Annual Report 2016

RUAG again reports profitable growth and successfully positions itself in digital markets of the future.

Together ahead. RUAG

Contents

Solid development base

RUAG posted the highest sales figure in its history in 2016. Earnings before interest and taxes (EBIT) and order intake also reached new heights.

All five RUAG divisions operated profitably and contributed to the positive consolidated result. With a 10.4 % increase in EBIT to CHF 151 million and 6.5 % sales growth to CHF 1858 million, RUAG has reached a profitable growth trajectory. The record high order intake of CHF 2036 million (CHF 1828 million) is well above sales, indicating a solid base for further growth.

The civilian business increased to 57 % (55 %) of net sales in the year under review. The Federal Department of Defence, Civil Protection and Sport (DDPS) remains RUAG's largest and most important single customer; its share of sales fell slightly in 2016 from 32 % to 31 %. The non-Swiss sales component rose to 63 % (62 %), with the strongest growth occurring in Europe at 46 % (44 %) and the Asia-Pacific region at 4 % (3 %).

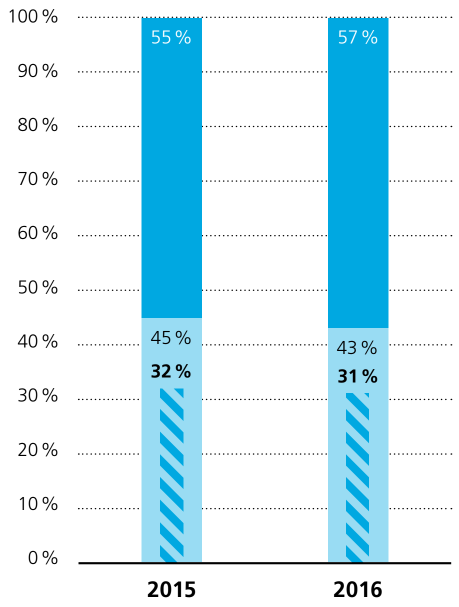
RUAG significantly increased research and development spending, which grew 16.6 % to CHF 171 million (CHF 146 million), i.e. to 9.2 % of consolidated sales (8.4 %). The group's total headcount increased by 571 to 8734 as at 31 December 2016. Some 110 of the additional jobs were created in Switzerland.

Cash flow from operations declined slightly in 2016 to CHF 135 million (CHF 145 million) while free cash flow decreased to CHF 56 million (CHF 64 million). At CHF 116 million (CHF 117 million), net profit showed a slight decrease. This was due to a higher tax rate, lower profits at associates and a reduced financial result in comparison with the previous year.

The Board of Directors will propose an unchanged dividend of CHF 47 million (47 million), or slightly over 40 % of consolidated net profit.

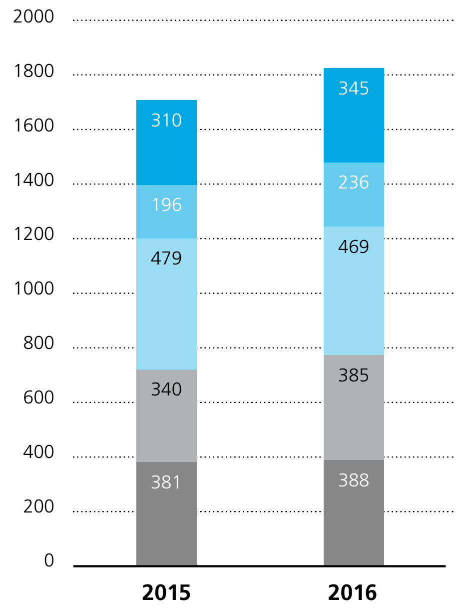
Net sales by application
in %

Civil	57 %
Military	43 %
DDPS	31 %



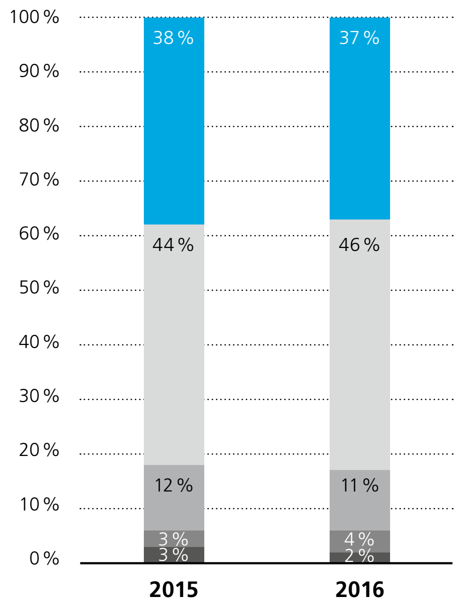
Net sales by division
in CHF million

Space	345 m
Aerostructures	236 m
Aviation	469 m
Ammotec	385 m
Defence	388 m



Net sales by market
in %

Switzerland	37 %
Europe	46 %
North America	11 %
Asia/Pacific	4 %
Rest of the world	2 %



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

Overview of key figures
in CHF million

	2016	2015	Change in %
Net sales	1 858	1 744	6.5 %
Operating income	1 882	1 758	7.1 %
Earnings before interest, taxes, depreciation and amortization (EBITDA)	232	217	6.9 %
Earnings before interest and taxes (EBIT)	151	137	10.4 %
Net profit	116	117	–0.6 %
Cash flow from operating activities	135	145	–6.8 %
Free cash flow	56	64	–12.1 %
Net financial position	237	231	2.7 %
Order inflow	2 036	1 828	11.4 %
Order backlog	1 556	1 378	13.0 %
Research and development expenses	171	146	16.6 %
Employees as at 31 December incl. apprentices	8 734	8 163	7.0 %

The international expansion is also benefiting the Swiss labour market. Approximately 110 of the additional jobs were created in Switzerland.

On a sustainable, profitable growth trajectory

Business success is the result of a systematic focus on specific core competencies and on pursuit of international growth opportunities by all divisions.

Dear shareholder,
customers and readers,

In business terms, 2016 was a very successful year for RUAG. Both sales and EBIT reached new highs. With record new orders of over CHF 2 billion greatly exceeding sales, the foundation has been laid for profitable growth in the coming years. But global competition is not the only challenge RUAG has faced. A cyber attack discovered at the beginning of the year revealed that even an enterprise that is committed to protecting itself properly can become a victim of hackers. The incident drew much consternation among customers, the general public and the political leadership while raising many internal questions about issues that had not previously appeared to present a problem.

For our most important customers, but especially for our employees, the "RUAG Continued Development" project assigned by the Swiss Federal Council to the Department of Defence, Civil Protection and Sport (DDPS) the RUAG Board of Directors and the Federal Department of Finance (FDF) at the beginning of 2015 is a top priority. Various partial privatization scenarios are to be presented to the Federal Council in 2017. The project is essential for the further implementation of RUAG's strategy, for Switzerland's defence industry and for RUAG jobs in Switzerland. Only the necessary entrepreneurial freedom will enable RUAG to continue meeting the current owner's expectations to the benefit of Switzerland's security.

Compliance requirements for enterprises with an international orientation are becoming ever more demanding. This is certainly the case for RUAG. Following an analysis of the current situation, RUAG's Board of Directors has initiated the "Integrity@RUAG" project. Its objective is to strengthen the culture of integrity throughout the Group. It aims to build on the existing high standards and progressively strengthen and upgrade the current organization.

Investments in defence technology are very difficult under the current circumstances. This is primarily due to the large number of international conflicts, further restrictions on Swiss exports of defence-related goods and the federal government's practice of primarily procuring armaments off-the-shelf, i.e. without a Swiss development component. To maintain a technology base in Switzerland in spite of all this, RUAG's strategy chiefly focuses on bolstering the three growth pillars of aerostructures, commercial space travel and cyber security. In all three areas, the first steps have been taken on important new paths for the future.

By winning contracts for the pioneering new OneWeb space project and forming a new Cyber Security business unit, RUAG has established itself in lucrative sub-markets of the global digitalization megatrend. Moreover, the partnership with Airbus has been expanded and secured for the coming years with a new framework agreement. This puts RUAG in a position to help meet the world's growing mobility needs.

The growth in headcount reveals that RUAG's international expansion is also benefiting the Swiss labour market. The number of employees in 2016 grew by 571 to reach a total of 8734, and some 110 of the additional jobs were created in Switzerland.

Positive results in the divisions

RUAG Ammotec once again achieved significant sales growth. The main driver was the hunting and sport segment, which saw further expansion of market share, especially in Europe and the United States. The development of proprietary wholesale structures had a positive impact.

The Space division took some key strategic steps in 2016. First, important contracts were concluded with OneWeb, the world's biggest satellite project. These demonstrate that the division remains a competitive player in the "new space" segment. The second step was the building of two production centres in the United States. Carbon fibre structures for Atlas V and Vulcan launch vehicles will be produced in Decatur, Alabama, and satellite structures for the OneWeb project will be built in Cape Canaveral, Florida. The third step was the complete acquisition of the technology firm HTS, giving RUAG Space a production site in the important German market. The fourth strategic step was the sale of the scientific instruments and optical communications business to Thales Alenia Space, further tightening the focus on selected assemblies for satellites and launch vehicles and on commercial space ventures.

The Defence division prevailed over well-known international competitors in a tender process to operate the combat training centres of the Swiss Armed Forces. This extremely important success, together with a major new order from the French Ministry of Defence, will bring new drive to the Simulation and Training business unit. The Swiss Armed Forces' procurement of 32 RUAG COBRA mortar systems opens further long-term prospects. Development of the newly formed Cyber Security business unit is of key importance for the future of the entire Group.

Data security is one of the growth areas in which RUAG is taking a part in the digital transformation of the worldwide economy. At the beginning of the year RUAG was itself confronted with an attack. The company was able to draw valuable technical and organizational lessons from a detailed analysis of the incident, undertaken in collaboration with MELANI, the Swiss federal government's cyber-security centre. The results are now being applied internally. The innovative Cyber Training Range infrastructure got off to a promising start in 2016. Over 30 tailored security training exercises were undertaken with companies and government organizations during its first year of operations.

For the Aerostructures division, the conclusion of a five-year contract to deliver rear fuselage sections for the Airbus A320 family was a major pointer to the future. Potential orders are put at several hundred million Swiss francs. One important reason for the choice was a RUAG-owned production facility in Hungary. Airbus approved production of the first batch of components less than twelve months after the Board of Directors decided to proceed with the project. The new production site in Hungary will have a positive impact on the division's long-term profitability.

For the Aviation division, acquiring the contract to maintain key components of the F-35 multi-purpose fighter was a key feature of the past financial year. Since the competition was organized by the F-35 Joint Program Office in the United States, the consortium of which RUAG Australia is a member is now the service centre for all F-35s in the Asia-Pacific region. Major upgrade projects for the Swiss Air Force's F/A-18 fighters as well as their transport helicopters and PC-6 aircraft also proceeded on track. The suspension of the BODLUV MR ground-based mid-range air defence procurement programme, on the other hand, was a setback.

Investments in three growth areas

Among the activities to secure profitable growth in the years to come, the investments in the strategic growth areas of aerostructures, commercial space ventures and cyber security are particularly noteworthy.

In Aerostructures, the new five-year agreement with Airbus and participation in the Airbus SCOPE+ cost reduction programme provides a foundation for the development of new manufacturing technologies. Efforts will focus on further automation of assembly processes and implementation of hybrid structures for new aircraft programmes.

The objective of the Space division's investments is to further secure its market position in the commercial space sector. This includes research and development partnerships. The key technology for automated series production of 900 satellite structures for the OneWeb project, for example, was developed jointly with the University of Applied Sciences and Arts Northwestern Switzerland. Construction of two production facilities in Decatur (Alabama) and Cape Canaveral (Florida) will allow further expansion of business in the United States and advance RUAG's participation in the commercial communications satellite boom. Demand for satellite communications will rise sharply with digitalization of the economy, especially the advent of the Internet of Things.

The Defence division's investments in the new Cyber Security business unit and in communication systems to link organizations in emergency situations also have much future potential. In ARANEA, for example, RUAG has brought a communications system for seamless voice, video and data communication among all different digital and analogue devices to a state of field readiness. This will enable a broad range of civil and military organizations to communicate instantly with one another in the event of an emergency. As the cyber attack on RUAG has demonstrated, even the most modern security precautions and top-notch security expertise cannot guarantee 100% invulnerability. This experience has reaffirmed the Executive Board's conviction that cyber security is becoming an indispensable building block in the digitalization of the global economy. The previously planned expansion of activities has therefore been accelerated. The purchase of the globally active British data security specialist Clearswift and successful commissioning of the Cyber Security Range mark important first steps.

Outlook

RUAG again anticipates solid growth in 2017. However, this growth will most likely occur primarily in the civil market and outside Switzerland. And yet this positive outlook also represents a challenge. On the one hand, order books are full and growth prospects strong in most of the Group's relevant markets. On the other hand, the Swiss Confederation's appetite for risk as RUAG's owner is limited and the straitjacket of regulatory requirements for enterprises such as RUAG that are closely linked to the federal government is growing ever tighter. Conduct that is not only legally but also ethically impeccable is essential for RUAG. The position of Vice President for Compliance & Risk Management, newly created in 2017, will among other things be responsible for building a state-of-the-art compliance management system focusing on combating corruption and dealing with antitrust law and conflicts of interest.

RUAG now generates over 80 % of sales in open competition.

We are pleased with many of the signals we are seeing from the markets. Airbus's order intake in 2016 was greater than deliveries, suggesting further growth to come in aerostructures. As the digitalization of the economy gains momentum, demand for satellite communications is increasing. The same is true of cyber security solutions. The Ammotec division's Hunting & Sport segment is continuing to count on growth in Europe as well as in the USA, the world's largest market for ammunition. Likewise, defence spending worldwide is likely to grow further given increasing geopolitical uncertainties. It should be kept in mind, however, that the growing number of local conflicts is disadvantageous for RUAG as ever more countries are subject to Swiss export restrictions – and this is not the case for the numerous competitors in the defence industry.

Worldwide uncertainty factors also include the exchange rate situation. Here RUAG has taken a robust position. Having production sites in a total of 14 countries allows for natural currency hedging. A solid base also exists for continual productivity gains, which remain absolutely essential in the coming years. Productivity enhancement was permanently established as a priority in all business units through efforts to master the exchange rate shock of 2015.

In the Swiss domestic market RUAG faces uncertainties. The halting of BODLUV MR in 2016 meant that, after the electorate had rejected the procurement of a new fighter plane, another major project had been suspended. Moreover, the Swiss Armed Forces procurement system is being fundamentally reorientated towards standard systems. This eliminates the development orders by which RUAG has until now been able to build key foundations in new technologies and products for the international market.

The RUAG Continued Development project is of fundamental importance for the Group. The project must resolve the contradiction between ever fiercer global competition and growing domestic regulatory requirements. RUAG now generates over 80 % of sales in free competition, and must prevail over competitors even for a good third of orders for the Swiss Armed Forces. The Board of Directors and Executive Board are strongly committed to seeking a solution together with the owner and other stakeholder groups which will create optimum conditions for the future of the Swiss Armed Forces as well as for the Swiss jobs market and for RUAG.

The manner in which RUAG has achieved the transition to sustainably profitable growth in the year under review makes us extremely confident. Our shareholder has had a major hand in this, as have our customers, partners and staff. Thank you for your loyalty and your trust as well as for the opportunity to work with you and for your dedication. We look forward to leading RUAG into a successful future together with you.

RUAG Holding AG

Hans-Peter Schwald
Chairman of the Board of Directors

Urs Breitmeier
CEO RUAG Group

RUAG Space

The Group's international market position was further expanded and key successes were achieved in the commercial space business. Thanks to organic and strategic growth, RUAG Space operates at twelve locations in six countries, now including Germany and the USA.

