence, Civil Protection and Sport (DDPS) remained the single most important customer, accounting for 35% of total sales (36%). 43% of total sales was generated in Switzerland (45%), 43% in Europe (43%) 9% in North America (7%) and 3% in Asia/Pacific (3%). Other countries accounted for 2% (2%). This included South America, the Middle East and Africa.

The company reported earnings before interest, taxes, depreciation and amortization (EBITDA) of CHF 194 million (CHF 38 million). Earnings before interest and taxes (EBIT) amounted to CHF 98 million compared to CHF –113 million the previous year. Excluding one-time charges, the consolidated EBIT amounted to CHF 93 million compared to CHF 45 million the previous year. The Group generated net profit of CHF 92 million (CHF –107 million). Net cash flows from operating activities amounted to CHF 130 million (CHF 131 million).

Currency developments in the euro and the US dollar had a negative impact on all divisions in 2010. However, this negative currency effect was limited by stable operating results and existing hedges.

In 2010, the number of employees rose by over 2% to 7719 (7534). Roughly 10% of the around 4500 employees in Switzerland are trainees.

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

Tightened focus and risk minimization

From management’s perspective, 2010 was centred on focussing the divisions’ activities on sustainably profitable core activities in Aerospace and Defence. Parallel to this, the company pursued a policy of minimizing risks through a clear strategy of innovation and ongoing internationalization of activities. An essential instrument to advance these objectives is transparent leadership on the basis of strict strategic and financial rules, which are expressed for the first time in segment reporting (at division level) in this Annual Report.

In the pursuit of risk minimization, important goals were achieved in 2010. A successful start was made in turning around the Aviation and Technology divisions. Targeted restructuring measures were successfully implemented to this end. One improvement in the Aviation division was streamlining the organization of civil aircraft MRO. In the Technology division, Aerostructures concluded a long-term contract with Airbus, a major client, which will stabilize its future, and also achieved growth in this area. In contrast, despite numerous efforts, a long-term solution could not be found for the Plan-les-Ouates site. Work commenced on establishing a Group-wide risk management system, which will enable the Group to actively manage risks over the long term and to adopt suitable corrective measures in time.

A consistently high rate of innovation is crucial for RUAG’s future growth. To pursue this goal, RUAG has implemented structured innovation management and substantially increased its total spending on research and development by 27% to CHF 190 million (CHF 149 million) in the year under review.

Space: internationalization

In 2010, RUAG Space generated net sales of CHF 283 million. The post-merger integration of Oerlikon Space AG, which was acquired in mid-2009, is largely completed.

As Europe’s largest independent space supplier with operations in Switzerland, Sweden and Austria, RUAG Space is specialized in systems for use on board satellites and launch vehicles. The largest orders in 2010 included assemblies worth EUR 35 million for the European Galileo satellite navigation programme.

Today, with a redefined and refocused product portfolio, the three national Space subsidiaries are able to compete more effectively in the global market as Europe's biggest independent space supplier. Moreover, RUAG was able to expand its customer base in the USA and Asia. RUAG Space is thus well set to successfully participate in the expected growth in global commercial space activities.

The division generated EBIT of CHF 9 million.

Aviation: concentration

RUAG Aviation increased net sales by 6% to CHF 471 million. The core business of the division, of which Philipp M. Berner became CEO on December 1, 2010, is the maintenance, repair and overhaul of military and civil aircraft and the provision of specific products, subsystems and components for a broad aviation clientele. On the basis of its solid foundation in Switzerland, the proportion of sales generated by Military Aviation has also grown well internationally. In future, RUAG intends to make greater use of synergies between the business units and areas of activity and focus resolutely on sustainably profitable operations. Possibilities have been identified in the area of Components in particular. Among Aviation's major successes was the maiden flight of the prototype for the upgrade programme for the Swiss Air Force's TH-89 Super Puma/Cougar helicopters, strategically important Super Puma maintenance contracts from Slovenia and Finland, and maintenance contracts for the Royal Malaysian Air Force's F/A-18 Hornet engine modules.

Considerable progress has been made in turning round Business Aviation, which came under pressure in 2009 as a result of the economic crisis, and a substantial improvement has been achieved. Currently, the site network is being streamlined and specific competencies concentrated at particular locations.

Aviation reported EBIT of CHF –11 million. This includes one-time charges of CHF 30 million in the form of impairment losses and restructuring provisions. Capacity adjustments have been made at the Aviation site in Oberpfaffenhofen (Germany) in the light of cuts in the German defence budget and delayed sales successes of the Do 228NG.

Technology: turnaround

In 2010, RUAG Technology successfully boosted net sales by 8% to CHF 273 million. The division manufactures and processes structural assemblies and high-quality components and provides special services to customers in the aviation, semiconductor, energy, automotive and recycling industries. The turnaround initiated in 2009 is well underway. A series of restructuring measures already considerably improved the foundations of Technology's business in 2010. This was achieved by focusing on high-value, profitable specialist products and niche applications on the one hand and minimizing risks on the other. In autumn 2010, RUAG strengthened its longstanding partnership with Airbus by signing new contracts with an expandable annual order volume of CHF 85 million. Business and currency risks were also minimized. RUAG Technology is the exclusive supplier for all wingtip fences for current Airbus models and is responsible for the entire supply chain for certain fuselage sections for aircraft in the Airbus A320, A330 and A340 families. In addition, a recovery in the semiconductor industry, for which RUAG manufactures large precision parts, also contributed to an improvement in the situation. Despite various efforts, it was not possible to sustainably return the Plan-les-Ouates site to profit. The Plan-les-Ouates site will be closed in June 2012 if its activities cannot be successfully spun off by then.

In 2010, RUAG Technology generated EBIT of CHF 21 million. This includes a net amount of CHF 35 million in positive one-time effects from the reversal of write-downs on inventories and of provisions.

Ammotec: specialization

In 2010, RUAG Ammotec generated net sales of CHF 320 million. 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 agencies. Although the market environment was challenging on account of overcapacity and cuts in government budgets, overall Ammotec was able to defend its strong market position.

Owing to fierce competition, only part of the sharp increases in commodity prices could be passed on to customers. In 2010, there was a gratifying turnaround in the market for hunting and sports ammunition, which had come under pressure in 2009. However, higher sales volumes were partially offset by price erosion in the important US market.

Industrial pyrotechnics also reported a positive development in 2010. The biggest success in this respect is a long-term supply contract with Hilti for low-pollutant actuator cartridges. This major contract required considerable investment in new production capacities.

The EBIT of the division was CHF 31 million. Despite negative currency effects, this result almost equalled that of 2010.

Defence: market proximity

In 2010, RUAG Defence generated net sales of CHF 438 million. RUAG Defence was formed as a new division on 1 January 2011 from the merger of the core businesses of the former divisions RUAG Electronics and RUAG Land Systems. The division is managed by Urs Breitmeier.

The merger was a consequence of the fact that both former divisions sold their products and services in the same international land forces market. The merger not only makes it easier to address customers, in particular the DDPS, the biggest customer – it has also made it possible to offer a single-source, more comprehensive and, in many fields, complementary portfolio of products and services in the international market. RUAG Defence specializes in maintaining and upgrading heavy weapon systems, ballistic protection systems, virtual and live simulation training systems and system integration and development of command and control systems.

Successes in 2010 in Switzerland included the upgrade programme for the Leopard 2 main battle tank, a command information system (FIS HE) and further contracts for the Kodiak armoured engineer and mine clearance vehicle based on converted Leopard 2 chassis. Contracts have been signed for a total of 42 such vehicles. RUAG Defence is also the Swiss Army centre of excellence for combat training centres based on the state-of-the-art SIMUG laser firing simulation platform, as well as a full service provider for all operating matters. In 2010, the division was appointed as the materiel centre of excellence for the DDPS's integrated radio reconnaissance and transmission system (IFASS).

The Defence division generated EBIT of CHF 32 million.

Service & Support units

To enable the divisions to focus on their business and technological competencies and efficient performance, RUAG has concentrated its infrastructure services – real estate management and IT services – in two centralized support units, RUAG Real Estate and RUAG Services. As a professional real estate management company, RUAG Real Estate is in a better position to successfully increase the long-term return on the Group's considerable real estate holdings. Already in 2010, net sales increased by 4% to CHF 90 million. EBIT amounted to CHF 19 million. At present, master plans to further increase the value of the bigger sites and industrial parks are being drawn up and implemented. In 2010, RUAG Services, the Group's quality-certified IT services unit, also increased net sales by 14% to CHF 33 million. The new, centralized Software House will in future not only provide network, server, SAP and workplace services, but also concentrate and standardize software development competencies.

Human Resources, Secretary General & Legal Services, Marketing & Communication, Finance & Controlling and Risk Management are central Group units that function as key control tools for the company's management. They work closely with the divisions to ensure consistent focus and implementation of the company's strategy. Particular importance is attached to human resources policy. Highly qualified, motivated staff are the prerequisite for RUAG's innovation strategy. Attracting, retaining and helping these employees to further develop their skills is therefore decisive to RUAG's success. Well-trained skilled staff are just as essential to RUAG as qualified university graduates. In 2010, the number of employees rose by 2% to 7719 (7534). Roughly 10% of the approx. 4500 employees in Switzerland are trainees.

Outlook

While the global recovery from the economic crisis is likely to continue, clouds on the horizon include the persistent strength of the Swiss franc and rising commodity prices. In expanding its sales internationally, RUAG is making an important contribution to Switzerland's security and independence by ensuring that the Swiss Armed Forces and Swiss economy retain access to essential technological expertise.

In view of rising state budget deficits, orders from government agencies and military markets are likely to decline. RUAG intends to counter this trend by tapping new markets both geographically and through product and service innovations. In this way, RUAG is acting on its responsibility as a joint stock company under private law wholly owned by the Swiss Confederation.

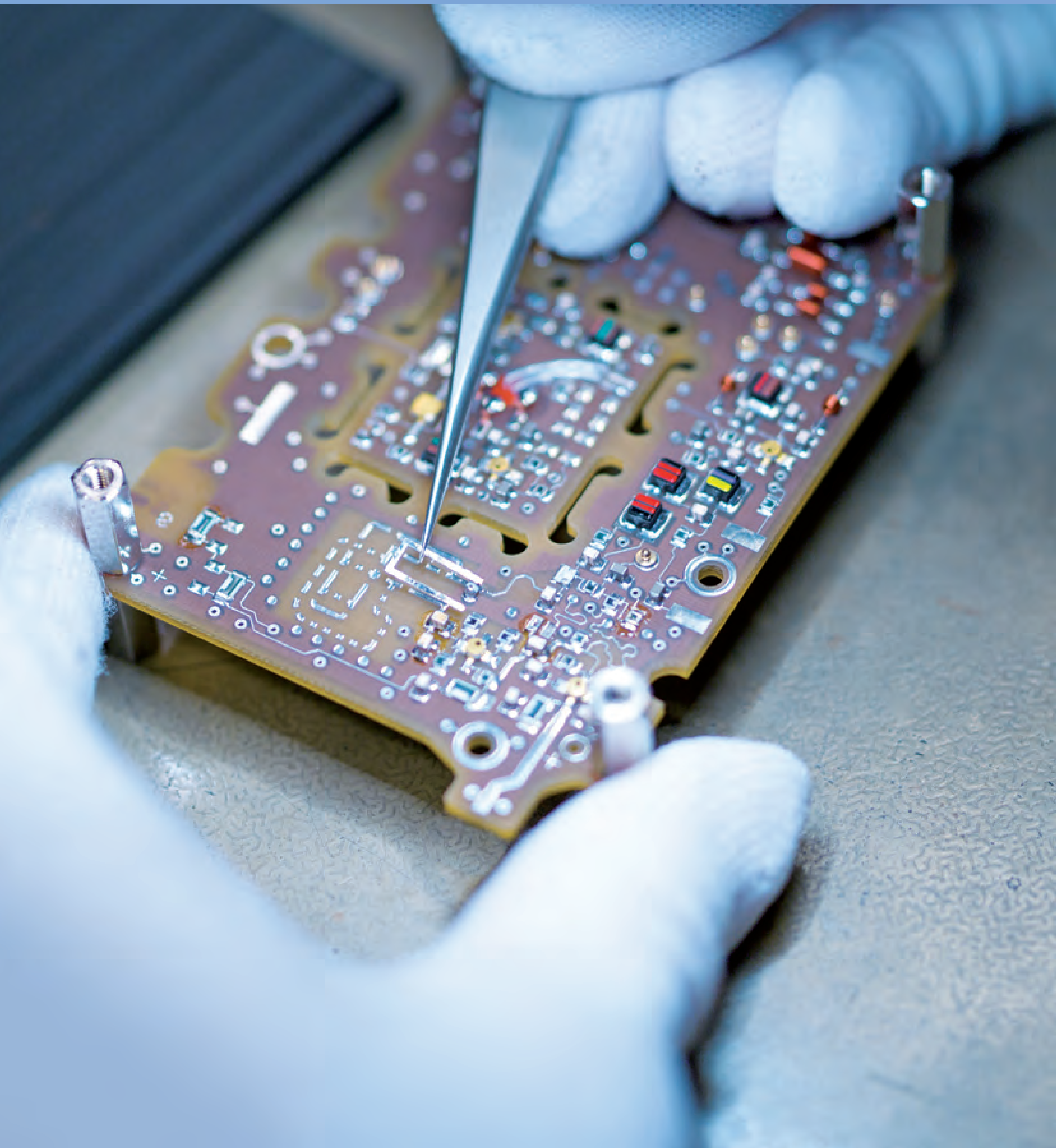
The Board of Directors and Executive Board agree that RUAG faces significant challenges. Against this backdrop, we owe special thanks to our customers for their confidence and custom, to our shareholder for a positive working relationship, and to our employees for their great dedication.

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. With a broad-based portfolio of subsystems and equipment for satellites and launch vehicles, RUAG Space is the leading independent supplier of space products in Europe.



Core business

As the leading independent supplier of space products in Europe, RUAG Space specializes in component assemblies for use on board satellites and launch vehicles. The division develops, manufactures and tests a broad spectrum of products for institutional and commercial customers. The five major product areas are structures and separation systems for launch vehicles, structures and mechanisms for satellites, digital electronics for satellites and launch vehicles, satellite communications equipment and satellite instruments.

The three national subsidiaries in Switzerland, Sweden and Austria are established founding partners in the institutional programmes of the European Space Agency ESA and the Ariane European launch vehicle programme. Most European space missions are controlled and monitored by RUAG Space computers. Precision mechanisms, slip rings, thermal systems and satellite structures have been key factors in the success of many space projects.

RUAG Space has applied the capabilities developed for institutional programmes to gain a foothold in the commercial space market as well. The division is market leader in composite payload fairings, in adapters and in launch vehicle and satellite separation systems. Additional products for the commercial market include receivers and converters for telecommunication satellites, thermal insulation, pointing mechanisms for electric propulsion thrusters, solar array drive mechanisms and mechanical ground support equipment. Quality niche products such as microchip lithography mechanisms, thermal insulation for medical devices and high-end slip rings are also supplied to customers outside the space industry.

Business performance

RUAG Space achieved net sales of CHF 283 million in financial year 2010. Due to the acquisition of Oerlikon Space AG in mid-2009, a direct comparison with the prior year is not possible. EBIT was CHF 9 million.

The most important new order in 2010 was related to the European Union's Galileo satellite navigation system. RUAG Space will deliver subsystems with a total value of EUR 35 million for 14 navigation satellites, including the satellites' central control computers as well as antennas and other electronic components. The mechanisms used to position the solar arrays and the thermal insulation to protect the electronics on board the satellites against the extreme temperature fluctuations of space will also be supplied by RUAG Space. Furthermore, the division is also developing and manufacturing the dispenser used to mount the satellites in pairs in the nose of the Soyuz launch vehicle.

The European environmental satellite CryoSat-2 was launched in April 2010. This ESA satellite will carry out research on changes in the global ice caps using a highly sophisticated radar instrument. This instrument's "eyes", two special radar antennas, were developed and built by RUAG Space. RUAG Space also supplied the structure of the satellite, the thermal insulation and equipment for transport and testing on the ground.

RUAG Space in numbers

Net sales:	CHF 283 m
EBITDA:	CHF 30 m
EBIT:	CHF 9 m
Employees:	1088
Locations:	Switzerland, Sweden, Austria

"TODAY, RUAG IS ON BOARD OF NEARLY EVERY EUROPEAN SPACE MISSION."

DR PETER GUGGENBACH, CEO RUAG SPACE

2010 was a record year for payload fairings, with a total of nine successful launches of launch vehicles carrying RUAG fairings. One of these was the largest fairing ever built in Europe at a height of 23.5 metres, used in the September launch of a satellite from Vandenberg Air Force Base, California on an American Atlas V rocket.

The division set other records in 2010 as well: with 139 flight units, more receivers and converters were delivered than ever before, and 24 RUAG antennas began their journey into space aboard a single rocket in the launch of 6 Globalstar satellites. The customer base in the commercial market also grew in 2010, especially outside Europe. For example, RUAG Space won its first order from American satellite builder General Dynamics for X-band antennas. The business relationship with Canada's MacDonald, Dettwiler and Associates Ltd. (MDA) was strengthened with a follow-up contract for antenna deployment mechanisms. In Asia too, RUAG Space's position was bolstered, with radiation monitors being delivered for the first time to Japanese satellite producer Mitsubishi Electric.

Innovations and initiatives

Research and development efforts are focussed on systematically strengthening and improving the existing strategically defined product portfolio of the three national subsidiaries. At the centre are products of interest to growth markets outside of institutional space missions, such as equipment for satellite-supported telecommunications. In this area, RUAG Space qualified a new C-band receiver and a new cross-converter between the C and K_u bands in the microwave spectrum in 2010.

The list of current development projects ranges from payload fairings, adapters and separation systems for the upcoming European Vega launch vehicle, through precision pointing mechanisms for electric propulsion thrusters and solar array drive mechanisms, to precision GPS receivers for fixing exact locations in earth orbit.

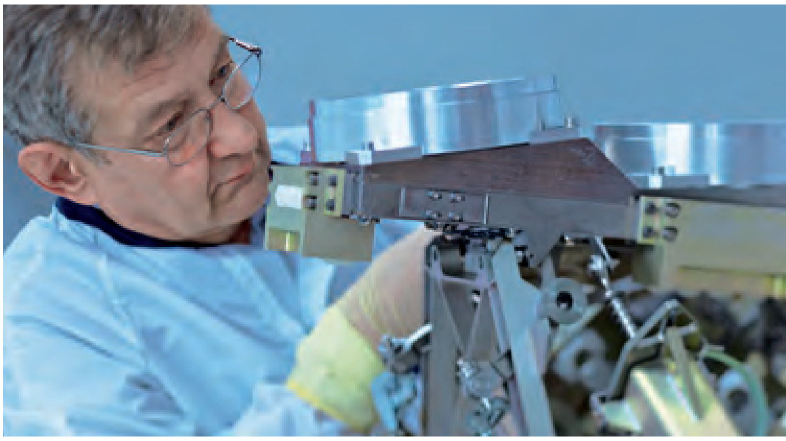
In production, the expanded order volume of recent years has driven expansion and modernization of existing facilities, including new cleanrooms commissioned in Zurich at the end of 2010. These provide an additional 400 square metres of state-of-the-art rooms of various cleanliness classes for the production of mechanisms and optical systems. In Vienna, a new laser cold-cutting plant for thermal insulation entered service. Additionally, two extensions are currently being built in Vienna and at the second Austrian site in Berndorf.

Outlook and strategy

RUAG Space operates in a relatively stable market environment. Thanks to the long cycles of space programmes and the high proportion of institutional customers, the business is exposed to few cyclical fluctuations.

