

Conference Call: 9 November 2023, 14:00 pm CET

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AP Armin Papperger

DS Dagmar Steinert

SW Sven Weier

SG Sebastian Growe

CL Christoph Laskawi

VM Virginia Montorsi

ST Sash Tusa

DP David Perry

O Hello, ladies and gentlemen, and welcome to the Rheinmetall AG Q3 2023 conference call. At this time, all participants have been placed on a listen only mode. The floor will be open for questions following the presentation. Let me now turn the floor over to your host, Armin Papperger.

AP Thank you very much for your kind introduction. Welcome everyone to Rheinmetall's Q3 2023 conference call. Like in the last call, I will together with my colleague, Dagmar Steinert, update you on the latest market development. Dagmar then will share further details on the quarterly financials. And finally, I will present our years end outlook with you. Please be reminded of our legal disclaimer on the following page two. Now, let's flip to page three. In page three, in Q3, 2023, it was a really good quarter for the Rheinmetall group [01:00]. We had sales of 1,758 billion euro. It's a plus of about 24%. The very positive thing is that the operating result of 191 million is a plus of nearly 60%, so we have a really good leverage in our business. And the operating margin is with plus 2.3 up is growing up to 10.8%.

The operational free cash flow is still with minus 102, not in the range where we want to be. But, and that is very positive, we will have a very, very strong Q4 that we can see because, or most of the customers now will pay the bills there, and our expectation is a very, very high free cash flow in Q4. [02:00] Positive also for quarter is that we have an outstanding Rheinmetall nomination, and the backlog is growing up to 36.5 billion. Very positive also is that the Expal integration is very successful. We had the first integration workshops. We had the welcome days, and we see now

after checking the factories and having 100% detailed information about that, that we have a strong gross potential. So, our expectation is that we can grow up to more than 650 million next year. And the total potential, we see one billion euro sales with very high profitability on Expal.

Another point, which is very positive, is that the tank factory in Zalaegerszeg in Hungary [03:00] is now working. End of this year, the first Lynx will be ready. So, since the ground opening, we are producing on that vehicles. So end of this year, first vehicle, and then next year, the serial production of the vehicles of Lynx will start and we are on the way also to implement some other technologies I will tell you later. So, the R&D contract about the Panther, main battle tank will be there, and also the integration of turret production in Zalaegerszeg, so very successful. We had a ground-breaking ceremony and the machines are running at the moment. So, we are on the way to build up the plant in Weeze. It will be the most modern Rheinmetall plant worldwide, full digitised, full climatized for the F-35 in Germany. And we see a potential [04:00] over the next years for us, because we are able to produce the fuselage for Lockheed to have a potential between four and five billion euro over the next years for the F-35.

Let's flip to page number four. If we go to page number four, we had two big events, so trade fairs. Some of you visited us in London. So in London, we have a heavy focus on unmanned systems and also air defence solutions. We got very positive feedback from European customers about that. And we had a presentation of our vision for the digitalized battlefield, where later on the German side especially, we will tell you that there are now opportunities to book very, very soon good contracts [05:00]. The second show was the AUSA in Washington. On the AUSA, as you know, there are two main programmes at the moment. This is the infantry fighting vehicle on one side and on the other side, the CTT programme, the truck programme. But we are looking at the moment also for other programmes. And this is the new artillery system. And here we could show the 155 millimetre, how it's a technology that we have, especially on the barrel side, barrel and ammunition, the Skyranger and the HX3. And I think it's also good to have the autonomous unmanned systems. I believe that the US Marine Corps, we will have a good chance to get orders about that.

Let's now go to page number five. In page number five, [06:00] you have now overview about Q3. And sorry, we had a typo inside for the figures. But these are now the real figures. We speak about gross figures. This is exactly what the reporting from the German government is. In Q3, we had without Ukraine, because the Ukrainian business is also paid from the German side, I give you the figure later. Only for Germany, 7.5 billion euro booked. And it was especially Caracal, then tank ammunition, artillery ammunition, and also LUNA NG. There are some smaller contracts, and we are looking also for Q4, this is an expectation of about 1.5 billion. And this 1.5 billion is at the moment is [07:00] Skyranger, NNBS, heavy weapon carrier, so Schwere Waffenträger, we are in negotiations. Maybe we are able also to book it. This will be a 2.6 billion contract. But it could be also possible that we switch into Q number one, which is for us not really important, but as a free information from your side.