Business performance

As expected, RUAG Space was one of the Group's growth pillars in 2016. Net sales totalled CHF 345 million, an 11 % increase on the previous year's figure of CHF 310 million. EBIT likewise saw significant growth, from CHF 24 million to CHF 32 million. Both sales and profit exceeded their targets. Key performance factors included success in the launch vehicle business in Europe and the United States, participation in all aspects of European space programmes and a determined focus on commercial product development and industrial series production. This was consistent with the successful international expansion strategy.

In May, RUAG Space fully acquired German technology company HTS with a staff of 32. HTS specializes in engineering services and produces customer-specific mechanical products for space flight. With this acquisition the division now has its own location in the important German market.

In addition, RUAG Space has achieved a strategically decisive step in the United States. Carbon fibre structures for Atlas V and Vulcan launch vehicles will be produced in Decatur, Alabama for United Launch Alliance. A new production facility is also being built at Cape Canaveral, Florida, where up to 900 structures will be manufactured in series for OneWeb, the world's largest satellite project. RUAG will also supply 21 mission-critical "dispensers" for OneWeb. Each of these separation systems is capable of placing 32 satellites in their proper orbital positions.

In Europe as well, RUAG Space won significant contracts, with an excellent order volume in institutional programmes and solid results in the growing commercial telecommunications satellite segment. RUAG Space signed a contract with Airbus Safran Launchers to develop a payload fairing for the new Ariane 6 launch vehicle, scheduled for its first launch in 2020. The new orders also strengthen the division's position as leading supplier of GNSS receivers for satellite navigation. These are used by systems including the Sentinel 6 earth observation satellite and the Electra telecommunication satellite. RUAG will also play a key role in the second generation of the European MetOp weather satellite and the ESA JUICE (Jupiter Icy Moon Explorer) research mission.

In the projects implemented, the division once more gave proof of its rapid execution capabilities and high dependability. It delivered payload control and thermal protection systems for the globe-spanning Iridium-NEXT telecommunications system. For NASA's award-winning James Webb Space Telescope, RUAG Space developed an antenna system for secure data transmission. For the ESA's ExoMars mission to explore the Red Planet the division supplied mechanical, digital and electronic subsystems, including components for the Mars rover scheduled to launch in 2018.

While continuing on its growth trajectory, RUAG Space 2016 also sharpened its focus on core competencies and strategic product groups. This includes the decision to spin off the scientific satellite instrument and optical communications business. Thales Alenia Space acquired all activities and staff at the Zurich location.

Outlook

The growth trend for RUAG Space is expected to continue in 2017, based on a stable institutional market in Europe as well as on good prospects in the United States and in the commercial telecommunications market.

Digitalization and an increasingly networked world, together with the rise of commercial space organizations, will ensure continuing dynamism and drive the development of ever lower-cost and more efficient products. In the future it will be increasingly important to develop products suitable for both the institutional and the commercial markets.

Development of digital satellite communications systems, for example, will remain a priority in 2017. With their high bandwidth and greater flexibility, these will replace today's analogue television and data transmission systems in the medium term.

Along with active portfolio management, further optimizing underlying processes also remains a priority. Examples include further development of series manufacturing (e.g. through automation), targeted use of industrial components in production (e.g. in electronics) and lean management initiatives.

Additional priorities for 2017 include further securing the division's international presence, facilitating know-how transfers among countries and exploiting available synergies. In the United States, highly skilled workers are being recruited to start production in Alabama and Florida before the end of 2017. From the European locations, customer relationships will be strengthened and new customers won in the commercial market.

Brief profile

RUAG Space is the leading supplier of products for the space industry in Europe and has a growing presence in the United States as well. With twelve production sites in six countries, the division specializes in components for use aboard satellites and launch vehicles. Its capabilities fall into four areas: structures and separation systems for launch vehicles, structures and mechanisms for satellites, digital electronics for satellites and launch vehicles, and satellite communications equipment.

Customers/partners

ESA, NASA, Arianespace, Airbus Safran Launchers, European Launch Vehicle, Airbus Defence & Space, OHB, Thales Alenia Space, United Launch Alliance, Space Systems Loral, Orbital ATK, Boeing, Lockheed Martin

Numbers and facts

Net sales:	CHF 345 million
EBITDA:	CHF 48 million
EBIT:	CHF 32 million
Employees:	1,257
Based in:	Switzerland, Sweden, Austria, Finland, USA, Germany

RUAG Aerostructures

Both sales and profitability saw gains in 2016. The project to assume complete supply chain responsibility for two Airbus fuselage sections was successful. Focused investments will secure sustained growth.

Business performance

RUAG Aerostructures' objective is to strengthen its position as global tier 1 supplier for the aviation industry and to maintain profitable growth. In 2016 the division not only further improved profitability but also generated significant growth. EBIT rose from CHF 9 million to CHF 12 million while sales grew a healthy 20 %, from CHF 196 million to CHF 236 million.

A deciding element in these positive results was the success of the transfer-of-work project, by which RUAG Aerostructures is assuming complete supply chain responsibility for the 1,000-plus parts for two Airbus fuselage sections. The project is scheduled for completion by mid-2017.

According to the manufacturer's forecasts, the environment in the commercial aviation market is set to remain positive in the years ahead as well. Airbus has increased its 20-year forecast for new passenger aircraft with over 100 seats by 1200 to 33,000. Its competitor Boeing anticipates demand for 38,050 aircraft in the next 20 years.

In July RUAG Aerostructures and Airbus affirmed their relationship by signing a contract for long-term cooperation at the aviation trade fair in Farnborough. The contract covers production of assemblies for the A320 family and the Airbus A330 and includes deliveries over a period of at least five years. RUAG Aerostructures will supply the entire rear fuselage section as well as the floor, rear pressure bulkhead and fuselage side panels for the rear midsection of the Airbus A320 family. In addition, the contract includes an agreement on the Airbus SCOPE+ single-aisle cost reduction programme, helping secure the partnership for the long term. In April 2016, Airbus recognized the division's extraordinary performance in "Quality Improvement" and "Ontime Delivery" with the SQIP – Best Improver Award.

In November 2016, RUAG Aerostructures was chosen by US military contractor Boeing Defense to continue series production of the rear wing flaps of the F/A-18 E/F multirole jet fighter. The contract strengthens the industrial partnership of many years with Boeing Defense.

GE Aviation's extension until 2024 of the contract for series production of the CF34-10 fan case, built in Emmen, underscores RUAG Aerostructures' qualities as a dependable supplier.

From Pilatus, RUAG Aerostructures received a follow-up order to manufacture the wings and fuselage structures for the PC-21 trainer. These aircraft are for Australia's pilot training programme, which Pilatus was awarded in late 2015. This will keep the plant in Emmen operating at full capacity in this area until mid-2018.

As established partner to civil and military customers and OEMs, RUAG Aerostructures offers solutions developed and manufactured in accordance with the needs of the market and the customer's specifications. Collaborative relationships with OEM research and development departments lay the cornerstone for participation in future aircraft programmes.

The key to success here is lean processes and developing new product and production technologies. In 2016 the division adopted a technology roadmap encompassing numerous productivity enhancement projects. The current priorities in research and development include new, automated assembly processes along with implementation of hybrid structures for new aircraft programmes by combining different materials such as carbon and metal or using combinations of metals. Overcoming the challenges this raises for precise drilling and riveting is a key issue.

Outlook

In the coming years RUAG Aerostructures will advance global development of its activities at several levels. The global supply chain will be continuously expanded, with the cultivation of new suppliers and systematic enlargement of the supplier network. The new production site in Eger, Hungary now gives the division, as a tier-one supplier with global operations, the opportunity to take direct advantage of production in a country with a favourable cost structure.

In addition, the division also seeks to further strengthen its worldwide market position as top tier-one supplier for aircraft structures. Specifically, the North American market will be developed – particularly the business relationship with customers Boeing Commercial Airplanes and Bombardier. Not least of all, this will serve to further differentiate the customer base.

To set itself apart from the competition, RUAG Aerostructures is also expanding its service range. The new surface treatment plant at the Emmen location is key to the service strategy. Production will commence at the end of 2017.

Brief profile

RUAG Aerostructures is a global tier 1 supplier of aerostructures for civil and military customers. Key activities include the development, production and final assembly of complete fuselage sections, wing and control surface components as well as sophisticated component assemblies and parts for civil and military aircraft. The division has a special competency in managing complex supply chain networks. Among other things, it is responsible for the complete global fuselage section supply chains for Airbus and Bombardier.

Customers/partners

Airbus, Boeing, Bombardier, Dassault Aviation, GE Aviation, Northrop Grumman, Pilatus Aircraft, Saab

Numbers and facts

Net sales:	CHF 236 million
EBITDA:	CHF 15 million
EBIT:	CHF 12 million
Employees:	1,104
Based in:	Switzerland, Germany, Hungary

RUAG Aviation

External factors led to a decline in sales in 2016, but EBIT ended higher. The trend in the international components business was very positive. Programmes for the Swiss Air Force proceeded as planned.

Business performance

Various market challenges shaped RUAG Aviation's business year. As a result of currency translation effects, lower volumes in business jet aircraft and the winding-down of major projects, net sales declined from CHF 479 million to CHF 469 million. Nevertheless, EBIT grew slightly from CHF 42 million to CHF 44 million.

In the military aviation segment, activities in the year under review at the Swiss sites developed in line with expectations. The five-year service-level agreements concluded with the Swiss Air Force in 2013 provide scope for forward-looking planning as a basis for improved resource allocation along with substantial productivity gains in life cycle support.

In addition to life cycle support, the military business in the domestic market focused on the upgrade programmes for the F/A-18 (Upgrade 25 and Structural Refurbishment Programme 1), transport helicopters (TH98 WE and the aeroradiometry and FLIR3 integration programmes) and the PC-6 (NCPC-6).

The Upgrade 25 programme was completed to the customer's satisfaction at the beginning of the year. The first Structural Refurbishment Program (SRP1) is also proceeding according to plan despite challenges due to the age of the F/A-18 fleet. The TH98 WE development programme to produce a prototype for upgrading the Cougar helicopter is making progress despite the complexity of the programme, and the series conversion of the PC-6 fleet is also advancing in a stable fashion following the successful delivery of the series production units.

In the air defence systems segment, the suspension of the BODLUV MR (ground-based mid-range air defence) procurement programme was a setback. However, capacity utilization has been stabilized by securing subcontracted work to extend the service life of the 35 mm anti-aircraft gun systems.

Steady growth continues in the civil helicopter business despite the strong Swiss franc and a noticeable sharpening of international competition. New service centre agreements for the Agusta-Westland AW139 and Bell 429 helicopter types were concluded during the year under review, promising a further impetus for growth.

The trend in the international components business has also been very positive. RUAG Australia, for example, signed a five-year contract for maintenance of F/A-18 components for the Australian Air Force. The subsidiary also won a tender competition for maintenance of key components for the new fighter aircraft platform. platform. Since the competition was organized by the F-35 Joint Program Office in the United States, RUAG Australia is now the service centre for all F-35s in the Asia-Pacific region.

From 2018 on, the ADS15 unmanned aerial vehicle will be the Swiss Armed Forces' most important aerial reconnaissance tool. Its integration into the airspace also used by aeroplanes, helicopters and other flying objects, not all of which can be identified electronically, will be essential to its planned deployment. RUAG Aviation, together with the manufacturer of the UAV system currently in the procurement process, is developing a "detect and avoid" system for the Federal Office for Defence Procurement armasuisse. This system will include optical detection of flying objects, data fusion for modelling air traffic and algorithms for automatic avoidance manoeuvres.

Ongoing efforts to improve MRO processes are focused on upgrading two aircraft types used by the Swiss Air Force, the F/A-18 and F-5. To ensure structural integrity, critical zones have been identified, inspection and monitoring processes established and preventive repair solutions developed in collaboration with armasuisse.

The MRO 4.0 project involves analysing future opportunities for preventive maintenance work to be undertaken based on data gathered during operations, and for basing the engineering work that arises during the product's service life entirely on a digital product management system.

An interactive electronic documentation package is being compiled for the Dornier 228. From 2017 on, this will allow RUAG Aviation as manufacturer and holder of the type certificate to offer a modern customer portal giving operators rapid, low-cost access to technical descriptions and notices required under the certificate.

Outlook

In the military market, the political situation suggests that opportunities to export products from Switzerland will remain limited. Domestically, the challenges are to be found in the F/A-18 upgrade and structural refurbishment, Cougar helicopter upgrade and the new UAV system programmes.

In the civil market RUAG Aviation expects growth in the relevant sub-markets, although price pressure will remain very high, particularly considering the euro–Swiss franc exchange rate.

Through enhanced efforts to achieve efficiency gains in processes and procedures, and by purposefully combining the civil and military businesses, RUAG Aviation expects to keep revenues and margins stable in 2017.

Brief profile

RUAG Aviation is a leading supplier, support provider and integrator of systems and components for civil and military aviation. Servicing aircraft and helicopters throughout their entire life cycle, the company's core competencies include maintenance, repair and overhaul services, upgrades, and the development, manufacturing and integration of subsystems. RUAG Aviation is also manufacturer (OEM) of the Dornier 228, a versatile aircraft for special missions as well as passenger and cargo operations.

Customers/partners
Swiss Air Force, German Bundeswehr, Royal Australian Air Force, Bombardier, Dassault, Embraer, Airbus, Pilatus Aircraft, Boeing, General Electric, Northrop Grumman, Saab

Numbers and facts

Net sales:	CHF 469 million
EBITDA:	CHF 52 million
EBIT:	CHF 44 million
Employees:	2,211
Based in:	Switzerland, Germany, USA, Australia, Malaysia, Brazil

RUAG Ammotec

The division achieved a significant increase in both sales and the operating result (EBIT). Despite export restrictions, therefore, it accomplished a clear strengthening of its international market position. Once again the main driver was the hunting and sporting business.

Business performance

In 2016 RUAG Ammotec expanded net sales by 13 %, from CHF 340 million to CHF 385 million. The EBIT growth rate was slightly higher at 19 %, from CHF 26 million to CHF 31 million. There were no significant one-time effects in the period.

The renewed substantial strengthening of the division's international market position is particularly remarkable as RUAG Ammotec, the European market leader in small-calibre ammunition, pyrotechnic elements and components, once again felt the impact of export restrictions. The civilian hunting and sport segment was the main positive trend driver once again.

In the armed forces and law enforcement sector, where RUAG Ammotec supplies precision standard and special ammunition across the entire small-calibre spectrum, domestic markets were further solidified. Germany saw performance well above the previous year's figures. In Switzerland business held steady at the prior-year level despite intensifying competition. The major DDPS contract for GP11 rounds, which will significantly increase base capacity utilization in the armed forces and law enforcement segment, was especially gratifying. Due to export policy restrictions, the export segment contracted as expected. The negative volume effects were largely offset by improved productivity, however.

Market share in the hunting & sport segment, where RUAG Ammotec is represented with a broad range of top brands such as RWS, norma, Rottweil and GECO, grew significantly in key markets. In particular, handguns, handgun ammunition and the new lead-free RWS, norma and GECO hunting cartridges accounted for rapid growth. Overall, sales increased in 90 % of RUAG Ammotec's relevant markets. Those markets served by the division's own wholesale structures saw especially strong growth. Performance was particularly positive in Germany, where growth was well above expectations. Gains were recorded in both new products in the retail goods assortment and in innovative ammunition products, more than offsetting the negative consequences of the ongoing sanctions against Russia.

