Annual Report 2011.

A consistent strategy of tightening focus and minimizing risks for the future.

Together ahead. RUAG

Contents.

Continuing on the road to success.

Performance improves despite the strong Swiss franc, government cost-cutting measures, and higher prices for raw materials.

Business performance and environment

In 2011, RUAG generated net sales of CHF 1,777 million (previous year: CHF 1,796 million). Currency-adjusted growth stood at 2.5%. EBIT, i.e. earnings before interest and taxes, rose by 12.5% to CHF 110 million (CHF 98 million) and the EBIT margin rose from 5.3% to 6.1%. All in all, RUAG generated net profit of CHF 97 million (CHF 92 million).

These results were achieved in a business environment that was heavily impacted by the strength of the Swiss franc, cuts in national defence budgets, and higher prices for raw materials. They are the consequence of a consistent strategy of tightening focus and minimizing risks in the core businesses of Aerospace and Defence.

Total sales were once again evenly balanced between civil applications with a share of 48% (52%) and military applications with 52% (48%).

Cash flow from operating activities amounted to CHF 127 million (CHF 130 million).

Research and development

The expenses for research and development totalled CHF 140 million, which corresponds to RUAG's target of 8% of sales. The decline compared with the previous year is attributable to development programmes that were completed.

By market segment, Aerospace accounted for CHF 97 million (CHF 137 million) of these expenses and Defence for CHF 43 million (CHF 53 million). As at 31 December 2011, RUAG had 7,739 employees, which represents only a slight change from the previous year (7,719). For more information, please refer to the Foreword, page 10.

In the year under review, the Swiss Armed Forces and thus the Swiss Armed Forces were once again the single most important customer. Its share of total sales remained constant at 37% (35%). The most important programmes for the Swiss Armed Forces included, among others, the upgrade of the fleet of F/A-18 fighter aircraft, the delivery of the first Kodiak armoured engineer and mine clearance vehicles, and the handing over of the key for the live simulation platform in Bure. For more information, please refer to the Foreword, page 11.

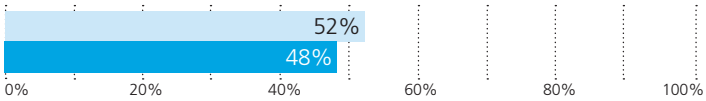
Overview of key figures

in CHF million	2011	2010	Change in %
Order inflow	1,720	1,713	0.4%
Net sales	1,777	1,796	–1.0%
Cash flow from operating activities	127	130	–2.2%
Order backlog	1,480	1,653	–10.5%
EBIT	110	98	12.5%
EBITDA	194	194	0.0%
Net profit	97	92	5.9%
Research and development expenses	140	190	–26.3%
Employees as at 31 December 2011	7,739	7,719	0.3%

Net sales by application

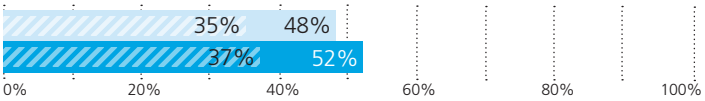
Civil

48 %



Military

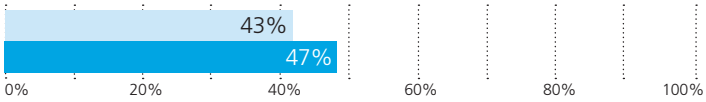
52 %



Net sales by region

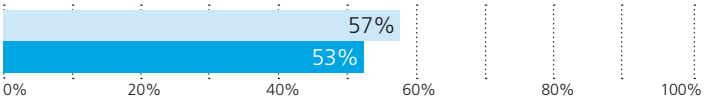
Switzerland

47 %



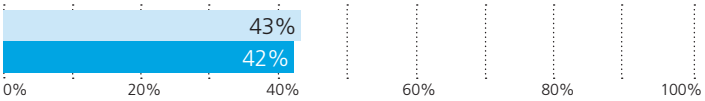
International (without Switzerland)

53 %



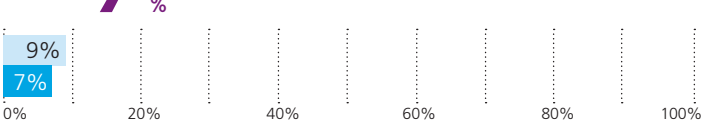
Europe

42 %



North America

7 %



Asia/Pacific

2 %

Others

2 %

International activities

Two small international acquisitions systematically expanded the core competencies of the RUAG Group. Firstly, it acquired a unit of US automotive supplier Delphi, specialized in the production of igniters for airbag systems. Secondly, RUAG's acquisition of Germany's Base Ten Systems Electronics GmbH enhances its existing expertise in the field of robotics for land forces. In respect of distribution, RUAG continued its internationalization efforts by opening sales offices for small-calibre ammunition in Brazil and for civil and military aircraft MRO in Malaysia, which will strengthen customer proximity in South America and Asia.

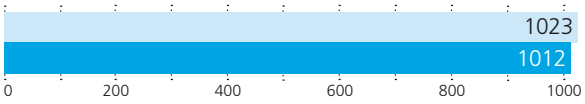
In 2011, the strategy of internationalizing business activities was slowed by the appreciation of the Swiss franc, in particular against the US dollar and the Euro. However, this challenging exchange rate impact was kept in check by stable operating results and existing currency hedges. Whereas the proportion of sales generated in Switzerland increased from 43% to 47%, the proportion attributable to markets abroad sank slightly from 57% to 53% owing to currency effects. The proportion of sales attributable to Europe was 42% (43%), North America 7% (9%) and Asia/Pacific 2% (3%). The proportion of sales generated in other regions, including South America, the Middle East and Africa, remained unchanged at 2% (2%).

Major projects abroad included the delivery of various assemblies for Galileo satellites, F/A-18 engine module maintenance for the Royal Malaysian Air Force, ramping up production rates in Aerostructures for Airbus, and producing anti-mine kits for 350 Puma infantry fighting vehicles for the German Bundeswehr.

Net sales by market segment

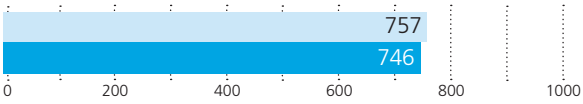
Aerospace

CHF **1,012** million



Defence

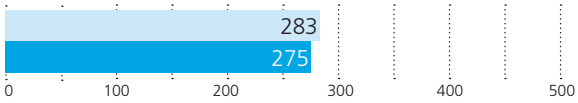
CHF **746** million



Net sales by division

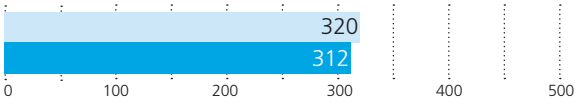
Space

CHF **275** million



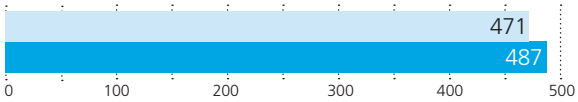
Ammotec

CHF **312** million



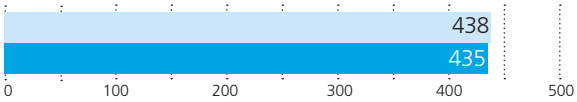
Aviation

CHF **487** million



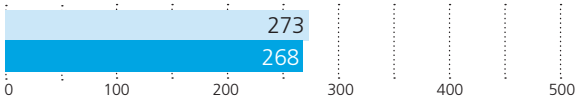
Defence

CHF **435** million



Technology

CHF **268** million



2010 2011

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

Strategy of tightening focus

The activities of the RUAG Group are centred on its two market segments, Aerospace and Defence. Both segments produce for civil and military applications with the support of the RUAG Group's five divisions. Focal markets are Switzerland, Europe, America and Asia/Pacific.

Consistent trend

Sales of CHF 1,012 million (CHF 1,023 million) in the Aerospace and CHF 746 million (CHF 757 million) in the Defence market segment were marginally lower than in the previous year. Sales proportions attributable to the market segments were unchanged at 58% to 42%.

Business performance of the divisions

In a stable market environment, RUAG Space generated marginally lower net sales of CHF 275 million (CHF 283 million), and was able to increase EBIT by 46% from CHF 9 million to CHF 13 million. The division confirmed its position as the largest independent space supplier in Europe. It is concentrating on its core business with a restructured and refocused product portfolio in Switzerland, Sweden and Austria.

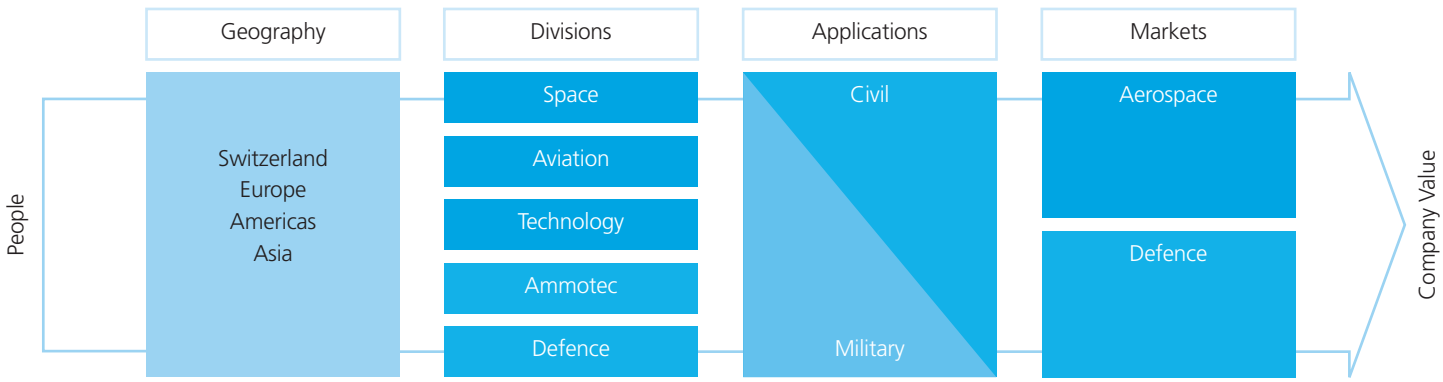
RUAG Aviation increased net sales to CHF 487 million (CHF 471 million) and EBIT to CHF 22 million (CHF –11.0 million, including one-time charges of CHF –30 million). Since the beginning of 2011, the division has pursued a strategy of focusing on military and civil aircraft MRO and component maintenance on the basis of platforms operated by the Swiss Air Force and the German Bundeswehr. In the process it is able to systematically tap synergies between civil and military applications.

RUAG Technology generated net sales of CHF 268 million (CHF 273 million) and EBIT of CHF –5 million (CHF 21 million, including one-time charges of CHF 35 million). While Aerostructures in Oberpfaffenhofen has returned to profit, the Swiss sites suffered from structural cost disadvantages. Measures were introduced in Altdorf and Emmen to restore their international competitiveness.

RUAG Ammotec generated net sales of CHF 312 million (CHF 320 million) and EBIT of CHF 25 million (CHF 31 million). The highly international division stood its ground in global markets despite the strong Swiss franc and extreme volatility in the prices of non-ferrous metals. In other developments, a new range of handgun ammunition was launched in a lower price segment for hunting and sports customers.

RUAG Defence generated net sales of CHF 435 million (CHF 438 million) and EBIT of CHF 38 million (CHF 32 million). RUAG Defence was created as a new division on 1 January 2011 by merging the core businesses of the former RUAG Electronics and RUAG Land Systems divisions. This considerably more comprehensive and, in many fields, complementary portfolio of products and services improves RUAG's brand image and simplifies its customer approach.

Strategy



Successful strategy implementation.

The consistent implementation of RUAG's strategy is bearing fruit and opening up additional market opportunities. RUAG faces the future with a new brand image.

Top, from l.: Philipp M. Berner (CEO RUAG Aviation), Dr Peter Guggenbach (CEO RUAG Space), Konrad Peter (Executive Chairman), Cyril Kubelka (CEO RUAG Ammotec); bottom: Urs Breitmeier (CEO RUAG Defence), Dr Viktor Haefeli (CEO RUAG Technology).

Dear shareholder,
customers and readers,

From management's perspective, the divisions' activities in 2011 were consistently focused on sustainably profitable core activities in the air and space industries (Aerospace) and security and defence (Defence). Parallel to this, the company pursued a policy of minimizing risks through a strategy of innovation and further internationalization of activities.

The encouraging business trend, despite the challenging environment, is a consequence of the RUAG Group's consistent implementation of its corporate strategy in all areas.

In the year under review, RUAG Space confirmed its position as Europe's largest independent supplier of space technology. The division is concentrating on its core business with a newly structured and focused product portfolio in Switzerland, Sweden and Austria. In addition to its involvement in space programmes in the institutional markets of Europe and the USA, RUAG Space is also exploiting growth opportunities in the commercial market for telecommunication satellites.

Since the beginning of 2011, RUAG Aviation has pursued a strategy of focusing on military and civil aircraft MRO and component maintenance on the basis of platforms operated by the Swiss Air Force and the German Bundeswehr. In the process it is able to systematically tap synergies between civil and military applications. The division has also succeeded in stabilizing its centres of expertise for civil aircraft MRO in Geneva, Berne and Oberpfaffenhofen.

RUAG Technology continued with its strategy of focusing on high-quality, profitable special products and niche applications. Whereas Aerostructures in Oberpfaffenhofen returned to profit in 2011, Aerostructures in Emmen is still in the turnaround process. The operations in Emmen, as in Altdorf, are subject to high pressure from competitors and exchange-rate and location-related structural cost disadvantages.

RUAG Ammotec specializes in high-quality pyrotechnic products for military and civil markets and for industry. The division was able to hold its own in global markets despite the strong Swiss franc and extreme price volatility in non-ferrous metals. With the acquisition of the airbag igniter production of Delphi, a US automotive supplier, it has expanded its activities in the field of industrial pyrotechnics and achieved synergies in ammunition development. On the distribution side, internationalization efforts continued with the founding of RUAG Brazil.

RUAG Defence was created as a new division on 1 January 2011 by merging the core businesses of the RUAG Electronics and RUAG Land Systems divisions. With this considerably more comprehensive and, in many fields, complementary portfolio of products and services, RUAG has optimized its brand image and simplified its customer approach. With the goal of reinforcing its technology base, RUAG Defence acquired the operations of Germany's Base Ten Systems Electronics GmbH in 2011. The acquisition complements its existing activities in the field of robotics for land forces.

Firm foundation with the Swiss Armed Forces

The Swiss Armed Forces and thus the Swiss Army, remained the RUAG Group's single most important customer, accounting for 37% of total sales (previous year: 35%). In accordance with the Federal Council's owner's strategy, as technology partner of the Swiss Armed Forces the RUAG Group is responsible for the maintenance and operational readiness of aircraft and air defence systems, radar, command and control, information and reconnaissance systems, simulation systems and associated training facilities as well as tracked armoured vehicles.

In 2011, a number of major programmes for the Swiss Armed Forces were completed or enhanced. RUAG Aviation concentrated on two upgrade programmes for the Swiss Air Force: the upgrade programme for the fleet of F/A-18 fighter aircraft to prepare them for the second half of their anticipated 30-year service life, and the upgrade programme for the TH-06 Super Puma transport helicopters, under which the first two helicopters are now in the operational test flight phase. Among the projects that RUAG Defence carried out for the Swiss

Army, the most significant were the upgrade programme for the Leopard 2 main battle tank and the Kodiak armoured engineer and mine clearance vehicle, of which the first five of twelve were delivered to procurement organization armasuisse. Also, in the year under review, the system key for the SIM MOUT (Military Operations in Urban Terrain) live simulation platform was handed over at the Bure training ground.

RUAG Ammotec was able to build on its special ammunition expertise in the manufacture of small-calibre ammunition for defence and law enforcement.

At the end of the year, the Federal Council made a type selection to eventually replace a part of the F-5 Tiger fighter aircraft fleet. However, a number of political hurdles still have to be overcome. RUAG is neutral in this regard. As technology partner to the Swiss Air Force, it is important to RUAG to become the MRO (maintenance, repair and overhaul) centre of excellence for any new aircraft. Generally speaking, RUAG's focus here is on technology transfer that benefits the Swiss Armed Forces and on skilled jobs in Switzerland. In this respect, RUAG is pursuing a long-term, sustainable strategy.

RUAG's international network of technology partners includes Airbus, ASML, Astrium, Boeing, Bombardier, Dassault, ESA, Hilti, Krauss-Maffei Wegmann and Rheinmetall.

Internationalization and innovation

According to the strategy of RUAG's owner, an objective of the RUAG Group is to focus on civil and military applications as the drivers of international expansion. This involves systematically tapping synergies with the Swiss Armed Forces and implementing know-how-based transfers of innovative processes in a structured manner. RUAG now generates more than half of its net sales (53%) with customers outside of Switzerland and works with an international network of technology partners, including Airbus, ASML, Astrium, Boeing, Bombardier, Dassault, the European Space Agency (ESA), Hilti, Krauss-Maffei Wegmann and Rheinmetall.

Delivery of a number of assemblies for Galileo satellites, including their onboard computers, solar array drive mechanisms and electronics for producing navigation signals, were among its important international projects and programmes. Local contacts and capabilities made it possible to negotiate a direct purchasing agreement covering maintenance of engine modules for the fleet of F/A-18 fighter aircraft of the Royal Malaysian Air Force. In response to growing demand, Airbus, RUAG Aerostructures' most important customer, sharply increased production rates of the A320, A330 and A380 aircraft. In Germany, RUAG Defence's technology capabilities made it the German Bundeswehr's choice to manufacture and deliver anti-mine kits for 350 Puma infantry fighting vehicles.

The RUAG Group is best able to advance its customers' interests through innovative solutions. They are the foundation for RUAG's future international success. Structured innovation management is responsible for ensuring a constant rate of new developments in the individual divisions and business units. In the year under review, research and development expenses amounted to CHF 97 million (CHF 137 million) in the Aerospace market segment and CHF 43 million (CHF 53 million) in the Defence market segment, which is in line with the long-term target of 8% of sales. The decline compared with the previous year is attributable to programmes that were in the process of beeing completed.

Among other projects, in the Aerospace market segment RUAG Space developed a payload fairing for the new European launch vehicle Vega. Furthermore, advanced software applications for flight data monitoring were successfully launched on the market. The French aircraft manufacturer Dassault Aviation selected the partnership between RUAG Aviation and CAE Flightscape as its preferred provider of flight data monitoring (FDM) services for all Falcon business jets. RUAG Technology developed a novel friction stir welding (FSW) prototype for Airbus that enables light metal alloys to be securely joined without rivets, which results in a substantial saving in weight. In designing and efficiently producing a twelve-metre long composite rotor blade for wind turbines, RUAG Technology was able to realize synergies with Aerostructures.

Research and development in the Defence market segment focused on specific performance enhancements to existing products and on developing low-pollutant product variants and special ammunition. Developments included, among others, a polyvalent passive protection system against improvised explosive devices (IED), shaped charges and KE (kinetic energy) rounds for medium-weight to heavy vehicles such as infantry fighting vehicles and main battle tanks. In live simulations, the Gladiator laser system for military and police training was further developed as a high-performance, expandable modular system that can be adapted to the specific needs of customers.

Facing the future with a new brand image

In view of the unresolved debt crisis in Europe and the strength of the Swiss franc, the business environment will remain challenging. Governments will remain under pressure to tighten spending. We shall continue our strategy of consistently focusing on profitable core activities and markets and minimizing risks. The Board of Directors and Executive Board have identified growth potential in particular in the further systematic development of selected international markets.

As RUAG expands and becomes more international, a transparent and consistent brand image is becoming increasingly important. The Group already generates 53% of its sales in foreign markets, mainly in Europe, North America and Asia/Pacific. In addition to enhancing the very high level of satisfaction among our existing customers, we have set ourselves the goal of increasing the proportion of foreign sales in the coming years. In accordance with the Swiss Confederation's owner's strategy, our functions include fostering an innovative exchange with leading global providers, thereby ensuring that we are the best possible technology partner for the Swiss Armed Forces.

To help us cultivate international markets, the Executive Board has decided to gradually introduce a new, more distinctive brand image, which will be presented to the public for the first time at the 2012 Annual Press Conference and in this Annual Report. Our new branding will close the gap between the global public perception of the RUAG Group and the perception already current among experts in our field of business: namely, as a dynamic, international Aerospace and Defence technology group.

Building on our existing strengths, we attach great importance to a new and more internationally distinctive corporate design and to consistent behaviour on the part of all employees, based on three key values: collaboration, high performance and visionary thinking. Our new "Together ahead. RUAG" branding communicates our promise to our customers, partners and employees: "working together to ensure mutual success".

The basis of our corporate success and the keepers of this brand promise are our around 7,700 employees worldwide. Their know-how and experience ensures that, day after day, we keep or exceed our service and performance promises to our customers and partners. As our brand ambassadors, our employees form the face of the RUAG Group.

Therefore, the Group's management team will henceforth attach even greater importance to consistent behaviour both internally and externally. This is laid out in a new Code of Conduct that has been drawn up to regulate our day-to-day business activities. Starting in early 2012, the entire RUAG Group will receive training in how to comply with this Code. The Code of Conduct also regulates etiquette in dealings with customers, employees and partners and the duty to comply with all statutory regulations.

In collaboration with our employees, our management will gradually make the new brand image a living part of our day-to-day business in the coming months. In this way, RUAG will develop a new corporate identity that will generate additional dynamism to drive sustainable and profitable growth. At the same time, it will ensure that we rise to the challenge of our international focus.

Changes in the 2011 financial year

After twelve years, Dr Hanspeter Käser is stepping down as a member of the Board of Directors and Vice Chairman of RUAG Holding Ltd. Egon W. Behle and Jürg Oleas were elected as new members to the Board of Directors. After Dr Lukas Braunschweiler stepped down as CEO of RUAG Holding Ltd on 31 October 2011, Konrad Peter, Chairman of the Board of Directors, took over operational management as Executive Chairman on 1 November 2011. Hans Bracher left the Executive Board on 31 December 2011. Dr Christian Ferber succeeded him as Senior Vice President Corporate Human Resources with effect from 1 January 2012.

