Annual Report 2020

Pandemic leaves serious marks. Strategic realignment has been initiated.

Together ahead. RUAG

Contents

50

RUAG International has 50 sites worldwide. 37 sites are located outside Switzerland.

The 2020 financial year

The biggest crisis in the aviation industry weighed heavily on results in the 2020 financial year. Sales of CHF 1,181 million (previous year: CHF 1,388 million) are set against an EBIT of CHF –224 million (previous year: CHF –80 million). This negative result is mainly due to the effects of the COVID-19 pandemic. It led to a drop in sales of around 30 % in the two aviation-related business segments, Aerostructures and MRO International, and to project delays throughout the company. As a result, RUAG International had to record special write-downs and provisions amounting to around CHF 160 million. In addition to cost-cutting programmes already underway and short-time working hours, the company has initiated strategic changes for 2021. RUAG International employs 6,299 people and generates 81 % of all sales abroad.

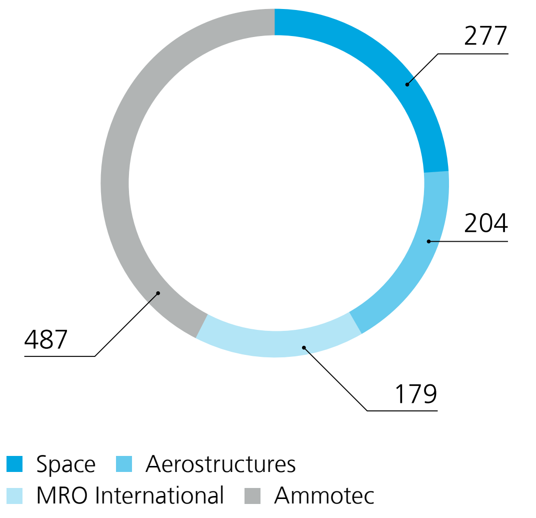
Overview of key figures*
in CHF million

	2020	2019	Change in %
Incoming orders	**1214**	1280	–5.2 %
Order backlog	**1169**	1229	–4.9 %
Net Sales	**1181**	1388	–14.9 %
Operating income	**1235**	1380	–10.5 %
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**(137)**	(11)	n/a
Earnings before interest and taxes (EBIT)	**(224)**	(80)	n/a
Net profit	**(219)**	(50)	n/a
Cash flow from operating activities	**19**	88	–78.7 %
Free cash flow	**(55)**	97	–156.8 %
Net financial position	**102**	160	–36.5 %
Research and development expenses	**27**	32	–16.9 %
Employees as at 31 December incl. apprentices	**6299**	6492	–3.0 %

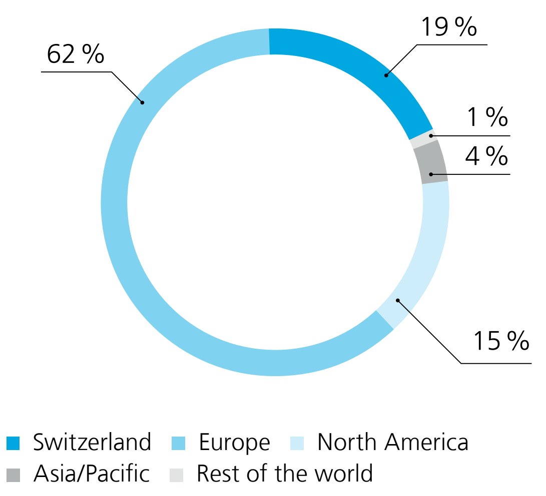
* RUAG International has been operating as a subgroup of the BGRB Group since the beginning of 2020. For comparability purposes, the previous year's figures have been adjusted to the organisational structure of RUAG International as at 01/01/2020. Not all companies of RUAG MRO Holding Ltd are therefore included in the previous year's figures.

Net sales

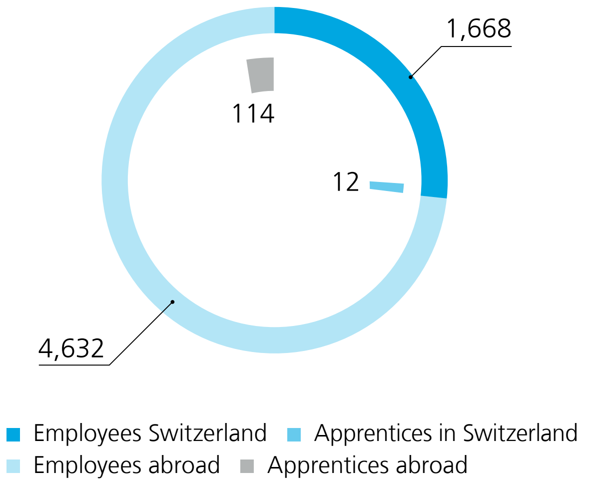
Net sales 2020 by business segments
in CHF m



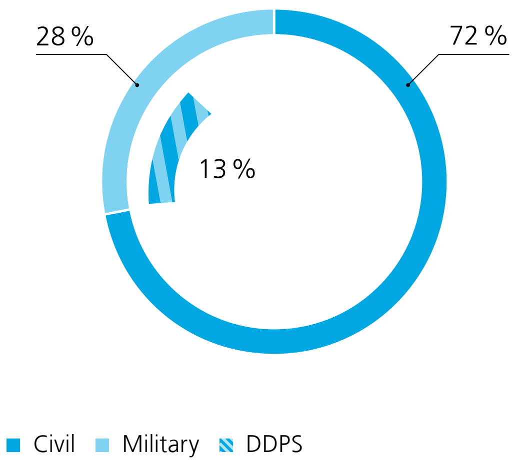
Net sales 2020 by market
in %



Headcount in Switzerland and abroad 2020



Net sales 2020 by application
in %



RUAG International at a glance

As a technology group, RUAG International is active in space and aviation as well as in the field of defence applications. With production sites in 14 countries, the company is currently divided into four business segments: Space, Aerostructures, MRO International and Ammotec.

RUAG Space

The Space business segment offers a comprehensive portfolio of electronic and mechanical products for launch vehicles and satellites. As a leading supplier of space products in Europe, RUAG Space is divided into three product groups: Electronics, Spacecraft and Launchers. Customers include ESA, NASA, OHB, Ariane Group, Airbus, OneWeb Satellites, United Launch Alliance, Maxar and Northrop Grumman.

RUAG Aerostructures

The Aerostructures business segment develops, manufactures and assembles aerostructures, in particular entire fuselage sections as well as wing and control surface components. RUAG Aerostructures also manages complex supply chain networks for aircraft manufacturers. Customers include Airbus, Boeing, Dassault Aviation, GE Aviation, Pilatus Aircraft and SAAB.

RUAG MRO International

RUAG MRO International is an independent supplier, support provider and integrator of systems and components for civil and military aviation across the globe. As the manufacturer (OEM) of the Dornier 228, a versatile aircraft designed for special missions as well as passenger and cargo transport, RUAG's focus is on providing customer and OEMsupport in this particular area. RUAG MRO International also develops simulation and training facilities for live, virtual and constructive training (LVC training) delivered to international security and armed forces.

RUAG Ammotec

RUAG Ammotec is the European market leader for small calibre ammunition, pyrotechnic elements and components with its Hunting & Sports, Armed Forces & Government Agencies and Industry business units. The precision ammunition for special forces is in demand worldwide. Customers include armed forces, government agencies and security organisations as well as hunters and sport shooters and industrial partners.

14 countries

Australia, Austria, Belgium, Finland, France, Germany, Hungary, Italy, Malaysia, Sweden, Switzerland, United Arab Emirates, United Kingdom, USA.

70 Nationalities

RUAG International employs people from 70 nations. The average age is 43 years.

50 locations worldwide

Switzerland: 13
Germany: 6
Sweden: 6
USA: 5
Australia: 5
Rest of the world: 15

6,299 employees worldwide

Germany: 2,709
Switzerland: 1,668
Hungary: 577
Sweden: 527
Rest of the world: 818

80% men

20% women

10 important events in 2020

01/20
From CFO to CEO
At the beginning of the year, Urs Kiener, Chief Financial Officer, takes over ad interim as CEO of RUAG International. Urs Breitmeier, who held executive positions for 18 years – the last seven of them as CEO – is leaving the company.

02/20
[1] **On the way to the sun**
In February, Solar Orbiter starts its journey to the sun. The satellite will take high-resolution images of the Earth and provide unprecedented insights into how it works. RUAG Space supplies the computer that controls the satellite, the insulation, and also the structure that provides stability.

Strategic adjustments
RUAG Aerostructures is realigning its three sites. In Emmen (CH), the focus is on surface treatments and complex technologies. In Oberpfaffenhofen (DE) the focus is on automation and in Eger (HU) the focus is on manual processing. In Emmen, a maximum reduction of 90 jobs is expected until 2021.

06/20
Unbundling completed
The Annual General Meeting resolves to change the name of the holding company from RUAG Holding Ltd to RUAG International Holding Ltd. This effectively completes the unbundling process. Both companies have been operating independently of each other since the beginning of 2020.

08/20
[2] **500 Gripen parts go into series production**
After six years of development and industrialisation, RUAG Aerostructures reaches a significant milestone with the final acceptance of the flight suitability test for the first payload suspension of the Saab Gripen E/F. Series production of 500 payload suspensions will now start.

09/20
[3] **Rocket nose tip "made in USA"**
One of the largest transport aircraft in the world – an Antonov 124 – transports the last payload fairing "made in Emmen" for the American Atlas V launcher to the USA. In future, these payload fairings will be: "made in USA". Emmen remains the centre of excellence for the European Ariane and VEGA launchers.

10/20
A321 XLR – bigger, longer, better
With the Airbus 321 XLR (extra long range), the aircraft manufacturer will be launching a new long-haul jet with more seats and better range onto the market from 2023. RUAG Aerostructures has been working on important structural parts since October 2020, and has also contributed to their design & development.

Response to the effects of COVID-19
The effects of the coronavirus pandemic are forcing RUAG International to accelerate and expand the transformation it has begun following the unbundling. Rigorous austerity measures and a reduction of up to 150 jobs, especially in support functions, are unavoidable by the end of 2021.

11/20
New CEO
The RUAG International Board of Directors appoints André Wall as the new CEO. He takes over from the previous CFO Urs Kiener, who led the company ad interim after the departure of Urs Breitmeier.

12/20
[4] **Milestone for RUAG Aerostructures**
RUAG Aerostructures in Hungary is approved by the European Union Aviation Safety Agency (EASA) as an independent manufacturing company – the second company in the entire country. This means that assemblies or structural parts can be integrated directly into aircraft at the Hungarian plant or delivered to customers.


[4]

[1]


[2]


[3]

02 Management report

6,299

RUAG International employs 6,299 people worldwide. Of these, around two thirds work outside Switzerland.

Pandemic and exceptional expenses weigh heavily on results.

Dear Shareholders,
Dear Customers,
Dear Readers,

As expected, the biggest crisis in aviation history has left deep scars on RUAG International's business figures. Net sales fell by almost 15 % to CHF 1,181 million (previous year: CHF 1,388 million) and EBIT to CHF –224 million (previous year: CHF –80 million). This was mainly due to the COVID-19 pandemic. Among other things, it led to a massive slump in demand throughout the aviation industry. The corresponding activities of RUAG International suffered declines in sales of more than 30 % in some cases. But the pandemic also had a negative impact on business in all other areas through travel restrictions, lockdowns and project postponements. Most of the loss was due to impairments and provisions totalling approximately CHF 160 million, mostly related to COVID-19.

Impairments and provisions

The pandemic outbreak came at a particularly unfavourable time for some of RUAG International's business segments, which were in the middle of restructuring. For example, the aerostructures business was in the final stages of a major stabilisation programme to put its activities on a resilient footing when the environment turned completely upside down. It is expected to take years for air traffic to return to pre-pandemic levels. For this reason, impairments and provisions totalling CHF 84 million were necessary in the year under review.

Added to these was a book loss of CHF 50 million in connection with the sale of the aviation activities in the RUAG MRO International business segment at the Oberpfaffenhofen site. A new strategic investor, General Atomics Europe, has been found for the site, which took on all 420 employees by the end of February 2021. Further provisions totalling over CHF 20 million relate to organisational adjustments decided at RUAG Space and the global support functions. At RUAG Ammotec and RUAG Space, pension obligations also had to be increased by CHF 7 million due to lower interest rates.

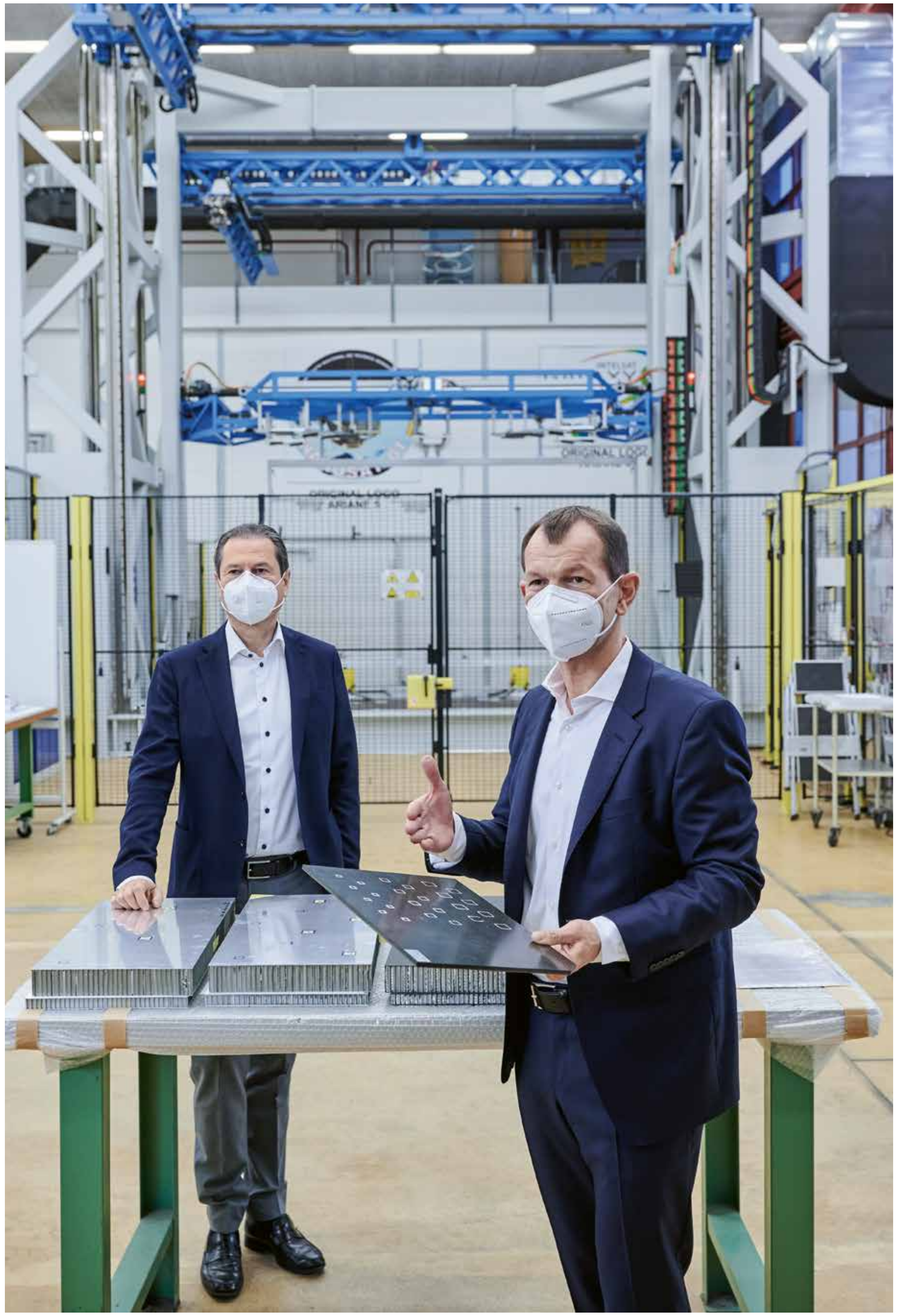
Performance of business segments

The four business segments of RUAG International performed differently in 2020. RUAG Space was held back in its development by the COVID-19 crisis and had to accept declining sales and also a negative business result. On the one hand, several major space programmes were postponed due to the change in priorities caused by the pandemic. Since none of the projects was cancelled, additional sales and profits can be expected in the future. The travel restrictions that came into force in the spring also had a negative impact on the segment's results. They severely hampered the necessary transfer of know-how from Switzerland – especially to the USA – and thus the expansion of new production capacities at the Decatur site in Alabama.

Among other things, RUAG Space achieved promising successes with the launch of an extremely fast computer for satellites. "Lynx" is 250 times more powerful than many of the on-board computers in use today, perfectly meeting the artificial intelligence and machine learning requirements in space development programmes.

RUAG Aerostructures was the business segment most affected by the COVID-19 crisis. The massive slump of over 30 % in demand led to an immediate decline in business figures. Management responded swiftly by introducing short-time working hours, terminating temporary and contract worker agreements, and making adjustments to the working hours of permanent employees. It is encouraging to note that the relocation of work packages to the Eger site in Hungary was successfully completed practically at the same time as the outbreak of the crisis. At the end of the year, Eger also obtained EASA (European Union Aviation Safety Agency) certification from the Hungarian aviation authority as an independent production plant. The three sites Emmen, Oberpfaffenhofen and Eger will thus be able to use their synergies and their specific qualities even more flexibly.

2020 once again proved to be a success story for RUAG Ammotec. Although the ammunition manufacturing business had to contend with some severe losses, both operationally and in terms of sales in various European market segments, due to the pandemic restrictions, sales increased by over 8 % compared with the previous year. The two growth drivers were the US Hunting and Sport market and the Armed Forces & Law Enforcement sector in Germany; in Switzerland, orders declined noticeably for the first time in years. With this year's signing of a five-year contract for the Austrian police force, RUAG Ammotec is clearly one of the leading providers of police ammunition in German-speaking countries.



Dr. Remo Lütolf
President of the Board of Directors

André Wall
CEO

RUAG MRO International succeeded in selling its aviation business at the Oberpfaffenhofen site in the reporting year. The buyer, General Atomics Europe, intends not only to continue all activities but also to expand Oberpfaffenhofen into the Group's European aviation core. However, the book loss associated with the sale, combined with the drastic effects of the pandemic, has led to a negative operating result for all aviation activities. On a positive note, the Simulation & Training business unit won an important contract for the French Army. This will involve RUAG MRO International developing simulators for the "Scorpion" land vehicle programme.

Organisation and personnel

With the separation of the balance sheets, as noted by the Swiss Federal Council on 22 April 2020, the material unbundling of the former RUAG was successfully completed. Since this date, RUAG International Holding Ltd and RUAG MRO Holding Ltd have been operating independently of each other, not only operationally but also legally.

With 6,299 full-time positions (previous year: 6,492) the number of employees has only slightly reduced during the COVID-19 pandemic. RUAG International managed to absorb the sometimes massive reductions in work volumes in close cooperation with staff representatives, for the most part through short-time working hours, flexible working models, the reduction of temporary and contract workers and the reduction of accrued vacation.

The reduction of up to 90 jobs at RUAG Aerostructures announced in February was a consequence of the strategic realignment of activities at the Emmen site and had nothing to do with the pandemic. In contrast, the announced reduction of up to 150 jobs in global support functions by the end of 2021 was connected to COVID-19 and prompted the company to adapt the support functions at an early stage to the reduced size of the company following the unbundling. Fair and socially-responsible solutions are being sought for all employees affected by job cuts. In Switzerland, a redundancy plan is to be implemented. The unbundling and founding of the new company were also accompanied by staff changes at management level in the reporting year. André Wall took over the management of RUAG International at the end of November. The experienced aviation manager comes from the Spanish airline Iberia, where he was CTO (Chief Technical Officer). Prior to that, Wall was CEO of SR Technics and Jet Aviation, among other positions. André Wall succeeds Urs Breitmeier, who left the company at the beginning of the year after 18 years. Under his leadership, RUAG has developed further into an international group.

Angelo Quabba took over the function of Chief Financial Officer in November 2020. He has extensive experience in the international M&A environment and most recently worked at Gurit and at Bruker BioSpin. He was also CFO of SR Technics for many years. Previous CFO Urs Kiener, who took over the CEO position on an interim basis at the beginning of the year, has decided to leave the company. He played a key role in shaping the Group over a total of 24 years in various management positions.

The Board of Directors and Senior Management would like to thank all those who have left for their exceptional commitment over many years and wish them all the best and continued success, both professionally and privately.

Outlook

The pandemic has fundamentally changed the economic environment. In early summer, the impact of the COVID-19 pandemic on the future of RUAG International was analysed and a strategy review was conducted. Based on this, the strategy of forming an Aerospace Group was halted. Instead, individual privatisations of the business segments are being implemented. The challenges are very different for the various business segments of RUAG International.