The components business, where RUAG Ammotec is the leader in heavy-metal-free ignition technologies, held steady during the year under review. In the industrial segment, including actuator cartridges for the construction industry and special applications for automotive safety systems, the division has successfully established a stable base. Actuator cartridge output saw further expansion and a growth-oriented long-term agreement was concluded with Hilti, the main customer. Business with other ammunition producers, for which RUAG Ammotec supplies components such as cups, jackets and percussion caps, was stable.

Overall, the share of civil market segments in total sales saw a further increase. The hunting & sport and industrial applications segments now make up 65 % of total sales, with armed forces and law enforcement accounting for 35 %.

Outlook

In recent years RUAG Ammotec has pursued a strategy of internationalization, winning new customers and countries with a reinforced organization. In the coming years, however, a growing number of countries are likely to be subject to export restrictions. Particularly in the armed forces and law enforcement segment, this can have negative consequences if demand simultaneously contracts in the domestic markets. In addition to a primary focus on developing the home markets, these circumstances require a renewed concentration on NATO countries and their partners.

For the hunting & sport segment, RUAG Ammotec anticipates further growth, although the US business may become more difficult in light of the change of administration. For this reason the division is systematically pursuing further expansion in neighbouring market segments. This expansion is expected to contribute positively to EBIT as early as 2017. Concurrently to these efforts, the division's value generation basis is being strengthened by further developing wholesale operations.

The successful online presence will also see further development to achieve still more closeness to customers. Specialist retail operations, the backbone of the hunting and sport business, will benefit from flanking online measures. With these initiatives RUAG Ammotec hopes to further expand its already high market share in Europe even as conditions grow more difficult due to environmental standards and restrictions in logistics for weapons and ammunition.

For the industrial business, the division expects a positive impetus from stronger management. The quality of the components, valued worldwide, should help in building additional strategic partnerships.

New processes and technologies will secure RUAG Ammotec's ability to face the future. The requisite investments will be generated from cash flow. One focus in 2017 will be on innovation in line with the idea of weapon, ammunition and optics as a single system.

Brief profile

RUAG Ammotec, with its Hunting & Sport and Armed Forces & Law Enforcement business units, is the European market leader in small-calibre ammunition, pyrotechnic elements and components. Its precision ammunition for special forces is in high demand worldwide. The division is also the leader in heavy-metal-free primer technologies as used in actuator cartridges in the construction industry and automotive safety system applications. The product range also includes large-calibre training systems, hand grenades and environmentally safe disposal of pyrotechnic products.

Customers/partners

Swiss Armed Forces, German Bundeswehr and other foreign armed forces, law enforcement organizations, hunters and sporting marksmen, industrial partners

Numbers and facts

Net sales:	CHF 385 million
EBITDA:	CHF 46 million
EBIT:	CHF 31 million
Employees:	2,218
Based in:	Switzerland, Germany, Sweden, Hungary, USA, Austria, UK, France, Belgium, Brazil, Italy

RUAG Defence

The division achieved renewed growth and higher profitability in the 2016 financial year. Both domestically and abroad, the market position of all business units grew firmer. Based on a very solid current order volume, RUAG Defence is optimistic about the coming financial year.

Business performance

Sales increased again over the prior-year figure, from CHF 381 million to CHF 388 million. EBIT grew slightly to CHF 24 million over the previous year's CHF 23 million despite major investments in the cyber-security business, tactical communications and expansion of the international maintenance business. The fact that order intake at CHF 408 million was greater than sales further demonstrates that the division is in a sustained growth phase.

The Swiss federal procurement agency armasuisse has awarded RUAG Defence the continued operation of the combat training centres at all locations for the next five years. Beyond this, the total package includes an option until 2025. The division was chosen over well-known international competitors in a public tender process.

RUAG Defence plays a crucial role in the current procurement programme of the Swiss Armed Forces. The responsible bodies have decided to acquire a total of 32 RUAG COBRA mortar systems in the 2018–22 period. The 120 mm mortar system has impressed the decision makers in the Swiss Armed Forces and also met with strong interest internationally.

For the major armed forces telecommunications programme "TK A", the division, working closely with armasuisse, has developed concepts and planning documents and has carried out in-depth analyses. As technology partner it has also supported systems vendors in preparing field trials.

A project, awarded by armasuisse, to install military equipment packages in a total of 600 Mercedes G-class all-terrain vehicles is also running very successfully. 15 vehicles per month were already being delivered in 2016. RUAG Defence expanded its role as materiel centre of excellence and service provider for the Swiss Armed Forces' IFASS integrated radio reconnaissance and transmission system, and made important advance deliveries.

In connection with the Swiss military airspace surveillance radar system FLORAKO, significant contributions were made to the planned upgrade programme.

The French Defence Ministry's agreement to implement a major simulation and training contract in the coming years was a milestone in the international business.

RUAG Defence supplied C-IED training kits for the German army combat training centre (GÜZ). These state-of-the-art simulation components enable the Bundeswehr to safely train troops in dealing with improvised explosive devices.

Together with GEKE Schutztechnik GmbH, a company in which RUAG Defence holds a majority interest, the division continued work on a contract to supply mine and roof protection systems for over 300 PUMA infantry fighting vehicles. At the same time the division substantially expanded the protection business, including partnering with Finnish defence contractor Patria.

The RUAG ARANEA communications system successfully passed numerous endurance tests for international customers, giving impressive proof of its functional capabilities. The system guarantees maximum interoperability in crisis situations and interconnects a wide range of organizations, systems and devices.

The international maintenance, repair and overhaul (MRO) business held steady at a very strong level. Customers and local partners from 15 nations depend on these comprehensive services.

Outlook

Thanks to a very solid current order volume, RUAG Defence is decidedly optimistic about the new financial year.

RUAG Defence will hold firmly to its strategy. A solid basis of project/integration business and MRO orders from the Swiss Armed Forces will be judiciously supplemented with proprietary products and technologies along with international repair, maintenance and operation contracts.

The division will also invest in the civil business. With the creation of an independent Cyber Security business unit as of 1 January 2017, RUAG Defence has been targeting not only armed forces but also law enforcement, critical infrastructure operators and selected industrial sectors. This business is being expanded further with the acquisition of UK company Clearswift.

The civil trade also focuses on turnkey solutions and services for rescue and security organizations. Intelligent coordinated situation monitoring systems for command support, security radio network infrastructure (POLYCOM), terminal device sales and interoperable communication systems will gain in importance in the years to come.

The Defence division's success is based on three pillars: the mandate for the Swiss Armed Forces, activities in international markets and the civil market business. These pillars guarantee sustainable competencies, performance and growth. The associated synergy effects result in better utilization of resources, industrial and testing equipment, access to the latest technologies, and competitiveness that has been tested in the global market. All this ultimately benefits the Swiss Armed Forces.

Brief profile

RUAG Defence develops internationally sought-after technologies for armed forces, law enforcement and rescue and security organizations. Its core business includes products and services for tracked and wheeled vehicles, realistic military training, and reliable command, information and communication infrastructures. It also encompasses protection systems to counter ballistic and electromagnetic threats. The division supports operators of critical ICT infrastructures with state-of-the-art cyber-security solutions. Integration, maintenance, operation and innovative upgrades to relevant systems are also part of its comprehensive portfolio.

Customers/partners

Swiss Armed Forces, armed forces worldwide, rescue and protection agencies and organizations, operators of critical ICT infrastructure, industrial partners

Numbers and facts

Net sales:	CHF 388 million
EBITDA:	CHF 35 million
EBIT:	CHF 24 million
Employees:	1,612
Based in:	Switzerland, Germany, France, UK, United Arab Emirates

Corporate Responsibility

RUAG launched and successfully implemented numerous measures in 2016.

For RUAG, it is self-evident that the corporation can only be sustainably successful if it conducts itself responsibly.

Among other things, this means that RUAG is expanding the established definition of corporate responsibility, with its three key focus areas of economic, environmental and social responsibility, by adding an ethical component.

Thus, as an enterprise owned by the Swiss Confederation which also provides military applications to international clients, the Group additionally pledges to uphold a special ethical responsibility. Among other things, this includes a commitment to ensuring that all exports of military applications, irrespective of where they are produced, comply with the Swiss export regime, the principles of Swiss foreign policy and the framework of international law.

Defining processes, key roles and accountabilities

In 2015 RUAG launched a process to permanently establish corporate responsibility as a focus for the company. The aim of the corporate responsibility strategy is 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.

The first concrete steps on the path to a defined strategy applicable worldwide were taken in 2016. The project phases, key roles and accountabilities have been fixed; the divisions are involved in the comprehensive undertaking.

Responsibility in practice in 2016

Regardless of the approach taken towards it, corporate responsibility has always been a practical reality at RUAG. In all four domains of activity – economic, environmental, social and ethical responsibility – numerous actions were launched and successfully implemented in 2016.

In the sphere of economic sustainability, RUAG is focusing on fair compensation and working conditions, on sustainable promotion of safety and well-being and on strict observance of legislation, regulations and compliance rules.

Combating food waste – a pilot project in Emmen

About one third of all food produced in Switzerland is lost between field and plate or ends up in the waste bin. RUAG hopes to combat this waste of food. In November 2016, RUAG Facility Services joined with the staff restaurant in Emmen to start a pilot project to accomplish this. Fresh products that have not been sold at lunchtime are offered to employees at reduced prices after 4:00 p.m. If the response is good, the pilot project against food waste will be rolled out in RUAG staff restaurants across Switzerland.

In the matter of social responsibility, RUAG strives for the greatest possible diversity in respect of age, gender and nationality, for attractive education and training programmes, for work-life balance and for an effective safety and health management system. The specific activities undertaken in the realm of ethical responsibility, such as creation of a whistleblower system and a policy of zero tolerance for corruption, can be found in the Compliance Report.

Attractive training and development opportunities

Employees are offered language courses and project management training certified to IPMA (International Project Management Association) standards. In addition, in-house leadership programmes are held at all management levels in order to promote employees' potential, ensure professional management practices and facilitate succession from within the company.

Vocational training as an investment in the future

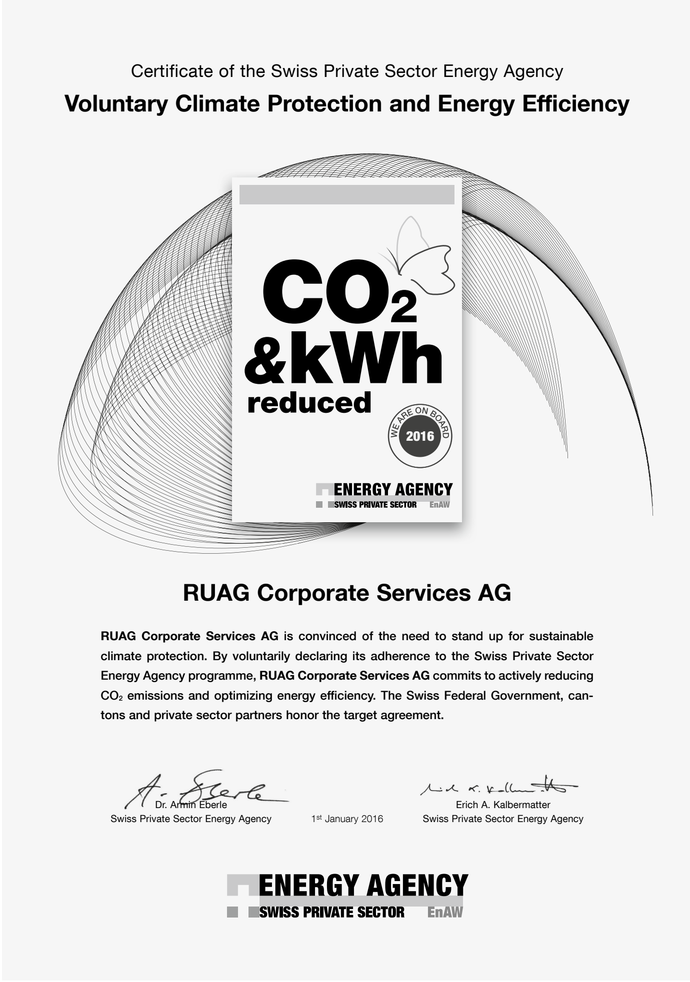
RUAG is strongly committed to vocational training as a way of investing in the future – both from the entrepreneurial and the social angle. Throughout the Group, over 430 apprentices are currently being trained in 28 different professions, 372 of them in Switzerland. They are guided, supported and spurred on by qualified vocational trainers. The company thus gives a large number of young people the opportunity to enter the professional world equipped with suitable skills.

As for environmental responsibility, the focus at the Group level in 2016 was on certification of our environmental and energy management systems and negotiation of targets with the federal government. Among other things, all real estate holdings in Switzerland were inspected

Outstanding efficiency

Active reduction of emissions and consumption

RUAG works for sustainable climate protection out of conviction. Through voluntary participation in the programme of the Energy Agency of the Swiss Private Sector, RUAG is committed to actively reducing its own CO_2 emissions and systematically optimizing energy efficiency. The "Universal Target Agreement" sets forth specific actions that RUAG will take to achieve binding reduction targets. For example, the corporation has promised to undertake specific maintenance measures in buildings and building technical systems to cut 200 tonnes of CO_2 emissions per year by 2020. Certification by the Swiss Private Sector Energy Agency in 2015 and 2016 is testimony to RUAG's commitment.



Certificate of the Swiss Private Sector Energy Agency

Voluntary Climate Protection and Energy Efficiency

RUAG Corporate Services AG

RUAG Corporate Services AG is convinced of the need to stand up for sustainable climate protection. By voluntarily declaring its adherence to the Swiss Private Sector Energy Agency programme, **RUAG Corporate Services AG** commits to actively reducing CO_2 emissions and optimizing energy efficiency. The Swiss Federal Government, cantons and private sector partners honor the target agreement.

Dr. Armin Eberle, Swiss Private Sector Energy Agency — 1st January 2016 — Erich A. Kalbermatter, Swiss Private Sector Energy Agency

ENERGY AGENCY SWISS PRIVATE SECTOR EnAW

by external energy auditors with a view to reducing energy consumption (in accordance with the legislation on large-scale consumers). These analyses deliver a basis for ongoing optimization of consumption. As part of the tax exemption process, binding CO_2 emissions reduction targets were negotiated with the federal authorities.

To achieve continual improvement in environmental performance, the process of certifying the six biggest locations in Switzerland under the ISO 14001 environmental management standard was launched and is scheduled for successful completion in 2017. As a member of the Swiss Private Sector Energy Agency initiative, RUAG also actively promotes sustainability and environmental protection in the Bern (Switzerland) region.

At the division level, RUAG Defence's Thun location and POLYCOM unit in 2016 achieved ISO 14001 recertification of their environmental management systems. The division's goal is certification of all locations. The energy management system at RUAG Ammotec's Fürth (Germany) location was awarded ISO 50001 certification in the year under review. Further locations will follow in the years to come. The division, which also contributes significantly to reducing environmental impacts on the supply side with its comprehensive assortment of lead-free ammunition, also implemented the EU's REACH regulation on handling of chemical substances in 2016. The RUAG Environment business unit achieved a recycling rate of nearly 70 % in 2016. Among other things, some 42 tonnes of climate-damaging refrigerants are recovered and destroyed each year. This is the equivalent of preventing 160,000 tonnes of CO_2 emissions.

Meeting high standards
RUAG Real Estate achieves ISO certification

RUAG Real Estate achieved ISO certification in both quality management and environmental management in 2016 at the following Swiss locations: Bern, Emmen, Thun, Zurich, Altdorf

The ISO 9001 quality management systems standard validates the high quality and continuous improvement of the management system and process management at RUAG Real Estate. It is built on a set of processes stringently implemented with the aid of an integrated management system (IMS) along with regular internal audits.

Credible environmental protection is a key element of RUAG's corporate culture. With ISO 14001 certification of our environmental management system, sustainable protection of ecological resources have become even more firmly embedded in the RUAG Real Estate organization.

