LSEG STREETEVENTS

EDITED TRANSCRIPT

RHMG.DE - Half Year 2026 Rheinmetall AG Earnings Call

EVENT DATE/TIME: AUGUST 06, 2026 / 12:00PM GMT

CORPORATE PARTICIPANTS

Armin Papperger *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Klaus Neumann *Rheinmetall AG - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Alessandro Pozzi *Mediobanca - Analyst*

Sebastian Growe *Exane Bnp Paribas - Research Analyst*

Rory Smith *Oxcap Analytics - Analyst*

Christoph Laskawi *Deutsche Bank AG - Analyst*

Chloe Lemarie *Jefferies LLC - Analyst*

Marie-Ange Riggio *Morgan Stanley & Co Ltd - Analyst*

Sven Weier *UBS AG - Analyst*

David Perry *JPMorgan Chase & Co - Analyst*

Sash Tusa *Agency Partners LLP - Analyst*

George Mcwhirter *Joh Berenberg Gossler & Co KG - Equity Analyst*

Dario Dickmann *MP Capital Markets - Analyst*

Joe Orchard *Redburn Partners LLP - Analyst*

PRESENTATION

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Good afternoon, ladies and gentlemen. Thank you for your interest in the quarterly call of Rheinmetall. My colleague, Klaus Neumann and myself will put you through now the presentation. Please take care about the disclaimer that we have on Page number 2.

Let's go to Slide number 3. On this slide, you see that in quarter two, the sales of Rheinmetall is going up to EUR3.289 billion. This is a plus of nearly 70%. So in the first half year, the growth is around 40%, which is exactly in line to that what we guided.

The operational result was plus 115% to EUR562 million is also in line with us and for what we see very positive. Operating margin with 17.1% is on a very good level, and we are very happy that the applications with more than 160,000 is still very high.

So as you know, we, at the moment, hire about 10,000 people per year, so we can pick up a lot of good people out of this 160,000 applications. What is the reason that the operational free cash flow with minus EUR1.331 billion is in that figure? So we have in between in quarter 2 supplies of about EUR6.2 billion.

And we need this goods in our stocks. And otherwise, it's impossible to grow. And we wait, and this is only to compensate if we get some down payments, and we wait for some down payments, especially from the big contracts.

There is a down payment that will come from Romania, but especially also the down payment that we get from Germany if we book the Arminius contract, which is the big elephant in the room.

So the second point is CapEx. We reduced CapEx at the moment and not because we reduced the factories, and you will see that later. We found a way to find synergies and to reduce costs, which is for us a very positive signal. So the capacities of our production lines are absolutely in line what we planned.

But on the CapEx side, we can reduce the costs. Rheinmetall nominations with a plus of 476% is for us very good with EUR11.371 billion. And so the Rheinmetall backlog is growing up to EUR80.4 billion.

If you have now a look to Page number 4, you see what I said before, the execution is very, very well managed. Same what we told you in quarter 1 is that we had a growth rate on revenues between the first half year '25 to the second -- to the half year -- first half year in '26 of 39% from EUR3.7 billion to EUR5.5 billion.

So the first half year growth rate is so in line with the full year guidance. The margin increase is especially because we have a favorable product mix, and we have an operating leverage for sure because of this growth rate. And the total operating performance is like last year with about 40%, and this supports exactly and is in line with our guidance for the full year.

So on the next page, you see a little bit the story that we had on the F126. And we expected, as you know, that we can book this contract. But at the end of the day, the minister made another decision. And for us, it was really astonishing, and the reason is also very clear because the story is that the government came to us and said, okay, make a technical due diligence. We made this technical due diligence with about 70 people from our naval group.

After this technical due diligence, we told that everything is possible. We can make it happen. We made final negotiations with BAAINBw about the contract. And even BAAINBw was astonished when the program was stopped because we also had the forecasted approval for the F126. So the money was there on 8th of July.

And then we got the information on the June 24 that the minister will stop it. What are the reasons? The reasons, and I think one of the main reasons is, for sure, the litigation issues that the Ministry of Defense had with Damen. But the calculations they had is that the MiCo program is faster and to be faster to have, as you said, steel in water on one side and to be able to reduce a little bit the cost even if this is a total different ship program and especially the litigation issues are the points that he stopped it. What is the business impact? For sure, we have an impact on the workforce.

So we have to load our shipyards now with other programs. We are on a good way. And I come later about our new frigate program and the impact of the revenue, and that is the reason that we reduced also the revenue. We cannot overcompensate in so short time EUR300 million. So that was the reason that we reduced the expectation of about EUR300 million on the sales side.

The long term -- on the long-term side, we really hope that we can overcompensate these programs with national and international programs. And here are different programs from the German side. We look that we get some mine sweepers but also some drone ships, we call it MUsE, which is possible over the next years, but also international programs where we offer our new frigate.

And this is what you can see on the next slide on Slide number 6. So the GMF 140 is designed and we started years ago on that because it's impossible to design in five months a frigate. And it is designed for operations in highly complex threat scenarios. And this frigate should combine air defense, ballistic missile defense and anti-submarine.

And this is also very important for us. It is possible to integrate the The AEGIS Combat System and the Combat Management System 330, where we in cooperation with Lockheed Martin in that program. So this frigate, as the name says, has a length of about 140 meters, has a speed of 30 knots and a crew size of around 90 people from the marine side.

And we think it's a good standard for the international business, and we will see the decision of different customers. We are in negotiations with different customers. At the moment, there is nothing official. Therefore, I cannot speak about the nations by themselves. But I believe that this is one of the future drivers of the business of the naval system.

By the way, the midterm and also long-term strategy of naval did not change. So it was and is absolutely the right decision to go into the naval business over a period of up to 2030. We believe still that the naval business can grow up to EUR5 billion.

If you have a look now to the next slide, Slide number 7. Here, you see the Unmanned Systems and Air Defense that was a focus on Eurosatory and on ILA. And here, you see the innovation and how we structure the company. So if you start with Komodo, which is an Unmanned Breaching System, fully automized, we see a huge potential for that area in different areas.

If you only see in the Ukraine, the big need, yes, it will be a huge business over the next years. Skyranger on HX truck is another opportunity, a relatively cost-effective opportunity for our Skyranger technology. But also Containerized Missile Launchers where we implemented the FV-014, our new drones, which we started now also on the international marketing and sales campaign because the production line, and you see that also later will be ready end of this year or end of Q3 this year here in Dusseldorf or Neuss.

The same is on the SAR satellites. We are now starting the production processes for there. We built it up a capacity of 1 SAR satellite per week. And very similar is Ruta Block two and Kryla in cooperation with Destinus. And we are on the way also to start the production, end of this year.

So it is planned that we really can make the first sales end of this year with that product.

The 81 Mortar, the EIMOS Integrated Mortar and new technology, the unmanned surface vessel, the 8.8 meter vessel. And as you know, we are in development also for larger vessels, but autonomous vessels and the Ghost Bat.

So this is a part of our product portfolio of our innovative portfolio, how to enlarge the product portfolio, and we do it relatively riskless because most of that things we do with technology, this is available or with technologies with our partners that we implement into the Rheinmetall portfolio.

If you have now look to Page 8, you see that the market and the market mechanisms here are valid and are in line. Europe is on track for higher spendings. And you see the tendencies from Great Britain with 2.56%, Germany, 2.69% of the GDP, Poland with 4.6%, et cetera, et cetera. You see there is a growth rate in '26.