Growth drivers in recent years have primarily included replacement of satellite fleets by commercial telecommunication operators. This market segment is expected to slow down initially in the next few years. In the medium and long term, however, we anticipate renewed growth in this important market segment. Key engines of growth include the ambitious programmes of emerging nations in Asia and the rise of new application areas, particularly in earth observation and navigation.

With a focussed product portfolio, RUAG Space finds itself in a good starting position to participate in the expected market growth. The decisive factors will be the successful development of innovative products along with determined efforts to tap into new market segments outside Europe.



Exploring Mercury with RUAG technology

In 2014, the joint European-Japanese mission BepiColombo will begin its journey to Mercury, the planet closest to the sun. It will be the most ambitious European scientific mission yet. The two space probes are scheduled to reach their destination in 2020 and spend at least a year investigating their targets. The ESA probe will explore the planet's surface and composition, while the probe from the Japanese space agency JAXA will study its magnetic field.

On board the mission will be numerous component assemblies from RUAG Space, including the European probe's sophisticated laser altimeter. This instrument will be capable of mapping the surface of Mercury in three dimensions. It is being built in Zurich, as is the frame of the ESA probe. The solar array drive mechanisms are being developed in a joint project between the Swiss and Austrian sites. The pointing mechanism for the electric propulsion thruster is also being built at the Vienna site. In addition, RUAG Space will supply thermal insulation and mechanical ground support equipment.

Aviation. The combination of military and civil aircraft and component MRO enables economies of scale and international market differentiation as a life-cycle support enterprise.

Core business

RUAG Aviation is a centre of excellence for civil and military aircraft maintenance, repair and overhaul (MRO) and for developing, manufacturing and integrating aviation systems and subsystems. As technology partner to the Swiss and German Air Forces, other international air forces and civil aircraft operators and manufacturers, the division focuses on its three core competencies of civil MRO, military MRO and maintaining subsystems and components.

Activities in Military Aviation are based on integral service programmes for all combat aircraft, helicopters, training aircraft and reconnaissance UAVs for the Swiss Air Force. The service spectrum includes support for evaluation of new systems, final assembly, MRO work as well as trading and remarketing. The focus is on platforms used in Switzerland such as the F-5 Tiger and F/A-18 Hornet fighter aircraft, the Super Puma/Cougar helicopter and the EC 635 training and transport helicopter. Lifecycle support services for the Bell UH-1D helicopter and the Alpha Jet are provided at the Oberpfaffenhofen site in Germany. Moreover, RUAG Aviation is the original equipment manufacturer of the Do 228 New Generation turboprop aircraft, a modernized version of the classic Dornier 228.

In Business Aviation, services range from comprehensive maintenance, repair and overhaul work through to interiors and painting for owners and operators of selected civil aircraft. As partner to aircraft manufacturers Bombardier, Cessna, Dassault, Embraer, Hawker Beechcraft, Piaggio and Pilatus, RUAG Aviation has authorized service centres in Switzerland and Germany.

Business performance

Overall RUAG Aviation saw slight sales growth of 6% to CHF 471 million year on year. The division looks back on a challenging 2010. While the military aviation business in Switzerland remained stable and international growth was strong, the effects of defence budget cuts in Germany were palpable. The resulting decline in Bell UH-1D maintenance work had already begun to impact on the site's order volume. The division's EBIT of CHF –11 million includes one-time charges of CHF 30 million in the form of impairment losses and restructuring provisions. Capacity adjustments have been made at the Aviation site in Oberpfaffenhofen (Germany) in the light of cuts in the German defence budget and delayed sales successes of the Do 228NG.

One highlight in military aviation in 2010 was the successful maiden flight of the TH-89 Super Puma/Cougar upgrade programme prototype for the Swiss Air Force. All 15 Super Puma/Cougar helicopters are to be modernized by 2014. In the international military business, maintenance work for Super Pumas from Slovenia and Finland were among the successes. In addition to maintenance, repair and overhaul (MRO) services, a RUAG-developed ISSYS self-protection system against guided missiles and laser-guided weapons was installed in the helicopters for Slovenia. A further key international contract was for maintenance of F/A-18 Hornet engine modules for the Royal Malaysian Air Force. Business was also good in maintenance for F-5 components including guided missiles.

RUAG Aviation in numbers

Net sales:	CHF 471 m
EBITDA:	CHF 15 m
EBIT:	CHF –11 m (CHF 19 m prior to one-time charges)
Employees:	1945
Locations:	Switzerland, Germany, USA

"OUR PARTNERSHIP WITH THE SWISS AIR FORCE IS THE BASIS OF OUR INTERNATIONALIZATION STRATEGY."

PHILIPP M. BERNER, CEO RUAG AVIATION

RUAG Aviation strengthened its civil helicopter MRO capabilities and expanded its customer and platform portfolio with the acquisition of Linth Air Service AG's helicopter service operations in Mollis. The division also acquired the turboprop aircraft service operations of A.M. Aeromeccanica SA in Locarno, thus expanding its market share in turboprop aircraft in Switzerland and strengthening its position in northern Italy too.

The year 2010 was decisive for the first aircraft built by RUAG, the Do 228NG. The new, improved version of the Dornier 228 had its successful maiden flight and received extended type approval from the European Aviation Safety Agency (EASA) at mid-year, setting the stage for successful delivery to the first customers from Japan and Norway. In 2011 the emphasis will primarily be on marketing and sales activities for the Do 228NG.

In civil aircraft MRO, stabilization and considerable improvement was achieved by focusing the strategy on selected platforms and services in association with targeted restructuring measures. The aim is to bundle the competencies of RUAG Aviation at the Geneva, Berne Belp, Agno (Switzerland) and Oberpfaffenhofen (Germany) sites with a view to meeting customer needs even better. For example, services for Embraer customers are now concentrated in Oberpfaffenhofen and a Piaggio service centre has been established in Agno. The Cessna and painting businesses, which came under pressure in 2009, were also stabilized, and the Bombardier business area even gained market share. The Zurich Kloten site was shut down in early 2010 during the realignment, with new jobs being found for most of the staff.

Innovations and initiatives

Innovations represent a major strategic initiative at RUAG Aviation, with both technical and commercial innovations encouraged. An example of technical innovation in aircraft MRO is the development of a quick, low-cost process to repair corrosion and wear damage to the landing gear of the F-5.

RUAG Aviation has also established itself in recent years as a developer of its own products, such as the ISSYS self-protection system, which provides aircraft with extensive protection against surface and air threats. The latest innovation in this field is a POD (plug-on device) variant. This platform-independent solution, which can be installed on different aircraft types as needed, was given the Survivability Solution Award at the annual Aircraft Survivability Conference in Berlin.

As a forward-looking technology company, RUAG Aviation makes a point of keeping a finger on the pulse of the latest technology trends and developments. Modern wind tunnel facilities are available for aerodynamic testing by customers in the aerospace and automotive industries. Here, engineers and specialists focus on new technologies, collaborating with universities and academic institutions, or directly with customers. In 2010, for example, tests were conducted jointly with Boeing and Rolls-Royce for the development of innovative, particularly fuel-efficient engines.

Outlook

In future, RUAG Aviation will focus clearly on its core competencies of military and civil aircraft and component MRO.

RUAG Aviation will also place considerable strategic emphasis on innovation in 2011. On the technical side, this will include innovations such as new upgrade, MRO and product solutions. On the commercial side, RUAG Aviation will continue to systematically pursue innovations such as "power by the hour" contracts involving fixed maintenance costs per hour of operation.

In military MRO, the focus in Switzerland in 2011 will be on strengthening the relationship with the main customer, the Federal Department of Defence, Civil Protection and Sport (DDPS). In the global military business, growth opportunities are being pursued especially in the United States, Asia and South America. For Business Aviation, efforts will focus on completing the turnaround process.

First F/A-18 Hornet engine modules for Malaysia

One highlight was the successful delivery of the first F/A-18 Hornet engine modules to the Royal Malaysian Air Force. Maintenance work was carried out in 2010 on several F404 engine modules, making the Royal Malaysian Air Force an important early customer for RUAG Aviation in the global F/A-18 Hornet engine business. Key factors influencing the customer's decision to work with RUAG Aviation were its ability both to complete the orders quickly and cost-effectively and to provide the air force with support in complex technical and logistical matters – all with a view to keeping turnaround times as short as possible. RUAG Aviation's investments in spare parts have further enhanced efficiency: the company guarantees that materials are always available at short notice, which also benefits the Swiss Air Force. The good working relationship that RUAG Aviation has established at all levels with the Royal Malaysian Air Force is expected to bring MRO work on further engine modules to Switzerland in 2011.

Technology. Flexible processes combined with comprehensive technology capabilities and outstanding production quality enable RUAG Technology to establish a successful niche position in various international markets.

Core business

RUAG Technology manufactures and machines structural assemblies and high-quality components and provides special services to customers in the aviation, semiconductor, energy, automotive and recycling industries. Activities are grouped into Aerostructures and Components, the latter spanning the Mechanical Engineering, Coatings, Automotive and Environment businesses.

In Aerostructures, key focal points are producing complete passenger aircraft fuselage sections for major customers such as Airbus and Bombardier, wing and control surface components and sophisticated component assemblies and parts for civil and military aircraft. As a centre of excellence for wingtip fences, RUAG Technology produces all of the winglets for current Airbus models and serves as a "quality gate" for final assembly and the entire global fuselage section supply chain for the European aircraft manufacturer.

Mechanical Engineering produces sophisticated structural elements and components for machinery and equipment manufacturing, for the wind power and semiconductor industries and for aerospace, precision mechanics and tool production. The unit's specialities include high-precision machining of large parts. The Coatings business unit is proficient in a comprehensive array of layering, chemical, electrolytic, electrochemical, tribological and nanotechnological surface treatment processes. Automotive provides metal forming for the automotive sector. Environment is a total service provider for electrical, electronic and industrial materials recycling.

Business performance

RUAG Technology grew net sales by CHF 21 million to CHF 273 million in 2010. The turnaround that began in 2009 is thus well underway. Whereas Technology had a large negative impact on the RUAG Group's profit figures in 2009 and a reassessment of risks revealed the need for restructuring measures, stability returned to all business units during the year under review. This accomplishment is all the more notable in light of the additional pressures that the division, like all other exporters, faced in 2010 due to the strong Swiss franc along with huge spikes in some raw material prices. Technology's EBIT in 2010 was CHF 21 million, including a net amount of CHF 35 million in positive one-time effects from the reversal of write-downs on inventories and of provisions.

The future of Aerostructures will see a focus on high-value, profitable speciality products and niche applications along with efforts to minimize risks for the Group as a supplier in the global supply chains of aircraft manufacturers. This includes new, multi-year contracts concluded with the European aircraft producer Airbus in the autumn of 2010, which comprise an expandable annual order volume of CHF 85 million and minimize both business and currency risks.

At the Plan-les-Ouates production site near Geneva, efforts to establish a profitable focus on core competencies in the production of sophisticated titanium and nickel components for civil and military aviation proved unsuccessful. Decisive

RUAG Technology in numbers

Net sales:	CHF 273 m
EBITDA:	CHF 30 m
EBIT:	CHF 21 m
	(CHF –14 m prior to one-time effects)
Employees:	1362
Locations:	Switzerland, Germany

"INNOVATION AND QUALITY FROM PROTOTYPE TO MANUFACTURING ARE OUR TRUMP CARDS."

DR VIKTOR HAEFELI, CEO RUAG TECHNOLOGY

measures such as progressive workforce reductions and shorttime work did not have the desired effects, and attempts to expand the customer base did not bear fruit. Despite various efforts, it was not possible to sustainably return the Plan-les-Ouates site to profit. The Plan-les-Ouates site will be closed in June 2012 if its activities cannot be successfully spun off by then.

Mechanical Engineering benefitted from the incipient upturn in the machine and especially the semiconductor industry, for which it manufactures precision large assemblies. The Coatings business unit likewise took advantage of the nascent recovery in world trade to replenish its order book. The same is true for the Automotive business unit, although cost and innovation pressures in the automotive sector remain intense and there is excess capacity on the market. Since this sector is not part of RUAG's core business, a decision has been taken to withdraw from heavy sheet metal processing and combine the Automotive business unit with Mechanical Engineering in 2011. The intention is to find jobs for the affected staff elsewhere within RUAG.

The Environment business unit proved to be a stable pillar of growth in 2010. Moreover, steps were taken during the year to further expand capabilities as a comprehensive recycling service provider for third-party businesses, offering a single source for everything from collection through demanufacturing to reintroduction of materials into production cycles.

The faster than expected turnaround of RUAG Technology has been the combined result of various measures and activities in all areas. These include not only more effective risk assessment and the resulting new contracts with Airbus, a systematic expansion of sales efforts and continual efficiency-enhancing process improvements, but also optimization of our own supply chain for better control of foreign exchange risks by expanding procurement in dollars and euros.

Innovations and initiatives

As supplier to a wide range of industries, RUAG Technology focuses its development and engineering efforts on innovative solutions to our customers' most difficult challenges. The company addresses the entire development, engineering and production cycle from prototype design to industrial manufacturing.

Examples of RUAG Technology development projects that provided tangible value to customers in 2010 included lightweight high-temperature tubing for aircraft construction and a self-cleaning painting system. The high-temperature composite tubes are designed for heating systems and generators in aircraft, where they must withstand temperatures of up to 350 degrees Celsius. The tubes are made of carbon fibres embedded in heat-resistant resin, an approach that is not only less costly in production than conventional titanium-based tubing, but also substantially lighter, yielding additional fuel savings during flight.

The Coatings business unit's painting system is based on nanotechnology. Among other applications, it is intended for use on upmarket mountain bikes, making them much faster to clean. The innovative coating is an attractive differentiating factor for high-end bicycles.

In addition to its technology development initiatives, RUAG Technology also systematically redoubled sales efforts in 2010. Sales teams were expanded through new hires and a structured, targeted effort was undertaken both to acquire new customers and to expand relationships with existing ones.

Outlook

In 2011, RUAG Technology intends to forge ahead continually and consistently with its turnaround strategy. Alongside the division's own efforts, success will depend crucially on developments in our export-oriented customer markets. Since most signs currently point to a continuing recovery in the global economy, a further positive trend in sales and income for the current year is anticipated. The strong Swiss franc and rising commodity prices are likely to remain negative factors in 2011.

The key to long-term success will be continuous improvement in processes at all business units. This is being pursued throughout the division through a structured improvement process, including ongoing optimization of our own supply chains. A major consideration is more flexible hedging of exchange rate fluctuations.

The strategic objectives of the individual business units reside in a tighter focus on profitable activities as a basis for expansion. In Aerostructures, to this end, the profitable niches that RUAG Technology occupies internationally will be expanded in both the civil and military markets. Mechanical Engineering will continue to pursue a consistent strategy of supplying precision assemblies with overall responsibility for sections of the supply chain. Environment is aiming for growth in 2011 and hopes to further apply the expertise it has acquired internally in recycling materials from industrial production with a view to providing services to third-party business clients.

Winglets for all civil Airbus models

Large-capacity aircraft such as the Airbus A380 owe their ability to take off effortlessly despite their relatively small wing surface area in part to clever wingtip extensions known as winglets and wingtip fences. These angular structures increase the available lift surface by minimizing disruptive turbulence at the wingtips. Without its winglets, the A380 would need a wingspan that no airport could accommodate. But these slanted, angled structures not only reduce wingspan, they also provide fuel savings of up to 5% in flight.

In 2010, RUAG Technology became the sole supplier of winglets for all civil aircraft from Airbus. Both the traditional upward-slanting winglets of the A330 and A340 and the vertical upward and downward directed wingtip fences of the A320 and A380 are manufactured exclusively by RUAG Technology in Emmen. This success is due in large part to the high production quality that keeps adjustment work during final assembly to a minimum.

Ammotec. Focussing research and development on top-quality pyrotechnic specialty products for hunting and sport, law enforcement, the military and industry is opening new market niches worldwide.

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 agencies. The products are renowned for their ultimate dependability, precision and optimally engineered effect. Environmentally safe disposal of pyrotechnic products also forms part of the service portfolio.

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 defence and law enforcement, the division supplies high-precision ammunition across the entire small-calibre spectrum, including special-purpose ammunition under the SWISS P brand. A wide range of small-calibre ammunition for various operational and training applications is available for government agencies. The company also produces a unique line of low-pollutant, NATO-qualified small-calibre ammunition. Customers include the Swiss and German Armed Forces and other international government agencies and security forces.

In Industrial Products, building on the company's comprehensive ammunition expertise and a systematic strategy of innovation, RUAG Ammotec develops products such as actuator cartridges for fastening technologies in the construction sector and for safety systems.

Business performance

RUAG Ammotec's net sales declined by CHF 16 million from the previous year's figure to CHF 320 million. Overall, the division was able to defend its strong market position in a difficult environment characterized by global overcapacity and cuts in government budgets, especially in Europe. There was successful expansion in special ammunition and in tapping new geographic markets in the defence and law enforcement sector. The division's EBIT totalled CHF 31 million. Despite negative currency effects, this result almost equalled that of 2010.

The Industrial Products and Hunting & Sports business units both saw gains in 2010. The biggest success in Industrial Products is a long-term supply contract with Hilti for low-pollutant actuator cartridges. Hilti is the market leader in direct fastening technologies in the construction sector. This major contract has triggered extensive investments in new production capacity. Hunting & Sports benefited from recovering markets following the end of the global recession. Nevertheless, consumers' purchasing behaviour has become more price-conscious, which has to some extent impacted on the premium brands RWS and Rottweil. The important US market was especially affected by price erosion. By contrast, a long-term exclusive contract as supplier to the British National Rifle Association is a sign of things to come, underscoring the division's ability to compete even in a price-sensitive environment.

RUAG Ammotec in numbers

Net sales:	CHF 320 m
EBITDA:	CHF 42 m
EBIT:	CHF 31 m
Employees:	1734
Locations:	Switzerland, Germany, Hungary, Sweden, USA, France, Austria, UK, Belgium

"INTERNATIONALIZATION IS IMPORTANT FOR A SUCCESSFUL FUTURE."

CYRIL KUBELKA, CEO RUAG AMMOTEC

Delayed effects of the economic crisis had a negative impact on earnings in the defence and law enforcement markets. As a consequence of budget cuts, there were several unexpected reductions in orders from existing customers, which were only partially offset by new sales successes. In response to these falls, production shifts were reduced and temporary employees left the company in 2010.

On the positive side, highlights include an initial order from the Spanish Army for tracer ammunition and a generally encouraging trend in business with the German Armed Forces.

Moreover, the effects of the reduced orders were offset by several first-time orders from new markets. The division sees significant market potential in Eastern Europe thanks to the eastward expansion of NATO. Among measures to realize this potential, RUAG Hungarian Ammotec Inc. was acquired in 2009 and its production capacity is being modernized and expanded. Further internationalization of production is a major strategic option for the division, as it will enable a more flexible response to currency and demand fluctuations and boost competitiveness overall. Systematic international business development is thus a key strategic objective in pursuit of long-term success.

Innovations and initiatives

Among the numerous improvements developed last year was a temperature-independent propellant powder that guarantees full ammunition precision even under extreme climatic conditions. In electrical ignition elements, the ensuing electrostatic charge was substantially lowered, reducing the risk of accidents. In addition, a unique low-pollutant manoeuvre round was developed for the German Armed Forces. A promising market launch was achieved with an innovative type of special ammunition called Copper-Matrix NTF, developed specially for police, military and security forces training. Also known as "frangible ammunition", these rounds completely disintegrate hitting the target. This makes it possible to train for close-range action without the risk of injuries from ricochets. The completely lead-free ammunition also protects human health in enclosed training facilities and the environment.

Another forward-looking project was the collaboration with the Hilti Group to develop low-pollutant, heavy-metal-free actuator cartridges for direct fastening. A long-term supply contract and the commissioning of new production and packing facilities will open up growth opportunities for RUAG Ammotec in this market for the coming years.

