Annual Report 2018

RUAG achieves record sales and order intake. The focus lies on sustainable growth in profitability.

Together ahead. RUAG

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The 2018 financial year

The year at a glance

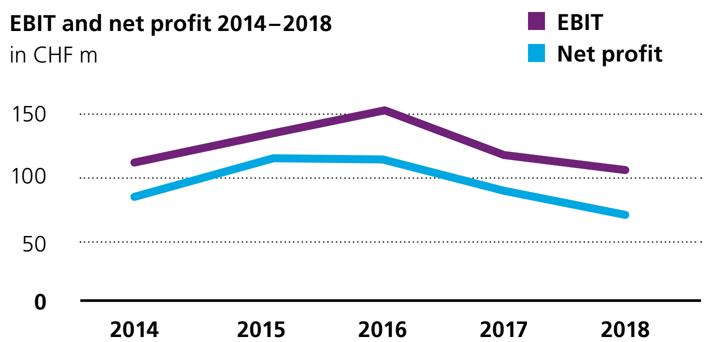
Against record sales of CHF 1,998 million (+2.2 %) and new orders at a record CHF 2,221 million (+13.3 %), EBIT stands at CHF 106 million (–10.8 %) and profitability at 5.3 % (down from the previous year's 6.1 %). Free cash flow developed encouragingly, rising from CHF –59 million to CHF 94 million. The net financial position also improved, increasing from CHF 77 million to CHF 134 million.

The civilian segment once again accounted for 56 % of sales in the year under review, and the share of business coming from outside Switzerland remained at 62 %. The Federal Department of Defence, Civil Protection and Sport (DDPS) remains RUAG's largest and most important single customer; its share of sales decreased slightly from 31 % to 30 %. The Board of Directors proposes a dividend payment to the Confederation of CHF 30 million (2017: CHF 40 million).

EBIT and net profit 2018

Earnings before interest and taxes (EBIT) fell to CHF 106 million (–10.8 %) while net profit for 2018 came to CHF 74 million (–17.7 %).

EBIT and net profit 2014–2018
in CHF m



Overview of key figures
in CHF m

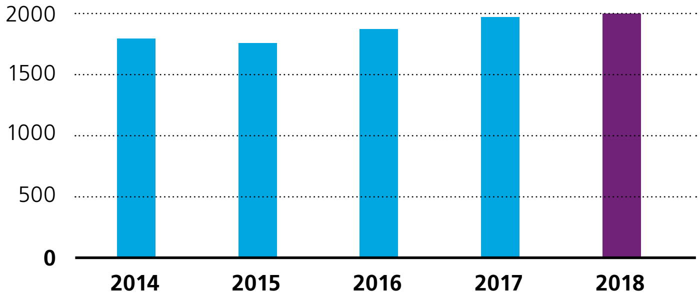
	2018	2017	Change in %
Order intake	2 221	1 961	13.3 %
Order backlog	1 794	1 607	11.6 %
Net sales	1 998	1 955	2.2 %
Operating income	2 013	1 990	1.2 %
EBITDA	186	196	–5.1 %
EBIT	106	119	–10.8 %
Net profit	74	89	–17.7 %
Cash flow from operating activities	176	88	101.0 %
Free cash flow	94	(59)	259.8 %
Net financial position	134	77	74.6 %
Research and development expenses	179	181	–0.8 %
Employees (FTE) as at 31 December incl. apprentices	9 127	9 189	–0.7 %

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

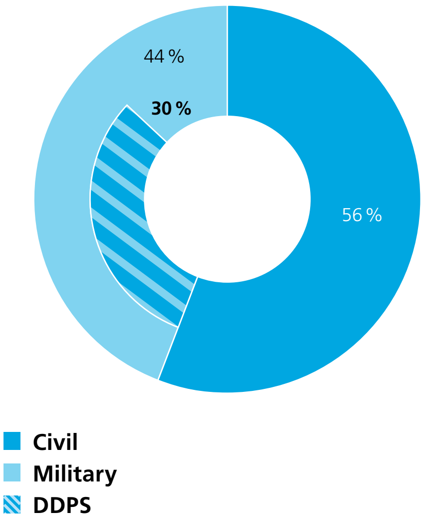
Net sales in 2018

With sales at almost CHF 2 billion (+ 2.2 %), RUAG once again exceeded the previous year's record figure.

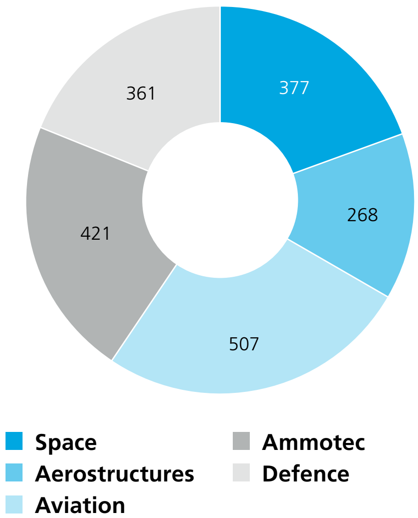
Net sales 2014–2018
in CHF m



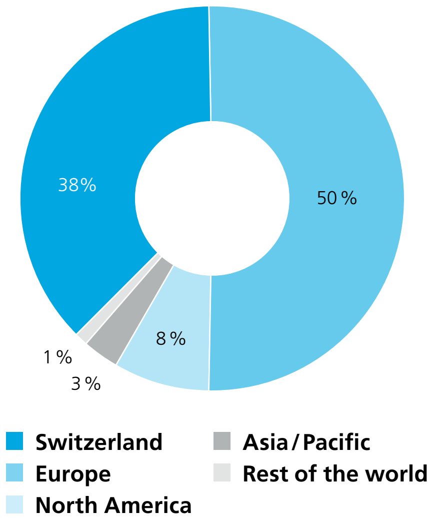
Net sales 2018 by application
in %



Net sales 2018 by division
in CHF m



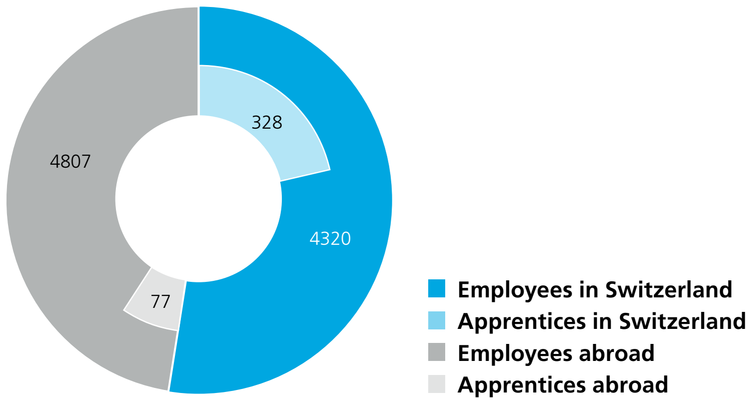
Net sales 2018 by market
in %



Headcount 2018

The headcount decreased by 0.7 % from the previous year to 9,127.

Headcount in Switzerland and abroad



Sales and new orders at record high; profitability remains a challenge.

The Group continues to achieve robust growth. However, operational challenges in individual areas are reducing income. The strong rise in order intake shows that RUAG is well-prepared for the upcoming unbundling.

Dear shareholder,
customers and readers

Against record sales of CHF 1,998 million (+2.2 %) and new orders at a record CHF 2,221 million (+13.3 %), EBIT stands at CHF 106 million (–10.8 %) and profitability at 5.3 % (down from the previous year's 6.1 %). Free cash flow saw positive development, rising from CHF –59 million to CHF 94 million. There was also an increase in the net financial position, from CHF 77 million to CHF 134 million. The Board of Directors proposes a dividend payment to the Confederation of CHF 30 million (2017: CHF 40 million).

The decline in EBIT is mainly attributable to the operational challenges within the Aerostructures division, relating to both general capacity increases and the expansion of its site in Hungary. Expenditure of just under CHF 5 million for the preparation of the unbundling process, charges of CHF 7 million streamlining the Ammotec division's portfolio and the CHF 4 million cost of closing down the maintenance facilities for civil aircraft in Bern-Belp also had an impact.

Measures and programmes aimed at increasing profitability were further intensified in the year under review, both on the manufacturing side and in the support areas. Cost-saving programmes were expanded, hiring freezes imposed and the Bern-Belp site closed down. The ongoing, sustainable optimisation of profitability will remain in focus in future.

Four out of the five divisions – Aerostructures, Ammotec, Defence and Space – contributed to the growth in sales. Only the Aviation division registered a slight decline. The largest increases were achieved in the area of ammunition for armed forces and law enforcement agencies, and in aerostructures with the single-aisle programme for Airbus.

The civilian segment once again accounted for 56 % of sales in the year under review, and the share of business coming from outside Switzerland remained at 62 %. The DDPS clearly remains RUAG's most important customer, accounting for 30 % of its sales (2017: 31 %). At end-2018, the number of full-time positions had fallen to 9,127 (2017: 9,189).

Developments within the divisions

The results from the individual divisions also paint a mixed picture. Aside from one-time effects, Space and Ammotec were able to achieve or even exceed targets. In the space business, the downturn in Europe was offset by an expansion in activities in the US market. There, the Space division arrived at a major milestone, with its site in Decatur, Alabama, manufacturing its first payload fairing to be used in space. This will make its first flight in 2020 with an Atlas-V rocket on a mission for the US government. The new US plant will then have in place all the qualifications required for production.

The Ammotec division succeeded in more than offsetting the declining global market in the Hunting & Sports segment with strong growth in the Armed Forces & Law Enforcement segment. Alongside higher orders from the DDPS, the division profited more than most from the increases in the defence budgets of the European NATO countries.

The largest sales increases were achieved in the area of ammunition for armed forces and law enforcement agencies, and in aerostructures with Airbus.

Within the Ammotec division's generally very successful Armed Forces & Law Enforcement business, the new orders for the Austrian Armed Forces were a notable milestone.

Compared with a challenging 2017, the Defence division managed to achieve a striking gain in the year under review. All three of its business units contributed to this. Among the new orders acquired by the division, two contracts with the Swiss Armed Forces stand out. The upgrade to the broadband transmission system (BTS) of the Swiss Armed Forces will be into the double-digit millions by the time the project is completed in 2021. The project to develop and manufacture a total of 14 container-based disinfection and sterilisation systems is set to run until 2022. Both of these contracts were won against competition from other organisations.

The results of the Aerostructures and Aviation divisions remained below expectations. For the Aviation division, the domestic market did see some pleasing development, with the five-year service-level agreement and the various upgrade programmes for the Swiss Air Force. The division also acquired a future-oriented contract at the end of the year: by mid-2022, it will have completely overhauled eight of the Swiss Air Force's Cougar transport helicopters. However, the Business Aviation and Dornier 228 units continued to face enduring challenges, with the Business Aviation unit having to close its Bern-Belp site due to insufficient capacity utilisation and expiring maintenance contracts from local airline company SkyWork. At the bottom line, the division saw a decline in both sales and EBIT.

The Aerostructures division's result was dictated primarily by the increase in the production rate in the Airbus single-aisle programme. On the one hand this led to a significant increase in sales; but on the other, due to the required capacity expansion and the additional costs to scale up series production it also resulted in substantially negative EBIT. Positive factors for the division's future development were the transfer of work packages to Eger in Hungary – completed at the end of the year – and the entry into service of the new surface treatment facility in Emmen, which in future will also be seeking to acquire external orders as a service provider. In order to secure the division's long-term profitability, extensive measures aimed at reducing costs and enhancing productivity were initiated at all three Aerostructures locations: Emmen (Switzerland), Oberpfaffenhofen (Germany) and Eger (Hungary).

Unbundling

Pivotal to RUAG's future development is the unbundling process decided in principle upon by the Federal Council in March and June 2018. This will involve reorganising the Group into two independent companies as of 1 January 2020. From the beginning of 2019 and in line with their areas of activity, RUAG's Aviation and Defence divisions are being integrated into two new corporate entities with the working titles "MRO Switzerland" and "MRO International". Management of MRO Switzerland is being handed over to former CEO of RUAG Defence Andreas Berger. MRO International will be run by Felix Ammann, formerly Vice President Supply Chain for RUAG Aviation. Until the unbundling is completed, both will report to RUAG CEO Urs Breitmeier.

Moreover, the Group's predominantly civilian and international business activities will be brought together in a second company with the working title "RUAG International". Further specifics of the strategy will be established in 2019 after the Federal Council has made decisions on the detailed planning.

With this unbundling, however, the Swiss Federal Council is also responding to the Swiss Federal Audit Office's requirement for RUAG to prepare transparent accounts by customer group and accordingly disclose separate profit margin figures. Thus a paradigm shift is taking place: in the past two decades, the maxim was to generate synergies between civil and military third-party business on the one hand and Swiss military business on the other.

New faces and activities

Both the Board of Directors and the management of RUAG saw a number of personnel changes during 2018. There was a seamless handover between long-serving Board Chairman Hans-Peter Schwald and Dr. Remo Lütolf. In order to be able to support the unbundling as effectively as possible, Dr. Lütolf agreed to temporarily increase his workload from 30 to 50 %. Aerospace expertise on the Board of Directors will now be provided by Dr. Marie-Pierre de Bailliencourt. The Board thereby also acquires a French-language representative, and the proportion of women rises to over 30 %. An internal successor was found to lead the Aerostructures division: former Senior Vice President and Head of Programs & Sales Dirk Prehn was appointed as CEO with effect from 1 July.

In order to coordinate the diverse implementation activities associated with the unbundling and assure the smoothest possible transition to the new structures, a Project Office has been established under the direction of a Senior Vice President Transition Project. In this regard, particular emphasis is also being given to RUAG's relationships with the various federal bodies. The position of VP Owner Relations, newly created in 2017, allowed RUAG to sustainably stabilise and enhance its links with its sole shareholder, the Swiss Confederation, in 2018.

In this process, RUAG's working relationship with the Swiss Federal Audit Office (SFAO) was also strengthened. A number of audits were successfully passed, and RUAG fully supports the SFAO's work. A media report alleged that some of the invoices which the Group had submitted to the DDPS were inflated. In the first half of 2019, RUAG will request the SFAO to undertake an additional audit in order to fully clarify this issue.

The establishment and expansion of the compliance framework were pursued very vigorously in 2018. The focus of the diverse activities in this regard was on third-party management, trade compliance and protection of personal data. Among other things, the rise in reports to the whistleblower desk created in 2016 shows that both employees and externals have confidence in RUAG's compliance processes. Abuses and misconduct are rigorously pursued and, if necessary, sanctioned.

RUAG expects a steady continuation of business in 2019. The Group is anticipating growth in the aerostructures segment as well as in the ammunition business with armed forces and law enforcement agencies.

Outlook

Overall, RUAG expects to see stable development in 2019. The Group is anticipating growth in the aerostructures segment as well as in the ammunition business with armed forces and law enforcement agencies. However, RUAG will only be able to extract limited benefit from growing defence budgets as Switzerland is not part of any of the European programmes to develop new systems. Furthermore, only in certain cases will it be able to translate the global increase in defence budgets into sales growth. Compared with its international competitors, the company is limited by the strict Swiss export regulations and the ongoing restrictions imposed by its owner.

In its business with the Swiss Armed Forces, RUAG is expecting sales to continue stable. The various service-level agreements in place are creating a long-term foundation for further efficiency gains. These will benefit both partners. In the space business, RUAG expects to see continued growth in the US market and in the so-called 'New Space' applications thanks to the successful development of in-house production capacities. With this, it should be able to offset the anticipated slowdown in the European programmes.

One overarching goal for the coming years is to sustainably improve the cost base. With this in mind, the programmes targeting ongoing increases in productivity and efficiency in all business units will be pursued actively. In those business units where performance is lagging behind the targets set, RUAG will be systematically taking additional measures to reduce costs. These programmes should start to take full effect after the completion of the unbundling in 2020.

In June 2018, the Swiss Federal Council approved the unbundling concept drawn up by the Board of Directors and management of RUAG. Based on this, in the year under review a detailed plan for the implementation of this process was mapped out. The Federal Council is expected to take a decision on this in spring 2019. It will require significant resources. The overall cost is expected to be around CHF 70 million, of which around CHF 50 million will be incurred in 2019.

The Board of Directors and management are confident that RUAG is well-placed to continue mastering the technological and economic challenges it faces in the future. We look forward to being a consistently reliable, transparent and cost-effective supplier to the Swiss Armed Forces on the one hand and, on the other, to promoting the development of our civil and international business as an agile and competitive global provider – together with our shareholder, our customers, our partners and our employees. We thank you all for your loyalty and your trust, as well as for the opportunity to work with you and for your dedication.

RUAG Holding Ltd.

Dr. Remo Lütolf
Chairman of the Board of Directors

Urs Breitmeier
CEO, RUAG Group

The Group Executive Board

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

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

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

Dirk Prehn, CEO Division Aerostructures,
Member of the Group Executive Board

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

Christoph M. Eisenhardt, CEO Division Ammotec,
Member of the Group Executive Board

Andreas Berger, CEO Division Defence,
Member of the Group Executive Board

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

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

Dr. Judith Bischof, General Counsel,
Member of the Group Executive Board

RUAG Space

The space business is becoming more and more relevant to life on earth – telecommunications, security, navigation are just a few examples of this. As a leading supplier of satellites and launch vehicles, RUAG Space once again successfully navigated its way through this dynamic market in 2018: the Space division continues to exhibit profitable growth, and is proving equal to its strategic role within the Group.

Business performance

Based on its three strategic pillars – industrialisation, the US market and competitive products – the Space division ended the year on a successful note, with an EBIT of CHF 38 million (CHF 34 million) and sales of CHF 377 million (CHF 365 million).

While in the past the space industry has been mainly characterised by manual processes, it is currently experiencing a process of industrialisation: the demand for space infrastructure is rising, larger volumes are being produced in shorter time-frames and costs are falling. RUAG is at the forefront of this transition, driving process optimisation and giving its customers the corresponding competitive edge. In total, RUAG Space supplies over 200 satisfied customers, from small enterprises to big players – more and more often in the United States, where RUAG is on board with a number of NASA missions. In 2018, RUAG went into production at sites in Alabama and Florida. The division's constantly developing product portfolio is also a hit with its customers. Today, RUAG is the market leader in eight product areas, including avionics hardware, thermal protection, mechanisms and structures for satellites.

One particular focus in 2018 was on further developing the Electronics product group. With another Galileo launch, the European navigation system is now fully operational. Under this system, all satellites are controlled by RUAG-supplied on-board computers, which can be likened to the 'brains' of the system. The NASA ICESat-2 launched in 2018 also relies on RUAG electronics – the navigation receivers allow the satellite to pinpoint its position in orbit. A downturn in connection with ESA cycles required a few corrections to the division's organisational structure. At the same time, the focus was on the future: high-throughput satellites with a digital payload need more powerful yet less expensive electronics. With projects in Silicon Valley and a partnership with Swiss start-up SWISSto12, RUAG is looking to claim a market leadership position here too, and is contributing its expertise in microwave technology and digital electronics.

The Spacecraft product group also had a positive year: a further contract with US telecommunications company OneWeb means RUAG will continue to supply the structures for its satellite constellation. For ESA's Plato mission, RUAG acquired one of the most significant European contracts of the year and is supplying both satellite structures and electronic products. And thanks to a major order from Zeiss, RUAG will be developing and manufacturing mechanisms for lithography applications. RUAG is thus partnering the world market leader, whose optical systems are used to produce around 80 % of chips worldwide – space expertise used at the terrestrial level. This year RUAG has already delivered the structures for ESA's next Mars Rover and for the second-generation MetOp weather satellite. Other highlights were the launch of the BepiColombo mission to Mercury, for which RUAG supplied the thermal insulation protecting its satellite from adverse conditions in space, and a development partnership with Oerlikon to take 3D printing technology for space applications to the next level.

While the long-term viability of the new Ariane 6 launch vehicle was being discussed in the European market in 2018, RUAG succeeded in penetrating the growing 'small launchers' segment with its Launchers product group. These launch vehicles are geared to sending smaller satellites into space, with lower launch costs. With its new Flexline range, RUAG is supplying modules for launch vehicles in many different sizes, thanks to a high level of standardisation and lower manufacturing costs. The first launches with new customers such as Australian rocket-builder RocketLab will be taking place in 2019. At the same time, the division's business with large vehicles remains a key focus area – every month, there are generally several launches of US and European rockets equipped with RUAG adapters which secure the satellites and separate in orbit. Moreover, the first 'made in USA' payload fairing was produced this year for United Launch Alliance.

Outlook

Our networked, globalised society will ensure that the space market is one which continues to grow – telecommunications, security, navigation and logistics are just a few of the application areas gaining in significance. With increasing commercialisation, paradigms are changing in terms of risk management, pricing and marketing. RUAG Space aligns itself closely to its customers in order to meet the requirements of this logic, offer the corresponding products and services and maintain its edge over the competition – especially in the United States.

The opportunities here are located on the one hand in the established NASA business and, on the other, in the military space activities of the Department of Defense and in the 'New Space' field with its various constellations. RUAG is looking to pursue ongoing organic growth and selective acquisitions in order to penetrate further into the world's largest space market. This does not mean that the European business will be neglected: it, too, will benefit from the various developments as well as from price reductions due to larger volumes. RUAG Space plans to continue investing in the space segment and to proactively generate growth so that it lives up to its role as one of RUAG's strategic mainstays.

Brief profile

RUAG Space is the leading supplier of products for the space industry in Europe and has a growing presence in the United States as well. With 13 sites in six countries, the division specialises in components for use aboard satellites and launch vehicles. Its competencies fall into three areas: electronics for all space applications, mechanical and thermal products for satellites, and structures and separation systems for launch vehicles.

