



RHEINMETALL AG

## THE TECHNOLOGY GROUP FOR SECURITY AND MOBILITY

Capital Markets Day | Vienna | November 26, 2015

Armin Papperger, CEO



## Strategy program “Rheinmetall 2015” Highlights Automotive

### Internationalization

- **Set up of a global alliance for piston systems** with Riken (piston rings) supplemented by production JV in China
- **Accelerated formation of Mexican footprint** from EUR 59 (2012) to 137 million (2015e)
- **Chinese WFOEs moving** from start-up **into growth phase**

### Growth by products and innovations

- **Strong top line increase** outperforming global LV production growth
- **New products for hybrid engines and e-mobility** developed, e.g. range extender, heating and cooling module, hydrogen recirculation fan

### Cost efficiency

- **Successful realization of restructuring** (degree of finalization at 83% as at Sep 30, 2015)
- **Effective shift in cost of workforce** from high-cost to best-cost countries (from 33% in 2011 to now 37%)



## Strategy program “Rheinmetall 2015” Highlights Defence

### Internationalization

- **New cooperation with selected partners** signed or in negotiations (Poland, Turkey, Kazakhstan)
- **Accelerated expansion of hub strategy** (Saudi Arabia, Algeria, Indonesia, Brazil)

### Growth by products and innovations

- **Strong order intake**, order backlog at high level
- **Development of new vehicle generations:** Amphibious 6x6, Armored Personnel Carrier
- **New large orders for trucks** received (e.g. Australia, Scandinavia) resulting in a better capacity utilization in Logistic Vehicles

### Cost efficiency

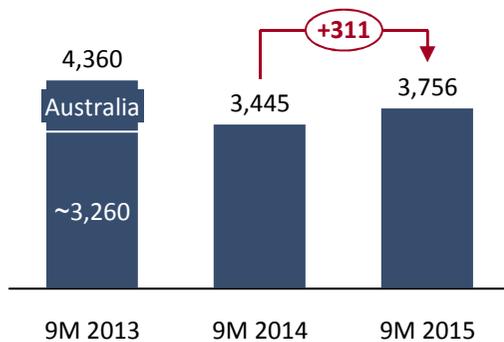
- **Successful realization of restructuring** (degree of finalization at 97% as at Sep 30, 2015)
- **Implementation of enhanced internal processes** (e.g. bidding, review, compliance)