So what we told you last time, from the German side is that we have a potential of about 13 billion. This is still in place. And in between we booked another 2.1 billion euro from Germany for the Ukrainian forces. So, contract is coming from Ukraine, but the bill will be paid from the German government [08:00]. And we see this year a potential of 2.5 billion for the full year for the Ukrainian business. Our expectation is that we are very stable in Germany also next year. So an order potential for 2024 is also, again, 13 to 15 billion, where we see 10 to 12 billion for

Germany and the rest is for Ukraine. And this is especially for ammunition, tactical, logistical vehicle, and also digitization.

Later, I will give you the information that the Ukrainian joint venture is running and the first sales are coming in. It is possible that there are some approvals may be delayed because of a lot of work at the moment in BAAINBw **[09:00]** In Germany there are heavy weapon carriers. There are SHORAD systems and there are the Gladius system. The digitization is a programme, TAWAN, which has a potential of one billion, IDZ one billion up to 1.5 billion. Vehicle like Kodiak of 600 million, six by six, et cetera et cetera. So that our expectation is that the potential is on the same level of order intake that we had this year. So that end of the year we will see a backlog, total backlog Rheinmetall nomination of nearly 40 billion euro.

Let's go to page number six. And here we see that the business with Ukraine is already materialised. Sorry, we have here an order intake **[10:00]** from 1.9 billion. But three days ago, we have had another 200 million, so it is now 2.1 billion, which is the newest figure, and we want to give you for sure the newest figure. And the expectation next year in 2024 is that we can book 2.5 to 3 billion. This is discussed at the moment with the German government about the budget for Ukraine. The sales of this year will be at the moment about 400 million, but we will have a significant stronger impact in 2024. If you count up 2023 and 2024, it will be more than 5 billion for Ukraine, and most of them will be delivered 2024 and 2025, which is very positive for the next years, but this year will be also **[11:00]** a very good year.

So, we have further contracts prepared also for this year. And there is an expectation of another 200, 300 million euro that we can book with Ukraine this year. We approved RUDI. RUDI is Rheinmetall Ukrainian Defence Industry. It's a cooperation between Rheinmetall and UDI. UDI is Ukrainian Defence Industry. They, Ukroboronprom, gave them a new name because this was very difficult for most of the Europeans to remember how the name is. And we launched the first Ukrainian joint venture, as you see on the right side, the Chancellor Scholz and the Prime Minister **[12:00]** had the first Rheinmetall company, the Prime Minister gave the licence to the chancellor.

This joint venture is working now, and on the first phase, now we do maintenance and repair in vehicle. And the point is that our expectation is that we can start next year with the production of Fox, the six-by-six vehicle from Rheinmetall that we bring Fox in the box to Ukraine, and we assemble that on the Ukrainian side, and that we can implement the first infantry fighting vehicles Lynx. This is discussed with the German government. I think it will be positive and we will get permission about that things and our expectation is that we can get contracts up to 250 million euro **[13:00]** for these vehicles, for that company. This joint venture is able to grow up very fast and there is an expectation that between after a ramp up phase, that we are able to make about 200 million sales per year.

Let's go to page number seven. In page number seven, we see now the negotiations between Germany and Australia. As you know, the letter of corporation is signed in Q3. The negotiations with both governments are in the final stage, and it will be a contract for Rheinmetall Australia with a back contract also to Rheinmetall Landsystems here in Germany. More than 100 vehicles, and it will be about 2.5 billion euro. At the moment, as I said, if we are very lucky, and **[14:00]** because there is only one possibility from the Parliament, yes, to give the permission, we can get it end of the year. But otherwise, it will be in the first meeting in the Parliament next year so that it will be in December or January, February next year. This is a boxer-based solution with a

manned turret. And this is also very important for the medium heavy forces in the German army because the expectation is that Germany needs hundreds of that vehicles. And we are also in the pre-discussions with the German government about that possibilities.

Let's flip to page number eight. And in page number eight, what happened in Q3 is that we are in the final stage and the government of Hungary told us they want to [15:00] sign it now, end of November. The development contract for zero production of the Panther. And it will be between 250 and 300 million euro contract from the Hungarian government to Rheinmetall Hungary. And the point that Hungary will be the first, Hungary will be the first customer for the Panther is a very positive thing. And you see the Prime Minister, he said, "We are producing a Lynx, we are buying a Leopard, and we have joined in the development of the Panther." So, in a private meeting: "So now I have a small zoo". And I think it's a, it's very positive that the first customer has really made that decision. [16:00].

