Annual Report 2013

Our consistent pursuit of internationalization and focus on core competencies are ensuring our long-term success.

Together ahead. RUAG

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RUAG at a glance

International growth, a focus on its core business and combining civil and military applications of technologies are helping to ensure RUAG's success and open up new market opportunities.

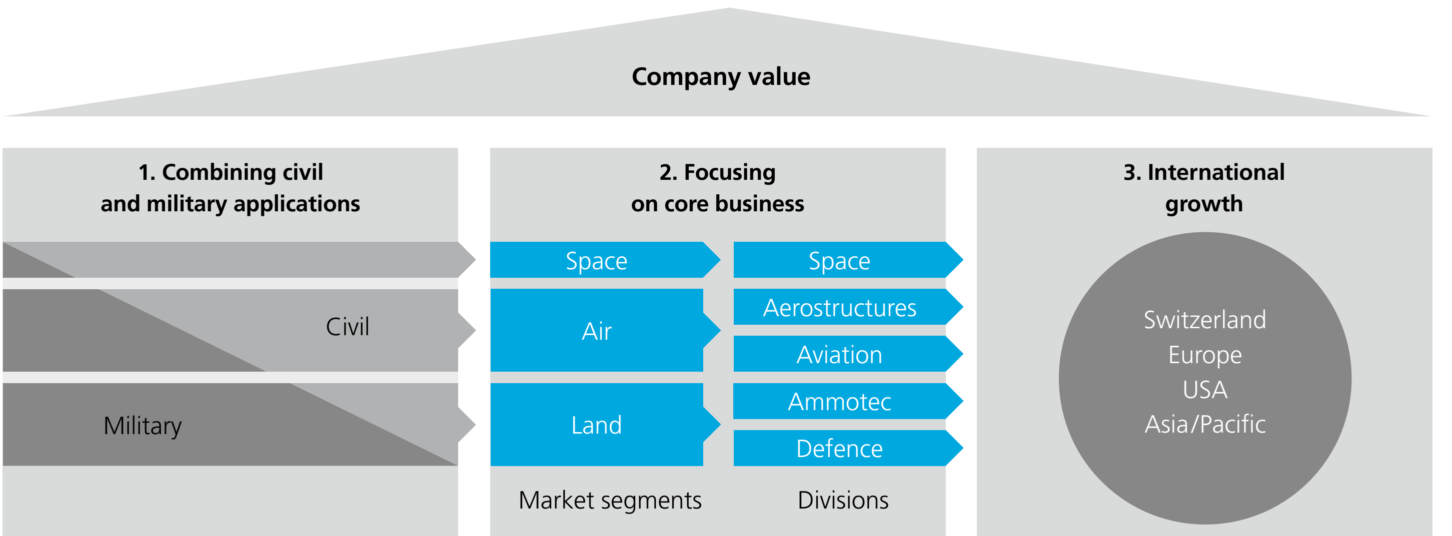
Technical components produced by RUAG are deployed in a wide range of crucial areas on land, in the air and in space. Innovative top-quality products and services for both the civil and the military markets form the foundation for its global success. Its customers include industrial partners, governments, rescue and law enforcement organizations and armed forces. RUAG has production sites in Switzerland, Germany, Sweden, France, Austria, Hungary, Australia and the USA. In order to maintain its high level of performance and achieve continuous improvement, RUAG invests around 8 % of its net sales revenue in research and development. The Group has links with many technology partners in different countries, including Airbus, Bombardier, Boeing, Northrop Grumman, Rheinmetall, Saab and the European Space Agency (ESA).

In 2013, RUAG once again asserted itself as an internationally competitive business, with a high degree of credibility vis-à-vis its partners and customers. By offering high-end goods and services for its civil and military customers, the Group was able to defend its market position in a competitive environment and efficiently fulfil its fundamental mission of equipping and maintaining technical systems for the Swiss Armed Forces.

RUAG is strengthening and enhancing its business relationships by concluding long-term contracts and thus realizing efficiency gains for its customers. At the same time, it has to ensure that it can respond to changing market requirements in a far-sighted and flexible way. A vital factor for RUAG is to achieve ongoing development of new and innovative products and services and to position these successfully both at home and abroad.

RUAG's tried and tested corporate strategy is based on three key pillars: "Combining civil and military applications", "Focusing on core business" and "International growth".

The three pillars of the RUAG strategy



1. Combining civil and military applications

Innovative products and services from RUAG are deployed in both the civil and military fields, and these provide the foundation for the Group's global success. For RUAG, expertise in civil and military applications and the retention of these key competencies are vital. The development of new technologies previously emanated from the military segment. Nowadays, however, military business is strongly influenced by civil applications. In many cases, technological development progresses further in the civil than in the military field.

For example, RUAG runs scenarios for virtual simulations and training systems on video. In this area, all production and visualization processes stem from the computer games industry, which invests billions in these technologies. There would be no point in developing separate technologies purely for this purpose. Another example is communications. It would not make sense to develop our own communication technologies in parallel to those already introduced globally in the civil sphere. It is, however, necessary to make such systems based on civilian technologies suitable for military use in order to protect them against external eavesdropping or manipulation and so that they are also able physically to withstand the rigours of crisis situations.

The strategy adopted to date has thus proven to be the right one. Only by continuing to expand both the civil and military range of applications of its products and services can RUAG preserve its expertise and the cost advantages it offers its shareholder and its customers.

2. Focusing on core business

One of the central pillars of RUAG's strategy is its systematic focus on its core competencies, offering essential components for deployment on the ground, in the air and in space. This precept applies both to the Group as a whole and to the individual divisions.

Thus the non-core business RUAG Mechanical Engineering Ltd has been sold to German firm Berghoff Holding GmbH with retroactive effect from 31 March 2013. From now on the company will operate under the name Berghoff Mechanical Engineering Ltd. Berghoff, a family-run concern, has retained all 77 staff and 28 apprentices, as well as the entire infrastructure at the Altdorf site in Switzerland.

RUAG's automotive business, another non-core area, has been shut down with effect from the end of 2013. The 27 staff members affected have been provided for under the severance scheme. RUAG is not abandoning its Altdorf site, which continues to host RUAG Real Estate (property management), RUAG Environment (recycling) and RUAG Ammotec (environmentally safe disposal of ammunition).

With the sale of Mechanical Engineering Ltd and the closure of Automotive in 2013, the division is now wholly focused on aerostructures. Consequently, the former RUAG Technology division has been renamed RUAG Aerostructures. With this move, RUAG is emphasizing the growing significance of the aerostructures business and positioning itself more clearly within the international aviation market.

Its key customer Airbus symbolizes the growth of the aerostructures business: at the end of 2013, the Group boasted an order volume of more than 4000 A320 aircraft. This represents work in hand for over eight years.

RUAG Aerostructures was able to strengthen its supply chain competency for Bombardier in the year under review: it has assumed overall responsibility for the rear fuselage of the Bombardier CRJ regional jet. On this basis, the division has also further expanded its global supplier network and professionalized its supplier management operation.

3. International growth

In view of the fragility of national finances in many European countries, the market environment remains challenging. In Switzerland, too, there are no major projects in the pipeline which are likely to affect income in the medium term. This makes it even more important for RUAG to actively expedite its efforts to open up international growth markets.

- Rosebank Engineering, acquired by RUAG in late 2012, was fully integrated in 2013. With this acquisition, RUAG has enhanced its capabilities in the field of aircraft component maintenance and is gaining access to a new and strategically significant growth market in the Asia/Pacific region.
- In July 2013, US rocket maker United Launch Alliance (ULA) selected RUAG to be its strategic partner for the continuing development of the Atlas and Delta American launch vehicles. RUAG is developing a new payload fairing for these two rockets, which will allow two satellites to be delivered into orbit in a single launch.
- In November 2013, RUAG acquired GAVAP, a French SME specialized in simulation and training systems. RUAG and GAVAP have had a strategic partnership in the field of virtual and live simulations in place since 2003. This acquisition will open up medium- and long-term growth opportunities for RUAG.
- In December 2013, RUAG sold ten Dornier 228 turboprop aircraft to the Venezuelan government. These passenger aircraft will be used to connect isolated villages with regional hubs throughout Venezuela and thus improve accessibility nationwide.

The 2013 financial year

A modest increase in sales despite difficult conditions was the defining characteristic of the past year. RUAG has again achieved growth in both its civil and its international business. Order intake has been increased substantially.

Business performance and key figures

In 2013, RUAG generated net sales of CHF 1,752 million (previous year: CHF 1,741 million). Net profit rose by CHF 16 million to CHF 94 million. EBIT (earnings before interest and taxes) also improved, increasing to CHF 115 million (CHF 113 million). The EBIT margin (EBIT/operating income) rose to 6.6% (6.4%)

Cash flow from operating activities came to CHF 142 million (CHF 130 million). Encouraging year-on-year rises were reported both in order intake (up from CHF 1,612 million to CHF 1,851 million, which was higher than net sales in 2013) and in order backlog (up from CHF 1,310 million to CHF 1,405 million).

All five divisions operated profitably and contributed to the positive Group result. The DDPS, the Swiss Federal Department of Defence, Civil Protection and Sport, remains RUAG's largest and most important single customer; even so, its share in our sales continued to fall last year, declining from 36 % to 32 %. With a 56 % share of sales (50 %), civil business outstripped military business for the first time in commercial terms, contributing 44 % (50 %) of sales. One significant sales driver was the positive development in the US sports shooting market, the largest in the world.

The proportion of international business increased again to a new high of 61 % (56 %). This was due primarily to expansion into fast-growing foreign markets – notably, the USA and the Asia/Pacific region.

Outlays for research and development totalled CHF 132 million (CHF 134 million), which corresponds to 7.5 % of total sales. Internally financed research and development costs amounted to CHF 45 million (CHF 41 million).

The Group's total headcount[1] increased to 8,241 as at 31 December 2013 (8,188).

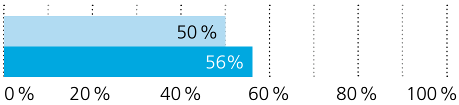
Overview of key figures

in CHF million	2013	2012	Change in %
Operating income	1 749	1 788	–2.2 %
Net sales	1 752	1 714	0.6 %
EBITDA	196	191	2.5 %
EBIT	115	113	1.9 %
Net profit	94	78	21.3 %
Cash flow from operating activities	142	130	9.5 %
Free cash flow	100	150	– 33.5 %
Net assets (debt)	162	87	87.1 %
Order inflow	1 851	1 612	14.8 %
Order backlog	1 405	1 310	7.3 %
Research and development expenses	132	134	– 1.8 %
Employees as at 31 December	8 241	8 188	0.6%

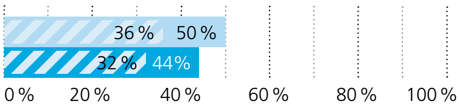
[1] including apprentices and part-time employees

Net sales by application

Civil
56 %

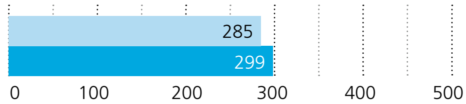


Military
44 %

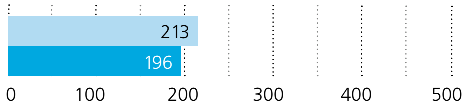


Net sales by division

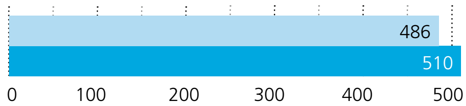
Space
CHF 299 million



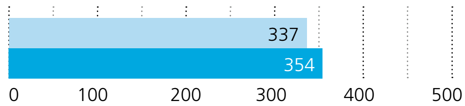
Aerostructures
CHF 196 million



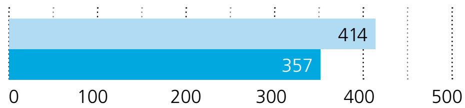
Aviation
CHF 510 million



Ammotec
CHF 354 million

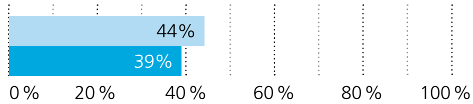


Defence
CHF 357 million

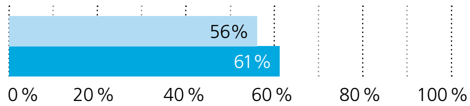


Net sales by region

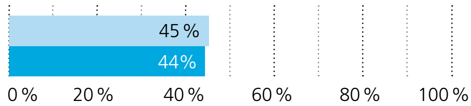
Switzerland
39 %



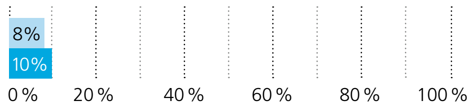
Abroad
61 %



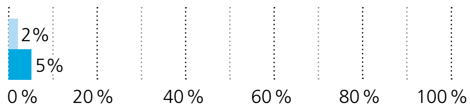
Europe
44 %



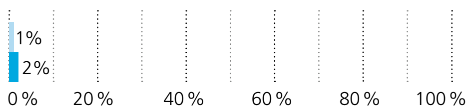
North America
10 %



Asia/Pacific
5 %



Rest of the world
2 %



DDPS 2012 2013

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

Pursuit of internationalization continues successfully

Systematic exploitation of growth opportunities continued to pay off for RUAG in 2013.

The RUAG Executive Board, left to right: Urs Kiener (Corporate Finance & Controlling, RUAG Aerostructures), Cyril Kubelka (RUAG Ammotec), Thomas Kopp (Corporate Legal & Secretary General), Andreas Fitze (Corporate IT), Urs Breitmeier (CEO RUAG Holding Ltd), Philipp M. Berner (RUAG Aviation), Dr. Christian Ferber (Corporate Human Resources), Markus A. Zoller (RUAG Defence), Dr. Peter Guggenbach (RUAG Space).

Dear shareholder,
customers and readers,

2013 was an eventful and challenging year for RUAG which we mastered successfully as a Group. Although the situation in the European core markets is still proving difficult, and the Swiss Armed Forces' share in our sales has continued to fall, RUAG can report modest growth for the year.

Our success is fundamentally due to our strategy of internationalization and focusing. In addition, we have chalked up commercial successes with the ongoing development and marketing of technologies and products for civil applications. We also pressed ahead with our focus on the core Aerospace and Defence businesses.

At CHF 1.752 billion, RUAG's sales figure for 2013 modestly exceeded that of the previous year (CHF 1.741 billion). At CHF 115 million, EBIT remained on a par with the previous year (CHF 113 million). The revised IAS 19, "Employee Benefits", is reflected in the accounts and explained in the financial statements.

Sales volumes relating to jobs for our main customer, the Federal Department of Defence, Civil Protection and Sports (DDPS), fell again in 2013, while still generating 32 % of total sales (previous year: 36%). Business with other military customers in Europe also declined overall.

However, these declines were more than offset by the expansion in our civil business and by encouraging growth abroad. One significant sales driver was the positive development in the US sports shooting market, the largest in the world, where RUAG's small-calibre ammunition benefited from a brisk surge in demand. Another positive effect on sales was generated by the acquisition of an Australian aircraft component maintenance firm, Rosebank Engineering, which was implemented in late 2012 and fully consolidated in the year under review. Moreover, RUAG was able to further expand its net sales with Bombardier in the civil aerostructures segment.

All five RUAG divisions generated a profit in the last year. Order intake reached a volume of CHF 1.85 billion, thus outstripping both sales and the previous year's order intake figure. The two most important new projects relate to an order from the Venezuelan government for ten Dornier 228 aircraft and a major contract with US company United Launch Alliance (ULA) whereby RUAG is taking over the production of payload fairings for Atlas rockets. At CHF 1.405 billion last year, the order backlog stood at a healthy level around 95 million higher than the previous year.

RUAG has significantly strengthened its presence in key foreign markets and expects this cross-border expansion to generate long-term growth potential.

RUAG's three-pillar strategy pays off

In 2013, RUAG also moved forward in terms of its strategy. For example, we were able to systematically promote the focus on our core business in the individual divisions, as set down in our strategy paper, and further hone our product and service profile. A typical example of this is our progressive reorganization of the erstwhile RUAG Technology. The division has closed down its mechanical engineering and automotive businesses and from now on will be concentrating exclusively on its core competencies in the aerostructures segment. It has thus also been renamed, becoming RUAG Aerostructures. With this move, the division is positioning itself more clearly within the international aviation market.

This focus is paying off, as RUAG has come another step closer to its strategic goal of positioning itself as a first-tier supplier to Airbus and taking over the international supply chain management for aircraft assemblies for its biggest customer.

The second key strategic pillar, the growing internationalization of the business, on the one hand boosted sales last year and on the other permanently strengthened our presence in foreign markets. Thus, in the fourth quarter of 2013, RUAG was able to seal the deal on the acquisition of its long-term partner company GAVAP in France. This full integration of the French market leader for simulation and training systems secures crucial know-how for the Group as well as access to additional market segments in our neighbour to the west.

Our successes in the USA, with the strong sales growth in the sports shooting market and the new major contract for rocket payload fairings from ULA, have strengthened our resolve to establish a physical presence in the dollar zone in the foreseeable future. Investigations into this move are currently under way.

At the end of 2013, the share of the civil business in total sales stood at 56 % – a significant increase on the previous year (50 %). This development confirms our strategic view that RUAG can only maintain its capacity utilization and know-how for its owner in future if both the civil and military applications of its products and services are further expanded and combined.

Well-founded optimism for the future

Overall conditions in our home market are currently looking good for RUAG. The Swiss Federal Department of Defence, Civil Protection and Sport (DDPS) is increasing the defence budget to CHF 5 billion per year as of 2016. In parliament, endeavours are under way to ease the export ban on munitions and to align Switzerland with the European standard. Nevertheless, according to current plans there are no major projects coming up to the procurement stage which would generate sales for RUAG in connection with the Swiss Armed Forces in the next few years.

RUAG is expecting to see sustainable growth opportunities from the ULA contract in the USA and its plans to establish a presence in the dollar zone. By 2018, we are aiming to be generating one quarter of our total sales outside Europe, and to have raised the innovation rate within our product and service portfolio to 10 %. This will require intensive efforts in terms of the development of new and competitive offerings.

Our operational focus is currently geared to the development of new production processes for launch vehicle payload fairings, the establishment of innovative applications in robotics, and the conclusion of new licensing agreements for the maintenance, repair and overhaul of civil aircraft. Another commercially significant area is the upcoming qualification of a new type of small-calibre ammunition developed by RUAG for use by the German Bundeswehr. RUAG currently needs a three to four-shift setup to meet the demand for its small calibre ammunition and there is no spare capacity available for exploiting market opportunities. The Board of Directors of RUAG Ammotec has thus sanctioned a CHF 50 million investment programme for capacity expansions at all production sites, which is currently being implemented.

Despite the positive outlook for the medium term, there is no hiding from the fact that 2014 is set to be a challenging year for RUAG. The Group's last ongoing major contract, the upgrade programme for the 89 Super Puma transport helicopter, will come to an end sometime in 2014. Business dealings with our main customer will be reduced mainly to maintenance services over the next few years. However, RUAG is ideally positioned to supply the Armed Forces even at a lower level of orders. At the same time, we need to consolidate and further improve our currently stable financial situation. This will require systematic exploitation and realization of chances and opportunities in both the military and civil markets both at home and – even more so – abroad.

Due to falling budgets for the armed forces, RUAG's strategy to pursue long-term expansion in civil applications of products and services and to exploit corresponding opportunities has proven correct.

Our responsibility to our staff is something that we continue to take as seriously as ever. RUAG is one of the most popular employers in Switzerland among both experienced engineers and university graduates. We do a great deal to promote young talent, and are making ongoing investments in vocational training for apprentices: at Group level RUAG is training 414 apprentices in 23 different professions.

We would like to mention some imminent changes to RUAG's Board of Directors: Board Chairman Konrad Peter and Member of the Board Dr. Hans Lauri are stepping down at the end of their term of office. RUAG wishes to thank both directors for their many years of service for the benefit of the Group. Their successors will be appointed at the Annual General Meeting to be held on 15 May 2014.

We also wish to express our gratitude to all of you – our shareholder, as well as our esteemed customers, partners, suppliers and staff. We value your trust and your long-standing loyalty, your great teamwork and dedication. We look forward to achieving further progress for RUAG together with you.

Konrad Peter
Chairman, RUAG Holding Ltd

Urs Breitmeier
CEO, RUAG Holding Ltd

Working together for success

Working closely with its customers and based on clear corporate values, RUAG develops visionary solutions for the success of projects and missions all over the world.

Safety and reliability on land, in the air and in space

RUAG's established and long-term business ties with industry partners, governments, rescue and security organizations and armed forces show all that can be achieved when people work together towards a common goal while observing the highest standards. The pursuit of outstanding quality, uncompromising customers, service orientation and continuous development form the common foundation upon which RUAG provides its services and thus creates added value – on land, in the air and in space.

Land

RUAG acts as a strategic technology partner to a large number of original equipment manufacturers, security organizations and land forces. The company is a market leader in the maintenance and upgrading of heavy weapons systems and in the development and manufacture of ballistic protection solutions. In addition, RUAG integrates and maintains reconnaissance, communication, and command and control systems as well as virtual and live simulators. Furthermore, RUAG is a market leader in small-calibre ammunition, pyrotechnic elements and components for the hunting & sports and defence & law enforcement business areas as well as the construction industry.

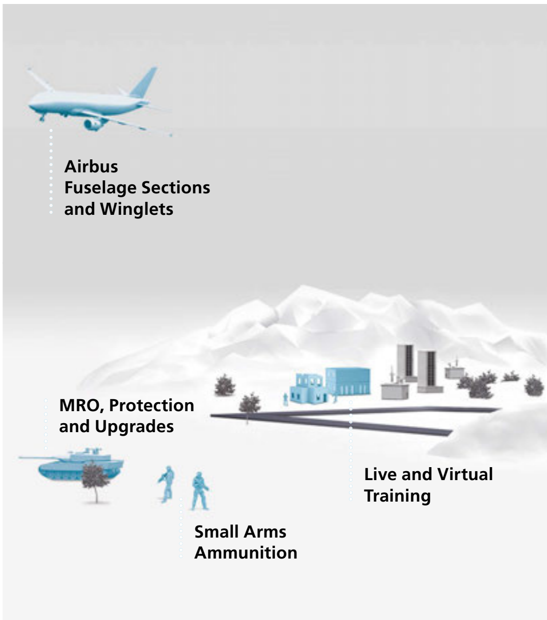
Air

RUAG is the centre of excellence for civil and military aircraft maintenance, for upgrade programmes and for developing, manufacturing and integrating aviation systems and subsystems. With a comprehensive life cycle support service for aircraft, helicopters and unmanned aerial vehicles, RUAG offers its domestic and international customers the shortest possible lead times, punctual deliveries and outstanding availability. Moreover, RUAG specializes in the development, manufacturing and final assembly of complete fuselage sections for passenger aircraft, wing and control surface components as well as sophisticated component assemblies and parts for civil and military aircraft. In its role as a "quality gate", RUAG is responsible for the international supply chain of global aircraft manufacturers.

Space

RUAG is a leading supplier of products for the institutional and commercial space markets in Europe and the USA. Even outside these two core markets, special-purpose RUAG products also contribute to the success of almost all major space projects. Its development and manufacturing expertise comprises five product areas: structures and separation systems for launch vehicles, structures and mechanisms for satellites, digital electronics for satellites and launch vehicles, satellite communications equipment and satellite instruments. With over 40 years' experience in the development of cutting-edge space technologies, RUAG is a byword for 100 % mission success.

