

Annual Report 2015

We listen to make it right.

We stay to make it real.

A promise you can trust.

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Together ahead – responsibly and in three strategic areas

RUAG develops trailblazing innovations and internationally sought-after cutting-edge technology in the fields of aerospace and defence. By combining outstanding technological expertise with a high degree of foresight and responsibility, it creates the foundations for security and progress within society.

In order to live up to this claim while at the same time growing as a business, RUAG bases its activities on clear-cut values: collaboration, high performance and visionary thinking. These values not only shape how we think and what we do day to day in the Group and its five divisions (Space, Aerostructures, Aviation, Ammotec and Defence) but also guide our interactions with business partners and customers, the public and – not least – our owner, the Swiss Confederation.

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

1. Combining civil and military applications

Today, the civil sector is acting more and more as a source of technological impetus for military applications. This includes, for example, visuals for virtual simulators, which are being driven forward by the gaming industry, rapidly developing telecommunications technologies, self-propelled vehicles and unmanned aerial vehicles. With civil business accounting for a 55 % share of sales and military business for 45 %, RUAG is in an ideal position to bring civil innovations into military applications.

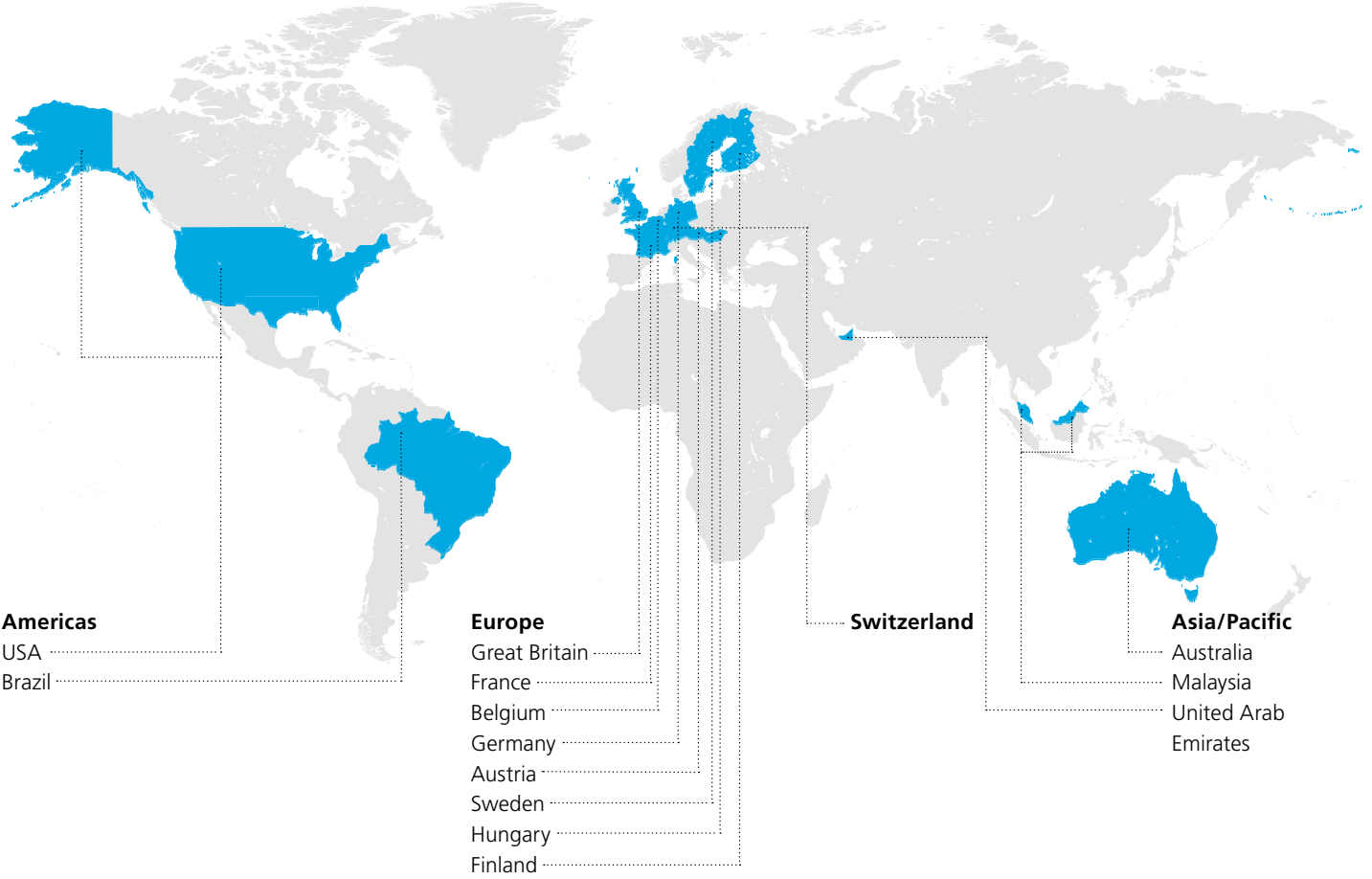
2. Focusing on core business

In terms of its fields of activity, RUAG is highly diversified. At the same time, however, it is focusing its activities on specific competencies within the fields of aerospace and defence. Within these divisional core competencies, RUAG is looking to grow by means of selective innovation and investment.

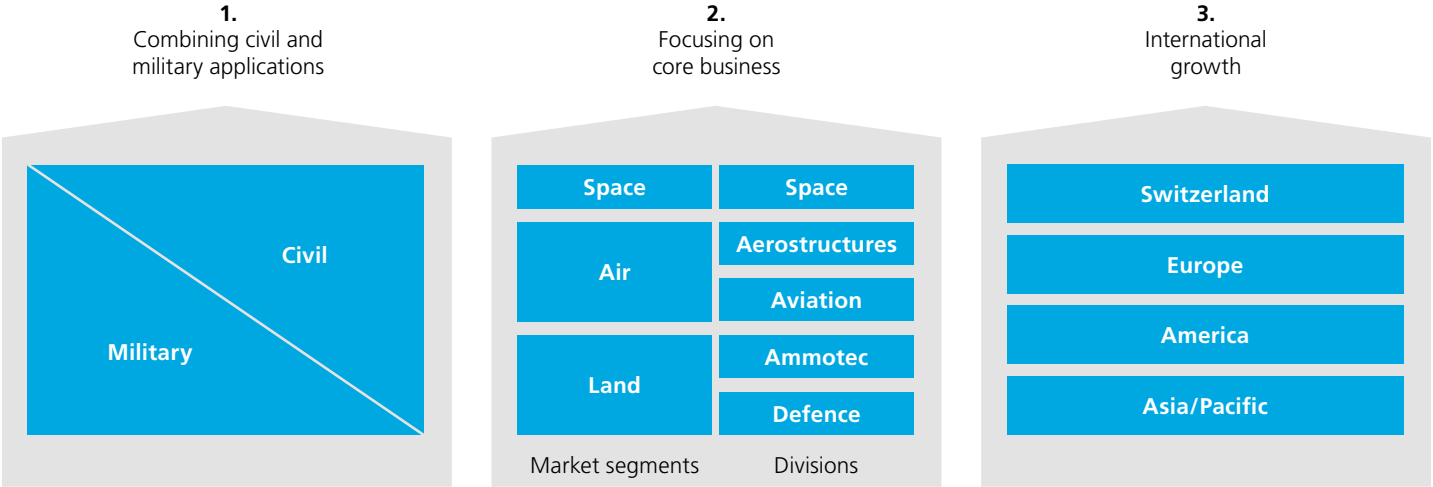
3. International growth

RUAG has operations in Europe, North and South America and Asia/Pacific. Outside of Switzerland it has production sites in Germany, France, Austria, Sweden, Finland, Hungary, Australia and the USA. In addition, RUAG has branch offices in Belgium, the UK, Brazil, Malaysia and the United Arab Emirates. RUAG has a workforce of around 8,200 people and annual sales of about CHF 1.75 billion. Well over half of net sales are generated outside the Swiss home market.

RUAG locations



The three key areas of the RUAG strategy



Basic mission

Providing and maintaining the technical systems of the Swiss Armed Forces

Profitable continuity despite extraordinary events

Notwithstanding various obstacles such as the appreciation of the Swiss franc and export embargoes, RUAG substantially increased its earnings before interest and taxes.

In 2015 RUAG succeeded in largely offsetting the effects of the Swiss franc's appreciation and the moratorium on arms exports to the majority of Middle Eastern countries. RUAG posted the highest net profit figure ever: CHF 117 million. All five divisions operated profitably and contributed to the positive Group result. Owing to the strong Swiss franc, sales decreased slightly to CHF 1,744 million (CHF 1,781 million). Civil business accounted for 55 % of net sales, while the foreign component of sales came to 62 %.

Earnings before interest and taxes (EBIT) were increased substantially from CHF 113 million to CHF 137 million even though net sales declined to CHF 1,744 million (CHF 1,781 million). The CHF 37 million decrease in sales was due primarily to foreign exchange factors in the international business. Factoring these out, sales would have increased from the previous year. In local currency terms, sales grew by 2.5 %.

As of the 2015 reporting year, the consolidated financial statements are prepared in accordance with the Swiss GAAP FER accounting standards (instead of IFRS). The prior-year figures have been restated accordingly. Net profit for 2014 was CHF 102 million according to IFRS and is now restated at CHF 84 million according to Swiss GAAP FER.

The proportion of defence-related business rose slightly from 43 % to 45 % of net sales. The Federal Department of Defence, Civil Protection and Sport (DDPS) remains RUAG's largest and most important single customer; its share of sales rose in 2015 from 30 % to 32 %. These year-on-year changes were mainly due to the strength of the Swiss franc.

Cash flow from operating activities came to CHF 145 million in 2015 (CHF 135 million). Free cash flow increased to a respectable CHF 64 million (CHF 57 million). Both order intake, at CHF 1,828 million (CHF 1,785 million), and the order backlog, at CHF 1,378 million (CHF 1,370 million), posted gains compared with the previous year, allowing the Group to go into 2016 with a confident outlook.

Outlays for research and development rose to a total of CHF 146 million (CHF 140 million). This corresponds to the target figure of around 8 % of total sales. The Group's total headcount increased slightly to 8,163 as at 31 December 2015 (8,114).

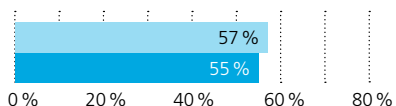
Overview of key figures

in CHF million	2015	2014	Change in %
Net sales	1 744	1 781	-2.1 %
Operating income	1 758	1 759	-0.1 %
Earnings before interest, taxes, depreciation and amortization (EBITDA)	217	192	12.9 %
Earnings before interest and taxes (EBIT)	137	113	20.6 %
Net profit ¹	117	84	38.8 %
Cash flow from operating activities	145	135	7.0 %
Free cash flow	64	57	12.6 %
Net financial position	231	195	18.5 %
Order inflow	1 828	1 785	2.4 %
Order backlog	1 378	1 370	0.6 %
Research and development expenses	146	140	4.3 %
Employees as at 31 December incl. apprentices	8 163	8 114	0.6 %

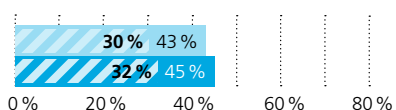
¹ As of the 2015 reporting year, the consolidated financial statements are prepared in accordance with the Swiss GAAP FER accounting standards. Net profit for 2014 was CHF 102 million according to IFRS and is now restated at CHF 84 million according to Swiss GAAP FER.

Net sales by application

Civil
55%

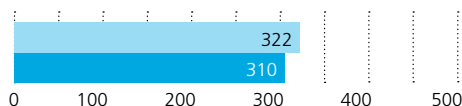


Military
45%

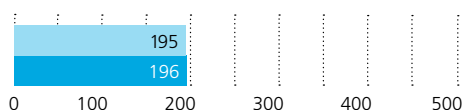


Net sales by division

Space
CHF 310 million

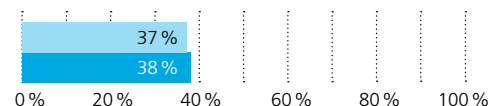


Aerostructures
CHF 196 million

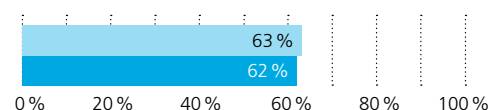


Net sales by market

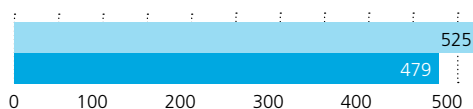
Switzerland
38%



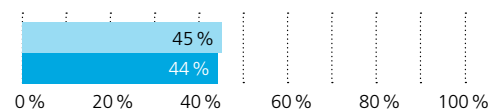
Abroad
62%



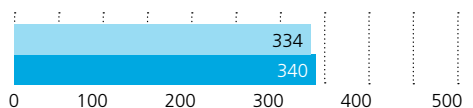
Aviation
CHF 479 million



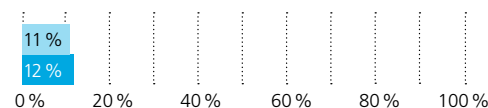
of which Europe
44%



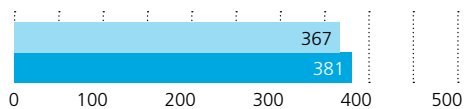
Ammotec
CHF 340 million



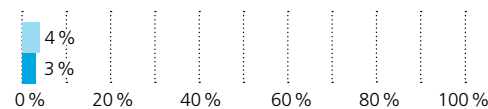
of which North America
12%



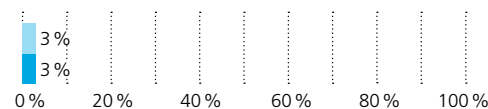
Defence
CHF 381 million



of which Asia/Pacific
3%



of which rest of the world
3%



DDPS 2014 2015

For detailed figures, see Note 5 "Segment information" in the financial statements.

Diverse, focused and international

In 2015, RUAG pressed ahead in all business areas with its three strategic priorities of “combining civil and military applications”, “focusing on core business”, and “international growth”.



January

Technical upgrades for transport helicopters

The Swiss Armed Forces' Cougar (TH98) transport helicopters are in the middle of their service life cycle. To ensure that they can continue to meet technical and operational requirements – especially in terms of navigation and communications – the cockpit and other systems need upgrading to the latest technological standards. At its Emmen site, RUAG Aviation has been working on a prototype for the Cougar value preservation programme since January 2015.

January

Expansion of European Hunting & Sports business

With the acquisition of Glaser Handels AG, the leading Swiss wholesaler for hunting and sporting arms, ammunition and equipment, RUAG Ammotec further expanded its wholesaling activities in the Hunting & Sports segment. The employees from Glaser are reinforcing the existing global network of proprietary sales companies and associates in Germany, Austria, Belgium, France, the UK, Sweden, Finland, Brazil and the USA.

March

Accurate and efficient

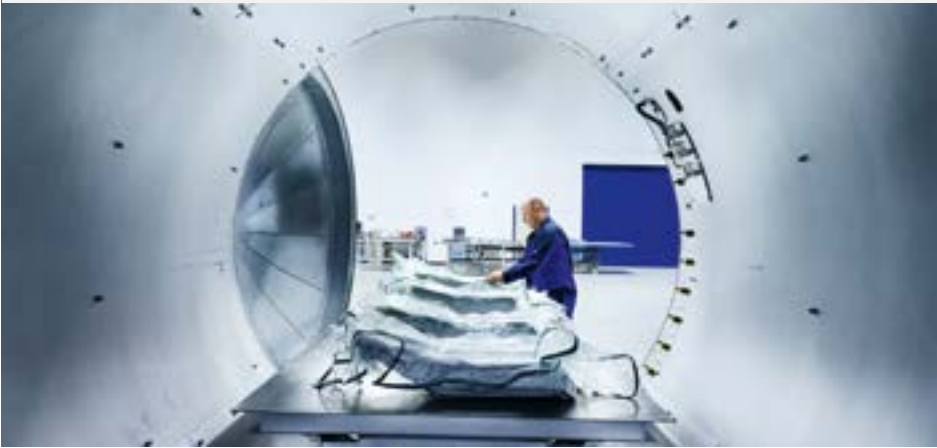
The 120mm RUAG COBRA mortar system was successfully rolled out. The system combines state-of-the-art technologies with simple handling. An electric drive allows for exceptionally rapid barrel alignment. Incorporation of the latest positioning and ballistics technologies guarantee maximum precision. The DDPS has ordered an initial prototype.



March

Protection for Austrian and Belgian armoured vehicles

The contract to upgrade the Austrian and Belgian Pandur wheeled armoured vehicle fleets confirms the leading position of RUAG Defence in the field of protection systems for armoured vehicles. Under the contract, by 2020 all five variants of the Pandur will be equipped with modular and fully integratable mine, IED and ballistic protection systems from RUAG.



May and August

Special effort to cushion impact of Swiss franc appreciation

Together with the employee representatives, RUAG has instituted special measures to help cushion the impact of the scrapping of the minimum euro exchange rate. In addition to process optimization measures, renegotiations with suppliers and numerous individual cost-saving measures, weekly working time has been increased from 40 to 43 hours in export-oriented areas in particular. With this special effort, the RUAG workforce has been instrumental in helping the Group absorb the currency shock relatively unscathed.

April

Top address for future engineers

RUAG is one of the top seven most popular employers for future engineers in Switzerland. This was shown by consulting firm Universum's annual survey of a total of 12,000 students from all disciplines. Having been in the top ten for the last four years, RUAG is thus now considered an even more attractive employer.

May

French Navy trains with GAVAP

In association with shipbuilder DCNS, French RUAG subsidiary GAVAP was awarded the contract for further development of the French Navy's Warship Onsite Defence Simulator. Ships' crews use this simulator to run defence readiness exercises for all air and surface threats. The training scenarios range from handling of personal weapons to the efficiency of the entire chain of command.

August

Speed and flexibility in regional air traffic

At the Paris Air Show, the versatility of the Dornier 228 won over yet another regional airline. With the most up-to-date high-wing aircraft of its class, Aurigny Air Services from the British Channel Island of Guernsey, can operate more flights per day, increase passenger comfort and at the same time transport larger volumes of freight. All this plus the option to use the aircraft for medical services as well.

May

Electronics boost from Finland

With the acquisition of Finnish company Patria Space, RUAG Space strengthened its operations in the field of digital electronics for satellites and launch vehicles with additional skills and first-rate know-how.



August

Expansion in US market

Through a strategic partnership with launch vehicle manufacturer United Launch Alliance (ULA), RUAG Space is further expanding its position in the vital US market. An integral part of the arrangement is the establishment of a production base for carbon fibre structures at ULA's premises in the US state of Alabama. From 2017 onwards, this facility will be used to manufacture the payload fairings for the Atlas launchers. What's more, RUAG will also be using the new site to manufacture carbon fibre structures for ULA's new Vulcan launcher.



October

Partnership with Federal Council for vocational training

With its third annual vocational training conference for political and business decision-makers in 2015, RUAG championed the dual education system and thus Switzerland as a location for business. In his opening address, Federal Councillor Johann Schneider-Ammann focused on the practical applicability of Swiss vocational training. This is pivotal to maintaining the country's low level of youth unemployment. But this practical focus also brings direct competitive advantages to businesses, as Chairman of the RUAG Board of Directors Hans-Peter Schwald emphasized.



November

Major contract for Gripen E/F fighter aircraft

The contract for the series production of payload mountings for the Gripen E/F fighter aircraft is worth more than CHF 80 million in total. RUAG had already been awarded the contract for developing the system by Swedish defence and security company Saab in 2014. By 2026, RUAG will have manufactured a total of 33 prototypes and 546 series parts at its Emmen site. This order will also benefit suppliers from other regions of Switzerland.

November

Modern flight visualization system for the PC-7 simulator

20 years ago, RUAG joined with other companies to build the first flight simulator for instrument flight training on Swiss Air Force PC-7 trainer aircraft. At the end of 2013, RUAG Aviation was commissioned by armasuisse to replace the simulator's flight visualization system, which had by now become obsolete. Using state-of-the-art gaming and simulation technology, a visualization system was developed that meets the more discerning requirements of present-day users. Engineers from RUAG Defence and RUAG Aviation succeeded in getting the modernized PC-7 simulator "airborne" within one and a half years.



December

Realistic firing simulation for the assault rifle 90

RUAG Defence has come out on top in an international tender exercise for the new "assault rifle 90 new technology shooting simulator" (SSim Stgw 90 NT). This new Swiss Armed Forces procurement comprises 500 sets of 10 SSim Stgw 90 NT, including accessories and logistics. The system facilitates firing simulation that conveys a realistic impression of combat situations without the need to use live ammunition. The SSim Stgm 90 NT is one of the most advanced live simulators on the market.

December

Hardware and software upgrade for the F/A-18

As part of the Upgrade 25 service life extension programme, the systems of the Swiss Air Force's F/A-18s were brought up to the latest technical standards. The programme, which was completed on time at the end of 2015, comprised hardware and software adjustments that equipped the F/A-18s for their future air policing and air defence roles. In addition to the aircraft software, the Swiss Mission Data System (SMDS) was also expanded. Mission planning, maintenance data processing and debriefing software underwent further development by RUAG Aviation and were thus brought into line with current requirements. The Digital Video Debriefing System (DVDS) was newly developed by RUAG. This records audio and video data during the flight, thus facilitating effective, precise and cost-effective debriefing afterwards.



More robust and more stable despite difficult conditions

Swiftly initiated, targeted measures, broad-based activities, a sustainable investment policy and a long-term owner's strategy: RUAG is standing up well to the twofold test of the appreciating franc and being locked out of yet another export region.

Dear shareholder,
customers and readers,

Two extraordinary events put RUAG to the test in 2015: the scrapping of the Swiss franc's euro peg and the moratorium on arms exports to most of the countries in the Middle East. The good overall result shows that the Group can overcome even extraordinary challenges. RUAG substantially raised its order intake and EBIT, and generated sales growth of 2.5% in local currency terms; due to the appreciation of the Swiss franc, however, consolidated net sales decreased slightly. These adverse influences were cushioned by immediate action in the areas of purchasing and costs and by the Group-wide productivity-boosting programme launched in 2014. Three decisive developments make it clear that the Group actually managed to become even more robust and stable in spite of the difficult circumstances:

First: the Aerostructures and Defence divisions markedly improved their profitability in the year under review. Key to the successful turnaround of Aerostructures was not only the focus on core programmes but also a number of restructuring measures aimed at creating a solid basis for the coming years. A major contract from Saab for payload mountings for the Gripen E/F, worth more than CHF 80 million, is a clear sign of the division's increased competitiveness. For the Defence division, it was the improvements in the Simulation & Training business unit that contributed to the improved result.

Second: the currency shock triggered by the abandonment of the minimum Swiss franc/euro exchange rate was relatively well absorbed thanks to existing currency hedges and rapidly initiated programmes in all units of the Group. RUAG thus managed to successfully offset the negative foreign currency effects at both EBIT and net profit level over the course of the year. The measures initiated will also have a positive impact on the Group's profitability in the years ahead.

At this point it has to be stressed that if the Group's employees had not gone far beyond the call of duty, the abrupt appreciation of the franc would have had significantly more serious repercussions. Among other things, in May and August of the year under review, employees at the particularly export-focused Swiss production sites agreed to a temporary increase in working hours. The Group Executive Board and the Board of Directors would like to express profound thanks for this exceptional effort.

Third: with two long-term investments in 2015, the Space division laid a foundation which will allow it to further expand its strong position in the international space business. For one thing, the new "Space Hall" in Emmen commenced operations. This facility is capable of manufacturing the payload fairings for the European space programmes much more cost-effectively. For another, in the USA work started on a new production site for carbon fibre structures in collaboration with launch vehicle manufacturer United Launch Alliance (ULA). With this, RUAG is securing a strong position for itself in the dynamic US market.

The broad base of the Group's activities has proved key to its stability, both geographically and in terms of fields of activity.

Broad base of operations provides cushion against volatility

As in the preceding years, the RUAG Group's broad base of activities has proved key to its stability, both geographically and in terms of fields of activity. Over the last few years, this has largely cushioned the Group from ever more substantial market volatility. This balancing effect can be seen in the relative shifts in the results of the individual divisions. Whereas in 2014 it was still the Space and Aviation divisions that drove the Group, in 2015 it was the Aerostructures and Defence divisions that delivered above-average growth.

The positive progress made by RUAG Aerostructures is the result of a systematic restructuring of its production sites and a strategic focusing of its activities. Thus in 2015 the contract landed in 2014 that awarded the division complete responsibility for the global supply chain for two Airbus 320 fuselage sections had a positive impact on the result for the first time.

The year also went extremely well for the Aviation division's Business Aviation unit. The decision to focus on MRO services for large business jets paved the way for a return to profit in 2015. On the other hand, the Military Aviation unit was hampered by the moratorium on arms exports to the majority of countries in the Middle East and certain countries in the Far East. Lucrative MRO contracts for F-5 engines could not be fulfilled.

The appreciation of the Swiss franc had a particularly severe impact on the export-focused Space division. Virtually all of the decline in its sales is attributable to currency effects. However, the selections for the payload fairings for both the future European launch vehicle Ariane 6 and the US Vulcan underscore the division's positive prospects.

The Ammotec division was hit by both the currency effects and the moratorium on exports. Without these two negative external factors, the division would have generated a clear increase in sales and profits. In particular, it delivered an exceptionally large gain in the US market for hunting and sports ammunition.

The Defence division was able first and foremost to expand its international business. In the Land Systems business unit, positive progress was made both by the German subsidiaries GEKE and Glückauf and in MRO services for heavy weapons systems. French subsidiary GAVAP established itself firmly in the Simulation & Training area. The Network Enabled Operation Services business unit delivered a landmark success by winning the WTO's ICC tender to become the integrator for Switzerland's military security infrastructure.

Investing in the foundation for the future

The current stability of the RUAG Group is due not least to the long-term investments made over the last few years. In 2015 the Group continued its forceful pursuit of this strategy, the aim of which is to sustainably expand its activities both at home and abroad.

Aside from the major investments in the Emmen "Space Hall" and the new space production facility in the USA, particular mention here should also be given to the decision to set up a new surface treatment facility in Emmen. Added to this are the acquisitions of Patria Space in Finland and Glaser Handels-AG in Switzerland: Patria Space is strengthening RUAG Space's operations in the field of digital electronics for satellites and launch vehicles. With Glaser, RUAG Ammotec is further expanding its wholesale activities in the Hunting & Sports business.

A pivotal factor in the stability of the RUAG business, moreover, is the Swiss Federal Council's owner's strategy for 2016–19, which took effect on 1 January 2016. This continues the tried and tested strategy of the last few years and allows RUAG to pursue a long-term, sustainable and responsible corporate development path for the benefit of the Confederation and Swiss society.

Robust in an unpredictable environment

In economic terms, we can take a positive stance on 2016, as the order situation is looking good. Both the order backlog and incoming orders have grown compared with the previous year.

And yet, the last few years also make one thing clear: RUAG will have to deal with unexpected challenges in future as well. The currency situation, the world economy or developments in government spending can be subjected to unanticipated changes of direction time and again. For example, among other things the international security situation has changed radically in the last few months. The conflicts in Yemen and Ukraine have blocked exports to entire market regions for RUAG. On the other hand, the changes may also lead to various states once again beefing up their defence and security budgets, which had been substantially reduced in recent times.

For us, these uncertainties mean that we will need to further diversify our markets in geographical terms. The US market and the Asia-Pacific region, in particular, offer a substantial number of growth opportunities.

For exports out of Switzerland, the strong Swiss franc will remain a challenge at least in the medium term. On the one hand that means we will need to invest in further efficiency enhancements at our production sites. On the other, however, we also need to strengthen our global activities so that we can respond as flexibly and effectively as possible to changes. This also includes carefully examining the possibility of targeted acquisitions.

RUAG will invest in further efficiency enhancements at its production sites while at the same time strengthening its global activities.

The Federal Council has formulated strategic goals for RUAG stating that it will aim to dispose of those business areas which do not make strategic or industrial sense for either the Confederation, as the sole shareholder of RUAG Holding Ltd, or for the technology company itself. Work is still ongoing on the comprehensive stocktaking exercise commissioned by the Federal Council at the beginning of 2016. The results will be incorporated into the Group's future strategic goals.

2015 has showed us that we can successfully overcome even extraordinary events, and we are delighted to have you at our side as we continue to move forward. We would like to thank all of you – our shareholder and our customers, our partners and employees – for your loyalty, trust, cooperation and commitment.

RUAG Holding AG



Hans-Peter Schwald
Chairman of the Board of Directors



Urs Breitmeier
CEO RUAG Group

Services and technologies fit for the world market

In 2014, Hans-Peter Schwald took over as Chairman of the Board of Directors of RUAG. Before that, he had already been a member of the Board for 13 years.