For RUAG Space, the aim is to seize the market opportunities offered by major space programmes worldwide in the coming months and years as successfully as possible and to return to profitability. To this end, the business segment launched a restructuring programme in December.

RUAG Aerostructures, on the other hand, has to adapt to a completely changed market situation. It is likely to take at least until 2025 for aircraft manufacturers to return to pre-pandemic volumes. The company also plans to make the necessary strategic adjustments in close coordination with its main customer Airbus.

RUAG Ammotec will continue to press ahead with the divestment plans approved by the Swiss Federal Council and is aiming for a sale by the end of 2021. For the business segment, which has been growing extremely

successfully and stably for years, the aim is to work in coordination with the owner to find a buyer that wants to maximise the existing potential and that can open up additional market opportunities for the company.

RUAG MRO International continues to focus on the step-by-step divestment of the remaining business units. This includes, on the one hand, the business activities in Australia and Malaysia and, on the other hand, the search for a partner for the Simulation & Training business. The sale of the maintenance, repair and operations activities for business aircraft and military helicopters as well as the production of the Dornier 228 at the Oberpfaffenhofen site was closed by the end of February 2021.

Following the challenging reporting year, the Board of Directors and Executive Management are looking forward to rolling up their sleeves together with employees. We must adapt to the new situation, seize the opportunities that present themselves and together forge a path to a successful future.

RUAG International Holding Ltd

Dr. Remo Lütolf
President of the Board of Directors

André Wall
CEO

RUAG International repositions itself

With the change at the top, the company is realigning itself. The new CEO, André Wall, has set out to make RUAG International faster and more agile and to align it more closely with the market and customers.

In the long term, RUAG International will concentrate on cutting-edge technology for the space market and invest in innovative solutions. The focus will be on expanding market leadership in Europe and increasing global market access, particularly in the USA, but also in Asia – both for institutional and commercial programmes in the New Space environment.

Instead of building a joint aerospace group, the individual business segments will continue to develop individually and will be privatised in the medium term. RUAG International has submitted the implementation plan for the new strategy to the Swiss Federal Council, which has noted and approved it.

RUAG Space

RUAG Space can look back on a challenging financial year. The COVID-19 pandemic led to delays in major space programmes and earnings that fell short of expectations. The segment strategy was adjusted to make better use of future market opportunities.

Business performance

For RUAG Space, the reporting year meant staying the course and focusing the strategy on new programmes in Europe and the USA. The COVID-19 pandemic impacted ongoing development and production orders as well as decisions on new projects, particularly in the commercial sector. The resulting delays led to additional costs and significant postponements of budgeted order intake and payments for the reporting year. Accordingly, sales decreased from CHF 339 million to CHF 227 million. EBIT was also negative at CHF –21 million (CHF 24 million). The company reacted resolutely to this development and decided to make the necessary adjustments. This meant also adjusting RUAG Space's strategy in the reporting year in order to better exploit future market opportunities in major programmes. To this end, the business segment decided on a reorganisation programme in December. In the negative EBIT of 2020 provisions to strengthen RUAG Space's future are included.

Overall, the long-term development of the space business in a dynamic market environment gives cause for confidence. Space infrastructure is as important to the economy today as railways or electricity were 150 years ago. Governments in Europe, the USA and Asia are investing billions in new infrastructure. Private companies are doing the same.

RUAG Space was able to further strengthen its product portfolio in the area of subsystems for launchers and satellites. Additional impetus was given to RUAG Space's business in the USA, particularly in the area of electronics. With the Denver-based electronics team established in 2019, important new orders were secured in the US market in the reporting year. The certification of the Decatur site in Alabama for a new type of launch vehicle was a milestone in the USA. At the Titusville site in Florida, industrial production of satellite panels resumed after a temporary suspension following the successful change of ownership of the main customer OneWeb.

One of the pioneering new developments in the reporting year was the Lynx Single Board Computer developed as part of an ESA project. It is around 250 times more powerful than previous computer systems and enables satellites to process large volumes of data directly on board, for example for machine learning or artificial intelligence algorithms.

However, RUAG Space's technological expertise is also used on land: at the Coswig site near Dresden, Germany, precision mechanisms are developed and manufactured to control mirrors that are used to make semiconductors for the chip industry.

Delays in various major space programmes on both sides of the Atlantic as a result of the COVID-19 pandemic proved to be an aggravating factor in the reporting year. In many cases, however, the relevant orders have only been postponed and will have a positive impact on the future course of business. The expansion of US production sites was also impacted by the restrictions imposed by the COVID-19 pandemic. Travel restrictions made it difficult for staff to move between sites. In addition, supply chains were significantly disrupted at times due to the impact of the pandemic.

With the new market strategy defined in 2020 with three focus areas – Europe, expanding the subsystem portfolio and concentration on government markets – RUAG Space can better exploit market opportunities: in Europe, RUAG Space will consolidate its position as a major player in the industry. With the expansion of the subsystem offering to include system units, customers' supply chains will be simplified. And in order to participate in public contracts, which are subject to secrecy, the process of creating the corresponding legal requirements was initiated in the USA and within the EU.

There was a personnel change at the end of May at the head of RUAG Space. After eleven years, Dr Peter Guggenbach left the company. Luis de León Chardel, previously Senior Vice President Operations, took over as interim head of the business segment.

"With the new market strategy, RUAG Space can better exploit market opportunities."

Luis de León Chardel
EVP RUAG Space a.i.

Outlook

2021 will be a key year for RUAG Space. Significant contracts will be awarded under various US and European government programmes, such as satellite constellation upgrades and major Earth observation projects, as well as programmes to explore the Moon and Mars. Europe will step up its space activities, both with the European Space Agency (ESA) (with a record budget of EUR 6.5 billion) and with the European Commission with the recently adopted framework budget of EUR 14 billion for the next seven years. Plans include a renewal and expansion of climate observation through the Copernicus satellites and the Galileo satellite navigation system, as well as new programmes in the areas of communications and the Internet. Thanks to the new market strategy and reorganisation programme, RUAG Space is well positioned to improve market access and expand its market position.

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 12 sites in six countries, the business segment specialises in components for use aboard satellites and launch vehicles. Its competencies fall into three areas: electronics for all space applications, mechanical and thermal systems for satellites, and structures and separation systems for launch vehicles.

Based in
Switzerland, Sweden, Austria, USA, Germany, Finland

Facts and figures

CHF 277 million
Net sales

CHF (9) million
EBITDA

CHF (21) million
EBIT

1,337
Employees (FTE)

Customers and partners
ESA, NASA, ArianeGroup, Airbus Defence and Space, Airbus OneWeb Satellites, Thales Alenia Space, OHB, United Launch Alliance, MAXAR, Boeing, Lockheed Martin, Mitsubishi Heavy Industries, Northrop Grumman

RUAG Aerostructures

All three sites of RUAG Aerostructures have been affected by the global crisis in the aviation industry. Measures have been taken at all sites to adapt activities to the changing situation. The approval of Eger as an independent manufacturing plant increases the flexibility of the entire company.

Business performance

The COVID-19 pandemic has triggered the biggest crisis in modern aviation history. As a supplier to aircraft manufacturers, RUAG Aerostructures was severely affected. Sales fell by around 32 % in 2020 to CHF 204 million (CHF 300 million). EBIT fell to CHF – 118 million (CHF – 22 million). All three sites of RUAG Aerostructures were affected by the decline. Measures were taken to stabilise the business and to adapt to the fundamentally changed situation in the longer term. Due to the completely changed market situation and because it must be assumed that it will take years for air traffic to return to pre-pandemic levels, RUAG Aerostructures had to make extraordinary value adjustments and provisions amounting to CHF 84 million.

After many years of growth, 2020 marked a turning point for RUAG Aerostructures, as it did for the entire aviation industry. Demand for new aircraft plummeted massively in all areas of civil aviation within a very short period of time. Deliveries of the A320 family from the main customer Airbus fell by more than 30 %. Engine manufacturer GE Aviation also did not take any transmission housing from RUAG Aerostructures between May and July. As an immediate response, the company introduced short-time working hours at all sites. Capacities were then gradually reduced to meet the new demand by cutting back on temporary and contract workers and adjusting the working hours of permanent employees.

The business model of the Aerostructures business segment relies on the different capabilities of the three sites in Emmen (CH), Oberpfaffenhofen (DE) and Eger (HU). At the Emmen site, the focus is on the profitable business areas of military assembly and complex technologies. The realignment at the Emmen site will result in the expected reduction of up to 90 jobs by 2021. Irrespective of the COVID-19 crisis, the transition project decided on in Emmen was actively implemented. In 2020, logistics was outsourced, among other things, and the processing of small parts will also be handled by subcontractors in the future. One exemplary project at the Emmen site is an order from Boeing to develop a new aileron for the Swiss Air Force's F/A-18. The order also has potential for follow-up business with the F/A-18 fleets of other air forces. The project to develop and industrialise pylons for the Swedish Gripen jet was successfully continued in 2020. Following completion of flightworthiness testing, series production of 500 parts overall was launched.

The turnaround project at Oberpfaffenhofen, aimed at achieving a sustained increase in productivity and profitability, entered its final phase in the reporting year. However, the successful completion of the programme is overshadowed by the uncertainty of further sales trends given the COVID-19 situation. The business segment achieved encouraging milestones in February with the delivery of the 10,000th 18/19 (rear fuselage section) aircraft section for the Airbus A320.

The transfer of work packages from the German site in Oberpfaffenhofen to Eger in Hungary was successfully completed in April of the reporting year. In addition, at the end of the year Eger obtained EASA Part 21G (European Union Aviation Safety Agency) certification from the Hungarian aviation authority as an independent manufacturing plant. RUAG Aerostructures in Hungary is only the second facility in the entire country to receive this certification. This will enable RUAG Aerostructures to exploit the synergies of its three sites even more flexibly.

Outlook

RUAG Aerostructures does not expect the markets to recover quickly. It is likely to take until 2025 for volumes to return to pre-pandemic levels. In 2021, a further decline is to be expected because, unlike 2020, the first quarter will also be affected by the crisis.

By assuming design and engineering responsibility for the assemblies produced, the business segment intends to evolve step by step from being a predominantly "build-to-print" supplier to "design & build".

For the Emmen site, RUAG Aerostructures expects additional growth impetus from the offset business for the Swiss Air Force's new fighter aircraft.

"The EASA approval in Eger enables us to make even better use of the synergies of the three sites."

Dirk Prehn
EVP RUAG Aerostructures

In the first half of 2021, various strategic options will be reviewed in order to overcome the current market challenges and position for future growth. The company also plans to make the necessary strategic adjustments in close coordination with its main customer Airbus.

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 business segments' strengths is the management of complex supply chain networks. Among other things, it is responsible for the complete global fuselage section supply chains for Airbus.

Based in
Switzerland, Germany, Hungary

Facts and figures

CHF 204 million
Net sales

CHF (74) million
EBITDA

CHF (118) million
EBIT

1,231
Employees (FTE)

Customers and partners
Airbus, Boeing, GE Aviation, Pilatus Aircraft, Saab

RUAG MRO International

All three business units were affected by the COVID-19 crisis and did not perform according to expectations. The search for buyers willing to further develop the units was pursued with conviction. A buyer was already found for the Geneva and Agno sites in 2019. This was also achieved for the Oberpfaffenhofen site in 2020.

Business performance

2020 was a challenging year for all business units of RUAG MRO International. As a result, sales decreased by around 26 % to CHF 179 million (CHF 243 million). EBIT remained in negative territory at CHF –76 million (CHF –63 million). This was mainly due to the negative impact of the COVID-19 pandemic on both Aviation activities and Simulation & Training. Earnings were also impacted by write-downs and operating losses regarding Do228 production.

In 2020 RUAG MRO International vigorously pursued the main objective of finding new owners for all the business units earmarked for divestment. These should be prepared to invest and develop the business activities further. Various divestment projects were intensified, even though the COVID-19 pandemic made these efforts more difficult. Nevertheless, RUAG MRO International succeeded in signing a sales agreement with General Atomics Europe for the business activities at the Oberpfaffenhofen site at the end of September 2020. The new owner has taken over all maintenance activities for both private and military aircraft, as well as the manufacture and maintenance of the Do228 aircraft with all 420 employees. The final transfer of ownership to General Atomics took place at the end of February 2021. The commercial aircraft maintenance operations in Geneva and Agno were sold to Dassault Aviation as early as 2019.

All three business units – Aviation International, Simulation & Training and Business Aviation/Do228/Military Aviation – reported a decline in earnings in the reporting year. The largest share of the negative development was attributable to the production of the Do228 programme. A further impairment loss had to be recognised in this area. Two aircraft could not be delivered as planned. By contrast, maintenance of military aircraft at the Oberpfaffenhofen site performed extremely well. The transition from maintenance work on the previous Bell UH-1D helicopters to orders for the German armed forces' new NH90 transport helicopters went according to plan.

After an extremely successful 2019, the current reporting period for international maintenance activities in Australia and Malaysia is proving much more challenging, as expected. While orders for the new F-35 fighter jet are only in the development phase, work on the Australian Air Force's existing F/A-18 aircraft is steadily declining. The pandemic also had a negative impact on decision-making channels and thus on the generation of replacement orders for F/A-18s from other countries. In addition, the Melbourne site was closed for weeks due to the lockdown. One encouraging development was the awarding of full patent rights in Australia, Europe, the USA and Canada for the "method for treating aircraft structures". This patent relates to the use of Supersonic Particle Deposition (SPD) as an alternative repair method for aircraft components – resulting in significant savings in time and cost for customers.

Despite several landmark contract wins, the Simulation & Training business unit fell short of expectations. While utilisation of the Swiss Army's combat training centres reached 100 %, the pandemic led to a plant closure in France lasting several weeks. Furthermore, international sales were severely hampered by travel restrictions. Simulation & Training recorded various successes in France, where RUAG Simulation & Training and the Agueris consortium won the SERKET tender for the development, production, commissioning and support of cabin simulators for tactical training on armoured army vehicles. In England, it is supplying Gladiator live simulation systems for tactical mission simulation to the British Army in partnership with Ravenswood. And in Denmark, the Danish Army has ordered SATIS simulators for small arms training.

In view of the ongoing divestment processes, management invested heavily in transparent internal communications. The success of these efforts is reflected in the fact that staff turnover has not increased despite the intentions to sell. On the contrary, many key employees are deliberately staying on because they have confidence in the future potential of their area.

Outlook

In 2021, the focus for RUAG MRO International will be on further stabilising the economic situation of the activities. The search for suitable buyers for the various business units will continue. For Simulation & Training, the focus is on achieving the best possible market position – with the main aim being to convert orders into sales. Military Aviation aims to generate additional volumes. Future prospects in the F-35 business are very good.

"We are continuing along the path of divestments – and aim to return to positive figures in the future. "

Felix Ammann
EVP RUAG MRO International

Brief profile

RUAG MRO International is an independent supplier, support provider and integrator of systems and components for civil and military aviation across the globe. As the manufacturer (OEM) of the Dornier 228, a versatile aircraft designed for special missions as well as passenger and cargo transport, RUAG's focus is on providing customer and OEM support in this particular area. RUAG MRO International also develops simulation and training facilities for live, virtual and constructive training (LVC training) delivered to international security and armed forces.

Based in

Switzerland, Germany, France, Malaysia, Australia, United Arab Emirates

Facts and figures

CHF 179 million
Net sales

CHF (71) million
EBITDA

CHF (76) million
EBIT

1,072
Employees (FTE)

Customers and partners

Boeing, Bombardier, Embraer, Honeywell, Lockheed Martin, Ravenswood Solutions, Rockwell Collins, Pilatus, United Technologies, selected security and armed forces, plus authorities and civil security organisations worldwide

RUAG Ammotec

RUAG Ammotec is proving to be extremely robust, even in the COVID-19 crisis. Sales and earnings reached new record levels in 2020. The main drivers were the high-growth US business and ongoing strong demand in Europe.

Business performance

RUAG Ammotec had another successful year of growth in 2020. Sales increased by 8 % to CHF 487 million (CHF 450 million). Adjusted for currency effects, the increase was as high as 10 %. The operating result reached CHF 24 million (CHF 12 million) – a significant increase compared with the previous year. At CHF 6 million, valuation adjustments of unfunded pension obligations in Germany and Sweden had a significantly less negative impact than in the previous year (CHF 11 million) due to the lower interest rate level in 2020. The main growth drivers in 2020 were the US market and Europe, especially Germany.

The robustness of RUAG Ammotec's business model was demonstrated in 2020, among other things, by the fact that although the COVID-19 pandemic impacted all business units, it did not significantly weaken bottom-line growth. The Armed Forces & Law Enforcement business unit was also one of the company's growth drivers in 2020. Sales increased, particularly in the NATO markets. Business in the Armed Forces & Law Enforcement business unit was in line with expectations, increasingly impacted by the COVID-19 pandemic.

In the Hunting & Sport business unit, the individual segments performed differently. The business unit had to contend increasingly with the consequences of the pandemic, particularly in Europe. Most facilities for hunting and shooting sports were closed, both in the spring and at the end of the year, and the hunting sector suffered a significant slump everywhere, including in Europe. Restrictions on trade during the lockdown periods had an additional negative impact. Despite this, RUAG Ammotec managed to achieve a stable result in the European hunting segment and confirms its leading market position.

By contrast, the hunting segment in the USA recorded strong growth. It benefited from the general boom triggered, among other things, by various domestic political uncertainties. The online trade, which is legally permitted in the USA, also made a significant contribution to the increase in sales. This exceptionally profitable sales channel was further expanded in the reporting year. The fact that the company has now established a significant position for itself in the US market was demonstrated by the Golden Bullseye Award, which is extremely important in the Hunting & Sport sector, presented by the American NRA (National Rifle Association), and which RUAG Ammotec received for the first time in the "Ammunition of the Year" category in 2020. The business unit received another important award – the "German Design Award 2020" – for the relaunch of the premium RWS brand in the DACH region.

On balance, the Hunting & Sport business unit not only increased sales, but also significantly improved its EBIT margin. In addition to price increases in the US market, targeted optimisation measures in production also contributed to this.

In the Industrial business unit, pyrotechnic components for medium- and large-calibre ammunition once again drove sales. These benefited from ongoing growth in demand from NATO countries. By contrast, sales of propellant cartridges for the construction industry declined due to the COVID-related slump in the commercial real estate market. Sales of ignition technologies for the automotive industry, which also suffered a global drop in demand due to the pandemic, also declined.

The reporting year showed once again that RUAG Ammotec is able to grow solidly and profitably, even in a rapidly changing environment. This is ensured, among other things, by continuous investments in the renewal and expansion of production capacities. At the same time, the quality of results is continuously improved through optimisation measures in production and sales. These measures include, for example, the ongoing project to standardise the merchandise management systems at the various company locations on a central SAP S/4HANA platform. The project is proceeding according to plan and is scheduled for completion in 2022.

Outlook

For 2021 and the following years, RUAG Ammotec expects low, but robust growth. The successful strategic alignment, which is focused on strengthening its position as European market leader and building a broader market position in the USA, is being vigorously pursued.

"Even in a challenging environment, RUAG Ammotec once again succeeded in growing solidly and profitably."

Christoph Eisenhardt
CEO RUAG Ammotec

The market environment is positive in virtually all business units. The Armed Forces & Law Enforcement business can expect stable defence spending in NATO countries. Hunting & Sport is expected to develop in line with previous years in Europe. In the USA, however, the current boom is expected to subside in the second half of the year. In the Industrial sector, customer markets in the automotive and construction industries are expected to recover.

The divestment of RUAG Ammotec, initiated at the end of the year as part of the planned privatisation of RUAG International, will continue in 2021.

Brief profile

RUAG Ammotec, with its Hunting & Sports, Armed Forces & Law Enforcement and Industrial 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. RUAG Ammotec 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.

Based in

Switzerland, Germany, Sweden, Finland, Hungary, USA, Austria, UK, France, Belgium, Italy

Facts and figures

CHF 487 million
Net sales

CHF 44 million
EBITDA

CHF 24 million
EBIT

2,483
Employees (FTE)

Customers and partners

Swiss Armed Forces, German Bundeswehr, international armed forces working for NATO, law enforcement and security organisations, hunters and sporting marksmen across the world, industrial partners

250 times more powerful

The new RUAG Space Lynx computer for satellites and spacecraft is 250 times more powerful than conventional on-board computers.

RUAG Space has developed "Lynx" – a powerful new computer for satellites, and the timing couldn't be better for its launch. Lynx is 250 times more powerful than many of the on-board computers in use today, perfectly meeting the artificial intelligence and machine learning requirements of space development programmes. This is a giant leap forward in space computer processing power.

The Lynx Single Board Computer is designed to last more than 15 years, making it the optimal solution for customers who require a large amount of processing power over a long period of time with extremely high reliability. Because as they say: "There is no IT support in space".


