



# **Rheinmetall AG**

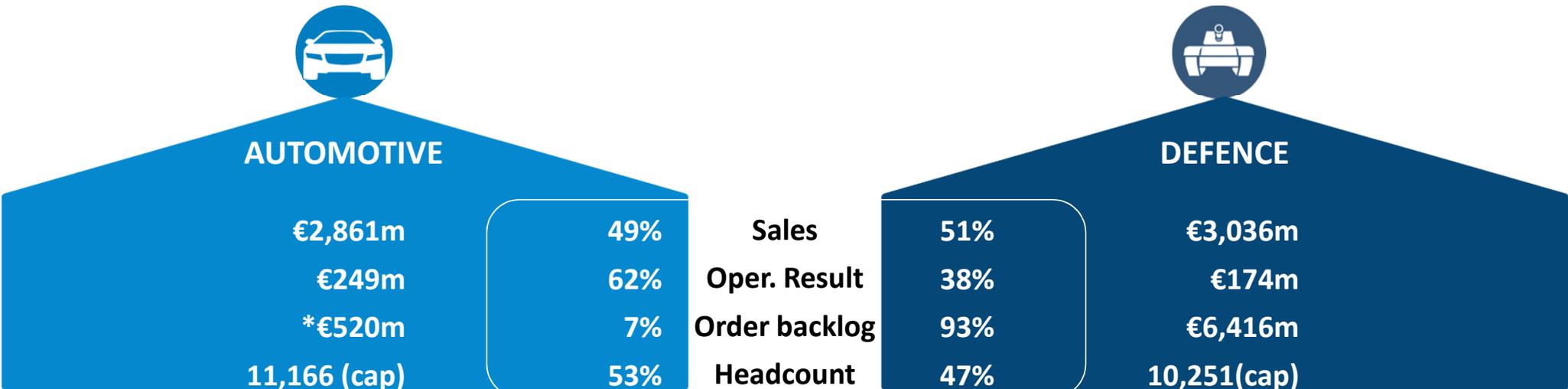
## **Corporate Presentation Q2 2018**

Düsseldorf, September 2018

# Rheinmetall

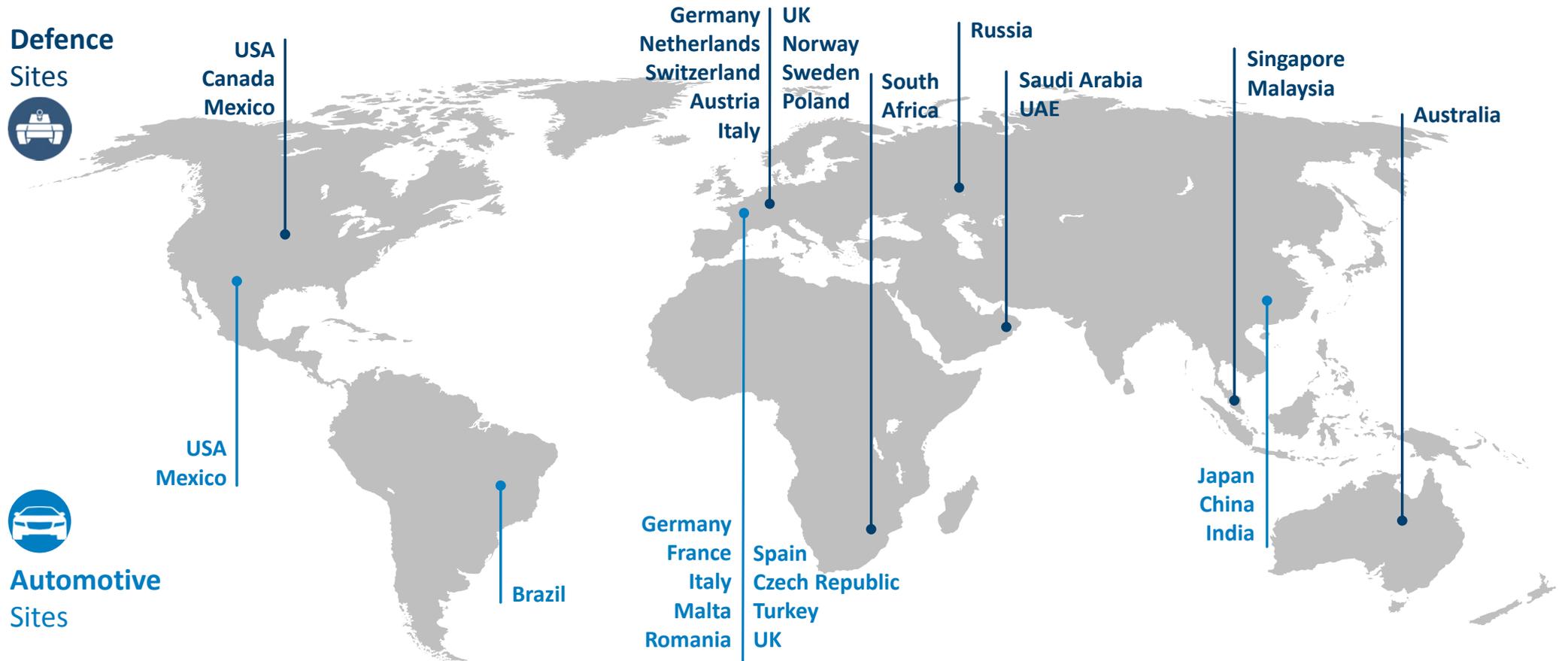
## Meeting demand for mobility and security

<b>Key Performance Indicators</b>	▪ Sales	€5,896m		<b>Strategy roadmap</b>	▪ Organic growth
	▪ Op. result	€400m			▪ International expansion
	▪ Order backlog	€6,936m			▪ Leading by innovations
	▪ Operating FCF	€276m			▪ Targeted acquisitions
	▪ EPS	€5.24			
	▪ DPS	€1.70			



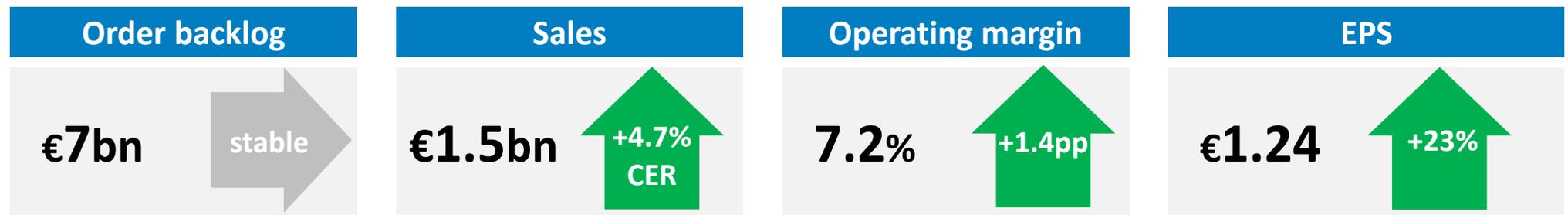
\* short-term; cap: headcount at capacities;

# More than 100 production sites and offices on all continents



## Q2 2018 Group highlights

### Rheinmetall with robust Q2 performance

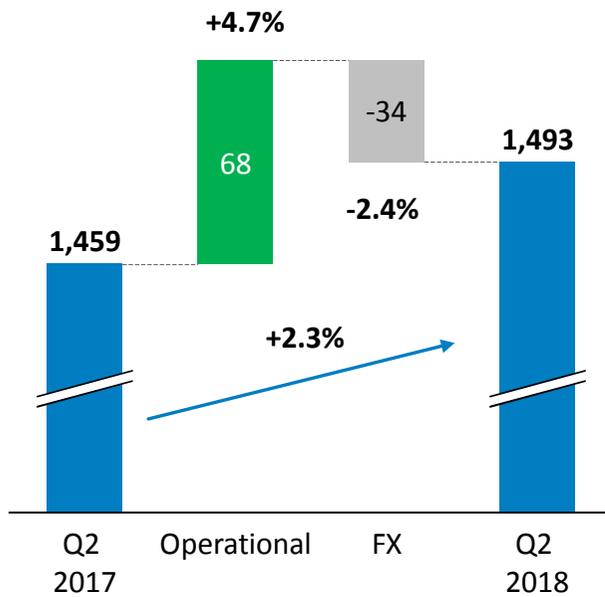


- Order backlog remains stable above €7bn
- Sales growth of 4.7% at constant exchange rates (CER) to €1,493m (reported 2.3%)
- Operating result grew by €23m to €107m, lifting Group margin to 7.2% (PY 5.8%) largely driven by Defence, while Automotive maintains high level
- EPS increased 23% to €1.24 on improved operating performance and lower interest expenses
- FY Guidance was refined within existing ranges

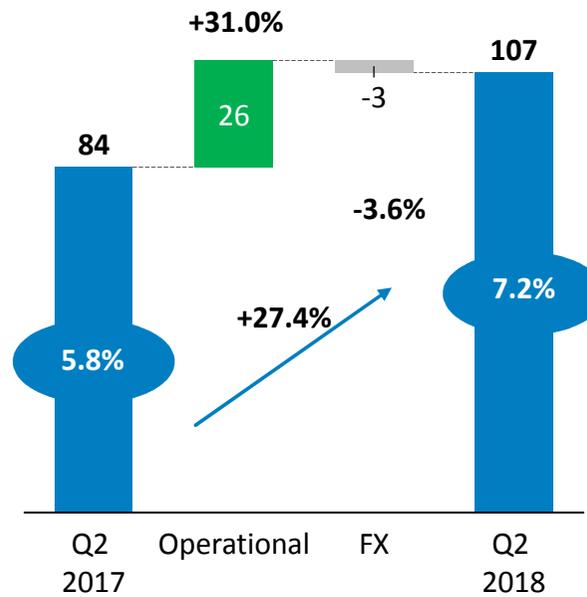
# Q2 2018 Group

## Strong operational delivery – persisting FX headwinds

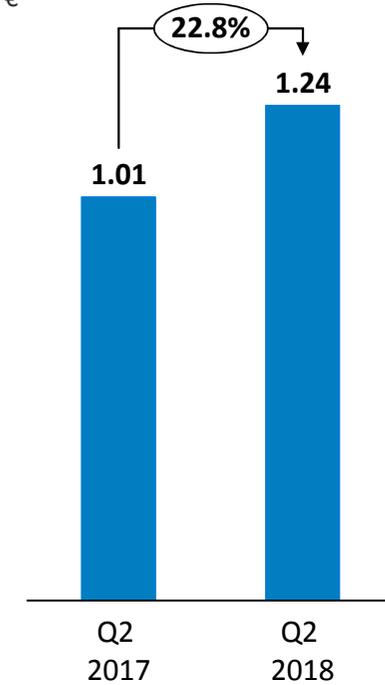
**Sales**  
in €m



**Operating result** in €m  
**Operating margin** in %



**Earnings per share**  
in €

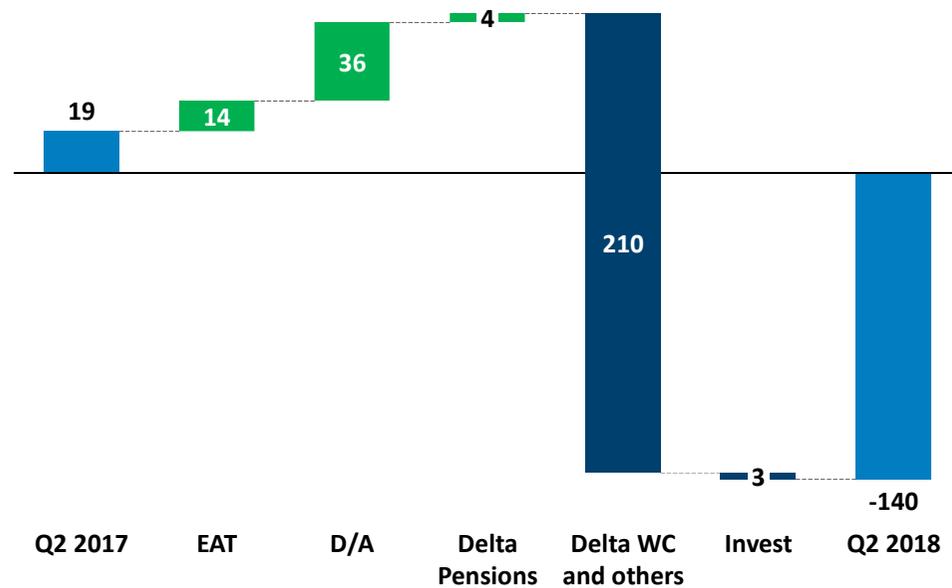


**No material impact from IFRS 15/16!**

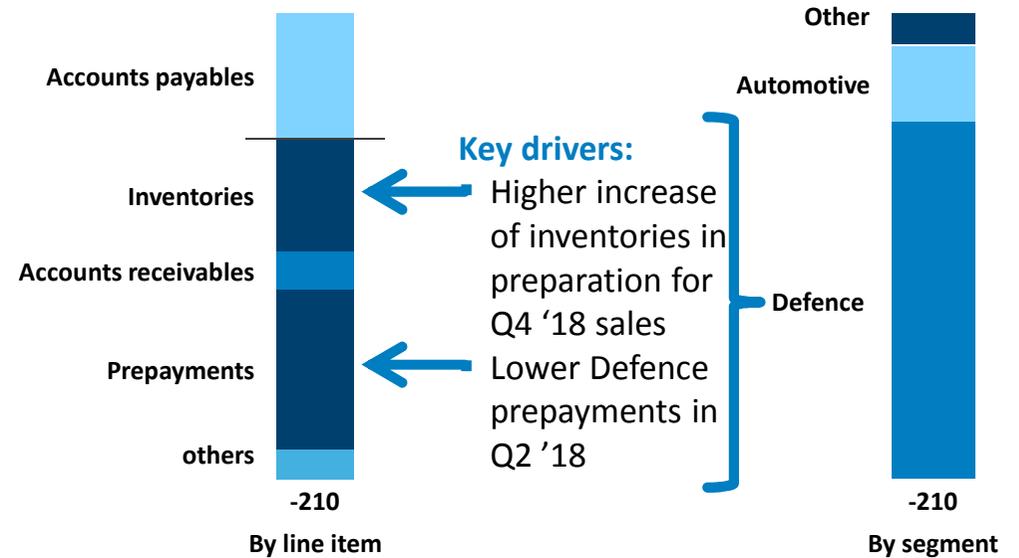
## Q2 2018 Group

# OFCF development constrained mainly by working capital changes

■ Operating free cash flow bridge  
in €m



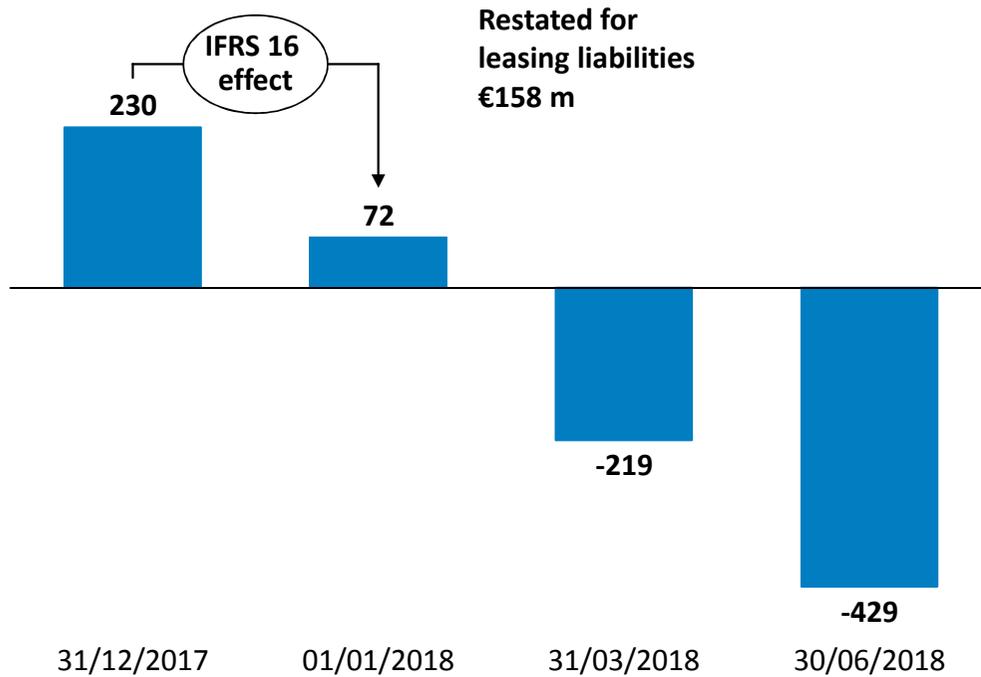
■ Composition of delta working capital and others  
in €m as of Q2 2018 vs. Q2 2017



