

Annual report 2021



RUAG 

The fiscal year 2021 in brief

Security matters.

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Dear ladies and gentlemen,

Buildings require a solid foundation, a robust design and a strong shell. Moreover, they also need to be planned with the future in mind. These factors are crucial to lasting durability in building architecture, and they are also a requirement for companies. In the past year, we have worked intensively on our plans for the future. With the formal completion of the unbundling in early 2021, we have laid the foundation for re-engineering our company. The former RUAG Group was split into two new, independent companies and their IT infrastructure was unbundled. This allows us to further develop RUAG as an independent company in the years to come and to make it fit for the future.

“Our RUAG”, which works for the security of Switzerland, is now a “building” in its own right. As is often the case for existing buildings, however, we can only determine upon deeper analysis what is valuable and what needs renovating. What is most valuable are our employees and the fact that they are deeply rooted in the dual education system. The

basic training lays the foundation for good craftsmanship and the active further development of competencies. RUAG will expand this successful model to its cooperation with universities.

At RUAG, we are therefore aware that optimum conditions for sustainable success can only be created if motivated, highly qualified and forward-looking architects are involved. In the future, we will continue to make every effort to give our employees space for innovative creativity and win over young people with passion and a future-oriented mentality for our company. The once again outstanding results of our apprentices at last year’s SwissSkills Championships show that we are on the right path in this respect.

RUAG is characterized by its ability to maintain systems for decades and modernize them with the latest technologies. We want to utilize our extensive experience as technology partner of the Swiss Armed Forces to adapt to new capabilities and

threat scenarios. Systems are becoming increasingly interconnected, which demands new solutions, for example in the areas of autonomous equipment, communication or cyber security. We are needed wherever Switzerland depends on sovereign security. Not only for the Swiss Armed Forces, but also for any institutions relevant to security.

However, before we continue to work on our building, we urgently need to carry out necessary renovations. Cracks in the foundation or shaky pillars are not a good basis for the future. Our infrastructure’s substance has been neglected in the past few years. Considerable efforts will be needed to renovate our properties and test centers. New requirements will also have to be met for the Swiss Armed Forces’ major procurement projects. We see this as an opportunity, even though the financial aspects will be challenging.

A central pillar of our building is our strategic orientation. It provides direction for our employees, the owner and our partners. In the 2021 fiscal year, we worked intensively on our company strategy. We want to become an integrated service provider and agile technology partner for Swiss sovereign security. Third-party business, which is still partly characterized by legacy projects, is a relevant element in our business mix. Furthermore, as a specific measure, we have launched our first concrete strategic initiatives. These initiatives are bundled in the “RUAG Innovation Organization”, which will be formalized in 2022. The organization will primarily focus on technological innovations and support RUAG in acquiring new customers, developing alternative business models, also in collaboration with partners, and establishing itself in other markets.

During the past fiscal year, our new strategy was directly impacted by the clarification of essential issues relating to security policy. In this regard, we should highlight the decision

of the Swiss citizens regarding the long-term future of the Swiss Air Force. The “yes” vote in the referendum for a new fleet of fighter aircraft (NKF) and a new ground-based air defense with extended range (GBAD ER) will considerably change our activities in these areas – a major challenge that we will carefully prepare for.

Consistent digitalization is also one of the cornerstones of our new company. In interdisciplinary projects, we are working on digitalizing our processes and systems and becoming more efficient and less complex as a company. As a result, our customers will benefit from shorter lead times, greater transparency and faster decision-making processes in the future.

Another component of a building is its shell, which creates a good climate. In particular, this involves meeting the high demands put on our social responsibility. This social responsibility includes complying with obligations under international law, making contributions to Switzerland as an education and research location, observing regional politics, promoting diversity and achieving environmental objectives.

Dear ladies and gentlemen. During the past fiscal year, we at RUAG have been working intensively on the basic structure of our new company. We are convinced that this work will pay off and lead RUAG into a successful future.


