Annual Report 2012.

Consistent implementation of RUAG's corporate strategy is ensuring success and opening up new market opportunities.

Together ahead. RUAG

Contents.

Success is the fruit of clear strategy. In 2012 RUAG successfully held its own in a difficult market environment and achieved moderate growth.

Business performance and key figures

RUAG's corporate strategy of focusing on the core Aerospace and Defence businesses is paying off. By offering goods and services in the military and civilian sectors and entering international growth markets, RUAG has the ability to defend its market position in a competitive environment and efficiently fulfil its fundamental mission of equipping and maintaining the technical systems of the Swiss Armed Forces.

In 2012, RUAG generated net sales of CHF 1,741 million (previous year: CHF 1,714 million). EBIT, i.e. earnings before interest and taxes, rose by 3.7% to CHF 114 million (CHF 110 million) and the EBIT margin held steady at 6.4%. Cash flow from operating activities came to CHF 130 million (CHF 127 million). In all, RUAG showed a net profit of CHF 81 million (CHF 97 million). The profit figure was reduced by a one-time charge of CHF 12 million against property, plant and equipment associated with the activities at the Altdorf site.

Total sales were evenly balanced between the civilian business with a share of 50% (48%) and military business with 50% (52%). Again in 2012 RUAG earned over half of sales abroad at 56% (53%). The combination of civilian and military business and the expansion into selected foreign markets are key success factors.

Year after year, RUAG continues to establish itself as an internationally competitive enterprise, achieving a high degree of credibility with its partners and customers. The Group actively expands and strengthens its relationships by entering into long-term contracts, achieving additional efficiency gains for its customers.

Outlays for research and development totalled CHF 134 million (CHF 140 million), which corresponds to approximately 8% of sales. These expenses are divided between RUAG's key growth areas, Aerospace at CHF 88 million (CHF 97 million) and Defence at CHF 46 million (CHF 43 million).

As at 31 December 2012, RUAG had 7,739 employees, unchanged from the previous year (7,739).

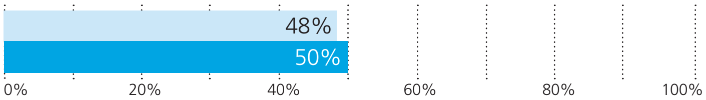
Overview of key figures

in CHF million	2012	2011	Change in %
Net sales	1 741	1 714	1.6%
EBITDA	192	190	1.4%
EBIT	114	110	3.7%
Net profit	81	97	–16.9%
Cash flow from operating activities	130	127	1.9%
Free cash flow	150	81	85.1%
Order inflow	1 612	1 720	–6.3%
Order backlog	1 310	1 480	–11.5%
Research and development expenses	134	140	–4.1%
Employees as at 31 December	7 739	7 739	0.0%

Net sales by application

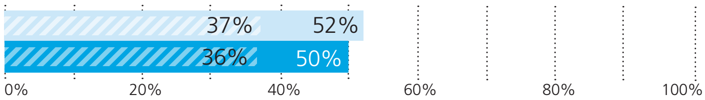
Civil

50 %



Military

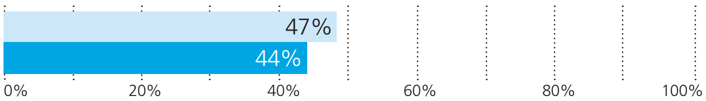
50 %



Net sales by region

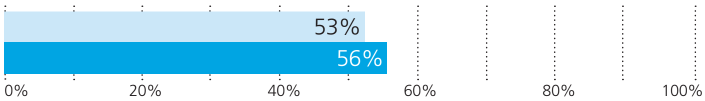
Switzerland

44 %



Abroad

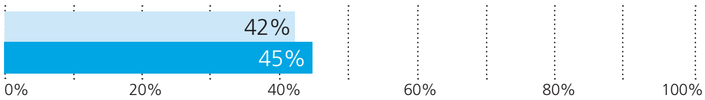
56 %



DDPS 2011 2012

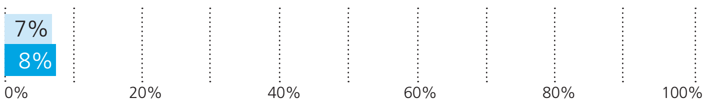
Europe

45 %



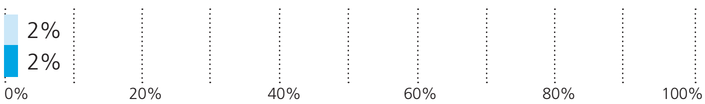
North America

8 %



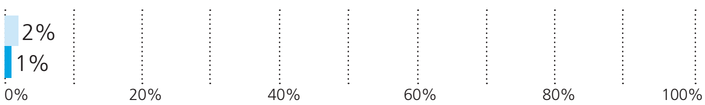
Asia/Pacific

2 %



Rest of the world

1 %



Efficiency gains for the Swiss Armed Forces

Accounting for 36% of sales, the Federal Department of Defence, Civil Protection and Sport (DDPS) is RUAG's most important single customer. The two parties in 2012 entered into five-year fixed-price SLAs (Service Level Agreements) provided. For RUAG, this offers the opportunity to further enhance efficiency without compromising quality. For the Swiss Armed Forces the arrangement will result in savings of CHF 100 million over the lifetime of the contracts.

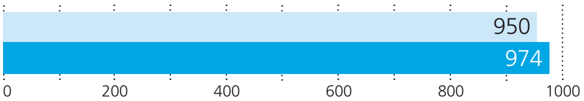
As technology partner of the Swiss Armed Forces RUAG is responsible for the maintenance and operational readiness of aircraft and air defence systems, radar, command and control, information and reconnaissance systems, simulation systems and training facilities as well as tracked armoured vehicles. Major milestones in the relationship during 2012 included:

- Further expansion of the SIM MOUT live simulation platform at the Bure site. Work on the facilities at the Walenstadt site advanced to the extent that they can be handed over to the military in 2013.
- Comprehensive modernization of the 15 Swiss Air Force TH89 Super Puma transport helicopters as part of the WE89 upgrade programme for a further service life of 15 to 20 years.
- Upgrading the Swiss F/A-18 fighter aircraft fleet to the latest technology as part of the Upgrade 25 programme for the second half of their intended service life of 30 years.
- A Swiss Federal Audit Office audit of simulator use concluded that high capacity utilization of RUAG's simulators produces significant savings for the Swiss Armed Forces.

Net sales by market segment

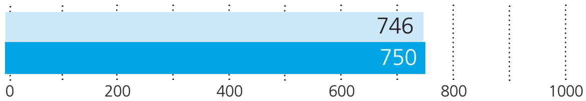
Aerospace

CHF 974 million



Defence

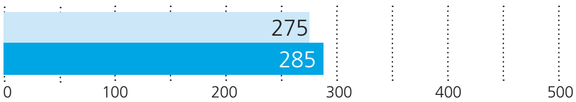
CHF 750 million



Net sales by division

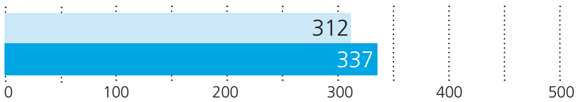
Space

CHF 285 million



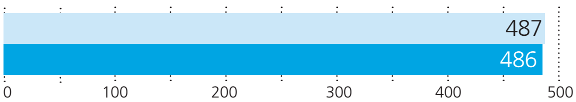
Ammotec

CHF 337 million



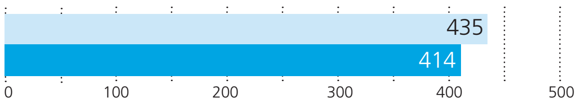
Aviation

CHF 486 million



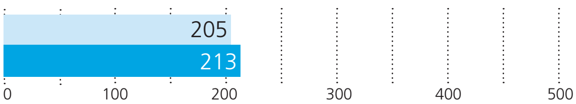
Defence

CHF 414 million



Technology

CHF 213 million



2011 2012

Detailed figures can be found in Note 38 to the financial statements, "Segment information".

International growth

Strategically, RUAG is pursuing international growth, focusing on the Asia/Pacific region besides the core European and US markets. At the same time, RUAG depends on technological integration to remain competitive. Both of these elements contribute to the fundamental mission of ensuring the capabilities of the Swiss Armed Forces.

- The acquisition of Australia's Rosebank Engineering Pty Ltd gives RUAG access to the aircraft MRO market in the Asia/Pacific region.
- Several ESA missions were launched in 2012 with assemblies such as structures, mechanisms and computers from RUAG.
- RUAG further expanded its market position in payload fairings with orders for the American Atlas V 500 rocket and the European Vega launch vehicle.
- A five-year MISTR contract (Management of Items Subject to Repair) was signed with a partner in the United States for component and engine maintenance on US Navy F-5 and US Air Force T-38 aircraft.
- New engine maintenance contracts with customers in Thailand and Malaysia.
- Over 4000 Gladiator personal harnesses (predecessor product) delivered to France.
- A master agreement on maintenance and life cycle support services was entered into to expand the international Leopard 2 main battle tank maintenance business.

The Swiss Armed Forces benefit from the international maintenance, repair and overhaul contracts that RUAG enters into with other customers because technologically sophisticated components that cannot be overhauled and repaired abroad by the operator are manufactured in Switzerland. This reduces unit costs and preserves know-how and qualified jobs at home. For example, the acquisition of Rosebank Engineering Pty Ltd will create some two dozen new jobs in Switzerland in the medium term.

Dual use grows in importance

The combination of civilian and military use of applications is a development that is steadily growing in importance. This is especially true for the components business, which saw growth in 2012 over the previous year, and particularly for information and communication technologies. RUAG is determined to further expand in this area in order to maintain its technological edge:

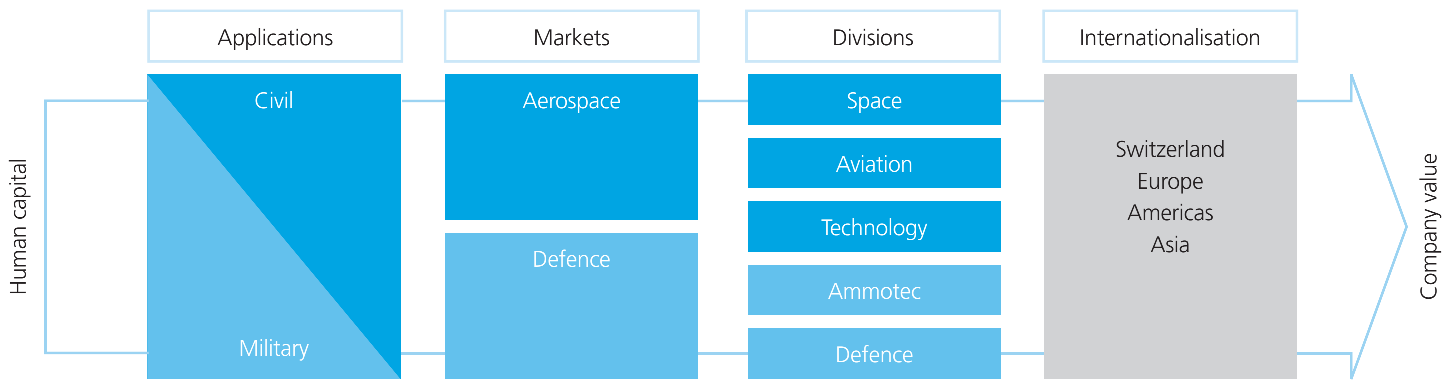
- Expanded the network-enabled operations command and control solutions portfolio by acquiring Ascom's Defense business unit, specializing in communication solutions for military and security forces, in March 2012.
- Acquired the Satorys product line from IRIS Internet Risk Insurance Services in Geneva and undertook comprehensive expansion of the cyber-security solutions product line for civilian and military customers.

In future, it will be possible to protect all security-critical communication facilities against threats by means of RUAG technologies.

Pursuing the proven strategy

The market environment will remain challenging in light of the financial situation in many state budgets in Europe. This makes it all the more important for RUAG to focus systematically on its core competencies in Aerospace and Defence. The key will be to continue developing both civilian and military applications and successfully position them on both domestic and international markets.

Strategy



Stability rests on three strategic pillars.
By focusing on core competencies, combining civilian and military technologies and expanding in growth markets, we are ensuring our success and opening up new market opportunities.

Top, l. to r.: Cyril Kubelka (RUAG Ammotec), Dr Christian Ferber (Corporate Human Resources), Urs Kiener (Corporate Finance & Controlling incl. RUAG Real Estate and RUAG Technology), Marc Grimmer (Corporate IT); bottom, l. to r.: Dr Peter Guggenbach (RUAG Space), Urs Breitmeier (RUAG Defence), Philipp M. Berner (RUAG Aviation), Thomas Kopp (Corporate Legal & Secretary General), Konrad Peter (Executive Chairman); not shown: Christiane Schneider (Corporate Marketing & Communications).

Dear shareholder,
customers and readers,

RUAG's performance in 2012 was proof that the company's chosen path is the right one. We achieved major milestones in focusing strategically on our core Aerospace and Defence businesses. RUAG successfully held its own in a difficult market environment and achieved moderate growth.

Overall, therefore, performance in the past financial year was gratifying: with 5,000 employees in Switzerland (of whom 10% are apprentices) and 2,700 abroad, we earned over half (56%) of our 2012 sales outside our home country. EBIT and EBITDA both grew. Financial year 2012 saw various capital investments, investments in a successful future for which we willingly accept a lower current profit.

Whereas just some years ago RUAG focused almost exclusively on military technologies, military (50%) and civilian (50%) applications were evenly balanced last year when considered over our entire portfolio.

Orders from the Swiss Armed Forces still account for roughly 36% of sales. This fraction continues to shrink, not only because we are winning a growing number of third-party military and civilian orders, but also because we have been passing on efficiency gains as we achieve them. In 2012 we signed five-year service level agreements with the Swiss Armed Forces. These contracts will result in further cumulative savings of CHF 100 million, lessening the burden of the military budget. Thus from the perspective of our main customer, the Federal Department of Defence, Civil Protection and Sport (DDPS), we have achieved considerable improvements.

We are pleased with this success because it is proof that we are on the right path, and that our strategic focus on core competencies, the mix of civilian and military technologies and expansion in growth markets are all paying off.

By combining these three strategic pillars, we will remain able to serve the Swiss Armed Forces in a cost-effective, highly efficient and technologically convincing fashion.

Today's model also enables Switzerland as a small country to secure the majority of its own military equipment independently. This makes RUAG a true success model, not only in business terms but also for Switzerland and its military security.

The strengthening of our related civilian business and growth in selected foreign markets have been decisive factors in our ability to do business so effectively. Without them RUAG would no longer be able to fulfil the fundamental mission entrusted to us by the Swiss Confederation – providing maintenance and equipment for the Swiss Armed Forces' technical systems – in the long term.

Military systems are growing rapidly in complexity. As they become ever more sophisticated, the importance of comprehensive expertise and technological know-how rises as well. This makes networking with leading technology partners a further major success factor.

RUAG recognizes this. Being organized as a joint-stock company under private law and combining military with civilian technologies allows us to coordinate with leading partners such as Airbus, Astrium, Boeing, Bombardier, Dassault, the European Space Agency ESA, Hilti, Krauss-Maffei Wegmann, Rheinmetall and Saab. This creates valuable knowledge transfer opportunities from which our customers, including the Swiss Armed Forces, benefit.

Investments in growth markets

With a view to securing access to strategic growth markets in the Asia/ Pacific region, RUAG Aviation acquired the Australian MRO provider (maintenance, repair and overhaul) Rosebank Engineering Pty Ltd in December 2012. The company operates primarily in Australia as well as other parts of the Southeast Asia region.

The acquisition will yield growth opportunities in existing aircraft platforms such as the F/A-18 as well as extending our capabilities on potentially lucrative new platforms.

This approach enables RUAG to generate economies of scale in its core business, thus reducing unit costs while simultaneously boosting competitiveness. In light of high wage costs in Switzerland, this is key to bringing in business volume for the long term and keeping Switzerland a viable place to do business.

Coordination with leading partners creates valuable knowledge transfer opportunities from which our customers, including the Swiss Armed Forces, also benefit.

Focus on the core business

Only by continuing to increase our efficiency can we remain successful. To this end, the activities of the RUAG Technology division at the Altdorf site were spun off from RUAG Switzerland Ltd at the end of May 2012 and transferred to four newly established companies, RUAG Environment Ltd, RUAG Mechanical Engineering Ltd, RUAG Coatings Ltd and RUAG Automotive Ltd. The move makes business performance more transparent and enhances the competitiveness of the individual companies. The restructuring is important for RUAG as it enables significant efficiency gains.

Judging that RUAG Mechanical Engineering Ltd and RUAG Coatings Ltd are not part of RUAG's core business, the Board of Directors has resolved to initiate the process of selling these units off. A buyer has been found for RUAG Coatings Ltd. The company was acquired as at 1 September 2012 by Impreglon SE of Lüneburg, Germany, offering it a better chance for the future. The disposal process for RUAG Mechanical Engineering Ltd is ongoing. For the sake of greater transparency, both companies are presented under "discontinued operations" in RUAG's 2012 consolidated financial statements.

Urs Breitmeier, CEO of the RUAG Defence division, was appointed the new CEO of RUAG Holding Ltd on 24 October 2012. After careful consideration, the Board of Directors chose an executive from within the company for the position. Urs Breitmeier has been with RUAG for eleven years, including six years on the Executive Board. He will assume his new duties on 1 April 2013.

Further expansion abroad

The Board of Directors is delighted to have gained a CEO in Urs Breitmeier who understands our core business and organizational structure down to the foundations. He will continue to develop RUAG's strategy in future. At the same time, he is a bridge builder between the military and civilian sides of the business who takes a long-term view and possesses an outstanding network of customers and partners. Urs Breitmeier will take over leadership during a phase where further expansion abroad is just as important as continuing to develop technology partnerships and to link the military and civilian sides of the business. High efficiency at all levels will remain a key concern in the years to come, ensuring that the Swiss Armed Forces remain equipped to the highest standards.

The Board of Directors and Executive Board are pleased that we are on a stable and positive path. Our mission remains a challenging one, and RUAG will have to prove its strength in the international competition.

Against this background, we owe special thanks to our customers for their trust and custom, to our owner for a good working relationship, and to our employees for their great dedication.

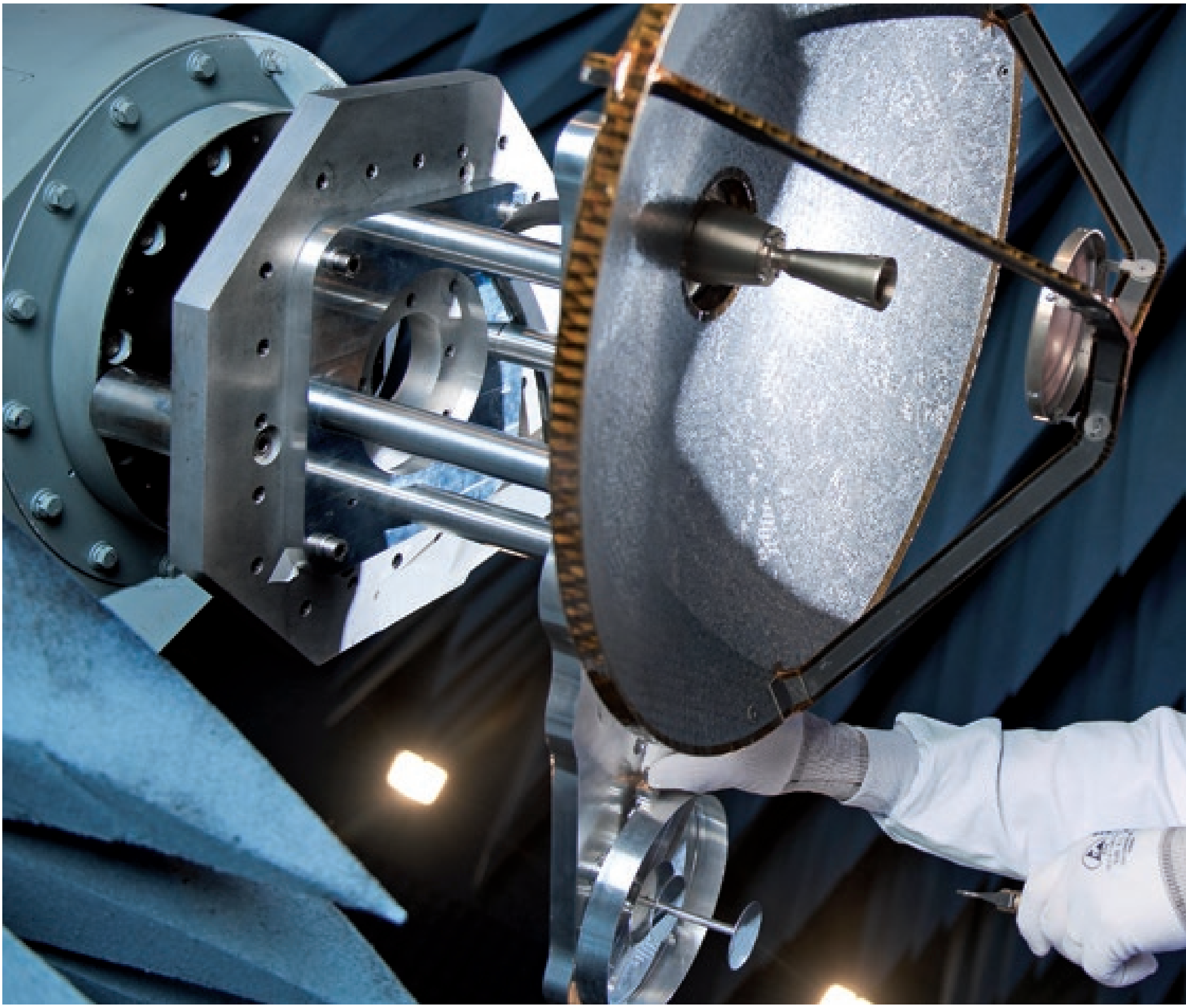
We look forward to achieving further progress for RUAG together with you.

