Annual Report 2014

The rigorously implemented corporate strategy has proven successful again. It secures our strong position on the international market.

Together ahead. RUAG

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RUAG at a glance

RUAG develops trailblazing innovations and internationally sought-after cutting-edge technology in the fields of aerospace and defence for applications on land, in the air and in space. It does so by dint of its outstanding technological expertise and with a high degree of foresight and responsibility.

RUAG seeks to create the foundations for security and progress within society while at the same time growing as a business. And to achieve this, it adheres to clear-cut values which set the tone for how we think and what we do in our everyday business: collaboration, high performance and visionary thinking. This applies to the Group, with its five divisions (Space, Aerostructures, Aviation, Ammotec and Defence). But it also applies to our interactions with business partners and customers, the public and – not least – our owner, the Swiss Confederation.

To secure and maintain a strong position vis-à-vis competitors around the world both today and in future, RUAG's competencies are focused on three strategic areas:

1. Combining civil and military applications

Today, the civil sector is acting more and more as a source of technological impetus for military applications. This includes, for example, visuals for virtual simulators, which today are coming from the gaming industry and telecommunications technologies. Currently the share of civilian applications at RUAG stands at 57 %, compared with 43 % for military applications.

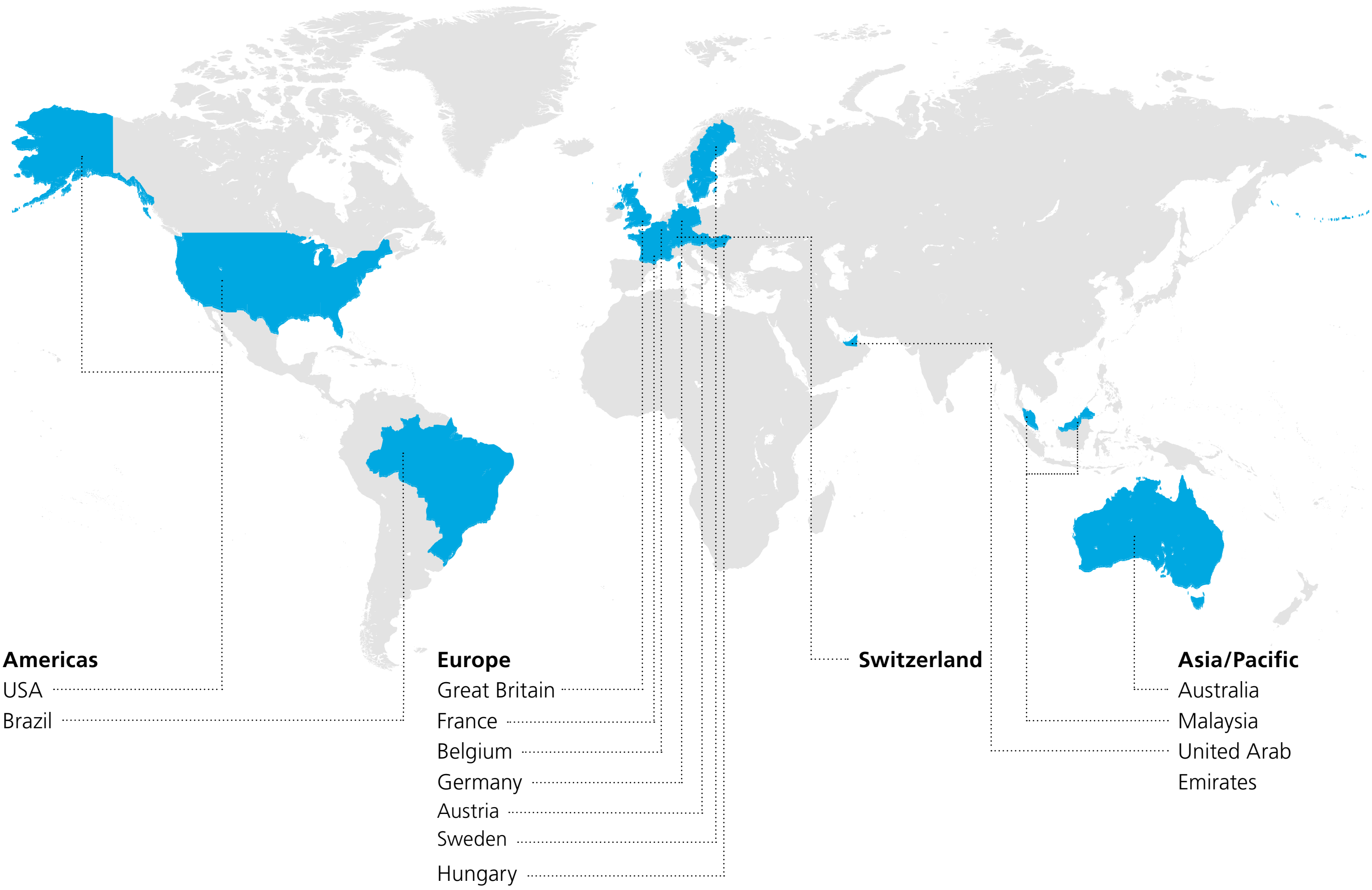
2. Focusing on core business

Despite its high degree of diversity, RUAG is focusing on specific competencies. Business areas outside of these competencies have already been spun off. At the same time, RUAG is investing heavily in its divisions.

3. International growth

RUAG has operations in Europe, North and South America, Asia/Pacific and the Middle East. Outside of Switzerland it has production sites in Germany, France, Austria, Sweden, Hungary, Australia and the USA. In addition, RUAG has branch offices in Belgium, the UK, Brazil, Malaysia and the United Arab Emirates. RUAG has a workforce of around 8,100 people and annual sales of about CHF 1.8 billion. Well over half of net sales are generated outside the Swiss home market.

RUAG locations



Together ahead. RUAG

The three pillars of the RUAG strategy

1. Combining civil and military applications

- Civil
- Military

2. Focusing on core business

Market segments	Divisions
Space	Space
Air	Aerostructures
	Aviation
Land	Ammotec
	Defence

3. International growth

- Switzerland
- Europe
- America
- Asia/Pacific

Corporate values

Collaboration – High performance – Visionary thinking

Basic mission

Providing and maintaining the technical systems of the Swiss Armed Forces

The 2014 financial year

In 2014, RUAG generated slightly higher net sales of CHF 1,781 million (previous year: CHF 1,752 million). Net profit rose by CHF 8 million to CHF 102 million, surpassing the 100 million mark for the first time.

At CHF 115 million, earnings before interest and taxes (EBIT) remained at the previous year's level. All five divisions operated profitably and contributed to the positive Group result. The biggest growth in EBIT was recorded by the Space division (CHF 9 million), followed by Aviation (CHF 6 million) and Ammotec (CHF 6 million). The Group was able to boost its net financial position to CHF 195 million (CHF 162 million). With a 57 % share of sales (56 %), revenue from civil business exceeded that of military business, which contributed 43 % (44 %) of sales.

The Federal Department of Defence, Civil Protection and Sport (DDPS) remains RUAG's largest and most important single customer; however, its share of sales continued to fall last year, declining from 32 % to 30 %. RUAG was able to offset this decline by means of international and civil contracts. The proportion of international business increased again, reaching a new high of 63 % (61 %). The majority of added value with international customers was created in Switzerland, at the Thun, Emmen and Zurich sites.

Cash flow from operating activities came to CHF 135 million in 2014 (CHF 142 million). Free cash flow decreased to a still respectable CHF 57 million (CHF 100 million). Order intake fell to CHF 1,785 million (CHF 1,851 million). This figure does not include two major framework agreements recently signed by RUAG Aerostructures and RUAG Space amounting to approximately CHF 450 million, under which only the annual deliveries are recognized as orders. The order backlog figure also declined slightly, to CHF 1,370 million (CHF 1,405 million).

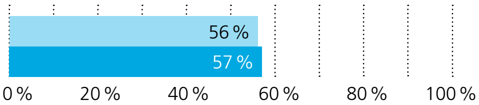
Outlays for research and development rose to a total of CHF 140 million (CHF 132 million). This corresponds to the target figure of around 8 % of total sales. The Group's total headcount decreased to 8,114 as at 31 December 2014 (8,241). Most of this reduction can be traced back to the Aviation and Ammotec divisions and, with the simultaneous increase in net sales, indicates a gain in productivity in line with the Operational Excellence programme.

Overview of key figures

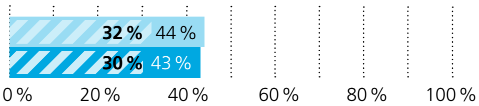
in CHF million	2014	2013	Change in %
Net sales	1 781	1 752	1.6 %
Earnings before interest, taxes, depreciation and amortization (EBITDA)	193	196	–1.3 %
Earnings before interest and taxes (EBIT)	115	115	–0.8 %
Net profit	102	94	7.5 %
Cash flow from operating activities	135	142	–4.5 %
Free cash flow	57	100	–43.3 %
Net financial position	195	162	20.2 %
Order inflow	1 785	1 851	–3.6 %
Order backlog	1 370	1 405	–2.5 %
Research and development expenses	140	132	6.5 %
Employees as at 31 December incl. apprentices	8 114	8 241	–1.5 %

Net sales by application

Civil
57 %

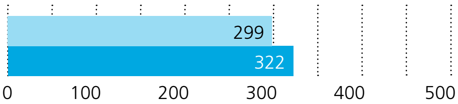


Military
43 %

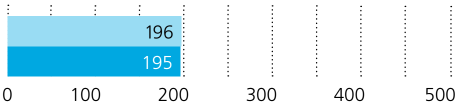


Net sales by division

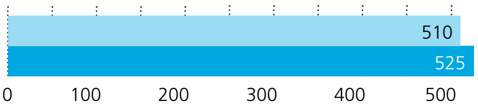
Space
CHF 322 million



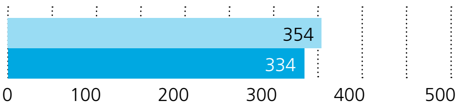
Aerostructures
CHF 195 million



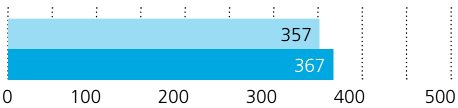
Aviation
CHF 525 million



Ammotec
CHF 334 million

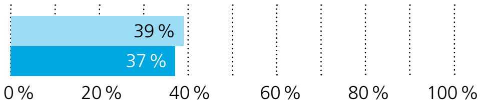


Defence
CHF 367 million

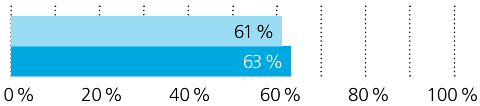


Net sales by market

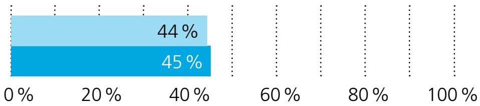
Switzerland
37 %



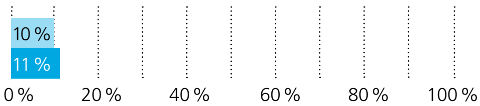
Abroad
63 %



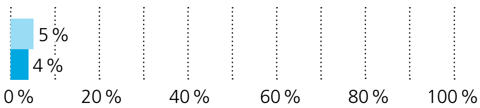
of which Europe
45 %



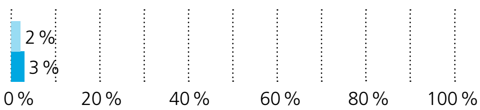
of which North America
11 %



of which Asia / Pacific
4 %



of which rest of the world
3 %



DDPS 2013 2014

For detailed figures, see Note 6 "Segment information" in the financial statements.

Letter to shareholder

We grasped the challenges, exploited the potential and showed our mettle: tried-and-tested strategy leads to positive net result.

Dear shareholder,
customers and readers,

2014 turned out to be an eventful year dominated by political and economic upheavals such as the EU crisis and the Ukraine conflict. And yet we weathered it well. We can base this positive conclusion on three observations.

First: In terms of turnover, we are in a better position than we were last year. The share of sales generated in our key target markets outside Europe has remained stable at around 18 %. At CHF 1.8 billion, our order intake figure is slightly below last year and EBIT comes in at CHF 115 million, which is on a par with the previous year and is also on budget.

Of all our customers, the Swiss Federal Department of Defence, Civil Protection and Sport (DDPS) remains the biggest and most important. In 2012, RUAG concluded several service level agreements (SLAs) with the DDPS. These extend over a five-year term ending in 2017. Over this period, RUAG will realize a cost saving of CHF 100 million for the DDPS to the benefit of the client while maintaining the same level of service. Two years on, RUAG is still on track with its savings programme.

Second: The divisions have moved even closer together. The civilian segment has continued to grow, and is thus also helping to strengthen the military side of the business. Our "syntegration" (synergy and integration) model has us on the right track. Syntegration means: growing while at the same time integrating internal operations. In order to further expedite this process, we will be harnessing even more synergy effects – in our customer service operations, in the technologies we use and in the field of Shared Services, i.e. those service processes which can be pooled and handled by a central provider.

Third: Thanks to our steady positive development, we have no need to rethink our strategy in any of our business areas; rather, we are building on solid foundations with a tried-and-tested strategy. This is also evident at management level: since early 2015, all vacancies on the Group Executive Board have been filled. The chairmanship of the Board of Directors has passed to a long-standing member in the person of Hans-Peter Schwald. In addition, we also have three new directors, one female and two male.

Let us look first at the divisions. They are a striking example of the momentum prevailing within our company. To a degree we could not have foreseen just a short time ago, the Space and Aviation divisions have developed into two of the cornerstones of RUAG. Their turnover has developed very favourably.

RUAG Ammotec also recorded a very positive outcome. Thanks to other incoming orders, it was able to more than offset the losses incurred as a result of the Russia embargo. Although an accident at a powder supplier in 2014 resulted in supply disruptions to our most important customer, the damages were partly covered by insurance payouts. RUAG Ammotec thus delivered a very positive result despite tough conditions.

In operational terms, the Defence division's performance has remained stable. As certain items had been found to be overvalued, however, adjustments to balance sheet figures produced a lower result. Our operational and strategic progress is reflected in the fact that we are maintaining our technological leadership in laser-based and pyrotechnic simulation, networked operations management, robotics and vehicle protection. In the area of live simulation, we still rank among the three most successful businesses in the world.

The Aerostructures division has continued to perform slightly below expectations. However, the Airbus business and the orders we are filling for Bombardier have been developing very well. With the transfer-of-work package, RUAG Aerostructures was able to take on supply chain responsibility for more than 1,000 individual parts from Airbus. For now, this major multi-year contract has a volume of USD 350 million. It will ensure continued growth for the division in the next few years and will serve to partially offset the programmes being discontinued in Emmen.

Unfortunately, the Russia embargo had an impact on our result and is affecting the hunting & sports business area (Ammotec), sales of slip

Urs Breitmeier, CEO RUAG Group,
Chairman of the Group Executive Board

Dr. Peter Guggenbach, CEO Division Space,
Member of the Group Executive Board

Urs Kiener, CEO Division Aerostructures a. i.*,
Chief Financial Officer, Member of the Group Executive Board

Philipp M. Berner, CEO Division Aviation,
Member of the Group Executive Board

Cyril Kubelka, CEO Division Ammotec,
Member of the Group Executive Board

Dr. Markus A. Zoller, CEO Division Defence,
Member of the Group Executive Board

*Dr. Alexander Toussaint was apppointed CEO of Aerostructures division as of 1.1.2015

Dr. Christian Ferber, Chief Human Resource Officer, Member of the Group Executive Board

Dr. Patrick Grawehr, General Counsel, Member of the Extended Management Board

Rita Baldegger, Chief Communication Officer, Member of the Extended Management Board

Andreas Fitze, Chief Information Officer, Member of the Extended Management Board

rings (Space) and the Gladiator training system (Defence). It is thus having a corresponding impact on performance.

All in all, however, it is clear that RUAG is on track, and we have, on the whole, achieved the goals we have set for ourselves. Our strategy of "internationalization, focusing and combining our civil and military business" is paying off. The divisions are not only complementing each other; they are also balancing out each other's fluctuations.

Innovations secure our market position

As a technology group with an international reputation, RUAG is all about innovation. Innovations secure our future and provide the foundation for further growth. And let us not forget: our innovations also act as a unifying force, a bonding agent within RUAG. Two representative examples should be mentioned here.

Almost invisible and of great significance for that very reason is, for example, the COVERT 700 secure radio device. This hand-held radio is already considered an engineering milestone not just for security forces executing covert operations, but also for civilian rescue forces such as fire brigades. This compact and bug-proof radio device is characterized by having just three operational controls. In the true spirit of the saying "Perfection is achieved when there is nothing left to take away", the device can effectively be operated blindfold.

An equally impressive example is provided by the RUAG Space applications using the out-of-autoclave method. Thanks to a revolutionary design and perfected process management, we are able to manufacture each half-shell for the Ariane payload fairing in one piece. Though that may sound simple, it is a technical and logistical challenge. In the past, every half-shell had to be put together from seven shell elements and cured in an autoclave using pressure and heat. Now, each 20-metre half-shell is manufactured in a single production process. To this

RUAG will further step up its activities in Europe and in the US and Asia / Pacific growth markets to preserve and enhance the Group's technological expertise.

end, a 20-metre furnace has been specially installed, which can be used without additional pressure. We are thus saving the costs of both the complex assembly process and the expensive special autoclave process.

Professionalism and flexibility make for a strong response

Less welcome was the "No" vote in the swiss national referendum on the Swedish Gripen fighter aircraft. This, together with the planned withdrawal from service of the Swiss Air Force's F-5 Tiger fighter aircraft following implementation of WEA (the Swiss Armed Forces' further development programme), put the hitherto successful Wilderswil site near Interlaken in jeopardy. However, management responded to this perilous situation in an exemplary manner: new processes were introduced and international sales efforts steppedup. In the end, the site was able to secure a civilian landing gear manufacturer as a customer. This example shows how RUAG is working flexibly and professionally to safeguard its sites, and thereby also jobs and expertise.

Another aspect of the chequered story of 2014 was that although the Swiss people voted "no" to the Gripen, they voted "yes" to the Swiss Armed Forces. Popular acceptance of this institution has risen again, as revealed by the results of the study on security conducted by the Military Academy at ETH Zurich and the Center for Security Studies, ETH Zurich. That is a decisive signal – not least for RUAG, as a key partner to the Swiss Armed Forces. After all, support from society at large is the highest form of legitimation for a business. Parliament's decision to raise the budget for the Armed Forces to an accumulated CHF 19.5 billion for four years is another important positive signal in the context of security policy.

Fully equipped for the tasks ahead

What challenges await us, and what goals are we pursuing?

We will continue to consolidate our activities within Europe. In France, we are investing in our subsidiary GAVAP. In Germany, we intend to step up our market presence even further and approach customers in an even more targeted fashion. We are seeing significant strategic programmes here – remotely piloted aerial systems such as the Predator or unmanned ground vehicles are just two examples.

The increased defence budget in the Scandinavian countries also offers opportunities. In addition, software and electronics are playing an ever greater role. These are fields which harbour additional potential for RUAG.

Nonetheless, we are aware that the budgetary problems in various countries are not yet over, and the negative repercussions of the Russia embargo continue to be felt. The growth markets are in the USA and especially the Asia/Pacific region. In order to preserve and enhance our technological expertise, we will need to expand our market position outside as well as inside of Europe. To that end, we would like to be generating around 25 % of our turnover in this region by 2018. These goals are ambitious but realistic. Developments over the last few years bear this out: whereas in 2011 this area accounted for 11 % of sales, by 2014 the percentage had already risen to 18 %.

We are well equipped to tackle the tasks which lie ahead – and we are delighted to have you at our side as we continue to move forward. We would like to thank all of you – our shareholder and our customers, our partners and employees – for your loyalty, trust, cooperation and commitment.

RUAG Holding Ltd

Hans-Peter Schwald
Chairman of the Board of Directors

Urs Breitmeier
CEO RUAG Group

"To be fighting fit on the military front, you have to understand the civilian side."

Urs Breitmeier has been CEO of the RUAG Group since 1 April 2013. Here he looks back at his first full business year in the role. He has been with RUAG for 14 years, including 10 years on the Group Executive Board.

Mr. Breitmeier, what, for you, was the most important aspect of 2014?

The completion of my leadership team. Over the last year, the Group Executive Board has established itself as a stable and 100 % reliable entity which has delivered a solid result. Despite the Ukraine crisis, and despite supply bottlenecks due to the powder accident in Belgium. However, the fact that we were able to overcome these crises also proves that we have a robust setup. We have a balanced portfolio to fall back on. Among the divisions, Aerostructures and Space must receive a special mention. In the Aerostructures division, the focus is on civil aircraft aerostructures. A very welcome result here is the transfer-of-work contract with Airbus, for whom we are now taking on responsibility for the entire supply chain in the area of structural components. In the Space division, we are delighted about the follow-up order for payload fairings for the Ariane rocket, and the assurance that we have been awarded design responsibility for the new Ariane 6 – again for the payload fairing.

And what will you be focusing on in 2015?

We are keen to consolidate and expand our position within Switzerland. In-house, we will be kicking off "Stage II" of the syntegration (synergy and integration) project in order to further increase our stability. Above and beyond this, the name of the game is to exploit any new opportunities arising. Mention should be made here of potential opportunities in the field of unmanned aerial vehicles, or the telecommunications systems of the Swiss Armed Forces. In general, North America is coming into the spotlight. We are seeing growth opportunities here for the Ammotec division with regard to hunting and sports ammunition, and for the Space division with regard to payload fairings for the United Launch Alliance. RUAG Aerostructures can further approach other civilian customers as well as Airbus, such as Boeing or Bombardier. However, there are also development opportunities in the Middle East and the Asia-Pacific region. In the latter, we are seeking to expand our market position in the maintenance of both aircraft and ground systems.

Looking back at your time as CEO so far: what, in your opinion, has been your greatest success to date?

There are many successes I could mention. For example our pioneering initiative in broadband communications, our successful innovations in the field of 3D printing for space products, or the successful completion of the upgrade programme for the Super Puma helicopter. And looking at the Group as a whole we must certainly highlight the fact that we have succeeded in assuring our position as the key partner to the Swiss Armed Forces.

Where do you see the biggest challenges for RUAG in the next few years?

The budgets of the European countries, especially in the area of defence, are still badly strained. Despite this, however, we are working to expand our position, especially in Germany, as the Ukraine crisis will create new needs. The keyword "internationalization" will continue to play a major role in 2015. We cannot secure our global market position through exports alone; rather, we are also seeing an increasing need for production facilities in the countries where our customers are based. Far from being in competition with the Swiss sites, these locations are strengthening them. An ongoing challenge is to retain our status as an attractive employer in order to continue to attract talent and train young people to become qualified professionals.

You mentioned the keyword "internationalization": what does a business need in order to be successful at the international level?

Specifically, three things: cosmopolitan employees, good structures and processes, and outstanding products and services. I am convinced that we at RUAG are very strongly placed in all three of these areas.

And in what markets is RUAG enjoying particular success in terms of internationalization?

One success story is being written by the Ammotec division. Here we are indisputably the number one in Europe for small-calibre ammuni-

Urs Breitmeier, CEO RUAG Group

tion. But our prominence is not limited to the ammunition market; we are also big in the simulation and training field. In the field of live simulation, we are one of the top three companies in the world. The Space division is a world leader in the field of payload fairings, receivers and converters, and in thermal insulation for satellites. And as to maintenance on land and in the air, we are the world leader for these systems outside of their countries of origin.

For years now, RUAG's civilian business has been growing faster than the military side, parts of which are in decline. Could it be that the civilian share of the business will one day become so large that the military side will become insignificant or even be jettisoned?

The military sector is where our Group has its roots. This area will never be jettisoned. Besides, the military and civilian sides of the business complement each other superbly. There are a number of synergies we can exploit. For example in the areas of aircraft maintenance or ammunition. Or think of cyber applications. Secure networks are fundamental to critical infrastructures in both the civilian and military fields. Today, more funds are being invested in civilian research than in its military counterpart; that is why the civilian technologies are providing the impetus for progress. In a nutshell: these days, to be fighting fit on the military front, you have to understand the civilian side.

At the beginning of this interview you mentioned the "syntegration" project. However, it is also a fact that the divisions are highly diverse in their activities. In what areas is cross-divisional collaboration even possible?

Cross-divisional collaboration is happening primarily in our central services activities. However, synergies are also arising in the areas of joint market development, for example in Germany or the Middle East, as well as in the case of new and expensive technologies such as composites or 3D printing.

What specifically is RUAG doing to exploit the synergies between the divisions even more successfully in future?

We have identified 62 action points in our "Stage II" follow-on programme to the syntegration project. Six top projects are being implemented under the direct supervision of the Group Executive Board, two of which are synergy projects: international procurement and standardization of our administrative accounting framework.

Where do you see the key growth fields in the next few years?

In the case of Aerostructures and Space, we are pursuing ambitious growth targets. In this process, we are looking above all at prospects and big opportunities in the USA. In general, we are looking to offset weaker home markets with our international business.

Is RUAG already in the right position to successfully make its mark in these growth areas today?

We are on the right track. In the USA, we need to analyse national structures and establish production sites. In the Middle East we will continue to expand our structures, in part to meet the offset requirements. And in the Asia-Pacific region, we intend to strengthen our presence in order to be able to develop these markets adequately.

The Middle East is an interesting growth region for RUAG, but it is not an uncontroversial market. Where do you stand on this?

Especially in the Middle East, there is a great need for security and stability. Furthermore, we adhere strictly to Swiss foreign policy and export regulations, which are very rigorous in the international context.

Finally: Are there any other matters close to your heart that you would like to share here?

RUAG is an exciting business which is developing at a fast pace. It offers great future opportunities for both customers and employees. A commitment to RUAG and its huge potential is a commitment that will pay off – that's my strong belief.

Fulfilling our fundamental mission with steady progress

In May 2014, Hans-Peter Schwald took over as Chairman of the Board of Directors of RUAG. Before that, he had already been a member of the Board for twelve years. Over these years RUAG has expanded both its competencies and its product range.

Mr. Schwald, what is the secret ingredient behind RUAG's dynamic growth?

The development of our Group is a success story. The recipe for this success is based on a number of ingredients: first, we are benefiting from the know-how and experience built up over decades by RUAG's state-owned predecessor organizations. Second, the Swiss Confederation had the courage to establish RUAG as a company under private law. That was the foundation for the dynamic growth of our business. At the same time, we are still fulfilling our fundamental mission, namely equipping and maintaining the Swiss Armed Forces' technical systems. Above and beyond this, we have also been able to enhance our competencies in specific technologies, especially in civilian sectors, from which around 60 % of our turnover is generated these days. Today, moreover, RUAG is twice the size it was when it was founded in 1999.

The owner's strategy is centred upon the Group's obligation to support the Swiss Armed Forces. However, the significance of this role has now declined. Currently, RUAG is generating less than one third of its turnover through its business with the Swiss Federal Department of Defence, Civil Protection and Sport (DDPS). Moreover, RUAG's shareholder structure features just one shareholder: the Swiss Confederation. Would it not make sense to make a change here?

The Swiss Armed Forces are still our most important customer. It was for them that this Group was established. That is and remains RUAG's raison d'être. We equip and maintain the Swiss Armed Forces – and we do so with an industrial base in Switzerland.

According to the Swiss Constitution, the Confederation is responsible for equipping and maintaining Switzerland's security forces. RUAG is thus a key partner in our country's security policy. As long as the Swiss Confederation remains the sole owner of RUAG, it has a completely free hand. If additional shareholders were to come on board, their interests would also have to be taken into account. That's why I feel that the Confederation is the right owner for RUAG.

To paraphrase: As long as Switzerland remains independent and neutral and the fundamentals of its security policy remain in force, RUAG is of vital interest to Switzerland. And that's why RUAG is about more than just profit.

