

## RUAG Aerostructures

In 2019, sales experienced strong growth once again as a result of the Airbus single-aisle programme. In a bid to improve the unsatisfactory profitability situation, intensive work on restructuring and stabilisation programmes was conducted at the Oberpfaffenhofen and Eger sites.

### Business performance

For RUAG Aerostructures, the reporting year was primarily defined by the further increase in production rates in the Airbus single-aisle programme. The resulting 12 % sales increase to CHF 300 million exceeded expectations. By contrast, EBIT remained in negative territory at CHF –22 million (CHF –14 million), reflecting the difficulties that had been faced in previous years due to factors such as delays in transferring work packages from Oberpfaffenhofen to Eger and volume discounts taking effect at the same time. Despite this, the extensive restructuring and stabilisation programmes that the Oberpfaffenhofen and Eger sites had launched towards the close of 2018 began to bear fruit at the end of the year. Another positive outcome came in the form of cash flow and net working capital, both of which exceeded their targets.

In Oberpfaffenhofen, 2019's focus of operations was on the challenge faced by meeting the demands of the customer Airbus. This required a further increase in production rates for the A320 family to meet the target of well over 60 fuselage sections per month. As this figure is above the volume originally agreed, and the labour market for professionals is largely stagnant, some supply problems were experienced as a result and it was not possible to achieve the levels of productivity that had originally been intended. Professionals from all over Europe were recruited with the aim of resolving this issue.

As a contrast, the turnaround programme launched in 2018 continued apace during the reporting year, impacting on every key area of the business: production, the product portfolio, interaction between the sites, the supply chain, relationships with customers, business processes and HR policy. Every activity and workflow is undergoing in-depth analysis with the aim of boosting productivity and profitability over the long term. Processes are also being streamlined and production flow is being optimised with a view to achieving operational excellence. In the area of HR, meanwhile, 2019 saw the introduction of a new compensation system following successful negotiations with the works' councils and labour union. As a result of intense negotiations with the customer Airbus, it was also possible to improve prices and cost contributions as well as move work packages towards a higher degree of automation.

The Emmen site is being heavily affected by production of the Airbus A380 widebody aircraft being phased out, as announced in February 2019. To cope with this, the "Transition Emmen" project has been introduced to sharpen the site's focus on core technologies such as surface treatment, composite materials, military assemblies and development activities. Costs are also undergoing a systematic process of optimisation. The new surface treatment facility enjoyed some positive developments in 2019: as a profit centre, it has achieved its first milestones by achieving sales of around CHF 10 million and a 20 % proportion of third-party customers.

Stabilisation was the focus at the Eger site in Hungary during the reporting year. All the work that had originally been planned has now been transferred to the site and it has been possible to achieve a consistent increase in delivery reliability. Through its management system becoming certified in line with EN 9100 in October 2019, the Aerostructures site in Hungary also reached another important milestone on the road towards becoming an independent location.

**Outlook**

Strong growth is expected in global markets for both passenger and military aircraft. RUAG Aerostructures intends to ensure that the company will gain sustainable benefits from this growth in the future, through the restructuring projects taking place in Oberpfaffenhofen and Eger, and the transition project that has been launched in Emmen.

The Oberpfaffenhofen site is likely to see demand that is even higher than average from its main customer, Airbus. However, sales figures will be negatively affected by the ceasing production of the Canadair Regional Jet (CRJ) – a decision that was taken immediately after Bombardier’s sale of the entire programme to Japanese competitor Mitsubishi in 2019. The Oberpfaffenhofen site will continue producing rear fuselage sections of the CRJ until summer 2020 and will then only supply spare parts.

In Emmen, the surface treatment facility is set to be one of 2020’s growth drivers. Currently working in two-shift operation, the plan is to move it to three-shift operation over the longer term in order to maximise its capacity. The business offers potential as a service provider for third-party customers in particular. Additionally, the site will feel the benefits of series production starting on the pylons for the Swedish Gripen military jet, and production activities ramping up for components being supplied to North American customer Boeing Defence.

From Eger’s perspective, the challenge for 2020 will be to gain certification as an independent aviation enterprise that is approved by the Hungarian authorities. Once this is achieved, it will operate autonomously in the areas of materials purchasing, work planning and quality control in the future. This will afford the site greater flexibility and make it easier to develop areas where optimisations could be made. The reduction in CRJ production activities is set to have a negative impact on this site as well.

**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.

**Customers and partners**

Airbus, Boeing, Bombardier, GE Aviation, Pilatus Aircraft, Saab

**Facts and figures**

Net sales:	CHF 300 million
EBITDA:	CHF (13) million
EBIT:	CHF (22) million
Employees (FTE):	1,506
Based in:	Switzerland, Germany, Hungary

With the division migrating to the new ERP system, it can look forward to significant improvements in its control over production and supply chains, and in the way in which its sites work together. The new system is based on SAP S/4HANA across the board and, in the coming years, will make it possible to simplify order interfaces for customers and create redesigned, leaner business processes.

However, the longer the corona crisis lasts, negative effects on the business results for 2020 must be expected.