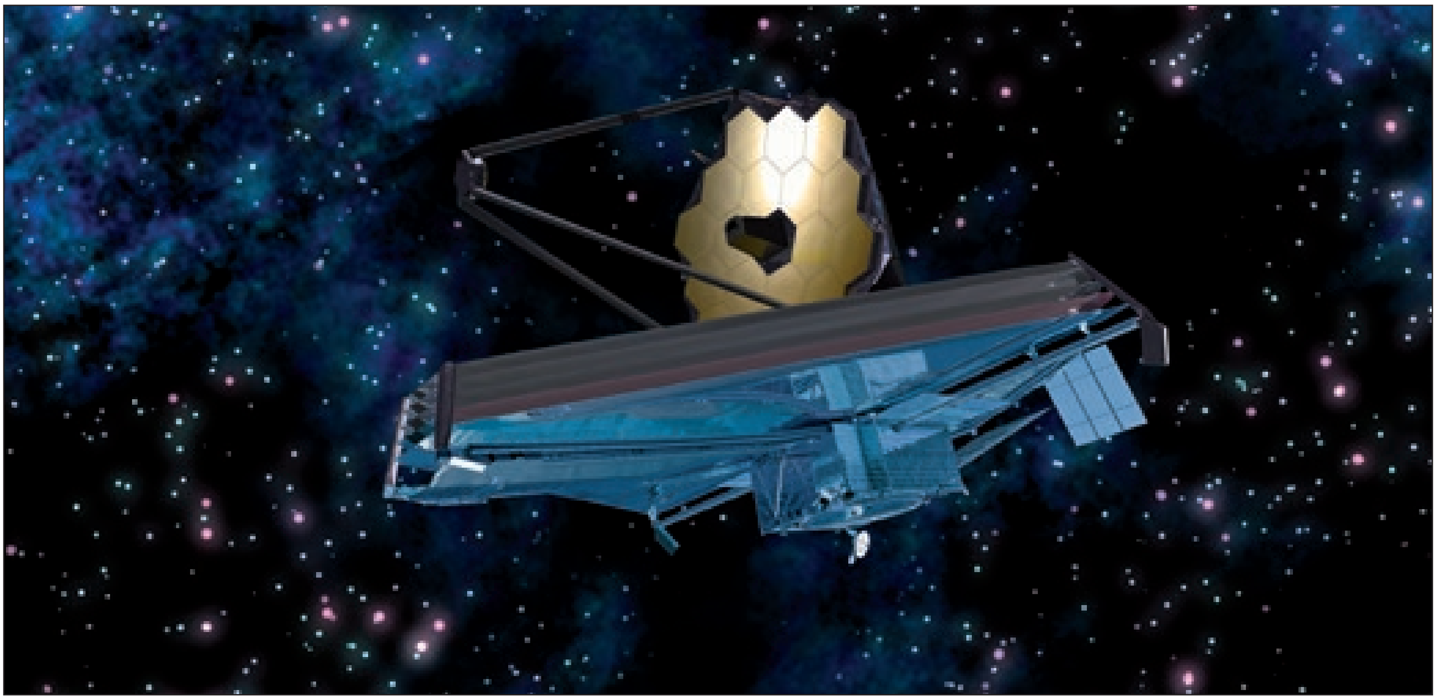
Konrad Peter
Executive Chairman of RUAG Holding Ltd

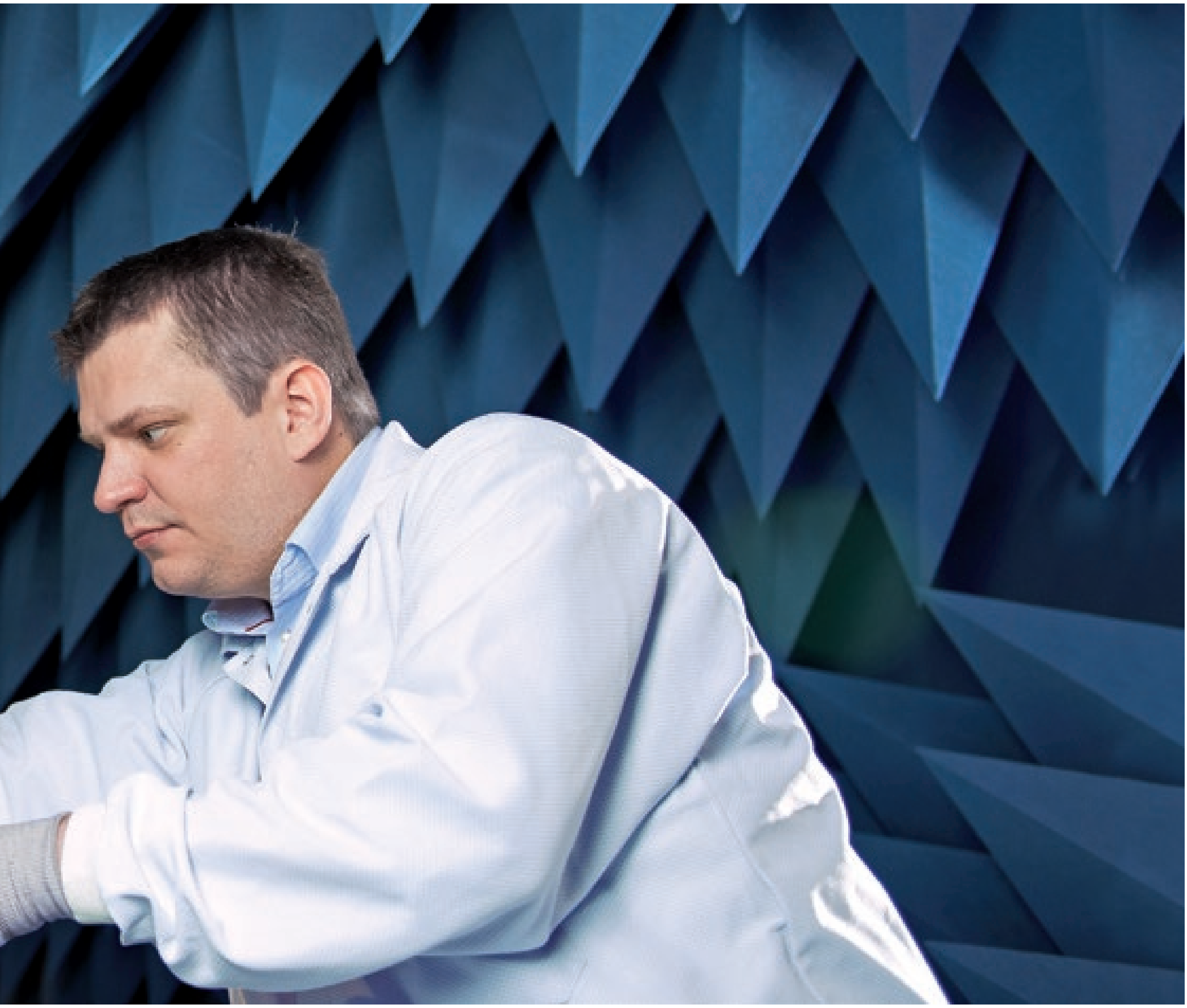
Urs Breitmeier
CEO of RUAG Holding Ltd (from 1 April 2013)

Urs Breitmeier is a bridge builder between the military and civilian sides of the business who takes a long-term view and possesses an outstanding network of customers and partners.

RUAG Space.
Our top-quality antennas guarantee reliable transmission of data from the James Webb Space Telescope back to Earth.







RUAG Aviation.

As part of the Upgrade 25 programme, we are modernizing the Swiss F/A-18 fleet to the state of the art and making the planes fit for service in the years to come.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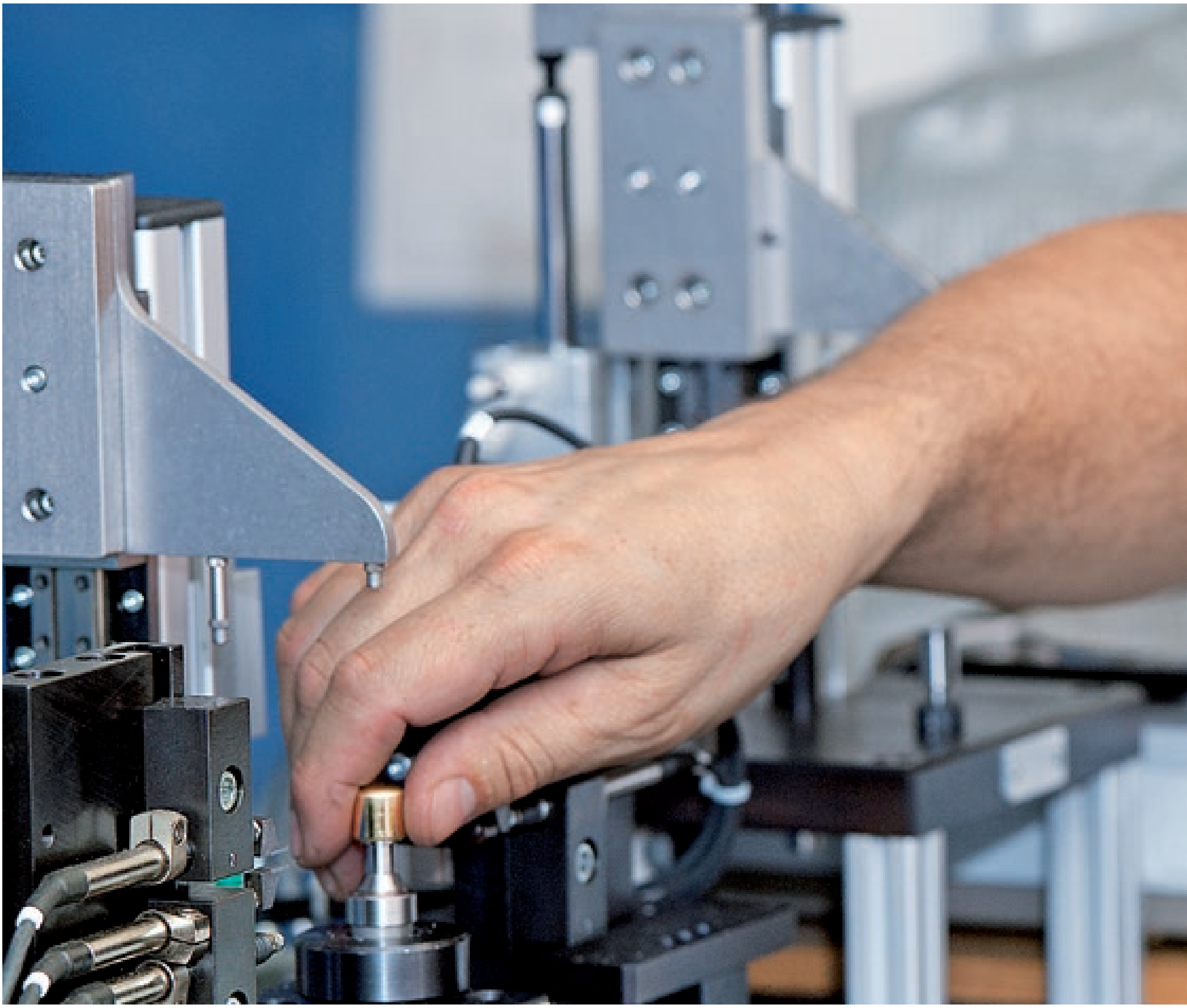
RUAG Technology.

Fuselage sections, delivered on time under stringent quality controls, are our contribution to the economic success of the Airbus A320.


A320
AIRBUS

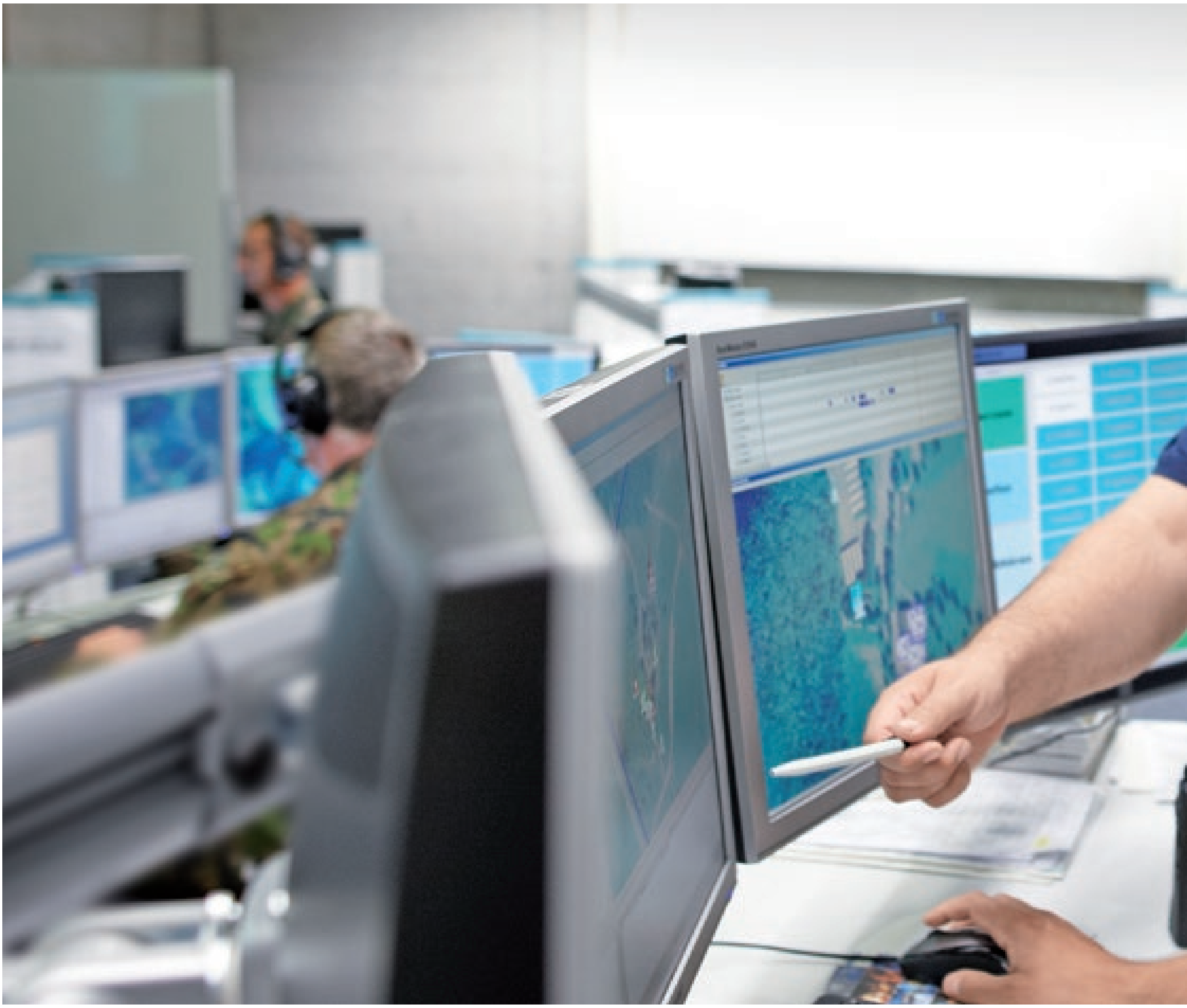
RUAG Ammotec.

We guarantee the outstanding precision and reliability of our ammunition through strict checks at every stage from raw material to finished product.



RUAG Defence.

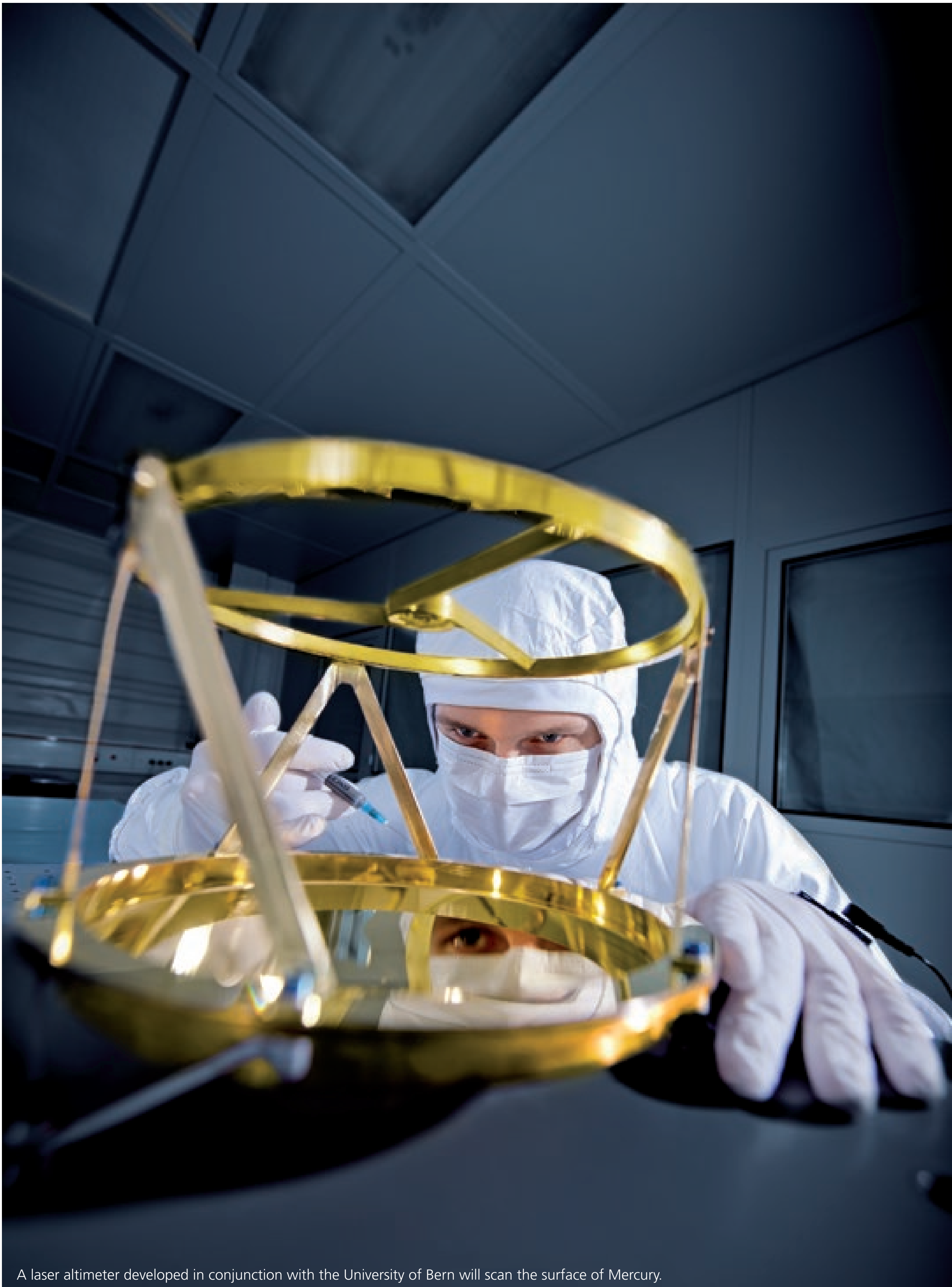
With their comprehensive analytical features, our live training systems enhance the deployment capabilities of individuals and units alike.




SUISSE

Success in the commercial market.

Building on its activities for the European institutional programmes, RUAG Space was able to win further orders in the commercial space and US markets.



A laser altimeter developed in conjunction with the University of Bern will scan the surface of Mercury.

The new European launch vehicle Vega is the third rocket equipped with RUAG payload fairings, after the Ariane 5 and the American Atlas V 500.

Core business

As the leading supplier of space technology in Europe, RUAG Space specializes in component assemblies for use on board satellites and launch vehicles. The division develops and manufactures a broad spectrum of space products for institutional and commercial customers. These products fall into five areas: 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. Computers steer and monitor most European missions. Precision mechanisms, slip rings, thermal systems and satellite structures are key factors in the success of many space projects.

RUAG Space has applied its expertise from 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 separation systems. Further 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 mechanisms for microchip production, thermal insulation and high-end slip rings are also supplied to customers outside the space industry.

Business performance

RUAG Space's net sales for 2012 were CHF 285 million, exceeding the previous year's figure of CHF 275 million. EBIT came to CHF 12 million compared to EBIT of CHF 13 million for 2011.

The launch vehicle structures and separation systems product range was again the leading driver of sales. Payload fairings were used in eleven rocket launches in all, a new record for the division. The new small European launch vehicle Vega successfully completed its maiden flight on 13 February 2012 and is now the third rocket equipped with RUAG payload fairings, after the Ariane 5 and the American Atlas V 500. The Vega launch vehicle is designed to carry small and medium-sized payloads into near-Earth orbit.

The institutional European space missions carried out by the European Space Agency ESA form the foundation of RUAG Space's business. In 2012, a series of ESA missions was launched using component assemblies built by the division, including the unmanned cargo resupply spacecraft "Edoardo Amaldi". Known as ATV (automated transfer vehicle), it carried some 7.5 tonnes of supplies to the International Space Station ISS. Structures, mechanisms and computers for the ATV are supplied.

Two European weather satellites, MSG-3 and Metop-B, were launched in summer 2012. The division equipped both satellites with structures and mechanisms, including the GRAS (GPS Receiver for Atmospheric Sounding) measurement device and the data processing system on board Metop-B. Soon after the launch of MSG-3, the penultimate second-generation Meteosat satellite, development work began on the third generation of satellites, MTG (Meteosat Third Generation). RUAG Space is developing the refocusing mechanism for these satellites' optical instruments and a portion of its satellite management electronics.

RUAG Space is also playing a key role in building the European satellite navigation system Galileo, including the satellites' central onboard computers and solar array drive mechanisms. The third and fourth Galileo satellites were launched in October 2012, with a further 14 satellites to follow in the next few years.

The core element of the strategy is to develop products that are attractive for commercial space flight and for customers outside the European home market. The basis for these efforts are technologies acquired by RUAG Space in the context of institutionally funded space programmes, particularly projects of ESA or the Swedish, Austrian and Swiss national space agencies. This approach has made it possible to place a growing number of products in these growth markets. The division will supply thermal insulation and slip rings for the next generation of Iridium mobile communication satellites. The orders for equipping these 81 satellites are testimony to the market leadership position that RUAG Space already holds in these product lines. High-precision GPS receivers for satellites are also proving to be an export success. American satellite manufacturer Orbital Sciences has ordered two of these devices for NASA's ICESat-2.

RUAG Space will supply thermal insulation and slip rings for the 81 next-generation mobile communication satellites being built by US satellite communications specialist Iridium.

Innovation and initiatives

August 2012 saw the first Ariane 5 launch with a third-generation onboard computer. The computer is lighter but considerably more powerful than its predecessors, making it suitable for more complex mission profiles with longer flight duration.