Let's go to page number nine. In page number nine. You see that the Rheinmetall group structure will change. On the reporting site next year, we will bring Sensors and Actuators and Materials and Trade together. We create a new division. In two weeks' time we will give it officially into the market with the new name of the division. The importance is that we want to do it first of all to have synergy effects because we have to find synergies also to bring up the profitability on one side. The next point is that we can focus management attention if we have one division. Very important is also but also for the capital market that both together are now in a site where [17:00], for example, Electronic Solutions is. And because over the next year's Weapon and Ammunition, Electronic Solutions and Vehicle Systems will grow much stronger.

So Vehicle Systems will grow much stronger than the rest also. And that is the reason that Vehicle Systems and that is already in place. We have two subdivisions. There is a main division Vehicle Systems where we are reporting, and then there are two subdivisions. One is Vehicle Systems Europe, and the other is Vehicle Systems International. The reason for that is because over the next two, three years, this division will grow up to 5 billion and this is an MDAX company. We said, "Okay, we split it and we can focus more to our customers." And so, one subdivision is really focusing on Germany, which is now our absolutely our main customer with very strong order intakes [18:00], and US, and UK over the next years has the ability to grow very strong and especially USA will be so strong that at the end of the day, maybe in some years, it's an own division if we are able to win some of these contracts. So far, the organisation, and now I take over to the financials to Dagmar.

DS Thank you, Armin. Before I start to present the key financial data, I would like to point out that we have adjusted our financial KPIs after the closing of the Expal acquisition. The presented operating result is now reported excluding PPA effects. Historically, PPA effects amounted to just below 10 million euro per annum. The preliminary monthly PPA effect from Expal is currently estimated [19:00] to account for around seven million euro. You find the reconciliation in the appendix on page 22.

Let's move on to page 11, the key financial data. Weapon and Ammunition, as well as Vehicle Systems where the driving forces behind the sales growth of nearly 25% and the jump in the operating result to 191 million euro. We also see a first positive sales contribution of 41 million euro from Rheinmetall Expal Systems. The relative strengths of these two divisions contributed heavily to the 2.3 percentage point group margin improvement. The strong improvement on the

operating result lifted earnings per share for the continued operations to 2.31 euro, despite an increase in the interest [20:00] expenses.

Let's move on to page 12 for the divisional breakdown of our key financials. In our divisional reporting, we see that the sales increase was pre-dominantly driven by the strong performance in our divisions, Weapon and Ammunition and Vehicle Systems. In the division, Weapon and Ammunition call offs from existing framework contracts and a better product mix push the positive sales development as well as operating results margin. Products for tactical and logistical vehicles explain the favourable development in our Vehicle Systems division, strong sales, but stable operating result in our Electronic Solution division resulted in a lower margin development, which can be explained by an addressed product mix.

[21:00] The performance in our civil divisions is slowly recovering from the cyber-attack in the beginning of the year. The operating result in our Sensors and Actuators division is, however, still burdened with price pass-through issues for certain raw materials, e.g. plastics, semiconductors, and so on. The division materials and trade had a strong operational improvement, including the recovery of the Chinese casting joint ventures, but also profited from one-off effects for material price adjustments, which included prior periods as well. The effect in our non-divisional consolidation line results mainly from higher IT costs and a negative at-equity contribution from our joint venture 4iG in Hungary.

Please turn to page 13 for a look at Rheinmetall's operating [22:00] free cash flow and working capital development. Our operating free cash flow improved by 251 million euro year to date, mainly driven by a strong first quarter, which was characterised by slip over effects from the fourth quarter last year. Inventory levels have increased to around 1.3 billion euro while received prepayments help to mitigate the further working capital build-up. Our divisions Vehicle Systems and Electronic Solutions account for most of the build-up in anticipation of the upcoming customer's orders.

Let's move on to page 14. Our net financial position is now fully reflecting the purchase price payment for Expal. As a consequence, [23:00] the equity ratio came down close to 30%, but this is still a very comfortable level. With undrawn credit lines of 900 million euro and a strong cash position of around 400 million euro, our balance sheet remains very strong. Moving on to the next page, to provide a better understanding of the backlog development, we created the following overview. We start with the order backlog at the beginning of the year, then we add the three components of the Rheinmetall Nomination for the nine months period, and then we subtract the cumulative sales in 2023.