Mr. Schwald, RUAG is a business owned by the Swiss Confederation. At the beginning of 2016, the Swiss government brought a new owner's strategy for RUAG into effect. What are the key changes?

We need to be a bit more precise here: the "Federal Council's strategic objectives for RUAG 2016–19" are not a new strategy; rather, they are an update to the existing owner's strategy which crystallizes and hones a few key points. Essentially: greater concentration on the strategic guidelines, targeted further development of our civil and military capabilities in Switzerland, with due regard for regional policy aspects – and abroad, by continuing a low-key pursuit of the internationalization strategy and by investing still more in research and development.

"Our shareholder, the Confederation, is to have a greater share in the Group's success."

Was more detail on financial goals also provided?

Yes; the Federal Council expects profitability at RUAG to keep pace with that of comparable international technology companies. The Confederation is also to have a greater share in the Group's success, in that dividends are to be raised to bring them into line with the international industry standard.

Are the three strategic pillars of RUAG – internationalization, focus on core business, and combining civil and military technologies – still valid?

Rigorous pursuit of these corporate strategic priorities is important if we are to properly implement the main points of the owner's strategy. It is thus crucial that RUAG should continue to position itself as an international business so as to offer the Swiss Armed Forces services at world market prices and technologies at world market standards both

now and in future. However, due to its broad positioning it is essential that RUAG focus on its capabilities and core competencies. Moreover, past years have shown that the ability to successfully combine civil and military technologies is one of the Group's biggest strengths.

RUAG is responsible for guaranteeing the supply of equipment to the Swiss Armed Forces, the most important customer. Will this continue to be the case even with the "development of the armed forces" (WEA) programme?

The Swiss Parliament's decisions regarding the WEA don't just mean that the Swiss Armed Forces will get smaller but also that they will become more modern, and they have to be fully equipped. These are interesting developments regarding the technological partnership with RUAG. Yes, the Swiss Armed Forces will remain our most important customer in the future.

RUAG is the leading defence and technology company in Switzerland. On the world market, however, you face competitors which are a great deal larger and more powerful. And yet RUAG is a successful operator on the international stage. How do you make that happen?

RUAG has a very strong and very diversified position: the keys to our success are our expertise and our capabilities. That's why, when competing in the international arena, we are focusing on areas where we rank among the best in the world. So RUAG will continue to focus on certain special activities in future and, ultimately, hold its own against the competition by delivering outstanding achievements and technological innovations and services tailored to its customers' needs.

“When competing in the international arena we are focusing on areas where we rank among the best in the world.”

RUAG is opening up new sites in other countries. Is Switzerland becoming less attractive to RUAG as a place to do business?

To provide cutting-edge products and services at internationally competitive prices in future too, RUAG will continue to grow moderately in other countries. But this is not a question of relocating Swiss jobs elsewhere. With our growth abroad, we are also strengthening Switzerland as a centre of industry. For example: it is only thanks to the acquisition of the site in Oberpfaffenhofen, Germany that RUAG became a Tier 1 supplier for Airbus. This status is also generating benefits for the RUAG site in Emmen, Switzerland. For these sorts of partnerships it is necessary to have a certain base size. It would be impossible to build something like that here in Switzerland alone.

What is your wish list for Switzerland as a business location?

Switzerland’s intact legal system, with its high degree of legal certainty, is a key locational advantage, and one we have to protect. The democratic and liberal principles which form the bedrock of Switzerland’s decades-long success story must be preserved. Too much state intervention in the economy is counter-productive. We are also dependent on having a level playing field with our European competitors. Another important factor is that we nurture and further develop our universities and retain our superb dual education system.



Hans-Peter Schwald, Chairman of the Board of Directors

Compliance is a very important topic at RUAG. In addition to a Compliance Board and anti-corruption and export compliance frameworks (to name but the most important areas), a whistleblower system has been set up that can be used by people both inside and outside the company. What do you personally require of RUAG in terms of compliance efforts?

Compliance has always been a major topic for RUAG. We have always expected and required our employees to act in an ethical and legal manner in all areas of compliance and our managers to act in an absolutely exemplary manner in this regard. To enforce our standards, we have also strengthened and expanded our compliance organization accordingly, and we follow a clear and rigorous policy of zero tolerance. I expect all our employees to abide by this without fail.

In this year’s annual report, RUAG addresses the topic of corporate responsibility for the first time. Where does RUAG stand today, and what further steps can we expect?

Corporate responsibility is featured for the first time in the present annual report even though the Group’s management has always been committed to taking responsibility. RUAG is very well positioned in this regard. However, the area we now want to improve upon is how we present our efforts. We want to create more transparency so that anyone with an interest can access the relevant information quickly.

One last question: are there any matters close to your heart that you would like people reading this to take away with them?

Switzerland has been spared military conflict ever since the foundation of the federal state. That this is guaranteed doesn’t go without saying. We have to act to ensure that things stay that way in future too. Security is not to be had for nothing. RUAG makes an important contribution to Switzerland’s security system and I hope people see that, and see it as a good thing.

New customer solutions and smart processes

Urs Breitmeier has been CEO of the RUAG Group since 2013. He has been with RUAG for 15 years, including 11 years on the Group Executive Board.

Mr. Breitmeier, you are looking back on an eventful year for the business, with some events having a huge impact – for example the currency shock and sweeping restrictions on exports. Nonetheless, RUAG has delivered a good result. How was this achieved?

After the scrapping of the euro peg and the closure of the markets in the Middle East we didn't sit around and mope; rather, we viewed the new situation as a challenge. Since then we have opened up new markets, optimized our purchasing and scrutinized our costs at every level. Further, we launched productivity enhancement programmes across the Group.

An important point was that over a thousand RUAG employees in Switzerland working in areas with a strong export focus agreed to extra working hours arrangements. RUAG is still exporting goods and services out of Switzerland with a value of over CHF 400 million. This extra effort helped strengthen the Swiss business's ability to compete, and we are very grateful for that. RUAG therefore paid out a bonus to all its employees at the end of the year as a token of its appreciation.

“The RUAG corporate values – collaboration, high performance and visionary thinking – become more a part of everything we do with each year that passes.”

With simmering conflicts and Islamist attacks in Europe, has there been a change not only in the security situation, but also in security consciousness? What does that mean for RUAG?

Instability is not good for RUAG; restrictions are put in place, markets that we have spent years developing evaporate from one moment to

the next. On the other hand, many people – in Switzerland as well as other countries – have realized how important the security forces are. In the event of a crisis, the key critical systems for these forces must remain operable over a longer period. That is one of the core competencies at RUAG: we make sure that these systems remain functional at all times.

To what extent does RUAG have its finger on the pulse of new technological trends such as unmanned aerial vehicles, robotics and cyber-security, and how significant are these trends?

I would add the new communications technologies to the list. All these technologies are important for RUAG, and we are also working on all these areas. At the moment the sales figures are still relatively low. However, we are invested in them and expect them to gain strongly in importance both at home and abroad.

The aerospace sector is booming, while the competition is getting significantly tougher. How is RUAG positioning itself in this environment?

On the one hand we are focusing on innovations, on novel solutions which meet our customers' needs even more closely. Our second priority is reducing costs, improving processes, in order to increase our competitiveness. One excellent example is the new “Space Hall” in Emmen: we have invested in new production methods and are now in a position to manufacture larger payload fairings more quickly and cheaply.

What do RUAG customers see as the qualities that are most important to its market success?

In 2015, we conducted a survey covering the whole Group for the very first time. 120 major customers were asked how they saw RUAG and what was important to them. Qualities that had been commonly expected to come up were not among the most relevant: “Swissness” is not very important, and neither is technological leadership, or being the cheapest. If in the past the focus was first and foremost on quality and safety, today it is on brand attributes

such as “solution-focused”, “reliable” and “trustworthy”. Customers are prepared to pay a price for these things. Based on this finding, we decided to use these attributes for our positioning and differentiation strategies.

Can you be more specific on how you are looking to position RUAG and set it apart from the competition?

We have formulated a new promise to the market to let our customers know: when you enter into a business relationship with RUAG, we will listen to you, find the right solution for you, and stay with you through thick and thin:

We listen to make it right.
We stay to make it real.
A promise you can trust.

The RUAG brand promise

Although “Swissness” is not inherently a competitive advantage, this pledge does embody some quintessentially Swiss virtues.

Four years ago, RUAG introduced a new brand with the claim “Together ahead. RUAG” and the three corporate values “collaboration, high performance, visionary thinking”. To what extent are these being “lived”?

We have done a great deal to embed these values into the business. In our Group-wide staff surveys we regularly review how strongly these values are understood and applied in practice. We have improved ourselves in this regard every year.



Urs Breitmeier, CEO RUAG Group

How are the corporate values different from the brand promise?

We need the values in order to translate the brand promise into action. The values are fundamental for all RUAG employees. They are the very DNA of RUAG. The brand promise addresses the needs relevant to our customers.

RUAG has further strengthened its compliance efforts by introducing a whistleblower system that allows both in-house and external parties to report possible violations. What has been your experience of this system?

Compliance is very important to us and has a high priority throughout the Group. We adhere rigorously to Switzerland’s export guidelines, both at home and abroad, because the principles of our owner, the Swiss state, apply to us without exception. We also reject any form of corrupt conduct on the part of third parties who work for us in support roles, and have established strict control processes for this purpose. In addition, we are constantly strengthening our policies and opening ourselves up for review – both internal and external. The number of reports to the whistleblower system in its first year were in line with expectations. The topics they covered were broad-based, without any serious abuses or problems being reported.

One last question: are there any other matters close to your heart that you would like people reading this to take away with them?

RUAG is an attractive company – for both its customers and its employees. We are conscious that we have a central task when it comes to safeguarding Switzerland’s long-term security. In performing this task, however, we are not working in a bubble; rather, we are successfully operating in a global competitive environment. That makes us strong and successful.

The Group Executive Board

Chaired by Group CEO Urs Breitmeier, the Group Executive Board comprises the five CEOs of the operating divisions Space, Aerostructures, Aviation, Ammotec and Defence, plus the heads of the support functions Finance & Controlling and Human Resources. Legal & Secretary General, Communication and IT are represented on the Extended Management Board.



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



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



Dr. Alexander Toussaint, CEO Division Aerostructures,
Member of the Group Executive Board



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



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



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



Urs Kiener, Chief Financial Officer,
Member of the Group Executive Board



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



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



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



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

PODRIX – Precise Orbit Determination Receiver

Satellite navigation – down to the last centimetre

The more accurately the position of a satellite can be determined, the more accurate the data it can deliver. With PODRIX, the Precise Orbit Determination Receiver, RUAG Space is developing the latest generation of space navigation devices. In combination with subsequent calculations, these devices can pinpoint satellite positions to the nearest centimetre and are thus making it possible for us to observe our planet in even

more exact detail. This accuracy is all the more astonishing given that satellites circle the earth at a height of many hundred kilometres and a speed of up to 25,000 km/hour. Among other things, PODRIX combines position data from American GPS satellites with data from the European Galileo system for its exact real-time navigation.

📄 All success stories at www.ruag.ch/successstories



RUAG Space

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

Core business

RUAG Space manufactures a broad spectrum of space products grouped into five segments: structures and separation systems for space launch vehicles, structures and mechanisms for satellites, digital electronics for satellites and launch vehicles, satellite communications equipment and satellite instruments.

The regional companies in Switzerland, Austria and Sweden and the newly acquired subsidiary in Finland are a fixture in the institutional programmes run by the European Space Agency (ESA) and in the Ariane European launch vehicle programme. RUAG computers steer and monitor most European missions. Precision mechanisms, slip rings, thermal systems and satellite structures from RUAG Space play a key role in the success of many space projects.

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

Business performance

RUAG Space's 2015 net sales came to CHF 310 million, down on the previous year's figure of CHF 322 million. The division nevertheless succeeded in raising EBIT slightly from CHF 23 million to CHF 24 million. The slight decline in sales is attributable first and foremost to the drastic rise of the Swiss franc at the start of the year. Thanks to rigorously implemented measures to improve efficiency, RUAG Space was able to offset, at least in part, the negative influence of the exchange rate on its results.

In May, RUAG and Finnish company Patria executed the final steps in the transaction for the sale of Patria's space unit to RUAG. As part of an asset deal a new company established for this purpose, RUAG Space Finland, took on Patria's space business, including its 29 employees. With this acquisition, RUAG has strengthened its market position in the growing field of digital electronics for satellites and launch vehicles.

At the Paris Air Show, RUAG Space successfully landed two important contracts. The division will be supplying structures and instruments for the second generation of the European Metop meteorological satellites. The order volume for the satellites, six in total, is around EUR 60 million. RUAG Space also reached an agreement with ELV (European Launch Vehicle) in Paris to supply a total of ten payload fairings for the small European launch vehicle Vega.

RUAG Space acquired a succession of other major contracts in the year under review, for example for the on-board computer for ESA's "Juice" (Jupiter Icy Moons Explorer) mission, and the navigation receiver for the German radar satellite system "Sarah", as well as a follow-up order for the next production batch of payload fairings for the Ariane 5.

June saw the launch of the 250th rocket equipped with a RUAG payload fairing: a Vega launcher transporting the Sentinel-2A earth observation satellite into space. The first payload fairing developed by RUAG Space went up in 1979 with the Ariane 1. Today, the division is a world leader. Its fairings are not only used on the European Ariane and Vega launchers; the US Atlas V launcher also flies with a RUAG Space payload fairing.

In future, RUAG Space and US launch vehicle manufacturer United Launch Alliance (ULA) will be expanding their working relationship. The two companies have agreed to pursue a strategic partnership. As part of this arrangement, RUAG Space will be setting up a site for the manufacture of carbon fibre structures in Decatur, Alabama, and thus expanding its presence in the pivotal US market. The Decatur facility is being built to manufacture structures for the Atlas V and for the future Vulcan launch vehicle. A framework agreement was signed in December governing the production of these carbon fibre structures until 2023.

Innovation and initiatives

In December 2015 RUAG Space brought its new Composite Center in Emmen on stream. The partly automated production methods used at this facility will help to significantly reduce production costs for launch vehicle payload fairings. Thus, among other things the facility will use an industrial robot, developed in-house, for non-destructive testing of the payload fairings which will scan the entire fairing using ultrasound. With this move the division is seeking to safeguard and further expand its position as a global leader in this market segment, also in light of growing cost pressure.

Thanks to new techniques, in future RUAG Space will also be able to manufacture carbon fibre structures for satellites more cost-effectively. Together with the University of Applied Sciences and Arts Northwestern Switzerland (FHNW), the division has developed a technique for automatic placement of inserts in sandwich panels which considerably reduces production costs. This new technique netted RUAG Space an innovation award from trade magazine JEC Composites in May. The

ongoing introduction of 3D printing for structural satellite components will likewise bring a higher degree of automation to the structures business.

The division is also aligning its production processes with lean management principles. In Gothenburg, for example, the processes involved in making microwave products were reorganized to reflect these principles in 2015. The optimized planning method allows for visual and electronic control of the production flow and optimal planning of resource requirements.

RUAG Space developed a new product in the navigation sector in 2015. This latest navigation receiver for satellites is called PODRIX. As well as American GPS signals, it will also be able to process data from the new European system Galileo as well as the Glonass (Russia) and Beidou (China) systems. With this additional data, the receiver will be able to specify the position of a satellite in space with even more accuracy. The first orders for PODRIX have already been received.

Outlook

RUAG Space expects to be able to resume the growth trend of previous years in 2016. This expectation is based on a stable institutional market in Europe, and on good growth prospects in other submarkets. However, at the Swiss sites in particular, high labour costs and unfavourable exchange rates will continue to raise challenges for the division. In conjunction with an active portfolio management strategy, the course adopted – reducing costs through process optimization and automation – also needs to be rigorously pursued in order to safeguard the growth and profitability of the division in the medium and long term.

Thanks to new techniques, in future RUAG Space will also be able to manufacture carbon fibre structures for satellites much more cost-effectively.

With the new Composite Center in Emmen, RUAG Space has put itself in an ideal position from which to defend its status as a supplier of payload fairings both now and for the upcoming Ariane 6 generation of launch vehicles. The establishment of a production site in the USA provides the division with a foundation for expanding its business activities in the United States within the context of its strategic partnership with ULA.

With successful new developments in the past few years, especially with receivers/converters for the highly sought-after Ka-band, RUAG Space has set the stage for future growth in the field of commercial satellite communication. In future, research and development activities will focus on developing the Q- and V-bands for satellite communication. A second focus area will be digital payloads, which are more efficient and, above all, more versatile compared with analogue technology.

The aerospace industry is on the brink of radical change. Innovative startups and private investors are developing new commercial business models in the fields of telecommunications, earth observation and space transportation. These models have one thing in common: they are relying on the costs for development and production of satellites and launch vehicles becoming drastically lower in the near future, and are therefore relentlessly seeking alternatives to the traditional approaches of the aerospace industry. In doing so, they are concentrating first and foremost on automated series production of aerospace products and – especially in the electronics sector – on the use of commercially available, standardized components.

In order to meet this new need, RUAG Space is working on technologies, manufacturing processes and products to make commercial exploitation of space cheaper. Computers using commercial components and 3D printing are examples of research and development initiatives with which RUAG Space is looking to establish itself in this new market segment.

RUAG Space in numbers (2015)

Net sales:	CHF 310 million
EBITDA:	CHF 45 million
EBIT:	CHF 24 million
Employees:	1,204
Based in:	Switzerland, Sweden, Austria, Finland



Pylons for SAAB Gripen E/F

Sophisticated fighter aircraft components in large volumes

Swedish defence and security company Saab has awarded the contract for series production of all payload mountings for the Gripen E/F fighter aircraft to RUAG Aerostructures. Saab had already given RUAG the responsibility for developing and producing the prototypes for these so-called pylons in 2014. The extra tanks, reconnaissance systems and guided weapons for the jet will be mounted on the pylons.

The particular challenge here is to integrate the numerous electronic and mechanical components in a way that is both highly aerodynamic and of high strength. The newly awarded series order has a total volume of CHF 80 million and is an impressive demonstration of the Emmen site's increased competitive strength in the international arena.

 All success stories at www.ruag.ch/successstories

RUAG Aerostructures

RUAG Aerostructures is a globally active tier 1 supplier developing and manufacturing complete aircraft tail sections, wing and flight control components, structural elements, modules and systems for civilian and military customers and Original Equipment Manufacturers (OEMs).

Core business

RUAG Aerostructures supplies civilian and military aircraft OEMs with integrated component assemblies. The division offers solutions at the highest level as well as pre-finished components made with an eye to market requirements and customer specifications.

The critical success factors for the division are lean processes and cutting-edge automation technologies. Its core competencies include engineering, fine manufacturing and installation of complete tail sections, panel sections, wing and flight control components, parts, modules and systems. It assumes responsibility for both development and manufacturing in these areas, and also provides comprehensive maintenance and product support services over a system's entire lifetime.

With its world-class skills in managing global supply chains, RUAG Aerostructures offers customers the full range of products and services of a modern tier 1 supplier. For customers in North America and Europe such as Airbus, Bombardier, Boeing Military and Pilatus, the division develops and manufactures not only aero structures, sophisticated component assemblies and structural elements for civilian and military aircraft, but also modules and structures equipped with systems. Another business area is manufacturing component assemblies for aircraft engines, for example fan cases for GE Aviation.

Business performance

In 2015, RUAG Aerostructures significantly improved its profitability. EBIT rose from just under CHF 1 million to CHF 9 million. Sales were also up slightly, rising from CHF 195 million to CHF 196 million. Among other things, this positive development was the result of measures such as the restructuring initiated at the Emmen site, adjustments to overhead structures, and price negotiations.

According to manufacturer forecasts, the environment in the commercial aviation market is set to remain positive in the years ahead as well. For example, Airbus expects that, worldwide, around 31,800 new passenger aircraft with more than 100 seats will be needed in the next 20 years. In October 2015 the manufacturer officially announced that the production rate for the A320 family, currently at 46 aircraft per month, will be raised to up to 60 aircraft per month by 2019. RUAG Aerostructures will therefore be making further investments in its Emmen and Oberpfaffenhofen production sites and initiating measures to increase productivity.

The transfer-of-work project via which RUAG Aerostructures will be assuming complete supply chain responsibility for the more than 1,000 parts for two Airbus fuselage sections is well under way. The third of a total of seven implementation waves has already been completed. One of the main suppliers, TAL, based in Nagpur, India, was able to successfully complete the first part of the supplier qualification process in the presence of Airbus, and delivered the first components at the end of 2015.

In November 2015, RUAG Aerostructures was awarded the contract for series production of payload mountings for the Gripen E/F fighter aircraft by Swedish defence and security company Saab. The contract is worth more than CHF 80 million in total and further strengthens the long-established industrial partnership between Saab and RUAG Aerostructures.

In early October 2015, Bombardier presented the division with the "Best Overall Performance Award" in connection with the final assembly of the Bombardier CRJ aircraft. With this main award, the manufacturer acknowledged RUAG Aerostructures' outstanding performance in the "Quality Improvement" and "Ontime Delivery Improvement" categories.

RUAG Aerostructures in Oberpfaffenhofen, Germany, was awarded the "Bayerischer Qualitätspreis 2015" in recognition of its outstanding results in all the quality criteria. The division is one of three industrial companies to receive awards from the Bavarian State Ministry in all ten categories, from quality strategy and quality costs, to quality in research and development and right through to quality in production.

Innovation and initiatives

RUAG Aerostructures feels strongly that the development of new product and manufacturing technologies is the key to success on the world market and to profitable growth. In the last few years, the division has demonstrated in numerous projects, such as the industrialization of friction stir welding, that it can conduct research and development (R&D) on an equal footing with the large development departments of its customers.

The areas that RUAG Aerostructures is currently prioritizing in its R&D work are, on the one hand, new, automated assembly processes and, on the other, implementation of hybrid structures for new aircraft programmes by combining different materials such as carbon and metal or different metals. Overcoming the challenges this raises for precise drilling and riveting is a key issue.

Due to its world-class development expertise, RUAG Aerostructures was commissioned by Saab to develop new payload mountings (pylons) for the Gripen E/F fighter aircraft. The division worked closely with Saab on this project. Thanks to this exceptionally successful partnership, after the development phase RUAG Aerostructures was also able to acquire the series production contract for the five different pylons despite the negative outcome of the Swiss referendum on the procurement of 22 Gripen E fighter aircraft.

RUAG Aerostructures will drive forward its global development by continually expanding its worldwide supply chain while also pursuing growth through acquisitions.

Outlook

In the next few years, RUAG Aerostructures will be pursuing its global development on several levels. On the one hand, it will be continuously expanding its global supply chain. To this end, new suppliers in emerging countries will be cultivated and the supplier network systematically enlarged. By setting up a new production site in Eger, Hungary, RUAG Aerostructures can exploit the advantages of manufacturing in a low-wage country available to it as a globally active tier 1 supplier for aircraft structures. Production is scheduled to start in mid-2016, after involving customers Airbus and Bombardier.

The division will also be looking to reach its target market position of a top tier 1 supplier for aircraft structures by, among other things, pursuing growth through acquisitions. As part of its customer acquisition strategy, one area of focus will be establishing a long-term partnership with Boeing Commercial Airplanes. In this way the division is also looking to further differentiate its customer base.

To set itself apart from its competitors, RUAG Aerostructures is not only expanding its technological expertise in structural engineering, wing components and parts manufacturing but is also focusing on new manufacturing concepts and optimized processes. Among other things, therefore, it will be investing CHF 19 million in 2016 in a new surface treatment facility at its Emmen site. Launched in 2015, the plant construction project – which is due for completion in 2017 – will “future-proof” the site.

RUAG Aerostructures in numbers (2015)

Net sales:	CHF 196 million
EBITDA:	CHF 11 million
EBIT:	CHF 9 million
Employees:	978
Based in:	Switzerland, Germany



Broad portfolio of services for business jets

Everything from a single source, thanks to one-stop-shop solution

RUAG Aviation in Oberpfaffenhofen successfully completed one of its most challenging projects yet – a combination of an 8C check (ten-year inspection), complete cabin redesign and full paint job. The private owner of the Bombardier Global Express XRS business jet took advantage of the down time required for the compulsory 8C check to also have the aircraft interior completely renovated and for the exterior to be repainted. This integrated one-stop-shop solution

allowed the jet's down time to be exploited to the best possible effect, and meant that this complex major project could be realized within just a few weeks while adhering to the highest of quality standards. Constant supervision by the customer-focused project management team ensured that the work of the various specialist teams was optimally coordinated.

 All success stories at
www.ruag.ch/successstories

RUAG Aviation

RUAG Aviation is a leading centre of excellence for maintenance, repair and overhaul (MRO) and upgrading of selected civil and military aircraft and their components.

Core business

RUAG Aviation is the technology and MRO partner to the Swiss Air Force as well as a number of international air forces, government organizations, civil airline companies and private business jet owners.

The division maintains combat aircraft (F/A-18 Hornet, F-5 Tiger), helicopters (Airbus, Sikorsky, AgustaWestland, Bell), special mission and training aircraft (Do228, Twin Otter, Pilatus) and business jets (Bombardier, Dassault Falcon, Embraer).

Business performance

Due to currency translation effects and the end of a major project – the WE89 service life extension programme for the Swiss Air Force's Super Puma transport helicopters – RUAG Aviation's net sales fell from CHF 525 million to CHF 479 million. Nonetheless, the division was able to increase its EBIT from CHF 37 million to CHF 42 million.

In the military aviation segment, activities at the Swiss sites developed in line with expectations in the year under review. The five-year service-level agreements concluded in 2013 with the Swiss Air Force are providing scope for long-term planning and hence highly targeted resource allocation, as well as substantial productivity gains in the area of life cycle support. This allowed the division to further reduce the Swiss Air Force's costs in 2015.

Alongside life cycle support services, the military business in the home market was focused on completing the fleet conversion phase of the F/A-18 service life extension programme and on developing the prototypes for the Cougar helicopter and PC-6 service life extension programmes. The Upgrade 25 (U25) and Structural Refurbishment Program (SRP) subprogrammes to extend the service life of the F/A-18 proceeded smoothly, with a very high level of quality being achieved. The majority of the aircraft were handed over to the customer ahead of schedule. The U25 subprogramme will already be completed in January 2016. In the case of the SRP, it will be 2017 (as scheduled) before all aircraft are modified. In the NCPC6 (new cockpit for the PC-6) project, the division reached one of the key project milestones on 16 November 2015 with the successful maiden flight of the prototype aircraft. In the Cougar service life extension project, the integrated project team is working intensively and intently on the technical implementation of this ambitious upgrade. The majority of the critical design reviews were successfully completed in 2015.

At the Oberpfaffenhofen site, the replacement procurement project for the German Bundeswehr remains suspended. On the other hand, the site was able to further expand the civil side of the business, especially in the area of technically challenging modifications and full cabin refurbishments for business jets.

In the year under review, key components of the Detect and Avoid system for the Swiss Air Force's new ADS-15 UAVs were successfully tested.

At the Helicopters Centre (Alpnach, Mollis and Sion sites), further progress was made with expediting the strategic expansion of the business. Particular attention was given to expanding the Sion site after its opening the previous year, with priority given to twin-engine helicopter maintenance. After bringing in reinforcements, the team was able to expand its model portfolio by several interesting ratings from various manufacturers. In the years ahead, this will open up new market access points for the Centre. The next milestone will be reached in early 2016, when it will be officially designated as an Authorized Service Center for AgustaWestland's AW 139 and Bell Helicopters' Bell 429 models. The Helicopters Centre also made good progress in the Upgrades & Modifications area in 2015: a wide range and constantly growing number of helicopter underwent sophisticated conversion work to customers' full satisfaction.

The international components business, with its sites in Australia and the USA, put in a good performance in spite of the strong Swiss franc. In Australia, for example, a five-year contract was signed for the maintenance of Royal Australian Air Force (RAAF) aircraft components. This long-term, fixed-price contract, subject to flight hours spent, primarily involves maintenance services for F/A-18 components. However, it also includes component maintenance for the P-3 and C-130 aircraft platforms as well as an on-site customer support presence at the RAAF's base in Williamstown.

Innovation and initiatives

In 2015, RUAG Aviation focused its development and innovation initiatives on the products and platforms it supports in the fields of aircraft, helicopters, unmanned aerial vehicles and components. To safeguard the long-term operation of the Swiss Air Force's combat aircraft in particular, testing methods were further refined; and with regard to the introduction of new systems, new technological solutions were specifically developed.