Customers/partners
ESA, NASA, ArianeGroup, Airbus Defence and Space, Airbus OneWeb Satellites, Thales Alenia Space, OHB, United Launch Alliance, Space Systems Loral, Orbital ATK, Boeing, Lockheed Martin

Numbers and facts

Net sales:	CHF 377 million
EBITDA:	CHF 52 million
EBIT:	CHF 38 million
Employees (FTE):	1'345
Based in:	Switzerland, Sweden, Austria, USA, Finland, Germany

RUAG Aerostructures

RUAG Aerostructures had a mixed year in 2018. It succeeded in raising the rate of production in its Airbus single-aisle programme. But at the same time it sustained productivity shortfalls which ultimately led to a significant loss. Extensive measures were introduced to boost productivity and profitability for the long term.

Business performance

For RUAG Aerostructures, the 2018 financial year was defined by the increase in the production rate in the Airbus single-aisle programme. On the one hand, it meant that the division was able to increase its sales by 5% to CHF 268 million (CHF 256 million). On the other, measures to ramp up the single-aisle production rate impacted heavily on the operating result. EBIT fell from CHF 8 million in the previous year to –CHF 14 million. This was mainly due to delays in the transfer of work packages to the Eger site in Hungary and to low productivity at the Oberpfaffenhofen site. The transfer of work was completed successfully, the teething problems rectified and the production rate capacity of the Eger site demonstrated. In order to secure the division's profitability in the long term, extensive restructuring measures have been initiated at all sites. The programme will be continued in 2019.

At the German site of Oberpfaffenhofen, and now also at Eger in Hungary, RUAG Aerostructures is not only manufacturing fuselage sections for the Airbus single-aisle programme, but is also responsible for the entire supply chain for the 1,000-plus parts required. In view of the lasting global market success of the A320 family, in 2018 Airbus decided to increase the production rate once again, from around 50 to over 60 aircraft per month. This task, challenging in and of itself, was made even more difficult for RUAG Aerostructures due to the simultaneous process of transferring assembly activities to the new best-cost country site in Eger. As a result, the timetable for the transfer proved too ambitious. Thus qualified specialists at the Oberpfaffenhofen site remained tied to the activities designated for transfer, and additional personnel needed to be hired and trained. The additional recruitment of new employees required at the Eger site, however, proved extremely challenging. The available personnel in this market, characterised by skill shortages, first needed to be trained and only gradually attained the level of productivity of experienced specialists.

As an internal supplier, the Emmen site benefited from the production rate increase for the Airbus A320 family in 2018. However, this was not enough to offset the decline resulting from the reduction in production rates for the Airbus A380 widebody aircraft. RUAG Aerostructures manufactures a range of components for the Airbus family in Emmen.

In February, the Emmen site successfully started production in the new surface treatment facility with a job for external customer Pilatus. With this facility, metal components of up to 7 metres in length can be galvanised, painted and checked for cracks. In addition to internal jobs, the facility will also, and primarily, act as a service provider for external orders in future. The first contracts were acquired at the end of 2018.

The Emmen site also pressed ahead successfully with the contract for the pylons for the Swedish Gripen E/F fighter aircraft, completing the prototype production in 2018. Series production will be starting in 2019. Another pleasing acquisition in structures for military customers was chalked up with Boeing Defense. The existing contract for the production trailing-edge flaps for the F/A-18 fighter aircraft was extended until 2021.

Ongoing efforts to boost productivity and profitability across the whole division were significantly intensified in the year under review. Among other things, a comprehensive turnaround programme was launched here. In parallel to the harmonisation of the division's three existing enterprise resource planning systems to a standardised SAP S/4HANA base, this will also involve optimising and streamlining its business processes.

Outlook

The market environment is looking very positive for RUAG Aerostructures for the foreseeable future. Worldwide passenger numbers continue to increase strongly and the Airbus single-aisle programme is benefiting more than most from this. In this dynamic setting, the division's commercial success will depend to a great extent on how well it can optimise the interactions between the three sites of Oberpfaffenhofen, Emmen and Eger and effectively integrate the international supply chains.

The priority in 2019 will be to return to profitability and to stabilise it for the long term. The Oberpfaffenhofen and Eger sites are being prepared for an anticipated further increase in the Airbus single-aisle production rate. At the Emmen site a restructuring process is getting under way. Activities will focus on core products and technologies with the aim of achieving increases in volume, notably at the surface treatment facility.

The company expects to see significant positive effects in future from the turnaround programme launched in 2018. Its full impact will be felt from 2021 with the new, harmonised ERP system. This will form the basis for further efficiency and productivity gains and thus play a pivotal role in further strengthening the global competitiveness of RUAG Aerostructures.

Brief profile

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

Customers/partners
Airbus, Boeing, Bombardier, GE Aviation, Pilatus Aircraft, Saab

Numbers and facts

Net sales:	CHF 268 million
EBITDA:	CHF –8 million
EBIT:	CHF –14 million
Employees (FTE):	1,355
Based in:	Switzerland, Germany, Hungary

RUAG Aviation

Success in extending the five-year service-level agreement with the Swiss Air Force and concluding the contract for series conversion of the Swiss Cougar helicopter fleet was offset by challenges in the Business Aviation units.

Business performance

The 2018 financial year saw both ups and downs for RUAG Aviation. While the domestic market developed according to plan – five-year service-level agreement (SLA) with the DDPS, various upgrade programmes, and other projects for the Swiss Air Force – the Business Aviation and Dornier 228 lines were faced with continuing challenges. Positive impetus came from the international maintenance, repair and overhaul (MRO) business with helicopters and propeller aircraft. On balance, this resulted in a slight decline in sales to CHF 507 million (CHF 515 million). EBIT decreased from CHF 39 million to CHF 34 million due to the CHF 4 million cost of closing down the civilian maintenance facilities in Bern-Belp.

The five-year SLA for MRO of the Swiss Air Force's systems is allowing RUAG Aviation to be far-sighted in its planning, optimise the use of its resources and thus achieve lasting productivity gains in the area of life-cycle support. In this regard, the division continued in particular to press ahead with its MRO 4.0 project in 2018. This will allow it to take a preventive and even better planned approach to MRO activities, notably by using new and more efficient repair technologies.

The various upgrade programmes for the Swiss Air Force are on track: the prototype for the SRP2 Structural Refurbishment Program to extend the life of the F/A-18 fighter aircraft fleet was completed and the series launched on schedule during the summer. With regard to the Tiger aircraft fleet, the F-5 UCL (Upper Cockpit Longeron) project is due to be completed on time very shortly: the last of a total of 27 upgraded aircraft will be handed over to the Swiss Air Force in early 2019. The series conversion of the PC-6 cockpit was also completed successfully. In Helicopter Services, the prototype for the Cougar helicopter was further developed, while the contract for series conversion of this helicopter was signed in December 2018. The MFlab NUV project to extend the useful life of the 35mm anti-aircraft guns also progressed as scheduled. The introduction of the new ADS-15 unmanned aerial vehicle system is under way. Elbit Systems (OEM) was chosen as the materiel centre of excellence for the ADS-15 project and RUAG is acting as subcontractor to Elbit.

The division continued to push ahead with its Helicopter MRO Global Business: it acquired more new customers and the MRO business for dynamic components such as gears and rotor heads for Super Puma and Cougar helicopters also put in an extremely satisfying performance. Another highlight was the contract with the Slovenian armed forces for two 12-year inspections for their Super Pumas. Also groundbreaking is the division's work with Bell Helicopters: RUAG Aviation carried out the first final assembly process for a Bell 505 in Europe, and is the first service centre in the region to be authorised by Bell for this helicopter type.

The propeller aircraft business also put in a satisfying performance in 2018, winning a contract from Slovenia to upgrade the avionics on two PC-6 aircraft. What's more, RUAG acquired the Royal Netherlands Air Force contract for MRO services and the introduction of service bulletins throughout its PC-7 fleet on site.

Outlook

Of central importance to RUAG Aviation is the unbundling of RUAG decided upon by the Federal Council during the year under review. The Military Aviation CH and Subsystems & Products business units will come together with the Defence division's Land Systems and Network Enabled Operations Services business units to form the core of the new company with the working name 'MRO Switzerland', which will focus on supplying the Swiss Armed Forces reliably, transparently and cost-efficiently. The division's civil and international activities will become part of independent technology company with the working name 'RUAG International'. The planning for the unbundling is largely complete. During the implementation, which is set to take place over the course of 2019, the central focus will be on the needs of its customers and, above all, the availability of the aircraft and helicopters and the issue of security.

For the Military Aviation CH and Subsystems & Products business units, which to a very large extent operate in the Swiss market, we anticipate sales figures similar to last year's. The focus here will continue to be securing high fleet availability and reliably executing the major F/A-18 upgrade and structural refurbishment programme and the TH98 Cougar upgrade programme.

Growth is expected to stagnate in the foreign domestic markets of Germany, Australia and the United States. Due to the restrictive Swiss export policy, a relatively high level of uncertainty on the customer side is expected. This will also have an impact on potential customers in the MRO business who are currently not affected by export restrictions.

Brief profile

RUAG Aviation is a leading supplier, support provider and integrator of systems and components for civil and military aviation. Servicing aircraft and helicopters throughout their entire life cycle, the company's core competencies include maintenance, repair and overhaul services, upgrades, and the development, manufacturing and integration of subsystems.

Customers/partners
Swiss Air Force, German Bundeswehr, Royal Australian Air Force, Bombardier, Dassault, Embraer, Airbus, Pilatus Aircraft, Boeing, General Electric, Northrop Grumman, Saab, Lockheed Martin, British Aerospace, Honeywell, United Technology, Rheinmetall Air Defence, Elbit

Numbers and facts

Net sales:	CHF 507 million
EBITDA:	CHF 41 million
EBIT:	CHF 34 million
Employees (FTE):	2,167
Based in:	Switzerland, Germany, USA, Australia, Malaysia

RUAG Ammotec

For RUAG Ammotec, the financial year was a study in contrasting markets. Strong growth in the Armed Forces & Law Enforcement area was balanced by a challenging environment in the Hunting & Sports segment. When it came to the bottom line, the division once again succeeded in meeting its financial targets.

Business performance

RUAG Ammotec was able to meet its financial targets once again in 2018, even though its margin suffered due to the challenging environment in the Hunting & Sports market. The division's sales increased by 6 % to CHF 421 million (CHF 397 million) in the year under review. EBIT decreased to CHF 20 million (CHF 28 million). Despite a high level of investment, free cash flow was positive at CHF 12 million, and net working capital was cut to 37 % of sales (45 % in 2017). The positive bottom-line result is even more pleasing given that the company's largest segment, Hunting & Sports, which accounts for around 50 % of its business, was confronted with a sharply declining world market in terms of sales. The driver of growth in 2018 was the Armed Forces & Law Enforcement segment, which benefited more than most from the global rise in defence budgets. The division's business with actuator cartridges for industry also performed very well. In order to further enhance its competitiveness and stay abreast of the high level of demand in the Armed Forces & Law Enforcement segment, the division on the one hand decided on extensive investments and on the other initiated far-reaching organisational changes, for example relocating the marketing and sales activities in the three business units and strengthening the autonomy of the production sites.

Especially in the second half of the year, the European market for hunting and sports ammunition nosedived due to massive overcapacity on the production side and very high inventory holdings in the United States which also put a great deal of pressure on prices in Europe. It should thus be seen as a success that the decline in profits was kept very low in comparison to the unit's competitors. In the United States, sales even rose slightly – starting from a comparatively low level. Here, the refocusing of the unit's activities during the year under review showed a positive effect, with a virtually completely new team being formed.

Development in the Armed Forces & Law Enforcement segment was exceptionally pleasing. Underpinned by orders from the DDPS, sales increased considerably. The main driver of growth here was a new trend for increasing ammunition reserves among the European NATO countries. In parallel to this, the ammunition requirements of law enforcement agencies also increased. Targeted sales efforts in certain (primarily European) regions also contributed to the positive result: the division was able, for instance, to significantly enhance its business relations with the Austrian Armed Forces.

The Industrial segment, with its main customers Hilti and Takata, also looked in extremely good shape in 2018. Inter alia, the investments of the last few years in the partnership between RUAG Ammotec and structural engineering group Hilti, for which the division manufactures actuator cartridges for direct fastening systems, led to strong growth in sales.

By contrast, RUAG Ammotec was forced to accept a drop in the components business, which mainly involves supplying OEM ammunition for arms manufacturers and components to other ammunition producers. Here the challenging environment in the market for hunting and sports ammunition, where most of the customer base operates, was particularly evident.

Outlook

RUAG Ammotec is not expecting any radical changes to its markets in the years to come. On the one hand, the rises in global – and, in particular, European – defence budgets can be expected to continue. In particular, NATO's decision in principle to increase defence spending to 2 % of member countries' respective GDP is likely to yield positive effects in the next few years. But on the other hand, the existing overcapacities, high inventory holdings and strong price pressure in the Hunting & Sports segment are likely to persist for some time to come.

To ensure that the Armed Forces & Law Enforcement segment can benefit from the expected growth in the NATO market, the division has planned to invest heavily in the expansion of its European production capacities. Some of these investments are already being implemented. In total, around 10 % of sales are to be committed to the development and expansion of the facilities. In parallel to this, the NATO ammunition portfolio will also be expanded. Additional growth can also be expected from a targeted move to strengthen business relations with individual NATO countries.

RUAG Ammotec also expects positive impetus to come from the US market again in the years to come. In this respect the division is looking not only to further boost its sales efforts, but also to expand its existing and still comparatively small production capacities. To achieve this, it will be working with partners – and negotiations are under way. In addition to the Hunting & Sports segment, the division will also be stepping up its targeting of the Armed Forces & Law Enforcement area in the United States.

In the international competitive arena, discussions on amendments to Swiss export regulations are creating uncertainty among potential customers and partners, even in cases where the planned amendments do not envisage any direct repercussions for specific markets or products.

In order to hone its edge in the ever more competitive Hunting & Sports market, the division will continue to revise its brand strategy in 2019. This will include a repositioning of the different brands and a targeted streamlining of its portfolio. In parallel to this, it will also be subjecting its processes to a major review and optimising them with a focus on purchasing and efficiency gains.

Brief profile

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

Customers/partners
Swiss Armed Forces, German Bundeswehr, Austrian Armed Forces and other foreign armed forces, law enforcement organisations, hunters and sporting marksmen, industrial partners

Numbers and facts

Net sales:	CHF 421 million
EBITDA:	CHF 38 million
EBIT:	CHF 20 million
Employees (FTE):	2,275
Based in:	Germany, Switzerland, Hungary, Sweden, France, USA, Austria, UK, Italy, Belgium, Finland

RUAG Defence

RUAG Defence gradually found its feet again during the 2018 financial year. The project business plus strong order intake ensured that the division was able to meet the majority of its financial objectives.

Business performance

In 2018 RUAG Defence generated total sales of CHF 361 million (CHF 358 million), thus exceeding expectations. The positive result was due primarily to strong order intake coupled with profitable repair and maintenance activities for both national and international customers.

In terms of EBIT, the division was unable to meet the target set. The figure of CHF 21 million was a significant improvement over the previous year (CHF 8 million), but the result did not measure up to the planned target. The difference can be mainly attributed to significant cost aberrations in two major projects.

After having confronted a considerable number of internal and external challenges the previous year, in 2018 the Defence division focused first and foremost on stabilisation, with particular priority being given to activities and projects on behalf of the Swiss Armed Forces. RUAG Defence was thus able to durably strengthen its position in its home market. The division also operated successfully in the international market, although the global conflict situation – especially in the Middle East – had an adverse effect on export activities.

All three of RUAG Defence's business units made a substantial contribution to its sales success last year. This shows that the division's comprehensive product and service portfolio is in line with current needs. For example, among other things RUAG Defence won a bid to produce disinfection and sterilisation containers for the Swiss Armed Forces, and to integrate the corresponding components. A total of 14 container systems will be completed by 2022 for use by the medical units.

The division was also commissioned to develop 500 laser-based target systems for the French Army for delivery over the next two to three years. These mobile systems allow for top-level realistic training for armed forces personnel. The contract also includes repair and maintenance work, which means RUAG Defence will ensure the systems' operational capability for the next seven years.

Operations under service level agreements also went well. Within the context of these activities, RUAG Defence primarily ensures the operational capability of the systems used by the Swiss Armed Forces. This includes repairing and maintaining highly complex reconnaissance, command and control, and radar systems. Moreover, the division tendered successfully for the contract to upgrade the broadband transmission system used by the Swiss Armed Forces. The scope of this contract includes both integration of components into the existing infrastructure and materials deliveries.

In late 2018, RUAG Defence presented its new 'Gladiator G12' personal harness at the world's biggest simulation and training show in Orlando (USA). The latest-generation Gladiator incorporates a considerable number of specially developed technological innovations. With this, the division assured its position as a future-oriented technology partner for national and foreign armed forces.

Outlook

The Defence division is embarking on an exciting year of transition. As part of preparations for the Group-wide unbundling process, from 1 January 2019 large parts of RUAG Defence and RUAG Aviation will be merged to an organisational unit with the working name "MRO Switzerland". Andreas Berger – until end-2018 CEO of RUAG Defence – will be heading up this organisational unit as its CEO.

MRO Switzerland's primary mission will be to make a material contribution to Switzerland's security and to act as strategic technology partner to the Swiss Armed Forces, with a focus on life-cycle management, operation and ensuring the availability of military systems. Its business activities will thus be heavily geared to the procurement programmes of the Swiss Armed Forces.

The new organisation will continue to provide services for national and international third-party customers in future, on the condition that these activities generate added value within Switzerland and benefits for the Swiss Armed Forces.

The Simulation & Training business unit will be absorbed into RUAG International, as its product portfolio is addressed mainly towards international customers.

The structural transformation of the Group will have no impact on current contracts, project business or orders. National and international customers will continue to be served competently and professionally as hitherto.

Brief profile

RUAG Defence is an independent provider of integration, upgrade and maintenance services for land-based defence and security systems. Its product portfolio comprises one-of-a-kind subsystems and components for national and international customers. A key part of this is products and services for tracked and wheeled vehicles, realistic military training, and reliable information and communication solutions. Its comprehensive portfolio also includes integration, operation and maintenance of complex systems.

Customers/partners:
Swiss Armed Forces, armed forces worldwide, rescue and security agencies and organisations, industrial partners

Numbers and facts

Net sales:	CHF 361 million
EBITDA:	CHF 28 million
EBIT:	CHF 21 million
Employees (FTE):	1,353
Based in:	Switzerland, Germany, France, United Arab Emirates

Unbundling

Over the last two decades, RUAG has successfully managed the transition from a federal military enterprise to an international technology company. Now the Group is facing a new transformation: an unbundling strategy aimed at creating the conditions for continuing to guarantee supplies to the Swiss Armed Forces, on the one hand, and successfully developing its third-party business on the other.

When the Federal Council laid the foundations for establishing the RUAG technology group in 1997 with the Federal Act on State-Owned Defence Companies (BGRB), the focus was on one goal in particular: to transform these federal military organisations into competitive enterprises capable of holding their own on the market.

The new Group tackles this major challenge of transformation with a new strategy, seeking to diversify and expand its activities in the military and civilian segments at home and abroad – with organic growth, but also via acquisitions.

RUAG establishes itself fast

RUAG quickly succeeds in acquiring new business. Among its new customers are aircraft manufacturers Airbus, Bombardier and Pilatus. At the same time, the Group invests in expansion and in 2002 acquires Dynamit Nobel in Germany and Sweden and parts of insolvent company Fairchild Dornier GmbH in Oberpfaffenhofen, Germany. Further acquisitions follow, including Saab Space in Sweden, Austrian Aerospace and Oerlikon Space in Zurich. With these acquisitions, RUAG becomes Europe’s largest independent space supplier and its market leader in small-calibre ammunition.

RUAG pursues its transformation rigorously and establishes itself as a business capable of competing at international level with a high degree of credibility vis-à-vis partners and customers. After two decades of change, today the company rests on a broad industrial base. The Group maintains sites in 16 countries around the globe, from the USA to Australia, and plays an important role in technologically sophisticated and prestigious programmes such as the Airbus A320 or the European and American launch vehicles Ariane 5 and 6, Atlas V and Vulcan. RUAG also ranks among the world’s leading suppliers of small-calibre ammunition for hunting and sports applications. In the past few years, the Group has generated more than half of its sales abroad; its work with the Swiss Armed Forces, originally 85 % of its business, now accounts for 30 %.

Switzerland has also benefited from this internationalisation and diversification, gaining access to a broader spectrum of promising civil and military technologies. Moreover, the expansion drive has also brought growth and employment to the country: today, RUAG has 4,500 employees, most of them highly qualified, at 35 sites across Switzerland – around 500 more than it did 20 years ago.

Two decades of successful transformation have brought RUAG to a point where it needs a new agenda if it is to continue to tread its chosen path successfully. The intention is for RUAG to continue to pursue its statutory purpose – that of equipping the Swiss Armed Forces – and at the same time to have the opportunity to develop further in its other business areas.

The Federal Council has thus decided to unbundle RUAG. Under the umbrella of a new holding company, RUAG’s business activities are to be reorganised into two separate companies. One of these, with the working name ‘MRO Switzerland’, will mainly provide services to the Swiss Armed Forces. The other business areas, which are active worldwide and mainly transact civilian business, will be consolidated into a second company with the working name ‘RUAG International’.

"In the Federal Council's view, this restructuring will mean that existing synergies between the DDPS and RUAG can continue to be exploited and will allow orders to be handled efficiently."

Source: Federal Council media release, 21 March 2018

Another reason behind this decision was the cyber-attack perpetrated on RUAG in 2016, which showed that even a supposedly well-protected organisation is not wholly immune to such attacks. The unbundling will also result in a complete separation of the IT systems of MRO Switzerland and RUAG International, paving the way for enhanced information security. In particular, the computing systems at MRO Switzerland will need to meet the security standards of the Swiss Armed Forces, as they need to perform without fail for Armed Forces operations in all threat situations.