Our Mission is to Make Yours a Success — Everywhere



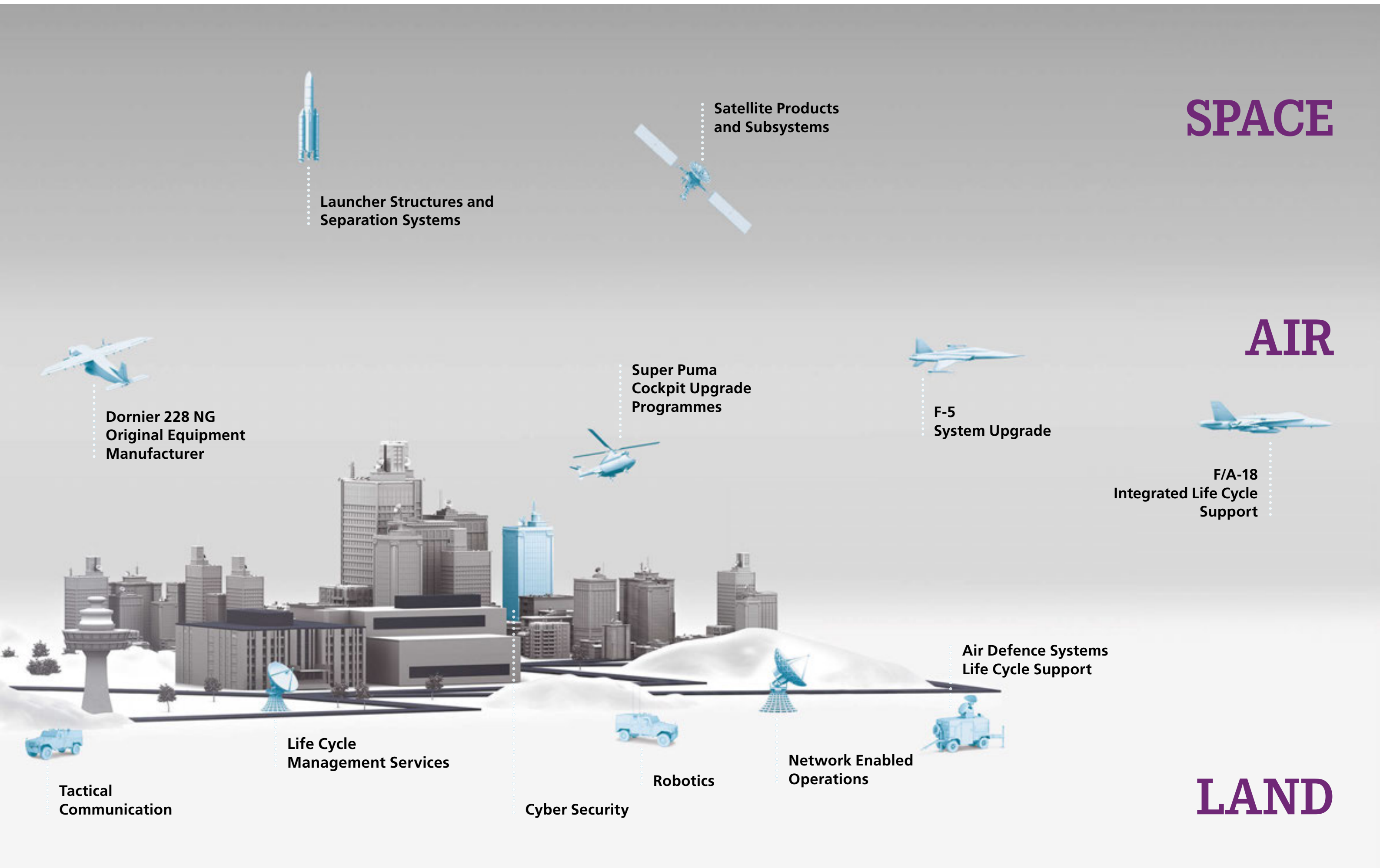
The three RUAG values

Clear values and principles set the tone for how we think and what we do in our everyday business – within the company as in our interactions with customers, business partners, suppliers, society, political figures and, not least, our shareholder, the Swiss Confederation.

- Collaboration
  We provide individual services together with and on behalf of our customers and believe in the power of dependable collaboration.

- High performance
  Our dedication to excellence informs how we think and what we do: we are committed to providing first-rate, high-performance solutions.

- Visionary thinking
  Our pursuit of continuous improvement drives us to develop products and services for tomorrow's world.



Business performance

16 Space
22 Aerostructures
28 Aviation
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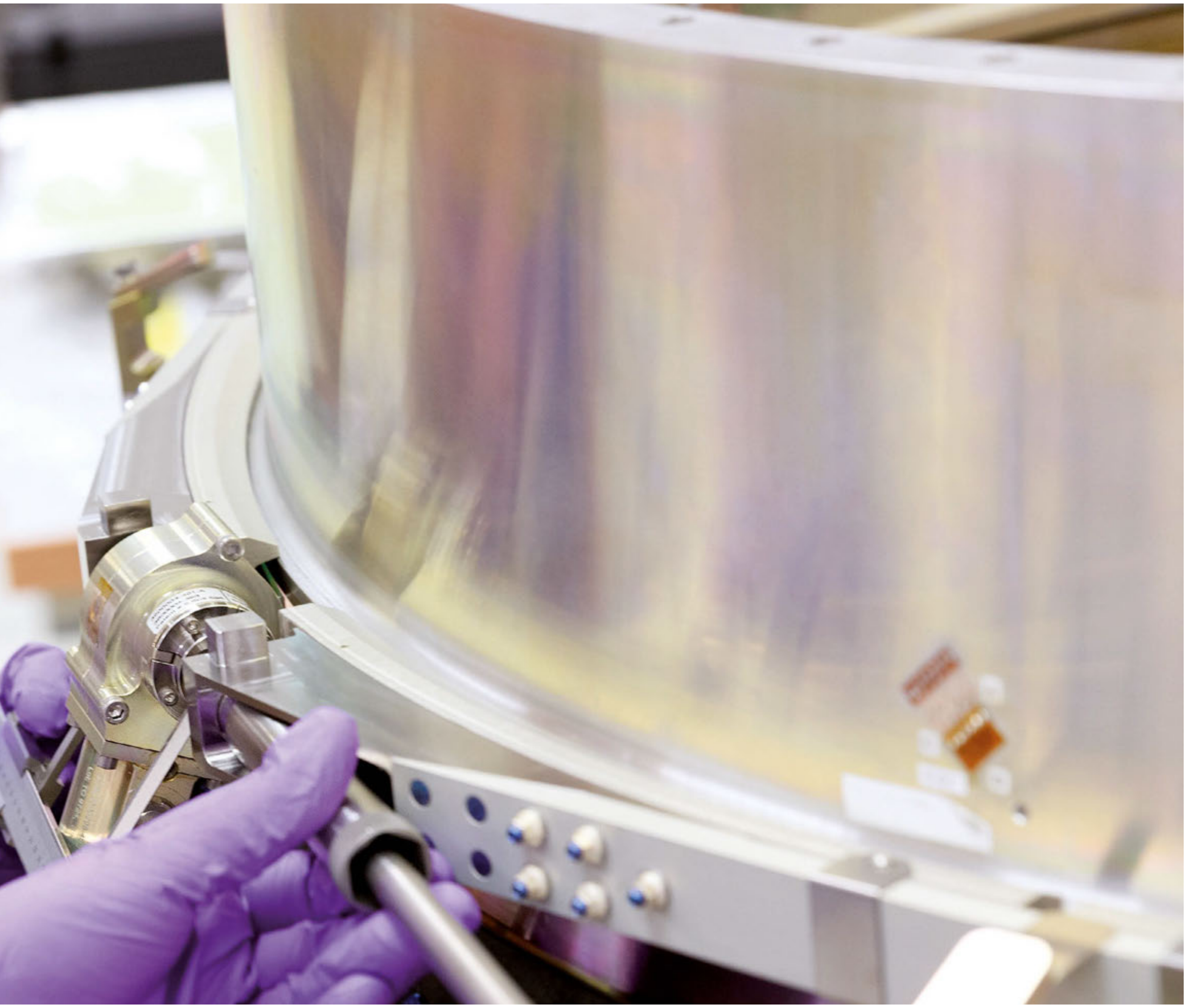
40 Defence
46 Corporate Services

RUAG Space
The leading European supplier to the space industry.

Assembly of a separation system at RUAG Space in Linköping, Sweden.



Manufacture of an onboard computer for satellites at RUAG Space in Gothenburg, Sweden.

Core business

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

The three national subsidiaries in Switzerland, Sweden and Austria are established founding partners in the institutional programmes of the European Space Agency (ESA) and the Ariane European launch vehicle programme. Computers steer and monitor most European missions. Precision mechanisms, slip rings, thermal systems and satellite structures from RUAG Space are key factors in the success of many space projects.

RUAG Space has applied its expertise from institutional programmes to gain a foothold in the commercial space market as well. The division is market leader in composite payload fairings, in adapters and in launch vehicle separation systems. Further products for the commercial market include receivers and converters for telecommunications satellites, thermal insulation, pointing mechanisms for electric propulsion thrusters, solar array drive mechanisms and mechanical ground support equipment. Quality niche products such as mechanisms for microchip production, thermal insulation and highend slip rings are also supplied to customers outside the space industry.

Business performance

RUAG Space's net sales for 2013 were CHF 299 million, exceeding the previous year's figure of CHF 285 million. EBIT came to CHF 14 million compared with CHF 12 million for 2012.

The launch vehicle structures and separation systems product range was again the leading driver of sales, standing as an example of the division's reliability. In its first flight in 2013 the Ariane 5 launch vehicle demonstrated its capabilities, lifting off with a record payload of 10,317 kilograms while equipped with a fairing supplied by RUAG. The division was also able to chalk up a record in the field of separation systems: in 2013, a satellite equipped with a RUAG system was safely separated from a rocket for the 500th time.

In 2013, a series of ESA missions was launched using component assemblies built by the division. One of these involved transporting the European space telescope Gaia into space. Gaia's mission is to create a three-dimensional map of our Milky Way. RUAG Space made a significant contribution to the construction of a deployable sunshield for the telescope and also supplied other structural components and computer equipment.

In summer 2013 "Albert Einstein", the fourth of ESA's five unmanned European shuttles, started its journey to the International Space Station (ISS). This so-called ATV (Automated Transfer Vehicle), for which RUAG Space supplied the structures and computer equipment, was transporting around six tonnes of cargo. At its launch, the new HSS3+ separation system was used in the payload fairing of the Ariane 5

RUAG Space supplied important structures and a docking-manoeuvre surveillance computer for the "Albert Einstein" unmanned European shuttle, which blasted into space in summer 2013 carrying six tonnes of cargo.

for the very first time. The new system reduces the shock transferred to the rocket and its payload when the fairing separates. This means that in future, the Ariane 5 will be able to safely transport even sensitive satellites which previously could not be launched using this rocket, or only with the addition of special damping measures.

Together with telecommunications provider Inmarsat, in 2013 ESA launched the Alphasat telecommunications satellite. It is using the satellite to test a range of new technologies, including a laser communications terminal which RUAG Space was involved in developing and building. The terminal will provide for an exceptionally efficient form of data transfer.

RUAG Space's contributions to the three satellites for ESA's "Swarm" research mission, which was successfully launched in November 2013, included high-precision GPS receivers specifically developed for use in space. These will aid the satellites in their mission to take more precise measurements of the earth's magnetic field.

The core element of the division's strategy is to develop products that are attractive for commercial space flight and for customers outside the European home market. Technologies acquired by RUAG Space in the context of institutionally funded space programmes form the basis for these efforts. This approach has made it possible to place a growing number of products in these growth markets. In the USA, the division has already achieved considerable success, with payload fairings for the Atlas rocket, GPS receivers, separation systems, mechanisms and slip rings. With a view to providing an even better service to this attractive market, RUAG Space opened up a branch office in Denver (CO, USA) in 2013. The division's collaboration with US rocket maker United Launch Alliance (ULA) has been consolidated by means of a strategic partnership. RUAG will be building a new double launch structure for ULA's Atlas and Delta rockets. This will enable ULA to be faster and more flexible in its provision of satellite constellations.

Innovation and initiatives

In May 2013, RUAG's Emmen site manufactured its first half shell for a Vega fairing in one piece using a conventional furnace rather than an autoclave. Even though the Vega payload fairing is only being used to test the new process and will not fly, it marks a major milestone. In order to be able to manufacture payload fairings more cost-effectively in future, RUAG Space is looking to produce even large-scale models in a single piece using the "out-of-autoclave" process.

In September 2013, at the launch of NASA's LADEE (Lunar Atmosphere and Dust Environment Explorer) research satellite, a grid structure adapter developed by RUAG Space and weighing in at just 4.5 kilograms was used for the very first time. RUAG developed this satellite adapter with a carbon fibre grid structure in collaboration with Russian organization CRISM (Central Research Institute for Special Machinery).

The demands that the market places on telecom satellite payloads are constantly rising. Transmission capacity needs to keep up with the growing data quantities required for HD television and other data-intensive applications. The division is developing innovative telecom equipment to meet future market requirements, including receivers and converters for the Ka band, a frequency range that is growing in popularity in satellite-supported telecommunications. In August and September 2013, RUAG Space received a number of new orders for the provision of a total of 150 converters and receivers, some of which are already geared towards Ka band communications.

Outlook

RUAG Space expects the growth of recent years to continue in 2014. This expectation is based on a stable institutional market in Europe, and on good growth prospects in other market segments. The USA, in particular, is offering attractive opportunities for growth for RUAG Space in selected niche markets.

A key business segment for the division is the European launch vehicle programmes. At their 2012 Ministerial Conference, the ESA Member States resolved to continue the development of the current Ariane 5 launch vehicle and, in parallel to this, to embark on the planning phase for the Ariane 6 follow-on project. An extraordinary Ministerial Conference is to be held in 2014, at which further key points for the future of the European launch vehicle programme are expected to be determined. RUAG Space is making substantial efforts to place itself in a strong position in this regard. This includes the new production method for payload fairings as well as the development of new and more powerful onboard computers and innovative adapters and separation systems. At the same time, these innovations are improving RUAG Space's base position for capturing market shares in the USA.

With its clearly structured product portfolio, the division is in a solid position to secure attractive stakes in upcoming institutional and commercial satellite programmes. Ka band converters for the telecommunications industry, low-shock separation systems and GPS receivers for satellites are just a few examples of the new products RUAG Space has been able to successfully place on the market in the last few years. Further innovations such as optical communication terminals or new types of antenna pointing mechanisms, electrical propulsion systems and solar arrays for satellites are set to follow.

RUAG Space in numbers

Net sales:	CHF 299 million
EBITDA:	CHF 34 million
EBIT:	CHF 14 million
Employees:	1,151
Based in:	Switzerland, Sweden, Austria

RUAG technology for a 3D map of the Milky Way

RUAG Space staff at the Berndorf site in Lower Austria pack thermal insulation for the Gaia space telescope.

RUAG Space played a key role in the development and construction of the new European space telescope, Gaia.

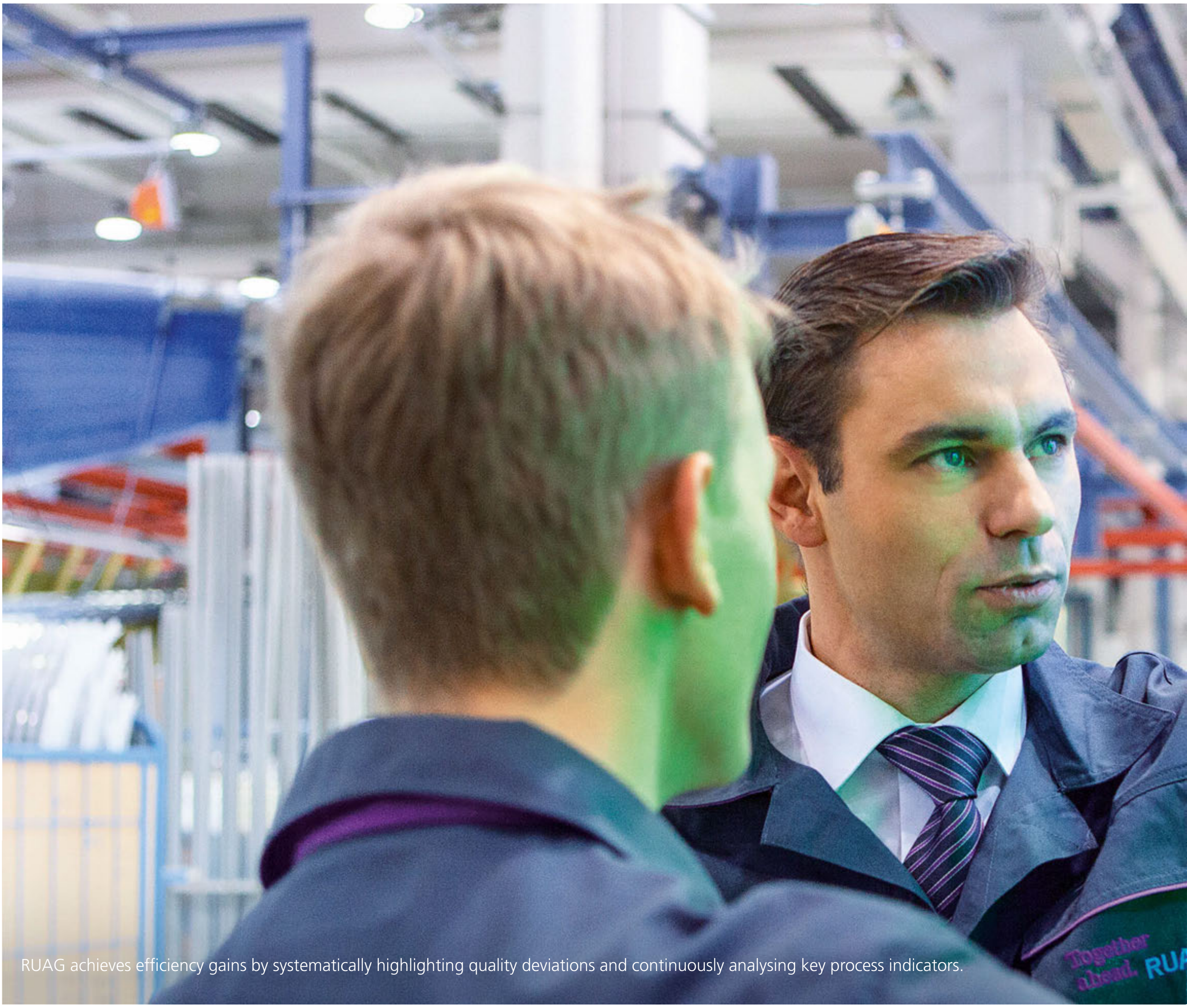
In December 2013, the European Space Agency (ESA) launched its new space telescope, Gaia (Global Astronomic Interferometer for Astrophysics). Gaia's mission is to log the position, brightness and colour of the stars in our Milky Way, thus compiling a complete three-dimensional map of our home galaxy. From its observation post 1.5 million kilometres from Earth, Gaia will be conducting a survey of about a billion stars. In order to do this it has two telescopes equipped with high-resolution digital cameras. Each camera has a resolution of one billion pixels. The aim of the Gaia mission is to help shed light on the history of our galaxy. However, astronomers are also hoping to use it to discover new asteroids and planets which are orbiting around other stars.

As a long-standing partner in ESA's scientific programmes, RUAG Space played a key role in the development and construction of the new space telescope within the framework of a multinational industrial consortium.

The technical requirements for the new telescope are high. The temperature of the sensitive optical components cannot be allowed to fluctuate by any more than a few millionths of a degree. For this reason, an enormous shield is being used to protect the satellite from solar radiation. The shield was only deployed once the satellite was in space. Its surface is made up of thermal insulation material supplied by RUAG Space, which is stretched over a carbon-fibre structure likewise manufactured by RUAG. The sensitive telescope instruments are housed within what is known as a thermal tent, a carbon fibre casing developed and manufactured by RUAG Space in Zurich. The thermal tent protects the optical bench, mirrors and focal plane from exposure to disruptive thermal radiation.

A central electronic data management unit from RUAG Space is responsible for communication between ground control and various functions on board the satellite.

RUAG Aerostructures
The specialist for aerostructures and for the international supply chains of global original equipment manufacturers.



RUAG achieves efficiency gains by systematically highlighting quality deviations and continuously analysing key process indicators.


AIRBUS A320

Top-precision cooperation: RUAG manufactures winglets for most civil aircraft produced by Airbus.

Core business

In 2013 RUAG Aerostructures, formerly RUAG Technology, repositioned itself to focus completely on its core competency of aerostructures. As part of this process, its Mechanical Engineering business area was sold off to Berghoff Holding GmbH in Drolshagen, Germany on 31 March 2013. In mid-2013, the division's recycling activities (Environment) were transferred to the Corporate Services (RUAG Real Estate) service unit. Lastly, the Automotive business area was closed down at the end of 2013. From now on the division will be focusing on its aerostructures business. The new name, RUAG Aerostructures, has also given a new focus to the division's profile.

In the core business of aerostructures, key focal points are the development, production and final assembly of 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. Today, RUAG Aerostructures produces the winglets for the majority of Airbus civil aircraft and also serves as a "quality gate" for final assembly of complete fuselage sections on behalf of the European aircraft manufacturer.

RUAG Aerostructures' vision is to acquire a position as a global first-tier supplier (including risk sharing readiness) for civil and military customers. This will require a professional project management setup, first-rate production processes, a global and highly flexible sourcing operation, a comprehensive supply chain management control framework, and reproducible quality processes.

Business performance

RUAG Aerostructures' net sales fell by CHF 17 million from the previous year to CHF 196 million in 2013. EBIT also fell, from CHF 7 million to CHF 4 million.

The main reason for these declines was the transfer of the Environment business area to RUAG Real Estate, the sale of the mechanical engineering operation and the abandonment of the automotive business. In the aerostructures segment, net sales rose by CHF 14 million to CHF 185 million. This increase was due primarily to existing programmes with Bombardier, Pilatus and Boeing. With the Bombardier CRJ programme the division was able to almost double its output in the core aerostructures business. In another positive development, our collaboration with Pilatus also grew last year. Since January 2013, RUAG Aerostructures has been assembling the complete airframe structure as well as the wings for the PC-21 at its Emmen site. Owing in particular to the additional business generated with Bombardier and Pilatus, sales in the aerostructures segment in 2013 increased by 8 % compared to the previous year.

The division as a whole is benefiting from a very high order backlog in the A320 volume programme for its key customer Airbus. At the end of 2013 the order volume for Airbus stood at over 4,000 aircraft, which represents a good eight years' worth of work in hand.

At the end of 2013 Airbus had an order backlog of over 4,000 aircraft in the A320 programme. This represents eight years' work in hand.

Innovation and initiatives

In conjunction with its assumption of complete responsibility for the rear fuselage of the Bombardier CRJ aircraft, RUAG Aerostructures consolidated and further enhanced its supply chain competence in the year under review. On this basis, the division also further expanded its global supplier network and professionalized its supplier management operation. The systematic build-up of professional expertise in the management of the entire supply and value chain is key to the division's ability to continue to meet the needs of the major aircraft manufacturers in the future.

In collaboration with Saab, RUAG Aerostructures has developed new pylons for the Gripen E military aircraft at its Emmen site. These are complex systems which come in five different versions. In addition, last year the division acquired the basic know-how to carry out robot-assisted automated processing of composite structures via a research project on "Automated Composite Assembly". This knowledge is intended to help the division to process future work packages even more efficiently and thus more competitively.

In Oberpfaffenhofen, a new robot cell for friction stir welding has been developed and incorporated into our implementation plan. An innovative joining method, friction stir welding allows items to be produced with no rivets, while also and especially allowing welding of almost all currently available high-strength aluminium alloys, unlike the traditional fusion welding method. With this new technology, the division is making itself more attractive to customers and laying the foundations for a broader range of products and services.

Outlook

For RUAG Aerostructures, the areas of focus for the future are to consolidate and expand its position as a tier 1 supplier and to achieve a sustainable increase in its sales by focusing consistently on the aerostructures business. In the area of Supply Chain Management Services, opportunities are emerging thanks to increases in output and volume. In the aerostructures segment, the division is banking on its expertise in innovative design and in the production of fuselage sections, peripheral wing components and movables.

A central pillar of this strategy is to step up the internationalization of the business. This includes expanding and optimizing its worldwide supplier base on the one hand, while also further reducing currency risks (natural hedging).

RUAG Aerostructures in numbers

Net sales:	CHF 196 million
EBITDA:	CHF 7 million
EBIT:	CHF 4 million
Employees:	1,065
Based in:	Switzerland, Germany

Trailblazers in international aviation

Fuselage sections from RUAG delivered on time at 02:00 a. m. to the client, Airbus in Hamburg.

Punctual delivery of faultless structural assemblies to its international customers is the top priority for RUAG Aerostructures. A new software solution which was systematically integrated into the production process recently has significantly enhanced information and cost transparency for all our staff.

For years now, RUAG Aerostructures has been working towards streamlining and harmonizing its internal processes with a view to increasing efficiency in its production operations. A key area of these efforts relates to internal information flows. Previously, for example, documentation such as regulations from the aviation authorities, shift books or production specifications were available only in paper form, often dispersed across various locations and different filing systems.

As it is hugely important, especially in businesses such as aviation and aerostructures, to be able to trace back every process step, or the exact provenance of components in detail even years after the fact, RUAG Aerostructures set out a vision for multimedia-supported production and started work on implementation.