Production at the Gothenburg site


Lynx Single Board Computer

Development and manufacturing take place in connection with the European Space Agency's ARTES (Advanced Research in Telecommunications Systems) programme mission and were carried out at RUAG Space in Gothenburg, Sweden.

All success stories at www.ruag.com/successstories

Tested and certified

The RUAG Aerostructures production site in Hungary was approved as an independent manufacturing facility by the European Union Aviation Safety Agency (EASA) at the beginning of December. The EASA Part 21G certificate makes it possible to supply assemblies and structural parts directly to customers or to integrate them into aircraft.

With more than 200 employees, RUAG Aerostructures' production site in Eger (HU) has been an integral part of its capacity and action plan since 2017. With the EASA Part 21G certification, the site reached a significant milestone at the beginning of December. Already in 2019, the company received EN 9100 certification from TÜV Nord, which was specifically developed for the aviation industry, and which is a prerequisite for EASA Part 21G approval.


Side shells for the Airbus A320


Production hall at the Eger site

The EASA Part 21G certificate now entitles RUAG Aerostructures Hungary to manufacture complex assemblies and integrate them directly into aircraft or deliver them to customers. RUAG Aerostructures in Hungary is only the second facility in the entire country to receive this certification. So far, structural parts from Eger have been delivered to customers via the Oberpfaffenhofen site. Today, Eger manufactures side shells, floor structures, pressure bulkheads and seat rails for Airbus.

All success stories at www.ruag.com/successstories

Simulators for the French Army

The “Scorpion” land vehicle programme is considered one of the most ambitious military programmes in the recent history of the French land forces. RUAG MRO International, together with Agueris, was awarded the contract to supply the simulators for crew training and tactical training.

The programme includes the Griffon multi-purpose vehicle, the Jaguar reconnaissance vehicle and the Leclerc tank. All vehicles are to be fully upgraded and networked with modern technology systems by 2025. On the one hand, this will make the more than 6,000 vehicles more agile and flexible and, on the other hand, guarantee a comprehensive overview of the situation on the battlefield.

Cabin simulator SERKET

Multi-purpose vehicle Jaguar

SERKET is the new interoperable simulator for the Scorpion programme. It is specifically designed for training the various Scorpion platforms, their support systems and software packages. In September 2020, the SERKET contract was awarded to RUAG Simulation & Training and Agueris. RUAG MRO International develops, constructs, manufactures and integrates the simulators and provides long-term maintenance, repair and overhaul (MRO). Agueris designs the simulation scenarios and visualisations.

All success stories at www.ruag.com/successstories

A strong partner

RUAG Ammotec is the market and technology leader in the field of ultra-precision and mission-critical ammunition for special mission scenarios. The precision and reliability of the Action 4 pistol ammunition also convinced the Austrian police force in 2020. The contract won covers several million rounds over a total five-year term, with an option to extend.

With 20 years’ experience in the development and production of the 9 mm x 19 Action 4 family, RUAG Ammotec was able to comprehensively meet the extensive requirements of the Austrian police force. RUAG Ammotec prevailed over all other competitors with its proven 9 mm x 19 Action 4 cartridge and, thanks to winning the tender, will be supplying police units in Austria with pistol ammunition for the next few years.

9 x 19 Pistol ammunition

SINTOX FORENSIS facilitates the determination of shot discharge

One special feature of RUAG Ammotec’s ammunition is the patented SINTOX FORENSIS priming set. Thanks to special non-volatile gunshot residue elements, this significantly facilitates the forensic determination of shot discharge.

The Action 4 product family has already been supplied a million times over to European police forces and beyond. Specific customer requirements are taken into account and the products are subjected to rigorous suitability testing in advance, each time anew.

All success stories at www.ruag.com/successstories

Coronavirus measures

The coronavirus pandemic hit the aviation industry with full force. RUAG International was focused on two objectives from the outset: protect employees and maintain business operations.

On 30 January 2020, the World Health Organisation (WHO) declared a "Public Health Emergency of International Concern" due to the coronavirus. On that same day, RUAG International also published its first internal communication on the coronavirus. As its first measure, RUAG International banned travel to China. Another measure introduced during the year was to encourage staff to wash their hands more often and to stop shaking hands. Throughout each site, posters with hygiene recommendations were displayed at the entrances, in the toilet rooms and at central locations.

China and Wuhan province remained the central sites of the coronavirus, although it was spreading rapidly. In Europe, Italy was hit the hardest. Initially, cities in the north of the country were sealed off. On 25 February 2020, Switzerland and Austria each reported their first case.

RUAG International's most important measures

- **26.02.** Travel to China and Italy is banned
- **17.03.** First coronavirus case is reported at RUAG Ammotec in Thun
- **06.04.** Protective masks are made available for employees at risk
- **16.04.** A cash protection process is introduced
- **01.05.** Short-time work is introduced at the Aerostructures plant in Emmen
- **01.06.** Short-time work is introduced at the Aerostructures plant in Oberpfaffenhofen
- **01.06.** Business trips are possible once again
- **17.06.** The situation eases: the Corona Task Force is disbanding
- **07.09.** The second wave rolls in: the Corona Task Force is reactivated
- **19.10.** Masks must be worn on all sites
- **02.11.** Germany and France impose partial lockdowns

RUAG International took further preventive measures for its employees: "Travel to Italy and Asia requires an exemption permit from the relevant member of the Executive Board," states a memo dated 26 February.

The first meeting of the task force followed a day later on 27 February. Under the leadership of Executive Vice President Felix Ammann, the task force's primary goals were to: protect employees and ensure operations. Even at this early stage, however, it became increasingly challenging to keep business running smoothly under the ever-changing conditions. The first economic consequences of the coronavirus crisis could already be felt. Deliveries from Italy were delayed, many meetings were postponed, cancelled or held online.

Air traffic came to a complete standstill

The number of coronavirus infections was increasing rapidly and exponentially. The situation at RUAG International varied greatly depending on the country and location. Each site has a protection concept that is communicated and implemented locally.

On 13 March, the USA also imposed an entry ban on all private travellers from European countries. On 15 March, Germany closed its borders to its neighbouring countries. Spain imposed a curfew on its citizens on the same day. Travel bans in many countries had drastic implications for air travel. It virtually come to a complete standstill. At the same time, it became increasingly difficult to provide adequate support to business segments abroad with skills and manpower from Switzerland. Large global or local projects – such as the introduction of SAP systems – were delayed.

RUAG International supports working from home and split offices wherever it is possible to do so efficiently. Offices and production areas have been reorganised to improve protection. Disinfectants are available everywhere and premises are cleaned even more frequently. In addition, break times and shift changes have been optimised in order to avoid contact. In principle, on-site visits are kept to a minimum, factory tours are no longer carried out, and business trips have been put on hold.

The first case of coronavirus at RUAG International

On 16 March, the Federal Council of Switzerland declared an extraordinary situation. All shops, restaurants, bars and entertainment and recreation businesses were to be closed. RUAG International recorded its first case of coronavirus on 17 March. The prepared reporting process worked perfectly; fortunately, the employee was soon recovering at home after being hospitalised.

Economic impact

The blanket travel ban, as well as the ban on major events were followed by the cancellation of major trade fairs: the Space Symposium scheduled for early May was postponed, the International Aerospace Exhibition (Internationale Luftfahrtausstellung, ILA) in Berlin scheduled for mid-May was cancelled. The coronavirus had an increasingly negative impact on supply chains and production. Orders were cancelled. RUAG International was forced to reduce costs and expenses – a cash protection process was introduced throughout the Group and the Board of Directors waived 15 % of its fee. However, wage increases for employees were not suspended. They are the ones who perform the most during the crisis.

Significant decrease in orders

International tourism virtually came to a standstill. RUAG International, an important supplier to Airbus, has also felt the effects of this. Orders decreased by around 30 per cent. Short-time work was introduced at many of RUAG International's plants – mostly at RUAG Aerostructures' three plants in Emmen (CH), Oberpfaffenhofen (DE) and Eger (HU). As a result of the coronavirus crisis, job cuts were also announced in the support areas: as many as 150 jobs will be cut worldwide by 2021.

The second wave rolls in

After a rather quiet summer, infection rates rapidly rose again in autumn. The Swiss Federal Council enacted a mask requirement in public spaces effective as of 19 October. On the same day, RUAG International also introduced compulsory masks for its employees. In addition, working from home was once again recommended. On 29 October, measures were tightened further by the Federal Council. Germany and France adopted even stricter measures: a second, more moderate lockdown was imposed in both countries in November. Many restaurants and leisure facilities were forced to close. Regulations were relaxed somewhat in many countries for the Christmas holidays. However, travel restrictions and quarantine requirements remained in place for many countries.

Felix Ammann
Head of Corona Taskforce and Executive Vice President RUAG MRO International

What is the biggest difference to other crises?

This is not comparable to any other crisis. We had to set up the most important measures quickly and in a coordinated way and harmonise them across the entire group and all countries. All segments pulled together right from the start. This meant that we were well equipped for the first wave, and always had the necessary number of masks and disinfectants, despite bottlenecks. This was a tremendous team success and we worked very well across all countries. This despite the difficult situation and an unprecedented pandemic. We continue to be well positioned.

Nicole Vogler
Global Risk & HSSE Manager

What have been the biggest challenges?

The epidemiological situation and infection rates are changing rapidly and the development was and is unpredictable. The legal requirements in individual countries, regions and sometimes individual cities are changing even more quickly. This complexity is challenging. We must constantly keep an eye on things, communicate frequently, make quick decisions.

Corporate Social Responsibility

As an international provider of applications and services in space and aviation, but also of defence technology products, the company's own corporate responsibility is an indispensable basis for sustainable economic success.

In the reporting year, RUAG International recognised its own corporate responsibility through a number of activities. The focus was on issues such as ensuring fair employment conditions, supporting employees effectively, safeguarding staff health and safety, and handling environmental resources in a sustainable way. Particularly in coronavirus times, the health and safety of employees took centre stage. An overview of the numerous measures can be found on page 28 and 29. The field of corporate responsibility, in particular responsibility in business relations with customers and partners, is described in greater detail in the section on Compliance & Governance.

Key to RUAG International's financial success and its responsibility towards society is the honest and fair way in which it interacts with all its employees. The basis for this is fair remuneration. To this end, RUAG International has its salary structure reviewed on a regular basis. In Switzerland, the salaries of all employees are analysed using Logib – a wage equality tool from the Swiss Federal Office for Gender Equality. In negotiations with the employee representatives in Switzerland, it was also decided at the end of January 2020 to grant all eligible employees a general annual salary increase of CHF 400 and to increase the salary budget for individual salary measures by an additional 0.4 %. Among others, employees in terminated employment and employees with a fixed-term employment contract until 31 December 2020 at the latest were not eligible. The total increase thus amounted to 0.8 %.

RUAG International was particularly active in the area of diversity this year – especially as its employees come from 70 different nations. The company was one of the main sponsors of the Swiss Diversity Award Night. At the Diversity Award Night, recognition prizes are awarded and public relations work is carried out to promote diversity and inclusion in Switzerland. In addition, various employees act as mentors for the Swiss TecLadies organisation. The mentoring programme is available to girls between the ages of 13 and 16 who are interested in STEM disciplines (science, technology, engineering and mathematics): they are accompanied by a female mentor for 9 months. More generally, the influential American organisation Women in Aerospace (WIA) is working to increase the visibility of women in aerospace. RUAG Space acts as a bronze sponsor and offers its female – and male – employees an important platform for professional networking.

Within RUAG International, special attention is paid to training and continuing education. Worldwide, the company trains 126 apprentices – 114 abroad and 12 in Switzerland. RUAG International also employed around 53 interns in 2020, giving them their first professional experience in an exciting environment. Furthermore, various student organisations and activities are supported. RUAG Space contributes financially and with its expertise to academic projects at ETH (ARIS: Academic Spaceflight Initiative Switzerland) and supports the EPFL Rocket Team at the Swiss Federal Institute of Technology Lausanne (EPFL).

The numerous commitments in all areas led to RUAG International's exceptionally good rating in the renowned employer ranking of the market research company Universum. Swiss engineering students ranked RUAG International in 9th place – two notches higher than last year.

Various constructional and operational improvements were made to further increase employee safety at many production sites, particularly RUAG Aerostructures in Emmen and RUAG Ammotec in Thun and Fürth. Despite Corona, all essential safety training was carried out – in line with the protection policy.

[3]

[1]

[2]

[1] Employees get involved

Especially in coronavirus times, more people were in need of help than usual. Employees at both the Australian and US sites got together to collect and distribute food. Employees also donated blood and plasma at the Defence Blood Challenge. Active support for the visually impaired was also provided by the workforce in Malaysia. They repaired tandem bicycles and enjoyed a ride together afterwards.

Throughout the year, RUAG Australia continued or expanded its partnerships and fundraising activities with charitable organisations. Five hundred 1:69 scale F/A-18 models were produced and sold within the company for the Soldier On Australia charity and a donation was made. And for WIRES, Australia's largest animal welfare organisation, employees collected almost 25,000 Australian dollars through an internal appeal for donations.

[2] Promoting the fascination of space

Space has fascinated people since time immemorial – no wonder the space exhibition at the Swiss Museum of Transport in Lucerne is so popular. Thanks to the support of RUAG Space and other partners, the "Space-Experience" exhibition at the Swiss Museum of Transport has been extensively updated. One highlight of the new exhibition is the thermal protection foil manufactured by RUAG Space, which protects satellites from extreme heat and cold. At the Swiss Museum of Transport, visitors can feel the same effect directly on their skin.

[3] Refurbished not discarded

In the reporting year, we continued our collaboration with the non-profit organisation AfB social & green IT. This foundation refurbishes used PCs and laptops. Not only is this great for the environment and saves CO_2, it also fulfils the foundation's mission to create work for people with disabilities (AfB). In 2020, RUAG International partnered with the foundation to hand over 305 laptop and desktop computers. These will be professionally refurbished and go on sale via the foundation's own online store.

Improvements for the environment

The manufacture of RUAG Ammotec products generates biological as well as chemical wastewater. In December, RUAG Ammotec commissioned an extension to its own wastewater treatment plant and a filtration plant at the Fürth (DE) production site, where part of the chemical wastewater is pre-treated. As the plant is classified as a "direct discharger", the treated wastewater can be discharged into a surface water body. This means that around 12,000 cubic metres of treated wastewater can be reused for production purposes.

A joint CO_2 universal target agreement with the FOEN (Federal Office for the Environment) is still in place until the end of 2021 for all sites in Switzerland owned by RUAG International or RUAG MRO Holding Ltd. The target reduction was also exceeded in 2020, primarily due to the changeover of the dual fuel burner system in Emmen from oil to natural gas.

Fewer Accidents

Reportable work accidents per 1,000 full-time positions (FTE) fell to 18 cases in 2020 (24 the previous year). Days lost due to accidents dropped to 198 in comparison to the previous year (330). The decrease is also linked to the unbundling at the beginning of 2020 and the associated reduction from 9091 FTE to 6299 FTE. No fatal work accidents were recorded.

Together against coronavirus

RUAG Ammotec supported the city of Fürth with disinfectant and protective masks. A total of 200 litres of surface disinfectant was produced in-house and 1,000 FFP2 masks went to public facilities such as daycare centres and retirement homes in the city. And to ensure that all employees at Ammotec's site in Fürth were equipped with mouth and nose coverings, the crisis team had masks made by a local sewing studio.

Compliance & Governance

Following the unbundling, Compliance & Governance focused on the transformation of the Group organisation in the reporting year. In the process, Trade Compliance was also adapted to the specific requirements of an adapted Corporate Governance. The focus of the activities was the establishment of an enterprise risk management system.

Following the completion of the unbundling, 2020 was dominated by the transformation of RUAG International into a unified international group managed according to modern best practices. The focus of Compliance & Governance's activities was on setting up a comprehensive enterprise risk management system in accordance with ISO 31000. In addition, an adapted Corporate Governance was designed and implemented to meet the specific needs of the new company. The standardisation of processes and functions in the area of trade compliance was further advanced. The main challenge facing HSSE (Health, Safety, Security & Environment) was dealing with the consequences of the COVID-19 pandemic.

Enterprise risk management

The central task of comprehensively revising the Enterprise Risk Management System for RUAG International, which was launched in 2019, was pursued at full speed in 2020. Important milestones were reached and organisational structures and processes were implemented.

The progress of the programme was regularly reported to both the Audit Committee and the Board of Directors. The Audit Committee and the Board of Directors took an active role in the implementation of the system. In addition to approving the progress of the programme, close professional support was also provided during the implementation phase.

A further organisational strengthening of risk management within the corporate organisation is the newly created position of a Risk Manager at Group level. The Risk Manager reports to the Global Risk & HSSE Manager and is currently primarily responsible for the implementation of the Enterprise Risk Management System.

Uniform system throughout the Group

In terms of directives and processes, continuous risk management was integrated into the company's operational processes in the reporting year. Furthermore, an improved semi-annual reporting system, both qualitative and quantitative, was introduced for submission to the Audit Committee, the Board of Directors and the Executive Board.

The integration of risk management into the work processes was carried out on the basis of the assessment carried out in 2019 and using a standardised system and uniform processes. All employees involved and all risk managers were trained in the new procedures. This ensures that the entire handling of risks – from identification and assessment to hedging, minimisation and management, through monitoring, reporting and communication – is carried out according to a consistent and uniform methodology throughout the Group.

The divisions' risk managers are supported by a risk management IT tool tailored to RUAG International's specific needs. It was introduced at the end of the year. By the end of Q1/21, the relevant employees will be trained in the application.

Management Committees for coordination and decision preparation

Two new committees were created to ensure sustainable, Group-wide coordination of compliance and risk management and to prepare decisions at Group level. On the one hand, the Compliance & Risk Network brings together the managers of all business segments and selected support functions. The Compliance & Risk Board, on the other hand, brings together those responsible at the Executive Board level. While the network prepares issues and decisions for the board, the latter is responsible for bringing the issues to the Executive Board. As Chair of both bodies, the VP Compliance & Governance is responsible for coordinating the activities.

Uniform and efficient compliance processes

As a company owned by the Swiss Confederation, RUAG International continues to set particularly high ethical standards for its own business activities in the area of compliance. These go beyond compliance with all guidelines, international agreements and national laws. For example, Swiss export control requirements for war material and dual-use goods must also be complied with by all foreign group companies. A strict zero-tolerance principle against any form of corruption applies to all managers, board members and employees. Openness and transparency are the central principles of action both with regard to government agencies and the public as well as within the company. Transparency International, the global independent anti-corruption movement, has awarded RUAG the second-best B ranking in the 2020 edition of its Defense Companies Index (DCI). According to the index, RUAG is among the top 16 companies worldwide out of a total of 100 rated on anti-corruption and transparency.

As part of the transformation to a company with strong space and aerospace activities, the trade compliance functions and processes of the two business segments Space and Aerostructures were merged and standardised in a matrix organisation in the area of compliance during the reporting year. This organisational form allows for an optimal mix of direct and functional reporting. For this purpose, all tasks and functions were first analysed and then, on a case-by-case basis, it was decided which functions were better managed centrally and which locally. The decision criteria were to ensure the most efficient and lean processes possible as well as the necessary proximity to the operational processes in individual cases.

Trained in data protection and mastered the corona challenge

In 2020, all employees equipped with their own IT workstation completed the e-learning course on data protection that was developed in the previous year. This means that everyone knows and can implement the correct handling of their own personal data and the personal data of employees, colleagues, business partners and other external persons.

At organisational level, a community of Data Protection Champions from all business segments and relevant support functions was established. These champions are responsible for implementing the data protection regulations and processes in their areas. At the same time, they are the eyes and ears of the Global Data Protection Officer in their business units. For example, they should alert him/her when new applications or work tools using personal data are introduced in a department.

In 2020, the HSSE team was dominated by the challenges posed by the coronavirus pandemic to RUAG International's various working environments. A separate report on page 28 an 29 provides information about the various work undertaken.

Specific Corporate Governance created

The Corporate Governance was also adapted to the changed structures of the new RUAG International in the year under review. A new organisational code defines the management organisation and uniform management principles of RUAG International Holding Ltd and all its affiliated companies. In addition, a new code was formulated and adapted to the changed circumstances, which regulates in detail the accountability obligations and responsibilities within the Group.

In contrast, adjustments to the specific structures of the new company were not necessary for the Code of Conduct. Commitment to the values and principles continues to apply to all employees worldwide. This means that all three pillars of governance – conduct, organisation and responsibilities – are now regulated in a binding manner at the highest directive level for RUAG International.

Whistleblower system

A key element in ensuring RUAG International's global compliance is its whistleblower system. The system can be used by all employees, as well as external parties, to report possible irregularities and misconduct. Reports made within the system are seen only by the Compliance Team and are kept confidential if requested.