In future, unmanned aircraft will take on ever more numerous and more important tasks. A particular focus is military reconnaissance and surveillance tasks, notably in border areas. For the Swiss Air Force, the ADS 95 UAV reconnaissance system, which is due to be replaced in a few years' time, today represents its only aerial reconnaissance solution of this type. With the 2015 Armaments Programme, the ADS 15 successor system was approved for procurement. At the moment, use of UAVs is still limited due to their restricted ability to integrate into the airspace used by civil and military aircraft. In order to increase mission flexibility, future UAVs will be equipped with an autonomous ground-based system for detecting the air traffic situation and taking evasive action if there is a risk of collision – a so-called Detect and Avoid system. In close collaboration with armasuisse and the Air Force, RUAG Aviation is developing technical and operational standards tailored to Switzerland's needs and a system solution for use in the new ADS 15 UAV system. In the year under review, key components of the Detect and Avoid system were successfully tested on the manned, twin-engine Diamond DA-42 aircraft, which is used as a technology platform.

To increase the efficiency of its maintenance services for military and civilian systems, the division is constantly improving its processes and implementing new technologies. In 2015, non-destructive testing procedures such as ultrasound, radiography and infrared thermography were optimized for use with carbon fibre reinforced and metallic aircraft structures. The SPD (Supersonic Particle Deposition) process, for example, makes it possible to carry out cost-effective repairs on damaged or corroded components. In 2015, RUAG Aviation obtained authorization from armasuisse to use this procedure for re-

pairs to combat aircraft and helicopters, and also initiated the process for obtaining civil certification. Moreover, RUAG Australia also has a large number of military-certified repair solutions for complex aircraft and helicopter components.

Outlook

In the military market, the political situation suggests that opportunities to export products from Switzerland will be limited. On the domestic front, the challenges relate to the Bodluf 2020 ground-based air defence project, the Cougar helicopter life extension programme and the new UAV system, including the Detect and Avoid system.

In the civil market, RUAG Aviation is expecting growth in the sub-markets relevant to its business. Price pressure will remain very high, however, due in particular to the euro/Swiss franc exchange rate.

Due to anticipated efficiency gains in processes and procedures, and by purposefully combining civil and military business in line with the owner's strategy, RUAG Aviation is expecting income and margins to remain stable in 2016.

RUAG Aviation in numbers (2015)

Net sales:	CHF 479 million
EBITDA:	CHF 49 million
EBIT:	CHF 42 million
Staff:	2016
Based in:	Switzerland, Germany, USA, Australia, Malaysia, Brazil



RWS High Impact Technology (HIT)

Lead-free maximum performance for hunters

With the RWS HIT (High Impact Technology), RUAG Ammotec has brought to the market a rifle cartridge with a number of special performance features. The reason for this, among other things, is its specially constructed tip: it contains two hollow chambers, allowing for an extended trajectory paired with high speed and impact energy, while at the same time ensuring a rapid shock effect in the target. This cartridge, which is optimized for

medium-sized and stronger game weighing 40 kilograms and over, is lead-free and delivers good instantaneous effectiveness and superior penetration even at long distances. The RWS HIT won the "Trophée Connaissance de la Chasse" at the 2015 Game Fair in France. RUAG is thus continuing its series of successful developments in the hunting ammunition segment.

 All success stories at www.ruag.ch/successstories

RUAG Ammotec

At RUAG Ammotec, precision and reliability are key aspects of every product, and are what make this constantly growing division the European market leader in small-calibre ammunition, pyrotechnic elements and components.

Core business

With its Hunting & Sports and Armed Forces & Law Enforcement business units, the division has been the technology leader in heavy-metal-free primer technology for some years now. As well as small-calibre ammunition, this includes actuator cartridges for the construction industry and special applications in automotive safety systems, among others. The division also offers large-calibre training systems, hand grenades and environmentally safe disposal of pyrotechnic products.

Most of its 2,080 or so employees work at production facilities in Switzerland, Germany, Hungary, Sweden and the United States. There are also numerous sales companies throughout Europe. This proximity to customers and nurturing of long-established partnerships regularly results in top-quality new products, which can also be tailored to be exactly what the customer wants.

In the Hunting & Sports field, hunters value the wide product range of top brands such as RWS, Norma, Rottweil and GECO. RUAG Ammotec boosts the traditional distribution channels for these products with points of presence in the new media, on dedicated websites and through online partnerships.

In the Armed Forces and Law Enforcement customer segment, the division is a byword for standard and special precision ammunition across the entire small-calibre spectrum. With its comprehensive product range, it is a capable partner to numerous military and police forces for training and deployment.

Business performance

In spite of a negative translation effect, RUAG Ammotec increased its net sales in 2015 by almost 10 % from CHF 334 million to CHF 340 million. This is made even more remarkable by the fact that the moratorium on exports to the Middle East meant that existing export opportunities could not be fully exploited. EBIT decreased from CHF 35 million to CHF 26 million in the year under review. Adjusted for special and one-off effects, operating profitability, on the other hand, was up from the previous year's level.

In the Armed Forces & Law Enforcement segment, the division further consolidated its position in the home markets. Despite intense competition and delays in awarding contracts by the German Bundeswehr, the annual target for the Swiss and German markets was met or even surpassed, thanks not least to the high level of process stability in the division's production operations, which allowed it to steer clear of quality problems. Furthermore, a significant rise in productivity allowed the division to offset the initial problems with capacity utilization in the second half of the year.

In the Hunting & Sports segment, the division was once again able to increase its market shares. High growth was generated in particular by rimfire rounds, handgun ammunition and the new lead-free RWS HIT hunting bullet. Thus, around three quarters of the markets reported growth in their sales. Thanks to the (expected) positive development, the hunting and sport markets in Central, Eastern and Northern Europe, the division was able to more than offset the revenue declines caused by the ongoing embargo against Russia.

In addition, the components business continued to gain in significance during the year under review. The division succeeded in establishing a sound base in the industrial sector, which provided added stability to operations. It was also successful in supplying other ammunition manufacturers with components such as cups, casings and primers. Due to high demand, it was also able to increase production of actuator cartridges and expand capacity.

In 2015 several million military cartridges were given customer-specific laser markings. This is yielding significant improvements in logistics and product monitoring.

Overall, the Hunting & Sports segment, including industrial applications, now accounts for roughly 65 % of sales while the Armed Forces & Law Enforcement segment makes up approximately 35 %. The civilian market segments were thus once again able to raise their sales share considerably.

Innovation and initiatives

Thanks to the division's international organizational links in the research and development field, efficiency and effectiveness in the development of new technologies, processes and products were increased further in 2015. With its strong presence in the wholesale market and the associated customer proximity – accompanied by numerous online activities – it can identify customer requirements at an early stage. These are then translated into targeted adaptations of existing products and specific new product solutions. Thus, for example, in 2015 several million military cartridges were given custom and customer-specific markings on a very small surface area using a laser. This is yielding significant improvements in logistics and product monitoring.

In 2015, innovation efforts focused on divisional collaboration and international exchanges of expertise between the civilian and defence sectors (e.g. simulation or pyrotechnics), with a view to cutting the time to market and presenting better solutions. A variety of Additive Manufacturing (3D printing) applications were tested cooperatively, new tracer rounds with special production specifications were developed, and a new, lead-free deformation bullet for hunting was produced using a new manufacturing process.

In addition, the RUAG SWISS P sniper product line was expanded. With the development in the .300 Whisper and .300 AAC Blackout calibre, the division was able to expand the line to around 30 different products. This means that professional security forces can choose the best cartridge for each mission.

The rimfire segment recorded the highest output in the company's history. The increase over the previous year was more than 50% and could only be realized by utilizing all available machine and personnel capacities. The strong demand originated from the US market in particular.

With the acquisition of Glaser Handels AG in Winterthur, in early January the division strengthened its wholesale business in its home market of Switzerland as well, and thus rigorously continued its growth strategy as the leading European wholesaler.

Outlook

RUAG Ammotec has already made great strides in its internationalization strategy in the last few years. By strengthening its organization, the division has been able to acquire new customers and tap into additional national markets. This has generated significant gains, especially in the international Hunting & Sports business. Especially in the USA, the division was able to achieve a marked increase in sales for specific segments. Activities in this segment are being supported by intensified online activities. Today, the division is at the forefront of the industry in terms of its presence and the presence of its brands in the new media. By contrast, online sales activities are still limited, as RUAG Ammotec is consciously seeking to abide by its traditional trading structure. Nonetheless, there is a growing preference among customers to go online to both research and purchase products. The division will need to work with the specialist trade to tackle this challenge.

In the Armed Forces & Law Enforcement segment, even more stringent export restrictions and the associated ban on key international markets will ensure ongoing uncertainty, making customer focus and customer satisfaction even more important in the home markets and the NATO countries.

The division is seeking growth above all in the civilian market segments and the components business. However, due to the strong development of the market in the last few years many competitors have reinvested in this area, which will inevitably lead to price pressure. The important thing here is to continuously hone our competitive edge by improving processes and boosting productivity. Large-scale relocations due to the strong franc are not on the agenda as long as high capacity utilization and robust productivity can be maintained at the Thun/Switzerland site. RUAG Ammotec is rising to this challenge.

New technologies and patents are helping to ensure that RUAG Ammotec is fit for the future. Regular product launches are sustaining its sales growth. An expansion into new, adjacent market segments is envisaged and the division is looking to give more emphasis to the system philosophy of "weapon, ammunition and optics".

RUAG Ammotec in numbers (2015)


Net sales:	CHF 340 million
EBITDA:	CHF 39 million
EBIT:	CHF 26 million
Staff:	2,080
Based in:	Switzerland, Germany, Sweden, Hungary, USA, Austria, UK, France, Belgium, Brazil

POLYCOM framework agreement

Success factor: integrated solutions expertise

The Defence division was able to conclude a forward-looking framework agreement with the Federal Office for Defence Procurement (armasuisse). The agreement guarantees the sale of over 13,000 POLYCOM handheld radios (TPH-900) between now and 2020. The buyers are the Department of Civil Protection, the Border Guard Corps and other federal organizations. With this contract, the division has put itself in a very good position from which to acquire future work as an integrated solution provider in the civilian and public service sector as well: integration skills are as much a part of its portfolio as

profound expertise in the field of network maintenance and device repair. In this area, RUAG Defence is building on its many years of experience with the hundred-plus military command and control, communications, reconnaissance and radar systems used by the Swiss Armed Forces. Furthermore, the Defence division is already working on the challenges of tomorrow, today. Thanks to its extensive expertise in the field of cyber-security, it will continue to provide appropriate support to civilian organizations with complex projects in future.

 All success stories at www.ruag.ch/successstories



RUAG Defence

RUAG Defence is a leading independent provider of integration, upgrade and maintenance services for land-based defence and security systems. Its in-house product portfolio comprises one-of-a-kind subsystems and components for national and international customers.

Core business

RUAG Defence is a byword for technological expertise at the very highest level. Its core business includes products and services for tracked and wheeled vehicles, realistic training for soldiers and reliable information and communication infrastructures, as well as protection solutions to counter ballistic and electromagnetic threats. The division supports operators of critical ICT infrastructures with state-of-the-art cyber-security solutions. Its comprehensive portfolio also covers maintenance, operation and integration of relevant systems and innovative upgrades for these systems. The division's activities are grouped into five business areas:

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

RUAG Defence's customers come from all around the world and include the Swiss Armed Forces and international forces, rescue and security organizations, public authorities and civilian organizations. Its global expansion strategy is based on consolidating and expanding its market position in Switzerland, Germany and France. Alongside its 14 sites in Switzerland, the division has branch offices and sales offices in Germany, France, Singapore, Brazil and the Middle East, as well as partnerships around the globe.

Business performance

Economic conditions in 2015 were anything but ideal. In particular, the scrapping of the euro peg at the start of the year hampered business activities. Moreover, the uncertain export situation imposed constraints on operations around the globe. Despite these difficult framework conditions, RUAG Defence successfully increased sales in 2015 from CHF 367 million to CHF 381 million, and EBIT from CHF 13 million to CHF 23 million.

By securing the contract to upgrade the protection systems for the Austrian and Belgian Pandur wheeled armoured personnel carrier fleets, RUAG Defence demonstrated that it has in-house solutions capable of competing on the global market. This is also true of the Simulation & Training segment, where the division won the bid for a major international contract covering system upgrades, add-ons and a life extension package for simulation systems.

The division substantially expanded its global maintenance business in 2015. Thus, for example, it carried out repairs on Leopard 2 engines for the German firm HIL GmbH and, in collaboration with Rheinmetall Canada, overhauled electronic and optronic component assemblies from a wide range of Leopard 2 variants.

The division brought a new product to market in 2015, the Rapid Deployable Communication System. This system can be set up in minutes, has its own self-sufficient energy supply and allows for uninterrupted communication between forces. It is used, for example, in the event of natural disasters or major events.

The division's subsidiaries also played a special role in making this project a success. Both of the German companies, Glückauf and Herkules, as well as the French firm GAVAP considerably exceeded expectations. Furthermore, GEKE Schutztechnik GmbH, in which RUAG Defence holds a majority interest, generated a very strong result.

By concentrating its locations, RUAG Defence wants to strengthen its technological and skills base and systematically exploit potential synergies.

The division adopted several specific measures to deal with the difficult conditions caused by the appreciation of the Swiss franc in some areas. It thus temporarily introduced extra working hours arrangements in units which were particularly affected by this development. Another tool for improving the financial situation was created with the roll-out of a rigorous Lean Management system. The associated comprehensive process optimization will facilitate a gradual improvement in added value and systematic cost savings.

In order to consolidate its market position and secure its long-term ability to compete, RUAG Defence has also decided to concentrate its sites. The aim of this move is to strengthen its technological and skills base and systematically exploit potential synergies. Moreover, large centralized sites will allow the division to process customer orders more rapidly. With the relocation of the Hombrechtikon site to Zurich-Seebach, a first partial step in this strategy was realized in December 2015.

Innovation and initiatives

To assert itself in a highly competitive environment, RUAG Defence is working on new, customer-focused and marketable solutions every day. Last year at its Berne site, it thus opened a Cyber Training Range, the only one of its kind in Switzerland, which can be used to simulate security-critical cyber events and run through solution scenarios. Unlike existing training offerings, here RUAG Defence is focusing not only on improving individuals' skills but also on the operational behaviour of whole teams and organizations – from IT experts to top managers and generals.

A further milestone was the market launch of the 120mm RUAG COBRA Mortar System. The attraction of this new RUAG development lies in its groundbreaking design, state-of-the-art technologies, total ease of operation, and unparalleled versatility. The fact that the Swiss Armed Forces will be switching to the RUAG COBRA system when the time comes to purchase a new system shows that this is a well-engineered and needs-oriented product.

In the near future unmanned ground vehicles will already be a significant part of military operations and support civilian organizations with standardized procedures. At the heart of RUAG Defence's intensive research and development work in the field of Unmanned Ground Vehicles (UGVs) stands the VERO system. It contains all the components and sensors required to convert almost any existing vehicle into a semi-autonomous means of transport.

In the Simulation & Training segment, joint exercises between international partners are taking on more and more importance. The modular live training system GLADIATOR, which is already capable of using multiple laser codes, makes it possible to achieve exactly this joint preparation for partners using different training systems. Moreover, with the highly innovative RUAG Spider mPos mobile positioning system the division is also offering a GPS-independent geolocation system which also has an indoor capability and renders permanently installed systems redundant.

Outlook

In the next few years, the division will focus on rigorously implementing the defined strategy. Among other things, this includes further strengthening its market position in Switzerland, Germany and France and, building on this, moving forward with its internationalization strategy around the world. In the medium term, RUAG Defence is looking to generate around half of its sales internationally. In parallel to this, the significance of the civil and governmental markets will increase. In particular, the division intends to step up its business connections with rescue and security organizations (BORS) and with operators of critical infrastructures.

As a strategic partner to the Swiss Armed Forces, RUAG Defence is keen to further strengthen its position in the field of command and control, communications and radar systems with an eye to the investments due to be made in the reconnaissance and telecommunications fields by the Swiss Armed Forces. On the basis of the substantial successes in its communications solutions for emergency organizations in Switzerland, the division will also be expanding its service portfolio in this area and attempting to extend the business into nearby European countries.

In the field of military personnel training, the division is focusing on the operation of complex training facilities around the world. Alongside these combat training centres, the needs of the division's customers are concentrated increasingly on mobile training. For this reason, RUAG Defence will continue to develop its expertise in the area of highly mobile, modular training systems.

In the area of heavy wheeled and tracked vehicles, RUAG Defence is likewise focusing on modular services. Upgrade options relating to digitization of existing and new vehicle systems with the integration of modular interchangeable protection solutions are the response to new types of threat, especially in complex and urban terrain. This system concept allows RUAG Defence to integrate protection components not only in used tracked and wheeled vehicles, but also to increasingly approach the protection business in partnership with the original equipment manufacturer.

RUAG Defence is seeking to become a professional partner to armed forces and civilian organizations in the area of cyber security. Thanks to optimized, customer-specific solution packages, the division is looking to assure operators of critical infrastructures that their IT systems are secure.

RUAG Defence in numbers (2015)

Net sales:	CHF 381 million
EBITDA:	CHF 35 million
EBIT:	CHF 23 million
Employees:	1,467
Based in:	Switzerland, Germany, France, United Arab Emirates



RUAG Enterprise Architecture

World-class IT basis for tech innovations

A better information base for investment decisions and more efficient management of its IT platforms – these are the goals RUAG has been pursuing with its project to establish a uniform IT architecture for the whole Group, launched in late 2014. At the end of 2015, the RUAG Enterprise Architecture inventory already encompassed more

than 550 business applications with their business processes, responsibilities, interfaces and master data. As well as a uniform listing of the entire IT portfolio, the relevant people within the divisions and Corporate IT are also developing common governance rules, processes and roles.

 All success stories at www.ruag.ch/successstories

RUAG Corporate Services

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

RUAG Corporate Services brings together a wide range of service units which are organized as in-house departments at Group level and which provide their services to all RUAG divisions. These units are Corporate Human Resources, Corporate Communication, Corporate IT, Corporate Legal & Secretary General, Corporate Finance & Controlling, and Strategy & Corporate Development. Their activities are aligned with the overarching strategy of the Group.

Corporate Human Resources: Well trained and motivated employees

The employees of RUAG are the foundation of its success. Motivated and well trained, they guarantee high product and service quality.

As an international technology Group, RUAG offers an attractive range of jobs and continuously develops its employees' potential. The company offers a modern, diverse and needs-based range of advanced training options. A modular, multilingual leadership programme is used to train managers. A high priority for the Group is training for project managers, who can obtain various levels of IPMA certification. An important component of staff management at RUAG is the annual appraisal interview, during which line managers evaluate employees' performance and conduct based on the RUAG skills model.

The attractiveness of RUAG as an employer is underscored by the annual survey of Swiss graduates conducted by Universum Communications. In 2015, RUAG was placed 7th in the rankings of Switzerland's best employers for engineering professions. This was its fourth top-ten rating in a row, and a further two-place improvement on the previous year. Among other things, the positive results confirm the impact of measures adopted in previous years in the area of university marketing.

RUAG attaches great importance to nurturing its apprentices and trainees in Switzerland and Germany, of which there are 407 in total. Interested individuals can choose between 23 different apprenticeship vocations. In the year under review, RUAG apprentices took part in the World Skills Competitions for the fourth time in succession. At the event in São Paulo, a junior designer obtained an outstanding diploma grade.

RUAG maintains a regular partnership-based dialogue with its external social partners. Through constructive dialogue with employee representatives and works councils, shared, workable solutions are found every time.

Corporate Human Resources is a reliable partner and service provider to the divisions. In the spirit of the three RUAG corporate values of collaboration, high performance and visionary thinking, the unit is deeply committed to a high level of customer focus, appropriate tools and coordinated processes, especially with an eye to the ongoing internationalization of the Group.

**Corporate Communication:
Conveying a consistent message internally and externally**

Corporate Communication is responsible for the Group's communications with all relevant external and internal stakeholders and for consistent management of its branding. The service unit positions RUAG as a solution-oriented technology company and an attractive employer which takes its responsibility to society seriously. In close coordination with the individual divisions, Corporate Communication conducts a dialogue on the Group's strategic direction, objectives and activities. The divisions' Marketing and Communication departments are responsible for specifically cultivating each division's customer markets.

With the development of a brand concept, efforts were undertaken to further strengthen RUAG vis-à-vis existing and potential customers and to define the global application of the brand. With the development of an "employer value proposition", the foundations were also laid for creating a clear position for RUAG within the job market.

The logo "Together ahead. RUAG" refers to the Group's uniform branding and its ongoing internationalization – especially in Germany. Over the past year, a number of projects have helped strengthen the presence of RUAG in its most important market after Switzerland. In Switzerland, too, the company made its presence felt with media days, events for regional parliament members, a vocational training conference and sponsorship activities – for example in the biathlon.

As well as major cross-divisional projects, Corporate Communication provides support for appearances at international trade fairs and is involved in the development of a new trade fair concept.

**Corporate IT:
Cost-effective, innovative and secure ICT solutions**

Corporate IT at RUAG is the international business partner for all group companies in all matters relating to information and communication technology (ICT). As a service provider, Corporate IT develops cost-effective, innovative and secure ICT business architectures and applications. A big part of the unit's responsibilities is providing a specialized consultancy and design service; with this, Corporate IT guarantees tailored implementations and secure and reliable operations.

Corporate IT's portfolio includes all aspects of equipment and service for personal PC workstations and telephony, the Group-wide network, specialist applications and infrastructures and round-the-clock, worldwide user support. Corporate IT procures and develops all RUAG hardware and software, licences and components. A central licence management system guarantees beneficial cost effects.

To accommodate the needs and wishes of the divisions, Corporate IT has established an Account Management service with representatives operating locally within the divisions. The "Office of the CIO" combines the areas of ICT Strategy and Governance, Architecture, Security and the corporate project portfolio in order to assure the strategic and planning-related management of all RUAG divisional and central ICT organizations. A complete support service to all divisions is assured through appropriate projects or via the in-house software development service.

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

On the one hand, this service unit furnishes advice to the Group Executive Board, the divisions and subsidiaries in all legal and compliance matters, especially those relating to contracts and contract management. It clarifies the legal compliance of all projects in the Group's home markets and in the export business, and in general terms ensures that RUAG is legally protected in all its business activities. At the same time, it constitutes the General Secretariat of the Board of Directors and thus organizes the Annual General Meeting and the business of the Board of Directors.

RUAG complies with local laws and explicitly refrains from outsourcing business abroad as a way of circumventing the strict provisions of Swiss law.

RUAG is a joint stock company wholly owned by the Swiss Confederation. The Swiss Federal Department of Defence, Civil Protection and Sport (DDPS) exercises the Confederation's shareholder interests. The core competencies of Corporate Legal & Secretary General therefore also include cultivating shareholder relations. In this context, the owner's strategy of the Federal Council establishes a binding framework for the Group's operations, ensuring that RUAG can achieve its financial goals while also taking account of Switzerland's broader interests.

One of the service unit's key tasks is to critically assess the Group's export activities. RUAG complies with local laws and explicitly refrains from outsourcing business abroad to circumvent the strict provisions of Swiss law. Moreover, it also pursues its owner's interests abroad, especially in terms of examining and exploiting opportunities for exports from foreign production sites.

In addition to the applicable export regulations, observance of Swiss and international compliance rules is an essential part of the Group's business culture. In particular, RUAG will not tolerate any form of corrupt conduct, either at home or abroad, active or passive. Corporate Legal & Secretary General has in-house compliance regulations drawn up and updated as required. In line with these directives it assesses transactions and monitors the contracts negotiated by the divisions. It also provides training and advice to the employees involved in the divisions in the form of on-site courses, web-based e-learning tools and individual consultation sessions.

RUAG maintains a whistleblower service, accessible via <https://ruag.integrityplatform.org>, through which employees and third parties can report any irregularities, anonymously if preferred. Corporate Legal & Secretary General is responsible for this reporting facility.

Corporate Finance & Controlling: Reducing costs, boosting earning capacity

The Corporate Finance & Controlling service unit determines and processes the key figures required for the piloting of the Group. It uses high-performance information systems to ensure timely support and consolidation for operational management and guarantee transparency. Moreover, the department plans and coordinates the annual planning process, continuously updates the rolling liquidity plan and allocates surplus liquidity; it makes the necessary financing framework available where required, establishes the foreign currency risks and hedges these on an ongoing basis. Cross-divisional collaboration in all finance and controlling-related areas is coordinated via the Finance Board. Corporate Finance & Controlling creates the requisite framework for efficient support of business operations. Working Capital Management continuously monitors the entire process chain, suggests optimization measures and implements them as needed, thus reducing the level of capital tied up, increasing cash flow, and supporting growth. The room to manoeuvre gained in this way facilitates the financing of capital investments, research and development and acquisitions without the need for external funding. This helps to reduce costs and to boost the earning capacity of RUAG's enterprise value.

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

RUAG Real Estate: Providing the ideal infrastructure for industrial production

RUAG Real Estate plans and commissions industrial and commercial buildings for the divisions and for third parties. This legally independent company provides corporate real estate management (CREM) services at RUAG. It disposes of buildings and rights in rem and manages properties over their entire lifecycle.

RUAG Real Estate's main function is to assure the provision of an ideal infrastructure for industrial production Group-wide. It also develops the Group's major sites specifically with a view to creating themed industrial estates. Together with partners, it expedites and implements design plans and individual projects. In this way, it makes a significant

Divisional cooperation on the Procurement Board results in optimization of the procurement network throughout the Group.

contribution to the preservation and ongoing development of RUAG and Switzerland as a centre of business activity.

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

RUAG Environment: Environmentally sound, sustainable, forward-thinking

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

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

Corporate Procurement: Mobilizing, standardizing, optimizing

Competitive buying conditions are one of the foundations for sustainable business success. In cooperation with other areas of Corporate Services, Corporate Procurement enhances the Group's ability to compete by identifying and realizing potential synergies within the area of procurement.

Among other things, Corporate Procurement thus manages the cross-divisional material management system at RUAG. Using a standardized strategic procurement process, it identifies and evaluates cost-saving measures which are then implemented within the divisions. A key element here is the Procurement Board. This inter-divisional cooperation is helping to optimize the procurement network within the Group as a whole. Corporate Procurement is creating the required framework for this to happen and providing support for implementation. To this end, common strategies are being defined and implemented and success is being measured by means of key figures. Processes are being reviewed and aligned with industry standards. Increasingly, indirect material groups and administrative duties are being brought together in centres of excellence which will serve the Group as a whole. This pooling of tasks and expertise will secure the Group's competitive edge, increase transparency and improve its bargaining position.

**Group Risk Management:
Detecting and analysing risks, finding solutions**

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

For medium- and long-term risks and opportunities, both strategic and operational, there is a Group-wide risk management framework tailor-made to specific RUAG requirements. This is used to analyse and assess risks and identify the underlying causes, to analyse scenarios with the business areas, and to define, schedule and continuously monitor measures.

As in the previous year, the focus in 2015 was on analysing risks related to major projects and company acquisitions. Due to the current political changes taking place in the Group's target markets, protection is required in particular for its workforce and operational facilities. To assure this protection, RUAG is setting up a crisis management framework and optimizing its insurance cover for employees and equipment.

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

**Strategy & Corporate Development:
A consistent strategy and sustainable M&A activities**

Strategy & Corporate Development is responsible for developing the Group's corporate strategy, providing support in the area of mergers & acquisitions, and effectively implementing strategic initiatives at Group level and in the divisions.

One of its main activities is the annual strategy workshop with the RUAG Board of Directors, which in 2015 took place in June. The unit furnishes the divisions with a strategic framework and supports them in developing their own strategies. In light of the Group's broad-based business portfolio, the task of coordinating the strategies of the different divisions with the Group's objectives takes on particular significance. This coordination is instrumental in ensuring an optimal allocation of resources in the interests of the long-term development of the Group as a whole.

The business initiatives for which Strategy & Corporate Development provides active support include corporate acquisitions and mergers, joint ventures and disinvestments. As a "Center of Excellence for M&A Advisory", the service unit furnishes the relevant organizational units with the tools they need and also provides support in the form of advice. The Group's in-house M&A expertise is being further developed within the framework of a specialized RUAG M&A Community.

The unit defines the discussion points for the RUAG Strategy Committee's quarterly meetings and ensures that outcomes and decisions arising from these meetings are taken into account in corporate developments.

Corporate Responsibility

For RUAG, corporate responsibility has already long been a practical reality in many of its activities. In future, with the establishment of a Group-wide strategy, responsible behaviour will be enshrined at all levels and in all processes. In this way, RUAG is deliberately expanding its economic, environmental and social responsibility to include the ethical dimension.