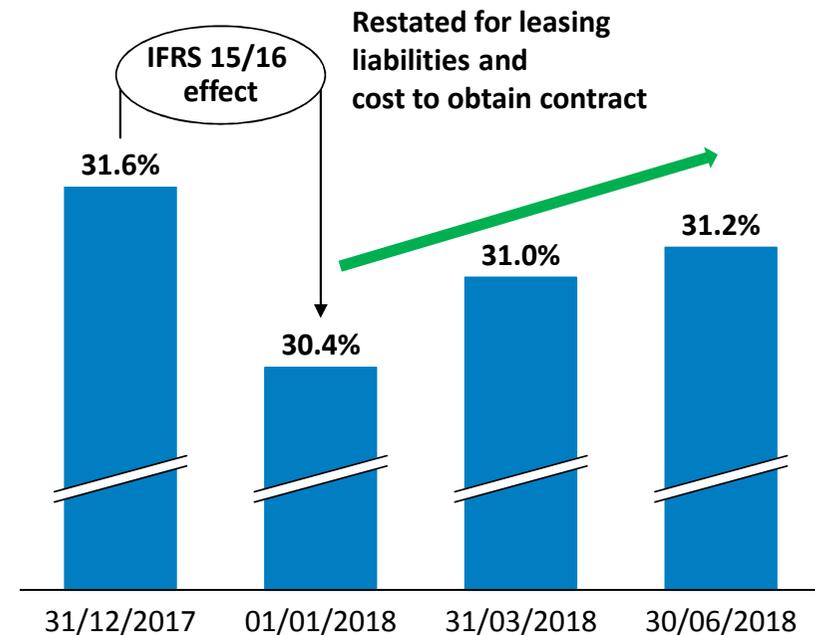
# Q2 2018 Group

## Working capital changes reflected in net debt development

**Net debt**  
in €m



**Equity ratio**  
in % of total assets

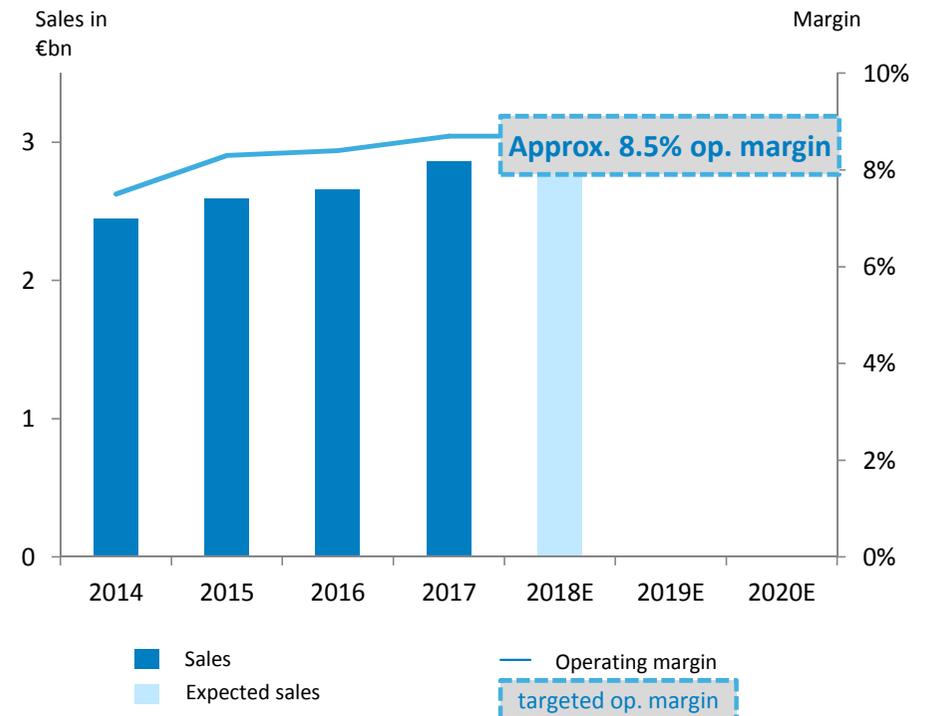


# Mid-term outlook Rheinmetall Automotive

## Drivers for structural earnings improvement

### ■ Automotive targets

- Increase content per car
- Gain more powertrain neutrality
- Further develop product portfolio by entering new markets, e.g. e-mobility
- Increase market share with Chinese OEMs
- Grow share of electrified products to 50% by 2020



# Mid-term outlook Rheinmetall Defence

## Drivers for profitable growth intact

### ■ Defence targets

- Markets at the dawn of a long-term growth trend
- Increasing margins due to the lesser impact of legacy contracts
- Higher margin contained in the order book
- Leveraging our “military off-the-shelf” portfolio in vehicles
- Internationalization strategy with focus on Eastern Europe
- Development of new technologies



## Guidance FY 2018

### Defence guidance revised to lower end of growth and higher end of margin brackets

	Sales		Operating margin	
	2017 Growth y/y in %	2018e Reported growth y/y in %	2017 in %	2018e in %
<b>Group</b>	<b>5.2</b>	<b>~8</b> (before: 8 – 9)	<b>6.8</b>	<b>~7.0</b>
<b>Automotive</b> 	<b>7.7</b> (IHS 2.2%)	<b>3 - 4</b> (IHS 2.1%)	<b>8.7</b>	<b>~8.5</b>
<b>Defence</b> 	<b>3.1</b>	<b>~12</b> (before: 12-14)	<b>5.7</b>	<b>~6.5</b> (before: 6-6.5)

IHS LV growth assumption as per July 2018

## Estimates

### Selected key data

Rheinmetall Group			In % of sales		Automotive 	Defence 	
	2017	2018		2017	2017	2017	
Holding cost	€23m	~€30m	Capex	€154m	~5.5 - 6.0%	€89m	~3.5 - 4.5%
Tax rate	27%	<30%	D&A		~5.5%		~3 - 3.5%
Interest expense	€48m	Previous year's level	R&D	€151m	~5 - 5.5%	€73m	~2 - 2.5%
Real estate earnings impact in Q3 2018*		~€30m					

\*Divestment of former production site, not included in operating result, only EBIT; impact on Cash Flow: €~50m

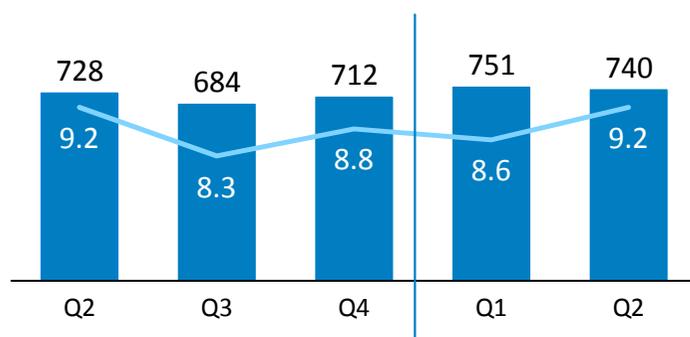


# AUTOMOTIVE Q2 2018

## Q2 2018 Highlights: Automotive

### Profitable growth in-line with global markets

#### Quarterly sales and margin development



#### Comments on quarterly performance

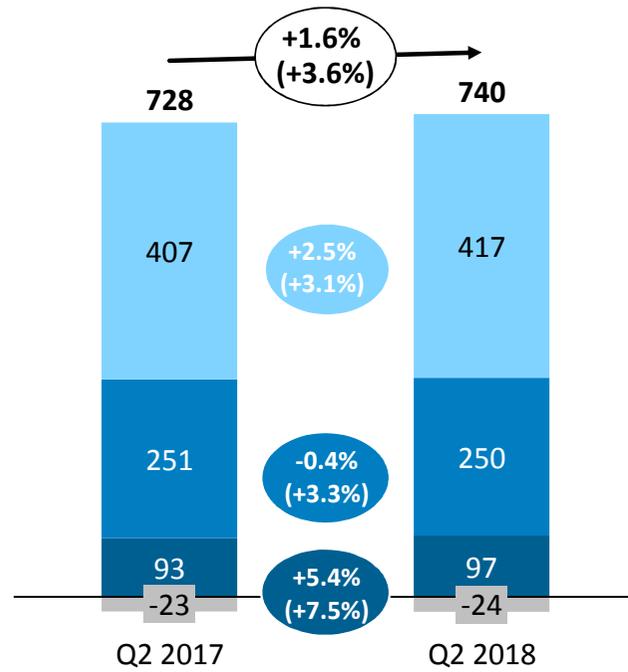
- Sales grew operationally by 3.6% (+1.6% reported) to €740m
- High profitability maintained, supported by all divisions
- OFCF to sales above target sector of 2-4%, Q2 17 benefited from favorable timing of payments
- LV-Diesel sales declined 7%, overcompensated by gasoline and non-LV sales

in €m	Q2 2017	Q2 2018	Δ in %	H1 2017	H1 2018	Δ in %
Sales	728	740	1,6%	1.465	1.491	1,8%
Operating result	67	68	0,9%	129	133	2,8%
Operating margin in %	9,2%	9,2%	0,0%p	8,8%	8,9%	0,1%p
Operating Free Cash Flow	69	36	-47,8%	-49	-14	-71,4%
Operating FCF / Sales	9,5%	4,9%	-4,6%p	-3,3%	-0,9%	2,4%p

# Q2 2018: Automotive Profitability repeated on high operational level

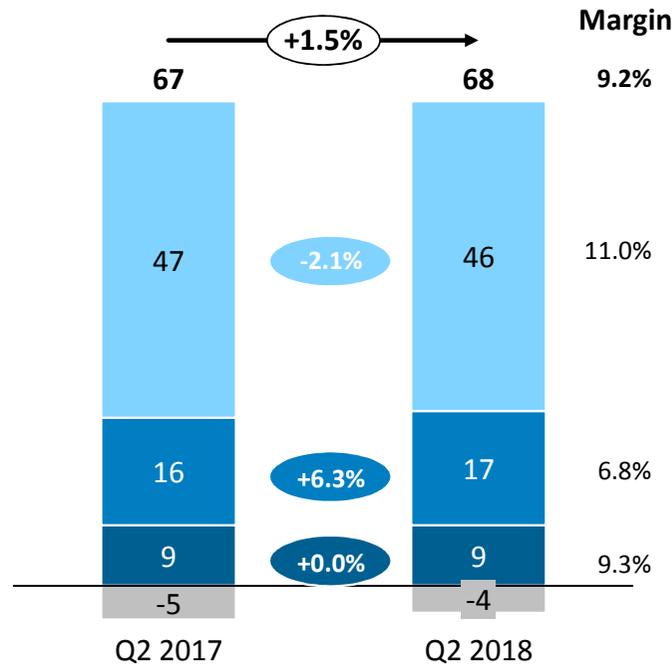
## Sales Automotive

in €m; growth in % / (FX adjusted)



## Operating result Automotive

in €m



Margin

9.2%

11.0%

6.8%

9.3%

■ Mechatronics ■ Hardparts ■ Aftermarket ■ Consolidation

## Mechatronics

- Growth supported by demand for emission reduction products slowed by declining diesel share
- Commercial Diesel System with highest growth rate
- Results held back by D/A for growth investments starting to contribute in H2 2018

## Hardparts

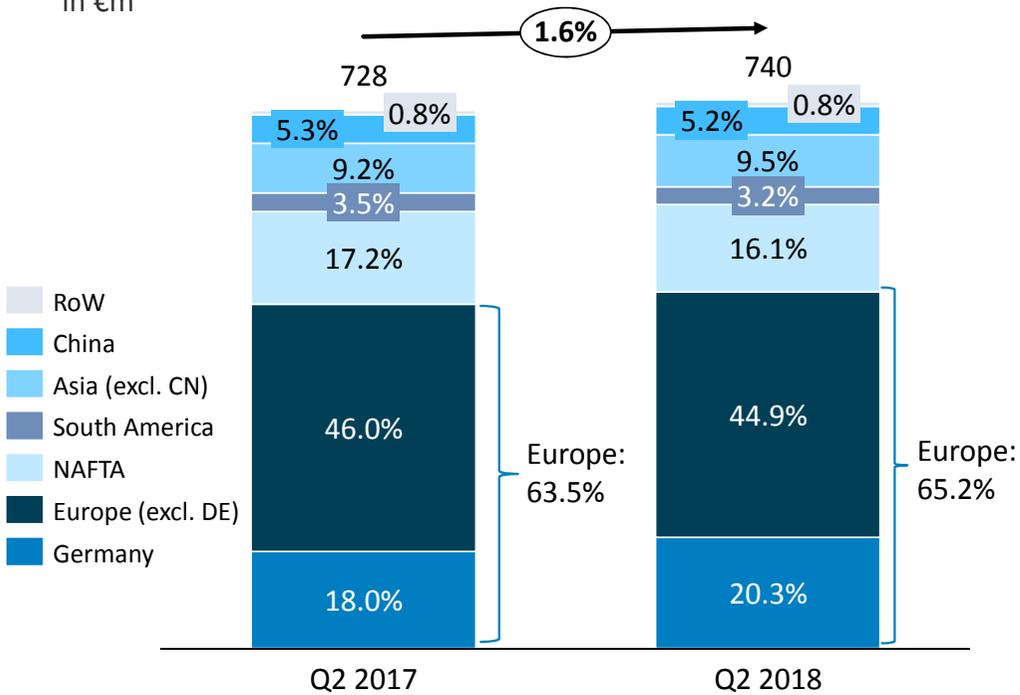
- Pistons hampered by adverse FX-effects
- Ongoing good demand for bearings

## Aftermarket

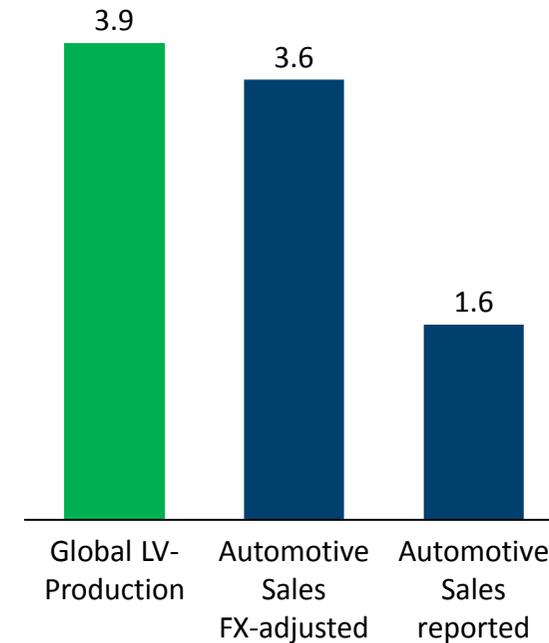
- Continued good demand in key markets

# Q2 2018: Automotive German demand key driver for sales growth

**Regional sales development Automotive**  
in €m



**Global LV-Production vs. Automotive sales**  
growth in % q-on-q (IHS July 2018)

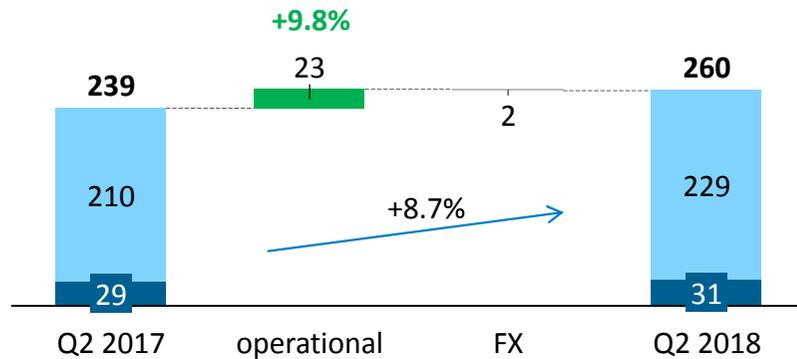


# Q2 2018: China

## Profitable growth above local market development

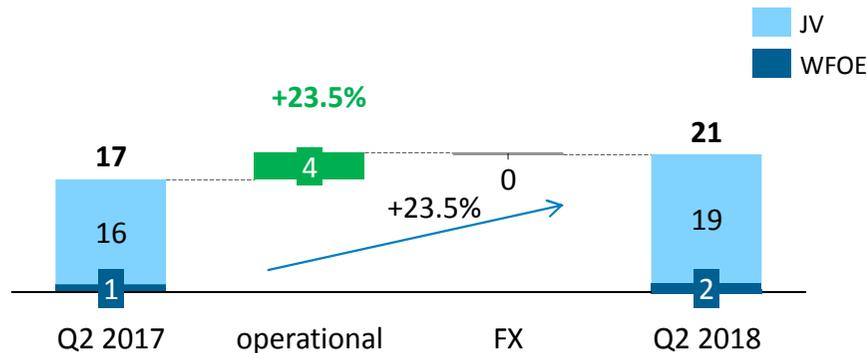
### Sales

in €m



### EBIT

in €m



- Sales increased by 9.8% to €260m (9.0% reported) vs. a LV-market growth of 8.7%
- Favorable product mix development
- EBIT rose 24% and improved to €21m taking margins to 8.1%
- Q2 2018 first quarter with full fix cost impact of the new pistons plant
- Product starts partially delayed into H2

Including 100% figures of 50/50 JV, consolidated at equity

## H2 2018 outlook: Automotive

### Addressing market uncertainties – risks well managed

	Global tariffs	Emission testing Europe		Diesel	Raw material
<b>Mechatronics</b>	<b>Local-for-local strategy</b>	<b>Short-term:</b> <ul style="list-style-type: none"> <li>No cancelation of customer call-offs until now</li> <li><b>Potential risk in case of certification delays</b></li> </ul>	<b>Long-term:</b> <ul style="list-style-type: none"> <li><b>Good growth chance for emissions related portfolio, particularly in Mechatronics</b></li> </ul>	<b>Diesel decline compensated</b>	<b>Key raw materials:</b> <ol style="list-style-type: none"> <li>Aluminum</li> <li>Copper</li> <li>Nickel</li> <li>Tin</li> </ol> <b>Hedging policy:</b> <ul style="list-style-type: none"> <li>80% price escalation clauses</li> <li>20% hedging operations (stock exchanges)</li> </ul>
<b>Hardparts</b>				<b>Mainly gasoline pistons</b>	
<b>Aftermarket</b>	Spare parts not under discussion				



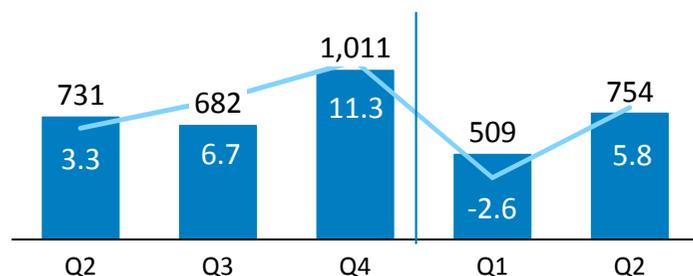
# DEFENCE

## Q2 2018

## Q2 2018 Highlights: Defence

### High leverage quarter

#### Quarterly sales and margin development



#### Comments on quarterly performance

- Order intake compared to high Q2 17, boosted by German orders
- Sales operationally up 5.8% to €754m (3.1% reported), driven by ES and VS
- Operating result almost doubled to €44m
- EBIT included €8m one-off charge for restructuring in ES
- OFCF burdened by working capital effects