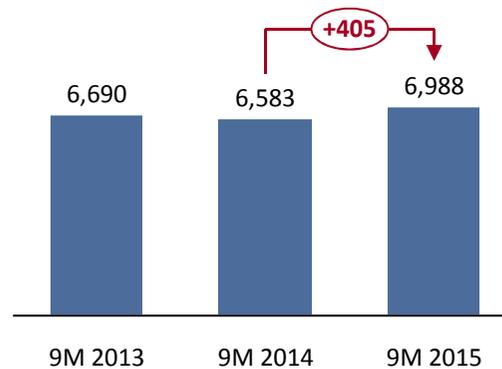
# 9M 2015

## Successful development of Group key figures

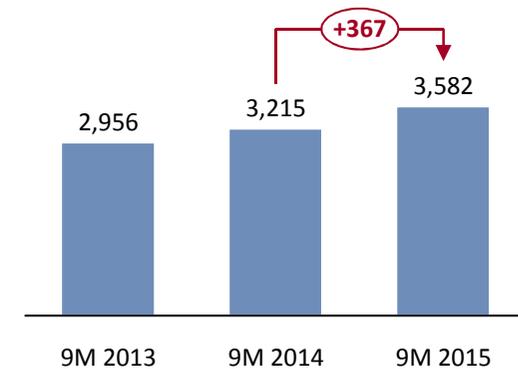
Order intake in EUR million



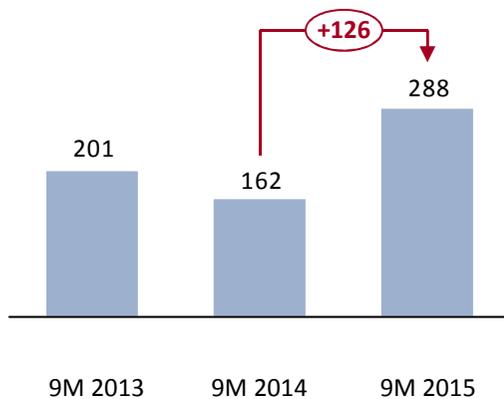
Order backlog in EUR million



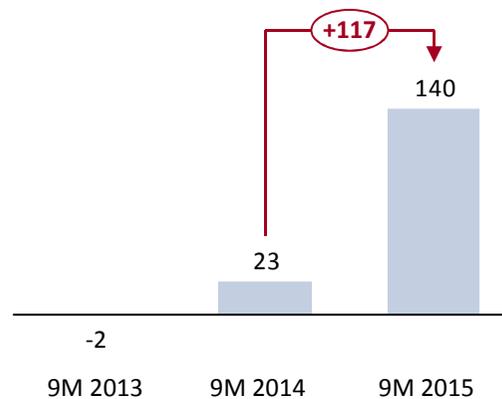
Sales in EUR million



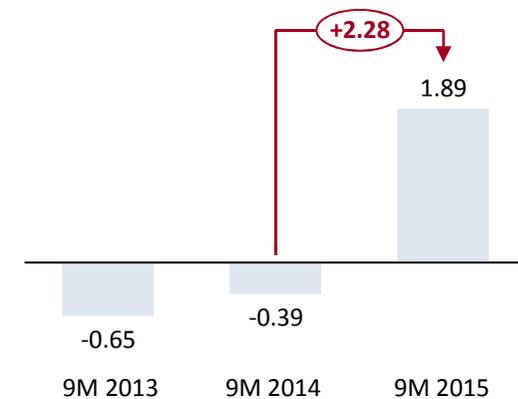
EBITDA in EUR million



EBIT in EUR million



Earnings per share in EUR





# RHEINMETALL DEFENCE



## Key messages of the Defence segment

- 1 – Defence markets are **at a turning point**  
– International conflicts trigger **increasing budgets**
- 2 – Rheinmetall's **presence on international markets** significantly extended:  
– **High order intake** from customers outside Europe
- 3 – **New and innovative products** in the pipeline addressing the new challenges  
– **Mid-term organic growth** ensured by high order backlog
- 4 – Further **progress in the consolidation** of the industry after KMW/Nexter very likely  
– Rheinmetall is willing to take an **active role in this process**
- 5 – With an EBIT margin of slightly above 3%, Defence achieves **turnaround in 2015**  
– **Further margin improvement expected** for 2016 and 2017



## Global security (1)

### Substantial change in global security situation



#### **RUSSIA/UKRAINE CRISIS** is challenging NATO

- Armed military conflict at the Eastern border of NATO
- Cold War scenarios moving back into focus



#### **“ISLAMIC STATE”**

- Asymmetric conflict at the South-Eastern NATO border
- Increasing threat of terrorism for Western countries



#### **“FAILING STATES”** in the MENA region and in Africa

- Local destabilization, e.g. Libya, Syria, Yemen
- Europe facing higher pressure by migration



## Global security (2)

### Substantial change in global security situation



#### **NEW TROUBLE SPOTS** on the horizon

- Higher engagement of German troops in Mali in discussion
- New instabilities caused by failure of Arab Spring



#### **ENDING MISSIONS** in Iraq and Afghanistan

- Vacuum of power after troops withdrawals
- Risk of civil wars due to a lack of effective governments



#### **CONFLICTS IN SOUTH CHINA SEA**

- Neighboring countries perceive Chinese expansion strategy as a threat
- Military and economic dimension, particularly regarding USA and Japan