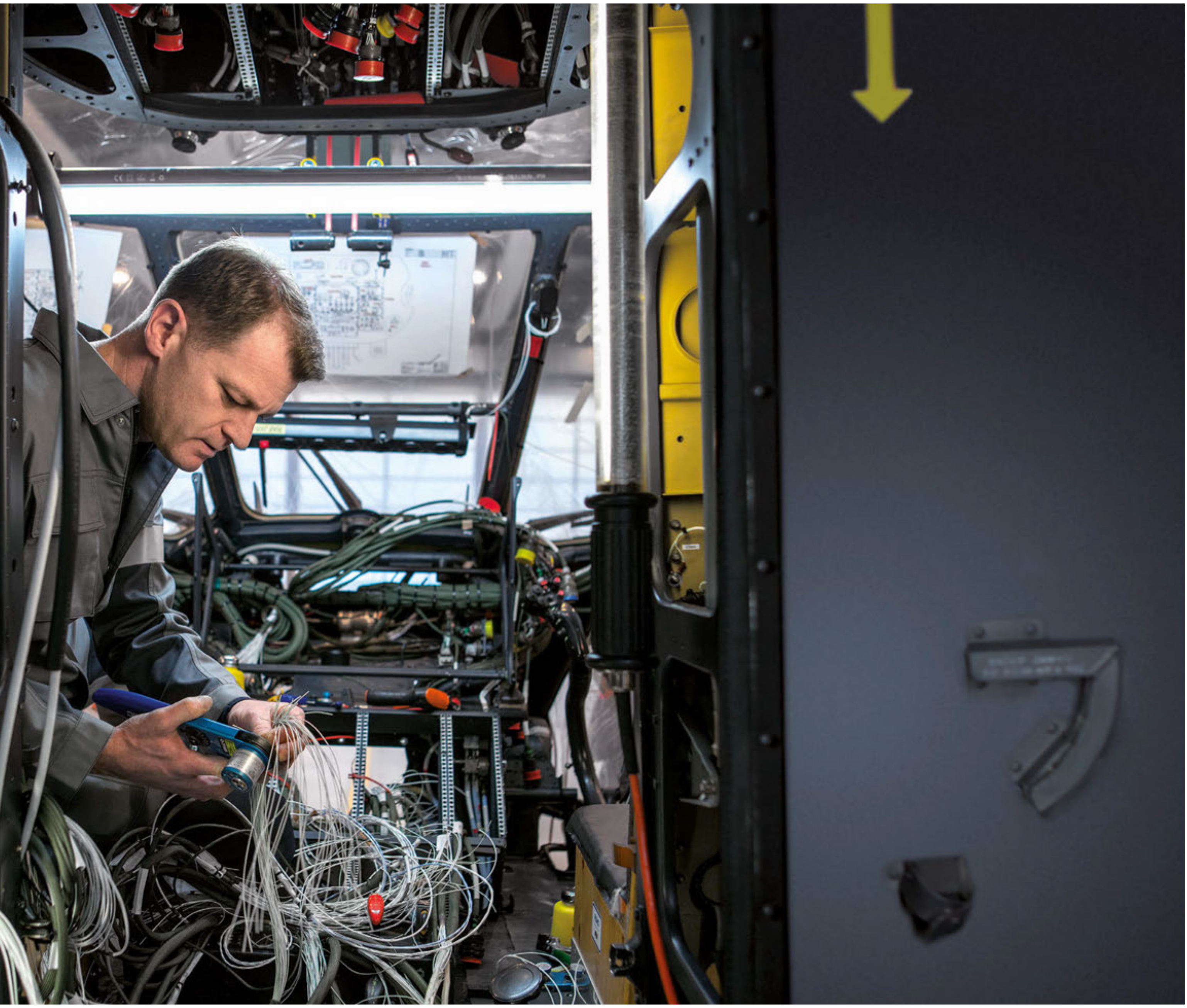
In summer 2011, the division decided to go for a lean manufacturing system which is also being used successfully in the automotive and high-tech markets today. During implementation, the software solution was gradually aligned with the division's requirements and equipped with production interfaces. After an intensive testing and optimization phase, the system went live for all production areas at RUAG Aerostructures in summer 2013. All our staff now have multimedia access to all relevant information. This system has allowed us to introduce paperless work processes (eWorkflows), a standardized personnel management system, automated monitoring of production facilities, systematic presentation of quality deviations, and ongoing analysis of key process indicators. RUAG Aerostructures now has a comprehensive software solution at its disposal for ensuring information and cost transparency in its production operations. Based on this we have been able to generate yet more efficiency gains and ensure a more transparent and more reliable production process.

After a long period of development work, RUAG Aerostructures has thus succeeded in creating a state-of-the-art solution which has no parallel in today's international aviation market and has become something of a trailblazer. From now on, the division will continuously refine the system, thus further perfecting its internal process environment.

RUAG Aviation
The centre of excellence for civil and military aircraft maintenance and for upgrade programmes.

In the Super Puma TH89 upgrade programme, RUAG specialists install some 25 kilometres of cabling and 13,500 electrical connections in each helicopter.


71
KFOR



The Upgrade 25 programme for Switzerland's F/A-18 fleet entails bringing hardware and software up to the latest technological standards.

Core business

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

Activities in military aviation are based on integral service programmes for all fighter aircraft, helicopters, training aircraft and reconnaissance unmanned aerial vehicles (UAVs) for the Swiss Air Force. The service spectrum also includes support for evaluation of new systems, final assembly, upgrades and MRO work as well as trading and remarketing. The focus is on platforms used in Switzerland such as the F-5 Tiger and F/A-18 Hornet fighter aircraft and the Super Puma, Cougar and EC635 helicopters. Lifecycle support services for the Bell UH-1D helicopter, the Alpha Jet and the Dornier 228 are provided at the Oberpfaffenhofen site in Germany.

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

Business performance

RUAG Aviation's net sales grew slightly by CHF 24 million from the previous year, reaching CHF 510 million. EBIT improved from CHF 28 million to CHF 32 million.

As expected, the five-year service-level agreements concluded with the Swiss Air Force in 2012 resulted in a decline in sales of 8.2 %. Their long-term nature, however, will make it possible to boost productivity by targeting resource allocation more precisely.

In military aviation, activities in the domestic market during 2013 remained centred on the WE89 and Upgrade 25 upgrade programmes. The WE89 programme involves a comprehensive modernization of the Swiss Air Force's 15 TH89 Super Puma transport helicopters, bringing them up to the technical standard of the TH98 Cougar. This will extend their service lives for a further 15 to 20 years. Eleven of the 15 Super Pumas being upgraded were delivered to the Swiss Air Force before the end of 2013. The programme will be fully completed by the end of 2014.

The Upgrade 25 programme made good progress in 2013. Conversion of the aircraft fleet began on schedule in February 2013. Two two-seater F/A-18 D and four single-seat F/A-18 C aircraft were delivered by the end of the year. The conversion should be completed by the end of 2015, ensuring the operational readiness of the F/A-18 fleet for the second half of its expected 30-year service lifetime.

At the Oberpfaffenhofen site, the declining need for MRO services for the Bell UH-1D helicopter continued to be a challenge. Although replacement procurement of new systems for the German Luftwaffe and Navy has been discussed, these projects are currently on hold.

The upgrade programme launched in February 2013 should be complete by the end of 2015, ensuring the combat readiness of the F/A-18 fleet for the second half of its expected 30-year service lifetime.

The Dornier business has been more encouraging. Two naval aircraft equipped with special sensor systems were delivered to the Bangladesh Navy. A follow-up order for a new aircraft has arrived from Japan, as has the first fleet order of ten aircraft for Venezuela. The restructuring programme for the Oberpfaffenhofen site has progressed considerably.

In the international business, the emphasis was on strengthening RUAG Aviation's market position in MRO. The five-year MISTR (management of items subject to repair, i.e. component and engine MRO) agreement concluded the previous year contributed to the growth of the international business. Additional new engine MRO contracts were signed with customers in Malaysia and Tunisia. A contract was also secured for a complete overhaul of a Dassault VIP aircraft for the Malaysian government. The integration of Rosebank Engineering, acquired the year before, advanced successfully. RUAG Aviation also made noticeable progress in building direct relations with the Australian Air Force and procurement authority.

In business aviation, the emphasis was on selective improvements in competitiveness. The Alpnach Helicopter Centre of Excellence concluded new turbine helicopter maintenance contracts with existing and new customers. An additional facility was opened in Sion to further expand market presence. The new centre's focus is on MRO for Sikorsky VIP helicopters for customers from Italy, Monaco, France and Western Switzerland. Further progress was also made in extending the range of services offered. The Oberpfaffenhofen site became a service centre for maintenance of Embraer Lineage 1000 aircraft. The first D check of a Piaggio Avanti was conducted in Lugano-Agno, while the paint shop in Oberpfaffenhofen now offers exclusive paint jobs through a partnership concluded with Happy Design Studio. Furthermore, various new cabin outfitting and in-flight entertainment partnerships were concluded. In the helicopter business, RUAG Aviation was certified to maintain the MD 500/MD 902.

Innovation and initiatives

In 2013 RUAG Aviation focused primarily on the products and platforms it supports and on bolstering its international presence.

Accordingly, the division systematically developed its position as a capable lifecycle support service provider for the F-5 fighter aircraft. The division already provides top-quality services to most of the world's air forces that operate the Northrop F-5. Component MRO, particularly for engines, saw further gains in both military and civil aviation.

The sale of ten Dornier 228 aircraft (two Dornier 228-212s and eight Dornier 228 New Generations) to the Venezuelan government further strengthened the division's market position in South America. In the Asia/Pacific region, Europe and North America, RUAG Aviation was again successful in 2013 as an international partner for manufacturers of aircraft and components and for both civil and military customers.

Outlook

In the military sector, governments appear likely to further reduce their budgets. In business aviation, a certain hesitancy currently prevails despite longer-term growth prospects. Competition in this segment is intensifying significantly. RUAG Aviation therefore expects little or no business growth in 2014.

In Switzerland the division will continue to work to secure a good position in all major programmes, such as the Gripen, the ADS15 reconnaissance drone, the ground-air defence system BODLUV 2020, and the Cougar upgrade. The focus is on the role of technology partner to the Swiss Air Force.

RUAG Aviation holds a good position in attractive niches as centre of excellence for military and civil aircraft MRO and is pursuing a strategy of internationalization, closely linked with geographical expansion.

To further enhance profitability, the division has launched measures to improve productivity at all levels. In the future, optimized processes and procedures will allow it to provide superior MRO services to military and civil customers even more efficiently.

RUAG Aviation in numbers

Net sales:	CHF 510 million
EBITDA:	CHF 38 million
EBIT:	CHF 32 million
Staff:	2,118
Based in:	Switzerland, Germany, USA, Australia, Malaysia, Brazil

Coastal air patrol service in Bangladesh

In addition to the Dutch Coastguard, the Bangladesh Navy now also employs Dornier 228 aircraft for maritime patrol and rescue missions.

In 2013 RUAG Aviation delivered two Dornier 228 New Generation aircraft to the Bangladesh Navy.

Dornier 228s are 19-seat passenger aircraft. Within this category they are demonstrably the best performing, most modern aircraft on the international market. Their performance is based on the still-unmatched TNT (Tragfläche-Neuer-Technologie) new technology wing design. The introduction to market of the Dornier 228 New Generation (NG) further extended the craft's technological lead over the competition. Only the new version of the Dornier has a fully-integrated cockpit. The Dornier 228NG is used by a select group of customers, primarily customers with missions of national importance. They generally use the aircraft in public service, to connect remote regions with national economic centres or for maritime protection and security as maritime patrol aircraft (MPA) equipped with state-of-the-art special missions sensor systems.

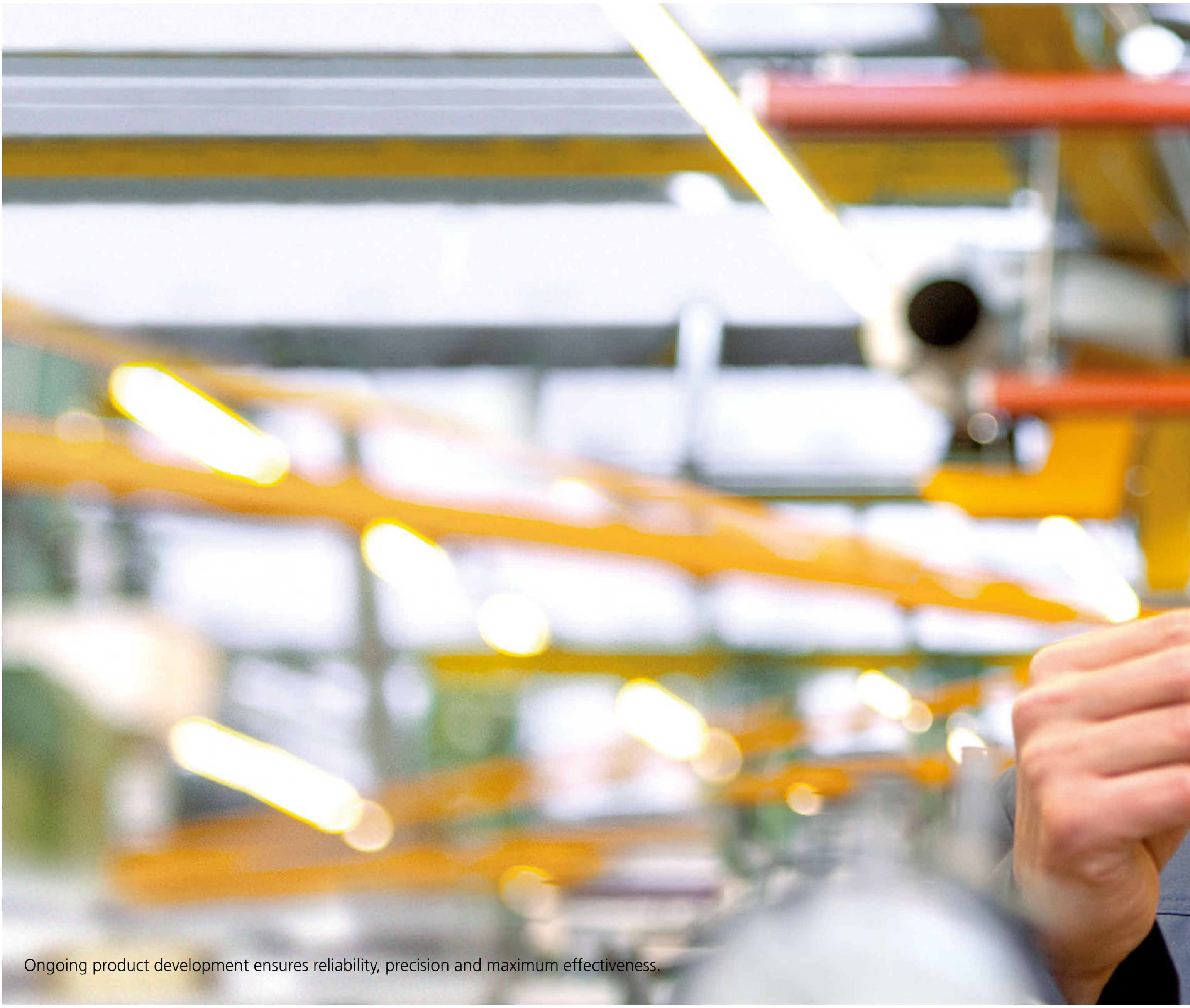
In 2013 RUAG Aviation delivered two MPA aircraft to the Bangladesh Navy to be used for patrol and rescue missions along the country's 580-kilometre coast. These first two aircraft in the fleet are the heart of a new local coastal police air patrol squadron. The Bangladesh Navy chose the Dornier 228NG for air patrol duty because of its technological lead over similar aircraft.

To best perform air patrol tasks, the craft are equipped with onboard 360-degree all-round radar. For rescue missions, the two aircraft also have a search and tracking system with the traditional UHF, VHF and marine emergency frequencies. The Bangladesh Navy's Dornier 228NGs are also equipped with a side door that allows the crew to deploy marine markers or life rafts with complete survival packages while flying over water.

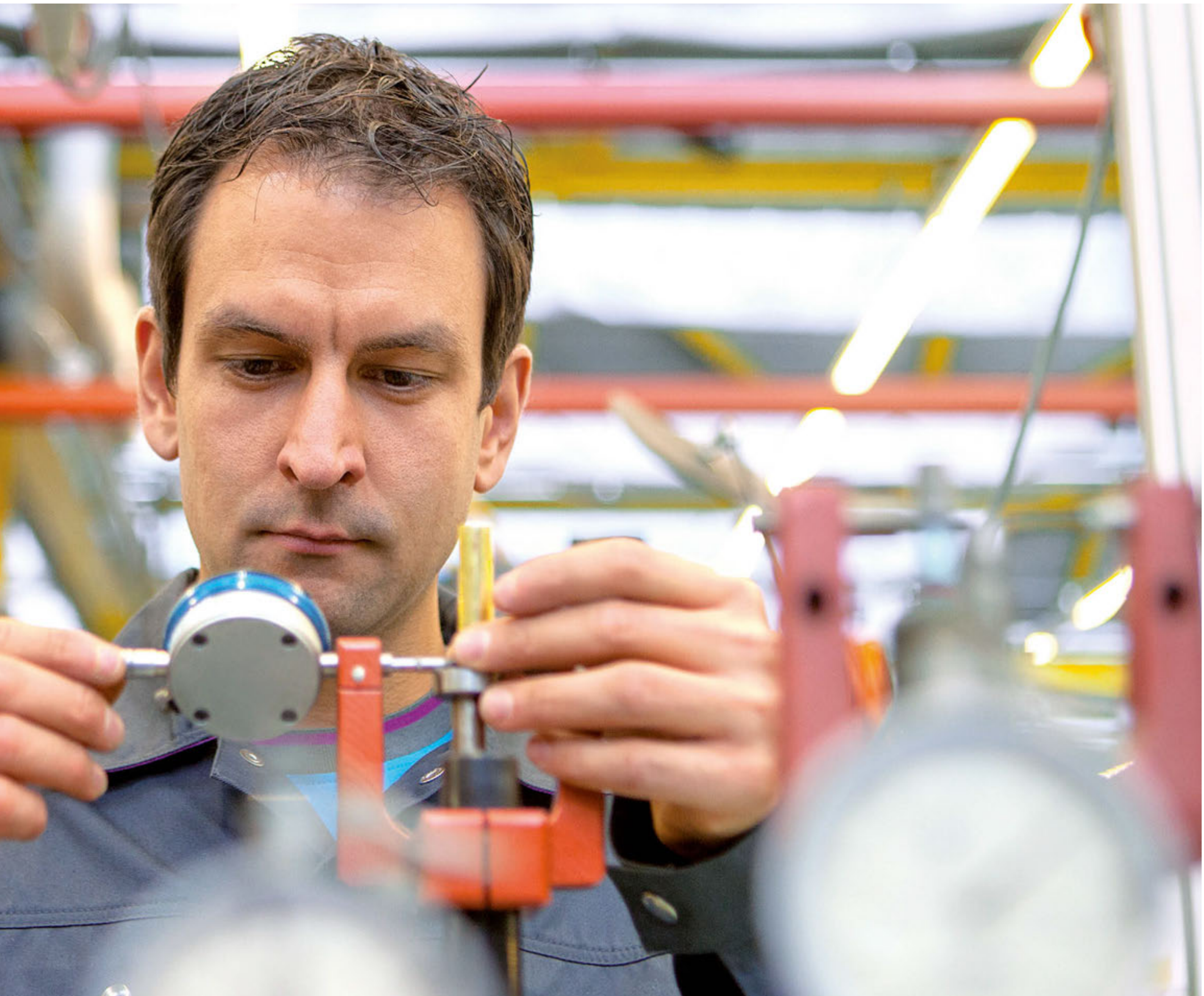
Besides Bangladesh, Dornier 228s are also used for missions of this type in Germany, Norway, the Netherlands, Italy, the UK, India and Thailand.

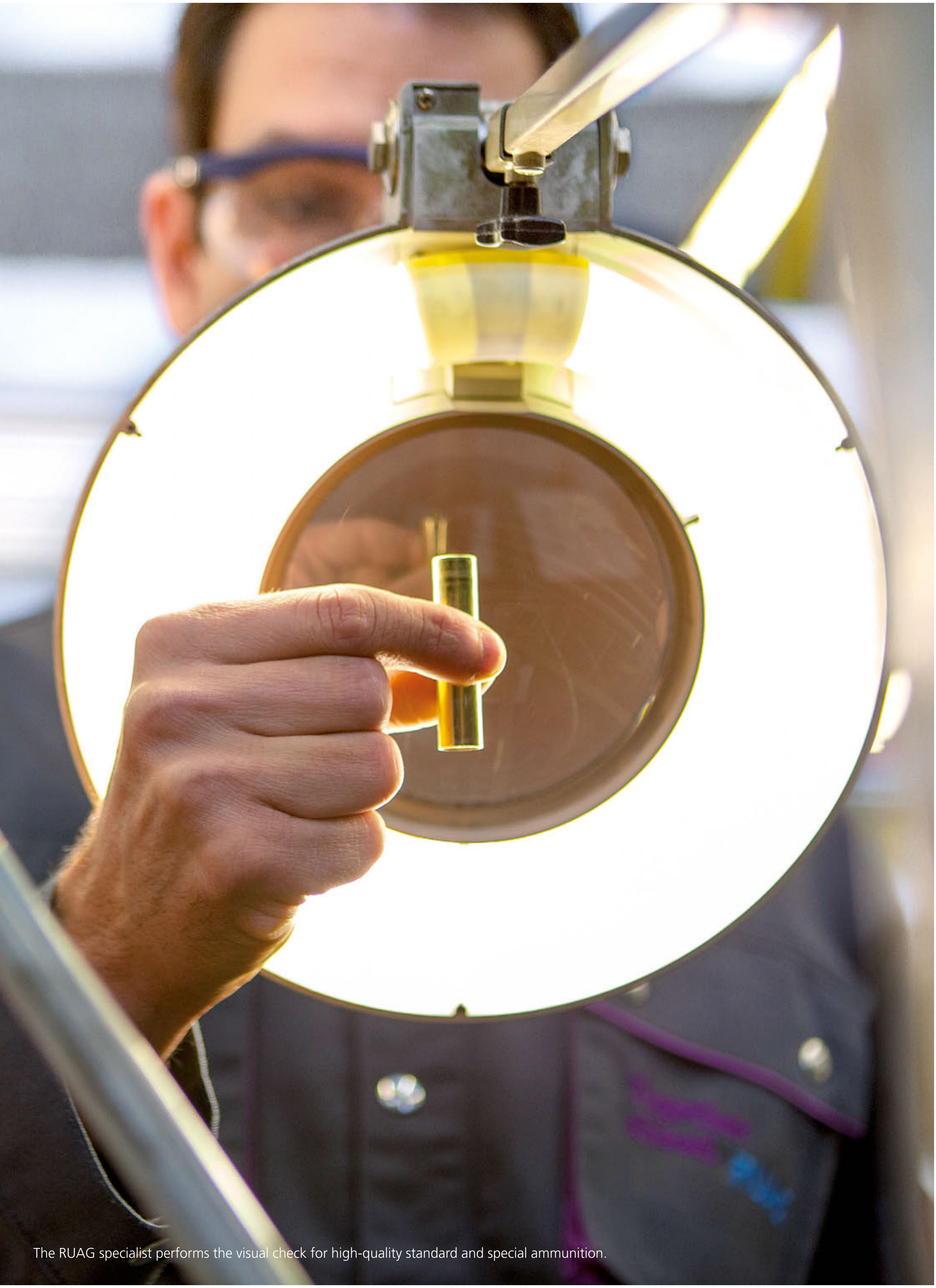
RUAG Ammotec

The European market leader in small-calibre ammunition, pyrotechnic elements and components for hunting & sports, defence & law enforcement and industry.



Ongoing product development ensures reliability, precision and maximum effectiveness.





The RUAG specialist performs the visual check for high-quality standard and special ammunition.

Core business

RUAG Ammotec is the European market leader in small-calibre ammunition, pyrotechnic elements and components for the hunting & sports and defence & law enforcement business areas. Its precision ammunition is used by special force units worldwide. The division is the technology leader in heavy-metal-free primer technology for items such as actuator cartridges for the construction industry and special applications in automotive safety systems. It also offers large-calibre training systems and environmentally responsible disposal of pyrotechnic products. All products and applications feature high dependability, precision and effects carefully tailored to individual needs.

The division offers a wide range of products for hunters with top brands such as RWS, Rottweil, GECO, norma and Hirtenberger. Among sporting marksmen, numerous recent world records and Olympic medals are testimony to the world-class quality of RUAG Ammotec's products, especially those sold under the RWS and norma brands.

For users in the defence & law enforcement customer segment, RUAG Ammotec produces high-precision ammunition across the entire small-calibre spectrum. A wide selection of standard and special ammunition is available for training and field action under diverse circumstances and conditions. The division provides an extremely high-performing range of sniper ammunition under the brand name RUAG SWISS P. High-precision results even in highly unfavourable environments make these products enormously valuable for defence purposes. The available product range also includes a heavy-metal-free NATO-certified cartridge. Customers include the Swiss Armed Forces, German Bundeswehr and numerous government agencies and security forces in over 60 countries.

Products developed by RUAG Ammotec's Industrial Pyrotechnics business unit include non-polluting actuator cartridges for fastening devices in the construction sector and for automotive safety systems. These products are based on the unit's unique capabilities in the ammunition sector and, like all of its business activities, are consistent with a systematic, forward-looking innovation strategy.

Business performance

RUAG Ammotec's net sales grew by CHF 17 million from the previous year, reaching CHF 354 million. Operational EBIT also grew, but the nominal figure was impacted by certain special charges such as provisions for pension liabilities.

The division achieved solid growth in all segments. The shift in sales from military to civil applications continued. Spearheading this trend was the hunting & sports segment, which recorded a double-digit percentage leap in sales in 2013, contributing significantly to the division's positive results. The gains were especially strong in the United States, one of RUAG Ammotec's most promising markets outside Europe. The growing number of American users has boosted demand for weapons and ammunition. As a result, RUAG Ammotec achieved a definite turnaround in the United States last year, with positive effects on production at the Hungarian and US sites. RUAG Ammotec Hungary doubled its sales in the past two years. Last year's double-digit percentage sales growth in the actuator cartridge business for Hilti is also encouraging.

The Hunting & Sports business unit achieved double-digit percentage sales growth in 2013, contributing significantly to the division's positive results.

The multi-brand strategy applied in the hunting & sports segment, with the RWS and norma brands serving the premium segment and the GECO brand positioned at a lower price point, is paying off. By covering all price segments, this approach has helped the division to assert itself in Europe's fiercely competitive markets, with positive effects on sales in 2013.

Efforts to internationalize the business are well under way. Production is running at full tilt in all segments. A minority interest is being acquired in a wholesaler in Sweden and Finland in the hunting & sports segment in January 2014. Along with the successful US business, armed forces & law enforcement sales also grew in the Asia and Middle East regions. In South America five new countries were secured as customers. These intercontinental additions have more than made up for sluggish demand in Switzerland and Europe. Many countries on the "old continent" have cut their budgets and pushed back procurement orders, especially in the military domain. Nevertheless, the division further expanded market share in Europe in both civil and military applications.