With this unbundling, however, the Swiss Federal Council is also responding to the Swiss Federal Audit Office's requirement for RUAG to prepare transparent accounts by customer group and accordingly disclose separate profit margin figures. Thus a paradigm shift is taking place: in the past two decades, the maxim was to generate synergies between civil and military third-party business on the one hand and Swiss military business on the other.

Material decisions of the Federal Council pertaining to RUAG:

March 2018
Decision to consolidate the business units working almost exclusively with the Swiss Armed Forces into a new company and to unbundle these from the rest of RUAG. This also allows for separation of the IT systems

June 2018
Decision to separate the parts of RUAG working for the Armed Forces from the remaining, internationally focused business units, and to place them under the umbrella of a new holding company.

March 2019
According to the timetable, by the end of March 2019 the Federal Council will make a decision on the detailed plan for implementing the unbundling. The operational "go live" is scheduled for 1 January 2020.

> "RUAG will continue to fulfil its statutory role – providing equipment and arms to the armed forces – and at the same time have the opportunity to develop its activities in other areas."

Source: Federal Council media release, 27 June 2018

"MRO Switzerland"
ensures provisioning of the Swiss Armed Forces

As before, the core mission of MRO Switzerland will be to ensure the provisioning of the Swiss Armed Forces – reliably, transparently and cost-effectively. This will primarily involve support and maintenance services for military systems, for example the F/A-18 Hornet fighter aircraft. RUAG will provide these services as the Swiss Armed Forces' "materiel centre of excellence". As well as maintenance, repair and overhaul (MRO) services, this role also encompasses technical and technological support, procurement and logistics, as well as upgrades and modifications. Every year, as the materiel centre of excellence, RUAG provides services to the Swiss Armed Forces in the form of service level agreements (SLAs) with an equivalent value of around 400 million francs. Today, these tasks are mainly performed within the RUAG Defence and RUAG Aviation divisions. More specifically, the Land Systems and Network Enabled Operations Services business units (currently part of the Defence division) and the Military Aircraft & Subsystems and Products business units (which currently belong to the Aviation division) will be part of MRO Switzerland, which will employ around 2,500 people.

MRO Switzerland will be permitted to continue engaging in selective transactions with third parties, provided the value creation involved generally takes place in Switzerland, the transactions generate favourable synergies and no adverse effects for the DDPS, and the services generally break even.

The Swiss Confederation will remain the sole owner of this business in perpetuity. This will ensure that the interests of the Federal Department of Defence, Civil Protection and Sport (DDPS), as an essential user, are fully safeguarded. It is expected that the DDPS will also be represented on the Board of Directors of MRO Switzerland.

"RUAG International"
to become a globally operating technology company

RUAG International will take on the remaining services provided by RUAG in its current form (mainly for civilian third-party customers). More specifically, this covers the space business, currently housed within the RUAG Space division, the aerostructures business (currently RUAG Aerostructures) and the ammunition manufacturing operations for the Hunting & Sports and Armed Forces & Law Enforcement segments and for industry (RUAG Ammotec). The civil and international activities of today's Aviation division and the Defence division's Simulation & Training unit will be consolidated into the new MRO International division. This unit will likewise belong to RUAG International.

The future RUAG International is intended to continue the company's successful development as an international technology company. To this end, RUAG International will be introducing a new strategy. Depending on the focus of this strategy, RUAG International could also jettison some existing business units while on the other hand making new acquisitions to augment its portfolio.

Significant investment will be needed to successfully further develop today's Space and Aerostructures divisions. As long as the Confederation is the sole shareholder, these types of investments are difficult to justify, as these mainly civilian activities are not directly in the interests of the Swiss Armed Forces and, moreover, take place partly outside of Switzerland. Against this backdrop, options for a partial or full privatisation of RUAG International are also to be investigated.

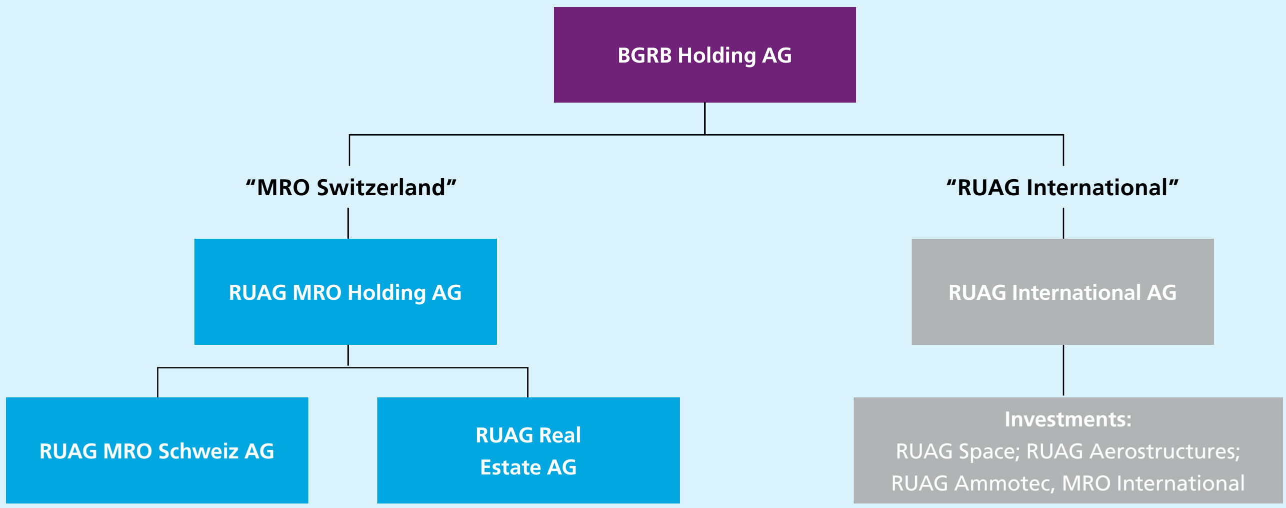
By contrast, Federal Council considers that there is no question of privatising the holding company. It wishes to remain the sole shareholder of this holding company and thus maintain complete control over the MRO Switzerland business unit, almost all of whose business is conducted with the Swiss Armed Forces.

Timetable and first organisational changes

The first organisational changes at RUAG in preparation for the unbundling had already taken place on 1 January 2019: the Board of Directors appointed Andreas Berger as CEO of the organisational unit MRO Switzerland. Until the unbundling is completed he will report to RUAG CEO Urs Breitmeier. Andreas Berger will be responsible for the units that will later be part of the free-standing MRO Switzerland unit. The Military Aviation business unit has been integrated into MRO Switzerland and handed over to Philipp Berner, who was previously in charge of the Aviation division. At the same time, the Board of Directors handed over to Felix Ammann (previously Vice President Supply Chain for RUAG Aviation) the running of the newly created MRO International organisational unit, which will consolidate a large part of the third-party business of the Aviation and Defence divisions and which will in future be a part of RUAG International.

In the year under review, RUAG drafted a detailed implementation plan. The Federal Council will rule on this in spring 2019. The costs of the unbundling, estimated to be around CHF 70 million, will be borne by RUAG. According to the timetable, the new corporate structure is set to be implemented on 1 January 2020. From this day forward, MRO Switzerland and RUAG International will be organised and run as separate companies. The companies' IT systems will also be unbundled as of the beginning of 2020.

Planned legal structure



- Holdings ultimately held by RUAG MRO Holding AG
- Holdings ultimately held by RUAG International AG (new name for RUAG Holding AG)

Corporate responsibility

For RUAG, embracing its own corporate responsibility is a key element for sustainable commercial success. It demonstrated this with a number of different activities in the year under review.

Whether as an employer, with respect to society, or for the environment: RUAG takes its own corporate responsibility seriously, seeing it as a key element for sustainable commercial success.

And RUAG is not just active in economic, environmental and social spheres; rather, as an international supplier of defence applications, it is also committed to practising a special kind of corporate responsibility. This includes a commitment to ensuring that all military applications, irrespective of where they are produced, comply with the Swiss export regime, the principles of Swiss foreign policy and the framework of international law. RUAG also emphasised the great importance it attaches to ethical business management in 2018: among other things, it again considerably strengthened its compliance framework. More details on this are provided in the "Compliance & risk management" chapter.

There was a pause in the further development of the Group-wide corporate responsibility strategy in the year under review due to the Federal Council's decision to pursue an unbundling strategy for the business. Nevertheless, RUAG once again demonstrated its corporate responsibility in 2018 through a number of different activities at individual division and business unit level.

Investing in employees

RUAG's success is based to a pivotal extent on the professionalism and performance of its employees. As an attractive employer, the company thus offers its employees opportunities for development and supports them in reconciling their work and family life. For RUAG, fair employment conditions are just as much to be taken for granted as encouraging a diverse workforce and ensuring equal pay for men and women. This latter item was confirmed once again in 2018 by the Swiss Association for Quality and Management Systems (SQS), which awarded RUAG the corresponding certificate.

Outstanding young people

RUAG has a higher-than-average commitment to training young professionals. This could be seen once again at the latest SwissSkills central Swiss vocational championships in Berne. Ten RUAG apprentices representing five different professions qualified to take part in the competition and took home a total of four medals. The two gold medal winners from RUAG will demonstrate their skills once again in August 2019, when they will compete in the 45th WorldSkills championships in Kazan, Russia. This makes RUAG the only company in Switzerland to compete in the WorldSkills championships six times in a row. At the same time, RUAG appeared as a Presenting Partner at SwissSkills for the first time in 2018.

Despite a challenging year, RUAG awarded an across-the-board pay rise of 0.7 % for all eligible employees in Switzerland in the year under review, and at the same time made available additional budget funds for individual pay rises in cases of above-average performance. With this, RUAG placed itself within the top end of the Swiss MEM industries.

The fact that RUAG's employees uphold its corporate values of "collaboration, high performance and visionary thinking" in their daily working lives is shown by a Group-wide employee survey carried out during the year under review. As a result of the changes within the individual divisions, some of which have been extensive, it is true that satisfaction has declined marginally. However, on the whole it remains very high. The analysis goes on to reveal a high level of commitment and a perennial loyalty on the part of RUAG's employees.

RUAG's attractiveness as an employer was also confirmed repeatedly by external sources in 2018. In the Universum surveys of both working engineers and engineering students, RUAG ranks 8^{th} in the list of Switzerland's most attractive companies. In addition, RUAG Space Sweden won the Karriärföretagen organisation's Career Company Award for exceptional career and development opportunities for students and young professionals. Meanwhile, RUAG Ammotec has joined the ranks of the best training companies in Germany. This was revealed by the annual analysis carried out by DEUTSCHLAND TEST and business magazine FOCUS-MONEY. Among other things, the analysis rated course completions and training ratios, compensation or additional offerings for trainees.

Committed to young professionals

Developing and nurturing young professionals is a very high priority for RUAG. In the year under review, the company had 405 apprentices being trained in 23 different professions and at 17 different locations. More than 80 young professionals successfully completed their apprenticeships with RUAG in 2018; 60 % of these went on to further employment with RUAG thereafter.

The high quality of training at RUAG is also demonstrated time and again at talent contests which the trainees themselves choose to enter: for example, in 2018 an apprentice polymechanic from RUAG Aviation in Alpnach prevailed over 1,200 competitors at the FRAISA ToolChampions competition to take first place. The SwissSkills central Swiss vocational championships also saw ten apprentices from RUAG competing with great success. Four of the ten candidates came away with medals, two of which were golds.

An interactive approach to information security

Information security is only effective if, in addition to technical precautions, all employees are made aware of the issues involved. As part of the 'Together secure' initiative, a range of measures have already been taken, such as a Group-wide e-learning campaign. In 2018, the Information Security department of Corporate Services set up a new intranet site to keep all employees up to date with important information and trends in the field of information security in a modern, relevant, practical and interactive manner. As well as direct access to RUAG's e-learning offerings, the portal also offers a comprehensive news and know-how area which is currently being developed and will be continuously expanded. It also gives employees the option to put questions to security specialists directly and easily.

RUAG also carried out a range of activities in the year under review aimed at securing the long-term supply of young, qualified employees. Thus, for example, in autumn the company opened its doors to school students as part of Switzerland's National Future Day, and on RUAG Talents Day presented 13 different professions to over 400 interested young people at ten locations in Switzerland.

So that it will be able to maintain the current high standard in future, in 2019 RUAG will be restructuring its vocational training framework. The divisional organisation will be replaced by a regional arrangement. As well as ensuring the quality of training, the aim here is chiefly also to reduce the work involved in coordinating these activities for all participants as well as public authorities and schools.

For a safe and healthy working environment

For RUAG, workplace safety and the health of the employees are part and parcel of an attractive work environment. In 2018, for instance, all employees working in an industrial setting were provided with new work attire. Wear comfort was not the only focus here: rather, the clothing also meets all safety standards and was certified by an external institute for this purpose.

As part of its corporate health promotion framework, RUAG once again contributed to the costs for the annual flu vaccination as well as providing support for a variety of sporting activities in the year under review. For example, RUAG participated in the Swiss "bike to work" campaign. A total of 53 employees got pedalling and covered a distance of 21,625 kilometres, saving the equivalent of 3.1 tonnes of CO_2.

New lease of life for hardware

Since 2018, RUAG has been giving all its decommissioned laptops, PCs and screens from Switzerland to the AfB social & green IT foundation (AfB stands for "work for people with disabilities"). Europe's first non-profit IT company reconditions these items and sells them on. Defective items are disassembled for spare parts while the remaining raw materials are recycled at a certified facility, thus lowering both CO_2 emissions and resource consumption. The hard disks are securely erased and overwritten by RUAG before they are handed over. AfB then carries out an additional, certified erasure process. This ensures that there are no data remaining on the devices.

Saving energy with 3D printing

3D printing harbours enormous potential for the aerospace industry. Using so-called additive manufacturing, certain metal and plastic components can not just be manufactured faster and more cheaply, but also made much lighter. In the aviation and aerospace industries in particular, this can save a great deal of energy. With its Structures product unit, RUAG Space is leading the way in this field and is keen to share its expertise with other divisions as well in future in order to adapt the technology for other RUAG products. RUAG Space also entered into a partnership with technology company Oerlikon in 2018 with a view to jointly establishing Europe-wide processes and standards and expediting series production for 3D-printed aerospace components.

Minimising our ecological footprint

RUAG has made a commitment to the Swiss Federal Office for the Environment to reduce its annual CO_2 emissions from the heating installations in its Swiss buildings by 189 tonnes to 3,807 tonnes by 2020. It was able to meet this target as early as 2016, reducing its CO_2 emissions by 330 tonnes. In 2017, RUAG managed to lower its emissions still further – by over 448 tonnes. Another reduction, of around 300 tonnes, is expected for 2018. This was mainly due to the changeover of the dual fuel burner system in Emmen from oil to natural gas. In addition, the company ran ten awareness-raising courses attended by around 50 people in total at the main sites in Switzerland in 2018. The training was targeted mainly at the technical staff of RUAG Real Estate Ltd.

RUAG Environment, with its focus on recycling activities, recovered and destroyed a total of around 41 tonnes of climate-damaging refrigerants from 160,000 compressor appliances in 2018. This is the equivalent of preventing 187,000 tonnes of CO_2 emissions. Overall, RUAG Environment processed 30,000 tonnes of waste electrical and electronic equipment (WEEE) from SWICO and SENS. In general, the proportion of metal in WEEE is declining steadily while the proportion of plastic is growing. Overall, RUAG Environment achieved a recycling rate of 76 %. It also acquired a new colour separation system in the year under review. This considerably improves the processing of recyclable fractions by shape, colour and density and results in higher revenue from the fractions.

Moreover, in 2018 a Group-wide initiative resulted in a 10 % reduction in paper consumption. This is equivalent to around 6.5 tonnes, or 1.31 million pages. Stacked on top of each other, these pages would make a tower around 120 metres high – just short of Zurich's Prime Tower!

Compliance & risk management

As part of Integrity@RUAG, a Group-wide initiative stretching over several years, the Group worked in particular to further strengthen its anti-corruption compliance, third-party management and trade compliance frameworks in 2018. A specific organisational structure was created for the protection of personal data. The whistleblower system demonstrated its effectiveness.

RUAG pressed ahead with actions to strengthen its compliance & risk management functions in the year under review. As part of the implementation of Integrity@RUAG, a Group-wide initiative launched in 2017 extending over several years, it enacted a Group anti-corruption directive in 2018 – thereby fine-tuning its existing rules and processes – and, in particular, it enhanced its third-party management and trade compliance processes.

Comprehensive third-party management framework introduced

A comprehensive third-party management framework was set up in 2018, thus implementing as scheduled a key element in the road map developed the previous year. This framework ensures strict and across-the-board compliance with the policy of zero tolerance applied in the central risk area of anti-corruption, including for all external sales agents, resellers and consultants.

Standardised Group-wide processes provide the basis for the new third-party management system. These have been optimised based on a risk analysis conducted in all divisions in 2017. Implementation at division level is being supported by a centralised, workflow-based IT tool. In addition to consistent application of the standards and processes in all units, this also guarantees complete documentation. RUAG is following a risk-based approach in this instance. Based on data from a specialised international service provider, exposed persons, countries or sub-markets are automatically identified and thereafter, if necessary, subjected to a targeted background check by RUAG compliance specialists.

The concrete development of the processes has among other things incorporated the insights gained from a case early in the year of unauthorised secondary employment on the part of a sales employee, detected via the RUAG whistleblower system. Ongoing improvement of the processes and measures based on practical experience is an integral part of the new third-party management framework.

Trade compliance already at a high level

A number of measures in the second risk area central to RUAG, that of trade compliance, were also implemented as planned in 2018. For instance, a Global Trade Compliance Officer was appointed. Due to the Federal Council's strategy, RUAG is bound by Swiss export control policy at its foreign sites too. The implementation of these standards was scrutinised by the SFAO (Swiss Federal Audit Office) during the year under review. The SFAO did not find any relevant violations during this audit, and its final report did not include any recommendations to RUAG.

During the year under review an assessment programme for practical handling of the export control and customs regulations and internal guidelines was developed. Initial assessments have already been carried out and the programme will be continued in 2019 in order to cover all the divisions.

The structures and processes at RUAG Aviation provided the basis for a structured survey of the status quo and the identification of any shortcomings. The high standard of these structures and processes was recognized in 2018 by specialist export control journal "WorldECR" with its award for the European Export Controls Compliance Team of the Year. In its explanatory statement, the specialist jury highlighted the development of a global strategy for all business units and national subsidiaries. It went on to praise the establishment, implementation and continuous further development of instruments and processes for monitoring the effectiveness of the trade compliance programme and achieving its goals. For RUAG, compliance with all export and trade regulations is a key element of all its business activities.

The goal of raising all the divisions and business units to the same high standard as RUAG Aviation is being pursued with, for example, the enhanced Group directives – improved with the help of the Group-wide Trade Compliance Community, which are set to be enacted in January 2019. These directives flesh out the principles and rules which apply across the whole Group and establish the organisational structures. As well as the Global Trade Compliance Officer, these also include Group-wide standardised job descriptions for Trade Compliance Officers within the divisions. Plans for 2019 include a Group-wide e-learning programme on the topic of Trade Compliance. The corresponding concept was developed during the year under review within the Group-wide Trade Compliance Community.

Global Data Protection Officer for data protection

RUAG's data protection framework also underwent significant development in 2018. The newly created post of Global Data Protection Officer is designed to ensure that the personal data of all partners, employees and all other stakeholders are protected from unauthorised access, and that all business units comply with the EU's General Data Protection Regulation (GDPR), which has been in force since May 2018. This person, with responsibility for the entire Group, will be supported by a total of eight Data Protection Champions within the divisions and in the departments of RUAG Corporate Services AG. These individuals received special training in the year under review and in future will form the data protection interface between the Group and the operating units, devoting approximately 30% of their working time to these duties. The intention is that they will, on the one hand, work top-down to ensure that the Group-level standards and measures are implemented within their divisions and departments and, on the other hand, work bottom-up to notify the Group in good time of where new data protection challenges – for example following newly introduced IT solutions – are arising within business practice. The data protection organisation will also be supported by Legal, with a dedicated expert in charge of this area.

Strengthening compliance within the Group

The fundamental status of compliance within the Group organisation was also strengthened in a targeted manner in 2018. In addition to the fact that compliance is a standard item on the agenda of every meeting of the Board of Directors, in the year under review a new vessel for communicating with the Chairman of the Board was created. Twice a year, he will now hold a one-to-one conversation with the Vice President Compliance & Risk Management to discuss current issues and challenges in the field. This further enhances the detailed and management-independent compliance reporting to the Board of Directors.

Workshops, training courses and e-learning programmes Group-wide

One of the core activities of Compliance & Risk Management is that of arranging workshops and training courses. On the one hand, these are used to introduce new guidelines and processes and incorporate them into everyday working life. On the other hand, however, they are also a targeted way to strengthen awareness of compliance and risk issues within the Group and raise awareness on current issues.

The first quarter of 2018 saw the completion of the global training programme – launched in 2017 – to assist risk-exposed employees in the practical application of the Code of Conduct, which had been revised in 2017. This involved a total of 80 workshops in ten different countries, attended by over 1,200 employees.

A course on the theme of sexual harassment was run in collaboration with Human Resources (HR), using scenarios based on the "train the trainer" principle.

In addition to the aforementioned e-learning programme in the field of trade compliance, in 2018 RUAG also developed a Group-wide anti-corruption e-learning course. It will be rolled out in 2019 in German, French, Italian and English for all employees with access to a computer workstation. The course will make use of specific examples from everyday working life and a programme-based completion monitoring system to ensure that all employees know how the new anti-corruption Group directive adopted in 2018 is to be implemented in their business practices.