So as a result, the last column presents the order backlog per end of September. Whereas the first half year [24:00] saw a moderate increase in Rheinmetall Nomination, the start of the second half year benefited from accelerating German orders as Armin already told you. This lifts our Rheinmetall backlog to a record high of more than 36 billion euro. And with that, and of course, the upcoming orders in the fourth quarter, our growth story is secured for tomorrow. With that, I would like to hand over back again to Armin.

AP Thanks, Dagmar. So let's flip to page number 17. And here you see the outlook. We have a sales now after nine months of 4.6 billion, the expected sales from the backlog is 2.6 billion. So and there is another for the last three months is [25:00] the way to go and these are about 400

million. This is service business, which is an ongoing business. Then civilian chemicals, which we monthly book and especially three months on the materials and trade, and especially on the trade side, that you do not have on the backlog. We have only about 400 million to go to meet the fiscal year sales. And our expectation is that first of all we are safe on our sales guidance.

Let's go to the next page, to the guidance in total. So we spoke about sales between the 7.4 and the 7.6 billion. We have the operating margin where we said this is about 12%. We have an impact, but not a very big impact [26:00] also from the Expal side, but the impact is there, so that my expectation is that we are better than 12% and the operating free cash flow, we stay also on the level between 4% and 6%. And what we can oversee at the moment is that the Q4 is very positive, so that my expectation is that we are more on the upper than on the lower level of the operational free cash flow. As we talked before, Rheinmetall Expal Munitions is now fully consolidated for the period from August to December. And the expectation is that we make more than 190, more than 200 million euro and with an operating margin of more than 25%, which is a very positive result. [27:00] So, thank you very much for your attention, and now we are ready for Q&A.

- O Ladies and gentlemen, if you want to ask a question, please press nine and the star key on your telephone keypad. And if you would like to cancel your question, please press nine and star key again. Please press nine and star if you want to ask a question. And the first question comes from Sven Weier from UBS, the stage is yours.
- SW Good afternoon, and thanks for taking my questions. The first thing I was hoping that you could help me to reconcile the contribution of Expal in the third quarter, because when I look at the quarterly report, you said there was a 41 million impact on revenues, but 28 million were internal revenue, so that the [28:00] net impact was 14 million on the top line and 17 million on EBIT. Could you just help me to reconcile those numbers? That's the first one. Thank you.
- DS Yeah, I will take that question. And yes, we have 41 million revenue or sales from Expal, and out of that 41 million, 28 million was intercompany sales, which was taken over from Rheinmetall WM. And there we used in a case Expal as a supplier, and RWM just had the external sales and therefore the earnings number, the operating earnings of 17 million for Expal is the right number. [29:00] But just to remind you, that's before PPA effect.
- AP Mr. Weier, maybe I can add to Dagmar. This is a point which is very important. The sales force that we have in Rheinmetall for sure is much bigger than the sales force that we have in Expal. And we brought over the last month to Expal 400 million, about 400 million from ammunition business, from Rheinmetall Weapon and Ammunition, Germany to Rheinmetall Expal in Spain. And that is the reason that we can fill Expal a lot. And that is the reason as Dagmar said that there are difference in the figures. This will be also in the future because a lot of contracts will come in to the Headquarter of Weapon and Ammunition.
- SW Yeah, thanks for the colour, because I was also wondering, because of course [30:00] the margin is above 40% both when we look at those two months, right? But also, when we look at year to date Expal, it's above 40%, and your guidance is above 25, so quite a bit of a difference.
- AP Yeah. The reason is also very simple because at the moment, we are charging from the headquarter, not as much as they usually had. If they would, I can tell you, if Expal would make

the business a standalone without the group, this is a positive figure. It's always between this 25% and 30%. But if you calculate smaller sales with high profits and if the headquarter is not charging as much as they earn, it could be also in some calculations that it is more than 30%.

SW The other question I had was just on the bridge you've given for the full year, the 2.6 additional from the backlog [31:00] and the 0.4 from the in-for-out. Because when I look at last year, right, you had 2.5 billion for I think, sorry, it was 1.5 billion from the backlog, and you had 2.3 billion of sales then eventually, Q4, so it was 800 million in-for-out. Is that the right way to look at it? Am I comparing apples with pears here or what would be the like for like comparison?