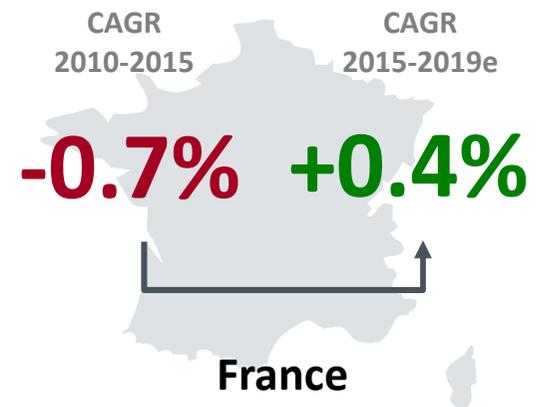
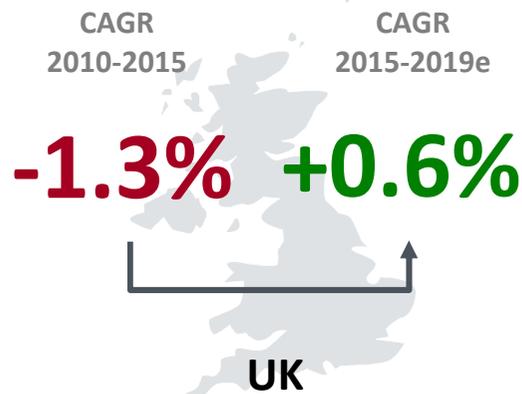
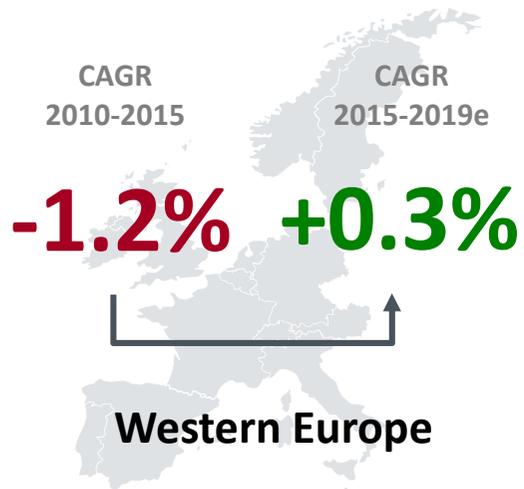
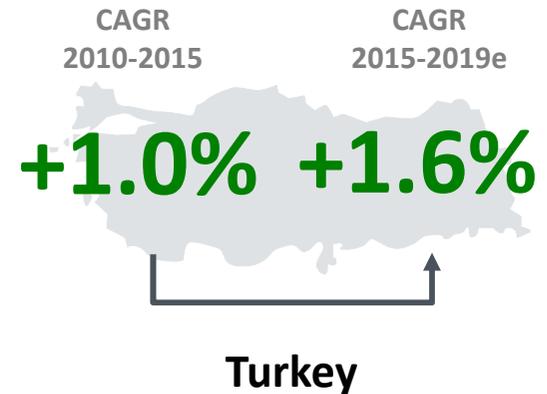
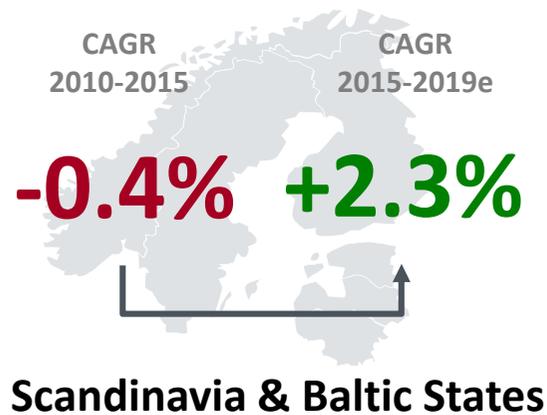
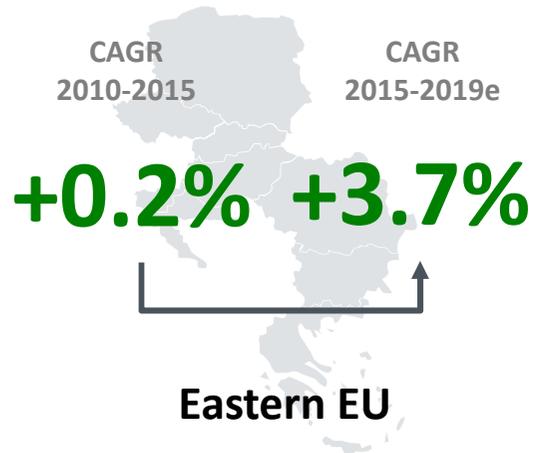
#### **LATENT NUCLEAR THREATS** (e.g. North Korea, Iran)