The unfavourable currency situation, with a strong Swedish krona and weak US dollar, had a slight impact on last year's good operating results and caused a minor loss of sales. RUAG Ammotec nevertheless expanded its workforce by over 200 staff during the year under review, distributed among the locations in Switzerland (Thun), Germany, Sweden, Hungary and the United States. This expansion will support further growth in the years to come.

Innovation and initiatives

The process of qualifying and reintroducing the 7.62 mm calibre for the German Bundeswehr, launched the previous year in the Armed Forces & Law Enforcement business unit, was successfully completed. The next major challenge will be producing this type of ammunition for the customer.

Collaboration with systems vendors in the weapons and optics industry was identified as a key focus in 2013. The aim is to work together to optimize existing weapons systems and offer customers innovative solutions in the future. This will mainly involve developing new forms of special ammunition. The continual need for innovation in ammunition and propellant powder is driven by the European REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) regulation, to which products must conform to receive authorization.

In the hunting & sports segment, RUAG Ammotec invested a great deal of effort in developing lead-free ammunition. The EVO Green product line is aimed at customers worldwide who are unwilling environmental-posicy or unable to use traditional ammunition containing lead. A growing number of countries are expected to oppose lead ammunition on eco-political grounds. Commercially there is no benefit from this development as it is purely replacement business and the production of cartridges from materials such as copper is significantly more costly.

The division also made progress in pyrotechnic applications, developing the first heavy-metal-free airbag ignitors in the auto industry and supplying them to the Chinese market for the first time. Finally, there was significant innovation in communications. A strong presence on the Internet and in new media has raised international awareness of RUAG Ammotec.

Outlook

RUAG Ammotec anticipates that military budgets in the European region will continue to shrink. This makes it all the more important to actively market innovative and superior ammunition technologies at global events and tradeshows. Production of low-pollutant ammunition and innovative pyrotechnic applications will see further expansion. In addition to supporting the military capabilities of the Swiss Armed Forces, these will also be used to develop new applications, for example for police forces.

Further steps will be taken in the division's internationalization, taking advantage of synergies between civil and military applications. One area of focus in 2014 will be strategically solidifying the successes achieved in the US market during the year under review. In addition, the new minority interest in Sweden and Finland is to be rapidly consolidated and leveraged as a commercial success factor. Efforts to expand international business are based on a solid partnership with retailers and wholesalers and on closeness to the customer.

Adjusting RUAG Ammotec's structure and organization for the recent much higher business volumes will be a substantial challenge. The division's sales have nearly doubled in the past seven years. An additional 100 employees will be needed by 2018 despite an acute shortage of skilled labour. Production capacity is also being rapidly expanded by means of investments in the tens of millions for further growth. Machines are currently operating in three to four shifts. Efforts are already under way to improve productivity and efficiency (time-to-market) in 2014.

RUAG Ammotec in numbers

Net sales:	CHF 354 million
EBITDA:	CHF 41 million
EBIT:	CHF 29 million
Staff:	2,053
Based in:	Switzerland, Germany, Sweden, Hungary, USA, Austria, UK, France, Belgium, Brazil

Top ammunition for top results

RUAG supports Switzerland's successful biathlon team.

RUAG Ammotec produces small-calibre ammunition for Olympic sportspeople and collaborates with them to improve the products. The new RWS-branded premium line of rimfire cartridges has brought the division worldwide successes.

Sporting and competitive marksmen around the world rely on RUAG Ammotec precision to hit their target. The division has built up a leading position in international elite sports with its RWS-brand rimfire cartridges, which hold a 30 % share of the market. The premium RWS product, the R50, has been a steadfast companion to many summer and winter sportspeople from different countries and played an essential role in capturing numerous medals at European and world championships and at the Olympic Games.

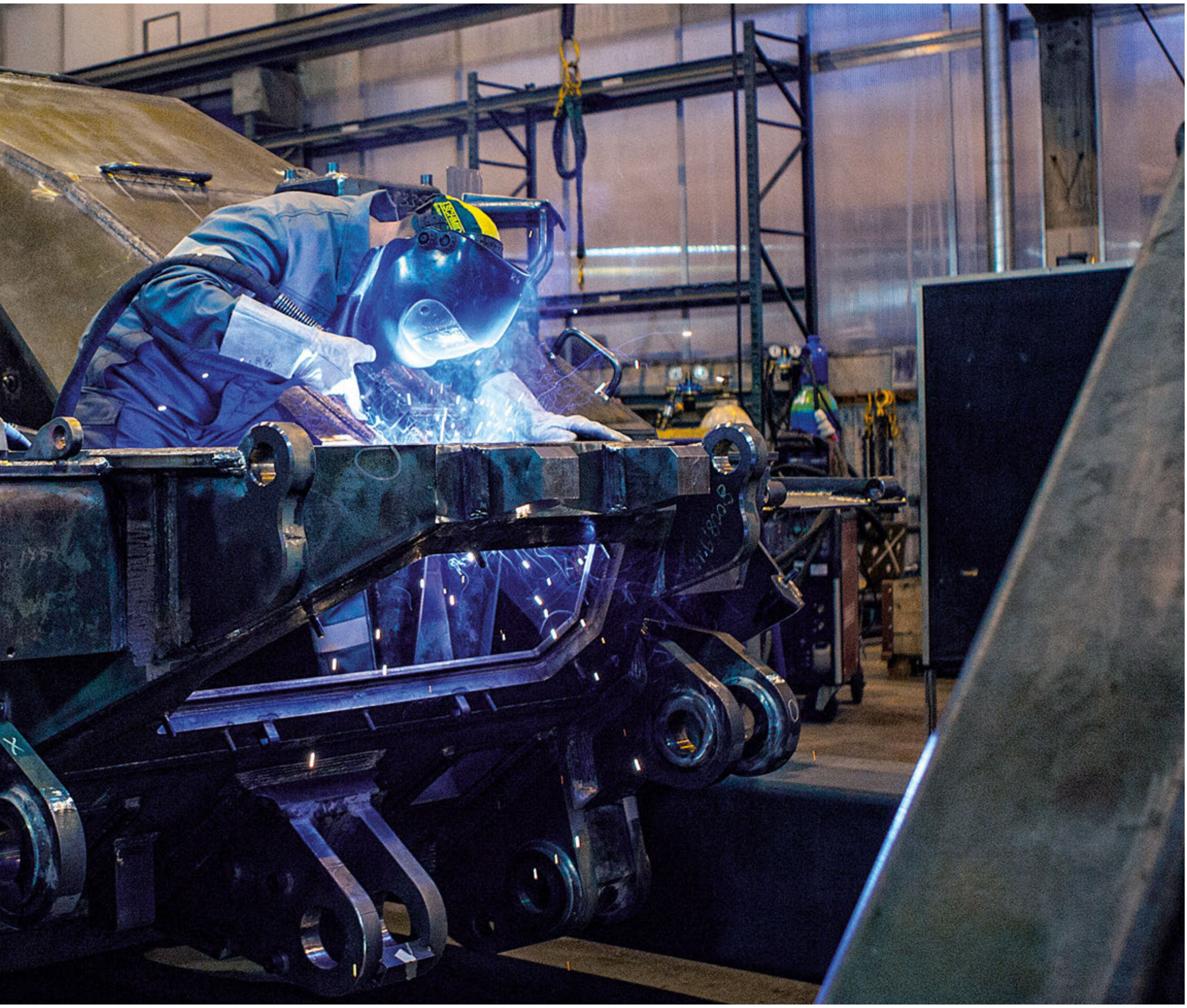
The Swiss national biathlon team uses RWS rimfire cartridges in training and competition and has been sponsored by RUAG for the past seven years. This winter sport, which combines cross-country skiing with marksmanship, has seen a rapid rise in popularity recently in Switzerland, thanks in large part to the enormous advances and initial World Cup and Olympic Games victories of Swiss athletes.

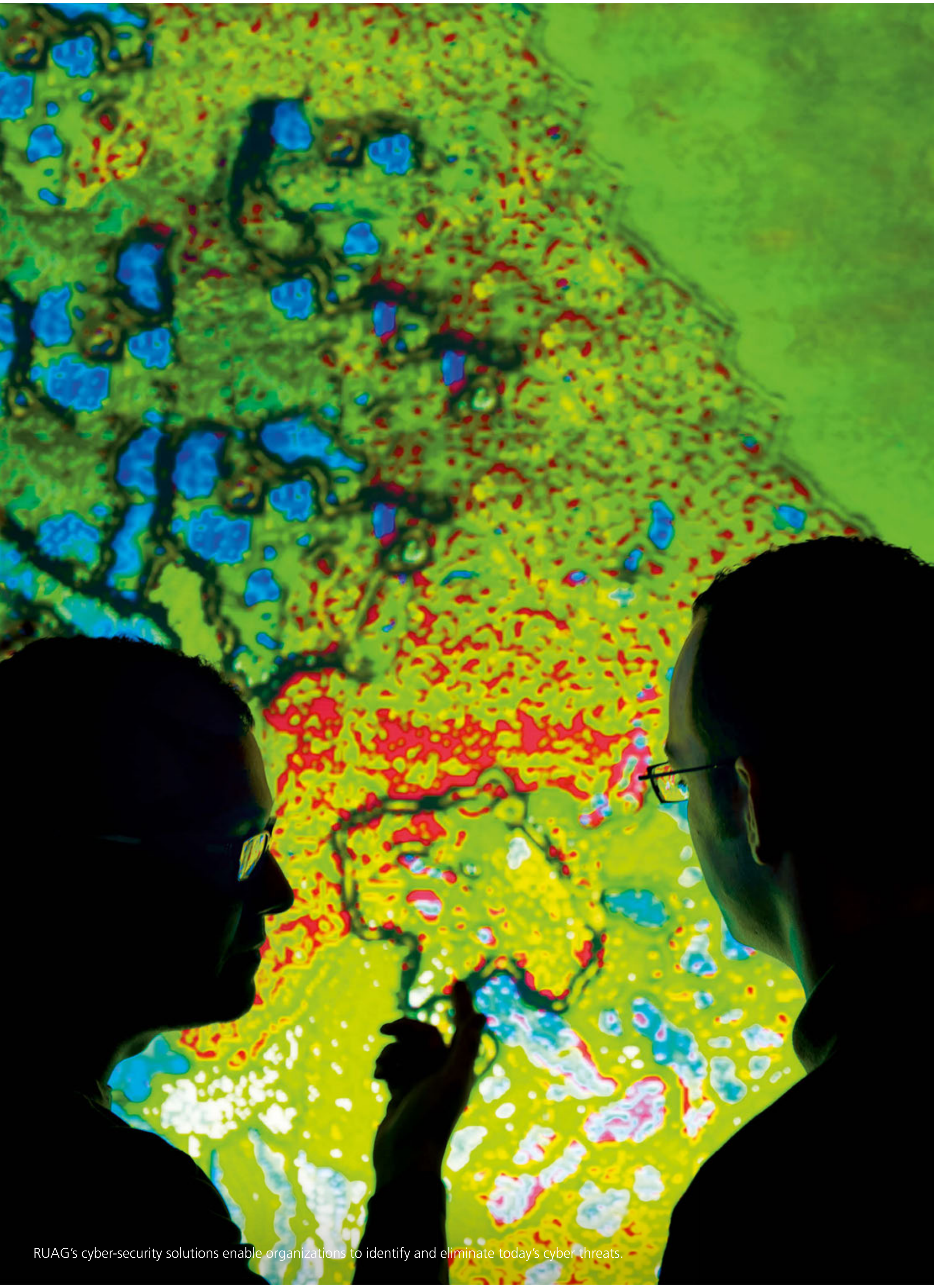
RUAG Ammotec sees its involvement in elite sports as a promise of quality in the context of a serious, genuine partnership. Together with athletes, trainers and experts, new ways are continually being explored to perfect the ammunition used in competition. This intensive exchange with world-class marksmen from different countries was the foundation upon which the new R50 SC rimfire cartridge from RWS was developed. This version of the R50 was developed to serve a new target market using weapon systems with very distinctive chambers into which the standard R50 did not fit. By creating the shorter R50 SC for these weapon systems, RWS enables more sportspeople, whether elite or casual, to find a product with just the right fit. R50 products have scored one international triumph after another in recent years, helping RUAG Ammotec secure impressive sales volumes and entry into the world's biggest ammunition market, the United States. A product co-developed by world-class marksmen and medallists naturally attracts interest among the broad ranks of passionate amateur marksmen as well.

RUAG Defence

The strategic technology partner for land forces and for security and rescue organizations.

When manufacturing the complete glacis plate for the armoured engineer vehicle, RUAG specialists use 36.6 kilometres of welding wire and up to 35 layers per welding seam.





RUAG's cyber-security solutions enable organizations to identify and eliminate today's cyber threats.

Core business

RUAG Defence is the strategic technology partner for land forces, law enforcement, rescue and security organizations and the defence and security industry. Its focus is on products and services for secure and reliable command, realistic training, armoured vehicles and safety and protection systems against ballistic and electromagnetic threats and impacts from cyberspace. This includes development, integration, maintenance and operation as well as upgrades of the relevant systems. All products and services are carefully designed to meet international requirements. RUAG Defence intends to further increase its international orientation and expand civil applications. The division's business is currently based in Switzerland, Germany and France, from where it serves markets throughout the world. Its three business units, Land Systems, Simulation & Training and Network Enabled Operations Services, provide innovative systems and products as well as services in the categories of systems development and integration, user support, maintenance and modernization, up to and including operation of complete facilities as a comprehensive service provider.

The core competency of the Land Systems business unit is service life extension and upgrading of heavy weapons systems. The focus is on the platforms that have been adopted in Switzerland: the Leopard 2 main battle tank, the CV 90 infantry fighting vehicle and the M109 self-propelled howitzer. The unit also performs conversions of existing platforms to new vehicles, such as the Kodiak armoured engineer vehicle. A further key area is development and production of active and passive 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 listening.

The Simulation & Training business unit specializes in virtual and live simulation systems for land forces training purposes. By combining modular systems, a range of effective training programmes are available, from individual training of soldiers to tactical exercises for entire troop units. RUAG Defence also provides comprehensive service and operates installed facilities, up to and including complete training grounds.

As a technology partner, the Network Enabled Operations Services (NEO Services) business unit provides integration, operation and maintenance of electronic command and control, communication, radar and reconnaissance systems for the Swiss Armed Forces and related systems for civil organizations. NEO Services develops and produces all-IP-based intelligent network nodes for security-critical communications networks. The unit also develops solutions for information security and long-term protection of corporate assets against threats from cyberspace.

Business performance

RUAG Defence's net sales fell by CHF 57 million from the previous year's figure to CHF 357 million. EBIT declined from CHF 25 million to CHF 19 million.

These setbacks occurred at the Land Systems and Simulation & Training business units (BUs). At Land Systems, several major projects in Switzerland, including the Leopard 2 main battle tank upgrade programme, the armoured engineer vehicle and FIS-Heer, concluded during 2013. Delays in procurement projects and in awarding of major contracts worldwide further depressed sales. Simulation & Training also faced delays in procurement projects at home and abroad in 2013. Both BUs responded to the decline in business by slightly reducing capacity over the past year.
The NEO business unit managed to hold sales steady compared to the previous year.

However, there were also a number of positive developments in 2013. By acquiring the French simulation and training systems specialist GAVAP, RUAG Defence became one of the world's top five companies in this segment. The purchase provides a base to generate value in France, to achieve market penetration there with products from other units, and to expand the available assortment of products and projects for the division's global business. The entry into France exemplifies the ongoing internationalization of all activities.

Delivery of the SIM MOUT live simulation platform for military operations in urban terrain to the Swiss Armed Forces last October in Walenstadt was a milestone. The facility is the most modern of its kind in the world, offering realistic combat training with a capacity of over 100 soldiers and vehicles. The rapid rise in global demand for facilities of this kind represents considerable growth potential.

In Germany, the Simulation & Training BU won a call for bids for a Counter Improvised Explosive Device (IED) simulation system to be used in Bundeswehr combat training centres. This first simulation contract in Germany will support RUAG Defence's general efforts to substantially strengthen its positioning in the strategically important German market.

The Land Systems BU also recorded a success in Germany, winning four tenders for maintenance of the German army's Leopard 2 tanks. A master agreement was also negotiated with the Finnish Armed Forces for maintenance work on the Leopard 2 and the CV90 infantry fighting vehicle. Maintenance, repair and overhaul (MRO) business in various countries for the M109 self-propelled howitzer and the Kodiak armoured engineer vehicle offers further long-term potential. The Land Systems BU has over 15 countries among its customers.

The NEO Services BU successfully entered the Southeast Asia market in 2013 with tactical communication products. It also further expanded its market position in Germany by delivering digital walkie-talkies to a fire engine maker.

In Switzerland, the NEO Services BU received approval from armasuisse to build a Materiel Centre of Excellence for the MALS Plus military aircraft approach and landing system. It also won a call for bids to maintain the POLYCOM subnetwork in the canton of Glarus, a part of the Swiss security radio network for police, fire, ambulance, military police and civil protection communications.

The NEO Services BU integrates and maintains over 100 C4ISTAR systems, a scale of performance that is unique in this area of business. The NEO Services BU's outstanding ability to tune highly complex systems to a state of utmost reliability also enabled it to further expand its position in the civilian sector in 2013 as a partner to high-tech companies.

Innovation and initiatives

One major area of research among RUAG's innovation efforts addresses how to systematically improve the safety of deployed troops. For example, the Land Systems BU has invested considerable effort in improving passive protection systems for armoured wheeled and tracked vehicles. As ever-lighter materials become available and the effectiveness of protection improves, new applications are evolving, including some in civilian markets. Advances have also been achieved in developing unmanned ground vehicles (UGVs) controlled by robotics and high-performance communication systems. These systems will result in quantum leaps in both military and civil deployment.

In the Simulation & Training BU, research largely centred on the laser technology used in live simulations. The BU successfully focused on achieving international standards. Also in the live simulation field, the Simulation & Training BU further developed its "mobile" capabilities. Users can now improve their skills no matter where they are. Another area of research involved developing a new generation of virtual simulators with top-quality viewing systems. By integrating the latest software modules, the Simulation & Training BU is building virtual arenas in which users can move in highly diverse ways through a world that is very close to reality. In the future this will give the BU the means to further its own development by actively entering the gaming industry business.

The NEO Services BU is continually developing and improving its unique capabilities in the IT, communication, IT security and systems integration fields and occupies an enviable position in the market. One key area for innovation is cyber security, a segment in which NEO Services has achieved substantial progress. The unit was also awarded a Service Provider Certificate for maintenance and integration of C4ISTAR systems from a leading international systems vendor. This not only ensures that local know-how is preserved for Swiss Armed Forces systems, it also gives NEO Services a lasting opportunity to offer maintenance for these systems abroad. Last year further saw the launch to market of the RUAG MultiLaser Protector, the first protective glasses offering defence against blinding by all common commercial handheld laser pointers. Together with the launch of the first production deliveries of the Polycom Covert700 radio communicator for concealed transmissions, this will bolster efforts to enter markets for additional civil applications.

A cross-divisional initiative was launched in 2013 to standardize and progressively unify the work methods of the three business units.

Outlook

RUAG Defence has set a goal of further strengthening its market position in Switzerland despite the declining volume of project business. Efforts are also under way to expand collaboration with foreign companies exporting products to Switzerland. In the domestic maintenance business, a five-year service level agreement (SLA) with armasuisse, the Swiss Armed Forces procurement organization, promises to ensure a stable situation for some time.

The division's international presence is to be systematically expanded, with an emphasis on differentiated market development in the focus markets of Germany, France and the United Arab Emirates as well as other selected regions (Northern and Eastern Europe, Southeast Asia, South America, Canada). Concurrently, efforts will be made to expand the global distribution network by recruiting additional local partners. RUAG Defence increasingly seeks to present itself as an independent systems integrator and score points at the international level with its own products and innovations, thereby laying a foundation for a worldwide expansion of MRO services.

Market expansion among rescue and security agencies and organizations will open further sales opportunities in Switzerland and specific foreign markets, and is aligned with the division's efforts to develop more civil applications. Thus the core competencies of the three business units will be reviewed for their suitability for civil markets and combined in a single strategy for these markets.

RUAG Defence in numbers

Net sales:	CHF 357 million
EBITDA:	CHF 30 million
EBIT:	CHF 19 million
Employees:	1,445
Based in:	Switzerland, Germany, France

RUAG Defence sets standards in realistic combat training

At the command centre, operations staff monitor live training in real time using electronic situation charts and cameras.

The SIM MOUT training facility inaugurated last year in Walenstadt is among the best in the world.

In a ceremony held on 4 October 2013, RUAG handed over the new SIM MOUT simulation platform for military operations in urban terrain in Walenstadt to the Swiss Armed Forces. A hundred or so guests from government agencies, industry and the military heard detailed explanations of the facility from live simulations specialists at the local combat training centre. The speakers underscored the importance of house-to-house and urban combat training for reinforced companies as an important live simulation tool for the Swiss Armed Forces.

SIM MOUT is one of the world's most modern facilities, setting entirely new standards for realistic unit combat training up to battalion level. Over 100 soldiers and vehicles can effectively drill for crisis situations in an authentic environment in the replica training village of Äuli, with 23 houses and over 1,000 automated props such as windows, doors and smoke-light-sound units. Four hundred special cameras were installed to capture high-quality video footage of specific training sequences on the ground and in the houses around the clock, even at night. Some 8,000 location sensors, accurate to within 0.5 metres, continually monitor the positions of exercise participants. A fibre-optic network ensures that all combat-related events and data are swiftly relayed to the training command centre and recorded.

The symbolic handover of the keys last autumn was an important milestone for the Simulation & Training business unit. A project team had been hard at work towards this success since 2008. Various new technologies were employed and successfully incorporated into SIM MOUT. In addition to two facilities in Switzerland, the Simulation & Training BU also operates two large-scale facilities and several mobile training systems in the Middle East as well as supplying top-quality live simulation components throughout the world.

RUAG Corporate Services

Having all our services under one roof allows us to better coordinate services and policies for the divisions.

Strategic management and infrastructure

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

RUAG Corporate Services provides the following cross-divisional services: Corporate Human Resources, Corporate Communications, Corporate IT, Corporate Legal & Secretary General and Corporate Finance & Controlling. Corporate Finance & Controlling also incorporates RUAG Real Estate, RUAG Environment, Corporate Procurement and Group Risk Management.

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

Corporate Human Resources

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

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

Investing in employees pays off: in surveys by Universum Communications, RUAG is one of Switzerland's ten most popular employers among science and engineering graduates as well as among experienced professionals.

RUAG's HR strategy is focused on five key areas: firmly establishing corporate culture, enhancing RUAG's attractiveness as an employer, strengthening leadership skills, establishing a Group-wide performance management system and internationalization.

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

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

The Group attaches great importance to nurturing apprentices and trainees in Switzerland and Germany. They receive thorough and practical training in more than 20 different occupations using a modern educational approach. RUAG held a national careers day at eleven sites as well as two vocational training conferences for the first time in 2013.

Corporate Communications

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

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

RUAG's Corporate Services are all geared towards a common goal: to support RUAG's corporate strategy and strengthen its branding.

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

Corporate IT

The Corporate IT service centre develops high-quality and competitive IT business architecture and applications and runs these together with the Group's ICT infrastructure. It is responsible for strategic ICT sourcing and procurement Group-wide.

The IT Services business unit provides IT services for the Group. This includes operating and managing the global corporate network and high-security data centres and advising on, implementing and managing SAP and e-business solutions, Microsoft platforms, specialist applications, telephony (landlines, mobiles and IP) and PC workstations.

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

The Project & Portfolio Management service unit, newly formed in 2013, is responsible for ensuring that the quality and strategic orientation of IT projects are furthered. In future this service unit, with its focus on corporate-level functions, will further develop the RUAG Group's IT strategy and establish an enterprise architecture.

Corporate IT is also responsible for providing an integral, industry-standard, Group-wide information and ICT security framework.

Corporate Legal & Secretary General

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

RUAG is a joint stock company wholly owned by the Swiss Confederation. The Confederation's interests as shareholder are exercised by the Swiss Federal Department of Defence, Civil Protection and Sport (DDPS). The owner's strategy of the Federal Council establishes a binding framework, ensuring that the RUAG Group can fulfil its duties profitably while taking account of Switzerland's broader interests. These interests concern in particular Swiss national defence, expectations regarding domestic and international 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 at least with the strict provisions of Swiss law – at all its sites worldwide – and maintains close contact with the relevant authority, the State Secretariat for Economic Affairs SECO. In addition to the applicable export regulations, observance of Swiss and international compliance rules is essential. For this purpose, the Corporate Legal & Secretary General service unit has in-house regulations drawn up and updated as required, assesses transactions and monitors the contracts negotiated by the divisions. The employees involved in the divisions receive regular training and advice.

Corporate Finance & Controlling

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

By specifying a systematic reporting structure with defined procedures and indicators, the Corporate Finance & Controlling service unit provides the key figures required for the piloting of the Group. High-performance information systems provide timely support for operational management and ensure rapid transparency. Under RUAG's working capital management system, optimization opportunities are sought and implemented continuously along the entire process chain on the basis of uniform specifications. This reduces the level of capital tied up, increases cash flow and supports additional growth. The room to manoeuvre gained in this way facilitates the financing of capital investments, research & development and acquisitions without the need for external funding. As well as supporting growth, working capital optimization also helps to reduce costs and to boost RUAG's earning capacity and shareholder value.