But on the right side, you see the total spendings. And as you know, over the next years, there is an immense growth, and they want to grow up to this 3.5%. I believe that Germany is able to come near to the 3.5%. It will be between 3% and 3.5%, which is a huge amount of money, but a lot of other countries will go also that way.

Not every country will reach it because of the budget problems, but there is a strong growth rate inside. And if you have now a look to the contracts, and these are the only the number s of the EUR25 million proposals in Germany. As you know, this is -- if you have a contract of more than EUR25 million, you have to go to the German Bundestag.

And that proposals are growing from '22 where we have '24 proposals to '25 with 103 and it will be even more in '26 because up to July, we still have 45, EUR25 million proposals to the German Bundestag. So this is also a point that you see that you grow. And in a lot of that contract over the years, as you know, Rheinmetall has a big part or it's the main company who takes care about this contract.

Next page is Page number 9. On Page number 9, you see the Rheinmetall product portfolio tailored to the NATO capabilities. What is the reason that we show that? Because we -- what we do is 2 times a year, every 6 months to have a look what is really what NATO is looking for? And so these are the clusters where they have.

From deep precision to digital transformation is a lot of different areas where Rheinmetall is in. And the only missing point that you see is that we are not in the raw materials. But the rest, if it is space technology, ammunition, strike capability, et cetera, et cetera, we build up a product portfolio or we have a strong product portfolio in this area. And this is that -- and that's very important.

And we hear to the customers, and it's better to hear to the customers and to make him happy than to anyone else. And Rheinmetall is continuously monitoring what the NATO requirements are. And it's not only what we need at the moment in Ukraine or what the Ukrainians need, it's what the NATO really needs and what the NATO says for a conflict, what is -- what they need, which kind of products they need.

This is -- these are multinational procurements. And that is the reason that we make also international cooperations that we -- and we must be fast in that area. And our target is usually that we should be able in 1 or latest in 1.5 years to bring new products to the NATO capabilities and the NATO gaps.

So now have a look to the next page, it's Page number 10. And in that, we gave you an overview about the joint ventures, the M&A activities and the partnerships and MoUs that we are doing. And here, you see Rheinmetall in comparison to different peers. We picked out 5 peers. And a lot of them are doing partnerships.

And I think -- and that's a good signal for us. Rheinmetall is strong and is number 1 also on the M&A side, but especially on the joint ventures. And we believe in joint ventures because a lot of these joint ventures, it's very strategic for us is that we had this joint -- a lot of that joint ventures also with governmental agencies or with companies where the government says, okay, let's do it together.

So this gives us a very high customer retention without additional operational complexity. And we believe that this is one of the key issues that we are able to grow also as fast together for sure, with M&A and our investments that we are doing.

And as I said before, investments are absolutely not reduced, but only they found the synergy effects. So far the introduction. And now I take over to Klaus, and he takes care about the financials.

Klaus Neumann - *Rheinmetall AG - Chief Financial Officer*

Thank you, Armin. As already stated, we do report a very strong result for Q2. And also, we did deliver on our promise that we made after our Q1 conference call. We saw an outstanding Q2 growth with 69% to EUR3.3 billion. And all the segments, and I will go into more detail later, all segments contributed to this very strong growth. Organic growth was above 50% and also important for our 2026 number s, there were no major pull-forward effects from Q3.

The Naval System accounts for the bulk of our M&A number , and there were limited impacts from FX, both on sales and on operating result. Operating result grew even stronger than our sales by 115%. Our sales growth, our result growth benefited from the higher volumes and also could leverage on this additional scale.

Moving on to next page. Now let's have a quick look at all the different segments. Vehicle Systems showed the strongest absolute growth as more programs are now in the execution phase. Sales increased by 53% to nearly EUR1.5 billion, supported by strong truck deliveries to Germany as we had indicated during our Q1 call. The operating margin improved to 12.5% year-over-year due to a more favorable product mix and higher sales volumes.

Sales in our Weapons and Ammunition segment grew by nearly 60%. Main drivers were deliveries for artillery and medium-caliber ammunition. The sales catch-up in our Murcia plant is ongoing and will continue to contribute to stronger growth in 2026. Operating margin increased significantly year-over-year to almost 26%, benefiting from the increased volumes.

Sales in Digital Systems increased by 30% to EUR470 million, largely attributable to the TaVAn program for the German Army and the further production ramp-up at our F-35 production site near Dusseldorf.

Operating result profited from a favorable leverage effect and increased by 80%, pushing margin to 9.6%, an increase of 2.7 percentage points. Air Defense showed the highest percental growth of all segments. The sales grew by almost 80% to EUR285 million due to strong execution on air defense programs. Operating result increased by 140%, supported by a strong leverage effect of around 22%. Margin increased as a result by 4 percentage points to 16.3%.

Our new Naval Systems segment contributed sales at around EUR260 million. Main drivers were the contracts with Germany on fleet service boat and the naval fuel supply vessel as well as repair and service business.

Operating result reached EUR25 million, which resulted in a margin of 9.7%. On the consolidation line, sales consolidation increased by to EUR325 million as a result of stronger intersegmental sales and the result impact was slightly lower than in 2025 at EUR32 million.

Let's turn to Page number 14. Our second quarter saw a very strong book-to-bill ratio above three with a very high share of firm orders. Rheinmetall Nomination of EUR11.4 billion show a plus compared to 2025 of almost 500%. A high majority of the nominations are firm orders at a level of almost EUR11 billion.

Main orders were the Romanian package of around EUR6 billion, the long term ammunition contract for the German Army and the training program for the UK the GTPP. As a result, backlog increased to EUR80 billion. This is an increase of around 44%, with 70% of fixed orders making -- contributing to the total of Rheinmetall backlog. The 70% fixed order share is an increase from 58% at the end of Q2 in 2025.

Now let's move to Page number 15 for a detailed look on our order backlog. Over the last years, our order backlog grew at an average rate of 45%. From 2022, we grew the backlog from EUR18.4 billion to now over EUR80 billion at the end of June 2026. During this year, also basically the quality of the order backlog increased, and we have a very strong visibility on our sales growth in the coming years.

As you can see on the top right corner of the slide, for the next 2.5 years, we have already fixed the order backlog that covers the next 2.5 years already is to 90% fixed. Only 10% of the orders that we anticipate to turn into sales are from frame backlogs. Beyond 2028, we already have strong visibility with an order backlog of EUR47 billion.

Let's turn to Page number 16. As indicated, we had a negative operational free cash flow of around EUR1.3 billion. After a negative cash flow in the first quarter that gets us in total for the first half of the year to EUR1.6 billion. The main driver is an increase of inventory that we are doing to secure supply readiness for the second half of 2026 and the coming years 2027.

The buildup is mainly driven by the vehicle systems. As I mentioned, the mile programs are going into the execution phase and digital systems that we see stronger growth in the years to come. One impact that also basically burdens the operational free cash flow is the continuously high level of CapEx that is in absolute terms higher even than in 2025.

Let's move now to Page number 17 for a more detailed look at our CapEx spending and expectations for 2026. During our Capital Market Day at the end of 2025, we indicated that we anticipate and CapEx number of around 16% for 2026. And the main driver for this high number were energetics plants that we anticipated to start constructing in '26.