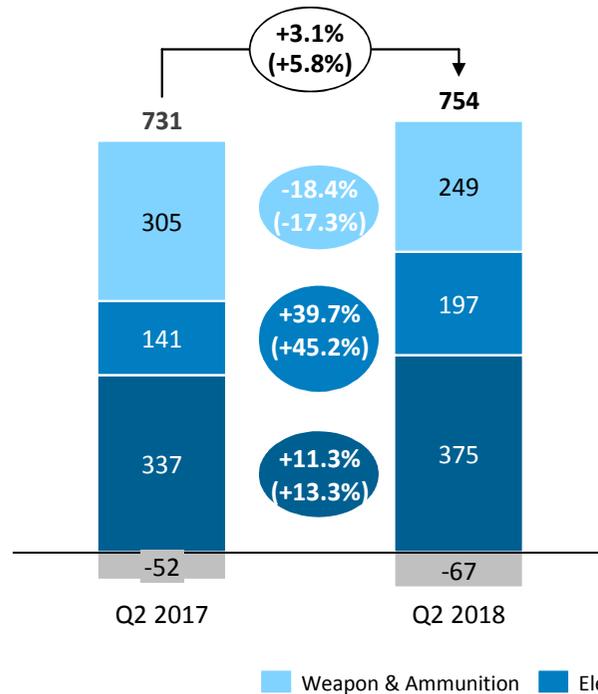
in €m	Q2 2017	Q2 2018	Δ in %	H1 2017	H1 2018	Δ in %
Order intake	1.031	570	-44,7%	1.422	1.427	0,4%
Sales	731	754	3,1%	1.343	1.263	-6,0%
Operating result	24	44	83,3%	14	31	121,4%
Operating margin in %	3,3%	5,8%	2,6%p	1,0%	2,5%	135,5%p
EBIT	21	36	71,4%	11	23	109,1%
Operating Free Cash Flow	-33	-171		-105	-410	

# Q2 2018: Defence

## Profitable growth and net-positive effect from project review

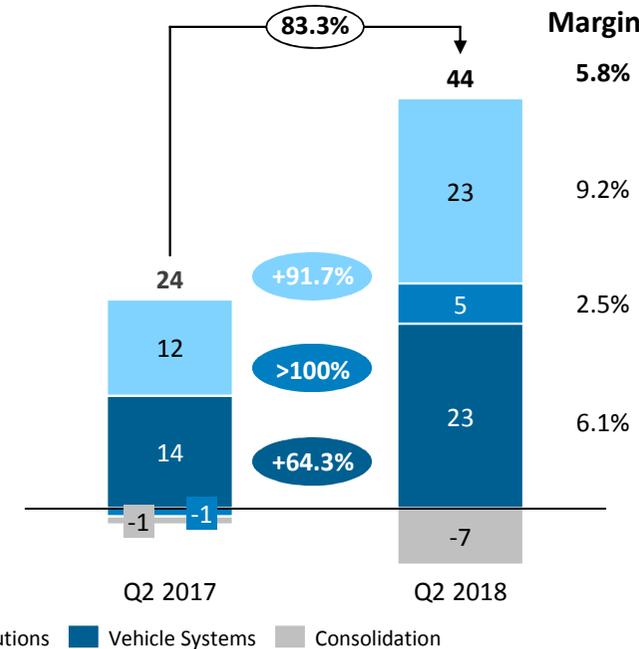
### Sales Defence

in €m; growth in % / (operational)



### Operating result Defence

in €m



### Weapon and Ammunition

- Expected lower level of sales due to absence of PY trading contract (€112m)
- Substantial margin improvement due to higher share of value capture

### Electronic Solutions

- Positive impact of Air Defence sales
- Improved cost base

### Vehicle Systems

- Supply chain issue for Logistic Vehicles not fully solved yet, however sales recovery already visible in H1
- Net-positive effect from project reviews but write-off charges for capitalized R&D project

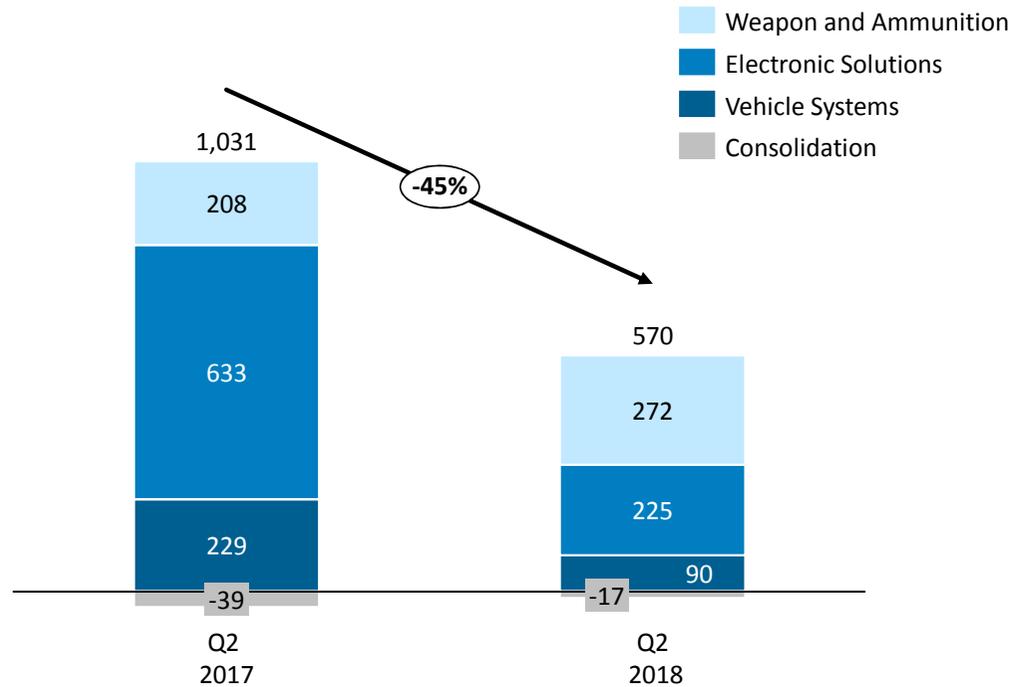
### Consolidation

- Elimination of intercompany profits

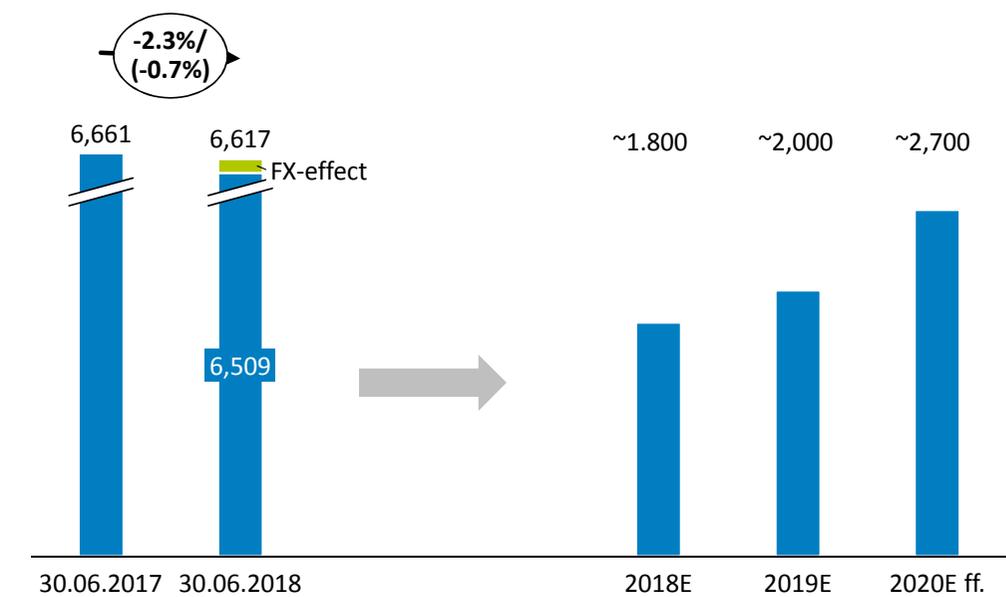
# Q2 2018: Defence

## Order backlog remains on high level

**Order intake by division**  
in €m



**Order backlog profile**  
in €m  
change in % / (operational)



## Defence: order intake Q3 2018

### Australia signed Boxer contract with Rheinmetall



## Defence: order intake expected Q3 2018

### Australia decided to expand the existing truck contract with Rheinmetall



## Defence: Innovative capacity

### Lynx KF41 presented at the Eurosatory in Paris June 2018



**Lynx – Next Generation Combat Vehicle**

- 100% Rheinmetall!
- Modular configuration
- Best in class mobility
- Unprecedented flexibility
- Attractive value for money

**Current tenders:**

  
Australia  
Land 400 Phase 3  
~450 vehicles

  
Czech Republic  
BMP-2 replacement  
~200 vehicles



# AUTOMOTIVE

# Automotive with leading technology and market positions

## Key Figures

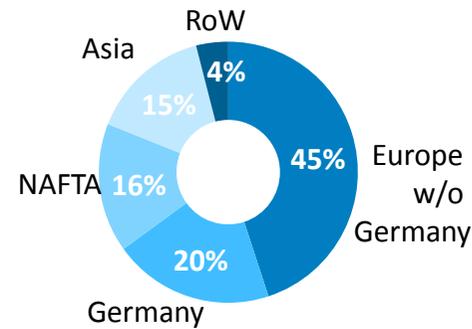
Sales:	€2.9bn
Op. result:	€247m
Op. margin:	8.7%
R&D:	€151m
Capex:	€176m
Headcount:	11.166

## Structure

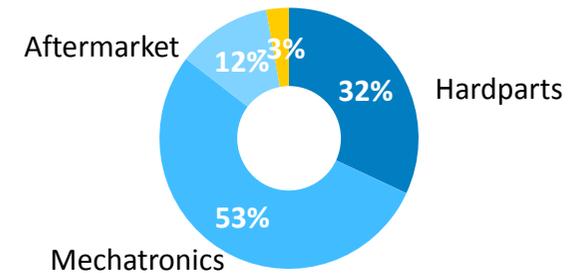
Hardparts	
Pistons	Large-bore Pistons
Bearings	Castings
Mechatronics	
Pump Technology	Automotive Emission Systems
Solenoid Valves	Commercial Diesel Systems
Actuators	
Aftermarket	

All figures refer to FY 2017

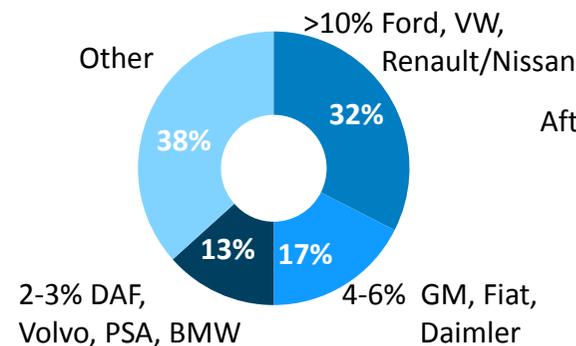
## Sales by region



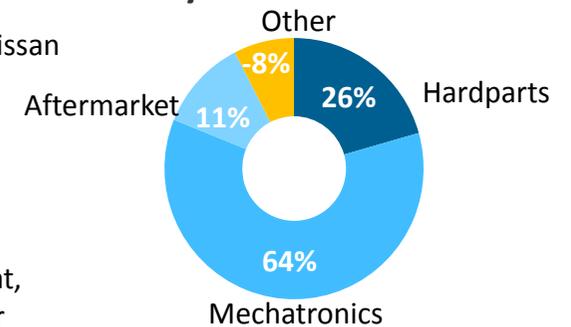
## Sales by division



## Sales by customer



## Operating result by division

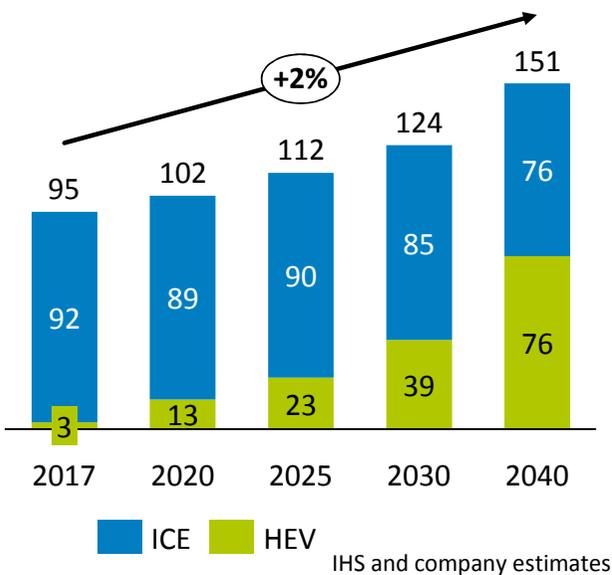


# Drivers for growth

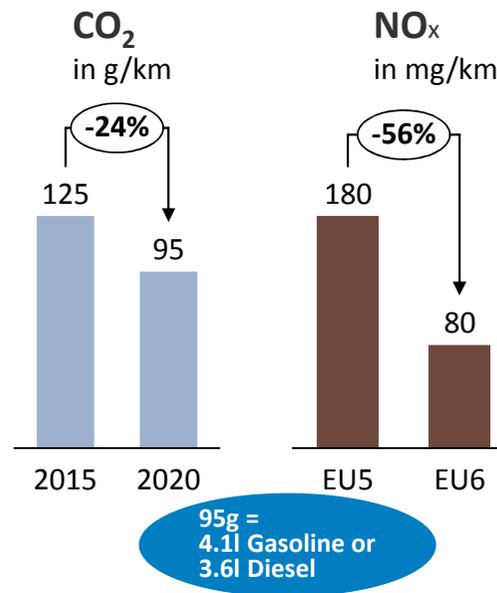
## Rising global fleet and regulatory restrictions are supporting our growth

### Light vehicle production grows

million vehicles per year



### Emission thresholds decrease



### Stricter emission testing



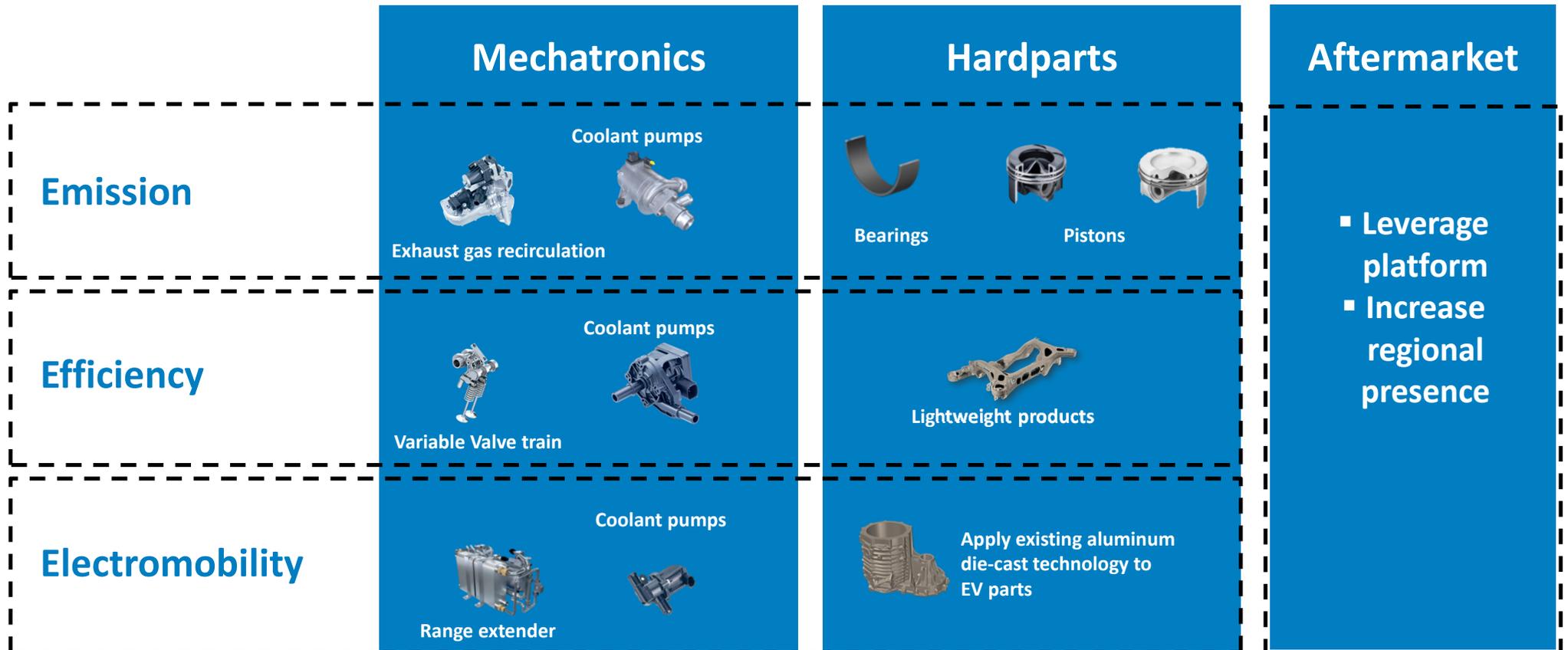
Mainly EU!



Stricter testing sets the benchmark even higher!