Background checks for exposed positions

RUAG's risk management also applies not least of all to its management personnel. Individuals being newly appointed to the Board of Directors, Executive Boards and other particularly exposed management positions undergo a detailed background check. In accordance with data protection laws, only publicly accessible sources are analysed for this check. In particular, it examines business ties, any negative media presence and the individual's general financial situation. In order to ensure a maximum of objectivity and a professional methodology, the checks are carried out by a specialised external provider. In parallel to this, positions coming into contact with classified Swiss data undergo a personal security screening process as standard.

Whistleblower system demonstrates effectiveness

An important element in securing global compliance at RUAG is its whistleblower system, which went into operation in 2014. The system can be used both by all employees worldwide and by external informants. Reports made within the system are seen only by the Compliance Team and the identity of the informant is kept confidential if they so request.

In 2018 the system received a total of 47 reports. Specific action was initiated in 12 of these cases. In nine cases, internal investigations are still ongoing (as at end-2018). Among other things, at the beginning of the year under review the system was able – thanks to a tip received from an external informant – to detect the case of a RUAG employee who was involved in unauthorised private transactions. The case was handed over to the Office of the Attorney General immediately. This was an impressive demonstration of the system's effectiveness for both employees and external informants, and of its value to RUAG in terms of compliance.

Brief profile

As a key element in Corporate Governance, the Group-wide risk management system protects RUAG's assets, facilities and employees. Risks are identified and addressed using a broad-based methodology drawing on the international COSO II, ISO 31000 and DIN EN 62198 standards. Under this methodology, risks are identified, analysed and assessed once a year in all business units in a structured process using the seven main categories of external risks, strategy, markets, processes, resources, compliance and culture, and finance. By gradually consolidating at the division and Group levels, each level of the corporation gains a management tool geared to its requirements.

RUAG sees compliance as an integral part of risk management. As an enterprise owned by the Swiss Confederation, RUAG is committed to upholding particularly high ethical principles going beyond compliance with all guidelines, international agreements and domestic laws. All senior managers, members of the Board of Directors and employees are expected to adhere to a strict policy of zero tolerance to corruption. Swiss export control requirements on military equipment and dual-use goods must be complied with not only by RUAG's Swiss subsidiaries, but also by all foreign subsidiaries. Openness and transparency, both in respect of government agencies/the public and within the company, are core elements of compliance at RUAG.

RUAG Space

Faster, lighter, more affordable

At its Titusville site in Florida, USA, RUAG's 'Automated Potting Machines' are installing up to 1,000 inserts a day into satellite panels – automatically, quickly, accurately.

In the space industry, sandwich panels made from composites are used in the manufacture of satellites, as they are extremely lightweight and at the same time highly stable. Depending on size, each panel can have several hundred load application elements (so-called 'inserts') for mounting instruments or other items of equipment. A typical communications satellite will have more than 5,000 such inserts. Until now, these have mostly been installed manually. With the development of the 'Automated Potting Machine' (APM), RUAG has automated this step, making it possible to install up to 1,000 inserts a day automatically. Specifically, that means: shorter throughput times, more accurate execution, lower error rates and less weight.

All success stories at www.ruag.ch/successstories

RUAG Aerostructures

Third pillar for aerostructures

In 2019, the RUAG Aerostructures facility in Eger, Hungary will develop from an extended workbench into a fully-fledged, autonomous site.

RUAG Aerostructures in Eger has been producing high-quality aerostructure components since 2016. Over the past months, the Eger site – around 150 kilometres east of Budapest – has evolved very pleasingly. A key element in its current success is the so-called 'Hungarian plateau'. This describes the grouping together in one location of all experts from different specialist functions. The clear advantage here is the ability to solve problems unbureaucratically and in a goal-driven, structured way. In the coming months, Eger will thus be able to develop from an extended workbench towards a fully-fledged, autonomous site.

This facility is already Aerostructures' third pillar (alongside Oberpfaffenhofen in Germany and Emmen in Switzerland) and is thus strengthening the division's ability to compete at the international level.

All success stories at www.ruag.ch/successstories

RUAG Aviation

Upgrading Switzerland's helicopters

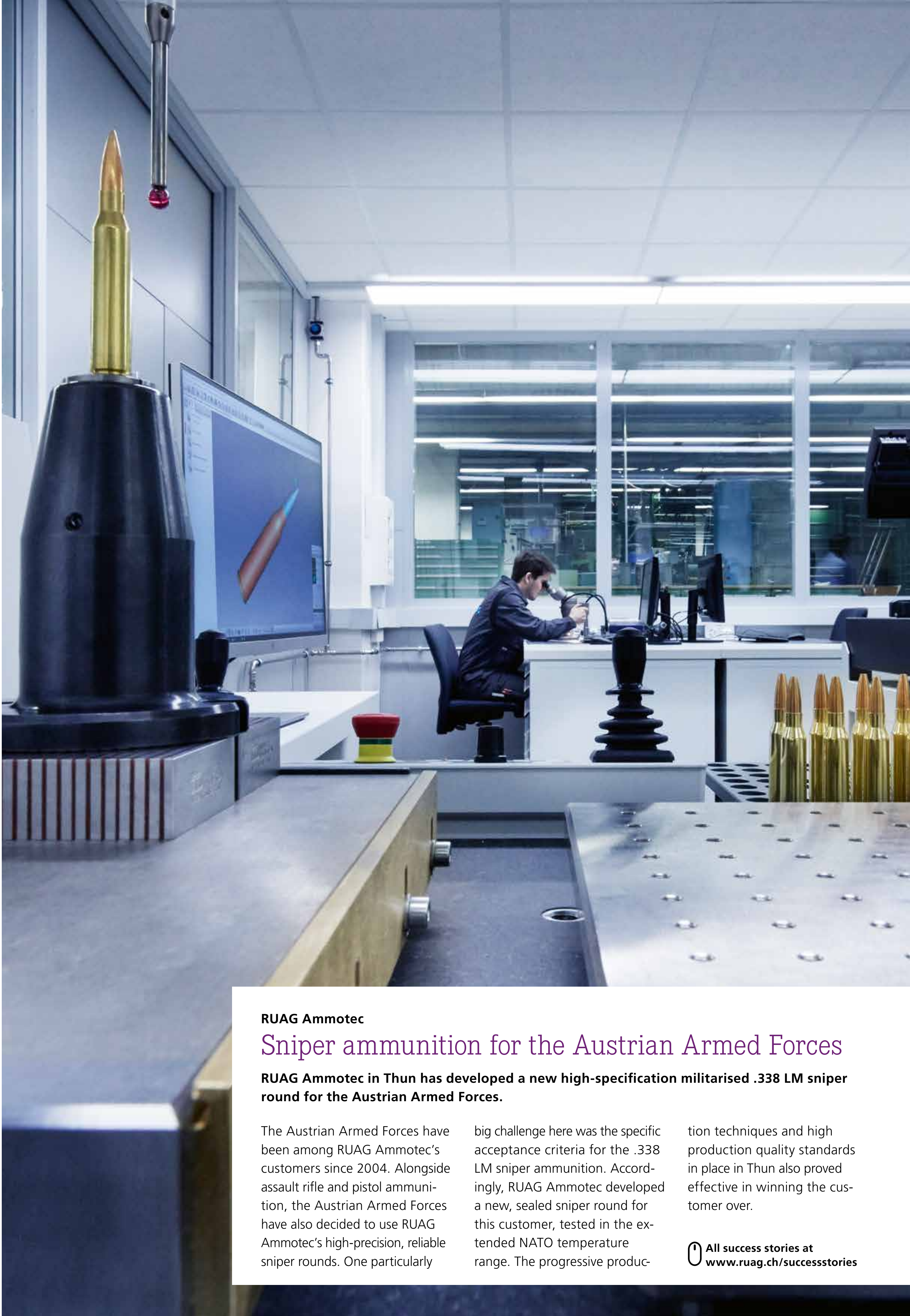
RUAG Aviation is modernising the Swiss Air Force's Cougar helicopter fleet. A prototype project has already seen the first helicopter upgraded to the state of the art.

The Cougar transport helicopters procured in 1998 have proved to be robust workhorses for the Swiss Air Force for transport, assistance and peacekeeping operations. By 2022 RUAG will now bring these helicopters up to the current state of the art.

The upgrade includes a new flight management system, accurate satellite navigation for instrument flight, and warning systems which sound an alarm in the event of imminent collisions or if the helicopter diverges from the specified altitude.

At the same time as the upgrades, the helicopters will undergo a complete overhaul.

All success stories at www.ruag.ch/successstories



RUAG Ammotec

Sniper ammunition for the Austrian Armed Forces

RUAG Ammotec in Thun has developed a new high-specification militarised .338 LM sniper round for the Austrian Armed Forces.

The Austrian Armed Forces have been among RUAG Ammotec's customers since 2004. Alongside assault rifle and pistol ammunition, the Austrian Armed Forces have also decided to use RUAG Ammotec's high-precision, reliable sniper rounds. One particularly big challenge here was the specific acceptance criteria for the .338 LM sniper ammunition. Accordingly, RUAG Ammotec developed a new, sealed sniper round for this customer, tested in the extended NATO temperature range. The progressive production techniques and high production quality standards in place in Thun also proved effective in winning the customer over.

All success stories at www.ruag.ch/successstories

RUAG Defence

The right combination for success

RUAG Defence has won a contract from the Federal Office for Defence Procurement (armasuisse) to develop 14 disinfection and sterilisation systems of the latest generation and integrate them into mobile containers.

The seven disinfection and seven sterilisation systems being developed over the course of the project will be used by the Swiss Armed Forces medical corps. They will assure the Forces' own disinfection and sterilisation capacity for all contingencies. As mobile versions, the systems are unique in that they are just as effective as stationary facilities. In this project, the Defence division is taking on a complete programme: as well as the development and integration aspects, RUAG is also conducting the testing and qualification of the overall systems. The Defence division started work on this programme in the fourth quarter of 2018, and the systems will be delivered by 2022.

All success stories at www.ruag.ch/successstories

Financial statements

Overview of key figures

in CHF m	2018	2017
Order intake	2 221	1 961
Order backlog	1 794	1 607
Net sales	1 998	1 955
Operating income	2 013	1 990
Cost of materials and purchased services	(665)	(688)
Personnel expenses	(942)	(914)
Other operating expenses, net	(219)	(193)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	186	196
EBITDA in % of net sales	9.3 %	10.0 %
Earnings before interest and taxes (EBIT)	106	119
EBIT in % of net sales	5.3 %	6.1 %
Net profit	74	89
Net profit in % of net sales	3.7 %	4.6 %
Cash flow from operating activities	176	88
Cash flow from investing activities	(83)	(146)
Free cash flow	94	(59)
Cash flow from financing activities	(88)	23
Equity attributable to the RUAG shareholder	1 022	1 007
Equity in % of total assets	51.2 %	51.3 %
Return on equity[1]	7.3 %	8.9 %
Depreciation, amortization and impairment	80	77
Research and development expenses[2]	179	181
in % of net sales	9.0 %	9.2 %
Net sales per employee (in CHF thousands)	218	215
Added value per employee (in CHF thousands)	135	132
Employees (FTE) as at 31 December incl. apprentices	9 127	9 189
Number of employees (average FTE for year, incl. apprentices)	9 159	9 083
Number of registered shares (par value CHF 1,000)	340 000	340 000
Earnings per registered share	216.46	263.11
Dividend per registered share[3]	88.24	117.65
Distribution ratio	40.8 %	44.7 %
Book value per registered share in CHF	3 007	2 963

[1] Net profit as a percentage of average equity.
[2] Comprises both self-financed and third party-financed research and development expenses (see Note 9 “Research and development expenses”).
[3] Expected dividend of CHF 30 million for 2018 according to the proposal of the Board of Directors.

Five-year overview

in CHF m	2018	2017	2016	2015	2014
Order intake	2 221	1 961	2 036	1 828	1 785
Order backlog	1 794	1 607	1 556	1 378	1 370
Net sales	1 998	1 955	1 858	1 744	1 781
Earnings before interest and taxes (EBIT)	106	119	151	137	113
EBIT in % of net sales	5.3 %	6.1 %	8.1 %	7.8 %	6.4 %
Net profit	74	89	116	117	84
Net profit in % of net sales	3.7 %	4.6 %	6.2 %	6.7 %	4.7 %
Cash flow from operating activities	176	88	135	145	135
Cash flow from investing activities	(83)	(146)	(79)	(81)	(79)
Free cash flow	94	(59)	56	64	57
Cash flow from financing activities	(88)	23	(49)	(26)	(61)
Equity attributable to the RUAG shareholder	1 022	1 007	1 005	949	882
Equity in % of total assets	51.2 %	51.3 %	55.4 %	55.2 %	51.6 %
Return on equity[1]	7.3 %	8.9 %	11.9 %	12.7 %	9.8 %
Research and development expenses[2]	179	181	171	146	140
in % of net sales	9.0 %	9.2 %	9.2 %	8.4 %	7.9 %
Employees (FTE) as at 31 December incl. apprentices	9 127	9 189	8 734	8 163	8 114
Number of employees (average FTE for year, incl. apprentices)	9 159	9 083	8 543	8 115	8 182

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

[2] Comprises both self-financed and third party-financed research and development expenses (see Note 9 “Research and development expenses”).

Consolidated income statement 1 January to 31 December

in CHF m	Note	2018	2017
Net sales	6	1 998	1 955
Own work capitalized		5	9
Changes in inventories and work in progress		10	26
Operating income		2 013	1 990
Cost of materials and purchased services		(665)	(688)
Personnel expenses	7	(942)	(914)
Other operating expenses, net	8	(219)	(193)
Earnings before interest, taxes, depreciation and amortization (EBITDA)		186	196
Depreciation and impairment of property, plant and equipment/investment property	17, 18	(68)	(66)
Amortization and impairment of intangible assets	19	(12)	(11)
Earnings before interest and taxes (EBIT)		106	119
Financial income	10	3	2
Financial expenses	10	(9)	(10)
Share in income of associates	20	4	3
Earnings before taxes		104	114
Income taxes	11	(31)	(25)
Net profit		74	89
Net profit attributable to:			
Shareholders of RUAG Holding Ltd		73	89
Non-controlling interests		0	0
Net profit		74	89

The notes to the consolidated financial statements on pages 46 to 84
form an integral part of the consolidated financial statements.

Consolidated balance sheet as at 31 December

in CHF m	Note	2018	2017
Cash and cash equivalents	12	209	201
Current financial assets	13	5	7
Trade receivables	14	278	263
Prepayments to suppliers	14	11	17
Other current receivables	14	29	21
Tax assets		15	9
Prepaid expenses and accrued income		28	18
Inventories and work in progress	15, 16	710	717
Current assets		1 285	1 253
Property, plant and equipment	17	512	497
Investment property	18	80	84
Intangible assets	19	56	69
Associates	20	41	40
Non-current financial assets	13	2	3
Deferred tax assets	11	20	17
Non-current assets		712	710
Total assets		1 996	1 963
Current financial liabilities	21	38	56
Trade accounts payable	22	109	93
Prepayments from customers	22	251	213
Other current liabilities	23	42	40
Tax liabilities		28	20
Deferred income and accrued expenses	25	221	220
Current provisions	26	85	76
Current liabilities		774	718
Non-current financial liabilities	21	48	76
Other non-current financial liabilities	24	1	1
Employee benefit obligations	27	70	70
Non-current provisions	26	31	39
Deferred tax liabilities	11	48	47
Non-current liabilities		198	234
Share capital	28	340	340
Capital reserves		10	10
Retained earnings		870	837
Offsetting of goodwill		(156)	(156)
Other reserves		(9)	(9)
Foreign currency translation adjustments		(33)	(14)
Equity attributable to the RUAG shareholder		1 022	1 007
Equity attributable to non-controlling interests		2	4
Total equity		1 024	1 011
Total liabilities and equity		1 996	1 963

The notes to the consolidated financial statements on pages 46 to 84 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows, 1 January to 31 December

in CHF m	Note	2018	2017
Net profit		74	89
Depreciation, amortization and impairment	17, 18, 19	80	77
Change in non-current provisions and deferred taxes		2	(4)
Use of non-current provisions		(5)	(3)
Share in income of associates	20	(4)	(3)
Other non-cash changes		4	(3)
Change in net working capital[1]		28	(66)
(Gain)/loss on disposal of non-current assets incl. investments		(9)	(8)
Financial income	10	(3)	(2)
Financial expenses	10	9	10
Cash flow from operating activities[2]		176	88
Capital expenditures for plant and equipment	17	(67)	(59)
Capital expenditures for property incl. investment properties	17, 18	(26)	(49)
Capital expenditures for intangible assets	19	(2)	(5)
Acquisition of subsidiaries less cash and cash equivalents acquired	4	(2)	(49)
Increase in financial assets		(2)	(1)
Disposal of plant and equipment		1	1
Disposal of property incl. investment properties		13	12
Disposal of intangible assets		0	—
Disposal of investments less cash and cash equivalents disposed of	4	0	(1)
Decrease in financial assets		0	—
Dividends received from associates	20	2	3
Cash flow from investing activities		(83)	(146)
Free cash flow		94	(59)
Increase in current financial liabilities		—	48
Decrease in current financial liabilities		(45)	(49)
Increase in non-current financial liabilities		—	74
Finance lease payments		(0)	(0)
Financial income received		3	2
Financial expenses paid		(3)	(4)
Dividends paid to shareholders		(42)	(47)
Cash flow from financing activities		(88)	23
Change in cash and cash equivalents before foreign currency translation adjustments		6	(36)
Cash and cash equivalents at beginning of period		201	239
Foreign currency translation adjustments in respect of cash and cash equivalents		1	(2)
Cash and cash equivalents at end of period		209	201

1 Excludes current financial assets, current financial liabilities and other non-current liabilities.
2 Including income taxes of CHF 13 million paid in the year under review (previous year: CHF 19 million).

The notes to the consolidated financial statements on pages 46 to 84 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 2017	340	10	795	(84)	(12)	(43)	1 005	3	1 009
Net profit	—	—	89	—	—	—	89	0	89
Goodwill offset against equity	—	—	—	(72)	—	—	(72)	—	(72)
Change in fair value of cash flow hedges	—	—	—	—	5	—	5	—	5
Gains and losses from cash flow hedges transferred to profit or loss	—	—	—	—	(1)	—	(1)	—	(1)
Foreign currency translation adjustments of foreign subsidiaries	—	—	—	—	—	29	29	0	29
Dividends paid	—	—	(47)	—	—	—	(47)	—	(47)
Balance as at 31 December 2017	340	10	837	(156)	(9)	(14)	1 007	4	1 011
Balance as at 1 January 2018	340	10	837	(156)	(9)	(14)	1 007	4	1 011
Net profit	—	—	73	—	—	—	73	0	74
Goodwill offset against equity	—	—	—	—	—	—	—	—	—
Change in fair value of cash flow hedges	—	—	—	—	(4)	—	(4)	—	(4)
Gains and losses from cash flow hedges transferred to profit or loss	—	—	—	—	4	—	4	—	4
Foreign currency translation adjustments of foreign subsidiaries	—	—	—	—	—	(18)	(18)	(0)	(18)
Dividends paid	—	—	(40)	—	—	—	(40)	(2)	(42)
Balance as at 31 December 2018	340	10	870	(156)	(9)	(33)	1 022	2	1 024

As at 31 December 2018, the amount of non-distributable statutory reserves was CHF 51 million (previous year: CHF 47 million).

In the year under review, a dividend of CHF 40 million (previous year: CHF 47 million) was paid to the shareholder of RUAG Holding Ltd from the previous year's result. This is equivalent to a dividend per share of CHF 117.65 (previous year: CHF 138.24).

The notes to the consolidated financial statements on pages 46 to 84 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.

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 Definition of non-Swiss GAAP FER-compliant figures
The operating income sub-total shown separately on the income statement contains all operating income, own work capitalized less changes in inventories and work in progress.

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

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

2.3 Principles and scope of consolidation
RUAG's annual consolidated financial statements include subsidiaries where RUAG Holding Ltd is effectively able to control the financial and operating policies. For control to exist, the investor must have power, exposure or rights to variable returns and the ability to combine those requirements, that is the ability to use its power to affect the variable returns. This is usually the case if RUAG directly or indirectly holds the majority of the voting power or the potential voting rights of the entity. The assets, liabilities, equity, income and expenses of fully consolidated subsidiary companies are included in their entirety in the consolidated financial statements. Non-controlling interests in equity and net profit are stated separately. Subsidiaries and associates are consolidated with effect from the date of their acquisition, and eliminated from the consolidated financial statements in the event of a loss of control. Changes to investments in subsidiary companies are recognized as equity transactions insofar as these subsidiary companies

were previously controlled and continue to be controlled. All intra-Group receivables, liabilities, expenses and income, as well as unrealized intercompany profits, are fully eliminated on consolidation.

The consolidated financial statements are based on the individual financial statements of the Group companies prepared in accordance with uniform principles. 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 the Group 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.

The consolidation and accounting principles were applied unchanged from the previous year.

2.4 Foreign currency translation

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

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

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

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

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

Exchange rates

Currency		Annual average 2018	End-of-year rate 2018	Annual average 2017	End-of-year rate 2017	Annual average 2016	End-of-year rate 2016
Euro	EUR	1.15	1.13	1.11	1.17	1.09	1.07
Swedish krona	SEK	11.26	10.99	11.53	11.89	11.52	11.22
US dollar	USD	0.98	0.98	0.98	0.98	0.99	1.02
Pound sterling	GBP	1.31	1.26	1.27	1.32	1.34	1.25
Hungarian forint	HUF	0.36	0.35	0.36	0.38	0.35	0.35

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

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

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

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

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

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

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

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

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

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

2.9 Property, plant and equipment
Property, plant and equipment are 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
Information technology	3 to 5
Motor vehicles	5 to 10
Aircraft	10 to 15
Buildings (operating properties)	20 to 60

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

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

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

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

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

2.13 Intangible assets and goodwill
Intangible assets have a finite useful life and are recognized at cost less accumulated amortization and impairment. Intangible assets acquired separately in business combinations are recognized at their acquisition-date fair value.