AP Yeah, I think you're right. And what we want to show you is that never, ever life is riskless, but we have a smaller risk than last year because of this 400 million as you see, the service business and the trade business especially is coming year by year. And usually, we are nearly fully booked. So, this should be the information that we give to you. So the risk is not very high, [32:00] this is number one. If not something extraordinary happens, for example, that a lot acceptance will not run or whatever, which always can happen. But at the moment, we are a good way.

DS And maybe to add from my side, we started to report in the year 23 Rheinmetall Backlog and Rheinmetall Nomination, and in 22 it was a different way to present it.

SW Okay. Yeah, that makes sense. Finally, if I may just was curious in your opinion about D-LBO, right? We had those reports about the radios not fitting into the vehicles, and I was just wondering how you think about that impacting the timing of the D-LBO contract overall.

AP I think that the D-LBO contract will come next year. There is also a budget about that. And by the way, they have to do it because otherwise [33:00] the heavy fighting brigade are not able to fight because they need the digitization. So, I believe the first pack of contracts are coming there and it's very clear at the moment also that Rheinmetall will get a good package out of that. And the second point is what maybe is helpful also in that discussion about the radios that I think now the government thinks about to have one company or one consortium, let me say, one consortium who is taking care about all the things to coordinate and to manage that.

SW Very clear. Thank you very much. See you at the CMD.

AP Thank you, Mr. Weier. Thanks.

O And the next question comes from Sebastian Growe from BNP Paribas. The floor is yours. [34:00].

SG Yeah. Good afternoon, everybody. Hi, Ms. Steinert. Hi, Mr. Papperger. The first set of questions is on the Vehicle Systems and goes to you, Mr. Papperger. You obviously had a fantastic margin on the quarter three that was almost 13%, so I would be interested if you could walk us through the key levers that led you to that great margin. How much is related to operating leverage with growth of more than 40% in the quarter? But how much might also be then related to mix effects e.g. ring swap agreements and let's start there.

AP It's a mixture. Mr. Growe, it's a mixture, very clear. On one side, it's for sure that, and if you see what happened growth in, of 40% on the Vehicle System side, for sure there is a leverage effect inside. And on the other side, is it because, as you said, as you know, that we depreciated the

vehicles that we had inside, that we also have good margins [35:00] on these areas because we paid the bill over the last 10 years when we had the vehicles here inside, and now we are here in the harvesting phase, so it's a it's a, its'a mixture. And this is exactly over the next time what we want to continue.

SG Can you remind us of how much is still sitting on the order backlog when it comes to those contracts that you refer to as on the harvesting mode now?

AP Let me say most of the grass is still there.

SG Nice way to phrase it.

AP Yeah. We are in Q4, and in the next year we have higher packages than we have now here inside.

SG Okay, that sounds good. Then the other question is related to your comment that you made on the Vehicle Systems revenues going forward, [36:00] so to grow into five billion territory. What's rough time spent to get there, can you also help us better understand how quickly that massive order backlog might convert into revenue?

AP Yeah. So, the expectation is on the defence side, first of all, let me say from the whole defence side that we have a good growth rate this year. We will have a better growth rate next year. And the expectation is that on, in next year, the growth rate is between 25% and 30% on the defence business, a strong growth rate on Vehicle Systems and Weapon and Ammunition, what we told you before. Weapon and Ammunition will up to and we have very soon a capital markets day, so we give you detailed figures about that. Weapon and Ammunition and Vehicle Systems will be the main drivers, but also Electronic Solutions will grow up over the next years very strong. [37:00] So next year and the year after next year, so 24 and 25 will have a very, very strong growth rate on the defence side so that we are still at the beginning of the performance.

SG Okay. Then moving on to the order pipeline you made reference to also the expectations for next year at the 13 to 15 billion that are in for Germany. Obviously, we are then, going through, what can I say, rocky ride, that was not always kind of coming through when it was expected to come through. What sort of the kind of safety net in a way, or would you really think that the 13 to 15 billion, especially the lower bound, is this in a way bulletproof when it comes to 24 orders from Germany?