Several of these contracts, as you may have read in the news, have now been rescheduled and will only start serious construction in 2027. And that significantly reduces our CapEx number for 2026.

At the same time, this reschedule does not have an impact on our 2030 sales guidance. And also, we do not expect any impact for 2027 and 2028 because these are long-term construction contracts. There were some other project-related adjustments also as a result of somewhat delayed order intakes as discussed earlier, that also has pushed some investment into 2027. And also, we are able to reduce the budget on existing and executed programs so that from -- as of today, we anticipate a CapEx percentage of around 8% to 9% for 2026.

Now let's move to Page number 18. We successfully returned to the bond market of more than 10 years of absence with the planned bond issuance in the second quarter. The bond maturing in 2031 offers us financial flexibility for further growth. It opens up a new way of financing our business activities and acquisitions.

The equity ratio came down to 28% as a result of the acquisition of the naval business, but also the expansion of the balance sheet due to the increased buildup of inventory as discussed. Our net financial position is now at minus EUR2.7 billion, mainly driven by the EUR1 billion syndicated loan that we took out to finance the acquisition of the naval business.

As an update on our convertible bond, all bonds from the Series A and B are now fully converted that basically increases the numbers of shares in our business.

With this, I would like to hand over back to Armin.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Thank you, Klaus. So on the next page, in Page 20, you see, first of all, the backlog that we have or the orders that we brought in. So in H1 '26, we are on a level, as I said before, of more than EUR80 billion.

At the moment, the backlog is on about 60% Germany and 40% on the international program. So it changed a little bit because before, we had usually 60% or more international programs and the rest was Germany. So Germany is more now in the focus.

Now I think a very important information is the information from yesterday also what we see or what we got also from the customer side on Boxer, the Arminius program. So now yesterday also from customer side that the final discussion should be end in the second week of September for the Arminius program. The Deutsche Bundestag should make a decision in the beginning of December. So the meeting is on the 9th of December.

Then over the next 5 maximum 10 days, the contract should be signed. And like last year, on the Jackal program, the discussion at the moment is that end of the year, there should be also a down payment. So what is in now for Rheinmetall?

There are two contracts which are fixed. There is a fixed contract about the vehicles, and this is what we spoke about this EUR12.4 billion for vehicles. And another contract, which I believe could be signed then in January, February is a service contract, which is a total contract of EUR4 billion, where Rheinmetall gets 50%, so EUR2 billion.

So again, end of the year should be signed a EUR12.4 billion fixed contract and should be final negotiated a service contract. We expect, if everything runs well, end of December, as last year, we got the money on the 30th of December. We negotiated 30% down payment. So that would be more than EUR3 billion down payment that we could get end of the year or let me say, in January, maybe also, but for -- this is something in weeks, but this is at the moment, what the government told us.

There are 2 options. And this is what we also offered and also negotiate. The option number 1 is another EUR14 billion contract and an option number 2. And this option number 1 is then the -- for the next piece from 2030 to 2035 and then option number 2 of EUR12 billion, which is -- which are additional vehicles. So this is the offer that we have.

At the moment, everything seems in line. We are very careful after F126, what really can happen, but we are in line that -- and there is no signal at the moment that they want to cancel a program because they need it. And there is no other opportunity that the EUR12.4 billion fixed contract plus the service contract should be final negotiated end of the year.

Yes, it's a strong race to do it end of the year. But at the end of the day, the most important thing is the contract that the contract will come. So after having that information, there are more trucks, ammunitions, but also missiles that we negotiate so that the piece from the German side is a big one.

But there are also international as you know, the Italian programs where we expect the next lots. There is a Portugal Boxer program, which is inside the SAFE program from Austria, Caracal, et cetera, et cetera. So these are the international programs. So -- and if you see what we see, so we expected this EUR135 million. We reduced that with this F126 contract.

So that if you calculate it at the end of the day, between EUR100 million and EUR120 million in this area should be the backlog that we have end of 2026. And for sure, it depends if we can book in December or if something happens in January. But at the end of the day, at the moment, everything looks like we want to do it in December.

If you have a look now to next page, the Page 21, you see -- and this is only a small part of that, what we are doing, the key capacity expansions that we have and where is the status so that we are on track with our expansion. So you see that the only yellow painted is the Ukrainian artillery plant.

And the reason for that is that the civils are not ready. There is a special equipment on the civils, and it's a strong delay. It's a delay of two years in that area. Lithuania is online. We are in time there.

And the start should be in Q2 '27. The capacity that we have on this artillery plant is up to 100,000 per year. Then we have the medium caliber plant in Albacete. Here is Burgos, sorry, there is a failure. It's Albacete in -- where we produce a medium caliber plant. And this medium caliber plant is able to produce more than 1 million rounds.

So we are in line, and we will -- in the middle of 2027, we will have the grand opening there in Spain. On the explosive side, we have an RDX plant in Varpalota, which should be ready also next year. Planning facilities in Switzerland. This is for powders, especially also for the single-based powders. And as you know, we -- together with the Premier of Bavaria on the powder plant in Aschau, we made a groundbreaking ceremony where we are able to produce starting then in Q3 '27.

So in one year's time, up to 4,500 tonnes of triple-based powder. Then we have a rocket plant in Burgos. That's right, and the rocket motor plant in Unterluss. The rocket motor plant in Unterluss will be also ready in Q1 next year. So everything is in line.

The only thing that we miss at the moment is the Ukrainian side. But this doesn't hurt us a lot because what we see is that the planned capacities that we have in that factory, usually, we can minimum reach 10% more capacity that we planned if the system is really running. Then we have much more.

So on Air Defense, the Skyranger turret assembly in Neuss, and also the drone production that we do in Neuss, all of them will -- are in green lights. We will start also middle of next year, the turret production and end of this year, the production of drones in Neuss. And on the vehicle side, also Neuss is that the truck cabin assembly will be ready in Q2 '27, where we are able to produce more than 1,200 protected cabins for our protected trucks. By the way, the capacity of the air defense turrets is about 100 turrets per year also in Neuss which is a huge piece then also on our sales.

Now let's have a look to Page 22. And this is only an overview about that with on the activities on the United States. I must say we invest at the moment to the United States. This investment cost us at the moment, double-digit millions also this year, but we have to invest it for qualification, for new R&D programs where we make -- we have to make an Americanization and we need the money also for market development.

This is an impact that we have on vehicle systems, but you really don't feel it because the margins are good. But at the end of the day, if the US margins are really growing up then to the level where we are, this is a trigger point for us that Vehicle Systems can be -- can grow up to our expected 15% EBIT growth.

But the programs are very interesting. On the vehicle side, you know the XM30 program. I think we are -- and last week, we had the program meeting about that. We are on a very good way. The customer is happy with us.

The technology is superb that they have. We know at the end of the day, it's a political decision.

CTT is becoming smaller because I think of budget issues also, but XM30 has still very high priority on the Army. And a new high priority is also the RCH155, so the new artillery program in the United States. So we go into competition there.

And also on the unmanned ground vehicles, we go into competition. These are highly automatized vehicles. And the US is also very happy with the technology that they see because the automatization kit, the kit A is from Rheinmetall. It's a Rheinmetall algorithm.