Outlook

RUAG Ammotec expects the environment to remain challenging in 2011. Ongoing pressure on government budgets, rising raw material costs and the strong Swiss franc are expected to have negative impacts. Global market prices for copper, zinc and lead have risen by over 250% since a temporary low in January 2009. This has an unavoidable effect on future results.

Some growth is expected in the Hunting & Sports business unit, where the effects of the recession are continuing to fade. Customer proximity in this area will be further enhanced by expanding communication channels.

A small gain is expected in Industrial Products. The construction industry, and with it sales of actuator cartridges for fastening equipment, should see growth in parallel with the broad economy.

By contrast, a slight contraction is expected in orders for Defence & Law Enforcement orders due to continuing pressure on state budgets and international excess capacity. It is still difficult to make valid forecasts for this market segment.

Among other things, the 2010 launch of frangible ammunition, whose performance characteristics provide differentiation on the market, will open new opportunities for RUAG Ammotec. The eastward NATO expansion is also opening new markets. Special attention will be devoted in 2011 to continuous improvement and modernization measures in production to better counter rising commodity prices and increasing cost pressures in various markets.

Low-pollutant actuator cartridges for construction

A leading example of forward-looking investment is the commissioning of new production facilities for the world's first low-pollutant, heavy-metal-free actuator cartridges, which will be used in Hilti direct fastening devices under the Hilti Clean Tec brand.

An existing building was converted for the jointly developed cartridges and outfitted with a production line featuring innovative primer filling technology. The facility also boasts modern packing equipment capable of meeting complex demands. Not only will the supply contracts concluded with Hilti guarantee jobs in this business area for the years to come – the order volume will also indirectly benefit suppliers within the division such as capsule production and plastics.

With these low-pollutant actuator cartridges, Hilti and RUAG Ammotec are addressing the growing need for building contractors to effectively protect the health of their employees.

Defence. Systems expertise in the Swiss Army's tracked armoured vehicles, the associated broad array of single-source products and services and a strong commitment to innovation have allowed the division to pursue a successful niche strategy on the international market.

Core business
RUAG Defence is a strategic technology partner for land forces. Its focus lies on the needs of the Swiss Armed Forces in terms of protection, training, and upgrades of defence systems. In addition, the division goes to great lengths to ensure that its products and services are aligned with international requirements. The activities of the three business units Land Systems, Simulation & Training and Network Enabled Operations cover innovative products, maintenance, upgrades, training and systems integration services.

The core competency of the Land Systems business unit is in upgrades and enhancements to heavy weapons systems and manufacturing protective systems for armoured vehicles. The unit also offers logistics solutions such as special containers that provide protection against electromagnetic disruption and electronic listening.

The Simulation & Training business unit specializes in virtual and live simulation systems for land forces training. Integration of different systems yields a range of effective training programmes, from individual training of soldiers to tactical exercises for entire units. The business unit also provides comprehensive service and operation of installed equipment.

As a vendor-neutral technology partner, the Network Enabled Operations business unit ensures integration, operation and maintenance of electronic command and control, communication, radar and reconnaissance systems for the Swiss Armed Forces and related systems for civil organizations. The unit also develops solutions for information security and long-term protection of corporate assets against cyberwar threats. It designed the PantherCommand operational command system for government agencies.

Business performance
RUAG Defence posted net sales of CHF 438 million in 2010. As a result of the focus on core businesses, RUAG Defence was formed from the two former divisions RUAG Electronics and RUAG Land Systems on 1 January 2011. The restructuring was primarily motivated by a recognition that both divisions were operating in the same markets. Sales generated by the former RUAG Electronics and RUAG Land Systems divisions in the previous year were on a similar scale.

The merger enhances customer reach with the Swiss Armed Forces as RUAG Defence's key customer, and for international customers. This enables the division to offer optimized one-stop shopping for a broader product port-folio together with complementary services. EBIT for RUAG Defence in 2010 was CHF 32 million.

An increased focus on the international land forces market yielded several successes at the Land Systems business unit in 2010. For example, demand for the Kodiak armoured engineer and mine clearance vehicle, developed jointly with Rheinmetall, was very strong. By the end of the year, contracts had been signed for 42 of these versatile vehicles, based on converted used main battle tank chassis. Furthermore, an additional contract was signed with general contractor Mowag for partial development and production of protective superstructures and interior fittings for 216 armoured personnel carriers.

RUAG Defence in numbers

Net sales:	CHF 438 m
EBITDA:	CHF 38 m
EBIT:	CHF 32 m
Employees:	1341
Locations:	Switzerland, Germany

"WE KNOW WHAT CUSTOMERS NEED AND OFFER TAILORED SOLUTIONS FOR SAFE MISSIONS."

URS BREITMEIER, CEO RUAG DEFENCE

The Simulation & Training business unit handed over the keys to the SIMUG simulation platform, specially designed for training in built-up terrain, at the St. Luzisteig training ground, giving the Swiss Army a second, state-of-the-art combat training centre approved under the 2004 armaments programme. SIMUG uses modern laser firing simulators for realistic exercises up to company level that enable detailed after-action reviews (AAR). In a joint pilot project, the Swiss Army also handed over operation of the West and East combat training centres to RUAG Defence at the start of the year. An efficient operating strategy was implemented in cooperation with the Swiss Army. Since that time, RUAG Defence has been responsible as the full service provider for all operational tasks at the combat training centres.

The Network Enabled Operations business unit was designated in 2010 as the materiel centre of excellence for the IFASS integrated radio reconnaissance and transmission system of the Federal Department of Defence, Civil Protection and Sport (DDPS), the budget for which was appropriated under the 2005 armaments programme. The system will be implemented by stages through 2012. RUAG Defence was appointed partner with responsibility for all service and maintenance work.

Innovations and initiatives

The Leopard 2 main battle tank upgrade programme developed for the Swiss Army was modified for international requirements and saw further development in 2010. The modular, expandable programme is now marketed worldwide. A further newly launched product is the SidePRO protection module, which provides armoured vehicles with effective but lightweight lateral protection against threats from armour-piercing weapons.

In the area of live simulation, the Gladiator laser system for military and police training was launched, a product that can be expanded in several stages. Options range from a cost-effective variant for day-to-day training up to a high-tech body harness. The system is designed for realistic training of special units, police forces and combat troops up to brigade level. In virtual simulation, the main focus was on integration of components from the gaming industry. RUAG Defence combines proven and innovative technologies from the civilian world with professional training systems for military needs, enabling rapid implementation of customer and market requirements. The first prototype of the forward-looking RUAG Virtual Arena 2.0 platform was presented at the I/ITSEC trade show in Orlando (USA) in 2010.

In close cooperation with the Swiss Armed Forces, the Network Enabled Operations business unit launched the Computer Network Defence (CND) project to develop approaches to countering the growing threat of cyberwarfare. Innovative algorithms and methods are being devised to protect against various Internet threats. The various security tools will eventually be bundled into a command information system for operations in cyberspace.

Outlook

RUAG Defence expects business to remain stable in 2011. Factors including operation of the combat training centres, ramp-up of production in major customer projects such as the Kodiak armoured engineer and mine clearance vehicle as well as the solid maintenance business will have a positive and long-term stabilizing effect. Capacity utilization is largely assured in the medium term thanks to various major contracts.

The priority in 2011 will be implementation of RUAG Defence's integrated strategy, which seeks to realize synergies among the core competencies that were expanded through the merger of the former divisions, including maintenance of heavy weapons systems, protection for troops and materiel, simulation and training along with secure information transmission. In particular, efforts will focus on utilizing the broader assortment of products and services from a single source to expand customer relationships.

On the order side, the emphasis will be on securing further contracts for the Kodiak armoured engineer and mine clearance vehicle and expanding the materiel centre of excellence by adding services for the Swiss Army's new command information systems (FIS HE) and for the IFASS. There are also prospects of additional anti-mine orders for the German PUMA infantry fighting vehicle and follow-up virtual and live simulation orders.

Efforts to internationalize the business in selected markets beyond Switzerland and Germany will continue in 2011. Europe will remain the key market, with an additional focus on selected countries that put their trust in Swiss Army systems.

Live simulation as a turnkey service

Marshalling a full battalion in good order and rapidly equipping it, from sleeping bags to combat fatigues to laser firing simulators, is a true feat of logistics — one in which the staff of the Swiss Army's combat training centres have considerable experience. Each of the centres' 130 specialists knows exactly what it takes. In 2010, the Swiss Army handed over the wide range of responsibilities of a full service provider for the two combat training centres, West and East, to RUAG Defence — from maintenance and equipment supply to operation and after-action review support.

The customer determines the content of the training before an exercise is held, directs the exercises and defines which training-related information is required. Then the training can begin. Training can be carried out for modern deployments at all escalation levels through use of live simulation. RUAG Defence records the relevant data and scenes during the exercise and compiles an after-action review, which can substantially enhance the efficiency of the training.

Service & Support units. Centralized centres of expertise for Finance & Controlling, Risk Management, Human Resources, IT, Real Estate, Secretary General & Legal Services, and Marketing & Communication guarantee a strategic focus and common objectives.

Strategic management and infrastructure

RUAG is focused on profitable core activities. This applies both to the Group as a whole and, with respect to the strategic objectives, to each division and its business units. Each of them bears responsibility for its own results, as the Annual Report underscores with separate reporting at Group and division level.

To ensure the consistent orientation of the RUAG Group and enable each division to focus optimally on its core businesses, strategic cross-cutting functions are taken care of by centralized service and support units. These units help the divisions and their service and support units to successfully target markets and ensure consistent standards throughout the company. Wherever appropriate and possible, RUAG also makes use of synergies between the divisions to enhance profitability and product quality in customer projects.

Specifically, RUAG has centralized management in the Finance & Controlling, Risk Management, Human Resources, Secretary General & Legal Services and Marketing & Communication strategic management areas, and the IT and Real Estate infrastructure units. The centres of expertise are organized as in-house departments at Group level. This ensures that their activities are aligned very closely with the broader Group strategy. To enable them to provide services as efficiently as possible, the infrastructure units are independent.

Functions and objectives

The strategic management areas Finance & Controlling, Risk Management, Human Resources, Secretary General & Legal Services and Marketing & Communication, which are centrally managed, play a decisive role in how RUAG is perceived both in-house and externally. Their consistent appearance strengthens both the Group's shared values and the image presented to customers, partners, existing and potential employees, the shareholder, politicians, media, the general public and other stakeholders.

Finance & Controlling is responsible for ensuring a consistent approach to finances throughout the Group. Risk Management ensures the long-term financial stability of the separate divisions and the Group as a whole. Human Resources enhances employee satisfaction and internal mobility, plus the quality of management and the company's attractiveness on the labour market. Secretary General & Legal Services provides support for the divisions in all legal and compliance matters, communicates with the shareholder and monitors compliance with all national and international regulations. Marketing & Communication coordinates brand positioning, communication with the media and public relations.

The centralized infrastructure services make it possible for the divisions to focus on their core competencies, while providing an extremely professional level of service. As a centralized IT service provider, RUAG Services, for instance, is able to achieve significantly greater economies of scale in terms of cost-effectiveness and quality than several individual IT departments could. RUAG Real Estate Ltd was formed so as to entrust the management of RUAG's substantial real estate portfolio to a specialized entity. Moreover, the bundling of specialist skills makes it possible to provide the divisions with professional support in executing their building projects.

"SKILLED, MOTIVATED EMPLOYEES GUARANTEE THE QUALITY OF PRODUCTS AND PROJECTS."

HANS BRACHER,
SENIOR VICE PRESIDENT CORPORATE HR, RUAG HOLDING LTD

Human Resources

RUAG's human resources policy is rooted in its corporate strategy, the aim of which is to achieve profitable, global growth of the core operations of the individual divisions. Skilled, motivated employees guarantee the quality of products and projects. Attracting, retaining and developing their skills is therefore a crucial factor in RUAG's success.

As a centralized service and support unit, Human Resources in conjunction with the divisions is continually working on HR policy initiatives to better realize the strategic objectives and current requirements of the business. Human Resources' activities focus on four core competencies: key account management, high-tech engineering, major project management and process optimization. With a view to establishing Group-wide standards, centralized, preferably internationally certified training courses are offered. An important tool in this regard is the three-stage, modular leadership development programme offered by the in-house RUAG Business Training Centre.

The broader goal of HR policy is a customer and value-oriented corporate culture that promotes the employability of staff and management. This not only creates interesting perspectives for employees and modern employment conditions, but also strengthens relationships with customers and partners. Well-trained skilled staff are just as essential to RUAG as qualified university graduates. The company cultivates a constructive dialogue with employees, employee representatives and social partners.

Activities and initiatives

In 2010, RUAG began to set up an employee health management system. This move was inspired by the conviction that health is a fundamental determinant of satisfaction and thus also a motivational factor. The new health management system is based on the three fields of health promotion and prevention, absence management and active case management. In addition, an independent counselling service is also available to employees.

Thanks to RUAG's innovative capacity, it was successful in centralized graduate marketing in 2010. As a potential employer of university graduates in the field of engineering, RUAG's ranking in Switzerland improved further from 9th place to 7th place. In Sweden, RUAG's ranking jumped from 99th place to 55th place in just one year. To further build on this good reputation, RUAG was present last year at 12 university fairs and graduate congresses in Switzerland, Germany, Austria and Sweden.

The Group also takes a strategic interest in encouraging the development of trainees. Special training centres staffed with full-time apprenticeship supervisors are available to the trainees. The high quality of RUAG's vocational training is underscored by the regular success of its apprentices in the Swiss Skills Championships. In the 2010 Swiss Skills Championships, two RUAG apprentices won gold and thus the title of Swiss Champion.

Another focus of in-house employee development is the step-by-step introduction of three career paths of equal status for managers, project managers and technical experts. These are aimed in particular at securing the necessary skills and competencies in the long term, and retaining employees with specialist knowledge.

"MARKETING & COMMUNICATION PROVIDES GLOBAL VISIBILITY AND SUPPORTS MARKET CULTIVATION."

CHRISTIANE SCHNEIDER, SENIOR VICE PRESIDENT COMMUNICATION AND MARKETING, RUAG HOLDING LTD

Marketing & Communication

In line with the company's management philosophy, Marketing & Communication maintains a transparent and open dialogue about strategic orientation and goals and associated activities with all stakeholders. These activities are centrally managed at Group level in cooperation with the divisions with the objective of creating a consistent, strong identity to enhance RUAG's global visibility and strengthen the RUAG brand. The marketing and communication departments of the individual divisions are responsible for specifically cultivating each division's customer markets based on requirements.

Stakeholders include the Swiss Armed Forces, which are still RUAG's biggest customer, global customers in the aerospace and defence industries, existing and potential employees, politicians, government agencies, business associations, partners, suppliers, the media and the general public. As a joint stock company under private law wholly owned by the Swiss Confederation, RUAG has a duty of particular transparency towards the Swiss public. As RUAG's operations have become increasingly international, its clientele has expanded well beyond the Swiss Armed Forces to include numerous other national Swiss and international government agencies, armed forces and industry customers, among them the European Space Agency ESA, Airbus, Arianespace, General Electric, Boeing, Bombardier, Northrop, Dassault, EADS, ASML and Saab.

RUAG's dialogue

As RUAG becomes larger and more international, consistent communication and an appropriate brand image become more important. Uniform global perception is the only way to enhance RUAG's visibility among its stakeholders. To this end, Marketing & Communication coordinates customer communication, for instance through the Group-wide customer magazine RUAG VIEW, and the company's public image though the Internet, trade fairs and special events. In addition, RUAG conducts an active dialogue with Swiss and international media to highlight and proactively promote topics that are relevant for the Group as a whole or for individual divisions.

To further enhance the uniform perception of the RUAG Group, Group management will in future give greater emphasis to more consistent implementation of the mono-brand strategy, i.e. a consistent brand image both in-house and externally across all divisions and support units. This ensures a more uniform identity for RUAG and its employees and has a positive impact on customers and all other stakeholders. Furthermore, the various divisions and business units will be able to benefit from greater synergies in perception when presenting the qualities of their products and services.

Marketing & Communication thus functions as a Group-wide support network, networking the divisions and the service and support units with the relevant stakeholders to ensure customer-focused market orientation in Switzerland and abroad.

" CONCENTRATED MANAGEMENT HELPS TO CONTROL PREMISES COSTS AND BOOST THE VALUE OF REAL ESTATE. "

HANS RUDOLF HAURI, CEO RUAG REAL ESTATE LTD

RUAG Real Estate

RUAG Real Estate is the centre of expertise for managing RUAG's real estate. The unit is organized as an independent joint stock company and acquires and disposes of property and real rights for RUAG's divisions and for third parties. The main tasks of RUAG Real Estate are to improve the return on investment, increase the value of RUAG's considerable real estate portfolio and to acquire, plan, develop and manage production areas and infrastructure for the divisions and their business units.

As a market-oriented, all-in-one service provider for industrial sites, RUAG Real Estate services covers the entire life-cycle of its properties. The core activities of the process-oriented unit include real estate development, transactions, commercial real estate management, plant and area planning, client representation and technical and structural building management services. Its range of activities is rounded off by strategic development, safety and environmental services that ensure the sustainability of processes and properties.

Strategic master plans have been drawn up for the long-term development of the industrial parks, some of which are huge properties. These plans seek to take best possible account of the interests of the owner and the needs of potential users, as well as spatial planning considerations. Measures include the development of innovative building and infrastructure concepts adapted to the production cycles of a modern, global industry. The goal is comprehensive, flexible offers that enable tenants to rapidly initiate production with a minimum of capital investment in building and infrastructure.

Modern industrial parks

In 2010, RUAG Real Estate was able to achieve significant progress at all levels of activity. Introducing an asset and portfolio management solution laid the foundation for a systematic valuation of the real estate portfolio. In 2011, all of the Group's real estate will be valued in accordance with Swiss Valuation Standards. This overview of the entire portfolio will serve as a basis for improving its management considerably.

The challenge facing RUAG Real Estate is to develop RUAG's large industrial sites as theme-oriented industrial parks. To this end, further progress was made in the structuring of all RUAG sites in 2010. The founding of Nidwalden AirPark AG is a pioneering step. In conjunction with local companies, the aim is to develop a 90 000 square metre site adjoining Buochs air base as a theme-specific industrial park for the international aviation industry. At the Swiss Air Force air base in Emmen, a detailed master plan for tapping the full potential of the property, which covers 430 000 square metres, is being drawn up. A status analysis of the approx. 350 000 square metre site in Thun provided fundamental insights for use in further development planning.

As part of the selected streamlining of the property portfolio, RUAG Real Estate successfully disposed of a plot of land at the Swiss Air Force air base at Dübendorf in 2010.

" WE WANT TO PROVIDE PROFESSIONAL SERVICE TO BOOST OUR CUSTOMERS' SATISFACTION. "

OLIVER MEYER, CIO AND CEO RUAG SERVICES

RUAG Services

As the centralized IT provider of the RUAG Group, RUAG Services provides IT services and is also building up a software centre of expertise. The latter will develop solutions and services for customer projects on behalf of the divisions. The goal of the IT Services and Software House business units is to provide services of guaranteed high quality that ensure the best possible value for money. RUAG Services' reputation as an innovative employer for IT specialists provides the basis for its high quality and professionalism.

The IT Services business unit focuses on IT infrastructure services in the fields of network and server infrastructure and application and workplace management. This includes operating and managing the company's global network and the high-security computer centres. Its service portfolio also includes the operation and management of SAP, Business Intelligence and e-business solutions, Microsoft platforms, mainly Web-based specialist applications and PC workplaces. IT Services is certified to the internationally recognized IT service management standard ISO 20 000 and ISO 9001:2008, and is an SAP Customer Centre of Expertise (SAP CCoE).