AP Yeah. So, I must say that most of them, what we told you also, what is coming in is coming, as you said, we booked a lot. Yeah, and if you see the Q3 and also the Q4, which will be for [38:00] the Q3, never ever seen before inside the Rheinmetall history that we have an order intake from the German side which is on a level of 7.5 billion. And as we said also, that also is coming on the Ukrainian side in total of 2.1 billion, which is also Q3 was very strong. So, my expectation is that we fulfil the potential that we told you before. And if you count up what happened this year, we are still on a level of 10 billion with Ukraine of 12.1 billion. And we told you it will be between 13 and 15 billion and next year it'll be the same. Our expectation is that the government will fulfill their plan. [39:00] And I'm absolutely fine with that. So what does it mean? It does mean that end of this year our Rheinmetall Nomination, so the total backlog of the group is on a level of 40, but my expectation is that next year we will, can go up to 50 billion.

- SG Okay. Sounds good. And the last one, more housekeeping one for you, Ms. Steinert. You pointed to the Expal related PPA charges of around seven million per month, so taking it to 80 or so for the full year. Can you give us a better sense of how these PPAs should move over time? What's the rough annual levels for the period 24 to 26?
- DS Well, first of all, it's really preliminary PPA, so there might be changes. And as of today, with the seven million PPA effect per month, **[40:00]** we expect for the full year 23 an amount of 35 million euro. For the year 2024 it will be something around 80 million. And then it comes down because of course we have effects on order backlog, on inventories and so on. Therefore, the number changes in the years to come.
- SG And the best indication you could provide. So, like stepping down by 20 million per annum, also just that we cover it correctly in our models.
- DS I would say stepping down roughly 30 million per annum until you reach a level of around 20 million. But as I said, it's preliminary and we might see something in the full year figures, we keep you updated.
- SG Yeah. Great. Appreciate it. Thanks, and see you both on the capital market day. **[41:00]**.
- AP See you. Thanks.
- O Next question comes from Christoph Laskawi from Deutsche Bank, the floor is yours.
- CL Good afternoon. Thank you for taking my questions. Those will be on the ammunition business. Could you comment on the current utilisation that you have in Expal and the Rheinmetall Expal business for the major product groups? It seems like you're ramping up quickly also in Expal. Is there still far more room to grow? Because when we look at what Germany plans to spend on ammunition and others are needing in 24, there seems to be... And you commented on that significant growth ahead. So is there a need to increase capacity in the short term or are you well covered with the current setup? Thank you.
- AP Thank you, Mr. Laskawi. So in 2024, our expectation is that we can make more than 650 million sales **[42:00]** in Expal totally covered for 2024. In 2025, we will grow. We are investing small numbers, not big numbers because the factories are in good shape. And in 2025 we will make more than 650, maybe up to 750. And in total, we want to grow up, and this is the total capacity with a small investment. At the moment, this is a small double digit million investment that we have to do, to grow up to one billion euro. So this is the ammunition that we have at the moment. Then another information, which is I think also new.
- We gave an offer now also to the Spanish government about the long-range artillery system. And this is another opportunity to enlarge the product portfolio to produce the rocket motors **[43:00]** and to produce also the missiles. And with a, with a very small investment because we also have mixers and all the other things for rocket motors inside Expal. There is an opportunity for some hundred million also only for the Spanish market for long range artillery systems. So that with that together, maybe there is also a possibility to make more than one billion. So, but, the good thing is we are nearly fully booked, 24, 25, and also nearly 26.

CL Thank you. And following up, excluding or putting Expal aside, the production footprint that you have in Germany and other regions, the utilisation there is also pretty high and you are fully booked, or if you could comment on that.

AP We are not fully booked in that area. So I would say we are on a level on the tank munition side, [44:00] we are on a level at the moment of 70%, 75%. On the medium calibre side, we are at the moment on the level of up to 80%, I think worldwide now, yeah, what is going on. On the artillery side, we are very strong booked. I will say that over the next three years we have a booking level of more than 90%, as I said, Expal full, South Africa. Then we are waiting for a contract, but then we are also nearly fully booked for the next three years from Australia, which is going on, so we are here in a good shape. But what we are doing is we make investment programmes. So, what are the investment programmes now? There is an investment in our powder technology to produce propellants for artillery. This is an investment programme that we do in Germany. There is an investment programme that we do in South Africa.

[45:00] These are the two main producers of modular charges for the artillery site. And with the smaller investments, we are able to bring plus let me say 30% to 40% more capacity also inside that factory. This is done, we are on the way, we gave that investment free. This is part of our investment programme next year that we will present you also now on the capital markets day. But it's in a very simple range because it's not a lot of money and as you know, the profitability of this products are fine, so we are in very good shape. The next point is, as you know, to enlarge our capacities is that the RDX production in Hungary and the ammunition production [46:00] that is in our books also. So we booked the order intake, we produce on one side the factory, on the other side we have this nearly 900 million contract from Hungary for the ammunition contract.