Meeting the stringent requirements of the two internationally recognized standards motivates RUAG Real Estate to continue steadfastly along the chosen path. Both certifications are reviewed annually by means of external audits.

Compliance
In 2016 RUAG initiated a Group-wide project to strengthen its compliance and risk management system. The whistleblower desk received five reports, four of them anonymous. No major abuses were identified.

For RUAG, compliance means far more than merely adhering to all guidelines, domestic laws and international agreements. The Group sets an ambitious benchmark for its own actions and critically examines whether its conduct is conscionable from an ethical perspective.

On the international stage, RUAG acts with circumspection and weighs decisions with great care. In general, no business is transacted in contravention of the idea of compliance.

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. And, like the corporation as a whole, they are expected to be accountable for their own conduct in the course of doing business.

It is highly important for RUAG that not only its Swiss subsidiaries, but also those abroad comply with Swiss export controls on military equipment and dual-use goods both when supplying products and rendering services. Accordingly, RUAG 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 in the federal administration.

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.

Group compliance structure

Responsibility for compliance lies with the RUAG Board of Directors. Under its Organizational Regulations, the Board adopts the Code of Conduct and compliance principles. The Audit Committee of the Board of Directors reviews the Group's compliance activities regularly.

Operational implementation of the compliance principles is the responsibility of the RUAG Compliance Board and the individual divisions. The Compliance Board consists of one representative from each division, the Vice President Legal, the Vice President for Risk Management, the Chief Communication Officer and the General Counsel (chairman). The Compliance Board serves as a point of contact for employees, customers, vendors or third parties when questions arise in relation to compliance or if there is something to report. When necessary, the members of the Compliance Board have direct 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 Chairman of the Compliance Board 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.

Strengthening of the compliance and risk management system

In 2016 the Compliance Board reviewed compliance structures and processes with the assistance of external experts and proposed various measures to the RUAG Board of Directors. Based on this analysis, the Board commissioned a comprehensive, multi-year Group project for the integrated expansion and strengthening of the Compliance and Risk Management system. Its declared objective is to further strengthen RUAG's culture of integrity and establish it firmly in all companies of the Group. One focus is forging closer links among the various compliance desks within the Group, the divisions and the individual business units. To this end, the new position of Vice President Compliance & Risk Management, reporting directly to the General Counsel, was created at the beginning of 2017.

Reports to the whistleblower desk and compliance contact point

One essential element in combating abuses is the ability to report suspected violations easily and, if necessary, anonymously. The primary mechanism for this is RUAG's web-based whistleblower system. Employees and third parties anywhere in the world can use the system at https://ruag.integrityplatform.org if they suspect or observe irregularities and violations; however, it can also be used for general questions and uncertainties relating to compliance. The online application is operated by an outside company and serves as an early warning system to prevent compliance violations or detect any that occur. Reports are seen and processed only by designated RUAG Group specialists from the Legal, Human Resources or Risk Management departments.

Five such reports were received and processed in 2016. Four of these concerned Switzerland, one the UK, three fell under the category of "workplace abuses" and two under "theft, fraud, embezzlement". Four of the reports were anonymous. One case was investigated by the internal audit. No serious abuses were brought to light.

As well as the whistleblower system, RUAG also offers a point of contact for compliance issues through which any employee can submit a report or ask questions by e-mail (with sender details provided). This option is used frequently, for example to clarify rules on giving or receiving gifts.

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 admissible, properly documented and disclosed.

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. Although this directive has by and large been successful and no cases of corruption are known, the Board of Directors amended the directive in late 2016 in line with a proposal from the Compliance Board, implementing various findings based on practical experience, recent legislation and the results of reviews.

Strict export compliance

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

Implementation of the Federal Act on Private Security Services Provided Abroad

In the matter of new export regulations, 2016 saw the implementation of the Federal Act on Private Security Services Provided Abroad (PSSA). This law requires that these services – such as operation and maintenance of weapons systems or advising and training of combat and security forces – be reported to the Private Security Services Section of the Federal Department of Foreign Affairs (FDFA PSSS). In response, RUAG has adopted a Group-wide directive. Staff affected by the PSSA will receive training and briefing on the reporting processes. Some 25 reports were lodged for the entire Group in the year under review. The FDFA PSSS did not prohibit the services in any of these cases; in one case a closer review was undertaken before the decision. RUAG withdrew one report after RUAG was not awarded the subcontract by the general contractor.

Risk management

A cyber attack on RUAG in 2016 revealed that even seemingly well-protected organizations are not immune to such threats. Using what we have learned from the incident, the Group's cyber security is being continuously strengthened.

As a key element in corporate governance, our risk management system protects RUAG's assets, facilities and employees. The Group Risk Management (GRM) system includes every business unit in the Group together with all relevant external and internal influences. Risks are identified and addressed using a broad-based methodology based on the global COSO II and ISO 31000 standards together with the DIN-EN-62198 standard for risk management in projects. Besides protecting RUAG's staff and assets, the risk management system also actively supports compliance within the Group.

Organization and processes

RUAG classifies risks into seven main categories: external risks, strategy, markets, processes, resources, finance, and compliance and culture. Each of these is identified, analysed and assessed twice a year in a structured process. By gradually consolidating at the division and Group levels, each level of the corporation gains a management tool geared to its responsibilities.

As process owner, GRM develops the methodology and tools, carries out the semi-annual assessment process and is available to the business units for coaching. GRM compiles information for the Group Executive Board and Board of Directors and aggregates the major risks at the Group level in the Risk Management Report. Within the individual divisions, responsibility for the process lies with the Chief Financial Officers or special risk officers.

The key challenges of 2016

Undoubtedly, the seminal event of 2016 was the cyber attack on RUAG at the beginning of the year. Having been alerted by the Swiss Federal Intelligence Service, RUAG was able to identify and successfully stop a professional hacker attack on its IT systems. Because the attackers had been operating inconspicuously within the network, as is common in highly focused attacks such as this one, their strategy had remained undiscovered for some time.

Once the hacking was detected, RUAG quickly took the necessary actions to avert further damage. Analysis of the incident revealed that no malware had been placed on systems belonging to the Department of Defence, Civil Protection and Sport (DDPS) or to customers and that no classified data had been compromised. Applicable security regulations prohibit classified data being stored on systems connected to the internet. The analysis also revealed that the volume of the data outflow was very small in comparison with the total quantity of data stored on RUAG servers. Nevertheless, RUAG regards the fact that an attacker has succeeded in penetrating its data network and operating there undetected for a certain length of time as extremely serious.

Security upgrade programme

The case was investigated in close cooperation with the Swiss Federal Intelligence Service and the federal administration's Reporting and Analysis Centre for Information Assurance MELANI. In addition to various immediate measures taken in connection with the incident, RUAG has also initiated a programme based on the findings of the detailed investigation to implement additional security enhancements. This initiative encompasses numerous individual measures and will be systematically implemented during the coming months and years. Among other things, steps will be taken to raise awareness of handling of sensitive data throughout the Group and modify processes to sustain this awareness permanently. The security level of IT systems will be increased through targeted improvements to processes, architecture and technical systems and will be continually updated to meet new potential threats.

Faster response times and cyber security expansion

Not least, however, the incident has made it clear that even well-protected systems can never offer 100 % security. Since RUAG regards cyber security as absolutely essential to its business success, in addition to defensive measures the Group is also developing capabilities for responding to a successful attack more quickly and effectively. The incident also bolsters RUAG's conviction that the importance of cyber security will rise sharply for the entire economy – including RUAG's customers. By rapidly developing a dedicated Cyber Security business unit, RUAG is both addressing this need and developing internal capabilities to ensure the highest degree of security for our own systems and data.

Financial statements

Overview of key figures

in CHF m	2016	2015
Order inflow	2 036	1 828
Order backlog	1 556	1 378
Net sales	1 858	1 744
Operating income	1 882	1 758
Cost of materials and purchased services	(620)	(541)
Personnel expenses	(859)	(796)
Other operating expenses, net	(171)	(204)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	232	217
EBITDA in % of net sales	12.5 %	12.5 %
Earnings before interest and taxes (EBIT)	151	137
EBIT in % of net sales	8.1 %	7.8 %
Net profit	116	117
Net profit in % of net sales	6.2 %	6.7 %
Cash flow from operating activities	135	145
Cash flow from investing activities	(79)	(81)
Free cash flow	56	64
Cash flow from financing activities	(49)	(26)
Equity attributable to the RUAG shareholder	1 005	949
Equity in % of total assets	55.4 %	55.2 %
Return on equity[1]	11.9 %	12.7 %
Depreciation, amortization and impairment	81	80
Research and development expenses[2]	171	146
in % of net sales	9.2 %	8.4 %
Net sales per employee (in CHF thousands)	218	215
Added value per employee (in CHF thousands)	134	138
Employees as at 31 December incl. apprentices	8 734	8 163
Number of employees (average for the year, incl. apprentices)	8 543	8 115
Number of registered shares (par value CHF 1,000)	340 000	340 000
Earnings per registered share	340.95	342.87
Dividend per registered share[3]	138.24	138.24
Distribution ratio	40.5 %	40.3 %
Book value per registered share in CHF	2 957	2 791

[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 2016 according to the proposal of the Board of Directors.

Five-year overview

in CHF m	2016	2015	2014	2013[3]	2012[3]
Order inflow	2 036	1 828	1 785	1 851	1 612
Order backlog	1 556	1 378	1 370	1 405	1 310
Net sales	1 858	1 744	1 781	1 752	1 741
Earnings before interest and taxes (EBIT)	151	137	113	115	113
EBIT in % of net sales	8.1 %	7.8 %	6.4 %	6.6 %	6.5 %
Net profit	116	117	84	94	78
Net profit in % of net sales	6.2 %	6.7 %	4.7 %	5.4 %	4.5 %
Cash flow from operating activities	135	145	135	142	130
Cash flow from investing activities	(79)	(81)	(79)	(42)	21
Free cash flow	56	64	57	100	150
Cash flow from financing activities	(49)	(26)	(61)	(88)	(39)
Equity attributable to the RUAG shareholder	1 005	949	882	943	728
Equity in % of total assets	55.4 %	55.2 %	51.6 %	50.5 %	38.9 %
Return on equity[1]	11.9 %	12.7 %	9.8 %	11.3 %	10.6 %
Research and development expenses[2]	171	146	140	132	134
in % of net sales	9.2 %	8.4 %	7.9 %	7.5 %	7.7 %
Employees as at 31 December incl. apprentices	8 734	8 163	8 114	8 241	8 188
Number of employees (average for the year, incl. apprentices)	8 543	8 115	8 182	8 336	8 258

[1] Net profit as a percentage of average equity.
[2] Comprises both self-financed and third party-financed research and development expenses.
[3] According to IFRS (not adjusted as per Swiss GAAP FER).

Consolidated income statement 1 January to 31 December

in CHF m	Note	2016	2015
Net sales	6	1 858	1 744
Own work capitalized		4	5
Changes in inventories and work in progress		20	9
Operating income		1 882	1 758
Cost of materials and purchased services		(620)	(541)
Personnel expenses	7	(859)	(796)
Other operating expenses, net	8	(171)	(204)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		232	217
Depreciation and impairment of property, plant and equipment/investment property	17, 18	(64)	(58)
Amortization and impairment of intangible assets	19	(17)	(22)
Earnings before interest and taxes (EBIT)		151	137
Financial income	10	2	5
Financial expenses	10	(9)	(6)
Share in income of associates	20	3	9
Earnings before taxes		147	144
Income taxes	11	(31)	(28)
Net profit		116	117
Net profit attributable to:			
Shareholders of RUAG Holding Ltd		114	116
Non-controlling interests		2	1
Net profit		116	117

The notes to the consolidated financial statements on pages 36 to 74 form an integral part of the consolidated financial statements.

Consolidated balance sheet as at 31 December

in CHF m	Note	2016	2015
Cash and cash equivalents	12	239	233
Current financial assets	13	4	8
Trade receivables	14	266	271
Prepayments to suppliers	14	30	26
Other current receivables	14	23	29
Tax assets		3	3
Prepaid expenses and accrued income		15	14
Inventories and work in progress	15, 16	603	516
Current assets		1 183	1 100
Property, plant and equipment	17	464	438
Investment property	18	88	93
Intangible assets	19	24	35
Associates	20	39	39
Non-current financial assets	13	3	3
Deferred tax assets	11	13	13
Non-current assets		631	620
Total assets		1 813	1 719
Current financial liabilities	21	13	10
Trade accounts payable	22	118	99
Prepayments from customers	22	182	156
Other current liabilities	23	55	36
Tax liabilities		25	27
Deferred income and accrued expenses	25	199	210
Current provisions	26	75	79
Current liabilities		666	619
Non-current financial liabilities	21	0	1
Other non-current financial liabilities	24	4	3
Employee benefit obligations	27	58	54
Non-current provisions	26	41	53
Deferred tax liabilities	11	36	38
Non-current liabilities		139	150
Share capital	28	340	340
Capital reserves		10	10
Retained earnings		795	727
Offsetting of goodwill		(84)	(83)
Other reserves		(12)	(6)
Foreign currency translation adjustments		(43)	(39)
Equity attributable to the RUAG shareholder		1 005	949
Equity attributable to non-controlling interests		3	2
Total equity		1 009	951
Total liabilities and equity		1 813	1 719

The notes to the consolidated financial statements on pages 36 to 74 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows, 1 January to 31 December

in CHF m	Note	2016	2015
Net profit		116	117
Depreciation, amortization and impairment	17, 18, 19	81	80
Change in non-current provisions and deferred taxes		2	9
Use of non-current provisions		(7)	(4)
Share in income of associates	20	(3)	(9)
Other non-cash changes		(0)	(2)
Change in net working capital[1]		(47)	(42)
(Gain)/loss on disposal of non-current assets incl. investments		(8)	(6)
Financial income received		(2)	(2)
Financial expenses paid		3	2
Cash flow from operating activities[2]		135	145
Capital expenditures for plant and equipment	17	(56)	(44)
Capital expenditures for property incl. investment properties	17, 18	(33)	(43)
Capital expenditures for intangible assets	19	(6)	(3)
Acquisition of subsidiaries less cash and cash equivalents acquired	4	(2)	(2)
Disposal of plant and equipment		1	1
Disposal of property incl. investment properties		2	9
Disposal of intangible assets		—	0
Disposal of investments less cash and cash equivalents disposed of	4	13	—
Dividends received from associates	20	3	2
Cash flow from investing activities		(79)	(81)
Free cash flow		56	64
Increase in financial liabilities to third parties		0	2
Repayment of financial liabilities to third parties		(0)	(6)
Finance lease payments		(1)	(1)
Financial income received		2	2
Financial expenses paid		(3)	(2)
Dividends paid to shareholders		(47)	(21)
Cash flow from financing activities		(49)	(26)
Change in cash and cash equivalents before foreign currency translation adjustments		7	38
Cash and cash equivalents at beginning of period		233	202
Foreign currency translation adjustments in respect of cash and cash equivalents		(1)	(7)
Cash and cash equivalents at end of period		239	233

[1] Excludes current financial assets and current financial liabilities and other non-current liabilities.
[2] Including income taxes of CHF 22 million paid in the year under review (previous year: CHF 15 million).

The notes to the consolidated financial statements on pages 36 to 74 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 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
Balance as at 1 January 2016	340	10	727	(83)	(6)	(39)	949	2	951
Net profit	—	—	114	—	—	—	114	2	116
Goodwill offset against equity	—	—	—	(1)	—	—	(1)	—	(1)
Change in fair value of cash flow hedges	—	—	—	—	(8)	—	(8)	—	(8)
Gains and losses from cash flow hedges transferred to profit or loss	—	—	—	—	2	—	2	—	2
Foreign currency translation adjustments of foreign subsidiaries	—	—	—	—	—	(4)	(4)	(0)	(4)
Dividends paid	—	—	(47)	—	—	—	(47)	—	(47)
Balance as at 31 December 2016	340	10	795	(84)	(12)	(43)	1005	3	1009

As at 31 December 2016, the amount of non-distributable statutory reserves was CHF 42 million (previous year: CHF 39 million).