It's Rheinmetall Kai that is inside and the US is very happy about that. If you have a look to weapon and ammunition, there are ammunition programs like the 25-millimeter FAP program. This is for the Air Force. This is frangible, 25-millimeter frangible ammunition.

So an ammunition, which is if you have an impact that you have a lot of splinters and you destroy the, for example, the whole wing of an airplane.

But also the KETF 30-millimeter for the Navy, this is the airburst ammunition that we also have in our air defense systems. This is for the MK 340, where the Americans want to implement the 30-millimeter. The US programs are huge programs, and these are always billions of dollars that they spend.

The Precision Grenadier System is a new system that we developed, and the US is very interested to use that against the anti-drone fight, especially that the soldiers has a possibility to protect himself against drones. This is also an airburst ammunition, very similar to the KETF, but on a 40-millimeter caliber.

And if that is implemented in the -- on the US side, we believe there is a huge opportunity also in Europe to implement it because at the moment, most of the soldiers are not protected against these Category 1 drones. And we gave an offer to the Radford Army Ammunition Plant. This is especially for the powder production, and this is what we do in cooperation with Honeywell because you need also a second US source to go forward.

If you have now a look to Page 23, and we see that the -- as we said before, the delivery is in line. We have a plus of 40%. But in total, we have, again, this second half year, which is back-end loaded. This is year-by-year the same.

And Q4 is always what we have to produce for sure everything -- nearly everything in Q3. But in Q4, it comes into the sale, and this is especially because of the contracts that we have on one side and that the customers also want to get the deliveries mostly then end of the year.

So we are in line with the expectations that we had with our plan. And on the next page, on Page 24, you see that we -- but this is what we told you also in our ad hoc message that we took out EUR300 million from the naval side because we are not able to overcompensate that.

So that the sales is now between EUR13.7 billion and EUR14.2 billion. The operating margin of around 19%. It could be a little bit better because we reduced EUR300 million from the lowest profitable business. And the operational free cash flow is a very digital decision. If we get the down payment, and as I said before, it's more than EUR3 billion down payment of Arminius.

It could be higher. If we don't get the down payment, it could be also lower, but we stay on that area of about 40% because at the end of the day, and we really believe that we are very near to get this Arminius contract, maybe then we would have a delay of 1 month or maximum 2. So, so far, the presentation.

And now we are very happy to go into Q&A. Thank you very much for your time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Alessandro Pozzi, Mediobanca.

Alessandro Pozzi - *Mediobanca - Analyst*

Thank you for taking the questions. First of all, I think it's good to see that we're seeing again a strong growth in Q2. But the first question is on the 126. If we can go back to -- if you can give us your view on exactly what happened because there was clearly a disconnect between the minister and the procurement agency.

And I think this is a key point in the context of big programs that are coming up being the Arminius, the 127 -- and I think on the Arminius, that has been talked about extensively even in the RENK call as well. But can you give us your view of what you think you can book in terms of value by year-end? Is it just the fixed? Or is it the frame contract as well? And maybe an idea of margins for the service contract as well? Thank you.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Okay. Yes, Alessandro, I will do that. So on the 126, for me, the biggest issue was the liabilities, and it's a big difference between the 126 and the Arminius program. The Arminius program was not a program that was fixed with another company.

As you know, the 126 was a Damen program. We wanted to rescue the program, and we gave the opportunity to rescue the program. But the final negotiation between the Ministry of Defense and Damen, yes, was not ready. And the point was that Damen is looking for sure that the German government is taking out the liabilities because, as you know, they nearly spend it EUR3 billion about that, and the government has to take care about that. And this was nearly impossible for the minister to do that.

So -- and the second point is, as you know, there was a proposal for the MiCo. There is no proposal. There is no other vehicle at the moment than the Boxer. So you cannot compare both cases. But the most important thing for me for the 126 is very clear that the minister has to protect the government and has to protect also the money the government spend it, and they could not release the Damen to say, okay, there are not longer reliabilities.

And at the end of the day, maybe it's not my job to do this, but maybe at the end of the day, there will be a court case also, and they could not reduce that. So this was the biggest problem. Money was not an issue because money was prepared.

And as I told you also and for me, I was convinced two weeks before of the decision, I had all the traffic lights on green. From Ministry of Defense, from everyone was green. But at the end of the day, the minister, together with the Chief of the Navy has to make a decision and said, okay, I must be politically correct and go the politics correct way. It was not a money issue.

Alessandro Pozzi - *Mediobanca - Analyst*

Okay. Understood. And on the Arminius, you've mentioned a couple of options. Can you take us through the number s again and whether you think a frame can be awarded?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Sure. So we offer a frame contract for option 1 and option 2 of about EUR26 billion. This is what we offered and a fixed contract of EUR12.4 billion for vehicle, and these are only the number s for Rheinmetall. This is what we offered.

And the fixed contract of EUR12.4 billion for me is, at the end of the day, a must. And the frame contract is an option 1 and option 2 that we offered. I don't know if we get everything -- it's not a big risk for them if they also take the options. But the EUR12.4 billion at the end of the day is up to '29.

So then the -- all the productions that we have to do is up to '29. What we want is to have also minimum option 1 because of the investments that we have to do, and then we would be safe up to '35.

Yes. But what I can say today is that I believe that the EUR12.4 billion plus a service contract because without the service contract, it will not work, and this is EUR2 billion for Rheinmetall. So at least, I believe EUR14.4 billion, EUR14.5 billion, it's a must. And the rest are the options. And it would be unfair if I say it's 100% safe or it will not happen.

This is a point which is not finally negotiated with the Ministry of Defense.

Alessandro Pozzi - *Mediobanca - Analyst*

Okay. Understood. And when you look at the backlog, the -- and you mentioned the Boxer, you have the full value of the Boxer there, I guess, with the frame as well. Okay. And I guess a follow-on.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

No. On the backlog, it's easy if you count the Boxer and the rest, and that is the reason that we said it's more than EUR100 billion, it's between EUR100 billion and EUR120 billion. So if everything is going well, we are on this level of EUR120 million or a little bit more. And if you only have a case of that, it's more than EUR100 billion. So this is the point.

Alessandro Pozzi - *Mediobanca - Analyst*

Okay. That's very clear. And just on the -- just a final one on the CapEx. There is a reduction in CapEx in 2026, partly because of some delays in the energetics facilities in the buildup. Can you reassure about the medium-term targets in weapons and ammunitions despite the lower CapEx in '26?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Absolutely. The point is very clear. The investment on the energetic side that we do is at the moment on the nitrocellulose, it's in line. We expected that we have a strong cash out also this year for Romania, for example, for the energetic factory there. This will not happen, number one.

number two, we get also from the Romanian side, a down payment on that area. So this is also helping us to reduce on the cash side. And on the CapEx side, we have a lot of synergies that we found. So we can -- if we produce 3 factories, the factory number 3 is at the end of the day, also cheaper than number 1.

And I believe, and this is a point, and you see this also in the planning that we will show you end of the year that the whole CapEx situation for us is much better than expected in between, but it does not reduce our capacities. So on the capacity side, it's at the moment that we really bring 10% to 15% more out on the big factories.

So sometimes in different areas, we must not invest such a lot of money in the smaller factories to -- and that's the reason that we can reduce also the CapEx side.

Alessandro Pozzi - *Mediobanca - Analyst*

Thank you very much.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

It's a pleasure.