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

Class	Useful life in years
Patents and developments	5 to 15
Trademarks and prototypes	3 to 8
ERP systems	3 to 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 effect is recognized in the income statement under "Other operating expenses, net". The impact of the goodwill being theoretically capitalized (acquisition cost, residual value, useful life, amortization) and any potential impairment are shown in the notes. Any negative difference is recognized directly in profit or loss after being reviewed. In the event of a company being sold, the goodwill previously recorded under equity will be booked out and then recognized in the income statement as a component of the gain or loss on disposals.

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

2.15 Impairment

Impairment of assets, in particular 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 the 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 from these estimates.

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

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

2.18 Deferred income and accrued expenses

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

2.19 Provisions

Provisions are recognized where:

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

Provisions are discounted if the effect of discounting is material.

Provisions for restructuring Costs arising in connection with restructurings are treated as an expense when management has decided on a programme from which a probable liability has arisen and the amount of this liability can be estimated reliably. So that provisions can be made for the cost of redundancy plans, the applicable terms and the number of employees affected must be defined and the employees or their representatives must be given sufficiently detailed information about the redundancy plans.

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

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

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

2.20 Employee benefit obligations

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

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

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

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

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

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

2.21 Other long-term employee benefits

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

2.22 Current and deferred income taxes

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

Current income taxes comprise the taxes expected to be payable in respect of taxable income, calculated at the tax rates that are applicable or are announced as at the balance-sheet date, 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. In this regard, tax rates apply that are applicable or are announced as at the balance-sheet date. Deferred taxes are included in non-current assets (deferred tax assets) or non-current liabilities (deferred tax liabilities) and are offset if certain conditions are met. Deferred tax assets for unused tax losses and deductible temporary differences are recognized to the extent that there are likely to be future profits against which they can be used. The tax rates are based on the actual tax rates and the tax rates expected to apply at the legal entities in question.

2.23 Equity

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

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

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

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

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

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

2.24 Net sales

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

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.

2.25 Segment information

Reportable operating segments are determined on the basis of the management approach. External segment reporting is then carried out in accordance with RUAG's organizational and management structure as well as internal financial reporting to RUAG's Chief Operating Decision Maker, the CEO. Reporting is broken down according to the "Space", "Aerostructures", "Aviation", "Ammotec" and "Defence" segments. In addition, the reporting includes the area "Other segments", which comprises central services such as real estate management and IT, RUAG's corporate units and also – since 1 January 2018 – the Cyber Security business unit. Unrealized gains or losses may be incurred as a result of services or disposal of assets between the individual segments. Those are eliminated and stated in the segment information in the "Elimination" column. The assets of the segments contain all the assets required for operations that can be assigned to a specific operating segment. The assets of the segments primarily comprise receivables, inventories, property, plant and equipment and intangible assets. The investments of the segments 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 13 sites in six countries, the division specializes in components for use aboard satellites and launch vehicles. It is split into three areas, which also represent the most important sources of income: electronics for all space applications, mechanical products for satellites, and structures and separation systems for launch vehicles.

Aerostructures segment RUAG Aerostructures is a globally active tier 1 supplier manufacturing aircraft for civilian and military customers. Key activities include the development, production and final assembly of complete fuselage sections, wing and control surface components as well as sophisticated component assemblies and parts for civil and military aircraft. One of the division's strengths lies in managing complex supply chain networks. Among other things, it is responsible for the complete global fuselage section supply chains for Airbus and Bombardier. The main sources of earnings are the sale of aerostructures and of complex assemblies and components.

Aviation segment RUAG Aviation is a leading supplier, support provider and integrator of systems and components for civil and military aviation. Servicing aircraft and helicopters throughout their entire life cycle, the company's core competencies include maintenance, repair and overhaul services, upgrades, and the development, manufacturing and integration of subsystems. The main sources of earnings are maintenance and life extension services as well as the sale of systems and subsystems.

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

Defence segment RUAG Defence develops internationally sought-after technologies for armed forces, law enforcement and rescue and security organizations. Its core business includes products and services for tracked and wheeled vehicles, realistic military training, and reliable command, information and communication infrastructures. Its comprehensive portfolio also includes protection systems to counter ballistic threats and integration, maintenance, operation and innovative upgrades to relevant systems. The main sources of earnings are the sale of corresponding products as well as servicing and maintenance services.

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

2.27 Derivative financial and hedging instruments
Derivative financial instruments are measured at fair value. The way in which the gain or loss is measured depends on whether the instrument is used for the purpose of hedging a specific risk and whether 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 recognized at their positive or negative replacement value as at the balance sheet date and are disclosed in the notes.

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 and formations of companies

Acquisitions, mergers and formations of subsidiaries

Visier Medien Holding AG As of 1 January 2018, RUAG Ammotec AG acquired 40.4 %, and as of 2 May 2018, the remaining 10.1 % of the outstanding shares of Visier Medien Holding AG, domiciled in Zug (Switzerland). For its part, the company holds 100 % of the shares of VS Medien GmbH, domiciled in Bad Ems (Germany). The publishing house produces the industry magazines Visier, Caliber and Schweizer Waffenmagazin. This full acquisition opens up domestic and international channels in the print and online business for direct communication with the relevant target groups (hunters and marksmen for munition and merchandise). The two companies were fully consolidated as of 1 January 2018. The non-controlling interest in Visier Medien Holding AG was recognized at cost until 31 December 2017.

RUAG Ammotec Italia s.r.l. (previously Turfer di Turelli Luca & C. SRL) As of 1 January 2017, RUAG Ammotec Deutschland GmbH acquired 100 % of the shares of Turfer di Turelli Luca & C. SRL, domiciled in Brescia (Italy). The company operates in Italy as a wholesaler of hunting and sports weapons, ammunition and accessories. This acquisition helped RUAG strengthen and further consolidate its own European wholesale business. RUAG Ammotec Italia s.r.l. was fully consolidated as of 1 January 2017.

Clearswift As of 20 January 2017, RUAG Holding Ltd acquired 100 % of the shares of Clearswift, headquartered in Reading (UK). The cyber-security company provides proprietary solutions in the areas of data loss prevention and deep content inspection. Clearswift has a high-performance research and development department, a global service organization and internationally established sales channels. This acquisition will help accelerate the expansion of RUAG's Cyber Security business unit. Clearswift was fully consolidated as of 1 February 2017.

Gyttorp As of 31 March 2017, Norma Precision AB acquired the remaining 60 % of the outstanding shares of Gyttorp AB, headquartered in Karlskoga (Sweden). Gyttorp AB combines the wholesale activities of Gyttorp Jakt AB (Sweden) and Gyttorp Finland Oy (Finland), while Gyttorp Cartridge Company AB (Sweden) manufactures market-leading shotgun cartridges under the Gyttorp brand for the Swedish, Norwegian and Finnish market. The complete acquisition of Gyttorp represents another step towards strengthening RUAG's wholesale activities and supplementing the product portfolio with market-leading brands. Gyttorp's activities were fully consolidated as of the acquisition date (1 April 2017). The non-controlling interest in Gyttorp AB was recognized at cost until 31 March 2017. During the reporting period, the company Gyttorp Jakt AB was renamed RUAG Ammotec Sweden AB and Gyttorp Finland Oy was renamed RUAG Ammotec Finland OY.

Mergers No company mergers took place during the reporting period. On 14 August 2017, Glückauf-Logistik GmbH, domiciled in Kassel (Germany), was merged retroactively as of 1 January 2017 with RUAG Defence Deutschland GmbH, headquartered in Wedel (Germany). This merger has no impact on RUAG's consolidated financial statements.

Formations As of 17 May 2018, RUAG Slip Rings Ltd., domiciled in Nyon (Switzerland), was formed by means of a cash consideration with intended in-kind contribution. On 21 June 2018, this company concluded an agreement with RUAG Switzerland Ltd concerning the purchase of the operating business and associated assets of the "Slip Rings" business area. The purpose of RUAG Slip Rings Ltd. is to develop, manufacture, test, supply, implement and operate products in the area of slip rings. The company may establish subsidiaries in Switzerland and abroad, and acquire stakes in other companies in Switzerland and abroad. This spin-off had no impact on the consolidated financial statements of RUAG.

Effects of acquisitions of companies

in CHF m	2018 Acquisitions	2017 Clearswift	2017 Other acquisitions
Purchase price, paid in cash	0	55	1
Escrow account	—	3	—
Contingent consideration	—	4	0
Total consideration	0	62	1

Clearswift Under the agreements concerning the contingent consideration, the Group is obliged to pay an additional amount of up to CHF 7.5 million depending on the operating result achieved for the four financial years following the acquisition. At the time of acquisition, the fair value of this liability was estimated to be CHF 4.5 million. In 2017 and 2018, CHF 2.3 million has been paid out to date, of which CHF 0.8 million was recognized in profit or loss in 2018. As of 31 December 2018, the fair value (incl. compounding of liabilities) of the outstanding contingent consideration amounted to CHF 3.3 million.

Other acquisitions in the previous year Under the agreement concerning the contingent consideration, the Group is obliged to pay an additional amount of up to CHF 0.1 million depending on defined revenue targets. At the time of acquisition, the liability was recognized at the nominal value. This contingent liability will be satisfied in full in 2019.

Acquired assets and liabilities recognized at the time of acquisition

in CHF m	2018 Acquisitions	2017 Clearswift	2017 Other acquisitions
Current assets	1	17	12
Property, plant and equipment	0	1	0
Intangible assets	0	43	1
Deferred tax assets	—	2	0
Current and non-current liabilities	(1)	(62)	(13)
Deferred tax liabilities	(0)	(9)	(0)
Total acquired assets and liabilities	0	(8)	1

Calculation of fair value The valuation methods used to calculate the fair value of the material assets and liabilities 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 updated replacement values, taking into account the newly estimated useful life.

Deferred income Clearswift provides its products to customers for subscription fees that must be paid in advance. These advance payments are recorded as liabilities and the revenues are recognized over the term of the contract. The acquisition-date fair value is derived from the costs for the provision of the specific contractual liabilities as well as a standard market margin. The fair value calculated is significantly lower than the book value of the advance payments received.

Intangible assets and goodwill The publishing rights of the Visier Group were recognized at fair value. The acquisition did not give rise to any goodwill or badwill. In the previous year, the fair value of material intangible assets was calculated using the "Multi Period Excess Earnings" and "Relief from Royalty" methods, based on the available market data and management estimates. A positive goodwill amount of CHF 71.8 million arose from the acquisition of Clearswift. The other acquisitions gave rise to a goodwill amount of CHF 0.3 million and a badwill amount of CHF 0.1 million. Goodwill was offset against equity at the time of acquisition, while badwill is recognized as a loss on the income statement.

Net cash outflow
in CHF m

	2018	2017	2017
	Acquisitions	Clearswift	Other acquisitions
Cash consideration	2	59	1
Take-over of financial liabilities	—	39	6
Cash and cash equivalents acquired	(0)	(11)	(0)
Total net cash outflow	2	87	7

In 2017, the considerations paid in cash with regard to Clearswift included the first tranche of the contingent consideration, which amounted to CHF 0.6 million. In 2018, the considerations paid in cash include the purchase price of the outstanding shares of Visier Medien Holding AG (CHF 0.4 million), the second tranche of the contingent consideration relating to the acquisition of Clearswift (CHF 1.7 million) as well as an earn-out payment of CHF 0.2 million made in relation to the 2012 acquisition of RUAG Australia PTY Ltd.

The costs associated with the transactions during the reporting period are immaterial. In 2017, these costs amounted to approximately CHF 2.9 million, with the costs related to Clearswift accounting for CHF 2.8 million and other acquisitions CHF 0.1 million. In particular, these amounts include legal and consulting costs. The costs were recognized under "Other operating expenses, net", with the majority having already been incurred in the 2016 financial year.

Impact of the acquisitions on the Group result

The acquisition of Visier Medien Holding AG (incl. VS Medien GmbH) does not have a material effect on the consolidated revenues or the consolidated result.

In the previous year, the acquisition had a positive impact of around CHF 35 million on the Group's consolidated sales (of which around CHF 24 million came from Clearswift and around CHF 11 million from the other acquisitions). They had an overall negative impact of about CHF 1.3 million on the Group's consolidated result. Clearswift contributed a loss of approximately CHF 1.7 million, which was caused by the effects of the purchase price allocation (writedowns of the recognized intangible assets and the negative effect of deferred income). The other acquisitions made a positive contribution of approximately CHF 0.4 million to the Group's result. The 2017 results also include one-time integration and set-up costs.

Had the acquisitions taken effect as of 1 January 2017, they would have contributed approximately CHF 40 million to net sales. Of this, Clearswift would have accounted for around CHF 26 million, while CHF 14 million would have come from the other acquisitions. This would have resulted in a consolidated loss of around CHF 2 million for the financial year as a whole. Clearswift would have made a loss of around CHF 2.5 million, while the other acquisitions would have turned a profit of approximately CHF 0.4 million.

Disposals of subsidiaries and business areas

No entities or business areas were disposed of during the reporting period.

5 Segment information
in CHF m

	2018 Space	2017 Space	2018 Aerostructures[1]	2017 Aerostructures	2018 Aviation	2017 Aviation
Order intake – third parties	409	349	293	285	634	479
Order intake – other segments	32	18	24	25	181	142
Total order intake	440	367	317	311	814	621
Order backlog – third parties	593	573	276	270	444	308
Order backlog – other segments	0	4	22	23	52	51
Total order backlog	594	577	297	293	496	359
Net sales with third parties	376	365	267	255	497	506
Net sales with other segments	1	0	1	2	10	9
Total net sales	377	365	268	256	507	515
Earnings before interest, taxes, depreciation and amortization (EBITDA)	52	46	(8)	11	41	46
Depreciation, amortization and impairment	(14)	(12)	(5)	(3)	(7)	(7)
Earnings before interest and taxes (EBIT)	38	34	(14)	8	34	39
Net financial result						
Share in income of associates						
Earnings before taxes						
Income taxes						
Net profit						
Net operating assets by region[4]	76	81	145	140	97	123
Net operating assets Switzerland	(7)	9	50	57	21	46
Net operating assets Rest of Europe	67	68	94	83	60	61
Net operating assets Rest of world	16	4	—	—	17	16
Property, plant and equipment and intangible assets (incl. investment properties)	71	72	39	38	62	59
Property, plant and equipment and intangible assets Switzerland (incl. investment properties)	28	36	24	26	25	25
Property, plant and equipment and intangible assets Rest of Europe	18	22	15	12	21	18
Property, plant and equipment and intangible assets Rest of world	25	13	—	—	16	16
Capital expenditures for property, plant and equipment and intangible assets (incl. investment properties)	(15)	(29)	(8)	(14)	(12)	(11)
Disposal of property, plant and equipment and intangible assets (incl. investment properties)	0	0	1	0	0	0

[1] The profitability of the Aerostructures division was seriously impacted by a number of factors in the reporting period. The reasons for this included extremely low productivity levels at the Oberpfaffenhofen site and the resulting subsequent costs as well as a delay in the Hungary relocation project.

[2] The profitability of the Defence division was seriously impacted by a number of factors during the previous year. Delays to projects gave rise to various revaluations and, in some cases, resulted in penalties having to be paid. One-off corrections to the valuation of inventories and other assets also had a negative effect on the results.

[3] "Other segments" primarily comprises central services such as real estate management and IT, RUAG's corporate units and also – since 1 January 2018 – the Cyber Security business unit (in 2017, this business unit was still part of the Defence division). To allow the segments to be compared, the prior-year figures for "Defence" and "Other segments" were adjusted.

[4] Net assets comprise trade receivables, prepayments to suppliers, other current receivables, tax assets, prepaid expenses and accrued income, inventories and work in progress, property, plant and equipment, investment property and intangible assets less trade accounts payable, prepayments from customers, other current liabilities, tax liabilities, deferred income and accrued expenses as well as current and non-current provisions.

	2018 Ammotec	2017 Ammotec	2018 Defence	2017 Defence[2,3]	2018 Other segments	2017 Other segments[3]	2018 Total Segments	2017 Total Segments	2018 Eliminations	2017 Eliminations	2018 Group total	2017 Group total
	469	422	337	356	80	69	2 221	1 961	—	—	2 221	1 961
	146	143	25	40	73	72	480	439	(480)	(439)	—	—
	615	565	362	396	153	141	2 701	2 400	(480)	(439)	2 221	1 961
	208	148	273	303	—	5	1 794	1 607	—	—	1 794	1 607
	20	39	12	30	—	0	107	147	(107)	(147)	—	—
	228	186	286	333	—	5	1 901	1 754	(107)	(147)	1 794	1 607
	420	397	357	353	81	79	1 998	1 955	—	—	1 998	1 955
	0	0	4	5	136	134	153	150	(153)	(150)	—	—
	421	397	361	358	218	213	2 151	2 105	(153)	(150)	1 998	1 955
	38	43	28	14	36	35	186	196	—	—	186	196
	(18)	(15)	(6)	(6)	(30)	(34)	(80)	(77)	—	—	(80)	(77)
	20	28	21	8	6	1	106	119	—	—	106	119
											(6)	(8)
					4	3	4	3			4	3
											104	114
											(31)	(25)
											74	89
	296	304	65	65	274	282	953	995	0	(0)	953	995
	43	42	45	37	248	256	400	448	(2)	2	398	450
	233	239	20	25	26	30	499	506	2	(2)	501	504
	21	22	(0)	3	(0)	(4)	54	41	0	0	54	42
	143	129	22	25	311	327	649	650	—	—	649	650
	35	31	13	14	275	284	400	416	—	—	400	416
	106	95	9	12	37	43	206	202	—	—	206	202
	2	2	0	0	—	0	43	31	—	—	43	31
	(37)	(29)	(4)	(9)	(18)	(22)	(95)	(113)	—	—	(95)	(113)
	0	0	0	0	12	13	14	13	—	—	14	13

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

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

6 Net sales

in CHF m	2018	2017
Invoiced sales	2 003	1 920
Change in contracts under the percentage of completion (PoC) method	(5)	35
Total net sales	1 998	1 955

DDPS	611	590
Third parties	1 392	1 330
Invoiced sales by customer group	2 003	1 920

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	878	846
Civil	1 125	1 075
Invoiced sales by type of use	2 003	1 920

Switzerland	749	722
Rest of Europe	1 004	907
Middle East	14	23
North America	166	187
South America	3	9
Asia/Pacific	63	62
Africa	5	11
Invoiced sales by region	2 003	1 920

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

7 Personnel expenses

in CHF m	2018	2017
Salaries and wages	(703)	(681)
Expense of benefit plans	(52)	(51)
Other social security expenses	(94)	(89)
Contract personnel	(62)	(57)
Other personnel expenses	(32)	(36)
Total personnel expenses	(942)	(914)

The increase in personnel expenses is attributable to the year-on-year rise in the average headcount. The higher headcount is due on the one hand to the expansion of the locations in Hungary (Eger, Aerostructures division) and the USA (Decatur, Space division). The higher personnel expenses were also due to the Aerostructures division’s stepped-up rate of deliveries to Airbus together with a fall-off in productivity as a result of staffing increases at the Oberpfaffenhofen site. In addition, personnel expenses were increased by pay rises plus a higher proportion of middle management staff.

8 Other operating expenses, net

in CHF m	2018	2017
Premises costs	(24)	(27)
Maintenance and repairs of property, plant and equipment	(55)	(55)
Cost of energy and waste disposal	(13)	(13)
Insurance and duties	(8)	(7)
Administration and IT costs	(66)	(60)
Advertising costs	(26)	(31)
Other operating expenses	(58)	(41)
Other operating income	30	41
Total other operating expenses, net	(219)	(193)

The increase in "Other operating expenses, net" from the previous year is primarily due to the higher "Administration and IT costs" as well as "Other operating expenses".

"Other operating expenses" rose as a result of various adjustments and revaluations of provisions (guarantee provisions, follow-up costs as well as minor restructuring provisions, etc.). Furthermore, various projects related to the strategic reorientation of the RUAG Group (unbundling and further development of RUAG International) resulted in costs just under CHF 5 million. The position "Other operating expenses" also includes price losses amounting to a net CHF 11 million (net price gains in 2017 of CHF 9 million, recognized in the position "Other operating income". The price gains/losses primarily relate to the accumulated effect of forward foreign exchange transactions, which are used to hedge transactions connected with operational business activities (hedging of future revenues or purchases of goods and services in the corresponding currencies).

The sales of property during the reporting period (included in "Other operating income") had a positive impact on the result (CHF 8 million, as in prior year).

9 Research and development expenses

in CHF m	2018	2017
Total research and development expenses	179	181
of which third party-financed research and development	133	127
of which self-financed research and development costs	46	53

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.

10 Financial income/financial expenses

in CHF m	2018	2017
Interest income	3	2
Total financial income	3	2
Interest expense	(9)	(10)
Total financial expenses	(9)	(10)

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 2018, such interest expenses amounted to CHF 2 million (previous year: CHF 5 million).