- Regional shift of power with high conflict potential and global impact



# Defence market

## Swing in defence budgets triggered by conflicts



Source: IHS Jane's (November 2015)



## Domestic market

# Changed security situation requires a revised security and arms policy



### Consequences for German forces

- Germany **accepting more responsibility** in global politics
- **Fulfilling NATO target of defence budget** amounting to 2% of GDP until 2025 (resolution of NATO Summit in Wales 2014)
- **Providing forces and equipment** for setting up NATO's "Very High Readiness Joint Task Force" with Germany contributing 2,700 of 4,000 soldiers in total
- **Raising demand for equipment of ground forces** back to a full set-up
- **Rising German budget** by EUR 8 billion in total over 4 years (2016-2019)



# Definition of key defence technologies in Germany

**Rheinmetall currently provides a broad product range for key technologies**

Network centric operations	Sensor technology	Protected and armored vehicles	Protection	Submarines
				
<ul style="list-style-type: none"> <li>– Soldier systems (e.g. Gladius, ISS)</li> <li>– Battle management systems (Iniochos)</li> <li>– Sensor planning (e.g. SC2PS)</li> <li>– Digital turret systems</li> </ul>	<ul style="list-style-type: none"> <li>– Optical und infrared sensors (e.g. MSP, FIRST, SEOSS, UMIT)</li> <li>– Radar sensors (e.g. X-TAR3D, Medium Range Radar)</li> <li>– Acoustic sensors (e.g. ASLS)</li> </ul>	<ul style="list-style-type: none"> <li>– Wheeled: Boxer, Fox, AMPV, HX2</li> <li>– Tracked: Puma, Marder, Leopard incl. support vehicles, Wiesel</li> <li>– PzH2000</li> <li>– Components (e.g. turrets, weapon stations, protected cabins)</li> </ul>	<ul style="list-style-type: none"> <li>– Softkill</li> <li>– Hardkill</li> <li>– Active protection</li> <li>– Ballistic protection</li> </ul>	<ul style="list-style-type: none"> <li>– Covered by Rheinmetall with components</li> </ul>



# Definition of German demand for security products

## Moving towards full equipment of ground forces by a number of projects



**Fox**  
Demand for upgrade, order expected for 2016, delivery starting 2017, in addition new Fox vehicles



**Leopard 2**  
Upgrade of 103 tanks projected, order expected for 2017



**Boxer**  
Further 131 vehicles, order expected for 12/2015, delivery starting 2017



**Gladius soldier system**  
Adjustment development and acquisition of further batches, order expected for 2016/17



**Infantry fighting vehicle**  
Demand for additional vehicles (either Marder upgrade or new Puma)



**Ammunition**  
Restocking expected



**Puma**  
Additional equipment\* in negotiations, order expected for 2016



**Military trucks**  
Step-by-step replacement of appr. 2,500 vehicles, decision expected for 2016, total demand > 10,000 units over 10-15 years

\* Integrated light missile system and specific secondary weapon station



## German export licence policy

### Fairly reliable practice of case-by-case decision rule achieved



- **Continuing principle:** Decisions are made case by case with restrictive alignment
- **Neither certain countries nor certain products** generally ruled out (except for embargo countries like China, North Korea)
- **But certain combinations** of countries and products currently rather **unlikely**
- **Established an “early warning system”** in order to be prepared for decisions at an early stage