A new horizontal separation system was developed for the Ariane 5's payload fairing that significantly reduces the shock experienced by the satellite when the fairing separates. The new separation system will be used on an Ariane flight for the first time in 2013 and will make it possible for the Ariane to carry even exceptionally sensitive satellites into space without additional damping devices.

A new mechanism that is particularly suited to commercial satellite missions was added to the solar array drive mechanism product range. RUAG Space delivered the first two mechanisms of the Septa-24 series for Israeli telecommunications satellite Amos-4. Follow-on orders for the mechanism have already come in.

The demands that the market places on telecom satellite payloads are constantly rising. Transmission capacity needs to keep up with the rapidly growing data quantities. The division is developing innovative telecom equipment to meet future market requirements, including receivers and converters for the Ka band, a frequency range that is growing in popularity in satellite-supported telecommunications.

The European Ariane 6 launch vehicle, the service module for the NASA crew vehicle “Orion”, the Neosat telecom platform and CHEOPS science satellite offer opportunities.

Outlook

RUAG Space expects the growth of recent years to continue in 2013. This expectation is based firstly on a stable European institutional market, and secondly on good growth prospects in other market segments.

At their conference in November 2012, the space ministers of the ESA countries took a series of decisions setting the direction for the European space industry. Despite the strained financial situation of certain ESA member states, the conference approved programmes with a total volume of EUR 10 billion for the period up to 2015. In particular, the continuing development of the Ariane 5 and the start of development of a new European launch vehicle, the Ariane 6, represent opportunities for the division. But many other programmes also offer interesting opportunities for participation, including the European service module for the new NASA multi-purpose crew vehicle "Orion", the new Neosat telecom platform and the planned science satellite CHEOPS, which will seek out planets outside our solar system under Swiss leadership.

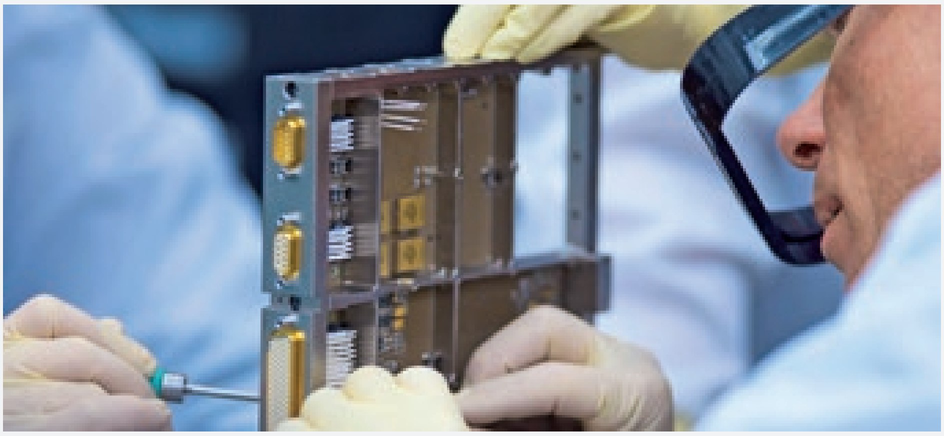
While growth in the worldwide space market continues uninterrupted, competition is intensifying as new providers enter the market. With its attractive portfolio of high-performance, space-tested products, the division is well-placed to take advantage of the opportunities that arise in this dynamic market environment. Recent successes bear this out. By continuing to develop the product portfolio and systematically pursuing the efficiency enhancement measures that are already under way, RUAG Space will lay the foundation for further expanding its own future position in the global market.

RUAG Space in numbers

Net sales:	CHF 285 million
EBITDA:	CHF 32 million
EBIT:	CHF 12 million
Employees:	1,126
Based in:	Switzerland, Sweden, Austria

Expansion in the US space market.

RUAG Space is delivering two high-precision GPS receivers for US aerospace agency NASA's earth observation satellite ICESat-2.



Built by US company Orbital Sciences Corporation, ICESat-2 will measure global ice fields from space starting in 2016. For the division, the order represents a milestone in expansion into the US space market.

Monitoring the state of and changes in the Greenland and Antarctic ice caps is a major factor in assessing climate change. Starting in 2016, ICESat-2 will make it possible to take measurements from space. The satellite is equipped with a high-performance multi-beam laser distance measuring system that can be used to measure the precise thickness of the ice.

To produce an accurate map of global ice cover, it will be necessary to determine ICESat-2's position with extreme precision. From its orbit around 500 kilometres above the earth, the satellite will use the GPS satellite navigation system to fix its position.

The receivers are designed for minimum weight and maximum integration density, while meeting the necessary reliability and radiation resistance criteria to operate in space. By simultaneously processing signals received in two different frequency bands, these GPS receivers will be able to determine the satellite's position with very high precision. The systems aboard the satellite itself will be able to fix its position to within less than two metres. Subsequent data processing on the ground will narrow the uncertainty down to within a few centimetres. This represents the current state of the art in the field.

The fact that NASA and US satellite builder Orbital Sciences have chosen to rely on technology from RUAG Space is testimony to the performance of the products developed by RUAG while participating in ESA programmes.

Global expansion and specialization.

In addition to focussing on its established position as technology partner to the Swiss Air Force, global activities were expanded. Business Aviation is exploiting growth opportunities, including those presented by cabin equipment for business jets.

Aircraft engine maintenance requires a high level of specialist knowledge and precision.

By working closely with Business Aviation, the military MRO unit was able to win orders for business jet components.

Core business

RUAG Aviation is a centre of excellence for civil and military aircraft and upgrade programmes. 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 components and subsystems.

Activities in military aviation are based on integral service programmes for all fighter aircraft, helicopters, training aircraft and reconnaissance UAVs for the Swiss Air Force. The service spectrum includes support for evaluation of new systems, final assembly and 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 and the Super Puma, Cougar and EC635 helicopter types. Lifecycle support services for the Bell UH-1D helicopter and the Alpha Jet are provided at the Oberpfaffenhofen site in Germany.

In business aviation, services range from comprehensive maintenance, repair and overhaul work to interiors and painting for owners and operators of select civil aircraft types. As partner to aircraft manufacturers Bombardier, Cessna, Dassault, Embraer, Piaggio and Pilatus, RUAG Aviation operates authorized service centres in Switzerland and Germany.

Business performance

RUAG Aviation's net sales remained stable at CHF 486 million (previous year: CHF 487 million). EBIT rose from CHF 22 million to CHF 28 million.

RUAG Aviation entered into comprehensive five-year master agreements with the Swiss Air Force in 2012. These SLAs (service level agreements) govern the aircraft MRO services to be provided by the division. They will not only enable more efficient planning in future, but also a more goal-aligned allocation of staff and material resources.

In military aviation, activities in the domestic market during 2012 centred on the WE89 and Upgrade 25. The WE89 upgrade programme involves the comprehensive modernization of the Swiss Air Force's 15 TH89 Super Puma transport helicopters, raising them up to the technical standard of the TH98 Cougar by installing digital avionics along with other improvements.

In the Upgrade 25 programme, the Swiss F/A-18 fighter aircraft fleet is being brought up to the latest technological standard in preparation for the second half of its planned 30-year service life. The upgrade will enable the aircraft to continue to carry out their demanding airspace policing and air defence missions. The project reached a key milestone in 2012 with the maiden flight of the second prototype. Flight testing of the two prototypes was largely concluded.

At the Oberpfaffenhofen site, RUAG Aviation faces a declining need for MRO services for the German Air Force's Bell UH-1D helicopters. Although the division is very well positioned to tackle various new projects for the German Air Force, which will enable it to continue to provide MRO services for this customer, these projects are currently deferred due to budget cuts. A restructuring programme has been initiated for the site.

In the international business, the emphasis was on strengthening RUAG Aviation's market position in the MRO business. For example, a five-year MISTR contract (Management of Items Subject to Repair) covering MRO for components and engines for US Navy F-5 and US Air Force T-38 aircraft in collaboration with a partner in the United States was concluded. Further engine MRO contracts were also entered into with customers in Thailand and Malaysia. The MRO business for civil aircraft components also saw expansion. In particular, close collaboration with the Business Aviation business unit resulted in orders for business jet components such as generators, landing gear or brakes. With a view to expanding component MRO capabilities and securing access to strategically important growth markets in the Asia/Pacific region, the division acquired the Australian MRO provider Rosebank Engineering Pty Ltd in December 2012 (Maintenance, Repair and Overhaul). The company operates primarily in Australia as well as in parts of the Southeast Asia region. The acquisition will not only yield growth opportunities in existing aircraft platforms such as the F/A-18 fighter, it will also extend capabilities to new platforms such as the C-130, Blackhawk or F-35.

In civil aviation as well, the emphasis was on expanding MRO service offerings. In helicopter maintenance, the Alpnach helicopter centre again attracted considerable customer interest in its services, entering into turbine helicopter maintenance agreements with several new customers. The Business Aviation business unit likewise focused on expanding its range of services. In order to offer customers still more comprehensive, faster and convenient service, the business unit expanded its fixed base operator (FBO) presence together with E-Aviation in Lugano-Agno and ExecuJet in Geneva-Cointrin. Moreover, an exclusive customer lounge was opened in Geneva-Cointrin, further enhancing the site's appeal to a demanding international clientele.

With a contract to convert two Bombardier CRJ200 regional airliners into private VIP jets, the business unit bolstered its position as a full-range supplier of cabin equipment for mid-sized business jets as well. To gain further market share in the lucrative completion market, additional partnerships were initiated with various interior equipment suppliers.

Innovation and initiatives

In 2012, RUAG Aviation focused on the products and platforms it supports and on expanding its international presence.

For example, RUAG Aviation was able to systematically position itself as a professional provider of lifecycle support services for the F-5 fighter aircraft. The division already supports most of the world's air forces that use the Northrop F-5 by providing top-quality services throughout the aircraft's entire service life. Component MRO, particularly for engines, saw further expansion in both military and civil aviation.

At the Business Aviation business unit, the emphasis was on strategically expanding the completion business. The business unit now has the capability to offer and carry out even the most extensive cabin projects for demanding customers, from early planning to execution as general contractor. It works closely with various partners who provide engineering and manufacturing services for VIP interior fittings.

By converting two Bombardier CRJ200 into VIP jets, the division bolstered its position as a full-range supplier of cabin equipment for mid-sized business jets.

The acquisition of Australian MRO provider Rosebank Engineering Pty Ltd, bolsters its position in the MRO business in the Asia/Pacific growth region.

Geographically, RUAG Aviation further extended its international presence in 2012. By acquiring Australian MRO provider Rosebank Engineering Pty Ltd, it bolstered its position in the MRO business in the Asia/Pacific growth region, especially in Australia and Southeast Asia.

Outlook

In the military sector, it appears likely that most governments will further reduce their military budgets. In civil aviation, a certain amount of hesitancy is still apparent and competition is becoming increasingly fierce. The division therefore expects the market to remain rather flat for the next year.

In Switzerland, RUAG Aviation will make every effort to secure the role of technology partner in the event of any partial replacement programme for the F-5 Tiger fighter aircraft and other platforms in service with the Swiss Air Force. All necessary preparations are being made to this end in order to begin building up expertise and infrastructure as soon as the customer initiates the project.

As a centre of excellence for military and civil aircraft MRO and upgrade programmes, RUAG Aviation holds an outstanding position in niches and is systematically pursuing a strategy of expanding its geographical reach. Modest growth is expected in 2013 despite the challenging market environment.

To further enhance profitability, the division has launched Operational Excellence programmes at all levels. Optimization of processes and procedures will in future enable it to provide superior MRO services to military and civil customers even more efficiently.

RUAG Aviation in numbers

Net sales:	CHF 486 million
EBITDA:	CHF 32 million
EBIT:	CHF 28 million
Employees:	1,979
Based in:	Switzerland, Germany, USA, Australia, Malaysia, Brazil

State-of-the-art Super Pumas.

Six fully modernized and refurbished Super Puma transport helicopters were handed over to the Swiss Air Force in 2012.

Under the 2006 Swiss armaments plan, RUAG Aviation won an international tender to develop and execute an upgrade programme for the Swiss Air Force's fleet of transport helicopters. At present 15 TH89 Super Puma transport helicopters are undergoing a comprehensive upgrade. The aircraft, some of which have been in service for over 20 years, are being completely rebuilt and adapted to meet today's demands under the WE89 upgrade programme. The upgrade will get them into condition for a further 15 to 20 years of service. Six of the modernized aircraft, now flying under the name TH06, were handed over to the Swiss Air Force at the end of 2012.

The Super Puma update programme is one of the most complex in RUAG's history. Most of the avionics architecture, for example, had to be developed from scratch. Overall, more than 50 new systems and pieces of equipment are being installed in each helicopter, requiring some 25 kilometres of cabling and 13,500 electrical connections. Once the new equipment is installed, each Super Puma will have a modern flight management system, two global positioning system (GPS) units, an inertial navigation system and a modern digital map system. New radio systems, cockpit voice and flight data recorders and alarm systems to alert the crew to the dangerous proximity of another aircraft or if the helicopter leaves a predefined altitude are also being installed. A helmet-mounted display showing key flight data directly in their field of view is also a first for Swiss pilots.

In the TH06, the Swiss Air Force has the equivalent of a new transport helicopter fully capable of holding its own against the latest products from the helicopter industry. The project is scheduled for completion at the end of 2014 after several hundred thousand hours of work. With it, RUAG Aviation has proven itself a dependable partner for even the biggest upgrade programmes.

Focus on the core business.

Spinning off activities at the Altdorf site is enabling the division to focus more effectively on high-quality aerostructures and materials recycling.

RUAG Technology has established itself as a centre of excellence for Airbus wingtip fences.

Extensive work was carried out at the Oberpfaffenhofen site to prepare for the acceleration of pace that Airbus is planning.

Core business

RUAG Technology manufactures and machines structural assemblies and high-quality components and provides special services to customers in the aviation industry. It is also active in the recycling industry. Activities focus on Aerostructures and on activities at the Altdorf site (Environment).

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 as well as sophisticated component assemblies and parts for civil and military aircraft. As a centre of excellence for wingtip fences (winglets), RUAG Technology produces the winglets for nearly all Airbus civil aircraft and serves as a "quality gate" for final assembly and the entire global supply chain for complete fuselage sections for the European aircraft manufacturer.

Environment recycles electrical and electronic appliances and is a specialist in industrial waste disposal.

Business performance

RUAG Technology's net sales rose by CHF 8 million from the previous year, reaching CHF 213 million. EBIT improved by CHF 12 million to CHF 7 million.

Business performance at Aerostructures was largely characterized by positive and calm overall market conditions. Orders were strong and capacity utilization was high. The strategy devised in 2009 of focusing Aerostructures on high-quality, profitable special products and niche applications and limiting risks to the RUAG Group as a global supply chain participant again proved effective in the past year.

Successful restructuring was carried out at the Emmen site, installing a new leadership team with the mission of achieving sustainable profitability at Aerostructures within the framework of the corporate strategy. This reorganization set in place important elements for future efforts to counter the structural cost disadvantages associated with the location. A major milestone was reached with the signing of a contract with aircraft manufacturer Pilatus. Complete airframe structures for Pilatus's globally successful PC-21 programme will in future be produced at the Emmen site. The master agreement initially covers production of a total of 79 airframes.

At the Oberpfaffenhofen site, the business area further strengthened its role as "quality gate" for the entire global supply chain for the RUAG-managed fuselage sections of the Airbus A320 family. In this function, RUAG Technology ensures stable, high-quality delivery of fuselage sections directly to the Airbus final assembly plant in Hamburg. Last year the focus was on efficient completion of existing orders. Concurrently, work was carried out to prepare the production facilities for the acceleration of pace that Airbus is planning.

At the end of May 2012, activities at RUAG Technology's Altdorf site were spun off from RUAG Switzerland Ltd and transferred to four newly established companies, RUAG Environment Ltd, RUAG Mechanical Engineering Ltd, RUAG Coatings Ltd and RUAG Automotive Ltd with a view to making business performance more transparent and improving the competitiveness of each individual activity. The Board of Directors has resolved to initiate the process of selling off RUAG Mechanical Engineering Ltd and RUAG Coatings Ltd since these activities are not part of RUAG's core business. For this reason, both companies appear as "discontinued operations" in RUAG's consolidated financial statement for 2012. A sustainable solution has been found for RUAG Coatings Ltd. The company, along with its entire workforce, was acquired by Impreglon SE of Lüneburg, Germany, with effect from 1 September 2012. The sell-off process for RUAG Mechanical Engineering Ltd is currently still in progress.

At the Altdorf site, a far-reaching resizing of Mechanical Engineering's activities was carried out in response to market conditions. Fundamental optimization of cost structures was needed to preserve future international competitiveness. Logistics and central processes also underwent a fundamental overhaul.

Spinning off activities at the Altdorf site into four independent companies has improved the competiveness of each individual activity.

Higher volumes and enhanced operating productivity had a positive impact on Environment's profit last year. In addition, participation in a call for bids by SWICO, the Swiss business association of information, communication and organizational technology providers, added the Central Switzerland region to its territory. Along with other commercial successes, this will help boost processing volumes.

Innovation and initiatives

With the restructuring at the Emmen site, RUAG Technology in 2012 reasserted its strategy of continued success as a first-tier supplier of specialized applications for civil and military aircraft manufacturing. The division is systematically advancing its positioning as a niche producer for the aviation industry.

Specialists at the Oberpfaffenhofen site worked with the manufacturer Airbus on the development of the Airbus A320 NEO, the successor to the A320 family of midrange aircraft that has found worldwide popularity. Due to changing customer demands, comprehensive analysis and calculations were required for the precise design of the landing-gear well and tail cone fuselage components.

A process of concentrated refocusing was undertaken at the Altdorf site. The three business areas spun off as autonomous companies are now pursuing their own separate aims. At Mechanical Engineering the emphasis on tough adjustments to the cost structure is now shifting to a search for additional customers. At Environment, meanwhile, the focus was on expanding processing volume and on technical projects.

Outlook

In 2013 again, the emphasis at RUAG Technology will be on sustainably improving profitability through a systematic focus on aerostructures manufacturing. To minimize the impact of currency fluctuations and the strong franc on operations in Switzerland, RUAG Technology will work to optimize its own supply chain and expand its supplier base in the euro and dollar zones. Purchasing in different currency zones is a very efficient means of offsetting the negative effects of currency volatilities.

A significant acceleration of the production cycle is expected this year in both the Airbus and Bombardier programmes. The additional volume that higher order intake is expected to produce will have a positive effect on the profitability of the Aerostructures area overall.

As time goes on, the Swiss recycling industry will find itself exposed to intensifying international competition, resulting in increasing margin pressure. The Environment business area will apply its commercial strengths and major innovations to counter this trend. Additionally, it is planned to position the company more strongly as an internal centre of excellence in waste disposal for RUAG's divisions.

Environment added the Central Switzerland region to its territory through a call for bids by SWICO, the Swiss ICT business association.

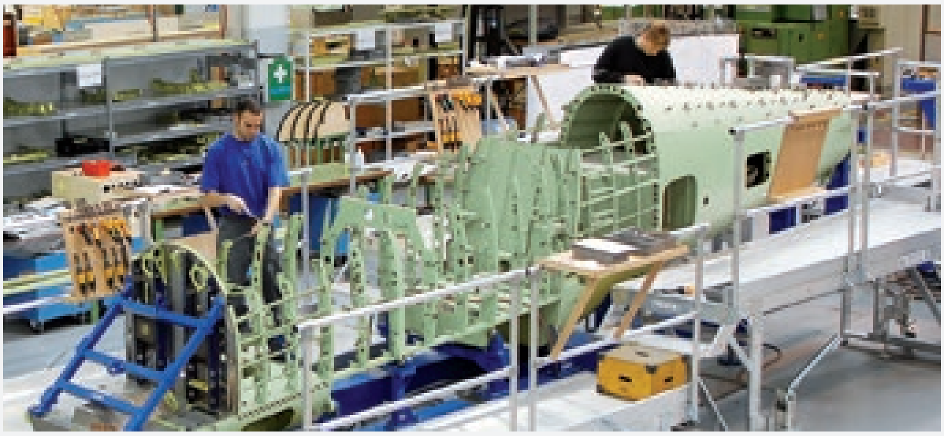
As previously announced, RUAG will discontinue Automotive's activities at the Altdorf site at the end of 2013. Until that date, the contractually agreed quantities will continue to be delivered to customers.

RUAG Technology in numbers

Net sales:	CHF 213 million
EBITDA:	CHF 12 million
EBIT:	CHF 7 million
Employees:	1,169
Based in:	Switzerland, Germany

Complex assemblies for Pilatus.

RUAG Technology will soon be assembling the complete airframe structure of the Pilatus PC-21 and is involved in the development of the company's first jet.



For about six years now, RUAG Technology has been assembling fuselages and wings at its Emmen plant for Stans-based Pilatus Aircraft Ltd's PC-21, a training aircraft in service around the world. In mid-2012 the Swiss aircraft manufacturer received its two biggest orders to date for a total of 79 PC-21s. In the wake of these orders, the manufacturer significantly expanded its successful partnership with RUAG. In addition to the work currently being done on the single-engine turboprop aircraft, RUAG will in future assemble nine additional complex, sophisticated assemblies, including landing flaps, ailerons, elevators and rudders as well as a horizontal and vertical stabilizer. As a result, all the airframe structures of the 79 PC-21s on order will be assembled in Emmen.

Emmen's aerostructures specialists are also working on the PC-24, Pilatus' first jet aircraft and until recently a carefully guarded secret. The solidly built business jet will be equipped with two engines and a large cargo door and is scheduled to take to the air in 2015. The first test components – a modular set of nine extremely lightweight and difficult milled cockpit parts – were delivered in August 2012.

In manufacturing these components, RUAG's experts displayed their skill not only by rapidly implementing all the requirements, but also by the extreme precision of the work. Since then, Pilatus has placed further component orders for the PC-24 project with RUAG Technology. The partnership gives the division an opportunity to further enhance its specific expertise and expand its capabilities as a manufacturer of aerostructures and structural assemblies.

Growth despite difficult environment.

By responding rapidly to shifts in demand and thanks to the persistently high volume of business from its major customers in Germany and Switzerland, RUAG Ammotec was able to generate organic growth in a market dominated by excess supply.

Top quality and maximum reliability are essential for special forces in the defence and law enforcement sector.