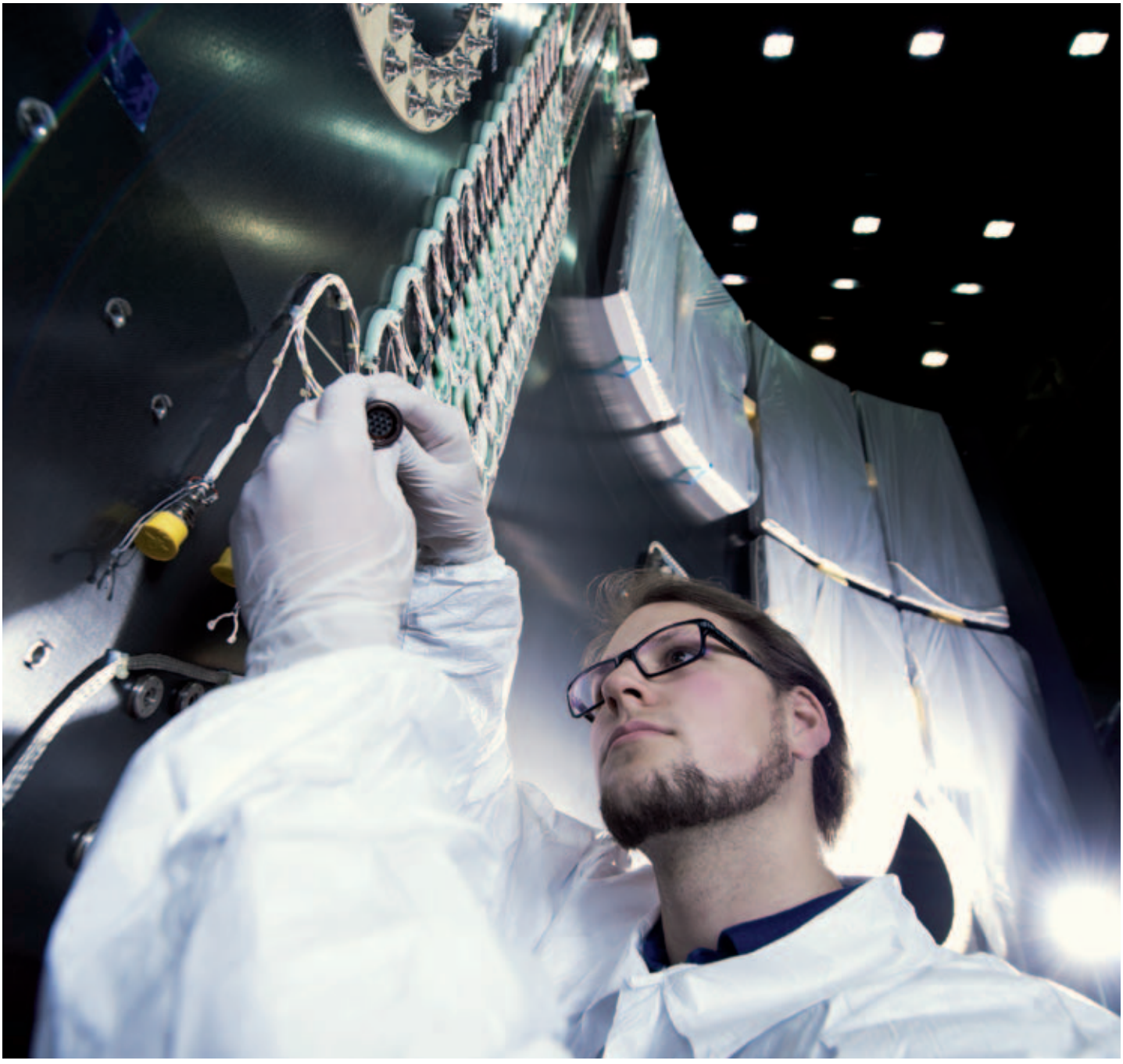
The Board of Directors and the Executive Board look forward to working with RUAG's employees to achieve further progress for the RUAG Group.

We would like to thank Dr Hanspeter Käser, Dr Lukas Braunschweiler and Hans Bracher for their good and successful collaboration and to wish Egon W. Behle, Jürg Oleas and Dr Christian Ferber every success in their new positions.

We owe very special thanks to our customers for their confidence, loyalty and custom, to our owner the Swiss Confederation for a positive working relationship, and to our employees for their great dedication and commitment.

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

Together ahead.
For a successful launch.
We build reliable products.
RUAG Space.



Together ahead.
When you count on availability.
We offer dependable solutions.
RUAG Aviation.


021

Together ahead.
Your planes have to lift-off.
That is why our parts do fit on.
RUAG Technology.

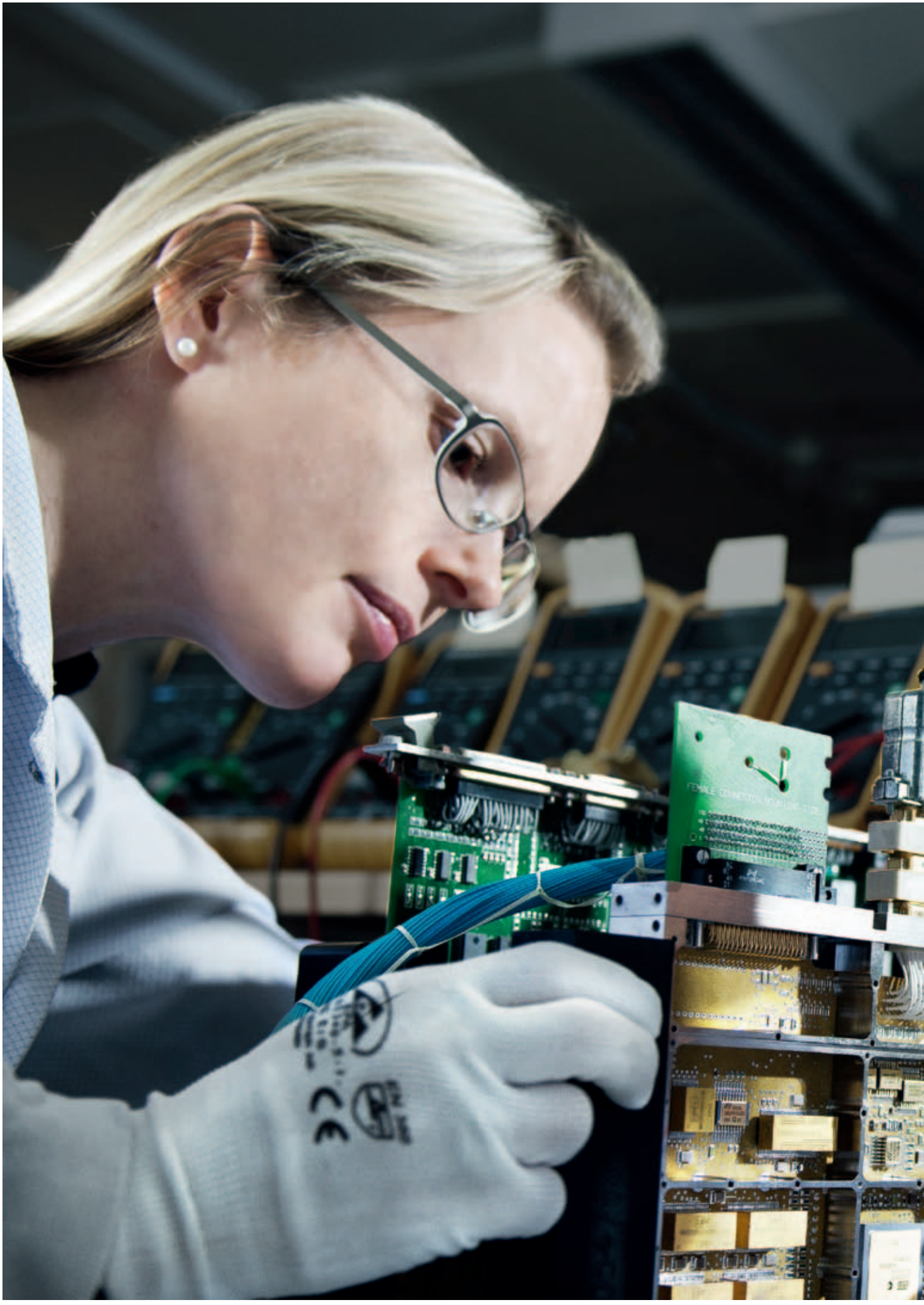

A320
AIRBUS
A320

Together ahead.
Don’t risk an extra round.
Rely on our precision.
RUAG Ammotec.


Roland
odlo
odlo
odlo
Helvetia

Together ahead.
Be prepared!
Secure communication to command successfully.
RUAG Defence.

Stable, with a focused portfolio.
All five product units met their performance targets. Competitiveness was further strengthened through efficiency enhancement programmes, collaboration among the national subsidiaries and a focused expansion of production capacity.



For the first time, a dispenser for proper separation of the payload into Earth orbit, a product jointly developed in Sweden and Switzerland as part of the European Galileo programme, was put in service.

Core business

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

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

The division has applied its expertise from institutional programmes to gain a foothold in the commercial space market as well. It is market leader in composite payload fairings, in adapters and in launch vehicle separation systems. Digital computers and signal processing products are a further important pillar. Products for the commercial market include receivers and converters for telecommunication satellites, thermal insulation, pointing mechanisms for electric propulsion thrusters, solar array drive mechanisms and mechanical ground support equipment. Quality niche products such as mechanisms used in the production of microchips, thermal insulation and high-end slip rings are also supplied to customers outside the space industry.

Business performance

RUAG Space's net sales for the 2011 financial year were CHF 275 million, slightly below the previous year's figure of CHF 283 million. EBIT was CHF 13 million, compared to EBIT of CHF 9 million for 2010.

The product area with the highest sales volume during the past year was again structures and separation systems for launch vehicles. The division's payload fairings were used in eight launches of Ariane 5 and Atlas V launch vehicles. Particular highlights included the 200th flight of an Ariane launcher in February carrying the European space transfer vehicle "Johannes Kepler" and the launch of an Atlas V launcher bearing the American Mars rover "Curiosity". A newly developed dispenser was also deployed for launching the first two satellites for the European Galileo navigation system. This dispenser, a joint Swedish-Swiss product, secures the satellites to the upper stage of the rocket and ensures proper entry of the payload into Earth orbit.

RUAG Space also supplied a number of other assemblies for the Galileo satellites, including their onboard computers, solar array drive mechanisms and electronics to emit navigation signals.

RUAG Space is also involved in the new French "Pleiades" Earth observation satellite programme. The first of these satellites was launched in December 2011 from the European spaceport in Kourou, French Guiana. Equipped with a RUAG Space onboard computer, French space agency CNES's "Pleiades" satellites will provide high-resolution images of the Earth.

RUAG Space AB in Sweden posted a record order. The company will produce 81 electronics units for the next generation of Iridium mobile communications satellites. These "payload interface units" control the payload aboard the satellite. The Iridium programme was also the source of the single largest order so far for the Nyon site: RUAG Space will equip the satellites with slip rings, used to transmit power from the solar arrays to the satellites.

Order intake was also strong in the Satellite Structures and Mechanisms product area. In Structures, RUAG Space bolstered its leading role in the ESA market with orders for the "Solar Orbiter" probe, the EarthCare climate research satellite and the Intermediate Experimental Vehicle (IXV) re-entry vehicle. In the Launch Vehicles product area, major orders were received for Atlas V launcher components as well as for development of a new separation system for the Ariane 5's payload fairing. This system will be designed to significantly reduce the mechanical load operating on the satellite upon separation of the payload fairing.

RUAG Space also strengthened its position in the growing commercial markets outside Europe, winning new orders for precision solar array drive mechanisms, electric propulsion pointing mechanisms, high-precision GPS receivers to track satellites in orbit and mechanical ground support equipment.

Innovation and initiatives

Research and development efforts focus on systematically strengthening and improving the existing strategically defined product portfolio of the three national subsidiaries. The emphasis is on products of interest to growth markets outside of institutional space missions. Current examples of such products include new solar array drive mechanisms, precise GPS receivers for use on board satellites, radiation monitors, converters and receivers as well as terminals for optical communication.

In addition, the first payload fairing for the Vega launch vehicle was delivered during the year under review. This new rocket will begin carrying small and mid-sized payloads into space from the European spaceport in Kourou in 2012. It will supplement the Ariane 5, ensuring independent European access to space for smaller missions, particularly in the fields of Earth observation, climate research and science.

At all locations, the division is engaged in considerable efforts to further enhance competitiveness. In Switzerland, a comprehensive programme was initiated in 2010 to improve efficiency and shorten lead times. For better customer alignment, the activities of the division at the Swiss locations in Zurich and Emmen were reorganized under the four business units Launchers, Structures, Mechanisms and Opto-Electronics & Instruments, effective from 1 January 2012.

At the Vienna and Berndorf sites in Austria, expansion buildings were occupied in the first half of 2011. An enlarged production facility in Berndorf created space for a second production line for low-temperature insulation with automated manufacturing processes and significantly higher production capacity. Additional space for production is also planned at the Nyon site in Switzerland.

For the next generation of Iridium mobile communications satellites, RUAG Space will be ready to supply payload control units and the slip rings that carry power from the solar arrays for 81 satellites.

At the Berndorf, Austria site, a second production line for low-temperature insulation with significantly higher capacity was brought online.

Outlook

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

Growth drivers in recent years have primarily included replacement of satellite fleets by commercial telecommunication operators. This market segment is expected to slow down initially in the next few years. In the medium and long term, however, we anticipate renewed growth in global space missions, propelled by the ambitious programmes of rising nations in Asia and the unfolding of new application areas, particularly in earth observation and navigation.

With a focused product portfolio, RUAG Space holds a good starting position to participate in the expected market growth. Among the decisive factors will be the successful development of innovative products. The institutional market, especially European Space Agency (ESA) programmes, remains the key driver for such development.

In these programmes European space enterprises acquire the technological capabilities that can subsequently be commercialized. The decisions taken for the coming years by the ESA countries' space ministers at their autumn 2012 conference will thus give direction to the European space industry.

RUAG Space in numbers

Net sales:	CHF 275 million
EBITDA:	CHF 33 million
EBIT:	CHF 13 million
Employees:	1,113
Based in:	Switzerland, Sweden, Austria

"For us, the decades of experience and the exceptional quality-consciousness of RUAG Space are an important guarantee of many more successful missions."

Jean-Yves Le Gall, Chairman and CEO Arianespace

Payload fairings and onboard computers for 200 Ariane missions

A milestone for the European launch vehicle programme: On 16 February 2011, a European Ariane rocket lifted off from the Kourou spaceport in French Guiana for the 200th time. The unmanned European space transfer vehicle "Johannes Kepler" was on board. Ariane flight V200 was also a milestone for RUAG Space. All 200 of these rockets had been equipped with payload fairings and onboard computers from Europe's largest independent space supplier.

Since 1979, Ariane has secured independent access to space for Europe. Outstanding dependability and mission flexibility have made operator Arianespace the global market leader in commercial satellite launches. The current version of the launcher is capable of lifting two large satellites with a total weight of nearly ten tonnes into space on one flight. RUAG Space has been part of Ariane's success story from the very beginning. A payload fairing built by the division was used in the successful first launch of the Ariane 1 on 24 December 1979. The division is now the world market leader in composite payload fairings. The fairings, built at the Zurich and Emmen sites in Switzerland, are used not only on the Ariane 5 but also aboard the American Atlas-V-500.

The payload fairing at the launcher's tip protects satellites during launch. They must be capable of withstanding enormous strain while keeping weight to a minimum. To meet this challenge, the world's first composite fairing was developed in 1988 for the Ariane 4. The current Ariane 5 payload fairing has a diameter of 5.40 metres, a height of 17 metres and weighs in at just under 3 tonnes.

The onboard computers for Ariane rockets are developed and built in Gothenburg, Sweden. Two of these extremely robust and error-tolerant computers operate in parallel aboard each Ariane 5 to ensure optimum reliability and security. Over 250 onboard computers in all have been delivered since the start of the Ariane programme.

The new European launch vehicle Vega will likewise be equipped with a fairing and a computer from RUAG. The 30-metre rocket is designed to carry small to medium-sized payloads such as those used in Earth observation and meteorology into near Earth orbit.

Greater profitability on a firmer base.
Milestones were reached in the upgrade programmes for the Swiss Air Force. Internationally, sales were reduced by budget cuts. The turnaround is underway in civil aircraft MRO. The components and subsystems business saw further expansion.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In military aircraft MRO in Switzerland, prototypes from the upgrade programmes for both the F/A-18 fighter aircraft fleet and the TH-06 Super Pumas achieved smooth initial test flights.

Core business

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

Activities in military aviation are based on integral service programmes for all fighter aircraft, helicopters, training aircraft and reconnaissance UAVs for the Swiss Air Force. The service spectrum includes support for evaluation of new systems, final assembly and MRO work as well as trading and remarketing. The focus is on platforms used in Switzerland such as the F-5 Tiger and F/A-18 Hornet fighter aircraft and the Super Puma, Cougar and Eurocopter EC635 helicopter types. Lifecycle support services for the Bell UH-1D helicopter and the Alpha Jet are provided at the Oberpfaffenhofen site in Germany.

In business aviation, services range from comprehensive maintenance, repair and overhaul work through to interiors and painting for owners and operators of select civil aircraft types. As partner to aircraft manufacturers Bombardier, Cessna, Dassault, Embraer, Hawker Beechcraft, Piaggio and Pilatus, RUAG Aviation operates authorized service centres in Switzerland and Germany. The division is also the original equipment manufacturer (OEM) of the Dornier 228NG turboprop aircraft, a modernized version of the Dornier 228-212.

Business performance

In the face of stiff competition, RUAG Aviation increased net sales to CHF 487 million. EBIT came to CHF 22 million. While the military aviation business in Switzerland remained stable, the effects of defence budget cuts in Germany were palpable. Successes were achieved in implementing an international strategy as an MRO service provider in selected core markets. The component and subsystem maintenance business for the Swiss Air Force and international customers saw both qualitative and quantitative improvements. Synergies were successfully exploited between military and civil applications.

In Switzerland, a milestone was reached in the Upgrade 25 programme for the Swiss Air Force's F/A-18 C/D fleet when the prototype achieved a flawless initial test flight. The comprehensive upgrade will bring the latest technologies for airborne policing and air defence missions to the Swiss F/A-18 fleet, getting it ready for the second half of its anticipated 30-year service life. Alongside state-of-the-art instruments and new mission computer software installed and tested by RUAG Aviation, a new video amplifier was specially developed and certified for the F/A-18 fighter aircraft. The Swiss Mission Data System (SMDS) likewise underwent further development. The division also successfully expanded the F/A-18 maintenance business in international markets. To strengthen the existing F/A-18 Hornet engine module maintenance business for the Royal Malaysian Air Force and gain additional civil and military aircraft MRO customers in Asia, the division entered into a joint venture with a local middle-sized MRO company in Malaysia.

After the first flight of the modified prototype for the Swiss Air Force's WE890 upgrade programme a second TH-06 Super Puma entered the operational test flight phase. Both helicopters are nearly ready for handover to the customer. An order to install RUAG's ISSYS system

for protection against guided and laser-guided defence systems on transport helicopters for the Slovenian Air Force was successfully executed. This order has also led the Slovenian Air Force to entrust RUAG Aviation with maintenance of its helicopters.

In Oberpfaffenhofen, the division provides life cycle support services such as evaluation, final assembly, maintenance and repair work as well as upgrades for helicopters (UH-1D) and, in cooperation with Dassault Aviation, for all operators of the German version of the Alpha Jet. Thanks to RUAG Aviation's support over the 40-plus years since the German Bundeswehr adopted the Bell UH-1D, availability of the helicopter fleet remains very high.

In civil aircraft MRO, RUAG Aviation has bundled the capabilities of the Geneva, Berne Belp, Agno (Switzerland) and Oberpfaffenhofen (Germany) sites with a view to meeting customer needs even more closely. Business Aviation also celebrated its 30th anniversary as Europe's leading service centre for Bombardier business jets. At the same time a new customer lounge was opened in Oberpfaffenhofen to provide an pleasant environment for customers visiting the one-stop-shop. The Geneva location's fixed base operator (FBO) status was likewise enhanced, providing customers with a broader, faster and more convenient range of services. The unit now offers a comprehensive service portfolio ranging from passenger and crew care to technical support and aircraft MRO. The existing range of services for various helicopter types was also expanded during the year under review. RUAG was awarded the status of authorized Customer Service Centre (CSC) for Southeast and South-Central Europe for the S-76 helicopter platform by US company Sikorsky Aircraft Corporation.

The Business Aviation unit celebrated its 30th anniversary as the leading service centre for Bombardier business jets. A new customer lounge was opened in Oberpfaffenhofen, and the Geneva site's fixed base operator status was further enhanced.

The Bangladesh Navy followed customers in Japan, Norway and Germany in 2011 in purchasing two Dornier 228NG turboprop aircraft. These are the first fixed-wing aircraft deployed by the Bangladesh Navy for coastal patrol. Both are specially outfitted for marine reconnaissance missions.

Innovation and initiatives

Updated versions of flight data monitoring software applications for airlines and business jet operators were released in 2011. These applications contribute significantly to the safety of both passengers and crew. At the end of the year, Dassault Aviation selected the RUAG Aviation and CAE Flightscape partnership as its preferred provider for flight data monitoring (FDM) services for all new and in-service Falcon aircraft.

With its missim product, RUAG Aviation is a global technology leader in pre-mission test equipment used on the flight line to ensure that self-protection systems are functioning reliably. missim is the only three-in-one solution capable of testing radar, laser and infrared potential threats in a compact device. A broadband radar module providing exceptionally high performance in a small space at a very attractive price was added to the product in 2011. The broadband version of missim has already proven its worth in active service with the CH-53 helicopter fleet by the German Bundeswehr and Eurocopter.

RUAG Aviation makes its wind tunnel facilities available to international aircraft and automobile manufacturers. The equipment at these facilities includes strain gauge balances designed in-house for extremely precise measurement of the effects of the airstream on the test object. The latest generation of balances, launched last year, can withstand

higher forces while providing more precise measurements and resisting deformation or changes in volume.