Operator

Sebastian Growe, BNP Paribas.

Sebastian Growe - *Exane Bnp Paribas - Research Analyst*

Good afternoon and thanks for taking my questions. It's one on well and the other one on partnerships broadly. On the one Systems side, you've reiterated the 2030 sales goal of up to EUR5 billion. I was wondering whether you could talk us or talk about the margin ambition really of the business and whether this has changed following the reduced margin target for '26? Or this is solely a function of a lack of fixed cost absorption in this particular year?

So more broadly speaking, do you see that the overall kind of discussions that you're having with customers for Naval Systems contracts would still allow you to get to the 15% level that you have put out before?

And the second question on the partnership side, you labeled the team and partnering approach to then also satisfy customer requests and also fulfill capabilities. There have been some media reports that the drone partnership with a US partner scaled back. So my question there is, can you comment on the root cause? And more broadly speaking, are you seeing the risk that there might be more such cases, especially with probably more or less mature companies, if I may say so?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yes. So let's go to the naval side. Our margin target is very clear. It's still around EUR5 billion and around 15% profitability. And it's -- for sure, you need the shipbuilding programs.

This is one thing. And we lost now one, but we will win other programs. I'm sure about that because I think we have a very good product portfolio.

As you see, we have mine sweepers, we have the drone carriers, et cetera, et cetera, and the national and the international need is there. And I also trust that our team is -- will be successful on the new frigate program because the feedback that we got and we spoke for sure with different customers before we started the development was a very positive thing.

This frigate will be in a price level, which is much better or lower price than most of the people expect, but you still can have margins, and we brought in also in this area and will bring in production technologies that Rheinmetall is doing in other areas, so automatization of welding, et cetera, et cetera. So yes, we stay on that this must be our target, and this is the target that the management team also got.

Partnerships, the partnerships, most of the partnerships are running very well. But what we do not -- we will not do that we said we have in our plan sales fixed with different partners where the products are not ready. And you spoke, for example, now about the partnership that we have with Anduril, we stay on that point.

But at the moment, we have no products that we can sell, which are ready. And if we have ready products, and we said we started with Barracuda in this area, but the Barracuda, I need Barracuda for qualifications then here in Germany. And if they would be ready, we could help there, but they were not.

So then we stepped into other partnerships also, and this is the reason that we stepped into the also Destinus because Destinus is ready. Thousands of that cruise missiles are fired in Ukraine. And we want to get the first contract end of this year also with the cruise missiles. So can I say that 100% every partnership is able to be successful? No, it's impossible.

But at the end of the day, if you don't be -- you must be agile. And if you don't be agile, you cannot be fast. And you see how fast the Ukrainians are in different areas, yes. And we cannot go into development programs where we need five, six, seven years and then maybe we have a product.

We need the product in less than 12 months. And this is exactly what we do now. For the cruise missiles, we build up the factory and the factory will be ready next year. And end of the year, as I said, the first cabins are ready to produce the missiles.

Sebastian Growe - *Exane Bnp Paribas - Research Analyst*

Thank you so much. Thank you.

Operator

Rory Smith, Oxcap Analytics.

Rory Smith - *Oxcap Analytics - Analyst*

Good afternoon. Thank you for taking my questions. First is just on CapEx. You've already talked a lot about this. So thank you for bearing with me. But I just wasn't clear on what you said the outlook was for CapEx as a percentage of sales going into '27 and 2028? And then how we should think about that beyond the next two years just on the kind of phasing there of the energetics.

That's my first question.

Klaus Neumann - *Rheinmetall AG - Chief Financial Officer*

Thank you for the question. We will provide a more detailed update on the CapEx expectations during our Capital Market Day. But from what we see today, we see potential that basically the level will be lower than we indicated at the end of last year also for '27 and '28.

Rory Smith - *Oxcap Analytics - Analyst*

Okay. And then my second question is more of a big picture question. I guess we heard the Chief Executive of RENK this morning saying that he was very sure that 99% of German defense suppliers land business would still involve crewed vehicles by 2030 and that drones and loitering munitions would not make heavy armor obsolete.

Now I was just wondering what your sort of thoughts on that were and how that flows into some of these partnership and capital allocation decisions that you're making in land.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yes. I tried to bring that information also with my presentation what -- we look what NATO wants. And I have not to look what some guys and professors or whatever are telling us. So every 6 months, we check what the NATO is doing. And NATO is telling us and is telling the different countries what they have to buy or that they should buy.

I believe that drones are important, and you see that in Ukraine also that drones are important. But if you have a look to the Chief of the German Army and the former Deputy Chief of the German Army and if you see what they say is drone is one effector. We need a mixture of effectors.

And drones are able to fight against vehicles or against personnel, as you have seen yesterday, also in the videos from where the Russians are hunting people in cities. But at the end of the day, the protection against drones will also go forward. And you need vehicles.

You need also a lot of vehicles, not as much as expected 10 years ago, but you need still vehicles to have a safe transport also for people. And the next 20, 30 years, there will be no robotic war by themselves. There were always will be people in the battlefield. If you see what happens in Russia or wherever, a lot of these drones are still at the moment, one-in-one guided with drone pilots.

It's -- this is a point where you need people, you need people, infantry people going to the front line and especially if you not have a [indiscernible] which you have at the moment between Russia and Ukraine, which is, as I always said, it's a war like in the first world war.

You have a dead zone there. And then you go in the dead zone at 100 meters in front or 100 meters back, this is not a war that NATO is doing. NATO has Air Forces. NATO has perfect air defense part, has a lot of firepower to bring in to have a mobile war and not a static war. And this is the big difference that you see.

So I see and the point is from me very clear that we need a mixture. And in that mixture, there are also protected vehicles.

Rory Smith - *Oxcap Analytics - Analyst*

That's very clear. Thank you for the question.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Thank you.

Operator

Christoph Laskin, Deutsche Bank.

Christoph Laskawi - *Deutsche Bank AG - Analyst*

Good afternoon. Thank you for taking my questions. First, just coming back to Armin and your statements on Option 1 and 2. What do you think are the main decision levers that the MOD is taking there? And what would be the risk to sign both options basically this year or early next? Could you elaborate on that, what the discussions look like? And what do you think the -- again, the MOD is focused on in evaluating, taking both options?

And then -- the second one -- sorry, just a clarification question. I think you stated that despite the CapEx shifts cuts, '27 and '28 revenues will not be impacted. Could you just elaborate again on why there is no impact on revenues despite the shift?

And then the last question, sorry, very short term. You indicated that there is an XM30 impact on Q3 earnings. With that, we probably cannot expect the usual step-up Q3 over Q2 margins. But could margins still be flat to up in Q3 versus Q2 or no comment at this stage?

Operator

Yes.

Christoph Laskawi - *Deutsche Bank AG - Analyst*

We said, we probably cannot expect the usual step up Q3 over Q2 margins, but could margins still be flat to up in Q3 versus Q2 or no comment at this stage.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

So the -- if you go to the investment side, I try to precise that again. So if you go to the factories that are ready now and that we are becoming ready also next year, like, for example, the powder side.

On the powder side, the raw materials are fine. So the nitrocellulose is coming also from our factory that we have in North Germany. And we have no gap there on that area. And the Aschau plant is overcompensating a lot of other plants.