In the coming years, the Software House business unit will specialize on steadily establishing itself as a partner in customer software engineering projects. This facilitates the bundling of skills and strengths. In addition, the business unit develops specialist applications for in-house use by the Group. With standardized processes and development platforms, Software House enhances project value creation and efficiency while ensuring consistently high quality of the software components.

International networking

RUAG Services was formed five years ago. Its challenging task is to continually expand, network and internationalize its services, which were originally developed around Swiss activities.

The range of IT services that have been introduced over the years as the RUAG Group has expanded are steadily being upgraded to a homogeneous IT landscape that meets international standards. RUAG Services thus supports the international market orientation and IT efficiency of each division and support unit in the RUAG Group. An important step towards achieving this goal was taken in 2010 with the opening of a site at Oberpfaffenhofen in Germany. RUAG Services' first branch in the euro zone also increases its flexibility in terms of purchasing.

A further important focus in 2010 was the launch of an e-business customer platform for the Swiss Armed Forces at the Swiss Federal Department of Defence, Civil Protection and Sport (DDPS). The system was developed in collaboration with the customer and makes it possible to process many maintenance activities online.

The newly formed Software House business unit will gradually extend the industrialization of IT activities to software development. The centre of expertise for application production supports the divisions in their customer projects and product development, with Software House focusing on the technical aspects of software.

// THE OWNER'S STRATEGY AND COMPLIANCE DETERMINE THE FRAMEWORK FOR OUR ACTIVITIES. //

THOMAS KOPP, SECRETARY GENERAL AND DIRECTOR OF LEGAL SERVICES, RUAG HOLDING LTD

Secretary General & Legal Services

The Secretary General & Legal Services support unit provides services for RUAG's governing bodies, i.e. the Annual General Meeting, the Board of Directors and the Executive Board, and advises the RUAG Group in all legal and compliance matters. Core competencies include the fostering of shareholder relations, the monitoring of compliance in the Swiss market and the export business as well as contracts and contract management. Interdisciplinary cooperation and shared objectives with other centres of expertise such as Finance, IT, Marketing & Communication, Human Resources and Risk Management constitute core characteristics of the unit's activities.

RUAG is a joint stock company wholly owned by the Swiss Confederation. The Swiss Confederation's interests as the shareholder are exercised by the Swiss Federal Department of Defence, Civil Protection and Sport (DDPS). On account of its close association with the Swiss Confederation and in keeping with its corporate principles of transparency, openness and clarity, RUAG pays particular attention to the Federal Council, the Swiss Armed Forces, Swiss parliament and government agencies.

The owner's strategy of the Federal Council establishes a binding framework for the RUAG Group. It ensures that the RUAG Group can fulfil its duties profitably while taking account of the broader interests of Switzerland. These interests concern in particular Swiss national defence, expectations regarding cooperation and investments, as well as human resource policy and financial objectives. The Secretary General & Legal Services are actively involved in implementing the objectives and preparing the annual report for the owner.

Exports and compliance

The growing internationalization of the market for the civil and military applications of RUAG's Aerospace and Defence market segments is foreseen in the owner's strategy. Against the backdrop of a decline in the volume of orders from the Swiss Armed Forces, the objective of the strategy is to ensure RUAG's competitive long-term development. Transactions with international customers using platforms developed for the Swiss Armed Forces create economies of scale and synergy effects. This helps to stabilize costs in Switzerland and to ensure the necessary technology transfer for the Swiss Armed Forces.

As an internationally active company, legal coordination and critical assessment of its export activities is of crucial concern for RUAG. In all its activities, the Group complies with the strict provisions of Swiss law and maintains close contact with the relevant authorization agency, the State Secretariat for Economic Affairs (SECO).

In addition to the relevant export regulations, RUAG has to observe national and international compliance regulations. For this purpose, Legal Services has in-house regulations drawn up and updated as required, and monitors the contracts negotiated by the divisions to ensure that they comply with legal regulations. The relevant employees in the divisions receive regular training and, on request, advice in specific matters.

// FINANCIAL TRANSPARENCY AND RISK MINIMIZATION ENSURE OUR LONG-TERM SUCCESS. //

URS KIENER, CFO RUAG HOLDING LTD

Finance & Controlling

The Finance & Controlling support unit defines benchmarks and key figures to manage the RUAG Group in accordance with the provisions of the Group strategy. The management guidelines, minimization of risks, efficient cash management, financial discipline and transparency, clarity and openness in communication apply to all divisions and support units equally.

The introduction of the concept of economic value added (EVA) enables RUAG to make a much more transparent and disciplined assessment of its business performance and the advantages of potential investments. The EVA concept does not view profitability as the sole benchmark; capital commitment is also included. This approach combines the company's profit and loss account with the shareholders' view, which focuses on the return on capital. The approach is aimed at fulfilling or exceeding shareholders' expectations.

The consistent implementation of the concept in the RUAG Group, meaning in the divisions and their business units, has considerably raised awareness of more prudent management of finances and has increased the focus on the bottom line. This boosts transparency within the company and minimizes risks in potential investments, acquisitions and customer projects. The disclosure of the results by division (segment reporting) also substantially improves public transparency.

This capital-oriented approach and mindset has already had a positive impact on the figures for the year under review. RUAG not only made a reasonable profit, but generated the highest free cash flow in its history.

Stronger risk management

In view of the medium-term strategic objectives, increased internationalization is key to RUAG's success. Whereas business with the Swiss Armed Forces is based on a long-standing partnership and the risks are calculable, projects abroad in new countries and economic regions require more differentiated risk management. To meet these growing demands, additional resources were allocated to risk management in the year under review.

Risk management accompanies RUAG's internationalization and supports the divisions with specific tools, a systematic assessment of risk and a constructive risk dialogue. The focus is on risks that could compromise RUAG's achievement of its strategic goals. Accordingly, a supervised risk assessment is regularly carried out with a view to ensuring that the Board of Directors and Executive Board recognize significant risks at an early stage and are thus able to implement suitable measures in time.

The model used for the risk assessment breaks down risks into the four categories of operational, strategy, reporting and compliance risks.

Financial Statements.

Contents.

Financial Statements

Key figures
in CHF m

	2010	2009
Order inflow	1 713	1 872
Order backlog	1 653	1 783
Net sales	1 796	1 696
Operating income	1 837	1 722
Cost of materials and purchased services	(648)	(650)
Staff costs	(820)	(776)
Other operating (expenses) income	(174)	(258)
EBITDA before one-time charges[1]	168	125
EBITDA[2]	194	38
EBITDA in % of operating income	10.6%	2.2%
EBIT before one-time charges[1]	93	45
EBIT[3]	98	(113)
EBIT in % of operating income	5.3%	(6.6%)
Net profit (loss)	92	(107)
Net profit (loss) in % of operating income	5.0%	(6.2%)
Cash flows from operating activities	130	131
Cash flows from investing activities	(50)	(230)
Free cash flow	80	(99)
Cash flows from financing activities	(78)	87
Equity before non-controlling interests	725	661
Equity in % of total assets	40.8%	37.3%
Return on equity[4]	13.2%	(15.0%)
Depreciation and amortization[5]	90	143
Goodwill impairment	6	9
Research and development expenses	190	149
in % of operating income	10.3%	8.6%
Net sales per employee in CHF	233 563	233 781
Value added per employee in CHF	141 875	127 867
Number of employees at end-December	7 719	7 534
Number of employees (annual average)	7 689	7 253
Number of registered shares (par value CHF 1000)	340 000	340 000
Earnings (loss) per registered share	269.26	(314.02)
Dividend per registered share	0.00	29.41
Distribution ratio[6]	0.0%	19.7%
Book value per registered share in CHF	2 132	1 943

[1] One-time charges are described in Note 5 to the consolidated financial statements.
[2] EBITDA = Earnings before interest, taxes, depreciation, amortization and goodwill impairment.
[3] EBIT = Earnings before interest and taxes.
[4] Net profit as a percentage of average equity.
[5] Depreciation of property, plant and equipment and amortization of intangible assets.
[6] Dividend paid as a ratio of consolidated net profit/(loss) in the relevant year-back period.

Five-year overview

in CHF m	2010	2009	2008	2007	2006
Order inflow	1 713	1 872	1 582	1 684	1 659
Order backlog	1 653	1 783	1 508	1 394	1 112
Net sales	1 796	1 696	1 537	1 409	1 247
EBIT[1]	98	(113)	57	76	71
EBIT in % of operating income	5.3%	(6.6%)	3.7%	5.4%	5.7%
Net profit (loss)	92	(107)	51	76	69
Net profit (loss) in % of operating income	5.0%	(6.2%)	3.2%	5.4%	5.6%
Cash flows from operating activities	130	131	81	52	105
Cash flows from investing activities	(50)	(230)	(121)	(80)	(100)
Free cash flow	80	(99)	(40)	(28)	5
Cash flows from financing activities	(78)	87	32	53	(48)
Equity before non-controlling interests	725	661	763	784	729
Equity in % of total assets	40.8%	37.3%	48.1%	54.5%	59.4%
Return on equity[2]	13.2%	(15.0%)	6.6%	10.0%	9.5%
Research and development expenses	190	149	123	85	76
in % of operating income	10.3%	8.6%	7.9%	6.0%	6.1%
Number of employees at end-December	7 719	7 534	6 687	6 104	5 720
Number of employees (annual average)	7 689	7 253	6 310	6 050	5 677

[1] EBIT = Earnings before interest and taxes.

[2] Net profit as a percentage of average equity.

Consolidated income statement 1 January to 31 December

in CHF m	Note	2010	2009
Net sales	7	1 796	1 696
Own work capitalized		5	13
Changes in inventories and work in progress		36	13
Operating income		1 837	1 722
Cost of materials and purchased services		(648)	(650)
Staff costs	8	(820)	(776)
Other operating expenses	9	(174)	(258)
EBITDA[1]		194	38
Depreciation and amortization	5, 19, 20, 21	(90)	(143)
Goodwill impairment	5	(6)	(9)
EBIT[2]		98	(113)
Finance income	11	1	1
Finance costs	11	(15)	(5)
Share of profit (loss) of associates	22	4	2
Profit (loss) before tax		88	(116)
Income tax expense	12	(14)	(1)
Deferred tax income	13	18	10
Net profit (loss)		92	(107)
Attributable to:			
Shareholders of RUAG Holding Ltd		92	(107)
Non-controlling interests		(0)	0
Net profit (loss)		92	(107)

[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 88 form an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income 1 January to 31 December

in CHF m	2010	2009
Hedge accounting	9	13
Other effects recognized in other comprehensive income[1]	(0)	(2)
Exchange differences	(36)	4
Tax effects	(0)	(0)
Other comprehensive income	(27)	15
Net profit (loss) reported in the income statement	92	(107)
Total comprehensive income	65	(92)
Attributable to:		
Shareholders of RUAG Holding Ltd	65	(92)
Non-controlling interests	(0)	0
Total comprehensive income	65	(92)

[1] 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 in other comprehensive income".

The notes to the consolidated financial statements on pages 49 to 88 form an integral part of the consolidated financial statements.

Consolidated statement of financial position at 31 December

in CHF m	Note	2010	2009
Cash and cash equivalents	14	70	69
Current financial assets	15	17	9
Receivables and prepayments	16	338	383
Tax assets		2	5
Prepaid expenses and deferred charges		11	18
Inventories and work in progress	17	535	443
Current assets		972	927
Property, plant and equipment	19	461	474
Investment property	20	83	83
Intangible assets	21	97	120
Goodwill	21	78	88
Associates	22	39	38
Non-current financial assets	15	3	3
Deferred tax assets	13	42	27
Non-current assets		804	833
Assets held for sale		—	10
Total assets		1 776	1 770
Current financial liabilities	23	49	247
Other current liabilities	24	39	23
Trade accounts payable and prepayments	25	378	359
Tax liabilities		10	11
Deferred income and accrued charges		165	161
Current provisions	27	103	132
Current liabilities		744	934
Non-current financial liabilities	23	123	1
Other non-current liabilities	26	3	3
Non-current provisions	27	119	110
Deferred tax liabilities	13	60	61
Non-current liabilities		306	174
Share capital	32	340	340
Additional paid-in capital		10	10
Retained earnings		422	331
Other reserves		7	(2)
Exchange differences		(53)	(18)
Equity before non-controlling interests		725	661
Non-controlling interests		1	1
Total equity after non-controlling interests		726	662
Total equity and liabilities		1 776	1 770

The notes to the consolidated financial statements on pages 49 to 88 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows 1 January to 31 December

in CHF m	Note	2010	2009
Net profit (loss)		92	(107)
Depreciation and amortization	5,19, 20, 21	90	143
Goodwill impairment	5	6	9
Change in non-current provisions and deferred taxes		7	1
Utilization of non-current provisions		(4)	(3)
Share of profit (loss) of associates	22	(4)	(2)
Other non-cash items		(3)	(2)
Change in working capital[1]		(54)	86
Adjustment for net gain (loss) on disposal of non-current assets		(11)	1
Foreign exchange effect on loans		5	—
Finance income received		(1)	(1)
Finance costs paid		7	6
Cash flows from operating activities[2]		130	131
Acquisition of plant and equipment[3]	19	(62)	(46)
Acquisition of property	19, 20	(8)	(39)
Acquisition of intangible assets	21	(1)	(3)
Acquisition of investments	6	(3)	(146)
Disposal of plant and equipment		4	1
Disposal of property		20	0
Disposal of intangible assets		0	0
Disposal of investments		—	—
Dividends received from associates	22	1	3
Dividends received from other investments		0	0
Cash flows from investing activities		(50)	(230)
Free cash flow		80	(99)
Net increase (decrease) in capital		0	(0)
Increase in third-party financial assets		—	0
Decrease in third-party financial assets		0	2
Increase in third-party financial liabilities		—	125
Decrease in third-party financial liabilities		(71)	(20)
Repayment of finance leases		(1)	(5)
Finance income received		1	1
Finance costs paid		(7)	(6)
Dividends to shareholders		—	(10)
Cash flows from financing activities		(78)	87
Effect of exchange rate changes on cash and cash equivalents		(2)	0
Cash and cash equivalents acquired (disposed)	6	—	16
Change in cash and cash equivalents		1	4
Cash and cash equivalents at beginning of year		69	65
Cash and cash equivalents at end of year		70	69

[1] Excludes current financial assets and current financial liabilities and other non-current liabilities.

[2] Including income taxes of CHF 10 million (CHF 9 million) paid in the year under review.

[3] Actual leasing payments accounted for in the case of leases.

Consolidated statement of changes in equity

in CHF m

	Share capital	Additional paid-in capital	Retained earnings	Other reserves[1]	Exchange differences	Non-controlling interests	Total equity
Balance at 1 January 2009	340	10	449	(15)	(21)	1	763
Change	—	—	—	—	—	(0)	(0)
Net profit (loss)	—	—	(107)	—	—	(0)	(107)
Other comprehensive income	—	—	(2)	13	—	—	11
Exchange differences	—	—	0	—	4	—	4
Total comprehensive income for 2009	—	—	(109)	13	4	(0)	(92)
Dividends from 2008 result	—	—	(10)	—	—	0	(10)
Buyout of non-controlling interests	—	—	(0)	—	—	—	(0)
Initial consolidation of non-controlling interests	—	—	—	—	—	1	1
Balance at 31 December 2009	340	10	330	(2)	(18)	1	662
Balance at 1 January 2010	340	10	330	(2)	(18)	1	662
Change	—	—	0	0	—	0	0
Net profit (loss)	—	—	92	—	—	0	92
Other comprehensive income	—	—	(0)	9	—	—	9
Exchange differences	—	—	(0)	—	(36)	(0)	(36)
Total comprehensive income for 2010	—	—	92	9	(36)	0	65
Dividends from 2009 result	—	—	—	—	—	—	—
Buyout of non-controlling interests	—	—	—	—	—	—	—
Initial consolidation of non-controlling interests	—	—	—	—	—	—	—
Balance at 31 December 2010	340	10	422	7	(53)	1	726

[1] Other reserves comprise the positive and negative replacement values of the open hedging instruments. In the year under review, due to the occurrence of the underlying transactions, CHF 9 million was transferred from other reserves to other operating expenses (in the previous year, CHF 9 million was recognized in operating income). Further information is given in Note 37, Financial instruments.

In 2009, a dividend of CHF 10 million was paid to the owner. This is equivalent to a dividend per share of CHF 29.41. In 2010, no dividend was paid.

The notes to the consolidated financial statements on pages 49 to 88 form an integral part of the consolidated financial statements.

This financial report is a translation from the original German version. In case of any inconsistency the German version shall prevail.

1 Business activities and relationship with the Swiss Confederation

RUAG Holding Ltd is a Swiss joint-stock company headquartered 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. Under the terms of the Federal Act on State-Owned Defence Technology 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 taken at 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 the latest International Financial Reporting Standards (IFRS) produced by the International Accounting Standards Board (IASB) and Interpretations of the IFRS Interpretations Committee (IFRS IC), as well as the provisions of Swiss law. The consolidated financial statements are presented in Swiss francs (CHF).
All figures are given in millions of Swiss francs, unless stated otherwise.

2.2 New and revised accounting standards

Revised International Financial Reporting Standards and Interpretations adopted for the first time in the year under review:

- IAS 32 (revised) "Financial Instruments: Presentation" IAS 32 states that certain subscription rights such as options and warrants in foreign currency are to be presented as equity by the issuer of the equity instruments to which these rights relate and are no longer recognized as liabilities.
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement": IAS 39 contains a clarification of the principles of application in relation to the designation of inflation risk as a hedged item and the designation of one-sided risk in a hedged item.
- "Amendments to IFRSs": The amendments to IFRSs comprise minor changes to various IFRS Standards.

Amendments to existing International Financial Reporting Standards (IFRS) and Interpretations have also entered into force that have no effect on RUAG's financial reporting:

- IFRS 1 (revised) "First-time Adoption of International Financial Reporting Standards"
- IFRS 2 (revised) "Share-based Payment"
- IFRIC 17 "Distributions of Non-cash Assets to Owners"
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

Changes to International Financial Reporting Standards and Interpretations that are not yet mandatory. The following International Financial Reporting Standards and Interpretations, which were published prior to the end of 2010, must be adopted either from financial year 2011 or at a later date:

- IFRS 7 (revised) "Financial Instruments: Disclosures" (effective 1 July 2011) contains changes concerning the disclosure of derecognized financial instruments. RUAG will adopt the new disclosure obligations in its financial reporting, effective 31 December 2011.
- IFRS 9 "Financial Instruments" (effective 1 January 2013): IFRS 9 replaces the current IAS 39 "Financial Instruments: Recognition and Measurement". RUAG will review its reporting in light of the entry into force of this new Standard.
- IAS 12 (revised) "Income Taxes" (effective 1 January 2012) contains changes concerning deferred taxes in connection with investment property measured at fair value. RUAG does not expect this revised standard to have any effect on its reporting.
- IAS 24 (revised) "Related Party Disclosures" (effective 1 January 2011) contains amendments to the definition of a related party together with a simplification of disclosure requirements for government-related entities. RUAG does not expect adoption of this revised Standard to have any effect on its reporting.
- IFRIC 14 (revised) "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction" (effective 1 January 2011): This amendment relates to situations where an entity is subject to minimum funding requirements and prepays its contributions in order to meet these requirements. The amendment enables the benefits arising from such prepayment to be recognized as an asset. RUAG does not expect adoption of this revised Interpretation to have any effect on its reporting.

2.3 Use of benchmarks such as EBITDA, EBIT, free cash flow and net debt

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

2.4 Consolidation principles

RUAG's consolidated financial statements include all subsidiary companies that it directly or indirectly controls by a majority of the votes or by any other means. An overview of all major subsidiaries and associates is provided in Note 40.

Capital is consolidated in accordance with the purchase method. The assets, liabilities, equity, income and expenses of fully consolidated subsidiary companies, are included in their entirety in the consolidated financial statements. Non-controlling interests in equity and profit are stated separately.