 Nicolas Perrin
 Chairman of the Board of Directors
 RUAG MRO Holding Ltd

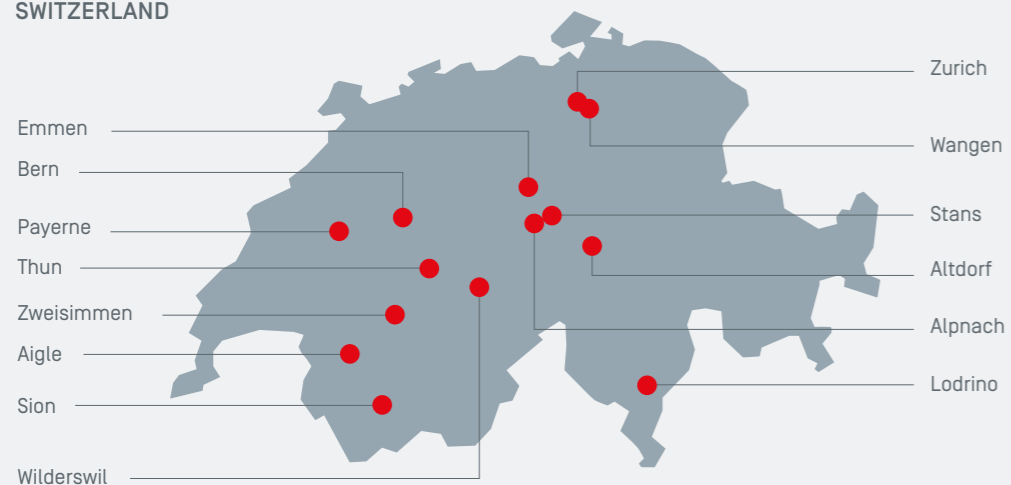

 Peter E. Bodmer
 CEO a.i.
 RUAG MRO Holding Ltd

RUAG at a glance

SECURITY IS A CORNERSTONE OF SWITZERLAND. AT RUAG, WE WORK TO ENSURE THIS ON A DAILY BASIS. THIS IS OUR DRIVING FORCE. AS A FORWARD-LOOKING TECHNOLOGY PARTNER OF THE SWISS ARMED FORCES, LIFE CYCLE MANAGEMENT, OPERATIONS, AND THE AVAILABILITY OF MILITARY SYSTEMS FOR LAND AND AIR ARE A PRIORITY FOR US.

SITES

SWITZERLAND

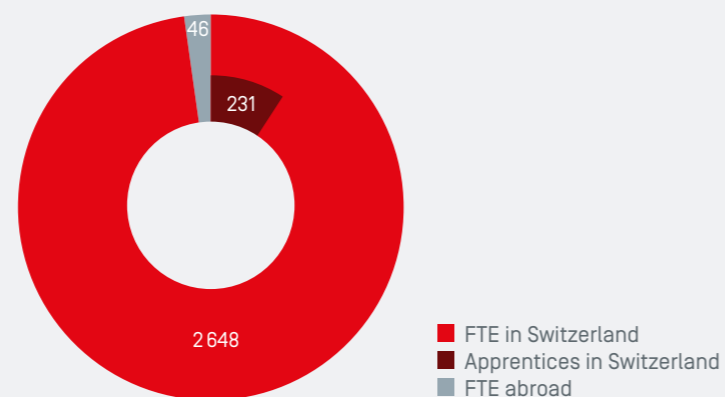


INTERNATIONAL

- Germany**
Berlin
Kassel
- USA**
Berlin, Connecticut

↗ Know-how, passion and drive characterize our employees.