If you see the Aschau plant is growing up to 4,500 tonnes. Most of the other things, for example, even if Romania will be delayed of half a year, for example, we can compensate it because the Romanian capacity is much, much lower. We speak then about 1,000 tonnes in that area.

So that is the reason that our plan and also a huge amount of money that we invested in Aschau, where we grow to the modular charges that you need on the artillery business, where we have then enough capacity from South Africa, from Spain and also from Aschau where we are ready.

So the second point is, and this is the second biggest source is the investment that we made in Spain. Spain is also ready next year on the powder side. And the third biggest investment was in South Africa. So these are the three big pillars.

And the rest that we have is if you see Romania, if you see Bulgaria, if you see Lithuania, the Lithuanian plant of about 1,000, we could overcompensate also with Unterluss if we really drive Unterluss full throttle. This is -- that is the reason that we think that we are able to -- and as I said, 10% or 15% plus in Unterluss for in Aschau will nearly compensate a full factory. Is that clear?

Klaus Neumann - *Rheinmetall AG - Chief Financial Officer*

Yes. And one additional comment, the construction programs that are being pushed, the big energetic plants would have had a construction time of around 2 years. until they really go into capacity. So simply for -- because of the construction time, we never anticipate a significant sales contributions in 2027 and 2028.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Mr. Laskawi, is that clear?

Christoph Laskawi - *Deutsche Bank AG - Analyst*

That is clear, thank you.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yes. So this is the point. And what was the last point? I have lost it.

Klaus Neumann - *Rheinmetall AG - Chief Financial Officer*

Arminius, option 1 and 2.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yes. Yes. Look, everything what I say at the moment is I believe that the government wants to sign also this frame contract, but it is not fixed. So therefore, whatever I say now in the point could be right or could be wrong.

What I believe, which is very, very safe is that we get, as I said before, the EUR12.4 billion plus the EUR4 billion, which is EUR2 billion Rheinmetall, so the EUR14.4 billion, EUR14.5 billion safe. And there is a need.

And this is for me, what is positive for me, and there is not a gap of money at the moment, which is also helpful. So therefore, up to 2030, everything is financed, but up to 2035 for me, I cannot say yes or I cannot say no.

And I have to wait what is coming out now in the negotiations and then you get the information. But I'm very careful about this area, and I try to be conservative in this area because on the other side, I try to be also always as a net positive in this area, but I'm very conservative, and we will see what's going on.

Christoph Laskawi - *Deutsche Bank AG - Analyst*

And on the Q3 margin question. Sorry to follow-up on that.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Q3 is in line. So the margins are good. And as you know, end of the year, usually, the margins are higher than at the beginning of the year because the fixed costs are done. So we are in a very good way to reach, let me say, at least the targets that is in your expectations.

Operator

Chole Lemarie, Jefferies.

Chloe Lemarie - *Jefferies LLC - Analyst*

Good afternoon. Thank you for taking my question. I have one just to confirm on the EUR100 billion backlog that you target by the end of the year. Would it be achievable without the frame contracts from Arminius? And then one on the US when do you expect a decision on the RCH155, please?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

First question, yes, it's possible without the frame. And the second point is that we don't speak at the moment about time schedule on the frigate because this frigate program is very new. And we even don't speak about the -- so RCH, I didn't understood -- I understood wrong. On the RCH155, the Americans want to make a decision also next year. But first of all, we have to go into a qualification program.

Operator

Marie Ange Riggio, Morgan Stanley.

Marie-Ange Riggio - *Morgan Stanley & Co Ltd - Analyst*

Yeah, hi, Armin and hi, Klaus, thanks for taking my question. I have three. The first one is on the German defense budget because we all know that we have seen recent headlines around a potential draft suggesting lower cash outlays for ammunition and land systems. I know it's quite difficult to comment because it's a draft, but I have two questions here.

Like are you seeing any change in the German procurement priorities or allocation of spending? Can you probably just help us to understand what can be the drivers of lower cash spending? Could it reflect program timing or industry capacity rather than weaker order opportunities?

And lastly, on this topic and probably more importantly, should we read anything into these figures regarding Rheinmetall sales by 2030? So that's the first question.

The second one is on Air Defense because your performance is very strong in H1 and well ahead of your full year guidance. So it will almost imply a significant slowdown in H2. So I just would like to understand if there is any specific reason why growth should moderate in the second half or if it is simply a conservative assumption?

And lastly, on your operating free cash flow, could you just quantify how much of the advanced payment shifted from H1 into H2? And how much of the inventory is built relates to projects already manufactured in Q2 that are expected to be delivered in H2?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yes. Let's start, Marie-Ange, with the ammunition side. So we made a very strong analysis about that. By the way, it's not 100% clear what the government really wants because it's not a fixed check what we can do. We spoke with the government and said, okay, what is -- I think it's at the moment, it's between EUR11.5 billion, then they want to reduce the ammunition budget to EUR9.5 billion.

So we analyzed, first of all, tank ammunition. We see no influence on the tank ammunition because the contracts -- most of the contracts are signed on the tank ammunition side. There is no reduction on this area. On the artillery ammunition, we are, as you know, in the discussions at the moment for another 114,000 plus 600,000 rounds. Nobody gave us a stop and said, okay, no, we don't.

We want to do it.

And as you know, and as you have seen, the backlog on the ammunition is a very, very high one so that we see no impact also over the next years. Medium Caliber is the big area where we have a growth rate. On the medium caliber side, there are at the moment, negotiations about 5 million, plus 5 million rounds. It's two contracts, and this is nearly a EUR10 billion contract, which is coming up.

So the big contracts are coming there. So this is what I see -- I see not big reductions on our side. And if I speak about this contract, the contracts for sure are always for five, six years, sometimes seven years if you have this frame contract. So I think that the government at the moment still don't know what -- where are reductions or where they really want to reduce.

Air Defense, on the Air Defense side, yes, we made our calculations. And as you know, we built up the capacities now for 400 systems. And in building up these 400 systems, there is more in than that what we have in our calculations or what is in our forecast on the air defense side.

But next year, we will see next year how we really can ramp up the production line. And call it conservative. But at the end of the day, I have to wait that we really book -- we book a lot of business at the moment, yes, that we really book the big pieces and Arminius is the first step because the whole bunch of -- is between 600 and 650 systems in the first lot, we will have, let me say, at least 200 systems. And so that's, at the end of the day, a lot of order intake that we would have.

And on the operational free cash flow, Klaus, do you want to say something about that?

Klaus Neumann - *Rheinmetall AG - Chief Financial Officer*

Yes. Now you were asking about basically how the inventory balance will develop towards the end of the year. We expect that the growth will significantly slow down as we basically increased sales in the second half. So we anticipate more or less similar level as of at the end of June.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

What we have in stock.

Klaus Neumann - *Rheinmetall AG - Chief Financial Officer*

What we have in stock. Yes.

Marie-Ange Riggio - *Morgan Stanley & Co Ltd - Analyst*

Yes. Yes, good. And just probably on the advanced payments that shifted into H2 -- do you have -- can you quantify?

Klaus Neumann - *Rheinmetall AG - Chief Financial Officer*

We mentioned that we do get the 15% for the Romanian contracts that we anticipate. Then we have some other programs where we anticipate significant prepayments, but the big prepayments that we expect is a prepayment on Arminius.