Ever since its foundation, RUAG has fostered a sense of responsibility which extends beyond the company's boundaries. Not least due to its owner, the Swiss state, it sees itself as having an integral role in society. And it firmly believes that it can only sustain its business success if that success is founded upon responsible behaviour. A range of corporate responsibility activities are thus already in place within the divisions and business units. Viewed across the Group as a whole, however, the situation has so far lacked consistency. Group-wide management is largely confined to individual themes which fall under the responsibility of the Corporate Services units, such as targeted promotion of employees or strict adherence to compliance rules. With the establishment of a comprehensive corporate responsibility strategy, RUAG is now looking to systematically and consistently ensure that responsible behaviour becomes deeply rooted in every part of the Group – from the divisions and subsidiaries to the business units and the individual processes.

Federal Council sets course

The basic direction is set by the Swiss Federal Council. In its position paper on "Corporate Social Responsibility", the Council defines four strategic directions the federal government is pursuing with its activities: shaping framework conditions, raising awareness in and supporting Swiss businesses, promoting corporate social responsibility in developing and transition countries, and promoting transparency. The Council explicitly expects enterprises affiliated with the Confederation, such as RUAG, to set a good example.

Economic, environmental, social and ethical

For RUAG this means, among other things, that it is expanding the established definition of corporate responsibility, with its three key focus areas of economic, environmental and social responsibility. As a company affiliated with the Confederation which also provides military applications to international clients, the Group is additionally pledging to uphold a special ethical responsibility. Among other things, this includes a commitment to ensure that all exports of military applications comply with the Swiss export regime, the principles of Swiss foreign policy and the framework of international law, irrespective of where they are produced.

Strategy process initiated

In order to expedite the establishment of a Group-wide corporate responsibility framework, in 2015 RUAG initiated a strategy process. Among other things, input was sought from the Advisory Board, and members of top management determined specific strategic approaches within the context of a leadership programme (see accompanying texts: "Management evaluates strategic priorities"). In 2016, the intention is to consolidate the comprehensive situation assessment into a strategy. To this end, the Group Executive Board will among other things be reviewing the different possibilities for action with an eye to their relevance. The following are deemed to be key criteria: influence on the business situation, stakeholder interests, and opportunities for differentiation. After this, the goal will be to turn the strategic framework into a roadmap which will be used to gradually implement the key measures.

Various activities already in place

The status quo analysis shows how diverse the activities within the Group already are. In the MRO (Maintenance, Repair and Overhaul) business, which informs a large part of RUAG activities, sustainability is virtually a core competency. In the Environment and Resources area, for example, a number of production locations already hold environmental and quality management standards ISO 14001 and ISO 9001, and energy efficiency is being increased with a view to gaining ISO 50001 certification. Social responsibility is evidenced by the Group's broad-based support for apprentices, the diversity of the workforce, its highly regarded training programmes, its efforts to improve work-life balance, or the systematic health and safety management framework. On the economic and ethical side, fair pay and working conditions, a strict Code of Conduct, the export compliance framework and the whistleblower initiative all testify to how seriously the Group takes its responsibility. Added to this are the numerous products whose above-average environmental credentials make them stand out from the competition, such as the lead-free ignition technologies offered by RUAG Ammotec.

Pragmatic implementation led by the Group Executive Board

For RUAG it is clear that corporate responsibility can only be actively practised if implementation is pragmatically adapted to the differing conditions within the Group. The strategic framework and individual measures are thus being developed specifically to fit the individual divisions and countries. The Group Executive Board is a mainstay of this process. It is leading the charge and will be emphatically campaigning to ensure that environmental, social, economic and ethical responsibility becomes integral to every action and decision taken within the Group.

Management evaluates strategic priorities

Using responsibility to make a specific impact

In 2015, within the context of the top management training programme Leadership III, managers from all divisions and country subsidiaries evaluated a range of strategic areas within which RUAG can achieve a real impact. Their evaluation consciously focused on the practical possibilities for implementation within the individual business units and regions. The results of the case studies provide the Group Executive Board with a practical basis upon which to develop its strategic objectives.

□ Environment and resources

Without an intact environment, there can be no sustainable prosperity and thus also no sustainable corporate success. Areas where RUAG can apply leverage are, for example, a consistent life-cycle approach for all services, systematic establishment of recycling systems, targeted optimization of production, anchoring of an environmental impact assessment for every major project, or environmentally conscious procurement practices. Of course, this also includes products which are as green as they can possibly be. To this end, RUAG is already investing CHF 5 million a year into a special in-house fund for relevant research and development projects.

□ Economic sustainability

In the long term, RUAG can only thrive economically if it takes on responsibility. On the other hand, a sustainable corporate strategy can have a negative impact on performance figures in the short term. It is therefore essential for implementation to follow a Group-wide top-down approach with the Group Executive Board and the division managers leading the way. A current example of a sustainable corporate policy at division level is the fact that RUAG Space products are already designed to leave no problematic scrap in orbit after their useful life is over. By embedding this into its strategy, the division can make the quality feature "space debris free" into a differentiation factor.

□ Society and stakeholders

To be able to observe its social responsibility above and beyond the usual levels, RUAG has to be intimately familiar with its various stakeholder groups and specifically address their specific needs. For this to happen, we need to establish a comprehensive Stakeholder Relationship Management framework. Based on this framework we will be able to define Group-wide focus topics which can then be addressed in a division- and country-specific way. One of the possible thematic areas is workforce diversity. Here, the focus should be on both the gender mix and the nationality mix of the management levels.

Compliance

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

For RUAG, since its founding compliance has meant far more than simply following specific guidelines such as national laws and international agreements. RUAG sets itself an ambitious benchmark for its own actions and critically examines whether its conduct is conscionable from an ethical and moral perspective.

On the international stage, RUAG moves circumspectly and weighs decisions with great care. Generally speaking, no business is transacted in contravention of compliance principles.

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

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

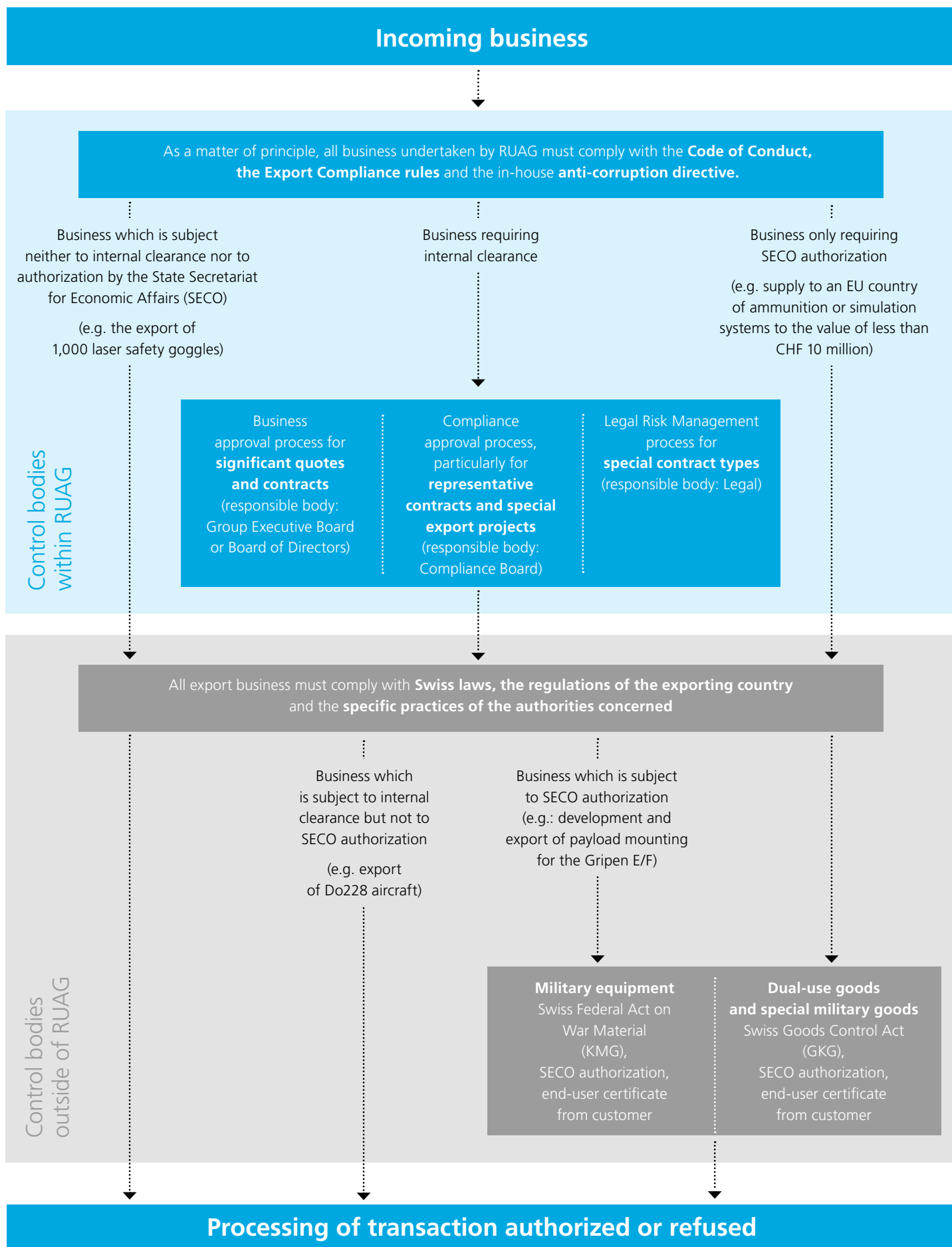
Despite a high degree of openness, discretion and confidentiality are indispensable when business partners, employees or other stakeholders entrust RUAG with sensitive information. All such information is protected and handled confidentially. RUAG employees have an obligation not to disclose any business or trade secrets, whether these are proprietary to RUAG or to third parties. This applies particularly to information regarding technologies or manufacturing, research and development processes, and personal data.

Organization

Responsibility for compliance lies with the RUAG Board of Directors. In accordance with the organizational regulations, the Board issues the Code of Conduct and Compliance Principles, while the Audit Committee of the Board of Directors reviews the Group's compliance activities.

RUAG has established a Compliance Board, which, in accordance with the Compliance Board Charter issued by the Board of Directors, is responsible for assuring compliance at RUAG in all its aspects. At the same time, it serves as a point of contact for employees, customers, suppliers or third parties when questions arise in relation to compliance or if there is something to report. The members of the Compliance Board have access to the CEO and to the members of the Audit Committee and the Board of Directors. They have an unlimited right to information and inspection throughout the Group. The Compliance Board is chaired by the General Counsel. He is accountable to the Audit Committee and the Board of Directors for adherence to compliance rules and for reporting. He reports to the Audit Committee of the Board of Directors at least once a year.

The graphic on page 51 illustrates the internal and external authorization process – from receipt of an order through to final processing. It shows how compliance influences business processes at RUAG in practice.



By joining the Swiss section of Transparency International, RUAG is underscoring the crucial importance it attaches to combating all forms of corrupt behaviour.

Allowing no opportunities for corruption

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

This principle applies equally to every individual working for RUAG. No one makes payments, direct or indirect, to secure advantages for themselves. This applies especially to members of international organizations and authorities, officials or public employees, but also to employees of private businesses. Likewise, no one working for RUAG is permitted to accept unjustified payments or other incentives.

Payments or contributions to elected representatives, political parties or their representatives must be legally permitted, properly documented and disclosed.

The Board of Directors and Group Executive Board have further reinforced the long-established rules with the revision of the anti-corruption directive in late October 2014. The directive is published on www.ruag.com and is binding on all RUAG employees worldwide.

With regard to its partnerships with representatives and agents, RUAG had already issued a directive on the inspection and approval of contracts with relevant business partners in 2013. Every contract must be approved by the Compliance Board, based on a standardized approval process and including an external review. In principle, only the contract prescribed by the Group's legal department may be used.

In late 2015, RUAG became a member of the Swiss chapter of Transparency International, thus underscoring the crucial importance it attaches to combating all forms of corrupt behaviour.

Whistleblower system and point of contact for compliance issues

Another important element in the combating of corruption and other irregularities is web-based RUAG whistleblower system, introduced in November 2014. Employees and third parties anywhere in the world can use this system if they suspect or observe irregularities and violations; however, it can also be used for general questions and uncertainties relating to compliance. The online tool is hosted by an outside company and serves as an early warning system to prevent, or detect, compliance violations. The procedure for this is clearly regulated: if an employee notices irregularities in the ordinary course of work, the first point of contact should remain his or her line manager. But if a conversation with the line manager is not possible or fails to achieve the expected result, the whistleblower system provides the additional option to report the incident via the RUAG website or <https://ruag.integrityplatform.org>, anonymously if he or she wishes. Reports are seen and processed only by designated RUAG specialists from the Legal, Human Resources or Risk Management departments.

In its first year of operation, the service received and dealt with twelve concrete reports as well as two queries. Eleven reports originated in Switzerland, one in Germany. Of the twelve reports, ten were made anonymously.

As well as the whistleblower system, RUAG also offers a point of contact for compliance issues through which anyone can submit a report or ask questions by e-mail (with sender details provided). This option is used on a regular basis, for example in connection with the Code of Conduct e-learning tool.

Code of Conduct e-learning tool

For RUAG, compliance with the Code of Conduct and the Compliance Principles is a key element of risk management. With this in mind, the Group introduced an e-learning tool during the year under review. The training programme is open to all RUAG employees worldwide, but is primarily intended for those employees having direct or indirect contact with customers, suppliers and service providers, and those in support areas. In a first wave, over 1,200 employees completed the training.

A special focus of the e-learning initiative is training on anti-corruption rules and processes. Among other things, it provides clear and specific information on the ban on so-called "facilitation payments" and the maximum limits applicable to giving and receiving gifts.

Code of Conduct for Business Partners

RUAG also expects conduct that is proper in every respect from its customers, suppliers, service providers and their supply chains. The Code of Conduct for RUAG Business Partners is therefore an integral part of every contract with a third party and is binding on all business partners.

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

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

Export compliance

As a corporation under the ownership of the Swiss Confederation, RUAG bears a special responsibility, especially when acting as a supplier of defence applications. Accordingly, RUAG only ever supplies military applications in coordination with the State Secretariat for Economic Affairs (SECO), and does so only to clearly identifiable counterparties. RUAG export compliance guidelines apply to all organizational units and activities, regardless of where they are based or from hence goods are to be exported. In general, RUAG does not circumvent export restrictions by transacting exports through its foreign subsidiaries that would not be permitted from Switzerland. All exports of military applications are transacted in conformity with international law, Switzerland's international commitments and the principles of Swiss foreign policy.

Risk management

As a key element of corporate governance, risk management protects the RUAG Group's values, assets and employees and assures its compliance. The situation today is characterized by extraordinary economic and political uncertainties.

Group-wide risk management operation (Group Risk Management, or GRM for short) covers all business units within the global corporate structure as well as all external and internal influence factors. Risks are identified and dealt with using a broad-based methodology based on the globally established COSO II and ISO 31000 standards and on the DIN EN 62198 standard for managing risk in projects. In addition to protecting employees and assets, compliance with legal and regulatory requirements and with the Group's Code of Conduct is also an integral element of risk management.

Organization and process

RUAG organizes its risks systematically into seven main categories: external risks, strategy, markets, processes, resources, finance and compliance/culture. Twice a year, a structured process takes place in all business units to identify, analyze and assess these risks. By gradually consolidating at the divisional and group levels, all levels of the company can access a management tool geared to their responsibilities.

As process owner, GRM develops the methodology and tools used, runs the twice-yearly assessment process, provides coaching to the business units as required, consolidates the information and aggregates the major risks at group level in a Risk Management Report which is submitted to the Group Executive Board and Board of Directors. Within the individual divisions, responsibility for the process lies with the Chief Financial Officers or special risk officers.

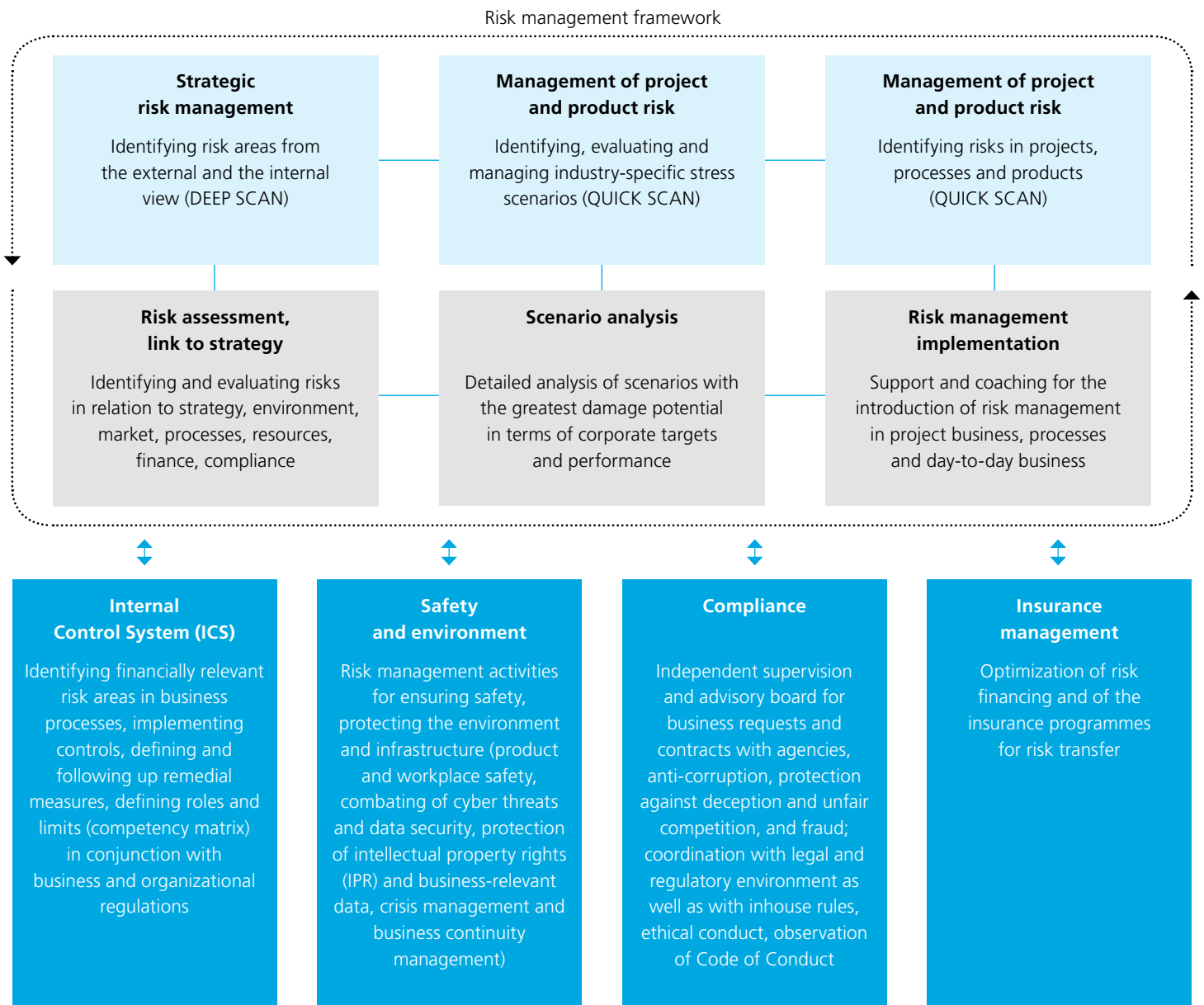
Control system, projects and compliance

All risks with financial relevance to RUAG are identified and monitored using an internal control system. Special attention is given to project business; RUAG generates around two thirds of its sales through projects. If risks cannot be avoided, GRM develops insurance solutions which guarantee adequate cover. Specific insurance programmes in the individual countries ensure that local needs and regulations are taken into account. Working in close cooperation with the Corporate Services units Legal & Secretary General, Finance & Controlling, Procurement and Human Resources, GRM assures correct conduct in all international markets and compliance with all legal and regulatory requirements.

The key challenges of 2015

The defining event of 2015 was unquestionably the scrapping of the minimum euro exchange rate by the Swiss National Bank. As a company with a strong focus on exports, RUAG had already been analysing this risk for a number of years and had adopted corresponding precautionary measures. Alongside financial tools, therefore, the group is now also able to use positive currency effects – purchases in sales markets or contracts in local currency – to minimize the damage.

Another situation having far-reaching consequences is the obstruction of two key sales markets – Russia and the Near East – due to the conflicts in Ukraine and Yemen. This will have a significant impact on the development of business at RUAG in the years ahead. The best way to minimize risks such as these, which can be neither foreseen nor influenced, is to further diversify our markets.



The conflicts in the Middle East and the Paris attacks also brought an increased focus on the safety of employees and operating facilities in other countries in 2015. In times of instability or in the event of accidents, RUAG must immediately repatriate its employees and ensure that their dependants are looked after. However, crisis management also needs to function smoothly in the event of an environmental incident or a long-term loss of production facilities. In the year under review, a crisis team was established for this purpose and training was given in communications and behaviour in crisis situations.

Work targeting a marked reduction in IT-related risks began in 2015. RUAG will be standardizing and modernizing its IT landscape – which, for historical reasons, is highly heterogeneous. Together with the associated processes, this will be brought under the umbrella of a Group-wide Enterprise Architecture.

Export Trade Compliance is taking up more and more resources. Without exception, however, the internationalization process at RUAG must take place within the legal framework stipulated by the Swiss Confederation. Here, ongoing dialogue with the owner and SECO is enshrined in a well-established process. In addition, trade in military goods from the USA is subject to the strictest compliance with the rules of the Directorate of Defense Trade Controls.

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Overview of key figures

in CHF m	2015	2014
Order inflow	1 828	1 785
Order backlog	1 378	1 370
Net sales	1 744	1 781
Operating income	1 758	1 759
Cost of materials and purchased services	(541)	(562)
Personnel expenses	(796)	(825)
Other operating expenses, net	(204)	(180)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	217	192
EBITDA in % of net sales	12.5 %	10.8 %
Earnings before interest and taxes (EBIT)	137	113
EBIT in % of net sales	7.8 %	6.4 %
Net profit	117	84
Net profit in % of net sales	6.7 %	4.7 %
Cash flow from operating activities	145	135
Cash flow from investing activities	(81)	(79)
Free cash flow	64	57
Cash flow from financing activities	(26)	(61)
Equity attributable to the RUAG shareholder	949	882
Equity in % of total assets	55.2 %	51.6 %
Return on equity ¹	12.7 %	9.8 %
Depreciation, amortization and impairment	80	79
Research and development expenses ²	146	140
in % of net sales	8.4 %	7.9 %
Net sales per employee (in CHF thousands)	215	218
Added value per employee (in CHF thousands)	138	133
Employees as at 31 December incl. apprentices	8 163	8 114
Number of employees (average for the year, incl. apprentices)	8 115	8 182
Number of registered shares (par value CHF 1,000)	340 000	340 000
Earnings per registered share	342.87	247.08
Dividend per registered share ³	138.24	61.76
Distribution ratio	40.3 %	25.0 %
Book value per registered share in CHF	2 791	2 593

¹ Net profit as a percentage of average equity.

² Comprises both self-financed and third party-financed research and development expenses.

³ Probable dividend of CHF 47 million for 2015 according to the proposal of the Board of Directors.

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the 2015 reporting period. Prior-year figures have been adjusted accordingly (see "Basis of preparation").

Five-year overview

in CHF m	2015	2014	2013 ⁴	2012 ⁴	2011 ⁴
Order inflow	1 828	1 785	1 851	1 612	1 720
Order backlog	1 378	1 370	1 405	1 310	1 480
Net sales	1 744	1 781	1 752	1 741	1 714
Earnings before interest and taxes (EBIT)	137	113	115	113	110
EBIT in % of net sales	7.8 %	6.4 %	6.6 %	6.5 %	6.4 %
Net profit	117	84	94	78	97
Net profit in % of net sales	6.7 %	4.7 %	5.4 %	4.5 %	5.7 %
Cash flow from operating activities	145	135	142	130	127
Cash flow from investing activities	(81)	(79)	(42)	21	(46)
Free cash flow	64	57	100	150	81
Cash flow from financing activities	(26)	(61)	(88)	(39)	(65)
Equity attributable to the RUAG shareholder	949	882	943	728	746
Equity in % of total assets	55.2 %	51.6 %	50.5 %	38.9 %	43.4 %
Return on equity ¹	12.7 %	9.8 %	11.3 %	10.6 %	13.1 %
Research and development expenses ²	146	140	132	134	140
in % of net sales	8.4 %	7.9 %	7.5 %	7.7 %	8.2 %
Employees as at 31 December incl. apprentices ³	8 163	8 114	8 241	8 188	7 739
Number of employees (average for the year, incl. apprentices) ³	8 115	8 182	8 336	8 258	7 739

¹ Net profit as a percentage of average equity.

² Comprises both self-financed and third party-financed research and development expenses.

³ As of 2012: including apprentices.

⁴ According to IFRS (not adjusted as per Swiss GAAP FER).

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the 2015 reporting period. Prior-year figures have been adjusted accordingly (see "Basis of preparation").

Consolidated income statement 1 January to 31 December

in CHF m	Note	2015	2014
Net sales	6	1 744	1 781
Own work capitalized		5	3
Changes in inventories and work in progress		9	(24)
Operating income		1 758	1 759
Cost of materials and purchased services		(541)	(562)
Personnel expenses	7	(796)	(825)
Other operating expenses, net	8	(204)	(180)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		217	192
Depreciation and impairment of property, plant and equipment/investment property	17, 18	(58)	(57)
Amortization and impairment of intangible assets	19	(22)	(22)
Earnings before interest and taxes (EBIT)		137	113
Financial income	10	5	2
Financial expenses	10	(6)	(17)
Share in income of associates	20	9	(1)
Earnings before taxes		144	97
Income taxes	11	(28)	(13)
Net profit		117	84
Net profit attributable to:			
Shareholders of RUAG Holding Ltd		116	84
Non-controlling interests		1	0
Net profit		117	84

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the 2015 reporting period. Prior-year figures have been adjusted accordingly (see "Basis of preparation").

The notes to the consolidated financial statements on pages 64 to 104 form an integral part of the consolidated financial statements.

Consolidated balance sheet as at 31 December

in CHF m	Note	2015	2014
Cash and cash equivalents	12	233	202
Current financial assets	13	8	10
Receivables and prepayments	14	326	284
Tax assets		3	2
Prepaid expenses and accrued income		14	10
Inventories and work in progress	15, 16	516	579
Current assets		1 100	1 087
Property, plant and equipment	17	438	416
Investment property	18	93	97
Intangible assets	19	35	57
Associates	20	39	33
Non-current financial assets	13	3	2
Deferred tax assets	11	13	15
Non-current assets		620	621
Total assets		1 719	1 707
Current financial liabilities	21	10	23
Other current liabilities	22	36	41
Trade accounts payable and prepayments	23	255	281
Tax liabilities		27	15
Deferred income and accrued expenses	25	210	239
Current provisions	26	79	69
Current liabilities		619	669
Non-current financial liabilities	21	1	1
Other non-current financial liabilities	24	3	1
Employee benefit obligations	27	54	62
Non-current provisions	26	53	48
Deferred tax liabilities	11	38	43
Non-current liabilities		150	155
Share capital	28	340	340
Capital reserves		10	10
Retained earnings		727	632
Offsetting of goodwill		(83)	(83)
Other reserves		(6)	(9)
Foreign currency translation adjustments		(39)	(9)
Equity attributable to the RUAG shareholder		949	882
Equity attributable to non-controlling interests		2	1
Total equity		951	883
Total liabilities and equity		1 719	1 707

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the 2015 reporting period. Prior-year figures have been adjusted accordingly (see "Basis of preparation").

The notes to the consolidated financial statements on pages 64 to 104 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows, 1 January to 31 December

in CHF m	Note	2015	2014
Net profit		117	84
Depreciation, amortization and impairment	17, 18, 19	80	79
Change in non-current provisions and deferred taxes		9	16
Use of non-current provisions		(4)	(12)
Share in income of associates	20	(9)	1
Other non-cash changes		(2)	1
Change in net working capital ¹		(42)	(30)
(Gain)/loss on disposal of non-current assets		(6)	(3)
Financial income received		(2)	(2)
Financial expenses paid		2	2
Cash flow from operating activities ²		145	135
Capital expenditures for plant and equipment	17	(44)	(34)
Capital expenditures for property	17, 18	(43)	(45)
Capital expenditures for intangible assets	19	(3)	(3)
Acquisition of subsidiaries less cash and cash equivalents acquired	4	(2)	(7)
Disposal of plant and equipment		1	4
Disposal of property		9	3
Disposal of intangible assets		0	—
Disposal of investments in subsidiaries	4	—	—
Dividends received from associates	20	2	3
Cash flow from investing activities		(81)	(79)
Free cash flow		64	57
Increase in financial liabilities to third parties		2	2
Repayment of financial liabilities to third parties		(6)	(41)
Finance lease payments		(1)	(1)
Financial income received		2	2
Financial expenses paid		(2)	(2)
Dividends paid to shareholders		(21)	(20)
Cash flow from financing activities		(26)	(61)
Change in cash and cash equivalents before foreign currency translation adjustments		38	(4)
Cash and cash equivalents at beginning of period		202	209
Foreign currency translation adjustments in respect of cash and cash equivalents		(7)	(3)
Cash and cash equivalents at end of period		233	202

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

² Including income taxes of CHF 15 million paid in the year under review (previous year: CHF 16 million).