The system received a total of 20 reports in 2020. This represents a decrease of one third compared to the previous year. This decline was expected, as the number of employees fell by a comparable amount from 9091 to 6299 due to the the unbundling of RUAG.

Of the 20 reports, 10 were received through the external whistleblower system. In 2020, the investigations launched as a result of these reports led to concrete measures being introduced in 12 cases. Eight reports resulted in no further action being taken. The internal investigations have been completed in all cases.

03 Financial statements

70

RUAG International employs people from 70 nations.

Overview of key figures[1]

in CHF m	2020	2019
Order intake	1 214	1 893
Order backlog	1 169	1 634
Net sales	1 181	2 003
Operating income	1 235	1 988
Cost of materials and purchased services	(428)	(721)
Personnel expenses	(614)	(964)
Other operating expenses, net	(330)	(217)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	(137)	86
EBITDA in % of net sales	(11.6 %)	4.3 %
Earnings before interest and taxes (EBIT)	(224)	(7)
EBIT in % of net sales	(18.9 %)	(0.4 %)
Net loss	(219)	(25)
Net loss in % of net sales	(18.5 %)	(1.2 %)
Cash flow from operating activities	19	133
Cash flow from investing activities	(74)	3
Free cash flow	(55)	135
Cash flow from financing activities	(24)	(109)
Equity attributable to the RUAG International shareholder	463	1 028
Equity in % of total assets	36.9 %	55.1 %
Return on equity[2]	(38.4 %)	(2.4 %)
Depreciation, amortisation and impairment	86	93
Research and development expenses[3]	27	42
in % of net sales	2.3 %	2.1 %
Net sales per employee (in CHF thousands)	182	219
Added value per employee (in CHF thousands)	112	126
Employees (FTE) as at 31 December incl. apprentices	6 299	9 091
Number of employees (average FTE for year, incl. apprentices)	6 476	9 157
Number of registered shares (par value CHF 1000)	340 000	340 000
Earnings (loss) per registered share	(643.34)	(72.62)
Paid dividend per registered share[4]	—	—
Distribution ratio	—	—
Book value per registered share in CHF	1 361	3 025

[1] As of the end of April 2020, the business activities of RUAG MRO Switzerland were transferred to RUAG MRO Holding Ltd under the umbrella of BGRB Holding Ltd with retroactive effect as of 1 January 2020 due to the unbundling of RUAG. As a result, the MRO Switzerland business segment formed a separate sister group from 1 January 2020 and will no longer be included in the consolidated financial statements of RUAG International Holding Ltd. The period of comparison was not adjusted.
[2] Net loss as a percentage of average equity. For the calculation in reporting year 2020, the unbundling effect was taken into account in equity as of 31 December 2019.
[3] Includes self-financed research and development expenses incurred during the reporting year at the company's own risk and recognised as an expense.
[4] The Board of Directors proposes foregoing a dividend payment.

Five-year overview[1]

in CHF m	2020	2019	2018	2017	2016
Order intake	1 214	1 893	2 221	1 961	2 036
Order backlog	1 169	1 634	1 794	1 607	1 556
Net sales	1 181	2 003	1 998	1 955	1 858
Earnings before interest and taxes (EBIT)	(224)	(7)	106	119	151
EBIT in % of net sales	(18.9 %)	(0.4 %)	5.3 %	6.1 %	8.1 %
Net profit (loss)	(219)	(25)	74	89	116
Net profit (loss) in % of net sales	(18.5 %)	(1.2 %)	3.7 %	4.6 %	6.2 %
Cash flow from operating activities	19	133	176	88	135
Cash flow from investing activities	(74)	3	(83)	(146)	(79)
Free cash flow	(55)	135	94	(59)	56
Cash flow from financing activities	(24)	(109)	(88)	23	(49)
Equity attributable to the RUAG International shareholder	463	1 028	1 022	1 007	1 005
Equity in % of total assets	36.9 %	55.1 %	51.2 %	51.3 %	55.4 %
Return on equity[2]	(38.4 %)	(2.4 %)	7.3 %	8.9 %	11.9 %
Research and development expenses[3]	27	42	46	53	49
in % of net sales	2.3 %	2.1 %	2.3 %	2.7 %	2.6 %
Employees (FTE) as at 31 December incl. apprentices	6 299	9 091	9 127	9 189	8 734
Number of employees (average FTE for year, incl. apprentices)	6 476	9 157	9 159	9 083	8 543

[1] As of the end of April 2020, the business activities of RUAG MRO Switzerland were transferred to RUAG MRO Holding Ltd under the umbrella of BGRB Holding Ltd with retroactive effect as of 1 January 2020 due to the unbundling of RUAG. As a result, the MRO Switzerland business segment formed a separate sister group from 1 January 2020 and will no longer be included in the consolidated financial statements of RUAG International Holding Ltd. The period of comparison was not adjusted.
[2] Net loss as a percentage of average equity. For the calculation in reporting year 2020, the unbundling effect was taken into account in equity as of 31 December 2019.
[3] Includes self-financed research and development expenses incurred during the reporting year at the company's own risk and recognised as an expense.

Consolidated income statement 1 January to 31 December[1]

in CHF m	Note	2020	2019
Net sales	6	1 181	2 003
Own work capitalised		11	8
Changes in inventories and work in progress		42	(22)
Operating income		1 235	1 988
Cost of materials and purchased services		(428)	(721)
Personnel expenses	7	(614)	(964)
Other operating expenses, net	8	(330)	(217)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		(137)	86
Depreciation, amortisation and impairment, investment properties	17, 18	(77)	(75)
Amortisation and impairment of intangible assets	19	(10)	(17)
Earnings before interest and taxes (EBIT)		(224)	(7)
Financial income	10	2	2
Financial expenses	10	(6)	(10)
Share in income of associates	20	—	(0)
Net loss before tax		(228)	(16)
Income taxes	11	9	(9)
Net loss		(219)	(25)
Net loss attributable to:			
Shareholders of RUAG International Holding Ltd		(218)	(25)
Non-controlling interests		(0)	0
Net loss		(219)	(25)

[1] As of the end of April 2020, the business activities of RUAG MRO Switzerland were transferred to RUAG MRO Holding Ltd under the umbrella of BGRB Holding Ltd with retroactive effect as of 1 January 2020 due to the unbundling of RUAG. As a result, the MRO Switzerland business segment formed a separate sister group from 1 January 2020 and will no longer be included in the consolidated financial statements of RUAG International Holding Ltd. The period of comparison was not adjusted.

The notes to the consolidated financial statements on pages 42 to 80 form an integral part of the consolidated financial statements.

Consolidated balance sheet as at 31 December[1]

in CHF m	Note	2020	2019
Cash and cash equivalents	12	158	237
Current financial assets	13	11	5
Trade receivables	14	156	254
Prepayments to suppliers	14	5	26
Other current receivables	14	17	21
Tax assets		10	8
Prepaid expenses and accrued income		17	18
Inventories and work in progress	15, 16	505	625
Current assets		879	1 194
Property, plant and equipment	17	331	520
Investment property	18	—	79
Intangible assets	19	12	10
Associates	20	—	38
Non-current financial assets	13	1	2
Deferred tax assets	11	31	22
Non-current assets		375	671
Total assets		1 253	1 865
Current financial liabilities	21	60	4
Trade accounts payable	22	86	121
Prepayments from customers	22	184	213
Other current liabilities	23	27	40
Tax liabilities		6	18
Deferred income and accrued expenses	25	130	210
Current provisions	26	146	79
Current liabilities		637	684
Non-current financial liabilities	21	1	1
Other non-current financial liabilities	24	1	1
Employee benefit obligations	27	92	83
Non-current provisions	26	40	29
Deferred tax liabilities	11	21	37
Non-current liabilities		155	151
Share capital	28	340	340
Capital reserves		10	10
Retained earnings		244	816
Offsetting of goodwill		(85)	(85)
Other reserves		(3)	(7)
Foreign currency translation adjustments		(43)	(45)
Equity attributable to the RUAG International shareholder		463	1 028
Equity attributable to non-controlling interests		(1)	2
Total equity		461	1 030
Total liabilities and equity		1 253	1 865

[1] As of the end of April 2020, the business activities of RUAG MRO Switzerland were transferred to RUAG MRO Holding Ltd under the umbrella of BGRB Holding Ltd with retroactive effect as of 1 January 2020 due to the unbundling of RUAG. As a result, the MRO Switzerland business segment formed a separate sister group from 1 January 2020 and will no longer be included in the consolidated financial statements of RUAG International Holding Ltd. The period of comparison was not adjusted.

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[1]

in CHF m	Note	2020	2019
Net loss		(219)	(25)
Depreciation, amortisation and impairment	17, 18, 19	86	93
Change in non-current provisions and deferred taxes		19	12
Use of non-current provisions		(3)	(5)
Share in income of associates	20	—	0
Other non-cash changes		(1)	(5)
Change in net working capital[2]		132	77
(Gain)/loss on disposal of non-current assets incl. investments		0	(23)
Financial income	10	(2)	(2)
Financial expenses	10	6	10
Cash flow from operating activities[3]		19	133
Capital expenditures for plant and equipment	17	(52)	(66)
Capital expenditures for property incl. investment properties	17, 18	(11)	(28)
Capital expenditures for intangible assets	19	(12)	(4)
Acquisition of subsidiaries less cash and cash equivalents acquired	4	—	(2)
Increase in financial assets		—	—
Disposal of plant and equipment		0	2
Disposal of property incl. investment properties		0	2
Disposal of intangible assets		0	(0)
Disposal of investments less cash and cash equivalents disposed of	4	—	98
Decrease in financial assets		—	0
Dividends received from associates	20	—	1
Cash flow from investing activities		(74)	3
Free cash flow		(55)	135
Increase/decrease in financial activities		(1)	3
Increase/decrease in current financial liabilities		59	(30)
Decrease in non-current financial liabilities		—	(45)
Finance lease payments		—	(0)
Financial income received		2	2
Financial expenses paid		(6)	(9)
Dividends paid to shareholders		—	(30)
Dividends paid to non-controlling interests		—	(0)
Unbundling		(77)	
Cash flow from financing activities		(24)	(109)
Change in cash and cash equivalents before foreign currency translation adjustments		(79)	26
Cash and cash equivalents at beginning of period		237	209
Foreign currency translation adjustments in respect of cash and cash equivalents		(0)	2
Cash and cash equivalents at end of period		158	237

1 As of the end of April 2020, the business activities of RUAG MRO Switzerland were transferred to RUAG MRO Holding Ltd under the umbrella of BGRB Holding Ltd with retroactive effect as of 1 January 2020 due to the unbundling of RUAG. As a result, the MRO Switzerland business segment formed a separate sister group from 1 January 2020 and will no longer be included in the consolidated financial statements of RUAG International Holding Ltd. The period of comparison was not adjusted.
2 Excludes current financial assets, current financial liabilities and other non-current liabilities.
3 Including income taxes of CHF 6 million paid in the year under review (previous year: CHF 10 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[1]

in CHF m	Share capital	Capital reserves	Retained earnings	Offsetting of goodwill	Other reserves	Foreign currency translation adjustments	Attributable to the RUAG International shareholder	Attributable to non-controlling interests	Total equity
Balance as at 1 January 2019	340	10	870	(156)	(9)	(33)	1022	2	1024
Net loss	—	—	(25)	—	—	—	(25)	0	(25)
Goodwill offset against equity	—	—	—	(0)	—	—	(0)	—	(0)
Recognised in profit or loss due to disposal[2]	—	—	—	72	—	(1)	71	—	71
Change in fair value of cash flow hedges	—	—	—	—	(9)	—	(9)	—	(9)
Gains and losses from cash flow hedges transferred to profit or loss	—	—	—	—	11	—	11	—	11
Foreign currency translation adjustments of foreign subsidiaries	—	—	—	—	—	(12)	(12)	(0)	(12)
Dividends paid	—	—	(30)	—	—	—	(30)	(0)	(30)
Balance as at 31 December 2019	340	10	816	(85)	(7)	(45)	1028	2	1030
Balance as at 1 January 2020	340	10	816	(85)	(7)	(45)	1028	2	1030
Unbundling	—	—	(353)	0	—	1	(351)	(3)	(354)
Net loss	—	—	(218)	—	—	—	(218)	(0)	(219)
Goodwill offset against equity	—	—	—	—	—	—	—	—	—
Change in fair value of cash flow hedges and losses	—	—	—	—	3	—	3	—	3
Gains and losses from cash flow hedges transferred to profit or loss	—	—	—	—	(0)	—	(0)	—	(0)
Foreign currency translation adjustments of foreign subsidiaries	—	—	—	—	—	1	1	0	1
Dividends paid	—	—	—	—	—	—	—	—	—
Balance as at 31 December 2020	340	10	244	(85)	(3)	(43)	463	(1)	461

1 As of the end of April 2020, the business activities of RUAG MRO Switzerland were transferred to RUAG MRO Holding Ltd under the umbrella of BGRB Holding Ltd with retroactive effect as of 1 January 2020 due to the unbundling of RUAG. As a result, the MRO Switzerland business segment formed a separate sister group from 1 January 2020 and will no longer be included in the consolidated financial statements of RUAG International Holding Ltd. The period of comparison was not adjusted.
2 The goodwill and cumulative foreign currency translation adjustments were derecognised from equity and are a component of the gain on disposals.

In the year under review, a dividend of CHF 0 million (previous year: CHF 30 million) was paid to the shareholder of RUAG International Holding Ltd from the previous year's result. This is equivalent to a dividend per share of CHF 0 (previous year: CHF 88.25).

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 International Holding Ltd is a Swiss joint-stock company headquartered in Bern and wholly owned by BGRB Holding Ltd. This in turn is wholly owned by the Swiss Confederation. As of 1 January 2020, RUAG was split (unbundled) into two sub-groups: RUAG International and RUAG MRO Holding Ltd. The tasks relating to the lifecycle management of the Swiss Armed Forces have been spun off into the newly established sister group RUAG MRO Holding Ltd RUAG International Holding Ltd and its subsidiary companies (hereinafter referred to as “RUAG International”) focus on the international aerospace and defence businesses with goods and services in the military and civil sectors. RUAG International is bound by the owner’s strategy of the Swiss Federal Council.

Relationship with the Swiss Confederation

Through BGRB Holding Ltd, the Swiss Confederation is the sole shareholder of RUAG International 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 International’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 income tax, financial liabilities and segment reporting. Furthermore, the provisions of Swiss company law have been fulfilled. The reporting period covers twelve months.

Reference period

RUAG International Holding Ltd and its subsidiaries were split into two sub-groups as of 1 January 2020. The comparative period has not been restated. Significant deviations from the comparative figures may be due to the unbundling. The summarised effects in the areas of current assets, non-current assets, current and non-current liabilities, and shareholders’ equity are presented transparently in Note 4 and, where appropriate, in further disclosures. No generic commentary is provided in the notes.

The consolidated financial statements are presented in Swiss francs (CHF). The balance sheet is structured according to maturities.

Current assets include assets that
- are realised within 12 months after the balance sheet date, or are sold, consumed or realised 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
- that 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 recognised 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 management’s latest knowledge of 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 Explanation of key figures not defined in Swiss GAAP FER

The operating income sub-total shown separately on the income statement includes all operating income, own work capitalised less changes in inventories and work in progress.

EBITDA corresponds to earnings before interest and taxes (EBIT) before depreciation and impairment of property, plant and equipment and amortisation and impairment of intangible assets and is reported separately in the income statement.

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.

These three figures are key performance indicators for RUAG International and are therefore shown separately.

2.3 Principles and scope of consolidation

RUAG International’s annual consolidated financial statements include subsidiaries where RUAG International 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 International 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 recognised 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 unrealised 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 International exerts a significant influence (normally 20–50 % of the voting rights held directly or indirectly), but which the Group does not control, are recognised 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 International does not exercise significant influence (less than 20 % of the voting rights 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 key consolidation and accounting principles were applied unchanged from the previous year.

2.4 Foreign currency translation

RUAG International Holding Ltd’s consolidated financial statements are presented in Swiss francs (CHF), the functional currency of RUAG International 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 recognised in profit or loss, with the exception of exchange differences arising from effective cash flow hedges or net investments in foreign subsidiaries, which are recognised directly in equity.

The assets and liabilities of subsidiaries and associates recognised 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 recognised directly in consolidated equity and reported separately as cumulative foreign currency translation adjustments. In the event of disposal (to the extent that this leads to loss of control or significant influence) of a foreign subsidiary or associate, the cumulative foreign currency translation adjustments previously recognised 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 recognised 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		Unit	Annual average 2020	End-of-year rate 2020	Annual average 2019	End-of-year rate 2019	Annual average 2018	End-of-year rate 2018
Euro	EUR	1	1.07	1.08	1.11	1.09	1.15	1.13
Swedish krona	SEK	100	10.21	10.76	10.52	10.39	11.26	10.99
US dollar	USD	1	0.94	0.88	0.99	0.97	0.98	0.98
Hungarian forint	HUF	100	0.31	0.30	0.34	0.33	0.36	0.35

2.5 Cash and cash equivalents

Cash and cash equivalents comprise cash and 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 recognised at amortised 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 recognised at amortised 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 realisable 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 recognising 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 recognised 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 recognised 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 business unit, the milestone method is applied to a large extent. 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 realised on a pro rata basis.

If the outcome of long-term construction and service contracts cannot be estimated reliably, sales are only recognised to the extent of contract costs incurred that are likely to be recoverable (recoverable cost method). Contract costs are recognised when incurred unless they give rise to an asset that is linked to 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 recognised 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 recognised at cost less accumulated depreciation and impairment. Repair and maintenance costs are stated as an expense. Major renovations and other value-enhancing costs are capitalised and depreciated over their estimated useful life. The carrying amount of replaced parts is derecognised. Items are depreciated on a straight-line basis, with the exception of land, which is not depreciated and is recognised 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 recognised in the balance sheet at fair value as deferred income. Government grants are then recognised 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 International are recognised 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 amortised 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 capitalised 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 recognised at cost.

Majority leased sites 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 recognised at cost less accumulated amortisation and impairment. Intangible assets acquired separately in business combinations are recognised at their acquisition-date fair value less any necessary impairment.

Items are amortised 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 recognised at the fair value of the consideration at the transaction date. Identifiable assets acquired and liabilities and contingent liabilities assumed are recognised in the balance sheet at their acquisition-date fair value, irrespective of the extent of any non-controlling interest. Transaction costs are recognised as expenses in profit or loss. The acquisition costs exceeding the net assets recognised 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 recognised 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 recognised in the income statement under "Other operating expenses, net". The impact of the goodwill being theoretically capitalised (acquisition cost, residual value, useful life, amortisation) and any potential impairment are shown in the notes. Any negative difference is recognised 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 recognised in the income statement as a component of the gain or loss on disposals.

2.14 Research and development expenses
Research expenses are not capitalised and are expensed as incurred. RUAG International examines the capitalisation of development costs on a case-by-case basis. Development costs are only recognised 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. Capitalised development costs are measured at cost less accumulated amortisation 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 recognised 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 recognised at fair value less direct transaction costs and subsequently measured at amortised cost using the effective interest method.

2.17 Trade accounts payable and prepayments
Trade accounts payable are recognised at amortised cost. Prepayments are measured at amortised 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 recognised where:
- RUAG International 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 constructive liability has arisen and the amount of this liability can be estimated reliably. The costs of redundancy plans are treated as an expense at the time of the management's decision, provided that a probable liability has arisen and the amount of this liability can be estimated reliably.

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 recognised 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 capitalised 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 recognised if the conditions for creating a provision are met under Swiss GAAP FER 23. This is recognised under employee benefit obligations.

Changes to an economic benefit or liability are recognised in the income statement in the same way as for the contributions made for the period. Any impact on income of foreign pension plans is 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 recognised in profit or loss except to the extent that they relate to a business combination or to an item recognised directly in equity. Taxes which are not based on income, such as taxes on real estate and capital, are recognised 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 recognised for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax base. Deferred taxes are not recognised for:

- temporary differences when recognising 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 realised 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 recognised 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) as well as any grants or contributions from shareholders in their capacity as shareholders.

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 International 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 International 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 business segment). If the proceeds of a construction contract cannot be reliably measured, sales are recognised only to the extent of the potentially recoverable costs incurred by the contract recognised as an expense in the relevant period. Contributions from third parties arising from contract development work are recognised 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 recognised once legal entitlement to payment has arisen.

Advance payments received Advance payments received are deferred and then recognised 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 organisational and management structure as well as internal financial reporting to RUAG International's Chief Operating Decision Maker, the CEO. As part of the changes in the organisational and management structure from 1 January 2020 reporting is now broken down according to the "Space", "Aerostructures", "MRO International" and "Ammotec" business segments. In addition, the reporting includes the area "Other segments", which comprises central services such as real estate management (location Zürich Seebach) and IT, RUAG International's corporate units and in the previous year the former Cyber Security business unit (until the Clearswift Group was sold on 2 December 2019). The MRO Switzerland business segment, which was still part of the consolidated financial statements in the previous year, was transferred to the sister group RUAG MRO Holding Ltd on 1 January 2020 together with RUAG Real Estate Ltd and other elements from the "Other segments" area. For further information, please refer to Note 4 "Newly established companies, acquisitions, unbundling and disposals of subsidiaries and business units".