In Oberpfaffenhofen, RUAG Aviation responded to growing demand in early 2011 by opening a new business unit, the Centre of Excellence for Refurbishment & Upgrades. A team was established here to focus not only on the traditional MRO business but also on refurbishment and upgrades of business jet interior furnishings. Moreover, a liaison office was opened in Berlin to support distribution in Germany and cultivate closer relations with government customers such as the Bundeswehr and the Federal Police.

Outlook

RUAG Aviation will continue in 2012 to focus on its core competencies in military and civil aircraft and component MRO. In both the civil and military sectors, RUAG Aviation sees further potential in selected international markets.

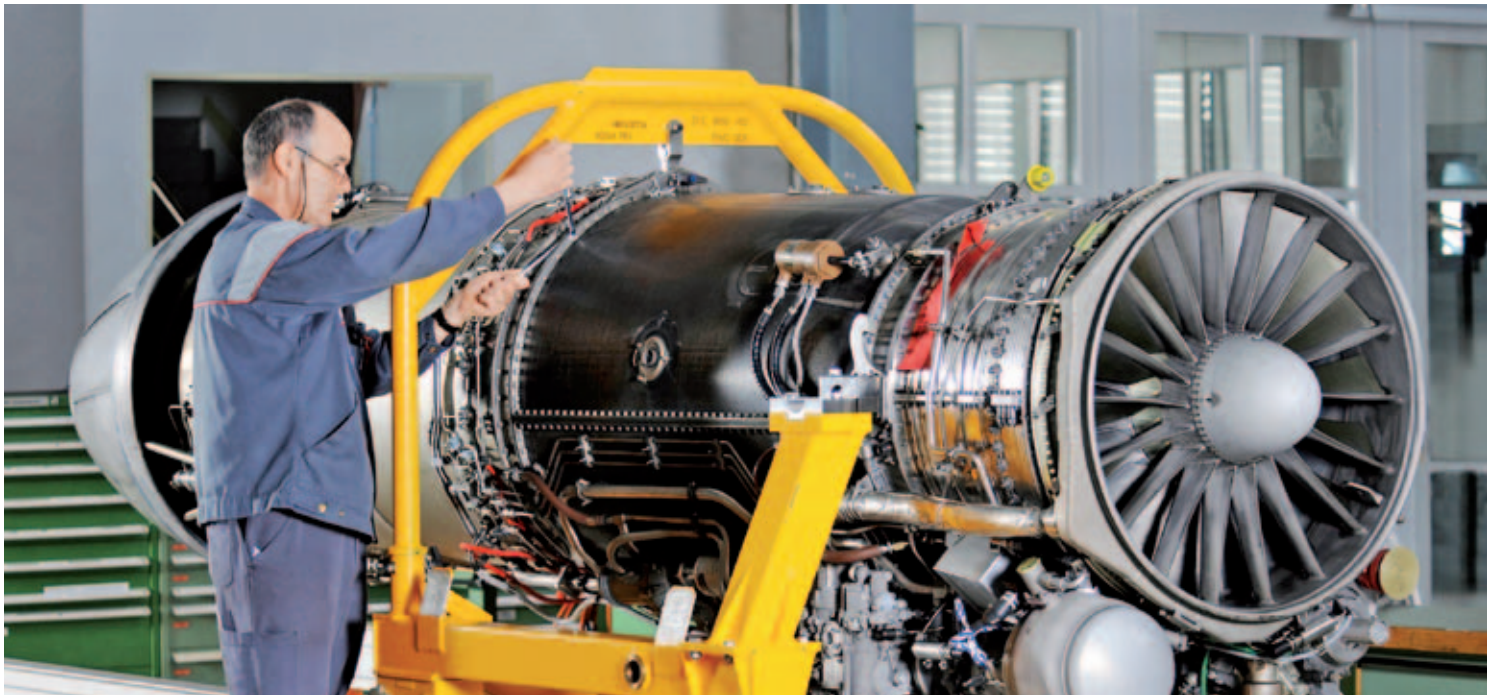
In military MRO, the focus in Switzerland in 2012 will be on optimizing services for the main customer, the Federal Department of Defence, Civil Protection and Sport (DDPS). On the German domestic market, the emphasis will be on expanding the relationship with the main customer, the German Luftwaffe, and establishing a position as lifecycle support partner for future platforms. In the global military business, the division is pursuing growth opportunities with international key customers, especially in the United States, Asia and South America.

Technical innovation is a high priority for the division, giving it a competitive edge in the face of shrinking military budgets with its high-quality, affordable solutions. These are rounded off with commercial innovations that offer customers an attractive total package.

RUAG Aviation in numbers

Net sales:	CHF 487 million
EBITDA:	CHF 27 million
EBIT:	CHF 22 million
Employees:	1,980
Based in:	Switzerland, Germany, USA

The flight data monitoring software was successfully updated. Dassault has designated the partnership between RUAG Aviation and CAE Flightscape as its preferred supplier of flight data monitoring services for all Falcon aircraft.



“Availability for repairs of our F/A-18 engines has improved markedly since the start of our collaboration. We are impressed with the RUAG Aviation specialists’ careful planning and strong commitment.”

Major General Dato’ Kamalruzaman Bin Mohd Othman,
Royal Malaysian Air Force

Growth in global aircraft component MRO

The continual expansion of the worldwide component maintenance, repair and overhaul (MRO) business is based on many years of experience servicing all aircraft and helicopters of the Swiss Air Force. By establishing and expanding centres of excellence for specific subsystems, the unit continually broadens its expertise.

In the civil sector, thanks to close collaboration with the business unit that performs business jet maintenance, the achievements of 2011 included a licence agreement on landing gear maintenance for the Dornier 328 with manufacturer Messier-Dowty. Based on close internal collaboration, expansion of the maintenance work to cover additional components such as engine assemblies, tyres and brakes along with various propulsion systems is planned for 2012.

Californian company Aero Turbine offers an example of entry via a local partner, opening the door to a long-term contract signed with the US Navy to perform maintenance on J85 engine systems for the entire F-5 Tiger fighter aircraft fleet. The MISTR (Management of Items Subject to Repair) contract provides access to the world’s largest customer. Local contacts and capabilities made it possible to negotiate a direct purchasing agreement including maintenance of engine modules for the F/A-18 fleet of the Royal Malaysian Air Force.

OEM licences have been obtained for instance by means of a cooperation agreement with Eaton Aerospace Limited in Ohio (USA). The agreement authorizes RUAG Aviation to maintain and repair hydraulic and electromechanical components for the F-5 Tiger worldwide. Maintenance licences were also acquired for Breeze Eastern and Goodrich rescue winches for the Super Puma and Cougar helicopter types.

RUAG subsidiary Mecanex is a key hub in the component MRO business. Mecanex purchases aircraft replacement parts on the US market and resells them worldwide, complying with all legal requirements and working with some 2,000 suppliers.

Growing volumes under pressure.

The order situation has developed favourably in the aviation, machine and semiconductor industry and in materials recycling. The strong Swiss franc, however, had a significant negative impact on earnings.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At the Oberpfaffenhofen site, accelerated production rates by main customer Airbus in combination with efficiency enhancements led to a marked improvement in profitability.

Core business

RUAG Technology manufactures and machines structural assemblies and high-quality components and provides special services to customers in the aviation, machine, semiconductor, energy, automotive and recycling industries. Activities focus on Aerostructures and on activities in Altdorf (Mechanical Engineering, Coatings and Environment).

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

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

Business performance

RUAG Technology achieved net sales of CHF 268 million in 2011, a decline of CHF 5 million from the previous year. Earnings were impacted by two opposing trends. On the one hand, order volume grew in all four business areas, and customer satisfaction was again very high. On the other hand, however, the strained currency situation weighed on sales for the export-oriented division, which manufactures primarily in Switzerland. Especially in the second half, the euro and US dollar exchange rates had an enormous effect on earnings. At CHF –5 million, EBIT — further impacted by one-time charges of CHF 4 million in Aerostructures and for activities at the Altdorf site — subsequently also ended in the negative range. To stabilize the business areas, various restructuring measures progressed with a focus on risk minimization and profitability.

The future of Aerostructures will see a focus on high-value, profitable speciality products and niche applications along with efforts to minimize risks for the RUAG Group as a supplier in aircraft manufacturers' global supply chains. A permanent solution was found in 2011 for the 2010 decision to stop manufacturing titanium and nickel components for civil and military aviation at the Plan-les-Ouates site. The 40 employees' jobs were preserved with the sale of the facility to the French family-owned company Saint Jean Industries. 2011 was a highly successful year for Aerostructures' most important customer, Airbus, which sharply increased production rates for the A320, A330 and A380 aircraft in response to rising demand. At the Oberpfaffenhofen site, which is located in the Eurozone, this increase was successfully implemented in combination with efficiency enhancement programmes. As a "quality gate" for the entire global fuselage section supply chain for the A320 family, Oberpfaffenhofen was responsible for ensuring that quality standards were upheld during the rapid production ramp-up. One highlight was the delivery of the 5,000th fuse-

lage section. In Emmen, by contrast, the strong Swiss franc meant that the order volume could not be profitably increased, despite ongoing process enhancements, reduced overheads and improvements in the supply chain.

At Mechanical Engineering, a budding recovery in the machine industry and especially the semiconductor industry resulted in a healthy order book. However, here too, the exchange rate had a negative impact on earnings. The situation in respect of new orders from the Eurozone became critical in the second half of the year. Optimization of cost structures became necessary to preserve international competitiveness and profitability and retain the ability to carry out export orders from Switzerland. Structural measures included temporary implementation of short-time work. Since the automotive sector is not part of the division's core business, the Automotive business area was consolidated with Mechanical Engineering in 2011 and a decision was taken to stop processing heavy-gauge sheet metal.

The Environment business area, which focuses on the Swiss market, experienced stable growth and reasserted its status as national end-to-end recycling service provider, from collection through demanufacturing to reintroduction of valuable materials into production cycles.

Innovation and initiatives

As supplier to a wide range of industries, the division focuses development and engineering efforts on innovative solutions to our customers' ambitious requirements. RUAG Technology addresses the entire development, engineering and production cycle, from prototype design to industrial manufacturing.

In 2011, RUAG Technology developed a friction stir welding (FSW) prototype in collaboration with Airbus. This clean and innovative process for joining light metal alloys makes rivets superfluous. In comparison with conventional joining processes, the high seam strength resulting from the process yields considerable weight savings in lightweight construction.

The Structural Engineering team designed a twelve-metre long rotor blade for an innovative wind power plant during the year under review. The blade is based on the vertical axle principle, making it ideal for weak, variable and gusty winds. The composite rotor blade is made of a mixture of glass and hydrocarbon materials with innovative pre-impregnated fibre (prepreg) materials that eliminate the need for autoclaves during production.

In the Mechanical Engineering business area, the division worked closely with the main customer ASML on a new aluminium bottom frame, supplying the process engineering input. The new model will be built into a new lithographic machine in which wafers for the semiconductor industry will be exposed to beams of ultraviolet light rather than the visible light of conventional equipment. Since the light beam must propagate in a vacuum to properly fulfil its function, the bottom frame is subject to very stringent purity standards. The use of shorter-wavelength light makes it possible to produce much smaller structures on silicon memory chips, enabling a significantly larger quantity of data to be stored in the same space.

In the Coatings business area, lubricating coating technologies that significantly reduce abrasion were developed further.

The structural engineering team created a twelve-metre-long rotor blade for an innovative vertical-axis wind power plant, specially designed for weak and variable winds.

The bottom frame developed jointly with ASML for computer memory chip production must be capable of functioning in a high vacuum.

In addition to its technology development initiatives, under enormous market pressure from abroad, RUAG Technology also systematically intensified sales efforts in its core markets, focusing both on gaining new customers and on expanding relationships with existing customers.

Outlook

It is anticipated that economic conditions will remain difficult in 2012. It will remain a challenge for RUAG Technology to export to global markets from Switzerland. The year to come will thus be marked by an ongoing, systematic continuation of the economic turnaround by optimizing cost structures.

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

RUAG Technology in numbers

Net sales:	CHF 268 million
EBITDA:	CHF 11 million
EBIT:	CHF –5 million
Employees:	1,322
Based in:	Switzerland, Germany

“We can depend on RUAG as a flexible first-tier supplier and supply chain ‘quality gate’.”

Dr L. Scheimann, Head of Supply Chain Quality Fuselage/Cabin, Airbus Hamburg

Expanding aircraft production while maintaining top quality

In Aerostructures, RUAG Technology expanded and deepened cooperation with the main customer, Airbus, in 2011. In particular, as a “quality gate“ for the global fuselage supply chain for the A320 family, Oberpfaffenhofen was responsible for upholding impeccable quality standards as Airbus rapidly ramped up production rates.

The background to this expansion in volume is rapid growth in worldwide demand for single-aisle aircraft (A318, A319, A320 and A321). Airbus plans to increase the pace of production of such aircraft by stages from 36 per month at the end of 2010 to 42 per month by the end of 2012. This corresponds to delivery of nearly 490 shipsets per year by RUAG Technology. To achieve these higher rates, Airbus must be sure that all components will be delivered on time and with flawless quality for final assembly. Delivery delays or rework due to quality issues would throw the entire production chain out of pace.

The Aerostructures unit at Oberpfaffenhofen achieved the increase in production volume at its own facility without problems in 2011, even exceeding quality improvement targets compared to the prior year. In its function as a “quality gate“, RUAG Technology also ensures that the entire supply chain meets these requirements, also overseeing and providing guidance to the suppliers who deliver free issue parts for Airbus to RUAG Technology. Efficient quality management identifies problems early; these are then solved in close cooperation with the supplier.

However, keeping the fuselage supply chain running smoothly was not RUAG Technology‘s only role in 2011. RUAG Technology specialists also assisted the customer in managing the production ramp-up at the final assembly site in Hamburg. This assistance underscores the collaborative, trust-based relationship between RUAG Technology and Airbus. Under a new master agreement concluded in 2010, the two parties are also working jointly to ensure long-term economic viability in the face of dynamic global competition. Among other things, this will involve expanding the supplier base outside of Europe as well.

Organic growth achieved.
The division achieved nearly full capacity utilization in a difficult environment. The financial result was impacted by exchange rate losses and rising raw material prices. Further internationalization and diversification was pursued in all business units.

Although demand on the defence and law enforcement market declined somewhat due to budget cuts, the impact was offset by new orders. The German Bundeswehr and the Armed Forces of the Netherlands exercised their options.

Core business

RUAG Ammotec specializes in high-quality pyrotechnic products for military and civil markets and for industry. Its primary activities include developing and manufacturing small-calibre ammunition for Hunting & Sports as well as for Defence & Law enforcement. The products are renowned for their ultimate dependability, precision and optimally engineered effect. Environmentally safe disposal of pyrotechnic products also forms part of the service portfolio.

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

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

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

Business performance

Although RUAG Ammotec experienced organic growth in 2011, net sales declined slightly (by CHF 8 million) from the previous year's figure to CHF 312 million. EBIT came to CHF 25 million, a CHF 6 million decline from 2010.

While the impact of exchange rate effects was strong, a prudent stockpiling policy kept the effects of ongoing increases in non-ferrous metal prices within bounds in 2011.

These results were above target. The division has operated at near-full capacity now for three consecutive years.

In volume terms, every business area saw gains in 2011. At the Defence & Law Enforcement unit, efforts continued to expand international market penetration, with long-awaited orders finally coming through. The German Bundeswehr and the Armed Forces of the Netherlands exer-

cised their options. Although volumes purchased under some existing contracts fell due to defence budget cuts, these declines were more than compensated for by new orders.

The Hunting & Sports business area has noticed more price-conscious buying behaviour among final customers for some time. The unit has successfully countered this trend through targeted marketing initiatives and the launch of a new economy range of handgun ammunition under the GECO brand.

The Industrial Products business area achieved growth from an already strong base in 2011. Highlights included a doubling in sales of airbag igniters, a product line acquired in 2010 from American automotive supplier Delphi, and the start of production of low-pollutant actuator cartridges for direct fastening systems for Liechtenstein's Hilti Group.

Innovation and initiatives

In research and development, RUAG Ammotec focuses on specific performance enhancements in existing products and on developing low-pollutant variants and special ammunition optimized for particular applications, firearm types and country-specific requirements. Innovative pyrotechnic applications are also developed for industry.

In the ammunition domain, the unit achieved performance enhancements in 2011 in 300 grains (19.4 gramme) projectiles of various standard calibres. These include a standard penetrator projectile with a steel core and a temperature-independent propellant powder that improves range and precision in both cold and hot weather. A new 338LM-calibre armour-piercing incendiary (API) round aids in targeting by emitting a bright flash on impact.

In the Hunting & Sports business area, work continued on developing lead-free cartridges to meet the growing need for low-pollutant products. A further innovation is electric ignition elements that help prevent accidents by minimizing electromagnetic charges.

In terms of distribution, internationalization efforts continued, alongside ongoing expansion of existing subsidiaries, with the foundation of RUAG Brazil. In the Hunting & Sports business area, moreover, several diverse, promising co-marketing initiatives were launched with leading suppliers of precision optics and firearms.

New capacity was installed at the Hungary production site to enhance production flexibility. In Fürth, Germany, a new production system for industrial actuator cartridges was also commissioned. Moreover, a major forward-looking investment in percussion cap production was completed, significantly increasing capacity while markedly reducing manufacturing costs.

A range of handgun products with an optimized price-performance ratio was launched to address the more price-conscious behaviour that has been apparent for some time in the Hunting & Sports ammunition sector.

Internationalization efforts continued with the founding of RUAG Brazil along with ongoing expansion of existing subsidiaries.

Outlook

RUAG Ammotec anticipates continued positive business performance in 2012 and expects to remain on its growth trajectory. Above all, continuing high demand from the German Bundeswehr will have a positive impact even if the market environment remains difficult.

The overall market is characterized by a subdued growth outlook for the global economy, further budget cuts in international public budgets, increasingly restrictive legislation and worldwide excess capacity in the ammunition sector.

Against this background, securing major international orders far from the domestic markets remains difficult, especially in light of the strong Swiss franc. The situation in respect of currency and commodity markets also remains strained.

The foundation for further internationalization of the business will lie in ongoing development of the niche market strategy and targeted marketing of products adapted to country-specific requirements. Among other efforts, this will include a systematic, step-by-step approach to entering growth markets.

Growth impetus in 2012 is most likely to come from the Industrial Products business area, where the low-pollutant direct-fastening actuator cartridges introduced in the construction sector by Hilti in late 2011 will generate sales for a whole year for the first time.

Extending global market leadership in low-pollutant pyrotechnics is also the top priority in the small-calibre ammunition segment.

RUAG Ammotec in numbers

Net sales:	CHF 312 million
EBITDA:	CHF 36 million
EBIT:	CHF 25 million
Employees:	1,733
Based in:	Belgium, Germany, France, UK, Austria, Sweden, Switzerland, Hungary, USA and Brazil

For the division, the automotive safety sector represents not only an expansion of the Industrial Products unit and the civil business, but also a further differentiation of sales markets.

Successful return to the automotive future

Extremely fast, precise and high-energy effects can be achieved through pyrotechnics. For example, explosive charges are used in automotive safety to inflate airbags within a few hundredths of a second in the event of an accident. The ignition units used to activate the gas generators are essentially the same as the propellant charges used in firearm ammunition. RUAG Ammotec has taken advantage of these technological synergies since acquiring the igniters unit of American automotive supplier Delphi in 2010 for manufacturing ignition elements at its site in Fürth, Germany.

It is no coincidence that the newly acquired production site is located on the RUAG Ammotec site in Fürth. The ignition element plant, which has been in operation since the 1990s, was sold to Delphi by the former Dynamit Nobel at the same time that the small-calibre ammunition business was handed over to the RUAG Group. The most recent transaction thus represents a return to the former parent company.

For the division, the automotive safety sector represents not only an expansion of the Industrial Products unit and the civil business, but also a further differentiation of sales markets. Customers in the sector include various airbag system and component producers such as Japan's Takata Corporation, which has production sites worldwide. 19 employees in all were taken over from Delphi.

Synergies have been found in practically all areas of the new product line, but the key aspect certainly is the division's technological market leadership in the field of low-pollutant pyrotechnics. Automotive applications demand a particularly high level of compatibility with human health.

In addition to igniter production, RUAG Ammotec also acquired Delphi's laminated metallic element production technology in 2010. Developed by Dynamit Nobel, this type of component produces controlled sparks for low-risk, ultra-rapid electrical ignition of charges.

In financial terms, the acquisition already paid off for the new product line in the first year, with sales nearly doubling in 2011. In addition to the successful launch of new system models by main customer Takata, three new customers also contributed to this encouraging result.

Successful Swiss programmes.
The highlights of the financial year included the final stage of the Leopard 2 upgrade programme, the handover of a live simulation system and further enhancement of materiel centre of excellence status for the IFASS integrated radio reconnaissance and transmission system.

The Simulation & Training business unit reached an important milestone in delivering the keys for the SIM MOUT live simulation facility at the Bure training ground to the Swiss Army.

Core business

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

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

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

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

Business performance

RUAG Defence's net sales declined slightly (by CHF 3 million) from the previous year's figure to CHF 435 million. EBIT improved 19.8% to CHF 38 million. The division was formed at the start of 2011 as part of an effort to focus on the core business by consolidating the two former divisions RUAG Electronics and RUAG Land Systems, both of which operated in the same markets. Combining their product portfolios, including complementary services, into a one-stop-shop simplified communication with both the Swiss Armed Forces as the key customer and international customers.

The Land Systems business unit faced delays in major projects due to defence budget cuts in 2011. The impact was felt most strongly in order intake. Nevertheless, the unit achieved several successes in its operations. The upgrade programme for the Leopard 2 main battle tank for the Swiss Army successfully entered its final phase, and the first five of twelve Kodiak armoured engineer and mine clearance vehicles were delivered to the armasuisse procurement organization for the Swiss Army at the end of 2011. The armoured engineer vehicle system is produced and distributed in close collaboration with the main systems contractor Rheinmetall.