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the 2015 reporting period. Prior-year figures have been adjusted accordingly (see "Basis of preparation").

The notes to the consolidated financial statements on pages 64 to 104 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

in CHF m	Share capital	Capital reserves	Retained earnings	Offsetting of goodwill	Other reserves	Foreign currency translation adjustments	Attributable to the RUAG shareholder	Attributable to non-controlling interests	Total equity
Balance as at 31 December 2013 according to IFRS	340	10	660	—	(3)	(63)	943	1	944
Changes according to Swiss GAAP FER	—	—	(91)	(84)	—	63	(112)	—	(112)
Balance as at 1 January 2014 according to Swiss GAAP FER	340	10	569	(84)	(3)	—	831	1	832
Net profit	—	—	84	—	—	—	84	0	84
Change in goodwill resulting from purchase price allocation/offsetting against equity	—	—	—	2	—	—	2	—	2
Change in fair value of cash flow hedges	—	—	—	—	(10)	—	(10)	—	(10)
Gains and losses from cash flow hedges transferred to profit or loss	—	—	—	—	4	—	4	—	4
Foreign currency translation adjustments of foreign subsidiaries	—	—	—	—	—	(9)	(9)	(0)	(9)
Dividends paid	—	—	(20)	—	—	—	(20)	—	(20)
Balance as at 31 December 2014	340	10	632	(83)	(9)	(9)	882	1	883
Balance as at 1 January 2015	340	10	632	(83)	(9)	(9)	882	1	883
Net profit	—	—	116	—	—	—	116	1	117
Change in fair value of cash flow hedges	—	—	—	—	(8)	—	(8)	—	(8)
Gains and losses from cash flow hedges transferred to profit or loss	—	—	—	—	10	—	10	—	10
Foreign currency translation adjustments of foreign subsidiaries	—	—	—	—	—	(30)	(30)	(0)	(30)
Dividends paid	—	—	(21)	—	—	—	(21)	—	(21)
Balance as at 31 December 2015	340	10	727	(83)	(6)	(39)	949	2	951

As at 31 December 2015, the amount of non-distributable statutory reserves was CHF 39 million (previous year: CHF 36 million).

In 2015, a dividend of CHF 21 million (previous year: CHF 20 million) was paid to the shareholder from the previous year's result. This is equivalent to a dividend per share of CHF 61.76 (previous year: CHF 58.52).

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the 2015 reporting period. Prior-year figures have been adjusted accordingly (see "Basis of preparation").

The notes to the consolidated financial statements on pages 64 to 104 form an integral part of the consolidated financial statements.

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

1 General information: Business activities and relationship with the Swiss Confederation

RUAG Holding Ltd is a Swiss joint-stock company headquartered in Berne. It is wholly owned by the Swiss Confederation. RUAG Holding Ltd and its subsidiary companies (hereinafter referred to as "RUAG") focus on their core aerospace and defence businesses with goods and services in the military and civilian sectors and on the development of international growth markets. RUAG is bound by the owner's strategy of the Swiss Federal Council and its fundamental mission is to equip and maintain the technical systems of the Swiss Armed Forces. In the year under review, the Swiss Federal Council approved the owner's strategy for state-owned defence technology companies for the period 2016–19. Among other things, it expects RUAG to assist the Swiss Armed Forces in maintaining and ensuring the operational readiness of their systems.

Relationship with the Swiss Confederation

The Swiss Confederation is the sole shareholder of RUAG Holding Ltd. Under the terms of the Federal Act on State-Owned Defence Companies, any disposal of the capital or voting majority of the Swiss Confederation to third parties requires the approval of the Federal Assembly. As sole shareholder, the Confederation exercises control over all decisions taken at the General Meeting, including the election and remuneration of members of the Board of Directors and dividend resolutions. Details of transactions with the Swiss Confederation are given in Note 33.

2 Summary of significant accounting policies

2.1 Basis of preparation

RUAG's consolidated financial statements have been prepared in accordance with the guidelines of the Swiss Accounting and Reporting Recommendations (Swiss GAAP FER). Certain provisions of Swiss GAAP FER 31 "Additional recommendations for listed companies" have also been applied. These provisions contain recommendations regarding first-time application, discontinued operations, income tax, financial liabilities and segment reporting. Furthermore, the provisions of Swiss company law have been fulfilled. The reporting period covers twelve months. The consolidated financial statements are presented in Swiss francs (CHF). The balance sheet is structured according to maturities.

Current assets include assets that

- are realized within 12 months after the balance-sheet date, or are sold, consumed or realized as part of operational activities, or that
- are held for trading purposes, as well as
- cash and cash equivalents.

All other assets are non-current assets.

Current liabilities include liabilities that must be settled

- within 12 months after the balance-sheet date, or for which a
- cash outflow is probable within the scope of operational activities, or
- if they are held for trading purposes.

All other liabilities are non-current liabilities.

The income statement is prepared using the total cost method.

Items are measured at historical cost, unless a recommendation requires a different valuation basis for a line item.

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

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

2.2 Adjustments resulting from the change of accounting standards to Swiss GAAP FER

Until 31 December 2014, RUAG prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). The main reason for changing accounting standards to Swiss GAAP FER was as follows:

IAS 19, which was revised in 2011 and was valid as of 1 January 2013, required that any excesses/shortfalls in pension funds be recognized in a company's comprehensive income. However, Swiss pension funds are largely independent; no return of funds to the employer is possible. Moreover, restructuring contributions by the employer can only be demanded under extraordinary circumstances. Under Swiss GAAP FER, only the actual economic impact (the "economic benefit" or "economic liability") must be recognized. Economic benefits and liabilities refer to the possibility that a company may experience a positive impact on future cash flows resulting from an excess in the pension fund or a negative impact on cash flows resulting from a shortfall, whereby the company intends to or has to be involved in financing these. Fully recognizing the excesses/shortfalls as prescribed under IAS 19 resulted in considerable volatility in RUAG's equity in 2013 and 2014. The application of Swiss GAAP FER will largely eliminate such fluctuations in equity.

The accounting principles applied to the preparation and presentation of the 2015 consolidated financial statements differ from the 2014 consolidated financial statements according to IFRS in the following points:

2.2.1 Goodwill from acquisitions

In accordance with the option available under Swiss GAAP FER 30 "Consolidated financial statements", goodwill from acquisitions will be offset directly against retained earnings under shareholders' equity upon acquisition. Under IFRS, goodwill was recognized and reassessed annually. As was the case under IFRS, Swiss GAAP FER specifies that identified brand names, licenses and rights as well as order backlogs and customer relationships be recognized separately when allocating purchase price and amortized over their estimated useful life. With regard to acquisitions, any transaction costs will continue to be recognized in profit or loss.

2.2.2 Employee pension benefits

In accordance with Swiss GAAP FER 16 "Pension benefit obligations", economic liabilities and benefits of Swiss pension plans are calculated on the basis of the financial statements prepared under Swiss GAAP FER 26 "Accounting of pension plans". Employer contribution reserves and similar items are recognized as assets under Swiss GAAP FER 16. Under IFRS, defined benefit plans were recognized using the projected unit credit method in accordance with IAS 19.

The economic impact on pension plans of foreign subsidiaries (this only concerns pension plans without plan assets) will be calculated in the same way as the previous year. This means that employee benefit costs and obligations are determined for each plan on the basis of various financial and demographic assumptions using the projected unit credit method, but any changes to pension benefit obligations will be fully recognized in profit or loss.

2.2.3 Equity accounting

Under Swiss GAAP FER, the share of profit or loss of associates is recognized in the income statement, less profit distributions. Under IFRS, certain other changes in equity were recognized under other comprehensive income.

2.2.4 Deferred income taxes

The aforementioned changes in accounting policies will have a corresponding impact on the deferred income tax positions in the balance sheet and income statement.

2.2.5 Foreign currency translation adjustments

As part of the switch of the accounting standards to Swiss GAAP FER, the cumulative foreign currency translation adjustments (incl. those on equity-type loans) have been offset against retained earnings. In the event of a disposal in future (to the extent that this leads to the loss of control or significant influence) of a foreign subsidiary or associate, under Swiss GAAP FER the result from the disposal therefore only contains foreign currency translation adjustments that were incurred after 1 January 2014.

2.2.6 Presentation and structure

The presentation and structure of the consolidated income statement, the consolidated balance sheet, the consolidated statement of cash flows and the consolidated statement of changes in equity have been adjusted in line with the requirements of Swiss GAAP FER. The prior period has been restated accordingly so that it is comparable with the current reporting period.

The impacts of these changes on RUAG's shareholders' equity and consolidated net profit are summarized in the tables below:

Impact of restatement: shareholders' equity

in CHF m	1 January 2014	31 December 2014
Shareholders' equity acc. to IFRS	944	889
Changes under Swiss GAAP FER		
Offsetting of goodwill from acquisitions	(84)	(82)
Changes to employee benefit assets/employee benefit obligations	(34)	93
Net deferred income tax assets/liabilities	6	(17)
Shareholders' equity acc. to Swiss GAAP FER	832	883

Impact of restatement: consolidated net profit

in CHF m	January–December 2014
Consolidated net profit acc. to IFRS	102
Changes under Swiss GAAP FER	
Changes to employee benefit obligations	(16)
Changes to equity accounting	(6)
Changes to deferred income taxes	4
Consolidated net profit acc. to Swiss GAAP FER	84

2.2.7 Definition of non-Swiss GAAP FER-compliant figures

The “operating income” sub-total shown separately on the income statement contains all operating income, own work capitalized less changes in inventories and work in progress.

The free cash flow comprises the cash flow from operating activities and the cash flow from investing activities and is shown separately in the statement of cash flows.

Both figures are key performance indicators for RUAG and are therefore shown separately.

2.3 Principles and scope of consolidation

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

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

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

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

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

2.4 Foreign currency translation

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

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

The assets and liabilities of subsidiaries and associates recognized using the equity method whose functional currency is not the Swiss franc are translated into Swiss francs on consolidation at the exchange rate applicable at the end of the reporting period. The income statement, cash flow statements and other fluctuating items are translated at the average exchange rate for the reporting period. Exchange differences arising from the conversion of the annual statements of subsidiaries or affiliates are recognized directly in consolidated equity and reported separately as cumulative foreign currency translation adjustments. In the event of the disposal (to the extent that this leads to the loss of control or significant influence) of a foreign subsidiary or associate, the cumulative foreign currency translation adjustments previously recognized in equity are transferred to the income statement as a component of the gain or loss on disposals.

Differences arising in the reporting period on translation of equity and non-current intra-Group financial transactions related to net investments in foreign operations, in addition to retained earnings and other equity items, are recognized immediately in the cumulative foreign currency translation adjustments in equity.

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

Exchange rates

Currency		Annual average 2015	End-of-year rate 2015	Annual average 2014	End-of-year rate 2014	Annual average 2013	End-of-year rate 2013
Euro	EUR	1.07	1.08	1.21	1.20	1.23	1.23
Swedish krona	SEK	11.42	11.79	13.36	12.82	14.23	13.89
US dollar	USD	0.96	0.99	0.92	0.99	0.93	0.89
Pound sterling	GBP	1.47	1.47	1.51	1.54	1.45	1.47
Hungarian forint	HUF	0.34	0.34	0.39	0.38	0.41	0.41

2.5 Cash and cash equivalents

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

2.6 Current financial assets

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

2.7 Receivables and prepayments

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

2.8 Inventories and work in progress

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

Long-term construction and service contracts are measured according to the percentage of completion method. When the conditions are satisfied, work in progress and sales are recognized by reference to the stage of completion. Long-term construction contracts are defined as manufacturing or service orders where completion of the order extends over a longer period, calculated from the time the order is awarded to the time it is essentially completed.

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

In the Space segment, mainly the milestone method is applied. Here, project milestones are defined on the basis of individual customer contracts; upon reaching these milestones, services performed are invoiced to the customer and sales and income are realized on a pro rata basis.

If the outcome of long-term construction and service contracts cannot be estimated reliably, sales are only recognized to the extent of contract costs incurred that are likely to be recoverable (recoverable cost method). Contract costs are recognized when incurred unless they give rise to an asset that is linked to the future activity on the contract. Any expected loss on a contract is expensed immediately.

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

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

2.9 Property, plant and equipment

Property, plant and equipment is recognized at cost less accumulated depreciation and impairment. Repair and maintenance costs are stated as an expense. Major renovations and other value enhancing costs are capitalized and depreciated over their estimated useful life. The carrying amount of the replaced parts is derecognized. Items are depreciated on a straight-line basis, with the exception of land, which is not depreciated and is recognized at cost.

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

Class	Useful life in years
Plant and equipment	5 to 12
Fixtures and fittings	10
Computer hardware/software	3 to 5
Motor vehicles	5 to 10
Aircraft	10 to 15
Buildings (operating properties)	20 to 60

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

2.10 Government grants

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

2.11 Leases

Leased assets where the benefits and risk arising from ownership are essentially transferred to RUAG are recognized at the lower of fair value of the leased asset and present value of the minimum lease payments on inception of the lease. Correspondingly, the estimated net present value of future, non-cancellable lease payments is carried under liabilities from finance leases. Assets under finance leases are amortized on a straight-line basis over the shorter of their estimated useful life or the duration of the lease. All other lease transactions are classified as operating leases.

2.12 Investment property

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

Sites that are majority-leased to third parties are classified as investment properties. The fair value of the properties is calculated solely for disclosure reasons and was measured using the discounted cash flow (DCF) method. No expert market appraisal was carried out in the reporting period.

2.13 Intangible assets and goodwill

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

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

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

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

Business combinations are accounted for using the acquisition method. The cost is recognized at the fair value of the consideration at the transaction date. Identifiable assets acquired and liabilities and contingent liabilities assumed are recognized in the balance sheet 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 acquisition costs exceeding the net assets recognized at fair value (goodwill) are offset against equity at the time of acquisition. If the purchase price contains elements that depend on future events, these are estimated and recognized as accurately as possible at the time of acquisition. If, when the purchase price is definitively calculated at a later date, there are any differences, the goodwill offset against equity will be adjusted accordingly. The impact of the goodwill being theoretically capitalized (acquisition cost, residual value, useful life, amortization) and any potential impairment are shown in the notes. Any negative difference is recognized directly in profit or loss after being reviewed. In the event of a company being sold, the goodwill previously recorded under equity will be booked out and then recognized in the income statement as a component of the gain or loss on disposals.

2.14 Research and development expenses

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

2.15 Impairment

Impairment of property, plant and equipment and intangible assets

The recoverable amount of property, plant and equipment, intangible assets and the goodwill recognized and disclosed in the notes is reviewed whenever changes in circumstances or events indicate that the carrying amount may be overestimated. Where there is an indication of a possible overestimate, the Group measures fair value on the basis of expected future cash flows from use and eventual sale, minus any cost of disposal. Where the carrying amount exceeds the higher of fair value less costs to sell and value in use, an impairment loss equivalent to the difference is recorded (this does not apply to goodwill). As goodwill is offset against equity at the time of acquisition, any impairment of the goodwill is not charged to the income statement, but is only disclosed in the notes. The impairment assessment is based on the smallest group of assets for which independent cash generating units are identifiable. The estimation of future discounted cash flows is based on the forecasts and assumptions of the management. Accordingly, the actual cash flows generated may differ significantly from these estimates.

2.16 Financial liabilities

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

2.17 Trade accounts payable and prepayments

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

2.18 Deferred income and accrued expenses

Deferred income and accrued expenses contain expenses incurred during the reporting period for which supplier invoices are yet to be received. They also include income and bonuses received in advance that relate to future periods.

2.19 Provisions

Provisions are recognized where:

- RUAG has a present legal or constructive obligation due to a past event;
- it is likely that an outflow of resources embodying economic benefits will be required to settle the liability; and
- a reliable estimate can be made of the amount of the liability.

Provisions are discounted if the effect of discounting is material.

Provisions for restructuring Costs arising in connection with restructurings 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. So that provisions can be made for the cost of redundancy plans, the applicable terms and the number of employees affected must be defined and the employees or their representatives must be given sufficiently detailed information about the redundancy plans.

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

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

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

2.20 Employee benefit obligations

In accordance with the corresponding national provisions, RUAG offers pension plans for its employees. These are primarily institutions and foundations that are financially independent from the Group. They are usually financed via employee and employer contributions.

The economic impacts of the pension plans are assessed on an annual basis. Any excesses/shortfalls are determined on the basis of the annual financial statements of the corresponding pension funds; such calculations are based on Swiss GAAP FER 26 (Swiss plans) and the applicable country-specific methods (foreign plans).

An economic benefit is only capitalized if this is permitted and where the intention is

- to use the excess to reduce employer contributions;
- to refund it to the employer in line with local legislation; or
- to use it in another way that would economically benefit the employer outside of the benefits in line with the regulations.

An economic liability is recognized if the conditions for creating a provision are met under Swiss GAAP FER 23. This is recognized under employee benefit obligations.

Changes to an economic benefit or liability are recognized in the income statement in the same way as for the contributions made for the period. Any impact on income of foreign pension plans resulting from a change in the discount rate that is reflected in the pension fund's liabilities being discounted/compounded is recognized and shown in net interest/financial result. Changes to pension entitlements additionally earned during the period in question (service costs), impacts on income resulting from changes in commitments (benefits defined in the regulations) and effects from actual changes in the insured group or from changed assumptions regarding salary/retirement trends as well as biometric assumptions are recorded in the operating result under personnel expenses.

2.21 Other long-term employee benefits

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

2.22 Current and deferred income taxes

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

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

Deferred taxes are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax base. Deferred taxes are not recognized for:

- temporary differences when recognizing assets and liabilities for the first time in relation to transactions that do not impact net profit or taxable income; and
- temporary differences in relation to stakes in subsidiaries and associates, provided the Group is able to control the period of time over which these differences will be reversed and it is likely that they will not be reversed in the foreseeable future.

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

2.23 Equity

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

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

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

Offsetting of goodwill This item consists of the goodwill from acquisitions that is offset directly against equity at the time of acquisition.

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

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

2.24 Net sales

Net sales include the fair value of the consideration received from the sale of goods and the rendering of services by RUAG in its ordinary business operations. The amount is shown after any deductions for value added tax, price reductions, rebates and discounts and intra-Group sales. RUAG records its sales when the amounts can be measured reliably, future cash flows are likely and the specific criteria described below have been fulfilled.

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

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

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

Sales from fixed price agreements are measured using the percentage of completion method when both the full costs incurred up to completion of the order and the stage of completion at the end of the reporting period can be reliably determined. The stage of completion is derived from the relationship between contract costs incurred and the total estimated cost of the order (cost-to-cost method) or using

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

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

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

2.25 Segment information

Reportable operating segments are determined on the basis of the management approach. External segment reporting is then carried out in accordance with RUAG's organizational and management structure as well as internal financial reporting to RUAG's Chief Operating Decision Maker, the CEO. Reporting is broken down according to the "Space", "Aerostructures", "Aviation", "Ammotec" and "Defence" segments. In addition, "Services" – comprising central services such as IT and real estate management, as well as RUAG's corporate units – is presented as a separate segment. Unrealized gains or losses may be incurred as a result of services or disposal of assets between the individual segments. They are eliminated and stated in segment information, in the "Elimination" column. The segment assets contain all the assets required for operations that can be assigned to a specific operating segment. The segment assets primarily comprise receivables, inventories, property, plant and equipment and intangible assets. The segment investments contain additions to property, plant and equipment and other intangible assets.

Space segment RUAG Space is the largest independent aerospace supplier in Europe. Development and manufacturing expertise are focused on five product areas: structures and separation systems for launch vehicles, structures and mechanisms for satellites, digital electronics for satellites and launch vehicles, satellite communications equipment and satellite instruments.

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

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

Ammotec segment RUAG Ammotec is the global technology leader in environmentally friendly pyrotechnic products. 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 RUAG Defence is the strategic technology partner for land forces. Core competencies are heavy weapon system upgrades, protection solutions for armoured vehicles, logistics solutions, virtual and live simulation systems, and integrating, maintaining and operating electronic command and control, communication, radar and reconnaissance systems for military and civil organizations.

2.26 Related party transactions

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

2.27 Derivative financial and hedging instruments

Derivative financial instruments are measured at fair value. The way in which the gain or loss is measured depends on whether the instrument is used for the purpose of hedging a specific risk and the conditions for hedge accounting are met. The objective of hedge accounting is to ensure the change in value of the hedged item and hedge instrument is included in the income statement at the same time.

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

during the life of the hedge, the Group documents the extent to which the derivatives used for the hedge offset the change in fair value of the hedged item. When a contract is concluded, a derivative instrument is defined as

- a hedge on the change in the fair value of a recorded asset or a liability (fair value hedge), or as
- a hedge on cash flows from a forecasted transaction or firm commitment (cash flow hedge), or as
- a hedge on a net investment in a foreign operation.

Changes in the fair value of hedging instruments that are 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 equity and separately disclosed under "Other reserves". 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.

Currently, RUAG has only hedges on cash flows from forecasted transactions or firm commitments (cash flow hedge).

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

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

Inventories and work in progress The current value of inventories and work in progress is reassessed periodically. This involves classifying the individual items in terms of inventory sales ratios and valuing them accordingly. The carrying amount of inventories and work in progress as well as valuation allowances are explained in Note 15 "Inventories and work in progress".

Long-term construction and service contracts and manufacturing agreements Estimates with a significant effect are used as the basis for the measurement of long-term construction and service contracts using the percentage of completion method. Although the estimates, such as the projects' stage of completion and estimated contract costs, are made to the best of management's knowledge about current events and possible future measures, actual outcomes may ultimately differ from these estimates. Please also refer to the explanations in Note 16 "Percentage of completion" and Note 26 "Provisions".

Property, plant and equipment and intangible assets Property, plant and equipment and intangible assets are reviewed annually for indications of impairment. If there are indications that these assets are overvalued, an estimate is made of the future cash flows expected to result from the utilization of these assets or their possible disposal. Actual cash flows may differ from the discounted future cash flows based on these estimates. Factors such as changes in the planned use of property, plant and equipment, site closures, technical obsolescence or lower-than-forecast sales of products, the rights to which have been recognized, may shorten the estimated useful life or result in impairment. The carrying values of property, plant and equipment and intangible assets are disclosed in Note 17 "Property, plant and equipment", Note 18 "Investment properties" and Note 19 "Intangible assets".

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. The carrying values of such provisions are disclosed in Note 26 "Provisions".

Deferred income taxes Deferred tax assets are recognized based on management's judgement. Deferred tax assets are only recognized for tax loss carryforwards if it is probable that they can be used. Their use depends on the ability to generate future taxable profits that can be offset against existing loss carryforwards. An assessment as to the probability of their future use requires estimates of various factors such as future earnings. If actual amounts differ from the estimates, this may result in a change in the assessment of the deferred tax assets' recoverability. The carrying values of current and deferred tax assets and liabilities are disclosed in the consolidated balance sheet and Note 11 "Income taxes".

4 Acquisitions, mergers, formations and disposals of companies

Acquisitions of subsidiaries and business areas

Glaser Handels-AG As of 7 January 2015, RUAG Holding Ltd acquired 100 % of the shares of Glaser Handels-AG, headquartered in Winterthur. The purpose of the company is the bulk sale of hunting and sports guns together with the relevant ammunition. With this acquisition, RUAG has strengthened and expanded its hunting and sports business in Europe through having its own wholesale business.

The activities have been fully consolidated for the entire financial year 2015. In the first year following the takeover, Glaser Handels-AG generated sales of CHF 6.8 million and a profit of CHF 0.5 million.

RUAG Space Finland Oy AB (acquisition of assets and liabilities)

RUAG Sweden AB, headquartered in Gothenburg (Sweden), has reached an agreement with the company Patria Aviation Oy, which is headquartered in Halli (Finland), concerning the purchase of the business operations and related assets of the aerospace unit. For the purpose of acquiring this aerospace business, the company RUAG Space Finland Oy AB, headquartered in Tampere (Finland), was formed on 16 February 2015 (see "Formations" below). The purpose of the company is the development, production and marketing of products for the aerospace industry and other related business areas. The most important product areas of RUAG Space Finland Oy AB are electronics for monitoring and controlling satellites, power supply systems and electronic component assemblies and the related test systems. By making this acquisition, RUAG has broadened its technology base and further developed its product portfolio in the area of aerospace electronics.

Its activities have been consolidated since the date of the acquisition (1 May 2015). In the first year of the acquisition (eight months), the company generated sales of CHF 1.7 million and a loss of CHF 0.9 million. The 2015 result includes non-recurring integration costs from the acquisition of the business operations.

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

Their activities have been consolidated since the date of the acquisition (1 August 2014). In the first year of the acquisition (five months), the acquirees generated sales of CHF 2.6 million and a loss of CHF 0.2 million. Had the acquisition taken place on 1 January 2014, sales would have amounted to around CHF 5.3 million and the loss to around CHF 0.3 million.

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

The effect of the acquisitions carried out in the year under review and the previous year on the consolidated financial statements can be seen in the table "Effects of acquisitions and disposals of subsidiaries and of the acquisition of business areas" and in the additional notes below the table.

Acquisitions of non-controlling interests No non-controlling interests were acquired during financial year 2015.

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

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

Mergers No companies were merged during financial year 2015.

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

Formations For the purpose of acquiring the aerospace business of Patria Aviation OY, headquartered in Halli (Finland), the company RUAG Space Finland Oy AB, headquartered in Tampere (Finland), was formed on 16 February 2015. For further information on this, please refer to "Acquisitions of subsidiaries and business areas".

RUAG Holding USA Inc., headquartered in Huntsville (Alabama, USA), was formed as of 3 November 2015. The purpose of this company is to acquire, sell, manage, hold and administer investments abroad, to provide related or similar services and to carry out management functions. In financial year 2015, this company did not yet have any significant activities.

RUVEX Ltd, headquartered in Berne, was formed on 11 August 2014. The purpose of this company is to acquire, sell, manage, hold and administer investments in the military and civilian sectors in Switzerland and abroad, particularly in the simulation & training area, to provide related or similar services and to carry out management functions. In financial years 2014 and 2015, this company did not yet have any significant activities.

RUAG Simulation Company LLC, headquartered in Abu Dhabi (UAE), was formed on 11 November 2014. RUAG holds a 49 % interest in this company through RUVEX Ltd. The company offers a range of services in the defence sector, particularly in the simulation & training segment. These include the design of software and hardware components, for example, and the development, production, assembly and integration of simulation and training systems. An important goal for the company is to comply with existing and future offset obligations in the United Arab Emirates. In financial years 2014 and 2015, this company did not yet have any significant activities.

Disposals of subsidiaries No entities were disposed of during financial year 2015 or the previous year.

Effects of acquisitions and disposals of subsidiaries and of the acquisition of business areas The effects of acquisitions and disposals of subsidiaries and of the acquisition of business areas on RUAG's consolidated financial statements are shown in the table below.

**Effects of acquisitions and disposals of subsidiaries
and of the acquisition of business areas**

in CHF m	Acquisition 2015	Disposal 2015	Acquisition 2014	Disposal 2014
Current assets	5	—	3	—
Property, plant and equipment	0	—	0	—
Intangible assets	—	—	3	—
Goodwill	—	—	—	—
Current and non-current liabilities	(1)	—	(1)	—
Deferred tax liabilities	—	—	(1)	—
Assets and liabilities acquired (disposed)	5	—	4	—
Agreed price/consideration	(4)	—	(4)	—
Escrow account	—	—	—	—
Earn-out	(0)	—	—	—
Outstanding payment	—	—	1	—
Assumption of financial liabilities	—	—	—	—
Foreign currency translation adjustments	—	—	—	—
Gross cash (outflow) inflow	(4)	—	(3)	—
Cash and cash equivalents acquired (disposed)	1	—	0	—
Net cash (outflow) inflow	(3)	—	(2)	—

Additional notes on the acquisition of Glaser Handels-AG as at 7 January 2015 and the acquisition of the assets and liabilities of the aerospace unit of Patria Aviation OY by the newly formed company RUAG Space Finland Oy AB as at 7 May 2015
Consideration and identifiable assets acquired and liabilities assumed

The consideration transferred for these acquisitions and the identifiable assets acquired and liabilities assumed in this context as at the acquisition date are shown in the table "Effects of acquisitions and disposals of subsidiaries and of the acquisition of business areas" above.