**Our goal is to outperform global market growth by 100 to 200 bp**

# E<sup>3</sup>- Our portfolio addresses three basic drivers



# FY 2017 Highlights: Automotive

## Successful launch of innovative products

Market introduction of new ICE products



Catering to the demand for lightweight parts

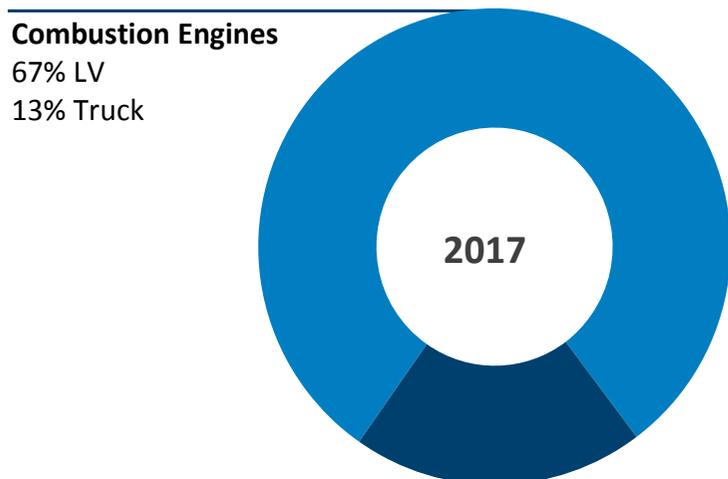


Well-received demonstration of EV competence at the IAA 2017



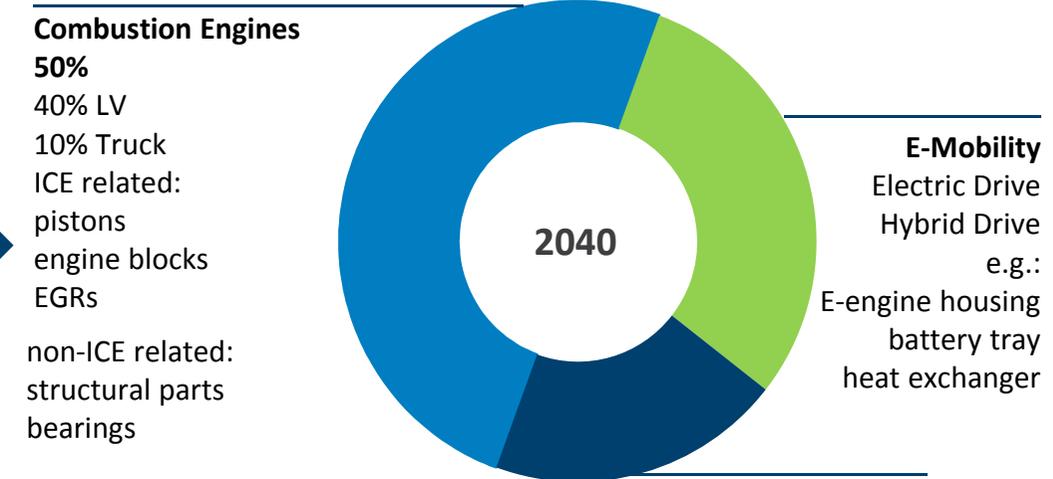
# Strategic goal to reduce ICE exposure

## Actual sales split



**Non-Combustion Business**  
 Continuous Casting  
 MIR, LB  
 Aftermarket  
 Others

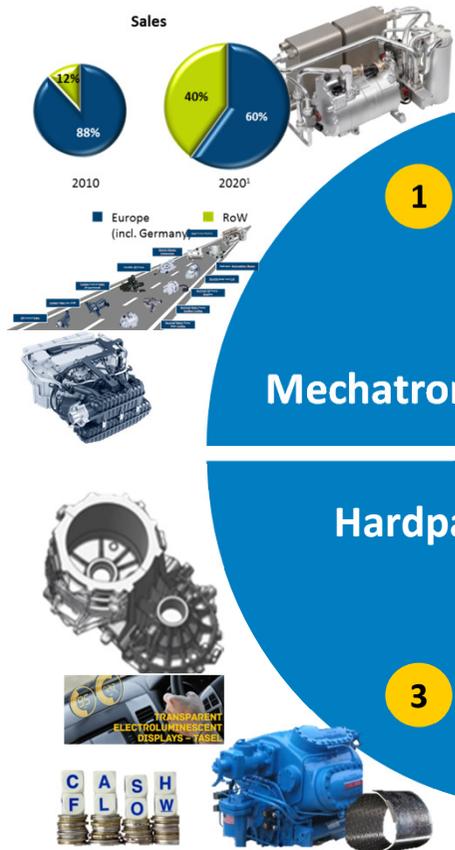
## Strategic sales split



**Non-LV Business**  
 Continuous Casting  
 MIR, Large-bore pistons  
 Aftermarket  
 Others

Data based on fiscal 2017

# Overview Rheinmetall Automotive



**1**

## Mechatronics

- **Legislation** is driving the business
- **International** market offer great **growth potentials**
- E-Mob and Diesel impacts
- Preserve **technological leadership** (thermo-mgmt., HV/EV competences)
- **New products** pipeline fully loaded

**3**

## Hardparts

- **Manage-for-cash** strategy for engine component segment
- Re-investment and growth by **diversification** & transformation
- **Optimize** global footprint

**2**

## China

- Gain bigger share in **NEV** market
- Growth strategy outperforming Chinese market development
- Build up strong **local engineering / R&D** capabilities
- Environmental challenges

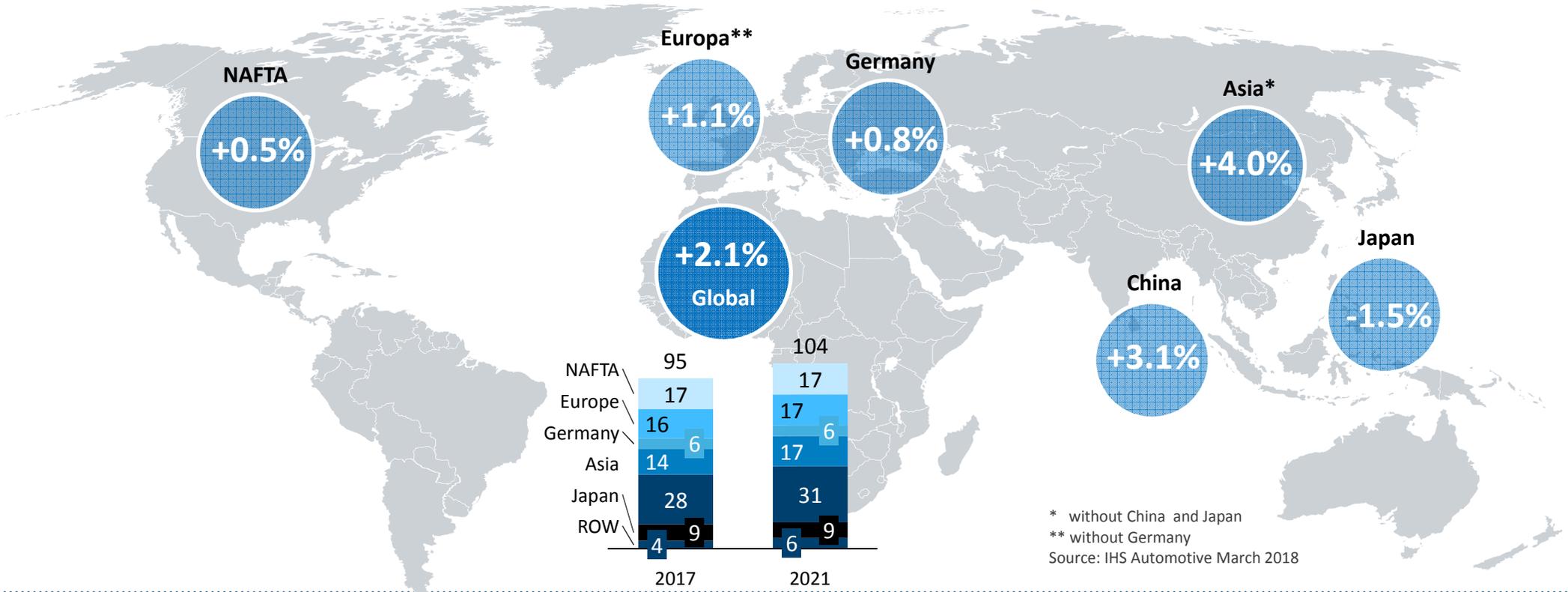
**4**

## Aftermarket

- Optimize In-house production
- Focus on high tech products and **expand product portfolio**
- Increase sales through **new sales channels** and customers
- Implement BU (Matrix) organization and optimize processes / project management

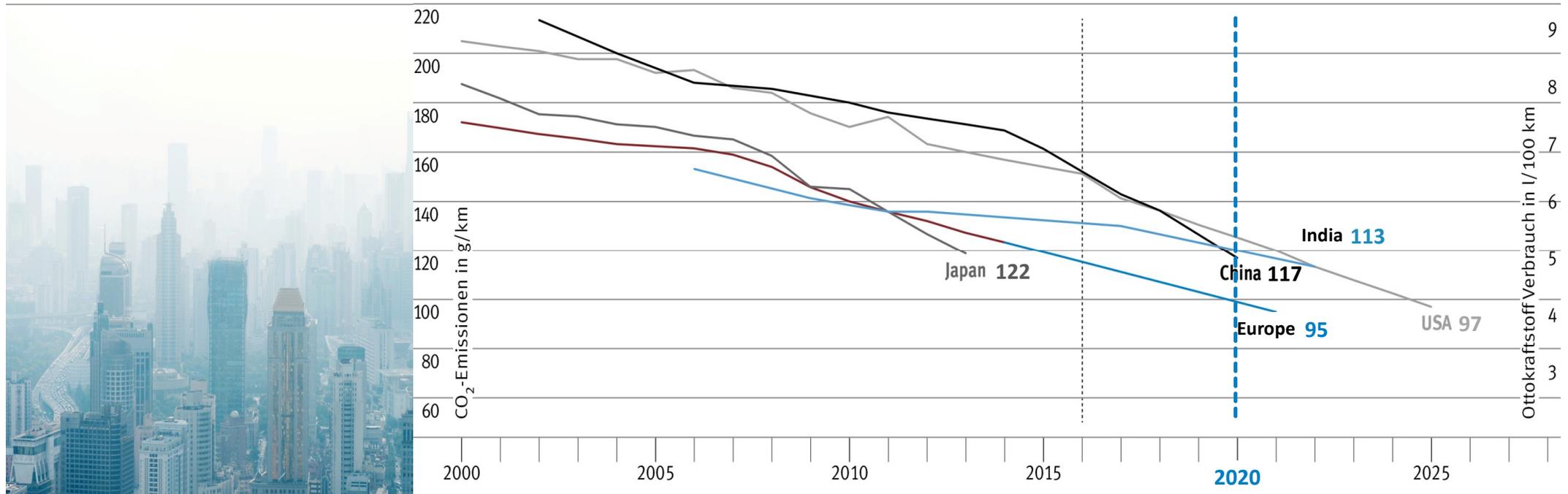
# Rising global light vehicle production

■ Light vehicle production 2017-2021 CAGR in % / in million units



# Governments will continue to demand reduction of CO<sub>2</sub> emissions

■ CO<sub>2</sub> emission  
in g/km

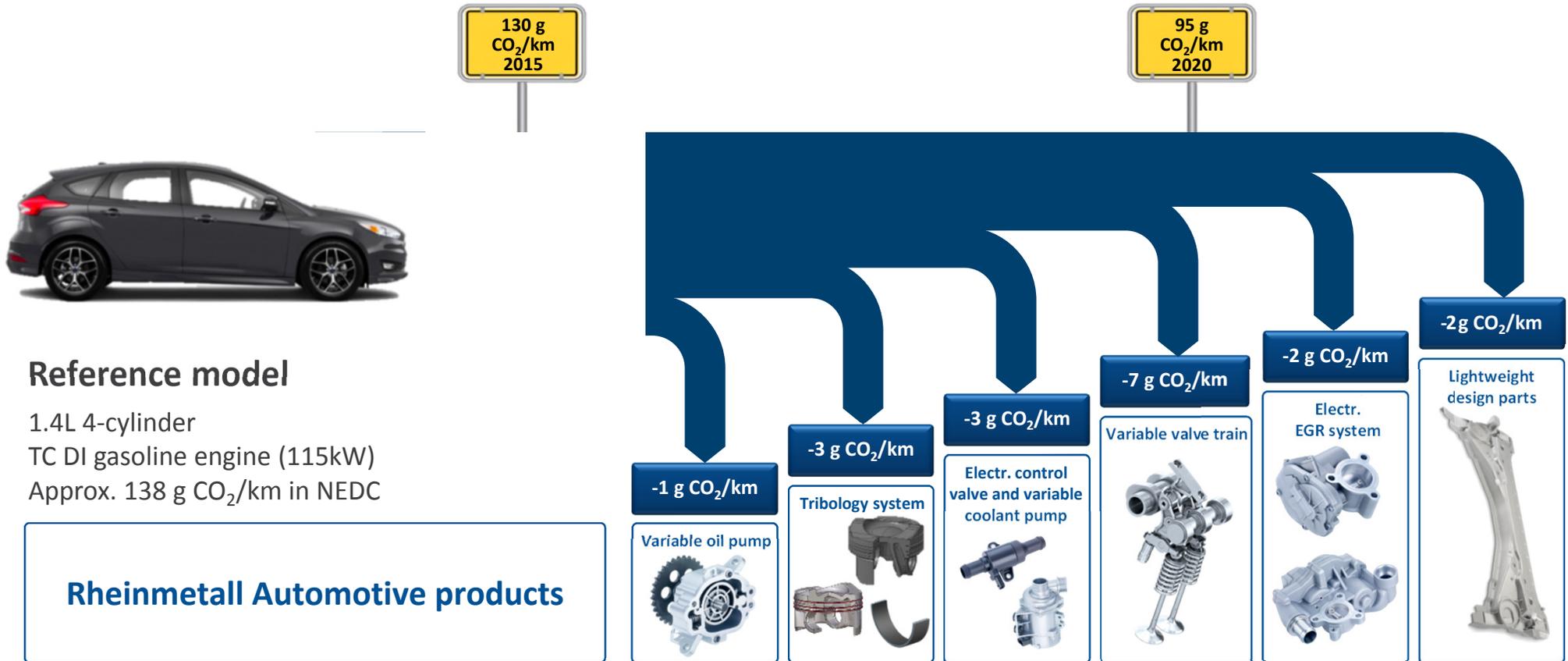


\*Note that Japan has already exceeded its 2020 statutory target, as of 2013

Source: ICCT

# Efficiency

## CO<sub>2</sub> - reduction with Automotive products – gasoline engine vehicle



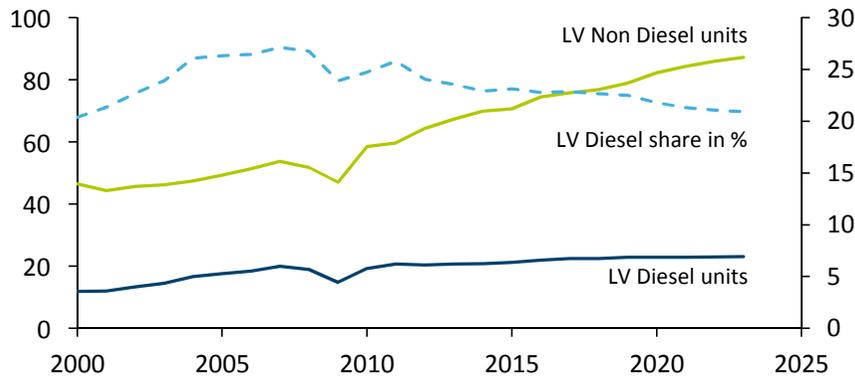
### Reference model

1.4L 4-cylinder  
TC DI gasoline engine (115kW)  
Approx. 138 g CO<sub>2</sub>/km in NEDC

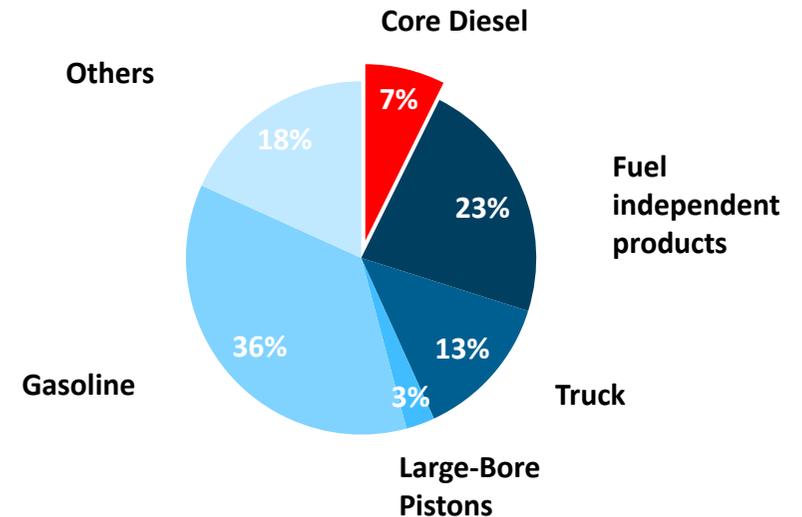
**Rheinmetall Automotive products**

# LV Diesel exposure limited; powertrain neutrality is the strategic target

## ■ Combined global engine production forecast\*



## ■ Automotive sales distribution by engine type\*\*



## ■ Further regulatory pressure expected

- Next regulation deadline approaching in 2020
- Real driving emission(RDE) testing will create further pressure to reduce emissions by hardware installation
- First city ban for diesel engines announced in Germany