Core business

RUAG Ammotec is the European market leader in small-calibre ammunition and pyrotechnic elements and components for the user segments Hunting & Sports and Defence & Law Enforcement. The division's high-precision ammunition for special units is used and valued worldwide. The division is the technology leader in heavy-metal-free primer technology including items such as actuator cartridges for the construction industry and special applications in automotive safety systems. Environmentally safe disposal of pyrotechnic products also forms part of the service portfolio. All products are renowned for their ultimate dependability, precision and optimally engineered effect.

Products for the Hunting segment include a wide 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.

High demand is expected to continue thanks to the reintroduction of 7.62 mm calibre weapons in the German Bundeswehr.

For demanding users in the Defence & Law Enforcement business areas, the division offers high-precision ammunition in the entire small-calibre spectrum. The comprehensive product range is used for exercises under a wide range of training conditions and deployment situations. Sniper ammunition designed to deliver maximum results even in unfavourable environments is sold under the brand name RUAG SWISS P. The division also offers a comprehensive assortment of low-pollutant, NATO-qualified small-calibre ammunition. Customers include the Swiss Armed Forces, German Bundeswehr and other international government agencies and security forces in over 60 countries.

In its Industrial Products business area, the division utilizes its extensive ammunition expertise and a systematic innovation strategy to develop products including low-pollutant actuator cartridges for fastening systems in the construction sector and for automotive safety systems.

Business performance

RUAG Ammotec's net sales in 2012 grew by CHF 25 million from the previous year, reaching CHF 337 million. Net of currency effects, organic growth even reached nearly 10%. EBIT improved 27% to CHF 32 million.

In 2012, the European defence and law enforcement market was characterized by excess supply from international manufacturers, due largely to American producers strengthening their presence in the European market. The situation was the result of a substantial decline in demand due to a reduced involvement of international alliances in countries in crisis. Nevertheless, RUAG Ammotec's production capacity was fully utilized in three shifts due to ongoing high order volumes from the division's leading customer, Germany's Federal Office of Defence Technology and Procurement (BWB). High demand is expected to continue thanks to the forthcoming reintroduction of 7.62 mm calibre weapons in the German Bundeswehr.

In other international markets, the division made good progress in the areas of special ammunition and new ammunition types. The range of products made at the Sirok production site, Hungary saw a major expansion. As a supplier of a full range of pistol and revolver ammunition, and in view of the extremely competitive pricing in this segment, RUAG Ammotec Hungary is a preferred partner for American customers especially and succeeded in nearly doubling sales.

In the Hunting & Sports business area, the division generally succeeded in countering the negative effects of the collapse in consumer demand. Although demand remained somewhat sluggish at the start of the year, sales exceeded the prior year for nearly all products in the second half, and especially in the fourth quarter. Particularly in Germany, demand for lead-free hunting cartridges rose significantly. To coincide with the start of the hunting season, the division launched RWS EVO Green, a line of lead-free cartridges featuring a unique special projectile. The project is testimony to the division's ability to respond quickly and efficiently to shifts in demand towards alternative types of ammunition so as to maintain its large market shares. In addition, the new websites set up for the RWS and GECO brands are already drawing encouragingly large numbers of visitors.

Thanks to the growth in the international components business, sales in the industrial applications area also exceeded the previous year's. Thus, RUAG Ammotec was able to increase the volume of high-quality metal components sold in the United States, both for production of RUAG training ammunition and for use in various special applications for other manufacturers. In actuator cartridges for fastening technologies, sales showed a slight downturn despite low-pollutant cartridges' rising share of total market volume, due to continuing sluggishness in the construction market in many countries.

As a supplier of a full range of pistol and revolver ammunition, RUAG Ammotec Hungary succeeded in nearly doubling sales. The Thun and Fürth sites also benefited from this achievement.

Innovation and initiatives

In the Defence & Law Enforcement business area, development efforts in 2012 focused on the qualification and reintroduction of the 7.62 mm calibre for the German Bundeswehr. Since this calibre has not been produced for many decades, significant modifications to production processes and equipment were needed. A further emphasis was on new developments in special ammunition, such as a low-priced deformation round tailored specifically to the American market. The division also developed a new hand grenade to the specific requirements of the Swiss Army, beating competitors in an international tender to win a multi-year contract.

In the Hunting & Sports business area, the main development project was the RWS EVO Green line of lead-free cartridges. The business area also developed and launched a lead-free, tin-based air gun pellet as well as a cartridge line adapted especially for the price-sensitive American market under the norma-USA brand.

The business area's in-house chemistry laboratory worked on a more temperature-stable pyrotechnic primer mixture which will in future widen operational ammunition's temperature range and ensure that it is functional and reliable even in unfavourable weather conditions. This advance will in future benefit customers in the defence sector as well as industrial users in the automotive industry. In the field of ammunition production, novel computer simulation programmes were introduced at the Thun and Fürth sites. Among other things, the software can simulate the fragmentation effects of projectiles so that the tactical reliability of ammunition components can be enhanced and quality in production improved.

A new, more temperature-stable pyrotechnic primer mixture ensures that ammunition remains functional and reliable even in unfavourable weather conditions.

Outlook

Again in 2013 the division anticipates excess market capacity for standard ammunition together with opportunities in niches such as special ammunition. RUAG Ammotec nevertheless expects moderate growth thanks to growing demand for special products and the reintroduction of the 7.62 mm calibre.

In the Defence & Law Enforcement business area, the division's major focus will be to supply 7.62 mm ammunition to its main customer in Germany. It is possible that greater demand for this calibre will emerge in the international markets as well. In addition, entry into the US pistol ammunition market for security forces will be completed in 2013, in both the lower and higher-priced market segments. Internationalization in the field of special ammunition is advancing as planned. Efforts to collaborate with other manufacturers will also be stepped up in order to, for example, enter new markets by supplying components.

In the Hunting & Sports business area, the focus is on increasing market presence in the United States, centring on expanding the GECO and norma-USA brands with a view to ensuring competitiveness in the US cartridges market. In the field of low-pollutant ammunition, RUAG Ammotec anticipates further growing interest in lead-free ammunition not only in Germany, but also in other European markets. To defend its high market share, RUAG Ammotec will be quick to offer lead-free cartridge product lines in these markets as well.

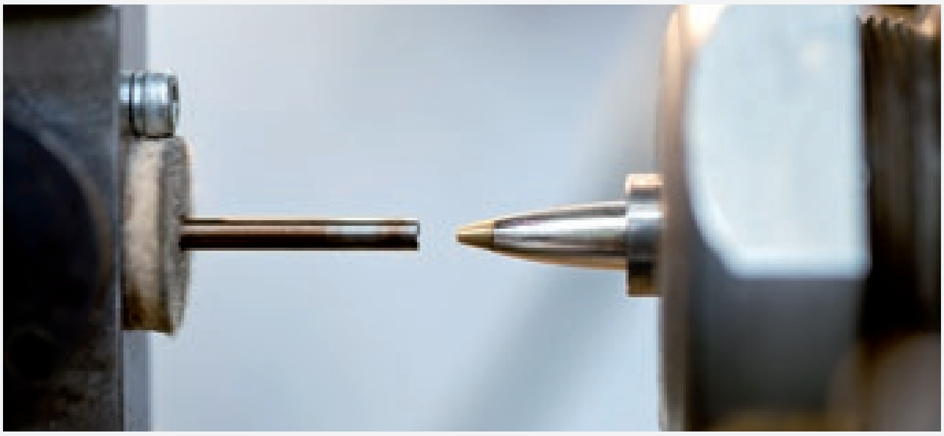
Various measures such as eliminating bottlenecks in production plants will be applied to optimize and better utilize existing production capacity. In addition, the option of expanding pistol and revolver ammunition capacity at the Sirok, Hungary, site is under consideration. The Thun and Fürth sites would also benefit from such an expansion as a result of the rise in component deliveries.

RUAG Ammotec in numbers

Net sales:	CHF 337 million
EBITDA:	CHF 43 million
EBIT:	CHF 32 million
Employees:	1,787
Based in:	Belgium, Germany, France, UK, Austria, Sweden, Switzerland, Hungary, USA, Brazil

Lead-free and highly accurate.

The unique projectile tip is the distinguishing feature of the RWS EVO Green lead-free hunting cartridge.



Criticism of lead-containing cartridges for hunting is increasing in Germany, with a growing number of forest management authorities banning ammunition that contains lead. In response to this trend and to defend its large market share, RUAG Ammotec last year developed and launched RWS EVO Green, a lead-free projectile, in Germany.

While lead-free ammunition is environmentally safe, many hunters fear that it cannot guarantee a clean kill for all animals or that it could present a ricochet hazard. Studies have shown, however, that a round's ricochet behaviour depends more on the shape of the projectile than on the material used. RUAG Ammotec was thus able to apply its comprehensive expertise to maximum effect in developing the lead-free cartridge. The projectile disintegrates reliably even at a distance of 300 metres for maximum energy release. The round's optimized shape and trajectory-flattening plastic tip allow it to travel to the target at a velocity of over 660 metres per second. Controlled disintegration begins at the moment of impact. Among the design elements that contribute to this optimized effectiveness is the front core of the projectile with its radial fragmentation grooves; the projectile case also has external fragmentation grooves. Other lead-free projectiles lose effectiveness even at much shorter distances.

Following extensive testing with gelatine blocks in a firing tunnel, real-world tests were still needed to confirm the good results, so 100 hunters were recruited to carry out comprehensive product tests in Germany. Their experience in the hunting grounds fully substantiated the results of the laboratory measurements. With the RWS EVO Green, RUAG Ammotec has developed a cartridge that meets all requirements and is more than just an alternative to lead-containing hunting ammunition.

International and new areas.

Master agreements helped to cushion the expected decline in orders from the Swiss Army. The international, cyber security solutions and unmanned ground vehicle businesses are all developing successfully.

On a UN peace mission: the easily adaptable SidePRO-LASSO system provides protection against ballistic threats.

A master agreement on maintenance and life cycle support services gave a major boost to the international Leopard 2 maintenance activities of RUAG Defence.

Core business

RUAG Defence is the strategic technology partner for land forces. Its focus lies on the needs of the Swiss Army in terms of protection, training, upgrades of weapons systems and products and services for secure and reliable command and control. All of these products and services are carefully aligned with international requirements. The activities of the three business units Land Systems, Simulation & Training and Network Enabled Operations Services (NEO Services) cover innovative products, maintenance, upgrades, training, systems integration and tactical communication services.

The core competency of the Land Systems business unit is service life extension and upgrading of heavy weapons systems. The focus is on the platforms that have been adopted in Switzerland: the Leopard 2 main battle tank, the CV 90 infantry fighting vehicle and the M 109 self-propelled howitzer. A further specialization is developing and manufacturing protection solutions for armoured vehicles. The unit also offers comprehensive maintenance services along with logistics solutions such as special containers that provide protection against electromagnetic interference and electronic eavesdropping.

The Simulation & Training business unit specializes in virtual and live simulation systems for land forces training purposes. Integration of modular systems yields a range of effective training programmes, from individual training of soldiers to tactical exercises for entire units. In addition, comprehensive servicing and operation of installed equipment is provided.

As a technology partner, the NEO Services business unit provides 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. NEO Services develops and produces all-IP-based intelligent network nodes for security-critical communications networks. The unit also develops solutions for information security and long-term protection of corporate assets against cyberwar threats.

Business performance

RUAG Defence’s net sales fell from CHF 435 million in the previous year to CHF 414 million. EBIT decreased from CHF 38 million to CHF 25 million.

As in the previous year, the Land Systems business unit continued to face the effects of the economic crisis during 2012. As a result of defence budget cuts, no tenders were held for major projects. New orders were insufficient to offset the major Swiss projects that were winding down, the Leopard 2 main battle tank upgrade programme and delivery of the armoured engineer and mine clearance vehicle. For business reasons, therefore, restructuring had to be carried out at the Thun site to enable the business unit to remain successful in the changed market environment. Certainty in activity and resource planning was significantly enhanced after five-year SLAs (service level agreements) were concluded with armasuisse, the procurement organization of the Swiss Armed Forces, for the first time.

A master agreement on maintenance and life cycle support services gave a major boost to the international Leopard 2 maintenance activities of RUAG Defence. The expanded expertise in robotics for land forces is showing initial results. RUAG Defence, along with General Dynamics European Land Systems (GDELS), presented a remote control kit at the M-ELROB international competition for unmanned ground vehicles in Thun in September 2012. The presentation underscored the division's focus on unmanned ground vehicles (UGVs), which can be deployed wherever personnel are risking life and limb.

In Switzerland, the Simulation & Training business unit reached major milestones with its SIM MOUT live simulation platforms for military operations in urban terrain. Training operations at the Bure site were further expanded, and completion of the facilities at the Walenstadt site advanced to such an extent that handover to the military can take place on schedule in 2013.

In the international market, the new Gladiator personal harness product was successfully launched. Several hundred sets have already been sold to two customers. A further 4,000 of the predecessor product were delivered to France for operation in a live training facility. 2012 also saw completion of the handover of twelve crew training simulators for the new French light armoured vehicle to the French Army. Finally, in Germany the business unit sold components for modelling the effects of weapons in simulation exercises for the first time to the German Bundeswehr.

Some 4,000 of the predecessor product to the Gladiator personal harness were delivered to a live training facility in France.

For the NEO Services business unit, 2012 was marked by a high volume of new cyber security orders and solid capacity utilization in the maintenance business. The acquisition of Ascom's Defense business unit brought enhanced capabilities in network-enabled operations and a significant strengthening of RUAG's strategic position in communications in Switzerland. Acquisition of the Satorys product line from IRIS Internet Risk Insurance Services in Geneva boosted technology capabilities in the area of cyber security solutions for civil and military customers. RUAG technologies can now protect military networks, the high-security networks of blue light organizations and critical corporate networks against threats.

Innovation and initiatives

The Land Systems business unit successfully completed development of a Leopard 2 upgrade kit for the international market, bringing the latest technologies to the Leopard 2 main battle tank fleets in service with many armies. Special emphasis was placed on adapting protection systems to contemporary threat scenarios and enabling integration with modern command and control networks. UGV development remained a focus of innovation. Armed forces throughout the world intend to increasingly deploy UGVs in crisis zones to reduce risks to soldiers. In the Protection unit, a composite materials-based protection module was certified with a number of systems manufacturers. The module effectively protects vehicles against threats from all types of shaped charges. It can be incorporated into new vehicles or installed on existing vehicles.

The Simulation & Training business unit further improved its live training software. Visualization options were enhanced in the Exercise Control Center, and a mobile console was developed to give the exercise commander the capability to direct the exercise from the field using a computer.

In the NEO Services business unit, the focus remained on the development of cyber security solutions. In March 2012, RUAG's Cyber Security Center provided support to the Swiss Armed Forces participating in a cyber defence exercise conducted by the NATO Cooperative Cyber Defence Centre of Excellence. The exercise saw the first use of a prototype Tranalyzer platform for identifying malicious data traffic under real-world conditions. A radio device based on Tetrapol technology was also developed in 2012. Its small dimensions make it ideal for personal security staff or civil emergency services. Using an Ascom product as a basis, the business unit developed a security-critical network node for operating a military network.

Outlook

Once again in 2013, Switzerland's armaments programme contains no major projects on which RUAG Defence could bid. To utilize their capacity, the Land Systems and Simulation & Training business units will focus on acquiring large projects from abroad.

A prototype Tranalyzer platform for identifying malicious data traffic was used for the first time during an exercise conducted by the NATO Cooperative Cyber Defence Centre of Excellence.

In Switzerland, implementation of the five-year SLAs with the division's major customer will bring opportunities to optimize processes and refine service offerings. Despite the strong Swiss franc, RUAG Defence plans to improve its ability to compete in the international market. Accordingly, it is launching a cost-reduction programme at its sites in Switzerland. One consequence will be the centralization of all warehousing at the Thun site in 2013. The high degree of automation there will bring more efficient logistics for the entire division. Also in 2013, Ascom Defense will be fully integrated into the NEO Services business unit. This will reduce the number of sites and boost productivity by floor area.

RUAG Defence will also drive forward its internationalization strategy. Among the options being considered are offices in major export markets such as France and Canada.

RUAG Defence in numbers

Net sales:	CHF 414 million
EBITDA:	CHF 35 million
EBIT:	CHF 25 million
Employees:	1,377
Based in:	Switzerland, Germany

Field-ready robotics components.

The newly developed Vehicle Robotic Kit (VERO) enables unmanned ground vehicles to move under remote control or partly on their own.

Around the world, intensive research is under way on UGVs (unmanned ground vehicles), which can be used in both military and civil applications in any situation that presents exceptional hazards to life and limb. UGVs can find their way on their own or by remote control and perform various tasks largely autonomously, including reconnaissance and surveillance, search and rescue missions, various forms of transport and disposal of explosive ordnance.

RUAG Defence views UGVs as a technology of the future and has significantly expanded its capabilities and partnerships in the area in recent years. Its declared goal is to become the UGV centre of excellence for the Swiss Armed Forces and other security forces. The Land Systems business unit is currently directing the UGV research programme for armasuisse, the Swiss military procurement organization. RUAG specialists work closely with universities such as ETH Zurich and with other research organizations in Switzerland and abroad.

In autumn 2012 the division presented a field-ready demonstration unit together with General Dynamics European Land Systems (GDELS) at the M-ELROB unmanned ground vehicle competition in Thun. GDELS's contribution to the project was an EAGLE 4×4, a light tactical armoured vehicle that is normally driven by a human operator. RUAG Defence was responsible for installing the UGV add-on equipment, including sensors, control computers, actuators, the broadband radio system and the command and control equipment for the command console.

RUAG Defence delivered most of the UGV components in the form of a Vehicle Robotic Kit (VERO), an equipment package easily adapted for use in any kind of vehicle. The prototype shown at M-ELROB is currently still teleoperated, but further development will soon enable mostly autonomous operation.

Efficient services as the basis for success.

The centralized service units and independent profit centres at Group level ensure an optimum quality of service while enabling the divisions to focus on their core competencies.

Strategic management and infrastructure

To allow the divisions to focus on their core business operations and on expanding their capabilities, strategic cross-cutting functions are handled by RUAG Corporate Services. These Corporate Services support the divisions in targeting markets and ensure consistent standards. They are also a means of realizing synergies to enhance profitability and the quality of products and customer projects.

RUAG Corporate Services provides the following cross-divisional services: Corporate Human Resources, Corporate Marketing & Communications, Corporate Legal & Secretary General and Corporate Finance & Controlling. The service units are organized as in-house departments at Group level, ensuring that their activities are aligned with the overarching strategy. Corporate IT and RUAG Real Estate, by contrast, are independent profit centres. As a result, they are able to guarantee highly efficient service provision. The service units employ around 300 people.

Corporate Human Resources

RUAG's employees are the foundation of its success. It is they who promote innovation and guarantee high product and service quality.

To attract qualified employees, the Group has to be perceived as an attractive employer. RUAG offers employees challenging tasks to pursue and the opportunity to continuously develop their own abilities. In addition, RUAG offers a diverse range of advanced training options, such as the opportunity to obtain an internationally recognized project management certificate. A three-step modular leadership programme is used to train managers.

Investing in employees pays off: in a survey of over 9,200 Swiss university graduates by Universum Communications, engineers ranked RUAG in eighth place among top employers.

Last year the Executive Board adopted a new HR strategy with five priorities: firmly establishing corporate culture, enhancing RUAG's attractiveness as an employer, strengthening leadership skills, establishing a Group-wide performance management system and internationalization. Various projects were initiated in 2012 to implement the new HR strategy in conjunction with the divisions. This approach will also accommodate RUAG's increasingly international orientation.

A partnership-based dialogue with employee representatives and works councils as well as external social partners remains a key priority for RUAG. A culture of candid and goal-oriented dialogue makes it possible to find shared solutions every time.

Progress has been made in establishing Corporate Human Resources as a business partner for the divisions in Switzerland and abroad and developing a corporate culture that is focused on the market and the customer, based on the three corporate values of collaboration, high performance and visionary thinking. The first Group-wide employee survey yielded a high response rate and good results. Structured action plans are being implemented to further boost employee engagement and satisfaction.

The Group attaches great importance to nurturing apprentices and trainees in Switzerland and Germany. The young people receive thorough and practical training in over ten different occupations using a modern educational approach. They are supervised by professional vocational instructors in special training centres. RUAG apprentices won five medals – one gold, two silver and two bronze – at the 2012 SwissSkills championships.

Corporate Marketing & Communications

This service unit, in close collaboration with the divisions, conducts a dialogue on the Group's strategic priorities, objectives and activities with all stakeholders. The uniform "Together ahead. RUAG" branding strengthens the brand's global visibility and brings the corporate profile into sharper focus. For this purpose, the Corporate Marketing & Communications service unit coordinates and designs both internal and external communications as well as public appearances.

An important part of the new branding is corporate language, which was systematically recorded and analysed. As a result, it will be possible to further develop RUAG's language so that it gains greater consistency and personality, and supports the three corporate values of visionary thinking, high performance and collaboration even more effectively. In addition RUAG's presence at international trade fairs was also strengthened, presenting the entire Group's products and services as a visual unity and expressing the diversity of added value they offer customers in a comprehensible, direct way.

The service unit conducts an active dialogue with Swiss and international media to highlight content of relevance to the Group or to individual divisions among the general public and to create transparency. The divisions' Marketing and Communications departments are responsible for specifically cultivating each division's customer markets.

Corporate IT

With its IT Services and Software House business units, the Corporate IT service unit provides quality IT and software engineering services at a competitive price-performance ratio. It successfully implements internal IT projects, thereby supporting the Group's international market orientation.

The IT Services business unit serves the Group as an IT service provider. This includes operating and administering the global corporate network and high-security data centres and consulting, implementation and management of SAP and e-business solutions, Microsoft platforms, vertical applications, telephony and PC workstations.

Last year saw the synchronization of all IT service provision between Switzerland and the second site in Oberpfaffenhofen, Germany, which was established in 2011. Basic IT services were also provided for the sites in Sweden and Austria.

The Software House business unit specializes in software engineering as a partner for the divisions' customer projects. It also develops vertical applications for use within the Group, in some cases as partner to the IT Services business unit. With standardized processes and development platforms, Software House enhances value creation and efficiency in the divisions' customer projects while also ensuring constant high quality in software components.

The Project & Portfolio Management unit set up in 2013 functions as a liaison between management and IT specialists. As a dependable partner for internal technical projects, it ensures that the Group's strategic orientation is always taken into account in IT projects.