Calculation of fair value The valuation methods used to calculate the fair value of the material assets acquired were as follows:

Inventories and work in progress The fair values were determined based on the estimated selling price under normal business conditions, less the estimated finishing and sales costs as well as an appropriate profit margin based on the work required to finish and sell the inventories and work in progress.

Goodwill/badwill A badwill amount of CHF 0.6 million resulted from the acquisition of Glaser Handel-AG. This amount was recognized in "Other operating expenses, net".

The acquisition of the aerospace unit of Patria Aviation OY (acquisition of assets and liabilities) by the newly formed company RUAG Space Finland Oy AB did not result in a material goodwill amount.

Expenses related to acquisitions During the year under review, the expenses incurred by RUAG in relation to these acquisitions amounted to around CHF 0.3 million. In particular, this figure includes external legal and consultancy fees. These expenses were recognized in "Other operating expenses, net".

5 Segment information

in CHF m

	2015	2014	2015	2014	2015	2014
	Space	Space	Aerostructures	Aerostructures	Aviation	Aviation
Net sales with third parties	310	321	195	194	470	514
Net sales with other segments	1	1	1	2	10	12
Total net sales	310	322	196	195	479	525
Earnings before interest, taxes, depreciation and amortization (EBITDA)	45	44	11	3	49	44
Depreciation, amortization and impairment	(21)	(21)	(2)	(2)	(7)	(6)
Earnings before interest and taxes (EBIT)	24	23	9	1	42	37
Net financial result						
Share in income of associates						
Earnings before taxes						
Income taxes						
Net profit						
Net operating assets by region	60	60	87	71	87	21
Net operating assets Switzerland	17	23	40	35	48	(7)
Net operating assets Rest of Europe	44	37	47	36	24	12
Net operating assets Rest of world	—	—	—	—	15	17
Property, plant and equipment and intangible assets	63	73	14	12	62	46
Property, plant and equipment and intangible assets Switzerland (incl. investment properties)	46	53	11	9	35	19
Property, plant and equipment and intangible assets Rest of Europe	16	20	3	3	11	9
Property, plant and equipment and intangible assets Rest of world	—	—	—	—	16	17
Capital expenditures for property, plant and equipment and intangible assets	(13)	(16)	(5)	(2)	(25)	(8)
Disposal of property, plant and equipment and intangible assets	0	0	0	1	0	0

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

Products and services of the individual segments are described in Note 2.25, "Segment information".

2015 Ammotec	2014 Ammotec	2015 Defence	2014 Defence	2015 Services	2014 Services	2015 Total Segments	2014 Total Segments	2015 Eliminations	2014 Eliminations	2015 Group total	2014 Group total
339	333	376	363	54	57	1 744	1 781	—	—	1 744	1 781
1	1	4	4	122	127	140	146	(140)	(146)	—	0
340	334	381	367	177	184	1 884	1 927	(140)	(146)	1 744	1 781
39	47	35	24	39	31	217	192	—	—	217	192
(12)	(12)	(12)	(12)	(27)	(27)	(80)	(79)	—	—	(80)	(79)
26	35	23	13	12	4	137	113	—	—	137	113
				9	(1)	9	(1)			(1)	(15)
										9	(1)
										144	97
										(28)	(13)
										117	84
264	275	(14)	45	279	284	762	756	0	(3)	762	753
67	74	(33)	20	284	288	423	432	(1)	(3)	422	429
166	174	19	24	(5)	(4)	293	280	1	(0)	294	279
31	27	—	—	—	—	46	44	0	0	46	44
97	93	30	42	300	308	565	573	—	(3)	565	570
26	23	17	24	300	307	435	435	—	0	435	435
68	68	13	18	0	0	112	118	—	(3)	112	116
2	3	—	—	—	—	18	20	—	0	18	20
(23)	(30)	(3)	(6)	(22)	(21)	(91)	(82)	—	—	(91)	(82)
0	0	0	3	9	3	10	7	—	—	10	7

6 Net sales

in CHF m	2015	2014
Invoiced sales	1 781	1 785
Change in contracts under the percentage of completion (PoC) method	(37)	(4)
Total net sales	1 744	1 781

DDPS	565	538
Third parties	1 217	1 246
Invoiced sales by customer group	1 781	1 785

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

with the DDPS are primarily attributable to the Aviation, Defence and Ammotec segments.

Defence	795	774
Civil	986	1 011
Invoiced sales by type of use	1 781	1 785

Switzerland	679	658
Rest of Europe	785	805
Middle East	19	24
North America	212	196
South America	19	21
Asia/Pacific	57	70
Africa	11	11
Invoiced sales by region	1 781	1 785

Invoiced sales in "rest of Europe" primarily concern Germany, France, the UK, Netherlands and Italy.

7 Personnel expenses

in CHF m	2015	2014
Salaries and wages	(606)	(628)
Expense of benefit plans	(46)	(47)
Other social security expenses	(80)	(86)
Contract personnel	(33)	(36)
Other personnel expenses	(31)	(28)
Total personnel expenses	(796)	(825)

8 Other operating expenses, net

in CHF m	2015	2014
Premises costs	(22)	(23)
Maintenance and repairs of property, plant and equipment	(45)	(49)
Cost of energy and waste disposal	(11)	(13)
Insurance and duties	(7)	(7)
Administration and IT costs	(48)	(42)
Advertising costs	(27)	(25)
Other operating expenses	(65)	(53)
Other operating income	22	33
Total other operating expenses, net	(204)	(180)

Other operating expenses include net exchange losses of CHF 9 million (previous year: CHF 3 million).

The increase in other operating expenses is primarily attributable to the creation of a provision for restructuring costs amounting to CHF 12 million. For more information, see Note 26 "Provisions".

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

9 Research and development expenses

in CHF m	2015	2014
Total research and development expenses	146	140

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

Self-financed research and development costs amounted to CHF 44 million (previous year: CHF 40 million).

10 Financial income/financial expenses

in CHF m	2015	2014
Interest income	4	2
Realized exchange gains	0	—
Realized gains from securities	—	—
Total financial income	5	2
Interest expense	(3)	(17)
Realized exchange losses	(3)	(0)
Realized losses from securities	—	—
Impairment of financial assets	(0)	—
Total financial expenses	(6)	(17)

In addition to conventional interest income/expenses, any impact on income resulting from a change in the discount rate that is reflected in the pension fund's liabilities being discounted/compounded is recog-

nized and shown in net interest/financial result. In financial year 2015, such interest income amounted to CHF 2 million (previous year: interest expenses of CHF 15 million).

11 Income taxes

in CHF m	2015	2014
Current income tax expense of the reporting period	(32)	(22)
Adjustments to current income taxes from prior periods	0	1
Current income tax expense	(32)	(21)
Origination (reversal) of temporary differences	3	9
Effect of tax rate changes	0	(0)
Recognition of previously unrecognized tax losses	1	3
Use of recognized tax loss carryforwards	(2)	(3)
Deferred tax income	4	8
Income tax expense in profit or loss	(28)	(13)

In addition, the following deferred taxes are recognized in equity:

in CHF m	2015 Before tax	2015 Tax (expense)/ income	2015 Net (after tax)	2014 Before tax	2014 Tax (expense)/ income	2014 Net (after tax)
Change in fair value of cash flow hedges	(12)	4	(8)	(14)	4	(10)
Gains and losses from cash flow hedges transferred to profit or loss	16	(6)	10	6	(2)	4
Foreign currency translation adjustments of foreign subsidiaries	(30)	0	(30)	(9)	0	(9)
Deferred taxes in equity	(27)	(1)	(28)	(17)	2	(14)

Analysis of income tax expense

The following table shows the reconciliation of taxable profit to effective income tax expense. The applicable income tax rate for

the purposes of the following analysis is the average income tax rate of the Group companies weighted by profit or loss; it is 24.5 % (previous year: 23.9 %).

in CHF m	2015	2014
Earnings before taxes	144	97
Expected weighted tax rate in %	24.5 %	23.9 %
Expected income tax expense	(35)	(23)
Reconciliation of effective income tax expense		
Effect of recognizing of tax loss carryforwards from prior years	1	3
Effect of using unrecognized tax loss carryforwards from prior years	0	0
Effect of current losses for which tax loss carryforwards are not recognized	(0)	—
Effect of non-deductible expenses	(0)	(0)
Effect of tax-free income	5	2
Effect of income taxed at lower rates	—	2
Effect of tax rate changes	0	(0)
Effect of tax credits (losses) from prior periods	0	1
Other effects (including effect of share in profit or loss of associates)	1	2
Effective income tax expense	(28)	(13)
Effective income tax rate	19.2 %	13.4 %

Individual countries (cantons in the case of Switzerland) operate different tax laws and different rates of tax. For this reason, the weighted average of the expected tax rate may vary between periods, which is

attributable to the profits or losses generated in each individual country or canton.

Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities break down as follows:

in CHF m	2015 Deferred tax assets	2015 Deferred tax liabilities	2014 Deferred tax assets	2014 Deferred tax liabilities
Assets				
Receivables and prepayments	1	3	1	3
Inventories and work in progress	0	10	0	11
Property, plant and equipment and investment property	3	15	4	16
Intangible assets	1	7	1	11
Tax loss carryforwards	4	—	4	—
Employee benefit assets	—	—	—	—
Other asset items	1	3	1	4
Liabilities				
Deferred income and accrued expenses	3	0	2	0
Current and non-current provisions	3	8	2	8
Employee benefit obligations	6	—	8	—
Other liability items	3	5	5	4
Deferred taxes before offsetting	24	51	28	57
Offsetting of deferred tax assets and liabilities	(11)	(11)	(13)	(13)
Total deferred taxes	13	38	15	43

Deferred tax assets and liabilities changed as follows:

in CHF m	2015	2014
Total deferred taxes at 1 January	(29)	(39)
Changes recognized in profit or loss	4	8
Changes in equity with no impact on profit or loss	(1)	2
Changes in the scope of consolidation	—	(1)
Foreign currency translation adjustments	(0)	1
Total deferred taxes at 31 December	(26)	(29)
of which deferred tax assets	13	15
of which deferred tax liabilities	(38)	(43)

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

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

The tax loss carryforwards are due to expire as follows:

in CHF m	2015	2014
Expiring within 1 year	—	—
Expiring in 1 to 2 years	—	—
Expiring in 2 to 3 years	1	—
Expiring in 3 to 4 years	—	1
Expiring in 4 to 5 years	3	—
Expiring in 5 to 6 years	0	3
Expiring in 6 to 7 years	1	0
Expiring in more than 7 years	10	18
Total tax loss carryforwards	15	23
Potential tax effect of tax loss carryforwards	4	5
of which recognized as deferred tax assets	4	4
of which not recognized	0	1

12 Cash and cash equivalents

in CHF m	2015	2014
Cash on hand	1	0
Demand deposits with financial institutions	232	202
Money market investments	—	—
Total cash and cash equivalents	233	202

Currencies of cash and cash equivalents

in CHF m	2015	2014
CHF	165	79
EUR	41	67
USD	13	33
SEK	10	15
Other	5	8
Total cash and cash equivalents	233	202

13 Financial assets

Current financial assets

in CHF m	2015	2014
Derivative financial instruments	8	10
Total current financial assets	8	10

Current financial assets comprise the fair value of open foreign currency hedging transactions (see also the information on financial instruments in Note 35, "Risk management process, financial risk management and capital management").

Non-current financial assets

in CHF m	2015	2014
Money market investments	0	0
Other receivables from third parties	3	2
Valuation allowances	(0)	(0)
Total non-current financial assets	3	2

Currencies of current and non-current financial assets

in CHF m	2015	2014
CHF	2	1
EUR	4	3
USD	4	7
SEK	1	2
Other	0	0
Total financial assets	11	12

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

14 Receivables and prepayments

in CHF m	2015	2014
Trade receivables	281	251
Receivables from associates	0	0
Prepayments to suppliers	26	16
Valuation allowances	(10)	(12)
Total trade receivables and prepayments	297	255
Current receivables from government bodies	13	18
Other current receivables	16	11
Total other receivables	29	29
Total receivables and prepayments	326	284

Maturity profile of receivables and prepayments

in CHF m	2015	2014
Not past due	219	202
Past due 1–30 days	49	26
Past due 31–60 days	9	16
Past due 61–90 days	18	16
Past due 91–180 days	5	12
Past due over 180 days	24	12
Total receivables and prepayments	326	284

Currencies of receivables and prepayments

in CHF m	2015	2014
CHF	103	84
EUR	130	113
USD	79	60
SEK	4	2
Other	11	24
Total receivables and prepayments	326	284

Valuation allowances for doubtful receivables comprise specific valuation allowances for specifically identified items where there is a high risk of non-payment and global valuation allowances based on historical experience.

The allowance for receivables and prepayments changed as follows:

Valuation allowances for doubtful receivables

in CHF m	2015	2014
Balance at 1 January	(12)	(10)
Increase in allowance	(3)	(6)
Utilization of allowance	2	2
Reversal of allowance	3	1
Currency differences	—	—
Carrying amount at 31 December	(10)	(12)

Allowances for doubtful receivables are held in an allowance account. Changes are recognized in other operating expenses. No valuation allowances were required for financial instruments in categories other

than loans and receivables at the end of the reporting period. Receivables judged to be unrecoverable are written off as realized losses.

15 Inventories and work in progress

in CHF m	2015	2014
Raw materials and supplies	266	229
Work in progress at cost of conversion	125	147
Work in progress (percentage of completion) ¹	62	118
Semi-finished goods	95	121
Finished goods	68	71
Valuation allowances	(100)	(106)
Total inventories and work in progress	516	579

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

In the reporting period, a total of CHF 394 million (previous year: CHF 370 million) in raw materials and supplies, semi-finished and finished goods, and work in progress was charged to cost of materials.

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

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

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

16 Percentage of Completion (PoC)

Long-term construction and service contracts

in CHF m	2015	2014
Contract sales and costs of ongoing projects at the end of the reporting period		
Aggregated contract sales at the end of the reporting period	1 223	1 445
Aggregated contract costs at the end of the reporting period	(982)	(1 082)
Realized margin at the end of the reporting period	241	363
Cumulative balance of ongoing projects at the end of the reporting period		
Gross amount due from customers for contract work	62	118
Gross amount due to customers for contract work	(90)	(107)
Net position	(28)	11
Advances received from customers relating to PoC contracts	21	38

17 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 2014	504	232	74	459	25	1 294
Additions from acquisition of subsidiaries	0	0	—	—	—	0
Eliminations from the scope of consolidation	—	—	—	—	—	—
Additions	19	16	0	4	40	79
Disposals	(39)	(13)	—	(1)	(0)	(53)
Reclassifications	4	4	—	3	(11)	0
Foreign currency translation adjustments	(5)	(2)	0	(1)	(0)	(8)
As at 31 December 2014	483	237	74	464	53	1 312

Accumulated depreciation and impairment losses

As at 1 January 2014	399	180	0	320	—	899
Additions from acquisition of subsidiaries	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—
Depreciation	19	16	0	16	—	51
Disposals	(38)	(10)	—	(1)	—	(49)
Depreciation of net carrying amount	(0)	(0)	—	(0)	—	(0)
Reclassifications	0	0	—	(0)	—	0
Foreign currency translation adjustments	(4)	(1)	(0)	(0)	—	(6)
As at 31 December 2014	376	185	0	335	—	896

At cost

As at 1 January 2015	483	237	74	464	53	1 312
Additions from acquisition of subsidiaries	0	0	—	0	—	0
Eliminations from the scope of consolidation	—	—	—	—	—	—
Additions	22	23	2	12	28	86
Disposals	(23)	(31)	(0)	(8)	—	(62)
Reclassifications	20	7	—	11	(36)	1
Foreign currency translation adjustments	(14)	(7)	(1)	(2)	(2)	(26)
As at 31 December 2015	488	230	75	477	42	1 311

Accumulated depreciation and impairment losses

As at 1 January 2015	376	185	0	335	—	896
Additions from acquisition of subsidiaries	—	0	—	—	—	0
Eliminations from the scope of consolidation	—	—	—	—	—	—
Depreciation	19	17	0	16	—	52
Disposals	(23)	(30)	—	(6)	—	(58)
Depreciation of net carrying amount	(0)	0	—	—	—	(0)
Reclassifications	(0)	0	—	(1)	—	(0)
Foreign currency translation adjustments	(9)	(5)	(0)	(1)	—	(15)
As at 31 December 2015	364	167	0	343	—	874

Net carrying amount

As at 1 January 2014	105	52	74	140	25	395
As at 31 December 2014	107	53	74	129	53	416
As at 31 December 2015	124	63	75	134	42	438

¹ Fixtures and fittings, computer hardware and software, motor vehicles and aircraft.

The total amount of property, plant and equipment pledged as collateral is listed in Note 32 "Assets pledged as collateral".

Leased property, plant and equipment

in CHF m	2015	2014
At cost	7	7
Accumulated depreciation and impairment losses	(5)	(5)
Carrying amount at 31 December	1	2

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

in CHF m	2015	2014
Plant and equipment	0	0
Other	1	2
Carrying amount at 31 December	1	2

Fire insurance values

in CHF m	2015	2014
Plant and equipment	1 156	1 324
Property	952	927
Total fire insurance values	2 108	2 251

18 Investment properties

in CHF m	2015	2014
At cost		
As at 1 January	349	348
Additions from acquisition of subsidiaries	—	—
Eliminations from the scope of consolidation	—	—
Additions	2	2
Disposals	—	(0)
Reclassifications	(0)	(0)
Foreign currency translation adjustments	—	—
As at 31 December	351	349

Accumulated depreciation and impairment losses

As at 1 January	252	247
Additions from acquisition of subsidiaries	—	—
Eliminations from the scope of consolidation	—	—
Depreciation	6	6
Impairment losses	—	—
Disposals	—	—
Depreciation of net carrying amount	—	—
Reclassifications	—	(0)
Foreign currency translation adjustments	—	—
As at 31 December	258	252

Net carrying amount

As at 1 January	97	101
As at 31 December	93	97

Fire insurance values

in CHF m	2015	2014
Investment property	451	436
Total fire insurance values	451	436

Investment property is measured at cost minus accumulated depreciation. The fair value of the properties set out below is calculated solely

for disclosure reasons and was measured using the discounted cash flow (DCF) method.

in CHF m	2015	2014
Fair value (DCF calculation)	247	231
Rental income from investment property	20	22
Real estate expenses	12	16
of which on let property	10	13
of which on vacant property	2	2
Agreed capital commitments and commitments in respect of maintenance work	0	0
Future minimum rental income from non-cancellable rental contracts	66	54

Majority leased sites to third parties are classified as investment properties. In 2015 as in the previous year, there were six such sites: Berne, Altdorf, Zwieselberg (Thun-Boden), Aigle, Unterseen and Wimmis.

The year-on-year increase in fair value is particularly attributable to the performance of repair work and lower discount rates.

Valuation techniques As was the case in the previous year, no fair value measurement was carried out by an external expert during the year under review. RUAG Real Estate Ltd calculates the fair value of investment property using the discounted cash flow (DCF) method.

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

19 Intangible assets

in CHF m

	Patents	Trademarks and prototypes	Licences and rights	Order backlog and customer relationships	Intangible assets
At cost					
As at 1 January 2014	2	11	21	145	179
Additions from acquisition of subsidiaries	0	—	0	3	3
Eliminations from the scope of consolidation	—	—	(0)	—	(0)
Additions	0	—	3	—	3
Disposals	—	—	—	—	—
Reclassifications	—	—	—	—	—
Foreign currency translation adjustments	(0)	(0)	(0)	(2)	(2)
As at 31 December 2014	2	10	23	147	183
Accumulated amortization and impairment losses					
As at 1 January 2014	2	11	15	77	106
Additions from acquisition of subsidiaries	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	(0)	—	(0)
Amortization	0	—	2	20	22
Disposals	—	—	—	—	—
Reclassifications	—	—	—	—	—
Foreign currency translation adjustments	(0)	(0)	(0)	(1)	(1)
As at 31 December 2014	2	10	17	96	126
At cost					
As at 1 January 2015	2	10	23	147	183
Additions from acquisition of subsidiaries	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—
Additions	—	—	3	—	3
Disposals	—	—	(0)	—	(0)
Reclassifications	—	—	—	—	—
Foreign currency translation adjustments	(0)	(1)	(2)	(4)	(6)
As at 31 December 2015	2	9	24	143	179
Accumulated amortization and impairment losses					
As at 1 January 2015	2	10	17	96	126
Additions from acquisition of subsidiaries	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—
Amortization	—	—	1	22	22
Disposals	—	—	(0)	—	(0)
Reclassifications	—	—	—	—	—
Foreign currency translation adjustments	(0)	(1)	(1)	(2)	(4)
As at 31 December 2015	2	9	17	116	144
Net carrying amounts					
As at 1 January 2014	0	—	6	68	73
As at 31 December 2014	0	—	6	51	57
As at 31 December 2015	0	—	8	27	35

Amortization and impairment of intangible assets are reported in the consolidated income statement under "Amortization and impairment of intangible assets".

Goodwill The goodwill from acquisitions is offset directly against the equity at the time of acquisition. The theoretical capitalization, based on a useful life of five years, would have the following impact on the consolidated financial statements:

Theoretical movement schedule for goodwill

in CHF m	Space	Aerostructures	Aviation	Ammotec	Defence	Total
At cost						
As at 1 January 2014	61	—	0	13	10	84
Additions from acquisition of subsidiaries	—	—	—	—	—	—
Adjustments	—	—	—	—	(2)	(2) ¹
Foreign currency translation adjustments	(1)	—	0	(0)	(0)	(1)
As at 31 December 2014	61	—	0	13	8	82

Accumulated amortization and impairment losses

As at 1 January 2014	56	—	0	13	4	73
Theoretical ordinary amortization	5	—	—	—	1	6
Foreign currency translation adjustments	(1)	—	0	(0)	(0)	(1)
As at 31 December 2014	61	—	0	13	5	79

At cost

As at 1 January 2015	61	—	0	13	8	82
Additions from acquisition of subsidiaries	—	—	—	—	—	—
Adjustments	—	—	—	—	—	—
Foreign currency translation adjustments	(1)	—	0	(1)	(0)	(2)
As at 31 December 2015	60	—	0	12	8	79

Accumulated amortization and impairment losses

As at 1 January 2015	61	—	0	13	5	79
Theoretical ordinary amortization	—	—	—	—	1	1
Foreign currency translation adjustments	(1)	—	0	(1)	(0)	(2)
As at 31 December 2015	60	—	0	12	6	77

Theoretical net book value

As at 1 January 2014	5	—	—	—	6	11
As at 31 December 2014	—	—	—	—	3	3
As at 31 December 2015	—	—	—	—	2	2

¹ As at 31 December 2013, the fair value of the assets acquired and liabilities assumed in connection with the acquisition of GAVAP had been determined only provisionally. In 2014, the final purchase price allocation was completed within twelve months of the acquisition date, with no significant differences arising compared with the original measurements. However, a reduction on the original contractual purchase price was agreed in the course of subsequent negotiations with the seller. Contrary to assumptions as at 31 December 2013, the purchase price was EUR 16.6 million (CHF 20.2 million), (including an earn-out component in the amount of EUR 1.0 million [CHF 1.2 million]), rather than EUR 18.0 million (CHF 22.0 million). The reduction in the purchase price reduced the goodwill item that arose from the acquisition and was recognized in respect of GAVAP as at 31 December 2013 at EUR 1.4 million (CHF 1.7 million).

Capitalizing the goodwill and amortizing it over five years would have the following theoretical impact on the consolidated income statement and consolidated balance sheet:

Impact on consolidated income statement

in CHF m	2015	2014
Earnings before interest and taxes (EBIT)	137	113
Theoretical amortization of goodwill	(1)	(6)
Theoretical EBIT incl. amortization of goodwill	136	107
Net profit	117	84
Theoretical amortization of goodwill	(1)	(6)
Theoretical net profit incl. amortization of goodwill	116	77

Impact on consolidated balance sheet

in CHF m	2015	2014
Equity according to the balance sheet	951	883
Theoretical capitalization of net book value of goodwill	2	3
Theoretical equity incl. net book value of goodwill	953	886

20 Associates

in CHF m	2015	2014
Carrying amount of interests in associates as at 1 January	33	37
Acquisitions	—	—
Additions from acquisition of subsidiaries	—	—
Share in profit/loss of associates from discontinued operations	—	—
Share in profit/loss of associates from continued operations	9	(1)
Dividends	(2)	(3)
Reclassifications	—	—
Foreign currency translation adjustments	(1)	(0)
Carrying amount of interests in associates as at 31 December	39	33

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

Aggregate investments of RUAG in associates

in CHF m	2015	2014
Share in profit of associates from continued operations	8	5
Share in changes in equity	1	(6)
Share in profit/loss of associates from continued operations	9	(1)

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

Aggregate financial information for associates

in CHF m	2015	2014
Total assets	207	196
Total liabilities	121	122
Net assets	86	74
Net sales	149	155
Profit from continued operations	17	10

There are no contingent liabilities for RUAG relating to associates.

21 Financial liabilities**Current financial liabilities**

in CHF m	Note	2015	2014
Due to financial institutions		0	6
Financial liabilities to third parties ¹		10	17
Liabilities to associates		—	—
Financial liabilities to employee benefit funds		—	—
Lease liabilities	31	1	1
Current portion of non-current financial liabilities		—	—
Total current financial liabilities		10	23

¹ This item primarily contains the negative fair values of foreign currency forward transactions.

Non-current financial liabilities

in CHF m	Note	2015	2014
Due to financial institutions		0	0
Lease liabilities	31	1	1
Loans secured by property		—	—
Bond issues		—	—
Liabilities to associates		—	—
Total non-current financial liabilities		1	1

The carrying amounts of the non-current financial liabilities do not vary significantly from the fair value. The average rate of interest on non-current financial liabilities in the year under review was 3.5 % (previous year: 3.4 %).

Maturity structure of financial liabilities

in CHF m	2015	2014
Up to 1 year	10	23
Up to 2 years	0	1
Up to 3 years	0	0
Up to 4 years	0	0
Over 4 years	0	0
Total financial liabilities	11	25

After all fixed advances under the syndicated loan were repaid in full as at 31 December 2014 (expiration date), the credit agreement was cancelled. As a result, there were no covenants in place as at the balance-sheet date of 31 December 2015 or 31 December 2014.

Currencies of financial liabilities

in CHF m	2015	2014
CHF	1	2
EUR	2	3
USD	6	11
SEK	1	0
Other	1	8
Total financial liabilities	11	25

22 Other current liabilities

in CHF m	2015	2014
Due to third parties	12	14
Due to associates	—	—
Due to government bodies	23	27
Due to shareholders	—	—
Due to employee benefit funds	1	0
Total current liabilities	36	41

23 Trade accounts payable and prepayments

in CHF m	2015	2014
Trade accounts payable	99	86
Trade accounts payable to associates	0	0
Prepayments from customers	156	195
Prepayments from associates	—	—
Total trade accounts payable and prepayments	255	281

Currencies of trade accounts payable and prepayments

in CHF m	2015	2014
CHF	128	147
EUR	93	102
USD	19	15
SEK	12	8
Other	3	9
Total trade accounts payable and prepayments	255	281

24 Other non-current liabilities

in CHF m	2015	2014
Due to third parties	3	1
Due to associates	—	—
Due to shareholders	—	—
Due to employee benefit funds	—	—
Total other non-current liabilities	3	1

25 Deferred income and accrued expenses

in CHF m	2015	2014
Deferred income and accrued expenses for PoC orders	90	107
Income relating to future periods	7	7
Outstanding trade accounts payable	41	31
Outstanding multi-year SLA expenses	1	3
Personnel-related accrued expenses	22	23
Other deferred income and accrued expenses	50	68
Total deferred income and accrued expenses	210	239

26 Provisions

in CHF m

	Restructuring	Contract losses	Warranties	Holiday and overtime	Loyalty bonuses and anniversary benefits	Other	Total
Balance at 1 January 2014	8	19	22	37	21	27	133
Additions from acquisition of subsidiaries	—	—	—	—	0	0	0
Eliminations from the scope of consolidation	(0)	—	(0)	(0)	(0)	(0)	(0)
Additions	1	9	5	17	4	23	60
Release of unused provisions	(0)	(2)	(4)	0	(1)	(8)	(15)
Use of provisions	(5)	(11)	(4)	(20)	(2)	(18)	(60)
Reclassifications	—	—	—	(0)	(0)	0	—
Foreign currency translation adjustments	(0)	(0)	(0)	(1)	(0)	(0)	(1)
Balance at 31 December 2014	4	14	19	33	22	24	117
Current provisions	2	8	14	33	1	11	69
Non-current provisions	2	6	5	(0)	21	14	48
Balance at 1 January 2015	4	14	19	33	22	24	117
Additions from acquisition of subsidiaries	—	—	—	0	—	—	0
Eliminations from the scope of consolidation	—	—	—	—	—	—	—
Additions	13	9	8	20	3	12	65
Release of unused provisions	(0)	(2)	(3)	—	(0)	(3)	(8)
Use of provisions	(2)	(5)	(5)	(21)	(2)	(3)	(37)
Reclassifications	1	(0)	—	—	—	(1)	—
Foreign currency translation adjustments	0	(0)	(1)	(1)	(0)	(2)	(5)
Balance at 31 December 2015	15	16	18	31	23	29	132
Current provisions	2	11	17	31	1	17	79
Non-current provisions	13	5	1	—	22	11	53

The development of provisions in 2015 was shaped by the following material events:

As at the end of 2015, additional restructuring provisions in the amount of CHF 12 million were created with regard to the relocation of business activities (previous year: CHF 1 million). In 2014, the Board of Directors of RUAG approved an investment in a new Composite Center for the production of payload fairings (launchers) and other structures at the Emmen site. On 10 December 2015, the new finishing hall in Emmen for payload fairings for launch vehicles was transferred to RUAG Space. In addition, a new production site is being created in the USA (Decatur, Alabama) for orders from United Launch Alliance (ULA), which is related to the development of new payload fairings for Vulcan launch vehicles. The first employees are already in Decatur and are setting up production. Linked to this decision is the gradual transfer of the production of payload fairings (Launchers business unit) from Zurich-Seebach to Emmen and the USA (Decatur, Alabama), which will result in a restructuring at the Zurich-Seebach site. The associated cash outflows will primarily occur between 2017 and 2019.