In Germany, RUAG Defence's technology capabilities made it the Bundeswehr's choice to manufacture and deliver anti-mine kits for 350 Puma

infantry fighting vehicles. With the aim of expanding its international presence and reinforcing its technology base, the business unit took over the operations of Germany's Base Ten Systems Electronics GmbH (Base 10). The acquisition provides value for customers by complementing existing activities in the field of robotics for land forces.

The Simulation & Training business unit reached an important milestone in delivering the keys for the SIM MOUT live simulation facility at the Bure training ground to the Swiss Army. The system provides simulation support for Military operations in urban terrain and will enable realistic and efficient urban combat training for troops and cadres on a joint level on Switzerland's biggest military exercise ground. All weapons systems and their effects on the surroundings are precisely simulated by an integrated bundle of technologies including two-way laser systems, ultrasound and GPS tracking. Data from the exercises is gathered by thousands of sensors seeded throughout the training ground, fed into Switzerland's biggest wireless LAN network and transmitted to the exercise command centre for after-action reviews. In Virtual Simulation, the first six of twelve simulators for the new French light armoured vehicle were, after intensive testing, delivered to the French infantry academy.

The Network Enabled Operations business unit further enhanced its status as materiel centre of excellence for the Swiss Armed Forces and integrated radio reconnaissance and transmission system (IFASS). Together with the original equipment manufacturer, the division is developing the know-how to reliably provide all support services for the complex system's hardware and software in future. Following a strategic review, a decision was taken to cease involvement with the PantherCommand operational command and control system.

As materiel centre of excellence for the IFASS integrated radio reconnaissance and transmission system, the Network Enabled Operations business unit is acquiring the know-how to take over support functions for the complex system's hardware and software as a service provider.

Innovation and initiatives

One area of innovation at the Land Systems business unit is unmanned ground vehicles (UGVs) for ground forces. The Base 10 acquisition has brought a new impetus to this pioneering field. Research and development efforts focus on unmanned vehicle platforms with integrated navigation and communication modules. UGVs have numerous uses, for example as autonomous surveillance devices using sensors to reliably acquire information or as unmanned transport vehicles for hazardous goods. Intelligent UGVs can enhance effectiveness in asymmetric combat situations and reduce risks to troops.

In the protection field, the Land Systems business unit launched a proprietary polyvalent passive protection system against improvised explosive devices (IED), hollow charges and KE-rounds. The product is well suited to medium-weight to heavy vehicles such as armoured personnel carriers and main battle tanks. The newly developed product has already attracted an international order. A new family of containers offers not only electromagnetic compatibility (EMC) but also protection against nuclear electromagnetic pulses (NEMP). The base model is available as a simple or hinged container with various shielding options and can be tailored to individual customer requirements.

In the Simulation & Training business unit, the Gladiator police and military training system saw further development as a high-performance, expandable modular system that can be adapted to specific customer needs. Its unique value proposition is its ability to grow from a simple duel simulator into a system capable of being incorporated into a complete combat training centre. The embedded Linux operating system on the main processor ensures maximum perfor-

mance and easy portability of future versions. The integrated audio interface is available in the customer's local language. New positioning systems enable fixing of a soldier's location to within half a metre.

The Network Enabled Operations business unit consolidated and expanded its operations in the field of information security against cyber-war in early 2011 by founding the Security Centre of Excellence (SKZ). The SKZ applies methodological approaches and forward-looking technologies to develop innovative solutions that provide optimal protection for critical infrastructure and important data.

Outlook

RUAG Defence expects business to remain stable in 2012. Since major projects for the Swiss Army will enter their final phase during the next few years, the division is working intensively as the centre of excellence for ground forces on securing new international orders to ensure future capacity utilization. The currency situation and budget restrictions in the main European markets are likely to make this more difficult.

For the Land Systems business unit, in light of the foreseeable decline in Swiss orders, it will be essential for major international projects to come to fruition. The Simulation & Training business unit has strong international growth potential with both virtual and live simulation solutions for new and existing customers. For the Network Enabled Operations business unit, one of the key initiatives for the future is developing and expanding the materiel centre of excellence for the IFASS integrated radio reconnaissance and transmission system, for which RUAG Defence offers a multi-year service level agreement with substantial cost savings for customers.

The company is pressing ahead with internationalization of its business in selected markets in 2012. Europe will remain the key market. In addition, other selected countries where Swiss Army-operated system platforms are used will also be important.

RUAG Defence in numbers

Net sales:	CHF 435 million
EBITDA:	CHF 44 million
EBIT:	CHF 38 million
Employees:	1,306
Based in:	Switzerland, Germany

In protection systems, the Land Systems business unit developed a polyvalent passive protection system for medium-weight to heavy vehicles. A first international sales success is already on the books.

"The troop is receiving a powerful, versatile system in the shape of the Kodiak armoured engineer and mine clearance vehicle. We are pleased that most of the development work took place in Switzerland."

Brig Gen Jean Pierre Leuenberger,
Commander of Tanks/Artillery Training Unit

Versatile engineer system based on the Leopard 2

In December 2011, RUAG Defence delivered the first five of twelve Kodiak engineer and mine clearance vehicles to armasuisse for the Swiss Army. These vehicles are a newly developed technology capable of providing diverse forms of support for military deployments and disaster relief operations. The remaining seven vehicles will be delivered starting in April 2012 and will reach the troops in the final quarter of 2012. Besides the Swiss Army, the Swedish and Dutch armies are also already using this versatile piece of equipment.

The Kodiak armoured engineer and mine clearance vehicle is manufactured and distributed by RUAG Defence as technology partner of the Swiss Army in close cooperation with the main system contractor Rheinmetall. Based on a Leopard 2 chassis, it is the first system of its kind in the world. In addition to military operations, it is also equipped to provide effective support in the event of natural disasters or for civil-military cooperation.

Urs Breitmeier, CEO of RUAG Defence, sums up the delivery experience: "What is special about the armoured engineer vehicle is the extreme conditions under which it must operate. Unlike a standard excavator, for example, it has to be capable of functioning in different climatic zones from –40 to +60 degrees Celsius. Endurance tests have verified that it is, and we have achieved production readiness. I am pleased that we were able to deliver the heavy-duty engineer system to armasuisse before the end of the year."

The Kodiak armoured engineer and mine clearance vehicle features a powerful jointed-arm excavator with a quick-release tool coupling for additional specific engineer functions, a dozer blade with adjustable cutting and tilt angles and a dual winch system with two nine-tonne capstan winches. The dozer system can be replaced with a mine-clearing plough as needed. Among other applications, the vehicle is thus capable of breaching minefields, excavating field fortifications and placing or removing artificial obstacles.

Training unit officers and maintenance specialists within the Swiss Armed Forces logistics organization will undergo training before the vehicle enters active service in the fourth quarter of 2012.

Efficient and economical services.

A concerted effort was made in all central Service & Support units to establish uniform standards and improve efficiency by consolidating cross-cutting functions.

Top, l to r: Oliver Meyer (CIO), Thomas Kopp (General Counsel & Head of Legal), Hans Bracher (Senior Vice President Corporate Human Resources until 31/12/2011), Christiane Schneider (Senior Vice President Marketing & Communication); bottom, l to r: Urs Kiener (CFO), Dr Christian Ferber (Senior Vice President Corporate Human Resources from 1/1/2012).

Strategic management and infrastructure

RUAG is focused on profitable core activities. This applies both to the Group as a whole and, with respect to the strategic objectives, to each division and its business units. To ensure the consistent orientation of the Group and enable each division to focus optimally on its core businesses, strategic cross-cutting functions are handled by centralized Service & Support units. These units help the divisions to successfully target markets and ensure consistent standards throughout the company. Wherever appropriate and possible, the Group also takes advantage of synergies between the divisions to enhance profitability and the quality of products and customer projects.

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

Human Resources

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

The positioning of RUAG as an attractive employer is becoming increasingly important in attracting qualified employees. Development opportunities and internationally certified training courses form the basis for successful performance. An important management development tool is the three-step modular Leadership Programme. Supporting apprentices, our professionals of tomorrow, is a high priority for RUAG. Apprentices make up some 10% of all employees in Switzerland. Special training centres staffed with full-time apprenticeship supervisors are available to support these young professionals.

Further priorities include establishing Human Resources as a business partner for the divisions in Switzerland and abroad, developing a corporate culture focused on the market and the customer, based on three key values — visionary thinking, high performance and collaboration — and dialogue with internal employee representatives and social partners.

With a view to establishing uniform standards, processes are being implemented throughout the Group to ensure efficient collaboration between Human Resources and the business.

Marketing & Communication

This support unit, in close collaboration with the divisions, conducts a dialogue with all stakeholders on strategic priorities, objectives and the resulting activities of the Group. The new, uniform "Together Ahead. RUAG" branding enhances and strengthens the brand's global visibility and brings the corporate profile into sharper focus. Marketing & Communication coordinates and designs both internal and external communications with the relevant audiences as well as public appearances at trade fairs and events. The support unit also conducts an active dialogue with Swiss and international media to highlight, promote and proactively address topics of relevance to the Group as a whole or to individual divisions. The Marketing & Communication departments of the individual divisions are responsible for specifically cultivating each division's customer markets based on central requirements.

RUAG Services

With its IT Services and Software House business units, RUAG Services provides quality IT services at a competitive price-performance ratio, thereby supporting the Group's international market orientation.

The IT Services business unit serves the RUAG Group as an IT infrastructure service provider. This includes operating and administering the global corporate network and high-security data centres as well as operating, managing and consulting in respect of SAP, business intelligence and e-business solutions, Microsoft platforms and specialized applications, telephony and PC workstations.

In 2011, the services available in Switzerland and at the second location, established the previous year in Oberpfaffenhofen, Germany, were synchronized. The rollout of basic IT services from Oberpfaffenhofen for the Group locations in Sweden and Austria was also set in motion.

The Software House business unit, set up in 2010, specializes in software engineering as a partner for customer projects. It also develops specialized applications for use within the Group. With standardized processes and development platforms, Software House enhances value creation and efficiency in the divisions' customer projects while ensuring constant high quality in software components.

General Counsel & Legal

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

RUAG is a joint stock company wholly owned by the Swiss Confederation. The Swiss Confederation's interests as shareholder are exercised by the Swiss Armed Forces. The owner's strategy of the Federal Council establishes a binding framework, ensuring that the RUAG Group can fulfil its duties profitably while taking into consideration Switzerland's superordinate interests. These interests concern in particular Swiss national defence, expectations regarding cooperation and investments, as well as human resource policy and financial objectives.

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

Finance & Controlling and RUAG Real Estate

By establishing a systematic reporting structure with defined measures and indicators, the Finance & Controlling support unit provides guidance for the Group as a whole. High-performance information systems provide timely support for operational management and ensure rapid transparency.

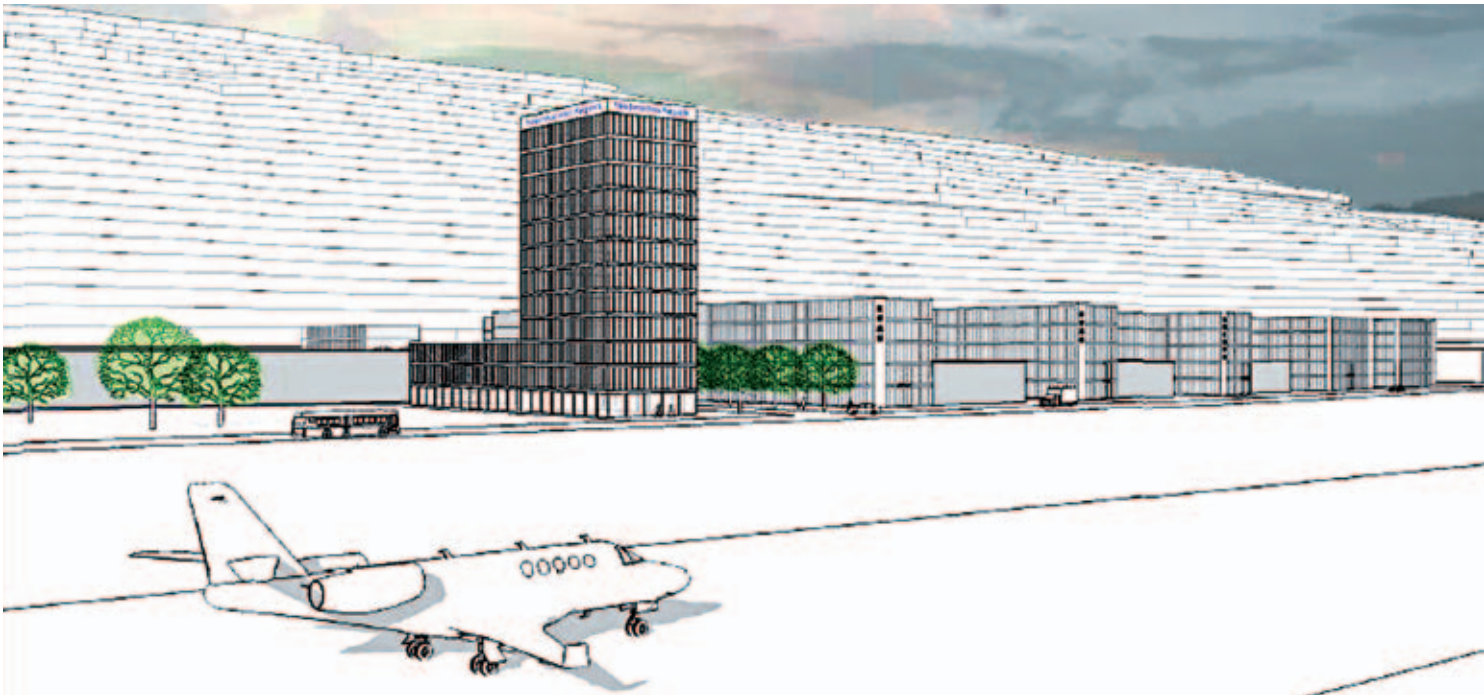
RUAG's approach to internal transparency is based on the concept of "economic value added" (EVA), comprising the total cost of capital including proportionate shareholder equity costs. The approach is implemented systematically down to the business unit level to minimize investment, acquisition and customer project risks.

In 2011, a pilot project was implemented in Switzerland in the area of working capital management. Optimization measures along the entire process chain markedly reduced the level of capital tied up and thus financing requirements. In addition, surveys, interviews and workshops were used during the past year to closely examine the planning process with the aim of making this central management function leaner and more focused, and optimizing resource allocation by means of objective economic criteria.

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

RUAG Real Estate is the centre of expertise for real estate management. The unit is organized as an independent joint stock company and acquires and disposes of property and real rights for the RUAG companies and for third parties. Its main tasks are to improve the return on investment and increase the value of the Group's considerable real estate portfolio and to acquire, plan, develop and manage production facilities and infrastructure for the divisions and business units. RUAG Real Estate Ltd seeks to be known as "best owner" for industrial properties.

As a market-oriented, all-in-one service provider for themed industrial parks, RUAG Real Estate manages its properties over their entire lifecycle. Its core activities include transactions, commercial real estate management, plant and area planning, client representation and technical and structural building management services. The Business Development and Safety & Environment departments round off its functions.



"The themed industrial park offers a production infrastructure that precisely meets our needs. We anticipate additional synergies from being direct neighbours with other companies in our industry."

Max Bucher, Chairman and CEO, Aerolite Max Bucher AG

High-quality jobs in specialized industrial parks

Upon its foundation, RUAG took over the expansive industrial complexes of the Swiss Confederation's former defence companies, particularly at the sites Thun, Altdorf, Stans and Emmen. These sites present considerable development potential. To preserve their long-term value and infrastructure, RUAG Real Estate is developing special-purpose industrial parks at these facilities, enabling businesses related to the local divisions to locate there. This not only opens up synergies in respect of infrastructure but also creates clusters of know-how that make the local labour market more attractive for specialists in the given fields.

In addition to production and office buildings, these industrial parks will also offer a core zone with infrastructure available to all companies located there as well as to external parties. Implementation has advanced farthest in Stans, where an industrial park for aviation and aviation suppliers is being built adjacent to the Swiss Air Force air base in Buochs starting in 2012. Nidwalden AirPark AG, established for this purpose in 2010 at the initiative of RUAG Real Estate, plans to invest a total of CHF 70 to 100 million in the project over the next ten years. Halls will be built alongside the airfield for assembly, outfitting and maintenance of aircraft with wingspans of up to 30 metres. The AirPark Tower will form the heart of the complex, providing training, meeting and accommodation areas for customers and crews along with a public restaurant on the top floor.

The first leases at the Altdorf and Stans facilities were signed in 2011. The thematic clustering approach of the industrial parks was a key deciding factor both for precision tool manufacturer G-Elit (Altdorf) and for helicopter and fixed-wing aircraft completion specialist Aerolite Max Bucher AG (Stans).

Financial statements.

Key figures

in CHF m	2011	2010
Order inflow	1 720	1 713
Order backlog	1 480	1 653
Net sales	1 777	1 796
Operating income	1 793	1 837
Cost of materials and purchased services	(622)	(648)
Personnel expenses	(810)	(820)
Other operating expenses	(166)	(174)
EBITDA before one-time effects[1]	192	168
EBITDA[2]	194	194
EBITDA in % of operating income	10.8%	10.6%
EBIT before one-time effects[1]	113	93
EBIT[3]	110	98
EBIT in % of operating income	6.1%	5.3%
Net profit	97	92
Net profit in % of operating income	5.4%	5.0%
Cash flow from operating activities	127	130
Cash flow from investing activities	(46)	(50)
Free cash flow	81	80
Cash flow from financing activities	(65)	(78)
Equity before non-controlling interests	793	734
Equity in % of total assets	46.3%	41.3%
Return on equity[4]	12.7%	13.3%
Depreciation and amortization[5]	84	90
Goodwill impairment	—	6
Research and development expenses	140	190
Research and development expenses in % of operating income	7.8%	10.3%
Net sales per employee in CHF	229 639	233 563
Added value per employee in CHF	138 605	141 875
Number of employees at end-December	7 739	7 719
Number of employees (annual average)	7 739	7 689
Number of registered shares (par value CHF 1,000)	340 000	340 000
Earnings per registered share	285.07	269.26
Dividend per registered share[6]	58.82	58.82
Distribution ratio	20.6%	21.8%
Book value per registered share in CHF	2 331	2 132

[1] One-time effects are described in Note 4 to the consolidated financial statements.
[2] EBITDA = Earnings before interest, taxes, depreciation, amortization and goodwill impairment.
[3] EBIT = Earnings before interest and taxes.
[4] Net profit as a percentage of average equity.
[5] Depreciation of property, plant and equipment and amortization of intangible assets.
[6] Probable dividend of CHF 20 million in respect of 2011 according to proposal of the Board of Directors.

Five-year overview

in CHF m	2011	2010	2009	2008	2007
Order inflow	1 720	1 713	1 872	1 582	1 684
Order backlog	1 480	1 653	1 783	1 508	1 394
Net sales	1 777	1 796	1 696	1 537	1 409
EBIT[1]	110	98	(113)	57	76
EBIT in % of operating income	6.1%	5.3%	(6.6%)	3.7%	5.4%
Net profit (loss)	97	92	(107)	51	76
Net profit (loss) in % of operating income	5.4%	5.0%	(6.2%)	3.2%	5.4%
Cash flow from operating activities	127	130	131	81	52
Cash flow from investing activities	(46)	(50)	(230)	(121)	(80)
Free cash flow	81	80	(99)	(40)	(28)
Cash flow from financing activities	(65)	(78)	87	32	53
Equity before non-controlling interests	793	734	661	763	784
Equity in % of total assets	46.3%	41.3%	37.3%	48.1%	54.5%
Return on equity[2]	12.7%	13.3%	(15.0%)	6.6%	10.0%
Research and development expenses	140	190	149	123	85
Research and development expenses in % of operating income	7.8%	10.3%	8.6%	7.9%	6.0%
Number of employees at end-December	7 739	7 719	7 534	6 687	6 104
Number of employees (annual average)	7 739	7 689	7 253	6 310	6 050

[1] EBIT = Earnings before interest and taxes.