Corporate Legal & Secretary General

This service unit provides services for RUAG's governing bodies, i.e. the Annual General Meeting, the Board of Directors and the Executive Board, and furnishes advice at Group level and to the divisions and subsidiaries in all legal and compliance matters. Core competencies include cultivating shareholder relations, monitoring legal conformity for all activities in the domestic markets and export business as well as contracts and contract management.

RUAG is a joint stock company wholly owned by the Swiss Confederation. The Swiss Confederation's interests as shareholder are exercised by the Federal Department of Defence, Civil Protection and Sport (DDPS). The owner's strategy of the Swiss Federal Council establishes a binding framework, ensuring that the RUAG Group can fulfil its duties profitably while taking account of Switzerland's broader interests. These interests concern in particular Swiss national defence, expectations regarding cooperation and investments, as well as human resource policy and financial objectives.

Legal coordination and critical assessment of export activities is a key issue. In all its activities, the Group complies with the strict provisions of Swiss law and maintains close contact with the relevant authority, the State Secretariat for Economic Affairs SECO. In addition to the applicable export regulations, observance of Swiss and international compliance rules is essential. For this purpose, the Corporate Legal & Secretary General service unit has in-house regulations drawn up and updated as required and monitors the contracts negotiated by the divisions. The employees involved in the divisions receive regular training and advice.

Corporate Finance & Controlling including RUAG Real Estate

By establishing a systematic reporting structure with defined procedures and indicators, Corporate Finance & Controlling provides guidance for the Group as a whole. High-performance information systems provide timely support for operational management and ensure rapid transparency. RUAG's approach to transparency is based on the concept of "economic value added" (EVA), comprising the total cost of capital including proportionate shareholder equity costs. The approach is implemented systematically down to the business unit level to minimize investment, acquisition and customer project risks.

Under RUAG's working capital management system, optimization measures along the entire process chain are identified and implemented on the basis of uniform specifications. This reduces the level of capital tied up, increases cash flow and supports additional growth. The room to manoeuvre gained in this way facilitates internal financing of capital investments, research and development, and acquisitions without the need for external funding. Beyond supporting growth, working capital optimization helps reduce financing costs and thereby boosts RUAG's earning capacity and shareholder value.

Support for internationalization is one of the functions of Risk Management. This department provides tools and a constructive risk dialogue to support the divisions, carrying out an annual supervised assessment for this purpose. The risk assessment is based on a model specifically defined for the Group, in which risks are classified into four categories: reporting, compliance, strategic and operational risks. Treasury tracks and manages currency, interest rate and credit risks at Group level.

RUAG Real Estate is committed to being the "best owner" of industrial properties and a centre of excellence for industrial real estate. It develops integrated, themed industrial parks at RUAG's properties in Altdorf, Emmen, Thun, Zurich-Seebach and Stans. It plans and builds industrial and commercial buildings for the divisions and for third parties. It disposes of land, buildings and rights in rem. Its main tasks are to furnish the ideal infrastructure for industrial production and to provide services so that tenants can focus on their core processes. For the divisions, it provides comprehensive corporate real estate management (CREM).

As a market-oriented, all-in-one service provider for themed industrial parks, RUAG Real Estate manages its properties over their entire lifecycle. Its core activities include transactions, portfolio management, commercial property management, building management and comprehensive services for industrial park tenants. The Marketing and Communications and Safety and Environment departments round off its functions.

Serving Swiss industry.

By developing themed industrial parks, RUAG makes a significant contribution to Switzerland as a centre of business activity.

RUAG owns extensive industrial sites in Thun, Altdorf, Stans, Emmen and Zurich-Seebach. To preserve the value of these areas for the long term and realize their considerable development potential, the Group has since 2009 pursued a strategy of developing integrated, themed industrial parks. By establishing jobs, this strategy makes a significant contribution to Switzerland's attractiveness as a centre of business activity. An environment offering a diverse range of services will attract the most talented specialists and engineers.

RUAG Real Estate's strategy is unique in its structured development process based on comprehensive planning. Historically, industrial zones in Switzerland have grown organically. Creating a structure for development, however, makes it possible to ensure long-term, sustainable production capacity. The process is based on a multi-level planning process that determines development for the next 100 years. For each location, RUAG develops a master plan which in turn provides a foundation for comprehensive transport, industrial and logistical planning. This makes it possible to facilitate job creation well in advance.

RUAG made great progress at all sites during 2012. Development has proceeded farthest in Altdorf, where transport planning is complete and new companies have already taken up residence. These include machining tool specialist G-Elit and Pfisterer Ixosil, a manufacturer of cable system components used mostly in high voltage engineering. Synergies were also created in Stans by attracting two companies in the aviation industry, Light Wing and Paint Styling.

Financial statements.

Key figures

in CHF m

	2012	2011
Order inflow	1 612	1 720
Order backlog	1 310	1 480
Net sales	1 741	1 714
Operating income	1 788	1 727
Cost of materials and purchased services	(603)	(594)
Personnel expenses	(815)	(789)
Other operating expenses	(178)	(155)
EBITDA[1]	192	190
EBITDA in % of operating income	10.8%	11.0%
EBIT[2]	114	110
EBIT in % of operating income	6.4%	6.4%
Net profit	81	97
Net profit in % of operating income	4.5%	5.4%
Cash flow from operating activities	130	127
Cash flow from investing activities	21	(46)
Free cash flow	150	81
Cash flow from financing activities	(39)	(65)
Equity before non-controlling interests	861	793
Equity in % of total assets	46.4%	46.3%
Return on equity[3]	9.7%	12.7%
Depreciation and amortization[4]	78	79
Goodwill impairment	—	—
Research and development expenses	134	140
Research and development expenses in % of operating income	7.4%	7.8%
Net sales per employee (CHF 1,000)	228	230
Added value per employee (CHF 1,000)	140	139
Number of employees at end-December	7 739	7 739
Number of employees (average for the year)	7 812	7 739
Number of registered shares (par value CHF 1,000)	340 000	340 000
Earnings per registered share	236.81	285.07
Dividend per registered share[5]	58.82	58.82
Distribution ratio	24.8%	20.6%
Book value per registered share in CHF	2 531	2 331

[1] EBITDA = Earnings before interest, taxes, depreciation, amortization and goodwill impairment.
[2] EBIT = Earnings before interest and taxes.
[3] Net profit as a percentage of average equity.
[4] Depreciation of property, plant and equipment and amortization of intangible assets.
[5] Probable dividend of CHF 20 million in respect of 2012 according to proposal of the Board of Directors.

Five-year overview

in CHF m	2012	2011	2010	2009	2008
Order inflow	1 612	1 720	1 713	1 872	1 582
Order backlog	1 310	1 480	1 653	1 783	1 508
Net sales	1 741	1 714	1 796	1 696	1 537
EBIT[1]	114	110	98	(113)	57
EBIT in % of operating income	6.4%	6.4%	5.3%	(6.6%)	3.7%
Net profit (loss)	81	97	92	(107)	51
Net profit (loss) in % of operating income	4.5%	5.4%	5.0%	(6.2%)	3.2%
Cash flow from operating activities	130	127	130	131	81
Cash flow from investing activities	21	(46)	(50)	(230)	(121)
Free cash flow	150	81	80	(99)	(40)
Cash flow from financing activities	(39)	(65)	(78)	87	32
Equity before non-controlling interests	861	793	734	661	763
Equity in % of total assets	46.4%	46.3%	41.3%	37.3%	48.1%
Return on equity[2]	9.7%	12.7%	13.3%	(15.0%)	6.6%
Research and development expenses	134	140	190	149	123
Research and development expenses in % of operating income	7.4%	7.8%	10.3%	8.6%	7.9%
Number of employees at end-December	7 739	7 739	7 719	7 534	6 687
Number of employees (average for the year)	7 812	7 739	7 689	7 253	6 310

[1] EBIT = Earnings before interest and taxes.

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

Consolidated income statement and other comprehensive income

in CHF m	Note	2012	2011
Net sales	6	1 741	1 714
Own work capitalized		2	3
Changes in inventories and work in progress		45	10
Operating income		1 788	1 727
Cost of materials and purchased services		(603)	(594)
Personnel expenses	7	(815)	(789)
Other operating expenses	8	(178)	(155)
EBITDA[1]		192	190
Depreciation and amortization	18, 19, 20	(78)	(79)
Goodwill impairment	20	—	—
EBIT[2]		114	110
Finance income	10	3	4
Finance costs	10	(6)	(7)
Profit of associates	21	4	3
Profit before tax		116	111
Income tax	11, 12	(18)	(14)
Profit from continued operations		98	97
Loss from discontinued operations	5	(18)	(0)
Net profit		81	97
Other comprehensive income			
Hedge accounting		9	(10)
Exchange differences		(0)	(9)
Tax effects		(2)	1
Other comprehensive income recyclable in future periods		7	(18)
Total comprehensive income		88	79
Attributable to			
Shareholders of RUAG Holding Ltd		81	97
Non-controlling interests		(0)	0
Net profit		81	97
Shareholders of RUAG Holding Ltd		88	79
Non-controlling interests		(0)	0
Total comprehensive income		88	79

[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 64 to 100 form an integral part of the consolidated financial statements.

Consolidated statement of financial position

in CHF m	Note	2012	2011
Cash and cash equivalents	13	198	86
Current financial assets	14	8	10
Receivables and prepayments	15	284	284
Tax assets		3	5
Prepaid expenses and deferred income		13	10
Inventories and work in progress	16, 17	607	558
Current assets		1 112	953
Property, plant and equipment	18	425	445
Investment property	19	78	80
Intangible assets	20	87	79
Goodwill	20	78	78
Associates	21	42	41
Non-current financial assets	14	4	4
Deferred tax assets	12	21	22
Non-current assets		735	748
Assets held for sale and discontinued operations	4, 5	5	10
Total assets		1 853	1 710
Current financial liabilities	22	71	56
Other current liabilities	23	42	34
Trade accounts payable and prepayments	24	303	309
Tax liabilities		13	3
Deferred income and accrued expenses		254	183
Current provisions	26	104	92
Current liabilities		787	677
Non-current financial liabilities	22	47	83
Other non-current liabilities	25	2	2
Employee benefit obligations	37	48	42
Non-current provisions	26	49	58
Deferred tax liabilities	12	56	54
Non-current liabilities		203	239
Liabilities held for sale and discontinued operations	5	1	—
Share capital	31	340	340
Additional paid-in capital		10	10
Retained earnings		569	508
Other reserves		4	(3)
Exchange differences		(62)	(62)
Equity before non-controlling interests		861	793
Non-controlling interests		1	1
Total equity		862	794
Total equity and liabilities		1 853	1 710

The notes to the consolidated financial statements on pages 64 to 100 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows

in CHF m	Note	2012	2011
Net profit		81	97
Depreciation and amortization	18, 19, 20	95	84
Goodwill impairment	20	—	—
Change in non-current provisions and deferred taxes		10	22
Utilization of non-current provisions		(12)	(12)
Share of profit (loss) of associates	21	(4)	(3)
Other non-cash items		1	5
Change in working capital[1]		(39)	(53)
Net gain on disposal of non-current assets		(2)	(13)
Foreign exchange effect on loans		—	0
Finance income received		(3)	(3)
Finance costs paid		4	4
Cash flow from operating activities[2]		130	127
Acquisition of plant and equipment[3]	18	(31)	(33)
Acquisition of property	18, 19	(17)	(26)
Acquisition of intangible assets	20	(1)	(0)
Acquisition of investments less cash and cash equivalents acquired	4	46	(2)
Disposal of plant and equipment		1	3
Disposal of property		14	12
Disposal of intangible assets		0	0
Disposal of investments less cash and cash equivalents disposed	4	6	—
Dividends received from equity investments	21	2	1
Dividends received from non-consolidated investments		—	0
Cash flow from investing activities		21	(46)
Free cash flow		150	81
Net increase (decrease) in share capital		0	—
Increase in third-party financial assets		—	(1)
Decrease in third-party financial assets		—	—
Increase in third-party financial liabilities		—	0
Decrease in third-party financial liabilities		(17)	(44)
Payments for finance leases		(1)	(0)
Finance income received		3	3
Finance costs paid		(4)	(4)
Dividends to shareholders		(20)	(20)
Cash flow from financing activities		(39)	(65)
Effect of exchange rate changes on cash and cash equivalents		1	(0)
Change in cash and cash equivalents		112	16
Cash and cash equivalents at beginning of year		86	70
Cash and cash equivalents at end of year		198	86

1 Excludes current financial assets and current financial liabilities and other non-current liabilities.
2 Including income taxes of CHF 10 million (previous year CHF 2 million) paid in the year under review.
3 Actual leasing payments accounted for in the case of leases.

The notes to the consolidated financial statements on pages 64 to 100 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

in CHF m

	Share capital	Additional paid-in capital	Retained earnings	Other reserves	Exchange differences	Non-controlling interests	Total equity
Balance as at 31 December 2010	340	10	431	7	(53)	1	735
Net profit	—	—	97	—	—	0	97
Other comprehensive income	—	—	—	(9)	(9)	—	(18)
Total comprehensive income for 2011	—	—	97	(9)	(9)	0	79
Dividends paid	—	—	(20)	—	—	—	(20)
Buyout of non-controlling interests	—	—	—	—	—	—	—
Initial consolidation of non-controlling interests	—	—	—	—	—	—	—
Balance as at 31 December 2011	340	10	508	(3)	(62)	1	794
Balance as at 1 January 2012	340	10	508	(3)	(62)	1	794
Net profit	—	—	81	—	—	(0)	81
Other comprehensive income	—	—	—	7	0	—	7
Total comprehensive income for 2012	—	—	81	7	0	(0)	88
Dividends paid	—	—	(20)	—	—	—	(20)
Buyout of non-controlling interests	—	—	—	—	—	—	—
Initial consolidation of non-controlling interests	—	—	—	—	—	0	0
Balance as at 31 December 2012	340	10	569	4	(62)	1	862

In 2012, a dividend of CHF 20 million (previous year: CHF 20 million) was paid to the owner from the 2011 result. This is equivalent to a dividend per share of CHF 58.82 (CHF 58.82).

The notes to the consolidated financial statements on pages 64 to 100 form an integral part of the consolidated financial statements.

This financial report is a translation of 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 May 2011, the Swiss Federal Council approved a new owner's strategy for RUAG, the State-Owned Defence Technology Company, for the period 2011 to 2014. According to this strategy, RUAG is expected, among other things, to direct its activities towards the key defence equipment and technologies – in particular system technologies – that are essential to Switzerland's national defence capability.

Relationship with the Swiss Confederation The Swiss Confederation is the sole shareholder of RUAG Holding Ltd. Under the terms of the Federal Act on State-Owned Defence Companies (BGRB), any disposal of the capital or voting majority of the Swiss Confederation to third parties requires the approval of the Federal Assembly. 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 Summary of significant accounting policies

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 12 (revised), "Income Taxes", 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.

Amendments to existing International Financial Reporting Standards and Interpretations that are not yet mandatory but that RUAG has chosen to adopt early:

- IAS 1 (revised) "Presentation of Financial Statements" (effective 1 July 2012) states that profit or loss and other comprehensive income shall no longer be shown separately. Furthermore, items in other comprehensive income should be grouped in accordance with whether they may at some future date be recycled to the income statement. RUAG adopted this revised Standard early in its financial statements as at 31 December 2011.

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 2012, must be adopted either from financial year 2013 or at a later date:

- IAS 19 (revised) "Employee Benefits" (effective 1 January 2013) contains amendments on accounting for and measuring employee benefit obligations and expense of benefit plans. As RUAG uses the so-called corridor method at present, this revised Standard brings significant changes compared with the current presentation. On the basis of the situation as at 31 December 2012, as detailed in Note 37, "Employee benefits", RUAG expects the following changes in the consolidated financial statements (tax effects are not taken into account):

in CHF m	IAS 19	IAS 19 (revised)
Employee benefit obligations		
Employee benefit obligations funded pension plans (Switzerland)	3	98
Employee benefit obligations other plans	45	62
Total employee benefit obligations	48	160
Expense of benefit plans[1]		
Current service cost	44	46
Interest on employee benefit obligations	46	—
Expected return on assets	(52)	—
Other benefit plan expense	3	2
Total benefit plan expense defined benefit plans	42	48
Interest on net obligation – discount rate 2.0%	—	4

[1] Effects of actuarial gains and losses are recorded in other comprehensive income.

- IFRS 10 "Consolidated Financial Statements" (effective 1 January 2013) supersedes IAS 27 "Consolidated and Separate Financial Statements" as well as SIC 12 "Consolidation – Special Purpose Entities". In particular, this new Standard contains more detailed requirements regarding consolidation. RUAG does not expect adoption of this Standard to result in any significant change to its scope of consolidation or, therefore, to have any significant effect on its reporting.
- IAS 27 (revised) "Separate Financial Statements" now only applies to the accounting principles and disclosure requirements for investments in subsidiaries, jointly controlled entities and associates when an entity presents separate financial statements. The revised Standard does not have any effect on RUAG's reporting.

- IFRS 11 "Joint Arrangements" (effective 1 January 2013) supersedes IAS 31 "Interests in Joint Ventures". The Standard governs the treatment of joint ventures in the consolidated financial statements and particularly prohibits the application of proportionate consolidation. RUAG does not currently hold any relevant interests in joint ventures and does not, therefore, expect adoption of this Standard to have any effect on its reporting.
- IAS 28 "Investments in Associates and Joint Ventures" (effective 1 January 2013) has been revised and contains provisions on the application of the equity method in accounting for investments in associates and joint ventures. RUAG does not expect this revised Standard to have any effect on its reporting.
- IFRS 12 "Disclosure of Interests in Other Entities" (effective 1 January 2013) contains additional disclosure requirements in connection with interests in other entities and influence through third parties with interests. RUAG will adopt the new disclosure obligations in its annual report as at 31 December 2013.
- IFRS 13 "Fair Value Measurement" (effective 1 January 2013) sets out the rules for measuring fair value in a single Standard for the first time. RUAG does not expect adoption of this Standard to have a material effect on its reporting.
- IFRS 9 "Financial Instruments" (effective 1 January 2015): IFRS 9 replaces the current IAS 39 "Financial Instruments: Recognition and Measurement" and contains changes in the requirements for recognizing and measuring financial instruments. The changes are to be implemented in three main phases. To date the "Classification and Measurement" part has been published. RUAG will review its reporting in light of the entry into force of this new Standard.
- IFRS 7 "Financial Instruments: Disclosures" and IAS 32 "Financial Instruments: Presentation" have been amended to include new rules on the offsetting of financial assets and financial liabilities (effective 1 January 2014). RUAG will review its reporting in light of the entry into force of this new Standard.
- In addition, various minor changes enter into force on 1 January 2013 under the "Annual Improvements to IFRS" project. RUAG does not expect adoption of these changes to have a material 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 be 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 39. 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. They are initially recorded at fair value (see also 2.13). Changes to investments in subsidiary companies are recognized as equity transactions insofar as these subsidiary companies were previously controlled and continue to be controlled. 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% 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 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% of direct or indirect voting rights) are stated at fair value (at cost minus necessary value allowances in the absence of a 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 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 2012	End-of-year rate 2012	Annual average 2011	End-of-year rate 2011
Euro	EUR	1.21	1.21	1.23	1.22
Swedish krona	SEK	13.86	14.05	13.68	13.64
US dollar	USD	0.94	0.92	0.89	0.94
Pound sterling	GBP	1.49	1.48	1.42	1.46
Hungarian forint	HUF	0.42	0.41	0.44	0.39

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 value of cost or 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 segment, 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".

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 costs are capitalized and 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 capitalized 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 stated on 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. A negative difference is recognized directly in the income statement following a renewed assessment. Any goodwill arising in connection with an acquisition is recognized under intangible assets. Goodwill is not amortized, but tested for impairment at least annually.

2.14 Impairment
Goodwill impairment 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 contract losses Contract losses 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 expenses and obligations arising from the employee benefit funds are calculated throughout the Group using 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.

The annual expense of benefit plans is calculated on an actuarial basis. The latest actuarial appraisal was carried out on the basis of data as at 1 January 2012. 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 (corridor method). 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.

The majority of RUAG employees in Switzerland are insured against the risks of old age, death and disability with the Group employee benefit fund VORSORGE RUAG. VORSORGE RUAG is an employee benefit fund set up in line with the Swiss defined contribution system. It has the legal status of a foundation. Key decisions concerning the benefits offered by VORSORGE RUAG are taken by the Foundation Board, which is made up of four employee and four employer representatives. Retirement benefits are determined as a function of the individual savings accounts (retirement assets) at the time of retirement. The statutory retirement age is 65 for men and 64 for women. The annual retirement pension is calculated by multiplying the accumulated retirement assets at the date of retirement by a conversion rate laid down in the foundation regulations. For employees retiring at 65, the 2012 conversion rate is 6.4% (see also Note 37, "Employee benefits"). Employees qualify for early retirement at age 58 at the earliest. The conversion rate for early retirees is reduced in line with the longer pension expectancy and the lower retirement assets. Employees may also choose to draw all or part of their retirement pension in the form of a lump-sum capital payment. The statutory employer contributions include risk contributions which are determined by the VORSORGE RUAG Foundation Board (currently 2%) as well as contributions, as laid down in the regulations, to be credited to the individual retirement assets in an amount equivalent to 5.5% to 12.0% of the insured salary, depending on the age of the person insured. Employees likewise make contributions equivalent to 5.5% to 12.0% of their insured salary towards financing their individual retirement assets. In addition, RUAG pays an apportionment contribution equivalent to 1% of the insured salary for supplementary benefits, in particular for statutory old-age, survivors' and disability insurance bridging pensions.

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 Current and deferred income taxes

Income taxes include all current and deferred taxes which are based on income. Taxes which are not based on income, such as taxes on real estate and capital, are recorded as other operating expenses. 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 tax base of assets or liabilities 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 deferred tax assets or liabilities is recorded in the income statement or, if related to a position included in equity, recorded within 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.

Definitions specific to RUAG Within RUAG, net sales for the period are defined as the total of "invoiced sales" plus "change in percentage of completion". Invoiced sales comprise billing and sub-billing for goods already sold/services already rendered during the period, while the change in percentage of completion covers other goods sold/services rendered during the period.

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 and material or a fixed price contract.

Sales on the basis of time and material, which are typical for service agreements in the maintenance business for the Federal Department of Defence, Civil Protection and Sport (DDPS), are measured on the basis of contractually agreed 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 realized on the basis of the percentage of completion method.