11 Income taxes

in CHF m	2018	2017
Current income tax expense of the reporting period	(31)	(25)
Adjustments to current income taxes from prior periods	(0)	(2)
Current income tax expense	(31)	(27)
Origination (reversal) of temporary differences	(2)	1
Effect of tax rate changes	0	(0)
Recognition of unrecognized tax losses	2	4
Use of recognized tax loss carryforwards	(0)	(2)
Deferred tax income	1	2
Income tax expense in profit or loss	(31)	(25)

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

in CHF m	2018 Before tax	2018 Tax (expense)/ income	2018 Net (after tax)	2017 Before tax	2017 Tax (expense)/ income	2017 Net (after tax)
Change in fair value of cash flow hedges	(7)	3	(4)	8	(3)	5
Gains and losses from cash flow hedges transferred to profit or loss	6	(1)	4	(2)	1	(1)
Foreign currency translation adjustments of foreign subsidiaries	(18)	0	(18)	29	—	29
Changes in equity	(20)	2	(18)	34	(2)	32

Analysis of income tax expense

The following table shows the reconciliation of expected 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 22.9 % (previous year: 19.3 %).

in CHF m	2018	2017
Earnings before taxes	104	114
Expected weighted tax rate in %	22.9 %	19.3 %
Expected income tax expense	(24)	(22)
Reconciliation of effective income tax expense		
Effect of (valuation allowances)/recognizing of tax loss carryforwards from prior years	0	0
Effect of using unrecognized tax loss carryforwards from prior years	0	0
Effect of current losses for which tax loss carryforwards are not recognized	(13)	(1)
Effect of non-deductible expenses	(1)	(1)
Effect of tax-free income	6	3
Effect of income taxed at lower rates	0	—
Effect of tax rate changes	0	(0)
Effect of tax credits (losses) from prior periods	(0)	(2)
Other effects (including effect of share in profit or loss of associates)	0	(3)
Effective income tax expense	(31)	(25)
Effective income tax rate	29.3 %	21.8 %

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	2018 Deferred tax assets	2018 Deferred tax liabilities	2017 Deferred tax assets	2017 Deferred tax liabilities
Assets				
Receivables and prepayments	0	2	0	2
Inventories and work in progress	5	14	4	13
Property, plant and equipment and investment property	2	17	2	16
Intangible assets	0	8	0	11
Tax loss carryforwards	9	—	7	—
Employee benefit assets	—	—	—	—
Other asset items	6	5	3	3
Liabilities				
Deferred income and accrued expenses	5	—	4	1
Current and non-current provisions	2	10	2	9
Employee benefit obligations	7	—	8	—
Other liability items	4	12	2	8
Deferred taxes before offsetting	41	69	33	64
Offsetting of deferred tax assets and liabilities	(21)	(21)	(16)	(16)
Total deferred taxes	20	48	17	47

Deferred tax assets and liabilities changed as follows:

in CHF m	2018	2017
Total deferred taxes at 1 January	(30)	(23)
Changes recognized in profit or loss	1	2
Changes in equity with no impact on profit or loss	2	(2)
Changes in the scope of consolidation	(0)	(7)
Foreign currency translation adjustments	0	(0)
Total deferred taxes at 31 December	(28)	(30)
of which deferred tax assets	20	17
of which deferred tax liabilities	(48)	(47)

Deferred taxes are calculated on the basis of the expected country-specific tax rates applicable at the individual companies for the relevant expected country-specific tax assets and liabilities. The tax rates used to calculate the deferred tax items do not differ materially from the respective income tax rates.

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	2018	2017
Expiring within 1 year	—	—
Expiring in 1 to 2 years	—	—
Expiring in 2 to 3 years	—	1
Expiring in 3 to 4 years	1	0
Expiring in 4 to 5 years	5	2
Expiring in 5 to 6 years	—	0
Expiring in 6 to 7 years	1	1
Expiring in more than 7 years	110	60
Total tax loss carryforwards	117	64

Potential tax effect of tax loss carryforwards	28	14
of which recognized as deferred tax assets	9	7
of which not recognized	20	7

12 Cash and cash equivalents

in CHF m	2018	2017
Cash on hand	1	0
Demand deposits with financial institutions	208	200
Money market investments	0	0
Total cash and cash equivalents	209	201

Currencies of cash and cash equivalents

in CHF m	2018	2017
CHF	99	105
EUR	47	42
USD	34	20
SEK	17	10
GBP	8	14
Other	5	11
Total cash and cash equivalents	209	201

13 Financial assets

Current financial assets

in CHF m	2018	2017
Derivative financial instruments	2	6
Other current financial assets	3	1
Total current financial assets	5	7

Current financial assets primarily contain the positive replacement values of the open foreign currency hedging transactions (see also the information on financial instruments in Note 35, "Risk management process, financial risk management and capital management").

As of 31 December 2018, there were also loans to third parties totalling approximately CHF 3 million (2017: CHF 1 million), which were provided as collateral for bank guarantees granted at a bank.

Non-current financial assets

in CHF m	2018	2017
Money market investments	0	0
Other receivables from third parties	2	2
Valuation allowances	—	(0)
Total non-current financial assets	2	3

Currencies of current and non-current financial assets

in CHF m	2018	2017
CHF	1	1
EUR	1	3
USD	4	4
SEK	1	1
GBP	0	—
Other	0	0
Total financial assets	7	9

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	2018	2017
Trade receivables	284	271
Trade receivables and receivables from associates	—	0
Valuation allowances	(6)	(8)
Total trade receivables	278	263
Prepayments to suppliers	11	17
Prepayments to associates	0	0
Total prepayments to suppliers	11	17
Current receivables from government bodies	15	10
Other current receivables	13	11
Total other current receivables	29	21
Total trade receivables, other current receivables and prepayments	317	301

Maturity profile of trade receivables, other current receivables and prepayments

in CHF m	2018	2017
Not past due	224	217
Past due 1–30 days	43	38
Past due 31–60 days	9	14
Past due 61–90 days	9	4
Past due 91–180 days	9	8
Past due over 180 days	23	21
Total trade receivables, other current receivables and prepayments	317	301

Currencies of trade receivables, other current receivables and prepayments

in CHF m	2018	2017
CHF	84	60
EUR	140	129
USD	76	93
SEK	5	7
GBP	8	7
Other	5	5
Total trade receivables, other current receivables and prepayments	317	301

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	2018	2017
Balance at 1 January	(8)	(8)
Increase in allowance	(2)	(2)
Utilization of allowance	1	1
Reversal of allowance	3	0
Currency differences	0	(0)
Carrying amount at 31 December	(6)	(8)

Allowances for doubtful receivables are recorded 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	2018	2017
Raw materials and supplies	349	360
Work in progress at cost of conversion	158	142
Work in progress (percentage of completion)[1]	125	135
Semi-finished goods	104	104
Finished goods	87	95
Valuation allowances	(113)	(120)
Total inventories and work in progress	710	717

[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 485 million (previous year: CHF 501 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 8 million (previous year: CHF 5 million) were written down to net realizable value, which had an impact on profit and loss.

RUAG has a stockpile for several years of operating materials and consumables for various aviation systems of the Swiss Armed Forces. This stockpile is held expressly in accordance with the requirements of the DDPS. If individual systems are decommissioned and this results in the need for a valuation adjustment, RUAG can claim the residual value from the DDPS. As a result, operating materials and consumables whose values were previously adjusted using a normal days-of-inventory analysis had their values increased by CHF 8 million during the reporting period. In the previous year, there were no significant reversals of inventory write-downs effected in prior periods.

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

16 Percentage of Completion (PoC)

Long-term construction and service contracts

in CHF m	2018	2017
Contract sales and costs of ongoing projects at the end of the reporting period		
Aggregated contract sales at the end of the reporting period	1 605	2 108
Aggregated contract costs at the end of the reporting period	(1 229)	(1 510)
Realized margin at the end of the reporting period	376	598
Cumulative balance of ongoing projects at the end of the reporting period		
Gross amount due from customers for contract work	125	135
Gross amount due to customers for contract work	(100)	(100)
Net position	25	35
Advances received from customers relating to PoC contracts	25	33

The above table shows the aggregated sales and costs – on a cumulative basis across several periods – for the long-term construction and service contracts not yet concluded at the end of the reporting period. Projects concluded as at the end of the reporting period are not included here. The “Gross amount due from customers for contract work” relates to long-term construction and service contracts for which the realizable order sales exceed the sales already invoiced. Long-term construction and service contracts for which the sales already invoiced exceed the realizable order sales are recognized under “Gross amount due to customers for contract work” (see Note 25 “Deferred income and accrued expenses”).

As at the balance sheet date, RUAG had received advances for ongoing contract work that had not yet been invoiced totalling CHF 25 million (2017: CHF 33 million). These advances are recognized under "Advances received from customers".

17 Property, plant and equipment

in CHF m	Plant and equipment	Other[1]	Land[2]	Buildings	Assets under construction	Property, plant and equipment
At cost						
As at 1 January 2017	509	245	75	479	60	1 369
Business combination	1	4	—	—	—	5
Additions	22	26	1	6	50	105
Disposals	(12)	(14)	(1)	(3)	(2)	(33)
Reclassifications	14	(10)	0	11	(35)	(21)[3]
Foreign currency translation adjustments	14	7	0	2	2	25
As at 31 December 2017	547	258	75	495	74	1 450
Accumulated depreciation and impairment losses						
As at 1 January 2017	376	171	0	358	—	905
Business combination	1	3	—	—	—	4
Depreciation	22	22	0	16	0	60
Impairment	—	0	—	—	—	0
Disposals	(12)	(15)	—	(3)	—	(30)
Reclassifications	(1)	(1)	—	1	—	(2)[3]
Foreign currency translation adjustments	9	5	0	1	0	15
As at 31 December 2017	394	185	0	373	0	953
At cost						
As at 1 January 2018	547	258	75	495	74	1 450
Business combination	0	0	—	—	—	0
Additions	35	17	—	2	37	91
Disposals	(9)	(11)	(1)	(1)	(0)	(23)
Reclassifications	31	8	(3)	0	(50)	(13)[4]
Foreign currency translation adjustments	(11)	(4)	(0)	(2)	(1)	(18)
As at 31 December 2018	593	268	71	495	59	1 486
Accumulated depreciation and impairment losses						
As at 1 January 2018	394	185	0	373	0	953
Business combination	—	—	—	—	—	—
Depreciation	26	22	0	11	0	60
Impairment	0	0	—	—	0	1
Disposals	(9)	(10)	—	(1)	(0)	(19)
Reclassifications	1	(1)	—	(10)	—	(10)[4]
Foreign currency translation adjustments	(7)	(3)	(0)	(1)	(0)	(10)
As at 31 December 2018	406	195	0	372	0	974
Net carrying amount						
As at 1 January 2017	132	74	75	122	60	464
As at 31 December 2017	153	73	75	123	74	497
As at 31 December 2018	187	73	71	123	59	512

[1] Fixtures and fittings, information technology, motor vehicles and aircraft.
[2] As at 31 December 2018, the book value of undeveloped land amounted to CHF 4.4 million (2017: CHF 4.0 million).
[3] Aircraft that were previously leased but are now for sale were moved to inventories during the previous year.
[4] During the reporting period, the Brunnen site was leased to third parties; as a result, the book value of the site has been transferred from "Buildings" to "Investment properties" (see Note 18 "Investment properties").

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	2018	2017
At cost	4	5
Accumulated depreciation and impairment losses	(4)	(4)
Carrying amount at 31 December	0	0

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

in CHF m	2018	2017
Plant and equipment	0	0
Other	0	0
Carrying amount at 31 December	0	0

18 Investment properties

in CHF m	2018	2017
At cost		
As at 1 January	351	353
Business combination	—	—
Eliminations from the scope of consolidation	—	—
Additions	2	3
Disposals	(10)	(6)
Reclassifications	13[1]	(0)
Foreign currency translation adjustments	—	—
As at 31 December	355	351
Accumulated depreciation and impairment losses		
As at 1 January	266	264
Business combination	—	—
Eliminations from the scope of consolidation	—	—
Depreciation	7	6
Disposals	(9)	(4)
Depreciation of net carrying amount	—	—
Reclassifications	10[1]	—
Foreign currency translation adjustments	—	—
As at 31 December	275	266
Net carrying amount		
As at 1 January	84	88
As at 31 December	80	84

[1] During the reporting period, the Brunnen site was leased to third parties; as a result, the book value of the site has been transferred from “Property, plant and equipment” to “Investment properties” (see Note 17 “Property, plant and equipment”).

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	2018	2017
Fair value (DCF calculation)	263	244
Rental income from investment property	21	21
Real estate expenses	9	8
of which on let property	6	7
of which on vacant property	1	1
Agreed capital commitments and commitments in respect of maintenance work	0	1
Future minimum rental income from ongoing rental contracts	93	86

Majority leased sites to third parties are classified as investment properties. The Unterseen site was sold during the reporting period. The Brunnen site was leased to third parties and has been recognized as an investment property in the reporting period. There are still six sites in Switzerland (Bern, Altdorf, Zwieselberg [Thun-Boden], Aigle, Brunnen and Wimmis).

During the reporting period, the planned repair measures were adapted in line with current circumstances. The increase in the fair value compared to the previous year is due to this reassessment in particular. The increase in minimum future rental income is a result of the Unterseen site, which was almost entirely vacant until it was sold, and the reclassification of the leased Brunnen site.

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 and developments	Trademarks and prototypes	Licences and rights	Order backlog and customer relationships	ERP systems	Intangible assets in progress	Intangible assets
At cost							
As at 1 January 2017	2	9	31	142	—	—	185
Business combination	22	2	1	21	—	—	46
Additions	—	—	0	—	2	3	5
Disposals	—	—	(1)	—	—	—	(1)
Reclassifications	—	—	—	—	1	1	2
Foreign currency translation adjustments	1	1	2	3	0	0	7
As at 31 December 2017	25	12	33	167	3	4	244
Accumulated amortization and impairment losses							
As at 1 January 2017	2	9	18	131	—	—	160
Business combination	—	—	0	—	—	—	0
Amortization	1	1	1	7	0	—	10
Impairment	—	—	1	—	—	—	1
Disposals	—	—	(1)	—	—	—	(1)
Reclassifications	—	—	—	—	—	—	—
Foreign currency translation adjustments	0	1	1	2	0	—	4
As at 31 December 2017	4	11	21	140	0	—	175
At cost							
As at 1 January 2018	25	12	33	167	3	4	244
Business combination	—	—	0	—	0	—	0
Additions	—	—	1	—	1	0	2
Disposals	—	—	(4)	—	—	—	(4)
Reclassifications	—	—	0	—	3	(3)	0
Foreign currency translation adjustments	(1)	(1)	(1)	(3)	(0)	(0)	(6)
As at 31 December 2018	24	12	30	164	6	0	236
Accumulated amortization and impairment losses							
As at 1 January 2018	4	11	21	140	0	—	175
Business combination	—	—	—	—	—	—	—
Amortization	2	1	1	7	1	—	11
Impairment	—	—	0	—	0	—	1
Disposals	—	—	(4)	—	—	—	(4)
Reclassifications	—	—	0	—	—	—	0
Foreign currency translation adjustments	(0)	(0)	(0)	(2)	(0)	—	(3)
As at 31 December 2018	5	11	18	144	2	—	180
Net carrying amounts							
As at 1 January 2017	0	—	13	11	—	—	24
As at 31 December 2017	22	2	13	27	2	4	69
As at 31 December 2018	19	1	12	19	4	0	56

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[1]	Other segments[1]	Total
At cost							
As at 1 January 2017	61	—	0	12	8	—	80
Business combination	—	—	—	0	—	72	72
Adjustments	—	—	—	—	—	—	—
Foreign currency translation adjustments	1	—	(0)	1	0	5	7
As at 31 December 2017	62	—	0	13	8	77	159
Accumulated amortization							
As at 1 January 2017	60	—	0	12	6	—	78
Theoretical ordinary amortization	0	—	—	0	1	14	15
Foreign currency translation adjustments	1	—	(0)	1	0	1	2
As at 31 December 2017	61	—	0	13	7	14	95
At cost							
As at 1 January 2018	62	—	0	13	8	77	159
Business combination	—	—	—	—	—	—	—
Adjustments	—	—	—	—	—	—	—
Foreign currency translation adjustments	(1)	—	0	(0)	(0)	(4)	(5)
As at 31 December 2018	61	—	0	12	8	73	154
Accumulated amortization							
As at 1 January 2018	61	—	0	13	7	14	95
Theoretical ordinary amortization	0	—	—	0	1	15	16
Foreign currency translation adjustments	(1)	—	0	(0)	(0)	(1)	(2)
As at 31 December 2018	60	—	0	12	8	28	108
Theoretical net book value							
As at 1 January 2017	1	—	—	—	1	—	2
As at 31 December 2017	1	—	—	0	1	63	64
As at 31 December 2018	1	—	—	0	—	45	46

[1] As of 1 January 2018 the Cyber Security business unit has appeared in the "Other segments" segment (in 2017, this business unit was still part of the Defence division). To allow the segments to be compared, the prior-year figures for "Defence" and "Other segments" were adjusted.

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	2018	2017
Earnings before interest and taxes (EBIT)	106	119
Theoretical amortization of goodwill	(16)	(15)
Theoretical EBIT incl. amortization of goodwill	90	104
Net profit	74	89
Theoretical amortization of goodwill	(16)	(15)
Theoretical net profit incl. amortization of goodwill	57	75

Impact on consolidated balance sheet

in CHF m	2018	2017
Equity according to the balance sheet	1 024	1 011
Theoretical capitalization of net book value of goodwill	46	64
Theoretical equity incl. net book value of goodwill	1 070	1 076

20 Associates

in CHF m	2018	2017
Carrying amount of interests in associates as at 1 January	40	39
Acquisitions	—	—
Business combination	—	—
Share in profit/loss of associates from discontinued operations	—	—
Share in profit/loss of associates from continued operations	4	3
Dividends	(2)	(3)
Reclassifications	—	—
Foreign currency translation adjustments	(1)	1
Carrying amount of interests in associates as at 31 December	41	40

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	2018	2017
Share in result of associates from continued operations	4	3

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

Aggregate financial information for associates

in CHF m	2018	2017
Total assets	203	195
Total liabilities	126	112
Net assets	77	83
Net sales	168	138
Profit from continued operations	6	5

There are no contingent liabilities for RUAG relating to associates.

21 Financial liabilities

Current financial liabilities

in CHF m	Note	2018	2017
Due to financial institutions		31	50
Financial liabilities to third parties[1]		8	6
Liabilities to associates		—	—
Financial liabilities to employee benefit funds		—	—
Lease liabilities	31	0	0
Current portion of non-current financial liabilities		—	—
Total current financial liabilities		38	56

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

Non-current financial liabilities

in CHF m	Note	2018	2017
Due to financial institutions		47	75
Financial liabilities towards third parties		1	1
Lease liabilities	31	0	0
Loans secured by property		—	—
Bond issues		—	—
Liabilities to associates		—	—
Total non-current financial liabilities		48	76

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 0.9 % (previous year: 0.6 %).

Maturity structure of current and non-current financial liabilities

in CHF m	2018	2017
Up to 1 year	38	56
Up to 2 years	30	30
Up to 3 years	17	30
Up to 4 years	1	15
Over 4 years	—	1
Total financial liabilities	86	133

The current and non-current financial liabilities due to financial institutions contain a covenant in relation to the debt factor, expressed as a ratio of the net financial liabilities as of the reporting date (comprising all interest-bearing financial liabilities less cash and cash equivalents) to EBITDA (on a rolling basis for the previous 12 months). In addition, there are a few negative and positive covenants in line with standard market practice.

If these covenants cannot be met, the financial institution would have the right to terminate the loan at short notice. Both during the reporting period and as of 31 December 2018, all covenants were met.

Currencies of financial liabilities

in CHF m	2018	2017
CHF	50	53
EUR	4	35
USD	4	0
SEK	0	0
GBP	27	43
Other	1	1
Total financial liabilities	86	133

22 Trade accounts payable and prepayments

in CHF m	2018	2017
Trade accounts payable	109	93
Trade accounts payable to associates	0	0
Total trade accounts payable	109	93
Prepayments from customers	251	213
Trade accounts payable to associates	—	—
Total prepayments from customers	251	213
Total trade accounts payable and prepayments	360	306

Currencies of trade accounts payable and prepayments

in CHF m	2018	2017
CHF	141	129
EUR	127	126
USD	81	37
SEK	6	10
GBP	2	1
Other	2	3
Total trade accounts payable and prepayments	360	306

23 Other current liabilities

in CHF m	2018	2017
Due to third parties	13	12
Due to associates	—	—
Due to government bodies	29	26
Due to shareholders	—	—
Due to employee benefit funds	—	2
Total current liabilities	42	40

24 Other non-current liabilities

in CHF m	2018	2017
Due to third parties	1	1
Due to associates	—	—
Due to shareholders	—	—
Due to employee benefit funds	—	—
Total other non-current liabilities	1	1

25 Deferred income and accrued expenses

in CHF m	2018	2017
Deferred income and accrued expenses for PoC orders	100	100
Income relating to future periods	31	32
Outstanding trade accounts payable	51	53
Personnel-related accrued expenses	21	21
Other deferred income and accrued expenses	18	14
Total deferred income and accrued expenses	221	220

26 Provisions
in CHF m

	Restructuring	Contract losses	Warranties	Holiday and overtime	Loyalty bonuses and anniversary benefits	Other	Total
Balance at 1 January 2017	11	13	12	36	19	25	116
Business combination	—	—	—	0	—	4	5
Eliminations from the scope of consolidation	—	—	—	—	—	—	—
Additions	1	11	3	21	1	8	45
Release of unused provisions	(4)	(4)	(3)	—	(3)	(2)	(16)
Use of provisions	(0)	(5)	(1)	(23)	(2)	(7)	(38)
Reclassifications	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	1	0	1	0	1	4
Balance at 31 December 2017	7	16	12	35	15	30	115
Current provisions	—	14	11	35	1	15	76
Non-current provisions	7	2	1	—	15	15	39
Balance at 1 January 2018	7	16	12	35	15	30	115
Business combination	—	—	—	—	—	0	0
Eliminations from the scope of consolidation	—	—	—	—	—	—	—
Additions	6	6	3	20	1	15	52
Release of unused provisions	(5)	(3)	(2)	(1)	(0)	(2)	(12)
Use of provisions	(2)	(3)	(1)	(23)	(2)	(7)	(37)
Reclassifications	—	—	—	—	—	—	—
Foreign currency translation adjustments	(0)	(0)	(0)	(1)	(0)	(1)	(3)
Balance at 31 December 2018	6	16	12	31	15	35	116
Current provisions	3	14	12	31	1	24	85
Non-current provisions	3	2	0	—	14	11	31

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

A restructuring provision of CHF 2 million was recognized in relation to the closure (communicated in spring 2018) of the Bern-Belp aircraft maintenance facility. Most of this was already used during the reporting period. In light of the decrease in ESA initiatives and the relatively limited business opportunities in Europe, the Space division restructured its “Electronics” area. Overall, a provision of approximately CHF 2 million was recognized for the expenses related to the job losses in Sweden and Finland.