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

Consolidated income statement and other comprehensive income

in CHF m	Note	2011	2010
Net sales	6	1 777	1 796
Own work capitalized		3	5
Changes in inventories and work in progress		13	36
Operating income		1 793	1 837
Cost of materials and purchased services		(622)	(648)
Personnel expenses	7	(810)	(820)
Other operating expenses	8	(166)	(174)
EBITDA[1]		194	194
Depreciation and amortization	4, 18, 19, 20	(84)	(90)
Goodwill impairment	4, 20	—	(6)
EBIT[2]		110	98
Finance income	10	4	1
Finance costs	10	(7)	(15)
Profit of associates	21	3	4
Profit before tax		110	88
Income tax	11, 12	(14)	4
Net profit		97	92
Other comprehensive income			
Hedge accounting		(10)	9
Exchange differences		(9)	(36)
Tax effects		1	(0)
Other comprehensive income recyclable in future periods		(18)	(27)
Total comprehensive income		79	65
Attributable to			
Shareholders of RUAG Holding Ltd		97	92
Non-controlling interests		0	(0)
Net profit		97	92
Shareholders of RUAG Holding Ltd		79	65
Non-controlling interests		0	(0)
Total comprehensive income		79	65

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

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

Consolidated statement of financial position

in CHF m	Note	2011	2010
Cash and cash equivalents	13	86	70
Current financial assets	14	10	17
Receivables and prepayments	15	284	338
Tax assets		5	2
Prepaid expenses and deferred income		10	11
Inventories and work in progress	16, 17	558	535
Current assets		953	972
Property, plant and equipment	18	445	461
Investment property	19	80	83
Intangible assets	20	79	97
Goodwill	20	78	78
Associates	21	41	39
Non-current financial assets	14	4	3
Deferred tax assets	12	22	42
Non-current assets		748	804
Assets held for sale	5	10	—
Total assets		1 710	1 776
Current financial liabilities	22	56	49
Other current liabilities	23	34	39
Trade accounts payable and prepayments	24	309	378
Tax liabilities		3	10
Deferred income and accrued expenses		183	165
Current provisions	26	92	103
Current liabilities		677	744
Non-current financial liabilities	22	83	123
Other non-current liabilities	25	2	3
Employee benefit obligations	37	42	46
Non-current provisions	26	58	62
Deferred tax liabilities	12	54	63
Non-current liabilities		239	297
Share capital	31	340	340
Additional paid-in capital		10	10
Retained earnings		508	431
Other reserves		(3)	7
Exchange differences		(62)	(53)
Equity before non-controlling interests		793	734
Non-controlling interests		1	1
Total equity		794	735
Total equity and liabilities		1 710	1 776

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

Consolidated statement of cash flows

in CHF m	Note	2011	2010
Net profit		97	92
Depreciation and amortization	4, 18, 19, 20	84	90
Goodwill impairment	4, 20	—	6
Change in non-current provisions and deferred taxes		22	7
Utilization of non-current provisions		(12)	(4)
Share of profit (loss) of associates	21	(3)	(4)
Other non-cash items		5	(3)
Change in working capital[1]		(53)	(54)
Adjustment for net gain (loss) on disposal of non-current assets		(13)	(11)
Foreign exchange effect on loans		0	5
Finance income received		(3)	(1)
Finance costs paid		4	7
Cash flow from operating activities[2]		127	130
Acquisition of plant and equipment[3]	18	(33)	(62)
Acquisition of property	18, 19	(26)	(8)
Acquisition of intangible assets	20	(0)	(1)
Acquisition of investments	5	(2)	(3)
Disposal of plant and equipment		3	4
Disposal of property		12	20
Disposal of intangible assets		0	0
Disposal of investments		—	—
Dividends received from equity investments	21	1	1
Dividends received from non-consolidated investments		0	0
Cash flow from investing activities		(46)	(50)
Free cash flow		81	80
Net increase (decrease) in share capital		—	0
Increase in third-party financial assets		(1)	(0)
Decrease in third-party financial assets		0	0
Increase in third-party financial liabilities		0	(0)
Decrease in third-party financial liabilities		(44)	(71)
Payments for finance leases		(0)	(1)
Finance income received		3	1
Finance costs paid		(4)	(7)
Dividends to shareholders		(20)	(0)
Cash flow from financing activities		(65)	(78)
Effect of exchange rate changes on cash and cash equivalents		(0)	(2)
Cash and cash equivalents acquired (disposed)	5	—	—
Change in cash and cash equivalents		16	1
Cash and cash equivalents at beginning of year		70	69
Cash and cash equivalents at end of year		86	70

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

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

Consolidated statement of changes in equity

in CHF m	Share capital	Additional paid-in capital	Retained earnings[1]	Other reserves	Exchange differences	Non-controlling interests	Total equity
Balance as at 31 December 2009	340	10	330	(2)	(18)	1	662
Restatement[1]	—	—	9	—	—	—	9
Balance as at 1 January 2010	340	10	340	(2)	(18)	1	671
Net profit	—	—	92	—	—	0	92
Other comprehensive income	—	—	(0)	9	(36)	(0)	(27)
Total comprehensive income for 2010	—	—	92	9	(36)	0	65
Dividends paid	—	—	—	—	—	—	—
Buyout of non-controlling interests	—	—	—	—	—	—	—
Initial consolidation of non-controlling interests	—	—	—	—	—	—	—
Balance as at 31 December 2010	340	10	431	7	(53)	1	735
Balance as at 1 January 2011	340	10	431	7	(53)	1	735
Net profit	—	—	97	—	—	0	97
Other comprehensive income	—	—	—	(9)	(9)	—	(18)
Total comprehensive income for 2011	—	—	97	(9)	(9)	0	79
Dividends paid	—	—	(20)	—	—	—	(20)
Buyout of non-controlling interests	—	—	—	—	—	—	—
Initial consolidation of non-controlling interests	—	—	—	—	—	—	—
Balance as at 31 December 2011	340	10	508	(3)	(62)	1	794

[1] A review of the length of service of employees resulted in a correction to the provision for loyalty bonuses. The effect of this correction amounts to a net CHF 9 million, after deduction for taxes of CHF 2 million. For further details, see Note 26, "Provisions".

In 2011, a dividend of CHF 20 million was paid to the owner from the 2010 result. This is equivalent to a dividend per share of CHF 58.82. In 2010, no dividend was paid.

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

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

1 Business activities and relationship with the Swiss Confederation

RUAG Holding Ltd is a Swiss joint-stock company headquartered in Berne. It is wholly owned by the Swiss Confederation. RUAG Holding Ltd and its subsidiary companies (hereinafter referred to as "RUAG") are bound by the owner's strategy of the Swiss Federal Council. In May 2011, the Federal Council approved a new owner's strategy for RUAG, the State-Owned Defence Technology Company, for the period 2011 to 2014 According to this strategy, the Federal Council expects RUAG to direct its activities towards the key defence equipment and technologies – in particular system technologies – that are essential to Switzerland's national defence capability.

Relationship with the Swiss Confederation The Swiss Confederation is the sole shareholder of RUAG Holding Ltd. Under the terms of the Federal Act on State-Owned Defence Companies, any disposal of the capital or voting majority of the Swiss Confederation to third parties requires the approval of the Federal Assembly. As sole shareholder, the Confederation exercises control over all decisions taken at the General Meeting, including the election and remuneration of members of the Board of Directors and dividend resolutions.

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

2 Summary of significant accounting policies

2.1 Format of presentation

RUAG's consolidated financial statements have been drawn up in accordance with the latest International Financial Reporting Standards (IFRS) produced by the International Accounting Standards Board (IASB) and Interpretations of the IFRS Interpretations Committee (IFRS IC), as well as the provisions of Swiss law. The consolidated financial statements are presented in Swiss francs (CHF). All figures are given in millions of Swiss francs, unless stated otherwise.

2.2 New and revised accounting standards

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

- IAS 24 (revised) "Related Party Disclosures" contains amendments to the definition of a related party together with a simplification of disclosure requirements for government-related entities. Adoption of this revised Standard does not have any effect on RUAG's reporting.
- IFRIC 14 (revised) "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction": This amendment relates to situations where an entity is subject to minimum funding requirements and prepays its contributions in order to meet these requirements. The amendment enables the benefits arising from such prepayment to be recognized as an asset. Adoption of this revised Interpretation does not have any effect on RUAG's reporting.

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

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

Changes to International Financial Reporting Standards and Interpretations that are not yet mandatory: The following International Financial Reporting Standards and Interpretations, which were published prior to the end of 2011, must be adopted either from financial year 2012 or at a later date:

- IAS 19 (revised) "Employee Benefits" (effective 1 January 2013) contains amendments on accounting for and measuring employee benefit obligations and expense of benefit plans. As RUAG uses the so-called corridor method at present, this revised Standard brings significant changes compared with the current presentation. On the basis of the situation as at 31 December 2011, as detailed in Note 37, "Employee benefits", RUAG expects the following changes in the consolidated financial statements (tax effects are not taken into account):

in CHF m	IAS 19	IAS 19 (revised)
Employee benefit obligations		
Employee benefit obligations funded pension plans (Switzerland)	—	47
Employee benefit obligations other plans	42	48
Expense of benefit plans		
Current service cost	49	49
Interest on employee benefit obligations	54	—
Expected return on assets	(60)	—
Recognition of gain (loss) in accordance with IAS 19.58[1]	0	—
Plan curtailments[1]	(14)	(89)
Interest on net obligation – discount rate 2.5%	—	5

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

- IFRS 10 "Consolidated Financial Statements" (effective 1 January 2013) supersedes IAS 27 "Consolidated and Separate Financial Statements" as well as SIC 12 "Consolidation – Special Purpose Entities". In particular, this new Standard contains more detailed requirements regarding consolidation. RUAG does not expect adoption of this Standard to result in any change to its scope of consolidation or, therefore, to have any effect on its reporting.
- IFRS 11 "Joint Arrangements" (effective 1 January 2013) supersedes IAS 31 "Interests in Joint Ventures", and IAS 28 (revised), "Investments in Associates". The new and the revised standard govern the treatment of joint ventures in the consolidated financial statements

and particularly prohibit the application of proportionate consolidation. RUAG does not currently hold any relevant interests in joint ventures and does not, therefore, expect adoption of this Standard to have any effect on its reporting.
- IFRS 12 "Disclosure of Interests in Other Entities" (effective 1 January 2013) contains additional disclosure requirements in connection with interests in other entities and influence through third parties with interests. RUAG will adopt the new disclosure obligations in its annual report as at 31 December 2013.
- IFRS 13 "Fair Value Measurement" (effective 1 January 2013) sets out the rules for measuring fair value in a single Standard for the first time. RUAG does not expect adoption of this Standard to have a material effect on its reporting.
- IFRS 7 (revised) "Financial Instruments: Disclosures" (effective 1 July 2011) contains changes concerning the disclosure of derecognized financial instruments. RUAG will adopt the new disclosure obligations in its financial reporting, effective 31 December 2012.
- IFRS 9 "Financial Instruments" (effective 1 January 2013): IFRS 9 replaces the current IAS 39 "Financial Instruments: Recognition and Measurement". RUAG will review its reporting in light of the entry into force of this new Standard.
- IAS 12 (revised) "Income Taxes" (effective 1 January 2012) contains changes concerning deferred taxes in connection with investment property measured at fair value. RUAG does not expect this revised Standard to have any effect on its reporting.

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

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

2.4 Consolidation principles

RUAG's consolidated financial statements include all subsidiary companies that it directly or indirectly controls by a majority of the votes or by any other means. An overview of all major subsidiaries and associates is provided in Note 39.

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

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

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

Annual reporting for all subsidiaries ends on 31 December.

Associates on which RUAG exerts a significant influence (normally 20 to 50% of direct or indirect voting rights), but which it does not control, are recognized using the equity method. An equity investment is initially recorded at cost, or at fair value in the event of negative goodwill. In the reporting periods following the acquisition, this figure is adjusted to take account of RUAG's share in the additional capital generated or losses incurred.

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

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

2.5 Foreign currencies

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

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

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

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

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

Exchange rates

Currency		Annual average 2011	End-of-year rate 2011	Annual average 2010	End-of-year rate 2010
Euro	EUR	1.23	1.22	1.38	1.25
Swedish krona	SEK	13.68	13.64	14.47	13.95
US dollar	USD	0.89	0.94	1.04	0.94
Pound Sterling	GBP	1.42	1.46	1.61	1.45
Hungarian forint	HUF	0.44	0.39	0.50	0.45

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

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

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

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

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

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

In the Space segment, the milestone method is applied. Here, project milestones are defined on the basis of individual customer contracts; upon reaching these milestones, services performed are invoiced to the customer and sales and income are realized on a pro-rata basis. If the conditions for applying the percentage of completion method are not fulfilled, valuation follows the completed contract method. In this case realization of income is generally permitted only when the associated risks have been transferred and the service has been provided. Semi-finished products and services in progress are stated under "Inventories of finished goods and work in progress item".

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

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

RUAG applies the following estimated useful life:

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

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

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

2.12 Leases
Leased assets where the benefits and risk arising from ownership are essentially transferred to RUAG are recognized at the lower of fair value of the leased asset and present value of the minimum lease payments on inception of the lease. Correspondingly, the estimated net present value of future, non-cancellable lease payments is carried under

liabilities from finance leases. Assets under finance leases are amortized over the shorter of their estimated useful life or the duration of the lease. All other lease transactions are classified as operating leases.

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

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

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

Impairment of property, plant and equipment and other intangible assets The current value of property, plant and equipment and other intangible assets is reassessed whenever changes in circumstances or events indicate that the carrying amount may be overestimated. Where there is an indication of a possible overestimate, the Group measures fair value on the basis of expected future cash flows from use and eventual sale, minus any cost of disposal. Where the carrying amount exceeds the higher of fair value less costs to sell and value in use, an impairment loss equivalent to the difference is recorded. The impairment assessment is based on the smallest group of assets for which independent cash generating units are identifiable. The estimation of future discounted cash flows is based on the forecasts and assumptions of the Executive Board. Accordingly, the actual cash flows generated may differ significantly from these estimates.

2.15 Research and development expenses
Research expenses are not capitalized and are expensed as incurred. The Group examines the capitalization of development costs in each individual case and in the process assesses the inherent risk of new products and their development in the light of the uncertain nature of future benefits and the timing of returns. Contributions from third parties arising from contract development work are recognized as sales and assigned to the period in which the corresponding development costs are incurred.

2.16 Provisions
Provisions are recognized where, due to a past event:
a) RUAG has a current liability;
b) it is likely that an outflow of resources embodying economic benefits will be required to settle the liability; and
c) a reliable estimate can be made of the amount of the liability.

Provisions for restructuring Costs arising in connection with staff reduction programmes are treated as an expense when Management has decided on a programme from which a probable liability has arisen and the amount of this liability can be estimated reliably. The terms and the number of employees affected must be determined, and the employees or their representatives must be informed about the staff reduction programme.

Provisions for contract losses Contract losses are calculated immediately and in full in the financial year in which the losses are identified.

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

Provisions for leave and overtime credits Employees' entitlements to leave and overtime credits are recognized and deferred at the end of the reporting period.

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

The majority of RUAG employees are insured under defined benefit plans according to IAS 19. For its staff in Switzerland, RUAG pays contributions to VORSORGE RUAG, an employee benefit fund set up in line with the Swiss defined contribution system. This provides statutory coverage for retirement, death and disability. The expenses and obligations arising from the employee benefit fund are calculated using the actuarial principles of the projected unit credit method. This takes account of the numbers of years in service of employees up to the cut-off date for the calculation and makes assumptions as to future development of salaries.

The annual expense of benefit plans is calculated on an actuarial basis. The latest actuarial appraisal was carried out on the basis of data as at 1 January 2011. Current benefit entitlements are stated in the period of the income statement in which they arise. The effects of changes in the actuarial assumptions are stated on an equal basis in the incomestatement via the assumed average remaining service years of the insured individuals. The actuarial gains and losses to be stated on a pro rata basis correspond to the cumulative, non-recognized actuarial gains and losses at the end of the previous reporting period that exceeded the higher of the following amounts: 10% of the present value of the defined benefit obligations at the time (prior to deduction of the scheme assets) and 10% of the fair value of the fund's assets at the time. The past service cost arising from changes in the scheme is stated as an expense on a straight-line basis over the average period until the vesting period. Insofar as qualifying rights are immediately vested, the corresponding expense is recognized immediately.

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

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

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

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

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

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

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

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

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

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

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

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

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

2.22 Segment information
Reportable operating segments are determined on the basis of the management approach. 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. The Chief Operating Decision Maker (CODM) at RUAG is the Executive Chairman. Reporting is based on the Space, Aviation, Technology, Defence and Ammotec 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 space supplier. Development and manufacturing expertise is focussed 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.

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

Technology segment* The activities of RUAG Technology focus on producing aerostructures, high-precision machining of large parts, coating services for various industries and industrial recycling. The mainstay in aerostructures is producing wing components and fuselage sections. RUAG Technology is the winglet centre of excellence for Airbus and a quality gate for the global aircraft fuselage supply chain.

Ammotec segment* The global technology leader in low-pollutant pyrotechnics. RUAG Ammotec specializes in high-quality pyrotechnic

* According to IFRS: segment = division.

products for military and civil markets. It supplies high-precision ammunition across the entire small-calibre spectrum as well as special ammunition for defence and law enforcement purposes. Industrial products include actuator cartridges for the construction industry and for safety systems.

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.

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

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

When concluding a hedge transaction, the Group documents the relationship between hedging instruments and hedged items, as well as the purpose and strategy of the hedge. The process also involves linking all hedging derivatives with specific assets and liabilities, or firm commitments and forecasted transactions. At inception as well as during the life of the hedge, the Group documents the extent to which the derivatives used for the hedge offset the change in fair value of the hedged item. When a contract is concluded, a derivative instrument qualifying for hedge accounting is defined as:
a) a hedge on the change in the fair value of a stated asset or a liability (fair value hedge), or as
b) a hedge on cash flows from a forecast transaction or firm commitment (cash flow hedge), or as
c) a hedge on a net investment in a foreign operation

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

Hedging instruments are measured at fair value; the effective portion of the change in fair value of the hedging instrument is recognized in other comprehensive income and separately disclosed under other reserves in shareholders' equity. The ineffective portion is recognized in profit or loss in the income statement under other operating expenses. Upon occurrence of the underlying transaction, the relevant hedging instrument is reclassified from equity to the income statement.

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

2.25 Fair value measurement
The fair value of a financial instrument is the price at which a party would accept the rights and/or obligations arising from the financial instrument from another party. The fair value measurement of financial instruments is based on the following hierarchy:
a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
b) Comparable values for assets or liabilities that are directly or indirectly observable by parameters (Level 2).
c) Inputs for assets or liabilities that are based on unobservable market data (Level 3).

The recognized financial instruments are measured on the following basis:

Financial assets Fair values are obtained from stock market prices.

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

Derivative instruments The fair value of foreign currency forward transactions is determined on the basis of current benchmark prices at the end of the reporting period, taking account of forward premiums and discounts. Foreign currency options are valued using option pricing models. Fair values of interest rate hedging instruments are calculassted on the basis of discounted, expected future cash flows. In this case, the market interest rates for the residual maturity of the financial instruments are used. Options are valued on the basis of generally recognized option pricing models.

3 Critical accounting estimates and assumptions

Preparation of the consolidated financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that influence the stated amounts of assets and liabilities, income and expenses and the associated disclosure of contingent assets and liabilities at the end of the reporting period. At the same time, the Group makes estimates and assumptions relating to the future. Estimates made for accounting purposes may by definition differ from actual results. Estimates and assessments are continuously analysed and are based partly on historical experience and partly also on other factors including the occurrence of possible future events. Key estimates and assumptions are made in particular about the following items:

Property, plant and equipment, goodwill and intangible assets Property, plant and equipment and intangible assets are reviewed annually for 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-forecast sales of products, the rights to which have been recognized, may shorten the estimated useful life or result in impairment.

The Group reviews the value of its recognized goodwill annually. The recoverable amount of cash-generating units is determined on the basis of value in use. At the same time estimates are made of future cash flows and assumptions are made to determine the capitalization rate. The main assumptions are described in Note 20, Intangible assets. As at 31 December 2011, goodwill of CHF 78 million was recognized. No impairment of goodwill was recognized in the year under review. No impairment of goodwill would have occurred during the year under review even if significant assumptions regarding the discount rate (increased by 2%) or future cash flows (reduced by 10%) were to have changed.

An impairment of CHF 6 million on property, plant and equipment, conversely, was recognized in Aerostructures. For more information, see Note 4, "One-time effects".

Inventories and work in progress The current value of inventories and work in progress is reassessed periodically. This involves classifying the individual items in terms of inventory sales ratios and valuing them accordingly. Total value adjustments amounted to CHF 108 million as at 31 December 2011 (previous year: CHF 117 million).

Construction contracts Estimates with a significant influence are made in evaluating long-term construction contracts by the percentage of completion method. Although the estimates, such as the stage of completion and estimated cost to complete the projects, are made to the best of Management's knowledge about current events and possible future measures, the actual results may ultimately differ from these estimates. As at 31 December 2011, a net amount of CHF 38 million was recognized for construction contracts (see Note 17, "Percentage of completion"). In addition, provisions totalling CHF 42 million were recognized for anticipated contract losses as at 31 December 2011.

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.

Deferred tax assets The possible application of existing and available tax loss carryforwards is periodically assessed and measured. The basis for measuring the tax loss carryforwards is realistic performance planning on the part of the taxable entity. The assessment of future performance is based on a wide range of assumptions and estimates. If the actual values differ from the estimates, this can lead to a change in the fair value assessment of deferred tax assets. As at 31 December 2011, recognized deferred tax assets from tax loss carryforwards totalled CHF 6 million (previous year: CHF 19 million). For more information, see Note 12, "Deferred taxes".

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

4 One-time effects

in CHF m	2011	2010
Goodwill impairment	—	(6)
Impairment of other intangible assets	—	(2)
Impairment of property, plant and equipment	(6)	(12)
Write-down of inventories		
Recognition	—	—
Reversal	—	18
Provisions		
Additions	(3)	(17)
Release of unused provisions	6	25
Other costs	—	—
Total effect on EBIT	(3)	5

Effect on segment results[1]		
Aviation	1	(30)
Technology	(4)	35
Total one-time effects for segments	(3)	5

[1] Please also refer to Note 38, "Segment information".

Technology The Technology segment recorded one-time effects totalling CHF 4 million in 2011, incurred on Aerostructures and activities in Altdorf. This figure arises from an impairment of CHF 6 million of property, plant and equipment, and one-time effects of CHF 3 million in respect of redundancies in Altdorf. These charges were partially balanced by releasing provisions totalling CHF 5 million in Aerostructures.

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

In addition, provisions were released and allowances reversed totalling CHF 35 million net in 2010, and an additional CHF 5 million in 2011.

A structural adjustment to the activities of RUAG Technology in the field of Mechanical Engineering in Altdorf was required in 2011 to maintain its international competitiveness. It was also decided to discontinue activity as an automotive component supplier. The ensuing job losses incurred one-time effects of CHF 3 million in 2011.

Aviation The segment posted one-time effects of CHF 30 million in 2010 in the form of impairment losses and restructuring provisions. These were necessitated by capacity adjustments in Oberpfaffenhofen due to cuts in the defence budget and delayed sales of the Dornier 228NG. Owing to the poorer outlook in Germany, future cash flows had to be reassessed. This reassessment resulted in a recoverable amount lower than the carrying amount, leading to impairment losses of CHF 12 million on property, plant and equipment and of CHF 8 million on intangible assets (including goodwill).

The restructuring in Oberpfaffenhofen was largely completed by the end of 2011. The final payments arising from it are scheduled for early 2012. On the basis of actual expenditure, provisions totalling CHF 1 million were released in 2011.

5 Acquisitions, disposals and mergers

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

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

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

In 2010, Nidwalden Airpark AG was established in conjunction with additional partners. The company is included as an associate in RUAG's consolidated financial statements.