EMPLOYEES (FTE) AS OF END DECEMBER



KEY FIGURES OF RUAG MRO HOLDING LTD AT A GLANCE

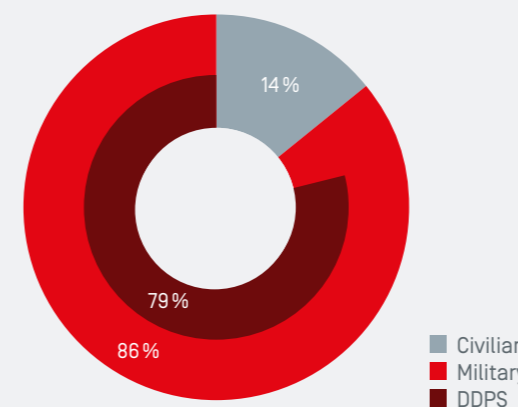
in CHF m

	2021	2020
Order intake	693	722
Order backlog	501	471
Net sales	647	682
Research and development expenses	-19	-14
Unbundling costs	-12	-28
EBITDA	46	51
EBIT	17	30
EBIT margin	2.7%	4.5%
Net profit	23	31
Free cash flow	44	37
Net financial position ¹	150	113
Bank debt	0	0

¹The net financial position of CHF 150 million includes CHF 47 million paid before the due date.