## Consolidation of the defence industry European defence industry starts to move



### MERGER KMW/NEXTER

- Approval of German Government under structural conditions expected
- No consequences on the existing business (common products, orders) of Rheinmetall in the short and medium term, e.g. Puma, Boxer, Leopard 2 Qatar
- Replacement of qualified Rheinmetall components impossible

**Accelerated consolidation of the industry in Europe,  
but strongly dependent on political intentions**

- **Active role of Rheinmetall as largest German defence company in the context of the consolidation**
- **Rheinmetall as a systems provider with various international partners**



## Innovations

# High-energy laser: Weapon technology of the 21<sup>st</sup> century



- **Laser technology developed, ready for operations** in 3-5 years
- **Domestic R&D order** of EUR 6 million received
- **Next step:** qualification phase for navy and air defence
- **Customer interest and first inquiries** from several countries (Europe, MENA)



# Innovations

## MBT – Advanced Technology Platform

Leopard 2A7 (+)



Armata



Future MBT



- Short- and mid-term perspective: **MBT – Advanced Technology Platform ready** for marketing, continuing to provide components for **Leopard 2 upgraded** with advanced technology
- Long-term perspective 2030+: **Concept for new main battle tank generation** (Main Ground Combat System, MGCS)



## Main battle tanks

### Modernization in the medium term, new concept in the long term

#### Step 1: Modernization



Rheinmetall recently developed/  
is developing **state-of-the-art features**:

- New high-pressure **120mm cannon and ammunition**, increase of performance: **+20%**
- **Digital turret** core system
- Situational awareness system
- Active Defence System (ADS)

#### Step 2: New caliber (130mm)



- **New cannon** with a larger caliber
- **Increase of performance** (penetration, effectiveness) by **50%**
- **Precondition** for MGCS
- **Marketing phase** starting in 2016