Unrealised gains or losses may be incurred as a result of services or disposal of assets between the individual segments. These are eliminated and stated in the segment information in the "Elimination" column. Net assets comprise trade receivables, advance payments to suppliers, other current receivables, tax receivables, prepaid expenses, inventories and work in progress, property, plant and equipment, investment property and intangible assets less trade payables, advance payments from customers, other current liabilities, tax liabilities, deferred income and current and non-current provisions.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 business segment With a broad international customer base, 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 12 production sites in six countries, the business segment specialises in high-performance components for use aboard satellites and other spacecraft such as launch vehicles. The division's expertise is divided into three product groups: electronics for all space applications (Electronics product group), mechanical and thermal products for satellites and structures (Spacecraft product group), and payload fairings and separation systems for launch vehicles (Launchers product group). These product groups represent the most important sources of earnings.

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

MRO International business segment RUAG MRO International is an independent supplier, support provider and integrator of systems and components for civil and military aviation across the globe. As the manufacturer (OEM) of the Dornier 228, a versatile aircraft designed for special missions as well as passenger and cargo transport, RUAG's focus is on providing customer and OEM support in this particular area. RUAG MRO International also develops simulation and training facilities for live, virtual and constructive (LVC) training delivered to international security and armed forces. The main sources of earnings are maintenance and life extension services as well as the sale of systems and subsystems.

Ammotec business 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 business segment 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.

MRO Switzerland business segment (until end-2019) RUAG MRO Switzerland provides a vital contribution to Switzerland's security. As a future-oriented technology partner, the company focuses on life-cycle management, operation and ensuring the availability of military systems – in particular for the Swiss Armed Forces. In addition to comprehensive system management tasks, the extensive product and service portfolio includes unique subsystems and components for tracked and wheeled vehicles, combat jets, military helicopters and air defence. Moreover, it provides reliable information and communication solutions as well as comprehensive maintenance and repair services. The main sources of earnings are the sale of corresponding products as well as servicing and maintenance services.

2.26 Related party transactions

RUAG International produces defence equipment in the field of ammunition for the Swiss Federal Department of Defence, Civil Protection and Sport (DDPS). In the previous year, the MRO Switzerland business unit provided maintenance services for the DDPS, making it RUAG's largest customer in the previous year. 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. In the reporting period, new services were purchased from the sister group RUAG MRO Holding Ltd, for example in the form of renting business premises, and services were provided on a smaller scale to the sister group and the parent company BGRB Holding Ltd. The transactions are carried out on an "arm's length" basis.

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 recognised 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 recognised in equity and separately disclosed under "Other reserves". The ineffective portion is recognised 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 recognised at their positive or negative replacement value as at the balance sheet date and are disclosed in the notes.

Currently, RUAG International 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 utilisation 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 recognised, 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 recognised based on management's judgement. Deferred tax assets are only recognised 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 Newly established companies, acquisitions, unbundling and disposals of subsidiaries and business units

Newly established companies On 5 August 2020, RUAG Advanced Systems Inc. was founded with headquarters in Huntsville (Alabama, USA). The aim of this company is to participate in space programmes, particularly those of the US Department of Defense, and thus to increase RUAG Space's business potential in the USA. The activities of the newly established company had no material impact on the consolidated financial statements of RUAG International.

During the unbundling process, the companies RUAG GmbH, domiciled in Kassel (Germany), Base 10 GmbH, domiciled in Hallbergmoos (Germany), RUAG Ltd, based in Emmen (Switzerland), and RUAG MRO Holding Ltd and RUAG Simulation & Training Ltd, both domiciled in Bern (Switzerland), were founded in October 2019. As of 1 December 2019, RUAG GmbH and Base 10 GmbH took over certain business activities from RUAG Defence Deutschland GmbH by purchasing the business operations and the related assets and liabilities. These transactions had no significant impact on the consolidated financial statements of RUAG.

RUAG Inc., founded on 20 December 2019 and domiciled in Berlin (USA), also results from the unbundling of the corporate structure. As of 31 December 2019, this company took over the entire business activities of Mecanex USA Inc. by purchasing the business operations and the related assets and liabilities. This transaction had no significant impact on the consolidated financial statements of RUAG.

Acquisitions No acquisitions were made in the reporting year or in the previous year.

Net cash outflow

in CHF m

	2020	2019
Cash consideration	—	4
Escrow account refund	—	(2)
Take-over of financial liabilities	—	—
Cash and cash equivalents acquired	—	—
Total net cash outflow	—	2

The considerations paid in cash amounted to CHF 3.7 million in the previous year. Under the agreements concerning the contingent consideration in connection with the acquisition of the Clearswift Group, the Group was 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 acquisition. At the time of acquisition, the fair value of this liability was estimated at CHF 4.5 million. Payments of CHF 2.3 million were made in 2017 and 2018. Further payments totaling CHF 3.7 million became due in the previous year, of which CHF 0.5 million was recognised in profit or loss. Following the conclusion of open investigations existing at the time of the acquisition of the Clearswift Group, for which part of the purchase price was deposited in an escrow account, CHF 1.6 million was returned to RUAG from the escrow account.

No expenses were incurred as there were no acquisitions either in the year under review or in the previous year.

Unbundling and disposals of subsidiaries and business units

Unbundling of RUAG Group As of the end of April 2020, the business activities of RUAG MRO Switzerland were transferred to RUAG MRO Holding Ltd under the umbrella of BGRB Holding Ltd with retroactive effect as of 1 January 2020 due to the unbundling of RUAG. As a result, the MRO Switzerland business unit formed a separate sister group from 1 January 2020 and will no longer be included in the consolidated financial statements of RUAG International Holding Ltd. The period of comparison was not adjusted. Further details on the activities of RUAG MRO Holding Ltd can be found in Note 2.25 "Segment information".

RUAG Business Aviation Ltd On 2 July 2019, RUAG Business Aviation Ltd was sold to Dassault Aviation. RUAG Business Aviation Ltd was established in the previous year as a vehicle for the sale of the business aviation sites in Geneva-Cointrin and Lugano-Agno, with retroactive effect from 1 January 2019. All business activities and all employees were transferred. By the time it was sold, RUAG Business Aviation Ltd generated sales of CHF 16.5 million and a negative EBIT of CHF 0.4 million.

Clearswift On 2 December 2019, the Clearswift Group was sold to the American company Help/Systems International Group Limited. By the time it was sold, the Clearswift Group generated sales of CHF 29.7 million and EBIT of CHF 4.9 million.

No sales of subsidiaries and/or business units had concluded in the reporting year. For the sale of the business unit "Maintenance, Repair & Operations for Business Aircraft and Military Helicopters as well as the Production of the Dornier 228" at the Oberpfaffenhofen site, a corresponding agreement was signed with the company General Atomics Europe GmbH on 30 September 2020. In the future, General Atomics Europe GmbH will take over all business activities related to maintenance work for private and military aircraft as well as the production and maintenance of the Dornier 228 aircraft and all of its approximately 420 employees. The final transfer of ownership (contractual closing) took place at the end of February 2021. The parties have agreed not to disclose the contractual terms. Operations that were sold and effectively discontinued in the previous year had the following effects on RUAG's net sales and EBIT:

Net sales and EBIT of discontinued operations

in CHF m

	2020	2019
Net sales	—	46
EBIT	—	5

Disposals of assets and liabilities associated with sales made in the reporting year and the corresponding cash inflows are summarised in the following table:

Spun-off/Sold assets and liabilities

in CHF m

	2020	2019
Current assets	266	29
Non-current assets	285	37
Current and non-current liabilities [1]	(196)	(73)
Total spun-off/sold assets and liabilities	354	(8)

[1] In the previous year including intercompany loans to Clearswift and RUAG Business Aviation Ltd in the amount of CHF 29 million repaid by the buyers.

Net cash inflow/outflow

in CHF m

	2020	2019
Considerations paid in cash	—	86
Take-over of financial liabilities	—	29
Spun-off/sold cash and cash equivalents	(77)	(17)
Net cash inflow/outflow	(77)	98

5 Segment information

in CHF m

	2020 Space	2019 Space	2020 Aerostructures	2019 Aerostructures	2020 MRO International	2019 MRO International	2020 Ammotec	2019 Ammotec	2020 MRO Switzerland[1]	2019 MRO Switzerland	2020 Other segments	2019 Other segments	2020 Total Segments	2019 Total Segments	2020 Eliminations	2019 Eliminations	2020 Group total	2019 Group total
Order intake – third parties	301	343	185	283	206	213	521	411	—	567	1	75	1 214	1 893		—	1 214	1 893
Order backlog – third parties	548	561	187	260	286	268	148	140	—	406	—	—	1 169	1 634		—	1 169	1 634
Net sales with third parties	276	338	202	297	173	235	487	450	—	607	1	75	1 139	2 003		—	1 139	2 003
Net sales with other segments	1	1	2	2	6	8	0	0	—	18	85	108	93	137	(51)	(137)	42	—
Total net sales	277	339	204	300	179	243	487	450	—	625	86	183	1 232	2 141	(51)	(137)	1 181	2 003
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	(9)	37	(74)	(13)	(71)	(44)	44	30	—	62	(27)	13	(137)	86	—	—	(137)	86
Depreciation, amortisation and impairment	(12)	(13)	(44)	(9)	(5)	(19)	(20)	(18)	—	(7)	(5)	(26)	(86)	(93)	—	—	(86)	(93)
Earnings before interest and taxes (EBIT)	(21)	24	(118)	(22)	(76)	(63)	24	12	—	54	(32)	(13)	(224)	(7)	—	—	(224)	(7)
Net financial result																	(4)	(8)
Share in income of associates											—	(0)	—	(0)			—	(0)
Earnings (loss) before taxes																	(228)	(16)
Income taxes																	9	(9)
Net loss																	(219)	(25)
Net operating assets by region	98	112	5	109	98	48	313	296	—	42	(80)	244	434	850	—	0	434	850
Net operating assets Switzerland	8	12	3	38	(3)	10	48	39	—	33	36	239	92	372	(2)	(1)	94	372
Net operating assets Rest of Europe	24	49	1	71	84	20	253	227	—	7	(116)	4	246	378	2	(0)	243	378
Net operating assets Rest of world	66	51	—	—	18	17	12	30	—	2	(0)	(0)	96	100	(0)	1	96	101
Property, plant and equipment and intangible assets (incl. investment properties)	70	76	0	36	32	34	188	160	—	32	51	270	342	608	—	—	342	608
Property, plant and equipment and intangible assets Switzerland (incl. investment properties)	28	29	—	18	4	4	36	39	—	31	51	270	120	392	—	—	120	392
Property, plant and equipment and intangible assets Rest of Europe	17	19	0	18	13	13	150	119	—	1	0	0	181	170	—	—	181	170
Property, plant and equipment and intangible assets Rest of world	25	28	—	—	16	17	2	2	—	0	—	—	42	47	—	—	42	47
Capital expenditures for property, plant and equipment and intangible assets (incl. investment properties)	(12)	(20)	(9)	(7)	(3)	(6)	(51)	(40)	—	(6)	(0)	(18)	(75)	(98)	—	—	(75)	(98)
Disposal of property, plant and equipment and intangible assets (incl. investment properties)	0	0	0	0	0	1	0	1	—	0	0	1	0	3	—	—	0	3

[1] As of the end of April 2020, the business activities of RUAG MRO Switzerland were transferred to RUAG MRO Holding Ltd under the umbrella of BGRB Holding Ltd with retroactive effect as of 1 January 2020 due to the unbundling of RUAG. As a result, the MRO Switzerland business segment formed a separate sister group from 1 January 2020 and will no longer be included in the consolidated financial statements of RUAG International Holding Ltd.

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

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

6 Net sales

in CHF m	2020	2019
Invoiced sales	1 207	1 991
Change in contracts under the percentage of completion (PoC) method	(26)	12
Total net sales	1 181	2 003

Analysis of invoiced sales

	2020	2019
DDPS	153	641
Third parties	1 054	1 350
Invoiced sales by customer group	1 207	1 991

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

Net Sales from transactions with DDPS usw are mainly generated by Ammotec, while those from Airbus are mainly split between the Aerostructures and Space business units.

	2020	2019
Defence	339	855
Civil	869	1 106
Invoiced sales by type of use	1 207	1 991

	2020	2019
Switzerland	229	738
Rest of Europe	747	938
Middle East	4	14
North America	179	212
South America	3	3
Asia/Pacific	45	83
Africa	1	3
Invoiced sales by region	1 207	1 991

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

7 Personnel expenses

in CHF m	2020	2019
Salaries and wages	(436)	(706)
Expense of benefit plans	(33)	(65)
Other social security expenses	(74)	(94)
Contract personnel	(57)	(64)
Other personnel expenses	(15)	(35)
Total personnel expenses	(614)	(964)

Personnel expenses in the reporting year decreased compared to the previous year, primarily due to the unbundling and the direct effects of the COVID-19 pandemic in the aviation sector. There were staff reductions at the sites in Switzerland (Emmen, Aerostructures), Germany (Oberpfaffenhofen, Aerostructures) and Hungary (Eger, Aerostructures). Further restructuring measures in Switzerland (Emmen, Aerostructures) and Sweden (Gothenburg, Space) are already reflected in the reporting period. The revaluation of foreign pension plans – mainly in the Ammotec (Germany and Sweden) and Space (Sweden) business units – resulted in additional charges of CHF 7 million (previous year CHF 16 million) due to lower discount rates, recognised in pension expenses.

8 Other operating expenses, net

in CHF m	2020	2019
Premises costs	(42)	(26)
Maintenance and repairs of property, plant and equipment	(44)	(66)
Cost of energy and waste disposal	(15)	(13)
Insurance and duties	(6)	(8)
Administration and IT costs	(77)	(77)
Advertising costs	(10)	(22)
Other operating expenses	(157)	(46)
Other operating income	20	41
Total other operating expenses, net	(330)	(217)

“Other operating expenses, net” is higher than for the previous year. The increase in the item “Other operating expenses” is mainly due to the significant increase in provisions. The most significant changes in provisions are explained in Note 26 “Provisions”.

With the exception of the Zurich site, all operating properties at RUAG International’s Swiss sites are leased from RUAG Real Estate Ltd. As part of the RUAG Group’s unbundling, RUAG Real Estate Ltd was assigned to its sister group RUAG MRO Holding Ltd. The contractual relationship, which is no longer internal to the Group, is reflected in the increase in the item “Premises costs” in the reporting year. The reduction in the item “Maintenance and repairs of property, plant and equipment” is also attributable to the disposal of RUAG Real Estate Ltd in the reporting year.

Administration and IT costs remained at the previous year’s level. On the one hand, this reflects the unbundling costs initially booked at RUAG International, which were subsequently passed on to the RUAG MRO Holding Ltd sister group.

On the other hand, administration and IT costs could not be reduced to the same extent despite the significant downsizing of the Group.

In connection with the strategic reorientation of the RUAG Group, the Group discontinued the further development of the “Together ahead. RUAG” brand as well as the distribution of advertising material. Furthermore, due to the global spread of the COVID-19 pandemic, no customer site visits were made. This is reflected in lower advertising expenses of around CHF 12 million compared to the previous year.

“Other operating expenses” include various adjustments and revaluations of provisions (guarantee provisions, provisions for contract losses as well as follow-up costs and minor restructuring provisions, etc.). In addition, the position “Other operating expenses” was significantly impacted by the recognition of a provision in the amount of CHF 50 million, which had to be recognised in connection with the sale of the aviation activities in the MRO International business unit at the Oberpfaffenhofen site (Germany). The final transfer of ownership took place at the end of February 2021. Furthermore, this position includes exchange rate losses of CHF 7 million net (previous year CHF 9 million). The price 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).

In the previous year, profits realised on the disposal of investments led to a positive effect in the item “Other operating income”. Further explanations are provided in Note 4 “Newly established companies, acquisitions, unbundling and disposals of subsidiaries and business units”.

9 Research and development expenses

in CHF m	2020	2019
Total research and development expenses	27	42

All in-house work, work assigned to third parties and services required from third parties performed at the company’s own risk and recognised as an expense during the reporting year are included and disclosed under Research and development expenses.

10 Financial income/financial expenses

in CHF m	2020	2019
Interest income	2	2
Total financial income	2	2
Interest expense	(6)	(10)
Total financial expenses	(6)	(10)

11 Income taxes

in CHF m	2020	2019
Current income tax expense of the reporting period	(5)	(19)
Adjustments to current income taxes from prior periods	(1)	1
Current income tax expense	(6)	(18)
Origination (reversal) of temporary differences	19	7
Effect of tax rate changes	1	1
Recognition (value adjustment) of tax losses	(4)	2
Use of recognised tax loss carryforwards	(0)	(0)
Deferred tax income	15	10
Income tax income (expense) in profit or loss	9	(9)

In addition, the following deferred taxes were recognised in equity:

in CHF m	2020 Before tax	2020 Tax (expense)/ income	2020 Net (after tax)	2019 Before tax	2019 Tax (expense)/ income	2019 Net (after tax)
Change in fair value of cash flow hedges	5	(2)	3	(9)	0	(9)
Gains and losses from cash flow hedges transferred to profit and loss	(0)	0	(0)	12	(1)	11
Foreign currency translation adjustments of foreign subsidiaries	1	—	1	(13)	0	(13)
Changes in equity	6	(2)	4	(9)	(1)	(10)

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 24.3 % (previous year: 65.4 %).

in CHF m	2020	2019
Loss before taxes	(228)	(16)
Expected weighted tax rate in %	24.3 %	65.4 %
Expected tax income	56	10
Reconciliation of effective income tax income (expense)		
Effect of (valuation allowances)/recognising of tax loss carryforwards from prior years	(5)	(0)
Effect of using unrecognised tax loss carryforwards from prior years	0	(0)
Effect of current losses for which tax loss carryforwards are not recognised	(32)	(23)
Effect of non-deductible expenses	(15)	(1)
Effect of tax-free income	2	6
Effect of income taxed at lower rates	—	0
Effect of tax rate changes	1	1
Effect of tax losses (credits) from prior periods	(1)	1
Other effects (including effect of share in profit or loss of associates)	4	(1)
Effective income tax income (expense)	9	(9)
Effective income tax rate	(4.1 %)	54.7 %

Individual countries (cantons in the case of Switzerland) operate with different tax laws and tax rates. 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

Recognised deferred tax assets and liabilities break down as follows:

in CHF m	2020 Deferred tax assets	2020 Deferred tax liabilities	2019 Deferred tax assets	2019 Deferred tax liabilities
Assets				
Receivables and prepayments	2	1	1	2
Inventories and work in progress	5	8	5	13
Property, plant and equipment and investment property	0	12	1	18
Intangible assets	0	0	0	0
Tax loss carryforwards	4	—	9	—
Employee benefit assets	—	—	—	—
Other asset items	1	2	0	1
Liabilities				
Deferred income and accrued expenses	7	0	6	0
Current and non-current provisions	8	3	2	7
Employee benefit obligations	16	—	10	—
Other liability items	0	9	1	11
Deferred taxes before offsetting	45	35	37	51
Offsetting of deferred tax assets and liabilities	(13)	(13)	(14)	(14)
Total deferred taxes	31	21	22	37

Deferred tax assets and liabilities changed as follows:

in CHF m	2020	2019
Total deferred taxes at 1 January	(14)	(28)
Unbundling	11	—
Changes recognised in profit or loss	15	10
Changes in equity with no impact on profit or loss	(2)	(1)
Changes in the scope of consolidation	—	6
Foreign currency translation adjustments	(0)	(1)
Total deferred taxes at 31 December	10	(14)
of which deferred tax assets	31	22
of which deferred tax liabilities	(21)	(37)

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 recognised 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	2020	2019
Expiring within 1 year	1	—
Expiring in 1 to 2 years	1	1
Expiring in 2 to 3 years	5	1
Expiring in 3 to 4 years	4	5
Expiring in 4 to 5 years	6	4
Expiring in 5 to 6 years	2	0
Expiring in 6 to 7 years	4	0
Expiring in more than 7 years	276	147
Total tax loss carryforwards	297	158

Potential tax effect of tax loss carryforwards	73	39
therein recognised as deferred tax assets	4	9
therein not recognised	69	31

The increase in tax loss carryforwards in the reporting year is mainly due to the changed market situation in the aviation industry in connection with COVID-19 and the uncertain outlook. As a result, extensive impairments, special valuation adjustments and provisions for contract losses had to be recognised, particularly in the Aerostructures and MRO International business units.