**Benefitting from OEM's effort to reduce emissions and to avoid penalties**

\* IHS: Combined Engine Production Forecast April 2017

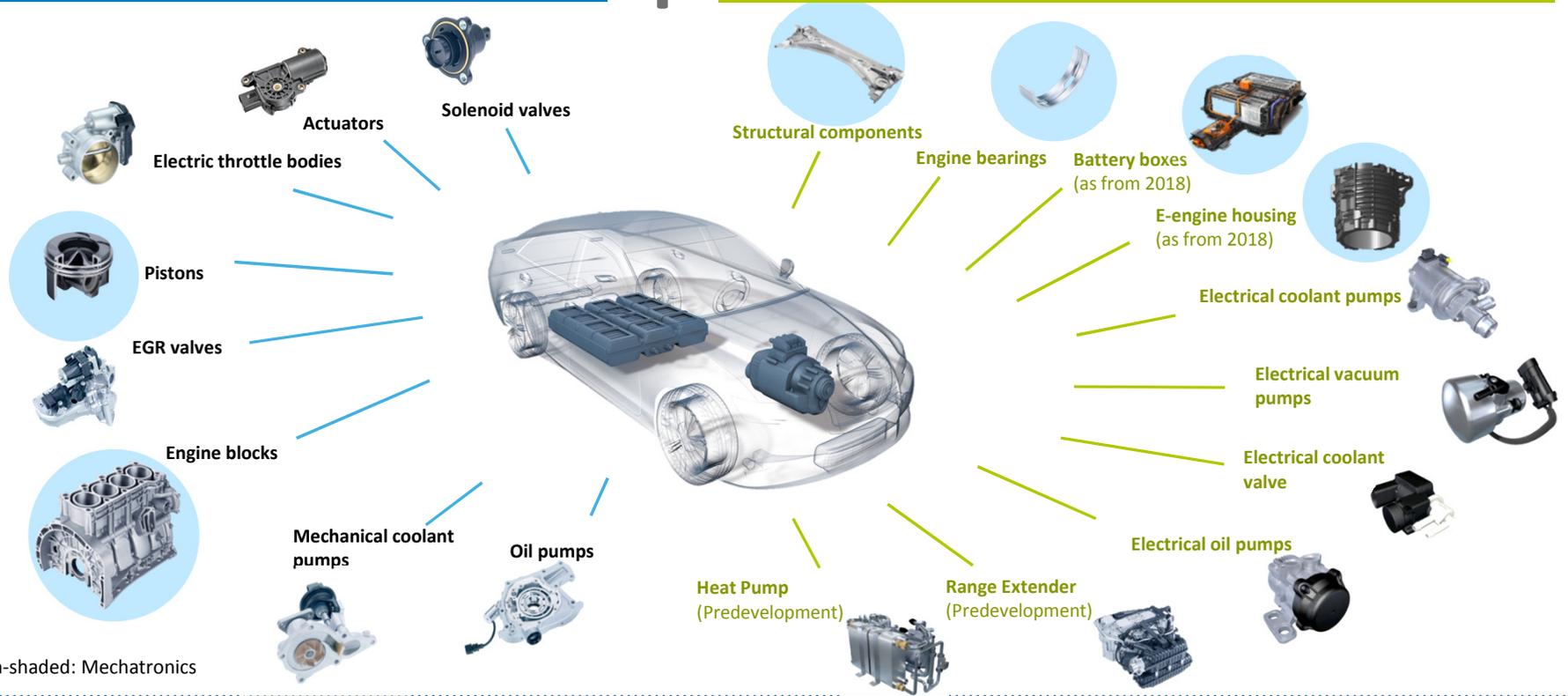
\*\* Rheinmetall Automotive sales FY 2017

# Broad product range for alternative drive systems

Enlarging the traditional product portfolio for combustion engines ...



... by products for hybrid and electric engines



● Hardparts products, non-shaded: Mechatronics

# E-mobility competence underlined by contracts and by initiatives for new solutions

## ■ Contract volume for electric vehicles (EV)\*

Product	Volume	Contract duration (∅)
Battery EV	~€300m	6 – 8 years
(Plugin) Hybrid EV	~€200m	4 – 8 years

## ■ E-mobility competencies

- Thermo-management, including pump and valve technology
- Know-how in aluminum die-casting, e.g. for engine housings and battery packs
- Long term in-house e-motor competence
- Well-established market access to OEMs

### E-Taxi London

Pump technology for pure electric taxis



### Battery cell boxes

Aluminum battery boxes for German premium OEM



### Electric engine housing

Electric engine housing for German premium OEM to serve the Chinese market



\* Rheinmetall Automotive and Joint Ventures

# Electrification and downsizing require more sophisticated products

## ■ Price factor (estimated)

Coolant pump



Mechanical



>6x



Electrical

Exhaust gas recirculation



Valve



>3x



Valve, cooler, bypass and bypass actuator



Oil pump



Mechanical



>3x



Variable

Piston



Aluminum



>3x

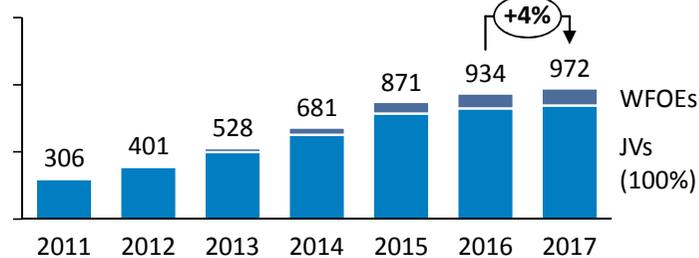


Steel

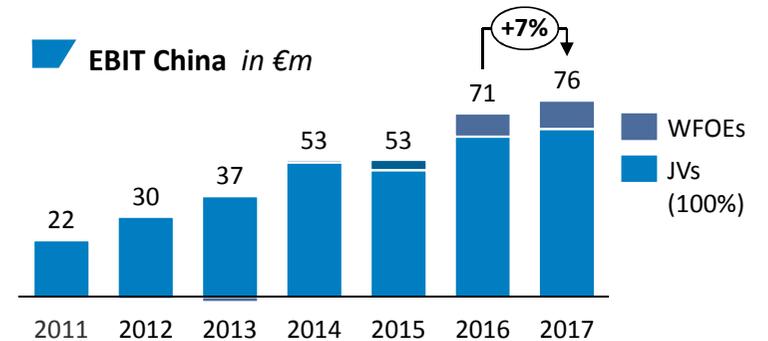
# Automotive in China

50/50 joint ventures with HASCO (SAIC group)				Wholly Foreign-Owned Enterprises (100% Rheinmetall Automotive)			JV subsidiary
Castings (KSHA)	Pistons (KSSP)	Castings (KPSNC)	Pumps (PHP)	Aftermarket	Pierburg	Large-bore pistons	Pumps (PMP Ch.)
2014	1997	2001	2012	2008	2009	2013	2012
Engine blocks and structural body parts	Pistons	Engine blocks, cylinder heads and structural body parts	Electrical and mechanical pumps	Spare parts	EGR modules and electric throttle bodies	Large-bore pistons	Electrical and mechanical pumps
Germany/ Europe	China			China			China

**Sales China in €m**



**EBIT China in €m**



KSHA: KS Huayu Alutech GmbH, Neckarsulm  
 KSSP: Kolbenschmidt Shanghai Piston Co., Ltd., Shanghai

KPSNC: Kolbenschmidt Pierburg Shanghai Nonferrous Components Co., Ltd., Shanghai  
 PHP: Pierburg Huayu Pump Technology Co., Ltd., Shanghai

PMP: Pierburg Mikuni Pump Technology (Shanghai) Corp., Shanghai

# Markets with different growth focus: More than 40 locations with high focus on local needs

**Germany**

- Tamm
- Berlin
- Dormagen
- Hartha
- Langenhagen
- Neckarsulm (Headquarter)**
- Neuss
- Neuenstadt
- Papenburg
- St. Leon-Rot
- Walldürn

**Czech Republic**

- Ústí n. L.
- Chabarovice

**Great Britain**

- Kirtlington

**France**

- Lyon
- Paris
- Thionville

**Spain**

- Abadiano

**Italy**

- Lanciano
- Livorno
- Turin

**USA**

- Auburn Hills
- Greensburg
- Greenville (Fountain Inn)
- Marinette

**Mexico**

- Celaya

**Brazil**

- Nova Odessa

**Japan**

- Hiroshima
- Odawara
- Tokyo

**China**

- Shanghai (7)
- Kunshan (2)
- Yantai

**India**

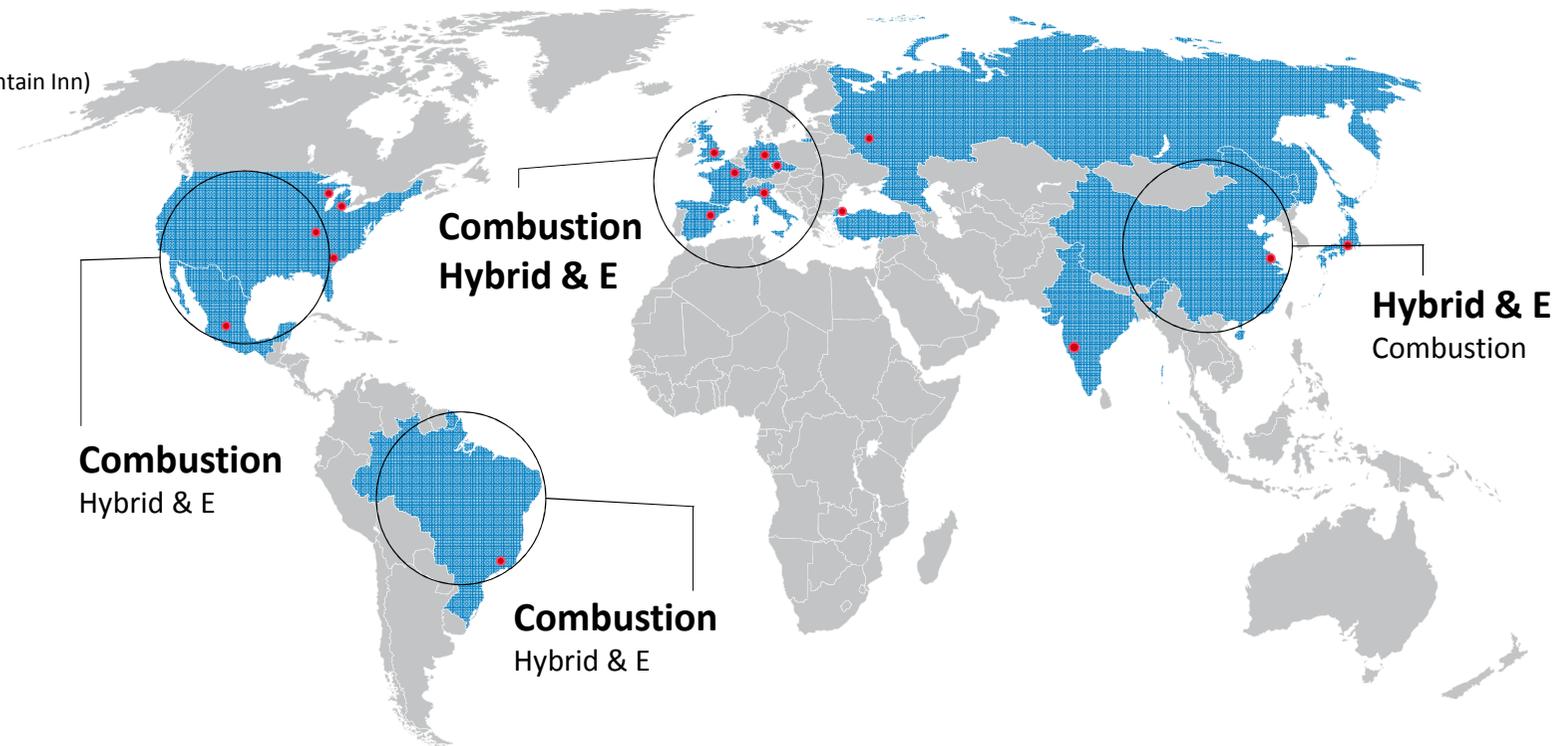
- Pune
- New Delhi
- Supa

**Turkey**

- Istanbul

**Russia**

- Moscow



Including JVs in Neckarsulm und Greensburg / Yantai / Shanghai / Tokyo as well as the stake in the New Delhi enterprise and the sales offices

## Summary Automotive

### Markets and Customers:

Markets in better shape than anticipated, global LV production will grow by >2%  
Our global production and technology footprint will follow local needs  
Rheinmetall Automotive intends to outperform markets in future, too

### Performance and Products:

Sales growth at Mechatronics will follow the high demand for fuel-optimization products  
Hardparts will continue to optimize its global footprint, with the focus on generating cash  
Aftermarket: back on track with a new strategy, now set to return to former profitability

### New Mobility Concepts:

Trend to more efficiency and emission reduction promises higher content per car  
Electrification brings additional business and sales growth  
Product pipelines are still filled with innovations for every type of power trains



# DEFENCE

# Defence is a leading supplier with an increasing international presence

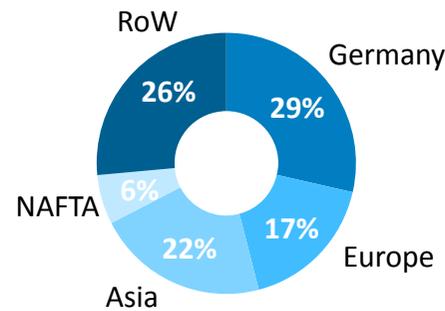
## ■ Key Figures

Sales:	€3.0bn
Op. result:	€174m
Op. margin:	5.7%
R&D:	€73m
Capex:	€89m
Headcount:	10,251

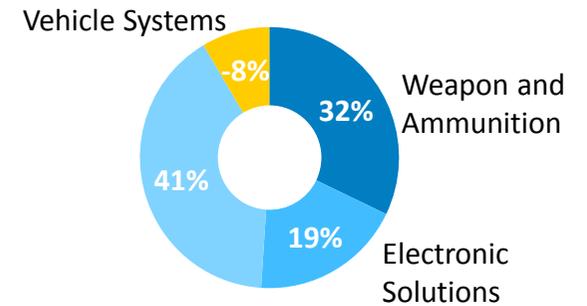
## ■ Structure

Weapon and Ammunition	
Weapon and Ammunition	Protection Systems
Propulsion Systems	
Electronic Solutions	
Air Defence & Radar Systems	Mission Equipment
Simulation and Training	Technical Publications
Vehicle Systems	
Logistic Vehicles	Tactical Vehicles

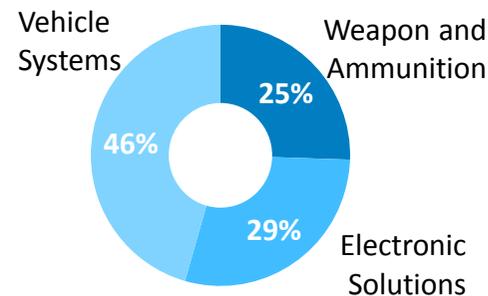
## ■ Sales by region



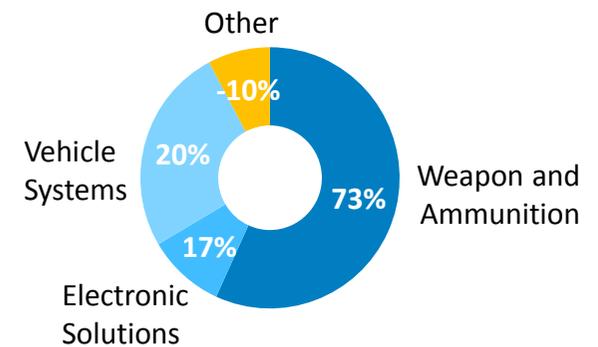
## ■ Sales by division



## ■ Order backlog by division



## ■ Operating result by division



All figures refer to FY 2017

## Strategic goals of Rheinmetall Defence

### Strategic goals

#### Entering new markets

- Strategic partnerships to gain access to new markets
- Target markets close to traditional markets, e.g. public security

#### Enlarging internationalization

- Form partnerships with local suppliers to provide local content

#### Benefiting from home markets

- Business opportunities by increasing budgets in Germany and neighboring countries

#### Creating innovations

- Armored vehicles and their weapons
- New technologies, e.g. laser technology
- IT-based networking



# Defence at the beginning of long-lasting market growth

## Rising awareness of military threats ....

Changes in macro environment...