And as Armin detailed, the timing could be quite close for 2026. It really depends that all the relevant parties are doing what they're supposed to do to make sure that it comes at the end of the year. And we also highlighted that we often have the situation that we get material prepayments really just days before the year-end. And this year might be another example of this pattern.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

But if you've only seen Marie-Ange, Romania is more than EUR1 billion in 2 tranches and EUR3.5 billion up to EUR3.5 billion is Arminius. So that is a total game changer in everything and the money will come because if we sign it, the money will come.

And it depends if we book it in December or if we book it in January. At the end of the day, for me, it doesn't matter as an entrepreneur, if I get it four weeks earlier or later, as I always say, in that area, but we try to get it in, in December.

Operator

Sven Weier, UBS.

Sven Weier - *UBS AG - Analyst*

Good afternoon. Thanks for taking my questions. First of all, I think it was the right decision to have a different type of guidance on the Boxer. So even if we don't like the answer maybe, but I think that's good. The first follow-up question I have is just coming back again on 2027 and 2028 because you said it doesn't have really an impact on the expected growth rate.

I mean, if I remember correctly, I think you said in the past that like a 30% annual growth business for the defense business should be possible in the coming years. I mean with all the delays we now had also on the Boxer, the F126, would you still underwrite that statement? That's the first question.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yes. No, it is right. And the reason for that is that, for example, also for the Boxer for '27 and '28, all -- do you remember that we have Jackal booked. This was also a Boxer program. This should be also part of a Arminius program, but we got that contract.

So we booked it. Heavy weapon carrier, we booked it. So this is all the programs that we are there. So this is part of our growth rate.

So as Klaus said before, most of the business in '27 is also -- is booked. So therefore, there is no impact about that what is coming in on -- from the order intake. So if we have order intake where we can make very fast -- where we can create very fast sales, then there is a potential of more growth. And as we discussed also before, the 40% of this year is around 40% tick in a box. And over the next years, I think 30% or a little bit more than 30% is possible, and this is possible with the backlog that we have and the continuous order intake, then over the next years, we will, year-by-year to have a positive book-to-bill ratio, much more than 1.

And that will help us, and that can grow up also the backlog. Something happens always, and you have seen that on the F126, what could happen in the last minute, yes. This is always clear, but that's business. And then we, as businessman, have to compensate that.

We have to find new ways and we have to go into new opportunities. And this is exactly what we do. We are not sitting down and said, okay, wow, now something happened and crazy world or whatever. This does not help. We go forward and we look for new opportunities.

And the new frigate program is a huge opportunity. This is much bigger. We didn't tell that even if we had it 2 years in our point, we didn't tell that point because it was very early, but now we are ready.

Now we are ready to launch that. And now we are ready to go into marketing processes. So at the end of the day, I think there is also a lot of opportunities to compensate and overcompensate different areas. So I stay on my prognosis.

Sven Weier - *UBS AG - Analyst*

Sounds good. Second question I had was just on the Navy business and your current opinion on German naval yards, whether you think that acquisition still makes sense or whether you should also pull out like TKMS?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

At the moment, we are -- we cannot make a decision, and this is very clear because we miss now the work of the F126. If we would have signed the F126, we need it. That was the reason that we stepped into the process. We have with a nonbinding offer. We did not stop it because we wait at the moment what are the next steps on the market side.

And in some areas, we think that we get up to end of the year, the first decisions or nearly decisions how to go forward with different shipbuilding programs. And then we will make our decision. So we can, at the moment, make no decision because it makes no sense if I don't need the capacity.

So there is no like expiration date for your non-banning over where decision has to be made.

This is a point that at the end of the day, if Kinikwants to step out of the process, it's fine because at the moment, we got no signal.

Sven Weier - *UBS AG - Analyst*

So there is no like expiration date for your nonbinding offer where a decision has to be made.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

No, this is the point what at the end of the day, if [KNUCK] wants to step out of the process, it's fine because at the moment we got no signal.

Sven Weier - *UBS AG - Analyst*

And then the very last one, if I may, just on Lockheed and ATACMS. Obviously, that seems to be now going ahead. I mean, what kind of order potential should we see on this one short term?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yes, the Lot 8 should be produced in Germany because as the statement of Lockheed was also very clear that they need the space. And my colleague, the CEO of Lockheed also told very clear that he want to install now the PrSM production line.

So we build up the production line next year, and we want to produce next year, starting end of the year with the Lot 8. But we see a lot of potential also in Europe to produce the ATACMS. But to have -- as we always said, to have really to see really sales about that, it needs up to '28. And this is not in the plan at the moment for sure. This is because we -- this is how we do it always, we only do something in the plan where we are relatively safe.

Sven Weier - *UBS AG - Analyst*

Understood.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Thank you.

Operator

David Perry, JPMorgan.

David Perry - *JPMorgan Chase & Co - Analyst*

Hi, I'm in. Hi, Klaus. Hope you're both well. Am I allowed three questions? Seems a few people asked three. If not, I will tailor my two.

Klaus Neumann - *Rheinmetall AG - Chief Financial Officer*

No, take your time.

David Perry - *JPMorgan Chase & Co - Analyst*

Thank you. Am I allowed three questions, seems a few people -- if not, I will pay to my two, but -- take your time. The first one is a very short one is just could we have a little bit more color on the trade receivables that you referred to for Q2, just which products are you awaiting payment on. Do you want to take them one at a time? Or should I ask them more? Yes, please, please.

Okay. Second question, just on the Boxer, could I ask the question in a slightly different way, bottom-up rather than top down? Because I think on the Q1 call, Armin, you talked about a plan to go to 500 vehicles a year. But some of the suppliers like RENK and [Raman Vincorion] have both talked about 1,800 in the first phase.

And I'm not sure if the 1,800 is just for Rheinmetall or for Rheinmetall and KNDS because if I was a supplier, I guess I'd be agnostic. But if it was -- and maybe I misunderstand, but if it's 1,800 vehicles across the whole program, I just don't see how you get to 500 a year, if you could clarify that.

And then my third one, please, which is a bit more conceptual because you talked about the JVs, and I sound like a lot of them you've not put in your plan, in your sales guidance. And indeed, I think 11 of them that I've tracked have been announced this year. So they wouldn't have been -- you may have known about them, but they may not have been in last year's guidance. I'm just wondering, when we get to the CMD this year? Is it a plan that you're going to reiterate the target for 2030 sales, but we may find the mix changes quite a bit.

So you may say, look, the world is changing. We might not have as many vehicles or as much ammo, but we've got more on the drones, more on the missiles, more on the autonomy? Or am I getting ahead of myself there?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Thank you. Yes. Let's start with the last thing. I believe that the drone business will grow. And I know that the missile business will grow, and this will be more than expected before, 100%. So this is a point.

And the other thing, David, is also very clear, if you make a 5-year forecast, yes, I have no glass ball, something changed in the world, but we have to change the company. And we do that. We do this. We are very fast in changing the company in that area.

And yes, it could be that there is a change, but it's not a dramatic change. It's not that we say, okay, oh, wow, there are not longer -- it's not longer tank ammunition or not longer auxiliary ammunition. I think that we can add something. And in some areas, it's a plus, in some areas will be a minus. But the total thing is, I believe, is very clear. It is the growing story that we have. The second point is the -- what we build up, we build up a capacity on Boxer of 500 vehicles per year.