And yet, RUAG is in competition with other businesses.

Yes, that's something that should not be forgotten. RUAG is a supplier offering internationally competitive prices. And the Swiss state also profits from that fact.

Security is a major buzzword when we describe RUAG's mission and work. For you, what else does RUAG stand for?

It stands for technological progress and for the preservation and propagation of knowledge and skills. On one hand, RUAG is the main partner to the Swiss Armed Forces. It guarantees the operational readiness of our national security organizations.

On the other hand, RUAG also makes an important contribution to the industrial base here in Switzerland. It strengthens Switzerland's position as a centre of business activity. It also maintains production sites outside of Switzerland, and for good reason: we are also a knowledge base, and thus a technological leader in many fields. Consider, for example, our Space business. We are Europe's biggest independent supplier of space products. Every Ariane rocket that goes into space takes RUAG products with it. Or think about Aerostructures. There are RUAG components in virtually every passenger aircraft produced by Airbus. This is possible only because we have access to exceptional know-how which is highly valued not just at home but also abroad.

What makes RUAG stand out from its competitors in other countries?

Our success at international level is due to Swiss quality, combined with our reliability as a contractual partner. The fact that we have an internationally recognized shareholder in the form of the Swiss Confederation is another of our strengths. It's like a big cycle:

Hans-Peter Schwald, Chairman of the Board of Directors

Switzerland is the base of our knowledge. With this knowledge, we then put ourselves forward as a technology partner all over the world. In turn, our successes at international level help us to fulfil our fundamental mission cost-effectively and with the very latest technology.

What's more, we are also a major knowledge base in the training and development field. We pass our knowledge on to others: from vocational training to partnerships with higher education institutions. Particularly in the civilian sector, this is allowing us to develop new areas of business.

So RUAG is fulfilling its corporate strategy, which has three pillars: combining civil and military applications, focus on core business, and internationalization.

In many areas which are generally classed as more military than civilian, the focus has already shifted – from the military to the civilian sector. Thus, for example, we produce over 60 % of our ammunition for the civilian sector: hunting, sports and industrial applications. We need to focus our activities in order to further increase the profitability of the Group. RUAG is very highly diversified; we therefore need to sharpen our focus. For example, by manufacturing only very specific items in the aerostructures segment. As regards internationalization, this is a consequence of RUAG's overarching strategy to maintain and expand its competencies. It also helps us to safeguard our know-how through exchanges with world-class technology partners.

Compliance is a matter of great importance to RUAG: as well as a Compliance Board, a whistleblower service has been set up for external parties, and there is a Code of Conduct for business partners. However, usually the defence technology industry tends to be more reticent in these matters. Why is RUAG taking a different approach?

RUAG of course adheres strictly to all Swiss laws and obligations, and especially those relating to exports. Our consistent compliance is indeed also a further argument for the Swiss government as owner. Although we are expected to run our business profitably, there are other important goals which take priority. RUAG is not a company which acquires business abroad without taking Swiss interests into account. We do not conduct any business which conflicts with our compliance obligations. In this connection I would like to highlight the following: RUAG's mission is to equip a purely defensive army. You can tell that by the fact that we are a leader in the field of protection systems and simulators. There is much public debate about compliance; at RUAG, however, it has never been out of the spotlight.

How do you see RUAG's future?

RUAG will continue to develop based on what it has achieved thus far. We will look to maintain and strengthen Switzerland's industrial base and to establish technological leadership in our core business. We will pursue moderate expansion in our international business so that this also generates benefits for the home market.

Last but not least: Are there any other matters close to your heart that you would like to share here?

With RUAG, Switzerland has something very few other countries possess: a company which is a technological leader, which is regarded with respect far beyond our national borders, and which plays a major role in assuring our country's security. RUAG can look back at a technological heritage that goes all the way back to 1863. For the last 15 years, RUAG has also succeeded in making its mark in a fiercely competitive international market setting.

A key factor in our success is our employees, who work hard for our company day in, day out. RUAG is proud of its employees and their achievements. And they themselves can be equally proud of their achievements and of the fact that they work for RUAG.

Inspection of the core module of the ExoMars onboard computer in the cleanroom, Gothenburg.

RUAG Space

RUAG Space is Europe's leading supplier of space products, specializing in components for use aboard satellites and launch vehicles.

Core business

The division manufactures a broad spectrum of space products grouped into five segments:

- Structures and separation systems for space launch vehicles
- Structures and mechanisms for satellites
- Digital electronics for satellites and launch vehicles
- Satellite communications equipment
- Satellite instruments

Both in European Space Agency (ESA) institutional programmes and in the Ariane European launch vehicle programme, RUAG's three subsidiaries in Switzerland, Sweden and Austria have been partners from the very beginning. With precision mechanisms, slip rings, thermal systems and satellite structures, RUAG Space plays a key role in the success of many space projects. RUAG computers steer and monitor most European missions.

RUAG Space has applied the expertise obtained from institutional programmes to gain a foothold in the commercial space market as well. The division is market leader in payload fairings, adapters and launch vehicle separation systems. Further products for this market include receivers and converters for telecommunication satellites, thermal insulation, orientation mechanisms for electric propulsion thrusters, solar array drive mechanisms and mechanical ground support equipment. Customers outside the space sector buy niche products such as high-quality thermal insulation and high-end slip rings.

Business performance

RUAG Space's 2014 net sales came to CHF 322 million, exceeding the previous year's figure of CHF 299 million. In particular, the launch vehicle structures and separation systems segment profited from the larger number of worldwide rocket launches. EBIT was CHF 23 million, i.e. a substantial CHF 14 million above the previous year's figure. The result can be traced back to a significant internal improvement in efficiency and to higher sales.

The launch vehicle structure and separation systems product segment recorded the largest order. The contract with Arianespace calls for delivery of payload fairings for the Ariane-5 launch vehicle worth over CHF 100 million by 2019.

RUAG Space signed a master agreement for positioning mechanisms with satellite manufacturer Airbus Defence and Space. The first two of these mechanisms will be delivered in February. These positioning mechanisms will become part of the electrical drive systems of telecommunication satellites built on Airbus's Eurostar 3000 platform.

The European Space Agency (ESA)'s Rosetta mission generated headlines around the world in 2014 when it reached comet 67P/Churyumov-Gerasimenko after a ten-year voyage through space. In November it deployed the Philae lander for the first-ever landing on a comet. RUAG Space supplied Rosetta's thermal insulation, computers and antennas and was involved in the construction of scientific instruments.

Under the contract with Arianespace, payload fairings for the Ariane-5 launch vehicle – an order worth over CHF 100 million – will be delivered by 2019.

In 2014, a series of new ESA missions was also launched using component assemblies built by RUAG Space. One of these was Sentinel 1A, the first satellite in the European Copernicus environmental monitoring system. The structure of the satellite was supplied by RUAG Space along with its GPS navigation receiver, thermal insulation, computers, antennas and parts of a laser communication terminal.

In August the fifth and final automated transfer vehicle (ATV), the "Georges Lemaître", docked with the International Space Station ISS. RUAG Space contributed not only the structure of the propulsion module, but also the payload cabinets in the craft's freight module, the "monitoring and safing unit" computer for overseeing the safety of the autonomous docking manoeuvre and the ATV breakup camera for documenting the transporter's disintegration on re-entering the atmosphere.

Innovation and initiatives

In July RUAG began building its Space Composite Centre, a manufacturing facility in Emmen where payload fairings for launch vehicles will be produced as of 2016. The new facility will make it possible to "bake" complete half-shells in a conventional industrial kiln; until now this has only been possible with individual parts. The new "out-of-autoclave" process will significantly reduce production costs.

One month earlier, RUAG Space had opened the Compraser Labs research centre together with other companies and research organizations in Linköping, Sweden. The aim of this alliance between university and industry is to improve processing methods for carbon fibre composites, which are among the most important materials for satellite and launch vehicle structures.

RUAG Space is also working on making 3-D printing usable in production of satellite components. Printed metal and plastic parts offer a number of advantages. They can be produced more quickly and easily and therefore more cheaply than using conventional processes. Moreover, they weigh less. This is a key factor in space applications: the lighter a satellite, the less it costs to launch into space.

In a pilot project, RUAG Space specialists have built a carrier for the antenna of an earth observation satellite. The new carriers will undergo intensive testing to qualify them for future use in space.

Outlook

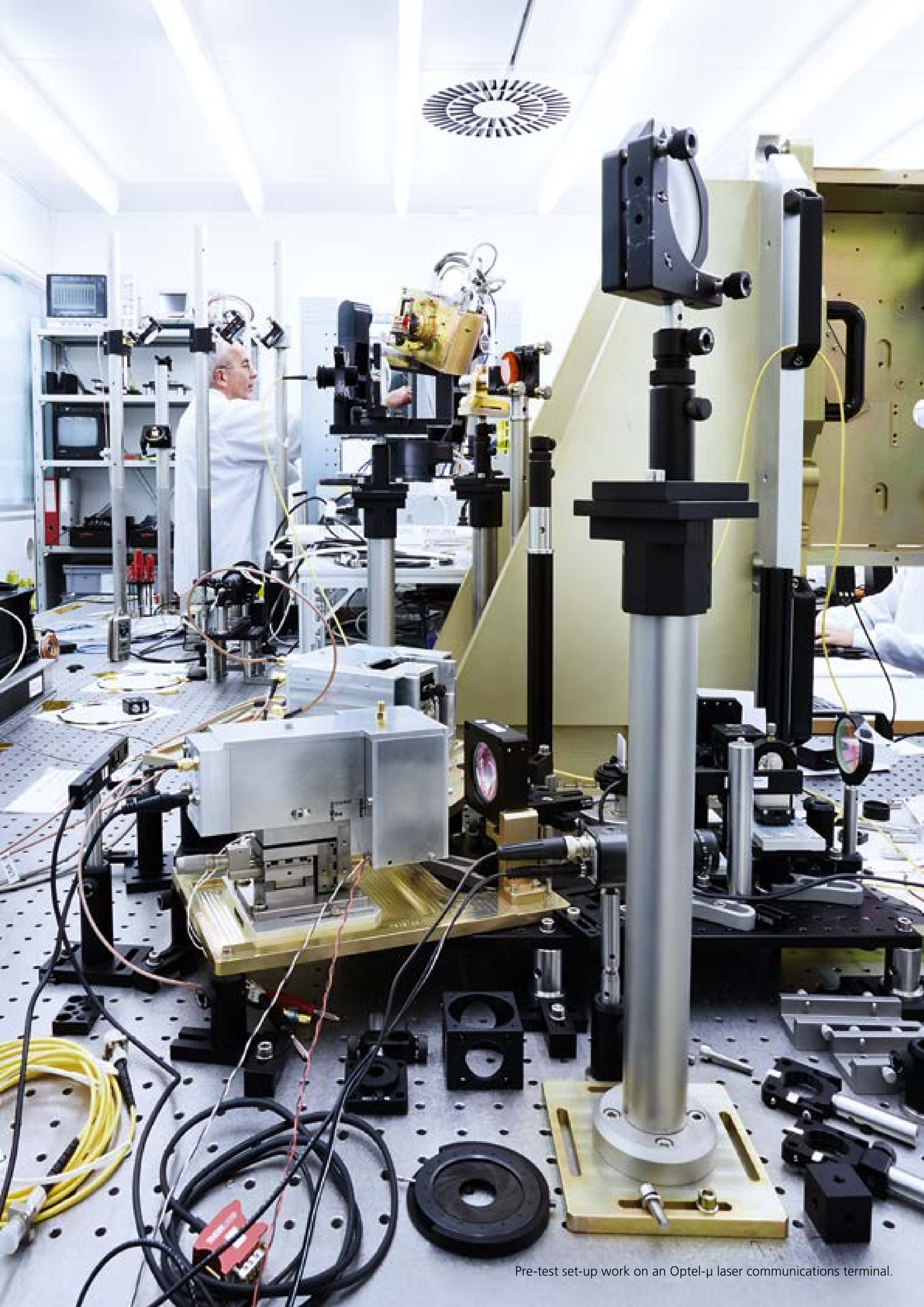
RUAG Space is seeking to sustain the growth of recent years in 2015. This is likely given the stable institutional market in Europe as well as good growth prospects in other subsidiary markets. The USA, in particular, offers attractive opportunities for growth in selected niche markets.

A key business segment for the division is European launch vehicle programmes. At their extraordinary Ministerial Conference in December 2014, the ESA member states resolved to commence planning for the Ariane 6 successor project. RUAG Space will spare no effort in pursuing this promising opportunity. The new payload fairing production process is just one example. The division is also developing new, more powerful guidance computers as well as innovative adapters and separation systems. These projects will also improve the chances for winning market share in the United States.

A clearly structured product portfolio gives RUAG Space a good position on the market and enables it to participate in attractive upcoming satellite programmes. Already it has placed new products on the market in recent years, such as a Ka-band converter for telecommunications, mechanisms with electronics for orientation of solar generators, and high-performance slip rings. Further innovations are set to follow, such as optical communication terminals and new types of mechanisms for orienting electrical satellite propulsion systems.

RUAG Space in numbers (2014)

Net sales:	CHF 322 million
EBITDA:	CHF 43 million
EBIT:	CHF 23 million
Employees:	1,163
Based in:	Switzerland, Sweden, Austria



Pre-test set-up work on an Optel-μ laser communications terminal.

Manual drilling of rivet holes at the rear of a Bombardier CRJ at the Oberpfaffenhofen site.

RUAG Aerostructures

As a specialist and first-tier supplier in aircraft structural engineering, RUAG Aerostructures supplies major Original Equipment Manufacturers such as Airbus, Boeing, Bombardier and Pilatus.

Core business

Customers in North America and Europe appreciate RUAG Aerostructures solutions, which precisely meet their specifications and the demands of the market.

The division's core competencies include engineering, fine manufacturing and assembly of parts into components, installation and systems integration.
It assumes responsibility for managing a complex international supply chain. Moreover, RUAG Aerostructures provides comprehensive maintenance and product support services over a system's entire lifetime.

In 2014 the division's internal structure was reorganized along functional lines with a view to better aggregating strengths and competencies. As key products and services, RUAG Aerostructures specialists develop, produce and assemble:

- Complete tail sections of passenger aircraft for major customers such as Airbus and Bombardier,
- Wing, flight control and engine components,
- Sophisticated component assemblies and structural elements

RUAG Aerostructures focuses on the following core capabilities:

- Component assembly
- Mechanical processing of large parts
- Sheet metal forming
- Surface treatment
- Plastics processing (composites)

RUAG Aerostructures offers customers the full range of products and services of a global first-tier supplier. From developing new technologies through designing aircraft structures to manufacturing large assemblies and managing global supply chains, the division offers a comprehensive portfolio of products and services. Together with decades of experience and professional project management, this breadth sets RUAG Aerostructures apart from its international competitors.

RUAG Aerostructures is committed to strengthening and further developing its position as a first-tier supplier, including being prepared to enter into risk-sharing partnerships. This commitment enables the division to pursue profitable growth. Lean processes and state-of-the-art automation technologies help to keep RUAG Aerostructures competitive.

Business performance

At CHF 195 million, RUAG Aerostructures' net sales are virtually in line with the prior-year figure of CHF 196 million. The loss of sales incurred with the closure of the automotive business in Altdorf, Switzerland was largely offset by the additional CHF 10 million in aircraft structural component sales generated in large part by Bombardier's accelerated production cycle and by higher ancillary sales (rework, engineering and spare parts).

EBIT fell from CHF 4 million to CHF 1 million. The decline was due to elapsing contributions from older development programmes that have now entered series production. To some extent these have been offset by strong margins on ancillary sales along with efficiency-enhancing measures. The division as a whole is benefiting from a very high order backlog in the A320 volume programme for its key customer Airbus. At the end of 2014 the order volume for Airbus stood at over 4,000 aircraft, which represents a good eight years' worth of work in hand. In August, moreover, RUAG, as a global supplier and integrator of aircraft components, and Airbus, the leading global manufacturer of civil aircraft, reached an agreement on even closer collaboration. Airbus has given RUAG complete responsibility for the entire supply chain for two fuselage sections. Worth roughly USD 350 million, the supplementary contract covers Airbus's successful A320 model. RUAG can look back on over 30 years of experience in assembly of various fuselage sections in Oberpfaffenhofen, Germany and production of winglets for the A320 product family in Emmen, Switzerland. With the expanded order volume, RUAG can now strengthen and optimize the global supply chain to Airbus's benefit.

The division is expanding its supply chain globally and is seeking out and supporting suitable potential new suppliers, including ones in developing countries.

Innovation and initiatives

New manufacturing technologies are the foundation of future success on the world market. Innovative assembly processes and automation are the core objects of our research and development work. They will enhance efficiency, optimize costs and protect health and the environment. One key technology with growing potential for metal aircraft structures is friction stir welding. This innovative joining method enables production without rivets. A pilot plant was installed in 2014 and is scheduled for handoff to production in 2015.

Hybrid structures are increasingly being used in all new aircraft. Combining different materials – carbon with metal or different metals with each other – presents challenges for precise drilling and riveting. With projects like Transhybrid, RUAG Aerostructures is well-placed to meet these challenges. Form etching equipment is a major element in producing large sheet-metal parts. Mechanical milling is a more environmentally friendly alternative technology. RUAG Aerostructures has the ability to apply this technology in the production of large aircraft parts. These capabilities allow RUAG Aerostructures to underscore and even to further develop its position as a supplier of large sheet-metal parts.

In 2014 the Swiss electorate voted against the purchase of 22 Gripen fighter jets. Despite the negative outcome of the referendum, RUAG Aerostructures is working with SAAB AB on five different new suspension pylons for the Gripen and is building prototypes. Development work is taking place in collaboration with RUAG Aviation in Emmen.

Outlook

RUAG Aerostructures will focus even more intently on aluminium structures for commercial airliners and will both consolidate and further expand activities in this area. This will primarily affect the Emmen location, which is being partially repurposed for this new focus. Increasing volumes with major customers Airbus and Bombardier mean higher sales in these areas, largely offsetting older programmes that are winding down. With plans to expand the customer network, a higher order volume with Airbus and an advancing growth strategy, the overall outlook is positive.

RUAG Aerostructures will continue to develop internationally in the years to come. This will take place on several levels. The division is expanding its supply chain globally and is seeking out and supporting suitable potential new suppliers, including ones in developing countries. Existing suppliers are also being promoted to system suppliers, thereby enlarging the production network. Not least, the body of core customers will be expanded with a view to better exploiting global market potential and broadening the customer base.

RUAG Aerostructures in numbers (2014)

Net sales:	CHF 195 million
EBITDA:	CHF 2 million
EBIT:	CHF 1 million
Employees:	1,051
Based in:	Switzerland, Germany

Final inspection and preparation for final acceptance of a Pilatus PC-21 wing structure at the Emmen site.

MRO of a Bombardier Global Express business jet at the Oberpfaffenhofen site.

RUAG Aviation

RUAG Aviation focuses on maintenance, repair and overhaul (MRO) and upgrades, along with component support for selected military and civil aircraft systems.

Core business

The division is technology partner to the Swiss Air Force, German Air Force and other international air forces and a service and MRO provider for civil aircraft and aircraft manufacturers.
The primary activity in military aviation is based on integrated service programmes for all fighter aircraft, helicopters, training aircraft and reconnaissance UAVs for the Swiss Air Force.

Other services include:

- Support for evaluation of new systems
- Final assembly
- Upgrades
- Maintenance and repair work
- Trading and remarketing

The focus at the locations in Switzerland is on systems in domestic and international service, such as the F-5 Tiger and F/A-18 Hornet and the Super Puma, Cougar and EC635 helicopters. Life cycle support services for the Bell UH-1D helicopter, the Alpha Jet and the Dornier 228 are provided at the Oberpfaffenhofen site in Germany.

In the civil aviation sector, the main activity is maintenance, repair and overhaul work. This includes interior outfitting and painting services for owners and operators of selected civil aircraft. As partner to aircraft manufacturers Bombardier, Cessna, Dassault, Embraer, Piaggio and Pilatus as well as helicopter makers Sikorsky and Airbus Helicopters, RUAG Aviation operates authorized service centres in Switzerland and Germany.

Business performance

RUAG Aviation's net sales rose slightly by CHF 15 million over the previous year to CHF 525 million. EBIT improved from CHF 32 million to CHF 38 million.

As expected, the five-year service-level agreements concluded with the Swiss Air Force in 2012 resulted in a further decline in sales. The long-term nature of these contracts, however, will make it possible to improve productivity through better planning of resource allocation.

In military aviation, activities in the domestic market during 2014 remained centred on the two value preservation programmes WE89 and Upgrade 25. The WE89 programme involved a comprehensive modernization of the Swiss Air Force's 15 TH89 Super Puma transport helicopters, bringing them up to the technical standard of the TH98 Cougar. This extends their service lives for a further 15 to 20 years. All 15 upgraded Super Pumas were delivered to the Swiss Air Force on schedule.

The Upgrade 25 programme for the F/A-18 again saw very good progress in 2014. Conversion of the aircraft fleet began on schedule in February 2013. Three F/A-18 D (two-seater) and seven F/A-18 C (one-seater) aircraft were delivered in 2014 on time or even ahead of schedule. The conversion should be completed by the end of 2015, ensuring the operational readiness of the F/A-18 fleet for the second half of its expected 30-year service lifetime.

At the Oberpfaffenhofen site, the declining need for MRO services for the Bell UH-1D helicopter continued to be a challenge. Although replacement procurement of new systems for the German Air Force and Navy has been discussed, these projects are currently on hold. They are emblematic of the difficulties facing the entire defence industry on the European market.

In the international components business, the emphasis was on strengthening RUAG Aviation's market position in MRO. Engine maintenance in particular contributed to growth in the international business. New engine maintenance contracts were signed with customers in the Asia/Pacific region. The integration of Rosebank Engineering is on track and is contributing significantly to growth. The growing Australian defence and aerospace market offers opportunities to further increase sales.

In civil aviation, the emphasis was on selective improvements in competitiveness. The Swiss Alpnach Helicopter Centre of Excellence concluded new turbine helicopter maintenance contracts with existing

RUAG Aviation holds a strong position in attractive niches as centre of excellence for military and civil aircraft MRO and is pursuing a strategy of internationalization.

and new customers. Further progress was also made in extending the range of services offered. The Oberpfaffenhofen site has become established as a service centre for Embraer Lineage 1000 VIP aircraft and is contributing to growth in the civil aviation sector.

Innovation and initiatives

RUAG Aviation's focus in 2014 was on the products and platforms the division supports. Attention was also given to the development and commercialization of new technologies. For example, development of a "Sense and Avoid" system reached the proof-of-concept stage during the year under review. The system will enable unmanned aircraft to be operated safely in the public airspace. Core functions and features of specific system components were successfully demonstrated in a flying technology platform in cooperation with armasuisse Science and Technology. The prototype will form the basis of an operational unmanned reconnaissance system for the Swiss Air Force's future ADS 15 reconnaissance UAV.

There was also a successful collaboration with Monash University in Melbourne. The "Supersonic Particle Deposition" (SPD) process, used in the repair of high-grade structural elements, was made market-ready. Innovative repair solutions for highly-stressed safety components of combat aircraft and helicopters are being qualified and approved for the Australian Air Force. Repaired parts have been returned to flight service. The new process makes it possible to deposit material at supersonic speeds onto highly-stressed surfaces or fill critical cracks in components. It also offers great potential for cost-effective repair solutions in the civil sector.

For the first time, RUAG Aviation Oberpfaffenhofen equipped an Embraer Lineage 1000 business jet with a complete new cabin interior in a VIP configuration. These exclusive solutions are developed in close collaboration with specialized partner companies and design studios.

Outlook

In the military sector, further pressure on government budgets appears likely. In business aviation, a certain hesitancy remains despite longer-term growth prospects. Competition in this segment will continue to intensify. RUAG Aviation therefore expects business to remain somewhat subdued in 2015.

In Switzerland the division will continue to aim for a good position in all major programmes. These include re-evaluation of a fighter aircraft, procurement of the ADS 15 reconnaissance UAV system and the evaluation of the BODLUV 2020 ground-based air defence system. The focus is on the role of technology partner to the Swiss Air Force. The division prevailed over the competition in winning an order to upgrade the Swiss Air Force's Cougar (WE-98) fleet. Additional civilian business will offset the declining volume of MRO work for the Swiss Air Force entailed in the price reduction granted under the five-year SLA.

RUAG Aviation holds a strong position in attractive niches as centre of excellence for military and civil aircraft MRO and is pursuing a strategy of internationalization. In component maintenance, internationalization in line with the owner's strategy is being implemented through exports from the existing Swiss specialized facilities.

To further enhance profitability, the division has launched measures to improve productivity at all levels. Improved procedures and processes will make it possible in the future to provide sophisticated MRO services for military and civilian customers still more efficiently.

RUAG Aviation in numbers (2014)

Net sales:	CHF 525 million
EBITDA:	CHF 45 million
EBIT:	CHF 38 million
Staff:	2,022
Based in:	Switzerland, Germany, USA, Australia, Malaysia, Brazil

Testing of an F/A-18 fighter aircraft engine at RUAG's test facilities in Ennetmoos.

Quality testing of ammunition at the 300-metre test firing tunnel in Thun.

RUAG Ammotec

At RUAG Ammotec, precision and reliability are key aspects of every product.

Core business

The RUAG Ammotec division with its Hunting & Sport and Armed Forces & Law Enforcement business units is the European market leader in:

- small-calibre ammunition
- pyrotechnic elements
- components

The division remains the technology leader in heavy-metal-free primer technology. This includes actuator cartridges in the construction industry and special applications in automotive safety systems, among others. The division also offers large-calibre training systems, hand grenades and environmentally safe disposal of pyrotechnic products.

Most of its 2000 or so employees work at production facilities in Switzerland, Germany, Hungary, Sweden and the United States. There are also numerous sales companies throughout Europe. Close collaboration with customers regularly results in top-quality products designed entirely to meet customer needs.

In the civilian customer segment, hunters value the wide product range of top brands such as RWS, Norma, Rottweil and GECO. Numerous world records and Olympic triumphs in the recent past are testimony to the division's international leadership among sporting marksmen. RWS and Norma are the preferred brands in this segment.

In the armed forces and law enforcement sectors, RUAG Ammotec stands for precision ammunition across the entire small-calibre spectrum. This includes RUAG SWISS P, a professional sharpshooter's ammunition that enables operators to achieve differentiated effects in the target. With a comprehensive range of standard and special ammunition, the division is a capable partner to numerous military and police forces for training and deployment.

Business performance

RUAG Ammotec's net sales declined by CHF 20 million from the prior year to CHF 334 million as the result of two exceptional events. The European Union's economic sanctions against Russia meant an immediate halt in deliveries of the ammunition range. In particular, this put an end to a very successful history of market development in Russia over many years in the premium segment of hunting cartridges. There was also a serious incident with our main supplier of propellant powder that resulted in a still ongoing interruption in the powder supply. Immediate corrective measures prevented a massive collapse in production, particularly of actuator cartridges and rimfire rounds. Although supplies on the market were scarce, alternative sources were found for different varieties of powder, and strategic reserves of the main powder types were tapped.

EBIT nevertheless increased by CHF 6 million year-over-year to CHF 35 million thanks to intensified activity in the Hunting & Sport segment and industrial components. Insurance covered losses in certain major ammunition types arising from the powder shortage. New business made up the remainder.

The division undertook capital investments totalling CHF 30 million across all locations to expand capacity and enlarge infrastructure. Capacity for pistol and revolver rounds increased significantly in Fürth, Germany and Sirok, Hungary. Further improvements are scheduled for 2015. RUAG Hungarian Ammotec Inc. invested in over 30 new pieces of production machinery in pursuit of growth in casing and cartridge manufacturing. State-of-the-art measuring devices and washing facilities were installed for quality assurance. In Thun, investments were undertaken in new casing capacity and innovative projectile technologies. The new equipment will allow the division to specialize mainly in 9 × 19 (pistol ammunition) and 5.56 × 45 (NATO assault rifle calibre).