In the year under review, a dividend of CHF 47 million (previous year: CHF 21 million) was paid to the shareholder from the previous year's result. This is equivalent to a dividend per share of CHF 138.24 (previous year: CHF 61.76).

The notes to the consolidated financial statements on pages 36 to 74 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 Bern. 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.

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 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.

The new regulations valid from 1 January 2016 on revenue recognition in the Swiss GAAP FER conceptual framework and in Swiss GAAP FER 3 and 6 have been applied. The amended principles on revenue recognition did not have any impact on the consolidated income statement and balance sheet.

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 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 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.

2.3 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 2016	End-of-year rate 2016	Annual average 2015	End-of-year rate 2015	Annual average 2014	End-of-year rate 2014
Euro	EUR	1.09	1.07	1.07	1.08	1.21	1.20
Swedish krona	SEK	11.52	11.22	11.42	11.79	13.36	12.82
US dollar	USD	0.99	1.02	0.96	0.99	0.92	0.99
Pound sterling	GBP	1.34	1.25	1.47	1.47	1.51	1.54
Hungarian forint	HUF	0.35	0.35	0.34	0.34	0.39	0.38

2.4 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.

2.5 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.

2.6 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".

2.7 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.

2.8 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.

2.9 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.

2.10 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.

2.11 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.

2.12 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	1 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.

2.13 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.

2.14 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.

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

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

2.17 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.

2.18 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.

2.19 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.

2.20 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".

2.21 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.

2.22 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.

2.23 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.

Long-term contracts 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.

2.24 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 and is also on track for growth in the USA. With 12 production sites in six countries, the division specializes in assemblies for use on board satellites and launch vehicles. It has competencies in four areas, which also represent the main sources of earnings: structures and separation systems for launch vehicles, structures and mechanisms for satellites, digital electronics for satellites and launch vehicles, and satellite communication equipment.

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. The main sources of earnings are the sale of aerostructures and of complex assemblies and components.

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 subsystems. The division 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. The main sources of earnings are maintenance and life extension services as well as the sale of systems and subsystems.

Ammotec segment RUAG Ammotec is the global technology leader in environmentally friendly pyrotechnic products. The division 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. The main sources of earnings are the sale of munitions as well as the components business for industrial purposes.

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. The main sources of earnings are the sale of corresponding products as well as servicing and maintenance services.

2.25 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.

2.26 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 foreign exchange 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. These instruments are measured at fair value; the effective portion of the change in fair value of the foreign exchange 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. Commodity price hedging instruments are disclosed in the notes but are not recognized in the balance sheet.

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-forecasted 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

HTS Hoch Technologie Systeme GmbH As at 31 May 2016, RUAG Deutschland GmbH acquired the remaining 75.4 % of the outstanding shares of HTS Hoch Technologie Systeme GmbH, headquartered in Coswig (Germany). The purpose of the company is the development and manufacture of customer-specific mechanical products for the aerospace industry. This full takeover will ensure RUAG Space has better access to the German aerospace market.

The company's activities have been consolidated since the date of the acquisition (1 June 2016). In the first year following the takeover (seven months), HTS Hoch Technologie System GmbH generated sales of CHF 2.0 million and EBIT of CHF 0.1 million.

RUAG Ammotec Schweiz AG (previously 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 wholesale trading in hunting and sports guns together with the associated ammunition. With this acquisition, RUAG has strengthened and expanded its hunting and sports business in Europe through having its own wholesale business.

The company's 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.

The company's 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.

Acquisitions of non-controlling interests On 4 February 2016, RUAG Switzerland Ltd, together with the Netherlands-based VDL Group, founded a joint venture called VDL-RUAG Shelters B.V., headquartered in Eindhoven, for the production and subsequent maintenance of command and control containers for the Netherlands army. This involved forming a private limited company (B.V.), of which RUAG owns 40%. Production is set to take place between 2018 and 2022, with the joint venture then ensuring the equipment will be maintained after this date. In the year under review, the joint venture did not have any significant activities.

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

Mergers On 19 August 2016, Herkules Fahrzeuglogistik GmbH was retroactively merged with Glückauf-Logistik GmbH, headquartered in Kassel (Germany), with effect from 1 January 2016. This merger had no impact on the consolidated financial statements of RUAG.

No companies were merged during financial year 2015.

Formations On 5 March 2016, RUAG Aerostructures Hungary Zrt., headquartered in Eger (Hungary), was founded. The company will be used as an extended workbench for the Aerostructures division. The Eger site manufactures subassemblies, which are then delivered to RUAG Aerospace Structures GmbH in Germany for further processing. A shared-service approach is being implemented in the areas of payroll, financial accounting and indirect material purchasing across the existing company of the Ammotec division and the newly founded company in Eger.

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.

Disposals of subsidiaries On 2 November 2016, OEI Opto AG was sold to the aerospace group Thales Alenia Space. OEI Opto AG was founded in the reporting period as a vehicle for the sale of RUAG Space's Opto-Electronics & Instruments product unit. Thales Alenia Space has taken over all its activities and employees. Up to the date of the sale, OEI Opto AG had generated sales of CHF 11.3 million and a loss of CHF 0.2 million.

No entities were disposed of during financial year 2015.

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 2016	Disposal 2016	Acquisition 2015	Disposal 2015
Current assets	0	12	5	—
Property, plant and equipment	1	2	0	—
Intangible assets	—	—	—	—
Current and non-current liabilities	(1)	(6)	(1)	—
Deferred tax liabilities	(0)	(0)	—	—
Assets and liabilities acquired (disposed)	0	7	5	—
Agreed price/consideration	(1)	13	(4)	—
Escrow account	—	—	—	—
Earn-out	—	—	(0)	—
Outstanding payment	—	—	—	—
Assumption of financial liabilities	—	—	—	—
Foreign currency translation adjustments	—	—	—	—
Gross cash (outflow) inflow	(1)	13	(4)	—
Cash and cash equivalents acquired (disposed)	0	(1)	1	—
Net cash (outflow) inflow	(1)	13	(3)	—

Additional notes on the acquisition of HTS Hoch Technologie Systeme GmbH as at 31 May 2016.

Consideration and identifiable assets acquired and liabilities assumed The consideration transferred for this 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.

Property, plant and equipment The fair value of property, plant and equipment was measured based on the amortized replacement values, taking into account the newly estimated useful life.

Goodwill A goodwill amount of CHF 1.3 million resulted from the acquisition of HTS Hoch Technologie Systeme GmbH. This amount was offset against equity at the time of acquisition.

Expenses related to this acquisition During the year under review, the expenses incurred by RUAG in relation to this acquisition amounted to around CHF 0.1 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

	2016 Space	2015 Space	2016 Aerostructures	2015 Aerostructures	2016 Aviation	2015 Aviation	2016 Ammotec	2015 Ammotec	2016 Defence	2015 Defence	2016 Services	2015 Services	2016 Total Segments	2015 Total Segments	2016 Eliminations	2015 Eliminations	2016 Group total	2015 Group total
Net sales with third parties	344	310	235	195	460	470	385	339	384	376	51	54	1 858	1 744	—	—	1 858	1 744
Net sales with other segments	1	1	1	1	9	10	0	1	5	4	128	122	144	140	(144)	(140)	—	—
Total net sales	345	310	236	196	469	479	385	340	388	381	179	177	2 002	1 884	(144)	(140)	1 858	1 744
Earnings before interest, taxes, depreciation and amortization (EBITDA)	48	45	15	11	52	49	46	39	35	35	36	39	232	217	—	—	232	217
Depreciation, amortization and impairment	(17)	(21)	(3)	(2)	(8)	(7)	(14)	(12)	(11)	(12)	(28)	(27)	(81)	(80)	—	—	(81)	(80)
Earnings before interest and taxes (EBIT)	32	24	12	9	44	42	31	26	24	23	8	12	151	137	—	—	151	137
Net financial result																	(7)	(1)
Share in income of associates											3	9	3	9			3	9
Earnings before taxes																	147	144
Income taxes																	(31)	(28)
Net profit																	116	117
Net operating assets by region	41	60	103	87	95	87	265	264	45	(14)	273	279	822	762	(0)	0	822	762
Net operating assets Switzerland	12	17	54	40	37	48	63	67	25	(33)	277	284	469	423	(1)	(1)	468	422
Net operating assets Rest of Europe	46	44	49	47	43	24	174	166	19	19	(4)	(5)	328	293	1	1	329	294
Net operating assets Rest of world	(17)	—	—	—	14	15	28	31	0	—	(0)	—	26	46	0	0	26	46
Property, plant and equipment and intangible assets	56	63	26	14	70	62	107	97	25	30	293	300	577	565	—	—	577	565
Property, plant and equipment and intangible assets Switzerland (incl. investment properties)	38	46	20	11	41	35	28	26	15	17	293	300	434	435	—	—	434	435
Property, plant and equipment and intangible assets Rest of Europe	17	16	6	3	14	11	76	68	11	13	0	0	125	112	—	—	125	112
Property, plant and equipment and intangible assets Rest of world	0	—	—	—	15	16	3	2	—	—	—	—	18	18	—	—	18	18
Capital expenditures for property, plant and equipment and intangible assets	(12)	(13)	(14)	(5)	(16)	(25)	(25)	(23)	(7)	(3)	(21)	(22)	(96)	(91)	—	—	(96)	(91)
Disposal of property, plant and equipment and intangible assets	0	0	0	0	0	0	0	0	0	0	2	9	2	10	—	—	2	10

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

Products and services of the individual segments are described in Note 2.24, “Segment information”.

6 Net sales

in CHF m	2016	2015
Invoiced sales	1 817	1 781
Change in contracts under the percentage of completion (PoC) method	41	(37)
Total net sales	1 858	1 744

DDPS	568	565
Third parties	1 249	1 217
Invoiced sales by customer group	1 817	1 781

Aside from the DDPS and Airbus, 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, while those from transactions with Airbus mainly relate to the Aerostructures and Space segments.

Defence	774	795
Civil	1 044	986
Invoiced sales by type of use	1 817	1 781

Switzerland	679	679
Rest of Europe	838	785
Middle East	16	19
North America	200	212
South America	11	19
Asia/Pacific	64	57
Africa	11	11
Invoiced sales by region	1 817	1 781

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

7 Personnel expenses

in CHF m	2016	2015
Salaries and wages	(640)	(606)
Expense of benefit plans	(49)	(46)
Other social security expenses	(82)	(80)
Contract personnel	(50)	(33)
Other personnel expenses	(38)	(31)
Total personnel expenses	(859)	(796)

8 Other operating expenses, net

in CHF m	2016	2015
Premises costs	(22)	(22)
Maintenance and repairs of property, plant and equipment	(53)	(45)
Cost of energy and waste disposal	(12)	(11)
Insurance and duties	(7)	(7)
Administration and IT costs	(55)	(48)
Advertising costs	(29)	(27)
Other operating expenses	(21)	(65)
Other operating income	29	22
Total other operating expenses, net	(171)	(204)

During the year under review, higher capacity utilization rates compared to the previous year across various segments resulted in additional costs for maintaining and repairing property, plant and equipment.

The decrease in other operating expenses from the previous year is firstly a result of a special effect from 2015 caused by the creation of a provision for restructuring expenses in the amount of CHF 12 million and secondly of the fact that this position included exchange losses in 2015 of CHF 9 million (see section below). In addition, various adjustments and revaluations of provisions (warranty provisions, follow-up costs etc.) have resulted in a further reduction in “other operating expenses”. For more information, see Note 26 “Provisions".

“Other operating income” contains net exchange gains of CHF 2 million (previous year: net exchange losses of CHF 9 million; recognized in other operating income). In addition, the gain realized from the sale of OEI Opto AG had a positive effect on the result from other operating income. Additional information on this can be found in Note 4 “Acquisitions, mergers, formations and disposals of companies”.

9 Research and development expenses

in CHF m	2016	2015
Total research and development expenses	171	146

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 49 million (previous year: CHF 44 million). The increase in third party-financed research and development expenses of around CHF 20 million is firstly a result of the increased project volume in the Space division related to the development of a new payload fairing and additional composite structural components for ULA’s Vulcan launch vehicle. Secondly, the Aviation division has seen an increased volume of research and development projects with the DDPS.

10 Financial income/financial expenses

in CHF m	2016	2015
Interest income	2	4
Realized exchange gains	—	0
Realized gains from securities	—	—
Total financial income	2	5

Interest expense	(9)	(3)
Realized exchange losses	—	(3)
Realized losses from securities	—	—
Impairment of financial assets	—	(0)
Total financial expenses	(9)	(6)

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 recognized and shown in net interest/financial result. In financial year 2016, such interest expenses amounted to CHF 5 million (previous year: interest income of CHF 2 million).

11 Income taxes

in CHF m	2016	2015
Current income tax expense of the reporting period	(32)	(32)
Adjustments to current income taxes from prior periods	0	0
Current income tax expense	(32)	(32)
Origination (reversal) of temporary differences	(0)	3
Effect of tax rate changes	1	0
Recognition of previously unrecognized tax losses	0	1
Use of recognized tax loss carryforwards	(1)	(2)
Deferred tax income	0	4
Income tax expense in profit or loss	(31)	(28)

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

in CHF m	2016 Before tax	2016 Tax (expense)/income	2016 Net (after tax)	2015 Before tax	2015 Tax (expense)/income	2015 Net (after tax)
Change in fair value of cash flow hedges	(10)	2	(8)	(12)	4	(8)
Gains and losses from cash flow hedges transferred to profit or loss	3	(1)	2	16	(6)	10
Foreign currency translation adjustments of foreign subsidiaries	(4)	0	(4)	(30)	0	(30)
Deferred taxes in equity	(11)	2	(10)	(27)	(1)	(28)

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 23.2 % (previous year: 24.5 %).

in CHF m	2016	2015
Earnings before taxes	147	144
Expected weighted tax rate in %	23.2 %	24.5 %
Expected income tax expense	(34)	(35)
Reconciliation of effective income tax expense		
Effect of (valuation allowances)/recognizing of tax loss carryforwards from prior years	(1)	1
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)	(0)
Effect of non-deductible expenses	(1)	(0)
Effect of tax-free income	4	5
Effect of income taxed at lower rates	—	—
Effect of tax rate changes	1	0
Effect of tax credits (losses) from prior periods	0	0
Other effects (including effect of share in profit or loss of associates)	(0)	1
Effective income tax expense	(31)	(28)
Effective income tax rate	21.3 %	19.2 %

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	2016 Deferred tax assets	2016 Deferred tax liabilities	2015 Deferred tax assets	2015 Deferred tax liabilities
Assets				
Receivables and prepayments	0	3	1	3
Inventories and work in progress	0	11	0	10
Property, plant and equipment and investment property	3	14	3	15
Intangible assets	0	3	1	7
Tax loss carryforwards	4	—	4	—
Employee benefit assets	—	—	—	—
Other asset items	1	2	1	3
Liabilities				
Deferred income and accrued expenses	2	0	3	0
Current and non-current provisions	3	8	3	8
Employee benefit obligations	6	—	6	—
Other liability items	4	7	3	5
Deferred taxes before offsetting	24	49	24	51
Offsetting of deferred tax assets and liabilities	(11)	(11)	(11)	(11)
Total deferred taxes	13	36	13	38