RUAG Real Estate Ltd plans and builds industrial and commercial buildings for the divisions and for third parties. It provides RUAG with a comprehensive corporate real estate management (CREM) service.

The staff of RUAG Corporate Services have a service mentality and, at the same time, are able and willing to take the lead in specific areas. This requires specialists with a capacity for integrated, international thinking.

It disposes of buildings and rights in rem and manages properties over their entire lifecycle. Its main tasks are to furnish the ideal infrastructure for industrial production and to provide services. As a market-oriented, all-in-one service provider it develops integrated, themed industrial estates. Its core activities include transactions, portfolio management, commercial property management, building management and comprehensive services for industrial estate tenants. The Communications and Safety and Environment service units round off its functions.

RUAG Environment specializes in the recycling of discarded electrical and electronic equipment. Usually in partnership with other waste disposal businesses, it offers a nationwide service providing professional, customer-oriented and fully integrated waste disposal solutions covering the entire process chain, for private or public third-party customers, the Swiss armed forces and the Group itself. Central to our work at all times is a commitment to act and plan in an environmentally sound, sustainable and trustworthy way. RUAG Environment is characterized by its internationally recognized expertise in environmental technology and its capacity to innovate. From initial needs analysis to tailored logistical solution and, ultimately, environmentally friendly and compliant disposal, the unit offers its services to industry and trade customers alike.

As part of Corporate Services, Corporate Procurement's task is to mobilize RUAG's purchasing network and to use every available area of standardization potential and every purchasing advantage. To this end, it reviews and optimizes individual processes as well as defining common key figures in order to open up broader fields of action. With regard to permanently strengthening the RUAG Group's competitive position, in future more indirect material groups and administrative duties will be brought together in centres of excellence which will serve the Group as a whole. This pooling of tasks and expertise will increase transparency and boost the Group's bargaining power.

Supporting the internationalization process is one of the tasks of Group Risk Management. As part of corporate governance, it supports the divisions with tools and a constructive risk dialogue by carrying out a supported assessment each year. Short-term matters are covered by an issues management framework; medium-term risks and opportunities are managed through the Group-wide risk management process. The risk assessment is based on a model specifically defined for the Group, in which risks are classified into four categories: reporting, compliance, strategic and operational risks. Treasury tracks and manages currency, interest rate and credit risks at Group level; all other financially relevant risks are monitored via an internal control system for core processes. Compliance issues, business proposals and major projects are assessed in collaboration with Corporate Legal & Secretary General and Finance with a view to ensuring that risks relating to the long-term development of the Group are identified early and dealt with appropriately and that opportunities can be generated in the long term.

Scope for more efficiency and lower costs

RUAG's new premises in Nyon provide a suitable environment for efficient and technologically advanced production – and space for future growth.

RUAG has sold off its real estate holdings in Nyon and will create new jobs. Its position as the tenant of the existing building and the planned extension is benefiting the Group in a number of ways.

In September 2013, RUAG Real Estate Ltd and Swiss-domiciled EPiC SEVENTEEN Property Investment AG signed a contract of sale for RUAG's real estate holdings in Nyon. As well as the land, the internationally active buyer is acquiring both the existing building and the planned new factory building. Scheduled to open in January 2015, the production site is currently being extended to provide a state-of-the-art, three-storey office and production building with a total surface area of over 6,100 square metres.

Notwithstanding this sale of real estate by the Group, Nyon-based RUAG Space is further expanding its presence in the area and will even be creating around 60 additional jobs in the Lake Geneva region over the next few years. RUAG has been able to conclude attractive long-term tenancy agreements for its new and much larger premises. The construction project being planned by RUAG Real Estate Ltd will offer industrial sites for both RUAG Space and other industrial firms. In this way, RUAG is securing modern and efficient production conditions in Nyon as well as space for potential future growth.

The real estate deal with EPiC is based on the "sale and rent back" principle, which is a first for RUAG. The Group is now just the occupier of the premises instead of an investor, allowing it to save money and minimize property risks. In future, RUAG Real Estate Ltd is keen to use this strategy to develop selected new and attractive production sites to accommodate growth in the Group's divisions and streamline its proprietary real estate portfolio. As an investor, in future the Group is primarily looking to act in connection with the development and construction of large, sector-specific industrial estates at its six main locations in Berne, Thun, Emmen, Altdorf, Zurich-Seebach and Stans. These will be both used by the Group and rented out to third-party companies. At smaller sites, RUAG will in future be looking to rent more properties for its own use so that it can offer good production conditions without taking on property risk. The Nyon "premiere" has already proven a great success.

Financial statements

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Key figures

in CHF m	2013	2012
Order inflow	1 851	1 612
Order backlog	1 405	1 310
Net sales	1 752	1 741
Operating income	1 749	1 788
Cost of materials and purchased services	(560)	(603)
Personnel expenses	(835)	(816)
Other operating (expenses) income	(158)	(178)
EBITDA[1]	196	191
EBITDA in % of operating income	11.2 %	10.7 %
EBIT[2]	115	113
EBIT in % of operating income	6.6 %	6.3 %
Net profit (loss)	94	78
Net profit (loss) in % of operating income	5.4 %	4.4 %
Cash flow from operating activities	142	130
Cash flow from investing activities	(42)	21
Free cash flow	100	150
Cash flow from financing activities	(88)	(39)
Equity before non-controlling interests	943	728
Equity in % of total assets	50.5 %	38.9 %
Return on equity[3]	11.3 %	10.6 %
Depreciation and amortization[4]	81	78
Goodwill impairment	—	—
Research and development expenses	132	134
in % operating income	7.5 %	7.5 %
Net sales per employee (CHF 1,000)	210	211
Added value per employee (CHF 1,000)	130	130
Number of employees at end-December (incl. apprentices)	8 241	8 188
Number of employees (average for the year, incl. apprentices)	8 336	8 258
Number of registered shares (par value CHF 1,000)	340 000	340 000
Earnings (losses) per registered share	277.89	236.80
Dividend per registered share[5]	58.82	58.82
Distribution ratio	21.2 %	24.8 %
Book value per registered share in CHF	2 773	2 531

[1] EBITDA = Earnings before interest, taxes, depreciation, amortization and goodwill impairment.
[2] EBIT = Earnings before interest and taxes.
[3] Net profit as a percentage of average equity.
[4] Depreciation of property, plant and equipment and amortization of intangible assets.
[5] Probable dividend of CHF 20 million in respect of 2013 according to proposal of the Board of Directors.

Five-year overview

in CHF m	2013	2012	2011	2010	2009
Order inflow	1 851	1 612	1 720	1 713	1 872
Order backlog	1 405	1 310	1 480	1 653	1 783
Net sales	1 752	1 741	1 714	1 796	1 696
EBIT[1]	115	113	110	98	(113)
EBIT in % of operating income	6.6 %	6.3 %	6.4 %	5.3 %	(6.6 %)
Net profit (loss)	94	78	97	92	(107)
Net profit (loss) in % of operating income	5.4 %	4.4 %	5.4 %	5.0 %	(6.2 %)
Cash flow from operating activities	142	130	127	130	131
Cash flow from investing activities	(42)	21	(46)	(50)	(230)
Free cash flow	100	150	81	80	(99)
Cash flow from financing activities	(88)	(39)	(65)	(78)	87
Equity before non-controlling interests	943	728	746	734	661
Equity in % of total assets	50.5 %	38.9 %	43.4 %	41.3 %	37.3 %
Return on equity[2]	11.3 %	10.6 %	13.1 %	13.3 %	(15.0 %)
Research and development expenses	132	134	140	190	149
Research and development expenses in % of operating income	7.5 %	7.4 %	7.8 %	10.3 %	8.6 %
Number of employees at end-December[3]	8 241	8 188	7 739	7 719	7 534
Number of employees (average for the year)[3]	8 336	8 258	7 739	7 689	7 253

[1] EBIT = Earnings before interest and taxes.
[2] Net profit as a percentage of average equity.
[3] As of 2012: including apprentices.

Consolidated income statement and other comprehensive income, 1 January to 31 December

in CHF m	Note	2013	2012 adjusted[3]
Net sales	6	1 752	1 741
Own work capitalized		2	2
Changes in inventories and work in progress		(6)	45
Operating income		1 749	1 788
Cost of materials and purchased services		(560)	(603)
Personnel expenses	7	(835)	(816)
Other operating expenses	8	(158)	(178)
EBITDA[1]		196	191
Depreciation and amortization	18, 19, 20	(81)	(78)
Goodwill impairment	20	—	—
EBIT[2]		115	113
Finance income	10	39	46
Finance costs	10	(44)	(52)
Profit (loss) of associates	21	4	4
Profit (loss) before tax		114	112
Income tax	11, 12	(23)	(17)
Profit (loss) from continued operations		91	95
Profit (loss) from discontinued operations	5	3	(17)
Net profit (loss)		94	78
Attributable to			
Shareholders of RUAG Holding Ltd		95	78
Non-controlling interests		(0)	(0)
Net profit (loss)		94	78
Other comprehensive income			
Actuarial gains and losses from defined benefit plans		175	(95)
Income taxes		(33)	17
Items which cannot be recycled to profit or loss, after taxes		142	(78)
Change in fair value of cash flow hedges		(1)	9
Gains and losses from cash flow hedges transferred to profit or loss		—	—
Associates		0	(5)
Currency conversion from Group companies abroad		—	(0)
Income taxes		0	(1)
Items which can be recycled to profit or loss, after taxes		(1)	2
Other comprehensive income		141	(76)
Total comprehensive income		236	2
Attributable to			
Shareholders of RUAG Holding Ltd		236	3
Non-controlling interests		(0)	(0)
Total comprehensive income		236	2

1 EBITDA = Earnings before interest, taxes, depreciation, amortization and goodwill impairment.
2 EBIT = Earnings before interest and taxes.
3 See Note 2.2, "New and revised accounting standards".

The notes to the consolidated financial statements on pages 60 to 100 form an integral part of the consolidated financial statements.

Consolidated statement of financial position as at 31 December

in CHF m	Note	2013	2012 adjusted[1]	2011 adjusted[1]
Cash and cash equivalents	13	209	198	86
Current financial assets	14	6	8	10
Receivables and prepayments	15	274	284	284
Tax assets		4	3	5
Prepaid expenses and deferred income		12	13	10
Inventories and work in progress	16, 17	617	607	558
Current assets		1 121	1 113	953
Property, plant and equipment	18	395	425	445
Investment property	19	101	78	80
Intangible assets	20	73	87	79
Goodwill	20	84	78	78
Associates	21	38	36	39
Non-current financial assets	14, 37	37	4	4
Deferred tax assets	12	19	49	32
Non-current assets		747	756	757
Assets held for sale and discontinued operations	4, 5	—	5	10
Total assets		1 868	1 874	1 719
Current financial liabilities	22	50	71	56
Other current liabilities	23	37	42	34
Trade accounts payable and prepayments	24	347	303	309
Tax liabilities		14	13	3
Deferred income and accrued expenses		219	254	183
Current provisions	26	91	104	92
Current liabilities		757	788	677
Non-current financial liabilities	22	1	47	83
Other non-current liabilities	25	2	2	2
Employee benefit obligations	37	54	202	97
Non-current provisions	26	47	49	58
Deferred tax liabilities	12	63	56	54
Non-current liabilities		167	357	295
Liabilities held for sale and discontinued operations	5	—	1	—
Share capital	31	340	340	340
Additional paid-in capital		10	10	10
Retained earnings		658	443	463
Other reserves		(2)	(2)	(4)
Exchange differences		(63)	(62)	(62)
Equity before non-controlling interests		943	728	746
Non-controlling interests		1	1	1
Total equity		944	729	747
Total equity and liabilities		1 868	1 874	1 719

[1] See Note 2.2, "New and revised accounting standards".

The notes to the consolidated financial statements on pages 60 to 100 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows, 1 January to 31 December

in CHF m	Note	2013	2012 adjusted[4]
Net profit (loss)		94	78
Depreciation and amortization	18, 19, 20	81	95
Goodwill impairment	20	—	—
Change in non-current provisions and deferred taxes		24	10
Utilization of non-current provisions		(24)	(9)
Share of profit (loss) of associates	21	(4)	(4)
Other non-cash items		(2)	1
Change in working capital[1]		(17)	(39)
Adjusted net gain on disposal of non-current assets		(10)	(2)
Finance income received		(3)	(3)
Finance costs paid		3	4
Cash flow from operating activities[2]		142	130
Acquisition of plant and equipment[3]	18	(30)	(31)
Acquisition of property	18, 19	(24)	(17)
Acquisition of intangible assets	20	(1)	(1)
Acquisition of investments	4	(6)	46
Disposal of plant and equipment		2	1
Disposal of property		11	14
Disposal of intangible assets		—	0
Disposal of investments	4	3	6
Dividends received from equity investments	21	3	2
Cash flow from investing activities		(42)	21
Free cash flow		100	150
Decrease in third-party financial liabilities		(65)	(17)
Payments for finance leases		(2)	(1)
Finance income received		3	3
Finance costs paid		(3)	(4)
Dividends to shareholders		(20)	(20)
Cash flow from financing activities		(88)	(39)
Effect of exchange rate changes on cash and cash equivalents		(1)	1
Change in cash and cash equivalents		11	112
Cash and cash equivalents at beginning of year		198	86
Cash and cash equivalents at end of year		209	198

[1] Excludes current financial assets and current financial liabilities and other non-current liabilities.
[2] Including income taxes of CHF 10 million (previous year CHF 10 million) paid in the year under review.
[3] Actual leasing payments accounted for in the case of leases.
[4] See Note 2.2, "New and revised accounting standards".

The notes to the consolidated financial statements on pages 60 to 100 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

in CHF m	Share capital	Additional paid-in capital	Retained earnings	Other reserves	Exchange differences	Non-controlling interests	Total equity
Balance as at 31 December 2011	340	10	508	(3)	(62)	1	794
Changes to accounting policies[1]	—	—	(45)	(2)	—	—	(47)
Balance as at 1 January 2012, adjusted	340	10	463	(4)	(62)	1	747
Net profit (loss)	—	—	78	—	—	(0)	78
Other comprehensive income	—	—	(78)	2	(0)	—	(76)
Total comprehensive income for 2012	—	—	0	2	(0)	(0)	2
Dividends paid	—	—	(20)	—	—	—	(20)
Buyout of non-controlling interests	—	—	—	—	—	—	—
Initial consolidation of non-controlling interests	—	—	—	—	—	0	0
Balance as at 31 December 2012	340	10	443	(2)	(62)	1	729
Balance as at 1 January 2013	340	10	443	(2)	(62)	1	729
Net profit (loss)	—	—	94	—	—	(0)	94
Other comprehensive income	—	—	141	0	(1)	—	141
Total comprehensive income for 2013	—	—	236	0	(1)	(0)	235
Dividends paid	—	—	(20)	—	—	—	(20)
Buyout of non-controlling interests	—	—	—	—	—	—	—
Initial consolidation of non-controlling interests	—	—	—	—	—	—	—
Balance as at 31 December 2013	340	10	658	(2)	(63)	1	944

[1] See Note 2.2, "New and revised accounting standards".

In 2013, a dividend of CHF 20 million (previous year: CHF 20 million) was paid to the owner from the previous year's result. This is equivalent to a dividend per share of CHF 58.82 (CHF 58.82).

The notes to the consolidated financial statements on pages 60 to 100 form an integral part of the consolidated financial statements.

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

1 Business activities and relationship with the Swiss Confederation

RUAG Holding Ltd is a Swiss joint-stock company headquartered in Berne. It is wholly owned by the Swiss Confederation. RUAG Holding Ltd and its subsidiary companies (hereinafter referred to as "RUAG") focus on their core aerospace and defence businesses with goods and services in the military and civilian sectors and on the development of international growth markets. RUAG is bound by the owner's strategy of the Swiss Federal Council and its fundamental mission is to equip and maintain the technical systems of the Swiss Armed Forces. In May 2011, the Swiss Federal Council approved a new owner's strategy for RUAG, the State-Owned Defence Technology Company, for the period 2011 to 2014. According to this strategy, RUAG is expected, among other things, to direct its activities towards the key defence equipment and technologies – in particular system technologies – that are essential to Switzerland's national defence capability.

Relationship with the Swiss Confederation The Swiss Confederation is the sole shareholder of RUAG Holding Ltd. Under the terms of the Federal Act on State-Owned Defence Companies (BGRB), any disposal of the capital or voting majority of the Swiss Confederation to third parties requires the approval of the Federal Assembly. As sole shareholder, the Confederation exercises control over all decisions taken at the General Meeting, including the election and remuneration of members of the Board of Directors and dividend resolutions. Details of transactions with the Swiss Confederation are given in Note 2.23.

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). RUAG's consolidated financial statements have been prepared based on historical values and allowing for provisions deviating from the applicable standards (for example in relation to financial assets and liabilities, tax or employee benefits).
Preparation of the consolidated financial statements in accordance with IFRS to some extent requires the use of estimates and assumptions. These have an impact on the recognized assets and liabilities, the disclosure of contingent assets and liabilities at the end of the reporting period and the reporting of income and expenses during the reporting period. Even though these estimates are based on the most recent knowledge of the management regarding current developments and events, the actual results may differ. Exceptionally complex areas, or areas where more extensive use of estimates is necessary or where assumptions and estimates have a material impact on the consolidated financial statements, are presented in Note 3.

Unless otherwise indicated, all amounts are in millions of Swiss francs.

2.2 New and revised accounting standards

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

Since 1 January 2013, RUAG has applied various new International Financial Reporting Standards (IFRSs), amendments to existing IFRSs and Interpretations, which – with the exception of the amendments described below – do not have a material effect on the Group's results of operations or financial position:

Standard	Title
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
Amendments to IAS 19	Employee Benefits
Amendments to IAS 27	Separate Financial Statements
Amendments to IAS 28	Investments in Associates and Joint Ventures
Amendments to IFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Amendments to the transitional provisions
Various	2009-2011 cycle of IFRS amendments

- Application of IFRS 10 – Consolidated Financial Statements introduces a single control model for determining whether an entity should be consolidated. Under the new model introduced by IFRS 10 (2011), an entity is consolidated if RUAG has control over the entity. For control to exist, the investor must have power, exposure or rights to variable returns and the ability to combine those requirements, that is the ability to use its power to affect the variable returns.
- IFRS 13 – Fair Value Measurement combines the requirements on fair value measurement in a single Standard where fair value measurement is permitted or required by another Standard. IFRS 13 also replaces and extends the fair value disclosure requirements in other Standards. In applying IFRS 13, RUAG extended the relevant disclosures accordingly.
- The revisions to IAS 19 change the accounting for obligations under defined benefit plans and termination benefits. The most significant revisions affect the accounting for changes in plan assets and the present value of employee benefit obligations. The revised Standard requires those changes to be recognized immediately when they occur. The 'corridor approach' permitted under the previous IAS 19 has been eliminated. All actuarial gains and losses must be recognized immediately in other comprehensive income (OCI). As a result of this change, the net defined benefit liability or asset recognized in the statement of financial position is the deficit or surplus in the plans, adjusted for any effects of IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction). In addition, past service cost will in future be recognized immediately in profit or loss.

The interest expense on the present value of defined benefit obligations and the expected return on plan assets used in the previous IAS 19 are replaced in IAS 19 (revised 2011) by net interest expense, which is calculated by applying the discount rate to the net defined benefit liability or asset.
Further changes affect the presentation of employee benefit costs and the note disclosures.
IAS 19 (revised 2011) is applied for the first time in the consolidated financial statements for the period ended 31 December 2013. Applying IAS 8, Group equity as at 1 January 2012 was adjusted and financial year 2012 presented in accordance with the requirements of IAS 19 (revised 2011).

in CHF m	Reported	Alignment with IAS 19 (revised 2011)	Adjusted
Balance at 1 January 2012			
Deferred tax assets	22	10	32
Employee benefit obligations	42	55	97
Retained earnings	508	(45)	463
Other reserves	(3)	(2)	(4)
Equity	794	(47)	747
RUAG shareholder's interests in equity	793	(47)	746
Minority interests in equity	1	—	1
Balance at 31 December 2012			
Deferred tax assets	21	28	49
Employee benefit obligations	48	154	202
Retained earnings	569	(126)	443
Other reserves	4	(6)	(2)
Exchange differences	(62)	—	(62)
Equity	862	(133)	729
RUAG shareholder's interests in equity	861	(133)	728
Minority interests in equity	1	—	1

in CHF m	Reported	Alignment with IAS 19 (revised 2011)	Adjusted
Statement of comprehensive income 2012			
Expense of benefit plans	(44)	(1)	(45)
Personnel expenses	(815)	(1)	(816)
Finance costs	(6)	(3)	(9)
Profit before tax	116	(4)	112
Income taxes	(18)	1	(17)
Profit from continued operations	98	(3)	95
Loss from discontinued operations	(17)	—	(17)
Net profit	81	(3)	78
Other comprehensive income	7	(83)	(76)
Comprehensive income	88	(86)	2
Statement of cash flows 2012			
Net profit	81	(3)	78
Change in non-current provisions and deferred taxes	10	—	10
Cash flow from operating activities	130	—	130
Change in cash and cash equivalents	112	—	112

- The amendments to IFRS 7 require disclosures to be made about the offsetting of financial assets and financial liabilities. RUAG makes those disclosures in the notes on risk management and additional information on financial instruments.

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

- IAS 36 (revised) – Impairment of Assets: The published amendment clarifies the IASB's original intention that information about recoverable amount, if that amount is based on fair value less costs of disposal, be disclosed only for impaired assets or cash-generating units. This means that such information no longer has to be disclosed for all cash-generating units containing a significant amount of goodwill if they are not impaired.
  RUAG adopted this revised Standard early for financial year 2013.
- Amendments to IAS 19 – Employee Benefits: Defined Benefit Plans – Employee Contributions: The question previously was how contributions that employees themselves make to units of benefit entitlement are recognized by the entity promising the benefits. In the past, when applying the old IAS 19, the nominal amount of employee contributions was simply deducted from service cost in the period in which the service was rendered. The amendment published in November 2013 clarifies that this accounting practice may be retained if the amount of the contributions is independent of the number of years of service. RUAG is already making use of this simplification.

Amendments to International Financial Reporting Standards and Interpretations that are not yet mandatory: The following International Financial Reporting Standards and Interpretations, which were published prior to the end of 2013, must be adopted either from financial year 2014 or at a later date:

Standard	Title	Effective date
Amendments to IFRS 10 Consolidated Financial Statements	Investment Entities	1 January 2014
Amendments to IFRS 12	Disclosure of Interests in Other Entities: Investment Entities	1 January 2014
Amendments to IAS 27	Separate Financial Statements: Investment Entities	1 January 2014
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to IAS 39	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRIC 21	Levies	1 January 2014
IFRS 9	Financial Instruments: Classification and Measurement	pending

RUAG will review its reporting in light of the new and amended Standards that enter into effect on or after 1 January 2014 and are not adopted early by RUAG. RUAG does not currently expect any significant effects on the consolidated financial statements.

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 annual consolidated financial statements include subsidiaries where RUAG Holding Ltd has the power to control the financial and operating policies. For control to exist, the investor must have power, exposure or rights to variable returns and the ability to combine those requirements, that is the ability to use its power to affect the variable returns. This is usually the case if RUAG directly or indirectly holds the majority of the voting power or the potential voting rights of the entity. An overview of all major subsidiaries and associates is provided in Note 39. The assets, liabilities, equity, income and expenses of fully consolidated subsidiary companies are included in their entirety in the consolidated financial statements. Non-controlling interests in equity and profit are stated separately. Subsidiaries and associates are consolidated with effect from the date of their acquisition, and eliminated from the consolidated financial statements in the event of a loss of control.

Changes to investments in subsidiary companies are recognized as equity transactions insofar as these subsidiary companies were previously controlled and continue to be controlled. All intra-Group receivables, liabilities, expenses and income, as well as unrealized interim profits, are eliminated on consolidation.

Annual reporting for all subsidiaries ends on 31 December.

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

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

2.5 Foreign currencies

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

Transactions in foreign currencies are translated into the functional currency 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 "Other comprehensive income".

The assets and liabilities of subsidiaries and associates recognized using the equity method, whose functional currency is not the Swiss franc, are 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 2013	End-of-year rate 2013	Annual average 2012	End-of-year rate 2012	Annual average 2011	End-of-year rate 2011
Euro	EUR	1.23	1.23	1.21	1.21	1.23	1.22
Swedish krona	SEK	14.23	13.89	13.86	14.05	13.68	13.64
US dollar	USD	0.93	0.89	0.94	0.92	0.89	0.94
Pound sterling	GBP	1.45	1.47	1.49	1.48	1.42	1.46
Hungarian forint	HUF	0.41	0.41	0.42	0.41	0.44	0.39

2.6 Cash and cash equivalents

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

2.7 Current financial assets

Current financial assets comprise term deposits held with financial institutions and short-term money market investments that are realized in the course of normal operations, held for trading or due within one year. Liabilities are classified as current if they are settled in the course of normal operations or due within one year.