The research and development departments widened their technology lead in the precision segment in the past year. The best example is the new HEXAGON projectile.

RUAG Ammotec strengthened its international wholesale business. It secured an interest in Gyttorp which, among other things, is the market leader for shot cartridges in Scandinavia, and it acquired Glaser Handels-AG in Winterthur. These acquisitions further advanced the shift in sales from military to civil applications. The Hunting & Sport segment, including industrial applications, now accounts for roughly 63 % of sales while the Armed Forces & Law Enforcement segment makes up approximately 37 %.

Innovation and initiatives

The research and development departments further widened the division's technology lead in the precision segment in the past year. The new HEXAGON projectile is the result of an exemplary partnership between international facilities involving project responsibility, series production and launch to market, which is proceeding very successfully. The division also achieved progress in applying new computer technologies. 3-D simulations make it possible to develop and validate efficient processes and innovative tool configurations. Following successful testing, a completely new projectile manufacturing process is being implemented.

In the Armed Forces & Law Enforcement segment individual customer requests were implemented. Specialists developed a technology for coding cartridges on a very small surface such as the casing base. This will allow significant improvements in logistics and product monitoring. These "Data Matrix" codes carry a large quantity of information that can still be read even after the cartridge is fired.

The division made large investments in testing, qualifying and acquiring alternative propellant powder, enabling production to continue at respectable levels even in the absence of a key supplier. The aim of guaranteeing supplies for the main customers remains, both by qualifying other suppliers and also by solving the problems of the previous main propellant supplier.

Work on innovation with external industry partners and suppliers is growing sharply in significance. New technologies such as additive manufacturing (3D printing) are of great interest. One key concern when collaborating with third parties is protecting RUAG's intellectual property rights.

Outlook

RUAG Ammotec anticipates that military budgets will continue to shrink in Europe in 2015, especially in Germany. Despite pressure from the industry, export restrictions are likely to grow stricter. This makes it all the more important to ensure utilization of production capacity with civilian products and continuing internationalization. This will enable the division to retain capabilities in case of need in the home markets of Germany and Switzerland. In the long run, however, it will only be possible if the two main customers can guarantee a certain base load.

Internationally, the challenge will be to withstand intensifying pressure from American producers. The division will seek to further strengthen its position on the market by offering innovative products and excellent value for money.

Organizational structures will need to be expanded and strengthened to accommodate RUAG Ammotec's steady growth. This will also secure management capacity to support increasing internationalization. RUAG Ammotec will defend its market position in the home markets and improve it in international markets. The newly developed products offer the potential needed to achieve these aims.

RUAG Ammotec in numbers (2014)

Net sales:	CHF 334 million
EBITDA:	CHF 47 million
EBIT:	CHF 35 million
Staff:	1,996
Based in:	Switzerland, Germany, Sweden, Hungary, USA, Austria, UK, France, Belgium, Brazil

High-precision tool sets for manufacturing ammunition components ready for inspection in Thun.

World class: the artillery simulators at the Bière site.

RUAG Defence

RUAG Defence is the strategic technology partner for armed forces, the defence and security industry, and organizations working in the rescue and safety sector. It also provides cyber-security solutions for operators of critical ICT infrastructures.

Core business

The division mainly focuses on products and services for secure and reliable communications and command, realistic training, and armoured tracked and wheeled vehicles and the associated systems. It also provides security solutions to combat ballistic and electromagnetic threats and attacks from cyberspace. The division's core business also includes the integration, maintenance and operation as well as upgrades of the relevant systems. In addition to this, it seeks to achieve technological leadership for selected subsystems and components: for example remote control of vehicles, tactical communications, or laser-based and virtual simulation.

The division's strategy is based around five business areas:

- Integrated Solutions & Services
- Vehicles and Vehicle Systems
- C4ISTAR & Homeland ICT (communications, command and control, reconnaissance and radar systems)
- Simulation & Training
- Cyber Security

Cyber Security is a new strategic business area for the division, as it is looking to achieve Europe-wide market penetration in this area.

The division's business is currently based in Switzerland, Germany and France, from where it serves markets throughout the world. Its military sector activities are based around its close partnership with the Swiss Armed Forces.

Business performance

RUAG Defence's net sales rose by CHF 10 million from the previous year's figure to CHF 367 million. EBIT declined from CHF 19 million to CHF 13 million. The decline in EBIT was mainly due to balance sheet adjustments totalling CHF 7.5 million which were performed because certain items had been found to be overvalued.

In Switzerland, the division expanded its cooperation with the Swiss Federal Department of Defence, Civil Protection and Sport (DDPS). The five-year service-level agreements introduced in 2013 have proved their worth. While maintenance costs for the customer fell significantly, user feedback remained at a high and positive level.

RUAG Defence is currently integrating and maintaining over 100 C4ISTAR systems in Switzerland. It has an impressive reputation as a reliable supplier of complex systems for use by armed forces, police forces and rescue organizations. This expertise won RUAG Defence the contract to create a solution for mobile broadband communications for the command and control system of the Swiss Armed Forces ("FIS Heer") and to test it via a proof-of-principle trial.

The Swiss Armed Forces also looks to RUAG for simulation solutions. In this area, the division has signed a production contract to develop and manufacture a laser shot simulator for the 6x6 commando tank and the armoured personnel carrier. The Armed Forces Staff has also declared the shooting simulator for the assault rifle 90, a contract won via a tendering process in 2013, as suitable for troop use. This means that the serial procurement phase of this project can now begin.

RUAG Defence broadened its cyber security activities in the year under review, and expanded its role as a key partner to the Swiss Armed Forces in this field. The division also received orders from several civilian operators of critical ICT infrastructures.

A major success was achieved by new French subsidiary GAVAP. It was awarded a contract to act as a tier 2 supplier for a virtual simulator in a project for the French Navy. In addition, RUAG Defence acquired a number of live simulation projects and orders in the Middle East, Germany and France.

The division stepped up its international activities involving the maintenance, repair and operation of tracked vehicles, an area in which RUAG Defence acts as a supplier to more than 15 countries. Upgrades to vehicle systems was another clear growth area, in particular thanks

On the occasion of EUROSATORY 2014 in Paris, RUAG Defence presented a production vehicle that was controlled remotely from an exhibition stand several kilometres away – a worldwide first.

to an order for modernization of 60 Leopard tank turrets for an end-customer in Asia. In Southeast Asia, a variety of orders strengthened the position of the tactical communications portfolio.

A significant area of international activity is ballistic protection. Here, the division was able to secure orders for roof protection systems for the German PUMA infantry fighting vehicle and for complete protection for the PANDUR wheeled armoured personnel carrier in several countries in Northern and Western Europe.

Innovation and initiatives

One major area of research for RUAG Defence is the safety of deployed troops. In the area of roof protection systems, the division is the world leader. In the field of robotics, it offers a remote control kit which can be used for any vehicle, as well as concepts for partially autonomous unmanned vehicles. On the occasion of EUROSATORY 2014 in Paris, in the outdoor exhibition area RUAG Defence presented a production vehicle that was controlled remotely from an exhibition stand several kilometres away – a worldwide first. In a new departure, the division has expanded its sphere of activity to include small robots. Good progress was also made on the development of an innovative, performance-enhancing drive train for heavy vehicles.

Customer needs are also growing in the field of simulation products. Interoperability is thus a key focus in development work. The background: Using RUAG Defence products, existing simulation systems already owned by customers can be augmented and fully integrated into the proprietary deployment or training system. This creates compatible systems which help different countries' armed forces to work together, for example in the context of NATO exercises. Interoperability is also a key issue in the area of tactical communications. A wide range of analogue and digital communications systems are now being combined into seamless networks. RUAG Defence is also making great strides in expanding secure voice and data communication applications with proprietary products.

The division also continued to develop its skills in the area of detecting and countering cyber attacks. RUAG's Traffic Analyzer and Visualizer products allow customers to detect and forensically analyse attacks while preserving the privacy of network users.

Outlook

One of RUAG Defence's key goals is to retain its strong market position within Switzerland. To this end, it is focusing on life cycle support for the systems used by the Swiss Armed Forces, integration in the area of vehicle purchases, indirect fire support, development in the tactical communications domain, and simulation.

With its newly formed Integrated Solutions & Services business area, RUAG Defence is expanding, across all business lines, its expertise in offering manufacturer-independent solutions which also span different technologies, systems and skill levels.

In the strategic business area of cyber security, RUAG Defence is keen to further expand its role as "cyber partner" to the Swiss Armed Forces, as well as to provide a comprehensive service to the Swiss security network. The intention is for the division to work selectively with defence organizations in other European countries, as well as supplying civilian operators of critical infrastructures.

Internationalization continues to be a key area. Like other RUAG divisions, in the medium term RUAG Defence will be generating up to half of its turnover outside Switzerland. The division is focusing on maintenance and repair, and on the operation and upgrading of vehicle systems. In this area, central Europe, Scandinavia and the Baltic States, the Middle East, South America and Southeast Asia are of central importance. Specifically, activities will expand to cover the Leopard and M109 platforms worldwide, and other vehicle classes will also be given more attention. RUAG Defence will continue to consolidate its leading position in roof, side and mine protection. In the tactical communications field, additional market opportunities are emerging in Southeast Asia and the European region. In the case of simulation and training systems, special attention is being given to projects in Europe, the Middle East and Southeast Asia. In addition, the now fully integrated French subsidiary, GAVAP, and RUAG's new Simulation Company LLC in Abu Dhabi are key pillars in the internationalization process.

RUAG Defence in numbers (2014)

Net sales:	CHF 367 million
EBITDA:	CHF 25 million
EBIT:	CHF 13 million
Employees:	1,449
Based in:	Switzerland, Germany, France, United Arab Emirates

Testing of communication devices on an emergency kit (system for unsched uled helicopter operations) at the Hombrechtikon site.

All service units under one roof:
Products and customer projects are more profitable and quality is enhanced.
And in the meantime, the divisions can focus on their core business operations.

RUAG Corporate Services

The specialists of RUAG Corporate Services handle technical queries, take responsibility for strategic cross-cutting functions and support the divisions in targeting markets. They ensure that consistent standards are applied and synergy effects are exploited.

RUAG Corporate Services brings together a wide range of service units, which provide their services to all RUAG divisions. These units are Corporate Human Resources, Corporate Communication, Corporate IT, Corporate Legal & Secretary General and Corporate Finance & Controlling.

The service units are organized as in-house departments at Group level, and their activities are aligned with the overarching strategy of the Group.

Corporate Human Resources: Well trained and motivated employees

RUAG's employees are the foundation of its success. Well trained and motivated employees guarantee high product and service quality.

As an employer, RUAG offers an attractive range of jobs, providing employees with many and diverse challenges to pursue and the opportunity to continuously develop their knowledge and skills within the context of their everyday work. RUAG offers a diverse range of advanced training options, including, for example, in-house courses to obtain an internationally recognized project management certificate. A three-step, modular, multilingual leadership programme is used to train managers. An important component of staff management at RUAG is the annual appraisal interview, which provides an opportunity for line managers to evaluate employees' performance and conduct based on the RUAG skills model.

In surveys by Universum Communications, RUAG has for some years been ranked as one of Switzerland's most popular employers among both experienced professionals and science and engineering graduates. For RUAG this is further testament to its attractiveness in the jobs market.

RUAG maintains a partnership-based dialogue with employee representatives and works councils as well as external social partners. A culture of candid and goal-oriented dialogue has so far made it possible to find shared solutions every time.

Corporate Human Resources has established itself as a reliable partner to the various divisions. In the true spirit of RUAG's three corporate values of collaboration, high performance and visionary thinking, the unit is deeply committed to a high level of customer focus, especially with an eye to the ongoing internationalization of the Group.

RUAG attaches great importance to nurturing apprentices and trainees in Switzerland and Germany. A total of 410 young people are receiving training. The Group offers a modern educational approach and an exciting, high-tech playing field. Interested individuals can choose between 23 different apprenticeship vocations. At the 2014 Swiss Skills Championships in Berne, talents from RUAG made a highly successful showing – they took five podium places and netted one gold, one silver and three bronze medals.

Corporate Communication: conveying a consistent message internally and externally

Corporate Communication is responsible for in-house communications, public appearances by the Group, and the continuous development of its branding. In close coordination with the individual divisions, the unit conducts a dialogue on the Group's strategic direction, objectives and activities with all relevant stakeholders.

RUAG is committed to pursuing a transparent information policy. Corporate Communication is the point of contact within RUAG for both Swiss and international media representatives. The unit provides information on the Group's activities and achievements and publicizes relevant content at the request of the Group or the individual divisions.

The divisions' Marketing and Communication departments are responsible for specifically cultivating each division's customer markets.

As a competent and modern technology company, RUAG enjoys a high level of support. This is the conclusion of a survey carried out with members of the public and visitors to AIR 14.

Within Switzerland, RUAG is viewed as a competent and modern technology company. The Group enjoys a high level of support. This is the conclusion of a survey carried out with members of the public and visitors to AIR 14. RUAG made an appearance as an official partner at Europe's biggest air show to celebrate "100 years of Swiss Air Force", held in Payerne, Switzerland in late August/early September 2014.

The motto "Together ahead. RUAG" refers in equal measure to the Group's uniform branding and its ongoing internationalization. One important innovation in this area is the "corporate language". This consistent framework ensures that even the language used by RUAG contributes to the perception of the Group as a unified whole.

In 2014, RUAG tailored its appearances at international trade fairs more closely to the preferences of the individual host countries and regions. Corporate Communication succeeded in bringing RUAG's corporate profile into sharper focus and enhancing its visibility.

Corporate IT:
Modern and secure IT solutions

The "Office of the CIO" combines the areas of IT Strategy, Governance, Enterprise Architecture and the IT project portfolio in order to assure the strategic and planning-related management of all RUAG's divisional and central IT organizations.

The central Corporate IT unit develops high-quality and competitive IT business architecture and applications and runs these together with the Group's global corporate network and redundant data centres. The unit's duties also include advising on, implementing and managing ERP, e-business and mobile solutions. The service portfolio is rounded off with Microsoft platforms, specialist applications and PC workstations, as well as all telephony functions (landlines, mobiles and IP). Corporate IT has Group-wide responsibility for strategic ICT (information and communications technology) sourcing and procurement Group-wide. It is responsible for providing an integral, industry-standard, Group-wide information and communications technology framework.

The Software House business unit specializes in software engineering as a partner for the divisions' customer projects. It also develops specialist applications for use within the Group.

Corporate Legal & Secretary General:
expertise in all legal and compliance matters

On the one hand, this service unit provides services for the Annual General Meeting, the Board of Directors and the Group Executive Board; on the other, it furnishes advice at Group level to the divisions and subsidiaries in all legal and compliance matters. The unit is responsible for all matters relating to contracts and contract management. It clarifies the legal compliance of all projects in RUAG's home markets and in the export business. Its core competencies also include cultivating shareholder relations.

RUAG is a joint stock company wholly owned by the Swiss Confederation. The Swiss Federal Department of Defence, Civil Protection and Sport (DDPS) exercises the Confederation's shareholder interests.

The owner's strategy of the Federal Council establishes a binding framework for RUAG's operations, ensuring that the Group can achieve its financial goals while also taking account of Switzerland's broader interests. These interests relate primarily to national defence; however, they also include the outcomes of domestic and international cooperation and investments, as well as RUAG's human resource policy and financial objectives.

General legal counselling and critical assessment of export activities is a key issue. RUAG complies with local laws and explicitly refrains from outsourcing business abroad to circumvent the strict provisions of Swiss law. Moreover, it also pursues its owner's interests abroad, especially in terms of examining and exploiting opportunities for exports from foreign production sites.

In addition to the applicable export regulations, observance of Swiss and international compliance rules is an essential part of RUAG's business culture. For this purpose, the Corporate Legal & Secretary General service unit has in-house regulations drawn up and updated as required. In line with these guidelines it assesses transactions and monitors the contracts negotiated by the divisions. It also provides training and advice to the employees involved in the divisions.

RUAG has set up a whistleblower system through which employees and third parties can report any irregularities, anonymously if preferred.

Corporate Finance & Controlling:
Reducing costs, boosting earning capacity

The Corporate Finance & Controlling unit determines and processes the key figures required for the piloting of the Group. It uses high-performance information systems to ensure timely support for operational management and guarantee transparency.

Working Capital Management continuously monitors the entire process chain, suggests optimization measures and implements them as needed, thus reducing the level of capital tied up, increasing cash flow, and supporting growth. The room to manoeuvre gained in this way facilitates the financing of capital investments, research and development and acquisitions without the need for external funding. This helps to reduce costs and to boost the earning capacity of RUAG's enterprise value.

The Corporate Finance & Controlling service unit also incorporates RUAG Real Estate, RUAG Environment, Corporate Procurement and Group Risk Management.

RUAG Real Estate:
Providing the ideal infrastructure for industrial production

RUAG Real Estate plans and commissions industrial and commercial buildings for the divisions and for third parties. It provides RUAG's corporate real estate management (CREM) service. It disposes of buildings and rights in rem and manages properties over their entire lifecycle.

RUAG Real Estate assures the provision of an ideal infrastructure for industrial production Group-wide. That is its main function. The unit develops the Group's major sites specifically with a view to creating themed industrial estates. Together with partners, it expedites and implements design plans and individual projects. In this way, RUAG Real Estate makes a significant contribution to the preservation and ongoing development of RUAG and Switzerland as a centre of business activity.

RUAG Real Estate is responsible for transactions and for portfolio management, commercial property management and building management operations. It also offers a comprehensive service to industrial estate tenants. RUAG Real Estate also incorporates the Safety and Environment and Marketing units.

RUAG Environment:
Environmentally sound, sustainable, forward-thinking

RUAG Environment specializes in the recycling of electrical and electronic equipment. In partnership with other waste disposal businesses, it offers a nationwide service providing professional, customer-oriented and fully integrated waste disposal solutions – for the Group, for private or public third-party customers, and for the Swiss Armed Forces.

The unit is committed to pursuing an environmentally sound, sustainable and forward-thinking approach to its activities. It is characterized by its internationally recognized expertise and its capacity to innovate. From initial needs analysis to tailored logistical solution and, ultimately, environmentally friendly and compliant disposal, it is a partner to industry and trade customers alike.

Corporate Procurement:
Mobilizing, standardizing, optimizing

Competitive buying conditions are one of the foundations for sustainable business success. In cooperation with other areas of Corporate Services, Corporate Procurement supports the internationalization of the company and identifies potential synergies within the area of procurement.

RUAG attaches great importance to nurturing apprentices and trainees in Switzerland and Germany. A total of 410 young people are receiving training.

Together with the RUAG Procurement Board, the unit mobilizes the entire purchasing network and helps the divisions to gain purchasing advantages and optimize their processes. To this end, for example, it defines common key figures, reviews processes and aligns them with industry standards.

In future more indirect material groups and administrative duties will be brought together in centres of excellence which will serve the Group as a whole. This pooling of tasks and expertise will secure the Group's competitive edge, increase transparency and improve its bargaining position.

Group Risk Management:
Detecting and analysing risks, finding solutions

Group Risk Management plays a supporting role in the internationalization of the Group. As part of corporate governance, it provides help and advice to the divisions as well as a twice-yearly risk assessment.

An issues management framework is used to provide a rapid response to current issues. For medium- and long-term risks and opportunities, there is a Group-wide risk management framework tailor-made to RUAG's specific requirements. This is used to analyse and assess risks and identify the underlying causes, and to define, schedule and continuously monitor solutions.

In 2014, special emphasis was accorded to project activities and the risks arising from the supply chain and procurement operations. Other focus areas include safety and environment, data security and crisis management.

Financially relevant risks are identified and monitored via an internal control system covering all core processes. Compliance issues and business proposals are assessed in collaboration with the Corporate Legal & Secretary General and Corporate Finance & Controlling units.

Compliance

As an enterprise under public-sector ownership and in light of its ongoing internationalization, including operations in sensitive areas such as military technology, RUAG is subject to exceptional scrutiny by the public and policymakers. Impeccable conduct in not only legal but also ethical terms is therefore of key importance.

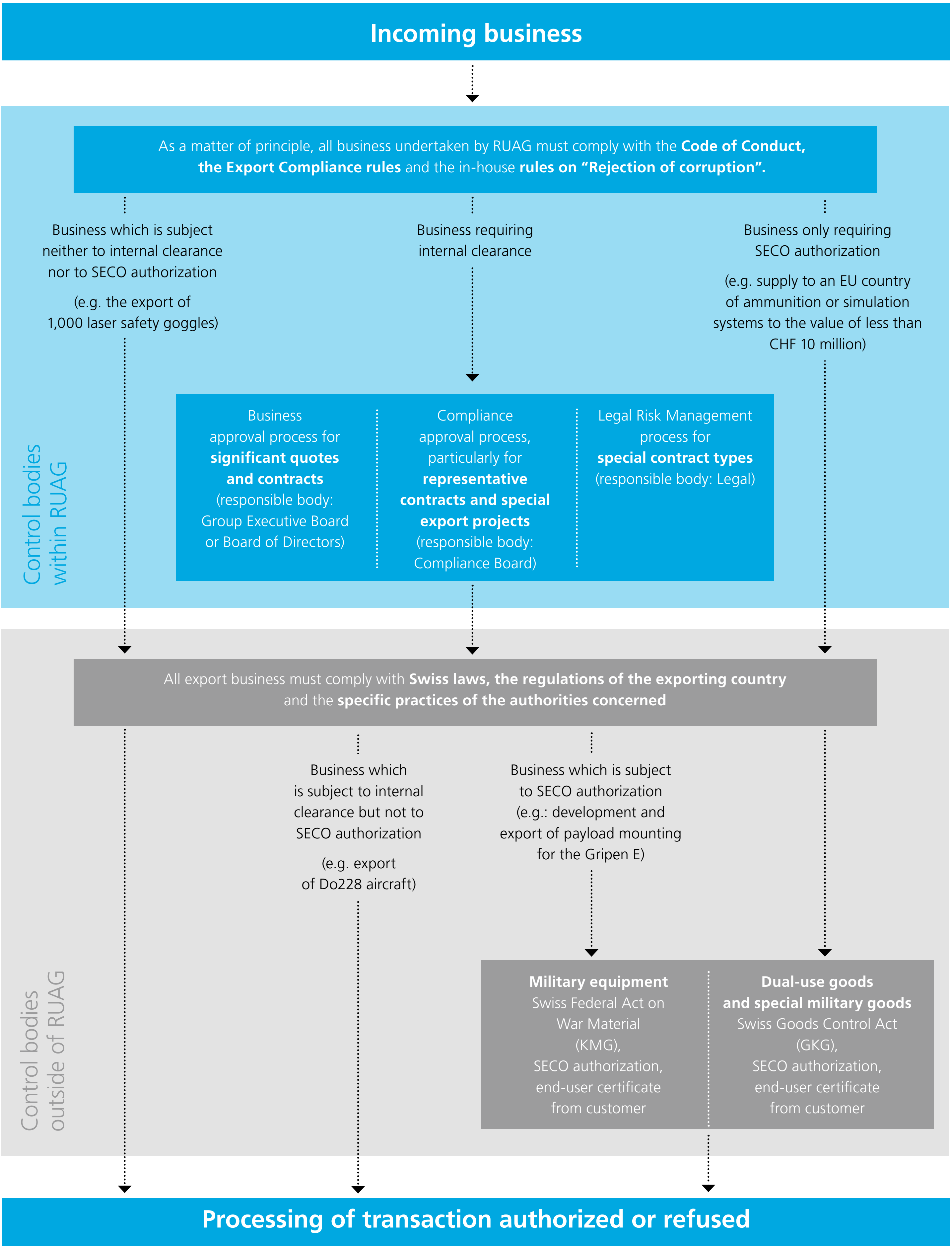
The notion of compliance has grown substantially in importance in recent years. For RUAG, since its founding compliance has meant far more than simply following specific guidelines such as national laws and international agreements. In a wider sense, compliance also comprises setting a stricter measure for its own actions and critically examining whether its conduct is conscionable from an ethical and moral perspective. RUAG moves circumspectly on the international stage and weighs decisions with great care. At times it passes up business, even if it might not be strictly prohibited by law. Generally speaking, no business is transacted in contravention of compliance principles.

What is true of the company should apply equally to all employees. They too are expected to adhere strictly to internal policies, national legislation and international agreements, to fulfil contracts and be accountable for their own conduct in the course of doing business.

RUAG also expects conduct in conformity with all laws and regulations from its business partners, both in relation to services and to delivery of products. Transparency is a high priority for RUAG, and the company cultivates open relations with government agencies and political figures. When questions arise – with regard to exports to certain countries, for example – it consults with the appropriate experts.

Despite broad openness, discretion and confidentiality are indispensable when customers, vendors, employees or other stakeholders entrust RUAG with information. All such information is protected and handled confidentially. RUAG employees have an obligation not to disclose any business or trade secrets. This applies particularly to information regarding technologies or manufacturing, research and development processes, and personal data.

The graphic on page 41 illustrates the internal and external authorization process – from receipt of an order through to final processing.


Incoming business
As a matter of principle, all business undertaken by RUAG must comply with the **Code of Conduct, the Export Compliance rules** and the in-house **rules on “Rejection of corruption”.**
Business which is subject neither to internal clearance nor to SECO authorization
(e.g. the export of 1,000 laser safety goggles)
Business requiring internal clearance
Business only requiring SECO authorization
(e.g. supply to an EU country of ammunition or simulation systems to the value of less than CHF 10 million)
Control bodies within RUAG
Business approval process for **significant quotes and contracts** (responsible body: Group Executive Board or Board of Directors)
Compliance approval process, particularly for **representative contracts and special export projects** (responsible body: Compliance Board)
Legal Risk Management process for **special contract types** (responsible body: Legal)
All export business must comply with **Swiss laws, the regulations of the exporting country** and the **specific practices of the authorities concerned**
Business which is subject to internal clearance but not to SECO authorization
(e.g. export of Do228 aircraft)
Business which is subject to SECO authorization (e.g.: development and export of payload mounting for the Gripen E)
Control bodies outside of RUAG
Military equipment Swiss Federal Act on War Material (KMG), SECO authorization, end-user certificate from customer
Dual-use goods and special military goods Swiss Goods Control Act (GKG), SECO authorization, end-user certificate from customer
Processing of transaction authorized or refused

As a corporation with international operations, RUAG is committed to conducting business in accordance with ethical principles and applicable law and in a socially responsible fashion.

Allowing no opportunities for corruption

There is no room for corruption or any form of corrupt conduct at RUAG. As a fair competitor, RUAG refrains from gaining unjustified advantages by offering financial or other incentives to third parties. Nor does RUAG accept financial or other incentives when unjustified advantages or improper conduct are expected in return.

This principle applies equally to every individual working for RUAG. No one makes payments, direct or indirect, to secure advantages for themselves. This applies especially to members of international organizations and authorities, officials or public employees, but also to employees of private businesses. Likewise, no one working for RUAG is permitted to accept unjustified payments or other incentives. Payments or contributions to elected representatives, political parties or their representatives must be legally permitted, properly documented and disclosed.

RUAG has established a Compliance Board to ensure compliance in all aspects at RUAG. The Compliance Board serves as a point of contact for employees, customers, vendors or third parties when questions arise in relation to compliance or if there is something to report.

Whistleblower system

Another important element in the combating of corruption and other irregularities is RUAG's web-based whistleblower system. Employees and third parties can use this system if they suspect or observe irregularities and violations, anonymously if they wish. The online tool is operated by an outside company and serves as an early warning system to prevent compliance violations.