## Main battle tanks

### Modernization in the medium term, new concept in the long term

#### Step 3: New concept (MGCS 2030+)

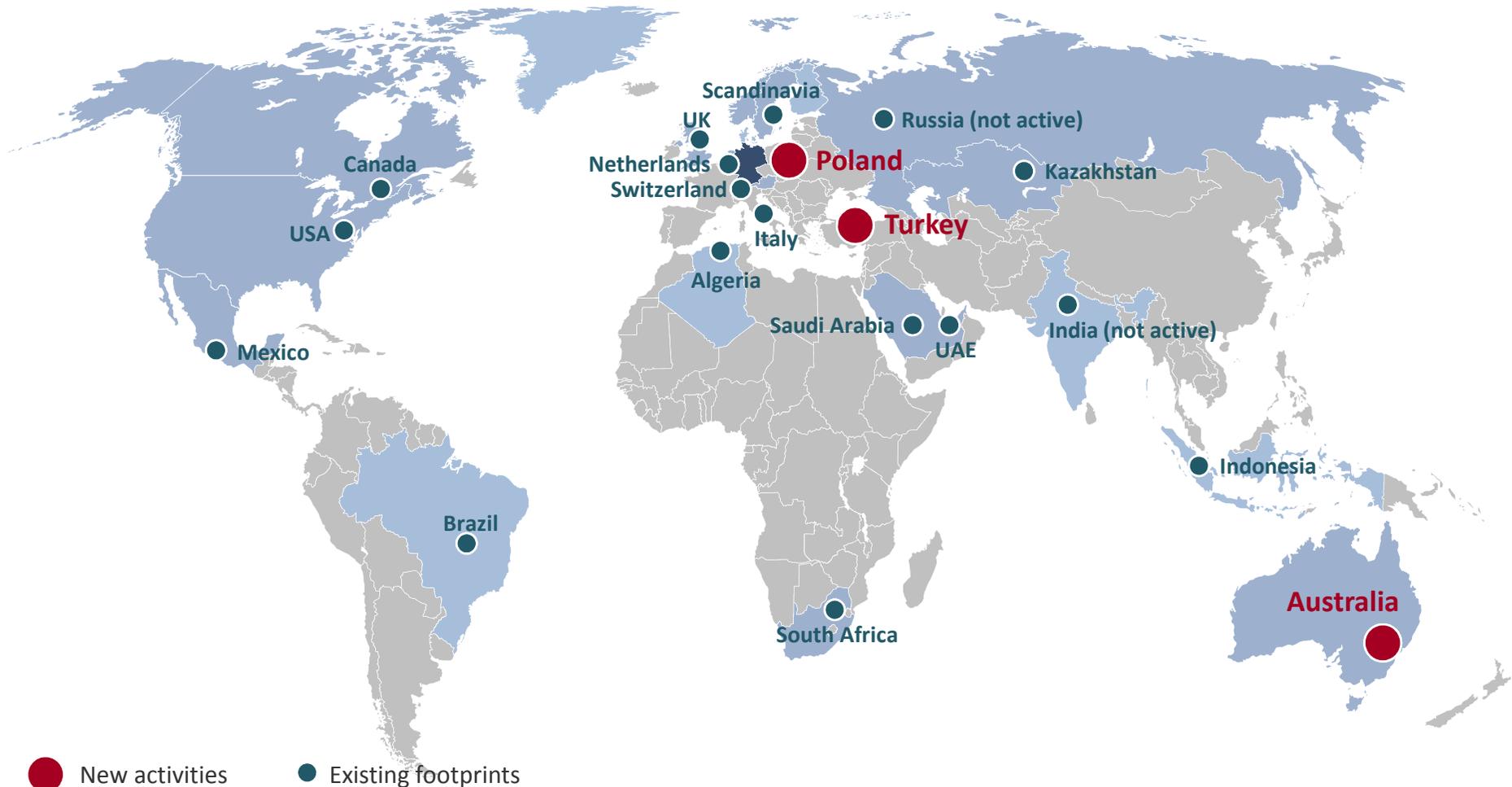


- **MGCS concept** for new main battle tank **started**
- **Currently in concept phase** until 2017 in cooperation with the industry
- **Participation of several nations** expected, currently common project of Germany and France



# New internationalization initiatives

## Recent activities expand hub system for realizing growth potential



● New activities    ● Existing footprints



# New internationalization initiatives: Australia

## Further market potential beyond the large-scale truck order



### LAND 400 PROGRAM



- Tender submitted in 09/2015, offering Boxer with Lance turret
- Teamed up with Northrop Grumman
- Down-selection in 2016, final decision not before 2018
- Total volume: appr. EUR 2.5 billion
- Strong international competition

#### Air Defence

Volume: appr. EUR 300 million

#### Simulation

Volume: appr. EUR 200 million

#### 155mm ammunition

Volume: appr. EUR 300 million



## New internationalization initiatives: Turkey

### **Joint ventures to strengthen local business**



- **Local entity “Rheinmetall Turk”** in the course of formation
- Rheinmetall Turk is designated partner of **joint ventures with Turkish defence companies** for
  - Medium- and large-caliber ammunition
  - Vehicle systems (armored vehicles, medium-caliber turret systems)



## Defence at a glance

- 1 New conflicts are resulting in a **massive change to the world security situation** and higher Defence procurements.
- 2 With its product portfolio, Rheinmetall **covers the national key technologies** and markets **innovative products for new threats** (vehicle systems, public security).
- 3 The **internationalization strategy** is being pursued consistently – **with various joint venture partners** around the world.
- 4 Historically large order backlog ensures **internal growth**; opportunities to grow via **acquisitions** are being considered.
- 5 The **turnaround** will be achieved in 2015. **Further improvements** in earnings and margins in the years to come.





# Export licences

## A highly political, regulated and complicated process

**List of abbreviations**

- AWG = German Foreign Trade & Payments Act
- DoD = Department of Defence
- DoE = Department of Economics
- DoS = Department of State
- GSC = German Security Council
- KWKG = War Weapons Control Act