And now we are on the way into other countries, one Baltic country, where we want to build up a production line for artillery rounds with a maximum capacity of 100,000 extra rounds per year, which is a very fair model between this Baltic country and Rheinmetall. And on the other side, an Eastern European country which want to build up factory for propulsion systems where we are able to produce another 1,000, 1,500 tons of triple based and double based powder. [47:00] And all that together stabilise us or gives us a situation. We are very, very fine with up to 26, but we want to grow. And the sales expectation is that in 26, the Weapon and Ammunition sales will be now more than four billion euro.

CL Thank you very much.

AP Pleasure.

O The next question comes from Virginia Montorsi from Bank of America, the floor is yours.

VM Good afternoon, and thank you for taking my questions. Just a quick one, because I think all my questions on Expal have been answered already. Can you give us any update on supply chain specifically if you plan on ramping up production this much? Is there anything that worries you? Is there anything that has improved significantly over the last couple of months? Anything we should be aware of? Thank you.

AP Yeah, so on the supply chain, [48:00] on the ammunition side, the beauty is that the vertical integration inside Rheinmetall is really done. So, we produce the propulsion systems, we produce

the primers, we produce the fuses, everything is internally, and we only have to buy in raw materials. The most critical raw material, as always said, is linters to produce nitrocellulose about that. But this is one thing what we did, we now have in between a three-year stock for linters for our productions. So, 24, 25 and 26 is absolutely safe, and we order more. And we have no problems at the moment from our sources to get it. But this is the biggest thing because we have it not under control.

On the vehicle side, we have this five-year contract with our chip producers. The microchips are [49:00] I would say 99% under control. Not always, you cannot have 100% but most of them are absolutely under control. Another bottleneck is armoured steel, but on the armoured steel, we also made a good job I think that our purchasing guys made a great job that we have minimum for two years armoured steel also in house. So that it is always possible that, if one piece, especially on the vehicle side, if one piece is missing that we buy in, we will have a problem. But at the moment, I think that we would have it very, very good under control.

VM Thank you very much. Very clear.

AP A pleasure.

O The next question comes from Sash Tusa from Agency Partners, the floor is yours.

ST Thank you very much indeed. I hope you can hear me. [50:00] I just had one last question actually about Sensors and Actuators, and whether you think with the current structure it's possible for that to get back to the historic 7% to 8% margins, or does that need such a fundamental reorganisation as part of the new division?

AP Yeah. So, Sensors and Actuators at the moment is suffering with two things. The one thing is that we have a pre-financing of the material costs where the OEMs at the moment has a strong delay. And some of them, we are still in negotiations with the OEMs, that the material price is that we get, let me say the real pricing. So this is one thing where we are suffering. The second point is that we have higher capacities in our factories. Then at the moment the nomination letters are coming from the OEM side.

The reason for that is that the European car industry [51:00] is not working as expected. And point number three is that we booked a lot of electro mobility but most of them are starting in 24, but really the ramp up curve is done in the year 25. So, a mixture of all that three things at the moment, is bringing us in the situation that you see in Q3. I think that in Q4 we will get some of the material pricing, as I told you, where we are in discussion with OEM is coming back. And the other thing is on the Sensors and Actuators side, and that are the synergies that we are looking at that we have to find the synergies to find another one, two percentages in this area. And that is the reason that we [52:00] bring with the two divisions together.

ST Thank you very much.

AP A pleasure.