Deferred tax assets and liabilities changed as follows:

in CHF m	2016	2015
Total deferred taxes at 1 January	(26)	(29)
Changes recognized in profit or loss	0	4
Changes in equity with no impact on profit or loss	2	(1)
Changes in the scope of consolidation	0	—
Foreign currency translation adjustments	0	(0)
Total deferred taxes at 31 December	(23)	(26)
of which deferred tax assets	13	13
of which deferred tax liabilities	(36)	(38)

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	2016	2015
Expiring within 1 year	—	—
Expiring in 1 to 2 years	1	—
Expiring in 2 to 3 years	—	1
Expiring in 3 to 4 years	3	—
Expiring in 4 to 5 years	2	3
Expiring in 5 to 6 years	1	0
Expiring in 6 to 7 years	0	1
Expiring in more than 7 years	8	10
Total tax loss carryforwards	15	15
Potential tax effect of tax loss carryforwards	4	4
of which recognized as deferred tax assets	4	4
of which not recognized	1	0

12 Cash and cash equivalents

in CHF m	2016	2015
Cash on hand	3	1
Demand deposits with financial institutions	197	232
Money market investments	39	—
Total cash and cash equivalents	239	233

Currencies of cash and cash equivalents

in CHF m	2016	2015
CHF	139	165
EUR	55	41
USD	27	13
SEK	10	10
Other	8	5
Total cash and cash equivalents	239	233

13 Financial assets

Current financial assets

in CHF m	2016	2015
Derivative financial instruments	4	8
Total current financial assets	4	8

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	2016	2015
Money market investments	0	0
Other receivables from third parties	3	3
Valuation allowances	(0)	(0)
Total non-current financial assets	3	3

Currencies of current and non-current financial assets

in CHF m	2016	2015
CHF	1	2
EUR	1	4
USD	3	4
SEK	1	1
Other	0	0
Total financial assets	6	11

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

14 Trade receivables, other current receivables and prepayments

in CHF m	2016	2015
Trade receivables	273	281
Trade receivables and receivables from associates	0	0
Valuation allowances	(8)	(10)
Total trade receivables	266	271
Prepayments to suppliers	30	26
Prepayments to associates	0	0
Total prepayments to suppliers	30	26
Current receivables from government bodies	11	13
Other current receivables	12	16
Total other current receivables	23	29
Total trade receivables, other current receivables and prepayments	319	326

Maturity profile of trade receivables, other current receivables and prepayments

in CHF m	2016	2015
Not past due	232	219
Past due 1–30 days	42	49
Past due 31–60 days	5	9
Past due 61–90 days	5	18
Past due 91–180 days	8	5
Past due over 180 days	27	24
Total trade receivables, other current receivables and prepayments	319	326

Currencies of trade receivables, other current receivables and prepayments

in CHF m	2016	2015
CHF	101	103
EUR	117	130
USD	86	79
SEK	9	4
Übrige	6	11
Total trade receivables, other current receivables and prepayments	319	326

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 changed as follows:

Valuation allowances for doubtful receivables
in CHF m

	2016	2015
Balance at 1 January	(10)	(12)
Increase in allowance	(3)	(3)
Utilization of allowance	2	2
Reversal of allowance	3	3
Currency differences	—	—
Carrying amount at 31 December	(8)	(10)

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

15 Inventories and work in progress

in CHF m

	2016	2015
Raw materials and supplies	304	266
Work in progress at cost of conversion	133	125
Work in progress (percentage of completion)[1]	82	62
Semi-finished goods	105	95
Finished goods	82	68
Valuation allowances	(102)	(100)
Total inventories and work in progress	603	516

[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 442 million (previous year: CHF 394 million) in raw materials and supplies, semi-finished and finished goods, and work in progress was charged to cost of materials.

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

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

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

16 Percentage of Completion (PoC)

Long-term construction and service contracts
in CHF m

	2016	2015
Contract sales and costs of ongoing projects at the end of the reporting period		
Aggregated contract sales at the end of the reporting period	1 274	1 223
Aggregated contract costs at the end of the reporting period	(1 074)	(982)
Realized margin at the end of the reporting period	200	241
Cumulative balance of ongoing projects at the end of the reporting period		
Gross amount due from customers for contract work	82	62
Gross amount due to customers for contract work	(71)	(90)
Net position	11	(28)
Advances received from customers relating to PoC contracts	25	21

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 2015	483	237	74	464	53	1 312
First-time consolidation	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
First-time consolidation	—	—	—	—	—	—
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
At cost						
As at 1 January 2016	488	230	75	477	42	1 311
First-time consolidation	0	0	0	1	—	1
Eliminations from the scope of consolidation	(2)	(8)	—	(1)	—	(10)
Additions	20	28	0	2	37	87
Disposals	(5)	(12)	(0)	(1)	(0)	(18)
Reclassifications	10	8	—	2	(18)	2
Foreign currency translation adjustments	(3)	(1)	0	(0)	(0)	(4)
As at 31 December 2016	509	245	75	479	60	1 369
Accumulated depreciation and impairment losses						
As at 1 January 2016	364	167	0	343	—	874
First-time consolidation	—	—	—	—	—	—
Eliminations from the scope of consolidation	(2)	(5)	—	(1)	—	(8)
Depreciation	21	21	0	17	—	58
Disposals	(4)	(12)	—	(1)	—	(17)
Depreciation of net carrying amount	—	—	—	—	—	—
Reclassifications	(0)	1	—	—	—	1
Foreign currency translation adjustments	(2)	(1)	(0)	(0)	—	(3)
As at 31 December 2016	376	171	0	358	—	905
Net carrying amount						
As at 1 January 2015	107	53	74	129	53	416
As at 31 December 2015	124	63	75	134	42	438
As at 31 December 2016	132	74	75	122	60	464

[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	2016	2015
At cost	5	7
Accumulated depreciation and impairment losses	(5)	(5)
Carrying amount at 31 December	1	1

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	2016	2015
Plant and equipment	0	0
Other	1	1
Carrying amount at 31 December	1	1

Fire insurance values

in CHF m	2016	2015
Plant and equipment	1 288	1 156
Property	930	952
Total fire insurance values	2 217	2 108

18 Investment properties

in CHF m	2016	2015
At cost		
As at 1 January	351	349
First-time consolidation	—	—
Eliminations from the scope of consolidation	—	—
Additions	2	2
Disposals	(0)	—
Reclassifications	(0)	(0)
Foreign currency translation adjustments	—	—
As at 31 December	353	351
Accumulated depreciation and impairment losses		
As at 1 January	258	252
First-time consolidation	—	—
Eliminations from the scope of consolidation	—	—
Depreciation	6	6
Disposals	—	—
Depreciation of net carrying amount	—	—
Reclassifications	—	—
Foreign currency translation adjustments	—	—
As at 31 December	264	258
Net carrying amount		
As at 1 January	93	97
As at 31 December	88	93

Fire insurance values

in CHF m	2016	2015
Investment property	477	451
Total fire insurance values	477	451

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	2016	2015
Fair value (DCF calculation)	235	247
Rental income from investment property	20	20
Real estate expenses	11	12
of which on let property	9	10
of which on vacant property	2	2
Agreed capital commitments and commitments in respect of maintenance work	1	0
Future minimum rental income from ongoing rental contracts	55	66

Majority leased sites to third parties are classified as investment properties. In 2016 as in the previous year, there were six such sites: Bern, Altdorf, Zwieselberg (Thun-Boden), Aigle, Unterseen and Wimmis.

The decrease in fair value from the previous year is primarily due to the updated analysis of the properties' condition and the resulting higher costs for anticipated renovation projects, as well as from updating the property area data.

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 2015	2	10	23	147	183
First-time consolidation	—	—	—	—	—
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
First-time consolidation	—	—	—	—	—
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
At cost					
As at 1 January 2016	2	9	24	143	179
First-time consolidation	—	—	—	—	—
Eliminations from the scope of consolidation	(0)	—	(0)	(0)	(0)
Additions	—	—	6	—	6
Disposals	—	—	—	—	—
Reclassifications	—	—	—	—	—
Foreign currency translation adjustments	(0)	(0)	(0)	(1)	(1)
As at 31 December 2016	2	9	31	142	185
Accumulated amortization and impairment losses					
As at 1 January 2016	2	9	17	116	144
First-time consolidation	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	(0)	(0)	(0)
Amortization	0	—	1	16	17
Disposals	—	—	—	—	—
Reclassifications	—	—	—	—	—
Foreign currency translation adjustments	(0)	(0)	(0)	(1)	(1)
As at 31 December 2016	2	9	18	131	160
Net carrying amounts					
As at 1 January 2015	0	—	6	51	57
As at 31 December 2015	0	—	8	27	35
As at 31 December 2016	0	—	13	11	24

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 2015	61	—	0	13	8	82
First-time consolidation	—	—	—	—	—	—
Adjustments	—	—	—	—	—	—
Foreign currency translation adjustments	(1)	—	0	(1)	(0)	(2)
As at 31 December 2015	60	—	0	12	8	79
Accumulated amortization						
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
At cost						
As at 1 January 2016	60	—	0	12	8	79
First-time consolidation	1	—	—	—	—	1
Adjustments	—	—	—	—	—	—
Foreign currency translation adjustments	(0)	—	0	(0)	(0)	(0)
As at 31 December 2016	61	—	0	12	8	80
Accumulated amortization						
As at 1 January 2016	60	—	0	12	6	77
Theoretical ordinary amortization	0	—	—	—	1	1
Foreign currency translation adjustments	(0)	—	0	(0)	(0)	(0)
As at 31 December 2016	60	—	0	12	6	78
Theoretical net book value						
As at 1 January 2015	—	—	—	—	3	3
As at 31 December 2015	—	—	—	—	2	2
As at 31 December 2016	1	—	—	—	1	2

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	2016	2015
Earnings before interest and taxes (EBIT)	151	137
Theoretical amortization of goodwill	(1)	(1)
Theoretical EBIT incl. amortization of goodwill	150	136
Net profit	116	117
Theoretical amortization of goodwill	(1)	(1)
Theoretical net profit incl. amortization of goodwill	115	116

Impact on consolidated balance sheet

in CHF m	2016	2015
Equity according to the balance sheet	1 009	951
Theoretical capitalization of net book value of goodwill	2	2
Theoretical equity incl. net book value of goodwill	1 011	953

20 Associates

in CHF m	2016	2015
Carrying amount of interests in associates as at 1 January	39	33
Acquisitions	—	—
First-time consolidation	—	—
Share in profit/loss of associates from discontinued operations	—	—
Share in profit/loss of associates from continued operations	3	9
Dividends	(3)	(2)
Reclassifications	(0)	—
Foreign currency translation adjustments	(0)	(1)
Carrying amount of interests in associates as at 31 December	39	39

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	2016	2015
Share in result of associates from continued operations	3	9

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

Aggregate financial information for associates

in CHF m	2016	2015
Total assets	207	207
Total liabilities	121	121
Net assets	86	86
Net sales	152	149
Profit from continued operations	10	17

There are no contingent liabilities for RUAG relating to associates.

21 Financial liabilities

Current financial liabilities

in CHF m	Note	2016	2015
Due to financial institutions		0	0
Financial liabilities to third parties[1]		12	10
Liabilities to associates		—	—
Financial liabilities to employee benefit funds		0	—
Lease liabilities	31	0	1
Current portion of non-current financial liabilities		—	—
Total current financial liabilities		13	10

[1] This item primarily contains the negative replacement values of foreign currency forward transactions.

Non-current financial liabilities

in CHF m	Note	2016	2015
Due to financial institutions		—	0
Lease liabilities	31	0	1
Loans secured by property		—	—
Bond issues		—	—
Liabilities to associates		—	—
Total non-current financial liabilities		0	1

The carrying amounts of the non-current financial liabilities are a reasonable approximation of the fair value. The average rate of interest on non-current financial liabilities in the year under review was 3.3 % (previous year: 3.5 %).

Maturity structure of financial liabilities

in CHF m	2016	2015
Up to 1 year	13	10
Up to 2 years	0	0
Up to 3 years	0	0
Up to 4 years	0	0
Over 4 years	—	0
Total financial liabilities	13	11

Currencies of financial liabilities

in CHF m	2016	2015
CHF	1	1
EUR	4	2
USD	7	6
SEK	0	1
Other	0	1
Total financial liabilities	13	11

22 Trade accounts payable and prepayments

in CHF m	2016	2015
Trade accounts payable	118	99
Trade accounts payable to associates	0	0
Total trade accounts payable	118	99
Prepayments from customers	182	156
Trade accounts payable to associates	—	—
Total prepayments from customers	182	156
Total trade accounts payable and prepayments	300	255

Currencies of trade accounts payable and prepayments

in CHF m	2016	2015
CHF	121	128
EUR	112	93
USD	54	19
SEK	9	12
Übrige	3	3
Total trade accounts payable and prepayments	300	255

23 Other current liabilities

in CHF m	2016	2015
Due to third parties	21	12
Due to associates	—	—
Due to government bodies	30	23
Due to shareholders	—	—
Due to employee benefit funds	3	1
Total current liabilities	55	36

24 Other non-current liabilities

in CHF m	2016	2015
Due to third parties	4	3
Due to associates	—	—
Due to shareholders	—	—
Due to employee benefit funds	—	—
Total other non-current liabilities	4	3

25 Deferred income and accrued expenses

in CHF m	2016	2015
Deferred income and accrued expenses for PoC orders	71	90
Income relating to future periods	7	7
Outstanding trade accounts payable	45	41
Outstanding multi-year SLA expenses	—	1
Personnel-related accrued expenses	22	22
Other deferred income and accrued expenses	54	50
Total deferred income and accrued expenses	199	210

26 Provisions

in CHF m	Restructuring	Contract losses	Warranties	Holiday and overtime	Loyalty bonuses and anniversary benefits	Other	Total
Balance at 1 January 2015	4	14	19	33	22	24	117
First-time consolidation	—	—	—	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
Balance at 1 January 2016	15	16	18	31	23	29	132
First-time consolidation	—	—	—	—	—	0	0
Eliminations from the scope of consolidation	—	(2)	—	(0)	(0)	0	(2)
Additions	—	10	3	24	1	8	46
Release of unused provisions	(3)	(5)	(7)	(0)	(2)	(5)	(22)
Use of provisions	(2)	(6)	(2)	(18)	(2)	(7)	(37)
Reclassifications	—	—	(0)	—	—	0	—
Foreign currency translation adjustments	0	(0)	(0)	(0)	(0)	(0)	(1)
Balance at 31 December 2016	11	13	12	36	19	25	116
Current provisions	—	11	11	36	1	16	75
Non-current provisions	11	2	1	—	18	9	41

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

As at the end of the reporting period, the restructuring provisions created in the Space division in 2015 relating to the transfer of business activities were revalued, which led to the release of CHF 3 million. The provisions were recognized in relation to the gradual transfer of the production of payload fairings (Launchers business unit) from Zurich-Seebach to Emmen and the USA (Decatur, Alabama) and the associated restructuring costs. New customer requirements are resulting in the transfer to the USA being delayed. Consequently, the related provisions will mostly be used starting in 2018.

In the Aviation division, the measures taken to boost efficiency at the sites in Germany and Switzerland were implemented and concluded during the reporting period. As a result, the remaining CHF 2 million (previous year: CHF 2 million) of the related restructuring provisions was used in the year under review.

In mid-2016, the Defence division was able to release in full the warranty provision related to a major project (CHF 3 million) due to the warranty period expiring.

In the Ammotec division, CHF 3 million was released from the warranty provision as the actual warranty expenses incurred in the past were lower than originally assumed. The other warranty provision adjustments come within the scope of ordinary fluctuations in day-to-day business. The non-current portion of the provisions is likely to be used in the period 2018–20.