If, for example, an employee encounters irregularities in the ordinary course of work, the first point of contact remains his or her line manager. But if a conversation with the line manager is not possible or fails to achieve the expected result, the employee can report the incident at https://ruag.integrityplatform.org, anonymously if he or she wishes. Reports are seen and processed only by designated RUAG specialists from the Legal, Human Resources or Risk Management departments.

Code of Conduct for Business Partners

As a corporation with international operations, RUAG is committed to conducting business in accordance with ethical principles and applicable law and in a socially responsible fashion. RUAG also expects conduct that is proper in every respect from its customers, suppliers, service providers and their supply chains. The Code of Conduct for RUAG Business Partners is therefore an integral part of every contract with a third party and is binding on all business partners.

RUAG publishes the Code of Conduct on the Internet and brings it to the attention of its business partners. Its most important provisions include:

- observance of the UN Universal Declaration of Human Rights
- observance of national labour laws
- prohibition of illicit child labour or other forced labour
- observance of safe working conditions
- observance of the ban on corruption

Export compliance

As a corporation under the ownership of the Swiss Confederation, RUAG bears a special responsibility, especially when acting as a supplier of defence applications. Accordingly, RUAG supplies military applications only in coordination with the State Secretariat for Economic Affairs (SECO), and does so only to clearly identifiable counterparties.

RUAG export compliance guidelines apply to all organizational units and activities, regardless of where they are based or from whence goods are to be exported. In general, RUAG does not circumvent export restrictions by transacting exports through its foreign subsidiaries that would not be permitted from Switzerland. All exports of military applications are transacted in conformity with international law, Switzerland's international commitments and the principles of Swiss foreign policy.

Risk management

Risk management is one of the most important principles of corporate governance. Across the corporation, it supports the central RUAG Corporate Services, the divisions and the project teams with instruments and a constructive dialogue about risk.

Twice a year RUAG conducts a supervised, structured risk and opportunity assessment. RUAG divides risk management competencies into two areas: If the risks and opportunities at issue are short-term, they are addressed in an issue management initiative. Medium and long-term risks and opportunities, by contrast, are dealt with across all hierarchical levels in a tailored, Group-wide risk management framework. Specialists identify and assess the risks, which are then processed in a multidisciplinary fashion as part of the risk strategy. Benefits of this approach: Issues are conveyed quickly and comprehensively, and duplication of effort is avoided by taking an integrated approach.

Identified risks are classified in seven main categories: external, strategic, market, process, resource, financial and compliance/culture. Risks are analysed and assessed to identify causes and determine susceptibility to influence. Best, real and worst-case scenario techniques aid in judging how potential risks might play out. Finally, actions are defined and scheduled and their implementation is continually monitored.

Focus on project business and data security

In 2014 the project business was a major focus of risk management. Thanks to the pre-defined risk catalogue, it was possible to analyse the risks facing all strategic projects as part of the milestone planning process. Project leads were trained and risks throughout the corporation were recorded in a centralized risk management tool. Project leads submit regular reports on measures taken and new potential risks to the steering committee, which oversees progress on the project and clears each milestone.

Data security is a further focus of interest. Handling of data, protection against cyber and hacker attacks on servers and technical capabilities are reviewed daily. The latest tools are available for these processes. RUAG uses the same peripheral devices that it offers on the market as a systems supplier for protection of systems and data media. Rules are established for data encryption in electronic exchanges of information and protection of all data stored or physically transported on data media.

Internal Control System (ICS) and Enterprise Risk Management (ERM)

An internal control system logs and monitors all financially relevant risks across all core processes. Comprehensive key checks are carried out periodically and responsibilities and privileges are clearly assigned. This prevents manipulation of payments (fraud[1]) or illicit advantages to third parties. All checks are clearly defined. Control officers conduct and document periodic and spot checks. Defined risks are compared with those identified in the Group-wide risk management system, and actions and responsibilities are harmonized. There are two audit processes to review the application and effectiveness of the checks: an internal review through on-site inspections and an external review as part of the annual financial audit.

Safety and environment

RUAG adheres to the latest standards in matters of safety and the environment. Periodic audits by RUAG's insurers ensure that they are implemented. The aim has always been to protect the environment and infrastructure along with the safety of products and of the workplace.

A further objective is to actively protect critical processes in the event of an emergency. Crisis management and business continuity management systems are in place to ensure that production is free from interruption as far as possible or can be resumed with minimal ramp-up times and consistent quality. Further aspects include access rules, a standard badge for all RUAG staff and implementation of regulations such as REACH[2].

[1] Fraud: illicit actions (deception, embezzlement, loss of assets due to actions by employees) within a company

[2] REACH: EU chemical regulation (EC No 1907/2006), in force since 1 June 2007, stands for Registration, Evaluation, Authorisation and Restriction of Chemicals

Risk management framework

Compliance

Qualified assessment of compliance issues and business, advisory and agency contracts requires close collaboration among Corporate Legal, the General Secretary, Corporate Procurement, Finance & Controlling and Risk Management. This not only enables early identification and appropriate handling of risks, but also long-term generation of opportunities. The key elements here are compliance with the segregation of duties (SoD), with statutory and regulatory requirements, and with RUAG's corporate policies.

Insurance management

RUAG's risk strategy recognizes the following four options: Risks can be reduced or avoided, they can be transferred to third parties, or they can be accepted within the limits of RUAG's appetite for risk. Concerning risk transfer, the central Risk Management department is in constant consultation with the divisions and business units. Continually optimized insurance programmes support the business units across all areas. In the event of a loss, the business units have adequate insurance cover. While it is not possible to insure all risks, if they are deliberately accepted and actively managed over a given span of time, opportunities may arise for RUAG units against the competition in worldwide markets in the land, air and space segments.

[3] SoD: Segregation of Duties (function and responsibility) within the organizational structure

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Overview of key figures

in CHF m	2014	2013
Order inflow	1 785	1 851
Order backlog	1 370	1 405
Net sales	1 781	1 752
Operating income	1 759	1 749
Cost of materials and purchased services	(562)	(560)
Personnel expenses	(824)	(835)
Other operating expenses, net	(180)	(158)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	193	196
EBITDA in % of operating income	11.0 %	11.2 %
Earnings before interest and taxes (EBIT)	115	115
EBIT in % of operating income	6.5 %	6.6 %
Net profit	102	94
Net profit in % of operating income	5.8 %	5.4 %
Cash flow from operating activities	135	142
Cash flow from investing activities	(79)	(42)
Free cash flow	57	100
Cash flow from financing activities	(61)	(88)
Equity attributable to the RUAG shareholder	887	943
Equity in % of total assets	49.6 %	50.5 %
Return on equity[1]	11.1 %	11.3 %
Depreciation, amortization and impairment	79	81
Research and development expenses[3]	140	132
in % operating income	8.0 %	7.5 %
Net sales per employee (in CHF thousands)	218	210
Added value per employee (in CHF thousands)	135	130
Number of employees at end-December (incl. apprentices)	8 114	8 241
Number of employees (average for the year, incl. apprentices)	8 182	8 336
Number of registered shares (par value CHF 1,000)	340 000	340 000
Earnings per registered share	298.67	277.89
Dividend per registered share[2]	61.76	58.82
Distribution ratio	20.7 %	21.2 %
Book value per registered share in CHF	2 610	2 773

[1] Net profit as a percentage of average equity.
[2] Probable dividend of CHF 21 million for 2014 according to the proposal of the Board of Directors.
[3] Comprises both self-financed and third party-financed research and development expenses.

Five-year overview

in CHF m	2014	2013	2012	2011	2010
Order inflow	1 785	1 851	1 612	1 720	1 713
Order backlog	1 370	1 405	1 310	1 480	1 653
Net sales	1 781	1 752	1 741	1 714	1 796
Earnings before interest and taxes (EBIT)	115	115	113	110	98
EBIT in % of operating income	6.5 %	6.6 %	6.3 %	6.4 %	5.3 %
Net profit	102	94	78	97	92
Net profit in % of operating income	5.8 %	5.4 %	4.4 %	5.4 %	5.0 %
Cash flow from operating activities	135	142	130	127	130
Cash flow from investing activities	(79)	(42)	21	(46)	(50)
Free cash flow	57	100	150	81	80
Cash flow from financing activities	(61)	(88)	(39)	(65)	(78)
Equity attributable to the RUAG shareholder	887	943	728	746	734
Equity in % of total assets	49.6 %	50.5 %	38.9 %	43.4 %	41.3 %
Return on equity[1]	11.1 %	11.3 %	10.6 %	13.1 %	13.3 %
Research and development expenses[3]	140	132	134	140	190
Research and development expenses in % of operating income	8.0 %	7.5 %	7.4 %	7.8 %	10.3 %
Number of employees at end-December, including apprentices[2]	8 114	8 241	8 188	7 739	7 719
Number of employees (average for the year), including apprentices[2]	8 182	8 336	8 258	7 739	7 689

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

[2] As of 2012: including apprentices.

[3] Comprises both self-financed and third party-financed research and development expenses.

Consolidated statement of comprehensive income, 1 January to 31 December

in CHF m	Note	2014	2013
Net sales	7	1 781	1 752
Own work capitalized		3	2
Changes in inventories and work in progress		(24)	(6)
Operating income		1 759	1 749
Cost of materials and purchased services		(562)	(560)
Personnel expenses	8	(824)	(835)
Other operating expenses, net	9	(180)	(158)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		193	196
Depreciation, amortization and impairment	18, 19, 20	(79)	(81)
Earnings before interest and taxes (EBIT)		115	115
Financial income	11	4	3
Financial expenses	11	(4)	(8)
Share in profit of associates	21	5	4
Earnings before taxes		119	114
Income taxes	12	(17)	(23)
Profit from continuing operations		102	91
Profit from discontinued operations	5	—	3
Net profit		102	94
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurement of the net defined benefit liability (asset)		(143)	175
Share in other comprehensive income of associates		(8)	0
Tax effect		29	(33)
		(121)	143
Items that have been or may be reclassified to profit or loss			
Change in fair value of cash flow hedges		(14)	2
Gains and losses from cash flow hedges transferred to profit or loss		6	(3)
Foreign currency translation adjustments of foreign subsidiaries		(10)	(1)
Tax effect		2	0
		(15)	(2)
Other comprehensive income, net of tax		(137)	141
Total comprehensive income		(35)	235
Net profit attributable to			
Shareholders of RUAG Holding Ltd		101	94
Non-controlling interests		0	(0)
Net profit		102	94
Total comprehensive income attributable to			
Shareholders of RUAG Holding Ltd		(35)	235
Non-controlling interests		0	(0)
Total comprehensive income		(35)	235

The notes to the consolidated financial statements on pages 54 to 97 form an integral part of the consolidated financial statements.

Consolidated statement of financial position as at 31 December

in CHF m	Note	2014	2013
Cash and cash equivalents	13	202	209
Current financial assets	14	10	6
Receivables and prepayments	15	284	274
Tax assets		2	4
Prepaid expenses and accrued income		10	12
Inventories and work in progress	16, 17	579	617
Current assets		1 087	1 121
Property, plant and equipment	18	416	395
Investment property	19	97	101
Intangible assets	20	57	73
Goodwill	20	82	84
Associates	21	33	38
Employee benefit assets	27	—	34
Non-current financial assets	14	2	3
Deferred tax assets	12	15	19
Non-current assets		703	747
Total assets		1 789	1 868
Current financial liabilities	22	23	50
Other current liabilities	23	41	37
Trade accounts payable and prepayments	24	281	347
Tax liabilities		15	14
Deferred income and accrued expenses		232	219
Current provisions	26	76	91
Current liabilities		669	757
Non-current financial liabilities	22	1	1
Other non-current liabilities	25	1	2
Employee benefit obligations	27	156	54
Non-current provisions	26	48	47
Deferred tax liabilities	12	26	63
Non-current liabilities		232	167
Share capital	31	340	340
Capital reserves		10	10
Retained earnings		619	660
Other reserves		(9)	(3)
Foreign currency translation adjustments		(73)	(63)
Equity attributable to the RUAG shareholder		887	943
Equity attributable to non-controlling interests		1	1
Total equity		889	944
Total liabilities and equity		1 789	1 868

The notes to the consolidated financial statements on pages 54 to 97 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows, 1 January to 31 December

in CHF m	Note	2014	2013
Net profit		102	94
Depreciation, amortization and impairment	18, 19, 20	79	81
Change in non-current provisions and deferred taxes		4	24
Utilization of non-current provisions		(12)	(24)
Share in profit of associates	21	(5)	(4)
Other non-cash changes		1	(2)
Change in net working capital[1]		(30)	(17)
(Gain)/loss on disposal of non-current assets		(3)	(10)
Financial income received		(2)	(3)
Financial expenses paid		2	3
Cash flow from operating activities[2]		135	142
Capital expenditures for plant and equipment[3]	18	(34)	(30)
Capital expenditures for property	18, 19	(45)	(24)
Capital expenditures for intangible assets	20	(3)	(1)
Acquisition of subsidiaries less cash and cash equivalents acquired	4	(7)	(6)
Disposal of plant and equipment		4	2
Disposal of property		3	11
Disposal of intangible assets		—	—
Disposal of investments in subsidiaries	4	—	3
Dividends received from associates	21	3	3
Cash flow from investing activities		(79)	(42)
Free cash flow		57	100
Increase in financial liabilities to third parties		2	3
Repayment of financial liabilities to third parties		(41)	(68)
Finance lease payments		(1)	(2)
Financial income received		2	3
Financial expenses paid		(2)	(3)
Dividends paid to shareholders		(20)	(20)
Cash flow from financing activities		(61)	(88)
Change in cash and cash equivalents before foreign currency translation adjustments		(4)	12
Cash and cash equivalents at beginning of period		209	198
Foreign currency translation adjustments in respect of cash and cash equivalents		(3)	(1)
Cash and cash equivalents at end of period		202	209

[1] Excludes current financial assets and current financial liabilities and other non-current liabilities.
[2] Including income taxes of CHF 16 million (previous year CHF 14 million) paid in the year under review.
[3] Including actual leasing payments accounted for in the case of finance leases.

The notes to the consolidated financial statements
on pages 54 to 97 form an integral part
of the consolidated financial statements.

Consolidated statement of changes in equity

in CHF m	Share capital	Capital reserves	Retained earnings	Other reserves	Foreign currency translation adjustments	Attributable to the RUAG shareholder	Attributable to non-controlling interests	Total equity
Balance as at 1 January 2013	340	10	443	(2)	(62)	728	1	729
Net profit	—	—	94	—	—	94	(0)	94
Other comprehensive income	—	—	142	(1)	(1)	141	—	141
Total comprehensive income for 2013	—	—	237	(1)	(1)	235	(0)	235
Dividends paid	—	—	(20)	—	—	(20)	—	(20)
Balance as at 31 December 2013	340	10	660	(3)	(63)	943	1	944
Balance as at 1 January 2014	340	10	660	(3)	(63)	943	1	944
Net profit	—	—	101	—	—	101	0	102
Other comprehensive income	—	—	(121)	(5)	(10)	(137)	(0)	(137)
Total comprehensive income for 2014	—	—	(20)	(5)	(10)	(35)	0	(35)
Dividends paid	—	—	(20)	—	—	(20)	—	(20)
Balance as at 31 December 2014	340	10	619	(9)	(73)	887	1	889

In 2014, a dividend of CHF 20 million (previous year: CHF 20 million) was paid to the shareholder from the previous year's result. This is equivalent to a dividend per share of CHF 58.58 (previous year: CHF 58.82).

The notes to the consolidated financial statements on pages 54 to 97 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 General information: 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") focus on their core aerospace and defence businesses with goods and services in the military and civilian sectors and on the development of international growth markets. RUAG is bound by the owner's strategy of the Swiss Federal Council and its fundamental mission is to equip and maintain the technical systems of the Swiss Armed Forces. In May 2011, the Swiss Federal Council approved the owner's strategy for state-owned defence technology companies, 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. The owner's strategy for 2015–2018 is currently being established and is expected to be approved by the Federal Council in the first half of 2015 with retroactive effect as of 1 January 2015.

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. Details of transactions with the Swiss Confederation are given in Note 32.

2 Summary of significant accounting policies

2.1 Basis 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 reporting period covers twelve months. The consolidated financial statements are presented in Swiss francs (CHF). The statement of financial position is structured according to maturities. Assets and liabilities are classed as "current" if they mature within one year. The income statement is prepared using the total cost method. Items are measured at historical cost, unless a standard or interpretation requires a different valuation basis for a line item.

RUAG's consolidated financial statements have been prepared based on historical values and allowing for provisions deviating from the applicable standards.

Preparation of the consolidated financial statements in accordance with IFRS to some extent requires the use of estimates and assumptions. These have an impact on the recognized assets and liabilities, the application of accounting policies, the disclosure of contingent assets and liabilities at the end of the reporting period and the reporting of income and expenses during the reporting period. Even though these estimates and assumptions are based on the most recent knowledge of the management regarding current developments and events, the actual results may differ. Exceptionally complex areas, or areas where more extensive use of estimates and assumptions is necessary or where assumptions and estimates have a material impact on the consolidated financial statements, are presented in Note 3.

Unless otherwise indicated, all amounts are in millions of Swiss francs. Please note that the use of rounded figures and percentages may result in differences due to commercial rounding.

2.2 New and revised accounting standards

Revised International Financial Reporting Standards (IFRSs) and Interpretations adopted for the first time in financial year 2014
Since 1 January 2014, RUAG has applied the following new International Financial Reporting Standards (IFRSs) or amendments to existing IFRSs and Interpretations:

Standard	Title
IFRIC 21	Levies
Amendments to IAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 39	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
Amendments to IFRS 10, IFRS 12 and IAS 27	Consolidated Financial Statements/ Disclosure of Interests in Other Entities/ Separate Financial Statements: Investment Entities

RUAG is either not affected by these amendments or these amendments have no effect or no material effect on the Group's net assets, financial position and results of operations.

Amendments to International Financial Reporting Standards and Interpretations which RUAG has adopted early as at 1 January 2014 As at 1 January 2014, RUAG had not adopted any International Financial Statements and Interpretations early that are not yet mandatory.

Amendments 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 2014, must be adopted either from financial year 2015 or at a later date:

Standard	Title	Effective date	Planned adoption
IFRS 14	Regulatory Deferral Accounts	1 January 2016	Financial year 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017	Financial year 2017
IFRS 9	Financial Instruments	1 January 2018	Financial year 2018
Various	Annual Improvements to IFRSs 2010-2012 Cycle Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014	Financial year 2015
Amendments to IFRS 11	Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	Financial year 2016
Amendments to IAS 16 and IAS 38	Property, Plant and Equipment/Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016	Financial year 2016
Amendments to IAS 16 and IAS 41	Property, Plant and Equipment/Agriculture: Bearer Plants	1 January 2016	Financial year 2016
Amendments to IAS 27	Separate Financial Statements: Equity Method in Separate Financial Statements	1 January 2016	Financial year 2016
Amendments to IFRS 10 and IAS 28	Consolidated Financial Statements/Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016	Financial year 2016
Various	Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016	Financial year 2016
Amendments to IAS 1	Disclosure Initiative	1 January 2016	Financial year 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	1 January 2016	Financial year 2016

RUAG will review its reporting in light of the new and amended Standards that enter into effect on or after 1 July 2014 and are not adopted early by RUAG. With the exception of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments, RUAG does not expect these to have a material effect on the consolidated financial statements. The effects on the consolidated financial statements of the two new Standards mentioned above are currently being analysed. RUAG does not plan to early adopt any new or amended Standards and Interpretations that have already been published.

2.3 Consolidation principles

RUAG's annual consolidated financial statements include subsidiaries where RUAG Holding Ltd has the power to control the financial and operating policies. For control to exist, the investor must have power, exposure or rights to variable returns and the ability to combine those requirements, that is the ability to use its power to affect the variable returns. This is usually the case if RUAG directly or indirectly holds the majority of the voting power or the potential voting rights of the entity. The assets, liabilities, equity, income and expenses of fully consolidated subsidiary companies are included in their entirety in the consolidated financial statements. 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. 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 intercompany profits, are fully eliminated on consolidation.

All subsidiaries included in the consolidated financial statements have 31 December as their reporting date.

Associates where RUAG exerts a significant influence (normally 20 % to 50 % of the voting rights are held directly or indirectly), but which it does not control, are recognized using the equity method. An equity investment is initially recorded at fair value. When measured subsequently, the carrying amount of the investment is adjusted to take account of the share of profit or loss and the share of other changes in equity less the share of the profit distribution. These investments are reported under "Associates".

Investments where RUAG does not exercise significant influence (less than 20 % of the voting rights are held directly or indirectly) are stated at historical cost less any valuation allowances and shown under "Non-current financial assets".

An overview of all significant subsidiaries, associates and non-controlling interests is provided in Note 37.

2.4 Foreign currency translation

RUAG Holding Ltd's consolidated financial statements are presented in Swiss francs (CHF), the functional currency of RUAG Holding Ltd.

Transactions in foreign currencies are translated into the functional currency of the Group companies at the exchange rate at the transaction date. At the end of the reporting period, foreign-currency receivables and liabilities (monetary items) are translated at the exchange rate at the end of the reporting period, while non-monetary items measured at fair value or cost in a foreign currency are translated into the functional currency at the rate at the date of the fair value measurement or the rate at the transaction date. The resulting exchange differences are recognized in profit or loss, with the exception of exchange differences arising from effective cash flow hedges or net investments in foreign subsidiaries, which are recognized in other comprehensive income.

The assets and liabilities of subsidiaries and associates recognized using the equity method whose functional currency is not the Swiss franc are translated 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 foreign currency translation adjustments. In the event of the disposal (to the extent that this leads to the loss of control or significant influence) of a foreign subsidiary or associate, the cumulative foreign currency translation adjustments previously recognized in equity are transferred to the income statement as a component of the gain or loss on disposals.

Differences arising in the reporting period on translation 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 recognized immediately in the cumulative foreign currency translation adjustments in other comprehensive income.

In these consolidated financial statements, the significant currencies were translated at the following rates in the reporting periods:

2.5 Cash and cash equivalents

Cash and cash equivalents comprise cash and the balances in postal checking and demand deposit accounts with financial institutions. They also include term deposits held with financial institutions and short-term money market investments that have a remaining term of no more than three months on initial recognition. This definition is also used for the statement of cash flows. Cash and cash equivalents are recognized at amortized cost.

2.6 Current financial assets

Current financial assets comprise term deposits held with financial institutions and short-term money market investments that are held for trading or due within one year.

2.7 Receivables and prepayments

Trade receivables and prepayments are recognized at amortized cost less valuation allowances for doubtful receivables. The valuation allowances are estimated on the basis of an analysis of the actual exposure to losses from receivables outstanding at the end of the reporting period. The valuation allowances comprise specific valuation allowances for specifically identified items where there is objective evidence that the outstanding amount will not be received in full and global valuation allowances. The global valuation allowances are based on historical experience. Receivables and prepayments judged to be recoverable are charged to profit or loss as "Other operating expenses".

2.8 Inventories and work in progress

Inventories and work in progress are measured at the lower of cost and net realizable value. Cost comprises all costs of purchase and conversion, including pro rata production overheads. All foreseeable exposures to loss from work in progress are accounted for by recognizing economically reasonable valuation allowances. Inventories are valued using the weighted average method or standard cost accounting. The standard costs that are determined 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.

Exchange rates

Currency		Annual average 2014	End-of-year rate 2014	Annual average 2013	End-of-year rate 2013	Annual average 2012	End-of-year rate 2012
Euro	EUR	1.21	1.20	1.23	1.23	1.21	1.21
Swedish krona	SEK	13.36	12.82	14.23	13.89	13.86	14.05
US dollar	USD	0.92	0.99	0.93	0.89	0.94	0.92
Pound sterling	GBP	1.51	1.54	1.45	1.47	1.49	1.48
Hungarian forint	HUF	0.39	0.38	0.41	0.41	0.42	0.41

Long-term construction and service contracts are measured according to the percentage of completion method. When the conditions are satisfied, work in progress and sales are recognized by reference to the stage of completion. Long-term construction contracts are defined as manufacturing or service 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 stage 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 and service contracts are recognized immediately and in full in the financial year in which the losses are identified, irrespective of the stage of completion. Order costs and pro rata profits from long-term construction and service contracts which are measured using 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 stage 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 outcome of long-term construction and service contracts cannot be estimated reliably, sales are only recognized to the extent of contract costs incurred that it is probable will be recoverable (recoverable cost method). Contract costs are recognized when incurred unless they give rise to an asset that is linked to the future activity on the contract. Any expected loss on a contract is expensed immediately.

Semi-finished products and services in progress are stated under "Inventories 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.

2.9 Property, plant and equipment
Property, plant and equipment is recognized at cost less accumulated depreciation. 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. The carrying amount of the replaced parts is derecognized. Items are depreciated on a straight-line basis, with the exception of land, which is not depreciated and recognized at cost.

The estimated useful lives for the main classes of property, plant and equipment are:

Class	Useful life in years
Plant and equipment	5 to 12
Fixtures and fittings	10
Computer hardware/software	3 to 5
Motor vehicles	5 to 10
Buildings (operating properties)	20 to 60

The useful lives are reviewed at least once a year at the end of the reporting period and adjusted where necessary.

2.10 Government grants
Government grants related to assets are recognized in the statement of financial position at fair value as deferred income. Government grants are then recognized in profit or loss as other income on a straight-line basis over the useful life of the assets.

2.11 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 on a straight-line basis over the shorter of their estimated useful life or the duration of the lease. All other lease transactions are classified as operating leases.

2.12 Investment property
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 on a straight-line basis over a useful life of 40 to 60 years with the exception of land, which is not depreciated and recognized at cost.

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 was measured using the discounted cash flow (DCF) method. No expert market appraisal was carried out in the reporting period.

2.13 Intangible assets and goodwill
Patents, trademarks and prototypes, and licences and rights have a finite useful life and are recognized at cost less accumulated amortization. Intangible assets acquired separately in business combinations such as order backlogs and customer relationships are recognized at their acquisition-date fair value less amortization and impairment.

Items are amortized on a straight-line basis over the following estimated useful lives:

Class	Useful life in years
Patents	5
Trademarks and prototypes	5
Licences and rights	1 to 10
Order backlog and customer relationships	4 to 10

The useful lives are reviewed at least once a year at the end of the reporting period and adjusted where necessary.

Business combinations are accounted for using the acquisition method. The cost is recognized at the fair value of the consideration at the transaction date. Identifiable assets acquired and liabilities and contingent liabilities assumed are recognized in the statement of financial position at their acquisition-date fair value, irrespective of the extent of any non-controlling interest. Transaction costs are recognized as expenses in profit or loss. The excess of the cost over the net assets stated at fair value is recognized as goodwill. Any negative difference is recognized directly in profit or loss after being reviewed. Any goodwill arising in a business combination is recognized as such under "Goodwill". Goodwill is not amortized, but tested for impairment at least annually. In the event of the disposal of an entity, the carrying amount of the goodwill is derecognized and presented as a component of the gain or loss on disposals.

2.14 Research and development expenses

Research expenses are not capitalized and are expensed as incurred. RUAG examines the capitalization of development costs on a case-by-case basis. Development costs are only recognized as intangible assets if an intangible asset is identifiable, the entity believes it can demonstrate the technical feasibility and ability to complete and use the asset, the asset is expected to generate future economic benefits and the cost of the asset can be reliably determined. Capitalized development costs are measured at cost less accumulated amortization and accumulated impairment losses.

2.15 Impairment

Impairment of property, plant and equipment and intangible assets The recoverable amount of property, plant and equipment and intangible assets is reviewed 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 management. Accordingly, the actual cash flows generated may differ significantly from these estimates.

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.

2.16 Financial liabilities

Financial liabilities are initially recognized at fair value less direct transaction costs and subsequently measured at amortized cost using the effective interest method.

2.17 Trade accounts payable and prepayments

Trade accounts payable are recognized at amortized cost. Prepayments are measured at amortized cost using the effective interest method.