Subsidiaries and associates are consolidated with effect from the date of their acquisition, and eliminated from the consolidated financial statements in the event of a loss of control.

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.

Associates 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 recognized using the equity method. An equity investment is initially recorded at cost (except in the case of negative goodwill to fair value). 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.

Significant positions and transactions with associates recognized using the equity method are shown separately as "Associates".

Other investments on which RUAG does not exercise significant influence (less than 20 percent of direct or indirect voting rights) are stated at fair value and shown under "Non-current financial assets".

2.5 Foreign currencies

RUAG's consolidated financial statements are presented in Swiss Francs (CHF).

Transactions in foreign currencies are translated into the functional currency at the exchange rate applicable at the time of the transaction. Foreign-currency receivables and liabilities are converted into the functional currency at the exchange rate applicable at the end of the reporting period. The resulting exchange differences are recognized in the income statement.

Differences arising in the year under review from the conversion of equity and non-current intra-Group financial transactions related to net investments in foreign operations, in addition to retained earnings and other equity items, are assigned directly to cumulative exchange differences under equity.

The assets and liabilities of subsidiaries and associates recognized using the equity method, whose functional currency is not the Swiss Franc, are converted into Swiss francs on consolidation at the exchange rate applicable at the end of the reporting period. The income statement, cash flow statements and other fluctuating items are translated at the average exchange rate for the reporting period. The effects of exchange differences resulting from the translation of the financial statements of foreign subsidiaries or associates are recognized in other comprehensive income and are shown separately as cumulative exchange differences. In the event of the disposal of a foreign operation or associate, cumulative translation differences are recognized in the income statement as a component of the profit or loss from disposals.

The exchange rates of significance to the consolidated financial statements in the reporting years were:

Exchange rates

Currency		Annual average 2010	End-of-year rate 2010	Annual average 2009	End-of-year rate 2009
Euro	EUR	1.38	1.25	1.51	1.48
Swedish krona	SEK	14.47	13.95	14.23	14.45
US dollar	USD	1.04	0.94	1.09	1.03
Pound Sterling	GBP	1.61	1.45	1.70	1.66
Hungarian forinth	HUF	0.50	0.45	0.54	0.55

2.6 Cash and cash equivalents

Cash and cash equivalents comprise cash and the balances in postal checking and demand deposit accounts with banks. They also include term deposits held with financial institutions and short-term money market investments with an initial term of max. three months. They are stated at par value.

2.7 Current financial assets

Current 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 (par value), the equivalent amount of open foreign currency hedging transactions (fair value) and lendings.

2.8 Receivables and prepayments

Trade receivables are measured at the original invoiced amount (amortized cost), minus a valuation allowance for doubtful accounts which is estimated on the basis of an analysis of receivables outstanding at the end of the reporting period. Receivables judged to be non-recoverable are shown in the income statement under "Other operating expenses".

2.9 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 valuation allowances. 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. Impairment losses are reported for hard-to-sell or slow-moving inventories. Non-saleable inventories are written off in full.

Long-term construction contracts are measured 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 recognized 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 cost plus a pro rata profit that corresponds to the percentage of completion achieved.

In the Space division, the milestone method is applied. Here, project milestones are defined on the basis of individual customer contracts; upon reaching these milestones, services performed are invoiced to the customer and sales and income are 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 under "inventories of finished goods and work in progress item".

Sales from services provided are recognized in the income statement on the basis of the stage of completion at the end of the reporting period.

2.10 Property, plant and equipment and intangible assets with a finite useful life

Property, plant and equipment and intangible assets are measured at cost minus accumulated depreciation calculated on a straight-line basis. Repair and maintenance costs are stated as an expense. Major renovations and other value-enhancing expenses are recognized under property, plant and equipment and depreciated over their estimated useful life. Land is shown at cost.

RUAG applies the following estimated useful life:

	Useful life in years
Operating properties	20 to 60
Plant and equipment	5 to 12
Fixtures and fittings	10
Motor vehicles	5 to 10
Computer hardware/software	3 to 5
Intangible assets	1 to 10

2.11 Investment properties

Investment properties are measured at cost minus accumulated depreciation calculated on a straight-line basis. Repair and maintenance costs are stated as an expense. Major renovations and other value-enhancing costs are recognized under property, plant and equipment and depreciated over their estimated useful life. Investment properties are depreciated over a useful life of 40 of 60 years with the exception of land, which is not depreciated.

Sites that are majority-leased to third parties are classified as investment properties. The fair value of the properties is calculated solely for disclosure reasons and is based on capitalized rental income. No expert market appraisal was carried out in the reporting period.

2.12 Leases

Leased assets where the benefits and risk arising from ownership are essentially transferred to RUAG are recognized 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 present value of future, non-cancellable lease payments is carried under liabilities from finance leases. Assets under finance leases are amortized over the shorter of their estimated useful life or the duration of the lease. All other lease transactions are classified as operating leases.

2.13 Intangible assets and goodwill
Acquired companies are consolidated in accordance with the purchase method. The acquisition costs comprise the sum of the fair values of the assets transferred to the seller and liabilities incurred or assumed on the transaction date.

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 identifiable net assets. Companies acquired or disposed during the financial year are recognized in the consolidated financial statements as of the date of acquisition or disposal.

2.14 Impairment
Impairment of goodwill For impairment testing purposes, goodwill is allocated to cash generating units. The impairment test is performed in the fourth quarter following completion of the business plan. If there are indications of a possible impairment during the year, an impairment test is performed for the cash generating unit at such time. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment is recognized. The recoverable amount is the higher of fair value less costs to sell or value in use. An impairment loss of goodwill cannot be offset in future periods.

Impairment of property, plant and equipment and other intangible assets The current value of property, plant and equipment and other intangible assets is reassessed whenever changes in circumstances or events indicate that the carrying amount may be overestimated. Where there is an indication of a possible overestimate, 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 exceeds the higher of fair value less costs to sell and value in use, an impairment loss equivalent to the difference is recorded. 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 significantly from these estimates.

2.15 Research and development expenses
Research expenses are not capitalized and are expensed as incurred. 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 recognized as sales and assigned to the period in which the corresponding development costs are incurred.

2.16 Provisions
Provisions are recognized 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 reliably. The terms and the number of employees affected must be determined, and the employees or their representatives must be informed about the staff reduction programme.

Provisions for losses on contracts Losses on 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 recognized and deferred at the end of the reporting period.

2.17 Employee benefit 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 in defined benefit plans according to IAS 19 (revised). For its staff in Switzerland, RUAG pays contributions to VORSORGE RUAG, an employee benefit fund set up in line with the Swiss defined contribution system. This provides statutory coverage for retirement, death and disability. The expenses and obligations arising from the employee benefit fund 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 cut-off date for the calculation and makes assumptions as to future development of salaries.

Annual benefit expenses are calculated on an actuarial basis. The latest actuarial appraisal was carried out on the basis of data as at 1 January 2010. 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 years of the insured individuals. The actuarial gains and losses to be stated on a pro rata basis correspond to the cumulative, non-recognized actuarial gains and losses at the end of the previous reporting period that exceeded the higher of the following amounts: 10% of the present value of the defined benefit obligations at the time (prior to deduction of the scheme assets) and 10% of the fair value of the fund's 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 recognized immediately.

RUAG pays premiums to various employee benefit plans for its subsidiaries abroad (essentially Germany and Sweden).

2.18 Other long-term employee benefits
Other long-term employee benefits 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".

2.19 Income taxes / deferred taxes
Income taxes are recognized on an accrual basis. Deferred taxes are recognized in accordance with the comprehensive liability method. The 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 investments in subsidiaries or associates where the timing of the reversal 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 assets or liabilities, as calculated on the basis of corresponding local tax rates, are stated under non-current assets (deferred tax assets) or non-current 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 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.

2.20 Net sales
Net sales include the fair value of the consideration received 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 Sales 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 Sales from the rendering of services are determined on the basis of either time 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 rates and direct costs.

Sales from fixed price agreements, when both the full costs incurred up to completion of the order and the percentage of completion at the end of the reporting period can be reliably measured, are reported on the basis of the percentage of completion method (POC).

If the proceeds of a construction contract cannot be reliably measured, sales are recognized only to the extent of the potentially recoverable costs incurred by the contract 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.

2.21 Advance payments received

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

2.22 Segment information

Reportable operating segments are determined on the basis of the management approach. The segment information is consistent with RUAG's organizational and management structure as well as internal financial reporting to RUAG's Chief Operating Decision Maker. The Chief Operating Decision Maker (CODM) at RUAG is the Chief Executive Officer (CEO). Reporting is based on the Space, Aviation, Technology, Defence and Ammotec divisions. In addition, Services – comprising central services such as IT and real estate management, as well as RUAG's corporate units – is presented separately. Services between the segments are invoiced at market prices. Unrealized gains or losses may be incurred as a result of services or disposal of assets between the individual segments. They are eliminated and stated in segment information, in the "Intercompany" column. The segment assets contain all the assets required for operations that can be assigned to a specific operating segment. The segment assets primarily comprise receivables, inventories, property, plant and equipment and intangible assets. The segment investments contain additions to property, plant and equipment and other intangible assets.

Space division RUAG Space is an independent space supplier, providing services in the product areas of launch vehicle structures and separation systems, satellite structures, mechanisms and mechanical equipment, digital electronics for satellites and launch vehicles, satellite communications equipment and satellite instruments.

Aviation division RUAG Aviation is a centre of excellence for civil and military aircraft maintenance and for aviation systems development, manufacturing and integration. In addition to MRO and final assembly, its services also include engineering, especially for upgrade programmes and electronic subsystems, and developing electronic counter measure systems. Its customers are the Swiss Air Force and international air forces and aircraft operators.

Technology division RUAG Technology provides services in aerostructures, with a focus on manufacturing aircraft tail sections, wing and control components and sophisticated component assemblies and parts for civil and military aircraft. RUAG Technology is also active in the areas of Mechanical Engineering, Coatings and Environment.

Ammotec division 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 armies and government agencies.

Defence division RUAG Defence is primarily active in the areas of simulation and training of land forces, integration, operation and maintenance of IT-based systems, as well as heavy weapons systems, protection and command and control. Its services include consulting, engineering, development, support and operation. RUAG Defence's main partner is the Swiss Army.

On 1 January 2010, the divisions were partially restructured. Due to these restructuring, the segment information contains only the figures for 2010. Sales and operating expenses in the new segment structure are not available for prior years and the cost to develop it would be excessive.

2.23 Related party transactions
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 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.

2.24 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 item 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 items, 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 forecast 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 item. 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 a forecast transaction or firm commitment (cash flow hedge), or as
c) a hedge on a net investment in a foreign operation.

Changes in the fair value of hedging instruments used to hedge the cash flows from a forecast transaction or firm commitment and that offer an effective hedge are recognized as cash flow hedges.

Cash flow hedges are measured at fair value; the effective portion of the change in fair value of the cash flow hedge is recognized under other reserves in other comprehensive income, while the ineffective portion is recognized in profit or loss in the income statement under other operating expenses. Upon occurrence of the underlying transaction, the relevant hedging instrument is reclassified from equity to the income statement.

The only current hedges of RUAG are for payment flows from forecast transactions or firm commitments (cash flow hedge).

2.25 Fair value measurement
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 of financial instruments are measured based on the following 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).

The recognized financial instruments are measured on the following basis:

Financial assets Fair values are obtained from stock market prices.

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

Derivative Instruments The fair value of foreign currency forward transactions is determined on the basis of current benchmark prices at the end of the reporting period, 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 residual maturity of the financial instruments are used. Options are valued on the basis of generally recognized option pricing models.

3 Risk management and assessment

The risk management system of RUAG 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 the 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 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 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 fair 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 hedges) forecast 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). The company is mainly subject to changes in the exchange rates of the USD, EUR and SEK. 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, firm commitments and forecast transactions. RUAG also employs forward transactions and currency options to hedge certain cash flows anticipated in foreign currency.

Net investments in foreign operations are long-term investments. Their fair 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 fair 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. Further information on the application of hedge accounting is given in Note 2.24.

Commodity price risk In buying commodities (particularly copper, zinc, lead, aluminium, steel, etc.) to be used as raw materials in production, the company is sometimes subject to a 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. Demand deposits and money-market investments are subject to an interest rate risk that can impact on net profit. Financial liabilities largely comprise loans from financial institutions with variable interest rates. For the purpose of hedging interest rate risk, RUAG concluded swaps corresponding to the term of the financial liabilities.

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' solvency. Sales from transactions with the DDPS amount to 35% of total sales. No other customer accounts for more than 10% of the combined sales of all operating segments. Trade and other receivables from the DDPS account for 34% (previous year: 15%) of total trade and other receivables as per 31 December 2010. This is the only concentrated credit risk that exceeds 5% of total trade and other receivables. The nominal value of receivables (less any valuation allowance) is assumed to approximate their fair values.

Counterparty risk 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 a minimum 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 counterrparties' non-fulfilment of their contractual obligations.

Liquidity risk 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 processes 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 is drawn up on the basis of expected cash flows and 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 owner receives 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 disposing of assets for the purpose of repaying debt. RUAG monitors its capital structure on the basis of net debt and equity, by measuring the ratio of net debt to equity. Net debt is the sum of cash and cash equivalents, current- and non-current financial assets minus current and non-current financial liabilities and other non-current liabilities.

Total capital is the sum of equity and net debt. RUAG has set itself the long-term target of keeping net debt below 40% of equity. At the end of 2010 the figure was 12.9% (previous year: 21.8%).

4 Critical accounting estimates and assumptions

Preparation of the consolidated financial statements in accordance with generally recognized accounting principles requires the use of estimates and assumptions that influence the stated amounts of assets and liabilities, income and expenses and the associated disclosure of contingent assets and liabilities at the end of the reporting period. 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:

Property, plant and equipment, goodwill and intangible assets Property, plant and equipment and intangible assets are reviewed annually for signs of impairment. If there are signs that these assets are overvalued, an estimate is made of the future cash flows expected to result from the utilization 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 property, plant and equipment, site closures, technical obsolescence or lower-than-forecast sales of products, the rights to which have been recognized, may shorten the estimated useful life or result in impairment.

The Group reviews the value of its recognized 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. The main assumptions are described in Note 21, Intangible assets. As at 31 December 2010, goodwill of CHF 78 million was recognized. An impairment loss of CHF 6 million was recognized in the year under review. For more information, see Note 21, "Intangible assets" and Note 5, "One-time charges".

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.

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 stage of completion and estimated cost to complete the projects, are made to the best of Management's knowledge about current events and possible future measures, the actual results may ultimately differ from these estimates. As at 31 December 2010, CHF 61 million was recognized for construction contracts (see Note 18, "Percentage of completion"). In addition, provisions totalling CHF 49 million were recognized for anticipated losses on contracts.

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.

Deferred tax assets The possible application of existing and available loss carry-forwards is periodically assessed and measured. The basis for measuring the tax loss carry-forwards is realistic performance planning on the part of the taxable entity. The assessment of future performance is based on a wide range of assumptions and estimates. If the actual values differ from the estimates, this can lead to a change in the fair value assessment of deferred tax assets. As at 31 December 2010, recognized deferred tax assets from tax loss carryforwards totalled CHF 19 million (previous year: CHF 15 million). For more information, see Note 12, "Income tax expense".

Employee benefit obligations Various actuarial assumptions are made in calculating benefit obligations and the surplus or shortage of cover in accordance with IAS 19, e.g. the discount rate, the annual expected wage increases and pension adjustments, anticipated return on pension assets, probability of withdrawal and expected mortality, etc. The assumptions used in these statements are explained in Note 38, "Employee benefits".

5 One-time charges

in CHF m	2010	2009
Goodwill impairment	(6)	(9)
Impairment of other intangible assets	(2)	(1)
Impairment of property, plant and equipment	(12)	(64)
Write-down of inventories		
Recognition	—	(28)
Reversal	18	—
Provisions		
Recognition	(17)	(49)
Reversal	25	—
Other costs	—	(10)
Total effect on EBIT	5	160
Effect on segment results[1]		
Aviation division	(30)	—
Technology division	35	(160)
Total one-time charges for divisions	5	(160)

[1] Please also refer to Note 39, “Segment information”.

Technology (Aerostructures)
Programme delays in major civil aircraft projects, a considerable drop in customer demand, backsourced orders and unanticipated start-up costs for new projects led to a considerably poorer result in Aerostructures in 2009. These factors called for a rethink of planning and a comprehensive risk assessment, leading to one-time charges totalling CHF 160 million in Aerostructures. Due to the deterioration in earnings in 2009 and poorer outlook for Aerostructures, future cash flows had to be re-estimated. This re-estimation resulted in a recoverable amount (value in use) lower than the carrying amount, leading to an impairment loss of CHF 64 million on property, plant and equipment (mainly plant and equipment), and of CHF 10 million on intangible assets. The cash-generating unit is Aerostructures. A discount rate of 9% was used to calculate the value in use in 2009. Further, provisions for losses on contracts and facility costs totalling CHF 49 million were recognized, as were additional write-downs of inventories totalling CHF 28 million.

In October 2010, the partnership with Airbus was strengthened in the long term by signing new contracts with an expandable annual order volume of CHF 85 million. Business and currency risks were also minimized. Together with the turnaround, which is progressing as planned, the overall risk profile and uncertainties have been reduced. This minimisation of risks enables the partial reversal of provisions and write-downs in Aerostructures.

Technology’s EBIT in 2010 was CHF 21 million, including a net amount of CHF 35 million in positive one-time effects from the reversal of write-downs of inventories and of provisions. These form part of the one-time charges totalling CHF 160 million that had a pronounced negative effect on consolidated earnings in 2009.

Aviation
The division looks back on a challenging year. While the military aviation business in Switzerland remained stable and international growth was strong, the effects of defence budget cuts in Germany were palpable. The resulting decline in Bell UH-1D maintenance work already began to impact on the site's order volume. Aviation reported EBIT of CHF –11 million, including one-time charges of CHF 30 million in the form of impairment losses and restructuring provisions, since capacity adjustments in Oberpfaffenhofen due to defence budget cuts and delayed sales successes of the Do 228NG take place in 2011.

Due to the poorer outlook in Germany, future cash flows had to be re-estimated. This re-estimation resulted in a recoverable amount (value in use) lower than the carrying amount, leading to an impairment loss of CHF 12 million on property, plant and equipment and of CHF 8 million on intangible assets and goodwill. A discount rate of 8% was used to calculate the value in use in 2010.

6 Acquisitions, disposals and 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 million. In the first year, the companies acquired generated revenue of CHF 89 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 investment 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 2009. 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 investment as of the purchase date in 2008. 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.

Mergers Effective 1 January 2010, RUAG Space Ltd was merged with RUAG Switzerland Ltd and the merged company continued as RUAG Switzerland Ltd.

In 2009, RUAG Aerospace Ltd was merged with RUAG Components Ltd to form RUAG Switzerland Ltd. Sintro Electronics AG was also merged with RUAG Electronics Ltd.

New companies In 2010, Nidwalden Airpark AG was established in conjunction with additional partners. The company is included as an associate in RUAG's consolidated financial statements. In 2009, RUAG Ammotec USA Inc. was established in Tampa, Florida.

Effect of acquisitions and disposals Acquisitions and disposals had the impact shown in the table below on RUAG's consolidated financial statements.

Effect of acquisitions and disposals
in CHF m

	Acquisition in 2010	Disposal in 2010	Acquisition in 2009	Disposal in 2009
Current assets	—	—	152	—
Property, plant and equipment	—	—	83	—
Intangible assets	—	—	93	—
Goodwill	—	—	53	—
Current and non-current liabilities	—	—	(113)	—
Deferred tax liabilities	—	—	(32)	—
Assets and liabilities acquired (disposed)	—	—	236	—
Agreed price	—	—	(242)	—
Escrow account	—	—	—	—
Assumption of financial liabilities	—	—	95	—
Exchange differences	—	—	—	—
Gross cash (outflow) inflow	—	—	(146)	—
Cash and cash equivalents acquired (disposed)	—	—	16	—
Net cash (outflow) inflow	—	—	(130)	—

In connection with the acquisition of RUAG Sweden AB in 2008, an additional payment of CHF 3 million fell due in 2010 in connection with an agreed target performance.