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 additional releases totalling CHF 5 million. The provisions were recognized in relation to the gradual transfer of the production of payload fairings and other structures from Zurich-Seebach to Emmen and the USA (Decatur, Alabama) and the associated restructuring costs. The releases of unused provisions are primarily related to the fact that – due to the strategic acquisition of production spaces and manufacturing facilities in the Structures area – some of the originally planned measures are no longer required. The associated cash outflows related to the remaining provisions will take place as of 2019.

The warranty adjustments come within the scope of ordinary fluctuations in day-to-day business. The provisions for loyalty bonuses and anniversary benefits are stable. The increase in the discount rate to 1.0 % (2017: 0.7 %) for the calculation of provisions for employees in Switzerland resulted in a slightly lower value as at the balance sheet date.

The other provisions include an increase of CHF 5 million for the streamlining of the product portfolio of the divison RUAG Ammotec.

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.

As at 1 January 2019, a new employee benefit concept entered into force. The bonuses of members with management contracts are now insured in VORSORGE RUAG to the amount of the target bonus (upon 100 % target achievement). As a result, KADERVORSORGE RUAG is to be retroactively integrated into VORSORGE RUAG as at 1 January 2019.

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 accord- ance with FER 26	2018 Group's economic share	2017 Group's economic share	Foreign currency translation adjustments	Year-on-year changes/ expenses for reporting period	Contribu- tions accrued for the period	2018 Expense of benefit plans in personnel expenses	Year-on-year changes/ expenses for reporting period	2018 Expense of benefit plans in financial result	2017 Expense of benefit plans in personnel expenses	2017 Expense of benefit plans in financial result
Patronal financing foundation	0	—	—	—	—	—	—	—	—	—	—
Benefit plans without surplus/deficit	—	(2)	(2)	0	1	50	51	0	0	49	0
Benefit plans with surplus	—	—	—	—	—	—	—	—	—	—	—
Benefit plans with deficit	—	—	—	—	—	—	—	—	—	—	—
Benefit plans without plan assets	—	(68)	(69)	(4)	0	—	0	3	3	2	5
Total	0	(70)	(70)	(4)	1	50	52	2	2	51	5

The assets of the patronal financing foundation were transferred in full to VORSORGE RUAG during the reporting period to finance the pension obligations. The benefit plans without surplus/deficit include the VORSORGE RUAG defined benefit plan in Switzerland and the defined benefit basic pension scheme in Germany. The recognized economic liabilities for benefit plans without plan assets, i.e. unfunded plans, amount to CHF 68 million (previous year: CHF 69 million) and mainly relate to the pension plans in Germany and Sweden.

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

in CHF m	2018 Switzerland	2018 Abroad	2018 Total	2017 Switzerland	2017 Abroad	2017 Total
Contributions to benefit and contribution plans at expense of Group companies	39	12	50	39	10	48
Contributions to benefit and contribution plans from employer contribution reserves	—	—	—	—	—	—
Total contributions	39	12	50	39	10	48
+/– change in ECR from portfolio performance, impairment etc.	—	—	—	—	—	—
Contributions and change in employer contribution reserves	39	12	50	39	10	48
Decrease/Increase in economic liability of Group from benefit plans without surplus/deficit	—	1	1	—	1	1
Decrease/Increase in economic liability of Group (plans without plan assets)	—	0	0	—	2	2
Total change in economic impact from surpluses/deficits	—	1	1	—	3	3
Expense of benefit and contribution plans in personnel expenses for period	39	13	52	39	13	51
Decrease/Increase in economic liability of Group from benefit and contribution plans without surplus/deficit	—	0	0	—	0	0
Decrease/Increase in economic liability of Group (plans without plan assets)	—	3	3	—	5	5
Total change in economic impact from surpluses/deficits	—	2	2	—	5	5
Expense of benefit and contribution plans in financial result for period	—	2	2	—	5	5
Total expense of benefit and contribution plans for period	39	15	54	39	17	56

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 56 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	2018	2017
Group guarantees	28	29
Total contingent liabilities towards third parties	28	29

Group guarantees are primarily performance and bid guarantees from operational business.

30 Additional contingent liabilities not stated on the balance sheet

in CHF m	2018	2017
Agreed contractual penalties (fines and premiums)	7	6
Legal proceedings	0	0
Bill commitments	—	—
Capital commitments for property, plant and equipment (incl. investment properties)	15	21
Other liabilities not stated on the balance sheet	2	2
Total contingent liabilities not stated on the balance sheet	24	29

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	2018	2017
Within 1 year	0	0
Later than 1 year, within 5 years	0	0
After 5 years	—	—
Total	0	0
Less future interest costs	(0)	(0)
Total lease liabilities recognized	0	0

Operating leases

in CHF m	2018	2017
Within 1 year	24	22
Later than 1 year, within 5 years	50	47
After 5 years	13	13
Total	87	83

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

32 Assets pledged as collateral

in CHF m	2018	2017
Cash and cash equivalents	0	—
Receivables and inventories	—	—
Plant and equipment	0	0
Property	3	3
Total assets pledged as collateral	3	3

33 Related party transactions

in CHF m	2018	2017
Receivables from related parties	47	30
Liabilities to related parties	(2)	(0)
Prepayments from related parties	(85)	(65)
Current liabilities to employee benefit funds	—	—
Non-current liabilities to employee benefit funds	—	—

In the year under review, CHF 47 million of receivables from related parties (previous year: CHF 30 million) and CHF 0.5 million of liabilities to related parties (previous year: CHF 0.0 million) were attributable to the DDPS. Invoiced sales to the DDPS totalled CHF 611 million (previous year: CHF 590 million) as stated in Note 6, "Net sales". In return, the DDPS supplied materials and services totalling CHF 4 million (previous year: CHF 6 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 5.0 million (previous year: CHF 3.0 million) purchased.

A media report alleged that some of the invoices which the Group had submitted to the DDPS were inflated. In the first half of 2019, RUAG will request the SFAO to undertake an additional audit in order to fully clarify this issue. RUAG fully supports the SFAO's work.

34 Compensation of key management personnel

in CHF thousands	2018	2017
Highest overall compensation in the Executive Board according to executive pay reporting (Arts. 3 and 5 of the Management Salaries Ordinance)[1]	777	795

The overall emoluments paid to non-executive members of the Board of Directors for the 2018 financial year amounted to CHF 741,000 (previous year: CHF 730,000). The overall emoluments paid to the CEO and the Management Board for the 2018 financial year amounted to CHF 5,930,000 (previous year: CHF 6,058,000).[2] The total remuneration for the CEO amounted to CHF 876,000 in the year under review (previous year: 892,000).[2]

Overview of compensation paid to members of the Board of Directors and the Group Executive Board:

	Total		Maximum overall compensation[3]	
in CHF thousands	2018	2017	2018	2017
Basic salary of Board of Directors				
Cash compensation	741	730	247	198
Total compensation paid to members of the Board of Directors[3]	741	730	247	198
Basic salary of Group Executive Board[4]				
Cash compensation	4 071	4 069	585	585
Benefits in kind	93	95	9	9
Employer contributions to pension funds	491	447	80	80
Performance-based component, Group Executive Board[4]				
Cash compensation[5]	1 151	1 334	183	201
Employer contributions to pension funds	124	113	19	17
Other long-term employee benefits	—	—	—	—
Total compensation paid to members of the Group Executive Board[4]	5 930	6 058	876	892
of which cash compensation	5 222	5 403	768	786
of which benefits in kind	93	95	9	9
of which employer contributions to pension funds	615	560	99	97
of which other long-term employee benefits	—	—	—	—
Relation between performance-related component and cash compensation	28 %	33 %	31 %	34 %
Total compensation paid to members of the Board of Directors and Group Executive Board[3, 4]	6 671	6 788		
of which short-term employee benefits[6]	6 056	6 228		
of which employer contributions to pension funds	615	560		
of which other long-term employee benefits	—	—		

[1] Other than disclosures under 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 largest total compensation figure within the Board of Directors in 2018 concerned the position of Chairman and included a temporary increase in working hours from 35 % to 50 % of a working week from 1 July 2018 to 31 December 2019.
[4] Changes within the Executive Board during the year under review resulted in temporary incumbent overlaps, which in turn gave rise to higher costs.
[5] Incl. LTI entitlements from the 2016–2018 LTI Plan (previous year: 2015–2017).
[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 at group level 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, Swedish krona and pound sterling. 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 2018

in CHF m	EUR	USD	SEK	GBP	Other
Cash and cash equivalents	47	34	17	8	5
Trade receivables/other receivables	134	71	5	8	5
Other financial assets	1	4	1	0	0
Financial liabilities	(4)	(4)	(0)	(27)	(1)
Trade accounts payable/other liabilities	(44)	(22)	(10)	(3)	(4)
Other financial liabilities	—	—	(1)	—	(0)
Total foreign currency positions as at balance-sheet date from financial assets and liabilities	135	83	12	(16)	6

as at 31 December 2017

in CHF m	EUR	USD	SEK	GBP	Other
Cash and cash equivalents	42	20	10	14	11
Trade receivables/other receivables	123	83	7	7	4
Other financial assets	3	4	1	—	0
Financial liabilities	(35)	(0)	(0)	(43)	(1)
Trade accounts payable/other liabilities	(48)	(15)	(13)	(3)	(5)
Other financial liabilities	—	—	(1)	—	—
Total foreign currency positions as at balance-sheet date from financial assets and liabilities	85	92	3	(25)	9

The following currency hedging transactions existed as at 31 December:

Volume of contracts

in CHF m	2018	2017
Currency hedging contracts banks	322	303
Currency hedging contracts banks	(95)	(95)

Carrying amount

in CHF m	2018	2017
Current financial assets	2	6
Current financial liabilities	(8)	(6)

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 2018

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	(7)	(1)	(0)	(0)	(8)
Inflows	2	0	0	0	2
	(5)	(1)	(0)	(0)	(6)

as at 31 December 2017

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	(5)	(1)	(0)	(0)	(6)
Inflows	6	0	0	0	6
	1	(1)	(0)	(0)	0

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	2018	2017
Other reserves	(4)	(2)

Due to the occurrence of the underlying transactions, CHF 6 million was booked out of other reserves under shareholders' equity in the reporting year and shown under other operating income (previous year: CHF 2 million in other operating income).

RUAG Holding Ltd provides certain foreign Group companies with loans in EUR and AUD. These loans are not hedged. As at 31 December 2018, there were loans totalling EUR 176 million (previous year: EUR 176 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 2018 (previous year: CHF 25 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 by the Swiss National Bank and the positive net financial position as at 31 December 2018, RUAG is also exposed to the risk of negative interest rates. Negative interest paid in the year under review, as in the prior year, was not material.

Interest-bearing financial liabilities

as at 31 December, in CHF m	2018	2017
Current financial liabilities	31	50
Non-current financial liabilities	48	76
Total interest-bearing financial liabilities	79	127
Of which variable interest-bearing	79	127
Fixed through interest rate swap	—	—
Variable interest-bearing, net	79	127

Interest expense for interest-bearing financial liabilities in the year under review amounted to CHF 2 million (previous year: CHF 1 million).

Commodity price risk In buying commodities (particularly copper, lead, steel, 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 minimize the price fluctuation risk of planned purchases.

The following hedging transactions existed as at 31 December:

Volume of contracts

in CHF m	2018	2017
Lead price hedging contracts banks	6	9

Replacement values

in CHF m	2018	2017
Positive replacement value banks	—	1
Negative replacement value banks	1	—

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

Consumption

in CHF m	2018	2017
Aluminium	2	2
Lead	15	15
Copper	15	17
Steel	4	3
Zinc	3	3
Other	0	0
Total	39	40

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 30 % (previous year: 31 %) 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 17 % (previous year: 12 %) of total trade and other receivables as at 31 December 2018. 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	2018	2017
Cash and cash equivalents	209	201
Current financial assets	5	7
Trade receivables		
Other current receivables	306	284
Non-current financial assets	2	3
Total credit risk	522	494

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 2018

in CHF m	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Over 4 years	Total
Cash and cash equivalents	209	—	—	—	—	209
Current financial assets[1]	3	—	—	—	—	3
Non-current financial assets	—	1	0	0	1	2
Current financial liabilities[1]	(31)	—	—	—	—	(31)
Non-current financial liabilities	—	(30)	(17)	(1)	—	(48)
Other non-current financial liabilities	—	(0)	(0)	(0)	(0)	(1)
Net financial position	181	(29)	(17)	(1)	0	134
Prepayments from customers						251
Net financial position excl. customer prepayments						(117)

As at 31 December 2017

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	201	—	—	—	—	201
Current financial assets[1]	1	—	—	—	—	1
Non-current financial assets	—	0	0	0	2	3
Current financial liabilities[1]	(50)	—	—	—	—	(50)
Non-current financial liabilities	—	(30)	(30)	(15)	(1)	(76)
Other non-current financial liabilities	—	(0)	(0)	(0)	(0)	(1)
Net financial position	152	(30)	(30)	(15)	0	77
Prepayments from customers						213
Net financial position excl. customer prepayments						(136)

[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 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

On 27 February 2019, the Board of Directors of RUAG Holding Ltd approved the consolidated financial statements for publication. As at this time, no significant 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 2018)

Company	Head office	Country	Equity capital (100 %)		Shareholding	Consolidation method
RUAG Holding Ltd[1]	Bern	Switzerland	CHF	340 000 000		Full
Consolidated companies						
RUAG Switzerland Ltd	Emmen	Switzerland	CHF	112 200 000	100.0 %	Full
RUAG Ammotec AG	Thun	Switzerland	CHF	12 000 000	100.0 %	Full
RUAG Real Estate Ltd	Bern	Switzerland	CHF	8 000 000	100.0 %	Full
RUAG Ammotec Switzerland Ltd	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
Visier Medien Holding AG	Zug	Switzerland	CHF	400 000	100.0 %	Full[4]
RUAG Slip Rings Ltd.	Nyon	Switzerland	CHF	100 000	100.0 %	Full[5]
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
RUAG Space Germany GmbH	Coswig	Germany	EUR	26 000	100.0 %	Full
GEKE Schutztechnik GmbH	Lichtenau	Germany	EUR	25 000	51.0 %	Full
RUAG Ammotec Deutschland GmbH	Fürth	Germany	EUR	100 000	100.0 %	Full
RUAG Ammotec GmbH	Fürth	Germany	EUR	25 000	100.0 %	Full
Clearswift GmbH	Cologne	Germany	EUR	25 000	100.0 %	Full
VS Medien GmbH	Bad Ems	Germany	EUR	25 000	100.0 %	Full[4]
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
Gyttorp AB	Karlskoga	Sweden	SEK	701 400	100.0 %	Full
Gyttorp Cartridge Company AB	Nora	Sweden	SEK	1 000 000	100.0 %	Full
RUAG Ammotec Sweden AB	Karlskoga	Sweden	SEK	300 000	100.0 %	Full
RUAG Australia PTY Ltd.	Bayswater	Australia	AUD	10 000	100.0 %	Full
Clearswift (Asia/Pacific) Pty Ltd	North Sydney	Australia	AUD	1 720 000	100.0 %	Full
RUAG Ammotec Benelux BVBA	Boechout	Belgium	EUR	25 000	100.0 %	Full
RUAG Ammotec UK Ltd.	Liskeard	UK	GBP	15 000	100.0 %	Full
Clearswift Holding Ltd	Reading	UK	GBP	1	100.0 %	Full
Clearswift Ltd	Reading	UK	GBP	15 114 616	100.0 %	Full
Clearswift Technologies Holdings Ltd	Reading	UK	GBP	52 148	100.0 %	Full
RUAG Space Finland Oy AB	Tampere	Finland	EUR	2 500	100.0 %	Full
RUAG Ammotec Finland OY	Malax	Finland	EUR	33 638	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 Ammotec Italia s.r.l.	Brescia	Italy	EUR	100 000	100.0 %	Full
Clearswift KK	Tokyo	Japan	JPY	20 000 000	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
Clearswift Espana SL	Madrid	Spain	EUR	3 100	100.0 %	Full
RUAG Hungarian Ammotec Inc.	Sirok	Hungary	HUF	280 000 000	100.0 %	Full
RUAG Aerostructures Hungary Zrt.	Eger	Hungary	HUF	600 000 000	100.0 %	Full

[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] In early 2018, RUAG Ammotec AG acquired the remaining 50.5 % of the outstanding shares of Visier Medien Holding AG, domiciled in Zug (Switzerland). In relation to this acquisition, the 100 % stake of Visier Medien Holding AG in VS Medien GmbH, domiciled in Bad Ems (Germany), was also transferred. Both companies were fully consolidated from 1 January 2018. In the previous year, these were valued at cost minus a valuation allowance.
[5] RUAG Slip Rings Ltd., a company domiciled in Nyon (Switzerland), was formed as of 17 May 2018.

Company	Head office	Country	Equity capital (100 %)		Shareholding	Consolidation method
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
RUAG Space USA Inc.	El Segundo, CA	USA	USD	25 000	100.0 %	Full
Clearswift Corporation	Mount Laurel, NJ	USA	USD	12 000 000	100.0 %	Full
RUAG Simulation Company LLC	Abu Dhabi	UAE	AED	150 000	49.0 %	Full
Stadeln Genehmigungshaltergesellschaft mbH	Fürth	Germany	EUR	25 000	78.6 %	[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]
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						
CFS Engineering SA	Ecublens	Switzerland	CHF	150 000	40.0 %	[3]
AIONAV Systems Ltd	Muri bei Bern	Switzerland	CHF	100 000	12.0 %	[3]
Switzerland Innovation Park Biel/Bienne Ltd	Biel/Bienne	Switzerland	CHF	1 540 000	6.50 %	[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]
Arianespace Participation	Evry	France	EUR	3 937 983	3.5 %	[3]
VDL-RUAG Shelters B.V.	Eindhoven	Netherlands	EUR	50 000	40.0 %	[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.
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[4] In early 2018, RUAG Ammotec AG acquired the remaining 50.5 % of the outstanding shares of Visier Medien Holding AG, domiciled in Zug (Switzerland). In relation to this acquisition, the 100 % stake of Visier Medien Holding AG in VS Medien GmbH, domiciled in Bad Ems (Germany), was also transferred. Both companies were fully consolidated from 1 January 2018. In the previous year, these were valued at cost minus a valuation allowance.
[5] RUAG Slip Rings Ltd., a company domiciled in Nyon (Switzerland), was formed as of 17 May 2018.

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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 42 to 84), for the year ended 31 December 2018.

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 2018 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

François Rouiller
Licensed Audit Expert
Auditor in Charge

Florin Janine Krapp
Licensed Audit Expert

Gümligen-Bern, 27 February 2019

Income statement for 1 January to 31 December

in CHF m	Note	2018	2017
Dividend income	2.5	28	75
Income from services		4	4
Total operating income		33	80
Personnel expenses		(0)	(0)
Other operating expenses	2.6	(12)	(9)
Total operating expenses		(12)	(9)
Operating profit/loss		21	70
Financial income			
Interest income		13	11
Currency gains		—	1
Financial expenses			
Interest expense		(2)	(1)
Currency losses		(2)	—
Pre-tax net profit		29	81
Income taxes		(0)	(1)
Net profit for the year		28	80

The notes to the financial statements on pages 89 to 91
form an integral part of the financial statements.

Balance sheet as at 31 December

in CHF m	Note	2018	2017
Cash and cash equivalents		130	123
Current financial assets			
Due to third parties		3	1
Due to companies in which the entity holds an investment		144	92
Other current receivables			
Due to third parties		1	0
Due to companies in which the entity holds an investment		29	18
Prepaid expenses and accrued income		1	2
Total current assets		308	236
in % of total assets		22%	18%
Financial assets			
Due to third parties		0	0
Due to companies in which the entity holds an investment		382	390
Investments	2.1	710	709
Intangible assets		0	0
Total non-current assets		1 092	1 100
in % of total assets		78%	82%
Total assets		1 400	1 335
Current interest-bearing liabilities			
Due to third parties		30	50
Due to companies in which the entity holds an investment		281	154
Other current interest-bearing liabilities			
Due to companies in which the entity holds an investment		13	13
Other current liabilities			
Due to third parties		0	1
Current provisions		3	1
Deferred income and accrued expenses			
Due to third parties		0	0
Due to companies in which the entity holds an investment		0	1
Total current liabilities		328	220
Non-current interest-bearing liabilities			
Due to third parties		47	75
Non-current provisions		—	3
Total non-current liabilities		47	79
Total liabilities		375	298
in % of total liabilities and equity		27%	22%
Share capital	2.3	340	340
Legal capital reserve			
Reserves from capital contributions	2.4	10	10
Legal retained earnings			
General legal retained earnings		51	47
Voluntary retained earnings			
Balance sheet profit			
Net profit brought forward		596	560
Net profit for the year		28	80
Total equity		1 025	1 037
in % of total liabilities and equity		73%	78%
Total liabilities and equity		1 400	1 335

The notes to the financial statements on pages 89 to 91
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 2018 in %	Share of capital and voting rights 2017 in %		Capital
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 Switzerland Ltd	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
Clearswift Holding Ltd	Reading	UK	100	100	GBP	1
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	100	HUF	600 000 000
RUAG Slip Rings Ltd.	Nyon	Switzerland	100	0	CHF	100 000
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

b) Material indirect investments

Company	Head office	Country	Share of capital and voting rights 2018 in %	Share of capital and voting rights 2017 in %		Capital
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
Clearswift Ltd	Reading	UK	100	100	GBP	15 114 616

2.2 Foreign currency forward transactions

in CHF m	2018	2017
Volume of foreign currency hedging contracts with banks	322	303
Volume of foreign currency hedging contracts with banks	(95)	(95)
Volume of foreign currency hedging contracts with Group companies	93	93
Volume of foreign currency hedging contracts with Group companies	(171)	(229)
Positive replacement value banks	2	6
Negative replacement value banks	(8)	(6)
Positive replacement value Group companies	7	6
Negative replacement value Group companies	(1)	(6)
Total replacement values	0	(0)

The contract volumes represent the volume of open foreign currency forward transactions as at year-end. The replacement values only contain the positive and negative replacement values from open foreign currency forward transactions as at 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 Real Estate Ltd and other investments. Dividend income in 2017 also included the dividends of RUAG Switzerland Ltd.