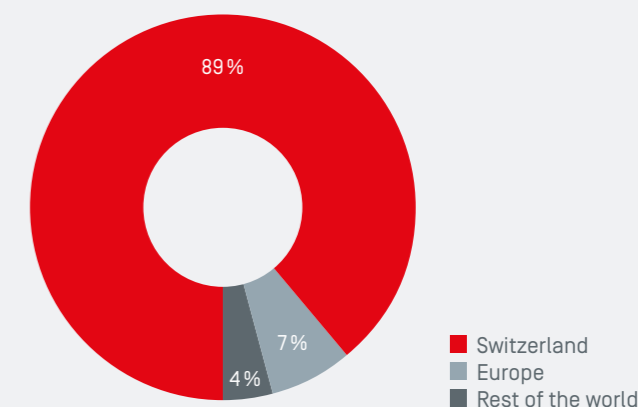
INVOICED SALES 2021 BY APPLICATION

in %



INVOICED SALES IN 2021 BY SALES MARKET

in %



Our path has a clear destination

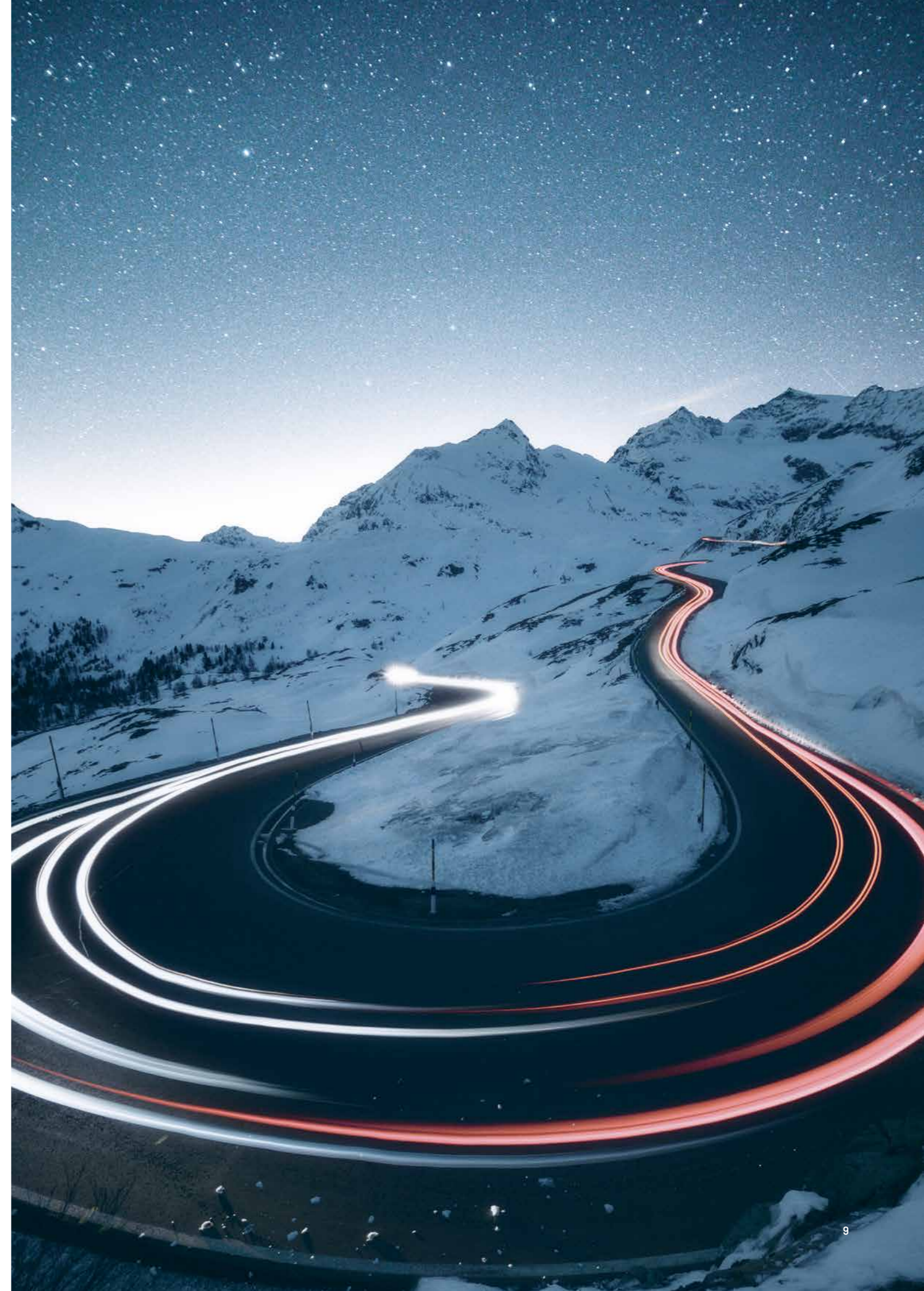
➤ A sustainably successful future requires that we ensure our competitiveness. To achieve this, during the past fiscal year we worked intensively on our strategy. After all, we will have to respond to numerous changes in our core businesses over the coming years.

For example, several systems of the Swiss Armed Forces, which are still part of our business activities today, will soon be decommissioned. They are only being replaced in small numbers, but the new systems will be more specialized and equipped with new technologies. For us, this means: less turnover with higher requirements. In addition, our customers increasingly expect individual services and improvements in efficiency.

We have taken significant steps to evolve from a traditional defense contractor into a holistic security company and are doing everything we can to establish ourselves as a life-cycle center, an innovation and technology service provider and

a security platform. Our aim is to expand our existing and replacement business, bring about progressive cultural change at all levels and expand our competencies in a targeted manner. We are therefore promoting a creative, innovative and bold culture based on trust as well as ethically correct and compliant behavior.

RUAG is changing and will continue to develop, always with the aim of ensuring its main mission for the Swiss Armed Forces – which at the same time benefits the Swiss Security Network.



Key results 2021

1 CONTRACT FROM THE GERMAN BUNDESWEHR

We have won an order as part of the “immediate operational requirement initiative” and are supplying the German Bundeswehr with 55 interoperable communications solutions based on the Tactical Access Node (TAN) device type.

2 RUAG PUTS A NEW SITE INTO OPERATION IN PAYERNE

We completed the construction work for the new RUAG site on the military airfield at Payerne. The newly formed team was able to take possession of the first F/A-18 fighter aircraft and start work.



3 CONTRACT FOR THE NEW COMMUNICATION SYSTEM FOR THE SWISS ARMED FORCES

We won the public tender for the new communication system for the Swiss Armed Forces: the replacement of the Integrated Military Telecommunication System “Ersa IMFS”. Ersa IMFS is a completely new technology for an ultra-modern communication system.