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

7 Net sales

in CHF m	2010	2009
Invoiced sales	1 757	1 716
Change in percentage of completion	39	(21)
Net sales	1 796	1 696

DDPS	608	622
Third parties	1 149	1 094
Invoiced sales by customer group	1 757	1 716

Aside from the DDPS, RUAG has no other customers that account for more than 10% of total sales.

Sales from transactions with the DDPS is primarily attributable to the Aviation and Defence segments.

Defence	843	915
Civil	914	801
Invoiced sales by type of use	1 757	1 716

Production	1 047	995
Maintenance	499	554
Services	211	167
Invoiced sales by order type	1 757	1 716

Switzerland	753	765
Rest of Europe	748	746
Middle East	16	23
North America	162	113
South America	14	11
Asia/Pacific	53	44
Africa	11	15
Invoiced sales by region	1 757	1 716

Sales in rest of Europe primarily concern Germany and Sweden.

8 Staff costs

in CHF m	2010	2009
Salaries and wages	(630)	(589)
Employee benefit contributions	(39)	(39)
Other social security expenses	(90)	(89)
Contract personnel	(48)	(33)
Other staff costs	(13)	(27)
Total	(820)	(776)

9 Other operating expenses

in CHF m	2010	2009
Premises costs	(27)	(33)
Maintenance and repairs of property, plant and equipment	(56)	(55)
Cost of energy and waste disposal	(13)	(15)
Insurance and duties	(8)	(8)
Administration and IT costs	(51)	(48)
Advertising costs	(19)	(17)
Miscellaneous other operating expenses / income	1	(83)
Total	(174)	(258)

Miscellaneous other operating expenses include in particular expenses for operational security and surveillance, tax on capital and the recognition and reversal of provisions.

10 Research and development expenses

in CHF m	2010	2009
Total	(190)	(149)

Research and development expenses include all own work and work carried out by third parties or services required from third parties that was recognized as an expense during the year under review. The increase in 2010 is primarily attributable to the acquisition of the Space business operations of OC Oerlikon as per 1 July 2009.

11 Finance income

in CHF m	2010	2009
Interest income	1	1
Realized exchange gains	—	—
Realized securities gains	—	—
Total finance income	1	1

Finance costs

Interest expense	(10)	(5)
Realized exchange losses	(5)	—
Realized securities losses	0	0
Impairment of financial assets	—	—
Total finance costs	(15)	(5)

12 Income tax expense

in CHF m	2010	2009
Current income taxes	(14)	(1)
Deferred income taxes	18	10
Income tax income	4	9

Pre-tax profit includes tax income of CHF 4 million. This tax income resulted primarily from the recognition of tax loss carryforwards and the utilization of non-recognized loss carryforwards from the previous year.

Deferred tax assets are only recognized for loss carryforwards 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 m):

Profit (loss) before tax	88	(116)
Expected weighted tax rate in %	26.2%	25.5%
Expected income tax income (expense)	(23)	30
Origination of temporary differences	(0)	(1)
Subsequent recognition and utilization of tax loss carryforwards from previous years	28	7
Recognition (non recognition) of tax losses from current year	(0)	(23)
Non-deductible expenses	(1)	(13)
Non-taxable income	1	5
Income taxed at a lower rate	—	—
Increase/reduction in tax rate	4	1
Tax credits/losses from preceding periods	(5)	7
Goodwill impairment	(0)	—
Difference versus effective tax rate	—	(3)
Effective income tax income	4	9

13 Deferred tax income

in CHF m	2010	2009
Origination (reversal) of temporary differences arising from the current period	5	3
Effect of tax rate changes	5	0
Recognition of tax loss carryforwards	9	10
Recognition of deferred tax assets	(1)	(4)
Exchange differences	—	0
Total deferred tax income	18	10

Change in deferred taxes

Total deferred taxes on 1 January	(34)	(11)
Exchange differences	(1)	0
Effect of acquisitions	—	(34)
Recognized in profit or loss	18	10
Recognized in other comprehensive income	(0)	—
Total deferred taxes on 31 December	(18)	(34)
Of which deferred tax assets	42	27
Of which deferred tax liabilities	(60)	(61)

Tax loss carryforwards by date of expiry

2010	—	8
2011	3	13
2012	—	37
2013	—	31
2014	—	—
2015	—	0
2016	101	109
After 2016	36	27
Total	140	224
Possible tax effects from tax loss carryforwards	29	47
Of which recognized as deferred tax assets	19	15
Of which not recognized	11	32

14 Cash and cash equivalents

in CHF m	2010	2009
Cash on hand	0	0
Demand deposits with banks	68	68
Money-market investments	2	1
Total	70	69

Currencies of cash and cash equivalents

CHF	5	8
EUR	24	32
USD	19	11
GBP	7	4
SEK	14	13
HUF	0	0
CAD	1	—
Total cash and cash equivalents	70	69

15 Financial assets

in CHF m	2010	2009
Current financial assets		
Current third-party assets	17	9
Total current financial assets	17	9

Current financial assets comprise the fair value of open foreign currency hedging transactions (see Note 37, "Financial instruments").

Non-current financial assets

in CHF m	2010	2009
Money-market investments	0	0
Loans	3	3
Loans to associates	—	—
Non-controlling interests	—	—
Valuation allowances	(0)	(0)
Total non-current financial assets	3	3

Currencies of financial assets

CHF	0	1
EUR	14	5
USD	4	5
GBP	0	0
SEK	2	2
HUF	0	0
CAD	0	—
Total financial assets	20	12

The fair value of the non-current financial assets corresponds to the carrying amount.

16 Receivables and prepayments

in CHF m	2010	2009
Trade and other receivables	305	318
Receivables from associates	0	0
Prepayments to suppliers	29	54
Prepayments to associates	—	—
Valuation allowances	(9)	(9)
Total trade and other receivables and prepayments	325	363
Current receivables from shareholders	—	—
Current receivables from government bodies	5	12
Other current receivables	8	8
Total receivables and prepayments	338	383

Maturity structure of receivables

	2010	2009
Not past-due	248	283
Past due 1–30 days	49	64
Past due 31–60 days	13	14
Past due 61–90 days	7	5
Past due 91–180 days	10	5
Past due over 180 days	11	11
Total	338	383

Currencies of receivables and prepayments

	2010	2009
CHF	154	179
EUR	133	156
USD	45	44
GBP	2	3
SEK	3	1
HUF	0	0
CAD	0	—
Total	338	383

The allowance for doubtful receivables contains individual valuation allowances totalling CHF 9 million (previous year: CHF 9 million).

Effective losses on receivables in each of the past two years were less than 0.2 % of net sales.

Allowance for doubtful receivables

in CHF m	2010	2009
Balance at 1 January	(9)	(10)
Initial consolidation	—	—
Increase in allowance	(2)	(7)
Utilization of allowance	0	3
Reversal of allowance	2	5
Disposals	—	—
Currency differences	(0)	0
Balance at 31 December	(9)	(9)
Allowance for doubtful receivables	(9)	(9)
Interest on doubtful receivables	—	—

Allowances for doubtful receivables are held in an allowance account. Charges are recognized in other operating expenses. No value allowances are required for financial instruments in categories other than loans or receivables. Receivables judged as non-recoverable are written off as losses.

17 Inventories and work in progress

in CHF m	2010	2009
Materials and supplies	246	245
Work in progress at cost of conversion	99	81
Work in progress (percentage of completion)[1]	125	84
Semi-finished goods	118	106
Finished goods	64	62
Valuation allowances	(117)	(135)
Total	535	443

[1] The key figures for work in progress, which is measured using the percentage of completion method, are detailed below.

The carrying amount of inventories at fair value less costs to sell is CHF 254 million (previous year: CHF 184 million). In the year under review, a total of CHF 460 million was recognized as cost of material (CHF 420 million). The write-down of inventories recognized as an expense totalled CHF 42 million (CHF 59 million).

Reversals of write-downs of inventories recognized in a prior period, arising from an increase in net realizable value, totalled CHF 26 million in the year under review (CHF 8 million).

Changes in write-downs of inventories from Aerostructures are detailed in Note 5, "One-time charges".

18 Percentage of Completion (POC)

in CHF m	2010	2009
Contract sales and costs of ongoing projects at the end of the reporting period		
Aggregate contract sales	1 465	866
Aggregate contract costs	(1 254)	(705)
Realized margin of ongoing projects at the end of the reporting period	211	161
Cumulative balance at the end of the reporting period		
Gross amount due from customers for contract work	125	84
Gross amount due to customers for contract work	(65)	(51)
Net position at the end of the reporting period	61	33
Advances received from customers	139	121

19 Property, plant and equipment
in CHF m

	Plant and equipment	Other [1]	Land	Buildings	Assets under construction	Property, plant and equipment
At cost						
As at 1 January 2009	490	170	50	545	12	1 266
Initial consolidation	15	22	33	121	2	192
Eliminations from the consolidated Group	—	(1)	(0)	1	0	(0)
Additions	30	16	0	12	23	82
Disposals	(8)	(2)	(0)	(4)	—	(14)
Upward revaluation	—	—	—	—	—	—
Reclassifications	9	2	(7)	(43)	(6)	(44)
Exchange differences	1	0	0	0	(0)	1
As at 31 December 2009	538	207	76	631	31	1 483
Accumulated depreciation and impairment						
As at 1 January 2009	331	132	0	370	—	833
Initial consolidation	13	18	—	78	—	109
Eliminations from the consolidated Group	—	(0)	—	0	—	(0)
Depreciation	29	14	0	17	—	60
Impairment	61	2	—	0	—	64
Disposals	(7)	(2)	—	(4)	—	(13)
Depreciation of net carrying amount	—	—	—	—	—	—
Reclassifications	(0)	0	—	(45)	—	(45)
Exchange differences	1	0	0	0	—	1
As at 31 December 2009	427	164	0	418	—	1 009
At cost						
As at 1 January 2010	538	207	76	631	31	1 483
Initial consolidation	—	—	—	—	—	—
Eliminations from the consolidated Group	0	(0)	—	—	—	0
Additions	32	29	(0)	2	7	70
Disposals	(20)	(11)	(0)	(7)	—	(38)
Upward revaluation	—	—	—	—	—	—
Reclassifications	12	2	1	(5)	(21)	(10)
Exchange differences	(14)	(9)	(0)	(3)	(2)	(28)
As at 31 December 2010	548	219	77	618	16	1 478
Accumulated depreciation and impairment						
As at 1 January 2010	427	164	0	418	—	1 009
Initial consolidation	—	—	—	—	—	—
Eliminations from the consolidated Group	0	(0)	—	—	—	0
Depreciation	20	15	0	18	0	53
Impairment	2	9	—	1	—	12
Disposals	(19)	(9)	—	(7)	—	(35)
Depreciation of net carrying amount	—	—	—	—	—	—
Reclassifications	5	0	—	(10)	(0)	(5)
Exchange differences	(9)	(7)	(0)	(1)	(0)	(17)
As at 31 December 2010	427	172	0	419	0	1 017
Net carrying amount						
As at 1 January 2010	111	43	76	213	31	474
As at 31 December 2010	121	47	77	200	16	461

[1] Fixtures and fittings, computer hardware and software, motor vehicles.

Leased assets

in CHF m	2010	2009
At cost	3	9
Accumulated depreciation and impairment	(3)	(9)
Net carrying amount	—	—

Further information on impairment is given in Note 5, "One-time charges".

The insurance value of property, plant and equipment totalled CHF 2 642 million (previous year: CHF 2 433 million).

20 Investment property

in CHF m	2010	2009
At cost		
As at 1 January	215	178
Initial consolidation	—	—
Eliminations from the consolidated Group	—	—
Additions	0	3
Disposals	(0)	—
Upward revaluation	—	—
Reclassifications	10	34
Exchange differences	—	—
As at 31 December	225	215
Accumulated depreciation and impairment		
As at 1 January	133	82
Initial consolidation	—	—
Eliminations from the consolidated Group	—	—
Depreciation	4	5
Impairment	—	—
Disposals	(0)	—
Depreciation of net carrying amount	—	—
Reclassifications	5	45
Exchange differences	—	—
As at 31 December	142	133
Net carrying amount		
As at 1 January	83	96
As at 31 December	83	83

The investment property had an estimated fair value of CHF 180–200 million in 2010 and 2009. No market evaluation by an expert was carried out in the year under review. The rental and other earnings from the investment property amounted to CHF 18 million (CHF 19 million in the previous year) and the total real estate expenses to CHF 11 million (CHF 14 million in the previous year).

Majority leased sites to third parties are classified as investment properties. In 2010, there were five such sites (Berne, Boden, Wimmis, Unterseen and Aigle). No agreed capital commitments or commitments in respect of maintenance work were in place at the end of December 2010. Agreed capital commitments in the previous year amounted to CHF 0.2 million, and there were no agreed commitments in respect of maintenance work.

In 2009, 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, with the entry being made in the land register in the first half of 2010.

21 Intangible assets / goodwill

in CHF m

	Patents	Brands and models	Licences and rights	Order backlog and customer lists	Intangible assets	Goodwill
At cost						
As at 1 January 2009	8	11	12	26	57	44
Initial consolidation	—	2	2	88	93	52
Eliminations from the consolidated Group	—	—	(0)	—	(0)	—
Additions	0	—	3	—	3	1
Disposals	—	—	(1)	—	(1)	—
Upward revaluation	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—
Exchange differences	(0)	1	(0)	(0)	1	0
As at 31 December 2009	8	14	16	115	153	97
Accumulated amortization and impairment						
As at 1 January 2009	4	5	8	2	20	—
Initial consolidation	—	—	0	—	0	—
Eliminations from the consolidated Group	—	—	0	—	0	—
Depreciation	1	2	2	9	13	—
Impairment	—	—	1	—	1	9
Disposals	—	—	(1)	—	(1)	—
Reclassifications	—	—	—	—	—	—
Exchange differences	(0)	0	(0)	(0)	0	—
As at 31 December 2009	5	7	10	11	33	9
At cost						
As at 1 January 2010	8	14	16	115	153	97
Initial consolidation	—	—	—	—	—	—
Eliminations from the consolidated Group	—	—	—	—	—	—
Additions	—	—	1	—	1	—
Disposals	(0)	—	(0)	—	(0)	(0)
Upward revaluation	—	—	—	—	—	—
Reclassifications	0	(1)	0	1	0	—
Exchange differences	(0)	(2)	(2)	(2)	(6)	(4)
As at 31 December 2010	7	11	15	114	147	94
Accumulated amortization and impairment						
As at 1 January 2010	5	7	10	11	33	9
Initial consolidation	—	—	—	—	—	—
Eliminations from the consolidated Group	—	—	—	—	—	—
Depreciation	1	2	1	15	18	—
Impairment	—	—	2	—	2	6
Disposals	—	—	(0)	—	(0)	—
Reclassifications	0	(0)	0	(0)	0	—
Exchange differences	(0)	(1)	(1)	(1)	(3)	—
As at 31 December 2010	5	7	12	25	50	15
Net carrying amount						
As at 1 January 2010	3	7	6	104	120	88
As at 31 December 2010	2	4	2	88	97	78

The recoverable amount of cash generating units is determined on the basis of their value in use. Value in use is derived from the present value of future cash flows from a cash generating unit corresponding to the relevant Group division. The present value of future cash flows is based on Management-approved mid-range planning covering a five-year period (previous year based on a four-year period). Cash flows after this five-year period are extrapolated without the incorporation of a growth rate.

Cash flows are discounted using a division-specific discount rate of 7–9% (previous year: 9%).

Further information on impairment is given in Note 5, "One-time charges".

Goodwill is a result of acquisitions and breaks down between the various divisions as follows (in CHF m):

	2010	2009
Space[1]	61	62
Aviation	0	7
Technology	—	—
Defence	4	4
Ammotec	13	16
As at 31 December	78	88

[1] Mainly concerns goodwill from the acquisition of the Space business operations of OC Oerlikon amounting to CHF 52 million. The cash-generating unit is "Space Switzerland".

Amortization and impairment of intangible assets is reported in the income statement under Amortization, and goodwill impairment is shown as such.

22 Associates

in CHF m	2010	2009
Balance at 1 January	38	41
Acqisitions	0	0
Initial consolidation	0	(0)
Share of results after taxes	4	2
Dividends	(1)	(3)
Reclassifications	—	—
Other changes in equity	0	(2)
Exchange differences	(2)	1
Balance at 31 December	39	38

Financial information for associates (100%) is as follows:

Aggregate financial information for associates

in CHF m	2010	2009
Total assets	156	160
Total liabilities	72	75
Net assets	84	85
Sales	138	150
Profit	5	4

There are no contingent liabilities relating to associates.

23 Financial liabilities

in CHF m	2010	2009
Current financial liabilities		
Due to banks	41	235
Financial liabilities to third parties	7	11
Liabilities to associates	—	—
Financial liabilities to employee benefit funds	—	—
Lease liabilities	—	1
Current portion of non-current financial liabilities	—	—
Total current financial liabilities	49	247

Non-current financial liabilities

in CHF m	2010	2009
Due to banks	123	1
Lease liabilities	—	0
Loans secured by property	—	—
Bond issues	—	—
Liabilities to associates	—	—
Total non-current financial liabilities	123	1

The fair value of the non-current financial liabilities corresponds to the carrying amount. The average rate of interest on non-current financial liabilities in the year under review was 2.8% (previous year: 3.0%).

Maturity structure of financial liabilities

in CHF m	2010	2009
Up to 1 year	49	247
Up to 2 years	41	0
Up to 3 years	41	0
Up to 4 years	41	0
Over 4 years	0	1
Total financial liabilities	172	248

Non-current 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 related liability was classified as short-term at the end of the reporting period. In 2010, the lender granted an extension period until 30 September 2010 to resolve the breach of the credit agreement. As at 31 December 2010, RUAG fulfilled these contractual covenants.

Currencies of financial liabilities

in CHF m	2010	2009
CHF	168	223
EUR	2	10
USD	1	9
GBP	1	2
SEK	0	3
HUF	—	0
CAD	0	—
Total financial liabilities	172	248

24 Other current liabilities

in CHF m	2010	2009
Due to third parties	18	10
Due to associates	—	0
Due to government bodies	20	13
Due to shareholders	0	—
Due to employee benefit funds	0	0
Total	39	23

25 Trade accounts payable and prepayments

in CHF m	2010	2009
Trade accounts payable	107	106
Accounts payable to associates	0	0
Prepayments from customers	271	253
Prepayments from associates	—	—
Total	378	359

Maturity structure of trade accounts payable and prepayments

in CHF m	2010	2009
Not past-due	357	321
Past due 1–30 days	20	21
Past due 31–60 days	0	4
Past due 61–90 days	0	1
Past due 91–180 days	0	3
Past due over 180 days	1	9
Total trade accounts payable and prepayments	378	359

Currencies of trade accounts payable and prepayments

in CHF m	2010	2009
CHF	231	157
EUR	89	151
USD	22	28
GBP	6	1
SEK	29	21
HUF	0	1
CAD	0	—
Total trade accounts payable and prepayments	378	359

26 Other non-current liabilities

in CHF m

	2010	2009
Due to third parties	3	3
Due to associates	—	—
Due to shareholders	—	—
Due to employee benefit funds	—	—
Total	3	3

27 Provisions

in CHF m

	Restructuring	Benefit obligations	Losses on contracts	Warranties	Holiday and overtime	Loyalty bonuses and anniversary benefits	Other	Total
Balance at 1 January 2010	15	48	63	23	42	30	20	242
Initial consolidation	—	—	—	—	—	—	—	—
Eliminations from the consolidated Group	—	—	0	—	—	—	—	0
Recognition	13	3	39	8	20	2	4	90
Reversal	(4)	(0)	(29)	(4)	(4)	(0)	(9)	(50)
Utilization	(6)	(1)	(21)	(1)	(16)	(1)	(1)	(47)
Reclassifications	—	—	—	—	—	—	—	—
Exchange differences	(0)	(3)	(4)	(1)	(2)	(1)	(2)	(13)
Balance at 31 December 2010	18	46	49	25	40	31	13	223
Current portion	(14)	(0)	(24)	(17)	(40)	—	(7)	(103)
Non-current provisions	4	46	25	7	(0)	31	6	119

New provisions recognized for restructuring in 2010 mainly concern headcount reduction measures at the sites in Oberpfaffenhofen and Geneva. Further information is given in Note 5, "One-time charges".