...trigger comprehensive defence programs

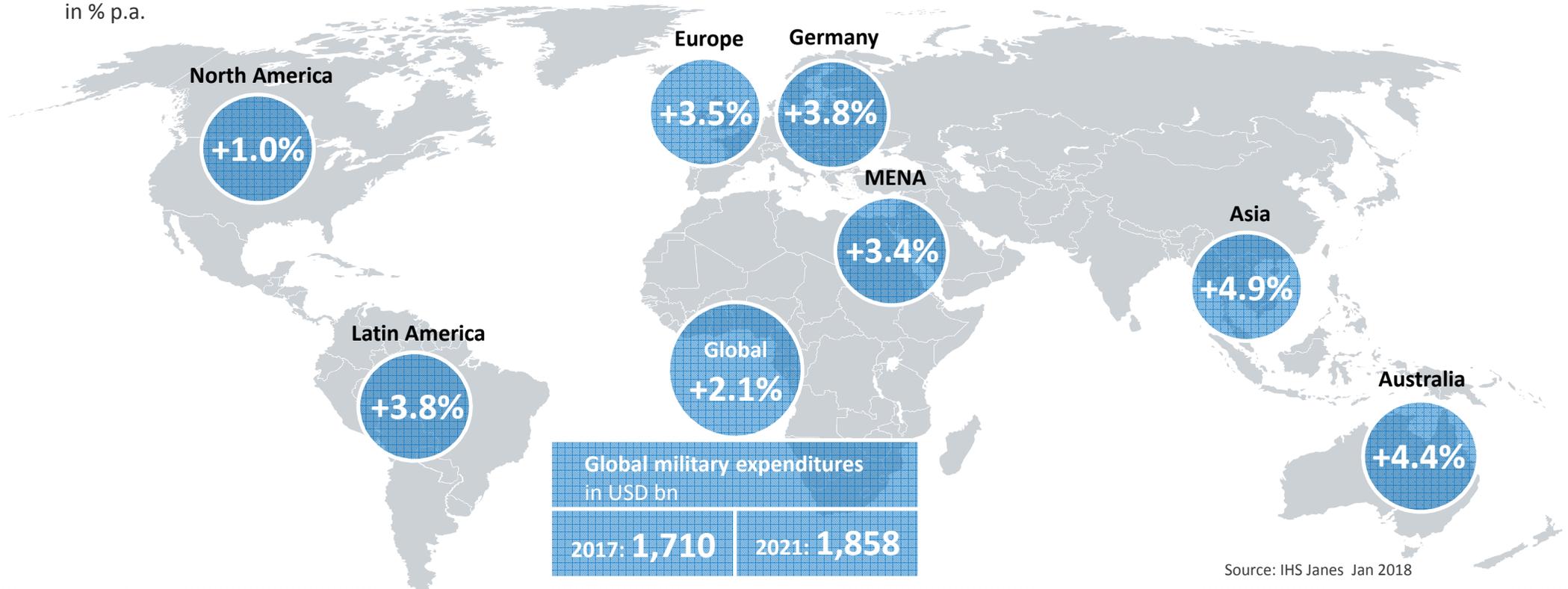


Growing project portfolios and rising budgets

- Germany announced to spend €130 bn over the next decade
- Defence budget increases 3% cagr 2016-2022
- UK tank programs
- Franco-German defence initiative
- EU Defence Initiative
  - EU Funds
  - Pesco
- NATO returns to territorial defence strategy
- 2% spending target
- East European armies setting up various vehicle programs
- Australian „One Defence“ program
- Singapore and Indonesia accelerating defence spending

# Defence at the beginning of long-lasting market growth ...stimulates readiness to invest more in security

■ **Expected Defence budgets development 2017 – 2021**  
in % p.a.



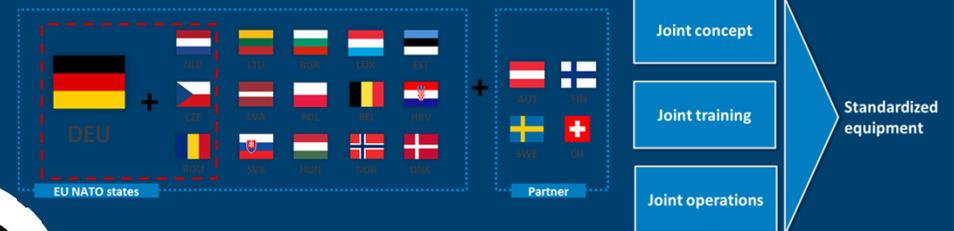
Source: IHS Janes Jan 2018

# Germany: Drivers behind budget increase

## “Turnarounds” in Germany

- Personnel:  
Mid-term return to 220,000 soldiers
- Material:  
100% equipment level and additional division
- Finance:  
Increase of defence budget 24% from 2016 to 2021

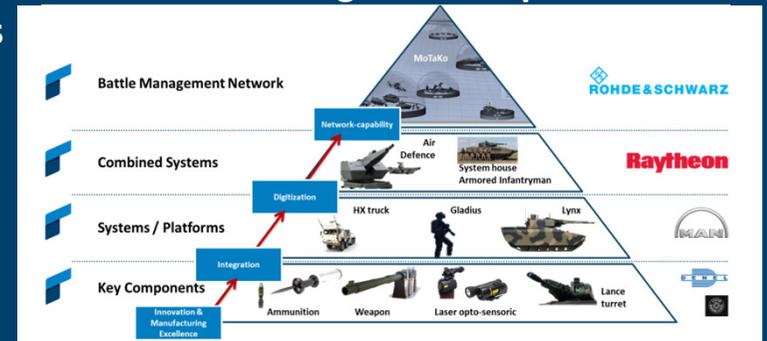
## Framework nation concept triggers standardization of equipment



## Enhanced future profile

- Anchor army for smaller neighbor armies
- Leading role in „enhanced Forward Presence“ in Lithuania
- Framework nation in „Very High Readiness Joint Task Force as of 2019
- Currently 14 international mandates

## Army 4.0: Rheinmetall integrates components to systems



# German defence policy: Additional structural demand of German army under discussion

## ■ Vehicles – mid-to-long term potential



FOX (400 vehicles)



Boxer (300-400 vehicles)



Trucks (> 10.000 vehicles)



Puma (~250 vehicles)

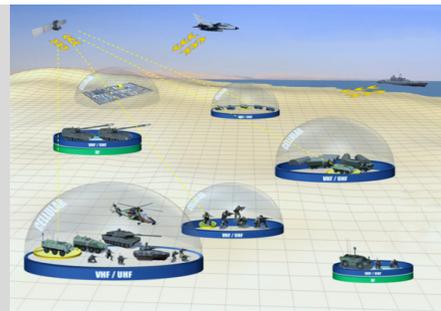
## ■ Equipment and ammunition – multi billion programs



NNBS (Short range air defence)



TLVS (Tactical air defence)



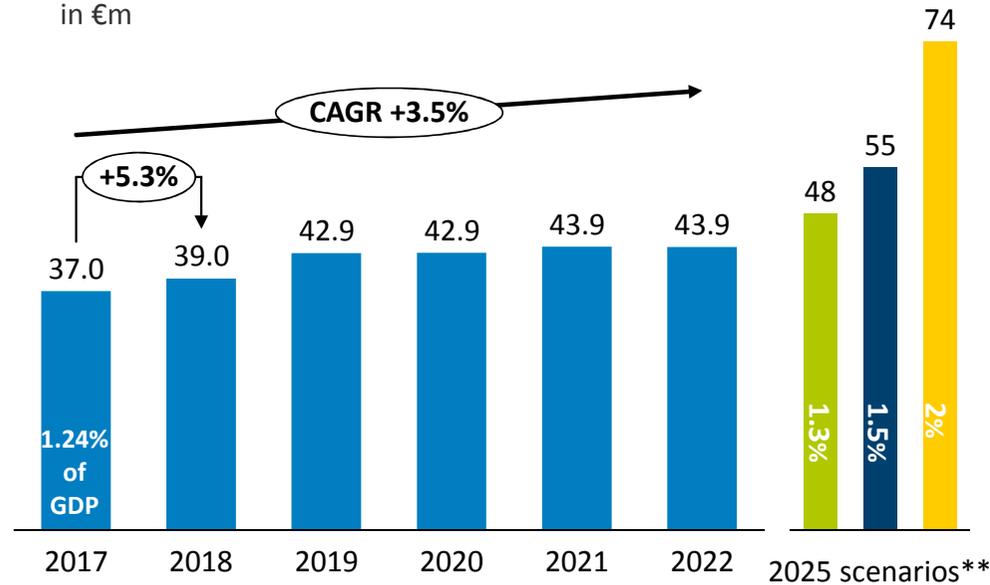
D-LBO (> €5 bn net) (MoTaKo)



Ammunition (~€2 bn net)

# Trend reversal en route with few NATO members complying with targets

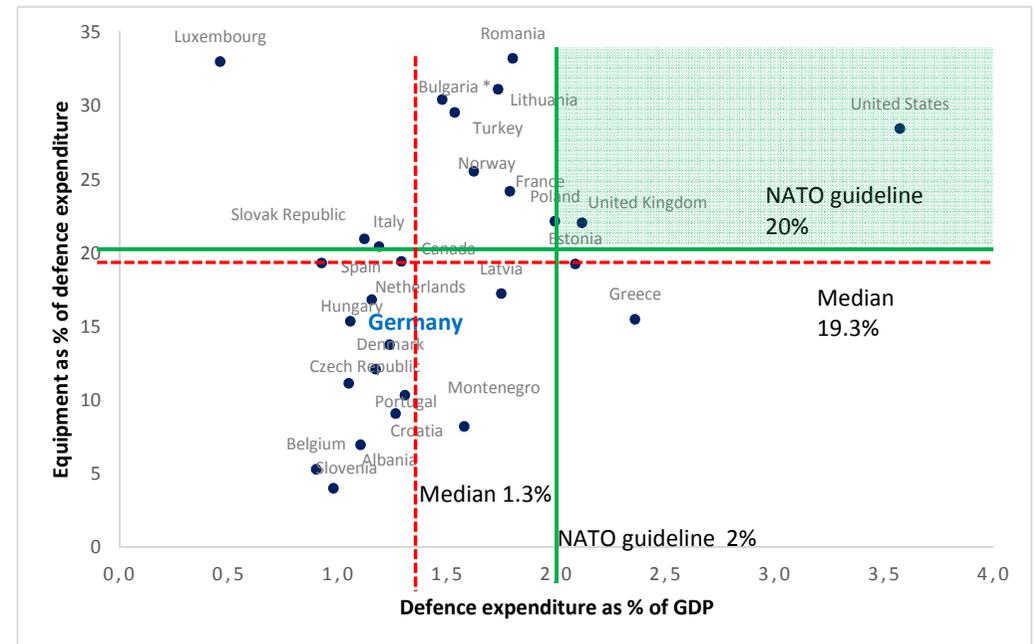
■ German defence expenditure\*  
in €m



**Current political discussion suggests 1.5% defence expenditure target in 2025**

\*EPL 14 2018 and Finanzplan 2019-2022, \*\* 2017 GDP €3.346bn escalated to 2025

■ NATO expenditure as % share of GDP vs equipment share in defence expenditure in %



# Vehicle portfolio highly competitive thanks to state-of-the-art technology

Successful participation in domestic and international vehicle tenders



Land 121 - AUS



Puma - D



Boxer - NL/D



Trucks - D

Large potential from multiple tenders  
(top projects only)



Challenger upgrade & MIV

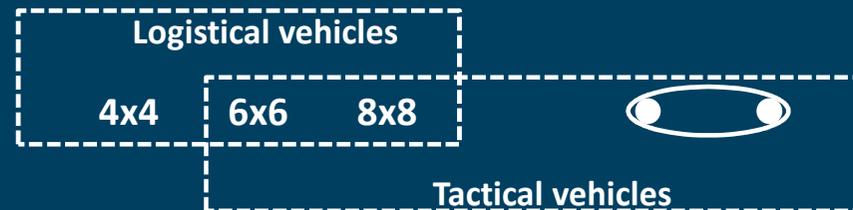


Land 400 Phase 3



Puma/Lynx

Comprehensive vehicle portfolio

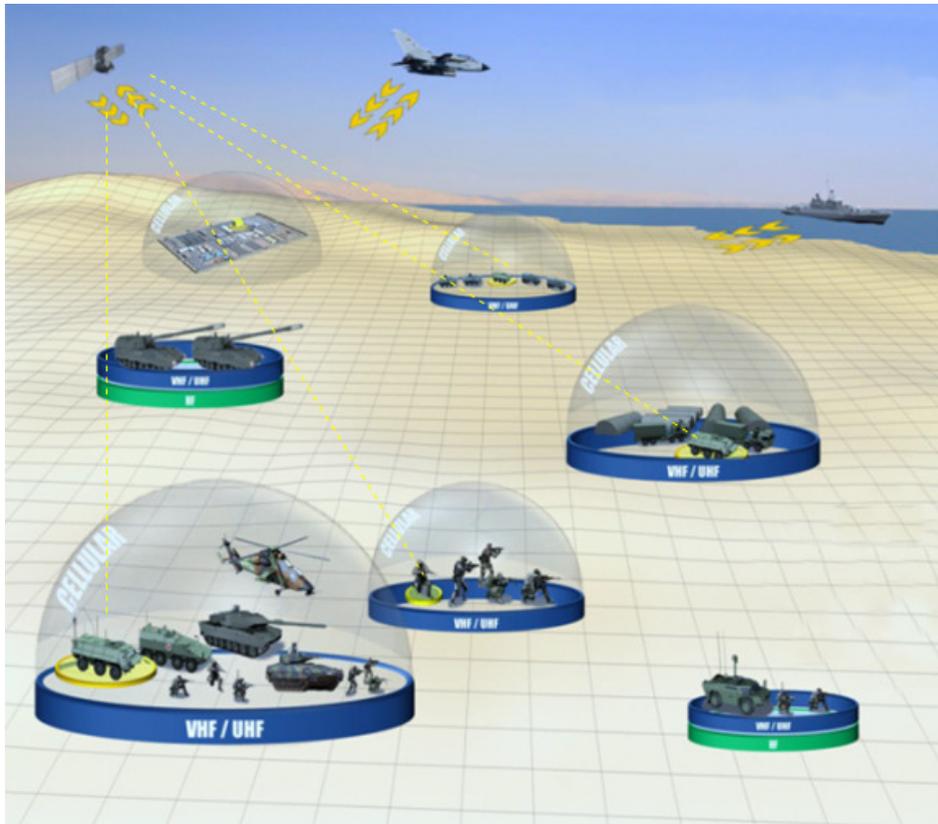


## 2017 marked by important strategic partnerships



	ROHDE & SCHWARZ	Raytheon	LOCKHEED MARTIN
Scope	Joint bid for MoTaKo /MoTIV project	Focus on cooperation regarding the successor system for the German tactical air defence	Complete solution consisting of the CH-53K helicopters as well as further services in maintenance, repair, training and support.
Status	JV agreement signed Sep 2017 (74.9% Rheinmetall)	“Strategic collaboration agreement “ signed end of June with defined work share and exclusivity for German market	Strategic teaming agreement for the German Air Force’s “Heavy transportation helicopter Program” signed Feb 2018
Timing	Tender process starts 2019 Decision expected Q4 2020	3 years global exclusivity	German MoD expected to issue request in H2 2018; contract to be awarded in mid-2020; first deliveries in 2023

# Army 4.0: Digitization of Land-based operations (D-LBO) will propel the German Army into the digital future



## JV-share and core capabilities

Rheinmetall (74.9%):

- Command systems
- Cross-functional operator interface
- Vehicle integration

Rohde & Schwarz (25.1%):

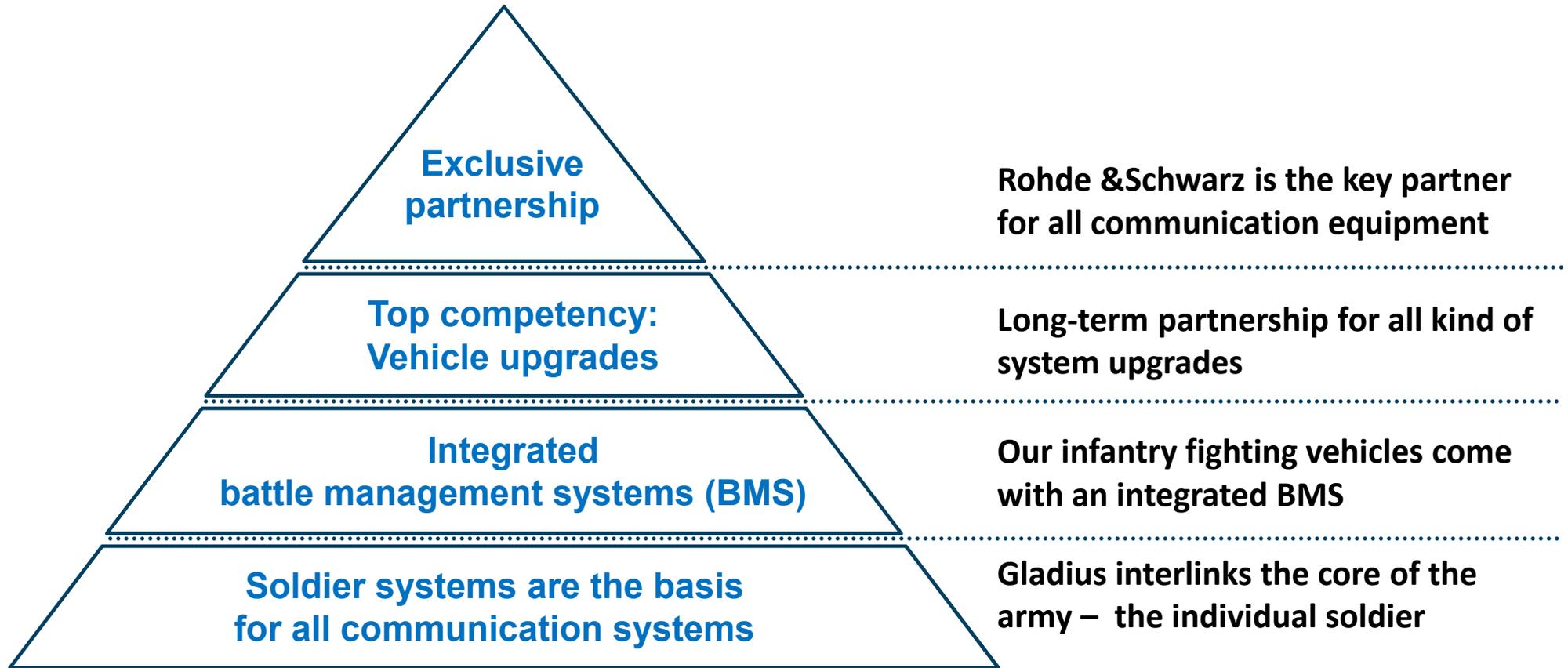
- Communication system architecture, IP based solution for voice and data transmission
- Incorporation of third party components and solutions

## Scope and Timeline

- Most important strategic procurement project for the German army
- Total value exceeds € 5 bn
- Tender process starts 2019
- Start of production Q2 2021