2.8 Receivables and prepayments

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

2.9 Inventories and work in progress

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

Long-term construction and service 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 and service 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 and service contracts which are valued according to the percentage of completion method are shown as work in progress (percentage of completion) as a component of inventories and work in progress. They are stated at cost plus a pro rata profit that corresponds to the percentage of completion achieved.

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

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

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

RUAG applies the following estimated useful life:

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

2.11 Investment properties
Investment properties are measured at cost minus accumulated depreciation calculated on a straight-line basis. Repair and maintenance costs are stated as an expense. Major renovations and other value-enhancing costs are capitalized and depreciated over their estimated useful life. Investment properties are depreciated over a useful life between 40 to 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 was measured using the discounted cash flow (DCF) method. 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 using the acquisition method. The cost of the acquisition is the fair value of the consideration at the transaction date. Identifiable assets acquired and liabilities and contingent liabilities assumed are recognized in the statement of financial position at their acquisition-date fair value, irrespective of the extent of any non-controlling interest. Transaction costs are recognized as expenses in profit or loss. The excess of the cost of the acquisition over the net assets stated at fair value is recognized as goodwill. Any negative difference is recognized directly in profit or loss after being reviewed. Any goodwill arising in connection with an acquisition is recognized under intangible assets. Goodwill is not amortized, but tested for impairment at least annually.

Intangible assets acquired separately via share deals are recognized at fair value less amortization and impairment. Patents, trademarks and prototypes, and licences and rights have a defined useful life and are recognized at cost minus accumulated depreciation. Depreciation amounts are calculated on a straight-line basis over the expected useful life of the asset.

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

2.16 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.

2.17 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 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.

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

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

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

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

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

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

2.19 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".

2.20 Current and deferred income taxes
Income taxes include all current and deferred taxes which are based on income. Taxes which are not based on income, such as taxes on real estate and capital, are recorded as other operating expenses. Income taxes are recognized on an accrual basis. Deferred taxes are recognized in accordance with the comprehensive liability method. The calculation is based on the temporary differences between the tax base of assets or liabilities and the values as stated in the consolidated financial statements, unless such temporary difference relates to investments in subsidiaries or associates where the timing of the reversal can be controlled and it is likely that this will not occur in the foreseeable future. Furthermore, provided no profit distributions are anticipated, withholding taxes and other taxes on possible subsequent distributions are not measured since profits are generally reinvested. The Group's deferred tax assets or liabilities, as calculated on the basis of corresponding local tax rates, are stated under non-current assets (deferred tax assets) or non-current liabilities (deferred tax liabilities). The change in deferred tax assets or liabilities is recorded in the income statement or, if related to a position included in equity or other comprehensive income, recorded within equity or other comprehensive income. 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.

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

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

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

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

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

Sales 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. 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). If the proceeds of a construction contract cannot be reliably measured, sales are recognized only to the extent of the potentially recoverable costs incurred by the contract recognized as an expense in the relevant period. Contributions from third parties arising from contract development work are recognized as sales and assigned to the period in which the corresponding development costs are incurred.

Other income 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.

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

2.23 Segment information
Reportable operating segments are determined on the basis of the management approach. External segment reporting is then carried out in accordance with RUAG's organizational and management structure as well as internal financial reporting to RUAG's Chief Operating Decision Maker (CODM). The CODM at RUAG is the Chief Executive Officer. Reporting is based on the Space, Aviation, Aerostructures, 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 supplier to the space industry. Development and manufacturing expertise are focused on five product areas: structures and separation systems for launch vehicles, structures and mechanisms for satellites, digital electronics for satellites and launch vehicles, satellite communications equipment and satellite instruments.

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

Aerostructures segment* The activities of RUAG Aerostructures focus on aerostructures manufacturing. The mainstay in aerostructures manufacturing is producing wing components and fuselage sections. For example, RUAG Aerostructures is the winglet centre of excellence for Airbus and, as quality gate, responsible for the global aircraft fuselage supply chain.

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

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

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

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

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

* According to IFRS: segment = division

change in fair value of the hedged item. When a contract is concluded, a derivative instrument is defined as
a) a hedge on the change in the fair value of a stated asset or a liability (fair value hedge), or as
b) a hedge on cash flows from a forecasted transaction or firm commitment (cash flow hedge), or as
c) a hedge on a net investment in a foreign operation.

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

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

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

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

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

a) Investment property
In 2012, the fair value of investment property was measured using a valuation technique. Until the end of 2012, this calculation was based on capitalized rent. For 2013, this valuation technique was further refined.
The fair value of investment property disclosed in Note 19 was measured using the discounted cash flow (DCF) method.
The fair value of a property is determined by aggregating all expected future net income (before taxes, interest payments, depreciation and amortization), discounted to the measurement date. The discount rate reflects property-specific risks as well as market risks. No expert market appraisals were used.

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

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

d) Financial liabilities
The fair values of long-term financial liabilities are calculated as the present value of future cash flows. The current market interest rates for lendings with corresponding maturities are used for discounting purposes.

3 Critical accounting estimates and assumptions

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

Property, plant and equipment, goodwill and intangible assets Property, plant and equipment and intangible assets are reviewed annually for indications of impairment. If there are indications that these assets are overvalued, an estimate is made of the future cash flows expected to result from the utilization of these assets or their possible disposal. Actual cash flows may differ from the discounted future cash flows based on these estimates. Factors such as changes in the planned use of property, plant and equipment, site closures, technical obsolescence or lower-than-forecasted sales of products, the rights to which have been recognized, may shorten the estimated useful life or result in impairment.

The Group reviews the value of its recognized goodwill annually. The recoverable amount of cash-generating units is determined on the basis of value in use. At the same time estimates are made of future cash flows and assumptions are made to determine the capitalization rate. The main assumptions are described in Note 20, “Intangible assets”. As at 31 December 2013, goodwill of CHF 84 million was recognized. No impairment of goodwill was recognized in the year under review. No impairment of goodwill would have occurred during the year under review even if significant assumptions regarding the discount rate (increased by 2 %) or future cash flows (reduced by 10 %) were to have changed.

Inventories and work in progress The current value of inventories and work in progress is reassessed periodically. This involves classifying the individual items in terms of inventory sales ratios and valuing them accordingly. Total value adjustments amounted to CHF 108 million as at 31 December 2013 (previous year: CHF 103 million).

Construction contracts and manufacturing agreements Estimates with a significant influence are used as the basis for the valuation of long-term construction contracts and manufacturing agreements using 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 2013, a net amount of CHF 17 million (previous year: CHF –16 million) was recognized for construction contracts and manufacturing agreements (see Note 17, “Percentage of completion”). In addition, provisions totalling CHF 19 million (CHF 33 million) were recognized for anticipated contract losses as at 31 December 2013.

Provisions As part of their ordinary business operations, Group companies are exposed to various risks. These are continuously assessed and provisions are set aside accordingly in light of the available information on the basis of the cash flows that can realistically be expected. For example, provisions for warranties are determined on the basis of empirical values and provisions for litigation by means of a legal assessment.

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

4 Acquisitions, disposals and mergers

Acquisitions On 1 October 2013, RUAG acquired Génie Audio-Visuel et Applications Professionnelles SAS GAVAP in Terssac (France). GAVAP is a partner company specializing in simulation and training systems. It consequently became part of RUAG Holding France SAS. The acquisition is part of a succession arrangement and safeguards the continued existence of the French company with its 70 employees. RUAG and the SME GAVAP have been operating a strategic partnership in virtual and live simulations since 2003. Together, the companies have already delivered several successful projects in France. GAVAP has proven to be a reliable partner and carried out skilled maintenance work. The fair values were determined provisionally as at 31 December 2013.

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

RUAG acquired Australian Rosebank Engineering Pty Ltd (“Rosebank”) effective 14 December 2012. Rosebank’s core business is the maintenance, repair and overhaul (MRO) of aircraft. The acquisition expands RUAG’s core competencies in aircraft component MRO and gives the company access to a new strategically significant growth market in the Asia/Pacific region. Rosebank was integrated into the Aviation division. The acquisition did not have a significant impact on RUAG’s results for 2012. Had the acquisition been effective from 1 January, sales would have amounted to around CHF 20 million. The definitive fair values were calculated as at 31 December 2013.

Transfers of assets On 1 January 2013, the assets, liabilities and employees of RUAG Holding Ltd’s corporate services unit were transferred by way of a transfer of assets to RUAG Services AG. At the same time, RUAG Services AG was renamed RUAG Corporate Services AG. The transfer of assets was effected at carrying amounts.

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

Disposal of business activities On 4 April 2013, RUAG sold RUAG Mechanical Engineering Ltd to the Berghoff Group of Germany with retrospective effect from 31 March 2013. Berghoff took over the employees, apprentices and the entire infrastructure at the Altdorf site. Up to the date of the sale, RUAG Mechanical Engineering Ltd generated sales of CHF 6 million.

With effect from 29 May 2013, RAUG sold Swiss Repair AG to a private individual. By the time of sale, this company had not generated any appreciable sales.
With effect from 1 September 2012, RUAG Coatings Ltd at the Altdorf site was sold to the Impreglon Group of Germany. Impreglon took over all activities and employees of RUAG Coatings Ltd. Up to the date of the sale, RUAG Coatings Ltd generated sales of CHF 17 million.
For further information, see Note 5 "Discontinued operations".

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 2013	Disposal in 2013	Acquisition in 2012	Disposal in 2012
Current assets	17	7	84[1]	(4)
Property, plant and equipment	2	0	12[1]	(3)
Intangible assets	8	—	28	—
Goodwill	6	—	—	—
Current and non-current liabilities	(9)	(3)	(98)	5
Deferred tax liabilities	(3)	—	—	—
Assets and liabilities acquired (disposed)	22	4	25	(2)
Agreed price	(22)	3	(26)	6
Escrow account	—	—	—	—
Earn-out	1	—	—	—
Compensation pending	6	—	—	—
Assumption of financial liabilities	—	—	—	—
Exchange differences	—	—	—	—
Gross cash (outflow) inflow	(15)	3	(26)	6
Cash and cash equivalents acquired (disposed)	8	(0)	72	(0)
Net cash (outflow) inflow	(6)	3	46	6

1 The definitive fair values were calculated as at 31 December 2013, and the provisional values from 2012 were adjusted accordingly.

5 Discontinued operations

With effect from 1 January 2012, activities at the Altdorf site (Technology segment) were spun off from RUAG Switzerland Ltd and transferred to the four newly established companies RUAG Environment Ltd, RUAG Mechanical Engineering Ltd, RUAG Coatings Ltd and RUAG Automotive Ltd to make business performance more transparent and increase the competitiveness of the individual business areas.

The Board of Directors of RUAG decided to initiate a sale process for the Mechanical Engineering and Coatings units, as they no longer form part of RUAG's core business. A buyer was found for the Coatings unit in the Impreglon Group of Germany, to which it was sold with effect from 1 September 2012. The Mechanical Engineering unit was acquired by Berghoff Holding GmbH on 31 March 2013. In the interest of greater transparency, the Coatings and Mechanical Engineering units are therefore presented in RUAG's consolidated financial statements as discontinued operations.

Income from discontinued operations:

in CHF m	2013	2012
Sales	6	38
Expenses	6	43
Current loss before tax	0	–5
Tax expense	—	0
Current loss from discontinued operations	0	–5
Re-measurement and disposal proceeds from discontinued operations	4	–12
Tax on re-measurement and disposal proceeds	—	0
Total gain/loss from discontinued operations	3	–17
Attributable to the shareholders of RUAG Holding Ltd	3	–17

Assets and liabilities of discontinued operations:

in CHF m	2013	2012
Receivables and prepayments	—	0
Inventories and work in progress	—	5
Other current assets	—	0
Non-current assets	—	0
Total assets of discontinued operations	—	5
Current liabilities	—	1
Non-current liabilities	—	0
Total liabilities of discontinued operations	—	1

From discontinued operations in the consolidated statement of cash flows:

in CHF m	2013	2012
Cash flow from operating activities	0	8
Cash flow from investing activities	—	0
Free cash flow	0	8
Cash flow from financing activities	0	–5
Total cash flows	0	3

6 Net sales

in CHF m	2013	2012
Invoiced sales	1 718	1 727
Change in percentage of completion	33	15
Net sales	1 752	1 741

DDPS	554	628
Third parties	1 164	1 099
Invoiced sales by customer group	1 718	1 727

Aside from the DDPS, RUAG has no other customers that account for more than 10 % of total sales. Sales from transactions with the DDPS are attributable to the Aviation, Defence and Ammotec segments.

Defence	754	867
Civil	964	859
Invoiced sales by type of use	1 718	1 727

Production	953	968
Maintenance	621	621
Services	145	137
Invoiced sales by order type	1 718	1 727

Switzerland	678	767
Rest of Europe	749	763
Middle East	21	9
North America	175	137
South America	11	11
Asia/Pacific	82	38
Africa	3	2
Invoiced sales by region	1 718	1 727

Sales in “rest of Europe” primarily concern Germany and Sweden.

7 Personnel expenses

in CHF m	2013	2012
Salaries and wages	(637)	(618)
Expense of benefit plans	(49)	(45)
Other social security expenses	(89)	(83)
Contract personnel	(31)	(38)
Other personnel expenses	(27)	(32)
Total	(835)	(816)

8 Other operating expenses

in CHF m	2013	2012
Premises costs	(23)	(21)
Maintenance and repairs of property, plant and equipment	(50)	(50)
Cost of energy and waste disposal	(16)	(12)
Insurance and duties	(7)	(7)
Administration and IT costs	(42)	(46)
Advertising costs	(21)	(22)
Other operating income and expenses	2	(20)
Total	(158)	(178)

9 Research and development expenses

in CHF m	2013	2012
Total	(132)	(134)

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

Internally financed research and development costs amounted to CHF 45 million (previous year: CHF 41 million).

10 Finance income/finance costs

in CHF m	2013	2012
Interest income	39	46
Realized exchange gains	—	0
Realized gains from securities	—	—
Total finance income	39	46
Interest expense	(44)	(52)
Realized exchange losses	(0)	(0)
Realized losses from securities	—	—
Impairment of financial assets	(0)	—
Total finance costs	(44)	(52)

11 Income taxes

in CHF m	2013	2012 adjusted
Current income taxes	(19)	(18)
Deferred income taxes	(4)	0
Total income tax expense	(23)	(17)

The following income taxes are also recognized in other comprehensive income:	2013	2012 adjusted
Currency conversion from Group companies abroad	—	—
Actuarial gains and losses from defined benefit plans	(33)	17
Change in fair value of cash flow hedges	0	(1)
Gains and losses from cash flow hedges transferred to profit or loss	—	—
Total income taxes recognized in other comprehensive income	(33)	16

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 m	2013	2012 adjusted
Profit (loss) before tax	114	116
Expected weighted tax rate in %	23.0 %	20.6 %
Expected income tax expense	(26)	(24)
Recognition of tax loss carryforwards from previous years	(0)	(0)
Utilization of non-recognized tax loss carryforwards	0	(0)
Effect of recognized loss carryforwards on current result	1	1
Non-deductible expenses	(0)	(2)
Non-taxable income	2	2
Income taxed at a lower rate	0	4
Increase/reduction in tax rate	0	0
Tax credits (losses) from preceding periods	0	1
Goodwill impairment	—	—
Effective income tax expense	(23)	(18)

12 Deferred taxes

in CHF m	2013	2012 adjusted
Origination (reversal) of temporary differences	(4)	16
Effect of tax rate changes	(0)	0
Recognition of tax loss carryforwards	1	5
Utilization of recognized deferred taxes from tax loss carryforwards	(1)	(21)
Exchange differences	—	—
Total	(4)	(0)

Change in deferred taxes	2013	2012 adjusted
Total deferred taxes as at 1 January	(7)	(22)
Exchange differences	(1)	(1)
Effect of acquisitions	—	—
Recognized in profit or loss	(4)	(0)
Recognized in other comprehensive income	(33)	16
Total deferred taxes as at 31 December	(45)	(7)
of which deferred tax assets	19	49
of which deferred tax liabilities	(63)	(56)

Tax loss carryforwards by date of expiry	2013	2012
2013	—	—
2014	1	9
2015	1	—
2016	1	—
2017	1	—
2018	3	—
2019	0	2
After 2019	14	15
Total	21	25

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

13 Cash and cash equivalents

in CHF m	2013	2012
Cash on hand	1	2
Demand deposits with banks	208	196
Money-market investments	—	0
Total	209	198

Currencies of cash and cash equivalents

in CHF m		
CHF	86	130
EUR	88	35
USD	16	7
SEK	15	20
Other	4	6
Total cash and cash equivalents	209	198

14 Financial assets

in CHF m	2013	2012
Current financial assets		
Current third-party assets	6	8
Total current financial assets	6	8

Current financial assets comprise the fair value of open foreign currency hedging transactions (see information on financial instruments in Note 36).

Non-current financial assets

in CHF m		
Money-market investments	0	0
Loans	3	4
Net defined benefit assets	34	—
Loans to associates	—	—
Valuation allowances	(0)	(0)
Total non-current financial assets	37	4

Currencies of financial assets

in CHF m		
CHF	35	2
EUR	3	7
USD	3	1
SEK	2	2
Other	0	0
Total financial assets	43	11

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

15 Receivables and prepayments

in CHF m	2013	2012
Trade and other receivables	250	262
Receivables from associates	0	0
Prepayments to suppliers	12	11
Prepayments to associates	—	—
Valuation allowances	(10)	(11)
Total trade and other receivables and prepayments	252	263
Current receivables from shareholders	—	—
Current receivables from government bodies	8	10
Other current receivables	14	11
Total receivables and prepayments	274	284

Maturity structure of receivables

in CHF m	2013	2012
Not past due	212	166
Past due 1–30 days	38	72
Past due 31–60 days	9	13
Past due 61–90 days	5	3
Past due 91–180 days	8	8
Past due über 180 days	2	22
Total receivables and prepayments	274	284

Currencies of receivables and prepayments

in CHF m	2013	2012
CHF	88	105
EUR	115	110
USD	58	55
SEK	2	2
Other	11	13
Total	274	284

The allowance for doubtful receivables contains individual valuation allowances totalling CHF 10 million (previous year: CHF 11 million). Effective losses on receivables in each of the past two years were less than 1 % of net sales.

Allowance for doubtful receivables

in CHF m	2013	2012
Balance at 1 January	(11)	(8)
Initial consolidation	—	—
Increase in allowance	(3)	(4)
Utilization of allowance	3	2
Reversal of allowance	1	2
Disposals	—	—
Currency differences	0	(2)
Balance at 31 December	(10)	(11)
Allowance for doubtful receivables	(10)	(11)
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	2013	2012
Raw materials and supplies	212	208
Work in progress at cost of conversion	167	169
Work in progress (percentage of completion)[1]	150	144
Semi-finished goods	124	118
Finished goods	72	72
Valuation allowances	(108)	(103)
Total	617	607

[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 205 million (previous year: CHF 186 million). In the year under review, a total of CHF 366 million was recognized as cost of material (CHF 421 million). The write-down of inventories recognized as an expense totalled CHF 5 million (CHF 16 million). Reversals of write-downs of inventories recognized in a prior period, arising from an increase in net realizable value, totalled CHF 3 million in the year under review (CHF 2 million).

17 Percentage of Completion (POC)

in CHF m	2013	2012
Long-term construction and service contracts		
Contract sales and costs of ongoing projects at the end of the reporting period		
Aggregated contract sales at the end of the reporting period	1 130	1 257
Aggregated contract costs at the end of the reporting period	(929)	(1 106)
Realized margin at the end of the reporting period	201	151
Cumulative balance of ongoing projects at the end of the reporting period		
Gross amount due from customers for contract work	150	144
Gross amount due to customers for contract work	(133)	(160)
Net position	17	(16)
Advances received from customers	59	76

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 2012	541	223	74	568	17	1 423
Initial consolidation	5	1	—	6	—	11
Eliminations from the scope of consolidation	(20)	(1)	—	—	—	(21)
Additions	17	14	—	4	11	46
Disposals	(19)	(15)	(1)	(1)	(1)	(37)
Reclassifications	(32)	0	—	3	(12)	(40)
Exchange differences	1	(0)	0	(0)	(0)	1
As at 31 December 2012	493	222	73	580	15	1 382
Accumulated depreciation and impairment						
As at 1 January 2012	427	172	0	380	—	979
Initial consolidation	0	0	—	1	—	1
Eliminations from the scope of consolidation	(17)	(1)	—	—	—	(18)
Scheduled depreciation	23	16	0	18	—	57
Impairment	12	1	—	—	—	12
Disposals	(18)	(14)	—	(0)	—	(33)
Depreciation of net carrying amount	—	—	—	—	—	—
Reclassifications	(37)	(2)	—	(0)	—	(40)
Exchange differences	1	(0)	0	0	—	1
As at 31 December 2012	390	171	0	398	—	959
At cost						
As at 1 January 2013	493	222	73	580	15	1 382
Initial consolidation	0	0	0	2	0	2
Eliminations from the scope of consolidation	(38)	(2)	—	(0)	(0)	(40)
Additions	19	11	—	3	19	52
Disposals	(10)	(8)	(1)	(6)	(0)	(25)
Write-ups	0	0	—	—	0	0
Reclassifications	40	4	3	(119)	(8)	(80)
Exchange differences	0	1	(0)	(0)	(1)	(1)
As at 31 December 2013	504	229	74	459	25	1 291
Accumulated depreciation and impairment						
As at 1 January 2013	390	171	0	398	—	959
Initial consolidation	—	—	—	—	—	-
Eliminations from the scope of consolidation	(37)	(3)	—	(0)	—	(40)
Scheduled depreciation	19	16	0	16	—	51
Impairment	0	0	—	0	—	0
Disposals	(9)	(7)	—	(4)	—	(20)
Depreciation of net carrying amount	0	0	—	—	—	1
Reclassifications	36	1	—	(91)	—	(54)
Exchange differences	0	0	(0)	0	—	1
As at 31 December 2013	399	179	0	320	—	898
Net carrying amount						
As at 1 January 2013	103	52	73	181	15	424
As at 31 December 2013	105	50	74	140	25	394

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

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

Leased assets

in CHF m	2013	2012
At cost	6	5
Accumulated depreciation and impairment	(4)	(4)
Net carrying amount	2	2

19 Investment property

in CHF m	2013	2012
At cost		
As at 1 January	228	226
Initial consolidation	—	—
Eliminations from the scope of consolidation	—	—
Additions	1	2
Disposals	(1)	(1)
Reclassifications	120	—
Exchange differences	—	—
As at 31 December	348	228
Accumulated depreciation and impairment		
As at 1 January	149	146
Initial consolidation	—	—
Eliminations from the scope of consolidation	—	—
Scheduled depreciation	6	4
Impairment	—	—
Disposals	—	(1)
Depreciation of net carrying amount	—	—
Reclassifications	91	—
Exchange differences	—	—
As at 31 December	247	149
Net carrying amount		
As at 1 January	78	80
As at 31 December	101	78
Fair value (DCF calculation; Level 3 asset)	249	120
Rental income from investment property	22	14
Real estate expenses	12	7
Agreed capital commitments and commitments in respect of maintenance work	1	0

No market evaluation by an external expert was carried out.

Majority leased sites to third parties are classified as investment properties. In 2012, there were five such sites (Berne, Boden, Wimmis, Unterseen and Aigle). Altdorf became the sixth such site in 2013.

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 2012	2	11	15	113	141	78
Initial consolidation	0	—	3	25	28	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Additions	—	—	1	—	1	—
Disposals	(0)	—	(0)	—	(0)	—
Reclassifications	—	—	—	—	—	—
Exchange differences	(0)	0	(0)	0	0	0
As at 31 December 2012	2	11	18	139	170	78
Accumulated amortization and impairment						
As at 1 January 2012	2	8	12	40	61	—
Initial consolidation	0	—	—	—	0	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Scheduled depreciation	0	1	2	18	21	—
Impairment	—	—	—	—	—	—
Disposals	(0)	—	(0)	—	(0)	—
Reclassifications	—	—	—	—	—	—
Exchange differences	(0)	0	(0)	0	0	—
As at 31 December 2012	2	9	13	58	83	—
At cost						
As at 1 January 2013	2	11	18	139	170	78
Initial consolidation	—	—	1	8	9	6
Eliminations from the scope of consolidation	—	(0)	0	1	1	—
Additions	—	—	1	—	1	—
Disposals	—	—	—	—	—	—
Reclassifications	—	—	1	(1)	—	—
Exchange differences	0	0	(0)	(1)	(1)	0
As at 31 December 2013	2	11	21	145	179	84
Accumulated amortization and impairment						
As at 1 January 2013	2	9	13	58	83	—
Initial consolidation	—	—	0	—	0	—
Eliminations from the scope of consolidation	—	(0)	—	—	(0)	—
Scheduled depreciation	0	1	1	19	22	—
Impairment	—	—	0	0	0	—
Disposals	—	—	—	—	—	—
Reclassifications	—	—	—	—	—	—
Exchange differences	0	0	0	(0)	0	—
As at 31 December 2013	2	11	15	77	106	—
Net carrying amount						
As at 1 January 2013	0	1	5	80	87	78
As at 31 December 2013	0	—	6	68	73	84

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 9 % to 12 % (previous year: 7 % to 10 %), based on target equity of 40 % of total assets.

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

	2013	2012
Space[1]	61	61
Aviation	0	0
Technology	—	—
Defence	10	4
Ammotec	13	13
As at 31 December	84	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 10.5 % (previous year: 9 %).