4 WINNING THE CONTRACT FOR THE MANUFACTURE OF SIX MOBILE DISINFECTION SYSTEMS

We have signed the series production contract for the supply of six mobile disinfection container systems to be deployed by the Swiss Armed Forces. This unique disinfection system can disinfect up to 300 mattresses within a period of 24 hours, can be deployed anywhere, and is functionally reliable.



5 RUAG AND RAYTHEON TECHNOLOGIES BECOME PARTNERS

In connection with the procurement of the Patriot™ system, manufactured by the US company Raytheon Technologies – for ground-based air defense with extended range (BODLUV GR) – we signed a letter of intent regarding future cooperation, and were appointed as a material competence center.



Holistically thought-out security

TECHNOLOGICAL DEVELOPMENTS FROM THE MILITARY ENVIRONMENT ARE ADVANCED, INNOVATIVE AND MEET THE HIGHEST QUALITY AND SECURITY REQUIREMENTS. THEY HAVE SUBSEQUENTLY BEEN TRANSFERRED TO CIVIL APPLICATIONS FOR MANY DECADES. AT RUAG, WE ALSO AIM TO SUPPORT A WIDE VARIETY OF CIVIL CUSTOMER SEGMENTS WITH OUR SECURITY TECHNOLOGIES.

As a holistic security company, our key customers include not only the Swiss Armed Forces, but also security organizations, government agencies and rescue forces. With our competencies and developments, we help to ensure that security operations of all kinds can be carried out successfully. Last year, in response to the Corona pandemic, we worked with armasuisse to retrofit two EC635 helicopters and make them available to transport COVID-19 patients. The retrofit work included spatial separation of the cockpit, appropriate disinfection methods and integration of medical equipment. The two helicopters were converted within a few days and were ready for use by the Air Force.

Our services and technologies are used in mobile disinfection containers, helicopter rescue winch maintenance and civil aviation. In the past year, we have therefore once again demonstrated that at RUAG, we make a significant contribution to societal security.

To further promote the transfer of military technologies to civil applications, we have explicitly anchored this in our new corporate strategy. We consider it our responsibility to think of security holistically.



BAS GOUVERNEUR, CHIEF TECHNOLOGY OFFICER

Bas, what importance does “innovation” currently have at RUAG?

As a company with a demanding mission, technological innovations are of great strategic importance to us. Because we are committed to providing answers to both existing and new challenges. That is why we defined our focus topics, or so-called strategic initiatives, last year. They include in particular projects with future technologies relevant to us.

Can you give us some insight into the current efforts?

“New technologies” is one area, “new business models” is another. It’s also about innovative services and platforms that we would like to offer to be able to make new value propositions. RUAG has great potential for this market, as we are very broadly based, well networked and well positioned. Our diverse digital solutions will support us in this.

Are we on track to implement our plans?

We completely relaunched the entire innovation process last year. However, new, important projects were also a challenge, such as the KICKBOX project, in which our employees were able to submit business ideas and practically overwhelmed us with ideas. In order to promote innovation, we may become a little bolder and make decisions more quickly – in other words, bring about a change in culture. In the coming year, the main focus will also be on handing over the innovation projects to the line. The aim is to pass on the passion from the innovation phase to product development as well, so that these “little seeds” will grow and flourish.



Starting signal for strategic investments at the Thun site

WE ARE INVESTING AT OUR SITE IN THUN SO THAT WE ARE OPTIMALLY EQUIPPED FOR FUTURE TASKS. AT ONE OF OUR MAIN SITES, WE ARE PRESENTING THREE INVESTMENT PROJECTS THAT OFFER ADDED VALUE FOR THE GENERAL POPULATION AND FOR OUR CUSTOMERS: THE OPENING OF UTTIGENSTRASSE AS WELL AS THE GO-AHEAD FOR TWO NEW CONSTRUCTION PROJECTS IN THE RUAG INDUSTRIAL PARK, WHICH FOCUS ON LONG-TERM TECHNOLOGY LEADERSHIP IN THE AREAS OF GROUND-BASED SYSTEMS AND COMPLEX TESTING SERVICES.