In the Aviation division, as part of the ongoing implementation of measures designed to improve efficiency across the locations in Germany and Switzerland, a further CHF 2 million of the restructuring provision created between 2012 and 2014 was used in the year under review.

In the Ammotec division, CHF 1 million was released from the warranty provision as the actual warranty expenses incurred in the past were lower than originally assumed. The other adjustments occurred as a result of ordinary fluctuations in day-to-day business. The non-current portion of the provisions is likely to be used in the period 2017–19.

The increase in the provisions for loyalty bonuses and anniversary benefits is mainly due to the lower discount rate compared to the previous year. As at 31 December 2015, a discount rate of 0.5 % (previous year: 1.3 %) was used to calculate the long company service provisions for employees in Switzerland. This was also based on other actuarial assumptions, such as employee fluctuations and salary increases; these did not differ materially from the assumptions in the previous year. Payment of the non-current portion of the provisions is expected as of 2017.

In relation to the acquisition of the interest in GEKE Schutztechnik GmbH in 2009, the Defence division had to increase the provisions for potential liabilities to the former owner (outstanding purchase price payments) by CHF 1 million at the end of 2015. As was the case in 2014, other provisions totalling CHF 1 million were created in the Ammotec division due to delivery delays and offset obligations for projects in the United Arab Emirates. At the same time, contractual penalty payments occurred during 2015 amounting to around CHF 1 million in relation to the provisions created in previous years. During 2015, the Space divi-

sion had to slightly increase its provision for severance payment obligations by CHF 1 million, bringing its current size to CHF 6 million. A provision of CHF 1 million had to be created in the Aerostructures division to cover the termination of a contract. Furthermore, provisions were recognized in this division for follow-up project costs amounting to around CHF 3 million. In the Aviation division, provisions totalling CHF 1 million had to be created for retrofitting in accordance with safety regulations.

27 Employee benefit obligations

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

Employee benefit plan in Switzerland 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 to rehabilitate the fund. 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.

Management staff at RUAG Switzerland are also insured under the KADERVORSORGE RUAG plan. KADERVORSORGE RUAG is an addition to VORSORGE RUAG and exclusively provides benefits over and above the compulsory minimum. As part of the management insurance, the bonuses of the management staff are insured. It is conceived as a defined contribution plan and only provides lump-sum payments (no pensions). In the event of death or disability, a risk capital payment is made in addition to the saved capital which is financed by risk contributions.

Employee benefit plan in Germany There are pension commitments in Germany with respect to active and retired employees which cover old-age, loss of income and survivors' pensions. Benefits are essentially divided into a basic pension scheme, which – except for a few transitional arrangements – is managed by the Dynamit Nobel VVaG pension fund, and a supplementary pension scheme which is run directly via RUAG Ammotec GmbH as a defined benefit scheme. The basic pension is determined by salary components up to the contribution assessment ceiling in the statutory pension insurance scheme. The supplementary pension is made up of salary-dependent contributions for remuneration components above the contribution assessment ceiling.

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

Employee benefit plan in Sweden The existing ITP plan was renegotiated with effect from 1 January 2007, and became a defined contribution plan ITP 1 from that point onwards. However, all staff born before 1979 are still insured under the ITP 2 defined benefit plan. Alongside a final salary retirement pension, the plan also includes surviving dependants' and disability pension cover provided by Alecta.

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

The following table shows the economic benefit and economic liability at the end of 2015 and 2014 and the corresponding development of benefit plan expenses:

in CHF m	Surplus/ deficit in accordance with FER 26	2015 Group's economic share	2014 Group's economic share	Foreign currency translation adjustments	Year-on-year changes/ expenses for reporting period	Contribu- tions accrued for the period	2015 Expense of benefit plans in personnel expenses	Year-on-year changes/ expenses for reporting period	2015 Expense of benefit plans in financial result	2014 Expense of benefit plans in personnel expenses	2014 Expense of benefit plans in financial result
Patronal financing foundation	145	—	—	—	—	—	—	—	—	—	—
Benefit plans without surplus/deficit	—	—	—	—	—	39	39	—	—	40	—
Benefit plans with surplus	—	—	—	—	—	—	—	—	—	—	—
Benefit plans with deficit	—	—	—	—	—	—	—	—	—	—	—
Benefit plans without plan assets	—	(54)	(62)	(6)	0	0	0	(2)	(2)	0	15
Total	—	(54)	(62)	(6)	0	39	39	(2)	(2)	40	15

The free reserves of the patronal financing foundation are not designated for economic use by the Group. The benefit plans without surplus/deficit include the VORSORGE RUAG defined benefit plan and the KADERVORSORGE RUAG management plan in Switzerland.

The recognized economic liabilities for benefit plans without plan assets, i.e. unfunded plans, amount to CHF 54 million (previous year: CHF 62 million) and mainly relate to the pension plans in Germany and Sweden.

The following table contains a summary of the benefit plan expenses for 2015 and 2014:

in CHF m	Switzerland	Abroad	2015 Total	Switzerland	Abroad	2014 Total
Contributions to benefit plans at expense of Group companies	39	0	39	40	0	40
Contributions to benefit plans from employer contribution reserves	—	—	—	—	—	—
Total contributions	39	0	39	40	0	40
+/- change in ECR from portfolio performance, impairment etc.	—	—	—	—	—	—
Contributions and change in employer contribution reserves	39	0	39	40	0	40
Increase/Decrease in economic benefit of Group from surpluses	—	—	—	—	—	—
Decrease/Increase in economic liability of Group from deficits	—	—	—	—	—	—
Decrease/Increase in economic liability of Group (plans without plan assets)	—	0	0	—	0	0
Total change in economic impact from surpluses/deficits	—	0	0	—	0	0
Expense of benefit plans in personnel expenses for period	39	0	39	40	0	40
Increase/Decrease in economic benefit of Group from surpluses	—	—	—	—	—	—
Decrease/Increase in economic liability of Group from deficits	—	—	—	—	—	—
Decrease/Increase in economic liability of Group (plans without plan assets)	—	(2)	(2)	—	15	15
Total change in economic impact from surpluses/deficits	—	(2)	(2)	—	15	15
Expense of benefit plans in financial result for period	—	(2)	(2)	—	15	15
Total expense of benefit plans for period	39	(2)	37	40	15	55

The change in recognized economic liabilities from benefit plans and paid-in employer contributions for 2015 amount to CHF 37 million

(previous year: CHF 55 million) and are included in personnel expenses/financial result.

28 Share capital

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

29 Contingent liabilities towards third parties

in CHF m	2015	2014
Group guarantees	81	89
Bank guarantee obligations	97	108
Total contingent liabilities towards third parties	178	197

Group guarantees are primarily performance and advance payment guarantees issued as part of operational business to customers as well as to banks to secure bank credit limits. Bank guarantee obligations are primarily performance and advance payment guarantees issued to customers.

30 Additional contingent liabilities not stated on the balance sheet

in CHF m	2015	2014
Warranty contracts	—	—
Letters of intent	—	—
Agreed contractual penalties (fines and premiums)	4	8
Legal proceedings	1	1
Bill commitments	—	—
Capital commitments for property, plant and equipment (incl. investment properties)	12	9
Other liabilities not stated on the balance sheet	2	0
Total contingent liabilities not stated on the balance sheet	19	18

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 & Secretary General 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.

31 Future minimum commitments from leasing transactions**Finance leases**

in CHF m	2015	2014
Within 1 year	1	1
Later than 1 year, within 5 years	1	1
After 5 years	—	—
Total	1	2
Less future interest costs	(0)	(0)
Total lease liabilities recognized	1	2

Operating leases

in CHF m	2015	2014
Within 1 year	18	19
Later than 1 year, within 5 years	60	66
After 5 years	17	16
Total	96	100

These comprise unrecognized obligations under operating leases (including rental agreements). Future operating lease liabilities are therefore not reported in the balance sheet.

32 Assets pledged as collateral

in CHF m	2015	2014
Cash and cash equivalents	—	3
Receivables and inventories	—	—
Plant and equipment	0	1
Property	2	4
Total assets pledged as collateral	2	8

33 Related party transactions

in CHF m	2015	2014
Receivables from related parties	63	16
Liabilities to related parties	(0)	(0)
Prepayments from related parties	(38)	(34)
Current liabilities to employee benefit funds	—	—
Non-current liabilities to employee benefit funds	—	—

In the year under review, CHF 63 million of receivables from related parties (previous year: CHF 16 million) and CHF 0.1 million of liabilities to related parties (previous year: CHF 0.4 million) were attributable to the DDPS. Invoiced sales to the DDPS totalled CHF 565 million (previous year: CHF 538 million) as stated in Note 6, "Net sales". In return, the DDPS supplied materials and services totalling CHF 8 million

(previous year: CHF 6 million). There were no loans between the Group companies and members of the Board of Directors. In 2014, turnover of CHF 0.3 million (previous year: CHF 1.3 million) was generated with associates and services with a value of CHF 2.5 million (previous year: CHF 2.3 million) purchased.

34 Compensation of key management personnel

The overall emoluments paid to non-executive members of the Board of Directors for the 2015 financial year amounted to CHF 802,000 (previous year: CHF 823,000). The overall emoluments paid to the CEO, the Group Executive Board and the Extended Management Board for the 2015 financial year amounted to CHF 7,039,000 (previous year: CHF 6,075,000).¹

The overall emoluments paid to the CEO for the 2015 financial year amounted to CHF 1,118,000 (previous year: CHF 992,000).¹

¹ The overall emoluments are exclusive of the employer's social insurance contributions.

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

in CHF thousands	Total		Maximum overall compensation ¹	
	2015	2014	2015	2014
Basic salary of Board of Directors				
Cash compensation	802	823	198	223
Total compensation paid to members of the Board of Directors	802	823	198	223
Basic salary of Group Executive Board (incl. Extended Management Board)				
Cash compensation ²	3 790	3 585	484	484
Benefits in kind	274	250	26	26
Employer contributions to pension funds	443	391	65	56
Performance-based component, Group Executive Board (incl. Extended Management Board)				
Cash compensation ³	2 298	1 580	500	364
Employer contributions to pension funds	234	269	43	62
Other long-term employee benefits	—	—	—	—
Total compensation paid to members of the Group Executive Board (incl. Extended Management Board)	7 039	6 075	1 118	992
of which cash compensation	6 088	5 165	984	848
of which benefits in kind	274	250	26	26
of which employer contributions to pension funds	677	660	108	118
of which other long-term employee benefits	—	—	—	—
Relation between performance-related component and cash compensation	61 %	44 %	103 %	75 %
Total compensation paid to members of the Board of Directors and Group Executive Board (incl. Extended Management Board)	7 841	6 898		
of which short-term employee benefits ⁴	7 164	6 238		
of which employer contributions to pension funds	677	660		
of which other long-term employee benefits	—	—		

¹ With regard to the Board of Directors, the amount for the year under review comprises the remuneration for Chairman of the Board Hans-Peter Schwald and, for the previous year, the remuneration for Chairman of the Board Konrad Peter (period from 1.1.–30.6.2014) and for Chairman of the Board Hans-Peter Schwald (period 15.5.–31.12.2014).

² In reporting year 2015, unlike in the previous year, the position of Head of the Aerostructures Division was filled for the entire year.

³ In reporting year 2015, this for the first time includes LTI entitlements from the LTI Plan 2013–15.

⁴ Includes cash compensation and benefits in kind.

35 Risk management process, financial risk management and capital management
Risk management process

The risk management system of RUAG differentiates between strategic and operational risks and focuses on relevant topics from the perspective of the Group and the divisions. Risks are identified, assessed and monitored in the individual divisions using a structured, bottom-up risk assessment. In order to prevent or reduce the individual risks, the appropriate measures are defined and implemented. At Group level, the aggregate risks relevant for the Group are monitored and managed by the Group Executive Board.

The risks identified are assessed in terms of probability of occurrence and impact, and are entered on the Group's risk map. This risk map is periodically discussed with the Group Executive Board, the Audit Committee and the entire Board of Directors. Depending on the way responsibilities are defined, the Group Executive Board or divisional management are responsible for the ongoing monitoring, control and management of risks. As part of this, the management is supported by the Risk Manager in training sessions or moderating workshops.

Financial risk management

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

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

a. Market risks

RUAG is exposed to market risks that largely relate to changes in exchange and interest rates and would therefore impact the value of the financial instruments held or the income/expenses associated with these. The Group monitors these risks continuously. It employs a number of derivative financial instruments to manage the volatility associated with these risks. The Group's objective is to reduce where appropriate fluctuations in earnings and cash flows associated with changes in interest rates, exchange rates and the value of financial assets.

In compliance with Group policy, RUAG employs derivative financial instruments (e.g. foreign currency forward transactions) 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.

Exchange rate risk The consolidated financial statements are presented in Swiss francs (CHF). The Group is mainly subject to changes in the exchange rates of the euro, US dollar 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.

At the end of the reporting period and of the previous year, the following foreign currency positions were recognized in the balance sheet in relation to financial assets and liabilities:

as at 31 December 2015

in CHF m	EUR	USD	SEK	Other
Cash and cash equivalents	41	13	10	5
Trade receivables/other receivables	120	63	4	11
Other financial assets	4	4	1	0
Financial liabilities	(2)	(6)	(1)	(1)
Trade accounts payable/other liabilities	(41)	(16)	(15)	(0)
Other financial liabilities	—	—	(1)	—
Total foreign currency positions as of balance sheet date from financial assets and liabilities	121	58	(2)	14

as at 31 December 2014

in CHF m	EUR	USD	SEK	Other
Cash and cash equivalents	67	33	15	8
Trade receivables/other receivables	104	59	2	24
Other financial assets	3	7	2	0
Financial liabilities	(3)	(11)	(0)	(8)
Trade accounts payable/other liabilities	(25)	(15)	(7)	(5)
Other financial liabilities	—	—	(1)	—
Total foreign currency positions as of balance sheet date from financial assets and liabilities	146	74	10	19

The following currency hedging transactions existed as at 31 December:

Volume of contracts

in CHF m	2015	2014
Currency hedging contracts banks positive	360	301
Currency hedging contracts banks negative	(79)	(131)

Carrying amount

in CHF m	2015	2014
Current financial assets	8	10
Current financial liabilities	(10)	(16)

The carrying amounts only contain the positive and negative replacement values from foreign currency forward transactions that are recognized at fair value. The following tables show the contractual due dates of the foreign currency forward transactions held by RUAG at the end of 2015 and 2014:

as at 31 December 2015

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Over 3 years	Total
Foreign currency forward transactions used for hedging purposes:					
Outflows	(8)	(1)	(0)	(0)	(10)
Inflows	7	1	0	0	8
	(1)	(0)	0	0	(1)

as at 31 December 2014

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Over 3 years	Total
Foreign currency forward transactions used for hedging purposes:					
Outflows	(13)	(3)	(0)	(0)	(16)
Inflows	5	4	0	0	10
	(9)	1	0	0	(7)

Hedge accounting RUAG carries out foreign currency forward transactions to hedge future transactions in relation to its operational business (hedging future revenues or purchases of goods and services in the corresponding currencies); these hedging transactions have been designated for hedge accounting. The hedging reserve under shareholders' equity (other reserves) included the following as at 31 December:

in CHF m	2015	2014
Other reserves	(0)	(4)

Due to the occurrence of the underlying transactions, CHF 16 million was booked out of other reserves under shareholders' equity in 2015 and shown under other operating expenses (in the previous year, CHF 6 million was shown under other operating income).

RUAG Holding Ltd provides certain foreign Group companies with loans in EUR and AUD. These loans are not hedged. As at 31 December 2015, there were loans totalling EUR 175 million (previous year: EUR 179 million) and AUD 15 million (previous year: AUD 14 million). As these loans are equity-type loans because they are not scheduled or likely to be repaid in the foreseeable future, any foreign currency gains or losses are recognized directly in equity. The cumulative foreign exchange losses booked to equity that relate to these loans was CHF 24 million as at 31 December 2015 (previous year: CHF 1 million).

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. Interest-bearing financial liabilities largely comprise loans from financial institutions with variable interest rates. Due to the negative interest rate policy introduced by the Swiss National Bank in 2015 and the positive net financial position as at 31 December 2015, RUAG is also exposed to the risk of negative interest rates.

Interest-bearing financial liabilities

as at 31 December, in CHF m	2015	2014
Current financial liabilities	1	7
Non-current financial liabilities	1	1
Total interest-bearing financial liabilities	2	8
Of which variable interest-bearing	0	8
Fixed through interest rate swap	—	—
Variable interest-bearing, net	0	8

Interest expense for interest-bearing financial liabilities in the year under review amounted to CHF 0 million (previous year: CHF 2 million).

Commodity price risk In buying commodities (particularly copper, lead, aluminium, etc.) to be used as raw materials in production, the company is 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 and reduce to a minimum the price fluctuation risk of planned purchases.

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

Consumption		
in CHF m	2015	2014
Aluminium	5	4
Lead	12	12
Copper	23	23
Steel	2	2
Zinc	2	3
Total	44	45

b. Credit risk

Credit risks arise in particular when customers are not in a position to fulfil their contractual commitments. To manage this risk, the Group periodically evaluates customers' solvency. Sales from transactions with the DDPS amount to around 32 % of total sales (previous year: 30 %). No other customer accounts for more than 10 % of the Group's net sales. Trade and other receivables from the DDPS account for around 23 % (previous year: 7 %) of total trade and other receivables as at 31 December 2015. As at the balance-sheet date, there are no heavily concentrated default risks with regard to the recognized trade receivables.

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

in CHF m	2015	2014
Cash and cash equivalents	233	202
Current financial assets	8	10
Trade receivables/other receivables	300	268
Non-current financial assets	3	2
Total credit risk	544	482

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

c. Liquidity risk

Liquidity risk describes the risk that arises if the Group is not in a position to fulfil its obligations when due or at a reasonable price. Group Treasury is responsible for monitoring liquidity, financing and repayment. In addition, management controls processes and guidelines in this connection. To maintain flexibility, RUAG manages its liquidity risk on a consolidated basis, drawing on business policy, tax and financial considerations and, if necessary, various funding sources. A rolling liquidity plan is drawn up on the basis of expected cash flows and is regularly updated.

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

As at 31 December 2015

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Up to 3 years	Up to 4 years	Total
Cash and cash equivalents	233	—	—	—	—	233
Current financial assets ¹	—	—	—	—	—	—
Non-current financial assets	—	0	0	0	2	3
Current financial liabilities ¹	(1)	—	—	—	—	(1)
Non-current financial liabilities	—	(0)	(0)	(0)	(0)	(1)
Other non-current financial liabilities	—	(1)	(0)	(0)	(2)	(3)
Net financial position	232	(1)	(0)	(0)	(0)	231
Prepayments from customers						156
Net financial position excl. customer prepayments						75

As at 31 December 2014

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Up to 3 years	Up to 4 years	Total
Cash and cash equivalents	202	—	—	—	—	202
Current financial assets ¹	—	—	—	—	—	—
Non-current financial assets	—	0	0	0	1	2
Current financial liabilities ¹	(7)	—	—	—	—	(7)
Non-current financial liabilities	—	(1)	(0)	(0)	(0)	(1)
Other non-current financial liabilities	—	(1)	—	—	—	(1)
Net financial position	195	(2)	(0)	0	1	195
Prepayments from customers						195
Net financial position excl. customer prepayments						(0)

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

Capital management

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

36 Events after the reporting period

In January 2016, RUAG Space (part of RUAG Switzerland Ltd) decided to look for a new owner for the Opto-Electronics & Instruments product unit in Zurich. The development and production of specialized instruments and optoelectronics are no longer part of the division's strategic objectives. RUAG is looking for a solution which would allow the business to be successfully continued and jobs to be preserved. This intended disposal will not have a material impact on the consolidated financial statements.

On 4 February 2016, RUAG Switzerland Ltd, together with the Dutch VDL Group, created a joint venture (VDL-RUAG Shelters B.V.) to produce and subsequently maintain command & control shelters for the Dutch armed forces. This involved forming a private limited company (B.V.), of which RUAG owns 40%. Production will take place between 2016 and 2020, with the joint venture then ensuring the equipment is maintained after this.

On 25 February 2016, the Board of Directors of RUAG Holding Ltd approved the consolidated financial statements for publication. As at this time, no further events had occurred after the reporting period. In particular, no events had transpired that would have required the carrying values of the Group's assets and liabilities to be adjusted or that would have to be disclosed at this point. The Annual General Meeting has the right to approve the consolidated financial statements.

37 Consolidated companies, associates and non-controlling interests (as at 31 December 2015)

Company	Head office	Country	Equity capital (100 %)	Shareholding	Consolidation method
RUAG Holding AG ¹	Berne	Switzerland	CHF 340 000 000		Full
Consolidated companies					
RUAG Switzerland Ltd	Emmen	Switzerland	CHF 112 200 000	100.0 %	Full
RUAG Ammotec AG	Thun	Switzerland	CHF 12 000 000	100.0 %	Full
RUAG Real Estate Ltd	Berne	Switzerland	CHF 8 000 000	100.0 %	Full
Glaser Handels-AG	Winterthur	Switzerland	CHF 300 000	100.0 %	Full
RUAG Environment Ltd	Schattdorf	Switzerland	CHF 100 000	100.0 %	Full
RUAG Corporate Services Ltd	Berne	Switzerland	CHF 100 000	100.0 %	Full
RUVEX Ltd	Berne	Switzerland	CHF 100 000	100.0 %	Full
brings! AG	Schattdorf	Switzerland	CHF 100 000	55.0 %	Full
RUAG Deutschland GmbH	Wessling	Germany	EUR 1 000 000	100.0 %	Full
RUAG Aerospace Services GmbH	Wessling	Germany	EUR 1 000 000	100.0 %	Full
RUAG Aerospace Structures GmbH	Wessling	Germany	EUR 25 000	100.0 %	Full
RUAG Defence Deutschland GmbH	Wedel	Germany	EUR 260 000	100.0 %	Full
GEKE Schutztechnik GmbH	Lichtenau	Germany	EUR 25 000	51.0 %	Full
RUAG Ammotec Deutschland GmbH	Fürth	Germany	EUR 100 000	100.0 %	Full
RUAG Ammotec GmbH	Fürth	Germany	EUR 25 000	100.0 %	Full
Glückauf-Logistik GmbH	Kassel	Germany	EUR 25 750	100.0 %	Full
Herkules Fahrzeuglogistik GmbH	Kassel	Germany	EUR 76 694	100.0 %	Full
RUAG Sweden AB	Göteborg	Sweden	SEK 100 000	100.0 %	Full
RUAG Space AB	Göteborg	Sweden	SEK 15 000 000	100.0 %	Full
Norma Precision AB	Amotfors	Sweden	SEK 2 500 000	100.0 %	Full
RUAG Australia PTY Ltd.	Bayswater	Australia	AUD 10 000	100.0 %	Full
RUAG Ammotec Benelux BVBA	Boechout	Belgium	EUR 25 000	100.0 %	Full
RUAG Ammotec UK Ltd.	Liskeard	Great Britain	GBP 15 000	100.0 %	Full
RUAG Space Finland Oy AB	Tampere	Finland	EUR 2 500	100.0 %	Full
RUAG Holding France SAS	Terssac	France	EUR 100 000	100.0 %	Full
Génie Audio-Visuel et Applications					
Professionnelles (GAVAP) SAS	Terssac	France	EUR 400 000	100.0 %	Full
RUAG Ammotec France SAS	Paris	France	EUR 1 000 000	100.0 %	Full
RUAG Aviation Malaysia SDN BHD	Kuala Lumpur	Malaysia	MYR 1 500 100	65.0 %	Full
RUAG Ammotec Austria GmbH	Vienna	Austria	EUR 297 959	100.0 %	Full
RUAG Space GmbH	Vienna	Austria	EUR 1 500 000	100.0 %	Full
RUAG Hungarian Ammotec Inc.	Sirok	Hungary	HUF 280 000 000	100.0 %	Full
RUAG Ammotec USA Inc.	Tampa, FL	USA	USD 6 500 000	100.0 %	Full
Mecanex USA Inc.	Berlin, CT	USA	USD 1 500	100.0 %	Full
RUAG Simulation Company LLC	Abu Dhabi	UAE	AED 150 000	49.0 %	Full
RUAG Space GmbH	Zurich	Switzerland	CHF 20 000	100.0 %	³
RUAG Industria e Comercio de Municoes Ltda	São Francisco	Brazil	BRL 200 000	100.0 %	³
RUAG do Brasil Serviços Aeronáuticos Ltda	Rio de Janeiro	Brazil	BRL 10 000	90.0 %	³
RUAG Holding USA Inc.	Huntsville, AL	USA	USD 0.1	100.0 %	³
RUAG Space USA Inc.	El Segundo, CA	USA	USD 1 000	100.0 %	³

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

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

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

Company	Head office	Country	Equity capital (100 %)	Shareholding	Consolidation method
Associates ²					
Nitrochemie AG	Wimmis	Switzerland	CHF 1 000 000	49.0 %	Equity
Nitrochemie Wimmis AG	Wimmis	Switzerland	CHF 25 000 000	45.0 %	Equity
Nidwalden AirPark Ltd	Stans	Switzerland	CHF 1 000 000	40.0 %	Equity
Nitrochemie Aschau GmbH	Aschau	Germany	EUR 7 700 000	45.0 %	Equity
HTS GmbH	Coswig	Germany	EUR 26 000	24.6 %	Equity
Other investments					
Visier Medien Holding AG	Zug	Switzerland	CHF 400 000	49.5 %	³
CFS Engineering SA	Ecublens	Switzerland	CHF 150 000	40.0 %	³
AIONAV Systems Ltd	Muri bei Bern	Switzerland	CHF 100 000	12.0 %	³
InnoCampus Ltd	Nidau	Switzerland	CHF 1 307 500	7.6 %	³
Flughafen Bern AG	Berne	Switzerland	CHF 14 310 000	1.4 %	³
Brünig Indoor Aktiengesellschaft	Lungern	Switzerland	CHF 3 400 000	0.3 %	³
Gyttorp AB	Ingelstad	Sweden	SEK 356 200	40.0 %	³
Arianespace Participation	Evry	France	EUR 3 922 842	3.5 %	³
Arianespace SA	Evry	France	EUR 372 069	0.0 %	³

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

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

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



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

RUAG Holding Ltd, Bern

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the accompanying consolidated financial statements of RUAG Holding Ltd, which comprise the income statement, balance sheet, statement of cash flows, statement of changes in equity and notes (pages 60 to 104), for the year ended 31 December 2015.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.



*RUAG Holding Ltd, Bern
Report of the Statutory Auditor
on the Consolidated Financial Statements
to the General Meeting of Shareholders*

Report on Other Legal Requirements

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

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

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

KPMG AG

A handwritten signature in blue ink, appearing to read 'H. Bussmann', written over a light blue horizontal line.

Herbert Bussmann
*Licensed Audit Expert
Auditor in Charge*

A handwritten signature in blue ink, appearing to read 'F. Krapp', written over a light blue horizontal line.