Employee benefit obligations are liabilities resulting from benefit solutions for foreign operations.

The statement as at 31 December 2010 in respect of the provision of long-service awards for employees, entered under the item "Provisions for loyalty bonuses and anniversary benefits", was based on the following assumptions: Discount rate of 3% (previous year: 3.5%) and other actuarial assumptions on matters such as staff turnover and salary increases.

Other provisions mainly include 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 agreements concerning remuneration for services put 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.

The effects of the one-time charges in Aerostructures mainly concern provisions for losses on contracts and are detailed in Note 5, "One-time charges".

28 Contingent liabilities towards third parties

in CHF m

	2010	2009
Guarantees	148	119
Security collateral	160	—
Warranty commitments	53	23
Total	361	141

Guarantees are primarily performance and advance payment guarantees from operational business. An intra-Group loan of CHF 160 million to RUAG Real Estate Ltd was pledged as collateral to hedge obligations arising from the long-term credit agreement underlying the liabilities due to banks. Warranty commitments are solely bank guarantees.

29 Additional contingent liabilities not stated on the balance sheet

in CHF m	2010	2009
Warranty contracts	7	—
Long-term rental and leasing agreements	112	153
Letters of intent	4	4
Agreed contractual penalties (fines and premiums)	23	17
Legal proceedings	2	3
Bill commitments	—	—
Capital commitments for property, plant and equipment	4	11
Other contingent liabilities	17	4
Total	169	192

Warranty contracts As a 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 are recognized under provisions for warranties. Provisions for warranties are recognized to the amount of the best estimate of the cost of rectifying faults in products sold with a warranty before the end of the reporting period. The possibility of a cash outflow over and above the recognized provisions for warranties is improbable.

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

Agreed contractual penalties By the nature of its operations, RUAG has to deal with contractual penalties. The amounts reported reflect all agreed contractual penalties as at the end of the reporting period. These obligations are regularly reassessed. As soon as it is probable that a cash outflow will arise, a provision is recognized for it. The possibility of a cash outflow over and above the recognized provisions is currently considered improbable.

Legal proceedings Open or potential legal proceedings are handled by the Legal department and regularly monitored as to the probability of a future cash outflow. As soon as it is probable that a cash outflow will arise, a provision is recognized for it. The possibility of a cash outflow over and above the recognized provisions is currently considered improbable.

Capital commitments Capital commitments include the value of investments to which RUAG has committed as at the end of the reporting period.

30 Assets pledged as collateral

in CHF m	2010	2009
Cash and cash equivalents	—	—
Receivables and inventories	2	3
Plant and equipment	—	0
Property	7	8
Total	9	11

The shares of RUAG Sweden AB and an intra-Group loan of CHF 160 million from RUAG Holding Ltd to RUAG Real Estate Ltd were pledged as collateral to hedge obligations arising from the long-term credit agreement underlying the liabilities due to banks.

31 Fire insurance values

in CHF m	2010	2009
Plant and equipment	1 448	1 423
Property	1 507	1 319
Total	2 954	2 743

32 Share capital

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

33 Events after the balance sheet date

The Board of Directors of RUAG Holding Ltd approved the consolidated financial statements for publication on 9 March 2011. The Annual General Meeting has the right to approve the consolidated financial statements.

34 Related party transactions

in CHF m	2010	2009
Receivables from related parties	111	54
Liabilities to related parties	0	1
Prepayments	84	122
Current liabilities to employee benefit funds	1	1
Non-current liabilities to employee benefit funds	—	—

In the year under review, CHF 111 million of receivables from related parties (previous year: CHF 54 million) and CHF 0.2 million of liabilities to related parties (CHF 0.6 million) were attributable to the DDPS. Invoiced sales to the DDPS totalled CHF 608 million (CHF 623 million) as stated in Note 7, "Net sales". There were no loans between the Group companies and members of the Board of Directors. Employee benefit obligations totalled CHF 1 million (CHF 1 million). In the year under review, no raw materials were ordered from associates (CHF 1 million).

35 Compensation of key management personnel

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 2010 financial year amounted to CHF 499 000 (previous year: CHF 525 000). The overall emoluments (including all employer contributions to employee benefit 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 2010 financial year amounted to CHF 4 818 000 (CHF 4 207 000). The 2009 total includes the former CEO, Toni J. 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 employee benefit funds, excluding employer contributions to statutory retirement and survivors' insurance or similar state social insurance contributions) paid to the CEO for the 2010 financial year amounted to CHF 848 000 (previous year: CHF 859 000). The 2009 total includes former CEO Toni J. Wicki (CHF 460 000) up to 31 May 2009 and new CEO Dr Lukas Braunschweiler (CHF 399 000) from 1 June 2009 onwards.

Compensation of key management personnel
in CHF 1000

	Board of Directors		Highest total compensation[2]	
	2010	2009	2010	2009
Basic salary				
Cash compensation[1]	499	525	140	140
Employer contributions to employee benefit funds	—	—	—	—
Payments in kind	—	—	—	—
Performance-related component				
Cash compensation[1]	—	—	—	—
Shares	—	—	—	—
Options	—	—	—	—
Total compensation	499	525	140	140

	Executive Board		Highest total compensation[2]	
	2010	2009	2010	2009
Basic salary				
Cash compensation[1]	2 915	2 810	442	484
Employer contributions to employee benefit funds	378	440	65	107
Payments in kind	43	57	8	8
Performance-related component				
Cash compensation[1]	1 482	900	333	260
Shares	—	—	—	—
Options	—	—	—	—
Total compensation	4 818	4 207	848	859
Relation between performance-related component and cash compensation	51%	32%	75%	54%

[1] Excluding employer contributions to statutory retirement and survivors' insurance or similar state social insurance contributions.
[2] For the Board of Directors, the amount includes compensation paid to the Chairman of the Board of Directors Konrad Peter for both the year under review and previous year; for the Executive Board, the amount includes compensation paid to CEO Dr Lukas Braunschweiler for the year under review and, for the previous year, compensation paid to CEO Dr Lukas Braunschweiler (from 1 June 2009) and to former CEO Toni J. Wicki (up to 31 May 2009).

36 Future minimum obligations under finance leases
in CHF m

	2010	2009
Within 1 year	—	1
Between 1 and 5 years	—	0
In more than 5 years	—	—
Total	—	1
Less interest	—	(0)
Total lease liabilities	—	1

Future minimum obligations under operating leases

	2010	2009
Within 1 year	1	3
Between 1 and 5 years	3	8
In more than 5 years	1	2
Total	5	13

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

37 Financial instruments

in CHF m	2010	2009
Financial assets in current assets		
Hedging transactions		
Financial derivatives at fair value	17	9
Loans and receivables		
Receivables and prepayments	325	383
Current financial assets	—	0
Other current assets	—	—
Total	342	392

Financial assets in non-current assets		
Loans and receivables		
Non-current financial assets	3	3
Total	3	3

Current financial liabilities		
At amortized cost		
Current financial liabilities	41	239
Trade accounts payable and prepayments	378	359
Hedging transactions	—	—
Financial derivatives at fair value	7	9
Total	427	606

Non-current financial liabilities		
At amortized cost		
Non-current financial liabilities	123	1
Total	123	1

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. Financial derivatives are held by RUAG exclusively for hedging purposes.

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 volumes of all derivatives amounted to (in CHF m):

Foreign currency hedging contracts with banks – positive	260	360
Foreign currency hedging contracts with banks – negative	(54)	(41)
Interest rate hedging contracts	214	244

Interest income

in CHF m	2010	2009
Cash and cash equivalents	0	0
Receivables and prepayments	1	0
Financial assets	0	0
Other current and non-current assets	—	—
Non-controlling interests	—	—
Financial derivatives	—	—
Total interest income	1	0

Interest expense

in CHF m	2010	2009
Cash and cash equivalents	(1)	0
Receivables and prepayments	—	—
Financial assets	(0)	(0)
Trade accounts payable and prepayments	(1)	(0)
Financial liabilities	(5)	(5)
Other current and non-current liabilities	—	—
Financial derivatives	—	—
Total interest expense	(7)	(6)

Liquidity risk The following table analyses the Group's net debt by due dates after the reporting period up to contractual maturity.

As at 31 December 2010

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Over 4 years	Total
Cash and cash equivalents	70	—	—	—	—	70
Current financial assets[1]	—	—	—	—	—	—
Non-current financial assets	0	0	0	0	2	3
Current financial liabilities[1]	(41)	—	—	—	—	(41)
Non-current financial liabilities	—	(41)	(41)	(41)	(0)	(123)
Other non-current liabilities	—	(3)	—	—	—	(3)
Net debt	29	(43)	(41)	(41)	2	(94)

As at 31 December 2009

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Over 4 years	Total
Cash and cash equivalents	69	—	—	—	—	69
Current financial assets[1]	0	—	—	—	—	0
Non-current financial assets	0	0	0	0	2	3
Current financial liabilities[1]	(239)	—	—	—	—	(239)
Non-current financial liabilities	—	(0)	(0)	(0)	(1)	(1)
Other non-current liabilities	—	(3)	—	—	—	(3)
Net debt	(169)	(3)	0	(0)	2	(170)

[1] Cash flow hedges recognized in current financial assets and liabilities are not part of net debt as they are not interest bearing.

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 related liability was classified as short-term at the end of the reporting period. In 2010, the lender granted an extension period until 30 September 2010 to resolve the breach of the credit agreement. As at 31 December 2010, RUAG fulfilled these contractual covenants.

Currency risk The important currencies for RUAG are the euro, Swedish krona and the US dollar. An appreciation of 5% in the value of the Swiss franc against the euro, Swedish krona and US dollar compared to its value on 31 December 2010 would have reduced RUAG's earnings by an estimated CHF 3 million (previous year: CHF 3 million); a corresponding appreciation would have improved RUAG's earnings by CHF 3 million (CHF 3 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 2010 in the prices of these commodities would have reduced RUAG's earnings by less than CHF 2 million (previous year: CHF 1 million), while the value of RUAG's inventories would have risen by at most CHF 2 million (CHF 1 million).

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

38 Employee benefits

The company has a number of independent employee benefit plans in addition to statutory social security. Most of these plans are financed externally, in units that are legally separate from the company. Group companies without sufficient assets in their plans to cover employee benefits recognize appropriate provisions in the statement of financial position.

Major employee benefit plans that are classed as defined benefit plans under IAS 19 are evaluated by an independent insurance actuary every year. The most recent actuarial appraisal in accordance with IAS 19 was carried out on 1 January 2010.

All employee benefit plans are based on local statutory provisions. CHF 44 million in total contributions was paid in the 2010 financial year (previous year: CHF 39 million).

The following figures give an overview of the status of the defined benefit plans with and without fund coverage as at 31 December 2010 and 2009.

Net employee benefit expenses

in CHF m	2010	2009
Benefits granted	69	58
Interest on employee benefit obligations	55	52
Expected return on plan assets	(76)	(66)
Amortized gains / losses	—	—
Employee contributions	(23)	(20)
Increase (decrease) in non-recognized plan assets plus recognition of gain (loss) in accordance with IAS 19.58A	11	11
Total	36	34

Employer contributions for the 2011 financial year are expected to total CHF 30 million.

As per 31 December 2010 (as was also the case at the end of the previous year) actuarial losses not yet amortized exceeded the present 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 employee benefit obligations and the benefit plan assets as at 31 December 2010 and 2009 in Switzerland, Germany and Sweden:

Employee benefit obligation

in CHF m	2010	2009
Benefit obligations at beginning of year	1 619	1 438
Current service cost	47	37
Employee contributions	23	20
Interest on employee benefit obligations	55	52
Actuarial loss (gain)	92	(8)
Exchange differences	(3)	1
Plan amendments	—	0
Changes in the consolidated Group	—	117
Benefits paid	(44)	(39)
Present value of benefit obligations at end of year	1 788	1 619
Fair value of plan assets	1 677	1 618
(Deficient) / surplus cover	(112)	(1)

Plan assets

in CHF m	2010	2009
Fair value of plan assets at beginning of year	1 618	1 327
Actual return on plan assets	47	165
Exchange differences	—	—
Employer contributions	34	31
Employee contributions	23	20
Changes in the consolidated Group	—	114
Net employee benefits paid	(44)	(39)
Fair value of plan assets at end of year	1 677	1 618

Allocation of plan assets at 31 December

in %	Long-term target	2010	2009
Cash and cash equivalents	0–6%	1%	3%
Debt instruments (bonds)	44–62%	50%	48%
Equity instruments (shares)	20–38%	33%	33%
Other assets	13–22%	16%	16%
Total plan assets		100%	100%

The following table presents the cover of the performance-related employee benefit obligations and the influence of deviations between expected and actual return on the plan assets for the past five years.

Multi-year overview

in CHF m	2010	2009	2008	2007	2006
Present value of benefit obligations at end of year	1 788	1 619	1 438	1 393	1 459
Fair value of plan assets	1 677	1 618	1 327	1 533	1 510
(Deficient) / surplus cover	(112)	(1)	(111)	140	51
Difference between expected and actual return on plan assets	(29)	99	(284)	(70)	7
Gain on revaluation of benefit obligations	24	19	29	31	13

Summary of financial situation at year-end

in CHF m	2010	2009
(Deficient) / surplus cover IAS 19	(112)	(1)
Non-amortized loss (gain)	70	10
Non-amortized first-time difference	—	—
Unrecognized plan assets	(1)	(51)
Employee benefit obligation	(42)	(43)

Change in employee benefit obligation

in CHF m	2010	2009
Employee benefit obligation at beginning of year	(43)	(33)
Net benefit expenses	(36)	(34)
Changes in the consolidated Group	—	(5)
Employer contributions	34	31
Exchange differences	3	(2)
Employee benefit obligation at end of year	(42)	(43)

Employee benefit obligations are included in non-current provisions.

As at 31 December 2010, the employee benefit funds owned no shares in RUAG Holding Ltd.

Employee benefit obligations are measured based on the following actuarial assumptions:

Actuarial assumptions

in %	2010	2009
Discount rate	3.00%	3.50%
Anticipated long-term return on plan assets	4.75%	4.75%
Annual salary increases	2.00%	2.00%
Annual employee benefit adjustments	0.75%	0.75%

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

39 Segment information
2010, in CHF m

	RUAG Space	RUAG Aviation
Net sales with third parties	283	465
Net sales with other segments	0	6
Total net sales	283	471
EBITDA	30	15
Depreciation and amortization	(22)	(20)
Goodwill impairment	—	(6)
EBIT	9	(11)
Net financial income		
Share of profit (loss) of associates		
Profit (loss) before tax		
Tax expense		
Net profit (loss)		
Net assets by region	127	136
Net assets Switzerland	121	70
Net assets rest of Europe	6	60
Net assets North America	—	6
Acquisition of property, plant and equipment and intangible assets	(13)	(6)
Disposal of property, plant and equipment and intangible assets	16	0

Further information on sales and customers is provided in Note 7, "Net revenue".

Information on one-time charges in the segments is given in Note 5, "One-time charges".

The products and services of the individual segments are described in Note 2.22, "Operating segments".

RUAG Technology	RUAG Ammotec	RUAG Defence	RUAG Services	Intercompany	Group total
270	319	433	26	—	1 796
3	1	6	126	(141)	—
273	320	438	152	(141)	1 796
30	42	38	39	(0)	194
(8)	(10)	(6)	(24)	—	(90)
—	—	—	—	—	(6)
21	31	32	15	0	98
					(14)
			4		4
					88
					4
					92
90	179	(35)	275		771
77	37	(47)	279		537
13	123	12	(3)		210
—	19	—	—		25
(11)	(20)	(4)	(17)		(71)
2	0	1	5		24

40 Consolidated companies, associates and non-controlling interests

Company	Head office	Country	Equity capital (100%)		Shareholding	Method of consolidation
RUAG Holding Ltd[1]	Berne	Schwitzerland	CHF	340 000 000		Full
Consolidated companies						
RUAG Switzerland Ltd	Emmen	Switzerland	CHF	78 000 000	100.0%	Full
Mecanex USA Inc	Berlin, CT	USA	USD	1 500	100.0%	Full
RUAG Deutschland GmbH	Wessling	Germany	EUR	1 000 000	100.0%	Full
RUAG Aerospace Services GmbH	Wessling	Germany	EUR	1 000 000	100.0%	Full
RUAG Aerospace Structures GmbH	Wessling	Germany	EUR	25 000	100.0%	Full
RUAG Sweden AB	Gothenburg	Sweden	SEK	100 000	100.0%	Full
RUAG Space AB	Gothenburg	Sweden	SEK	15 000 000	100.0%	Full
RUAG Space GmbH	Vienna	Austria	EUR	1 500 000	100.0%	Full
RUAG Aerospace USA Inc	El Segundo, CA	USA	USD	1 000	100.0%	Full
RUAG Electronics AG	Berne	Switzerland	CHF	4 100 000	100.0%	Full
RUAG COEL GmbH	Wedel	Germany	EUR	260 000	100.0%	Full
RUAG Land Systems AG	Thun	Switzerland	CHF	30 100 000	100.0%	Full
RUAG Ammotec Deutschland GmbH	Fürth	Germany	EUR	100 000	100.0%	Full
RUAG Ammotec GmbH	Fürth	Germany	EUR	25 000	100.0%	Full
RUAG Ammotec AG	Thun	Switzerland	CHF	12 000 000	100.0%	Full
RUAG Ammotec Austria GmbH	Wiener Neudorf	Austria	EUR	298 000	100.0%	Full
RUAG Ammotec France	Paris	France	EUR	1 000 000	100.0%	Full
RUAG Ammotec UK Ltd	Liskeard	England	GBP	15 000	100.0%	Full
RUAG Ammotec Benelux BVBA	Boechout	Belgium	EUR	25 000	100.0%	Full
RUAG Ammotec USA Inc	Tampa, FL	USA	USD	15 000	100.0%	Full
Norma Precision AB	Amotfors	Sweden	SEK	2 500 000	100.0%	Full
MFS 2000 Hungarian Ammunition Manufacturing Inc	Sirok	Hungary	HUF	280 000	100.0%	Full
RUAG Real Estate Ltd	Berne	Switzerland	CHF	8 000 000	100.0%	Full
RUAG Services AG	Berne	Switzerland	CHF	100 000	100.0%	Full
brings! AG	Schattdorf	Switzerland	CHF	100 000	55.0%	Full
SwissRepair AG	Schlieren	Switzerland	CHF	100 000	52.0%	Full
GEKE Schutztechnik GmbH	Lichtenau	Germany	EUR	100 000	51.0%	Full
RUAG Aerospace GmbH	Zurich	Switzerland	CHF	20 000	100.0%	Full
Associates[2]						
Nitrochemie AG	Wimmis	Switzerland	CHF	1 000 000	49.0%	Equity
Nitrochemie Wimmis AG	Wimmis	Switzerland	CHF	25 000 000	45.0%	Equity
Nitrochemie Aschau GmbH	Aschau	Germany	EUR	7 700 000	45.0%	Equity
HTS GmbH	Coswig	Germany	EUR	26 000	24.6%	Equity
Nidwalden Airpark AG	Stans	Switzerland	CHF	600 000	33.3%	Equity
Other investments						
Saab Bofors Dynamics Switzerland Ltd	Thun	Switzerland	CHF	2 000 000	5.00%	[3]
Alpar, Flug- und Flugplatz-Gesellschaft AG	Berne	Switzerland	CHF	10 150 000	2.0%	[3]
CFS Engineering SA	Lausanne	Switzerland	CHF	150 000	40.0%	[3]
Arianespace SA	Évry	France	EUR	395 010	0.1%	[3]
Arianespace Participation	Évry	France	EUR	21 918 756	3.4%	[3]

[1] RUAG Holding Ltd, Stauffacherstrasse 65, P.O. Box, CH-3000 Berne 22.
[2] Investments of between 20 and 50% are measured using the equity method.
[3] Not material other investments are valued at cost minus a valuation allowance.