DANIEL RINGGENBERG, PROJECT MANAGER DETECT & AVOID

Daniel, can you briefly explain Detect and Avoid to us?

Detect and Avoid is a system that independently detects other aircraft, presents the aerial situation image to the pilot of the unmanned aerial vehicle, and ultimately initiates an automatic avoidance maneuver with the unmanned aerial vehicle if there is a risk of collision. With this project, RUAG is supporting technological progress in the field of unmanned aerial vehicle security, particularly in the Swiss ADS 15 reconnaissance drone.

What's so unique about the Detect and Avoid system?

Detect and Avoid is a completely new system. At present, no comparable product has been fully developed anywhere in the world. In this way, we are carrying out pioneering work along with our partners. Naturally, in such a project, new issues may arise during the process that need to be resolved. We have expanded our existing competencies, and by achieving key milestones we have been able to demonstrate our in-depth expertise in unmanned aerial vehicles.

What are you most proud of?

The Detect and Avoid System is one of RUAG's most innovative projects. Along with my project team and with the support of other employees, we have a central role to play in the approval of unmanned aerial vehicles in Switzerland. Thanks to various successful laboratory tests, we have gained the confidence of unmanned aerial vehicle manufacturers. The laboratory tests lead to a flight clearance for the planned flight tests in Switzerland. With our development, we are making a significant contribution to security in Swiss airspace and therefore to the security of Switzerland.

RUAG's industrial and business park in Thun has around 282 000 m² of floor space, almost the size of 40 soccer fields. It is structured into a public part along Uttigenstrasse and a secured operational part along the Thun-North bypass. In December 2021, Uttigenstrasse was opened as a central access road for public non-motorized traffic. This will make it possible to meet local needs and create a new neighborhood called Tryber, which offers a great deal of potential for new forms of work and collaboration between the companies located there.

The company site is reserved for the maintenance and further development of the RUAG production site. In the future, the Ground business area will continue to provide priority security-related industrial services for the benefit of the Swiss Armed Forces. In this context, two new buildings are under construction to ensure that RUAG keeps its position as leader in ground-based system technology and complex testing services will be

maintained in the long term. A Test Center for Electromagnetic Compatibility (EMC) and a facility for an electrically powered and universal transmission test bench are being built.

The new Test Center for Electromagnetic Compatibility will be the largest EMC infrastructure in Switzerland when completed. Test objects can be tested for their electromagnetic compatibility according to the latest technology standards. With the construction of a universal transmission test bench, RUAG is also consolidating its core competencies in military transmission repairs and overhauls, in line with the company's strategic orientation. The facility, with its modular adaptation concept and a new electric drive in testing military transmission applications, will be a world leader and set new standards. By eliminating combustion engines as drive units, RUAG is also helping to reduce noise and exhaust emissions.

A sustainable infrastructure for our future

SINCE DECEMBER 2020, WE HAVE BEEN PART OF THE “EXEMPLARY ENERGY AND CLIMATE” INITIATIVE OF THE SWISS FEDERAL OFFICE OF ENERGY. OUR GOAL IS TO SUPPORT THE ENERGY STRATEGY 2050 WITH INNOVATIVE AND EXEMPLARY MEASURES. IN THE AREA OF WORK EQUIPMENT AND INFRASTRUCTURE IN PARTICULAR, WE WILL WORK TO PROMOTE ENERGY EFFICIENCY AND CLIMATE PROTECTION. DURING 2021, WE HAVE THEREFORE DEVELOPED A VARIETY OF SOLUTIONS TO MAKE OUR CONTRIBUTION.