Disposal of business activities A decision was taken in 2010 to cease activities at the Plan-les-Ouates site. A buyer was found in the form of Saint Jean Industries, and the company took over operations at the Plan-les-Ouates site on 31 May 2011. Inventories as well as property, plant and equipment were transferred to the purchaser as part of the acquisition. The transfer generated a gain of CHF 2.6 million for RUAG Switzerland Ltd (Technology segment). The disposal gain is shown in other operating income for the Technology segment.

The buyer was also given an option to purchase the real estate at the Plan-les-Ouates site as part of the disposal of the business activities. The buyer exercised this option in December 2011. The transaction takes effect in 2012. The carrying value of the property is shown as "Assets held for sale".

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

Effect of acquisitions and disposals

in CHF m	Acquisition in 2011	Disposal in 2011	Acquisition in 2010	Disposal in 2010
Current assets	1	(3)	—	—
Property, plant and equipment	1	(0)	—	—
Intangible assets	—	—	—	—
Goodwill	—	—	—	—
Current and non-current liabilities	—	—	—	—
Deferred tax liabilities	—	—	—	—
Assets and liabilities acquired (disposed)	2	(3)	—	—
Agreed price	(2)	6	—	—
Escrow account	—	—	—	—
Assumption of financial liabilities	—	(1)	—	—
Exchange differences	—	—	—	—
Gross cash (outflow) inflow	(2)	5	—	—
Cash and cash equivalents acquired (disposed)	—	—	—	—
Net cash (outflow) inflow	(2)	5	—	—

6 Net sales

in CHF m	2011	2010
Invoiced sales	1 800	1 757
Change in percentage of completion	(23)	39
Net sales	1 777	1 796

DDPS	665	608
Third parties	1 134	1 149
Invoiced sales by customer group	1 800	1 757

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

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

Defence	938	843
Civil	861	914
Invoiced sales by type of use	1 800	1 757

Production	1 072	1 047
Maintenance	568	499
Services	160	211
Invoiced sales by order type	1 800	1 757

Switzerland	837	753
Rest of Europe	764	748
Middle East	16	16
North America	129	162
South America	13	14
Asia/Pacific	39	53
Africa	3	11
Invoiced sales by region	1 800	1 757

Sales in rest of Europe primarily concern Germany and Sweden.

7 Personnel expenses

in CHF m	2011	2010
Salaries and wages	(613)	(630)
Expense of benefit plans	(34)	(39)
Other social security expenses	(84)	(90)
Contract personnel	(46)	(48)
Other personnel expenses	(32)	(13)
Total	(810)	(820)

8 Other operating expenses

in CHF m	2011	2010
Premises costs	(22)	(27)
Maintenance and repairs of property, plant and equipment	(60)	(56)
Cost of energy and waste disposal	(14)	(13)
Insurance and duties	(8)	(8)
Administration and IT costs	(49)	(51)
Advertising costs	(18)	(19)
Other operating expenses and income, net	4	1
Total	(166)	(174)

Other operating income includes in particular the cost of maintaining operational security, surveillance, capital taxes and expenses for additions to and release of provisions, together with net proceeds from the disposal of assets.

9 Research and development expenses

in CHF m	2011	2010
Total	(140)	(190)

Research and development expenses include all own work and work carried out by third parties or services required from third parties that was recognized as an expense during the year under review.

Most of the decline in research and development costs during the year under review was due to the expiry of major customer-financed development projects in the Space, Aviation and Defence segments. Internally financed research and development costs amounted to CHF 41 million (previous year: CHF 48 million). The corresponding share in total research and development costs rose to 29% in 2011 (26%).

10 Finance income

in CHF m	2011	2010
Interest income	4	1
Realized exchange gains	0	—
Realized gains from securities	—	—
Total finance income	4	1

Finance costs		
Interest expense	(7)	(10)
Realized exchange losses	(0)	(5)
Realized losses from securities	—	0
Impairment of financial assets	—	—
Total finance costs	(7)	(15)

11 Income taxes

in CHF m	2011	2010
Current income taxes	(1)	(14)
Deferred income taxes	(13)	18
Total income tax expense	(14)	4

The tax income in 2010 resulted primarily from the recognition of tax loss carryforwards and the utilization of non-recognized tax loss carryforwards from the previous periods.

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

	2011	2010
Profit before tax	110	88
Expected weighted tax rate in %	21.9%	26.2%
Expected income tax expense	(24)	(23)
Recognition of tax loss carryforwards from previous years	5	10
Utilization of non-recognized tax loss carryforwards from previous years	(0)	18
Effect of recognized loss carryforwards on current result	(1)	(0)
Non-deductible expenses	(2)	(1)
Non-taxable income	2	1
Income taxed at a lower rate	6	—
Increase/reduction in tax rate	(1)	4
Tax credits (losses) from preceding periods	1	(5)
Goodwill impairment	—	(0)
Effective income tax expense	(14)	4

12 Deferred taxes

in CHF m	2011	2010
Origination (reversal) of temporary differences arising from the current period	(0)	5
Effect of tax rate changes	0	5
Recognition of tax loss carryforwards	5	9
Utilization of recognized deferred taxes from tax loss carryforwards	(18)	(1)
Exchange differences	—	—
Total deferred taxes	(13)	18

Change in deferred taxes		
Total deferred taxes as at 1 January	(21)	(34)
Exchange differences	2	(1)
Effect of acquisitions	—	—
Recognized in profit or loss	(13)	18
Recognized in other comprehensive income	(1)	(3)
Total deferred taxes as at 31 December	(32)	(21)
Of which deferred tax assets	22	42
Of which deferred tax liabilities	(54)	(63)

Tax loss carryforwards by date of expiry		
2011	—	3
2012	7	—
2013	—	—
2014	—	—
2015	—	—
2016	4	101
2017	0	12
After 2017	25	24
Total	36	140

Potential tax effects from tax loss carryforwards	9	29
Of which recognized as deferred tax assets	6	19
Of which not recognized	3	11

13 Cash and cash equivalents

in CHF m	2011	2010
Cash on hand	1	0
Demand deposits with banks	85	68
Money-market investments	0	2
Total	86	70

Currencies of cash and cash equivalents		
CHF	16	5
EUR	38	24
USD	9	19
GBP	5	7
SEK	17	14
HUF	0	0
CAD	1	1
Total cash and cash equivalents	86	70

14 Financial assets

in CHF m	2011	2010
Current financial assets		
Current third-party assets	10	17
Total current financial assets	10	17

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

Non-current financial assets

in CHF m	2011	2010
Money-market investments	0	0
Loans	4	3
Loans to associates	—	—
Valuation allowances	(0)	(0)
Total non-current financial assets	4	3

Currencies of financial assets		
CHF	2	0
EUR	7	14
USD	3	4
GBP	0	0
SEK	2	2
HUF	0	0
CAD	—	0
Total financial assets	13	20

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

15 Receivables and prepayments

in CHF m	2011	2010
Trade and other receivables	258	305
Receivables from associates	0	0
Prepayments to suppliers	20	29
Prepayments to associates	—	—
Valuation allowances	(8)	(9)
Total trade and other receivables and prepayments	270	325
Current receivables from shareholders	—	—
Current receivables from government bodies	8	5
Other current receivables	6	8
Total receivables and prepayments	284	338
Maturity structure of receivables		
Not past-due	178	248
Past due 1–30 days	68	49
Past due 31–60 days	10	13
Past due 61–90 days	7	7
Past due 91–180 days	9	10
Past due over 180 days	12	11
Total	284	338
Currencies of receivables and prepayments		
CHF	89	154
EUR	138	133
USD	52	45
GBP	1	2
SEK	2	3
HUF	1	0
CAD	0	0
Total	284	338

The allowance for doubtful receivables contains individual valuation allowances totalling CHF 8 million (previous year: CHF 9 million). Effective losses on receivables in each of the past two years were less than 0.2% of net sales.

Allowance for doubtful receivables

in CHF m	2011	2010
Balance at 1 January	(9)	(9)
Initial consolidation	—	—
Increase in allowance	(5)	(2)
Utilization of allowance	2	0
Reversal of allowance	4	2
Disposals	—	—
Currency differences	1	(0)
Balance at 31 December	(8)	(9)
Allowance for doubtful receivables	(8)	(9)
Interest on doubtful receivables	—	—

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

16 Inventories and work in progress

in CHF m	2011	2010
Raw materials and supplies	222	246
Work in progress at cost of conversion	118	99
Work in progress (percentage of completion)[1]	136	125
Semi-finished goods	120	118
Finished goods	71	64
Valuation allowances	(108)	(117)
Total	558	535

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

The carrying amount of inventories at fair value less costs to sell is CHF 189 million (previous year: CHF 254 million). In the year under review, a total of CHF 428 million was recognized as cost of material (CHF 460 million). The write-down of inventories recognized as an expense totalled CHF 15 million (CHF 42 million). Reversals of write-downs of inventories recognized in a prior period, arising from an increase in net realizable value, totalled CHF 7 million in the year under review (CHF 26 million).

17 Percentage of Completion (POC)

in CHF m	2011	2010
Contract sales and costs of ongoing projects at the end of the reporting period		
Aggregated contract sales of ongoing projects	1 132	1 465
Aggregated contract costs of ongoing projects	(993)	(1 254)
Realized margin of ongoing projects at the end of the reporting period	139	211
Cumulative balance at the end of the reporting period		
Gross amount due from customers for contract work	136	125
Gross amount due to customers for contract work	(98)	(65)
Net position at the end of the reporting period	38	61
Advances received from customers	92	139

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 2010	538	207	76	580	31	1 432
Initial consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	0	(0)	—	—	—	0
Additions	32	29	(0)	2	7	70
Disposals	(20)	(11)	(0)	(7)	(0)	(38)
Reclassifications	12	2	1	(5)	(21)	(10)
Exchange differences	(14)	(9)	(0)	(3)	(2)	(28)
As at 31 December 2010	548	219	77	567	16	1 427
Accumulated depreciation and impairment						
As at 1 January 2010	427	164	0	367	—	958
Initial consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	0	(0)	—	—	—	0
Scheduled depreciation	20	15	0	18	—	53
Impairment	2	9	—	1	—	12
Disposals	(19)	(9)	—	(7)	—	(35)
Depreciation of net carrying amount	—	—	—	—	—	—
Reclassifications	5	0	—	(10)	(0)	(5)
Exchange differences	(9)	(7)	(0)	(1)	—	(17)
As at 31 December 2010	427	172	0	368	(0)	966
At cost						
As at 1 January 2011	548	219	77	567	16	1 427
Initial consolidation	1	—	—	—	—	1
Eliminations from the scope of consolidation	—	—	—	—	—	—
Additions	19	15	—	11	15	59
Disposals	(28)	(13)	(2)	(1)	(0)	(44)
Reclassifications	5	4	(1)	(9)	(13)	(15)
Exchange differences	(3)	(2)	(0)	(1)	(0)	(6)
As at 31 December 2011	541	223	74	568	17	1423
Accumulated depreciation and impairment						
As at 1 January 2011	427	172	0	368	(0)	966
Initial consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Scheduled depreciation	23	16	—	18	—	57
Impairment	5	0	—	1	—	6
Disposals	(28)	(13)	(0)	(1)	—	(41)
Depreciation of net carrying amount	—	—	—	—	—	—
Reclassifications	2	(2)	0	(5)	0	(5)
Exchange differences	(2)	(1)	(0)	(0)	—	(3)
As at 31 December 2011	427	172	0	380	—	979
Net carrying amount						
As at 1 January 2011	121	47	77	200	16	461
As at 31 December 2011	114	51	74	188	17	445

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

Further information on impairment is given in Note 4, "One-time effects".

Leased assets

in CHF m	2011	2010
At cost	4	3
Accumulated depreciation and impairment	(3)	(3)
Net carrying amount	1	—

19 Investment property

in CHF m	2011	2010
At cost		
As at 1 January	225	215
Initial consolidation	—	—
Eliminations from the scope of consolidation	—	—
Additions	0	0
Disposals	—	(0)
Reclassifications	—	10
Exchange differences	—	—
As at 31 December	226	225
Accumulated depreciation and impairment		
As at 1 January	142	133
Initial consolidation	—	—
Eliminations from the scope of consolidation	—	—
Scheduled depreciation	4	4
Impairment	—	—
Disposals	—	(0)
Depreciation of net carrying amount	—	—
Reclassifications	—	5
Exchange differences	—	—
As at 31 December	146	142
Net carrying amount		
As at 1 January	83	83
As at 31 December	80	83

Investment properties were worth an estimated CHF 180–200 million in 2011 and 2010. No market evaluation by an expert was carried out. The rental and other earnings from the investment property amounted to CHF 17 million (CHF 18 million in the previous year) and the total real estate expenses to CHF 11 million (CHF 11 million).

Majority leased sites to third parties are classified as investment properties. In 2011, there were five such sites (Berne, Boden, Wimmis, Unterseen and Aigle). No agreed capital commitments or commitments in respect of maintenance work were in place at the end of December 2011 and 2010.

20 Intangible assets / goodwill

in CHF m	Patents	Brands and models	Licences and rights	Order backlog and customer lists	Intangible assets	Goodwill
At cost						
As at 1 January 2010	8	14	16	115	153	97
Initial consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Additions	—	—	1	—	1	—
Disposals	(0)	—	(0)	—	(0)	(0)
Reclassifications	0	(1)	0	1	0	—
Exchange differences	(0)	(2)	(2)	(2)	(6)	(4)
As at 31 December 2010	7	11	15	114	147	94
Accumulated amortization and impairment						
As at 1 January 2010	5	7	10	11	33	9
Initial consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Scheduled depreciation	1	2	1	15	18	—
Impairment	—	—	2	—	2	6
Disposals	—	—	(0)	—	(0)	—
Reclassifications	0	(0)	0	0	0	—
Exchange differences	(0)	(1)	(1)	(1)	(3)	—
As at 31 December 2010	5	7	12	25	50	15
At cost						
As at 1 January 2011	7	11	15	114	147	94
Initial consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Additions	—	—	0	—	0	—
Disposals	(5)	—	(0)	—	(5)	—
Reclassifications	(0)	—	0	—	0	—
Exchange differences	(0)	(0)	(0)	(1)	(1)	(1)
As at 31 December 2011	2	11	15	113	141	93
Accumulated amortization and impairment						
As at 1 January 2011	5	7	12	25	50	15
Initial consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Scheduled depreciation	1	1	0	15	17	—
Impairment	—	—	—	—	—	—
Disposals	(5)	—	(0)	—	(5)	—
Reclassifications	—	—	—	—	—	—
Exchange differences	(0)	(0)	(0)	(0)	(1)	—
As at 31 December 2011	2	8	12	40	61	15
Net carrying amount						
As at 1 January 2011	2	4	2	88	97	78
As at 31 December 2011	1	3	3	73	79	78

The recoverable amount of cash generating units is determined on the basis of their value in use. Value in use is derived from the present value of future cash flows from a cash generating unit corresponding to the relevant Group division. The net present values of future cash flows are based on a medium-term plan, approved by the management, covering a five-year period. Cash flows after this five-year period are extrapolated without taking any growth rate into account. Cash flows are calculated using a segment-specific pretax discount rate of 8–10% (previous year: 8–10%), based on target equity of 40% of total assets.

Further information on impairment is given in Note 4, "One-time effects".

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

	2011	2010
Space[1]	61	61
Aviation	0	0
Technology	—	—
Defence	4	4
Ammotec	13	13
As at 31 December	78	78

[1] Mainly concerns goodwill from the acquisition of the Space business operations of OC Oerlikon amounting to CHF 52 million. The cash-generating unit is "Space Switzerland". The relevant discount rate for Space Switzerland is 9%.

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

21 Associates

in CHF m	2011	2010
Balance at 1 January	39	38
Acquisitions	—	0
Initial consolidation	—	0
Share of results after taxes	3	4
Dividends	(1)	(1)
Reclassifications	—	—
Other changes in equity	—	—
Exchange differences	(1)	(2)
Balance at 31 December	41	39

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

Aggregate financial information for associates

in CHF m	2011	2010
Total assets	170	156
Total liabilities	83	72
Net assets	87	84
Sales	139	138
Profit	7	5

There are no contingent liabilities relating to associates.

22 Financial liabilities

in CHF m	2011	2010
Current financial liabilities		
Due to banks	41	41
Financial derivatives at fair value	15	7
Liabilities to associates	—	—
Lease liabilities	0	—
Current portion of non-current financial liabilities	—	—
Total current financial liabilities	56	49

Non-current financial liabilities

in CHF m	2011	2010
Due to banks	82	123
Lease liabilities	1	—
Loans secured by property	—	—
Bond issues	—	—
Liabilities to associates	—	—
Total non-current financial liabilities	83	123

The fair value of the non-current financial liabilities corresponds to the carrying amount. The average rate of interest on non-current financial liabilities in the year under review was 2.5% (previous year: 2.8%).

Maturity structure of financial liabilities

in CHF m	2011	2010
Up to 1 year	56	49
Up to 2 years	41	41
Up to 3 years	41	41
Up to 4 years	0	41
Over 4 years	0	0
Total financial liabilities	139	172

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

The key financial figures were met as at 31 December 2011 and 31 December 2010.

Currencies of financial liabilities

in CHF m	2011	2010
CHF	128	168
EUR	2	2
USD	9	1
GBP	0	1
SEK	—	0
HUF	0	—
CAD	0	0
Total financial liabilities	139	172

23 Other current liabilities

in CHF m	2011	2010
Due to third parties	16	18
Due to associates	—	—
Due to government bodies	16	20
Due to shareholders	—	0
Due to employee benefit funds	2	0
Total	34	39

24 Trade accounts payable and prepayments

in CHF m	2011	2010
Trade accounts payable	105	107
Accounts payable to associates	0	0
Prepayments from customers	204	271
Prepayments from associates	—	—
Total	309	378

Maturity structure of trade accounts payable and prepayments

in CHF m	2011	2010
Not past-due	283	357
Past due 1–30 days	21	20
Past due 31–60 days	4	0
Past due 61–90 days	2	0
Past due 91–180 days	(0)	0
Past due over 180 days	0	1
Total trade accounts payable and prepayments	309	378

Currencies of trade accounts payable and prepayments

in CHF m	2011	2010
CHF	174	231
EUR	95	89
USD	16	22
GBP	5	6
SEK	19	29
HUF	0	0
CAD	0	0
Total trade accounts payable and prepayments	309	378

25 Other non-current liabilities

in CHF m	2011	2010
Due to third parties	2	3
Due to associates	—	—
Due to shareholders	—	—
Due to employee benefit funds	—	—
Total	2	3

26 Provisions

in CHF m

	Restructuring	Contract losses	Warranties	Holiday and overtime	Loyalty bonuses and anniversary benefits	Other provisions	Total
Balance at 1 January 2011	18	49	25	40	19	13	165
Initial consolidation	—	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—	—
Additions	4	28	10	27	4	8	81
Release of unused provisions	(5)	(5)	(7)	(2)	(1)	(1)	(21)
Use of provisions	(7)	(29)	(6)	(25)	(2)	(4)	(74)
Reclassifications	—	—	—	—	—	—	—
Exchange differences	(1)	(0)	(0)	(0)	(0)	(0)	(2)
Balance at 31 December 2011	8	42	23	40	20	16	149
Current provisions	5	21	17	40	0	9	92
Non-current provisions	3	21	6	0	20	7	58

Additions to provisions for restructuring in 2011 mainly concern the announced headcount reduction at the Altdorf site. For more information, see Note 4, "One-time effects".

The statement as at 31 December 2011 in respect of the provision of long-service awards for employees, entered under the item "Provisions for loyalty bonuses and anniversary benefits", was based on the following assumptions: Discount rate of 2.5% (previous year: 3.0%) and other actuarial assumptions on matters such as staff turnover and salary increases.

The service years of RUAG's employees form a significant basis for measuring the provisions for loyalty bonuses and anniversary benefits. In reviewing this data, it was ascertained that the assumed length of service was too long in the past. Adjustment in line with the effective service years led to a reduction in these provisions of CHF 11 million. The balance sheet figure for provisions for loyalty bonuses and anniversary benefits was retroactively adjusted by this amount as at 1 January 2010. This adjustment of the provisions has no significant influence on the income statement.

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

27 Contingent liabilities towards third parties

in CHF m

	2011	2010
Guarantees	112	148
Securities	160	160
Warranty commitments	62	53
Total	334	361

Guarantees are primarily performance and advance payment guarantees from operational business. An intra-Group loan of CHF 160 million to RUAG Real Estate Ltd was pledged to secure the credit agreement for RUAG Holding Ltd. Warranty commitments are solely bank guarantees.

28 Additional contingent liabilities not stated on the balance sheet

in CHF m	2011	2010
Warranty contracts	1	7
Letters of intent	—	4
Agreed contractual penalties (fines and premiums)	16	23
Legal proceedings	2	2
Bill commitments	—	—
Capital commitments for property, plant and equipment	6	4
Other contingent liabilities	15	17
Total	41	57

Warranty contracts As a manufacturer, RUAG undertakes to rectify, through repair or replacement, products and services that it has delivered and in which manufacturer's faults appear within a defined period from the date of sale. Warranty obligations are treated in accordance with standard business practices and are recognized under provisions for warranties. Provisions for warranties are recognized to the amount of the best estimate of the cost of rectifying faults in products sold with a warranty before the end of the reporting period. The possibility of a cash outflow over and above the recognized provisions for warranties is currently viewed as improbable.

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

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

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

29 Assets pledged as collateral

in CHF m	2011	2010
Cash and cash equivalents	1	—
Receivables and inventories	—	2
Plant and equipment	0	—
Property	7	7
Total	8	9

30 Fire insurance values

in CHF m	2011	2010
Plant and equipment	1 222	1 448
Property	1 356	1 507
Total	2 579	2 954

31 Share capital

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

32 Events after the reporting period

The Board of Directors of RUAG Holding Ltd approved the consolidated financial statements for publication on 24 February 2012. The Annual General Meeting has the right to approve the consolidated financial statements.