- O There's one more question at the moment. Short reminder from my side, if you want to ask a question, please press nine and the star key. And the next question comes from David Perry from JPMorgan. The floor is yours.
- DP Hello, Armin. Hello, Dagmar. I've got some quite boring questions. I think they're for Dagmar. I hope you don't mind. Can I just make sure I understand slide 22 just from the PPA. And I'm sorry if I've got this wrong, but just to be clear, is this a new definition of EBITA now or Rheinmetall that we haven't had before? I guess that's the first question.
- DS Yes, there is a new definition of operating earnings. **[53:00]** We report our operating earnings before amortisation of PPA. And the historic numbers we adjusted as well but that are for the full year 2023 just below close to 10 million. And therefore, we corrected of course the year 2022 as well to compare apples with apples.
- DP Okay. Sorry, there's three parts to this question. The second part is staying on slide 22, if I look at the graph on the right-hand side, what's the difference between the 16 and the five please? Is the five just Expal and 16 is all previous PPA effects?
- DS So, 16 is PPA effects from Expal and historic **[54:00]** effects for Q3. And the five, that's just some other one-offs, which we normally adjust in our operating earnings.
- DP Okay. And so, I think you said Expal is seven a month, so in the 16, is it nine of other and seven of Expal? Is that how we think about that?
- DS We have two months for Expal, so it's 14 for Expal and two for others. And these two, if you multiply by four for the full year, you have eight to nine. That's what I said it's just below 10 million per annum, the historic PPA.
- DP All right. That's all good. I think I was a bit concerned that maybe the 12% margin guidance wasn't on the same definition as it was at the start of the year, but it sounds like it is. There's no accounting benefit in this year's margin guidance, **[55:00]** which is kind of what I just want.
- DS Well, our guidance is on our existing business before Expal. And therefore of course, yes, you are right. We didn't adjust for historic PPA effects, but that really doesn't have any influence.
- DP It's 10 million basically, I think you just said.
- DS Yeah. It's 10 million or less than 10 million. When we report our full year figures, we will give you the full transparency, how we met our original guidance that you are able to see our real performance and to measure what we said and what we promised.
- DP Got it. And then my final one is more we're just on this PPA, it's a request slash question. Is your policy to adjust EBIT for **[56:00]** PPA, but not to adjust net income and EPS. That's how it reads when I look at the appendices section.
- DS Well, in our external communication, we adjust all these figures because that makes sense for us. In the report, of course, you find as well the numbers as reported after PPA effects.

- DP Yeah. Well, this is a request more than a question. I mean, across the sector, some companies will leave PPA out of net income, some don't. Most do, the vast majority do, I can only think of Leonardo that doesn't. But I mean, are you going to penalise yourself, you just gave us that 80 million number for 2024 pre-tax obviously, you're going to just take that down, that will be in your reported EPS number. **[57:00]** You've got no plans to adjust for that, have a Rheinmetall adjusted EPS number.
- DS Well, on our capital markets day, we will give you more insights, but we will have an adjusted number for our external communication. But of course, you find the real number after all these accounting and bookkeeping always in our report, quarterly reports, full year reports, and to make up your own mind.
- DP Sure. Well, I'm not here to give a speech but I think most people on this audience will say the real number is pre PPA, but I'll let you decide, but that's what your peers are doing for the most part on EPS. Thank you for indulging me on all of that. There's one more question, please, on a different topic, on the free cash flow. My sense throughout much of this year was you were trending to the lower end of the four to six **[58:00]** working capital for the ramp up CapEx ahead of the ramp up. I'm just curious why, Armin, you said, you now think you'll be at the upper end of the range. That seems to be a different message. Thank you.
- AP Yeah. The reason for that is that at the moment, some of our customers gave a signal that they want to give in Q4 also huge numbers of down payments. And that is the reason that we are not longer on the lower, but it is possible to go to the upper range that is the reason.
- DS And in addition, we might have some slip overs of CapEx into the next year.
- DP Okay. And just as a follow-up, the customers are now saying they'll pay more. Would that include Germany? Is this a structural change in the market, or is this just a one-off with an export customer?
- AP It's also Germany.
- DP It's Germany, is this...
- AP **[59:00]** Especially for the contracts also that we have from Ukraine. And you should know, and this is also very important, that 50% of our ammunition sales, 50% will be in quarter four. And there is a lot of cash which is coming in. So, this is a double effect that the very profitable business, the most profitable business will make 50% of the sales. And our expectation is at the moment that the customer's also paying that thing. And the second thing is the down payment.
- DP Do you think this is the new normal from Germany, or is this something that's just for this year, it's going to get sort of more favourable?
- AP The Germans changed their strategy because it is a clear decision from the government, especially also from the Office of the Chancellor, **[01:00:00]** that we said we have to give more cash to the industry, otherwise the industry is not able to grow as much as we want that they grow and they need all the stuff. And the point is, as you see, they bring now all the orders also of the 100 billion into the industry. So I think it's a long-term trend.

DP Okay. That's good to hear. Thank you for your patience.

AP Thank you.

O There are no further questions.

AP Okay. Thank you very much. Have a nice day.

DS Thank you.