2.6 Other operating expenses

in CHF m	2018	2017
Advertising costs	(3)	(3)
Administration costs	(3)	(2)
Management fees (top management costs)	(6)	(4)
Total other operating expenses	(12)	(9)

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	2018	2017
Group guarantees	111	129
Total contingent liabilities	111	129

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 2017 with a maximum amount of AUD 16.0 million in favour of RUAG Australia PTY Ltd.

3.3 Events after the reporting period

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

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

in CHF m	2018	2017
Balance sheet profit at the start of the financial year	596	560
Net profit for the year	28	80
Balance sheet profit at the disposal of the Annual General Meeting	624	640

The Board of Directors proposes to the Annual General Meeting the following appropriation of available earnings:		
Dividends	30	40
Allocation to general legal retained earnings	2	4
Balance to be brought forward	593	596

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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 87 to 91), for the year ended 31 December 2018.

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 2018 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

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

Gümligen-Bern, 27 February 2019

RUAG follows clear rules

Management and control are based on the corporate governance guidelines of SIX Swiss Exchange.

Board of Directors

The duties of the Board of Directors of RUAG Holding Ltd are governed by the Swiss Code of Obligations, the owner's strategy of the Swiss Federal Council, the Articles of Association and the Regulations Governing Organization and Operations. The Board of Directors of RUAG Holding Ltd currently consists of six members, none of whom performed executive functions in the year under review or in the three preceding years. In addition, the members of the Board of Directors have no material business relationship with the Group. Hans-Peter Schwald resigned from the Board of Directors with effect from 26 April 2018. As of that date, Dr. Remo Lütolf was appointed as Chairman of the Board of Directors and Markus Hutter as Vice-Chairman. Dr. Marie-Pierre de Bailliencourt was appointed as a new member of the Board. Otherwise, no changes to the Board of Directors were made in the year under review.

Election and term of office

The Board of Directors of RUAG Holding Ltd and its chairman are elected by the Annual General Meeting (AGM). In accordance with the Articles of Association, the Board of Directors consists of at least three individuals. The majority of the Board's members must be Swiss nationals who are resident in Switzerland. They are elected annually and individually, and may be re-elected. RUAG does not specify an age limit for members of the Board of Directors, nor does it limit their term of office.

Dr. Remo Lütolf, Chairman

Paul Häring, Member

Markus Hutter, Vice-Chairman

Dr. Marie-Pierre de Bailliencourt, Member

Prof. Sibylle Minder Hochreutener, Member

Jürg Oleas, Member

The following section provides information on the composition of the Board of Directors as at 31 December 2018, the individual members' functions within RUAG, their nationality and the year in which they were first elected to the Board. Information is also provided on the year of birth, on other activities and interests, on significant mandates at major companies, organisations and foundations, on permanent functions in major interest groups, and on public offices and political mandates held as at 31 December 2018.

Dr. Remo Lütolf (b.1956, Swiss), Chairman of the Board of Directors since 26 April 2018, member since 2014
Committees: member of the Audit Committee, Nomination & Compensation Committee and Strategy Committee
Significant mandates: Chairman of the Board of Directors of ewl Energie Wasser Luzern Holding AG, Chairman of the Board of Directors of Erdgas Zentralschweiz AG, Chairman of the Board of Directors of Park innovAARE AG, Chairman of the Board of Directors of Venture Incubator AG, member of the Board of Directors of MTE Meter Test Equipment AG, member of the Board of Economiesuisse, member of the Executive Committee of Swissmem, member of the University Council, University of Applied Sciences and Arts Northwestern Switzerland

Markus Hutter (b.1957, Swiss), Vice-Chairman since 26 April 2018, member since 2014
Committees: Chairman of the Nomination & Compensation Committee
Significant mandates: Chairman of the Board of Directors of Hutter Dynamics AG, Chairman of the Board of Directors of ESA-Einkaufsorganisation des Schweizerischen Auto- und Motorfahrzeuggewerbes (Purchasing Cooperative of the Swiss Automotive Industry Association), member of the Board of Directors of AXA-ARAG Rechtsschutz AG, member of the Board of Directors of Identech AG, Chairman of the Patrons Committee of Technorama Winterthur

Paul Häring (b.1957, Swiss), member since 2004
Committees: Chairman of the Audit Committee
Significant mandates: member of the Board of Directors of Loeb Holding AG, member of the Board of Directors of EMCH Aufzüge AG, member of the Board of Directors of OBAN Beteiligungen AG, member of the Board of Directors of Lüthi & Portmann Fleischwaren AG, Chairman of the Board of Directors of Lüthi Immobilien AG, Chairman of the Board of Directors of hbi invest ag, member of the Board of Directors of BioFactory Competence Center AG, member of the Board of Directors of CertX AG, member of the Board of Directors of Hochalpines Institut Ftan AG, member of the Board of Directors of CHRIST & HEIRI Holding AG, member of the Board of Directors of Walter Marolf AG, member of the Board of Directors of JJA Holding Ltd, member of the Board of Directors of Kern Holding AG, member of the Advisory Board of Vantage Education Ltd., Partner at Partnerstiftung awr AG für Wirtschaft und Recht, Liquidator for awr Partnerstiftung, Liquidator for Meinen Personalfürsorgestiftung

Prof. Sibylle Minder Hochreutener (b.1973, Swiss), member since 2014
Committees: member of the Nomination & Compensation Committee
Significant mandates: Member of the President's Board and Head of the Department of Business Administration at the University of Applied Sciences St. Gallen FHS, lecturer in business administration at the University of St. Gallen (HSG), member of the Board of the Association of Management Schools Switzerland (FWD), member of the Fachkommission Berufsmaturität (expert committee for vocational school-leaving examinations), Canton of St. Gallen

Jürg Oleas (b.1957, Swiss), member since 2011
Committees: Chairman of the Strategy Committee, member of the Audit Committee
Significant mandates: CEO of GEA Group AG; member of the Board of Directors of LafargeHolcim AG

Dr. Marie-Pierre de Bailliencourt (b.1970, French), member since 2018
Committees: member of the Strategy Committee
Significant mandates: member of the Board of Directors of Groupe La Poste, France

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

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

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

Decisions are taken by the Board of Directors as a whole. To assist the Board in preparing and implementing its decisions, three committees have been formed: an Audit Committee, a Nomination & Compensation Committee, and a Strategy Committee. The Board of Directors has also formed an Advisory Board. Beside the usual six meetings, the Board of Directors met for a strategy meeting in summer 2018 and also held two extraordinary meetings. In addition, the members of the Board of Directors discussed matters by telephone as required. The agenda for meetings of the Board of Directors is set by the Chairman. Any member of the Board of Directors may request that an item be included on the agenda. The members are provided with documentation prior to each meeting to enable them to prepare for the items to be discussed.

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

Committees

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

Audit Committee

The Audit Committee is composed of three members of the Board of Directors. The members of the Audit Committee are experienced in financial and accounting matters. The Audit Committee meets regularly and is convened by the Chair as often as business requires. Usually the meetings are also attended by the CEO, CFO, Vice President of Internal Audit, General Counsel and representatives of the statutory auditor.

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

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

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

Nomination & Compensation Committee

The Nomination & Compensation Committee (NCC) is composed of three members of the Board of Directors. The NCC meets regularly and is convened by the Chair as often as business requires. The meetings are usually also attended by the CEO and the Chief Human Resource Officer.

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

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

Strategy Committee

The Strategy Committee comprises three members of the Board of Directors. The Strategy Committee has four scheduled meetings a year, which are coordinated with the strategic and budgetary planning process.

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

Advisory Board

The Advisory Board helps the Board of Directors and Group Executive Board to better deliberate on, prepare, implement and communicate their decisions. The Advisory Board has no executive or supervisory functions, and is not an official organ of the company. The Advisory Board held three meetings in 2018. At present the Board has two members: Prof. Thomas Friedli and Prof. Alexandre J. Vautravers.

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

Information and control instruments

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

Compliance organisation

RUAG is currently strengthening its compliance organisation with dedicated compliance resources for the divisions. At Group level, Compliance & Risk Management is responsible in particular for enshrining the internal RUAG rules throughout the Group by implementing directives and holding training sessions as well as for operating the whistleblower system. The commercial units are fully integrated in this structure through Communities of Interest for Trade Compliance and Commercial Compliance and through the Compliance Board.

The Vice President Compliance & Risk Management reports to the General Counsel, who is a member of the Group Executive Board. He also reports directly and regularly to the Audit Committee and the Board of Directors, and takes part twice a year in detailed talks with the Chairman of the Board of Directors. The shareholder is provided with summary information about compliance-related topics through quarterly reports and discussions as well as through the annual report.

Whistleblower system

RUAG has an independent reporting office, which offers employees and third parties a way to report any abuses occurring at RUAG – anonymously if desired. The reporting tool, run by an external Swiss company, is intended to function as an early warning system and to help prevent, detect and remedy any irregularities. Incoming reports are seen and processed only by designated Compliance & Risk Management specialists.

Code of Conduct for Business Partners

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

"Saying no to corruption" directive

By systematically implementing the "Saying no to corruption" directive, which forms part of every RUAG employment contract, RUAG is affirming its commitment to being a fair competitor and refraining from seeking unfair advantage by providing financial or other incentives to third parties. RUAG likewise does not accept financial or other incentives in expectation of or as a reward for granting an unfair advantage. See page 30.

Group Executive Board

The following section provides information on the name, year of birth, function and date of joining, as well as the external mandates, of each member of the Group Executive Board.

Urs Breitmeier (b.1963), head of the Group Executive Board, CEO of the RUAG Group, joined 2006
External mandates: member of the Board of Directors of Calotron AG, member of the Board of Trustees of SwissSkills, member of the Advisory Board of Bern University of Applied Sciences, Deputy Chairman of the Swiss Society of Defence Technology (STA)

Dr. Peter Guggenbach (b.1962), member of the Group Executive Board, CEO of the RUAG Space division, joined 2009
External mandates: member of the Board of Aerosuisse, member of the Federal Space Affairs Commission (FSAC), Deputy Chairman of ASD-Eurospace, permanent representative of Arianespace S.A, permanent representative of Arianespace Participation

Dirk Prehn (b.1968), member of the Group Executive Board, CEO of the RUAG Aerostructures division, joined 2018 (appointed as new member of the Group Executive Board on 26 June 2018 as successor to Dr. Alexander Toussaint).
External mandates: none

Philipp M. Berner (b.1966), member of the Group Executive Board, CEO of the RUAG Aviation division, joined 2010; left the Board effective 31 December 2018 (Senior Vice President Military Aviation as of 1 January 2019)
External mandates: member of the board of Swissmem's Swiss ASD specialist group, member of the board of Swiss American Chamber of Commerce (Subchapter)

Andreas Berger (b.1959), member of the Group Executive Board, CEO of the RUAG Defence division, joined 2017 (appointed as new member of the Group Executive Board instead of ad interim member as of 28 February 2018)
External mandates: member of the eGov Schweiz association board, member of the Management Board of ICT Switzerland, committee member of the ARCS Innovation Board

Christoph M. Eisenhardt (b.1968), member of the Group Executive Board, CEO of the RUAG Ammotec division, joined 2017
External mandates: none

Urs Kiener (b.1965), member of the Group Executive Board, CFO of the RUAG Group, joined 2002
External mandates. none

Dr. Christian Ferber (b.1965), member of the Group Executive Board, CHRO of the RUAG Group, joined 2012
External mandates: none

Dr. Judith Bischof (1974), member of the Group Executive Board, General Counsel of the RUAG Group, joined 2018 (appointed as new member of the Group Executive Board as of 22 January 2018 as successor to Dr. Patrick Grawehr and ad interim Alexander Harte)
External mandates: member of the Law Committee of Swissmem

Management organisation

The Board of Directors has appointed a Group Executive Board under the chairmanship of the CEO. Since 1 April 2013, CEO Urs Breitmeier has been responsible for the day-to-day business of the company. Throughout 2018, together with the Group Executive Board, he was responsible for the overall management of the Group and for all matters not delegated to another governing body of the company by law, the Articles of Association or the Regulations Governing Organization and Operations. The powers and duties of the Group Executive Board and CEO are set out in detail in the Organizational Regulations and in the job description of the CEO.

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

The Group Executive Board comprises the Chief Executive Officer (CEO), the division heads, the Chief Financial Officer (CFO), the Chief Human Resource Officer (CHRO) and the General Counsel.

CEO

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

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

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

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

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

Management contracts

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

RUAG management structure as at 31 December 2018

Board of Directors
Dr. Remo Lütolf (Chairman), Markus Hutter (Vice-Chairman), Paul Häring
Prof. Sibylle Minder Hochreutener, Jürg Oleas, Dr. Marie-Pierre de Bailliencourt

Advisory Board
Prof. Thomas Friedli
Prof. Alexandre J. Vautravers

Audit Committee	Nomination & Compensation Committee	Strategy Committee
Paul Häring (Chairman)	Markus Hutter (Chairman)	Jürg Oleas (Chairman)
Dr. Remo Lütolf	Dr. Remo Lütolf	Dr. Remo Lütolf
Jürg Oleas	Prof. Sibylle Minder Hochreutener	Dr. Marie-Pierre de Bailliencourt

Internal Audit

CEO RUAG Group/ Corporate Services[1] Urs Breitmeier	**Space**[2] Dr. Peter Guggenbach	**Aerostructures** Dirk Prehn	**Aviation** Philipp M. Berner[3]	**Ammotec**[4] Christoph Eisenhardt	**Defence** Andreas Berger
Corporate Finance & Controlling[5] Urs Kiener	Electronics	Aerostructures Germany	Military Aviation	Armed Forces & Law Enforcement	Land Systems
Corporate Human Resources Dr. Christian Ferber	Spacecraft	Aerostructures Switzerland	Aviation International	Hunting & Sports	Network Enabled Operations
Corporate Legal & Secretary General Dr. Judith Bischof	Launchers	Aerostructures Hungary	Subsystems & Products	Industry	Simulation & Training
			Business Aviation		

— Group Executive Board

[1] As of 1 January 2018, the Cyber Security business unit was assigned to CEO RUAG Group/Corporate Services.
[2] As of 1 January 2018, the management structure of the Space division was reorganised; it is now assigned to the product groups Electronics, Spacecraft and Launchers.
[3] Left the Board effective 31 December 2018 (Senior Vice President Military Aviation as of 1 January 2019)
[4] As of 1 January 2018, the management structure of the Ammotec division was reorganised; it is now assigned to the Armed Forces & Law Enforcement, Hunting & Sports and Industry business units.
[5] incl. Real Estate/Environment, Risk Management, Procurement

Compensation, profit-sharing and loans

Compensation report

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

Compensation policy

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

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

Compensation consists of the following:

- Fixed fee
- Other benefits

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

No compensation was paid to former Board members.

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

Group Executive Board
The composition and amount of compensation are based on the industry and labour market environment and are regularly reviewed. To this end, publicly available information on companies of a similar size from Swiss industry and, where applicable, the results of surveys and external studies are taken into account. Overall remuneration for the CEO and for members of the Group Executive Board is subject to an upper limit approved by the Annual General Meeting.

Compensation consists of the following:

- Fixed basic salary
- Performance-based component
- Employer contributions to pension funds
- Fringe benefits

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

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

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

The target figures are set for one year and the targets are weighted according to strategic priorities. A lower and an upper threshold are defined for each of the five value drivers. If the lower threshold is not reached for the criterion concerned, the related portion of the performance-based component is omitted. However, exceeding the upper threshold does not lead to a further increase in the amount of the performance-based component. Goal attainment is weighted for the members of the Group Executive Board as follows: 20 % for the personal goals and 80 % for the financial goals. In the case of the divisional CEOs, the financial goals are defined per division. In the case of the CEO and the heads of the service units, the financial goals of the Group apply.

Long Term Incentive Plan (LTI) This remuneration component was introduced in 2013 with the aim of focusing the efforts of RUAG’s top managers on the long-term success of the business (cf. also the Swiss Federal Council’s executive pay ordinance, or “Kaderlohnverordnung”). The LTI is for members of the Group Executive Board only. The target figure used for the LTI is the Group’s cumulative net profit over the next three years (plan period), defined with a minimum value, a target value and a maximum value. Payment is made in April of the year following the plan period. Payments are conditional upon an employment relationship existing between the plan participant and RUAG at the end of the plan period.

The Board of Directors specifies the performance benchmark target for a three-year period each year on adoption of the corporate plan. At the same time it also sets the minimum and maximum values and specifies the individual amount payable to each plan participant if the target figure is achieved. If the minimum value is not achieved, no payment will be made. If the maximum value is exceeded, the maximum amount paid will be 120 % of the specified amount. Payment will be made after the audited financial statements for the last financial year become available. A third of the LTI target value will be expensed each year depending on how the target value develops, with adjustments being made in the subsequent two years if necessary.

The total amount of the performance-based component is based on the extent to which the STI and LTI plan objectives are met. For the members of the Group Executive Board the performance-based component in 2018 ranged from 10 % (previous year: 24 %) to a maximum of 42 % (previous year: 46 %) of the annual cash remuneration.

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

Other compensation
Severance payments: No severance payments were made to departing members of the Board of Directors or of the Group Executive Board.

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

Additional fees: During the 2018 financial year, the members of the Group Executive Board or Board of Directors received no appreciable fees or other compensation for additional services rendered to RUAG Holding Ltd or any of its subsidiaries.

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

Capital structure
The share capital of RUAG Holding Ltd amounts to CHF 340 million, comprising 340,000 fully paid-up registered shares, each with a par value of CHF 1,000. As at 31 December 2018, RUAG Holding Ltd did not have any conditional or authorised capital, nor had it issued participation or dividend right certificates. The registered shares of RUAG Holding Ltd are not listed.

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

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

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

The Board of Directors keeps a register of shareholders.

Shareholder structure

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

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

The 2016–19 owner's strategy of the Swiss Federal Council entered into force on 1 January 2016. It establishes the transparent, binding framework which enables RUAG Holding Ltd and its subsidiaries to fulfil their duties on a commercial basis while taking account of broader interests. The owner's strategy is enshrined in the Articles of Association of RUAG Holding Ltd.

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

Participation rights of shareholders

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

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

- Amendment of the company's objects
- Introduction of shares with preferential voting rights
- Restriction on the transferability of registered shares
- Authorised or contingent capital increase
- Capital increase funded by equity capital, against contributions in kind or to fund acquisitions in kind and the granting of special privileges
- Restriction or cancellation of subscription rights
- Relocation of the company's registered office
- Dissolution of the company or liquidation

Convening the AGM

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

Change in control and defensive measures

Obligatory offer for sale

The Articles of Association contain no provisions concerning opting-out (Art. 125 paras. 3–4 of the Financial Market Infrastructure Act – FinMIA) or opting-up (Art. 135 para. 1 FinMIA).

Change of control clauses

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

Pension fund

The VORSORGE RUAG pension fund cover ratio as at 31 December 2018 was 101.1 % (previous year: 103.3 %). The fund's financial situation has thus remained stable despite low interest rates in the financial markets.

Audit fees and additional expenses

KPMG invoiced the Group CHF 1.2 million (previous year: CHF 1.1 million) during the 2018 financial year for services related to the audit of the financial statements of RUAG Holding Ltd and its subsidiaries and of RUAG's consolidated financial statements.

In addition, KPMG invoiced RUAG CHF 0.2 million (previous year: CHF 0.1 million) during the 2018 financial year for audit-related services, tax advice and due diligence services.

Supervisory and control instruments

The Audit Committee of the Board of Directors assesses the performance, fees and independence of the statutory auditor each year and submits a proposal to the Board of Directors as to which external auditor should be recommended to the AGM for appointment. On 26 April 2018, the AGM reappointed KPMG as the statutory auditor. The Audit Committee annually reviews the scope of external auditing, the auditing plans and the relevant processes, and discusses the audit results with the external auditor in each case.

Information policy

The Group pursues an open information policy in relation to the public and to the financial markets. The published figures extend beyond the statutory requirements in terms of transparency. Quarterly discussions are held between the shareholder and the Board of Directors.

Statutory auditor

Duration of mandate of auditor in charge

At the Annual General Meeting of 26 April 2018, KPMG Ltd, Bern was elected as RUAG's statutory auditor for a further year. François Rouiller took over from Herbert Bussmann as lead auditor following the AGM of April 2018 and is responsible for the audit mandate.

Fees paid to KPMG

in CHF 1 000	2018	2017
Audit fees	1 184	1 068
Tax advice	61	92
Due diligence services	—	—
All other services	119	16
Total fees	1 364	1 176

Key dates

End of financial year	31 December 2018
Annual press conference	28 March 2019
AGM	2 May 2019

The Annual Report containing the financial statements for the year ended 31 December 2018 is sent to the shareholder together with an invitation to the AGM.

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