Defence – Markets at the beginning of a “super cycle“
Armin Papperger, CEO
Capital Markets Day 2018, 29 November, Berlin

Defence
Record performance firmly in sight

<table>
<thead>
<tr>
<th>Order entry</th>
<th>in €bn</th>
<th>2017</th>
<th>2018 Guidance</th>
<th>+72%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>in €bn</td>
<td>2017</td>
<td>2018 Guidance</td>
<td>+6-7%</td>
</tr>
<tr>
<td>Operating result</td>
<td>in €m</td>
<td>2017</td>
<td>2018 Guidance</td>
<td>-25%</td>
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Positive market environment
International defence markets at the beginning of a “super cycle”

European defence budgets
Catch-up process for additional modernized equipment on its way

NATO Europe equipment expenditures in US$ bn

Source: NATO 2018
German defence budget

**Turnaround in German budgets become seizable**

<table>
<thead>
<tr>
<th>German defence expenditure in € bn</th>
<th>Expected commitment authorizations</th>
</tr>
</thead>
</table>

**Turnaround based on three pillars:**
- More personnel (4th division)
- More equipment (100% equipment level)
- More finance (Financial plan with +10% already in 2019)
- Additional commitment authorization to facilitate project starts in 2019, e.g. €5.6 bn for the Heavy Lift Helicopter
- If political 1.5% commitment is to be achieved in 2023 this would result in €60-65 bn defence budget

**NATO and VJTF commitment as strong driver!**

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**German Defence: Future requirements beyond 2030**

**NATO commitment is the key trigger for demand**

**Bundeswehr**
- 2016 White paper “where to”
- 04/2018 Concept “how”
- 09/2018 Capability profile “by what”

**Lead nation roles and planning milestones**

<table>
<thead>
<tr>
<th>’19</th>
<th>’23</th>
<th>’27</th>
<th>’31</th>
<th>’32+</th>
</tr>
</thead>
<tbody>
<tr>
<td>VJTF’19</td>
<td>VJTF’23 (1 Brigade)</td>
<td>1x Division</td>
<td>3x Division</td>
<td>3x Division</td>
</tr>
<tr>
<td>~2.200 vehicles</td>
<td>~9.000 vehicles</td>
<td>~30.000 vehicles</td>
<td>~60-65 bn</td>
<td></td>
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</tbody>
</table>

**Go for 100% equipment / Filling of hollow structures / Digitization**

**VJTF = Mainly procurement of land based systems**
German Defence

Roadmap to full operational readiness for the PUMA

VJTF upgrade

Upgrade to A1

1. Lot Puma (~350 vehicles)

2. Lot PUMA A1 (~250 vehicles)

German Defence

Strong German project pipeline lining up – upcoming tender until 2021

Major mid-term potentials

INCLUDED IN RHM PLAN

2018 2019 2020 2021 2022 2023

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German Defence
Growing importance of home markets

German sales share development

Commitment to VJTF is the main short-term driver for German demand

European Defence
Rheinmetall is a key beneficiary of large European vehicle programmes

- Current or expected tenders tactical vehicles

- Drivers for European vehicle programmes
  - Return to territorial and treaty defence
  - Standardization of NATO equipment
  - Modernization and upgrades

- Estimate for European tactical vehicles demand (number of vehicles)
  - Tracked: Germany ~250, Rest of Europe >600
  - Wheeled: Germany 700-800*, Rest of Europe >900** (includes Lithuania, Slovenia and UK)

* Fox and Boxer
** only Boxer
European Defence

Rheinmetall well positioned to participate in large UK programmes

**Challenger upgrade**
- **Background**
  Challenger life extension programme with focus on switch from rifled to smoothbore gun (NATO)
- **Order size**
  around €800 m
- **Timeline**
  - Decision expected for Q4 2018 / H1 19
  - SoP in 2023
- **Competitor**
  BAE

**Mechanized Infantry Vehicle**
- **Background**
  British Army realizes Strike Brigade Concept
- **Order size**
  Demand for at least 500 vehicles in different configurations at a value of up to €2 bn
- **Timeline**
  - Contract expected for H2 2019
  - SoP in 2021
  - High likelihood of follow-up contracts and additional export potential
  - High local value creation of ~60%

European Defence

Czech infantry fighting vehicle programme enters final stage

- **Background**
  Czech army plans to replace the outdated BMP-2 fleet with vehicles of high NATO commonality; Rheinmetall offers the Lynx and Puma (via PSM)
- **Order size**
  ~$2 bn for ~210 tracked vehicles (option on 123 additional vehicles) (Rheinmetall share accounts for €1bn)
- **Timeline**
  - tender opens in winter 2018/19
  - Decision expected Q4 2019
  - Delivery starts 2020 until 2026
- **Competitors**
  GD, BAE
- **High local value creation** is expected
Defence International
**Foundation of two new hubs in 2018**