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. External segment reporting is then carried out in accordance with RUAG's organizational and management structure as well as internal financial reporting to RUAG's Chief Operating Decision Maker (CODM). The CODM at RUAG is the Executive Chairman. Reporting is based on the Space, Aviation, Technology, Ammotec and Defence segments. In addition, Corporate Services – comprising central services such as IT and real estate management, as well as RUAG's corporate units – is presented as a separate segment. 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 "Elimination" 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 segment* Europe's leading supplier of products for the institutional and commercial space markets. Development and manufacturing expertise comprises five product areas: 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.

Aviation segment* Centre of excellence for civil and military aircraft maintenance, for upgrade programmes and for developing, manufacturing and integrating aviation systems and subsystems. The division maintains all fixed-wing aircraft, helicopters and reconnaissance UAVs belonging to the Swiss Armed Forces and is also a technology partner for other international air forces. In civil aviation, activities focus on providing life cycle support services for business jets to numerous operators and manufacturers, and on high-quality cabin equipment.

* According to IFRS: segment = division.

Technology segment* The winglet centre of excellence and the quality gate for the global aircraft fuselage supply chain for Airbus. Activities focus on machining structural assemblies, on high-quality components and on special services for customers in the aviation and recycling industries. The mainstay in aerostructures is producing wing components and fuselage sections.

Ammotec segment* The European market leader in small-calibre ammunition, pyrotechnic elements and components for the user segments Hunting & Sports and Defence & Law Enforcement. The high-precision ammunition for special units is valued worldwide. Leader in low-pollutant primer technology for items such as actuator cartridges for the construction industry and special applications in automotive safety systems.

Defence segment* The strategic technology partner for land forces. Core competencies are heavy weapon system upgrades, protection solutions for armoured vehicles, robotics for unmanned ground vehicles, logistics solutions, virtual and live simulation systems, technologies for cyber security, and integrating, maintaining and operating electronic command and control, communication, radar and reconnaissance systems for military and civil organizations.

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 remeasured 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 forecasted transactions. At inception as well as during the life of the hedge, RUAG 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 forecasted 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 forecasted transaction or firm commitment and that offer an effective hedge are recognized as cash flow hedges.

Hedging instruments are measured at fair value; the effective portion of the change in fair value of the hedging instrument is recognized in other comprehensive income and separately disclosed under other reserves in shareholders' equity. 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 forecasted 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 value measurement of financial instruments is based on the following hierarchy:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
b) Comparable values for assets or liabilities that are directly or indirectly observable by parameters (Level 2).
c) Inputs for assets or liabilities that are based on unobservable parameters (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 lendings 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 Critical accounting estimates and assumptions

Preparation of the consolidated financial statements in accordance with generally accepted 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 both on historical experience and 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 indications of impairment. If there are indications 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-forecasted 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 20, "Intangible assets/goodwill". As at 31 December 2012, goodwill of CHF 78 million was recognized. No impairment of goodwill was recognized in the year under review. No impairment of goodwill would have occurred during the year under review even if significant assumptions regarding the discount rate (increased by 2%) or future cash flows (reduced by 10%) were to have changed.

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. Total value adjustments amounted to CHF 103 million as at 31 December 2012 (previous year: CHF 108 million).

Construction contracts Estimates may have a significant influence on the evaluation of long-term construction contracts by the percentage of completion method. 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 2012, a net amount of CHF –16 million (previous year: CHF 38 million) was recognized for construction contracts (see Note 17, "Percentage of completion"). In addition, provisions totalling CHF 33 million (CHF 42 million) were recognized for anticipated contract losses as at 31 December 2012.

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 flows 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.

Employee benefit obligations Various actuarial assumptions are made in calculating employee benefit obligations and the net obligation in accordance with IAS 19, especially the discount rate, expected annual salary increases and employee benefit adjustments, anticipated return on plan assets, probability of withdrawal and expected mortality. The assumptions used in these statements are explained in Note 37, "Employee benefits".

4 Acquisitions, disposals and mergers

Acquisitions RUAG acquired Ascom's Defense business unit with effect from 1 March 2012. Defense specializes in communications solutions for army units and security forces. The acquisition allows RUAG to develop its competencies in the area of network-enabled operations. Defense has been fully consolidated since its acquisition. The acquired unit was integrated into RUAG Switzerland Ltd (Defence segment). The purchase price was CHF 16 million. From the date of acquisition to end 2012, Defense generated sales of CHF 22 million. Had the acquisition been effective from 1 January 2012, sales would have amounted to around CHF 26 million.

RUAG acquired Australian Rosebank Engineering Pty Ltd (Rosebank) effective 14 December 2012. Rosebank's core business is the maintenance, repair and overhaul (MRO) of aircraft. The acquisition expands RUAG's core competencies in aircraft component MRO and gives the company access to a new strategically significant growth market in the Asia/Pacific region. Rosebank is being integrated into RUAG Aviation. The acquisition did not have a significant impact on RUAG's result for 2012. Had the acquisition been effective from 1 January, sales would have amounted to around CHF 20 million.

Rosebank was acquired effective 14 December 2012. Owing to the limited period of time between the acquisition and the approval of the consolidated financial statements by the Board of Directors, the purchase price allocation could not yet be completed. The first-time treatment of Rosebank in the consolidated financial statements as at 31 December 2012 is therefore based on provisional numbers. The figures for Rosebank in the table on p. 72 contain these provisional numbers.

RUAG took over the activities of Base Ten Systems Electronics GmbH (Base 10), headquartered in Hallbergmoos (Germany), on 1 January 2011. Its activities have been fully consolidated since the acquisition. The purchase price was EUR 1.4 million, paid in cash. Base 10 generated revenues of EUR 2.3 million in the first year after takeover. The activities of Base 10 were integrated into RUAG COEL GmbH.

Mergers RUAG Electronics AG and RUAG Land Systems AG were merged with RUAG Switzerland Ltd as of 1 January 2011.

New companies As of 1 January 2012, activities at the Altdorf site (Technology segment) were spun off from RUAG Switzerland Ltd and transferred to the four newly established companies RUAG Environment Ltd, RUAG Mechanical Engineering Ltd, RUAG Coatings Ltd and RUAG Automotive Ltd. The available assets and liabilities were taken over at their carrying amounts. Furthermore, RUAG Aviation Malaysia was established and has been operational since 2012.

RUAG Ammotec Brazil was established in 2011. This company is not yet operational.

Disposal of business activities With effect from 1 September 2012, RUAG Coatings Ltd at the Altdorf site was sold to the Impreglon SE of Lüneburg, Germany. Impreglon took over all activities and employees of RUAG Coatings Ltd. Up to the time of the sale, RUAG Coatings Ltd generated sales of CHF 17 million.

With effect from 31 May 2011, Saint Jean Industries acquired the activities at the Plan-les-Ouates site. The buyer was also given an option to purchase the real estate at the Plan-les-Ouates site as part of the disposal of the business activities. The buyer exercised this option in December 2011. The transaction took effect in 2012; accordingly, the carrying amount of the property was recognized under "Assets held for sale" as at 31 December 2011.

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 2012	Disposal in 2012	Acquisition in 2011	Disposal in 2011
Current assets	86	(4)	1	(3)
Property, plant and equipment	10	(3)	1	(0)
Intangible assets	28	—	—	—
Goodwill	—	—	—	—
Current and non-current liabilities	(98)	5	—	—
Deferred tax liabilities	—	—	—	—
Assets and liabilities acquired (disposed)	25	(2)	2	(3)
Agreed price	(26)	6	(2)	6
Escrow account	—	—	—	—
Assumption of financial liabilities	—	—	—	(1)
Exchange differences	—	—	—	—
Gross cash (outflow) inflow	(26)	6	(2)	5
Cash and cash equivalents acquired (disposed)	72	(0)	—	—
Net cash (outflow) inflow	46	6	(2)	5

5 Discontinued operations

As at end-May 2012, activities at the Altdorf site (Technology segment) were spun off from RUAG Switzerland Ltd and transferred to the four newly established companies RUAG Environment Ltd, RUAG Mechanical Engineering Ltd, RUAG Coatings Ltd and RUAG Automotive Ltd to make business performance more transparent and increase the competitiveness of the individual business areas.

The Board of Directors of RUAG decided to initiate a sales process for the two companies RUAG Mechanical Engineering Ltd and RUAG Coatings Ltd as these no longer belong to RUAG's core business. A buyer, Impreglon SE of Lüneburg, Germany, was found for RUAG Coatings Ltd effective 1 September 2012. The sales process is still underway for RUAG Mechanical Engineering Ltd. In the interest of greater transparency, the two companies are therefore stated in RUAG's consolidated financial statements as "Discontinued operations".

Income from discontinued operations

in CHF m	2012	2011
Sales	38	63
Expenses	43	63
Current loss before tax	(5)	(0)
Tax expense	(0)	(0)
Current loss from discontinued operations	(5)	(0)
Re-measurement and disposal proceeds from discontinued operations	(12)	—
Tax on re-measurement and disposal proceeds	(0)	—
Total loss from discontinued operations	(18)	(0)

Assets and liabilities of discontinued operations

in CHF m	2012	2011[1]
Receivables and prepayments	0	—
Inventories and work in progress	5	—
Other current assets	0	—
Non-current assets	0	—
Total assets of discontinued operations	5	—
Current liabilities	1	—
Non-current liabilities	0	—
Total liabilities of discontinued operations	1	—

[1] Not applicable.

Values from discontinued operations contained in the consolidated statement of cash flows

in CHF m	2012	2011
Cash flow from operating activities	8	4
Cash flow from investing activities	(0)	(3)
Free cash flow	8	2
Cash flow from financing activities	(5)	(0)
Total cash flows	3	2

6 Net sales

in CHF m	2012	2011
Invoiced sales	1 727	1 737
Change in percentage of completion	15	(23)
Net sales	1 741	1 714

DDPS	628	665
Third parties	1 099	1 072
Invoiced sales by customer group	1 727	1 737

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

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

Defence	867	938
Civil	859	799
Invoiced sales by type of use	1 727	1 737

Production	968	1 009
Maintenance	621	568
Services	137	160
Invoiced sales by order type	1 727	1 737

Switzerland	767	837
Rest of Europe	763	701
Middle East	9	16
North America	137	129
South America	11	13
Asia/Pacific	38	39
Africa	2	3
Invoiced sales by region	1 727	1 737

Sales in "rest of Europe" primarily concern Germany and Sweden.

7 Personnel expenses

in CHF m	2012	2011
Salaries and wages	(618)	(592)
Expense of benefit plans	(44)	(34)
Other social security expenses	(83)	(84)
Contract personnel	(38)	(46)
Other personnel expenses	(32)	(32)
Total	(815)	(789)

8 Other operating expenses

in CHF m	2012	2011
Premises costs	(21)	(19)
Maintenance and repairs of property, plant and equipment	(50)	(57)
Cost of energy and waste disposal	(12)	(12)
Insurance and duties	(7)	(7)
Administration and IT costs	(46)	(48)
Advertising costs	(22)	(17)
Other operating expenses and income, net	(20)	6
Total	(178)	(155)

Other operating expenses and income, net include in particular the cost of maintaining operational security, surveillance, capital taxes and expenses for additions to and release of provisions. In 2011 the sale of a property generated income of CHF 10 million.

9 Research and development expenses

in CHF m	2012	2011
Total	(134)	(140)

Research and development expenses include all own work and work assigned to third parties or services required from third parties that were recognized as an expense during the year under review.

Internally financed research and development costs amounted to CHF 41 million (previous year: CHF 41 million).

10 Finance income/finance costs

in CHF m	2012	2011
Interest income	3	4
Realized exchange gains	0	0
Realized gains from securities	—	—
Total finance income	3	4
Interest expense	(6)	(7)
Realized exchange losses	(0)	(0)
Realized losses from securities	—	—
Impairment of financial assets	—	—
Total finance costs	(6)	(7)

11 Income taxes

in CHF m	2012	2011
Current income taxes	(18)	(1)
Deferred income taxes	(0)	(13)
Total income tax expense	(18)	(14)

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 statutory tax rate by the local taxable profit or loss, differed from the effective tax rate as follows (in CHF million):

	2012	2011
Profit before tax	116	111
Expected weighted tax rate in %	20.6%	21.9%
Expected income tax expense	(24)	(24)
Recognition of tax loss carryforwards from previous years	(0)	5
Utilization of non-recognized tax loss carryforwards from previous years	(0)	(0)
Effect of recognized loss carryforwards on current result	1	(1)
Non-deductible expenses	(2)	(2)
Non-taxable income	2	2
Income taxed at a lower rate	4	6
Increase/reduction in tax rate	0	(1)
Tax credits (losses) from preceding periods	1	1
Goodwill impairment	—	—
Effective income tax expense	(18)	(14)

12 Deferred taxes

in CHF m	2012	2011
Origination (reversal) of temporary differences arising from the current period	16	(0)
Effect of tax rate changes	0	0
Recognition of tax loss carryforwards	5	5
Utilization of recognized deferred taxes from tax loss carryforwards	(21)	(18)
Exchange differences	—	—
Total deferred taxes	(0)	(13)

Change in deferred taxes		
Total deferred taxes as at 1 January	(32)	(21)
Exchange differences	(1)	2
Effect of acquisitions	—	—
Recognized in profit or loss	(0)	(13)
Recognized in other comprehensive income	(2)	(1)
Total deferred taxes as at 31 December	(35)	(32)
Of which deferred tax assets	21	22
Of which deferred tax liabilities	(56)	(54)

Tax loss carryforwards by date of expiry		
2012	—	7
2013	9	—
2014	—	—
2015	—	—
2016	—	4
2017	—	0
2018	2	2
After 2018	15	22
Total	25	36

Potential tax effects from tax loss carryforwards	7	9
Of which recognized as deferred tax assets	5	6
Of which not recognized	2	3

13 Cash and cash equivalents

in CHF m	2012	2011
Cash on hand	2	1
Demand deposits with banks	196	85
Money-market investments	0	0
Total	198	86

Currencies of cash and cash equivalents		
CHF	130	16
EUR	35	38
USD	7	9
SEK	20	17
Other	6	7
Total cash and cash equivalents	198	86

14 Financial assets

in CHF m	2012	2011
Current financial assets		
Current third-party assets	8	10
Total current financial assets	8	10

Current financial assets comprise the fair value of open foreign currency hedging transactions (see Note 36, "Risk management and additional information on financial instruments").

Non-current financial assets

in CHF m	2012	2011
Money-market investments	0	0
Loans	4	4
Loans to associates	—	—
Valuation allowances	(0)	(0)
Total non-current financial assets	4	4

Currencies of financial assets		
CHF	2	2
EUR	7	7
USD	1	3
SEK	2	2
Other	0	—
Total financial assets	11	13

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

15 Receivables and prepayments

in CHF m	2012	2011
Trade and other receivables	262	258
Receivables from associates	0	0
Prepayments to suppliers	11	20
Prepayments to associates	—	—
Valuation allowances	(11)	(8)
Total trade and other receivables and prepayments	263	270
Current receivables from shareholders	—	—
Current receivables from government bodies	10	8
Other current receivables	11	6
Total receivables and prepayments	284	284

Maturity structure of receivables		
Not past due	166	178
Past due 1–30 days	72	68
Past due 31–60 days	13	10
Past due 61–90 days	3	7
Past due 91–180 days	8	9
Past due over 180 days	22	12
Total	284	284

Currencies of receivables and prepayments		
CHF	105	89
EUR	110	138
USD	55	52
SEK	2	2
Other	13	2
Total	284	284

The allowance for doubtful receivables contains individual valuation allowances totalling CHF 11 million (previous year: CHF 8 million). Effective losses on receivables in each of the past two years were less than 1% of net sales.

Allowance for doubtful receivables

in CHF m	2012	2011
Balance at 1 January	(8)	(9)
Initial consolidation	—	—
Increase in allowance	(4)	(6)
Utilization of allowance	2	2
Reversal of allowance	2	4
Disposals	—	—
Currency differences	(2)	1
Balance at 31 December	(11)	(8)
Allowance for doubtful receivables	(11)	(8)
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.

16 Inventories and work in progress

in CHF m	2012	2011
Raw materials and supplies	208	222
Work in progress at cost of conversion	169	118
Work in progress (percentage of completion)[1]	144	136
Semi-finished goods	118	120
Finished goods	72	71
Valuation allowances	(103)	(108)
Total	607	558

[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 186 million (previous year: CHF 189 million). In the year under review, a total of CHF 421 million was recognized as cost of material (CHF 428 million). The write-down of inventories recognized as an expense totalled CHF 16 million (CHF 15 million). Reversals of write-downs of inventories recognized in a prior period, arising from an increase in net realizable value, totalled CHF 2 million in the year under review (CHF 7 million).

17 Percentage of Completion (POC)

in CHF m	2012	2011
Contract sales and costs of ongoing projects at the end of the reporting period		
Aggregated contract sales of ongoing projects	1 257	1 132
Aggregated contract costs of ongoing projects	(1 106)	(993)
Realized margin of ongoing projects at the end of the reporting period	151	139
Cumulative balance of ongoing projects at the end of the reporting period		
Gross amount due from customers for contract work	144	136
Gross amount due to customers for contract work	(160)	(98)
Net position at the end of the reporting period	(16)	38
Advances received from customers	76	92

18 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 2011	548	219	77	567	16	1 427
Initial consolidation	1	—	—	—	—	1
Eliminations from the scope of consolidation	—	—	—	—	—	—
Additions	19	15	—	11	15	59
Disposals	(28)	(13)	(2)	(1)	(0)	(44)
Reclassifications	5	4	(1)	(9)	(13)	(15)
Exchange differences	(3)	(2)	(0)	(1)	(0)	(6)
As at 31 December 2011	541	223	74	568	17	1 423
Accumulated depreciation and impairment						
As at 1 January 2011	427	172	0	368	(0)	966
Initial consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Scheduled depreciation	23	16	0	18	—	57
Impairment	5	0	0	1	—	6
Disposals	(28)	13	(0)	(1)	—	41
Depreciation of net carrying amount	—	—	—	—	—	—
Reclassifications	2	(2)	—	(5)	0	(5)
Exchange differences	(2)	(1)	(0)	(0)	—	(3)
As at 31 December 2011	427	172	0	380	—	979
At cost						
As at 1 January 2012	541	223	74	568	17	1 423
Initial consolidation	5	1	—	6	—	11
Eliminations from the scope of consolidation	(20)	(1)	—	—	—	(21)
Additions	17	14	—	4	11	46
Disposals	(19)	(15)	(1)	(1)	(1)	(37)
Reclassifications	(32)	0	—	3	(12)	(40)
Exchange differences	1	(0)	0	(0)	(0)	1
As at 31 December 2012	493	222	73	580	15	1 382
Accumulated depreciation and impairment						
As at 1 January 2012	427	172	0	380	—	979
Initial consolidation	0	0	—	1	—	1
Eliminations from the scope of consolidation	(17)	(1)	—	—	—	(18)
Scheduled depreciation	23	16	0	18	—	57
Impairment	12	1	—	—	—	12
Disposals	(18)	(14)	—	(0)	—	(33)
Depreciation of net carrying amount	—	—	—	—	—	—
Reclassifications	(37)	(2)	—	(0)	—	(40)
Exchange differences	1	(0)	0	0	—	1
As at 31 December 2012	390	171	0	398	—	959
Net carrying amount						
As at 1 January 2012	114	51	74	188	17	445
As at 31 December 2012	103	52	73	181	15	425

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

Impairment on property, plant and equipment in 2012 relates to discontinued operations. Further information can be found in Note 5 “Discontinued operations”.

In 2011, recognized impairment totalled CHF 6 million. Aerostructures at the Emmen site (Technology segment) was impacted by the strong Swiss franc. Future cash flows were reassessed in consequence. This resulted in a recoverable amount (value in use) lower than the carrying amount, leading to an impairment of property, plant and equipment of CHF 6 million in 2011.

Leased assets

in CHF m	2012	2011
At cost	5	4
Accumulated depreciation and impairment	(4)	(3)
Net carrying amount	2	1

19 Investment property

in CHF m	2012	2011
At cost		
As at 1 January	226	225
Initial consolidation	—	—
Eliminations from the scope of consolidation	—	—
Additions	2	0
Disposals	(1)	—
Reclassifications	—	—
Exchange differences	—	—
As at 31 December	228	226
Accumulated depreciation and impairment		
As at 1 January	146	142
Initial consolidation	—	—
Eliminations from the scope of consolidation	—	—
Scheduled depreciation	4	4
Impairment	—	—
Disposals	(1)	—
Depreciation of net carrying amount	—	—
Reclassifications	—	—
Exchange differences	—	—
As at 31 December	149	146
Net carrying amount		
As at 1 January	80	83
As at 31 December	78	80

The fair value of investment property is estimated at CHF 190–210 million in 2012 and 2011, based on a capitalization rate of 7% of rental income. No market evaluation by an expert was carried out. The rental and other earnings from the investment property amounted to CHF 18 million (CHF 17 million in the previous year) and the total real estate expenses to CHF 11 million (CHF 11 million).

Majority leased sites to third parties are classified as investment properties. In 2012, 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 2012 and 2011.

20 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 2011	7	11	15	114	147	94
Initial consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Additions	—	—	0	—	0	—
Disposals	(5)	(0)	(0)	—	(5)	—
Reclassifications	(0)	—	0	—	—	—
Exchange differences	(0)	(0)	(0)	(1)	(1)	(1)
As at 31 December 2011	2	11	15	113	141	93
Accumulated amortization and impairment						
As at 1 January 2011	5	7	12	25	50	15
Initial consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Scheduled depreciation	1	1	0	15	17	—
Impairment	—	—	—	—	—	—
Disposals	(5)	(0)	(0)	—	(5)	—
Reclassifications	—	—	—	—	—	—
Exchange differences	(0)	(0)	(0)	(0)	(1)	—
As at 31 December 2011	2	8	12	40	61	15
At cost						
As at 1 January 2012	2	11	15	113	141	93
Initial consolidation	0	—	3	25	28	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Additions	—	—	1	—	1	—
Disposals	(0)	—	(0)	—	(0)	—
Reclassifications	—	—	—	—	—	—
Exchange differences	(0)	0	(0)	0	0	0
As at 31 December 2012	2	11	18	139	170	93
Accumulated amortization and impairment						
As at 1 January 2012	2	8	12	40	61	15
Initial consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Scheduled depreciation	0	1	2	18	21	—
Impairment	—	—	—	—	—	—
Disposals	(0)	—	(0)	—	(0)	—
Reclassifications	—	—	—	—	—	—
Exchange differences	(0)	0	(0)	0	0	—
As at 31 December 2012	2	9	13	58	83	15
Net carrying amount						
As at 1 January 2012	1	3	3	73	79	78
As at 31 December 2012	0	1	5	80	87	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 net present values of future cash flows are based on a medium-term plan, approved by the management, covering a five-year period. Cash flows after this five-year period are extrapolated without taking any growth rate into account.