And the reason for that is because we have a German business, and we have also international business in this area. And it makes not a lot of sense if you have a peak about this area because the costs are -- if you build it up to 400 or 500 vehicles, the costs are nearly the same.

And so because we want -- what we want is we want to make some automatization. And there are a lot of people in the supply chain who get information from us. But I still -- I think most of them have not the full picture about that, what is going there. It's KNDS and us at the moment who are in the negotiations.

And I think it's so fair that at the end of the day, we have to wait now -- and this is not a very long time because we have now -- and this is now August. And if you see -- and I said in the second week of September, we are ready with that. It's another four weeks or five weeks.

And then we have a full picture about that. But yes, our investments at the moment are on a level of 500 vehicles per year that we want to produce for national and international businesses. There is a business in the Netherlands. There is a business coming out from Portugal.

There are other countries who are looking for that, and it makes not a lot of sense to go there and said, okay, after this investment, if there is a peak, let me say, of -- from 350 to 500 vehicles then to make another investment. So this makes not a lot of sense. Is that fair for you, David?

David Perry - *JPMorgan Chase & Co - Analyst*

Yes, that's helpful. The international piece is probably what I'm missing. And just from Klaus on the trade receivables.

Klaus Neumann - *Rheinmetall AG - Chief Financial Officer*

Yes. The one area where we have a lot of trade receivables more than in other quarters is logistics vehicles, where we had a really strong push of deliveries as we had indicated earlier, these deliveries have a payment term of normally 30 days. So they will now be paid in -- they now have been paid in July. And the other is ammunition, where we had a very strong June. And also there, lots of payments that come in the following months.

David Perry - *JPMorgan Chase & Co - Analyst*

Okay. Thank you very much.

Klaus Neumann - *Rheinmetall AG - Chief Financial Officer*

It's a pleasure, David.

Operator

Sasha Tusa, Agency Partners.

Sash Tusa - *Agency Partners LLP - Analyst*

Thank you very much indeed. Good afternoon. I just wanted to probably ask, hopefully, from your point of view, ask the last question on sort of partnerships and missile.

But specifically, with Anduril, you said that they haven't been able to deliver Barracuda to you for qualification. I is the issue there that Barracuda is basically not past the vaporware level yet? Or is this an ITAR issue? And therefore, does that have any knock-on effect?

And then on your relationship with Destinus. Destinus is being fairly active in signing deals with other players, including the one with Thales a couple of weeks ago, several of which appear to overlap the scope of your particular relationship. And I wondered if you could just unpick what it is that you want to do with Destinus? And do you see any conflict with any of the other partnerships that they are signing?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yes. It's a pleasure. Destinus is for us the point that we have a list of countries where we are responsible for, where we make the sales, where the joint venture, which Rheinmetall has a majority is responsible for and where we build up, let me say, the production lines also in the joint venture and where Rheinmetall is also responsible for warhead production and some other production in this area. So this is a very clear picture.

And there is -- we do not -- we make not everything worldwide. And if there are countries, where other players like Thales are more effective in this area, Destinus is able to do this and should do this with them. But the big business, I think, is big enough also for us to go forward.

And by the way, we do also business with others, not only with Destinus, as you know. The ATACMS is with Lockheed. We try to bring other partners inside to produce it. So on the air defense side with LIG Nex1 is where we can produce a lot of things also here. So there are -- there is a mixture.

And what we do, we have to do what the customer wants at the end of the day and to be for.

The second point is on the Barracuda side. I think it's -- at the end of the day, it's a mixture of all that things. But what I can say is I can at the moment, not make a testing program with the German government. And that is for me the most important thing because Germany is looking for that.

And the other thing is that we also need then this -- we have to participate on this very long-range strike. And there is also one of the missing points. I don't want to say more in details about these areas because this is between the companies.

Operator

George Mcwhiter from Berenberg.

George Mcwhirter - *Joh Berenberg Gossler & Co KG - Equity Analyst*

Good afternoon. Thank you very much for my question. It's just on the German budget, vehicle assumptions. And what are your latest thoughts on the quantity of Puma and Leopard 2 tanks that Germany will order in the next 10 years?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yeah. So on Puma, it's very clear. As you know, we signed the second lot Puma. So this size was this EUR1.1 billion. And then Germany is looking for a lot number 3.

And this lot number 3 is another EUR2.5 billion, where the opportunity is to get it, let me say, I think we cannot get it this year, but because there are too many -- 25 million programs, but this is the need that they have. And I believe that's it. So there is no more need at the moment.

The need of the main battle tank, it's better if you ask KNDS because they guide this program. At the moment is the only program that we see is on the -- is what we signed. So at the moment, we are in discussions with KNDS also in these areas. I see no further programs for the new Leopard 3, this is another story, but this is not ready. And this is now too early to speak about that.

Operator

Dario Dickmann, MP Capital Markets.

Dario Dickmann - *MP Capital Markets - Analyst*

Good afternoon. Thanks for taking my question. I've got one on the GMF 140 that you have just presented for the North American and international market. Do you see this platform as a potential fit for the German Navy as well, specifically a smaller footprint alternative to the recently criticized F127?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yes. Look, this is a decision. You know that we are in cooperation with TKMS also on the F127. At the end of the day, the customer has to make decisions about that.

What we know is that he said, okay, we have to change something on the F127. He is looking to Spain and also to Italy to have a look to other frigates. And if he has a look to the GMF 140, this is a decision of the customer.

Operator

Joe Orshard, Roche Lenko.

Joe Orchard - *Redburn Partners LLP - Analyst*

Yes, good afternoon. Thank you for taking my questions. Hopefully, just a couple of quick ones. The first one relates to Naval Systems and the F126. Have you had any discussions with TKMS about taking on some work as a subcontractor for the MiCo frigates in order to utilize some of your spare capacity?

And the second one, please, could you provide an update on the deal to acquire the Iveco Defense business from Leonardo, if possible?

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

So Iveco Defense, it's still an open issue because Lorenzo and myself have to discuss in details that area. So you know the statement from Leonardo side. There are -- we still have our agreement, but there are also others interested in this area.

We still think it's a good idea to implement the trucks from Iveco into the RMMV fleet, but it's not a must to do it. So we are in good shape. The F126 is -- we are looking at the moment to fill the production lines. There are always discussions.

As you know, TKMS and Rheinmetall is a cooperation partner and a good cooperation partner for a very long time in a lot of things because of the Lurssen relationship before, which is now Rheinmetall, but also in other areas because of simulators, et cetera, et cetera. We do what the customer wants.

But I think for the first four ships, TKMS gave the contract two shipyards. And this is, at the moment, I think, absolutely fixed. So I believe that we cannot help for the first four ships. And the second four ships are still not in contract. So therefore, it makes not a lot of sense to discuss if there is nothing to discuss.

Joe Orchard - *Redburn Partners LLP - Analyst*

Okay. Thank you very much.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

A pleasure.

Operator

Ladies and gentlemen, this concludes today's question-and-answer session. I would now like to turn the conference back over to Armin Papperger for any closing remarks.

Armin Papperger - *Rheinmetall AG - Chairman of the Executive Board, Chief Executive Officer*

Yes. Thank you very much. I hope you -- we could give you a real good overview about where we are at the moment. Yes, we are on track. And thanks for your time.

And thanks to go with us, and with Rheinmetall. Thanks a lot. Bye-bye.