Amortization and impairment of intangible assets is reported in the income statement under Amortization, and goodwill impairment is shown as such. No goodwill impairment was recognized in 2013 or 2012.

21 Associates

in CHF m

	2013	2012
Carrying amount of interests in associates as at 1 January	36	39
Acquisitions	—	0
Initial consolidation	—	—
Share of profit/loss from continued operations	—	—
Recognized in other comprehensive income	4	4
Dividends	(3)	(2)
Reclassifications	—	—
Other changes in equity	0	(5)
Exchange differences	—	—
Carrying amount of interests in associates as at 31 December	37	36

The financial information for associates (100 %) are as follows:

Aggregate financial information for associates

in CHF m

	2013	2012
Total assets	176	177
Total liabilities	94	98
Net assets	82	79
Sales	149	149
Profit	10	9

There are no contingent liabilities relating to associates.

22 Financial liabilities

in CHF m	2013	2012
Current financial liabilities		
Due to banks	46	65
Financial liabilities to third parties	3	5
Liabilities to associates	—	—
Financial liabilities to employee benefit funds	—	—
Lease liabilities	1	1
Current portion of non-current financial liabilities	—	—
Total current financial liabilities	50	71

Non-current financial liabilities

in CHF m	2013	2012
Due to banks	0	45
Lease liabilities	1	3
Loans secured by property	—	—
Bond issues	—	—
Liabilities to associates	—	—
Total non-current financial liabilities	1	47

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

Maturity structure of financial liabilities

in CHF m	2013	2012
Up to 1 year	50	71
Up to 2 years	1	44
Up to 3 years	0	0
Up to 4 years	0	0
Over 4 years	0	3
Total financial liabilities	51	118

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

All covenants were met as at 31 December 2013 and 31 December 2012.

Currencies of financial liabilities

in CHF m	2013	2012
CHF	44	111
EUR	2	(1)
USD	2	2
SEK	0	0
Other	4	6
Total financial liabilities	51	118

23 Other current liabilities

in CHF m

	2013	2012
Due to third parties	14	18
Due to associates	—	—
Due to government bodies	23	23
Due to shareholders	—	—
Due to employee benefit funds	0	1
Total	37	42

24 Trade accounts payable and prepayments

in CHF m

	2013	2012
Trade accounts payable	89	92
Accounts payable to associates	0	—
Prepayments from customers	257	211
Prepayments from associates	—	—
Total	347	303

Maturity structure of trade accounts payable and prepayments

in CHF m

	2013	2012
Not past due	321	275
Past due 1–30 days	23	23
Past due 31–60 days	2	3
Past due 61–90 days	1	0
Past due 91–180 days	(0)	1
Past due over 180 days	0	1
Total trade accounts payable and prepayments	347	303

Currencies of trade accounts payable and prepayments

in CHF m

	2013	2012
CHF	161	168
EUR	150	90
USD	18	12
SEK	12	21
Other	5	10
Total trade accounts payable and prepayments	347	303

25 Other non-current liabilities

in CHF m

	2013	2012
Due to third parties	2	2
Due to associates	—	—
Due to shareholders	—	—
Due to employee benefit funds	—	—
Total	2	2

26 Provisions

in CHF m

	Restructuring	Contract losses	Warranties	Holiday and overtime	Loyalty bonuses and anniversary benefits	Other provisions	Total
Balance at 1 January 2013	16	33	23	39	21	21	153
Initial consolidation	—	—	1	—	—	9	10
Eliminations from the scope of consolidation	0	(0)	(0)	(0)	(1)	0	(1)
Additions	1	10	7	19	4	14	55
Release of unused provisions	(1)	(6)	(5)	(0)	(1)	(5)	(18)
Use of provisions	(8)	(18)	(5)	(22)	(2)	(7)	(62)
Reclassifications	—	0	0	0	0	0	1
Exchange differences	(0)	0	0	(0)	(0)	0	0
Balance at 31 December 2013	8	19	22	37	21	32	138
Current provisions	5	10	17	37	1	23	91
Non-current provisions	3	9	6	(0)	20	9	47

2013: Provisions measured at fair value in the amount of CHF 10 million were acquired through the acquisition of GAVAP. They comprise CHF 1 million for warranties, CHF 2 million for project risks and CHF 7 million for a potential liability to the former owner. RUAG Real Estate Ltd had restructuring provisions of CHF 2 million at the end of 2013 in connection with the sale of the Nyon site. The Space division has provisions for employee benefits of CHF 5 million for RUAG Space Austria GmbH. An actuarial appraisal was carried out by an external actuary for the purposes of the calculation. Of the restructuring provisions recognized in the previous year, CHF 7 million has so far been used in the RUAG Aviation division. Warranty provisions of CHF 3 million were reversed in the RUAG Defence division, as the warranty periods expired with only minor incidents.

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

The statement as at 31 December 2013 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: 2.0 %) and other actuarial assumptions on matters such as staff turnover and salary increases.

27 Contingent liabilities towards third parties

in CHF m	2013	2012
Guarantees	98	108
Securities	—	—
Warranty commitments	53	52
Total	151	160

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

28 Additional contingent liabilities not stated on the balance sheet

in CHF m	2013	2012
Warranty contracts	—	—
Letters of intent	—	—
Agreed contractual penalties (fines and premiums)	9	9
Legal proceedings	1	1
Bill commitments	—	—
Capital commitments for property, plant and equipment	12	8
Other contingent liabilities	20	15
Total	42	33

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

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

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

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

29 Assets pledged as collateral

in CHF m	2013	2012
Cash and cash equivalents	0	0
Receivables and inventories	—	—
Plant and equipment	1	1
Property	4	4
Total	5	5

30 Fire insurance values

in CHF m	2013	2012
Plant and equipment	1 324	1 189
Property	1 366	1 331
Total	2 690	2 520

31 Share capital

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

32 Events after the reporting period

On 21 February 2014, the Board of Directors of RUAG Holding Ltd approved the consolidated financial statements for publication. The Annual General Meeting has the right to approve the consolidated financial statements.

33 Related party transactions

in CHF m	2013	2012
Receivables from related parties	33	68
Liabilities to related parties	(1)	(2)
Prepayments from related parties	(42)	(46)
Current liabilities to employee benefit funds	(0)	(1)
Non-current liabilities to employee benefit funds	(0)	—

In the year under review, CHF 33 million of receivables from related parties (previous year: CHF 68 million) and CHF 1 million of liabilities to related parties (CHF 2 million) were attributable to the DDPS. Invoiced sales to the DDPS totalled CHF 554 million (CHF 628 million) as stated in Note 6, "Net sales". There were no loans between the Group companies and members of the Board of Directors. In 2012, turnover of CHF 0.2 million was generated with associates and services with a value of CHF 0.7 million purchased.

34 Compensation of key management personnel

The overall emoluments (excluding employer contributions to statutory old age and survivors' insurance) paid to the non-executive members of the Board of Directors for the 2013 financial year amounted to CHF 508,500 (previous year: CHF 397,000). The overall emoluments (including all employer contributions to employee benefit funds, excluding employer contributions to statutory old age and survivors' insurance or similar state social insurance contributions) paid to the CEO and the other members of the Executive Board for the 2013 financial year amounted to CHF 5,704,698 (CHF 5,962,000). The 2013 total includes the compensation paid to Executive Chairman Konrad Peter up to the end of March and to CEO Urs Breitmeier from 1 April onwards.

The overall emoluments (including all employer contributions to employee benefit funds, excluding employer contributions to statutory old age and survivors' insurance or similar state social insurance contributions) paid to the CEO for the 2013 financial year amounted to CHF 935,349 (previous year: CHF 754,000). The 2013 total includes the compensation paid to Executive Chairman Konrad Peter up to the end of March and to CEO Urs Breitmeier from 1 April onwards.

	Board of Directors		Max. total compensation[2]	
in CHF 1,000	2013	2012	2013	2012
Basic salary				
Cash compensation[1]	509	397	116	104
Employer contributions to employee benefit funds	—	—	—	—
Payments in kind	—	—	—	—
Performance-related component				
Cash compensation[1]	—	—	—	—
Shares	—	—	—	—
Options	—	—	—	—
Total compensation	509	397	116	104

	Executive Board		Max. total compensation[2]	
in CHF 1,000	2013	2012	2013	2012
Basic salary				
Cash compensation[1]	3 267	3 447	471	464
Employer contributions to employee benefit funds	579	564	90	—
Payments in kind	260	273	26	26
Performance-related component				
Cash compensation[1]	1 599	1 679	349	264
Shares	—	—	—	—
Options	—	—	—	—
Total compensation	5 705	5 962	935	754
Relation between performance-related component and cash compensation	49 %	49 %	74 %	57 %

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

[2] In the case of the Board of Directors, the amount includes the compensation paid to the Vice Chairman, Hans-Peter Schwald, in respect of the year under review and the compensation paid to the Chairman of the Board of Directors, Konrad Peter, in respect of the previous year. For the Executive Board, the amount includes the compensation paid to the CEO, Urs Breitmeier.

35 Future minimum obligations of leasing transactions

Financial leasing

in CHF m	2013	2012
Within 1 year	1	1
Later than 1 year, within 5 years	1	2
After 5 years	0	0
Total	2	3
Less future finance costs	(0)	(0)
Total lease liabilities	2	3

Operating leases

in CHF m	2013	2012
Within 1 year	18	19
Later than 1 year, within 5 years	65	60
After 5 years	12	11
Total	95	90

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

36 Risk management and additional information on financial instruments

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

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

36.1 Financial risk management

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

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

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

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

Currency risk The consolidated financial statements are presented in Swiss francs (CHF). The Group is mainly subject to changes in the exchange rates of the US dollar, euro and Swedish krona. In the case of transaction risk, it faces the risk of fluctuations in the value of foreign currencies between the date of a contractual agreement and the actual date of payment. Accordingly, RUAG employs different contracts to compensate for exchange rate-induced changes in asset values, firm commitments and forecasted transactions. RUAG also employs forward transactions and currency options to hedge certain cash flows anticipated in foreign currency.

Foreign currency positions in the balance sheet

As at 31 December 2013, in CHF m	EUR	USD	SEK	Other
Cash and cash equivalents	88	16	15	4
Receivables and prepayments	115	58	2	11
Other financial assets	3	3	2	0
Financial liabilities	(2)	(2)	(0)	(4)
Trade accounts payable and prepayments	(150)	(18)	(12)	(5)
Other financial liabilities	(0)	—	(2)	—
Carrying amount of exposure	55	57	5	6

As at 31 December 2012, in CHF m	EUR	USD	SEK	Other
Cash and cash equivalents	35	7	20	6
Receivables and prepayments	110	55	2	13
Other financial assets	7	1	2	0
Financial liabilities	1	(2)	(0)	(6)
Trade accounts payable and prepayments	(90)	(12)	(21)	(10)
Other financial liabilities	—	—	(2)	—
Carrying amount of exposure	63	49	0	3

The following currency hedging transactions existed as at 31 December:

Contract volumes

in CHF m	2013	2012
Currency hedging contracts banks positive	227	240
Currency hedging contracts banks negative	(133)	(37)

Recognized values

in CHF m	2013	2012
Current financial assets	6	7
Current financial liabilities	(2)	(2)

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

RUAG Holding Ltd provides RUAG Deutschland GmbH with a euro-denominated loan. This loan is not hedged. The loan amount as at 31 December 2013 was EUR 163 million (previous year: EUR 163 million). The cumulative exchange losses for this loan recognized in equity as at 31 December 2013 amounted to CHF 45 million (CHF 45 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	2013	2012
Other reserves	6	5

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

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

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

Consumption

in Mio.CHF	2013	2012
Aluminium	5	2
Lead	6	7
Copper	25	22
Steel	3	2
Zinc	2	4
Total	42	37

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

As at 31 December, in CHF m	2013	2012
Current financial liabilities	47	67
Non-current financial liabilities	1	47
Total	48	114
Of which variable interest-bearing	48	114
Fixed through interest rate swap	(41)	(82)
Variable interest-bearing, net	7	32

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

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

Contract volumes

in CHF m	2013	2012
Interest rate swap	54	107

Recognized values for interest rate swaps

in CHF m	2013	2012
Current financial assets		—
Current financial liabilities	(1)	(2)

Credit risk Credit risks arise in particular when customers are not in a position to fulfil their contractual commitments. To manage this risk, the Group periodically evaluates customers' solvency. Sales from transactions with the DDPS amount to around 32 % of total sales (previous year: 36 %). No other customer accounts for more than 10 % of the Group's net sales. Trade and other receivables from the DDPS account for around 13 % (previous year: 26 %) of total trade and other receivables as at 31 December 2013. 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	2013	2012
Cash and cash equivalents	209	199
Current financial assets	6	8
Receivables and prepayments	274	283
Non-current financial assets	37	4
Total credit risk	526	493

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

Liquidity risk Liquidity risk describes the risk that arises if the Group is not in a position to fulfil its obligations when due or at a reasonable price. Group Treasury is responsible for monitoring liquidity, financing and repayment. In addition, Management controls processes and guidelines in this connection. To maintain flexibility, RUAG manages its liquidity risk on a consolidated basis, drawing on business policy, tax and financial considerations and, if necessary, various funding sources. RUAG maintains on principle a liquidity reserve that exceeds the daily and monthly operating cash requirements. This includes maintaining adequate reserves of cash and cash equivalents as well as the availability of adequate open lines of credit. A rolling liquidity plan is drawn up on the basis of expected cash flows and is regularly updated.

Net debt 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.

As at 31 December 2013

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Over 4 years	Total
Cash and cash equivalents	209	—	—	—	—	209
Current financial assets[1]	—	—	—	—	—	—
Non-current financial assets	0	0	0	0	2	3
Current financial liabilities[1]	(47)	—	—	—	—	(47)
Non-current financial liabilities	(0)	(1)	(0)	(0)	(0)	(1)
Other non-current liabilities	—	(2)	—	—	—	(2)
Net assets (debt)	163	(3)	(0)	0	2	162

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

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Over 3 years	Total
Derivative financial liabilities and receivables					
For hedging purposes	(1)	—	—	—	(1)
Foreign currency forward transactions used	2	1	1	0	3

As at 31 December 2012

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	199	—	—	—	—	199
Current financial assets[1]	0	—	—	—	—	0
Non-current financial assets	0	1	0	0	2	4
Current financial liabilities[1]	(67)	—	—	—	—	(67)
Non-current financial liabilities	(0)	(43)	(0)	(0)	(3)	(47)
Other non-current financial liabilities	—	(2)	—	—	—	(2)
Net assets (debt)	133	(45)	(0)	0	(1)	87

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

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Over 3 years	Total
Derivative financial liabilities and receivables					
For hedging purposes	(2)	—	—	—	(2)
Foreign currency forward transactions used	2	1	0	0	4

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

At 31 December 2013, RUAG recognized CHF 2.8 million (previous year: CHF 4.3 million) subject to a netting arrangement with banks. Taking this effect into account, derivative assets would decrease from CHF 5.9 million to CHF 3.0 million at 31 December 2013 (previous year: from CHF 7.4 million to CHF 3.2 million) and derivative liabilities from CHF 3.0 million to CHF 0.2 million (previous year: from CHF 4.2 million to CHF 0 million).

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

Total capital is the sum of equity and net debt. RUAG has set itself the long-term target of keeping net debt below 40 % of equity.

36.3 Fair value estimates
Due to the short maturity, the carrying amount of current financial assets and current financial liabilities corresponds to the carrying amount at the end of the reporting period. The fair value of oth non-current financial liabilities and non-current financial assets 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.

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	2013	2012
Hedging transactions		
Financial derivatives at fair value	6	7
Loans and receivables		
Receivables and prepayments	274	283
Current financial assets	—	0
Total	280	291

Financial assets in non-current assets

	2013	2012
Loans and receivables		
Non-current financial assets	37	4
Total	37	4

Current financial liabilities

	2013	2012
At amortized cost		
Current financial liabilities	47	67
Trade accounts payable and prepayments	347	303
Hedging transactions	—	—
Financial derivatives at fair value	3	4
Total	396	374

Non-current financial liabilities

	2013	2012
At amortized cost		
Non-current financial liabilities	1	47
Total	1	47

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

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

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

in CHF m			2013			2012[1]
	Switzerland	Other plans	Total	Switzerland	Other plans	Total
Present value of defined benefit obligation	1 813	54	1 867	1 972	66	2 037
Fair value of plan assets	1 847	—	1 847	1 835	—	1 835
Net defined benefit liability recognized in the balance sheet	(34)	54	20	136	66	202

[1] Adjusted see page 61

a. Description of the significant defined benefit plans

Employee benefit plan in Switzerland

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

VORSORGE RUAG is a fully autonomous employee benefit fund set up in line with the Swiss defined contribution system. It has the legal status of a foundation. In addition to the compulsory benefits, the employee benefit fund also provides benefits over and above the compulsory minimum under the Swiss Federal Act on Occupational Retirement, Survivors' and Disability Pension Schemes (BVG). It is registered with and regulated by the Berne supervisory authority for occupational retirement schemes and foundations. VORSORGE RUAG is subject to the provisions of the BVG. Under those provisions, the management body of the employee benefit fund is also responsible for ensuring that, in the event of a deficit, restructuring measures are decided and implemented so as to restore the funding level of future employee benefits to 100 % within a reasonable period. These measures include making additional contributions. Key decisions concerning the benefits offered by VORSORGE RUAG are taken by the Foundation Board, which is made up of four employee and four employer representatives.

Retirement benefits are determined as a function of the individual savings accounts (retirement assets) at the time of retirement by multiplying the retirement assets by the conversion rate specified in the regulations. The statutory retirement age is 65 for men and 64 for women. Employees qualify for early retirement at age 58 at the earliest. The conversion rate for early retirees is reduced in line with the longer pension expectancy and the lower retirement assets. Employees may also choose to draw all or part of their retirement pension in the form of a lump-sum capital payment. The statutory employer contributions include risk contributions which are determined by the VORSORGE RUAG Foundation Board (currently 2 %) as well as contributions, as laid down in the regulations, to be credited to the individual retirement assets in an amount equivalent to 5.5 % to 12.0 % of the insured salary, depending on the age of the person insured.

Employees likewise make contributions equivalent to 5.5 % to 12.0 % of their insured salary towards financing their individual retirement assets. In addition, RUAG pays an apportionment contribution equivalent to 1 % of the insured salary for supplementary benefits, in particular for statutory old-age, survivors' and disability insurance bridging pensions.

As the most senior body, the Foundation Board is responsible for investing VORSORGE RUAG's assets. It stipulates organizational arrangements, objectives, principles and powers in accordance with the law and approves the long-term investment strategy and investment regulations. The Investment Commission sets the tactical ranges within the asset structure so as to enable a flexible response to current market conditions. Compliance with the investment guidelines and the performance results obtained from the investments are regularly reviewed bearing in mind the expected liabilities. The external asset managers are responsible for the portfolio management of individual asset classes under clearly defined management mandates. They report to the Investment Commission on the investments' performance on a quarterly basis. They make a verbal report to the Investment Commission at least once year or as and when necessary. Due to a range of resource optimization measures staffing levels fell in the 2013 financial year, resulting in a plan curtailment of CHF 8.4 million.

Employee benefit plan in Germany

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

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

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

Employee benefit plan in Sweden

The ITP plan was renegotiated with effect from 1 January 2007, and became a defined contribution plan from that point onwards. However, all staff born before 1979 are still insured under the ITP2 defined benefit plan. Alongside a final salary retirement pension, the plan also includes surviving dependants' and disability pension cover provided by Alecta. In the 2013 financial year a portion of the pension liability was transferred to Alecta via a one-time payment, resulting in a settlement. Due to a range of resource optimization measures staffing levels fell inthe 2013 financial year, resulting in a plan curtailment of CHF 2.3 million.

b. Changes in the net defined benefit liability

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

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

in CHF m

	Switzerland	Other plans	2013 Total	Switzerland	Other plans	2012[1] Total
Net defined benefit liability as at 1 January	136	66	202	47	50	97
Total benefit plan expense recognized in the income statement	34	(1)	33	45	4	48
Total valuation changes recognized in other comprehensive income	(166)	(10)	(175)	81	13	95
Changes in the scope of consolidation – acquisitions	—	—	—	3	—	3
Changes in the scope of consolidation – disposals	—	—	—	—	—	—
Employer contributions	(38)	(1)	(40)	(39)	(1)	(41)
Net defined benefit liability as at 31 December	(34)	54	20	136	66	202

The changes in employee benefit obligations are shown below:

in CHF m

	Switzerland	Other plans	2013 Total	Switzerland	Other plans	2012[1] Total
Present value of employee benefit obligations as at 1 January	1 972	66	2 037	1 735	50	1 785
Current service cost	44	6	50	42	2	44
Past service cost	(8)	(1)	(9)	—	—	—
Interest expense	38	2	40	44	2	46
Employee contributions	28	—	28	27	—	27
Experience gains/(losses)	(32)	(2)	(34)	44	4	48
Gains/(losses) arising from changes in demographic assumptions	—	—	—	—	—	—
Gains/(losses) arising from changes in financial assumptions	(128)	(8)	(136)	134	9	142
Employee benefits paid	(78)	(1)	(79)	(85)	(1)	(86)
Changes in the scope of consolidation – acquisitions	—	—	—	31	—	31
Changes in the scope of consolidation – disposals	(22)	—	(22)	—	—	—
Settlements	—	(9)	(9)	—	—	—
Exchange differences	—	0	0	—	1	1
Present value of employee benefit obligations as at 31 December	1 813	54	1 867	1 972	66	2 037

At 31 December 2013, the weighted average term of the employee benefit obligation of the Swiss plans was 17.1 years.

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

in CHF m

	2013	2012[1]
Fair value of plan assets as at 1 January	1 835	1 688
Employer contributions	38	37
Employee contributions	28	27
Employee benefits paid	(78)	(85)
Interest income	36	43
Income from plan assets excluding interest income	5	97
Asset management costs	(2)	(1)
Changes in the scope of consolidation – acquisitions	—	28
Changes in the scope of consolidation – disposals	(17)	—
One-off employer contribution to fund benefits due to termination of employment	—	2
Fair value of plan assets as at 31 December	1 847	1 835

[1] adjusted, see page 61

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

in CHF m	Switzerland	Other plans	2013 Total	Switzerland	Other plans	2012[1] Total
Service cost:						
Current service cost	44	6	50	42	2	44
Past service cost	(8)	(1)	(9)	—	—	—
Gains/losses arising from settlements	—	(9)	(9)	—	—	—
Total service cost	36	(3)	32	42	2	44
Asset management costs	2	—	2	1		1
Net interest expense	2	2	4	1	2	3
Changes in the scope of consolidation – disposals	(5)	—	(5)	—	—	—
Total benefit plan expense recognized in the income statement	34	(1)	33	44	4	48

[1] adjusted, see page 61

Gains and losses resulting from remeasurements

in CHF m	Switzerland	Other plans	2013 Total	Switzerland	Other plans	2012 Total
Actuarial gains/losses arising from:						
Changes in demographic assumptions	—	—	—	—	—	—
Changes in financial assumptions	(128)	(8)	(136)	134	9	142
Experience adjustments	(32)	(2)	(34)	44	4	48
Income from plan assets excluding interest income	(5)	—	(5)	(96)	—	(96)
Net exchange differences	—	0	0	—	1	1
Total recognized in other comprehensive income	(166)	(10)	(175)	81	13	95

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

in CHF m	2013 Switzerland	2013 Other plans	2012 Switzerland	2012 Other plans
Discount rate	2.50 %	3.25 %–4.00 %	2.00 %	3.00 %–3.60 %
Future salary increases	2.00 %	2.75 %–3.00 %	2.00 %	2.75 %–3.00 %
Future pension increases	0 %	1.75 %–2.00 %	0 %	1.75 %–2.00 %
Mortality table	BVG GT 2010	Heubeck 2005G FFFS 2007:31	BVG GT 2010	Heubeck 2005G FFFS 2007:31

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

in CHF m	Active market	Market prices Other	2013 Total	Active market	Market prices Other	2012 Total
Asset class						
Cash and cash equivalents	—	34	34	—	10	10
Shares, Switzerland	105	—	105	105	—	105
Shares, other countries	299	—	299	311	—	311
Bonds, CHF	757	—	757	756	—	756
Bonds, foreign currency	394	—	394	408	—	408
Real estate, Switzerland	—	258	258	—	245	245
Real estate, other countries	—	—	—	—	—	—
Total plan assets	1 555	292	1 847	1 580	255	1 835

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

For the 2014 financial year, employer contributions of around CHF 37 million are expected in respect of the employee benefit plan in Switzerland.

c. Sensitivities

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

31 December	Defined benefit obligation, Switzerland		Defined benefit obligation, other countries	
Impact in CHF m	Increase	Reduction	Increase	Reduction
Discount rate (0.50 % change)	–7.80 %	8.80 %	–7.6 % to –12.0 %	8.6 to 8.8 %
Future salary increase (0.50 % change)	0.90 %	—	n/a to 0.6 %	n/a to –0.6 %
Future pension increase (0.25 % change)	—	—	3.9 % to 8.8 %	n/a to –3.7 %
Interest rate for retirement assets (+0.50 % change)	1.60 %	—	—	—
Future mortality (+/–1 year)	2.60 %	—	2.8 % to 5.8 %	n/a to –2.6 %

In practice, however, there are certain correlations between the individual assumptions and the above-mentioned amounts therefore provide only an indication of the change in the defined benefit obligation. The same method was used to calculate the sensitivities as was used to calculate the employee benefit obligation recognized at the reporting date.