12 Cash and cash equivalents

in CHF m	2020	2019
Cash on hand	0	1
Demand deposits with financial institutions	158	236
Money market investments	0	0
Total cash and cash equivalents	158	237

Currencies of cash and cash equivalents

in CHF m	2020	2019
CHF	27	119
EUR	47	37
USD	58	42
SEK	20	31
GBP	3	4
Other	5	4
Total cash and cash equivalents	158	237

13 Financial assets

Current financial assets

in CHF m	2020	2019
Derivative financial instruments	9	5
Other current liabilities	1	0
Total current financial assets	11	5

Current financial assets primarily include 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 2020, there is also a loan in the amount of CHF 1 million (previous year CHF 0 million) to the parent company BGRB Holding Ltd, which serves to finance the activities of the holding company.

Non-current financial assets

in CHF m	2020	2019
Money market investments	0	0
Other non-current financial assets	1	2
Total non-current financial assets	1	2

Currencies of current and non-current financial assets

in CHF m	2020	2019
CHF	2	1
EUR	2	3
USD	8	3
SEK	1	1
GBP	0	—
Other	0	0
Total financial assets	12	7

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	2020	2019
Trade receivables	159	259
Trade receivables and receivables from associates	—	—
Valuation allowances	(3)	(5)
Total trade receivables	156	254
Prepayments to suppliers	5	26
Prepayments to associates	—	0
Total prepayments to suppliers	5	26
Current receivables from government bodies	9	11
Other current receivables	7	11
Total other current receivables	17	21
Total trade receivables, other current receivables and prepayments	178	301

Maturity profile of trade receivables, other current receivables and prepayments

in CHF m	2020	2019
Not past due	107	228
Past due 1–30 days	34	35
Past due 31–60 days	10	6
Past due 61–90 days	0	4
Past due 91–180 days	3	4
Past due over 180 days	24	23
Total trade receivables, other current receivables and prepayments	178	301

Currencies of trade receivables, other current receivables and prepayments

in CHF m	2020	2019
CHF	38	63
EUR	99	140
USD	33	86
SEK	5	6
GBP	1	1
Other	3	4
Total trade receivables, other current receivables and prepayments	178	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	2020	2019
Balance at 1 January	(5)	(6)
Unbundling	2	—
Increase in allowance	(2)	(3)
Utilisation of allowance	1	1
Reversal of allowance	1	2
Currency differences	0	0
Carrying amount at 31 December	(3)	(5)

Allowances for doubtful receivables are recorded in an allowance account. Changes are recognised 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 realised losses.

15 Inventories and work in progress

in CHF m	2020	2019
Raw materials and supplies	233	338
Work in progress at cost of conversion	148	137
Work in progress (percentage of completion)[1]	78	121
Semi-finished goods	53	107
Finished goods	119	73
Valuation allowances	(126)	(151)
Total inventories and work in progress	505	625

[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 354 million (previous year: CHF 536 million) in raw materials and supplies, semi-finished and finished goods, and work in progress was charged to cost of materials.

A reassessment of Aerostructures orders as a result of the COVID-19 pandemic led to extensive valuation adjustments on inventories and work in progress at the sites in Switzerland, Germany and Hungary in the reporting year. In total, inventories amounting to CHF 11 million (previous year CHF 31 million) were written down to net realisable value, with an effect on profit and loss.

In the reporting year, no significant reversals of valuation adjustments on inventories related to prior periods were recognised.

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	2020	2019
Contract sales and costs of ongoing projects at the end of the reporting period		
Aggregated contract sales at the end of the reporting period	1 435	1 699
Aggregated contract costs at the end of the reporting period	(1 027)	(1 355)
Realised margin at the end of the reporting period	408	344
Cumulative carrying amounts of ongoing projects at the end of the reporting period		
Gross amount due from customers for contract work	78	121
Gross amount due to customers for contract work	(62)	(111)
Net position	16	9
Advances received from customers relating to PoC contracts	12	26

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 realisable order sales exceed the sales already invoiced. Long-term construction and service contracts for which the sales already invoiced exceed the realisable order sales are recognised under "Gross amount due to customers for contract work" (see Note 25 "Deferred income and accrued expenses"). In the year under review, sales totalling CHF 297 million (previous year: CHF 634 million) were recognised from long-term construction and service contracts.

As at the balance sheet date, RUAG had received advances for ongoing contract work that had not yet been invoiced totalling CHF 12 million (previous year: CHF 26 million). These advances are recognised 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 2019	593	268	71	495	59	1 486
Business combination	—	—	—	—	—	—
Eliminations from the scope of consolidation	(1)	(6)	—	(1)	0	(7)[3]
Additions	43	12	0	7	28	90
Disposals	(11)	(19)	(0)	(4)	(1)	(35)
Reclassifications	12	13	0	9	(33)	0
Foreign currency translation adjustments	(10)	(4)	(0)	(2)	(1)	(17)
As at 31 December 2019	625	264	71	504	52	1 517
Accumulated depreciation and impairment losses						
As at 1 January 2019	406	195	0	372	0	974
Business combination	—	—	—	—	—	—
Eliminations from the scope of consolidation	(0)	(4)	—	(0)	—	(5)[3]
Depreciation	28	21	0	11	(0)	60
Impairment	5	5	—	0	—	10[4]
Disposals	(11)	(18)	—	(3)	—	(32)
Reclassifications	(0)	0	—	0	—	—
Foreign currency translation adjustments	(6)	(3)	(0)	(1)	0	(9)
As at 31 December 2019	422	196	0	380	0	997
At cost						
As at 1 January 2020	625	264	71	504	52	1 517
Business combination	—	—	—	—	—	—
Unbundling	(118)	(72)	(43)	(392)	(4)	(629)
Additions	22	10	(0)	6	22	60
Disposals	(17)	(14)	—	(0)	—	(31)
Reclassifications	28	5	—	7	(40)	0
Foreign currency translation adjustments	(3)	(1)	0	(1)	(1)	(6)
As at 31 December 2020	537	192	29	125	29	912
Accumulated depreciation and impairment losses						
As at 1 January 2020	422	196	0	380	0	997
Business combination	—	—	—	—	—	—
Unbundling	(92)	(57)	—	(313)	—	(462)
Depreciation	24	15	0	5	—	44
Impairment	26	6	—	1	0	33[5]
Disposals	(16)	(13)	—	(0)	—	(30)
Reclassifications	0	(0)	—	(0)	(0)	(0)
Foreign currency translation adjustments	(0)	(0)	0	(0)	(0)	(1)
As at 31 December 2020	364	145	0	72	0	581
Net carrying amounts						
As at 1 January 2019	187	73	71	123	59	512
As at 31 December 2019	203	69	71	125	51	520
As at 31 December 2020	173	47	29	53	28	331

[1] Fixtures and fittings, information technology, motor vehicles and aircraft.
[2] As at 31 December 2020, the book value of undeveloped land amounted to CHF 2.3 million (previous year: CHF 4.4 million).
[3] The sale of the Clearswift Group and RUAG Business Aviation Ltd saw eliminations from the scope of consolidation in the previous year.
[4] Due to impairments at the production sites in Emmen CH (Aerostructures) and Oberpfaffenhofen DE (MRO International) in the previous year.
[5] The changed market situation in the aviation industry in connection with COVID-19 led to valuation adjustments of assets (property, plant and equipment and intangible assets) amounting to CHF 39 million in the Aerostructures business unit in the reporting year.

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	2020	2019
At cost	—	3
Accumulated depreciation and impairment losses	—	(3)
Carrying amount at 31 December	—	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	2020	2019
Plant and equipment	—	0
Other	—	0
Carrying amount at 31 December	—	0

18 Investment properties

in CHF m	2020	2019
At cost		
As at 1 January	356	355
Business combination	—	—
Unbundling	(356)	—
Eliminations from the scope of consolidation	—	—
Additions	—	5
Disposals	—	(3)
Reclassifications	—	(0)
Foreign currency translation adjustments	—	—
As at 31 December	—	356
Accumulated depreciation and impairment losses		
As at 1 January	278	275
Business combination	—	—
Unbundling	(278)	—
Eliminations from the scope of consolidation	—	—
Depreciation	—	6
Disposals	—	(3)
Write-downs	—	—
Reclassifications	—	—
Foreign currency translation adjustments	—	—
As at 31 December	—	278
Net carrying amounts		
As at 1 January	79	80
As at 31 December	—	79

As part of the RUAG Group's unbundling, RUAG Real Estate Ltd was assigned to its sister group RUAG MRO Holding Ltd. As a result, all investment properties were also transferred to RUAG MRO Holding Ltd.

Investment properties were measured at acquisition cost minus accumulated depreciation in the previous year. The fair value of the properties in the previous year set out below is calculated solely for disclosure reasons and was measured using the discounted cash flow (DCF) method.

in CHF m	2020	2019
Fair value (DCF calculation)	—	273
Rental income from investment property	—	21
Real estate expenses	—	14
of which on let property	—	12
of which on vacant property	—	2
Agreed capital commitments and commitments in respect of maintenance work	—	0
Future minimum rental income from ongoing rental contracts	—	109

Majority leased sites to third parties are classified as investment properties. With the unbundling in the reporting year, the investment properties were transferred to the sister group RUAG MRO Holding Ltd. In the previous year, six sites in Switzerland (Bern, Altdorf, Zwieselberg [Thun-Boden], Aigle, Brunnen and Wimmis) met the defined criteria for classification as investment properties.

Valuation techniques In the previous year, no fair value measurement was carried out by an external expert. RUAG Real Estate Ltd calculates the fair value of investment properties 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 and the additional/reduced rental income and inflation, 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 lists/relationships	ERP systems	Intangible assets in progress	Intangible Assets
At cost							
As at 1 January 2019	24	12	30	164	6	0	236
Business combination	—	—	—	—	—	—	—
Eliminations from the scope of consolidation	(22)	(2)	(1)	(21)	(0)	—	(45) [1]
Additions	—	1	1	—	—	2	4
Disposals	—	—	(1)	—	(0)	—	(1)
Reclassifications	—	—	—	—	—	—	—
Foreign currency translation adjustments	0	(0)	(1)	(1)	(0)	(0)	(2)
As at 31 December 2019	2	10	29	142	6	2	191
Accumulated depreciation and impairment losses							
As at 1 January 2019	5	11	18	144	2	—	180
Business combination	—	—	—	—	—	—	—
Eliminations from the scope of consolidation	(4)	(2)	(1)	(6)	(0)	—	(13) [1]
Depreciation	1	1	1	4	1	—	9
Impairment	—	—	8	—	0	0	9 [2]
Disposals	—	—	(1)	—	—	—	(1)
Reclassifications	—	—	—	—	—	—	—
Foreign currency translation adjustments	(0)	(0)	(1)	(1)	(0)	(0)	(3)
As at 31 December 2019	2	9	25	141	3	0	181
At cost							
As at 1 January 2020	2	10	29	142	6	2	191
Business combination	—	—	—	—	—	—	—
Unbundling	(0)	—	(4)	(23)	—	—	(27)
Additions	—	—	1	—	0	11	12
Disposals	—	—	(0)	—	—	—	(0)
Reclassifications	—	—	—	—	—	—	—
Foreign currency translation adjustments	(0)	(0)	(0)	0	(0)	0	0
As at 31 December 2020	2	10	25	119	6	13	176
Accumulated amortisation and impairment losses							
As at 1 January 2020	2	9	25	141	3	0	181
Business combination	—	—	—	—	—	—	—
Unbundling	(0)	—	(4)	(23)	—	—	(27)
Depreciation	—	0	1	0	1	0	2
Impairment	—	—	0	—	—	7	7 [3]
Disposals	—	—	(0)	—	—	—	(0)
Reclassifications	—	—	0	—	(0)	—	—
Foreign currency translation adjustments	(0)	(0)	(0)	0	(0)	0	0
As at 31 December 2020	2	9	22	119	4	7	164
Net carrying amounts							
As at 1 January 2019	19	1	12	19	4	0	56
As at 31 December 2019	0	1	4	0	3	2	10
As at 31 December 2020	0	1	3	0	2	6	12

[1] The sale of the Clearswift Group and RUAG Business Aviation Ltd saw eliminations from the scope of consolidation in the previous year.
[2] Due to impairments at the production site in Oberpfaffenhofen DE (MRO International).
[3] The changed market situation in the aviation industry in connection with COVID-19 led to valuation adjustments of assets (property, plant and equipment and intangible assets) in the Aerostructures business unit amounting to CHF 39 million in the reporting year.

Scheduled amortisation and extraordinary impairment of intangible assets are reported in the consolidated income statement under “Amortisation and impairment of intangible assets“.

Goodwill The goodwill from acquisitions is offset directly against the equity at the time of acquisition. The theoretical capitalisation, 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	MRO International	Ammotec	MRO Switzerland	Other segments	Total
At cost							
As at 1 January 2019	61	—	8	12	0	73	154
Business combination	—	—	—	0	—	—	0
Adjustments	—	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	(75)	(75) [1]
Foreign currency translation adjustments	(0)	—	(0)	(1)	(0)	2	1
As at 31 December 2019	61	—	8	12	0	—	81
Accumulated amortisation							
As at 1 January 2019	60	—	8	12	0	28	108
Theoretical ordinary amortisation	0	—	—	0	—	13	14
Eliminations from the scope of consolidation	—	—	—	—	—	(41)	(41) [1]
Foreign currency translation adjustments	(0)	—	(0)	(0)	(0)	—	(1)
As at 31 December 2019	60	—	8	12	0	—	80
At cost							
As at 1 January 2020	61	—	8	12	0	—	81
Business combination	—	—	—	—	—	—	—
Unbundling	—	—	—	—	(0)	—	(0)
Adjustments	—	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	—	—	—	—	—
Foreign currency translation adjustments	0	—	(0)	(0)	—	—	0
As at 31 December 2020	61	—	8	12	—	—	80
Accumulated amortisation							
As at 1 January 2020	60	—	8	12	0	—	80
Theoretical ordinary amortisation	0	—	—	0	—	—	0
Unbundling	—	—	—	—	(0)	—	(0)
Eliminations from the scope of consolidation	—	—	—	—	—	—	—
Foreign currency translation adjustments	0	—	(0)	(0)	—	—	0
As at 31 December 2020	61	—	8	12	—	—	80
Theoretical net book value							
As at 1 January 2019	1	—	—	0	—	45	46
As at 31 December 2019	0	—	—	0	—	—	1
As at 31 December 2020	0	—	—	0	—	—	0

[1] The sale of the Clearswift Group and RUAG Business Aviation Ltd saw eliminations from the scope of consolidation in the previous year.

Capitalising the goodwill and amortising 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	2020	2019
Earnings before interest and taxes (EBIT)	(224)	(7)
Theoretical amortisation of goodwill	(0)	(14)
Theoretical EBIT incl. amortisation of goodwill	(224)	(21)
Net loss	(219)	(25)
Theoretical amortisation of goodwill	(0)	(14)
Theoretical net loss incl. amortisation of goodwill	(219)	(39)

Impact on consolidated balance sheet

in CHF m	2020	2019
Equity according to the balance sheet	460	1 030
Theoretical capitalisation of net book value of goodwill	0	1
Theoretical equity incl. net book value of goodwill	461	1 031

20 Associates

in CHF m	2020	2019
Carrying amount of interests in associates as at 1 January	38	41
Business combination	—	—
Unbundling	(38)	—
Eliminations from the scope of consolidation	—	(1)
Share in profit/loss of associates from continued operations	—	(0)
Dividends	—	(1)
Foreign currency translation adjustments	—	(1)
Carrying amount of interests in associates as at 31 December	—	38

In the course of the RUAG Group's unbundling, all associates were assigned to the sister group RUAG MRO Holding Ltd. In the previous year, RUAG did not hold any individually significant investments in associates. The following table shows the aggregate values of investments in associates attributable to RUAG Group in the previous year:

Aggregate investments of RUAG International in associates

in CHF m	2020	2019
Share in profit/loss of associates from continued operations	—	(0)

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

Aggregate financial information for associates

in CHF m	2020	2019
Total assets	—	207
Total liabilities	—	122
Net assets	—	85
Net sales	—	165
Profit from continued operations	—	10

The RUAG Group had no contingent liabilities in respect of associates in the previous year.

21 Financial liabilities

Current financial liabilities

in CHF m	Note	2020	2019
Due to financial institutions		58	0
Financial liabilities towards third parties[1]		1	3
Liabilities to associates		—	—
Financial liabilities to employee benefit funds		—	—
Lease liabilities	31	—	0
Current portion of non-current financial liabilities		—	—
Total current financial liabilities		60	4

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

Non-current financial liabilities

in CHF m	Note	2020	2019
Due to financial institutions		—	—
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		1	1

The carrying amounts of the non-current financial liabilities are a reasonable approximation of their fair value. The average rate of interest on non-current financial liabilities in the year under review was 0 % (previous year: 1.1 %).

Maturity structure of current and non-current financial liabilities

in CHF m	2020	2019
Up to 1 year	60	4
Up to 2 years	1	—
Up to 3 years	—	1
Up to 4 years	—	—
Over 4 years	—	—
Total financial liabilities	60	5

Currencies of financial liabilities

in CHF m	2020	2019
CHF	0	0
EUR	43	2
USD	16	1
SEK	0	0
GBP	0	0
Other	1	1
Total financial liabilities	60	5

22 Trade accounts payable and prepayments

in CHF m	2020	2019
Trade accounts payable	86	120
Trade accounts payable to associates	—	0
Total trade accounts payable	86	121
Prepayments from customers	184	213
Prepayments from associates	—	—
Total prepayments from customers	184	213
Total trade accounts payable and prepayments	270	334

Currencies of trade accounts payable and prepayments

in CHF m	2020	2019
CHF	54	110
EUR	148	137
USD	61	79
SEK	4	6
GBP	0	1
Other	2	2
Total trade accounts payable and prepayments	270	334

23 Other current liabilities

in CHF m	2020	2019
Due to third parties	15	13
Due to associates	—	—
Due to government bodies	11	26
Due to shareholders	—	—
Due to employee benefit funds	—	—
Total other current liabilities	27	40

24 Other non-current financial liabilities

in CHF m	2020	2019
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	2020	2019
Deferred income and accrued expenses for PoC orders	62	111
Income relating to future periods	7	7
Outstanding trade accounts payable	37	50
Personnel-related accrued expenses	10	22
Other deferred income and accrued expenses	14	19
Total deferred income and accrued expenses	130	210

26 Provisions

in CHF m	Restructuring	Contract losses	Warranties	Holiday and overtime	Loyalty bonuses and anniversary benefits	Other	Total
Balance at 1 January 2019	6	16	12	31	15	35	116
Business combination	—	—	—	—	—	—	—
Eliminations from the scope of consolidation	—	—	(0)	(0)	(0)	(1)	(2)
Additions	6	10	4	19	2	13	55
Release of unused provisions	(1)	(3)	(3)	(0)	(0)	(6)	(14)
Use of provisions	(5)	(3)	(1)	(20)	(1)	(14)	(44)
Reclassifications	—	—	—	—	—	—	—
Foreign currency translation adjustments	(0)	(0)	(0)	(1)	(0)	(1)	(2)
Balance at 31 December 2019	6	20	11	29	15	27	108
Current provisions	3	18	11	29	1	17	79
Non-current provisions	3	2	0	—	14	10	29
Balance at 1 January 2020	6	20	11	29	15	27	108
Business combination	—	—	—	—	—	—	—
Unbundling	—	(8)	(4)	(7)	(7)	(9)	(34)
Eliminations from the scope of consolidation	—	—	—	—	—	—	—
Additions	18	37	4	13	1	69	142
Release of unused provisions	(1)	(0)	(2)	(1)	(0)	(1)	(5)
Use of provisions	(1)	(4)	(1)	(14)	(1)	(4)	(26)
Reclassifications	—	0	0	0	0	(0)	—
Foreign currency translation adjustments	0	0	(0)	0	(0)	0	1
Balance at 31 December 2020	21	45	8	21	9	82	186
Current provisions	21	24	8	21	1	71	146
Non-current provisions	0	20	0	—	8	11	40

In the reporting year, the following significant events led to changes in the respective provision categories:

Provisions for restructuring In addition to the redimensioning of the Electronics business launched in the previous year, a further restructuring of the entire Space business unit was decided in the reporting year. Restructuring provisions of CHF 8 million were recognised for the associated job cuts in Switzerland, Austria, Sweden and Germany.

As a consequence of RUAG's unbundling, accelerated by COVID-19, the global support functions were adjusted to the new size of RUAG International. In the reporting year, a corresponding restructuring programme was launched, primarily in the central support functions of Corporate Services (other segments), which is scheduled for completion in 2021. A provision of CHF 4 million was made for the anticipated restructuring costs in this context.

The reduction of the value added range decided in the Aerostructures business segmen in the previous year will entail a reduction of tenant improvements. This legal obligation exists vis-à-vis RUAG Real Estate Ltd. Accordingly, from the Group's perspective, an external obligation arose in the reporting year, for which a provision of CHF 4 million had to be recognised, with an effect on income.