2.18 Deferred income and accrued expenses

Deferred income and accrued expenses comprise expenses in the reporting period for which supplier invoices have not yet been received as well as income received in advance and accrued bonus payments.

2.19 Provisions

Provisions are recognized where:
a) RUAG has a present legal or constructive obligation due to a past event;
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 are discounted if the effect of discounting is material.

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 sufficiently informed about the staff reduction programme.

Provisions for contract losses Losses arising from long-term construction and service contracts are recorded immediately and in full in the financial year in which the losses are identified.

Provisions for warranties Provisions for warranties are recognized based on the sales revenue to which warranty obligations relate and the goods and services provided in the past.

Provisions for leave and overtime credits Employees' entitlements to leave and overtime credits are calculated at the end of the reporting period and accounted for on an accrual basis.

2.20 Employee benefit obligations
For defined benefit plans, employee benefit costs and obligations are determined on the basis of various financial and demographic assumptions using the projected unit credit method, which takes into account the years of service up to the measurement date. The assumptions required to be estimated by RUAG include the discount rate, expectations as to future salary increases and employee benefit adjustments, the long-term return on retirement assets and the probability of departure and death. The measurements are performed annually by independent actuaries. Plan assets are measured annually at fair value and deducted from the employee benefit obligation.

Employee benefit costs comprise the following three components:
- service cost, which is recognized in profit or loss as a personnel expense
- net interest expense, which is recognized in profit or loss as a finance cost; and
- remeasurements, which are recognized in other comprehensive income.

Service cost comprises current service cost, past service cost, gains and losses arising from plan settlements and plan curtailments.
Employee and third-party contributions reduce service cost and are deducted from it if they are set out in the terms of the plan or arise from a constructive obligation.

Net interest expense is the amount calculated by multiplying the net defined benefit liability (or asset) by the discount rate, both as determined at the start of the financial year, taking account of any changes during the financial year as a result of contribution and benefit payments. In doing so, any cash flows and changes during the period are reflected on a pro rata basis.

Remeasurements comprise actuarial gains and losses, i.e. changes in the present value of employee benefit obligations resulting from changes in assumptions and experience adjustments, the return on plan assets less amounts included in net interest expense and changes in unrecognized assets less effects included in net interest expense. Remeasurements are recognized in other comprehensive income and cannot be recycled.

The amount recognized in the consolidated financial statements is the surplus or deficit in the defined benefit plans (net defined benefit liability or asset). However, the asset recognized for any surplus is limited to the present value of the economic benefits available to the Group in the form of reductions in future contributions.

2.21 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".

2.22 Current and deferred income taxes
Income taxes include all current and deferred taxes which are based on income. They are recognized in profit or loss except to the extent that they relate to a business combination or to an item recognized directly in equity or in other comprehensive income. Taxes which are not based on income, such as taxes on real estate and capital, are recognized under "Other operating expenses".

Current income taxes comprise the taxes expected to be payable in respect of taxable income, calculated at the tax rates enacted or substantively enacted at the end of the reporting period, and any adjustments to the tax liability in respect of prior periods.

Deferred taxes are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax base. Deferred taxes are not recognized for:
- taxable temporary differences on initial recognition of goodwill,
- temporary differences on initial recognition of assets and liabilities in transactions which affect neither net profit nor taxable profit,
- temporary differences associated with investments in subsidiaries and associates if the Group is able to control the timing of the reversal of those differences and it is probable that they will not reverse in the foreseeable future.

Deferred taxes are measured taking into account when and how the assets and liabilities concerned are expected to be realized or settled, using the tax rates enacted or substantively enacted at the end of the reporting period.
Deferred taxes are included in non-current assets (deferred tax assets) or non-current liabilities (deferred tax liabilities) and are offset if certain conditions are met.
Deferred tax assets for unused tax losses and deductible temporary differences are recognized to the extent that there are likely to be future profits against which they can be used. The tax rates are based on the actual tax rates and tax rates expected to apply at the legal entities in question.

2.23 Equity
Share capital The share capital is the nominal capital comprising all registered shares that have been issued.

Capital reserves This item consists of the capital paid in over and above the par value (less transaction costs).

Retained earnings Retained earnings primarily include the subsidiaries' accumulated earnings that were not distributed to shareholders. The allocation of earnings is subject to local legal restrictions.

Other reserves Other reserves primarily comprise the effective portion of the cumulative net changes in the fair value of hedging instruments used to hedge cash flows.

Foreign currency translation adjustments This item consists of the difference that arises when assets, liabilities, income and expenses of subsidiaries whose functional currency is not the Swiss franc are translated into Swiss francs.

2.24 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.

Net sales for the period comprise "invoiced sales" plus "change in contracts under the percentage of completion method". "Invoiced sales" comprise accrued or invoiced amounts for goods and services already provided in the period, while "change in contracts under the percentage of completion method" includes the goods and services already provided under current construction and service contracts and measured using the percentage of completion method.

Sale of goods Sales from the sale of goods are stated at the time of delivery or performance, i.e. when the relevant significant risks and rewards of ownership 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 from fixed price agreements are measured using the percentage of completion method when both the full costs incurred up to completion of the order and the stage of completion at the end of the reporting period can be reliably determined. The stage of completion is derived from the relationship between contract costs incurred and the total estimated cost of the order (cost-to-cost method) or using the milestone method (Space segment). 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. 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.

Other income Other income, such as rental income and interest income, is stated on a time-proportionate basis. Dividend income is recognized once legal entitlement to payment has arisen.

Advance payments received Advance payments received are deferred and then recognized as sales when the corresponding services are provided.

2.25 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 Chief Executive Officer. Reporting is based on the "Space", "Aerostructures", "Aviation", "Ammotec" and "Defence" segments. In addition, "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 largest independent supplier to the space industry. Development and manufacturing expertise are focused on 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.

Aerostructures segment The activities of RUAG Aerostructures centre on aerostructures manufacturing. The focal points in aerostructures manufacturing are the development, production and final assembly of complete passenger aircraft fuselage sections, wing and control surface components as well as sophisticated component assemblies and parts for civil and military aircraft. In its capacity as quality gate, RUAG Aerostructures is also responsible for the global aircraft fuselage supply chain for Airbus.

Aviation segment Centre of excellence for civil and military aircraft maintenance and for developing, manufacturing and integrating aviation systems and subsystems. RUAG Aviation maintains all fixed-wing aircraft, helicopters and reconnaissance unmanned aerial vehicles operated by the Swiss Armed Forces and is also a technology partner for other international air forces. In civil aviation, RUAG Aviation provides life cycle support services for business jets to numerous operators and manufacturers.

Ammotec segment The global technology leader in low-pollutant pyrotechnics. RUAG Ammotec specializes in high-quality pyrotechnic products in the military and civilian spheres. The offering for security and armed forces comprises high-precision ammunition across the entire small-calibre spectrum and special ammunition; in the industrial sector, development work is undertaken on actuator cartridges for the construction industry and on safety systems, for example.

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

2.26 Related party transactions

RUAG provides maintenance services and produces defence equipment for the Swiss 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.

2.27 Derivative financial and hedging instruments

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

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

a) a hedge on the change in the fair value of a recorded 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 "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 at RUAG are for payment flows from forecasted transactions or firm commitments (cash flow hedge).

2.28 Fair value measurement

A number of Group accounting policies and disclosures require fair value to be measured for financial and non-financial assets and liabilities. For measurement and/or disclosure purposes, fair value is calculated using the following methods. If necessary, further information about the assumptions made in measuring fair value is disclosed in the notes on the asset or liability in question.

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:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Comparable values for assets or liabilities that are directly or indirectly observable by parameters (Level 2).
- Inputs for assets or liabilities that are based on unobservable parameters (Level 3).

a) Investment property
The fair value of investment property disclosed in Note 19 was measured using the discounted cash flow (DCF) method. The fair value of a property is determined by aggregating all expected future net income (before taxes, interest payments, depreciation and amortization), discounted to the measurement date. The discount rate reflects property-specific risks as well as market risks. No expert market appraisals were used.

b) Derivative financial 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. The fair value of interest rate hedging instruments is calculated on the basis of discounted, expected future cash flows, using the market interest rates for the residual maturity of the financial instruments. Options are valued on the basis of generally recognized option pricing models.

c) Trade receivables
The fair value of trade receivables is measured at the present value of future cash flows, discounted at the market interest rate at the measurement date. Current receivables are measured at the original invoiced amount if the effects of discounting are insignificant. Fair value is measured on initial recognition and for disclosure purposes at each reporting date.

d) 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.

3 Significant judgements and sources of estimation uncertainty in the application of the accounting policies

The preparation of the consolidated financial statements depends on assumptions and estimates associated with the accounting policies where there is a certain amount of scope for the use of management judgement. The application of accounting policies in the consolidated financial statements requires certain forward-looking estimates and assumptions to be made that may have a significant effect on the reported amounts of assets, liabilities, income and expenses and the related disclosures. The estimates and assumptions used in recognition and measurement are based on historical experience and other factors that are believed to be reasonable under the circumstances. The following items involve significant estimates and assumptions:

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 valuation allowances amounted to CHF 106 million as at 31 December 2014 (previous year: CHF 108 million).

Long-term construction and service contracts and manufacturing agreements Estimates with a significant effect are used as the basis for the measurement of long-term construction and service contracts using the percentage of completion method. Although the estimates, such as the projects' stage of completion and estimated contract costs, are made to the best of management's knowledge about current events and possible future measures, actual outcomes may ultimately differ from these estimates. As at 31 December 2014, a net amount of CHF 11 million (previous year: CHF 17 million) was recognized for long-term construction and service contracts and manufacturing agreements (see Note 17, "Percentage of completion"). In addition, provisions totalling CHF 14 million (previous year: CHF 19 million) were recognized for anticipated contract losses as at 31 December 2014.

Property, plant and equipment and intangible assets/goodwill
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 discount rate. The main assumptions are described in Note 20, "Intangible assets/goodwill". As at 31 December 2014, goodwill was recognized in the amount of CHF 82 million.

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 in accordance with IAS 19, especially the discount rate, expected salary increases and employee benefit adjustments, the expected return on plan assets and the probability of departure and death. The assumptions used in these statements are explained in Note 27, "Employee benefit obligations".

Deferred taxes Deferred tax assets are recognized based on management's judgement. Deferred tax assets are only recognized for tax loss carryforwards if it is probable that they can be used. Their use depends on the ability to generate future taxable profits that can be offset against existing loss carryforwards. An assessment as to the probability of their future use requires estimates of various factors such as future earnings. If actual amounts differ from the estimates, this may result in a change in the assessment of the deferred tax assets' recoverability. Deferred tax assets totalling CHF 15 million were recognized as at 31 December 2014 (previous year: CHF 19 million). For information, please see Note 12.

4 Acquisitions, mergers, formations and disposals of companies

Acquisitions of subsidiaries On 31 July 2014, RUAG Deutschland GmbH, headquartered in Wessling (Germany), acquired 100 % of the shares in German companies Glückauf Logistik Beteiligungsgesellschaft mbH, Glückauf Logistik GmbH & Co. and Herkules Fahrzeuglogistik GmbH, each headquartered in Kassel. While these companies trade mainly in replacement parts for military aircraft, the product range also includes hydraulic systems, optical assemblies, chassis components, and mechanical and electrical assemblies. The main aim of this acquisition is to strengthen the international Maintenance, Repair and Overhaul (MRO) business and to tap into new markets and customers.

Their activities have been consolidated since the date of the acquisition (1 August 2014). In the first year of the acquisition (five months), the acquirees generated sales of CHF 2.6 million and a loss of CHF 0.2 million. Had the acquisition taken place on 1 January 2014, sales would have amounted to around CHF 5.3 million and the loss to around CHF 0.3 million. The effects of these acquisitions on the 2014 consolidated financial statements can be found in the table "Effect of acquisitions and disposals" and in the additional notes that follow that table.

As at 31 December 2014, Glückauf Logistik GmbH&Co. merged with Glückauf Logistik Beteiligungsgesellschaft mbH. All assets were assumed by this company.

On 1 October 2013, RUAG Holding France SAS acquired Génie Audio-Visuel et Applications Professionnelles SAS GAVAP in Terssac (France). GAVAP is a partner company specializing in simulation and training systems. The acquisition was part of a succession arrangement and safeguards the continued existence of the French company with its 70 employees. RUAG and the SME GAVAP have been operating a strategic partnership in virtual and live simulations since 2003. Together, the companies have already delivered several successful projects in France. GAVAP has proven to be a reliable partner and carried out skilled maintenance work. By acquiring GAVAP, RUAG is seeking among other things to strengthen its position in the simulation & training market in France and to drive forward its internationalization with an additional production location in a NATO country.

In the first year of the acquisition (three months), GAVAP generated sales of CHF 3.4 million and a loss of CHF 0.1 million. Had the acquisition taken place on 1 January 2013, sales would have amounted to around CHF 12.6 million and the loss to around CHF 0.3 million.

Acquisitions of non-controlling interests On 2 December 2014, RUAG Holding Ltd, headquartered in Berne, acquired a 9 % non-controlling interest in InnoCampus AG, headquartered in Nidau. The purpose of this company is to offer services to businesses with a view to promoting innovation in high-tech fields and to carry out applied research projects. The purchase price to acquire the non-controlling interest is immaterial.

On 1 January 2014, Norma Precision AB, headquartered in Amotfors (Sweden), acquired a 40 % non-controlling interest in Gyttorp AB, headquartered in Ingelstad (Sweden), including the group companies Gyttorp Finland OY, Maalahti (Finland), Gyttorp Cartridge Company AB, Nora (Sweden) and Gyttorp Jakt AB, Ingelstad (Sweden). The Gyttorp Group is Scandinavia's market leader in shotgun cartridges and an established wholesaler of hunting and sports products in its home markets. Among other things, the purpose of this interest is to extend the value chain and increase proximity to customers. The purchase price to acquire the non-controlling interest is immaterial.

Mergers On 1 January 2014, RUAG Switzerland Ltd, headquartered in Emmen, acquired the assets and liabilities of RUAG Automotive Ltd, headquartered in Schattdorf, by way of a merger by absorption under a merger agreement dated 15 May 2014. The assets and liabilities were acquired at their carrying amounts.

Formations RUVEX AG, headquartered in Berne, was formed on 11 August 2014. The purpose of this company is to acquire, sell, manage, hold and administer interests in the military and civilian sectors in Switzerland and abroad, particularly in the simulation & training area, to provide related or similar services and to carry out management functions. In financial year 2014, this company did not yet have any significant activities.

RUAG Simulation Company LLC, headquartered in Abu Dhabi (UAE), was formed on 11 November 2014. RUAG holds a 49 % interest in this company through RUVEX AG. The company offers a range of services in the defence sector, particularly in the simulation & training segment. These include the design of software and hardware components, for example, and the development, production, assembly and integration of simulation and training systems. An important goal for the company is to comply with existing and future offset obligations in the United Arab Emirates. In financial year 2014, this company did not yet have any significant activities.

Disposals of subsidiaries No entities were disposed of during financial year 2014.

On 4 April 2013, RUAG sold RUAG Mechanical Engineering Ltd to the Berghoff Group of Germany with retroactive effect from 31 March 2013. Berghoff took over the employees, apprentices and the entire infrastructure at the Altdorf site. Up to the date of the sale, RUAG Mechanical Engineering Ltd generated sales of CHF 6 million (see also Note 5).

With effect from 29 May 2013, RUAG sold Swiss Repair AG to a private individual. By the time of the sale, this company had not generated any appreciable sales.

Effect of acquisitions and disposals of subsidiaries The effect of acquisitions and disposals on RUAG's consolidated financial statements is shown in the table below.

Effect of acquisitions and disposals

in CHF m	Acquisition in 2014	Disposal in 2014	Acquisition in 2013	Disposal in 2013
Current assets	3	—	17	7
Property, plant and equipment	0	—	2	0
Intangible assets	3	—	8	—
Goodwill	—	—	5[1]	—
Current and non-current liabilities	(1)	—	(9)	(3)
Deferred tax liabilities	(1)	—	(3)	—
Assets and liabilities acquired (disposed)	4	—	20	4
Agreed price/consideration	(4)	—	(20)[1]	3
Escrow account	—	—	—	—
Earn-out	—	—	1	—
Outstanding payment	1	—	4[1]	—
Assumption of financial liabilities	—	—	—	—
Foreign currency translation adjustments	—	—	—	—
Gross cash (outflow) inflow	(3)	—	(15)	3
Cash and cash equivalents acquired (disposed)	0	—	8	(0)
Net cash (outflow) inflow	(2)	—	(6)	3

[1] As at 31 December 2013, the fair value of the assets acquired and liabilities assumed in connection with the acquisition of GAVAP had been determined only provisionally. In the reporting period, the final purchase price allocation was completed within twelve months of the acquisition date, with no significant differences arising compared with the original measurements. However, a reduction on the original contractual purchase price was agreed in the course of subsequent negotiations with the seller. Contrary to assumptions as at 31 December 2013, the purchase price is now EUR 16.6 million (CHF 20.2 million), (including an earn-out component in the amount of EUR 1.0 million (CHF 1.2 million) that remains unchanged compared with the previous year), rather than EUR 18.0 million (CHF 22.0 million). The reduction in the purchase price reduced the goodwill item that arose from the acquisition and was recognized in respect of GAVAP as at 31 December 2013 at EUR 1.4 million (CHF 1.7 million).

Additional notes on the acquisition of German companies Glückauf Logistik Beteiligungsgesellschaft mbH, Glückauf Logistik GmbH & Co. and Herkules Fahrzeuglogistik GmbH on 31 July 2014

Consideration and identifiable assets acquired and liabilities assumed The consideration transferred for this acquisition and the identifiable assets acquired and liabilities assumed in this context as at the acquisition date are shown in the table "Effect of acquisitions and disposals" above.

Fair value measurement The measurement techniques used to measure the fair value of significant assets acquired were as follows:

Intangible assets The measurement of intangible assets is based on the present value of the net cash flows expected to be generated by the customer relationships. The customer relationships are amortized on a straight-line basis over a period of five years.

Inventories Fair value is measured on the basis of the estimated selling price in the ordinary course of business less the estimated costs of completion and sale as well as appropriate profit margins based on the efforts necessary to complete and sell the inventories.

Goodwill This acquisition did not give rise to significant goodwill.

Expenses related to the acquisition The expenses incurred by RUAG in connection with the acquisition of these companies amounted to around CHF 0.04 million in the reporting period. In particular, this includes the cost of external lawyers and consultants. These expenses were recognized net in other operating expenses, net.

5 Discontinued operations

With effect from 1 January 2012, the Coatings and Mechanical Engineering units (Aerostructures segment), among other activities, were transferred from RUAG Switzerland Ltd to the newly established companies RUAG Coatings Ltd and RUAG Mechanical Engineering Ltd. Also in 2012, the Board of Directors of RUAG decided to initiate a sale process for these two units, as their business activities no longer formed part of RUAG's core business. RUAG Coatings Ltd was sold on 1 September 2012. RUAG Mechanical Engineering Ltd was acquired by Berghoff Holding GmbH on 31 March 2013. In order to improve the transparency and comparability of results, the Mechanical Engineering unit was therefore presented as discontinued operations in RUAG's consolidated financial statements in the previous year.

As of financial year 2014, the discontinued operations no longer comprise any activities.

Income from discontinued operations breaks down as follows:

in CHF m	2014	2013
Net sales	—	6
Expenses	—	6
Current loss before income taxes	—	(0)
Income taxes	—	—
Current loss from discontinued operations	—	(0)
Remeasurement and disposal proceeds from discontinued operations	—	4
Income taxes on remeasurement and disposal proceeds	—	—
Total profit from discontinued operations	—	3
Attributable to the shareholders of RUAG Holding Ltd	—	3

The assets and liabilities of discontinued operations break down as follows:

in CHF m	2014	2013
Receivables and prepayments	—	—
Inventories and work in progress	—	—
Other current assets	—	—
Non-current assets	—	—
Total assets of discontinued operations	—	—
Current liabilities	—	—
Non-current liabilities	—	—
Total liabilities of discontinued operations	—	—

The consolidated statement of cash flows contain the following from discontinued operations:

in CHF m	2014	2013
Cash flow from operating activities	—	0
Cash flow from investing activities	—	—
Free cash flow	—	0
Cash flow from financing activities	—	0
Total cash flows	—	0

6 Segment information

in CHF m

	2014 Space	2013 Space	2014 Aerostructures	2013 Aerostructures	2014 Aviation	2013 Aviation
Net sales with third parties	321	298	194	194	514	501
Net sales with other segments	1	1	2	3	12	9
Total net sales	322	299	195	196	525	510
Earnings before interest, taxes, depreciation and amortization (EBITDA)	43	34	2	7	45	38
Depreciation, amortization and impairment	(21)	(20)	(2)	(3)	(6)	(6)
Earnings before interest and taxes (EBIT)	23	14	1	4	38	32
Net financial income	—	—	—	—	—	—
Share in profit of associates	—	—	—	—	—	—
Earnings before taxes	—	—	—	—	—	—
Income taxes	—	—	—	—	—	—
Profit from continuing operations	—	—	—	—	—	—
Net operating assets by region	121	152	71	73	21	22
Net operating assets Switzerland	75	102	35	46	(7)	14
Net operating assets rest of Europe	46	49	36	27	12	(6)
Net operating assets rest of world	—	—	—	—	17	14
Property, plant and equipment and intangible assets	134	139	12	11	46	44
Property, plant and equipment and intangible assets Switzerland (including investment property)	105	109	9	9	19	20
Property, plant and equipment and intangible assets rest of Europe	29	30	3	3	9	7
Property, plant and equipment and intangible assets rest of world	—	—	—	—	18	18
Capital expenditures for of property, plant and equipment and intangible assets	(16)	(10)	(2)	(3)	(8)	(10)
Disposal of property, plant and equipment and intangible assets	0	0	1	0	0	1

Further information on sales and customers is provided in Note 7, "Net sales".
Products and services of the individual segments are described in Note 2.25, "Segment information".

2014 Ammotec	2013 Ammotec	2014 Defence	2013 Defence	2014 Services	2013 Services	2014 Total segments	2013 Total segments	2014 Elimination	2013 Elimination	2014 Group total	2013 Group total
333	353	363	352	57	54	1 781	1 751	—	—	1 781	1 751
1	1	4	5	127	126	146	145	(146)	(144)	0	1
334	354	367	357	184	180	1 927	1 896	(146)	(144)	1 781	1 752
47	41	25	30	31	46	193	196	—	(0)	193	196
(12)	(13)	(12)	(11)	(27)	(28)	(79)	(81)	—	—	(79)	(81)
35	29	13	19	4	19	115	116	—	(0)	115	115
	—	—	—	—	—	—	—	—	—	(0)	(5)
	—	—	—	5	4	5	4	—	—	5	4
	—	—	—	—	—	—	—	—	—	119	114
	—	—	—	—	—	—	—	—	—	(17)	(23)
	—	—	—	—	—	—	—	—	—	102	91
288	238	53	33	284	288	838	806	(3)	(0)	835	806
74	46	24	(4)	288	295	487	499	(3)	(3)	484	496
187	178	29	37	(4)	(7)	306	278	(0)	3	306	281
27	14	—	—	—	—	44	29	0	0	45	29
106	90	50	56	308	314	655	654	(3)	(0)	652	654
23	17	27	33	307	313	490	500	0	0	490	500
81	71	23	23	0	0	145	134	(3)	(0)	142	133
3	2	—	—	—	—	20	20	0	0	20	20
(30)	(16)	(6)	(5)	(21)	(10)	(82)	(54)	—	—	(82)	(54)
0	0	3	0	3	11	7	13	—	—	7	13

7 Net sales

in CHF m	2014	2013
Invoiced sales	1 785	1 718
Change in contracts under the percentage of completion (PoC) method	(4)	33
Total net sales	1 781	1 752

DDPS	538	554
Third parties	1 246	1 164
Invoiced sales by customer group	1 785	1 718

Aside from the DDPS, RUAG has no other customer relationships that account for more than 10 % of net sales.

Net sales from transactions with the DDPS are attributable to the Aviation, Defence and Ammotec segments.

Defence	774	754
Civil	1 011	964
Invoiced sales by type of use	1 785	1 718

Production	1 002	953
Maintenance	630	621
Services	153	145
Invoiced sales by order type	1 785	1 718

Switzerland	658	678
Rest of Europe	805	749
Middle East	24	21
North America	196	175
South America	21	11
Asia/Pacific	70	82
Africa	11	3
Invoiced sales by region	1 785	1 718

Invoiced sales in “rest of Europe” primarily concern Germany, France and Sweden.

8 Personnel expenses

in CHF m	2014	2013
Salaries and wages	(628)	(637)
Expense of benefit plans	(46)	(49)
Other social security expenses	(86)	(89)
Contract personnel	(36)	(31)
Other personnel expenses	(28)	(27)
Total personnel expenses	(824)	(835)

9 Other operating expenses, net

in CHF m	2014	2013
Premises costs	(23)	(23)
Maintenance and repairs of property, plant and equipment	(49)	(50)
Cost of energy and waste disposal	(13)	(16)
Insurance and duties	(7)	(7)
Administration and IT costs	(42)	(42)
Advertising costs	(25)	(21)
Other operating expenses[1]	(53)	(26)
Other operating income	33	28
Total other operating expenses, net	(180)	(158)

[1] Other operating expenses include net exchange losses of CHF 3 million (prior year: CHF 1 million).

The increase in other operating expenses is due, firstly, to changes in provisions and an increase in bad debt items and, secondly, to a general increase in other operating expenses.

The year-on-year increase in other operating income is mainly attributable to an insurance payment received as a result of an interruption to production in the Ammotec division, which was caused by a large supplier’s delivery problems.

10 Research and development expenses

in CHF m	2014	2013
Total research and development expenses	(140)	(132)

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 40 million (previous year: CHF 45 million).

11 Financial income/financial expenses

in CHF m	2014	2013
Interest income	4	3
Realized exchange gains	—	—
Realized gains from securities	—	—
Total financial income	4	3
Interest expense	(4)	(8)
Realized exchange losses	(0)	(0)
Realized losses from securities	—	—
Impairment of financial assets	—	(0)
Total financial expenses	(4)	(8)

12 Income taxes

in CHF m	2014	2013
Income tax expense of the reporting period	(22)	(19)
Adjustments to current income taxes from prior periods	1	(0)
Current income tax expense	(21)	(19)
Origination (reversal) of temporary differences	4	(4)
Effect of tax rate changes	(0)	0
Recognition of previously unrecognized tax losses	3	1
Use of recognized tax loss carryforwards	(3)	(1)
Deferred income tax expense	4	(4)
Income tax expense in profit or loss	(17)	(23)

In addition, the following income taxes are recognized in other comprehensive income:

in CHF m	Before tax 2014	Tax (expense)/ income 2014	Net (after tax) 2014	Before tax 2013	Tax (expense)/ income 2013	Net (after tax) 2013
Remeasurement of the net defined benefit liability (asset)	(143)	27	(116)	175	(33)	142
Change in fair value of cash flow hedges	(14)	4	(10)	2	(0)	2
Gains and losses from cash flow hedges transferred to profit or loss	6	(2)	4	(3)	0	(3)
Share in other comprehensive income of associates	(8)	2	(5)	0	(0)	0
Foreign currency translation adjustments of foreign subsidiaries	(10)	—	(10)	(1)	—	(1)
Income taxes in other comprehensive income	(168)	32	(137)	173	(33)	141

Analysis of income tax expense

The following table shows the reconciliation of taxable profit to effective income tax expense. The applicable income tax rate for the purposes of the following analysis is the average income tax rate of the Group companies weighted by profit or loss; it is 22.9 % (previous year: 23.0 %).

in CHF m	2014	2013
Earnings before taxes	119	114
Expected weighted tax rate in %	22.9 %	23.0 %
Expected income tax expense	(27)	(26)
Reconciliation to effective income tax expense		
Effect of recognizing of tax loss carryforwards from prior periods	3	(0)
Effect of using unrecognized tax loss carryforwards from prior periods	0	0
Effect of current losses for which tax loss carryforwards are not recognized	—	1
Effect of non-deductible expenses	(0)	(0)
Effect of tax-free income	2	2
Effect of income taxed at lower rates	2	0
Effect of tax rate changes	(0)	0
Effect of tax credits (losses) from prior periods	1	0
Other effects (including effect of share in profit or loss of associates)	2	—
Effective income tax expense	(17)	(23)
Effective income tax rate	14.4 %	20.5 %

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 or canton.

Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities break down as follows:

in CHF m	2014 Deferred tax assets	2014 Deferred tax liabilities	2013 Deferred tax assets	2013 Deferred tax liabilities
Assets				
Receivables and prepayments	1	3	1	4
Inventories and work in progress	0	11	0	15
Property, plant and equipment and investment property	4	16	5	15
Intangible assets	1	11	2	12
Tax loss carryforwards	4	—	3	—
Employee benefit assets	—	—	—	6
Other asset items	1	4	0	3
Deferred income and accrued expenses	2	0	2	0
Current and non-current provisions	2	8	4	7
Employee benefit obligations	25	—	5	—
Other liability items	5	4	1	5
Deferred taxes before offsetting	45	57	24	68
Offsetting of deferred tax assets and liabilities	(30)	(30)	(5)	(5)
Total deferred taxes	15	26	19	63

Deferred tax assets and liabilities changed as follows:

in CHF m	2014	2013
Total deferred taxes at 1 January	(45)	(7)
Changes recognized in profit or loss	4	(4)
Changes recognized in other comprehensive income	30	(33)
Changes in the scope of consolidation	(1)	(3)
Foreign currency translation adjustments	1	2
Total deferred taxes at 31 December	(11)	(45)
of which deferred tax assets	15	19
of which deferred tax liabilities	(26)	(63)

Deferred taxes are calculated on the basis of the expected tax rates applicable at the individual companies for the relevant assets and liabilities.

Deferred tax assets for unused tax loss carryforwards are only recognized if it is probable that they will be offset against future taxable profits.

The tax loss carryforwards are due to expire as follows:

in CHF m	2014	2013
Expiring within 1 year	—	1
Expiring in 1 to 2 years	—	1
Expiring in 2 to 3 years	—	1
Expiring in 3 to 4 years	1	1
Expiring in 4 to 5 years	—	3
Expiring in 5 to 6 years	3	0
Expiring in 6 to 7 years	0	3
Expiring in more than 7 years	18	11
Total tax loss carryforwards	23	21

Potential tax effect of tax loss carryforwards	5	6
of which recognized as deferred tax assets	4	3
of which not recognized	1	3

13 Cash and cash equivalents

in CHF m	2014	2013
Cash on hand	0	1
Demand deposits with financial institutions	202	208
Money-market investments	—	—
Total cash and cash equivalents	202	209

Currencies of cash and cash equivalents

in CHF m	2014	2013
CHF	79	86
EUR	67	88
USD	33	16
SEK	15	15
Other	8	4
Total cash and cash equivalents	202	209

14 Financial assets

Current financial assets

in CHF m	2014	2013
Derivative financial instruments	10	6
Total current financial assets	10	6

Current financial assets comprise the fair value of open foreign currency hedging transactions (see also the information on financial instruments in Note 35, “Financial risk management and additional information on financial instruments”).

Non-current financial assets

in CHF m	2014	2013
Money-market investments	0	0
Other receivables from third parties	2	3
Valuation allowances	(0)	(0)
Total non-current financial assets	2	3

Currencies of financial assets

in CHF m	2014	2013
CHF	1	1
EUR	3	3
USD	7	3
SEK	2	2
Other	0	0
Total financial assets	12	9

The carrying amounts of the non-current financial assets are a reasonable approximation of their fair value.

15 Receivables and prepayments

in CHF m	2014	2013
Trade receivables	251	250
Receivables from associates	0	0
Prepayments to suppliers	16	12
Valuation allowances	(12)	(10)
Total trade receivables and prepayments	255	252
Current receivables from government bodies	18	8
Other current receivables	11	14
Total other receivables	29	22
Total receivables and prepayments	284	274

Maturity structure of receivables and prepayments

in CHF m	2014	2013
Not past due	202	212
Past due 1–30 days	26	38
Past due 31–60 days	16	9
Past due 61–90 days	16	5
Past due 91–180 days	12	8
Past due over 180 days	12	2
Total receivables and prepayments	284	274

Currencies of receivables and prepayments

in CHF m	2014	2013
CHF	84	88
EUR	113	115
USD	60	58
SEK	2	2
Other	24	11
Total receivables and prepayments	284	274

Valuation allowances for doubtful receivables comprise specific valuation allowances for specifically identified items where there is a high risk of non-payment and global valuation allowances based on historical experience. Actual losses on receivables in each of the past two years were less than 0.5 % of net sales.

The allowance for receivables and prepayments changed as follows:

Allowance for doubtful receivables

in CHF m	2014	2013
Balance at 1 January	(10)	(11)
Increase in allowance	(6)	(3)
Utilization of allowance	2	3
Reversal of allowance	1	1
Foreign currency translation adjustments	—	0
Balance at 31 December	(12)	(10)

Allowances for doubtful receivables are held in an allowance account. Changes are recognized in other operating expenses. No valuation allowances were required for financial instruments in categories other than loans and receivables at the end of the reporting period. Receivables judged to be unrecoverable are written off as realized losses.

16 Inventories and work in progress

in CHF m	2014	2013
Raw materials and supplies	229	212
Work in progress at cost of conversion	147	167
Work in progress (percentage of completion)[1]	118	150
Semi-finished goods	121	124
Finished goods	71	72
Valuation allowances	(106)	(108)
Total inventories and work in progress	579	617

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

In the reporting period, a total of CHF 370 million (previous year: CHF 366 million) in raw materials and supplies, semi-finished and finished goods, and work in progress was charged to cost of materials.

In the reporting period, inventories amounting to CHF 1 million (previous year: CHF 2 million) were written down to net realizable value.

In both the reporting period and the previous year, there were no significant reversals of inventory write-downs to net realizable value effected in prior periods.

Write-downs and reversals of inventory write-downs are recognized and reported as cost of materials.

17 Percentage of completion (POC)

Long-term construction and service contracts

in CHF m	2014	2013
Contract sales and costs of ongoing projects at the end of the reporting period		
Aggregated contract sales at the end of the reporting period	1 445	1 304
Aggregated contract costs at the end of the reporting period	(1 082)	(1 051)
Realized margin at the end of the reporting period	363	253
Cumulative balance of ongoing projects at the end of the reporting period		
Gross amount due from customers for contract work	118	150
Gross amount due to customers for contract work	(107)	(133)
Net position	11	17
Advances received from customers relating to percentage of completion contracts	38	59

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 2013	493	224	73	580	15	1 384
Additions from acquisition of subsidiaries	0	0	0	2	0	2
Eliminations from the scope of consolidation	(38)	(3)	—	(0)	(0)	(40)
Additions	19	13	—	3	19	53
Disposals	(10)	(8)	(1)	(6)	(0)	(25)
Reclassifications	40	4	3	(119)	(8)	(80)
Foreign currency translation adjustments	0	1	(0)	(0)	(1)	(1)
As at 31 December 2013	504	232	74	459	25	1 294
Accumulated depreciation and impairment losses						
As at 1 January 2013	390	171	0	398	—	959
Additions from acquisition of subsidiaries	—	—	—	—	—	—
Eliminations from the scope of consolidation	(37)	(3)	—	(0)	—	(40)
Depreciation	19	16	0	16	—	52
Disposals	(9)	(7)	—	(4)	—	(20)
Depreciation of net carrying amount	0	0	—	—	—	1
Reclassifications	36	1	—	(91)	—	(53)
Foreign currency translation adjustments	0	0	(0)	0	—	1
As at 31 December 2013	399	180	0	320	—	899
At cost						
As at 1 January 2014	504	232	74	459	25	1 294
Additions from acquisition of subsidiaries	0	0	—	—	—	0
Eliminations from the scope of consolidation	—	—	—	—	—	—
Additions	19	16	0	4	40	79
Disposals	(39)	(13)	—	(1)	(0)	(53)
Reclassifications	4	4	—	3	(11)	0
Foreign currency translation adjustments	(5)	(2)	0	(1)	(0)	(8)
As at 31 December 2014	483	237	74	464	53	1 312
Accumulated depreciation and impairment losses						
As at 1 January 2014	399	180	0	320	—	899
Additions from acquisition of subsidiaries	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Depreciation	19	16	0	16	—	51
Disposals	(38)	(10)	—	(1)	—	(49)
Depreciation of net carrying amount	(0)	(0)	—	(0)	—	(0)
Reclassifications	0	0	—	(0)	—	0
Foreign currency translation adjustments	(4)	(1)	(0)	(0)	—	(6)
As at 31 December 2014	376	185	0	335	—	896
Net carrying amount						
As at 1 January 2013	103	53	73	181	15	425
As at 31 December 2013	105	52	74	140	25	395
As at 31 December 2014	107	53	74	129	53	416

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

Leased assets

in CHF m	2014	2013
At cost	7	6
Accumulated depreciation and impairment losses	(5)	(4)
Net carrying amount at 31 December	2	2

Leased assets are items of property, plant and equipment that can be classed as finance leases. The net carrying amounts break down among the different classes of property, plant and equipment as follows:

in CHF m	2014	2013
Plant and equipment	0	0
Other	2	2
Carrying amount at 31 December	2	2

Fire insurance values

in CHF m	2014	2013
Plant and equipment	1 324	1 324
Property	1 363	1 366
Total fire insurance values	2 687	2 690

19 Investment property

in CHF m	2014	2013
At cost		
As at 1 January	348	228
Additions from acquisition of subsidiaries	—	—
Eliminations from the scope of consolidation	—	—
Additions	2	1
Disposals	(0)	(1)
Reclassifications	(0)	120
Foreign currency translation adjustments	—	—
As at 31 December	349	348
Accumulated depreciation and impairment losses		
As at 1 January	247	149
Additions from acquisition of subsidiaries	—	—
Eliminations from the scope of consolidation	—	—
Depreciation	6	6
Impairment losses	—	—
Disposals	—	—
Depreciation of net carrying amount	—	—
Reclassifications	(0)	91
Foreign currency translation adjustments	—	—
As at 31 December	252	247
Net carrying amount		
As at 1 January	101	78
As at 31 December	97	101

Investment property is measured at cost minus accumulated depreciation. The fair value of the properties set out below is calculated solely for disclosure reasons and was measured using the discounted cash flow (DCF) method.

in CHF m	2014	2013
Fair value (DCF calculation; Level 3 asset)	231	249
Rental income from investment property	22	22
Real estate expenses	16	12
of which on let property	13	11
of which on vacant property	2	2
Agreed capital commitments and commitments in respect of maintenance work	0	1
Future minimum rental income from non-cancellable rental contracts	54	47

Majority leased sites to third parties are classified as investment properties. In 2014 as in the previous year, there were six such sites: Berne, Altdorf, Zwieselberg (Thun-Boden), Aigle, Unterseen and Wimmis.

The decrease in fair value versus the previous year is due in particular to the inclusion of more extensive refurbishment work and a slight increase (based on empirical values) in underlying vacancy levels and reletting periods.

As was the case in the previous year, no fair value measurement was carried out by an external expert during the year under review. RUAG Real Estate Ltd calculates the fair value of investment property using the discounted cash flow (DCF) method. The calculated fair value of the portfolio held as investment property is a Level 3 asset under the IFRS fair value hierarchy (i.e. the inputs used for measurement are not based on unobservable market data).

The following information explains the valuation techniques applied with respect to the fair value measurement of investment property including the significant unobservable inputs used for the valuation.

Valuation techniques The valuations carried out across the period under review using the DCF method are based on the initial rental income. After the binding tenancy agreements have expired, both the vacancy risk, on the one hand, together with the additional/reduced rental income and inflation, on the other, are taken into account. The expected net cash flow is discounted at risk-adjusted discount rates on the valuation date. The discount rate also takes into account the location, development potential and building strategy of the investment property in question.

Significant unobservable inputs The following unobservable inputs were used:

- The rates of inflation are based on the forecasts of the relevant national consumer price index.
- In principle, a vacancy rate of 2–10 % is taken into account.
- The risk-adjusted discount rate is between 4 % and 9 %.

Relationship between significant unobservable inputs and fair value The fair value of investment property rises (falls) if:

- inflation is higher (lower);
- the vacancy rate is lower (higher);
- the discount rate is lower (higher).

20 Intangible assets/goodwill

in CHF m

	Patents	Trademarks and prototypes	Licences and rights	Order backlog and customer relationships	Intangible assets	Goodwill
At cost						
As at 1 January 2013	2	11	18	139	170	78
Additions from acquisition of subsidiaries	—	—	1	8	9	6
Eliminations from the scope of consolidation	—	(0)	0	1	1	—
Additions	—	—	1	—	1	—
Disposals	—	—	—	—	—	—
Reclassifications	—	—	1	(1)	—	—
Foreign currency translation adjustments	0	0	(0)	(1)	(1)	0
As at 31 December 2013	2	11	21	145	179	84
Accumulated amortization and impairment losses						
As at 1 January 2013	2	9	13	58	83	—
Additions from acquisition of subsidiaries	—	—	0	—	0	—
Eliminations from the scope of consolidation	—	(0)	—	—	(0)	—
Amortization/impairment	0	1	1	19	22	—
Disposals	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—
Foreign currency translation adjustments	0	0	0	(0)	0	—
As at 31 December 2013	2	11	15	77	106	—
At cost						
As at 1 January 2014	2	11	21	145	179	84
Additions from acquisition of subsidiaries	0	—	0	3	3	(2)
Eliminations from the scope of consolidation	—	—	(0)	—	(0)	—
Additions	0	—	3	—	3	—
Disposals	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—
Foreign currency translation adjustments	(0)	(0)	(0)	(2)	(2)	(1)
As at 31 December 2014	2	10	23	147	183	82
Accumulated amortization and impairment losses						
As at 1 January 2014	2	11	15	77	106	—
Additions from acquisition of subsidiaries	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	(0)	—	(0)	—
Amortization/impairment	0	—	2	20	22	—
Disposals	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—
Foreign currency translation adjustments	(0)	(0)	(0)	(1)	(1)	—
As at 31 December 2014	2	10	17	96	126	—
Net carrying amount						
As at 1 January 2013	0	1	5	80	87	78
As at 31 December 2013	0	—	6	68	73	84
As at 31 December 2014	0	—	6	51	57	82

Amortization and impairment of intangible assets is reported in the consolidated statement of comprehensive income under "Depreciation, amortization and impairment". No goodwill impairment was recognized in 2014 or 2013.

Impairment testing of cash generating units with goodwill The recoverable amount of cash generating units is determined on the basis of their value in use. Value in use is derived from the net present values of expected cash flows from the cash generating unit in question. The net present values of expected cash flows are based on a plan approved by management covering a five-year period comprising the budget year and the following four years, as well as a residual value. The residual value does not take into account any growth rate.

Cash flows are calculated using a segment-specific pre-tax discount rate of 7 % to 10 % (previous year: 9 % to 12 %), based on target equity of 55 % of total assets. The principal assumptions are made by management on the basis of empirical historical values.

Goodwill is a result of past acquisitions and allocated to the segments/cash generating units as follows:

in CHF m	2014	2013
Space	61	61
of which Space Switzerland[1]	52	52
of which Space Sweden	7	7
of which other cash generating units	2	2
Aviation	0	0
of which other cash generating units	0	0
Aerostructures	—	—
Defence	8	10
of which Génie Audio-Visuel et Applications Professionnelles (GAVAP) SAS[2]	5	6
of which other cash generating units	4	4
Ammotec (segment corresponds to cash generating unit)	13	13
As at 31 December	82	84

[1] The goodwill of CHF 52 million arose from the acquisition of the Space business operations of OC Oerlikon; this was allocated to the cash generating unit "Space Switzerland". The relevant discount rate for Space Switzerland is 8.7 % (after taxes) (previous year: 9.2 % (after taxes)).

[2] As at 31 December 2013, the fair values in connection with the acquisition of GAVAP had been determined only provisionally. Given the subsequent negotiation of a reduction in the purchase price, the goodwill recognized from the acquisition as at 31 December 2013 in connection to GAVAP could be reduced by EUR 1.4 million (CHF 1.7 million).

Sensitivity analysis No impairment of goodwill would have occurred during the year under review even if significant assumptions regarding the discount rate (increased by 1 % (after taxes)) or future cash flows (reduced by 10 %) were to have changed.

21 Associates

in CHF m	2014	2013
Carrying amount of interests in associates as at 1 January	37	36
Acquisitions	—	—
Additions from acquisition of subsidiaries	—	—
Share in profit/loss from continued operations	—	—
Share in profit from continued operations	5	4
Dividends	(3)	(3)
Reclassifications	—	—
Share in other comprehensive income	(6)	0
Foreign currency translation adjustments	(0)	(0)
Carrying amount of interests in associates as at 31 December	33	37

RUAG does not hold any individually significant investments in associates. The following table shows the aggregate values of the investments in associates attributable to RUAG:

Aggregate investments of RUAG in associates

in CHF m	2014	2013
Profit from continued operations	5	4
Other comprehensive income	(6)	0
Total comprehensive income	(1)	5

Aggregate financial information for associates (100 %) is as follows:

Aggregate financial information for associates

in CHF m	2014	2013
Total assets	196	176
Total liabilities	122	94
Net assets	74	82
Net sales	155	149
Profit from continued operations	10	10

There are no contingent liabilities for RUAG relating to associates.

22 Financial liabilities

Current financial liabilities

in CHF m	Note	2014	2013
Due to financial institutions		6	46
Financial liabilities to third parties[1]		17	3
Liabilities to associates		—	—
Financial liabilities to employee benefit funds		—	—
Lease liabilities	34	1	1
Current portion of non-current financial liabilities		—	—
Total current financial liabilities		23	50

[1] This position primarily contains the negative fair values of currency forward transactions.

Non-current financial liabilities

in CHF m	Note	2014	2013
Due to financial institutions		0	0
Lease liabilities	34	1	1
Loans secured by property		—	—
Bond issues		—	—
Liabilities to associates		—	—
Total non-current financial liabilities		1	1

The carrying amounts of the non-current financial liabilities do not vary significantly from the fair value. The average rate of interest on non-current financial liabilities in the year under review was 3.4 % (previous year: 2.5 %).

Maturity structure of financial liabilities

in CHF m	2014	2013
Up to 1 year	23	50
Up to 2 years	1	1
Up to 3 years	0	0
Up to 4 years	0	0
Over 4 years	0	0
Total financial liabilities	25	51

In the previous year, current liabilities to financial institutions included 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.

As at 31 December 2013, all relevant covenants had been met.

After all fixed advances under the syndicated loan were repaid in full as at 31 December 2014 (expiration date), the credit agreement was cancelled. As such, there were no covenants in place as at 31 December 2014.

Currencies of financial liabilities

in CHF m	2014	2013
CHF	2	44
EUR	3	2
USD	11	2
SEK	0	0
Other	8	4
Total financial liabilities	25	51

23 Other current liabilities

in CHF m	2014	2013
Due to third parties	14	14
Due to associates	—	—
Due to government bodies	27	23
Due to shareholder	—	—
Due to employee benefit funds	0	0
Total current liabilities	41	37

24 Trade accounts payable and prepayments

in CHF m	2014	2013
Trade accounts payable	86	89
Trade accounts payable to associates	0	0
Prepayments from customers	195	257
Prepayments from associates	—	—
Total trade accounts payable and prepayments	281	347

Currencies of trade accounts payable and prepayments

in CHF m	2014	2013
CHF	147	161
EUR	102	150
USD	15	18
SEK	8	12
Other	9	5
Total trade accounts payable and prepayments	281	347

25 Other non-current liabilities

in CHF m	2014	2013
Due to third parties	1	2
Due to associates	—	—
Due to shareholders	—	—
Due to employee benefit funds	—	—
Total other non-current liabilities	1	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 2014	8	19	22	37	21	32	138
Additions from acquisition of subsidiaries	—	—	—	—	0	0	0
Eliminations from the scope of consolidation	(0)	—	(0)	(0)	(0)	(0)	(0)
Additions	1	9	5	17	4	19	56
Release of unused provisions	(0)	(2)	(4)	0	(1)	(8)	(15)
Use of provisions	(5)	(11)	(4)	(20)	(2)	(12)	(55)
Reclassifications	—	—	—	(0)	(0)	0	—
Foreign currency translation adjustments	(0)	(0)	(0)	(1)	(0)	(0)	(1)
Balance at 31 December 2014	4	14	19	33	22	31	123
Current provisions	2	8	14	33	1	17	76
Non-current provisions	2	6	5	(0)	21	14	48

Changes to provisions during the year under review were influenced by the following material events:

Additional restructuring provisions of CHF 1 million had to be created in the Aviation division to cover early retirements. As part of the ongoing implementation of measures designed to improve efficiency across the locations in Germany and Switzerland, a further CHF 3 million of the restructuring provision created in 2012 was used in the year under review. In addition to the primary impact mentioned above, restructuring provisions totalling CHF 2 million were also used in various companies. The long-term portion of the provisions is scheduled to be paid out in the years 2016 and 2017.

Due to changes in the method used to calculate warranty provisions, CHF 2 million was released from the warranty provision in the Defence division as the actual warranty expenses incurred in the past were lower than originally assumed. The non-current portion of the provisions is likely to be used in the period 2016–2019.

The increase in the provisions for loyalty bonuses and anniversary benefits is mainly due to the comparatively lower discount rate applied than in the previous year. As at 31 December 2014, a discount rate of 1.3 % (previous year: 2.5 %) was used to calculate the long company service provisions. This was also based on other actuarial assumptions, such as employee fluctuations and salary increases; these did not differ materially from the assumptions in the previous year. Payment of the non-current portion of the provisions is expected as of 2016.

In connection with the acquisition of the companies Glückauf Logistik Beteiligungsgesellschaft mbH, Glückauf Logistik GmbH & Co. and Herkules Fahrzeuglogistik GmbH (see Note 4), a provision for potential liabilities to the former owner (outstanding acquisition cost payments) was created of CHF 1 million. Of the provisions created in 2013 for outstanding acquisition price obligations to the former owner of Génie Audio-Visuel et Applications Professionnelles (GAVAP) SAS, CHF 4 million was used, while CHF 2 million could be released as a result of a subsequent price reduction. Due to delivery delays and offset obligations, other provisions had to be created for the Ammotec division's projects in the UAE amounting to CHF 1 million. During 2014, the Space division increased its provision for severance payment obligations by CHF 1 million, bringing its current size to CHF 6 million.

27 Employee obligations

The RUAG Group maintains various defined benefit plans for employees. The largest employee benefit plans are in Switzerland, Germany and Sweden, with the plan in Switzerland administered by a legally autonomous organization.

As the plans in Switzerland cover 97 % (previous year: 97 %) of the Group's total defined benefit liability and 100 % (previous year: 100 %) of the plan assets, the data for the plans in Switzerland are presented separately in the following.

In addition to the defined benefit obligations, the Group provides other long-term employee benefits comprising loyalty bonuses and anniversary benefits (see Note 26, "Provisions").

in CHF m			2014			2013
	Switzerland	Other countries	Total	Switzerland	Other countries	Total
Present value of defined benefit obligation	2 132	62	2 195	1 813	54	1 867
Fair value of plan assets	(2 039)	—	(2 039)	(1 847)	—	(1 847)
Net defined benefit liability recognized in the balance sheet	93	62	156	(34)	54	20

a. Description of the significant defined benefit plans

Employee benefit plan in Switzerland
Since 1 January 2013, all RUAG employees in Switzerland have been insured against the risks of old age, death and disability with the Group employee benefit fund VORSORGE RUAG.

VORSORGE RUAG is a fully autonomous employee benefit fund set up in line with the Swiss defined contribution system. It has the legal status of a foundation. In addition to the compulsory benefits, the employee benefit fund also provides benefits over and above the compulsory minimum under the Swiss Federal Act on Occupational Retirement, Survivors' and Disability Pension Schemes (BVG). It is registered with and regulated by the Berne supervisory authority for occupational retirement schemes and foundations. VORSORGE RUAG is subject to the provisions of the BVG. Under those provisions, the management body of the employee benefit fund is also responsible for ensuring that, in the event of a deficit, restructuring measures are decided and implemented so as to restore the funding level of future employee benefits to 100 % within a reasonable period. These measures include making additional contributions. 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 by multiplying the retirement assets by the conversion rate specified in the regulations. The statutory retirement age is 65 for men and 64 for women. 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.

As the most senior body, the Foundation Board is responsible for investing VORSORGE RUAG's assets. It stipulates organizational arrangements, objectives, principles and powers in accordance with the law and approves the long-term investment strategy and investment regulations. The Investment Commission sets the tactical ranges within the asset structure so as to enable a flexible response to current market conditions. Compliance with the investment guidelines and the performance results obtained from the investments are regularly reviewed bearing in mind the expected liabilities. The external asset managers are responsible for the portfolio management of individual asset classes under clearly defined management mandates. They report to the Investment Commission on the investments' performance on a quarterly basis. They make a verbal report to the Investment Commission at least once year or as and when necessary.

Due to a range of resource optimization measures, staffing levels fell significantly in the 2013 financial year, resulting in a plan curtailment of CHF 8.4 million. No comparable effects were observed in 2014.

Employee benefit plan in Germany
The relevant benefit plans currently in place in Germany are defined benefit plans. One of these is a multi-employer plan whereby the available assets are not allocated to the individual employers and which is therefore treated as a defined contribution plan. Pension commitments in each case comprise retirement pensions, disability pensions and surviving dependants' pensions.

In general, pension commitments exist vis-à-vis current and former employees. Benefits are essentially divided into a basic pension scheme, which - except for a few transitional arrangements - is managed by the Dynamit Nobel VVaG pension fund, and a supplementary pension scheme which is run directly via RUAG Ammotec GmbH as a defined benefit scheme. The basic pension is determined by salary components up to the contribution assessment ceiling in the statutory pension insurance scheme. The supplementary pension is made up of salary-dependent contributions for remuneration components above the contribution assessment ceiling.

A three-part pension commitment has been put in place for certain management staff. This is composed of a basic pension primarily based on final salary, and two defined contribution components. The annual increment of the pension entitlement in this case is based on the bonus awarded or on a conversion of earnings into pension contributions (whereby the employee may decide, within predefined limits, on the percentage to be converted) and is topped up by an additional contribution from the employer.

Employee benefit plan in Sweden
The existing ITP plan was renegotiated with effect from 1 January 2007, and became a defined contribution plan from that point onwards. However, all staff born before 1979 are still insured under the ITP2 defined benefit plan. Alongside a final salary retirement pension, the plan also includes surviving dependants' and disability pension cover provided by Alecta. In the 2013 financial year a portion of the pension liability was transferred to Alecta via a one-time payment, resulting in a settlement.

Due to a range of resource optimization measures, staffing levels fell significantly in the 2013 financial year, resulting in a plan curtailment of CHF 2.3 million in the previous year. No comparable events occurred in the 2014 financial year.

b. Changes in the net defined benefit liability

The following tables show the reconciliation of the opening balance to the closing balance for the net defined benefit liability and its components as well as the amounts recognized in the annual consolidated financial statements.