Cash flows are calculated using a segment-specific pretax discount rate of 7% to 10% (previous year: 8 % to 10%), based on target equity of 40% of total assets.

Goodwill is a result of acquisitions and allocated to the segments as follows (in CHF million):

	2012	2011
Space[1]	61	61
Aviation	0	0
Technology	—	—
Defence	4	4
Ammotec	13	13
As at 31 December	78	78

[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". The relevant discount rate for Space Switzerland is 9%.

Amortization and impairment of intangible assets is reported in the income statement under Amortization, and goodwill impairment is shown as such. No impairment of goodwill was recognized in 2012 and 2011.

21 Associates

in CHF m

	2012	2011
Balance at 1 January	41	39
Acquisitions	0	—
Initial consolidation	—	—
Share of results after taxes	4	3
Dividends	(2)	(1)
Reclassifications	—	—
Other changes in equity	—	—
Exchange differences	—	(1)
Balance at 31 December	42	41

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

Aggregate financial information for associates

in CHF m

	2012	2011
Total assets	177	170
Total liabilities	98	83
Net assets	79	87
Sales	149	139
Profit	9	7

There are no contingent liabilities relating to associates.

22 Financial liabilities

in CHF m	2012	2011
Current financial liabilities		
Due to banks	65	41
Financial derivatives at fair value	5	15
Liabilities to associates	—	—
Lease liabilities	1	0
Current portion of non-current financial liabilities	—	—
Total current financial liabilities	71	56

Non-current financial liabilities

in CHF m	2012	2011
Due to banks	45	82
Lease liabilities	3	1
Loans secured by property	—	—
Bond issues	—	—
Liabilities to associates	—	—
Total non-current financial liabilities	47	83

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 2.5% (previous year: 2.5%).

Maturity structure of financial liabilities

in CHF m	2012	2011
Up to 1 year	71	56
Up to 2 years	44	41
Up to 3 years	0	41
Up to 4 years	0	0
Over 4 years	3	0
Total financial liabilities	118	139

Non-current liabilities to banks include covenants concerning the net debt/EBITDA ratio, the debt servicing ratio (expressed as the ratio of EBITDA less investments for amortization of financial debt plus net interest expense) and a covenant concerning the minimum equity ratio.

All covenants were met as at 31 December 2012 and 31 December 2011.

Currencies of financial liabilities

in CHF m	2012	2011
CHF	111	128
EUR	(1)	2
USD	2	9
SEK	0	—
Other	6	0
Total financial liabilities	118	139

23 Other current liabilities

in CHF m	2012	2011
Due to third parties	18	16
Due to associates	—	—
Due to government bodies	24	16
Due to shareholders	—	—
Due to employee benefit funds	1	2
Total	42	34

24 Trade accounts payable and prepayments

in CHF m	2012	2011
Trade accounts payable	92	105
Accounts payable to associates	0	0
Prepayments from customers	211	204
Prepayments from associates	—	—
Total	303	309

Maturity structure of trade accounts payable and prepayments

in CHF m	2012	2011
Not past due	275	283
Past due 1–30 days	23	21
Past due 31–60 days	3	4
Past due 61–90 days	0	2
Past due 91–180 days	1	(0)
Past due over 180 days	1	(0)
Total trade accounts payable and prepayments	303	309

Currencies of trade accounts payable and prepayments

in CHF m	2012	2011
CHF	168	174
EUR	90	95
USD	12	16
SEK	21	19
Other	10	5
Total trade accounts payable and prepayments	303	309

25 Other non-current liabilities

in CHF m	2012	2011
Due to third parties	2	2
Due to associates	—	—
Due to shareholders	—	—
Due to employee benefit funds	—	—
Total	2	2

26 Provisions

in CHF m

	Restructuring	Contract losses	Warranties	Holiday and overtime	Loyalty bonuses and anniversary benefits	Other provisions	Total
Balance at 1 January 2012	8	42	23	40	20	16	149
Initial consolidation	—	—	0	1	2	1	4
Eliminations from the scope of consolidation	—	—	(0)	(0)	(0)	—	(1)
Additions	12	16	9	13	3	11	64
Release of unused provisions	(1)	(2)	(3)	(4)	(2)	(1)	(15)
Use of provisions	(3)	(22)	(5)	(9)	(2)	(6)	(48)
Reclassifications	(0)	(1)	(0)	(1)	—	2	(1)
Exchange differences	(0)	(0)	(0)	0	(0)	(0)	(0)
Balance at 31 December 2012	16	33	23	39	21	21	153
Current provisions	12	18	20	39	2	14	104
Non-current provisions	4	15	3	(0)	19	7	49

In 2012, RUAG Aviation had to make provisions for restructuring of CHF 10 million. The provisions are in connection with the headcount reduction at the Oberpfaffenhofen site. The core business of RUAG Aviation, which incorporates RUAG Aerospace Services GmbH at the Oberpfaffenhofen site in Germany, consists of maintenance, repair and overhaul of civil and military aircraft. To maintain the international competitiveness of the business in future, around 150 jobs are being cut in this area.

Additions to provisions for restructuring in 2011 mainly concern the headcount reduction at the Altdorf site (Technology segment). A structural adjustment to the activities at Mechanical Engineering at the Altdorf site was required in 2011 to maintain its international competitiveness. It was also decided to discontinue activity as an automotive component supp-lier. As a result of the ensuing job losses, provisions of CHF 3 million had to be made in 2011. These charges were partially balanced by releasing provisions totalling CHF 5 million in Aerostructures.

The statement as at 31 December 2012 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 2.0% (previous year: 2.5%) and other actuarial assumptions on matters such as staff turnover and salary increases.

Other provisions mainly include follow-up costs for projects, deferred costs for partial retirement and the framework agreements (ERA) in Germany, as well as severance payment obligations in Austria. The framework agreements concerning remuneration for services put into effect a wage policy reform project for workers and white-collar employees in Germany. ERA ensures that workers receive equal pay for equal work. The severance payment obligations in Austria are due to departing employees and are based on the number of years of service.

27 Contingent liabilities towards third parties

in CHF m	2012	2011
Guarantees	108	112
Securities	160	160
Warranty commitments	52	62
Total	320	334

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 to secure the credit agreement for RUAG Holding Ltd. Warranty commitments are solely bank guarantees.

28 Additional contingent liabilities not stated on the balance sheet

in CHF m	2012	2011
Warranty contracts	—	1
Letters of intent	—	—
Agreed contractual penalties (fines and premiums)	9	16
Legal proceedings	1	2
Bill commitments	—	—
Capital commitments for property, plant and equipment	8	6
Other contingent liabilities	15	15
Total	33	41

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 currently viewed as improbable.

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.

29 Assets pledged as collateral

in CHF m	2012	2011
Cash and cash equivalents	0	1
Receivables and inventories	—	—
Plant and equipment	1	0
Property	4	7
Total	5	8

30 Fire insurance values

in CHF m	2012	2011
Plant and equipment	1 189	1 222
Property	1 331	1 356
Total	2 520	2 579

31 Share capital

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

32 Events after the reporting period

On 22 February 2013, the Board of Directors of RUAG Holding Ltd approved the consolidated financial statements for publication. The Annual General Meeting has the right to approve the consolidated financial statements.

33 Related party transactions

in CHF m	2012	2011
Receivables from related parties	68	49
Liabilities to related parties	(2)	(2)
Prepayments from related parties	(46)	(56)
Current liabilities to employee benefit funds	(1)	(2)
Non-current liabilities to employee benefit funds	—	(0)

In the year under review, CHF 68 million of receivables from related parties (previous year: CHF 49 million) and CHF 2 million of liabilities to related parties (CHF 2 million) were attributable to the DDPS. Invoiced sales to the DDPS totalled CHF 628 million (CHF 665 million) as stated in Note 6, "Net sales". There were no loans between the Group companies and members of the Board of Directors. In 2012, turnover of CHF 0.4 million was generated with associates and services with a value of CHF 0.2 million purchased.

34 Compensation of key management personnel

The overall emoluments (excluding employer contributions to statutory old age and survivors' insurance) paid to the non-executive members of the Board of Directors for the 2012 financial year amounted to CHF 397,000 (previous year: CHF 495,000). The overall emoluments (including all employer contributions to employee benefit funds, excluding employer contributions to statutory old age and survivors' insurance or similar state social insurance contributions) paid to the CEO and the other members of the Executive Board for the 2012 financial year amounted to CHF 5,962,000 (CHF 5,325,000). The 2011 total includes the compensation paid to Dr Lukas Braunschweiler, CEO up to 31 October 2011, and Konrad Peter, Executive Chairman from 1 November 2011 onwards.

The overall emoluments (including all employer contributions to employee benefit funds, excluding employer contributions to statutory old age and survivors' insurance or similar state social insurance contributions) paid to the CEO for the 2012 financial year amounted to CHF 754,000 (previous year: CHF 621,000). The 2011 total includes the compensation paid to Dr Lukas Braunschweiler, CEO (CHF 495,000), up to 31 October 2011, and Konrad Peter, Executive Chairman (CHF 126,000), from 1 November 2011 onwards.

Compensation of key management personnel

in CHF 1000

	Board of Directors		Total compensation CBD[2]	
	2012	2011	2012	2011
Basic salary				
Cash compensation[1]	397	495	104	117
Employer contributions to employee benefit funds	—	—	—	—
Payments in kind	—	—	—	—
Performance-related component				
Cash compensation[1]	—	—	—	—
Shares	—	—	—	—
Options	—	—	—	—
Total compensation	397	495	104	117

	Executive Board		Total compensation CEO[2]	
	2012	2011	2012	2011
Basic salary				
Cash compensation[1]	3 447	3 476	464	464
Employer contributions to employee benefit funds	564	471	—	82
Payments in kind	273	52	26	31
Performance-related component				
Cash compensation[1]	1 679	1 326	264	44
Shares	—	—	—	—
Options	—	—	—	—
Total compensation	5 962	5 325	754	621
Relation between performance-related component and cash compensation	49%	38%	57%	9%

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

[2] In the case of the Board of Directors, the amount includes the compensation paid to the Vice Chairman, Hans-Peter Schwald, in respect of the year under review and the compensation paid to the Chairman of the Board of Directors, Konrad Peter, in respect of the previous year. For the Executive Board, the amount includes the compensation paid to the CEO, Dr Lukas Braunschweiler, up to 31 October 2011 and from 1 November 2011 onwards the compensation paid to Executive Chairman Konrad Peter.

35 Future minimum obligations of leasing transactions

Financial leasing

in CHF m	2012	2011
Within 1 year	1	0
Later than 1 year, within 5 years	2	1
After 5 years	0	—
Total	3	1
Less future finance costs	(0)	(0)
Total lease liabilities	3	1

Operating leases

In CHF m		
Within 1 year	19	21
Later than 1 year, within 5 years	60	62
After 5 years	11	22
Total	90	105

Operating leases are obligations under contracts (including rental contracts) which do not qualify as financial leases. Future lease liabilities are not reported on the balance sheet.

36 Risk management and additional information on financial instruments

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 segments 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. Management is supported in this task by a corporate Group Risk Management function.

36.1 Financial risk management

RUAG is exposed to various financial risks as a result of its business activities. The most significant financial risks arise as a result of changes in exchange rates, interest rates and commodity prices. A further risk is the ability to secure adequate liquidity.

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) forecasted 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 Group is mainly subject to changes in the exchange rates of the US dollar, euro and Swedish krona. 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 forecasted transactions. RUAG also employs forward transactions and currency options to hedge certain cash flows anticipated in foreign currency.

Foreign currency positions in the balance sheet

in CHF m	EUR	USD	SEK	Other
Cash and cash equivalents	35	7	20	6
Receivables and prepayments	110	55	2	13
Other financial assets	7	1	2	0
Financial liabilities	1	(2)	(0)	(6)
Trade accounts payable and prepayments	(90)	(12)	(21)	(10)
Other financial liabilities	—	—	(2)	—
Carrying amount of exposure as at 31 December 2012	63	49	0	3
Cash and cash equivalents	24	19	14	8
Receivables and prepayments	133	45	3	2
Other financial assets	14	4	2	1
Financial liabilities	(1)	(1)	(0)	(1)
Trade accounts payable and prepayments	(89)	(22)	(29)	(7)
Other financial liabilities	(1)	—	(2)	—
Carrying amount of exposure as at 31 December 2011	79	44	(12)	3

The following currency hedging transactions existed as at 31 December:

Contract volumes

in CHF m	2012	2011
Currency hedging contracts banks positive	240	326
Currency hedging contracts banks negative	(37)	(85)

Recognized values for currency hedge transactions

in CHF m	2012	2011
Current financial assets	7	9
Current financial liabilities	(2)	(11)

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 Holding Ltd provides RUAG Deutschland GmbH with a euro-denominated loan. This loan is not hedged. The loan amount as at 31 December 2012 was EUR 163 million (previous year: EUR 163 million). The cumulative exchange losses for this loan recognized in equity as at 31 December 2012 amounted to CHF 45 million (CHF 44 million).

Hedge Accounting RUAG uses hedge accounting in accordance with IAS 39. The following values in relation to hedging transactions were recognized in equity as at 31 December:

in CHF m	2012	2011
Other reserves	5	(3)

Due to the occurrence of the underlying transactions, CHF 3 million was transferred from other reserves to other operating income (previous year: CHF 15 million).

Commodity price risk In buying commodities (particularly copper, zinc, lead, aluminium, steel etc.) to be used as raw materials in production, the Group 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.

The following table shows an overview of the annual consumption of commodities.

Consumption

in CHF m	2012	2011
Aluminium	2	6
Lead	7	7
Copper	22	17
Steel	2	5
Zinc	4	3
Total	37	39

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 interest rate swaps corresponding to the term of the financial liabilities.

Interest-bearing financial liabilities

in CHF m	2012	2011
Current financial liabilities	66	41
Non-current financial liabilities	47	83
Total financial liabilities	113	124
Of which variable interest-bearing	113	124
Fixed through interest rate swap	(82)	(123)
Variable interest-bearing, net	31	1

Interest expense for interest-bearing financial liabilities in the year under review amounted to CHF 4 million (CHF 5 million).

The following hedging transactions for interest rate risks existed as at 31 December:

Contract volumes

in CHF m	2012	2011
Interest rate swap	107	160

Recognized values for interest rate swaps

in CHF m	2012	2011
Current financial assets	—	—
Current financial liabilities	(2)	(4)

Credit risk Credit risks arise in particular when customers are not in a position to fulfil their contractual commitments. To manage this risk, the Group periodically evaluates customers' solvency. Sales from transactions with the DDPS amount to around 36% of total sales. No other customer accounts for more than 10% of the Group's net sales. Trade and other receivables from the DDPS account for around 26% (previous year: 19%) of total trade and other receivables as at 31 December 2012. There are no other concentrated credit risks that exceed 5% of total trade and other receivables.

The carrying amount of financial assets corresponds to the credit risk and is composed as follows:

in CHF m	2012	2011
Cash and cash equivalents	198	86
Current financial assets	8	10
Receivables and prepayments	284	284
Non-current financial assets	4	4
Total credit risk	494	384

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. Default risk and credit risk are reduced 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. The Group does not expect any losses arising from counterparties' non-fulfilment of their contractual obligations.

Liquidity risk Liquidity risk describes the risk that arises if the Group is not in a position to fulfil its obligations when due or at a reasonable price. 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 business policy, 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.

Net debt (net assets) is a key measure of liquidity management. The table below provides an analysis of the Group's net debt/net assets by due date from the end of the reporting period to the contractual expiry date.

Net debt/net assets

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	198	—	—	—	—	198
Current financial assets[1]	0	—	—	—	—	0
Non-current financial assets	0	1	0	0	2	4
Current financial liabilities[1]	(66)	—	—	—	—	(66)
Non-current financial liabilities	(0)	(43)	(0)	(0)	(3)	(47)
Other non-current liabilities	—	(2)	—	—	—	(2)
Net assets as at 31 December 2012	133	(45)	(0)	0	(1)	87
Cash and cash equivalents	86	—	—	—	—	86
Current financial assets[1]	0	—	—	—	—	0
Non-current financial assets	0	1	0	0	1	4
Current financial liabilities[1]	(41)	—	—	—	—	(41)
Non-current financial liabilities	(0)	(41)	(41)	(0)	(0)	(83)
Other non-current liabilities	—	(2)	—	—	—	(2)
Net debt as at 31 December 2011	45	(42)	(41)	0	1	(36)

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

36.2 Capital risk management

In managing capital, RUAG's aims are to ensure that the Group 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. In order to meet these objectives, RUAG can apply for higher or lower dividend payments, repay capital to the shareholder, issue new shares, or dispose of assets in order to reduce 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.

36.3 Fair value estimates

Due to the short maturity, the carrying amount of current financial assets and current financial liabilities corresponds to the carrying amount at the end of the reporting period. The fair value of non-current financial assets corresponds to the cost of acquisition. The fair value of non-current financial liabilities is estimated on the basis of future payments due, which are discounted at market interest rates. There are no significant differences in relation to the carrying amount.

Interest rate swaps are discounted at market interest rates. Foreign currency forward transactions are measured at forward exchange rates at the end of the reporting period.

The carrying amounts or fair value of financial assets and liabilities are assigned to the measurement categories as follows:

Financial assets in current assets

in CHF m	2012	2011
Hedging transactions		
Financial derivatives at fair value	7	9
Loans and receivables		
Receivables and prepayments	284	284
Current financial assets	0	0
Total	292	294

Financial assets in non-current assets

	2012	2011
Loans and receivables		
Non-current financial assets	4	4
Total	4	4

Current financial liabilities

	2012	2011
At amortized cost		
Current financial liabilities	66	41
Trade accounts payable and prepayments	303	309
Hedging transactions		
Financial derivatives at fair value	4	15
Total	373	366

Non-current financial liabilities

	2012	2011
At amortized cost		
Non-current financial liabilities	47	83
Total	47	83

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.

37 Employee benefits

The Group 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 Group. 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 as at 31 December 2012.

All pension plans are based on local legal provisions.

The following figures give an overview of the status of the funded and non-funded defined benefit plans as at 31 December 2012 and 2011.

Net expense of benefit plans

in CHF m

	Funded (Switzerland) 2012	Funded (Switzerland) 2011	Non-funded 2012	Non-funded 2011
Current service cost	42	48	2	1
Interest on employee benefit obligations	44	52	2	2
Expected return on plan assets	(52)	(60)	—	—
Amortization of actuarial losses	—	—	0	0
Increase (decrease) in non-recognized assets and recognized loss in accordance with IAS 19.58	3	—	—	—
Plan curtailments	—	(14)	—	—
Total expense of defined benefit plans	38	26	4	3

Employer contributions for the 2013 financial year are expected to total CHF 39 million.

As at 31 December 2012, as was also the case at the end of the previous year, actuarial losses not yet amortized exceeded the present value of employee benefit 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 2012 and 2011 for funded plans (Switzerland) and non-funded plans (foreign plans, primarily in Germany and Sweden):

Employee benefit obligations
in CHF m

	Funded (Switzerland) 2012	Funded (Switzerland) 2011	Non-funded 2012	Non-funded 2011
Employee benefit obligations at beginning of year	1 735	1 749	49	45
Benefit entitlements earned	42	48	2	1
Employee contributions	27	24	—	—
Interest on employee benefit obligations	44	52	2	2
Actuarial loss (gain)[1]	178	(71)	11	3
Exchange differences	—	—	1	(1)
Plan amendments	—	—	—	—
Changes in the scope of consolidation	31	—	—	—
Plan curtailments	—	(14)	—	—
Net employee benefits paid	(85)	(52)	(1)	(1)
Present value of employee benefit obligations at end of year	1 972	1 735	62	49
Fair value of plan assets	1 835	1 688	—	—
Deficient cover	(136)	(47)	(62)	(49)

[1] See also the information on actuarial assumptions on p. 97.

Plan assets
in CHF m

	2012	2011
Fair value of plan assets at beginning of year	1 688	1 677
Actual return on plan assets	138	9
Exchange differences	—	—
Employer contributions	39	30
Employee contributions	27	24
Changes in the scope of consolidation	28	—
Net employee benefits paid	(85)	(52)
Fair value of plan assets at end of year	1 835	1 688

Allocation of plan assets as at 31 December
in %

	Long-term target	2012	2011
Cash and cash equivalents	0–6%	1%	3%
Debt instruments (bonds)	52–78%	63%	52%
Equity instruments (shares)	11–25%	23%	31%
Other assets	13–20%	13%	14%
Total plan assets		100%	100%

Summary of financial position at year-end
in CHF m

	Funded (Switzerland) 2012	Funded (Switzerland) 2011	Non-funded 2012	Non-funded 2011
Deficient cover	(136)	(47)	(62)	(49)
Unrecognized actuarial losses	134	48	17	6
Non-amortized first-time difference	—	—	—	—
Unrecognized plan assets	(1)	(1)	—	—
Employee benefit obligations	(3)	—	(45)	(42)

Change in employee benefit obligations

in CHF m	Funded (Switzerland) 2012	Funded (Switzerland) 2011	Non-funded 2012	Non-funded 2011
Employee benefit obligations at beginning of year	—	(5)	(42)	(41)
Net expense of benefit plans	(38)	(26)	(4)	(3)
Changes in the scope of consolidation	(3)	—	—	—
Employer contributions	38	31	1	1
Exchange differences	—	—	(1)	1
Employee benefit obligations recognized	(3)	—	(45)	(42)

As at 31 December 2012, the employee benefit funds owned no shares in RUAG Holding Ltd.