D-LBO = Digitization Landbased Operations { Mobile Taktische Kommunikation (MoTaKo)  
Mobiler Taktischer Informations Verbund (MoTIV)

# Army 4.0: D-LBO: What supports our ambition?



## Lockheed /Rheinmetall: Lockheed Martin partners with Rheinmetall to offer the “full package”

### Strategic teaming agreement

Rheinmetall teams up with Lockheed Sikorsky to introduce the CH-53K as the heavy lift helicopter for the Bundeswehr

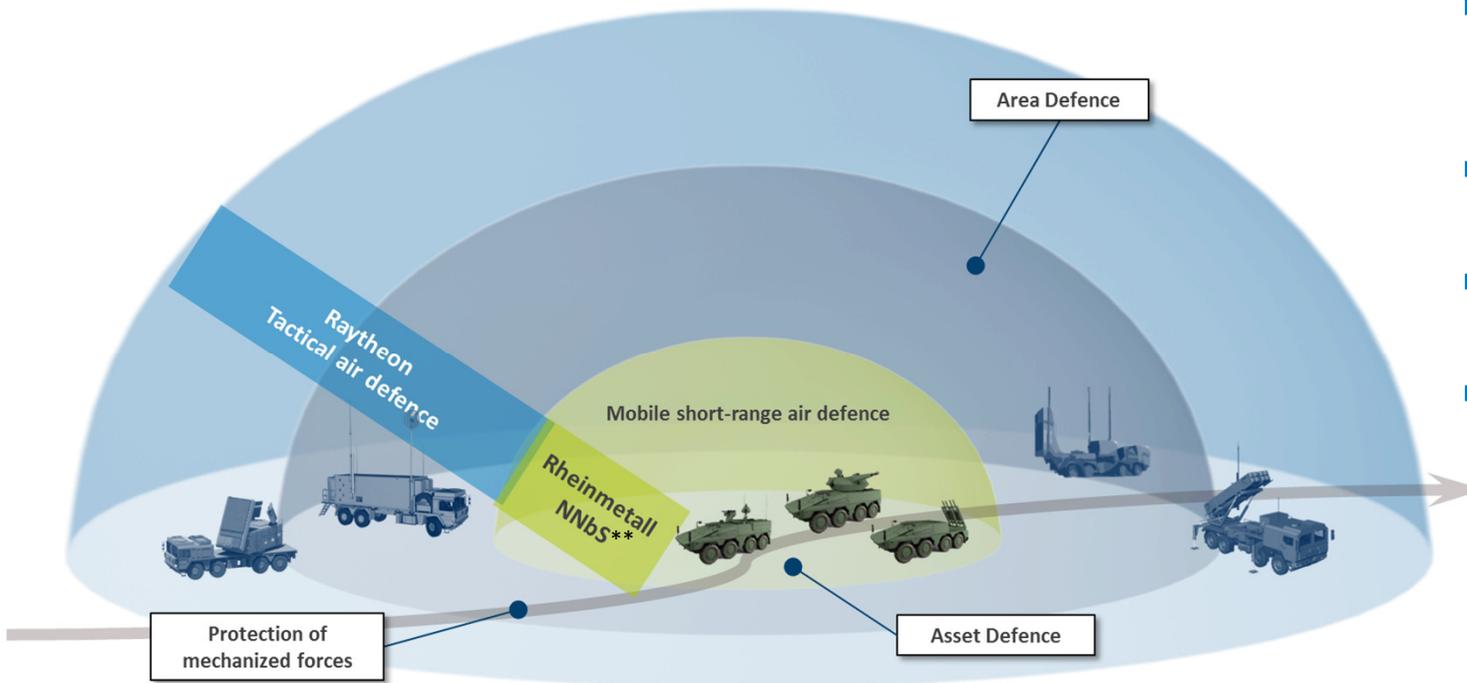
Rheinmetall contributes enhanced support for the entire program:

- Maintenance capacities and know-how
- Simulation technology and
- Longstanding experience in documentation and logistical system support

### Tender scope and volume

- Tender starting H2 2018
- Delivery planned 2023
- 45-60 helicopters

# Raytheon/Rheinmetall\*: System house approach for ground based air defence



## Rheinmetall

- is a system provider for NNBS\*\* and Raytheon's national partner for the modernization of Patriot
- is the only provider of supplier independent effector integration
- accompanies the lifetime servicing of the integrated system
- offers an integrated and systemic approach to ground based air defence for the entire threat scenario

\* Memo of understanding signed June 2017

\*\*NNBS= short-range air defence

# Defence industry in Europe



- **Governmental shareholding** restricts room for cross-border consolidation
- **Big common armament programs** could be catalysts for further consolidation

### Rheinmetall's approach:

- **JV partnerships with companies in different nations** instead of "putting all eggs in one basket"
- **Sufficient organic growth potential**, but suitable M&A transactions are possible

## Summary Defence: Growing with improved performance

### Growth

Long-term growth trend fully intact

Defence business growth returns to double digit %-rate

### Performance

Profitability improved on product mix and higher leverage

Lagging business in Electronic Solutions is stabilizing

### Outlook

Well on track to enter target corridor of 6-7% operating margin mid-term

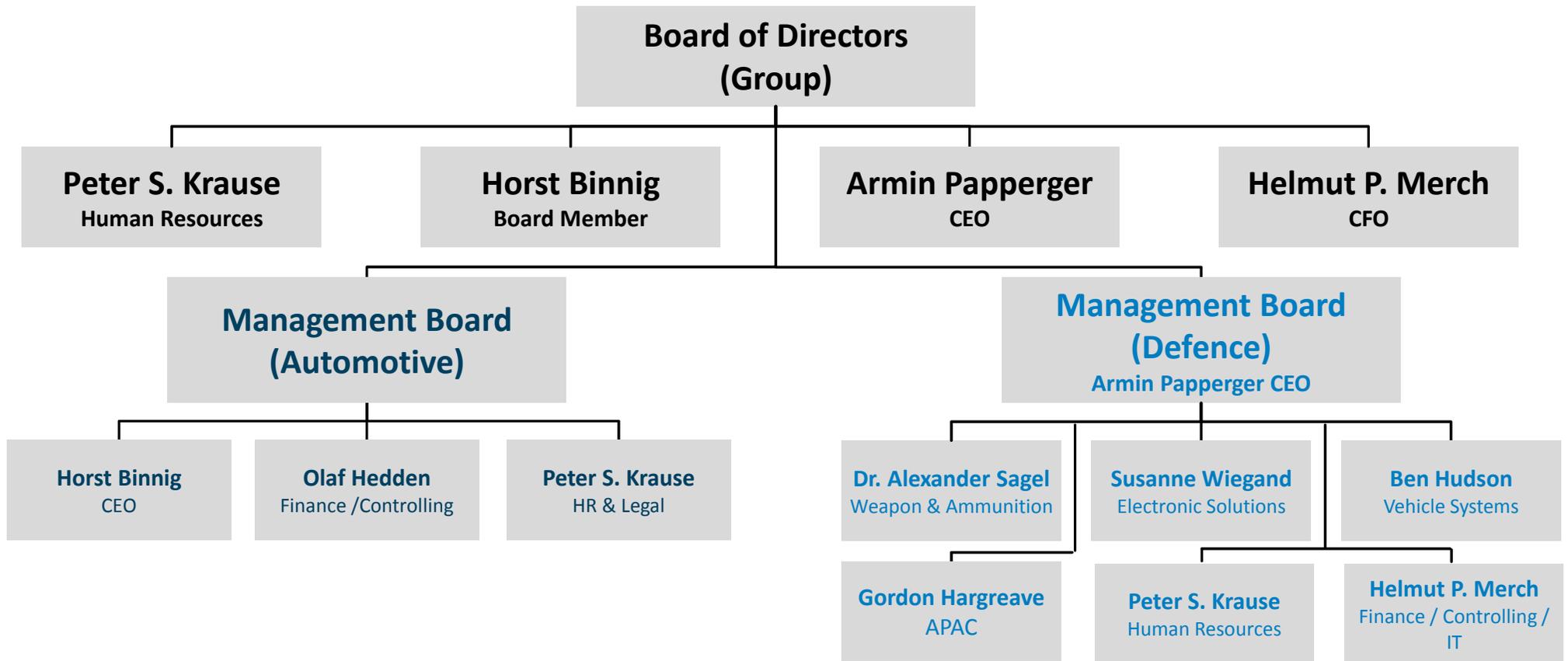
High order backlog

Great growth potentials for all three divisions



# GROUP APPENDIX

# Management structure



## Board remuneration based on three building blocks

### Annual target salary (100%)

#### Fixum (60%)

- **Twelve equal portions of monthly payments**

Fringe benefits:

- Pension insurance (or comparable)
- Company car

#### Performance-related variable remuneration (40%)

- **Short term incentive**

- KPI: EBT, ROCE (each 50%)
- Reference: Budget
- Range: 0 - 200%
- Escalators: 0% - <70% - < 110%  
0% linear to max. 200%
- Payout: cash

- **Long-term incentive**

- KPI: Average adjusted EBT of the last three years (EBT capped at €300m)
- Payout: In shares and cash\* with 4 year lock-up period

\*for related tax payments

# ESG with high importance for Rheinmetall

## Environment



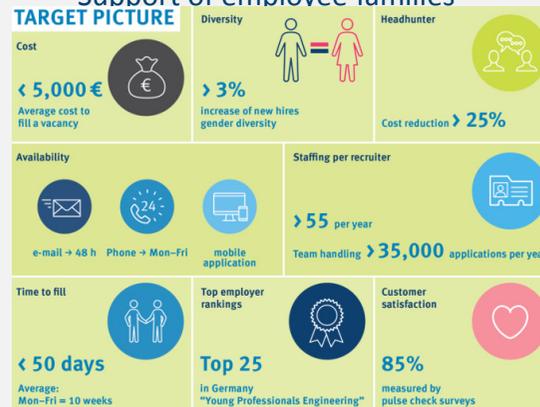
- **Reduction of the ecological footprint**
  - Decrease of energy needed
  - Selective use of raw materials
- **„Road to 95“ and E-mobility**
  - Our products increase fuel efficiency
  - New e-bike, e-motor and battery pack
- **Support of conservation**
- **Transformation of the former production site in Düsseldorf**



## Social



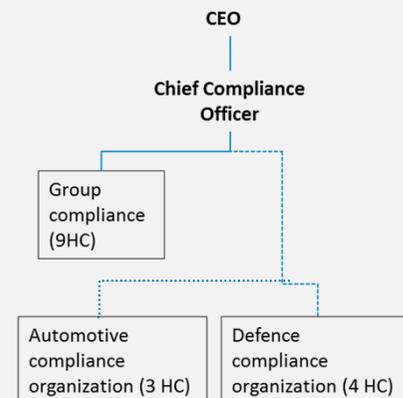
- **Clear statement against cluster munition**
- **Promoting education and training**
- **Support of gender diversity**
  - Women in management
- **Workforce**
  - Integration of refugees via apprenticeships
  - Support of employee families



## Governance



- **Transparency towards customer, investors and other stakeholder**
- **Non-compliant business behavior is unacceptable**
- **Zero tolerance of corruption and fraud**
- **Central Compliance Management System**
  - Employee awareness initiative



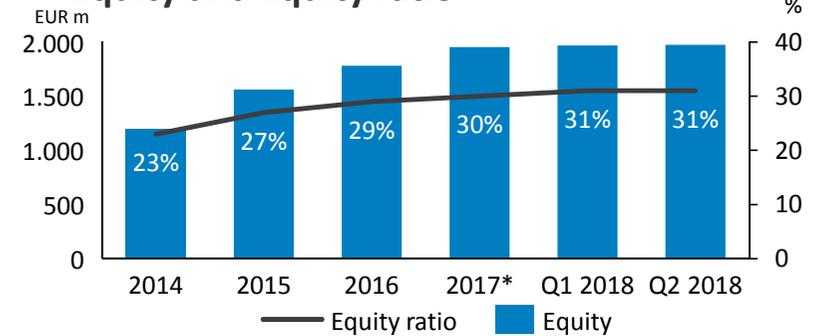
# Financial strength materially improved

## Drivers

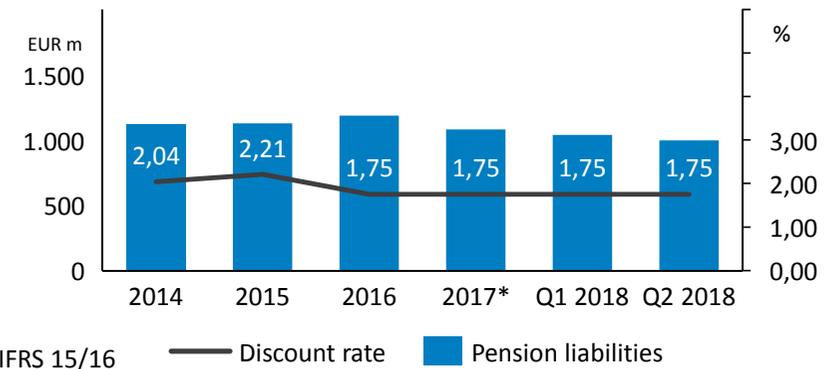
- Confidence increased by delivery on our targets
- Capitalizing on our restructuring efforts
- Equity ratio further improved
- Pension stabilized on further CTA funding
- Supportive market environment in both segments