The changes in the net defined benefit liability are shown below:

in CHF m	Switzerland 2014	Other plans 2014	Total 2014	Switzerland 2013	Other plans 2013	Total 2013
Net defined benefit liability as at 1 January	(34)	54	20	136	66	202
Total benefit plan expense recognized in the income statement	36	2	38	34	(1)	33
Total remeasurements recognized in other comprehensive income	130	10	140	(166)	(10)	(175)
Changes in the scope of consolidation – acquisitions	—	—	—	—	—	—
Changes in the scope of consolidation – disposals	—	—	—	—	—	—
Employer contributions	(38)	(4)	(43)	(38)	(1)	(40)
Net defined benefit liability as at 31 December	93	62	156	(34)	54	20

The changes in defined benefit obligations are shown below:

in CHF m	Switzerland 2014	Other plans 2014	Total 2014	Switzerland 2013	Other plans 2013	Total 2013
Present value of defined benefit obligations as at 1 January	1 813	54	1 867	1 972	66	2 037
Current service cost	36	1	37	44	6	50
Past service cost	—	—	—	(8)	(1)	(9)
Interest expense	45	2	46	38	2	40
Employee contributions	27	—	27	28	—	28
Experience gains/(losses)	(30)	0	(30)	(32)	(2)	(34)
Gains/(losses) arising from changes in demographic assumptions	(32)	—	(32)	—	—	—
Gains/(losses) arising from changes in financial assumptions	351	13	364	(128)	(8)	(136)
Employee benefits paid	(77)	(4)	(81)	(78)	(1)	(79)
Changes in the scope of consolidation – acquisitions	—	—	—	—	—	—
Changes in the scope of consolidation – disposals	—	—	—	(22)	—	(22)
Settlements	—	—	—	—	(9)	(9)
Foreign currency translation adjustments	—	(3)	(3)	—	0	0
Present value of defined benefit obligations as at 31 December	2 132	62	2 195	1 813	54	1 867

At 31 December 2014, the weighted average duration of the employee benefit obligation of the Swiss plans was 17.1 years (previous year: 17.1 years).

The changes in the fair value of plan assets are shown below:

in CHF m	2014	2013
Fair value of plan assets as at 1 January	1 847	1 835
Employer contributions	38	38
Employee contributions	27	28
Employee benefits paid	(77)	(78)
Interest income	46	36
Income from plan assets excluding interest income	159	5
Asset management costs	(2)	(2)
Changes in the scope of consolidation – acquisitions	—	—
Changes in the scope of consolidation – disposals	—	(17)
One-off employer contribution to fund benefits due to termination of employment	—	—
Fair value of plan assets as at 31 December	2 039	1 847

Benefit plan expense and gains and losses arising from remeasurements are shown below:

Expense of benefit plans

in CHF m	Switzerland	Other plans	2014 Total	Switzerland	Other plans	2013 Total
Service cost:						
Current service cost	36	1	37	44	6	50
Past service cost	—	—	—	(8)	(1)	(9)
Gains/losses arising from settlements	—	—	—	—	(9)	(9)
Total service cost	36	1	37	36	(3)	32
Asset management costs	2	—	2	2	—	2
Net interest expense	(2)	2	0	2	2	4
Changes in the scope of consolidation – disposals	—	—	—	(5)	—	(5)
Total benefit plan expense recognized in the income statement	36	2	38	34	(1)	33

Gains and losses resulting from remeasurements

in CHF m	Switzerland	Other plans	2014 Total	Switzerland	Other plans	2013 Total
Actuarial gains/losses arising from:						
Changes in demographic assumptions	(32)	—	(32)	—	—	—
Changes in financial assumptions	351	13	364	(128)	(8)	(136)
Experience adjustments	(30)	0	(30)	(32)	(2)	(34)
Income from plan assets excluding interest income	(159)	—	(159)	(5)	—	(5)
Net foreign currency translation adjustments	—	(3)	(3)	—	0	0
Total recognized in other comprehensive income	130	10	140	(166)	(10)	(175)

The net present values of the defined benefit obligations (DBO) are determined annually by independent actuaries using the projected unit credit method. This requires actuarial assumptions. The significant assumptions are listed in the following table:

	2014 Switzerland	2014 Other plans	2013 Switzerland	2013 Other plans
Discount rate	1.30 %	1.86 %–3.00 %	2.50 %	3.25 %–4.00 %
Future salary increases	2.00 %	2.00 %–3.00 %	2.00 %	2.75 %–3.00 %
Future pension increases	0.00 %	1.50 %–1.75 %	0.00 %	1.75 %–2.00 %
Mortality table	BVG GT 2010	Heubeck 2005G/ FFFS 2007:31	BVG GT 2010	Heubeck 2005G/ FFFS 2007:31

The plan assets for the employee benefit plan in Switzerland are invested as follows:

in CHF m	Active market	Market prices Other	2014 Total	Active market	Market prices Other	2013 Total
Asset class						
Cash and cash equivalents	—	33	33	—	34	34
Shares, Switzerland	113	—	113	105	—	105
Shares, other countries	300	—	300	299	—	299
Bonds, CHF	867	—	867	757	—	757
Bonds, foreign currency	431	—	431	394	—	394
Real estate, Switzerland	—	296	296	—	258	258
Real estate, other countries	—	—	—	—	—	—
Total plan assets	1 711	328	2 039	1 555	292	1 847

Apart from the operation of receivables accounts, the investment regulations do not permit investments in the employer. The other plans do not have any assets.

For the 2015 financial year, employer contributions of around CHF 37 million are expected in respect of the employee benefit plan in Switzerland.

c. Sensitivities

The discount rate, the assumptions about future salary and pension increases, the interest rate for retirement assets and the change in mortality are the significant factors in the calculation of the present value of the defined benefit obligation. If all other assumptions had remained constant, the change that could reasonably be expected in one of the significant actuarial assumptions at the reporting date would have affected the defined benefit obligation as follows:

31 December 2014	Defined benefit obligation, Switzerland		Defined benefit obligation, other countries	
Impact in CHF m	Increase	Reduction	Increase	Reduction
Discount rate (+/– 0.50 % change)	(173)	199	(5)	6
Future salary increase (+/– 0.50 % change)	23	(21)	0	(0)
Future pension increase (+/– 0.25 % change)	n/a	n/a	3	(3)
Interest rate for retirement assets (+/– 0.50 % change)	35	(34)	n/a	n/a
Future mortality (+1 year change)	67	n/a	2	n/a

31 December 2013	Defined benefit obligation, Switzerland		Defined benefit obligation, other countries	
Impact in CHF m	Increase	Reduction	Increase	Reduction
Discount rate (+/– 0.50 % change)	(141)	160	(3)	3
Future salary increase (+/– 0.50 % change)	16	(15)	0	(0)
Future pension increase (+/– 0.25 % change)	n/a	n/a	1	(1)
Interest rate for retirement assets (+/– 0.50 % change)	29	(28)	n/a	n/a
Future mortality (+1 year change)	47	n/a	2	n/a

In practice, however, there are certain correlations between the individual assumptions, therefore the above mentioned amounts provide only an indication of the change in the defined benefit obligation.

The same method was used to calculate the sensitivities as was used to calculate the employee benefit obligation recognized at the reporting date.

28 Contingent liabilities towards third parties

in CHF m	2014	2013
Guarantees	104	98
Warranty commitments	108	111
Other contingent liabilities	6	6
Total contingent liabilities towards third parties	218	215

Guarantees are primarily performance and advance payment guarantees from operational business. Warranty commitments are solely bank guarantees.

Other contingent liabilities comprise a government grant received by a company in Australia in relation to the construction of a production plant. This grant is linked to certain conditions. If these conditions are not met, there is a risk that some or all of the grant would have to be repaid.

29 Additional contingent liabilities not stated on the balance sheet

in CHF m	2014	2013
Warranty contracts	—	—
Letters of intent	—	—
Agreed contractual penalties (fines and premiums)	8	9
Legal proceedings	1	1
Bill commitments	—	—
Capital commitments for property, plant and equipment (incl. investment properties)	9	12
Other contingent liabilities	0	4
Total contingent liabilities not stated on the balance sheet	18	26

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 Corporate Legal and regularly monitored as to the probability of a future cash outflow. As soon as it is probable that a cash outflow will arise, a provision is recognized for it. The possibility of a cash outflow over and above the recognized provisions is currently considered improbable.

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

30 Assets pledged as collateral

in CHF m	2014	2013
Cash and cash equivalents	3	0
Receivables and inventories	—	—
Plant and equipment	1	1
Property	4	4
Total assets pledged as collateral	8	5

In the previous year, an intra-Group loan of CHF 160 million to RUAG Real Estate Ltd was pledged to secure the syndicated loan agreement for RUAG Holding Ltd. After all fixed advances under the syndicated loan were repaid in full as at 31 December 2014 (expiration date), the credit agreement was cancelled.

31 Share capital

The share capital comprises 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 Related party transactions

in CHF m	2014	2013
Receivables from related parties	16	33
Liabilities to related parties	(0)	(1)
Prepayments from related parties	(34)	(42)
Current liabilities to employee benefit funds	—	(0)
Non-current liabilities to employee benefit funds	—	(0)

In the year under review, CHF 16 million of receivables from related parties (previous year: CHF 33 million) and CHF 0.4 million of liabilities to related parties (previous year: CHF 0.8 million) were attributable to the DDPS. Invoiced sales to the DDPS totalled CHF 538 million (previous year: CHF 554 million) as stated in Note 7, "Net sales". In return, the DDPS supplied materials and services totalling CHF 6 million (previous year: CHF 3 million). There were no loans between the Group companies and members of the Board of Directors. In 2014, turnover of CHF 1.3 million (previous year: CHF 0.2 million) was generated with associates and services with a value of CHF 2.3 million (previous year: CHF 0.7 million) purchased.

33 Compensation of key management personnel

The overall emoluments paid to non-executive members of the Board of Directors for the 2014 financial year amounted to CHF 823,000 (previous year: CHF 509,000). The overall emoluments paid to the CEO and the other members of the Group Executive Board for the 2014 financial year amounted to CHF 6,075,000 (previous year: CHF 5,705,000).[1]

The overall emoluments paid to the CEO for the 2014 financial year amounted to CHF 992,000 (previous year: CHF 935,000).[1]

Overview of compensation paid to members of the Board of Directors, the Group Executive Board and the Extended Management Board:

in CHF thousands	Total 2014	Total 2013	Highest total compensation[2] 2014	Highest total compensation[2] 2013
Basic salary of Board of Directors				
Cash compensation	823	509	223	116
Total compensation paid to members of the Board of Directors	823	509	223	116
Basic salary of Group Executive Board (incl. Extended Management Board)				
Cash compensation	3 585	3 267	484	471
Benefits in kind	250	260	26	26
Employer contributions to pension funds	391	318	56	42
Performance-based component, Group Executive Board (incl. Extended Management Board)				
Cash compensation	1 580	1 599	364	349
Employer contributions to pension funds	269	261	62	48
Other long-term employee benefits	—	—	—	—
Total compensation paid to members of the Group Executive Board (incl. Extended Management Board)	6 075	5 705	992	935
of which cash compensation	5 165	4 866	848	819
of which benefits in kind	250	260	26	26
of which employer contributions to pension funds	660	579	118	90
of which other long-term employee benefits	—	—	—	—
Relation between performance-based component and cash compensation	44 %	49 %	75 %	74 %
Total compensation paid to members of the Board of Directors and Group Executive Board (incl. Extended Management Board)	6 898	6 214		
of which short-term employee benefits[3]	6 238	5 635		
of which employer contributions to pension funds	660	579		
of which other long-term employee benefits	—	—		

[1] The overall emoluments are exclusive of the employer contributions to statutory retirement and survivors' insurance or similar state social insurance.

[2] With regard to the Board of Directors, the amount stated for the reporting period comprises the emoluments paid to the Chairman of the Board Konrad Peter (for the period 1.1.–30.6.2014) and to the Chairman of the Board, Hans-Peter Schwald (for the period 15.5.–31.12.2014); for the previous year it comprises the emoluments paid to Board Chairman Konrad Peter. For the Group Executive Board, the amount stated for the reporting period comprises the remuneration paid to CEO Urs Breitmeier; for the previous year it comprises the emoluments paid to CEO Konrad Peter (for the period 1.1.–31.3.2013) and to CEO Urs Breitmeier (for the period 1.4.–31.12.2013).

[3] Includes cash compensation and benefits in kind.

34 Future minimum obligations of leasing transactions

Finance leases

in CHF m	2014	2013
Within 1 year	1	1
Later than 1 year, within 5 years	1	1
After 5 years	—	0
Total	2	2
Less future interest costs	(0)	(0)
Total lease liabilities recognized	2	2

Operating leases

in CHF m	2014	2013
Within 1 year	19	18
Later than 1 year, within 5 years	66	65
After 5 years	16	12
Total	100	95

These comprise unrecognized obligations under operating leases (including rental agreements). Future operating lease liabilities are therefore not reported in the statement of financial position.

35 Financial 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 divisions using a structured, bottom-up risk assessment. In order to prevent or reduce the individual risks, the appropriate measures are defined and implemented. At Group level, the aggregate risks relevant for the Group are monitored and managed by the Group Executive Board.

The risks identified are assessed in terms of probability of occurrence and impact, and are entered on the Group's 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. As part of this, the management is supported by a central Risk Management function in training sessions or moderating workshops.

35.1 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 at Group level by the Treasury department in compliance with the directives issued by the Board of Directors. The Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units (divisions).

a. Market risk RUAG is exposed to market risks that largely relate to changes in exchange and interest rates and would therefore impact the value of the financial instruments held or the income/expenses associated with these. The Group monitors these risks continuously. It 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.

As at the end of period under review, the statement of financial position contained the following foreign currency positions:

As at 31 December 2014, in CHF m	EUR	USD	SEK	Other
Cash and cash equivalents	67	33	15	8
Trade receivables/other receivables	104	59	2	24
Other financial assets	3	7	2	0
Financial liabilities	(3)	(11)	(0)	(8)
Trade accounts payable/other liabilities	(25)	(15)	(7)	(5)
Other financial liabilities	—	—	(1)	—
Carrying amount of exposure	146	74	10	19
Foreign currency forward transactions	(21)	(35)	32	(7)
Net exposure	125	39	42	12

As at 31 December 2013, in CHF m	EUR	USD	SEK	Other
Cash and cash equivalents	88	16	15	4
Trade receivables/other receivables	110	57	2	8
Other financial assets	3	3	2	0
Financial liabilities	(2)	(2)	(0)	(4)
Trade accounts payable/other liabilities	(36)	(16)	(6)	(1)
Other financial liabilities	(0)	—	(2)	—
Carrying amount of exposure	164	59	11	7
Foreign currency forward transactions	2	(22)	13	(4)
Net exposure	165	37	25	3

Sensitivity analysis If the euro, US dollar or Swedish krona had appreciated (depreciated) against the Swiss franc as at 31 December (something that was considered a possibility), the valuation of financial instruments held in foreign currencies would have been affected, with the equity and profit or loss being impacted by the amounts set out below. This analysis assumes that all other factors, especially interest rates, would remain constant. The impact of the forecast sales and acquisitions is not taken into account.

Impact in CHF m	Profit or loss Appreciation	Profit or loss Depreciation	Equity Appreciation	Equity Depreciation
as at 31 December 2014				
EUR (10 % movement)	5	(5)	7	(7)
USD (10 % movement)	3	(3)	0	(0)
SEK (10 % movement)	0	(0)	4	(4)
as at 31 December 2013				
EUR (10 % movement)	9	(9)	7	(7)
USD (10 % movement)	3	(3)	0	(0)
SEK (10 % movement)	0	(0)	2	(2)

The following currency hedging transactions existed as at 31 December:

Contract volumes

in CHF m	2014	2013
Currency hedging contracts banks positive	301	227
Currency hedging contracts banks negative	(131)	(133)

Recognized values

in CHF m	2014	2013
Current financial assets	10	6
Current financial liabilities	(16)	(2)

Net investments in foreign operations are long-term investments. Their market value changes as exchange rates fluctuate. Over the very long term, however, differences in inflation rates should offset the exchange rate fluctuations, with the result that adjustments in the 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 certain foreign Group companies with loans in EUR and AUD. These loans are not hedged. As at 31 December 2014, there were loans outstanding amounting to EUR 179 million (previous year: EUR 175 million) and AUD 14 million (previous year: AUD 11 million). As these loans are equity-type loans because they are not scheduled or likely to be repaid in the foreseeable future, any foreign currency gains or losses are recognized in other comprehensive income. The cumulative foreign currency losses related to these loans that had been booked to other comprehensive income as at 31 December 2014 amounted to CHF 48 million (prior year: CHF 44 million).

Hedge accounting RUAG carries out foreign currency forward transactions to hedge future transactions in relation to its operational business (hedging future revenues or purchases of goods and services in the corresponding currencies); these hedging transactions have been designated for hedge accounting under IAS 39. In the previous year, derivative financial instruments also included an interest rate swap used to hedge the syndicated loan, which was designated a cash flow hedge. The hedging reserve under shareholders' equity (other reserves) included the following as at 31 December:

in CHF m	2014	2013
Other reserves	(4)	4

Due to the occurrence of the underlying transactions, CHF 6 million was booked out of other reserves under shareholders' equity in 2014 and shown under other operating expenses (in the previous year, CHF 3 million was shown under other operating income).

Commodity price risk In buying commodities (particularly copper, lead, aluminium 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	2014	2013
Aluminium	4	5
Lead	12	6
Copper	23	25
Steel	2	3
Titanium	0	0
Zinc	3	2
Other	0	0
Total	45	42

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.

No interest rate swaps were outstanding at 31 December 2014.

Interest-bearing financial liabilities

As at 31 December, in CHF m	2014	2013
Current financial liabilities	7	47
Non-current financial liabilities	1	1
Total	8	48
Of which variable interest-bearing	8	48
Fixed through interest rate swap	—	(41)
Variable interest-bearing, net	8	7

Interest expense for interest-bearing financial liabilities in the year under review amounted to CHF 2 million (prior year: CHF 4 million).

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

Contract volumes

in CHF m	2014	2013
Interest rate hedging contracts	—	54

Recognized values for interest rate swaps

in CHF m	2014	2013
Current financial liabilities	—	(1)

b. 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 30 % of total sales (previous year: 32 %). No other customer accounts for more than 10 % of the Group's net sales. Trade and other receivables from the DDPS account for around 6 % (previous year: 13 %) of total trade and other receivables as at 31 December 2014. There are no other concentrated default risks that exceed 5 % of total trade and other receivables.

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

in CHF m	2014	2013
Cash and cash equivalents	202	209
Current financial assets	10	6
Trade receivables/other receivables	268	262
Non-current financial assets	2	3
Total credit risk	482	480

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 minimized 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. At present, the Group does not expect any losses arising from counterparties' non-fulfilment of their contractual obligations.

c. 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. A rolling liquidity plan is drawn up on the basis of expected cash flows and is regularly updated.

The net financial position is a key measure of liquidity management. The table below provides an analysis of the Group's net financial position by due date from the end of the reporting period to the contractual expiry date.

As at 31 December 2014

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	202	—	—	—	—	202
Current financial assets[1]	—	—	—	—	—	—
Non-current financial assets	0	0	0	0	1	2
Current financial liabilities[1]	(7)	—	—	—	—	(7)
Non-current financial liabilities	(0)	(1)	(0)	(0)	(0)	(1)
Other non-current liabilities	—	(1)	—	—	—	(1)
Net financial position	195	(2)	(0)	0	1	195

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

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Over 3 years	Total
Derivative financial receivables and liabilities	—	—	—	—	—
Interest rate swaps used for hedging purposes	—	—	—	—	—
Foreign currency forward transactions used for hedging purposes:					
Outflows	(13)	(3)	(0)	(0)	(16)
Inflows	5	4	0	0	10
	(9)	1	0	0	(7)

As at 31 December 2013

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	209	—	—	—	—	209
Current financial assets[1]	—	—	—	—	—	—
Non-current financial assets	0	0	0	0	2	3
Current financial liabilities[1]	(47)	—	—	—	—	(47)
Non-current financial liabilities	(0)	(1)	(0)	(0)	(0)	(1)
Other non-current financial liabilities	—	(2)	—	—	—	(2)
Net financial position	163	(3)	(0)	0	2	162

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

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Over 3 years	Total
Derivative financial receivables and liabilities	—	—	—	—	—
Interest rate swaps used for hedging purposes	(1)	—	—	—	(1)
Foreign currency forward transactions used for hedging purposes:					
Outflows	(2)	(0)	(0)	—	(2)
Inflows	4	1	1	0	6
	1	1	1	0	3

Global netting arrangements or similar agreements
RUAG holds derivative financial instruments with various parties for hedging and interest rate optimization purposes. These transactions are usually based on a master netting agreement that provides for net settlement in specific circumstances. These agreements do not qualify for netting in the statement of financial position, however, as the right of set-off only becomes enforceable on the occurrence of future events.

As at 31 December 2014, RUAG recognized derivative financial instruments amounting to CHF 6.3 million (previous year: CHF 2.2 million) subject to a netting arrangement with banks. Taking this effect into account, derivative assets would decrease from CHF 9.6 million to CHF 3.3 million as at 31 December 2014 (previous year: from CHF 5.9 million to CHF 3.7 million) and derivative liabilities from CHF 16.5 million to CHF 10.2 million (previous year: CHF 3.1 million to CHF 0.9 million).

35.2 Capital 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 financial position and equity, by measuring the ratio of net financial position to equity. The net financial position 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 financial position. RUAG has set itself the long-term target of keeping net debt below 40 % of equity. As at 31 December 2014, the net financial position (net assets) amounts to 22 % of equity (prior year: 17 %).

35.3 Fair value estimates
Due to the short maturities, the carrying amounts of current financial assets and current financial liabilities correspond to a reasonable approximation of their fair value at the end of the reporting period. The fair value of non-current financial assets and non-current financial liabilities is estimated on the basis of future payments due, which are discounted at market rates. There are no significant differences to the carrying amount. 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	2014	2013
Cash and cash equivalents	202	209
Loans and receivables		
Trade receivables/other receivables	268	262
Current financial assets	—	—
Hedging transactions		
Financial derivatives at fair value	10	6
Total current financial assets in current assets	480	477
Financial assets in non-current assets		
Loans and receivables		
Non-current financial assets	2	3
Total non-current financial assets in non-current assets	2	3
Current financial liabilities		
Current financial liabilities	7	47
Trade accounts payable/other current liabilities	127	126
Hedging transactions		
Financial derivatives at fair value	16	3
Total current financial liabilities	150	176
Non-current financial liabilities		
Non-current financial liabilities	1	1
Total non-current financial liabilities	1	1

Financial derivatives that are measured at fair value are solely Level 2 instruments under the IFRS fair value hierarchy, which are measured using models with predominantly directly (as prices) or indirectly (derived from prices) or indirectly (derived from prices) observable inputs that do not have any quoted prices for Level 1. Financial derivatives are held by RUAG exclusively for hedging purposes.

36 Events after the reporting period

RUAG Holding Ltd, which is headquartered in Berne, acquired the company Glaser Handels-AG on 7 January 2015. Glaser Handels-AG, which is headquartered in Winterthur, sells hunting and sports guns together with the relevant ammunition. The purchase price of the company acquired after the reporting period (100 % share) and the impact of this acquisition on the consolidated financial statements are immaterial.

RUAG Sweden AB, which is headquartered in Gothenburg (Sweden) has reached an agreement with the company Patria Aviation OY, which is headquartered in Halli (Finland), concerning the sale of the business operations and related assets of the Aerospace unit. The intended takeover concerns the product areas related to electronics for monitoring and controlling satellites, power supply systems and electronic component assemblies and the related test systems. This transaction is set to be completed on 31 March 2015, with activities being fully consolidated from the time of acquisition (probably from 1 April 2015). The purchase price of the business operations and assets and its impact on the consolidated financial statements are immaterial.

On 15 January 2015, the Swiss National Bank announced that it would no longer maintain the exchange rate cap of CHF 1.20 per euro. As a result, the Swiss franc appreciated significantly against the euro and other currencies that are also relevant for RUAG. The figures in these financial statements do not reflect any changes in exchange rates after 31 December 2014. As the Group uses the Swiss franc as the reporting currency for its consolidated financial statements, any depreciation of foreign currencies against the Swiss franc has a negative impact on the Group's consolidated result and the cumulative foreign currency translation adjustments recognized under shareholders' equity.

The prevailing exchange rate at the time the consolidated financial statements were approved results in a decrease of around 15–20 % against the expected net profit for 2015.

On 25 February 2015, the Board of Directors of RUAG Holding Ltd approved the consolidated financial statements for publication. As at this time, no further events had occurred after the reporting period. In particular, no events had transpired that would have required the carrying values of the Group's assets and liabilities to be adjusted or that would have to be disclosed at this point. The Annual General Meeting has the right to approve the consolidated financial statements.

37 Consolidated companies, associates and non-controlling interests (as at 31 December 2014)

Company	Head office	Country	Equity capital (100 %)		Shareholding	Method of consolidation
RUAG Holding Ltd[1]	Berne	Switzerland	CHF	340 000 000		Full
Consolidated companies						
RUAG Switzerland Ltd	Emmen	Switzerland	CHF	112 200 000	100.0 %	Full
RUAG Ammotec Ltd	Thun	Switzerland	CHF	12 000 000	100.0 %	Full
RUAG Real Estate Ltd	Berne	Switzerland	CHF	8 000 000	100.0 %	Full
RUAG Environment Ltd	Schattdorf	Switzerland	CHF	100 000	100.0 %	Full
RUAG Corporate Services Ltd	Berne	Switzerland	CHF	100 000	100.0 %	Full
brings! AG	Schattdorf	Switzerland	CHF	100 000	55.0 %	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 Defence Deutschland GmbH	Wedel	Germany	EUR	260 000	100.0 %	Full
GEKE Schutztechnik GmbH	Lichtenau	Germany	EUR	25 000	51.0 %	Full
RUAG Ammotec Deutschland GmbH	Fürth	Germany	EUR	100 000	100.0 %	Full
RUAG Ammotec GmbH	Fürth	Germany	EUR	25 000	100.0 %	Full
Glückauf Logistik Beteiligungsgesellschaft mbH	Kassel	Germany	EUR	25 750	100.0 %	Full
Herkules Fahrzeuglogistik GmbH	Kassel	Germany	EUR	76 694	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
Norma Precision AB	Amotfors	Sweden	SEK	2 500 000	100.0 %	Full
Rosebank Engineering PTY Ltd.	Bayswater	Australia	AUD	10 000	100.0 %	Full
RUAG Ammotec Benelux BVBA	Boechout	Belgium	EUR	25 000	100.0 %	Full
RUAG Ammotec UK Ltd.	Liskeard	Great Britain	GBP	15 000	100.0 %	Full
RUAG Holding France SAS	Terssac	France	EUR	100 000	100.0 %	Full
Génie Audio-Visuel et Applications Professionnelles (GAVAP) SAS	Terssac	France	EUR	400 000	100.0 %	Full
RUAG Ammotec France SAS	Paris	France	EUR	1 000 000	100.0 %	Full
RUAG Aviation Malaysia SDN BHD	Kuala Lumpur	Malaysia	MYR	5 000 000	65.0 %	Full
RUAG Ammotec Austria GmbH	Vienna	Austria	EUR	298 000	100.0 %	Full
RUAG Space GmbH	Vienna	Austria	EUR	1 500 000	100.0 %	Full
RUAG Hungarian Ammotec Inc.	Sirok	Hungary	HUF	280 000	100.0 %	Full
RUAG Ammotec USA Inc.	Tampa, FL	USA	USD	6 500 000	100.0 %	Full
Mecanex USA Inc.	Berlin, CT	USA	USD	1 500	100.0 %	Full
RUAG Simulation Company LLC	Abu Dhabi	UAE	AED	150 000	49.0 %	Full
RUAG Space GmbH	Zurich	Switzerland	CHF	20 000	100.0 %	[3]
RUVEX Ltd	Berne	Switzerland	CHF	100 000	100.0 %	[3]
RUAG Industria e Commercio de Municoes Ltda	São Francisco	Brazil	BRL	200 000	100.0 %	[3]
RUAG do Brasil Serviços Aeronáuticos Ltda	Rio de Janeiro	Brazil	BRL	10 000	90.0 %	[3]
RUAG Aerospace USA Inc.	El Segundo, CA	USA	USD	1 000	100.0 %	[3]

Company	Head office	Country	Equity capital (100 %)		Shareholding	Method of consolidation
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
Nidwalden AirPark Ltd	Stans	Switzerland	CHF	1 000 000	40.0 %	Equity
Nitrochemie Aschau GmbH	Aschau	Germany	EUR	7 700 000	45.0 %	Equity
HTS GmbH	Coswig	Germany	EUR	26 000	24.6 %	Equity
Other investments						
Visier Medien Holding AG	Zug	Switzerland	CHF	400 000	49.5 %	[3]
CFS Engineering SA	Lausanne	Switzerland	CHF	150 000	40.0 %	[3]
AIONAV Systems Ltd	Berne	Switzerland	CHF	100 000	12.0 %	[3]
InnoCampus Ltd	Nidau	Switzerland	CHF	1 090 000	9.2 %	[3]
Flughafen Bern AG	Berne	Switzerland	CHF	10 150 000	2.0 %	[3]
Brünig Indoor AG	Lungern	Switzerland	CHF	8 500 000	0.3 %	[3]
Gyttorp AB	Ingelstad	Sweden	SEK	356 200	40.0 %	[3]
Arianespace Participation	Evry	France	EUR	3 922 842	3.5 %	[3]
Arianespace SA	Evry	France	EUR	372 069	0.0 %	[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 investments are valued at cost minus a valuation allowance.