Provisions for contract losses In the Aerostructures business segment, a provision of CHF 31 million was recognised in the reporting year for anticipated contract losses, mainly influenced by COVID-19-related volume adjustments, in Oberpfaffenhofen (Germany) and Emmen (Switzerland). Across the Group, further adjustments to provisions for anticipated contract losses in the ordinary course of business amounting to CHF 6 million were also made.

Other provisions In connection with the sale of the aviation activities in the MRO International business segment at the Oberpfaffenhofen (Germany) site, which was completed by the end of February 2021, a provision in the amount of CHF 50 million had to be recognised. In the Aerostructures business unit, risks relating to quality-related delivery delays as well as associated interruption and modification costs were accounted for with provisions in the total amount of CHF 9 million. In addition, new provisions for onerous contracts and other identified risks in connection with ordinary business activities in the amount of CHF 10 million were made throughout the Group.

27 Employee benefit obligations

The RUAG International 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 organisation.

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 Livica Sammelstiftung (previously VORSORGE RUAG). Livica Sammelstiftung 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). The affiliation of a company is based on the pension fund regulations on the basis of a written affiliation agreement, which must be notified to the supervisory authority. In principle, the affiliated company forms its own pension fund within the foundation. Livica Sammelstiftung is registered with and regulated by the Bern supervisory authority for occupational retirement schemes and foundations. Livica Sammelstiftung 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 the individual pension funds are taken by the pension fund committees, which are made up of employee and employer representatives in equal numbers.

As at 1 January 2019, a new employee benefit policy entered into force. The bonuses of members with management contracts (insured until 31 December 2018 under the KADERVORSORGE RUAG plan) were insured in Livica Sammelstiftung to the amount of the target bonus (upon 100 % target achievement). As a result, KADERVORSORGE RUAG was integrated into Livica Sammelstiftung on 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 as well as the economic liability at the end of the reporting period and of that of the previous year and the corresponding change in the pension expense:

in CHF m	Surplus/ deficit in accordance with FER 26	2020 Group's economic share	2019 Group's economic share	Foreign currency translation adjustments	Year-on-year changes/ expenses for reporting period	Contributions accrued for the period	2020 Expense of benefit plans in personnel expenses	2019 Expense of benefit plans in personnel expenses
Patronal financing foundation	—	—	—	—	—	—	—	—
Benefit plans without surplus/deficit	—	(8)	(6)	0	3	25	28	52
Benefit plans with surplus	—	—	—	—	—	—	—	—
Benefit plans with deficit	—	—	—	—	—	—	—	—
Benefit plans without plan assets	—	(84)	(77)	1	5	—	5	13
Total	—	(92)	(83)	1	8	25	33	65

The benefit plans without surplus / deficit include the Livica Sammelstiftung defined benefit plan in Switzerland and the defined benefit basic pension scheme in Germany. The recognised economic liabilities for benefit plans without plan assets, i.e. unfunded plans, amount to CHF 84 million (previous year: CHF 77 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	Switzerland	Abroad	2020 Total	Switzerland	Abroad	2019 Total
Contributions to benefit and contribution plans at expense of Group companies	16	9	25	40	9	48
Contributions to benefit and contribution plans from employer contribution reserves	—	—	—	—	—	—
Total contributions	16	9	25	40	9	48
+/– change in ECR from portfolio performance, impairment etc.	—	—	—	—	—	—
Contributions and change in employer contribution reserves	16	9	25	40	9	48
Decrease/increase in economic liability of Group from benefit and contribution plans without surplus/deficit	—	3	3	—	4	4
Decrease/increase in economic liability of Group (plans without plan assets)	—	5	5	—	13	13
Total change in economic impact from surpluses/deficits		8	8	—	17	17
Total expense of benefit and contribution plans for period	16	17	33	40	26	65

The change in recognised economic liabilities from benefit plans and paid-in employer contributions for the reporting year amount to CHF 33 million (previous year: CHF 65 million). These are fully included in personnel expenses in the reporting year, as was the case in the previous year.

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 International Holding Ltd are owned by BGRB Holding Ltd which in turn is wholly owned by the Swiss Confederation.

29 Contingent liabilities towards third parties

in CHF m	2020	2019
Group guarantees	22	23
Total contingent liabilities towards third parties	22	23

Group guarantees are primarily performance and bid guarantees from operational towards customers.

30 Additional contingent liabilities not stated on the balance sheet

in CHF m	2020	2019
Agreed contractual penalties (fines and premiums)	—	5
Legal proceedings	—	—
Bill commitments	—	—
Capital commitments for property, plant and equipment (incl. investment properties)	8	16
Other liabilities not stated on the balance sheet	0	0
Total additional contingent not stated on the balance sheet	8	22

Contractual penalties By the nature of its operations, RUAG International 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 recognised for it. The possibility of a cash outflow over and above the recognised 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 recognised for it. The possibility of a cash outflow over and above the recognised provisions is currently considered improbable.

Capital commitments Capital commitments include the value of investments entered into as at the end of the reporting period in assets under construction.

31 Future minimum commitments from leasing transactions

Finance leases

in CHF m	2020	2019
Within 1 year	0	0
Later than 1 year, within 5 years	—	0
After 5 years	—	—
Total	0	0
Less future interest costs	—	(0)
Total lease liabilities recognised	0	0

Operating leases

in CHF m	2020	2019
Within 1 year	21	19
Later than 1 year, within 5 years	53	79
After 5 years	19	26
Total	94	124

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

32 Assets pledged as collateral

in CHF m	2020	2019
Cash and cash equivalents	—	0
Receivables and inventories	—	—
Plant and equipment	—	0
Property	2	2
Total assets pledged as collateral	2	3

33 Related party transactions

in CHF m	2020	2019
Receivables from related parties	15	31
Liabilities to related parties	(3)	(0)
Prepayments from related parties	(31)	(67)

In the reporting year, CHF 15 million of receivables from related parties (previous year: CHF 31 million) and CHF 0.0 million of liabilities to related parties (previous year: CHF 0.1 million) were attributable to the DDPS. Advance payments from related parties in the amount of CHF 31 million were fully attributable to the DDPS both in the reporting year and in the previous year (CHF 67 million). The invoiced sale to the DDPS totalled CHF 153 million (previous year: CHF 641 million) as stated in Note 6, “Net sales”. In addition, CHF 42 million in sales was generated with the sister group RUAG MRO Holding Ltd, mainly in the form of offsetting as part of the unbundling. In return, purchases of materials and services totalling CHF 0.1 million (previous year: CHF 3 million) were made at DDPS, and CHF 39 million at the sister group RUAG MRO Holding Ltd. There were no loans between the Group companies and members of the Board of Directors. In the previous year, CHF 0.3 million was generated with associates, and services with a value of CHF 6 million were purchased.

34 Compensation of key management personnel The overall emoluments paid to non-executive members of the Board of Directors for the year under review amounted to CHF 543,000 (previous year: CHF 771,000).[1,2] The number of members of the Board, including the Chairman, amounted to 7 (previous year: 6). The overall emoluments paid to the CEO and the Group Executive Board for the reporting year amounted to CHF 5,394,000 (previous year: CHF 5,406,000).[2] The total remuneration for the CEO amounted to CHF 895,000 in the year under review (previous year: CHF 872,000).[2] Including the CEO, the Group Executive Board comprised 9 members in the year under review (previous year: 8).[3]

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

in CHF thousands	Total 2020	Total 2019[5]	Maximum overall compensation[4] 2020	Maximum overall compensation[4] 2019[5]
Basic salary of Board of Directors				
Cash compensation	543	771	150	276
Total compensation paid to members of the Board of Directors	543	771	150	276
Basic salary of Group Executive Board				
Cash compensation	3797	4071	641	654
Benefits in kind	92	76	9	9
Employer contributions to pension fund	469	422	89	91
Performance-based component of Group Executive Board				
Cash compensation[6]	879	714	136	94
Employer contributions to pension fund	157	123	20	24
Other long-term employee benefits	—	—	—	—
Total compensation paid to members of the Group Executive Board	5394	5406	895	872
of which cash compensation	4676	4785	777	748
of which benefits in kind	92	76	9	9
of which employer contributions to pension funds	626	545	109	115
of which other long-term employee benefits	—	—	—	—
Relation between performance-related and fix cash compensation	23 %	18 %	21 %	14 %
Total compensation paid to members of the Board of Directors and Group Executive Board	5937	6177		
of which short-term employee benefits[7]	5311	5632		
of which employer contributions to pension funds	626	545		
of which other long-term employee benefits	—	—		

[1] The Board of Directors voluntarily waived 15 % of total compensation in 2020.
[2] The overall emoluments are exclusive of the employer's social insurance contributions.
[3] In the reporting year, the Group Executive Board comprised seven positions. Due to double appointments, nine members are shown.
[4] The highest total compensation for 2020 in the Board of Directors refers to the Chairman of the Board of Directors. The highest total compensation 2020 in the Group Executive Board refers to the respective acting CEO (Urs Kiener a.i.: 01.01.2020–22.11.2020; André Wall: 23.11.2020–31.12.2020). The total compensation of the former CEO Urs Breitmeier during his leave of absence (01.01.2020–31.12.2020) amounted to CHF 948,000. This amount was included in the total 2020 compensation to members of the Group Executive Board due to his leave of absence.
[5] As of the end of April 2020, the business activities of RUAG MRO Switzerland were transferred to RUAG MRO Holding Ltd under the umbrella of BGRB Holding Ltd with retroactive effect as of 1 January 2020 due to the unbundling of RUAG. As a result, the MRO Switzerland business unit formed a separate sister group from 1 January 2020 and is therefore no longer included in the compensation report of RUAG International Holding Ltd. The 2019 period of comparison was not adjusted.
[6] Performance-related cash compensation was higher in the reporting year than in the period of comparison due to double appointments and leaves of absence.
[7] Includes cash compensation and benefits in kind.

35 Risk management process, financial risk management and capital management

Risk management process

RUAG International has a risk management system which records strategic and potentially dangerous risks as well as operational risks and focuses on relevant topics from the perspective of the Group and the business segments. Risks are identified, assessed and monitored in the individual business segments 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 executive management. The Board of Directors deals intensively with strategic and potentially dangerous risks twice a year or as required.

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 executive management, the Audit Committee and the entire Board of Directors. Depending on the way responsibilities are defined, the executive management or business unit management are responsible for the ongoing monitoring, control and management of risks. As part of this, management is supported by the Risk Management Team at Group level in training sessions or moderating workshops.

Financial risk management

RUAG International 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 central function and is performed at Group level by the Corporate Treasury department, in compliance with the directives issued by the Board of Directors. Corporate Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units.

a. Market risks

RUAG International 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 International employs derivative financial instruments (e.g. foreign currency forward transactions) to manage risk. RUAG International 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 International sells only existing assets and hedges only existing transactions and (in the case of forward hedges) forecasted transactions that can be expected to materialise 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 International employs different contracts to compensate for exchange rate-induced changes in asset values, firm commitments and forecasted transactions. RUAG International also employs forward transactions and currency options to hedge certain cash flows anticipated in foreign currency.

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

as at 31 December 2019

in CHF m	EUR	USD	SEK	GBP	Other
Cash and cash equivalents	37	42	31	4	4
Trade receivables/other receivables	119	82	6	1	4
Other financial assets	3	3	1	—	0
Financial liabilities	(2)	(1)	(0)	(0)	(1)
Trade accounts payable/other liabilities	(64)	(26)	(11)	(1)	(3)
Other financial liabilities	—	—	(1)	—	(0)
Total foreign currency positions as at balance-sheet date from financial assets and liabilities	93	100	25	4	4

as at 31 December 2020

in CHF m	EUR	USD	SEK	GBP	Other
Cash and cash equivalents	47	58	20	3	5
Trade receivables/other receivables	95	33	5	1	3
Other financial assets	2	8	1	0	0
Financial liabilities	(43)	(16)	(0)	(0)	(1)
Trade accounts payable/other liabilities	(60)	(15)	(9)	(1)	(3)
Other financial liabilities	—	—	(1)	—	(0)
Total foreign currency positions as at balance-sheet date from financial assets and liabilities	41	67	15	3	4

The following currency hedging transactions existed as at 31 December:

Volume of contracts

in CHF m	2020	2019
Currency hedging contracts banks (Sale of foreign currency)	348	358
Currency hedging contracts banks (Purchase of foreign currency)	(50)	(106)

Carrying amounts

in CHF m	2020	2019
Current financial assets	9	5
Current financial liabilities	(1)	(3)

The carrying amounts mainly contain the positive and negative replacement values from foreign currency forward transactions that are recognised at fair value. The following tables show the contractual due dates of the foreign currency forward transactions held by RUAG International at the end of the previous year and of the reporting year:

as at 31 December 2019

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	(3)	(0)	(0)	(0)	(3)
Inflows	5	0	0	—	5
	2	(0)	(0)	(0)	2

as at 31 December 2020

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	(1)	(0)	(0)	(0)	(1)
Inflows	8	1	—	—	9
	8	1	(0)	(0)	8

Hedge accounting RUAG International 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	2020	2019
Other reserves	4	(1)

RUAG International Holding Ltd provides certain foreign Group companies with loans in EUR and AUD. These loans are not hedged. As at 31 December 2020, there were loans totalling EUR 176 million (previous year: EUR 176 million) and AUD 15 million (previous year: AUD 15 million). Because repayment is neither planned nor likely in the foreseeable future, these items are loans of an equity-like nature. Therefore, the foreign currency gains/losses are recognised directly in equity. The cumulative foreign exchange losses booked to equity that relate to these loans amounted to CHF 26 million at 31 December 2020 (previous year: CHF 26 million).

Interest rate risk RUAG International 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 2020, RUAG International 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	2020	2019
Current financial liabilities	58	0
Non-current financial liabilities	1	1
Total interest-bearing financial liabilities	59	1
Of which variable interest-bearing	1	1
Fixed through interest rate swap	—	—
Variable interest-bearing, net	1	1

Interest expense for interest-bearing financial liabilities in the year under review amounted to CHF 0 million (previous year: CHF 3 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 International uses primarily lead swaps to minimise the price fluctuation risk of planned purchases.

The following hedging transactions existed as at 31 December:

Volume of contracts

in CHF m	2020	2019
Lead price hedging contracts banks	8	7

Replacement values

in CHF m	2020	2019
Positive replacement value banks	—	—
Negative replacement value banks	0	0

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

Consumption

in CHF m	2020	2019
Aluminium	2	1
Lead	13	13
Copper	25	17
Steel	4	5
Titanium	0	0
Zinc	4	3
Other	0	0
Total	49	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 13 % (previous year: 32 %) of the Group's sales are attributable to the DDPS. No other customer accounts for more than 10 % of the Group's sales, with the exception of Airbus.

Trade and other receivables from the DDPS account for around 10 % (previous year: 12 %) of total trade and other receivables as at 31 December 2020. As at the balance sheet date, there are no heavily concentrated default risks with regard to the recognised trade receivables.

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

in CHF m	2020	2019
Cash and cash equivalents	158	237
Current financial assets	11	5
Trade receivables Other current receivables	173	275
Non-current financial assets	1	2
Total credit risk	343	519

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 minimised 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 International 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.

Due to the legal unbundling completed in the reporting year and the recognisable consequences of COVID-19 on the business activities of RUAG International, BGRB Holding Ltd decided in April 2020 to temporarily secure RUAG International's existing credit lines with a guarantee. This is intended to ensure RUAG International's liquidity and ability to continue as a going concern. The divestment proceeds from planned further sales of business activities are to be used for a specific purpose to ensure the ability to continue as a going concern and to redeem the guarantee of BGRB Holding Ltd.

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 2019

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	237	—	—	—	—	237
Current financial assets[1]	0	—	—	—	—	0
Non-current financial assets	—	1	0	0	1	2
Current financial liabilities[1]	(0)	—	—	—	—	(0)
Non-current financial liabilities	—	—	(1)	—	—	(1)
Other non-current financial liabilities	—	(0)	(0)	(0)	(0)	(1)
Net financial position	237	1	(1)	—	0	237
Prepayments from customers						213
Net financial position excl. customer prepayments						24

As at 31 December 2020

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	158	—	—	—	—	158
Current financial assets[1]	2	—	—	—	—	1
Non-current financial assets	—	0	0	1	0	1
Current financial liabilities[1]	(58)	—	—	—	—	(58)
Non-current financial liabilities	—	(1)	—	—	—	(1)
Other non-current financial liabilities	—	(0)	(0)	(0)	(0)	(1)
Net financial position	103	(1)	—	1	0	102
Prepayments from customers						184
Net financial position excl. customer prepayments						(82)

[1] Cash flow hedges recognised 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 International'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 optimised with regard to the cost of capital. In order to meet these objectives, RUAG International can apply for higher or lower dividend payments, repay capital to the share-holder, issue new shares, or dispose of assets in order to reduce debt. RUAG International 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 2 March 2021, the Board of Directors of RUAG International Holding Ltd approved the consolidated financial statements for publication.

The final transfer of ownership (contractual closing) from RUAG Aerospace Services GmbH to General Atomics Europe GmbH took place at the end of February 2021.

No further 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 as at 31 December 2020.

Depending on the duration of the COVID-19, RUAG International's business activities could be further impacted. Despite this, RUAG International believes that the Group is at present in a position to continue as a going concern with the measures in place.

The right to approve the consolidated financial statements rests with the annual shareholders' meeting.

37 Consolidated companies and non-controlling interests (as at 31 December 2020)

Company	Head office	Country		Equity capital (100 %)	Shareholding	Consolidation method
RUAG International 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 Ammotec Switzerland Ltd	Winterthur	Switzerland	CHF	300 000	100.0 %	Full
RUAG Corporate Services Ltd	Bern	Switzerland	CHF	100 000	100.0 %	Full
RUAG Simulation & Training Ltd	Bern	Switzerland	CHF	100 000	100.0 %	Full
RUVEX AG	Bern	Switzerland	CHF	100 000	100.0 %	Full
RUAG Slip Rings Ltd	Nyon	Switzerland	CHF	100 000	100.0 %	Full
RUAG Deutschland GmbH	Wessling	Germany	EUR	1 000 000	100.0 %	Full
RUAG Aerospace Structures GmbH	Wessling	Germany	EUR	25 000	100.0 %	Full
RUAG Aerospace Services GmbH	Wessling	Germany	EUR	1 000 000	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
RUAG Ammotec Deutschland GmbH	Fürth	Germany	EUR	100 000	100.0 %	Full
RUAG Ammotec GmbH	Fürth	Germany	EUR	25 000	100.0 %	Full
VS Medien GmbH	Bad Ems	Germany	EUR	25 000	100.0 %	Full
RUAG Sweden AB	Gothenburg	Sweden	SEK	100 000	100.0 %	Full
RUAG Space AB	Gothenburg	Sweden	SEK	15 000 000	100.0 %	Full
Norma Precision AB	Amotfors	Sweden	SEK	2 500 000	100.0 %	Full
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
RUAG Ammotec Benelux BVBA	Boechout	Belgium	EUR	25 000	100.0 %	Full
RUAG Industria e Comercio de Municoes Ltda	São Francisco	Brazil	BRL	500 000	100.0 %	Full
RUAG Ammotec UK Ltd	Liskeard	UK	GBP	15 000	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
RUAG Aviation Malaysia SDN BHD	Kuala Lumpur	Malaysia	MYR	1 500 100	65.0 %	Full
RUAG Ammotec Austria GmbH	Vienna	Austria	EUR	297 959	100.0 %	Full
RUAG Space GmbH	Vienna	Austria	EUR	1 500 000	100.0 %	Full
RUAG Hungarian Ammotec Inc.	Sirok	Hungary	HUF	300 000 000	100.0 %	Full
RUAG Aerostructures Hungary Zrt.	Eger	Hungary	HUF	609 000 000	100.0 %	Full

[1] RUAG International Holding Ltd, Stauffacherstrasse 65, P.O. Box, CH-3000 Bern 22.

Company	Head office	Country	Equity capital (100 %)		Shareholding	Consolidation method
RUAG Ammotec USA Inc.	Tampa, FL	USA	USD	6 500 000	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
RUAG Simulation Company LLC	Abu Dhabi	VAE	AED	150 000	49.0 %	Full
RUAG Advanced Systems Inc.	Huntsville (AL)	USA	USD	1 500	100.0 %	[2,3]
Stadeln Genehmigungshaltergesellschaft mbH	Fürth	Germany	EUR	25 000	78.6 %	[2]
Other investments						
Brünig Indoor Aktiengesellschaft	Lungern	Switzerland	CHF	3 400 000	0.3 %	[2]
Arianespace Participation	Evry	France	EUR	3 937 983	3.5 %	[2]

[2] Non-material investments are valued at cost minus a valuation allowance.
[3] As of 5 August 2020, the company RUAG Advanced Systems Inc. was founded, headquartered in Huntsville, USA.