33 Related party transactions

in CHF m	2011	2010
Receivables from related parties	49	111
Liabilities to related parties	(2)	(0)
Prepayments from related parties	(56)	(84)
Current liabilities to employee benefit funds	(2)	(1)
Non-current liabilities to employee benefit funds	(0)	—

In the year under review, CHF 49 million of receivables from related parties (previous year: CHF 111 million) and CHF 2 million of liabilities to related parties (CHF 0 million) were attributable to the DDPS. Invoiced sales to the DDPS totalled CHF 665 million (CHF 608 million) as stated in Note 6, "Net sales". There were no loans between the Group companies and members of the Board of Directors. In 2011, turnover of CHF 1 million was generated with associates and services with a value of CHF 2 million purchased.

34 Compensation of key management personnel

The overall emoluments (excluding employer contributions to statutory retirement and survivors' insurance) paid to the non-executive members of the Board of Directors for the 2011 financial year amounted to CHF 495,000 (previous year: CHF 499,000). The overall emoluments (including all employer contributions to employee benefit funds, excluding employer contributions to statutory retirement and survivors' insurance or similar state social insurance contributions) paid to the CEO and the other members of the Executive Board for the 2011 financial year amounted to CHF 5,325,000 (CHF 4,818,000). The 2011 total includes the compensation paid to the CEO, Dr Lukas Braunschweiler, up to 31 October 2011, and the Executive Chairman, Konrad Peter, from 1 November 2011 onwards.

The overall emoluments (including all employer contributions to employee benefit funds, excluding employer contributions to statutory retirement and survivors' insurance or similar state social insurance contributions) paid to the CEO for the 2011 financial year amounted to CHF 553,000 (previous year: CHF 848,000). The 2011 total includes the compensation paid to the CEO, Dr Lukas Braunschweiler (CHF 476,000), up to 31 October 2011, and the Executive Chairman, Konrad Peter (CHF 77,000), from 1 November 2011 onwards.

Compensation of key management personnel

in CHF 1000

	Board of Directors		Total compensation CBD[2]	
	2011	2010	2011	2010
Basic salary				
Cash compensation[1]	495	499	117	140
Employer contributions to employee benefit funds	—	—	—	—
Payments in kind	—	—	—	—
Performance-related component				
Cash compensation[1]	—	—	—	—
Shares	—	—	—	—
Options	—	—	—	—
Total compensation	495	499	117	140

	Executive Board		Total compensation CEO[2]	
	2011	2010	2011	2010
Basic salary				
Cash compensation[1]	3 476	2 915	440	442
Employer contributions to employee benefit funds	471	378	82	65
Payments in kind	52	43	31	8
Performance-related component				
Cash compensation[1]	1 326	1 482	—	332
Shares	—	—	—	—
Options	—	—	—	—
Total compensation	5 325	4 818	553	848
Relation between performance-related component and cash compensation	38%	51%	—	75%

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

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

35 Future minimum obligations under finance leases

in CHF m	2011	2010
Within 1 year	0	—
Between 1 and 5 years	1	—
After 5 years	—	—
Total	1	—
Less future finance costs	(0)	—
Total lease liabilities	1	—

Future minimum obligations under operating leases

Within 1 year	21	18
Between 1 and 5 years	62	59
After 5 years	22	35
Total	105	112

These items relate exclusively to non-recognized liabilities arising from operating leases (incl. rent). Future lease liabilities are not reported on the balance sheet.

36 Risk management and additional information on financial instruments

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

Identified risks are quantified (in terms of probability of occurrence and impact) and entered on a risk map. This risk map is discussed periodically by the Board of Directors and the Audit Committee. Ongoing risk monitoring, supervision and control is the responsibility of Management. Management is supported in this task by a corporate Group Risk Management function.

36.1 Financial risk management

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

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

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

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

Currency risk The consolidated financial statements are presented in Swiss Francs (CHF). The company is mainly subject to changes in the exchange rates of the 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 forecast transactions. RUAG also employs forward transactions and currency options to hedge certain cash flows anticipated in foreign currency.

Foreign currency positions in the balance sheet

in CHF m	EUR	USD	SEK	Other
Cash and cash equivalents	38	9	17	7
Receivables and prepayments	138	52	2	2
Other financial assets	7	3	2	0
Financial liabilities	(2)	(9)	—	(0)
Trade accounts payable and prepayments	(95)	(16)	(19)	(6)
Other financial liabilities	(1)	—	(2)	(0)
Carrying amount of exposure as at 31 December 2011	86	38	1	3
Cash and cash equivalents	24	19	14	8
Receivables and prepayments	133	45	3	2
Other financial assets	14	4	2	1
Financial liabilities	(1)	(1)	(0)	(1)
Trade accounts payable and prepayments	(89)	(22)	(29)	(7)
Other financial liabilities	(1)	—	(2)	—
Carrying amount of exposure as at 31 December 2010	79	44	(12)	3

The following currency hedging transactions existed as at 31 December:

Contract volumes

in CHF m	2011	2010
Currency hedging contracts banks positive	326	260
Currency hedging contracts banks negative	(85)	(54)

Recognized values for currency hedge transactions

in CHF m	2011	2010
Current financial assets	9	17
Current financial liabilities	(11)	(3)

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

RUAG Holding Ltd provides RUAG Deutschland AG with a euro-denominated loan. This loan is not hedged. The loan amount as at 31 December 2011 was EUR 181 million (previous year: EUR 143 million). The cumulative exchange losses for this loan recognized in equity as at 31 December 2011 amounted to CHF 44 million (CHF 37 million).

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

in CHF m	2011	2010
Other reserves	(3)	7

Due to the occurrence of the underlying transactions, CHF 15 million was transferred from other reserves to other operating expenses (previous year: CHF 9 million).

Commodity price risk In buying commodities (particularly copper, zinc, lead, aluminium, steel etc.) to be used as raw materials in production, the company is sometimes subject to a price risk. Commodity price changes can affect the gross profit margins of the operations concerned. Therefore, RUAG uses commodity futures transactions to manage the price fluctuation risk of planned purchases.

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

Consumption

in CHF m	2011	2010
Aluminium	6	5
Lead	7	7
Copper	17	21
Steel	5	8
Zinc	3	2
Total	39	43

Interest rate risk RUAG is exposed to interest rate risks arising from the volatility of market interest rates. Demand deposits and money-market investments are subject to an interest rate risk that can impact on net profit. Financial liabilities largely comprise loans from financial institutions with variable interest rates. For the purpose of hedging interest rate risk, RUAG concluded interest rate swaps corresponding to the term of the financial liabilities.

Interest-bearing financial liabilities

in CHF m	2011	2010
Current financial liabilities	41	41
Non-current financial liabilities	83	123
Total financial liabilities	124	165
Of which variable interest-bearing	124	165
Fixed through interest rate swap	(123)	(164)
Variable interest-bearing, net	1	1

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

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

Contract volumes

in CHF m	2011	2010
Interest rate swap	160	214

Recognized values for interest rate swaps

in CHF m	2011	2010
Current financial assets	—	—
Current financial liabilities	(4)	(4)

Credit risk Credit risks arise in particular when customers are not in a position to fulfil their contractual commitments. To manage this risk, RUAG periodically evaluates customers' solvency. Sales from transactions with the DDPS amount to around 37% of total sales. No other customer accounts for more than 10% of the Group's net sales. Trade and other receivables from the DDPS account for around 19% (previous year: 34%) of total trade and other receivables as per 31 December 2011. There are no other concentrated credit risks that exceed 5% of total trade and other receivables.

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

in CHF m	2011	2010
Cash and cash equivalents	86	70
Current financial assets	10	17
Receivables and prepayments	284	338
Non-current financial assets	4	3
Total credit risk	384	428

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

Liquidity risk Liquidity risk describes the risk that arises if the company is not in a position to fulfil its obligations when due or at a

reasonable price. Group Treasury is responsible for monitoring liquidity, financing and repayment. In addition, Management controls processes and guidelines in this connection. To maintain flexibility, RUAG manages its liquidity risk on a consolidated basis, drawing on social, tax and financial considerations and, if necessary, various funding sources. RUAG maintains on principle a liquidity reserve that exceeds the daily and monthly operating cash requirements. This includes maintaining adequate reserves of cash and cash equivalents as well as the availability of adequate open lines of credit. A rolling liquidity plan is drawn up on the basis of expected cash flows and is regularly updated.

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

Net debt

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	86	—	—	—	—	86
Current financial assets[1]	0	—	—	—	—	0
Non-current financial assets	0	1	0	0	1	4
Current financial liabilities[1]	(41)	—	—	—	—	(41)
Non-current financial liabilities	(0)	(41)	(41)	(0)	(0)	(83)
Other non-current liabilities	—	(2)	—	—	—	(2)
Net debt at 31 December 2011	45	(42)	(41)	0	1	(36)
Cash and cash equivalents	70	—	—	—	—	70
Current financial assets[1]	—	—	—	—	—	—
Non-current financial assets	0	0	0	0	2	3
Current financial liabilities[1]	(41)	—	—	—	—	(41)
Non-current financial liabilities	—	(41)	(41)	(41)	(0)	(123)
Other non-current liabilities	—	(3)	—	—	—	(3)
Net debt at 31 December 2010	29	(43)	(41)	(41)	2	(94)

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

36.2 Capital risk management

In managing capital, RUAG's aims are to ensure that the company can continue its operating activities, that the owner receives an adequate return and that the balance sheet structure is optimized with regard to the cost of capital. In order to meet these objectives, RUAG can apply for higher or lower dividend payments, repay capital to the shareholder, issue new shares, or dispose of assets in order to reduce debt. RUAG monitors its capital structure on the basis of net debt and equity, by measuring the ratio of net debt to equity. Net debt is the sum of cash and cash equivalents, current and non-current financial assets minus current and non-current financial liabilities and other non-current liabilities.

Total capital is the sum of equity and net debt. RUAG has set itself the long-term target of keeping net debt below 40% of equity. At the end of 2011, the figure was 4.5% (previous year: 12.9%).

36.3 Fair value estimates

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

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

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

Financial assets in current assets

in CHF m	2011	2010
Hedging transactions		
Financial derivatives at fair value	9	17
Loans and receivables		
Receivables and prepayments	284	338
Current financial assets	0	—
Total	294	354

Financial assets in non-current assets

Loans and receivables		
Non-current financial assets	4	3
Total	4	3

Current financial liabilities

At amortized cost		
Current financial liabilities	41	41
Trade accounts payable and prepayments	309	378
Hedging transactions		
Financial derivatives at fair value	15	7
Total	366	427

Non-current financial liabilities

At amortized cost		
Non-current financial liabilities	83	123
Total	83	123

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

37 Employee benefits

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

Major employee benefit plans that are classed as defined benefit plans under IAS 19 are evaluated by an independent insurance actuary every year. The most recent actuarial appraisal in accordance with IAS 19 was carried out on 1 January 2011.

All pension plans are based on local legal provisions.

The following figures give an overview of the status of the funded and non-funded defined benefit plans as at 31 December 2011 and 2010.

Net expense of benefit plans

in CHF m	2011	2010
Current service cost	49	47
Interest on employee benefit obligations	54	55
Expected return on plan assets	(60)	(76)
Amortization of actuarial losses	0	—
Increase (decrease) in non-recognized assets and recognized loss in accordance with IAS 19.58	—	11
Plan curtailments	(14)	—
Total expense of defined benefit plans	29	36

Employer contributions for the 2012 financial year are expected to total CHF 35 million.

As per 31 December 2011, as was also the case at the end of the previous year, actuarial losses not yet amortized exceeded the present value of employee benefit obligations by less than 10% and were thus within the corridor stipulated by IAS 19.

The following table shows the changes in projected employee benefit obligations and the benefit plan assets as at 31 December 2011 and 2010 for funded plans (Switzerland) and non-funded plans (foreign plans, primarily in Germany and Sweden):

Employee benefit obligations

in CHF m	2011	2010
Employee benefit obligations at beginning of year	1 793	1 619
Benefit entitlements earned	49	47
Employee contributions	24	23
Interest on employee benefit obligations	54	55
Actuarial loss (gain)	(68)	97
Exchange differences	(1)	(3)
Plan amendments	—	—
Changes in the scope of consolidation	—	—
Plan curtailments	(14)	—
Net employee benefits paid	(53)	(44)
Present value of employee benefit obligations at end of year	1 784	1 793
Fair value of plan assets	1 688	1 677
Deficient cover	(96)	(116)

Plan assets

in CHF m	2011	2010
Fair value of plan assets at beginning of year	1 677	1 618
Actual return on plan assets	9	47
Exchange differences	—	—
Employer contributions	30	34
Employee contributions	24	23
Changes in the scope of consolidation	—	—
Net employee benefits paid	(52)	(44)
Fair value of plan assets at end of year	1 688	1 677

Allocation of plan assets at 31 December

in %	Long-term target	2011	2010
Cash and cash equivalents	0–6%	3%	1%
Debt instruments (bonds)	44–62%	52%	50%
Equity instruments (shares)	20–38%	31%	33%
Other assets	13–22%	14%	16%
Total plan assets		100%	100%

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

Multi-year overview

in CHF m	2011	2010	2009	2008	2007
Present value of employee benefit obligations at end of year	1 784	1 793	1 619	1 438	1 393
Fair value of plan assets	1 688	1 677	1 618	1 327	1 533
(Deficient)/surplus cover	(96)	(116)	(1)	(111)	140
Difference between expected and actual return on plan assets	(51)	(29)	99	(284)	(70)
Revaluation of employee benefit obligations	(23)	24	19	29	31

Summary of financial position at year-end

in CHF m	2011	2010
Deficient cover	(96)	(116)
Unrecognized actuarial losses	54	70
Non-amortized first-time difference	—	—
Unrecognized plan assets	(1)	(1)
Employee benefit obligations	(42)	(46)

Change in employee benefit obligations

in CHF m	2011	2010
Recognised employee benefit obligations at beginning of year	(46)	(47)
Net expense of benefit plans	(29)	(36)
Changes in the scope of consolidation	—	—
Employer contributions	32	34
Exchange differences	1	3
Employee benefit obligations at end of year	(42)	(46)

As at 31 December 2011, the employee benefit funds owned no shares in RUAG Holding Ltd.

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

Actuarial assumptions

in %	2011	2010
Funded pension plans (Switzerland)		
Discount rate	2.50%	3.00%
Expected long-term return on plan assets	3.50%	4.75%
Annual salary increases	2.00%	2.00%
Annual pension adjustments	0.00%	0.75%
Other pension plans		
Discount rate	3.50–4.50%	4.00–5.00%
Annual salary increases	2.50–3.00%	2.50–3.00%
Annual pension adjustments	1.50–2.00%	1.50–2.00%

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

To calculate the employee benefit obligations as at 31 December 2011, life expectancy was calculated for the first time on the basis of generation tables; this resulted in an increase in the employee benefit obligations. Due to the expected higher life expectancy, the conversion rates for plan participants were reduced, resulting in a corresponding reduction of the employee benefit obligations. Changed assumptions for pension adjustments also resulted in a decrease of the employee benefit obligations.

38 Segment information

in CHF m

	2011 **Space**	2010 **Space**	2011 **Aviation**	2010 **Aviation**	2011 **Technology**	2010 **Technology**
Net sales with third parties	274	283	474	465	259	270
Net sales with other segments	0	0	13	6	9	3
Total net sales	275	283	487	471	268	273
EBITDA	33	30	27	15	11	30
Depreciation and amortization	(20)	(22)	(5)	(20)	(16)	(8)
Goodwill impairment	—	—	—	(6)	—	—
EBIT	13	9	22	(11)	(5)	21
Net financial income						
Profit of associates						
Profit before tax						
Tax expense						
Net profit						
Net operating assets by region	85	127	111	136	101	90
Net operating assets Switzerland	82	121	46	70	79	77
Net operating assets rest of Europe	3	6	58	60	23	13
Net operating assets North America	—	—	7	6	—	—
Acquisition of property, plant and equipment and intangible assets	(9)	(13)	(7)	(6)	(8)	(11)
Disposal of property, plant and equipment and intangible assets	0	16	0	0	1	2

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

Information on one-time effects in the segments is given in Note 4, "One-time effects".

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

2011 Ammotec	2010 Ammotec	2011 Defence	2010 Defence	2011 Services	2010 Services	2011 Elimination	2010 Elimination	2011 Group total	2010 Group total
311	319	429	433	30	26	—	—	1 777	1 796
1	1	6	6	128	126	(157)	(141)	—	—
312	320	435	438	158	152	(157)	(141)	1 777	1 796
36	42	44	38	43	39	0	(0)	194	194
(11)	(10)	(6)	(6)	(27)	(24)	—	—	(84)	(90)
—	—	—	—	—	—	—	—	—	(6)
25	31	38	32	17	15	0	(0)	110	98
								(3)	(14)
				3	4			3	4
								110	88
								(14)	4
								97	92
187	179	(30)	(35)	331	275	(1)	(0)	786	771
37	37	(48)	(47)	326	279	(2)	(0)	520	537
135	123	18	12	5	(3)	1	0	243	210
15	19	—	—	—	—	(0)	(0)	22	25
(14)	(20)	(4)	(4)	(17)	(17)	—	—	(60)	(71)
0	0	1	1	12	5	—	—	15	24

39 Consolidated companies, associates and non-controlling interests

Company	Head office	Country	Equity capital (100%)		Shareholding	Method of consolidation
RUAG Holding AG[1]	Berne	Switzerland	CHF	340 000 000		Full
Consolidated companies						
RUAG Switzerland Ltd	Emmen	Switzerland	CHF	112 200 000	100.0%	Full
Mecanex USA Inc	Berlin, CT	USA	USD	1 500	100.0%	Full
RUAG Deutschland GmbH	Wessling	Germany	EUR	1 000 000	100.0%	Full
RUAG Aerospace Services GmbH	Wessling	Germany	EUR	1 000 000	100.0%	Full
RUAG Aerospace Structures GmbH	Wessling	Germany	EUR	25 000	100.0%	Full
RUAG Sweden AB	Gothenburg	Sweden	SEK	100 000	100.0%	Full
RUAG Space AB	Gothenburg	Sweden	SEK	15 000 000	100.0%	Full
RUAG Space GmbH	Vienna	Austria	EUR	1 500 000	100.0%	Full
RUAG Aerospace USA Inc	El Segundo, CA	USA	USD	1 000	100.0%	[3]
RUAG COEL GmbH	Wedel	Germany	EUR	260 000	100.0%	Full
RUAG Ammotec Deutschland GmbH	Fürth	Germany	EUR	100 000	100.0%	Full
RUAG Ammotec GmbH	Fürth	Germany	EUR	25 000	100.0%	Full
RUAG Ammotec AG	Thun	Switzerland	CHF	12 000 000	100.0%	Full
RUAG Ammotec Austria GmbH	Vienna Neudorf	Austria	EUR	298 000	100.0%	Full
RUAG Ammotec France	Paris	France	EUR	1 000 000	100.0%	Full
RUAG Ammotec UK Ltd	Liskeard	England	GBP	15 000	100.0%	Full
RUAG Ammotec Benelux BVBA	Boechout	Belgium	EUR	25 000	100.0%	Full
RUAG Ammotec USA Inc	Tampa, FL	USA	USD	15 000	100.0%	Full
Norma Precision AB	Amotfors	Sweden	SEK	2 500 000	100.0%	Full
RUAG Hungarian Ammotec Inc	Sirok	Hungary	HUF	280 000	100.0%	Full
RUAG Industria e Comercio de Municoes Ltda	São Francisco	Brazil	BRL	200 000	100.0%	[3]
RUAG Real Estate Ltd	Berne	Switzerland	CHF	8 000 000	100.0%	Full
RUAG Services AG	Berne	Switzerland	CHF	100 000	100.0%	Full
brings! AG	Schattdorf	Switzerland	CHF	100 000	55.0%	Full
SwissRepair AG	Schlieren	Switzerland	CHF	100 000	52.0%	Full
GEKE Schutztechnik GmbH	Lichtenau	Germany	EUR	100 000	51.0%	Full
RUAG Aerospace GmbH	Zurich	Switzerland	CHF	20 000	100.0%	[3]
Associates[2]						
Nitrochemie AG	Wimmis	Switzerland	CHF	1 000 000	49.0%	Equity
Nitrochemie Wimmis AG	Wimmis	Switzerland	CHF	25 000 000	45.0%	Equity
Nitrochemie Aschau GmbH	Aschau	Germany	EUR	7 700 000	45.0%	Equity
HTS GmbH	Coswig	Germany	EUR	26 000	24.6%	Equity
Nidwalden AirPark AG	Stans	Switzerland	CHF	600 000	33.3%	Equity
Other investments						
Saab Bofors Dynamics Switzerland Ltd	Thun	Switzerland	CHF	2 000 000	5.0%	[3]
Alpar, Flug- und Flugplatz-Gesellschaft AG	Berne	Switzerland	CHF	10 150 000	2.0%	[3]
CFS Engineering SA	Lausanne	Switzerland	CHF	150 000	40.0%	[3]
Arianespace SA	Évry	France	EUR	395 010	0.1%	[3]
Arianespace Participation	Évry	France	EUR	21 918 756	3.4%	[3]

[1] RUAG Holding Ltd, Stauffacherstrasse 65, P.O. Box, CH-3000 Berne 22.

[2] Investments of between 20 and 50% are measured using the equity method.

[3] Non-material other investments are valued at cost minus a valuation allowance.