Florin Janine Krapp
Licensed Audit Expert

Gümligen-Bern, 25 February 2016

Income statement for 1 January to 31 December

in CHF m	Note	2015	2014
Dividend income	3.5	74	70
Income from services		4	4
Total operating income		78	74
Personnel expenses		(0)	(0)
Other operating expenses	3.6	(8)	(11)
Total operating expenses		(9)	(12)
Operating profit/loss		70	62
Financial income			
Interest income		7	13
Financial expenses			
Interest expense		(0)	(1)
Currency losses		(25)	(2)
Pre-tax net profit		51	72
Income taxes		0	(1)
Net profit for the year		51	72

The Notes to the Financial Statements on pages 109 to 111 form an integral part of the financial statements.

Balance sheet as at 31 December

in CHF m	Note	2015	2014
Cash and cash equivalents		171	131
Current financial assets			
Due to companies in which the entity holds an investment		37	34*
Other current receivables			
Due to third parties		0	1
Due to companies in which the entity holds an investment		12	11*
Total current assets		220	177
in % of total assets		17.9%	14.4%
Financial assets			
Due to companies in which the entity holds an investment		357	401
Investments	3.1	650	648
Intangible assets		0	0
Total non-current assets		1 008	1 049
in % of total assets		82.1%	85.6%
Total assets		1 228	1 226
Current financial liabilities			
Due to companies in which the entity holds an investment		241	264*
Other current interest-bearing liabilities			
Due to companies in which the entity holds an investment		43	43*
Other current liabilities			
Due to third parties		0	6
Due to companies in which the entity holds an investment		0	—
Deferred income and accrued expenses		2	3
Total current liabilities		287	315
Total liabilities		287	315
in % of total liabilities and equity		23.4%	25.7%
Share capital	3.3	340	340
Legal capital reserve			
Reserves from capital contributions	3.4	10	10
Legal retained earnings			
General legal retained earnings		39	36
Voluntary retained earnings			
Balance sheet profit			
Net profit brought forward		501	454
Net profit for the year		51	72
Total equity		941	911
in % of total liabilities and equity		76.6%	74.3%
Total liabilities and equity		1 228	1 226

* The prior-year figures have been adjusted in line with the new structure; see the explanation in the Notes.

The Notes to the Financial Statements on pages 109 to 111 form an integral part of the financial statements.

1 First-time application of new accounting law

The 2015 financial statements of RUAG Holding Ltd, headquartered in Berne, have been prepared in accordance with the provisions of Swiss accounting law (title 32 of the Code of Obligations). To ensure comparability, the prior-year balance-sheet and income-statement figures have been restated in line with the new provisions governing structure. The balance-sheet and income-statement items concerned are marked with an asterisk (*).

In particular, this concerns the following position:

- Financial assets and financial liabilities are now disclosed separately.

2 Principles

2.1 General

The key applied accounting principles that are not stipulated by law are described below. Here it must be noted that in order to ensure its long-term success, the company has made use of the option to create and release hidden reserves.

2.2 Financial assets

The financial assets include long-term loans. Loans provided in foreign currencies are valued using the closing rates on the balance-sheet date; in this regard, unrealized losses are recognized, while unrealized profits are not (impairment principle).

2.3 Investments

Investments are measured at cost minus the required impairment. The carrying amounts are reviewed on an annual basis with regard to their value and, if necessary, written down. The valuations are checked in accordance with the individual valuation principle.

2.4 Foreign currency forward transactions

Positive and negative replacement values of foreign currency forward transactions are not measured during their life because the net principle is applied. The contract volumes and replacement values of current transactions are listed in the notes under section 3.2.

2.5 Foreign currency valuation

Current assets and liabilities in foreign currencies are valued using the closing rates on the balance-sheet date. Profits or losses are recognized on a "realized" basis. For non-current assets and liabilities, the lowest value principle applies; any unrealized foreign exchange losses are treated as an expense, while unrealized profits are not recognized in the income statement.

2.6 Non-preparation of statement of cash flows and additional details in the notes

As RUAG Holding Ltd prepares its consolidated financial statements in line with recognized accounting standards (Swiss GAAP FER), in accordance with the statutory provisions it has not provided details in the notes to the financial statements concerning interest-bearing liabilities and audit fees, and has not prepared a statement of cash flows.

3 Information on balance sheet and income statement items

3.1 Investments

a) Direct investments

Company	Head office	Country	Share of capital and voting rights 2015 in %	Share of capital and voting rights 2014 in %		Capital 100 %
RUAG Switzerland Ltd	Emmen	Switzerland	100	100	CHF	112 200 000
RUAG Ammotec AG	Thun	Switzerland	100	100	CHF	12 000 000
RUAG Real Estate Ltd	Berne	Switzerland	100	100	CHF	8 000 000
RUAG Corporate Services Ltd	Berne	Switzerland	100	100	CHF	100 000
Glaser Handels-AG	Winterthur	Switzerland	100	0	CHF	300 000
RUAG Deutschland GmbH	Wessling	Germany	100	100	EUR	1 000 000
RUAG Sweden AB	Gothenburg	Sweden	100	100	SEK	100 000
RUAG Holding France SAS	Terresac	France	100	100	EUR	100 000
RUAG Australia PTY Ltd.	Bayswater	Australia	100	100	AUD	10 000
Nitrochemie AG	Wimmis	Switzerland	49	49	CHF	1 000 000
Nitrochemie Wimmis AG	Wimmis	Switzerland	45	45	CHF	25 000 000
Nitrochemie Aschau GmbH	Aschau	Germany	45	45	EUR	7 700 000
Flughafen Bern AG	Berne	Switzerland	1.4	2.0	CHF	14 310 000
InnoCampus Ltd	Nidau	Switzerland	7.6	9.2	CHF	1 307 500

b) Material indirect investments

Company	Head office	Country	Share of capital and voting rights 2015 in %	Share of capital and voting rights 2014 in %		Capital 100 %
RUAG Aerospace Services GmbH	Wessling	Germany	100	100	EUR	1 000 000
RUAG Aerospace Structures GmbH	Wessling	Germany	100	100	EUR	25 000
RUAG Ammotec GmbH	Fürth	Germany	100	100	EUR	25 000
RUAG Space AB	Gothenburg	Sweden	100	100	SEK	15 000 000

3.2 Foreign currency forward transactions

in CHF m	2015	2014
Volume of contracts with banks	360	301
Volume of contracts with banks	(79)	(131)
Volume of contracts with Group companies	84	126
Volume of contracts with Group companies	(350)	(296)
Positive replacement value banks	8	10
Negative replacement value banks	(10)	(16)
Positive replacement value Group companies	10	16
Negative replacement value Group companies	(8)	(9)
Total replacement values	0	(0)

The contract volumes represent the volume of open foreign currency forward transactions as at the year-end. The replacement values only contain the positive and negative replacement values from open for-

foreign currency forward transactions as at the year-end that are recognized at fair value.

3.3 Share capital

The share capital of CHF 340 million comprises 340,000 registered shares, each with a nominal value of CHF 1,000.

3.5 Dividend income

Dividend income primarily contains the dividends from RUAG Switzerland Ltd.

3.4 Reserves from capital contributions

The reserves from capital contributions contain the premium from the non-cash contribution from the former state-owned defence company to RUAG Holding Ltd as at 1 January 1999.

3.6 Other operating expenses

in CHF m	2015	2014
Advertising costs	(4)	(5)
Administration costs	(2)	(3)
Management fees (cost attributed to Holding)	(3)	(3)
Total other operating expenses	(8)	(11)

4 Further information**4.1 Full-time positions**

RUAG Holding Ltd does not employ any staff.

4.2 Collateral provided for third-party liabilities

in CHF m	2015	2014
Guarantees	111	104
Bank guarantees	33	35
Total contingent liabilities	144	139

Guarantee liabilities are primarily performance and advance payment guarantees issued as part of operational business, as well as guarantees to secure bank credit limits vis-à-vis the subsidiaries. This includes a letter of support issued by RUAG Holding Ltd on 9 July 2015 with a maximum amount of AUD 14.6 million in favour of RUAG Australia PTY Ltd.

The bank guarantees were issued by various banks on the instructions of RUAG Holding Ltd on behalf of RUAG Aerospace Services GmbH, Wessling and RUAG Switzerland Ltd (Defence division, Thun), in favour of third parties. These are also performance and advance payment guarantees issued as part of operational business as well as bank limit guarantees.

4.3 Events after the reporting period

No material events have taken place since the end of the reporting period that would have an impact on the carrying values of the assets and liabilities or would have to be disclosed here.

Proposal by the Board of Directors for the appropriation of available earnings

in CHF m	2015	2014
Balance sheet profit at the start of the financial year	501	454
Net profit for the year	51	72
Balance sheet profit at the disposal of the Annual General Meeting	552	525
The Board of Directors proposes to the Annual General Meeting the following appropriation of available earnings:		
Dividends	47	21
Allocation to general legal retained earnings	3	4
Balance to be brought forward	503	501



KPMG AG

Audit

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

RUAG Holding Ltd, Bern

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of RUAG Holding Ltd, which comprise the income statement, balance sheet and notes (pages 107 to 111), for the year ended 31 December 2015.

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 2015 comply with Swiss law and the company's articles of incorporation.



*RUAG Holding Ltd, Bern
Report of the Statutory Auditor
on the Financial Statements
to the General Meeting of Shareholders*

Report on Other Legal Requirements

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

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

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

KPMG AG

A handwritten signature in blue ink, appearing to read 'H. Bussmann', written in a cursive style.

Herbert Bussmann
*Licensed Audit Expert
Auditor in Charge*

A handwritten signature in blue ink, appearing to read 'F. Krapp', written in a cursive style.

Florin Janine Krapp
Licensed Audit Expert

Gümligen-Bern, 25 February 2016

RUAG follows clear rules

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

Board of Directors

The duties of the Board of Directors of RUAG Holding Ltd are governed by the Swiss Code of Obligations, the owner's strategy of the Swiss Federal Council, the Articles of Association and the Regulations Governing Organization and Operations. The Board of Directors of RUAG Holding Ltd currently consists of seven members, none of whom performed executive functions in the year under review or in the three preceding years. In addition, the members of the Board of Directors have no material business relationship with the Group. No changes to the Board of Directors were made in the year under review. The list on page 116 provides information about the name, year of birth, function, date of joining and remaining term of office of each member of the Board of Directors. Details of nationality, education and career milestones can be found on the RUAG website².

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 composition of the Board of Directors is international, but the majority of members must be Swiss nationals who are resident in Switzerland. The members of the Board of Directors are elected annually and individually and may be re-elected. RUAG does not specify an age limit for members of the Board of Directors, nor does it limit their term of office.



Dr. Remo Lütolf, Vice-Chairman



Markus Hutter, Member

¹ Unless otherwise specified, the information is applicable as at 31 December 2015.

² <http://www.ruag.com/group/management/board-of-directors>



Hans-Peter Schwald, Chairman



Egon W. Behle, Member



Paul Häring, Member



Prof. Sibylle Minder Hochreutener, Member



Jürg Oleas, Member

Board of Directors¹

Name	Born	Function	Member since	Elected until AGM
Hans-Peter Schwald	1959	Chairman, non-executive	2002	2016
Dr. Remo Lütolf	1956	Vice-Chairman, non-executive	2014	2016
Egon W. Behle	1955	Non-executive member	2011	2016
Paul Häring	1957	Non-executive member	2004	2016
Markus Hutter	1957	Non-executive member	2014	2016
Prof. Sibylle Minder Hochreutener	1973	Non-executive member	2014	2016
Jürg Oleas	1957	Non-executive member	2011	2016

¹ <http://www.ruag.com/group/management/board-of-directors>

Internal organization and tasks

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

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

- The strategic orientation and management of the Group in accordance with the owner's strategy of the Swiss Federal Council
- The structuring of the accounting system, financial controlling and financial planning
- The appointment and dismissal of the CEO, other members of the Group Executive Board and other senior executives
- Supreme oversight of business activities
- Production of the Annual Report, preparation of the AGM and implementation of resolutions passed by the latter

Decisions are taken by the Board of Directors as a whole. To assist the Board in preparing and implementing its decisions, three committees have been formed: an Audit Committee, a Nomination & Compensation Committee, and a Strategy Committee. In addition, the Board of Directors has also formed an Advisory Board. Beside the usual six meetings, the Board of Directors met for a strategy meeting in summer 2015, and conducted telephone calls as required. The agenda for meetings of the Board of Directors is set by the Chairman. Any member of the Board of Directors may request that an item be included on the agenda. The members are provided with documentation prior to each meeting to enable them to prepare for the items to be discussed.

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

Committees

The Board of Directors has formed an Audit Committee, a Nomination & Compensation Committee and a Strategy Committee, and has appointed Chairs for these committees. The committees meet regularly and prepare business for the full Board of Directors, draft related proposals and implement resolutions of the Board of Directors as required. The agenda of each committee's meetings is set by its Chairs. The members of the committees are provided with documentation prior to the meetings to enable them to prepare for the items on the agenda.

Audit Committee

The Audit Committee is composed of three members of the Board of Directors: Paul Häring (Chair), Hans-Peter Schwald and Jürg Oleas. The members of the Audit Committee are experienced in financial and accounting matters. The Audit Committee meets regularly and is convened by the Chair as often as business requires. Usually the meetings are also attended by the CEO, CFO, Vice President of Internal Audit, General Counsel and representatives of the statutory auditor.

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

- Assessing processes in the risk and control environment (internal control system)
- Monitoring financial reporting
- Assessing the internal and external auditors
- Defining and approving the focal points of the audits
- 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 Advisory Board helps the top management of RUAG to reflect and improve upon current processes and conduct.

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

Nomination & Compensation Committee

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

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

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

Strategy Committee

The Strategy Committee comprises three members of the Board of Directors: Jürg Oleas (Chair), Hans-Peter Schwald and Egon Behle. The Strategy Committee has four 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 clarifying 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. The meetings are usually also attended by the CEO and CFO and by the Vice President Strategy & Corporate Development.

Advisory Board

The Advisory Board helps the Board of Directors and Group Executive Board to better deliberate on, prepare, implement and communicate their decisions. The Advisory Board has no executive or supervisory functions, and is not an official organ of the company. The Advisory Board held three meetings in 2015. It comprises the following members: Philip W. Erzinger, Prof. Thomas Friedli and Prof. Alexandre J. Vautravers.

Even though RUAG complies strictly with the law, its activities are subject to close scrutiny and in some cases are rejected, depending on political or social orientation. Moreover, it is inherent in the Group's highly international activities that it is obliged to take account of and evaluate diverse political, cultural and economic views. The Advisory Board regularly assesses reputational, economic and compliance risks – and with regard to the latter especially the risk of corruption – in those countries in which RUAG operates or wishes to operate. In this way it helps to ensure that the top management bodies of RUAG can better judge the social situation and the international challenges as well as the consequences of pending decisions.

Information and control instruments

The RUAG Management Information System (MIS) is structured as follows: The separate financial statements (balance sheet, income statement and statement of cash flows) 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 presented in comparison with the budget. The budget, which represents the first year of a rolling five-year plan, is examined in the form of a feasibility forecast based on monthly results. The CEO submits a written monthly report on budget compliance to the Board of Directors.

Compliance Board

The Compliance organization, as restructured in the previous year, commenced its activities in the year under review. The Compliance Board enforces the prohibition on corruption and is responsible for operating the whistleblower system (see below). It implements the Export Compliance policy for defence applications and enforces the ban on illicit price-fixing and market manipulation (antitrust and competition law) and the prohibition of money laundering. The Compliance Board is composed of the General Counsel (Chair), the Vice President for Risk Management, the Chief Communication Officer, the Vice President Legal and one representative from each division. The Compliance Board meets at least twice a year. Statements and day-to-day business decisions are the responsibility of a committee composed of the General Counsel (Chair) and the Vice President for Risk Management. In 2015 RUAG introduced an e-learning tool for the Code of Conduct and the key compliance principles in German and English. Employees who have direct or indirect contact with customers, suppliers and service providers completed this e-learning program, including questions to check their understanding, in 2015. The tool is available to all employees (see p. 53).

Whistleblower system

The year under review was the first full year of operation of the independent reporting office which offers employees and third parties a way to report any abuses occurring at RUAG – anonymously if desired. The reporting tool, run by an external Swiss company, is intended to function as an early warning system and to help prevent, detect and remedy any irregularities. Incoming reports are seen and processed only by designated specialists from the Legal, Human Resources or Risk Management departments (see p. 52).

Code of Conduct for Business Partners

The Code of Conduct for Business Partners introduced in the previous year has been integrated into RUAG's General Terms and Conditions. Ever since it was founded, RUAG has been committed to conducting business in accordance with ethical principles and applicable law and in a socially responsible fashion. RUAG also expects its customers, suppliers and service providers and their supply chains to conduct themselves correctly in every respect (see p. 53).

"Saying no to corruption" directive

By systematically implementing the "Saying no to corruption" directive, which forms part of every RUAG employment contract, RUAG is affirming its commitment to being a fair competitor and refraining from seeking unfair advantage by providing financial or other incentives to third parties. RUAG likewise does not accept financial or other incentives in expectation of or as a reward for granting an unfair advantage (see p. 52).

Group Executive Board

Management organization

The Board of Directors has appointed a Group Executive Board under the chairmanship of the CEO. Since 1 April 2013, CEO Urs Breitmeier has been responsible for the day-to-day business of the company. Throughout 2015, together with the Group Executive Board, he was responsible for the overall management of the Group and for all matters not delegated to another governing body of the company by law, the Articles of Association or the Regulations Governing Organization and Operations. The powers and duties of the Group Executive Board and CEO are set out in detail in the Regulations Governing Organization and Operations and in the job description of the CEO.

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

Members of the Group Executive Board

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

Members of the Extended Management Board

Dr. Patrick Grawehr	1964	Member of the Extended Management Board, General Counsel	2014
Rita Baldegger	1965	Member of the Extended Management Board, Corporate Communication	2014
Andreas Fitze ²	1968	Member of the Extended Management Board, Corporate IT	2013

¹ <http://www.ruag.com/group/management/group-executive-board>

² Andreas Fitze is leaving the Extended Management Board with effect from 1 January 2016.

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

CEO

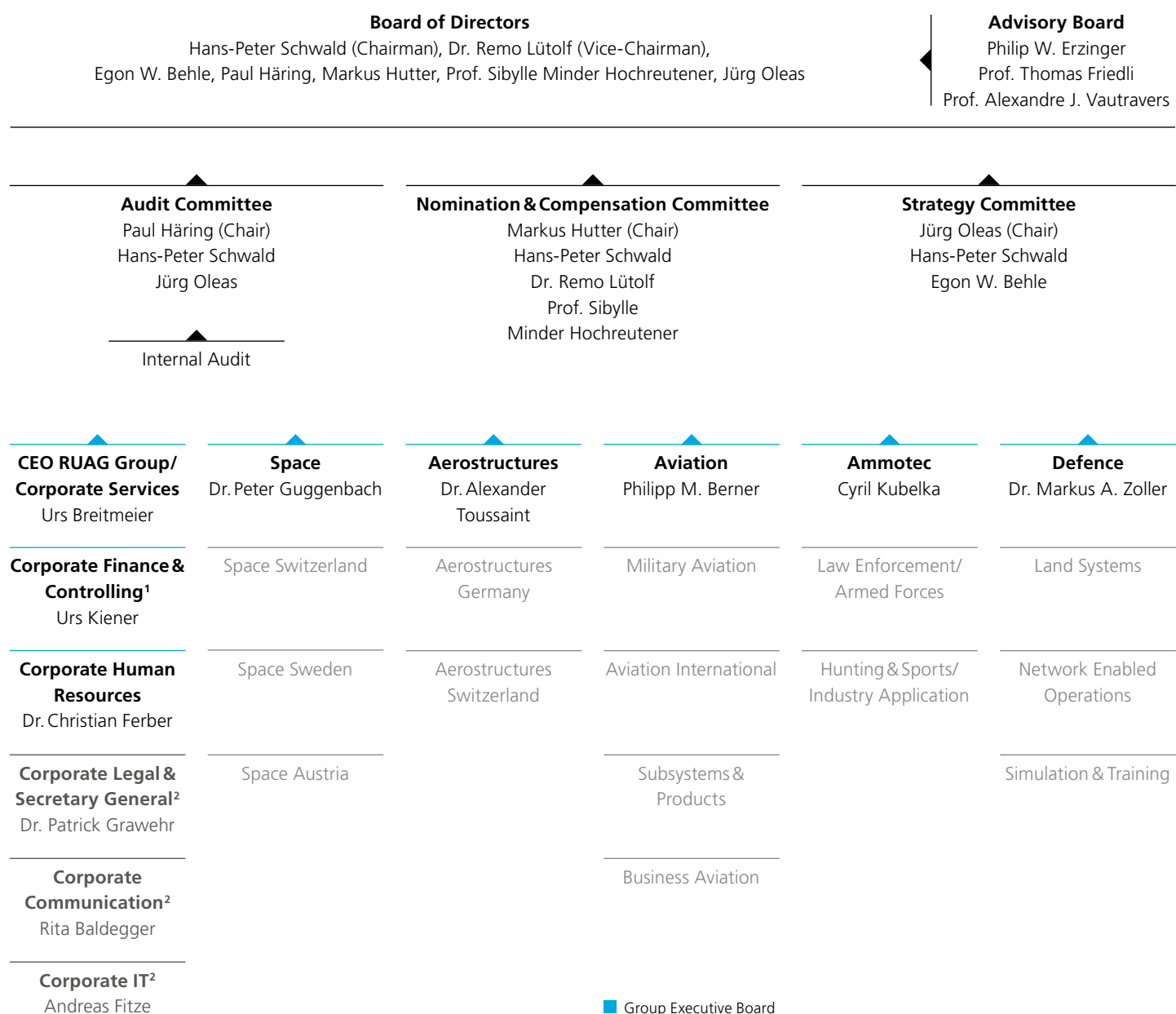
The CEO manages the Group. He submits the RUAG strategy, long and medium-term objectives and management guidelines to the full Board of Directors for their approval.

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

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

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

RUAG management structure as at 31 December 2015



■ Group Executive Board

¹ Including Real Estate/Environment, Risk Management, Procurement

² Extended Management Board

Andreas Fitze is leaving the Extended Management Board with effect from 1 January 2016.

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.

Group Executive Board

The list on page 118 provides information on the name, year of birth, function and date of joining of each member of the Group 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 Group Executive Board, taking the transparency provisions of the Swiss Code of Obligations (Art. 663b^{bis} and Art. 663c) into account. Compensation paid in accordance with these provisions of the Swiss Code of Obligations is listed in the financial statements in Note 34 "Compensation of key management personnel", with further details provided.

Compensation policy

RUAG's HR policy includes the principle that employee performance and company success are the main factors that determine compensation. The policy is aimed at implementing simple, clearly structured compensation systems that ensure fair pay and are transparent for employees. RUAG bases its salary level on market wages in the specific salary market concerned and reviews it regularly. Individual compensation is based on job requirements, the employee's skills and performance, and the company's financial success. Wherever possible, RUAG applies success- and performance-based compensation systems with an additional success-based variable component. These principles also apply in setting the compensation policy for the Group Executive Board, which is determined by the Board of Directors at the request of the NCC. RUAG also prepares an annual report for submission to the Swiss Federal Department of Defence, Civil Protection and Sport (DDPS), the Swiss Federal Council and the Finance Delegation of the Federal Assembly on compliance with the Federal Council's executive pay ordinance.

Board of Directors

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

Compensation consists of the following:

- Fixed basic salary
- Other benefits

Each member of the Board of Directors receives a fixed basic salary as part of his or her basic compensation. Other benefits comprise the payment by RUAG Holding Ltd of contributions to social security funds and reimbursement of expenses 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".

Group Executive Board

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

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

The fixed basic salary is determined primarily by the task, responsibility, qualifications and experience of the Board members, as well as the market environment. The performance-based component consists of a one-year Short Term Incentive Plan (STI) and a three-year Long Term Incentive Plan (LTI, with an initial measurement period running from 2013 to 2015 and subsequent three-year terms following on thereafter). Targets are determined with reference to the extent to which individual performance objectives are reached, and to the company's financial success. As part of the objective-setting process, measurable goals are set at the beginning of each year by the Board of Directors and the CEO for the members of the Group Executive Board. At the end of the financial year, the extent to which these objectives have been met is assessed.

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

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

The target figures are set for one year and the targets are weighted according to strategic priorities. A lower and an upper threshold are defined for each of the five value drivers. If the lower threshold is not reached for the criterion concerned, the related portion of the performance-based component is omitted. However, exceeding the

upper threshold does not lead to a further increase in the amount of the performance-based component. Goal attainment is weighted for the members of the Group Executive Board as follows: 20 % can be achieved for personal goals and 80 % for financial goals. In the case of the divisional CEOs, the financial goals are defined per division. In the case of the CEO and the Senior Vice Presidents of the service units, the financial goals of the Group apply. For the Members of the Extended Management Board, achievement of objectives is weighted 30 % for personal and 70 % for financial goals.

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

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

The total amount of the performance-based component is based on the extent to which the STI and LTI plan objectives are met. For the members of the Group Executive Board and the Extended Management Board, the performance-based component in 2015 ranged from 27 % (previous year: 14 %) to a maximum of 103 % (previous year: 75 %) of the annual cash remuneration.

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

The Long Term Incentive Plan aims to focus the efforts of top management on the long-term success of RUAG.

Other compensation

Severance payments: Members of the Board of Directors and of the Group Executive Board are not contractually entitled to any severance payments. In the 2015 financial year, no severance payments were paid to persons who terminated their function as a Board member in the year under review or earlier.

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

Additional fees: During the 2015 financial year, the members of the Group Executive Board or Board of Directors received no appreciable fees or other compensation for additional services rendered to RUAG Holding Ltd or any of its subsidiaries.

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

Capital structure

The share 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 2015, RUAG Holding Ltd did not have any contingent 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 holder 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 register of shareholders.

Shareholder structure**Shareholder**

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

Owner's strategy of the Swiss Federal Council

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

The 2011–14 owner's strategy of the Swiss Federal Council entered into force on 1 May 2011 and was extended in the 2015 financial year for the period until its renewal. It establishes the transparent, binding framework which enables RUAG Holding Ltd and its subsidiaries to fulfil their duties on a commercial basis while taking account of broader interests. The owner's strategy for the period 2016–19 was approved by the Swiss Federal Council in December 2015 and entered into force on 1 January 2016. The owner's strategy is enshrined in the Articles of Association of RUAG Holding Ltd.

Cross-shareholdings

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

Participation 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.

Statutory quorums

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

- Amendment of the company's objects
- Introduction of shares with preferential voting rights
- Restriction on the transferability of registered shares
- Authorized or contingent capital increase
- Capital increase funded by equity capital, against contributions in kind or to fund acquisitions in kind and the granting of special privileges
- Restriction or cancellation 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

Obligatory offer for sale

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

Change of control clauses

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

Pension fund

The VORSORGE RUAG pension fund cover ratio as at 31 December 2015 was 103 % (previous year: 103 %). The financial situation was thus kept stable despite low interest rates in the financial markets and the lowering of the technical interest rate to 1.5 %.

Statutory auditor

Duration of mandate of auditor in charge

At the Annual General Meeting of 23 April 2015, KPMG Ltd, Berne was elected as RUAG's statutory auditor for a further year.

Auditor in charge Herbert Bussmann has been responsible for the audit mandate since the AGM of May 2014.

Audit fees and additional expenses

KPMG invoiced the Group CHF 0.9 million (previous year: CHF 0.9 million) during the 2015 financial year for services related to the audit of the financial statements of RUAG Holding Ltd and its subsidiaries and of RUAG's consolidated financial statements.

In addition, KPMG invoiced RUAG CHF 0.4 million (previous year: CHF 0.1 million) during the 2015 financial year for audit-related services, tax advice and due diligence services.

Supervisory and control instruments

The Audit Committee of the Board of Directors assesses the performance, fees and independence of the statutory auditor each year and submits a proposal to the Board of Directors as to which external auditor should be recommended to the AGM for appointment. On 23 April 2015, the AGM reappointed KPMG as the statutory auditor. The Audit Committee 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. Quarterly discussions are held between the shareholder and the Board of Directors.

Fees paid to KPMG

in CHF 1 000	2015	2014
Audit fees	899	901
Tax advice	34	44
Due diligence advice	5	7
All other advice	363	68
Total fees	1 301	1 020

Key dates

End of financial year	31.12.2015
Annual press conference	17.03.2016
AGM	21.04.2016

The Annual Report containing the financial statements for the year ended 31 December 2015 is sent to the shareholder together with an invitation to the AGM.