Since February 2021, we have been generating our energy entirely from renewable resources, specifically from certified Swiss hydropower and solar power, which we generate at our sites in Bern and Emmen, among others. Four new photovoltaic plants are planned in Emmen, Lodrino and Thun, and further sites are currently being identified. By 2026, we want to produce 1,600 MWh/a of our own solar power – equivalent to the annual electricity requirements of around 450 households.

We also want to set an example in the areas of decarbonization and e-mobility: We replaced the first outdated oil-fired heating system at the Thun site with a wood-pellet heating system,

subsequently saving approximately 145,000 liters of heating oil per year. This is equivalent to seven tanker trucks or 912 barrels of oil. We have also expanded our vehicle fleet with new electric cars including charging stations. Over the next three years, we will replace 80 percent of the pool vehicles with electric models and install additional charging stations at all locations.

These various measures are already having an effect: We were able to reduce our CO₂ consumption by an additional 20 percent. This is more than was envisaged in the “Exemplary Energy and Climate” target agreement.



Progressing into the future

THE SPEED AT WHICH THE WORLD IS CHANGING TODAY IS INCREASING DUE TO TECHNOLOGICAL PROGRESS. IN ORDER FOR A COMPANY TO KEEP PACE WITH THIS PROGRESS, IT NEEDS FORWARD-LOOKING DEVELOPMENTS IN A WIDE VARIETY OF AREAS – BOTH IN TECHNICAL AND CULTURAL TERMS.

SHAMILA STREIT, SECTION LEAD PROJECT MANAGEMENT OFFICE AIR, IS THE CO-INITIATOR OF KICKBOX AT RUAG. WE ASKED HER ABOUT THIS PROJECT.

Shamila, you are a co-initiator of the KICKBOX program at RUAG. What exactly is KICKBOX?

The idea of KICKBOX is to promote employees' innovative business ideas with budget and working time so that their potential can come to light. A win-win situation: Employees are motivated to develop business ideas and RUAG benefits from the innovative solutions.

How did you manage to introduce KICKBOX at RUAG?

At first glance, the program did not seem to fit our company at all – the idea of KICKBOX is too innovative and RUAG too traditional. But my colleagues were very enthusiastic. We immediately agreed that the program should be presented to the management. A business case including a roll-up plan was created and in spring 2021 KICKBOX was launched with a powerful team.

What advantages can a program that promotes business ideas offer us for the future?

If we continue to promote KICKBOX, the ideas should develop in line with our strategy; in other words, demonstrate additional potential for the existing business within the business areas and promote new innovative solutions. If this succeeds, we will have achieved everything we originally planned with KICKBOX which includes creating an innovative culture within RUAG.

At RUAG, it is clear to us that the path to a successful future is very closely linked to digitalization. Our aim is therefore to achieve end-to-end digitalization of all processes in the coming years. In the past year, we have worked intensively on adapting our organization's processes and systems. Our primary goal here is to become more efficient and less complex as a company. We achieve this by establishing a consistent process landscape that is uniform across all areas of the company to the greatest extent possible. On the other hand, we are working on the introduction of a harmonized system for resource planning. As a result, our customers will benefit from shorter lead times, greater transparency and faster decision-making processes in the future.

In addition to technical developments and innovations, corporate culture is another key element in ensuring our success in the future. At RUAG, we are convinced that a future-oriented work philosophy, new forms of collaboration and a spirit of innovation are absolutely essential if we are to meet the future needs of our customers in a holistic manner. For this reason, we have taken targeted, internal measures to establish a progressive culture that allows innovation, promotes progressive thinking, and attracts people with passion and sound expertise.

Cornerstone and center of our actions



➤ The Governance, Risk and Compliance (GRC) management system forms the cornerstone and center of our actions. The organization of the GRC management system and the associated activities and responsibilities are based on the Three-Lines-of-Defense model*.