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

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of RUAG Holding AG, which comprise the income statement, balance sheet, statement of cash flows, statement of changes in equity and notes (pages 60 to 100), for the year ended December 31, 2011.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

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Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Rolf Johner
Audit expert
Auditor in charge

Réne Jenni
Audit expert

Berne, February 24th, 2012

Income statement

in CHF m	2011	2010
Income from investments	33	21
Interest income	20	20
Gains from securities	—	—
Income from the disposal of investments	—	—
Income from services	14	13
Currency gains	—	—
Income	67	54
Investment expense	—	—
Finance costs	(6)	(7)
Losses from securities	—	—
Personnel expenses	(8)	(9)
Administration costs	(10)	(8)
Amortization	(0)	(0)
Currency losses	(9)	(41)
Tax	(0)	(0)
Expenses	(33)	(65)
Annual profit (loss)	35	(12)

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

Statement of financial position before allocation of profit

in CHF m	2011	2010
Cash and cash equivalents	43	30
Receivables		
Third parties	0	0
Group companies	285	370
Prepaid expenses and deferred income		
Third parties	1	1
Group companies	—	—
Current assets	329	401
in % of total assets	29.2%	33.5%
Investments	637	637
Financial assets		
Third parties	0	—
Group companies	160	160
Plant and equipment	1	0
Non-current assets	798	798
in % of total assets	70.8%	66.5%
Total assets	1 128	1 199
Current financial liabilities		
Third parties	42	43
Group companies	250	295
Deferred income and accrued expenses		
Third parties	2	2
Group companies	—	0
Non-current financial liabilities		
Third parties	82	123
Group companies	—	—
Provisions	0	0
Liabilities	377	463
in % of total equity and liabilities	33.4%	38.6%
Share capital	340	340
Statutory reserve	26	26
Statutory reserve from capital contribution	10	10
Voluntary reserve	—	—
Retained earnings brought forward	340	372
Annual profit (loss)	35	(12)
Equity	751	736
in % of total equity and liabilities	66.6%	61.4%
Total equity and liabilities	1 128	1 199

Contingent liabilities towards third parties

in CHF m	2011	2010
Guarantees	133	162
Warranty commitments	41	35
Total	174	196

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

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

Other liabilities not stated on the balance sheet

in CHF m	2011	2010
Warranty contracts	—	—
Long-term rental and leasing contracts	0	0
Letters of intent	—	—
Agreed contractual penalties (fines and premiums)	—	—
Legal proceedings	—	—
Contingent liabilities	—	—
Subordinated receivables from Group companies	—	—
Capital commitments	—	—
Total	0	0

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

Fire insurance values of property, plant and equipment

in CHF m	2011	2010
Plant and equipment	1	1
Property	—	—
Total	1	1

Assets pledged as collateral

in CHF m	2011	2010
Cash and cash equivalents	—	—
Receivables	—	—
Financial assets to Group companies	160	160
Property, plant and equipment	—	—
Investments	—	19
Total	160	179

An intra-Group loan of CHF 160 million to RUAG Real Estate Ltd was pledged to secure the credit agreement for RUAG Holding Ltd. The debt repayments led to the release of the RUAG Space AB shares pledged in addition to the loan of CHF 160 million.

Foreign currency forward transactions

in CHF m	2011	2010
Volume of contracts with banks	303	260
Volume of contracts with banks	(85)	(54)
Volume of contracts with Group companies	79	63
Volume of contracts with Group companies	(293)	(300)
Positive replacement value banks	9	17
Negative replacement value banks	(11)	(3)
Positive replacement value Group companies	10	3
Negative replacement value Group companies	(8)	(17)
Total replacement values	(0)	0

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

Liabilities to employee benefit funds

in CHF m	2011	2010
Current liabilities to employee benefit funds	—	—
Non-current liabilities to employee benefit funds	—	—
Total	—	—

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

Events after the reporting period The Board of Directors of RUAG Holding Ltd approved the consolidated financial statements for publication on 24 February 2012. The Annual General Meeting has the right to approve the consolidated financial statements.

Investments (as at 31 December 2011)

Company	Head office	Country	Equity capital (100%)		Shareholding
RUAG Switzerland Ltd	Emmen	Switzerland	CHF	112 200 000	100.0%
RUAG Deutschland GmbH	Wessling	Germany	EUR	1 000 000	100.0%
RUAG Ammotec AG	Thun	Switzerland	CHF	12 000 000	100.0%
RUAG Real Estate Ltd	Berne	Switzerland	CHF	8 000 000	100.0%
RUAG Services AG	Berne	Switzerland	CHF	100 000	100.0%
RUAG Sweden AB	Gothenburg	Sweden	SEK	100 000	100.0%
Nitrochemie AG	Wimmis	Switzerland	CHF	1 000 000	49.0%
Nitrochemie Wimmis AG	Wimmis	Switzerland	CHF	25 000 000	45.0%
Nitrochemie Aschau GmbH	Aschau	Germany	EUR	7 700 000	45.0%
Saab Bofors Dynamics Switzerland Ltd	Thun	Switzerland	CHF	2 000 000	5.0%
Alpar, Flug- und Flugplatz-Gesellschaft AG	Berne	Switzerland	CHF	10 150 000	2.0%

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

Proposed allocation of balance sheet profit

in CHF m	2011	2010
Annual profit (loss)	35	(12)
Amount brought forward from previous year	340	372
Profit at the disposal of the Annual General Meeting	375	360

Allocation of profit proposed by Board of Directors

in CHF m	2011	2010
Dividend	20	20
Allocation to statutory reserve	2	—
Balance to be carried forward	353	340

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

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of RUAG Holding AG, which comprise the income statement, balance sheet and notes (pages 103 to 107), for the year ended December 31, 2011.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended December 31, 2011 comply with Swiss law and the company's articles of incorporation.

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

pwc

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Rolf Johner
Audit expert
Auditor in charge

René Jenni
Audit expert

Berne, February 24th, 2012

Corporate management and control principles.

RUAG adheres to the corporate governance guidelines of SIX Swiss Exchange. Unless otherwise specified, the information is applicable as at 31 December 2011.

From left to right: Jürg Oleas, Paul Häring, Konrad Peter (standing), Hans-Peter Schwald, Egon W. Behle, Dr Hans Lauri (seated).

Board of Directors

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

Until 3 May 2011, the Board of Directors of RUAG Holding Ltd consisted of five non-executive members. Dr Hanspeter Käser withdrew from his post on the Board of Directors and as Vice-Chairman of RUAG Holding Ltd after twelve years. Egon W. Behle and Jürg Oleas were elected as new members to the Board of Directors. Chairman of the Board of Directors, Konrad Peter, took over operational management as Executive Chairman on 1 November 2011. Otherwise, the members of the Board of Directors have no material business relationship with the RUAG Group. The list lower down on this page provides details of name, age, position, date of joining and remaining term in office of each member of the Board of Directors.

Other activities

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

Election and term of office

The Board of Directors of RUAG Holding Ltd is elected by the Annual General Meeting (AGM). In accordance with the Articles of Association, the Board of Directors consists of at least three individuals. A majority of the members of the Board of Directors must be Swiss nationals domiciled in Switzerland. The members of the Board of Directors are elected annually and individually and may be re-elected.

Internal organization and tasks

The Board of Directors holds ultimate responsibility for the business strategy and overall management of the RUAG Group. It possesses supreme decision-making powers and determines the guidelines for strategy and organization, and the financial guidelines for accounting. The Board of Directors has delegated the management of day-to-day business to Executive Chairman Konrad Peter on an interim basis. Together with the Executive Board, he is responsible for the overall management of the RUAG Group and for all matters not delegated to another governing body of the company by law, the Articles of Association, the Federal Council's owner's strategy or the Regulations Governing Organization and Operations.

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

- The strategic orientation and management of the RUAG Group in accordance with the owner's strategy of the Federal Council
- The structuring of the accounting system, financial controlling and financial planning

Board of Directors

Name	Born	Position	Member since	Elected until
Konrad Peter	1946	Chairman	2002	2012
Hans-Peter Schwald	1959	Vice-Chairman, non-executive	2002	2012
Paul Häring	1957	Non-executive member	2004	2012
Dr Hans Lauri	1944	Non-executive member	2008	2012
Egon W. Behle	1955	Non-executive member	2011	2012
Jürg Oleas	1957	Non-executive member	2011	2012

- The appointment and dismissal of the CEO, other members of the Executive Board and other senior executives
- Supreme oversight of business activities
- Production of the Annual Report, preparation of the AGM and implementation of resolutions passed by the latter

Decisions are taken by the Board of Directors as a whole. To assist the Board in its role, two committees have been formed: an Audit Committee and a Nomination & Compensation Committee. Beside the usual six meetings, the Board of Directors met for a two-day strategy meeting in summer 2011, and held telephone calls or committee meetings as required. The agenda for meetings of the Board of Directors is set by the Chairman. Any member of the Board of Directors may request that an item be included on the agenda. The members are provided with documentation prior to each meeting to enable them to prepare for the items to be discussed.

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

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

Committees

The Board of Directors has formed an Audit Committee and a Nomination & Compensation Committee and elected chairmen. The committees meet regularly and prepare business for the full Board of Directors, draft proposals in respect thereof and implement resolutions of the Board of Directors as required. The agenda of each committee's meetings is set by its chairman. The members of the committees are provided with documentation prior to the meetings to enable them to prepare for the items to be discussed.

Audit Committee

The Audit Committee is composed of three members of the Board of Directors: Paul Häring (Chairman), Konrad Peter and Jürg Oleas. The members of the Audit Committee are experienced in financial and accounting matters. The Audit Committee meets regularly and is convened by the Chairman as often as business requires. Usually the meetings are also attended by the CFO, internal auditor, 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 RUAG Group. The duties of the Audit Committee include:

- Assessing processes in the risk and control environment (internal control system)
- Monitoring financial reporting
- Assessing the internal and external auditor
- Defining and approving the focal points of the audit
- Accepting the audit report and any recommendations of the statutory auditor prior to submission of the annual financial statements (individual and consolidated) to the full Board of Directors for approval
- Submitting a proposal to the full Board of Directors as to which external auditor should be recommended to the AGM for appointment; assessing the performance, fees and independence of the external auditor and examining the compatibility of audit activities with any consultancy mandates. The representatives of the statutory auditor recuse themselves during deliberation of these matters.

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

Nomination & Compensation Committee
The Nomination & Compensation Committee is composed of three members of the Board of Directors: Dr Hans Lauri (Chairman), Konrad Peter and Hans-Peter Schwald. The Nomination & Compensation Committee meets regularly and is convened by the Chairman as often as business requires. The meetings are usually also attended by the Senior Vice President Corporate HR.

The main task of the Nomination & Compensation Committee is to propose the outlines of human resource policies and planning to the full Board of Directors and to present proposals on the selection and compensation of Executive Board members. This also includes preparing necessary decisions for the full Board of Directors in the areas of management development, compensation system and policies, objective setting, pension fund matters and social partnership.

Finally, the Nomination & Compensation Committee is tasked with proposing the compensation of members of the Board of Directors in line with the guidelines set forth by the Swiss Confederation. The final decision is taken by the AGM at the proposal of the Board of Directors.

Information and control instruments
The Management Information System (MIS) of the RUAG Group is structured as follows: The separate financial statements (balance sheet, income statement and cash flow statement) of the individual subsidiaries/divisions are compiled on a monthly, quarterly, semi-annual and annual basis. These figures are consolidated for each 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 quarterly results. The Executive Chairman submits a written monthly report on budget compliance to the Board of Directors.

Executive Board

Management organization
The Board of Directors has appointed an Executive Board under the chairmanship of the Executive Chairman. Its powers and duties are set out in the Regulations Governing Organization and Operations and in the job description of the Executive Chairman.

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

The Executive Board comprises the Executive Chairman, CEOs of the operating divisions, CFO, CIO and CEO of RUAG Services, Senior Vice President Corporate HR, Senior Vice President Marketing & Communication and the General Counsel and Head of Legal.

Dr Lukas Braunschweiler left his position as CEO of RUAG Holding Ltd on 31 October 2011. Chairman of the Board of Directors, Konrad Peter, took over operational management as Executive Chairman on

Executive Board as at 1 January 2012

Name	Born	Position	Member since
Konrad Peter	1946	Executive Chairman*	2011
Dr Peter Guggenbach	1962	Member, CEO of RUAG Space	2009
Phillipp M. Berner	1966	Member, CEO of RUAG Aviation	2010
Dr Viktor Haefeli	1966	Member, CEO of RUAG Technology	2006
Cyril Kubelka	1963	Member, CEO of RUAG Ammotec	2004
Urs Breitmeier	1963	Member, CEO of RUAG Defence	2006
Urs Kiener	1965	Member, CFO	2002
Dr Christian Ferber	1965	Member, Senior Vice President Corporate HR**	2012
Oliver Meyer	1976	Member, CIO and CEO of RUAG Services	2011
Thomas Kopp	1955	Member, General Counsel and Head of Legal	2011
Christiane Schneider	1967	Member, Senior Vice President Marketing & Communication	2011

* Dr Lukas Braunschweiler, CEO of RUAG Holding Ltd until 31 October 2011.
** Hans Bracher, Senior Vice President Corporate HR until 31 December 2011.

1 November 2011. Hans Bracher stepped down as Senior Vice President Corporate HR on 31 December 2011. Dr Christian Ferber became his successor as of 1 January 2012.

Executive Chairman

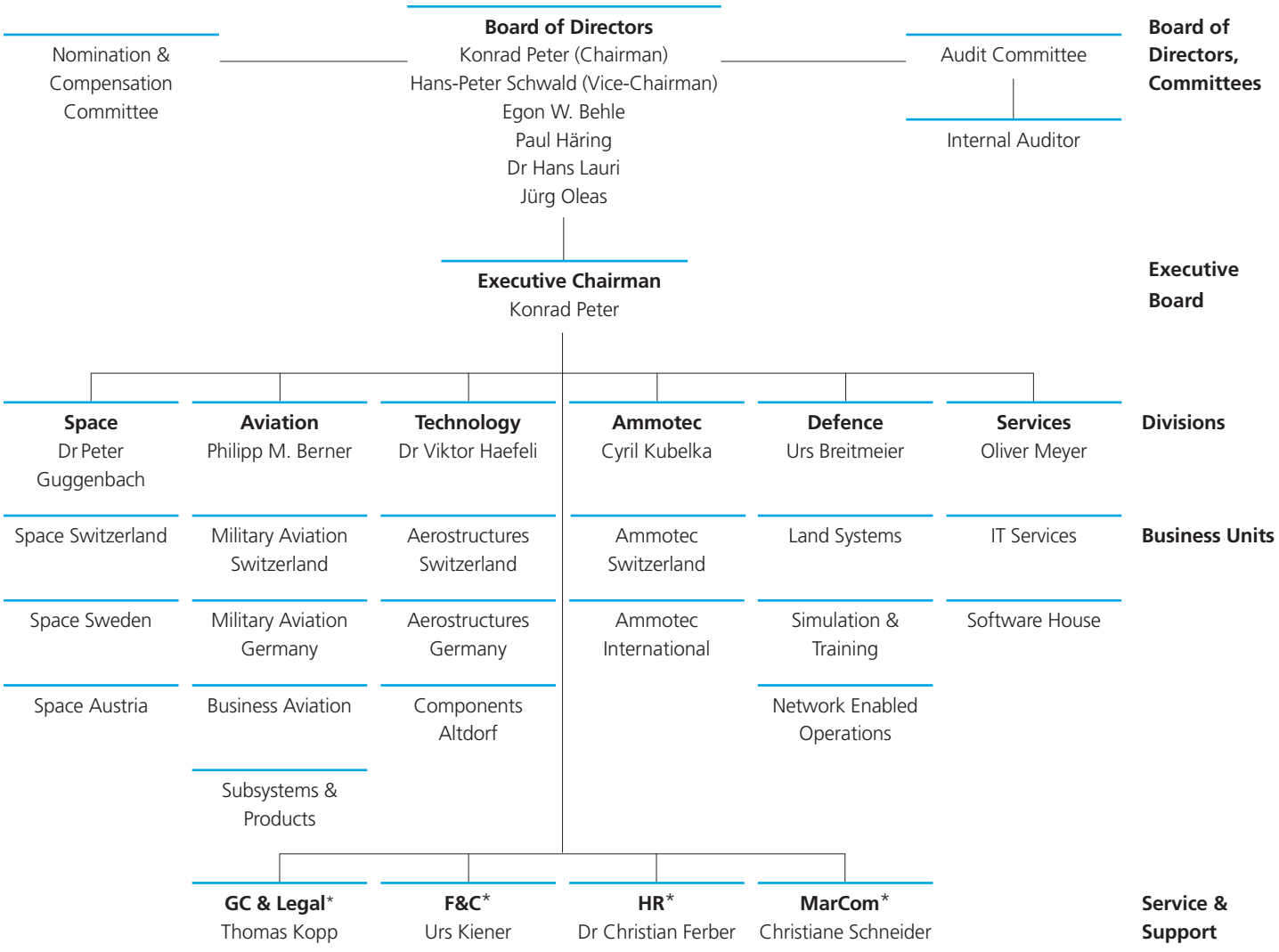
The Executive Chairman manages the RUAG Group. He submits the RUAG Group's strategy, long and medium-term objectives and management guidelines to the full Board of Directors for their approval.

At the proposal of the Executive Chairman, the full Board of Directors decides on the five-year corporate plan, annual budget, individual projects, division and consolidated financial statements and human resource issues.

The Executive Chairman regularly reports to the Board of Directors on business performance, anticipated business matters and risks, as well as changes at the next management level. The members of the Board of Directors may request and review further information on operations as provided by the law and the Articles of Association.

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

Management structure as at 1/1/2012



* General Counsel & Legal (GC & Legal); Finance & Controlling incl. Real Estate (F&C), Corporate Human Resources (HR), Marketing & Communication (MarCom)

Members of the Executive Board
The list on page 113 provides information on the name, age, position and date of joining of each member of the Executive Board.

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

Compensation, profit-sharing and loans

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

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

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

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 employer's contributions to social security funds and lump-sum allowances for expenses, paid by RUAG Holding Ltd.

No compensation was paid to former Board members.

Further details of compensation paid in the year under review can be found in the financial statements in Note 34 "Compensation of key management personnel".

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

- Fixed basic salary
- Performance-based component
- Employer contributions to pension funds
- Benefits in kind

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

- Net sales
- Operating result (EBIT)
- Net assets
- Cash flow from operating activities

The target figures are set for one year and are weighted according to strategic priorities. A lower and an upper threshold are defined for each of the four value drivers. If the lower threshold is not reached for the criterion concerned, the proportion of the perfomance-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 perfomance-based component.

The amount of the perfomance-based component is based on reaching objectives. For all members of the Executive Board, the perfomance-based component in 2011 ranged from 0% (previous year: 29%) to a maximum of 58% (75%) of the annual basic salary. The CEO of RUAG Holding Ltd who left, Dr Lukas Braunschweiler, waived the performance-based component. The extent to which objectives are reached is weighted for all members of the Executive Board as follows: 20% can be achieved for personal goals and 80% for financial goals. In the case of the divisional CEOs, the financial goals are defined per division. In the case of the Executive Chairman and heads of Service & Support, the financial goals of the RUAG Group apply.

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

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

No appreciable compensation was paid to former Executive Board members.

Further details of compensation paid in the year under review can be found in the financial statements in Note 34 "Compensation of key management personnel".

Other compensation
Severance payments: Members of the Board of Directors or Executive Board are not contractually entitled to any severance payments. In the 2011 financial year, no severance payments were paid to persons who terminated their function as a Board member in the year under review or earlier.

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

Additional fees: During the 2011 financial year, the members of the Board of Directors and Executive Board received no appreciable fees or other compensation for additional services rendered to RUAG Holding Ltd or any of its subsidiaries.

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

Capital structure
The equity capital of RUAG Holding Ltd amounts to CHF 340 million, comprising 340,000 fully paid-up registered shares, each with a par value of CHF 1,000. As at 31 December 2011, RUAG Holding Ltd did not have any conditional or authorized capital, nor had it issued participation or dividend right certificates. The registered shares of RUAG Holding Ltd are not listed.

Changes in capital
No changes in capital were decided upon in the last three reporting periods.

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

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

The Board of Directors keeps a share register.

Shareholder structure

Shareholder
The Swiss Confederation holds 100% of shares and thus all voting rights to RUAG Holding Ltd. The Swiss Armed Forces exercises the Confederation's shareholder interests.

Owner's strategy of the Federal Council
The updated 2011–2014 owner's strategy of the Federal Council entered into force on 1 May 2011. It establishes the transparent, binding framework that enables RUAG Holding Ltd and its subsidiaries to fulfil their duties profitably while taking account of overarching interests. The owner's strategy is enshrined in the Articles of Association of RUAG Holding Ltd.

In its owner's strategy, the 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 Federal Council.

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

The updated 2011–2014 owner's strategy of the Federal Council entered into force on 1 May 2011 and establishes the binding framework that enables the RUAG Group to fulfil its duties conscientiously and profitably.

Codetermination rights of shareholders

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

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

Qualified majorities
The following resolutions are subject to decision by qualified majority in accordance with the Swiss Code of Obligations (Art. 704):

- Changes to the purpose of the company
- Introduction of voting shares
- Restrictions on the transferability of registered shares
- Approved or conditional capital increase
- Capital increase out of equity in consideration of a contribution in kind or for the purpose of acquisition in kind and the granting of special benefits
- Restriction or abolition of subscription rights
- Relocation of the company's registered office
- Dissolution of the company 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 Federal Act on Stock Exchanges and Securities Trading (SESTA Art. 22).

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

Employee benefits
The pension fund cover ratio as at 31 December 2011 was 101% (previous year 103%). The financial situation thus remained stable.

Statutory auditor

Duration of mandate of head auditor
PricewaterhouseCoopers AG, Berne has been RUAG's statutory auditor since 1999.

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

Audit fees and additional expenses
PricewaterhouseCoopers invoiced the RUAG Group CHF 1.1 million (CHF 1.1 million) during the 2011 financial year for services related to the audit of the financial statements of RUAG Holding Ltd and its subsidiaries and of the consolidated financial statements of the RUAG Group.

In addition, PricewaterhouseCoopers invoiced the RUAG Group CHF 0.5 million (CHF 0.6 million) during the 2011 financial year for audit-related services, tax advice and due diligence services.

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

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

Fees paid to PricewaterhouseCoopers

in CHF 1,000	2011	2010
Audit fees	1,054	1,112
Tax advice	108	80
Due diligence advice	121	–
All other advice	269	479
Total fees	1,552	1,671

Forthcoming events

Annual results	31/12/2011
Annual Press Conference	22/03/2012
AGM	26/04/2012

The Annual Report containing the financial statements for the year ended 31 December 2011 is sent to the shareholder together with an invitation to the AGM.

RUAG Holding Ltd, Stauffacherstrasse 65, 3000 Berne 22, Switzerland, info@ruag.com, www.ruag.com, +41 31 376 64 50