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Report of the Statutory Auditor to the General Meeting of Shareholders of

RUAG Holding Ltd, Bern

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the accompanying consolidated financial statements of RUAG Holding Ltd, which comprise the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes (pages 50 to 97), for the year ended 31 December 2014.

Board of Directors' Responsibility
The board of directors is responsible for the preparation of the consolidated financial statements in accordance with 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 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 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 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 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Other Matter
The consolidated financial statements of RUAG Holding Ltd for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 21 February 2014.

RUAG Holding Ltd, Bern
Report of the Statutory Auditor
to the General Meeting of Shareholders

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.

KPMG AG

Herbert Bussmann	Florin Lamine Krapp
Licensed Audit Expert	*Licensed Audit Expert*
Auditor in Charge	

Bern, 25 February 2015

Income statement 1 January to 31 December

in CHF m	2014	2013
Income from investments	70	87
Interest income	13	13
Gains from securities	—	—
Income from the disposal of investments	—	—
Income from services	4	4
Currency gains	—	—
Income	87	104
Investment expense	—	—
Interest expense	(1)	(3)
Losses from securities	—	—
Personnel expenses	(0)	(0)
Administration costs	(11)	(6)
Depreciations	—	—
Currency losses	(2)	(0)
Income taxes	(1)	(1)
Expenses	(15)	(11)
Net profit	72	93

Statement of financial position before allocation of profit 31 December

in CHF m	2014	2013
Cash and cash equivalents	131	153
Receivables:		
Third parties	1	0
Group companies	45	23
Prepaid expenses and accrued income:		
Third parties	—	0
Group companies	—	—
Current assets	177	176
in % of total assets	14.4 %	14.4 %
Investments	648	648
Financial assets:		
Third parties	—	—
Group companies	401	396
Plant and equipment	—	—
Non-current assets	1 049	1 043
in % of total assets	85.6 %	85.6 %
Total assets	1 226	1 219
Current financial liabilities:		
Third parties	6	46
Group companies	306	312
Deferred income and accrued expenses:		
Third parties	0	0
Group companies	3	2
Non-current financial liabilities:		
Third parties	—	—
Group companies	—	—
Provisions	—	0
Liabilities	315	360
in % of total liabilities and equity	25.7 %	29.6 %
Share capital	340	340
Statutory reserve	36	31
Statutory reserve from capital contribution	10	10
Voluntary reserve	—	—
Retained earnings brought forward	454	385
Net profit	72	93
Equity	911	859
in % of total liabilities and equity	74.3 %	70.4 %
Total liabilities and equity	1 226	1 219

1 Contingent liabilities towards third parties

in CHF m	2014	2013
Guarantees	104	108
Bank guarantees	35	34
Total contingent liabilities	139	142

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 division, Thun), in favour of third parties.

2 Assets pledged as collateral

in CHF m	2014	2013
Cash and cash equivalents	—	—
Receivables	—	—
Financial assets to Group companies	—	160
Property, plant and equipment	—	—
Investments	—	—
Total assets pledged as collateral	—	160

In the previous year, an intra-Group loan of CHF 160 million to RUAG Real Estate Ltd was pledged to secure the syndicated loan agreement for RUAG Holding Ltd.

After all fixed advances under the syndicated loan were repaid in full as at 31 December 2014 (expiration date), the credit agreement was cancelled. As such, there were no assets pledged as collateral as at 31 December 2014.

3 Foreign currency forward transactions

in CHF m	2014	2013
Volume of contracts with banks	301	227
Volume of contracts with banks	(131)	(133)
Volume of contracts with Group companies	126	127
Volume of contracts with Group companies	(296)	(218)
Positive replacement value banks	10	6
Negative replacement value banks	(16)	(2)
Positive replacement value Group companies	16	2
Negative replacement value Group companies	(9)	(6)
Total replacement values	(0)	(0)

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

4 Investments

Company	Head office	Country	Equity capital (100 %)		Shareholding 2014	Shareholding 2013
RUAG Switzerland Ltd	Emmen	Switzerland	CHF	112 200 000	100.0 %	100.0 %
RUAG Ammotec Ltd	Thun	Switzerland	CHF	12 000 000	100.0 %	100.0 %
RUAG Real Estate Ltd	Berne	Switzerland	CHF	8 000 000	100.0 %	100.0 %
RUAG Corporate Services Ltd	Berne	Switzerland	CHF	100 000	100.0 %	100.0 %
RUAG Deutschland GmbH	Wessling	Germany	EUR	1 000 000	100.0 %	100.0 %
RUAG Sweden AB	Gothenburg	Sweden	SEK	100 000	100.0 %	100.0 %
RUAG Holding France SAS	Terssac	France	EUR	100 000	100.0 %	100.0 %
Rosebank Engineering PTY Ltd.	Bayswater	Australia	AUD	10 000	100.0 %	100.0 %
Nitrochemie AG	Wimmis	Switzerland	CHF	1 000 000	49.0 %	49.0 %
Nitrochemie Wimmis AG	Wimmis	Switzerland	CHF	25 000 000	45.0 %	45.0 %
Nitrochemie Aschau GmbH	Aschau	Germany	EUR	7 700 000	45.0 %	45.0 %
Flughafen Bern AG	Berne	Switzerland	CHF	10 150 000	2.0 %	2.0 %
InnoCampus Ltd	Nidau	Switzerland	CHF	1 090 000	9.2 %	0.0 %

5 Information on how risk assessments are performed
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 divisions using a structured, bottom-up risk assessment. In order to prevent or reduce the individual risks, the appropriate measures are defined and implemented. At Group level, the aggregate risks relevant for the Group are monitored and managed by the Group Executive Board.

The risks identified are assessed in terms of probability of occurrence and impact, and are entered on the Group's 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. All issues relating to risk management, security and insurance are the responsibility of the Risk Manager at Group level.

6 Transfer of assets on 1 January 2013 On 1 January 2013, RUAG Holding Ltd transferred its entire operating business to receiving entity RUAG Corporate Services Ltd. In particular, this includes its service and management functions for investees and third parties together with all related assets, liabilities and contractual relationships.

The service and management functions of RUAG Holding Ltd were transferred by way of a transfer of assets in accordance with Art. 69 ff. of the Swiss Merger Act. The transfer agreement was signed on 6 May 2013.

RUAG Holding Ltd received a credit from RUAG Corporate Services AG as consideration for the transfer of assets (assets of CHF 1,310,744.79 and liabilities of CHF 1,310,743.79). The transferred operation does not comprise any plots of land, securities or intangible assets. All RUAG Holding Ltd employees transferred to RUAG Corporate Services Ltd on 1 January 2013.

7 Consistency in presentation of financial statements In 2014, changes were made to the way in which receivables due from Group companies and financial assets related to Group companies are reported with respect to their maturities. The prior-year figures have been adjusted accordingly.

8 Transitional provisions of the new financial reporting law
These annual financial statements were prepared in accordance with the provisions of the Swiss Code of Obligations on accounting and financial reporting in effect until 31 December 2012, applying the transitional provisions of the new financial reporting law. RUAG Holding Ltd will apply the provisions that entered into force on 1 January 2013 (with a transitional period lasting until 1 January 2015) for the first time as of financial year 2015.

9 Events after the reporting period RUAG Holding Ltd acquired the company Glaser Handels-AG on 7 January 2015. Glaser Handels-AG, which is headquartered in Winterthur, sells hunting and sports guns together with the relevant ammunition. The purchase price of the company acquired after the reporting period (100 % share) is immaterial.

On 25 February 2015, the Board of Directors of RUAG Holding Ltd approved the consolidated financial statements and the financial statements of RUAG Holding Ltd for publication. The Annual General Meeting has the right to approve the consolidated financial statements.

Proposal by the Board of Directors for the allocation of balance sheet profit

in CHF m	2014	2013
Balance sheet profit at the start of the financial year	454	385
Net profit	72	93
Balance sheet profit at the disposal of the Annual General Meeting	525	478

The Board of Directors proposes to the Annual General Meeting that the profit be allocated as follows

in CHF m	2014	2013
Dividends	21	20
Allocation to statutory reserve	4	5
Balance to be carried forward	501	454

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Report of the Statutory Auditor to the General Meeting of Shareholders of

RUAG Holding Ltd, Bern

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of RUAG Holding Ltd, which comprise the balance sheet, income statement and notes (pages 100 to 103), for the year ended 31 December 2014.

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 31. December 2014 comply with Swiss law and the company's articles of incorporation.

Other Matter
The financial statements of RUAG Holding Ltd for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 21 February 2014.

RUAG Holding Ltd, Bern
Report of the Statutory Auditor
to the General Meeting of Shareholders

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.

KPMG AG

Herbert Bussmann	Florin Janine Krapp
Licensed Audit Expert	*Licensed Audit Expert*
Auditor in Charge	

Bern, 25 February 2015

RUAG follows clear rules

Management and control functions at RUAG are based on the corporate governance guidelines of SIX Swiss Exchange.[1]

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 currently consists of seven members, all of whom are non-executive directors. In addition, the members of the Board of Directors have no material business relationship with the Group. The following departures from the Board of Directors took place during the year under review: Board Chairman Konrad Peter handed over the chairmanship of the Board to Hans-Peter Schwald with effect from 15 May 2014, departing after twelve years. After seven years, Dr. Hans Lauri likewise stepped down from his role as a member of the Board as of the 2014 AGM. New Board members Markus Hutter, Dr. Remo Lütolf and Prof. Sibylle Minder Hochreutener were elected on the occasion of the 2014 AGM. The list on page 108 provides information on the name, year of birth, function, date of joining and remaining term of office of each member of the Board of Directors.

Dr. Remo Lütolf, Vice-Chairman

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. The Board of Directors is open to members of different nationalities; however, a majority of the members must be Swiss nationals domiciled in Switzerland. The members of the Board of Directors are elected annually and individually and may be re-elected. RUAG does not specify an age limit for members of the Board of Directors.

Markus Hutter, Member

[1] Unless otherwise specified, the information is applicable as at 31 December 2014

Hans-Peter Schwald, Chairman

Egon W. Behle, Member

Paul Häring, Member

Prof. Sibylle Minder Hochreutener, Member

Jürg Oleas, Member

Board of Directors[1]

Name	Born	Function	Member since	Elected until AGM
Hans-Peter Schwald	1959	Chairman from 15.05.2014, formerly Vice-Chairman, non-executive	2002	2015
Dr. Remo Lütolf	1956	Vice-Chairman, non-executive	2014	2015
Egon W. Behle	1955	Non-executive member	2011	2015
Paul Häring	1957	Non-executive member	2004	2015
Markus Hutter	1957	Non-executive member	2014	2015
Prof. Sibylle Minder Hochreutener	1973	Non-executive member	2014	2015
Jürg Oleas	1957	Non-executive member	2011	2015

[1] http://www.ruag.com/group/management/board-of-directors

Internal organization and tasks
The Board of Directors holds ultimate responsibility for the business strategy and overall management of the Group. Subject to the authority of the Annual General Meeting, it possesses supreme decision-making powers.

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 Group 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 with the work of preparing and implementing its decisions, three committees have been formed: an Audit Committee, a Nomination & Compensation Committee, and a Strategy Committee. The Board of Directors also has the option to appoint an Advisory Board, which it did for the first time in 2014. Beside the usual six meetings, the Board of Directors met for a two-day strategy meeting in summer 2014, and held telephone calls 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, a Nomination & Compensation Committee and a Strategy Committee and elected chairs. 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 Chairs. 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 (Chair), Hans-Peter Schwald 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 Chair as often as business requires. Usually the meetings are also attended by the CEO, CFO, Vice President of Internal Audit, General Counsel 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.

RUAG is committed to conducting business in accordance with ethical principles and applicable law and in a socially responsible fashion.

The Audit Committee regulates, supervises and commissions the Internal Audit. 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 (NCC)
The Nomination & Compensation Committee (NCC) is composed of four members of the Board of Directors: Markus Hutter (Chair), Hans-Peter Schwald, Dr. Remo Lütolf and Prof. Sibylle Minder Hochreutener. The NCC meets regularly and is convened by the Chair as often as business requires. The meetings are usually also attended by the CEO and the Chief Human Resource Officer.

The main task of the NCC 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 Group 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 NCC is tasked with proposing the compensation of members of the Board of Directors in line with the guidelines set forth by the Swiss Confederation.

Strategy Committee
The Strategy Committee is a new committee formed in 2013. It is currently composed of three members of the Board of Directors: Jürg Oleas (Chair), Hans-Peter Schwald and Egon Behle. The Strategy Committee has three scheduled meetings a year, which are coordinated with the strategic and budgetary planning process.

The Strategy Committee assists the Board of Directors with its strategic duties. In particular, these include preparing for the Board's Strategy Workshop and discussing important issues with the owner (e. g. owner's strategy of the Swiss Federal Council). The Strategy Committee prepares resolutions of the full Board of Directors relating to RUAG's strategy, its budget and multi-year plan, and important issues concerning RUAG and its owner. The meetings are usually also attended by the CEO and CFO.

Advisory Board
The Advisory Board was brought into being by the Board of Directors in 2014, and helps the Board of Directors and Group Executive Board to better deliberate on, prepare, implement and communicate their decisions. The Advisory Board has no executive or supervisory functions, and is not an official organ of the company. It is composed of the following three members: Philip W. Erzinger, Prof. Thomas Friedli and Prof. Alexandre J. Vautravers.

Even though RUAG complies strictly with all legislation, depending on political and social bias its activities are not accepted in all respects. On the one hand, RUAG needs to assert itself on the global markets. On the other, Switzerland's policy makers and population expect it to conduct its business in a manner conforming to their ideas, which are not always congruent. The mission of the Advisory Board is to help RUAG's top management to reflect and improve upon current processes and conduct, as well as helping them to better assess the consequences of upcoming decisions.

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

Compliance Board
RUAG further developed and reinforced its compliance organization and processes in the reporting period. In 2014 it created a Compliance Board tasked with enforcing the ban on corruption and operating the whistleblower service (see below), implementing the Export Compliance policy for defence applications, and enforcing the ban on price-fixing and market manipulation (antitrust and competition law) and the prohibition on money laundering. The Compliance Board is composed of the General Counsel (Chair), the Vice President Risk Management, the Chief Communication Officer, the Vice President Legal and one representative from each division. The Compliance Board meets at least twice a year. Statements and day-to-day business decisions are the responsibility of a committee composed of the General Counsel (Chair) and the Vice President Risk Management.

Whistleblower service
Towards the end of 2014, RUAG created an independent reporting office offering employees and third parties a way to report any abuses occurring at RUAG – anonymously if desired. With this web-based whistleblower service, RUAG has further stepped up its efforts in the area of compliance. The reporting tool, run by an external Swiss company, is intended to function as an early warning system and to help prevent, detect and remedy any irregularities. Incoming reports are seen and processed only by designated specialists from the Legal, Human Resources or Risk Management departments.

Code of Conduct for Business Partners
Also in 2014, a code of conduct for business partners was introduced at RUAG. Ever since it was founded, RUAG has been committed to conducting business in accordance with ethical principles and applicable law and in a socially responsible fashion. RUAG also expects its customers, suppliers and service providers and their supply chains to conduct themselves correctly in every respect.

Revision of "Saying no to corruption" guidelines
By revising the "Saying no to corruption" guidelines, which form part of every RUAG employment contract, in 2014 RUAG affirmed its commitment to being a fair competitor and refraining from seeking unfair advantage by providing financial or other incentives to third parties. RUAG likewise does not accept financial or other incentives in expectation of or as a reward for granting an unfair advantage.

Group Executive Board

Management organization
The Board of Directors has appointed an Group Executive Board under the chairmanship of the CEO. Since 1 April 2013, CEO Urs Breitmeier has been responsible for the day-to-day business of the company. Throughout 2014, together with the Group Executive Board, he was 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 or the Regulations Governing Organization and Operations. The powers and duties of the Group Executive Board and CEO are set out in detail in the Regulations Governing Organization and Operations and in the job description of the CEO.

The members of the Group Executive Board report to the CEO.

The Group Executive Board comprises the Chief Executive Officer (CEO), the division heads, the Chief Financial Officer (CFO) and the Chief Human Resource Officer (CHRO). The Extended Management Board also includes the General Counsel, the Chief Communication Officer (CCO) and the Chief Information Officer (CIO).

Group Executive Board as at 1 January 2015

Name[1]	Born	Function	Member since
Urs Breitmeier	1963	CEO, RUAG Group	2006
Phillipp M. Berner	1966	Member, RUAG Aviation	2010
Dr. Peter Guggenbach	1962	Member, RUAG Space	2009
Cyril Kubelka	1963	Member, RUAG Ammotec	2004
Dr. Alexander Toussaint	1967	Member, RUAG Aerostructures[2]	2015
Dr. Markus A. Zoller	1968	Member, RUAG Defence	2013
Urs Kiener	1965	Member, Corporate Finance & Controlling[2]	2002
Dr. Christian Ferber	1965	Member, Corporate Human Resources	2012

Members of the Extended Management Board as at 1 January 2015

Dr. Patrick Grawehr	1964	Member of the Extended Management Board, General Counsel[3]	2014
Rita Baldegger	1965	Member of the Extended Management Board, Corporate Communication	2014
Andreas Fitze	1968	Member of the Extended Management Board, Corporate IT	2013

[1] http://www.ruag.com/group/management/group-executive-board
[2] RUAG CFO Urs Kiener had held the post of head of the Aerostructures division on an interim basis since June 2013. Dr. Alexander Toussaint took over as division head with effect from 1 January 2015.
[3] Thomas Kopp was a member of the Group Executive Board and the General Counsel until 31 October 2014. Dr. Patrick Grawehr took over this role with effect from 1 November 2014.

CEO
The CEO 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 CEO, the Board of Directors decides on the five-year corporate plan, annual budget, individual projects, divisional and consolidated financial statements and Group Executive Board-level human resource issues.

The CEO regularly reports to the Board of Directors on business performance, anticipated business matters and risks, as well as changes at the next management level.

The members of the Board of Directors may request and review further information on operations as provided by the law, the Articles of Association and the Regulations Governing Organization and Operations.

The CEO 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.

Members of the Group Executive Board
The list on page 110 provides information on the name, age, function and date of joining of each member of the Group Executive Board.

RUAG management structure as at 1 January 2015

Board of Directors
Hans-Peter Schwald (Chairman), Dr. Remo Lütolf (Vice-Chairman),
Egon W. Behle, Paul Häring, Markus Hutter, Prof. Sibylle Minder Hochreutener, Jürg Oleas

Advisory Board
Philip W. Erzinger
Prof. Thomas Friedli
Prof. Alexandre J. Vautravers

Audit Committee
Paul Häring (Chair)
Hans-Peter Schwald
Jürg Oleas

Internal Audit

Nomination & Compensation Committee
Markus Hutter (Chair)
Hans-Peter Schwald
Dr. Remo Lütolf
Prof. Sibylle
Minder Hochreutener

Strategy Committee
Jürg Oleas (Chair)
Hans-Peter Schwald
Egon W. Behle

CEO RUAG Group/ Corporate Services
Urs Breitmeier

Corporate Finance & Controlling[1]
Urs Kiener

Corporate Human Resources
Dr. Christian Ferber

Corporate Legal & Secretary General[2]
Dr. Patrick Grawehr

Corporate Communication[2]
Rita Baldegger

Corporate IT[2]
Andreas Fitze

Space
Dr. Peter Guggenbach
- Space Switzerland
- Space Sweden
- Space Austria

Aerostructures
Dr. Alexander Toussaint
- Aerostructures Germany
- Aerostructures Switzerland

Aviation
Philipp M. Berner
- Military Aviation
- Aviation International
- Subsystems & Products
- Business Aviation

Ammotec
Cyril Kubelka
- Law Enforcement/ Armed Forces
- Hunting & Sports/ Industry Application

Defence
Dr. Markus A. Zoller
- Land Systems
- Network Enabled Operations
- Simulation & Training

■ Group Executive Board
1 Including Real Estate/Environment, Risk Management, Procurement.
2 Extended Management Board.

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

Compensation, profit-sharing and loans

Compensation report
The following details correspond to the guidelines of SIX Swiss Exchange concerning compensation paid to members of the Board of Directors and Group 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 33 "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, the employee's skills and 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 Group Executive Board, which is determined by the Board of Directors at the request of the NCC. RUAG also prepares an annual report for submission to the Swiss Federal Department of Defence, Civil Protection and Sport (DDPS), Swiss Federal Council and the Finance Delegation of the Federal Assembly on compliance with the Federal Council's executive pay ordinance.

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
- Other benefits

Each member of the Board of Directors receives a fixed basic salary as part of his or her basic compensation. Other benefits comprise the payment by RUAG Holding Ltd of employee's contributions to social security funds and reimbursement of/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 33 "Compensation of key management personnel".

Group 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 of compensation for members of the Group 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 consists of a one-year Short Term Incentive Plan (STI) and a three-year Long Term Incentive Plan (LTI, with a first three-year term running from 2013 to 2015 and subsequent three-year terms following on thereafter). Targets are determined with reference to the extent to which individual performance objectives are reached, and to the company's financial success. As part of the objective-setting process, measurable goals are set at the beginning of each year by the Board of Directors and the CEO for the members of the Group Executive Board. At the end of the financial year, the extent to which these objectives have been met is assessed.

Short Term Incentive Plan (STI) The financial success of the Group overall and of the individual divisions is measured based on five financial value drivers:

- Net sales
- Operating result (EBIT)
- Necessary net operating assets
- Return on net operating assets (RONOA)
- Free cash flow

The target figures are set for one year and the targets are weighted according to strategic priorities. A lower and an upper threshold are defined for each of the five 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 extent to which objectives are reached is weighted for the members of the Group 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 CEO and the responsible managers of the service units, the financial goals of the Group apply. For the Members of the Extended Management Board, achievement of objectives is weighted 30 % for personal and 70 % for financial goals.

Long Term Incentive Plan (LTI) This salary component was introduced in 2013 with the aim of focusing the efforts of RUAG's top managers on the long-term success of the business (cf. the Swiss Federal Council's executive pay ordinance, or "Kaderlohnverordnung"). The LTI is for members of the Group Executive Board and the Extended Management Board only. The target figure used for the LTI is the Group's cumulative net profit over the next three years, defined with a minimum value, a target value and a maximum value. No payment will be made until April 2016. Payments are conditional upon there being an employment relationship between the plan participant and RUAG at the end of the plan period. With the introduction of the LTI, the STI (Short Term Incentive Plan) is being curtailed with effect from assessment year 2015. LTI participants can increase their overall remuneration by up to 10 % if they fully achieve their objectives.

The Board of Directors specifies the performance benchmark target for a three-year period each year on adoption of the corporate plan. At the same time it also sets the minimum and maximum values and specifies the individual amount payable to each plan participant if the target figure is achieved. If the minimum value is not achieved, no payment will be made. If the maximum value is exceeded, a maximum of 150 % of the amount is payable. Payment will be made after the audited financial statements for the last financial year become available. A third of the LTI target value will be expensed each year depending on how the target value develops, with adjustments being made in the subsequent two years if necessary.

The total amount of the performance-based component is based on the extent to which the STI and LTI plan objectives are met. For the members of the Group Executive Board and the Extended Management Board, the performance-based component in 2014 ranged from 14 % (previous year: 27 %) to a maximum of 75 % (previous year: 74 %) of the annual cash remuneration.

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 Group Executive Board as for all other employees of the Group. Additional regulations also apply to the members of the Group 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 Group Executive Board. No appreciable compensation was paid to former Group Executive Board members. Further details of compensation paid in the year under review can be found in the financial statements in Note 33 "Compensation of key management personnel".

The Swiss Federal Council specifies the strategic goals for its investment in RUAG in its ownership strategy.

Other compensation
Severance payments: Members of the Group Executive Board and the Board of Directors are not contractually entitled to any severance payments. In the 2014 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 Group Executive Board or Board of Directors.

Additional fees: During the 2014 financial year, the members of the Group 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. For his interim role as head of the Aerostructures division alongside his regular duties as CFO, Urs Kiener was compensated based on the higher of the two salaries.

RUAG and its subsidiaries have not provided any securities, loans, advances or credits to the members of the Group 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 2014, 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 Swiss Federal Department of Defence, Civil Protection and Sport (DDPS) exercises the Confederation's shareholder interests.

Owner's strategy of the Swiss Federal Council
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.

The current 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 for the period 2015–2018 is currently being developed. It is expected that the strategy will be adopted by the Federal Council in the first half of 2015 and implemented with retroactive effect from 1 January 2015. The owner's strategy is enshrined in the Articles of Association of RUAG Holding Ltd.

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.

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
- 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. In all other respects, there are no specific clauses concerning a change of control of RUAG Holding Ltd.

Employee benefits
The VORSORGE RUAG pension fund cover ratio as at 31 December 2014 was 103 % (previous year: 102 %). The financial situation was thus kept stable despite low interest rates in the financial markets and the lowering of the technical interest rate to 1.5 %.

Statutory auditor

Duration of mandate of head auditor
At the Annual General Meeting of 15 May 2014, KPMG Ltd, Berne was selected as RUAG's statutory auditor. For the 2013 financial year and until the AGM of 15 May 2014, PricewaterhouseCoopers Ltd, Berne acted as the Group's statutory auditor.

Head auditor Herbert Bussmann has been responsible for the audit mandate since the AGM of May 2014.

Audit fees and additional expenses
KPMG invoiced the Group CHF 0.9 million (previous year: PricewaterhouseCoopers, CHF 1.0 million) during the 2014 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, KPMG invoiced RUAG CHF 0.1 million (previous year: PricewaterhouseCoopers, CHF 0.7 million) during the 2014 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. On 15 May 2014, a change from PricewaterhouseCoopers to KPMG was proposed to the Annual General Meeting and approved by the shareholder. PricewaterhouseCoopers had previously acted as RUAG's statutory auditor since 1999. 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 KPMG (previous year: PricewaterhouseCoopers)

in CHF 1 000	2014	2013
Audit fees	901	999
Tax advice	44	217
Due diligence advice	7	61
All other advice	68	396
Total fees	1 020	1 673

Key dates

End of financial year	31.12.2014
Annual press conference	19.03.2015
AGM	23.04.2015

The Annual Report containing the financial statements for the year ended 31 December 2014 is sent to the shareholder together with an invitation to the AGM.

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