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)	1 005	3	1 009

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
Net sales with third parties	344	310	235	195	460	470
Net sales with other segments	1	1	1	1	9	10
Total net sales	345	310	236	196	469	479
Earnings before interest, taxes, depreciation and amortization (EBITDA)	48	45	15	11	52	49
Depreciation, amortization and impairment	(17)	(21)	(3)	(2)	(8)	(7)
Earnings before interest and taxes (EBIT)	32	24	12	9	44	42
Net financial result						
Share in income of associates						
Earnings before taxes						
Income taxes						
Net profit						
Net operating assets by region	41	60	103	87	95	87
Net operating assets Switzerland	12	17	54	40	37	48
Net operating assets Rest of Europe	46	44	49	47	43	24
Net operating assets Rest of world	(17)	—	—	—	14	15
Property, plant and equipment and intangible assets	56	63	26	14	70	62
Property, plant and equipment and intangible assets Switzerland (incl. investment properties)	38	46	20	11	41	35
Property, plant and equipment and intangible assets Rest of Europe	17	16	6	3	14	11
Property, plant and equipment and intangible assets Rest of world	0	—	—	—	15	16
Capital expenditures for property, plant and equipment and intangible assets	(12)	(13)	(14)	(5)	(16)	(25)
Disposal of property, plant and equipment and intangible assets	0	0	0	0	0	0

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

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

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
385	339	384	376	51	54	1 858	1 744	—	—	1 858	1 744
0	1	5	4	128	122	144	140	(144)	(140)	—	—
385	340	388	381	179	177	2 002	1 884	(144)	(140)	1 858	1 744
46	39	35	35	36	39	232	217	—	—	232	217
(14)	(12)	(11)	(12)	(28)	(27)	(81)	(80)	—	—	(81)	(80)
31	26	24	23	8	12	151	137	—	—	151	137
										(7)	(1)
				3	9	3	9			3	9
										147	144
										(31)	(28)
										116	117
265	264	45	(14)	273	279	822	762	(0)	0	822	762
63	67	25	(33)	277	284	469	423	(1)	(1)	468	422
174	166	19	19	(4)	(5)	328	293	1	1	329	294
28	31	0	—	(0)	—	26	46	0	0	26	46
107	97	25	30	293	300	577	565	—	—	577	565
28	26	15	17	293	300	434	435	—	—	434	435
76	68	11	13	0	0	125	112	—	—	125	112
3	2	—	—	—	—	18	18	—	—	18	18
(25)	(23)	(7)	(3)	(21)	(22)	(96)	(91)	—	—	(96)	(91)
0	0	0	0	2	9	2	10	—	—	2	10

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	Switzerland	Abroad	2016 Total	Switzerland	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.

KPMG

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

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.

KPMG

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