The decrease in provisions for loyalty bonuses and anniversary benefits is mainly due to the application of the newly published BVG actuarial bases for 2015 (previous year: BVG 2010), a slight increase in the discount rate and an adjustment to the retirement assumptions. As at 31 December 2016, a discount rate of 0.8 % (previous year: 0.5 %) was used to calculate the long company service provision 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 2018.

In relation to the 2012 acquisition of RUAG Australia PTY Ltd., as at the end of 2015 there was a provision included under other provisions to cover potential obligations to the former owners (outstanding purchase price payments). During the reporting period, an agreement was reached in this regard, which resulted in the release of a total of CHF 2 million. In addition, around CHF 1 million of provisions no longer required was released in a company of the Defence division.

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 Bern 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 – was managed by the Dynamit Nobel VVaG pension fund until 31 March 2016 and since 1 April 2016 has been managed as a defined benefit scheme of RUAG Ammotec GmbH, 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 employees 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 the reporting year and the previous year, and the corresponding development of benefit plan expenses:

in CHF m	Surplus/ deficit in accordance with FER 26	2016 Group's economic share	2015 Group's economic share	Foreign currency translation adjustments	Year-on-year changes/ expenses for reporting period	Contributions accrued for the period	2016 Expense of benefit plans in personnel expenses	Year-on-year changes/ expenses for reporting period	2016 Expense of benefit plans in financial result	2015 Expense of benefit plans in personnel expenses	2015 Expense of benefit plans in financial result
Patronal financing foundation	151	—	—	—	—	—	—	—	—	—	—
Benefit plans without surplus/deficit	—	(1)	—	0	0	46	46	0	0	46	—
Benefit plans with surplus	0	—	—	—	—	2	2	—	—	—	—
Benefit plans with deficit	—	—	—	—	—	—	—	—	—	—	—
Benefit plans without plan assets	—	(57)	(54)	(2)	0	—	0	5	5	0	(2)
Total	151	(58)	(54)	(2)	1	48	49	5	5	46	(2)

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 defined benefit basic pension scheme in Germany. The KADERVORSORGE RUAG management plan has a slight surplus.

The recognized economic liabilities for benefit plans without plan assets, i.e. unfunded plans, amount to CHF 57 million (previous year: CHF 54 million) and mainly relate to the pension plans in Germany and Sweden.

The following table contains a summary of the benefit plan expenses for the reporting year and the previous year:

in CHF m	2016 Switzerland	2016 Abroad	2016 Total	2015 Switzerland	2015 Abroad	2015 Total
Contributions to benefit plans at expense of Group companies	39	9	48	39	7	46
Contributions to benefit plans from employer contribution reserves	—	—	—	—	—	—
Total contributions	39	9	48	39	7	46
+/– change in ECR from portfolio performance, impairment etc.	—	—	—	—	—	—
Contributions and change in employer contribution reserves	39	9	48	39	7	46
Decrease/Increase in economic liability of Group from benefit plans without surplus/deficit	—	0	0	—	—	—
Decrease/Increase in economic liability of Group (plans without plan assets)	—	0	0	—	0	0
Total change in economic impact from surpluses/deficits	—	1	1	—	0	0
Expense of benefit plans in personnel expenses for period	39	10	49	39	7	46
Decrease/Increase in economic liability of Group from benefit plans without surplus/deficit	—	0	0	—	—	—
Decrease/Increase in economic liability of Group (plans without plan assets)	—	5	5	—	(2)	(2)
Total change in economic impact from surpluses/deficits	—	5	5	—	(2)	(2)
Expense of benefit plans in financial result for period	—	5	5	—	(2)	(2)
Total expense of benefit plans for period	39	14	54	39	5	44

The change in recognized economic liabilities from benefit plans and paid-in employer contributions for the reporting year amount to CHF 54 million (previous year: CHF 44 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	2016	2015
Group guarantees	88	81
Bank guarantee obligations	125	97
Total contingent liabilities towards third parties	214	178

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	2016	2015
Agreed contractual penalties (fines and premiums)	2	4
Legal proceedings	0	1
Bill commitments	—	—
Capital commitments for property, plant and equipment (incl. investment properties)	22	12
Other liabilities not stated on the balance sheet	2	2
Total contingent liabilities not stated on the balance sheet	25	19

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	2016	2015
Within 1 year	0	1
Later than 1 year, within 5 years	0	1
After 5 years	—	—
Total	1	1
Less future interest costs	(0)	(0)
Total lease liabilities recognized	1	1

Operating leases

in CHF m	2016	2015
Within 1 year	21	18
Later than 1 year, within 5 years	54	60
After 5 years	13	17
Total	88	96

These comprise unrecognized obligations under operating leases (including rental agreements).

32 Assets pledged as collateral

in CHF m	2016	2015
Cash and cash equivalents	—	—
Receivables and inventories	—	—
Plant and equipment	0	0
Property	2	2
Total assets pledged as collateral	2	2

33 Related party transactions

in CHF m	2016	2015
Receivables from related parties	53	63
Liabilities to related parties	(0)	(0)
Prepayments from related parties	(47)	(38)
Current liabilities to employee benefit funds	—	—
Non-current liabilities to employee benefit funds	—	—

In the year under review, CHF 53 million of receivables from related parties (previous year: CHF 63 million) and CHF 0.1 million of liabilities to related parties (previous year: CHF 0.1 million) were attributable to the DDPS. Invoiced sales to the DDPS totalled CHF 568 million (previous year: CHF 565 million) as stated in Note 6, “Net sales”. In return, the DDPS supplied materials and services totalling CHF 18 million (previous year: CHF 12 million). There were no loans between the Group companies and members of the Board of Directors. CHF 0.3 million (previous year: CHF 0.3 million) was generated with associates, and services with a value of CHF 3.0 million (previous year: CHF 2.5 million) purchased.

34 Compensation of key management personnel

in CHF thousands	2016	2015
Highest overall compensation in the Executive Board according to executive pay reporting (Arts. 3 and 5 of the Management Salaries Ordinance)[1]	912	1 010

The overall emoluments paid to non-executive members of the Board of Directors for the 2016 financial year amounted to CHF 804,000 (previous year: CHF 802,000). The overall emoluments paid to the CEO and the (Extended) Management Board[3] for the 2016 financial year amounted to CHF 6,374,000 (previous year: CHF 7,039,000).[2] The overall emoluments paid to the CEO for the 2016 financial year amounted to CHF 1,022,000 (previous year: CHF 1,118,000).[2]

Overview of compensation paid to members of the Board of Directors, the Group Executive Board and the Extended Management Board[3]:

	Total		Maximum overall compensation	
in CHF thousands	2016	2015	2016	2015
Basic salary of Board of Directors				
Cash compensation	804	802	198	198
Total compensation paid to members of the Board of Directors	804	802	198	198
Basic salary of Group Executive Board (incl. Extended Management Board)[3]				
Cash compensation	3 596	3 790	549	484
Benefits in kind[4]	91	274	9	26
Employer contributions to pension funds	428	443	75	65
Performance-based component, Group Executive Board (incl. Extended Management Board)[3]				
Cash compensation[5]	2 065	2 298	354	500
Employer contributions to pension funds	194	234	35	43
Other long-term employee benefits	—	—	—	—
Total compensation paid to members of the Group Executive Board (incl. Extended Management Board)[3]	6 374	7 039	1 022	1 118
of which cash compensation	5 661	6 088	903	984
of which benefits in kind	91	274	9	26
of which employer contributions to pension funds	622	677	110	108
of which other long-term employee benefits	—	—	—	—
Relation between performance-related component and cash compensation	57 %	61 %	64 %	103 %
Total compensation paid to members of the Board of Directors and Group Executive Board (incl. Extended Management Board)[3]	7 178	7 841		
of which short-term employee benefits[6]	6 556	7 164		
of which employer contributions to pension funds	622	677		
of which other long-term employee benefits	—	—		

[1] Unlike the disclosures in accordance with international standards, the federal government's Management Salaries Ordinance stipulates that the employer's pension fund contributions should not be included in the figure for overall compensation.
[2] The overall emoluments are exclusive of the employer's social insurance contributions.
[3] The Extended Management Board was dissolved as of 1 July 2016. One member of the former Extended Management Board has joined the Group Executive Board.
[4] Includes private use of company vehicle in the reporting period. In the previous year, the full vehicle flat-rate amount was shown.
[5] In the reporting period incl. LTI entitlements from the 2014–16 LTI Plan (previous year: 2013–15).
[6] 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 2016

in CHF m	EUR	USD	SEK	Other
Cash and cash equivalents	55	27	10	8
Trade receivables/other receivables	106	70	9	5
Other financial assets	1	3	1	0
Financial liabilities	(4)	(7)	(0)	(0)
Trade accounts payable/other liabilities	(61)	(27)	(13)	(3)
Other financial liabilities	—	—	(1)	—
Total foreign currency positions as of balance sheet date from financial assets and liabilities	97	65	6	9

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

The following currency hedging transactions existed as at 31 December:

Volume of contracts

in CHF m	2016	2015
Currency hedging contracts banks	288	360
Currency hedging contracts banks	(89)	(79)

Carrying amount

in CHF m	2016	2015
Current financial assets	4	8
Current financial liabilities	(12)	(10)

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 the reporting and the previous year:

as at 31 December 2016

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	(10)	(1)	(1)	(0)	(12)
Inflows	3	1	—	—	4
	(7)	(1)	(1)	(0)	(8)

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)

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	2016	2015
Other reserves	(8)	(0)

Due to the occurrence of the underlying transactions, CHF 3 million was booked out of other reserves under shareholders' equity in the reporting year and shown under other operating expenses (previous year: CHF 16 million).

RUAG Holding Ltd provides certain foreign Group companies with loans in EUR and AUD. These loans are not hedged. As at 31 December 2016, there were loans totalling EUR 175 million (previous year: EUR 175 million) and AUD 15 million (previous year: AUD 15 million). As these loans are equity-like 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 25 million as at 31 December 2016 (previous year: CHF 24 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 2016, RUAG is also exposed to the risk of negative interest rates.

Interest-bearing financial liabilities

as at 31 December, in CHF m	2016	2015
Current financial liabilities	1	1
Non-current financial liabilities	0	1
Total interest-bearing financial liabilities	1	2
Of which variable interest-bearing	0	0
Fixed through interest rate swap	—	—
Variable interest-bearing, net	0	0

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

Commodity price risk In buying commodities (particularly copper, lead, zinc, 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 primarily lead swaps to manage and reduce to a minimum the price fluctuation risk of planned purchases.

The following hedging transactions existed as at 31 December:

Volume of contracts

in CHF m	2016	2015
Lead price hedging contracts banks	10	12
Lead price hedging contracts banks	(3)	—

Replacement values

in CHF m	2016	2015
Positive replacement value banks	2	0
Negative replacement value banks	(0)	—

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

Consumption

in CHF m	2016	2015
Aluminium	3	5
Lead	12	12
Copper	26	23
Steel	3	2
Zinc	4	2
Total	50	44

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. Around 31 % (previous year: 32 %) of the Group's sales are attributable to the DDPS. No other customer accounts for more than 10% of the Group's sales, with the exception of Airbus.

Trade and other receivables from the DDPS account for around 20 % (previous year: 23 %) of total trade and other receivables as at 31 December 2016. 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	2016	2015
Cash and cash equivalents	239	233
Current financial assets	4	8
Trade receivables/other receivables		
Other current receivables	288	300
Non-current financial assets	3	3
Total credit risk	534	544

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 regularly 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 2016

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Over 4 years	Total
Cash and cash equivalents	239	—	—	—	—	239
Current financial assets[1]	0	—	—	—	—	0
Non-current financial assets	—	0	0	0	2	3
Current financial liabilities[1]	(1)	—	—	—	—	(1)
Non-current financial liabilities	—	(0)	(0)	(0)	—	(0)
Other non-current financial liabilities	—	(1)	(0)	(0)	(3)	(4)
Net financial position	239	(1)	(0)	(0)	(1)	237
Prepayments from customers						182
Net financial position excl. customer prepayments						55

As at 31 December 2015

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Over 4 years	Total
Cash and cash equivalents	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

[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

As at 20 January 2017, RUAG Holding AG acquired 100 % of the shares in UK cyber security specialists Clearswift for a purchase price of approximately GBP 47 million. Over the next three years, additional payments of around GBP 6 million will fall due provided certain financial targets are met. This acquisition represents an investment by the Defence division in the expansion and long-term development of its cyber security business. The main products offered by Clearswift in the areas of data loss prevention (DLP) and gateway solutions will supplement the existing product range of RUAG Defence's Cyber Security business in various key aspects. The Clearswift group generates annual sales of around GBP 23 million.

As at 10 January 2017, RUAG Ammotec Deutschland GmbH acquired 100 % of the shares in Turfer di Turelli Luca & C. SRL, an Italian wholesaler of hunting and sport weapons, ammunition and accessories, which is headquartered in Cazzago San Martino (Italy). With this acquisition, Ammotec will strengthen its own wholesale business. The two companies have maintained a close partnership for some years. The acquisition will make it easier in the medium term to exploit the potential of the Italian market with an extended product range. This purchase will not have a material impact on the consolidated financial statements.

On 28 February 2017, 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 right to approve the consolidated financial statements rests with the annual shareholders' meeting.

37 Consolidated companies, associates and non-controlling interests (as at 31 December 2016)

Company	Head office	Country	Equity capital (100 %)		Shareholding	Consolidation method
RUAG Holding AG[1]	Bern	Switzerland	CHF	340 000 000		Full
Konsolidierte Gesellschaften						
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	Bern	Switzerland	CHF	8 000 000	100.0 %	Full
RUAG Ammotec Schweiz AG	Winterthur	Switzerland	CHF	300 000	100.0 %	Full
RUAG Environment Ltd	Schattdorf	Switzerland	CHF	100 000	100.0 %	Full
RUAG Corporate Services Ltd	Bern	Switzerland	CHF	100 000	100.0 %	Full
RUVEX Ltd	Bern	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
HTS Hoch Technologie Systeme GmbH	Coswig	Germany	EUR	26 000	100.0 %	Full[5]
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
RUAG Sweden AB	Gothenburg	Sweden	SEK	100 000	100.0 %	Full
RUAG Space AB	Gothenburg	Sweden	SEK	15 000 000	100.0 %	Full
Norma Precision AB	Amotfors	Sweden	SEK	2 500 000	100.0 %	Full
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
RUAG Defence France 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 Aerostructures Hungary Zrt	Eger	Hungary	HUF	500 000 000	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 Holding USA Inc.	Huntsville, AL	USA	USD	0.1	100.0 %	Full[4]
RUAG Space USA Inc.	El Segundo, CA	USA	USD	1 000	100.0 %	Full[4]
RUAG Simulation Company LLC	Abu Dhabi	UAE	AED	150 000	49.0 %	Full
RUAG Space LLC (in liquidation)	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]

[1] RUAG Holding Ltd, Stauffacherstrasse 65, P.O. Box, CH-3000 Bern 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.
[4] RUAG Holding USA Inc. and RUAG Space USA Inc. were fully consolidated for the first time in the reporting period. In the previous year, these investments were valued at cost minus a valuation allowance.
[5] As at 31 May 2016, RUAG Deutschland GmbH acquired the remaining 75.4 % of the outstanding shares of HTS Hoch Technologie Systeme GmbH, headquartered in Coswig (Germany), and fully consolidated it from this date on.

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
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	Bern	Switzerland	CHF	14 310 000	1.4 %	[3]
Brünig Indoor Aktiengesellschaft	Lungern	Switzerland	CHF	3 400 000	0.3 %	[3]
VDL-RUAG Shelters B.V.	Eindhoven	Netherlands	EUR	50 000	40.0 %	[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 Bern 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.
[4] RUAG Holding USA Inc. and RUAG Space USA Inc. were fully consolidated for the first time in the reporting period. In the previous year, these investments were valued at cost minus a valuation allowance.
[5] As at 31 May 2016, RUAG Deutschland GmbH acquired the remaining 75.4 % of the outstanding shares of HTS Hoch Technologie Systeme GmbH, headquartered in Coswig (Germany), and fully consolidated it from this date on.