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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 88), for the year ended December 31, 2010.

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, 2010 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 9, 2011

Income statement 1 January to 31 December

in CHF m	2010	2009
Income from investments	21	23
Interest income	20	21
Securities gains	—	—
Income from the disposal of investments	—	—
Income from services	13	12
Currency gains	—	4
Income	54	60
Investment expense	—	—
Finance costs	(7)	(5)
Securities losses	—	—
Staff costs	(9)	(7)
Administration costs	(8)	(11)
Amortization	(0)	(0)
Currency losses	(41)	—
Tax	(0)	(1)
Expenses	(65)	(25)
Annual profit (loss)	(12)	36

The items finance income/(costs) were retroactively split between the items interest income/(expense) and currency gains/(losses) for 2009.

Currency losses in 2010 mainly result from an intra-Group euro loan.

Statement of financial position before allocation of profit at 31 December

in CHF m	2010	2009
Cash and cash equivalents	30	15
Receivables		
Third parties	0	0
Group companies	370	608
Prepaid expenses and deferred charges		
Third parties	1	1
Group companies	—	—
Current assets	401	624
in % of total assets	33.5%	49.5%
Investments	637	637
Financial assets		
Third parties	—	—
Group companies	160	—
Plant and equipment	0	0
Non-current assets	798	638
in % of total assets	66.5%	50.5%
Total assets	1 199	1 262
Current financial liabilities		
Third parties	43	236
Group companies	295	276
Deferred income and accrued charges		
Third parties	2	1
Group companies	0	—
Non-current financial liabilities		
Third parties	123	—
Group companies	—	—
Provisions	0	1
Liabilities	463	514
in % of total equity and liabilities	38.6%	40.7%
Equity capital	340	340
Statutory reserve	26	24
Statutory reserve from capital contribution	10	10
Voluntary reserve	—	—
Retained earnings brought forward	372	338
Annual profit	(12)	36
Equity	736	748
in % of total equity and liabilities	61.4%	59.3%
Total equity and liabilities	1 199	1 262

Contingent liabilities towards third parties

in CHF m	2010	2009
Guarantees	162	108
Warranty commitments	35	5
Total	196	113

Guarantees are primarily performance and advance payment guarantees from operational business.

Additional contingent liabilities not stated on the balance sheet

in CHF m	2010	2009
Warranty contracts	—	—
Long-term rental and leasing agreements	0	0
Letters of intent	—	—
Agreed contractual penalties (fines and premiums)	—	—
Legal proceedings	—	—
Contingent liabilities	—	—
Subordinated receivables from Group companies	—	—
Capital commitments	—	—
Total	0	0

The valuation is conducted on the basis of the probability and extent of future unilateral payments and costs exceeding the provisions recognized.

Fire insurance values of property, plant and equipment

in CHF m	2010	2009
Plant and equipment	1	1
Property	—	—
Total	1	1

Assets pledged as collateral

in CHF m	2010	2009
Cash and cash equivalents	—	—
Receivables	—	—
Financial assets to Group companies	160	—
Property, plant and equipment	—	—
Investments	19	247
Total	179	247

The shares of RUAG Sweden AB and an intra-Group loan of CHF 160 million from RUAG Holding Ltd to RUAG Real Estate Ltd were pledged as collateral to hedge obligations arising from the long-term credit agreement underlying the liabilities due to banks.

Foreign currency forward transactions

in CHF m	2010	2009
Volume of contracts with banks	260	360
Volume of contracts with banks	(54)	(41)
Volume of contracts with Group companies	63	27
Volume of contracts with Group companies	(300)	353
Positive replacement value banks	17	6
Negative replacement value banks	(3)	(2)
Positive replacement value Group companies	3	2
Negative replacement value Group companies	(17)	(6)
Total replacement values	0	0

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

Liabilities to employee benefit funds

in CHF m	2010	2009
Current liabilities to employee benefit funds	—	—
Non-current liabilities to employee benefit funds	—	—
Total	0	0

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

Events after the balance sheet date The Board of Directors of RUAG Holding Ltd approved the consolidated financial statements for publication on 9 March 2011. The Annual General Meeting has the right to approve the consolidated financial statements.

Investments (as at 31 December 2010)

Company	Head office	Country	Equity capital (100%)		Shareholding
RUAG Switzerland Ltd	Emmen	Switzerland	CHF	78 000 000	100.0%
RUAG Aerospace Deutschland GmbH	Wessling	Germany	EUR	1 000 000	100.0%
RUAG Electronics AG	Berne	Switzerland	CHF	4 100 000	100.0%
RUAG Land Systems AG	Thun	Switzerland	CHF	30 100 000	100.0%
RUAG Ammotec AG	Thun	Switzerland	CHF	12 000 000	100.0%
RUAG Real Estate Ltd	Berne	Switzerland	CHF	8 000 000	100.0%
RUAG Services AG	Berne	Switzerland	CHF	100 000	100.0%
RUAG Sweden AB	Gothenburg	Sweden	SEK	100 000	100.0%
Nitrochemie AG	Wimmis	Switzerland	CHF	1 000 000	49.0%
Nitrochemie Wimmis AG	Wimmis	Switzerland	CHF	25 000 000	45.0%
Nitrochemie Aschau GmbH	Aschau	Germany	EUR	7 700 000	45.0%
Saab Bofors Dynamics Switzerland Ltd	Thun	Switzerland	CHF	2 000 000	5.0%
Alpar, Flug- und Flugplatz-Gesellschaft AG	Berne	Switzerland	CHF	10 150 000	2.0%

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 allocation of balance sheet profit

in CHF m	2010	2009
Annual profit (loss)	(12)	36
Amount brought forward from previous year	372	338
Profit at the disposal of the Annual General Meeting	360	374

Allocation of profit proposed by Board of Directors

in CHF m	2010	2009
Dividend	15	—
Allocation to statutory reserve	—	2
Balance to be carried forward	345	372

PRICEWATERHOUSECOOPERS

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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 91 to 95), for the year ended December 31, 2010.

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, 2010 comply with Swiss law and the company's articles of incorporation.

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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 9, 2011

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 2010.

CHAIRMAN, KONRAD PETER

VICE-CHAIRMAN, DR HANSPETER KÄSER

PAUL HÄRING

DR HANS LAURI

HANS-PETER SCHWALD

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.

Up to 6 May 2010, the Board of Directors of RUAG Holding Ltd consisted of seven non-executive members. Two members left the Board on 6 May 2010 and have not been replaced to date: Toni J. Wicki, Chairman of the Board of Directors and CEO of RUAG Holding Ltd until 2009, and Major General Andreas Bölsterli, representative of the owner, who has taken on another function within the DDPS. The owner has decided not to replace this representative. Regular shareholder talks are held each quarter between the Head of the DDPS and the Chairman of the Board of Directors and CEO of RUAG Holding Ltd. The members of the Board of Directors do not have any material business relationship with the RUAG Group. The list lower down on this page provides details of the name, age, position, date of joining and remaining term in office of each member of the Board of Directors.

Other activities
There are no reciprocal memberships between the Board of Directors of RUAG Holding Ltd and that of a listed company.

Election and term of office
The Board of Directors of RUAG Holding Ltd is elected by the Annual General Meeting (AGM). 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 Articles of Association of RUAG Holding Ltd were revised in 2010, with the term of office of members of the Board of Directors being shortened from four years to one. The members of the Board of Directors are elected individually and may be re-elected.

Internal organization and tasks
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. 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 management of the RUAG Group in accordance with the owner's strategy of the Federal Council
- The structuring of the accounting system, financial controlling and financial planning
- The appointment and dismissal of 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 AGM 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

Board of Directors

Name	Born	Position	Joined	Elected until
Konrad Peter	1946	Chairman, non-executive	2002	2011
Dr Hanspeter Käser	1943	Vice-Chairman, non-executive	1999	2011
Hans-Peter Schwald	1959	Member, non-executive	2002	2011
Paul Häring	1957	Member, non-executive	2004	2011
Dr Hans Lauri	1944	Member, non-executive	2008	2011

formed: an Audit Committee and a Nomination & Compensation Committee. In the 2010 financial year, the Board of Directors held regular meetings on six occasions and two extraordinary meetings. In addition, the committees held seven ordinary and four extraordinary meetings. 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 dialogue with the senior operating executives of the company and regularly visits one or more of RUAG's sites.

Committees

The Board of Directors has formed an Audit Committee and a Nomination & 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 (until 31 January 2011), CFO, internal auditor and representatives of the statutory auditor.

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 auditor
- Defining and approving the focal points of the audit
- Accepting the audit report and any recommendations of the statutory auditor 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 AGM for appointment; assessing the performance, fees and independence of the external auditor and examining the compatibility of audit activities with any consultancy mandates. The representatives of the statutory auditor 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.

Nomination & Compensation Committee
The Nomination & 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 Nomination & 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 Senior Vice President Corporate HR.

The main task of the Nomination & 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 necessary decisions for the full Executive 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 AGM at the proposal of the Board of Directors in line with the guidelines set forth by the Swiss Confederation.

Information and control instruments
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 five-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 job description 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 as at 1.1.2011

Name	Born	Position	Joined
Dr Lukas Braunschweiler	1956	CEO	2009
Dr Peter Guggenbach	1962	Member, CEO RUAG Space	2009
Phillipp M. Berner	1966	Member, CEO RUAG Aviation*	2010
Dr Viktor Haefeli	1966	Member, CEO RUAG Technology	2006
Cyril Kubelka	1963	Member, CEO RUAG Ammotec	2004
Urs Breitmeier	1963	Member, CEO RUAG Defence**	2006
Urs Kiener	1965	Member, CFO	2002
Hans Bracher	1962	Member, Senior Vice President Corporate HR	2008
Oliver Meyer	1976	Member, CIO and CEO RUAG Services	2011
Thomas Kopp	1955	Member, Secretary General and Director of Legal Services	2011
Christiane Schneider	1967	Member, Senior Vice President Communication and Marketing	2011

* Took over management of the division from Dr Peter Guggenbach on 1 December 2010

** RUAG Electronics and RUAG Land Systems were merged on 1 January 2011 to form RUAG Defence

Management structure as at 1.1.2011

Board of Directors, Committees

Nomination & Compensation Committee

Board of Directors
Konrad Peter (Chairman)
Dr Hanspeter Käser
Paul Häring
Dr Hans Lauri
Hans-Peter Schwald

Audit Committee

Internal Auditor

Executive Board

CEO
Dr Lukas Braunschweiler

Divisions / **Business Units**

Space	Aviation	Technology	Ammotec	Defence	Services
Dr Peter Guggenbach	Philipp M. Berner	Dr Viktor Haefeli	Cyril Kubelka	Urs Breitmeier	Oliver Meyer
Space Switzerland	Military Aviation Switzerland	Aerostructures Switzerland	Ammotec Switzerland	Land Systems	IT Services
Space Sweden	Military Aviation Deutschland	Aerostructures Germany	Ammotec International	Simulation & Training	Software House
Space Austria	Business Aviation	Components Altdorf		Network Enabled Operations	
	Subsystems & Products				

Service & Support

Sec. Gen. & Legal*	F & C*	HR*	MarCom*
Thomas Kopp	Urs Kiener	Hans Bracher	Christiane Schneider

* Secretary General & Legal (Sec. Gen & Legal), Finance & Controlling (F&C), Human Resources (HR), Marketing & Communication (MarCom)

The Group CEO, Divisional CEOs, CFO, Chief Staff Coordinator and Senior Vice President Corporate HR sat on the Executive Board in 2010. Martin Stahel, Member of the Executive Board and Chief Staff Coordinator, entered retirement on 31 January 2011, without being replaced. As of 1 January 2011, those responsible for Service & Support joined the Executive Board. Dr Peter Guggenbach, who had been CEO of RUAG Aviation and RUAG Space since 2009, handed over management of the Aviation division to Philipp M. Berner on 1 December 2010. Urs Breitmeier, who has been CEO of RUAG Land Systems since 2006, additionally took over the management of RUAG Electronics on 1 October 2010. RUAG Electronics and RUAG Land Systems were merged to form RUAG Defence on 1 January 2011.

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 five-year corporate plan, annual budget, individual projects, separate and consolidated financial statements and human resource issues.

The CEO regularly reports to the Board of Directors on business performance, anticipated business matters and risks, as well as changes at the next 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 and 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 101 provides information on the name, age, position and date of joining 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 report

The following details correspond to the guidelines provided in the SIX Swiss Exchange Corporate Governance Directive concerning compensation paid to members of the Board of Directors and Executive Board, taking the transparency provisions of the Swiss Code of Obligations (Arts 663b^{bis} and Art. 663c) into account. Compensation paid in accordance with these provisions of the Swiss Code of Obligations is listed in the financial statements in Note 35 “Compensation of key management personnel”, with further details provided.

Compensation policy

RUAG’s HR policy includes the principle that employee performance and company success are the main factors that determine compensation. The policy is aimed at implementing simple, clearly structured compensation systems that ensure fair pay and are transparent for employees. RUAG bases its salary level on market wages in the specific salary market concerned and checks it regularly. Individual compensation is based on job requirements, skills, performance and the company's financial success. Wherever possible, RUAG applies success and performance-based compensation systems with an additional performance-based variable component. These principles also apply in setting the compensation policy for the Executive Board, which is determined by the Board of Directors at the request of the Nomination & Compensation Committee.

Board of Directors

The members of the Board of Directors receive compensation for their work that is determined annually by the Annual General Meeting in accordance with the guidelines set forth by the Swiss Confederation. The criteria for determining compensation paid to the Board of Directors is based on the responsibility accorded to its members, the complexity of the task, the specialist and personal demands placed on the individual and the expected, average time required to fulfil the task. Compensation consists of the following:

- Cash component
- Other benefits

Each member of the Board of Directors receives a fixed monetary sum as part of his or her basic compensation. Other benefits comprise employer’s contributions to social security funds and expenses paid by RUAG Holding Ltd.

No compensation was paid to former Board members.

Further details of compensation paid in the year under review can be found in the financial statements in Note 35 “Compensation of key management personnel”.

Executive Board

The composition and amount of compensation are based on the industry and labour market environment and are regularly checked. To this end, publicly available information on companies of a similar size from Swiss industry and, where applicable, the results of surveys and external studies are taken into account. The performance-based bonus for members of the Executive Board depends on the extent to which individual performance objectives are reached, and on the company’s financial success. Compensation consists of the following:

- Fixed basic salary in cash
- Performance-based bonus in cash
- Other benefits

The fixed basic salary is determined primarily by the task, responsibility, qualifications and experience of the Board members, as well as the market environment. The performance-based bonus is determined based on the extent to which individual performance objectives are reached, and on the company's financial success. As part of the objective-setting process, measurable individual goals are set at the beginning of each year between the Chairman of the Board of Directors/Nomination & Compensation Committee and the CEO, and between the CEO and the members of the Executive Board. At the end of the financial year, the extent to which these objectives have been met is assessed. The financial success of the RUAG Group overall and of the individual divisions is measured based on three financial value drivers:

- Operating result (EBIT)
- Net operating assets
- Net cash flows from investing activities

The target figures are set for one year and are weighted according to strategic priorities. A lower and an upper threshold are defined for each of the three value drivers. If the lower threshold is not reached for the criterion concerned, the proportion of the bonus related to it is ruled out. In contrast, exceeding the upper threshold does not lead to a further increase in the bonus amount.

The amount of the bonus is based on reaching objectives. For all members of the Executive Board, the bonus in 2010 ranged from 29% to a maximum of 75% of the annual basic salary. The extent to which objectives are reached is weighted for all members of the Executive Board as follows: 20% can be achieved for personal goals and 80% for financial goals. In the case of the divisional CEOs, the financial goals are defined per division. In the case of the Group CEO and heads of Service & Support, the financial goals of the RUAG Group apply.

Other benefits comprise employer contributions paid to social security and for mandatory and extra-mandatory employee benefits.

The same regulations on expenses apply for the members of the Executive Board as for all other employees of the RUAG Group. Additional regulations also apply to the members of the Executive Board and all members of management in Switzerland concerning a lump-sum allowance for entertainment and other incidental expenses. Both regulations have been approved by the tax authorities concerned. A company car is provided to the members of the Executive Board.

No appreciable compensation was paid to former Executive Board members.

Further details of compensation paid in the year under review can be found in the financial statements in Note 35 "Compensation of key management personnel".

Other compensation

Severance payments: Members of the Board of Directors or Executive Board are not contractually entitled to any severance payments. In the 2010 financial year, no severance payments were paid to persons who terminated their function as a Board member in the year under review or earlier.

Shares and options: No shares and/or options are allocated to members of the Executive Board and Board of Directors.

Additional fees: During the 2010 financial year, the members of the Board of Directors and Executive Board received no appreciable fees or other compensation for additional services rendered to RUAG Holding Ltd or any of its subsidiaries.

Loans to Board members: RUAG and its subsidiaries have not provided any securities, loans, advances or credits to the members of the Board of Directors or Executive Board and related parties, nor waived any amounts receivable.

Capital structure

The equity 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 1000. As at 31 December 2010, 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 in capital
No changes in capital were decided upon in the last three reporting periods.

Shares, share register
Each registered share entitles its bearer to one vote at the AGM 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 share register.

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.

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 profitably while taking account of overarching 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 investments as well as human resource policy and financial objectives.

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

The AGM is convened and its agenda set as governed by law and by the Articles of Association.

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 agenda of AGM
The AGM 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 Swiss parliament (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.

Employee benefits
The pension fund cover ratio as at 31 December 2010 was 103% (previous year: 101%). The fund's financial situation thus continued to stabilize in 2010. A suitable reserve is being established with a view to ensuring financial stability in the long term.

Statutory auditor

Mandate and term of office of head auditor

PricewaterhouseCoopers AG, Berne has been RUAG's statutory auditor since 1999.

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

Audit fees and additional expenses

PricewaterhouseCoopers invoiced the RUAG Group CHF 1.1 million (CHF 1.1 million) during the 2010 financial year for services related to the audit of the 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 0.6 million (CHF 0.9 million) in respect of audit-related services, tax advice and due diligence services.

Supervisory and control instruments

The Audit Committee of the Board of Directors assesses the performance, fees and independence of the statutory auditor each year and submits a proposal to the Board of Directors as to which external auditor should be recommended to the AGM 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 auditor 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.

Fees paid to PricewaterhouseCoopers

in thousands of CHF

	2010	2009
Audit fees	1 112	1 143
Tax advice	80	90
Due diligence advice	–	470
All other advice	479	384
Total fees	1 671	2 087

Forthcoming events

Annual results	31/12/2010
Annual Press Conference	31/03/2011
AGM	3/05/2011

The Annual Report containing the financial statements for the year ended 31 December 2010 is sent to the shareholder together with an invitation to the AGM.

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