38 Segment information

in CHF m

	2013 Space	2012 Space	2013 Aviation	2012 Aviation	2013 Aerostructures	2012 Aerostructures
Net sales with third parties	298	284	501	475	194	210
Net sales with other segments	1	0	9	11	3	4
Total net sales	299	285	510	486	196	213
EBITDA	34	32	38	32	7	12
Depreciation and amortization	(20)	(20)	(6)	(4)	(3)	(5)
Goodwill impairment	—	—	—	—	—	—
EBIT	14	12	32	28	4	7
Net financial income	—	—	—	—	—	—
Profit (loss) of associates	—	—	—	—	—	—
Profit (loss) before tax	—	—	—	—	—	—
Tax expense	—	—	—	—	—	—
Profit from continued operations	—	—	—	—	—	—
Net operating assets by region	152	80	22	110	73	81
Net operating assets Switzerland	102	74	14	12	46	54
Net operating assets rest of Europe	49	6	(6)	79	27	27
Net operating assets rest of world	—	—	14	18	—	—
Acquisition of property, plant and equipment and intangible assets	(10)	(7)	(10)	(5)	(3)	(5)
Disposal of property, plant and equipment and intangible assets	0	0	1	0	0	1

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

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

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

	2013 Defence	2012 Defence	2013 Ammotec	2012 Ammotec	2013 Services	2012 Services	2013 Elimination	2012 Elimination	2013 Group total	2012 Group total
	352	408	353	337	54	28	-	(17)	1 751	1 741
	5	7	1	1	126	132	(144)	(153)	1	
	357	414	354	337	180	160	(144)	(169)	1 752	1 741
	30	35	41	43	46	37	(0)	(1)	196	191
	(11)	(11)	(13)	(11)	(28)	(27)	—	1	(81)	(78)
	—	—	—	—	—	—	—	—	—	—
	19	25	29	32	19	10	(0)	0	115	113
	—	—	—	—	—	—	—	—	(5)	(6)
	—	—	—	—	4	4	—	—	4	4
	—	—		—	—	—	—	—	114	112
	—	—	—	—	—	—	—	—	(23)	(17)
	—	—	—	—	—	—	—	—	91	95
	33	(54)	238	194	288	311	(0)	(1)	806	722
	(4)	(70)	46	41	295	306	(3)	(3)	496	415
	37	16	178	140	(7)	5	3	2	281	276
	—	—	14	12	—	—	0	(0)	29	30
	(5)	(6)	(16)	(12)	(10)	(12)	—	—	(54)	(49)
	0	1	0	0	11	13	—	—	13	16

39 Consolidated companies, associates and non-controlling interests (as at 31 December 2013)

Company	Head office	Country		Equity capital (100 %)	Shareholding	Method of consolidation
RUAG Holding Ltd[1]	Berne	Switzerland	CHF	340 000 000		Full
Consolidated companies						
RUAG Switzerland Ltd	Emmen	Switzerland	CHF	112 200 000	100.0 %	Full
RUAG Environment Ltd	Schattdorf	Switzerland	CHF	100 000	100.0 %	Full
RUAG Automotive Ltd	Schattdorf	Switzerland	CHF	100 000	100.0 %	Full
Mecanex USA Inc.	Berlin, CT	USA	USD	1'500	100.0 %	Full
RUAG Aviation Malaysia Sdn Bhd	Kuala Lumpur	Malaysia	MYR	5 000 000	65.0 %	Full
Rosebank Engineering Pty Ltd.	Bayswater	Australia	AUD	10 000	100.0 %	Full
RUAG Deutschland GmbH	Wessling	Germany	EUR	1 000 000	100.0 %	Full
RUAG Aerospace Services GmbH	Wessling	Germany	EUR	1 000 000	100.0 %	Full
RUAG Aerospace Structures GmbH	Wessling	Germany	EUR	25 000	100.0 %	Full
RUAG Sweden AB	Gothenburg	Sweden	SEK	100 000	100.0 %	Full
RUAG Space AB	Gothenburg	Sweden	SEK	15 000 000	100.0 %	Full
RUAG Space GmbH	Vienna	Austria	EUR	1 500 000	100.0 %	Full
RUAG Aerospace USA Inc.	El Segundo, CA	USA	USD	1 000	100.0 %	[3]
RUAG COEL GmbH	Wedel	Germany	EUR	260 000	100.0 %	Full
Génie Audio-Visuel et Applications Professionnelles SAS (GAVAP)	Terssac	France	EUR	400 000	100.0 %	Full
RUAG Holding France SAS	Terssac	France	EUR	100 000	100.0 %	Full
RUAG Ammotec Deutschland GmbH	Fürth	Germany	EUR	100 000	100.0 %	Full
RUAG Ammotec GmbH	Fürth	Germany	EUR	25 000	100.0 %	Full
RUAG Ammotec AG	Thun	Switzerland	CHF	12 000 000	100.0 %	Full
RUAG Ammotec Austria GmbH	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 Commercio 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 Corporate Services Ltd	Berne	Switzerland	CHF	100 000	100.0 %	Full
brings! AG	Schattdorf	Switzerland	CHF	100 000	55.0 %	Full
GEKE Schutztechnik GmbH	Lichtenau	Germany	EUR	100 000	51.0 %	Full
RUAG Space GmbH	Zurich	Switzerland	CHF	20 000	100.0 %	[3]
Associates[2]						
Nitrochemie AG Wimmis	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 Ltd	Stans	Switzerland	CHF	1 000 000	40.0 %	Equity
Other investments						
Alpar, Flug- und Flugplatz-Gesellschaft AG	Berne	Switzerland	CHF	10 150 000	2.0 %	[3]
CFS Engineering SA	Lausanne	Switzerland	CHF	150 000	40.0 %	[3]
Arianespace SA	Évry	France	EUR	395 010	0.1 %	[3]
Arianespace Participation	Évry	France	EUR	21 918 756	3.5 %	[3]
Aionav Systems AG	Berne	Switzerland	CHF	100 000	12.0 %	[3]
Brünig Indoor AG	Lungern	Switzerland	CHF	8 500 000	0.3 %	[3]
Visier Medien Holding AG	Zug	Switzerland	CHF	400 000	49.5 %	[3]

1 RUAG Holding Ltd, Stauffacherstrasse 65, P.O. Box, CH-3000 Berne 22.
2 Investments of between 20 % and 50 % are measured using the equity method.
3 Non-material investments are valued at cost minus a valuation allowance.

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Report of the statutory auditor
to the General Meeting of
RUAG Holding AG
Bern

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of RUAG Holding AG, which comprise the income statement and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes (pages 56 to 100), for the year ended December 31, 2013.

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 31 December 2013 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.

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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	Bernhard Bichsel
Audit expert Auditor in charge	Audit expert

Bern, February 21, 2014

Income statement 1 January to 31 December

in CHF m	2013	2012
Income from investments	87	50
Interest income	13	14
Gains from securities	—	—
Income from the disposal of investments	—	0
Income from services	4	15
Currency gains	—	—
Income	104	80
Investment expense	—	—
Interest expense	(3)	(4)
Losses from securities	—	—
Personnel expenses	(0)	(9)
Administration costs	(6)	(10)
Amortization	—	(0)
Currency losses	(0)	(2)
Tax	(1)	(1)
Expenses	(11)	(26)
Annual profit (loss)	93	54

Statement of financial position before allocation of profit

in CHF m	2013	2012
Cash and cash equivalents	153	145
Receivables	—	—
Third parties	0	0
Group companies	248	278
Prepaid expenses and deferred income	—	—
Third parties	0	0
Group companies	—	—
Current assets	401	423
in % of total assets	32.9 %	34.4 %
Investments	648	647
Financial assets	—	—
Third parties	—	—
Group companies	171	160
Plant and equipment	—	0
Non-current assets	818	808
in % of total assets	67.1 %	65.6 %
Total assets	1 219	1 231
Current financial liabilities		
Third parties	46	64
Group companies	312	339
Deferred income and accrued expenses	—	—
Third parties	0	1
Group companies	2	—
Non-current financial liabilities	—	—
Third parties	—	41
Group companies	—	—
Provisions	0	0
Liabilities	360	446
in % of total equity and liabilities	29.6 %	36.2 %
Share capital	340	340
Statutory reserve	31	28
Statutory reserve from capital contribution	10	10
Voluntary reserve	—	—
Retained earnings brought forward	385	353
Annual profit	93	54
Equity	859	785
in % of total equity and liabilities	70.4 %	63.8 %
Total equity and liabilities	1 219	1 231

Transfer of assets

On 1 January 2013, RUAG Holding Ltd (identification number: CHE-100.944.120) transferred its entire operating business to receiving entity RUAG Corporate Services Ltd (identification number: CHE-112.108.840). In particular, this includes its service and management functions for investees and third parties together with all related assets, liabilities and contractual relationships. The service and management functions of RUAG Holding Ltd were transferred by way of a transfer of assets in accordance with Art. 69 ff of the Swiss Merger Act. The transfer agreement was signed on 6 May 2013. RUAG Holding Ltd received a credit from RUAG Corporate Services Ltd as consideration for the transfer of assets (assets of CHF 1,310,744.79 and liabilities of CHF 1,310,743.79). The transferred operation does not comprise any plots of land, securities or intangible assets. All RUAG Holding Ltd employees transferred to RUAG Corporate Services Ltd on 1 January 2013.

Contingent liabilities towards third parties

in CHF m	2013	2012
Guarantees	108	121
Warranty commitments	34	42
Total	142	162

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	2013	2012
Warranty contracts	—	—
Long-term rental and leasing contracts	—	0
Letters of intent	—	—
Agreed contractual penalties (fines and premiums)	—	—
Legal proceedings	—	—
Contingent liabilities	—	—
Subordinated receivables from Group companies	—	—
Capital commitments	—	—
Total	—	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	2013	2012
Plant and equipment	—	1
Property	—	—
Total	—	1

Assets pledged as collateral

in CHF m	2013	2012
Cash and cash equivalents	—	—
Receivables	—	—
Financial assets to Group companies	160	160
Property, plant and equipment	—	—
Investments	—	—
Total	160	160

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

Foreign currency forward transactions

in CHF m	2013	2012
Volume of contracts with banks	227	240
Volume of contracts with banks	(133)	(37)
Volume of contracts with Group companies	127	35
Volume of contracts with Group companies	(218)	(231)
Positive replacement value banks	6	7
Negative replacement value banks	(2)	(3)
Positive replacement value Group companies	2	3
Negative replacement value Group companies	(6)	(7)
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	2013	2012
Current liabilities to employee benefit funds	—	—
Non-current liabilities to employee benefit funds	—	—
Total	—	—

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

Events after the reporting period On 21 February 2014, the Board of Directors of RUAG Holding Ltd approved the consolidated financial statements and the financial statements of RUAG Holding Ltd for publication. The Annual General Meeting has the right to approve the consolidated financial statements.

Investments (as at 31 December 2013)

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 Ltd	Thun	Switzerland	CHF	12 000 000	100.0 %
RUAG Real Estate Ltd	Berne	Switzerland	CHF	8 000 000	100.0 %
RUAG Corporate Services Ltd	Berne	Switzerland	CHF	100 000	100.0 %
RUAG Sweden AB	Göteborg	Sweden	SEK	100 000	100.0 %
RUAG Holding France SAS	Terssac	France	EUR	100 000	100.0 %
Rosebank Engineering PTY Ltd.	Bayswater	Australia	AUD	10 000	100.0 %
Nitrochemie AG	Wimmis	Switzerland	CHF	1 000 000	49.0 %
Nitrochemie Wimmis AG	Wimmis	Switzerland	CHF	25 000 000	45.0 %
Nitrochemie Aschau GmbH	Aschau	Germany	EUR	7 700 000	45.0 %
Alpar, Flug- und Flugplatz-Gesellschaft AG	Berne	Switzerland	CHF	10 150 000	2.0 %

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

Transitional provisions of the financial reporting law

These annual financial statements were prepared in accordance with the provisions of the Swiss Code of Obligations on accounting and financial reporting in effect until 31 December 2012, applying the transitional provisions of the new financial reporting law.

Proposed allocation of balance sheet profit

in CHF m	2013	2012
Annual profit	93	54
Amount brought forward from previous year	385	353
Profit at the disposal of the Annual General Meeting	478	408

Allocation of profit proposed by Board of Directors

in CHF m	2013	2012
Dividend	20	20
Allocation to statutory reserve	5	3
Balance to be carried forward	454	385

Report of the statutory auditor
to the General Meeting of
RUAG Holding AG
Bern

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of RUAG Holding AG, which comprise the balance sheet, income statement and notes (pages 103 to 107), for the year ended December 31, 2013.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2013 comply with Swiss law and the company's articles of incorporation.

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.

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

pwc

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 comply with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Rolf Johner	Bernhard Bichsel
Audit expert Auditor in charge	Audit expert

Bern, February 21, 2014

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 2013.

RUAG Board of Directors (left to right): Dr. Hans Lauri, Jürg Oleas, Konrad Peter, Hans-Peter Schwald, Egon W. Behle and Paul Häring.

Board of Directors

The duties of the Board of Directors of RUAG Holding Ltd are governed by the Swiss Code of Obligations, the owner's strategy of the Swiss Federal Council, the Articles of Association and the Regulations Governing Organization and Operations. The Board of Directors of RUAG Holding Ltd currently consists of six members, all of whom are non-executive directors. Chairman of the Board of Directors Konrad Peter took over operational management as Executive Chairman on 1 November 2011 and continued in this role until the new CEO, Urs Breitmeier, commenced duties on 1 April 2013. Otherwise, the members of the Board of Directors have no material business relationship with the Group. The list lower down on this page provides information on the name, age, function, date of joining and remaining term in office of each member of the Board of Directors.

Election and term of office

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

Internal organization and tasks

The Board of Directors holds ultimate responsibility for the business strategy and overall management of the Group. It possesses supreme decision-making powers and determines the guidelines for strategy and organization, and the financial guidelines for accounting. The Board of Directors delegated the management of day-to-day business to Executive Chairman Konrad Peter until CEO Urs Breitmeier took office on 1 April 2013. In the first quarter of 2013, together with the Executive Board, Konrad Peter was responsible for the overall management of the Group and for all matters not delegated to another governing body of the company by law, the Articles of Association or the Regulations Governing Organization and Operations. Having been appointed CEO of RUAG Holding Ltd by the Board of Directors in October 2012, Urs Breitmeier assumed overall management of the Group on 1 April 2013.

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

- The strategic orientation and management of the Group in accordance with the owner's strategy of the Swiss Federal Council
- The structuring of the accounting system, financial controlling and financial planning
- The appointment and dismissal of the CEO, other members of the Executive Board and other senior executives

Board of Directors

Name	Born	Function	Member since	Elected until
Konrad Peter	1946	Chairman and Executive Chairman until 31/03/2013	2002	2014
Hans-Peter Schwald	1959	Vice-Chairman, non-executive	2002	2014
Paul Häring	1957	Non-executive member	2004	2014
Dr. Hans Lauri	1944	Non-executive member	2008	2014
Egon W. Behle	1955	Non-executive member	2011	2014
Jürg Oleas	1957	Non-executive member	2011	2014

- 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, three committees have been formed: an Audit Committee, a Nomination & Compensation Committee and a Strategy Committee. Beside the usual six meetings, the Board of Directors met for a two-day strategy meeting in summer 2013, 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.

During visits to RUAG sites, the Board of Directors gains regular insights into the operational side of the business and holds discussions with executives.

Committees

The Board of Directors has formed an Audit Committee, a Nomination & Compensation Committee and a Strategy 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 CEO, CFO, Senior Vice President of Internal Audit, Senior Vice President of Corporate Legal & Secretary General and representatives of the statutory auditor.

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

- Assessing processes in the risk and control environment (internal control system)
- Monitoring financial reporting
- Assessing the internal and external auditor
- Defining and approving the focal points of the audit
- Accepting the audit report and any recommendations of the statutory auditor prior to submission of the annual financial statements (individual and consolidated) to the full Board of Directors for approval
- Submitting a proposal to the full Board of Directors as to which external auditor should be recommended to the AGM for

appointment; assessing the performance, fees and independence of the external auditor and examining the compatibility of audit activities with any consultancy mandates. The representatives of the statutory auditor recuse themselves during deliberation of these matters.

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

Nomination & Compensation Committee

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

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

Finally, the NCC is tasked with proposing the compensation of members of the Board of Directors in line with the guidelines set forth by the Swiss Confederation.

Strategy Committee

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

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

Information and control instruments

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

Executive Board

Management organization

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

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

The Executive Board comprises the CEO, the division heads, the CFO, the Chief Human Resource Officer and the head of Corporate Legal & Secretary General. The extended Executive Board also includes the heads of Corporate Communications and of Corporate IT (CIO).

Executive Board as at 1 January 2014

Name	Born	Function	Member since
Urs Breitmeier	1963	CEO[1]	2006
Dr. Peter Guggenbach	1962	Member, RUAG Space	2009
Phillipp M. Berner	1966	Member, RUAG Aviation	2010
Cyril Kubelka	1963	Member, RUAG Ammotec	2004
Dr. Markus Zoller	1968	Member, RUAG Defence	2013
Urs Kiener	1965	Member, CFO & RUAG Aerostructures[2]	2002
Dr. Christian Ferber	1965	Member, Corporate Human Resources	2012
Thomas Kopp	1955	Member, Corporate Legal & Secretary General	2011

Members of the extended Executive Board as at 1 January 2014

Andreas Fitze	1968	Member of the extended Executive Board, Corporate IT[3]	2013
Jiri Paukert (ad interim)	1964	Member of the extended Executive Board, Corporate Communications	2013

[1] Konrad Peter was in charge of the Group's operational management as Executive Chairman as of 1 November 2011, and continued in this role until 31 March 2013. With effect from 1 April 2013, Urs Breitmeier, until then head of the Defence division, assumed the office of CEO of RUAG Holding Ltd.

[2] RUAG CFO Urs Kiener held the post of head of the Aerostructures division on an interim basis.

[3] Marc Grimmer held the post of Senior Vice President of Corporate IT on an interim basis until 31 March 2013; Andreas Fitze took over this position on 1 April 2013.

The Chairman of the Board of Directors was responsible for the Group's operational management until end-March 2013. As of 1 April 2013 he handed over to new Group CEO Urs Breitmeier, formerly head of the Defence division.

Jiri Paukert held the position of Senior Vice President of Corporate Communications on an interim basis in 2013; Rita Baldegger took over this function as of 17 February 2014. Marc Grimmer held the role of Senior Vice President of Corporate IT (CIO) until the end of March 2013, then handed over to Andreas Fitze on 1 April 2013.

CEO

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

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

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

RUAG management structure as at 1 January 2014

Board of Directors
Konrad Peter (Chairman), Hans-Peter Schwald (Vice-Chairman), Paul Häring, Dr. Hans Lauri, Egon W. Behle, Jürg Oleas

Audit Committee
- Internal Audit

Nomination & Compensation Committee

Strategy Committee

CEO RUAG Group/ Corporate Services
Urs Breitmeier
- **Corporate Finance & Controlling**[1] Urs Kiener
- **Corporate Human Resources** Dr. Christian Ferber
- **Corporate Legal & Secretary General** Thomas Kopp
- **Corporate Communications** Jiri Paukert a. i.[2]
- **Corporate IT** Andreas Fitze

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

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

Aerostructures
Urs Kiener a. i.
- Aerostructures Germany
- Aerostructures Switzerland

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

Ammotec
Cyril Kubelka
- **Production** Fürth, Germany; Thun, Switzerland; Amotfors, Sweden; Sirok, Hungary; Tampa, USA
- **Sales** Liskeard, UK; Cergy, France; Vienna, Austria; Boeachut, Belgium; São Francisco do Sul, Brazil

■ Group Executive Board

[1] Including Real Estate/Environment, Group Risk Management, Corporate Procurement.

[2] As of 17 February 2014: Rita Baldegger.

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

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

On 1 April 2013, Urs Breitmeier, CEO of the Defence division, assumed the office of CEO of RUAG Holding Ltd.

Members of the Executive Board
The list on page 113 provides information on the name, age, function 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 of SIX Swiss Exchange concerning compensation paid to members of the Board of Directors and Executive Board, taking the transparency provisions of the Swiss Code of Obligations (Art. 663b bis and Art. 663c CO) into account. Compensation paid in accordance with these provisions of the Swiss Code of Obligations is listed in the financial statements in Note 34 "Compensation of key management personnel", with further details provided.

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

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

Compensation consists of the following:

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

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

No compensation was paid to former Board members.

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

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

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

The fixed basic salary is determined primarily by the task, responsibility, qualifications and experience of the Board members, as well as the market environment. The performance-based component consists of a one-year Short Term Incentive Plan (STI) and now also a three-year (2013–15) Long Term Incentive Plan (LTI). Targets are 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 by the Board of Directors and the CEO 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.

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

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

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

The extent to which objectives are reached is weighted for 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 CEO and the Senior Vice Presidents of the service units, the financial goals of the Group apply.

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

The Board of Directors specifies the performance benchmark target for a three-year period each year on adoption of the corporate plan. At the same time it also sets the minimum and maximum values and specifies the individual amount payable to each plan participant if the target figure is achieved. If the minimum value is not achieved, no payment will be made. If the maximum value is exceeded, a maximum of 150 % of the amount is payable. Payment will be made after the audited financial statements for the last financial year become available, at the beginning of 2016.
A third of the LTI target value will be expensed each year, starting with the financial statements for 2013. Depending on how the target value develops, an adjustment to this entry will be made in 2014/2015.

The total amount of the performance-based component is based on the extent to which the STI and LTI plan objectives are met; however, LTI payments will only be possible as of the beginning of 2016. For all members of the Executive Board, the performance-based component in 2013 ranged from 34 % (previous year: 42 %) to a maximum of 69 % (60 %) of the annual basic salary.

Other benefits comprise employers' contributions paid to social security funds and for mandatory and extra-mandatory employee benefits. The same regulations on expenses apply for the members of the Executive Board as for all other employees of the Group. Additional regulations also apply to the members of the Executive Board and all members of management in Switzerland concerning a lump-sum allowance for entertainment and other incidental expenses. Both regulations have been approved by the cantonal tax authorities concerned. A company car is provided to the members of the Executive Board. No appreciable compensation was paid to former Executive Board members. Further details of compensation paid in the year under review can be found in the financial statements in Note 34 "Compensation of key management personnel".

Other compensation
Severance payments: Members of the Executive Board or Board of Directors are not contractually entitled to any severance payments. In the 2013 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 2013 financial year, the members of the Executive Board or Board of Directors received no appreciable fees or other compensation for additional services rendered to RUAG Holding Ltd or any of its subsidiaries.
For his interim role as head of the Aerostructures division alongside his regular duties as CFO, Urs Kiener was compensated based on the higher of the two salaries (i.e. that relating to Aerostructures).

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

Capital structure
The equity capital of RUAG Holding Ltd amounts to CHF 340 million, comprising 340,000 fully paid-up registered shares, each with a par value of CHF 1,000. As at 31 December 2013, RUAG Holding Ltd did not have any conditional or authorized capital, nor had it issued participation or dividend right certificates. The registered shares of RUAG Holding Ltd are not listed.

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

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

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

The Board of Directors keeps a share register.

Shareholder structure

Shareholder

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

Owner's strategy of the Swiss Federal Council

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

In its owner's strategy, the Swiss Federal Council lays down strategic objectives for its shareholding in RUAG Holding Ltd, specifically strategic focal points, human resource policy and financial objectives, cooperation and investments and reporting to the Swiss Federal Council.

Cross-shareholdings

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

> The 2011–2014 owner's strategy of the Swiss Federal Council establishes a binding framework that enables RUAG 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.

Qualified majorities

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

- Changes to the purpose of the company
- Introduction of voting shares
- Restrictions on the transferability of registered shares
- Approved or conditional capital increase
- Capital increase out of equity in consideration of a contribution in kind or for the purpose of acquisition in kind and the granting of special benefits
- Restriction or abolition of subscription rights
- Relocation of the company's registered office
- Dissolution of the company or liquidation

Convening the AGM

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

Change in control and defensive measures

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

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

Employee benefits
The VORSORGE RUAG pension fund cover ratio as at 31 December 2013 was 104 % (previous year: 104 %). The fund's financial situation has thus remained stable despite fluctuations in the financial markets.

Statutory auditor

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

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

Audit fees and additional expenses
PricewaterhouseCoopers invoiced the Group CHF 1.0 million (CHF 1.1 million) during the 2013 financial year for services related to the audit of the financial statements of RUAG Holding Ltd and its subsidiaries and of RUAG's consolidated financial statements. In addition, PricewaterhouseCoopers invoiced RUAG CHF 0.7 million (CHF 0.6 million) during the 2013 financial year for audit-related services, tax advice and due diligence services.

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

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

Fees paid to PricewaterhouseCoopers

in CHF 1,000	2013	2012
Audit fees	999	1 113
Tax advice	217	72
Due diligence advice	61	194
All other advice	396	346
Total fees	1 673	1 725

Key dates

End of financial year	31/12/2013
Annual press conference	20/03/2014
AGM	15/05/2014

The Annual Report containing the financial statements for the year ended 31 December 2013 is sent to the shareholder together with an invitation to the AGM.

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