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To the General Meeting of
RUAG International Holding Ltd, Berne

Berne, 5 March 2021

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of RUAG International Holding Ltd, which comprise the income statement, balance sheet, cash flow statement, statement of changes in equity and notes (pages 38 to 80), for the year ended 31 December 2020.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of these 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 2020 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.

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Page 2

Other matter
The financial statements of RUAG International Holding Ltd for the year ended 31 December 2019 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 18 March 2020.

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.

Ernst & Young Ltd

Martin Mattes
Licensed audit expert
(Auditor in charge)

Philippe Wenger
Licensed audit expert

Income statement for 1 January to 31 December

in CHF m	Note	2020	2019
Dividend income	2.5	115	82
Income from services		4	4
Total operating income		119	86
Personnel expenses		(0)	(0)
Other operating expenses	2.6	(12)	(17)
Impairment losses on financial assets	2.7	(92)	—
Impairment losses on investments	2.8	(198)	(45)
Total operating expenses		(302)	(63)
Operating profit/loss		(183)	23
Financial income			
Interest income		16	21
Currency gains		2	—
Financial expenses			
Interest expense		(8)	(12)
Currency losses			(5)
Pre-tax profit (loss)		(173)	27
Income taxes		(0)	(0)
Net profit (loss)		(173)	27

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	2020	2019
Cash and cash equivalents		55	79
Current financial assets			
Due to third parties		3	—
Due to companies in which the entity holds an investment		213	167
Other current receivables			
Due to third parties		1	1
Due to stakeholders		1	—
Due to companies in which the entity holds an investment		10	30
Prepaid expenses and accrued income		—	—
Total current assets		283	276
in % of total assets		31%	21%
Financial assets			
Due to third parties		—	0
Due to companies in which the entity holds an investment [1]		263	389
Investments	2.1	369	640
Intangible assets		0	0
Total non-current assets		632	1 030
in % of total assets		69%	79%
Total assets		915	1 306
Current interest-bearing liabilities			
Due to third parties		58	0
Due to companies in which the entity holds an investment		230	277
Other current interest-bearing liabilities			
Due to third parties		1	—
Due to companies in which the entity holds an investment		45	3
Other current liabilities			
Due to third parties		0	0
Due to companies in which the entity holds an investment		—	0
Current provisions		—	—
Deferred income and accrued expenses			
Due to third parties		0	0
Due to companies in which the entity holds an investment		2	3
Total current liabilities		336	283
Total liabilities		336	283
in % of total assets		37%	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		58	53
Voluntary retained earnings			
Balance sheet profit			
Net profit brought forward		344	593
Net profit (loss) for the year		(173)	27
Total equity		579	1 022
in % of total assets		63%	78%
Total liabilities and equity		915	1 306

[1] Of which subordinated: CHF 66 million

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 main 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 applied 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, unrealised losses are recognised, while unrealised 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 recognised on a "realised" basis. For non-current assets and liabilities, the lowest value principle applies; any unrealised foreign exchange losses are treated as an expense, while unrealised profits are not recognised in the income statement.

1.6 Non-preparation of statement of cash flows and additional details in the notes
As RUAG International Holding Ltd prepares its consolidated financial statements in line with recognised 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 2020 in %	Share of capital and voting rights 2019 in %		Capital
RUAG Switzerland Ltd	Emmen	Switzerland	100	100	CHF	112 200 000
RUAG Ammotec Ltd	Thun	Switzerland	100	100	CHF	12 000 000
RUAG Simulation & Training Ltd	Bern	Switzerland	100	0	CHF	100 000
RUAG Real Estate Ltd	Bern	Switzerland	0	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 Slip Rings Ltd	Nyon	Switzerland	100	100	CHF	100 000
RUAG MRO Holding Ltd	Bern	Switzerland	0	100	CHF	100 000
RUAG Deutschland GmbH	Wessling	Germany	100	100	EUR	1 000 000
RUAG GmbH	Kassel	Germany	0	100	EUR	100 000
Base 10 GmbH	Hallbergmoos	Germany	0	100	EUR	100 000
RUAG Sweden AB	Gothenburg	Sweden	100	100	SEK	100 000
RUAG Holding France SAS	Terssac	France	100	100	EUR	100 000
RUAG Australia PTY Ltd	Bayswater	Australia	100	100	AUD	10 000
RUAG Aerostructures Hungary Zrt.	Eger	Hungary	100	100	HUF	609 000 000
Nitrochemie Wimmis Ltd	Wimmis	Switzerland	0	45	CHF	25 000 000
Nitrochemie Aschau GmbH	Aschau	Germany	0	45	EUR	7 700 000

b) Material indirect investments

Company	Head office	Country	Share of capital and voting rights 2020 in %	Share of capital and voting rights 2019 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	Göteborg	Sweden	100	100	SEK	15 000 000
RUAG Space Inc.	El Segundo, CA	USA	100	100	USD	25 000

2.2 Foreign currency forward transactions

in CHF m	2020	2019
Volume of foreign currency hedging contracts with banks	348	358
Volume of foreign currency hedging contracts with banks	(50)	(106)
Volume of foreign currency hedging contracts with Group companies	36	74
Volume of foreign currency hedging contracts with Group companies	(125)	(113)
Positive replacement value banks	9	5
Negative replacement value banks	(1)	(3)
Positive replacement value Group companies	0	2
Negative replacement value Group companies	(6)	(3)
Total replacement values	2	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 recognised 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 International Holding Ltd as at 1 January 1999.

2.5 Dividend income

Income from investments mainly includes the distribution of dividends in kind by RUAG Switzerland Ltd and RUAG Corporate Services Ltd as part of the RUAG Group unbundling, as well as ordinary dividend distributions by RUAG Ammotec Ltd and RUAG Ammotec Switzerland Ltd.

2.6 Other operating expenses

in CHF m	2020	2019
Advertising costs	(3)	(2)
Administration costs	(3)	(7)
Management fees (top management costs)	(6)	(8)
Total other operating expenses	(12)	(17)

2.7 Impairment losses on financial assets

Financial assets are reviewed on an annual basis with regard to their value, if events or circumstances indicate that the carrying amount may no longer be recoverable. As a result of the crisis in the aviation industry triggered by the COVID-19 pandemic, impairment losses of CHF 91.9 million had to be recognised on financial assets in the reporting year. Of this amount, CHF 80.0 million relates to the financing of RUAG Deutschland GmbH and CHF 7.2 million to RUAG Aerostructures Hungary Zrt.

2.8 Impairment losses on investments

Investments are reviewed on an annual basis with regard to their value, if events or circumstances indicate that the carrying amount may no longer be recoverable. As part of the unbundling of the RUAG Group, the investments RUAG Switzerland Ltd and RUAG Corporate Services Ltd were impaired in the amount of the dividends in kind paid out in accordance with accounting standards (total CHF 106.2 million). Also as a result of the crisis in the aviation industry triggered by the COVID-19 pandemic, further impairment losses of CHF 92.1 million had to be recognised on investments in the year under review. Among others, the investments in RUAG Deutschland GmbH (CHF 79.9 million) and RUAG Aerostructures Hungary Zrt. (CHF 5.6 million) were fully impaired.

3 Further information

3.1 Full-time positions

RUAG International Holding Ltd does not employ any staff.

3.2 Collateral provided for third-party liabilities

in CHF m	2020	2019
Group guarantees	104	117
Total contingent liabilities	104	117

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.

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 that would need to be disclosed here.

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

in CHF m	2020	2019
Balance sheet profit at the start of the financial year	344	593
Net profit (loss) for the year	(173)	27
Balance sheet profit at the disposal of the Annual General Meeting	171	620
The Board of Directors proposes to the Annual General Meeting the following appropriation of available earnings:		
Dividends in kind	—	270
Allocation to general legal retained earnings	—	6
Balance to be brought forward	171	344

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To the General Meeting of

RUAG International Holding Ltd, Berne

Berne, 5 March 2021

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of RUAG International Holding Ltd, which comprise the income statement, balance sheet and notes (pages 83 to 87), for the year ended 31 December 2020.

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 2020 comply with Swiss law and the company's articles of incorporation.

Other matter
The financial statements of RUAG International Holding Ltd for the year ended 31 December 2019 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 18 March 2020.

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.

Ernst & Young Ltd

Martin Mattes
Licensed audit expert
(Auditor in charge)

Philippe Wenger
Licensed audit expert

04 Corporate Governance

20%

RUAG International has a workforce of 20 % women and 80% men. The average age is 43.

RUAG International 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 International 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 Organisation and Operations. The Board of Directors of RUAG International Holding Ltd currently consists of seven members, none of whom performed executive functions in the year under review or in the three preceding years. In addition, the members of the Board of Directors have no material business relationship with the Group. No changes to the Board of Directors were made in the year under review.

Election and term of office

The Board of Directors of RUAG International 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 a maximum of seven 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 International 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

Jürg Oleas

Vice Chairman

Dr. Marie-Pierre de Bailliencourt

Member

Dr. Jennifer P. Byrne

Member

Jürg Fedier

Member

Rainer G. Schulz

Member

Dr. Laurent Sigismondi

Member

The following section provides information on the composition of the Board of Directors as at 31 December 2020, the individual members' functions within RUAG International, 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 2020.

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, 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

Jürg Oleas (b.1957, Swiss), member since 2011
Committees: Chairman of the Strategy Committee, member of the Audit Committee
Significant mandates: Chairman of the Board of Directors of HOCHDORF Holding 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

Dr. Jennifer P. Byrne (b.1963, American), member since 2020
Committees: member of the Strategy Committee
Significant mandates: Chief Operating Officer of G-Research

Jürg Fedier (b.1955, Swiss), member since 2020
Committees: Chairman of the Audit Committee, member of the Nomination & Compensation Committee
Significant mandates: member of the Board of Directors of Ascom Holding AG, member of the Board of Directors of Dätwyler Holding AG, member of the Board of Directors of the CFO Forum Switzerland

Rainer G. Schulz (b.1965, Swiss), member since 2020
Committees: Chairman of the Nomination & Compensation Committee
Significant mandates: member of the Board of Directors of Bühler Holding AG, member of the Board of Directors of Eisenmann SE, member of the Advisory Board of Röchling SE & Co KG, member of the Board of Directors on the advisory board at MBA ETH SCM

Dr. Laurent Sigismondi (b. 1976, Swiss), member since 2020
Committees: member of the Audit Committee, member of the Nomination & Compensation Committee
Significant mandates: member of the Group Executive Board of DKSH Holding AG, member of the Legal Commission of Economiesuisse

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 International 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. Instead of the usual six meetings, the Board of Directors held eight ordinary meetings in 2020 and two two-day strategy meetings. In addition, the members of the Board of Directors discussed matters regularly by telephone. The agenda for meetings of the Board of Directors is set by the Chairman. Any member of the Board of Directors may request that an item be included on the agenda. The members are provided with documentation prior to each meeting to enable them to prepare for the items to be discussed.

The Board of Directors maintains an exchange of ideas with the company's operational managers. Visits to RUAG International's sites were limited in 2020 due to restrictions related to the COVID-19.

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 four 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 International Holding Ltd and the Group. The duties of the Audit Committee include:

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

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

Nomination & Compensation Committee
The Nomination & Compensation Committee (NCC) is composed of four members of the Board of Directors. 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 four 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. Due to the unbundling of the RUAG Group and the associated restructuring of the Board of Directors' committees, the Board of Directors decided to dissolve the Strategy Committee at the end of 2020.

Information and control instruments
The RUAG International 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 and business units are compiled on a monthly, quarterly, semi-annual and annual basis. These figures are consolidated for each business unit 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 monthly written report on budget compliance to the Board of Directors.

Compliance organisation
At Group level, Compliance & Governance is responsible in particular for enshrining the internal RUAG International rules through a comprehensive Compliance Management System. The commercial units are fully integrated in this structure through Communities of Interest for Trade Compliance and Commercial Compliance as well as the Compliance & Risk Network and the Compliance & Risk Board.

The Vice President of Compliance & Governance 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 regularly provided with summary information about compliance-related topics through quarterly reports and discussions.

Whistle-blower system
RUAG International 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 & Governance specialists.

Code of Conduct for Business Partners
The Code of Conduct for Business Partners has been integrated into RUAG International's General Terms and Conditions. RUAG International is committed to conducting business in accordance with ethical principles and applicable law and in a socially responsible fashion. RUAG International 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 International employment contract, RUAG International 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.

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.

André Wall (b.1965, German), Chairman of the Group Executive Board, CEO of RUAG International, joined on 23 November 2020
External mandates: Founder of Social Return GmbH, Owner of AW Aviation GmbH & Co. KG

Dirk Prehn (b.1968, German), member of the Group Executive Board, Executive Vice President of RUAG Aerostructures, joined 2018
External mandates: none

Christoph M. Eisenhardt (b.1968, German), member of the Group Executive Board, CEO of the RUAG Ammotec division, joined 2017
External mandates: Member of the Board of Directors of AFEMS Verband

Angelo Quabba (b.1965, Swiss), member of the Group Executive Board, CFO of RUAG International, joined on 23 November 2020
External mandates: Member of the Board of Directors of Gubemo AG

Dr. Christian Ferber (b.1965, Swiss), member of the Group Executive Board, CHRO of RUAG International, joined 2012
External mandates: member of the Board of Directors of Schiltwald Partners AG, advisory board of EMA Partners Switzerland AG

Dr. Judith Bischof (b. 1974, Swiss), member of the Group Executive Board, General Counsel of RUAG International, joined 2018
External mandates: member of the Law Committee of Swissmem

Urs Kiener (b.1965, Swiss), member of the Group Executive Board, CFO of RUAG International, joined 2002, stood down from the Group Executive Board on 23 November 2020.
External mandates: none

Dr. Peter Guggenbach (b.1962, Swiss), member of the Group Executive Board, Executive Vice President of RUAG Space, joined 2009, stood down from the Group Executive Board on 31 May 2020
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

Management organisation
The Board of Directors has appointed a Group Executive Board under the chairmanship of the CEO. In the period from 1 January 2020 to 23 November 2020, Urs Kiener chaired the Group Executive Board as interim CEO. Since 23 November 2020, CEO André Wall has been responsible for day-to-day business. The CEO and the Group Executive Board are responsible for the overall management of RUAG International and for all matters not delegated to another governing body of the company by law, the Articles of Association or the Regulations Governing Organisation and Operations. The powers and duties of the Group Executive Board and CEO are set out in detail in the Organisational 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 Business Segment Heads, the Chief Financial Officer (CFO), the Chief Human Resource Officer (CHRO) and the General Counsel.

CEO
The CEO manages RUAG International. He submits the RUAG International 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, business unit 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 Organisation 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 International Holding Ltd and its subsidiaries with any third parties.

RUAG International management structure as at 31 December 2020

Board of Directors
Dr. Remo Lütolf (Chairman), Jürg Oleas (Vice-Chairman),
Dr. Marie-Pierre de Bailliencourt, Dr. Jennifer P. Byrne, Jürg Fedier,
Rainer G.Schulz, Dr. Laurent Sigismondi

Audit Committee	Nomination & Compensation Committee	Strategy Committee
Jürg Fedier (Chairman) Dr. Remo Lütolf Dr. Laurent Sigismondi Jürg Oleas	Rainer G. Schulz (Chairman) Dr. Remo Lütolf Dr. Laurent Sigismondi Jürg Fedier	Jürg Oleas (Chairman) Dr. Remo Lütolf Dr. Marie-Pierre de Bailliencourt Dr. Jennifer P. Byrne
Internal Audit		

CEO RUAG International/ Corporate Services André Wall[1]	**Space** Luis De León Chardel[2]	**Aerostructures** Dirk Prehn	**MRO International** Felix Ammann	**Ammotec** Christoph Eisenhardt
Corporate Finance & Controlling Angelo Quabba[3]	Electronics	Aerostructures Germany	Simulation & Training	Defence & Law Enforcement
Corporate Human Resources Dr. Christian Ferber	Spacecraft	Aerostructures Switzerland	Aviation International	Hunting & Sports
Corporate Legal & Compliance Secretary General Dr. Judith Bischof	Launchers	Aerostructures Hungary	Business Aviation	Industry

— Group Executive Board
1 As at 23 November 2020, joined the Group Executive Board as CEO of RUAG International
2 As at 1 June 2020, took over the role of interim Head of Business Unit Space
3 As at 23 November 2020, joined the Group Executive Board as CFO of RUAG International

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. 663bbis and Art. 663c) into account. Compensation paid in accordance with these provisions of the Swiss Code of Obligations is listed in the financial statements of RUAG International in Note 34 “Compensation of key management personnel”, with further details provided.

Compensation policy

RUAG International’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 International 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 International 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 International also prepares an annual report for submission to the Swiss Federal Department of Finance (EFD), 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 lump-sum allowances for expenses. In 2020, the Board of Directors voluntarily waived 15 % of its compensation due to the extraordinary situation resulting from COVID-19.

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). The Long Term Incentive Plan (LTI) was cancelled at the end of 2019. 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 RUAG International overall and of the individual business units is measured based on five financial value drivers:

- Net sales
- Operating result (EBIT)
- Net working capital (NWC)
- Return on net operating assets (RNOA)
- 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 personal goals and 80 % for financial goals. In the case of the heads of business segments, the financial goals are defined per segment. In the case of the CEO and the heads of service segments, the financial goals of RUAG International apply.

For the members of the Group Executive Board, the performance-based component in 2020 ranged from 13 % (previous year: 11 %) to a maximum of 42 % (previous year: 30 %) of the annual cash remuneration.

Other benefits

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 RUAG International. Additional regulations also apply to the members of the Group Executive Board and all executives 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 or a mobility allowance is provided to each member of the Group Executive Board. No 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”.

Severance payments: In the reporting year 2020, two members of the Executive Board left the company and were exempted from their duties. During the period of exemption, the two members received compensation in accordance with existing entitlements under their individual employment contracts and, in one case, an additional severance payment. Further information can be found in the Financial Report, Note 34, “Compensation for key management personnel”.

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 2020 financial year, the members of the Group Executive Board and Board of Directors received no appreciable fees or other compensation of additional services rendered to RUAG International Holding Ltd or any of its subsidiaries.

RUAG International 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 International 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 2020, RUAG International Holding Ltd did not have any conditional or authorised capital, nor had it issued participation or dividend right certificates. The registered shares of RUAG International 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 International Holding Ltd, each registered share carries one vote. The voting right may only be exercised provided that the shareholder is recorded in the RUAG International 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

BGRB Holding Ltd holds 100% of the shares in RUAG International Holding Ltd and thus all voting rights in RUAG International Holding Ltd. BGRB Holding Ltd is held by the Swiss Confederation. The Swiss Federal Department of Defence, Civil Protection and Sport (DDPS) and the Swiss Federal Finance Administration (FFA) exercise 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, specifically strategic focal points, human resource policy and financial objectives, cooperation and investments and reporting to the Swiss Federal Council.

The new owner’s strategy of the Swiss Federal Council entered into force on 1 January 2020 and is based on BGRB Holding Ltd and, indirectly, on the sub-holdings RUAG International Holding Ltd and RUAG MRO Holding Ltd. It establishes the transparent, binding framework which enables RUAG International 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 International Holding Ltd.

Cross-shareholdings
RUAG International 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 International 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 BGRB 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 International Holding Ltd.

Pension fund
The pension fund of RUAG International with the Livica collective foundation had a cover ratio of over 100 % at 31 December 2020 (previous year: VORSORGE RUAG, 106.9 %).

Statutory auditor

Duration of mandate of auditor in charge
At the Annual General Meeting of 17 June 2020, Ernst & Young AG Bern was elected as RUAG International's statutory auditor for one year. Martin Mattes acts as lead auditor and is responsible for the audit mandate.

Audit fees and additional expenses
Ernst & Young provided RUAG International with services in the amount of CHF 0.8 million (previous year: KPMG AG CHF 1.4 million) during the 2020 financial year related to the audit of the financial statements of RUAG International Holding Ltd and its subsidiaries and of RUAG International's consolidated financial statements.

In addition, Ernst & Young AG provided RUAG International with audit-related services, tax advice and due diligence services in the amount of CHF 1.6 million (previous year: KPMG AG CHF 0.5 million).

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 17 June 2020, the AGM appointed Ernst & Young AG 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
RUAG International pursues an open information policy in relation to the public and to the financial markets. The published figures extend beyond the statutory requirements in terms of transparency. Quarterly discussions are held between the shareholder and the Board of Directors.

Fees paid to the auditors

in CHF 1 000	2020 Ernst & Young AG	2019 KPMG AG
Audit fees	812	1 184
Tax advice	127	61
Due diligence services	165	—
All other services	1 370	119
Total fees	2 474	1 364

Key dates

End of financial year	31 December 2020
AGM	12 May 2021

The Annual Report containing the financial statements for the year ended 31 December 2020 is sent to the shareholder together with an invitation to the AGM.

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