We at RUAG base our relationships with the owner as well as with our customers and partners on trust, integrity, and mutual respect. The Board of Directors and the Executive Board are committed to ensuring that we always conduct ourselves in accordance with our values, the applicable regulations and internal directives. Any neglect or violation of these principles for the benefit of commercial success is contradictory to our corporate culture. RUAG aims to promote awareness of this and is focusing on the areas of risk management, compliance, and information security.

* Group-wide regulatory framework for assigning roles, responsibilities and control functions within the GRC management system.

Risk management comprises the consistent handling of risks in order to support the achievement of objectives, the fulfillment of tasks and the management of the company by providing comprehensive, transparent and up-to-date risk information. The goal is to improve the predictability of events and strengthen our stakeholders' trust. **Compliance management** encompasses coordinated activities to ensure regulatory compliance within the company. Mandatory standards as well as targeted measures, structures and processes shall ensure ethical and compliant behavior. The RUAG Code of Conduct offers the basis and guidelines for our conduct in this respect. **Information and IT security management** forms the basis for an efficient and effective implementation of the comprehensive security strategy. Information security is designed to support our business goals and to protect our information and our critical infrastructure, as well as that of our customers, in relation to confidentiality, integrity and availability.

Based on the initial conceptual elements drawn up in 2020, it has been possible to substantially develop and improve the RUAG GRC and risk management systems during the year under review. The core elements which were developed included the creation of the GRC/risk organization and Group directives for the GRC management system, the risk management system and the information security management system, the definition of a risk management policy as well as the development of a standardized GRC reporting system. For the expansion and formalization of the control activities in the areas of risk management, compliance management and information security, a web-based "GRC control management" system has been implemented. In all areas of GRC, training has been given on the new or changed requirements. In addition, all RUAG employees have completed e-learning modules on the subject of integral security, in accordance with DDPS requirements, as well as modules on three further key topics relating to information security.

Sustainable solutions for our security mission

AS A COMPANY WITH A DEMANDING SECURITY MISSION, TECHNOLOGICAL INNOVATIONS ARE OF GREAT STRATEGIC IMPORTANCE TO US. WE ARE COMMITTED TO PROVIDING ANSWERS TO NEW CRISIS SCENARIOS WITH FUTURE-PROOF SOLUTIONS AND SERVICES.

In order to promote technological progress in a targeted manner, we defined focus topics last year, based on which we launched projects with relevant future technologies. We generally distinguish between two approaches: One is promoting the further development of our existing business and developing new models within it. The second focuses on innovations, new products and new business models. This involves research and development topics, evaluation of new and growing technologies, and relationship management with universities, start-ups, and other important/significant stakeholders.

For us, innovation means not only the development of new solutions from existing key technologies, but also the development of new platforms: Among other things, we are testing

new business models that enable our customers to benefit from the latest technologies and services. We see great potential for us in this area, as we are very broadly based, well networked and very well positioned.

Digitalization helps to implement our corporate strategy. With diverse digital solutions, we empower our employees to perform their jobs and tasks in the best possible way.

To ensure that we can keep pace operationally with the high demands we place on ourselves in the future, we are constantly working on culture change: Quick decisions, a lot of courage and the right amount of initiative are just some of the factors that will be very important for us in the coming years.

We know that security matters

OUR BOARD OF DIRECTORS



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Heinz Liechti
Vice Chairman



Nicolas Gremaud
Chairman of the
Strategy Committee



Caroline Kuyper
Chairwoman of the
Audit & Risk Manage-
ment Committee



Prof. Dr. Sibylle Minder
Hochreutener
Chairwoman of the
Nomination & Compen-
sation Committee

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CEO RUAG MRO
Holding Ltd a.i.

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Business Area Air a.i.



Hannes Hauri
Senior Vice President
Business Area Ground



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Technology & Services

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CFO



Dr. Nicolas Meyer
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Chief of Staff



Michelle Mägerle
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