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	2012	2011	2010	2009	2008
Present value of employee benefit obligations at end of year	2 034	1 784	1 793	1 619	1 438
Fair value of plan assets	1 835	1 688	1 677	1 618	1 327
(Deficient)/surplus cover	(198)	(96)	(116)	(1)	(111)
Difference between expected and actual return on plan assets	87	(51)	(29)	99	(284)
Revaluation of employee benefit obligations	(44)	(23)	24	19	29

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

Actuarial assumptions

in %	2012	2011
Funded pension plans (Switzerland)		
Discount rate	2.00%	2.50%
Expected long-term return on plan assets	3.00%	3.50%
Annual salary increases	2.00%	2.00%
Annual pension adjustments	0.00%	0.00%
Other pension plans		
Discount rate	3.00–4.00%	3.50–4.50%
Annual salary increases	2.50–3.00%	2.50–3.00%
Annual pension adjustments	1.50–2.00%	1.50–2.00%

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

To calculate the employee benefit obligations as at 31 December 2011, life expectancy was calculated for the first time on the basis of generation tables (BVG 2010G); this resulted in an increase in the employee benefit obligations. Due to the expected higher life expectancy, the conversion rates for plan participants were reduced, resulting in a corresponding reduction of the employee benefit obligations. Changed assumptions for pension adjustments thus resulted in a decrease of the employee benefit obligations. The conversion rate applied by VORSORGE RUAG is to be reduced to 6.28% with effect from 1 January 2013 and then further reduced in stages to 5.8% by 2017.

38 Segment information

in CHF m

	2012 Space	2011 Space	2012 Aviation	2011 Aviation	2012[1] Technology	2011[1] Technology
Net sales with third parties	284	274	475	474	210	196
Net sales with other segments	0	0	11	13	4	9
Total net sales	285	275	486	487	213	205
EBITDA	32	33	32	27	12	6
Depreciation and amortization	(20)	(20)	(4)	(5)	(5)	(11)
Goodwill impairment	—	—	—	—	—	—
EBIT	12	13	28	22	7	(5)
Net financial income						
Profit of associates						
Profit before tax						
Tax expense						
Profit from continued operations						
Net operating assets by region	80	85	110	111	81	101
Net operating assets Switzerland	74	82	12	46	54	79
Net operating assets rest of Europe	6	3	79	58	27	23
Net operating assets North America	—	—	18	7	—	—
Acquisition of property, plant and equipment and intangible assets	(7)	(9)	(5)	(7)	(5)	(8)
Disposal of property, plant and equipment and intangible assets	0	0	0	0	1	1

[1] Excl. discontinued operations.

Further information on sales and customers is provided in Note 6, "Net sales".

Products and services of the individual segments are described in Note 2.22, "Segment information".

Aviation segment In 2012, the Aviation segment made provisions of CHF 10 million in connection with the headcount reduction at the Oberpfaffenhofen site (see Note 26, "Provisions").

Technology segment In 2011, the Technology segment made an impairment of CHF 6 million on property, plant and equipment in Aerostructures as well as provisions of CHF 3 million in respect of the headcount reduction at the Altdorf site. These charges were partially balanced by releasing provisions totalling CHF 5 million in Aerostructures (see Note 26, "Provisions").

2012 **Ammotec**	2011 **Ammotec**	2012 **Defence**	2011 **Defence**	2012 **Services**	2011 **Services**	2012 **Elimination**	2011 **Elimination**	2012 **Group total**	2011 **Group total**
337	311	408	429	28	30	—	—	1 741	1 714
1	1	7	6	132	128	(154)	(157)	—	—
337	312	414	435	160	158	(154)	(157)	1 741	1 714
43	36	35	44	38	43	0	0	192	190
(11)	(11)	(11)	(6)	(27)	(27)	—	—	(78)	(79)
—	—	—	—	—	—	—	—	—	—
32	25	25	38	11	17	0	0	114	110
								(3)	(3)
				4	3			4	3
								116	111
								(18)	(14)
								98	97
194	187	(54)	(30)	311	331	(1)	(1)	722	786
41	37	(70)	(48)	306	326	(3)	(2)	415	520
140	135	16	18	5	5	2	1	276	243
12	15	—	—	—	—	(0)	(0)	30	22
(12)	(14)	(6)	(4)	(12)	(17)	—	—	(49)	(60)
0	0	1	1	13	12	—	—	16	15

39 Consolidated companies, associates and non-controlling interests (as at 31 december 2012)

Company	Head office	Country	Equity capital (100%)		Shareholding	Method of consolidation
RUAG Holding AG[1]	Berne	Switzerland	CHF	340 000 000		Full
Consolidated companies						
RUAG Switzerland Ltd	Emmen	Switzerland	CHF	112 200 000	100.0%	Full
RUAG Environment Ltd	Schattdorf	Switzerland	CHF	100 000	100.0%	Full
RUAG Mechanical Engineering Ltd	Schattdorf	Switzerland	CHF	100 000	100.0%	[4]
RUAG Automotive Ltd	Schattdorf	Switzerland	CHF	100 000	100.0%	Full
Mecanex USA Inc	Berlin, CT	USA	USD	1 500	100.0%	Full
RUAG Aviation Malaysia Sdn Bhd	Kuala Lumpur	Malaysia	MYR	5 000 000	65.0%	Full
Rosebank Engineering Pty Ltd	Bayswater, VIC	Australia	AUD	10 000	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%	[3]
RUAG COEL GmbH	Wedel	Germany	EUR	260 000	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	Vienna 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
RUAG Hungarian Ammotec Inc	Sirok	Hungary	HUF	280 000	100.0%	Full
RUAG Industria e Comercio de Municoes Ltda	São Francisco	Brazil	BRL	200 000	100.0%	[3]
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%	[3]
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	1 000 000	40.0%	Equity
Other investments						
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] Non-material other investments are valued at cost minus a valuation allowance.
[4] RUAG Mechanical Engineering Ltd is reported as a discontinued operation.

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

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 and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes (pages 60 to 100), for the year ended December 31, 2012.

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.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2012 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.

PricewaterhouseCoopers AG, Bahnhofplatz 10, Postfach, 3001 Bern
Telefon: +41 58 792 75 00, Telefax: +41 58 792 75 10, www.pwc.ch

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
Audit expert
Auditor in charge

Bernhard Bichsel
Audit expert

Bern, February 22, 2013

Income statement

in CHF m	2012	2011
Income from investments	50	33
Interest income	14	20
Gains from securities	—	—
Income from the disposal of investments	0	—
Income from services	15	14
Currency gains	—	—
Income	80	67
Investment expense	—	—
Finance costs	(4)	(6)
Losses from securities	—	—
Personnel expenses	(9)	(8)
Administration costs	(10)	(10)
Amortization	(0)	(0)
Currency losses	(2)	(9)
Tax	(1)	(0)
Expenses	(26)	(33)
Annual profit	54	35

Statement of financial position before allocation of profit

in CHF m	2012	2011
Cash and cash equivalents	145	43
Receivables		
Third parties	0	0
Group companies	278	285
Prepaid expenses and deferred income		
Third parties	0	1
Group companies	—	—
Current assets	423	329
in % of total assets	34.4%	29.2%
Investments	647	637
Financial assets		
Third parties	—	0
Group companies	160	160
Plant and equipment	0	1
Non-current assets	808	798
in % of total assets	65.6%	70.8%
Total assets	1 231	1 128
Current financial liabilities		
Third parties	64	42
Group companies	339	250
Deferred income and accrued expenses		
Third parties	1	2
Group companies	—	—
Non-current financial liabilities		
Third parties	41	82
Group companies	—	—
Provisions	0	0
Liabilities	446	377
in % of total equity and liabilities	36.2%	33.4%
Share capital	340	340
Statutory reserve	28	26
Statutory reserve from capital contribution	10	10
Voluntary reserve	—	—
Retained earnings brought forward	353	340
Annual profit	54	35
Equity	785	751
in % of total equity and liabilities	63.8%	66.6%
Total equity and liabilities	1 231	1 128

Contingent liabilities towards third parties

in CHF m	2012	2011
Guarantees	121	133
Warranty commitments	42	41
Total	162	174

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

The bank guarantees were issued by various banks on the instructions of RUAG Holding Ltd on behalf of RUAG Aerospace Services GmbH, Oberpfaffenhofen and RUAG Switzerland Ltd Defence, Thun, in favour of third parties.

Other liabilities not stated on the balance sheet

in CHF m	2012	2011
Warranty contracts	—	—
Long-term rental and leasing contracts	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	2012	2011
Plant and equipment	1	1
Property	—	—
Total	1	1

Assets pledged as collateral

in CHF m	2012	2011
Cash and cash equivalents	—	—
Receivables	—	—
Financial assets to Group companies	160	160
Property, plant and equipment	—	—
Investments	—	—
Total	160	160

An intra-Group loan of CHF 160 million to RUAG Real Estate Ltd was pledged to secure the credit agreement for RUAG Holding Ltd.

Foreign currency forward transactions

in CHF m	2012	2011
Volume of contracts with banks	240	303
Volume of contracts with banks	(37)	(85)
Volume of contracts with Group companies	35	79
Volume of contracts with Group companies	(231)	(293)
Positive replacement value banks	7	9
Negative replacement value banks	(3)	(11)
Positive replacement value Group companies	3	10
Negative replacement value Group companies	(7)	(8)
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	2012	2011
Current liabilities to employee benefit funds	—	—
Non-current liabilities to employee benefit funds	—	—
Total	—	—

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

Events after the reporting period On 22 February 2013, the Board of Directors of RUAG Holding Ltd approved the consolidated financial statements for publication. The Annual General Meeting has the right to approve the consolidated financial statements.

Investments (as at 31 December 2012)

Company	Head office	Country	Equity capital (100%)		Shareholding
RUAG Switzerland Ltd	Emmen	Switzerland	CHF	112 200 000	100.0%
RUAG Deutschland GmbH	Wessling	Germany	EUR	1 000 000	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%
Rosebank Engineering Pty Ltd	Bayswater, VIC	Australia	AUD	10 000	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%
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 segments 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 are the responsibility of the Management.

Proposed allocation of balance sheet profit

in CHF m	2012	2011
Annual profit	54	35
Amount brought forward from previous year	353	340
Profit at the disposal of the Annual General Meeting	408	375

Allocation of profit proposed by Board of Directors

in CHF m	2012	2011
Dividend	20	20
Allocation to statutory reserve	3	2
Balance to be carried forward	385	353

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

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 balance sheet, income statement and notes (pages 103 to 107) for the year ended December 31, 2012.

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, 2012 comply with Swiss law and the company's articles of incorporation.

PricewaterhouseCoopers AG, Bahnhofplatz 10, Postfach, 3001 Bern
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pwc

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	Bernhard Bichsel
Audit expert	Audit expert
Auditor in charge	

Bern, February 22, 2013

Corporate management and control principles.

RUAG adheres to the corporate governance guidelines of SIX Swiss Exchange. Unless otherwise specified, the information is applicable as at 31 December 2012.

L. to r.: Hans-Peter Schwald, Jürg Oleas, Konrad Peter, Egon W. Behle, Paul Häring, Dr Hans Lauri.

Board of Directors

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

The Board of Directors of RUAG Holding Ltd consists of six members, five of whom are non-executive directors. Chairman of the Board of Directors Konrad Peter took over operational management as Executive Chairman on 1 November 2011 and will continue in this role until the new CEO Urs Breitmeier commences duties on 1 April 2013. Otherwise, the members of the Board of Directors have no material business relationship with the Group. The list lower down on this page provides information on the name, age, position, date of joining and remaining term in office of each member of the Board of Directors.

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 members of the Board of Directors are elected annually and 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 Group. It possesses supreme decision-making powers and determines the guidelines for strategy and organization, and the financial guidelines for accounting. The Board of Directors has delegated the management of day-to-day business to Executive Chairman Konrad Peter on an interim basis. Together with the Executive Board, he is responsible for the overall management of the Group and for all matters not delegated to another governing body of the company by law, the Articles of Association, the Swiss Federal Council's owner's strategy or the Regulations Governing Organization and Operations. In October 2012, Urs Breitmeier was appointed new CEO of RUAG Holding Ltd. He will take up office on 1 April 2013.

Board of Directors

Name	Born	Position	Member since	Elected until
Konrad Peter	1946	Chairman	2002	2013
Hans-Peter Schwald	1959	Vice-Chairman, non-executive	2002	2013
Paul Häring	1957	Non-executive member	2004	2013
Dr Hans Lauri	1944	Non-executive member	2008	2013
Egon W. Behle	1955	Non-executive member	2011	2013
Jürg Oleas	1957	Non-executive member	2011	2013

The Board of Directors maintains an exchange dialogue with senior operating executives and regularly visits RUAG's sites.

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 Group in accordance with the owner's strategy of the Swiss 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 formed: an Audit Committee and a Nomination & Compensation Committee. Beside the usual six meetings, the Board of Directors met for a two-day strategy meeting in summer 2012, and held telephone calls or committee meetings as required. The agenda for meetings of the Board of Directors is set by the Chairman. 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 three members of the Board of Directors: Paul Häring (Chairman), Konrad Peter and Jürg Oleas. The members of the Audit Committee are experienced in financial and accounting matters. The Audit Committee meets regularly and is convened by the Chairman as often as business requires. Usually the meetings are also attended by the CFO, internal auditor, Senior Vice President of Corporate Legal & Secretary General 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 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 to 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 three members of the Board of Directors: Dr Hans Lauri (Chairman), Konrad Peter and Hans-Peter Schwald. The Nomination & Compensation Committee meets regularly and is convened by the Chairman as often as business requires. The meetings are usually also attended by the Chief Human Resource Officer.

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 Board of Directors in the areas of management development, compensation system and policies, objective setting, pension fund matters and social partnership.

Finally, the Nomination & Compensation Committee is tasked with proposing the compensation of members of the Board of Directors in line with the guidelines set forth by the AGM.

Information and control instruments

The RUAG Management Information System (MIS) 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 division 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 monthly results. The Executive Chairman 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 Executive Chairman. Its powers and duties are set out in the Regulations Governing Organization and Operations and in the job description of the Executive Chairman.

The members of the Executive Board report to the Executive Chairman, who is responsible for overall management and cross-divisional cooperation.

The Executive Board comprises the Executive Chairman, the CEOs of the operating divisions, CFO, Senior Vice President of Corporate IT, Senior Vice President of Corporate Marketing & Communications, Senior Vice President of Corporate Legal & Secretary General and Chief Human Resource Officer.

Chairman of the Board of Directors Konrad Peter took over operational management as Executive Chairman on 1 November 2011. With effect from 1 April 2013, Urs Breitmeier, CEO of the Defence division, will assume the office of Group CEO.

Executive Board as at 1 January 2013

Name	Born	Position	Member since
Konrad Peter	1946	Executive Chairman[1]	2011
Dr Peter Guggenbach	1962	Member, RUAG Space	2009
Phillipp M. Berner	1966	Member, RUAG Aviation	2010
Cyril Kubelka	1963	Member, RUAG Ammotec	2004
Urs Breitmeier	1963	Member, RUAG Defence[1]	2006
Urs Kiener	1965	Member, Corporate Finance & Controlling, RUAG Technology[2]	2002
Dr Christian Ferber	1965	Member, Corporate Human Resources	2012
Thomas Kopp	1955	Member, Corporate Legal & Secretary General	2011
Marc Grimmer	1961	Member, Corporate IT[3]	2012
Christiane Schneider	1967	Member, Corporate Marketing & Communications	2011

1) Konrad Peter took over operational management as Executive Chairman on 1 November 2011.
With effect from 1 April 2013, Urs Breitmeier, CEO of the Defence division, will assume the office of CEO of RUAG Holding Ltd.

2) Dr Viktor Haefeli, CEO of the Technology division, left RUAG on 31 May 2012. RUAG CFO Urs Kiener has taken over as Acting CEO of the Technology division.

3) Oliver Meyer was Senior Vice President of Corporate IT until August 2012. Marc Grimmer holds this post on an interim basis until 31 March 2013, after which Andreas Fitze will assume the role.

Dr Viktor Haefeli, CEO of the Technology division, left RUAG on 31 May 2012. RUAG CFO Urs Kiener has taken over as Acting CEO of the Technology division. In August 2012, Oliver Meyer, Senior Vice President of Corporate IT, decided to take on a new challenge within RUAG as a business unit head. Andreas Fitze will assume the role of Senior Vice President of Corporate IT on 1 April 2013. Marc Grimmer holds this post on an interim basis until 31 March 2013.

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

At the proposal of the Executive Chairman, the full Board of Directors decides on the five-year corporate plan, annual budget, individual

Management structure as at 1 January 2013

Board of Directors, Committees

- Nomination & Compensation Committee
- **Board of Directors**: Konrad Peter (Chairman), Hans-Peter Schwald (Vice-Chairman), Paul Häring, Dr Hans Lauri, Egon W. Behle, Jürg Oleas
- Audit Committee
  - Internal Auditor

Executive Board

- **Executive Chairman**[1]: Konrad Peter

Divisions / **Business Units**

- **Space** – Dr Peter Guggenbach: Space Switzerland; Space Sweden; Space Austria
- **Aviation** – Philipp M. Berner: Military Aviation Switzerland; Military Aviation Germany; Business Aviation; Subsystems & Products
- **Technology** – Urs Kiener[2]: Aerostructures Switzerland; Aerostructures Germany; Components Altdorf
- **Ammotec** – Cyril Kubelka: Ammotec Switzerland; Ammotec International
- **Defence** – Urs Breitmeier[1]: Land Systems; Simulation & Training; Network Enabled Operations

RUAG Corporate Services

- **Legal & SG**[4] – Thomas Kopp
- **F & C**[4] – Urs Kiener
- **HR**[4] – Dr Christian Ferber
- **MarCom**[4] – Christiane Schneider
- **IT**[3] – Marc Grimmer

[1] Konrad Peter took over operational management as Executive Chairman on 1 November 2011.
With effect from 1 April 2013, Urs Breitmeier, CEO of the Defence division, will assume the office of CEO of RUAG Holding Ltd.
[2] Dr Viktor Haefeli, CEO of the Technology division, left RUAG on 31 May 2012. RUAG CFO Urs Kiener has taken over as Acting CEO of the Technology division.
[3] Oliver Meyer was Senior Vice President of Corporate IT until August 2012. Marc Grimmer holds this post on an interim basis until 31 March 2013, after which Andreas Fitze will assume the role.
[4] Corporate Legal & Secretary General (Legal & SG), Corporate Finance & Controlling incl. Real Estate (F & C), Corporate Human Resources (HR), Corporate Marketing & Communications (MarCom).

projects, divisional and consolidated financial statements and human resource issues.

The Executive Chairman 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, the Articles of Association and the Regulations Governing Organization and Operations.

The Executive Chairman regularly assesses whether the Articles of Association and the regulations and other guidelines issued by the Board of Directors require amendment, and applies for such amendments to be made.

With effect from 1 April 2013, Urs Breitmeier, CEO of the Defence division, will assume the office of CEO of RUAG Holding Ltd.

Members of the Executive Board
The list on page 113 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.

HR policy includes the principle that employee performance and company success are the main factors that determine compensation.

Compensation, profit-sharing and loans

Compensation report
The following details correspond to the guidelines of SIX Swiss Exchange concerning compensation paid to members of the Board of Directors and Executive Board, taking the transparency provisions of the Swiss Code of Obligations (Art. 663b^{bis} and Art. 663c CO) into account. Compensation paid in accordance with these provisions of the Swiss Code of Obligations is listed in the financial statements in Note 34 "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 reviews 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 AGM 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:

- Fixed basic salary
- Compensation for serving on a committee
- Other benefits

Each member of the Board of Directors receives a fixed basic salary as part of his or her basic compensation. Additional compensation is paid for serving on a committee. Other benefits comprise the payment by RUAG Holding Ltd of employee's contributions to social security funds and lump-sum allowances for expenses.

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 34 "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 reviewed. 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 component 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
- Performance-based component
- Employer contributions to pension funds
- Benefits in kind

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 component 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 goals are set at the beginning of each year between the Board of Directors and the Executive Chairman for 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 Group overall and of the individual divisions is measured based on four financial value drivers:

- Net sales
- Operating result (EBIT)
- Return on net operating assets (RONOA)
- Cash flow from operating 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 four value drivers. If the lower threshold is not reached for the criterion concerned, the proportion of the performance-based component related to it is ruled out. In contrast, exceeding the upper threshold does not lead to a further increase in the amount of the performance-based component.

The amount of the performance-based component is based on reaching objectives. For all members of the Executive Board, the performance-based component in 2012 ranged from 42% (previous year: 0%) to a maximum of 60% (58%) 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 Executive Chairman and Senior Vice Presidents of the service units, the financial goals of the Group apply.

Other benefits comprise employers' contributions paid to social security funds 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 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 cantonal 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 34 "Compensation of key management personnel".

Other compensation
Severance payments: Members of the Executive Board or Board of Directors are not contractually entitled to any severance payments. In the 2012 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 or Board of Directors.

Additional fees: During the 2012 financial year, the members of the Executive Board or Board of Directors received no appreciable fees or other compensation for additional services rendered to RUAG Holding Ltd or any of its subsidiaries.

RUAG and its subsidiaries have not provided any securities, loans, advances or credits to the members of the Executive Board or Board of Directors 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 1,000. As at 31 December 2012, 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 AGMs 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 DDPS exercises the Confederation's shareholder interests.

Owner's strategy of the Swiss Federal Council
The updated 2011–2014 owner's strategy of the Swiss Federal Council entered into force on 1 May 2011. It 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 Swiss Federal Council lays down strategic objectives for its shareholding in RUAG Holding Ltd, specifically strategic focal points, human resource policy and financial objectives, cooperation and investments and reporting to the Swiss Federal Council.

Cross-shareholdings
The 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 CO):

- Changes to the purpose of the company
- Introduction of voting shares
- Restrictions on the transferability of registered shares
- Approved or conditional capital increase

The 2011–2014 owner's strategy of the Swiss Federal Council establishes the binding framework that enables RUAG to fulfil its duties conscientiously and profitably.

- 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 or liquidation

Convening the 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 Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA Art. 22).

Change of control clauses
Any disposal of the capital or voting majority of the Swiss Confederation in RUAG Holding Ltd to third parties requires the approval of the 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 2012 was 106% (previous year: 101%). The fund's financial situation has thus improved.

Statutory auditor

Duration of mandate 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 Group CHF 1.1 million (CHF 1.1 million) during the 2012 financial year for services related to the audit of the financial statements of RUAG Holding Ltd and its subsidiaries and of RUAG's consolidated financial statements.

In addition, PricewaterhouseCoopers invoiced RUAG CHF 0.6 million (CHF 0.5 million) during the 2012 financial year for 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 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 CHF 1000	2012	2011
Audit fees	1 113	1 054
Tax advice	72	108
Due diligence advice	194	121
All other advice	346	269
Total fees	1 725	1 552

Forthcoming events

Annual results	31/12/2012
Annual press conference	21/03/2013
AGM	17/05/2013

The Annual Report containing the financial statements for the year ended 31 December 2012 is sent to the shareholder together with an invitation to the AGM.

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