- **Existing hubs**
  - CANADA
  - GREAT BRITAIN
  - SKANDINAVIA
  - EASTER EUROPE
  - NORTH AFRICA
  - SOUTH AFRICA
  - AUSTRALIA

- **New hubs**
  - USA
  - ASIA

**Rationale**
- Acquisition of market share in the single biggest defence market

**Key projects**
- Active protection systems
- Laser and fire control systems
- Medium caliber ammunition
- Next Generation Combat Vehicle (NGCV)

**US Hub**

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Asia Hub

Rationale
- Diversify in a growing market

Key projects
- Military vehicle maintenance and training
- System upgrades
- R&D Centre for integrated platform protection solutions
- Electrified and automated platforms for airport ground vehicles

Global market growth
Strong growth supported by booked large projects

Defence sales plan 2018-2021

Top 10 booked projects
- Land 400 Boxer
- Land 121 5b
- Puma VJTF
- Trucks Bundeswehr
- Gladius
- Fox Kits
- Air Defence Systems
- 3x Ammunition contracts

*Cagr: ~10%
Mission Australia
Establishing a new “home market” down under

<table>
<thead>
<tr>
<th>Australia timing and order size of Land programmes</th>
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<tbody>
<tr>
<td>Trucks 1st &amp; 2nd order</td>
</tr>
<tr>
<td>Boxer CRV</td>
</tr>
<tr>
<td>Ammunition</td>
</tr>
<tr>
<td>Lynx tender</td>
</tr>
<tr>
<td>Integrated Training System</td>
</tr>
<tr>
<td>Technical publication</td>
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</table>

*Initial assessment, option for 5 year contract

Land 400
Building an industrial base with strong local integration

Partner selection Land 400
Local value creation is an essential part of the concept
More than 40 companies have joined Rheinmetalls’ industry platform

R&D cooperation
Rheinmetall and DST Group (part of the Australian DoD) develop autonomous technology to support land based platforms

Ammunition partnering agreement
Partnering agreement with Nioa on the supply of Assegai artillery ammo to Australia land forces in the context of Land 17 1.C2

Mission Master
Winner of ELROB 2018

Qualification order in the size of €65m with potential of a 5 year contract of annual size of ~€100m
Mission Australia
MILVEHCOE – Rheinmetall’s new state of the art production site in Brisbane

Military Vehicle Centre of Excellence
- New home for the Boxer
- Jobs for at least 500 people
- Capex light project due to favorable rental agreement with the state of Queensland
- Planned invest over planning horizon ’19-’21 of €20-30m
- IFRS 16 effect from lease contract of €50-60m
- Very attractive purchase option at the end of the 10 year rental agreement

Mission Australia
Local production opens new opportunities

Optimal set up to acquire follow up contracts
- Maintenance
- Overhaul
- Upgrade

Export potential
- Germany (MaKaBo)
- Australia enjoys preferred status for US exports
- Asia

Industrial base for Lynx production
- Established base of partners and production site supports the Lynx tender
Land 400 Phase 3
Rheinmetall joins the competition with the custom designed LYNX

- **Background**
  Land 400 Phase 3 tracked infantry fighting vehicle (IFV)

- **Platform**
  LYNX KF41 with LANCE turret, designed to meet programme requirements

- **Order size**
  around 467 vehicles in multiple variants

- **Budget**
  €3-6bn

- **Competitors**
  BAE, GD, Hanwha

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New Systems
The versatile LYNX infantry fighting vehicle
Strategy update
Consequent shift towards systems and services

- Illustrative -

Increase number of platforms to generate follow-up business!

Components

 Systems & Services

2010

Components 52%

Systems & Services 48%

Driven by Vehicle Systems
- Extension of portfolio to logistic vehicles
- Increase of service business

2018e

Components 38%

Systems & Services 62%

Driven by large projects in Electronic Systems
- Air defence
- Gladius
- TLVS
- DLBO
- Heavy Lift Helicopter

Mid-term

Components 25%

Systems & Services 75%

Innovations
Demand-driven product development and targeted cooperations

New logistical platforms

Groundbreaking sub-systems

New tactical platforms

Innovative weapon and ammunition

Digitized command and reconnaissance

New business models

New cooperations
### Summary Defence

1. **On track to close 2018 on record levels**
2. **Start of the “super cycle” provides for long-lasting profitable growth**
3. **Continued internationalization taps into additional regional potentials**
4. **Sharpening ES profile as a system provider offers more opportunities**
5. **Mid-term guidance update in 2019 after acquisition of further orders**

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