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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 32 to 74), for the year ended 31 December 2016.

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 2016 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.

KPMG

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

Herbert Bussmann
Licensed Audit Expert
Auditor in Charge

Florin Janine Krapp
Licensed Audit Expert

Gümligen-Bern, 28 February 2017

Income statement for 1 January to 31 December

in CHF m	Note	2016	2015
Dividend income	2.5	110	74
Income from services		4	4
Total operating income		114	78
Personnel expenses		(0)	(0)
Other operating expenses	2.6	(8)	(8)
Total operating expenses		(8)	(9)
Operating profit/loss		106	70
Financial income			
Interest income		7	7
Financial expenses			
Interest expense		(0)	(0)
Currency losses		(2)	(25)
Pre-tax net profit		111	51
Income taxes		(1)	0
Net profit for the year		110	51

The Notes to the Financial Statements on pages 79 to 81 form an integral part of the financial statements.

Balance sheet as at 31 December

in CHF m	Note	2016	2015
Cash and cash equivalents		160	171
Current financial assets			
Due to companies in which the entity holds an investment		34	37
Other current receivables			
Due to third parties		0	0
Due to companies in which the entity holds an investment		6	12
Total current assets		200	220
in % of total assets		16.5%	17.9 %
Financial assets			
Due to companies in which the entity holds an investment		364	357
Investments	2.1	646	650
Intangible assets		0	0
Total non-current assets		1 009	1 008
in % of total assets		83.5%	82.1 %
Total assets		1 209	1 228
Current financial liabilities			
Due to companies in which the entity holds an investment		131	241
Other current interest-bearing liabilities			
Due to companies in which the entity holds an investment		73	43
Other current liabilities			
Due to third parties		1	0
Due to companies in which the entity holds an investment		—	0
Deferred income and accrued expenses		1	2
Total current liabilities		205	287
Total liabilities		205	287
in % of total liabilities and equity		17.0%	23.4 %
Share capital	2.3	340	340
Legal capital reserve			
Reserves from capital contributions	2.4	10	10
Legal retained earnings			
General legal retained earnings		42	39
Voluntary retained earnings			
Balance sheet profit			
Net profit brought forward		503	501
Net profit for the year		110	51
Total equity		1 004	941
in % of total liabilities and equity		83.0%	76.6 %
Total liabilities and equity		1 209	1 228

The Notes to the Financial Statements on pages 79 to 81 form an integral part of the financial statements.

1 Principles

1.1 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.

1.2 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 (imparity principle).

1.3 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.

1.4 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 2.2.

1.5 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.

1.6 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.

2 Information on balance sheet and income statement items

2.1 Investments

a) Direct investments

Company	Head office	Country	Share of capital and voting rights 2016 in %	Share of capital and voting rights 2015 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	Bern	Switzerland	100	100	CHF	8 000 000
RUAG Corporate Services Ltd	Bern	Switzerland	100	100	CHF	100 000
RUAG Ammotec Schweiz AG	Winterthur	Switzerland	100	100	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	Terssac	France	100	100	EUR	100 000
RUAG Australia PTY Ltd.	Bayswater	Australia	100	100	AUD	10 000
RUAG Aerostructures Hungary Zrt.	Eger	Hungary	100	0	HUF	500 000 000
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	Bern	Switzerland	1.4	1.4	CHF	14 310 000
InnoCampus Ltd	Nidau	Switzerland	7.6	7.6	CHF	1 307 500

b) Material indirect investments

Company	Head office	Country	Share of capital and voting rights 2016 in %	Share of capital and voting rights 2015 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

2.2 Foreign currency forward transactions

in CHF m	2016	2015
Volume of foreign currency hedging contracts with banks	288	360
Volume of foreign currency hedging contracts with banks	(89)	(79)
Volume of foreign currency hedging contracts with Group companies	89	84
Volume of foreign currency hedging contracts with Group companies	(273)	(350)
Positive replacement value banks	4	8
Negative replacement value banks	(12)	(10)
Positive replacement value Group companies	12	10
Negative replacement value Group companies	(4)	(8)
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 foreign currency forward transactions as at the year-end that are recognized at fair value.

2.3 Share capital

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

2.4 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.

2.5 Dividend income

Dividend income primarily contains the dividends from RUAG Switzerland Ltd. Dividend income primarily contains the dividends from RUAG Switzerland Ltd as well as the profit from the sale of OEI Opto AG of CHF 8.4 million. OEI Opto AG was founded in the reporting period as a vehicle for the sale of RUAG Space’s Opto-Electronics & Instruments product unit (part of RUAG Switzerland Ltd).

2.6 Other operating expenses

in CHF m	2016	2015
Advertising costs	(4)	(4)
Administration costs	(1)	(2)
Management fees (cost attributed to Holding)	(3)	(3)
Total other operating expenses	(8)	(8)

3 Further information

3.1 Full-time positions

RUAG Holding Ltd does not employ any staff.

3.2 Collateral provided for third-party liabilities

in CHF m	2016	2015
Guarantees	120	111
Bank guarantees	33	33
Total contingent liabilities	153	144

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 22 December 2016 with a maximum amount of AUD 16.0 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.

3.3 Events after the reporting period

As at 20 January 2017, RUAG Holding AG acquired 100 % of the shares in UK cyber security specialists Clearswift for a purchase price of approximately GBP 47 million. Over the next three years, additional payments of around GBP 6 million will fall due provided certain financial targets are met. This acquisition represents an investment by the Defence division in the expansion and long-term development of its cyber security business. The main products offered by Clearswift in the areas of data loss prevention (DLP) and gateway solutions will supplement the existing product range of RUAG Defence's Cyber Security business in various key aspects. The Clearswift group generates annual sales of around GBP 23 million.

No other 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	2016	2015
Balance sheet profit at the start of the financial year	503	501
Net profit for the year	110	51
Balance sheet profit at the disposal of the Annual General Meeting	613	552
The Board of Directors proposes to the Annual General Meeting the following appropriation of available earnings:		
Dividends	47	47
Allocation to general legal retained earnings	6	3
Balance to be brought forward	560	503

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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 77 to 81), for the year ended 31 December 2016.

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 2016 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

Herbert Bussmann
Licensed Audit Expert
Auditor in Charge

Florin Janine Krapp
Licensed Audit Expert

Gümligen-Bern, 28 February 2017

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 shown below 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 website.[2]

Election and term of office

The Board of Directors of RUAG Holding Ltd and its chairman are 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.

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

Board of Directors

Name	Born	Function	Member since	Elected until AGM
Hans-Peter Schwald	1959	Chairman, non-executive	2002	2017
Dr. Remo Lütolf	1956	Vice-Chairman, non-executive	2014	2017
Egon W. Behle	1955	Non-executive member	2011	2017
Paul Häring	1957	Non-executive member	2004	2017
Markus Hutter	1957	Non-executive member	2014	2017
Prof. Sibylle Minder Hochreutener	1973	Non-executive member	2014	2017
Jürg Oleas	1957	Non-executive member	2011	2017

[1] Unless otherwise specified, the information is applicable as at 31 December 2016.
[2] https://www.ruag.com/en/about-ruag/organisation/board-directors

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 2016, 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.
- Regularly examining the Compliance Management System

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 two meetings in 2016. 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 three-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 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.

The new position of Vice President Compliance & Risk Management was created in the year under review. The manager holding this position commenced work at the beginning of 2017. He is implementing the Group project – commissioned by the Board of Directors and extending over a number of years – for the integrated expansion and strengthening of the compliance and risk management system. He sits on the Compliance Board in place of the Vice President Risk Management.

Whistleblower system
RUAG has an 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 page 24.

Code of Conduct for Business Partners
The Code of Conduct for Business Partners 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.

"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 page 24.

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
Dr. Patrick Grawehr	1964	Member, General Counsel	2016

[1] https://www.ruag.com/en/about-ruag/organisation/group-executive-board

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 2016, 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 Organizational Regulations and in the job description of the CEO.

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

The Group Executive Board comprises the Chief Executive Officer (CEO), the division heads, the Chief Financial Officer (CFO), the Chief Human Resource Officer (CHRO) and (since 1 July 2016) the General Counsel. Up to 30 June 2016 there was also an Extended Management Board, which included the Chief Communication Officer (CCO) and the Chief Information Officer (CIO) as well as the General Counsel. The Extended Management Board was disbanded as of 1 July 2016.

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 three-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.

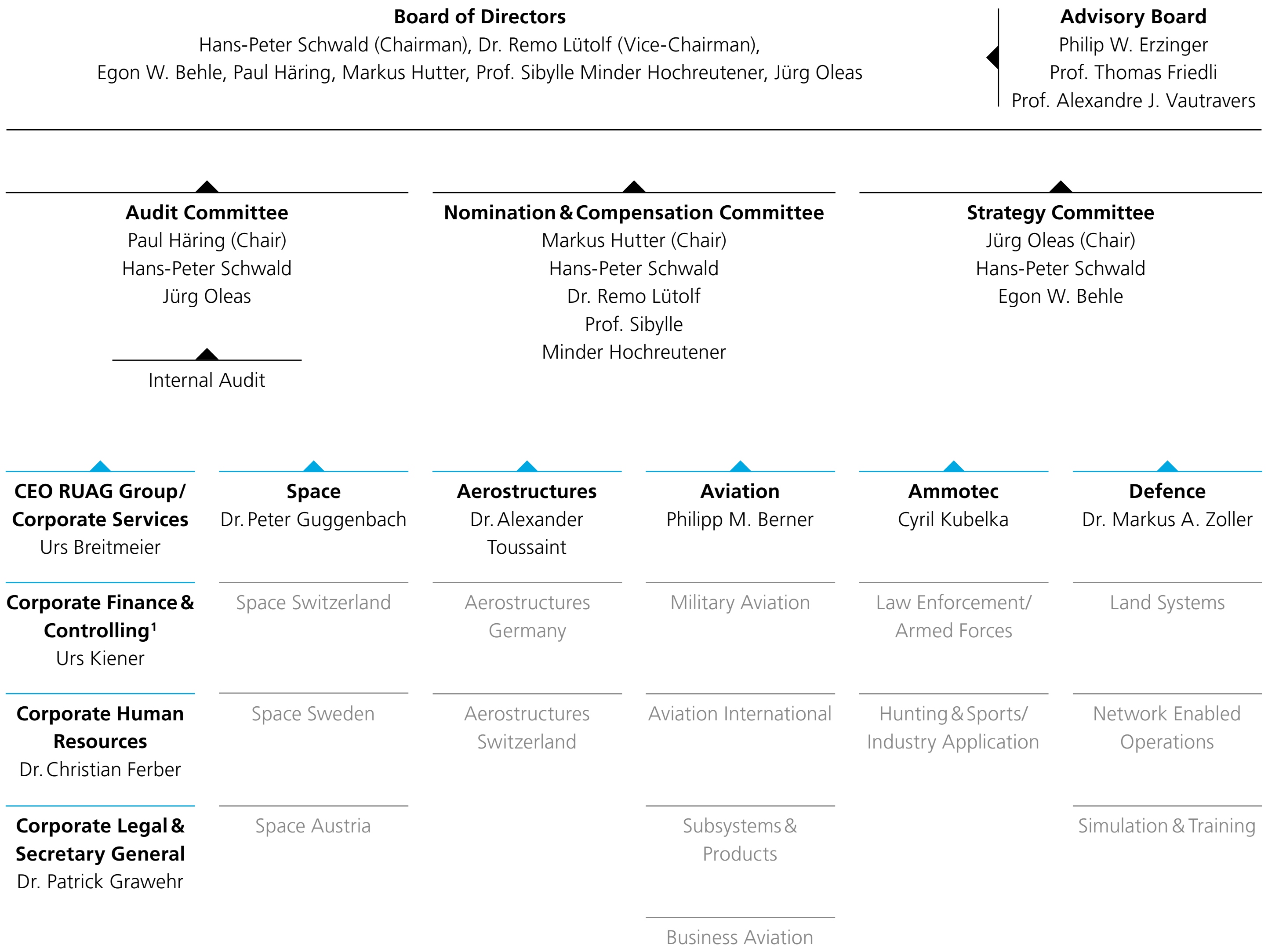
The members of the Board of Directors may request and review further information on operations as provided by the law, the Articles of Association and the Regulations Governing Organization and Operations.

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 shown above 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.

RUAG management structure as at 31 December 2016



■ Group Executive Board

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

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 compensation on current levels of remuneration in the applicable market environment 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 fee
- Other benefits

Each member of the Board of Directors receives a fixed fee 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
- Fringe benefits

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). 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 (NOA)
- 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 % for the personal goals and 80 % for the financial goals. In the case of the divisional CEOs, the financial goals are defined per division. In the case of the CEO and the heads of the service units, the financial goals of the Group apply. For the Members of the Extended Management Board (disbanded as of 1 July 2016), achievement of objectives was weighted 30 % for personal and 70 % for financial goals.

Long Term Incentive Plan (LTI) This remuneration 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 (up to end-June 2016) Extended Management Board only. The target figure used for the LTI is the Group's cumulative net profit over the next three years (plan period), defined with a minimum value, a target value and a maximum value. Payment is made in April of the year following the plan period. Payments are conditional upon an employment relationship existing between the plan participant and RUAG at the end of the plan period.

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, the maximum amount paid will be that stated in the current remuneration plan regulations, i.e. 150 % (LTI 2014–16 and 2015–17) or 120 % (LTI 2016–18) of the specified amount. 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 2016 ranged from 23 % (previous year: 27 %) to a maximum of 74 % (previous year: 103 %) 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".

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 2016 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 2016 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 2016, RUAG Holding Ltd did not have any conditional or authorized capital, nor had it issued participation or dividend right certificates. The registered shares of RUAG Holding Ltd are not listed.

Changes in capital

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

Shares, share register

At the AGM of RUAG Holding Ltd, each registered share carries one vote. 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 2016–19 owner's strategy of the Swiss Federal Council entered into force on 1 January 2016. 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 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 (Art. 125 paras. 3–4 of the Financial Market Infrastructure Act – FinMIA) or opting-up (Art. 135 para. 1 FinMIA).

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 Federal Assembly (by simple federal decree, not subject to referendum, Art. 3 para. 3 of the Federal Act on Federal Armaments Companies). Existing agreements and plans do not contain any change-of-control clauses in favour of the members of the Board of Directors and/or of the Executive Board or other executives of RUAG Holding Ltd.

Pension fund

The VORSORGE RUAG pension fund cover ratio as at 31 December 2016 was 101.1 % (previous year: 102.9 %). The fund's financial situation has thus remained stable despite low interest rates in the financial markets.

Statutory auditor

Duration of mandate of auditor in charge

At the Annual General Meeting of 21 April 2016, KPMG Ltd, Bern 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.

Fees paid to KPMG

in CHF 1 000	2016	2015
Audit fees	1 025	991
Tax advice	62	34
Due diligence services	274	5
All other services	117	363
Total fees	1 478	1 393

Audit fees and additional expenses

KPMG invoiced the Group CHF 1.0 million (previous year: CHF 1.0 million) during the 2016 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 0.5 million (previous year: CHF 0.4 million) during the 2016 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 21 April 2016, 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.

Key dates

End of financial year	31.12.2016
Annual press conference	23.03.2017
AGM	27.04.2017

The Annual Report containing the financial statements for the year ended 31 December 2016 is sent to the shareholder together with an invitation to the AGM.

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