**Investment grade rating  
Baa3 with stable outlook  
since April 2018**

## Equity and Equity ratio

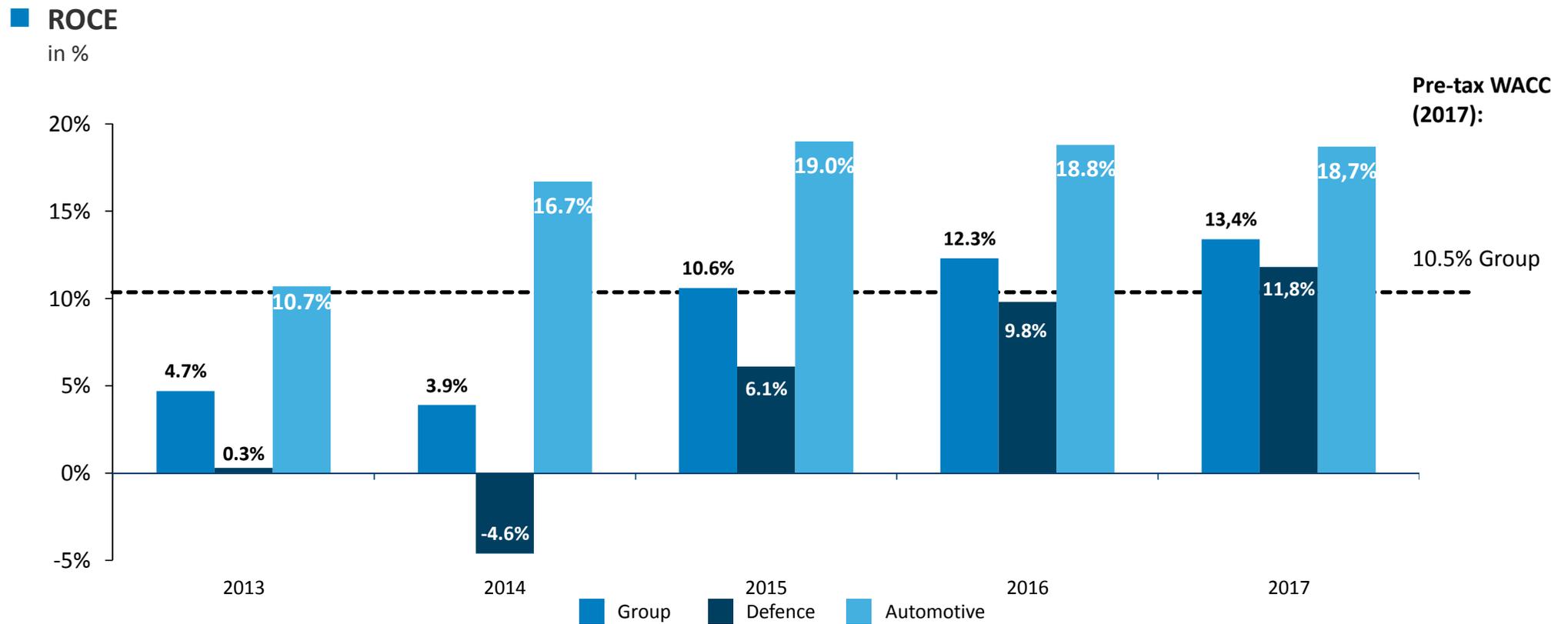


## Pension liabilities and German discount rate



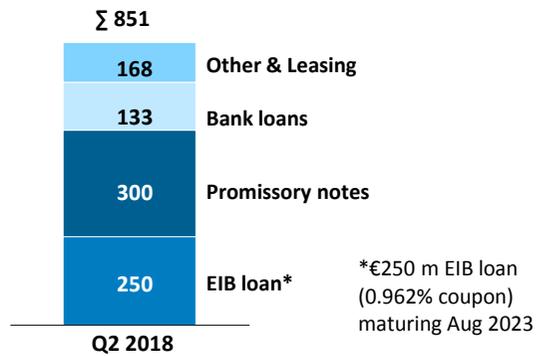
\* Adjusted to IFRS 15/16

# Continuing ROCE improvement

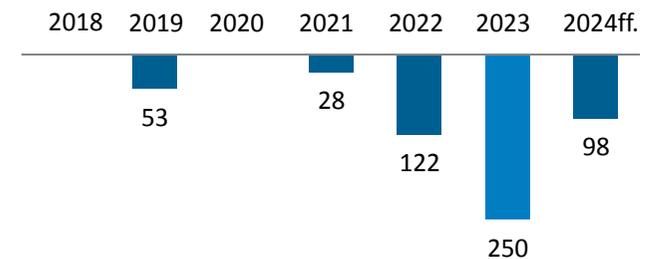


# Stronger net cash position

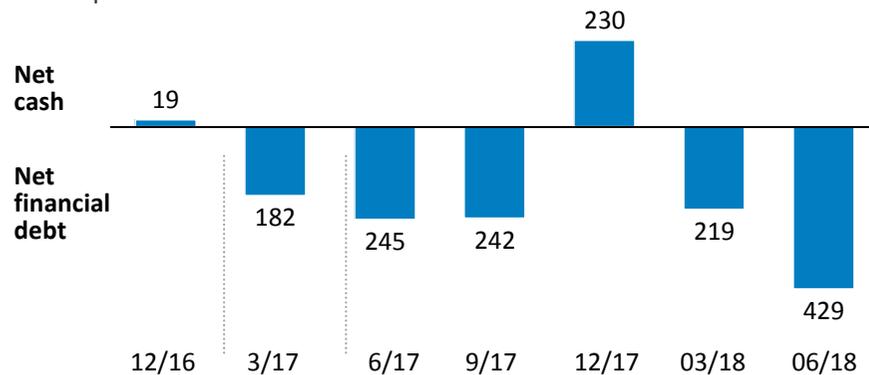
**Debt composition**  
in €m



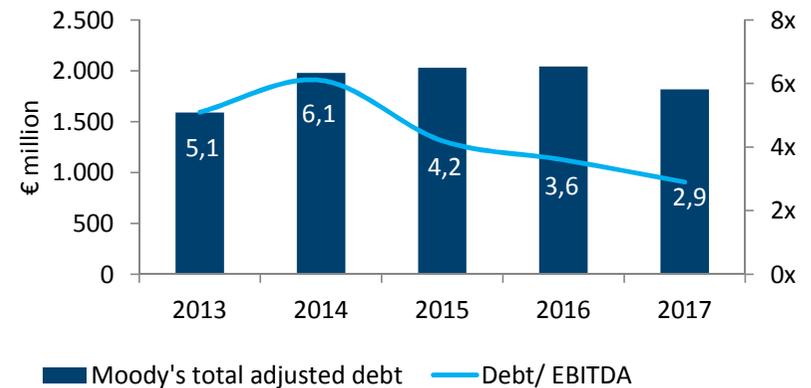
**Maturity profile**  
in €m



**Net financial debt / net cash**  
in €m at quarter-end



**Moody's gross leverage below 3.0x and will continue to reduce**

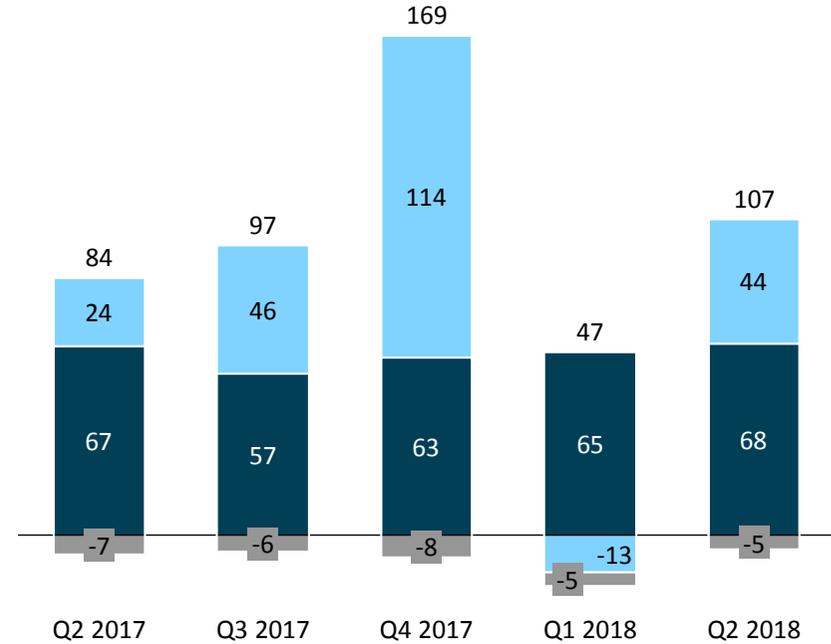


# Group: Quarterly development

**Sales**  
in €m



**Operational results**  
in €m



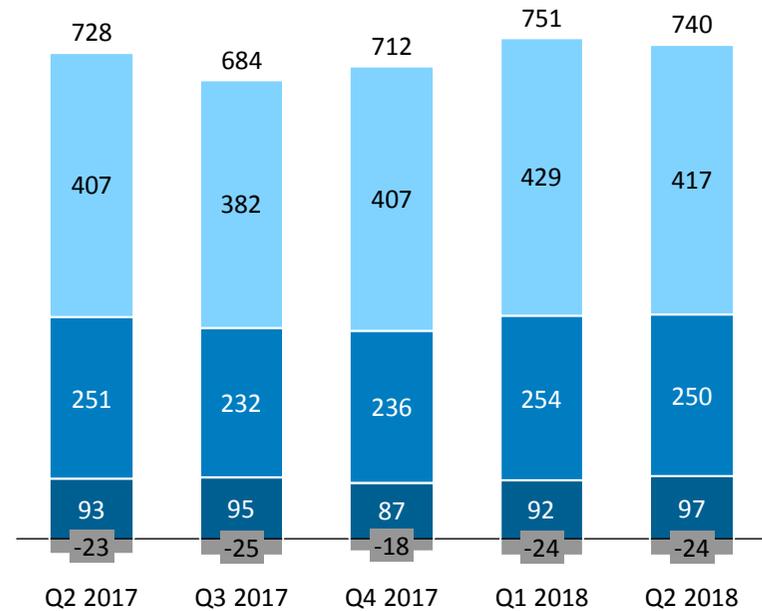
■ Defence ■ Automotive ■ Consolidation/Others

## Group: Free Cash Flow summary

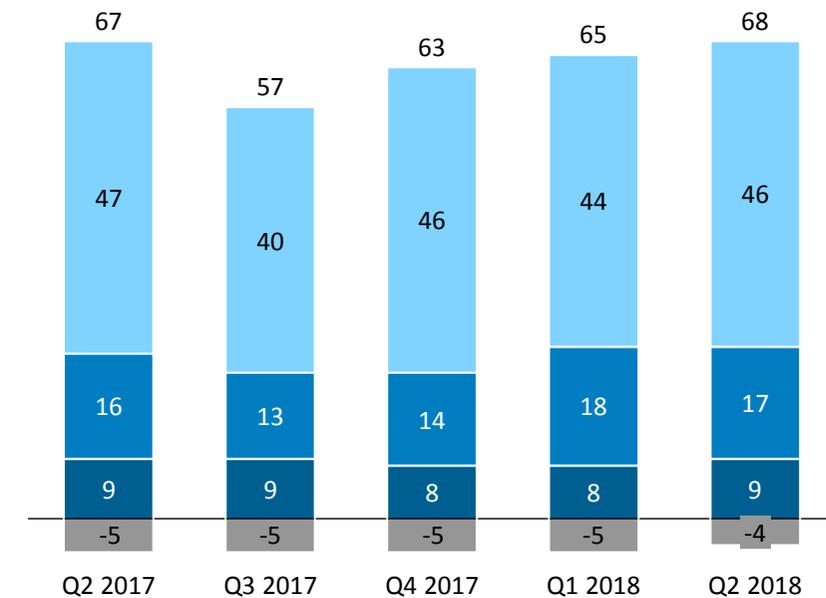
in €m	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Δ Q2 '17/'18
<b>Group Net Income</b>	51	43	130	27	65	14
Amortization / depreciation	55	59	70	64	91	36
Change in pension accruals	-3	1	-8	-42	1	4
<b>Cash Flow</b>	<b>103</b>	<b>103</b>	<b>192</b>	<b>49</b>	<b>157</b>	<b>54</b>
Changes in working capital and other items	-34	-36	374	-289	-244	-210
<b>Net cash used in operating activities</b>	<b>69</b>	<b>67</b>	<b>566</b>	<b>-240</b>	<b>-87</b>	<b>-156</b>
Cash outflow for additions to tangible and intangible assets	-50	-62	-115	-47	-53	-3
<b>Free Cash Flow from Operations</b>	<b>19</b>	<b>5</b>	<b>451</b>	<b>-287</b>	<b>-140</b>	<b>-159</b>

# Automotive: Quarterly development

**Sales by division**  
in €m



**Operational result by division**  
in €m



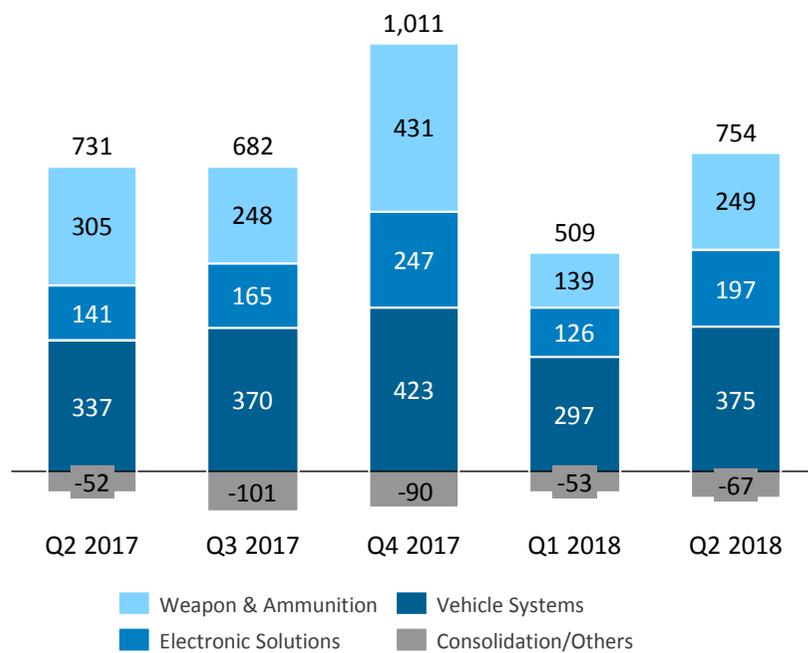
■ Mechatronics 
 ■ Hardparts 
 ■ Aftermarket 
 ■ Consolidation/Others

## Automotive: Free Cash Flow summary

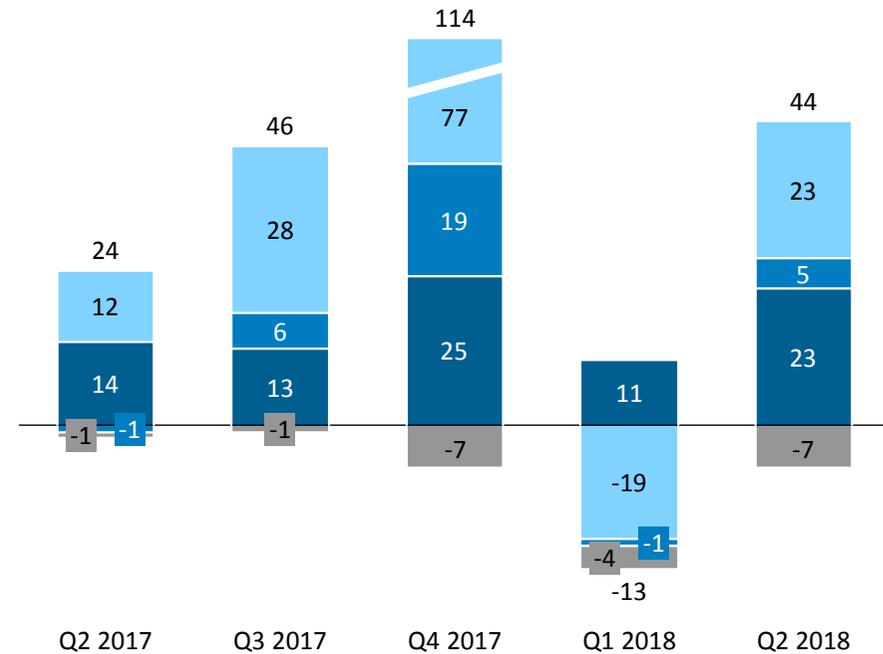
in €m	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Δ Q2 '17/'18
Net income	50	25	44	45	52	2
Amortization / depreciation	32	37	39	36	38	6
Change in pension accruals	-	-	-	-20	-1	-1
<b>Cash Flow</b>	<b>82</b>	<b>62</b>	<b>83</b>	<b>61</b>	<b>89</b>	<b>7</b>
Changes in working capital and other items	20	61	68	-82	-32	-52
<b>Net cash used in operating activities</b>	<b>102</b>	<b>123</b>	<b>151</b>	<b>-21</b>	<b>57</b>	<b>-45</b>
Cash outflow for additions to tangible and intangible assets	-33	-42	-77	-29	-21	12
<b>Free cash flow from operations</b>	<b>69</b>	<b>81</b>	<b>74</b>	<b>-50</b>	<b>36</b>	<b>-33</b>

# Defence: Quarterly development

**Sales by division**  
in €m



**Operational result by division**  
in €m



## Defence: Free Cash flow summary

in €m	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Δ Q2 '17/'18
Net income	8	32	76	-21	23	15
Amortization / depreciation	22	21	29	26	52	30
Change in pension accruals	-6	2	-2	-2	2	8
<b>Cash Flow</b>	<b>24</b>	<b>55</b>	<b>103</b>	<b>3</b>	<b>77</b>	<b>53</b>
Changes in working capital and other items	-38	-88	327	-225	-228	-190
<b>Net cash used in operating activities</b>	<b>-14</b>	<b>-33</b>	<b>430</b>	<b>-222</b>	<b>-151</b>	<b>-137</b>
Cash outflow for additions to tangible and intangible assets	-19	-19	-35	-17	-20	-1
<b>Free cash flow from operations</b>	<b>-33</b>	<b>-52</b>	<b>395</b>	<b>-239</b>	<b>-171</b>	<b>-138</b>

## Group 2013 – 2017: Key figures

In €m		2013	2014	2015	2016	2017
<b>Balance sheet</b>	<b>Total assets</b>	4,866	5,271	5,730	<b>6,150</b>	<b>6,186</b>
	<b>Shareholder's equity</b>	1,339	1,197	1,562	<b>1,781</b>	<b>1,955</b>
	<b>Equity ratio (in %)</b>	27.5	22.7	27.3	<b>29.0</b>	<b>31.6</b>
	<b>Pension liabilities</b>	891	1,121	1,128	<b>1,186</b>	<b>1,080</b>
	<b>Net financial debt</b>	147	330	81	<b>-19</b>	<b>-230</b>
	<b>Net gearing (in %)</b>	11.0	27.6	5.2	<b>-1.1</b>	<b>-11.8</b>
<b>Income statement</b>	<b>Sales</b>	4,417	4,688	5,183	<b>5,602</b>	<b>5,896</b>
	<b>Operating result</b>	211	160	287	<b>353</b>	<b>400</b>
	<b>Operating margin (in %)</b>	4.8	3.4	5.5	<b>6.3</b>	<b>6.8</b>
	<b>EBITDA</b>	315	299	490	<b>581</b>	<b>626</b>
	<b>EBIT</b>	121	102	287	<b>353</b>	<b>385</b>
	<b>EBIT margin (in %)</b>	2.7	2.2	5.5	<b>6.3</b>	<b>6.5</b>
	<b>EBT</b>	45	22	221	<b>299</b>	<b>346</b>
	<b>Net income after minorities</b>	29	18	151	<b>200</b>	<b>224</b>
	<b>Earnings per share (in EUR)</b>	0.75	0.47	3.88	<b>4.69</b>	<b>5.24</b>
	<b>Dividend per share (in EUR); 2017: proposal</b>	0.40	0.30	1.10	<b>1.45</b>	<b>1.70</b>
	<b>ROCE (in %)</b>	4.7	3.9	10.1	<b>12.3</b>	<b>13.4</b>
	<b>Cash flow statement</b>	<b>Free cash flow from operations</b>	20	-182	29	<b>161</b>
<b>Headcount</b>	<b>Employees (Dec 31) according to capacity</b>	20,264	20,166	20,676	<b>20,993</b>	<b>21,610</b>

2013 figures adjusted according to IFRS 5 (Discontinued Operations) with regard to the formation of the ATAG JV and according to IFRS 11 (Joint Arrangements)

## Segments 2012 – 2017: Key figures

AUTOMOTIVE				
2013	2014	2015	2016	2017
2,270	2,466	2,621	2,670	<b>2,922</b>
392	416	445	459	<b>520</b>
2,262	2,448	2,592	2,656	<b>2,861</b>
158	184	216	223	<b>249</b>
7.0	7.5	8.3	8.4	<b>8.7</b>
225	295	332	356	<b>367</b>
124	184	216	223	<b>227</b>
5.5	7.5	8.3	8.4	<b>7.9</b>
142	158	167	174	<b>176</b>
10,927	10,830	10,934	10,820	<b>11,166</b>
1,171	1,322	1,450	1,527	<b>1,621</b>
66	96	119	142	<b>176</b>
5.6	7.3	8.1	9.3	<b>10.9</b>
889	934	952	921	<b>968</b>
27	72	73	62	<b>38</b>
3.0	7.7	7.7	6.7	<b>3.9</b>
268	269	285	305	<b>358</b>
27	26	27	27	<b>33</b>
10.1	9.7	9.5	8.9	<b>9.2</b>

in EUR million		
<b>Order intake</b>		
<b>Order backlog (Dec. 31)</b>		
<b>Sales</b>		
<b>Operating result</b>		
<b>Operating margin (in %)</b>		
<b>EBITDA</b>		
<b>EBIT</b>		
<b>EBIT margin (in %)</b>		
<b>Capex</b>		
<b>Employees (Dec 31) according to capacity</b>		
<b>Mechatronics</b>	<b>Sales</b>	<b>Weapon &amp; Ammunition*</b>
	<b>EBIT</b>	
	<b>EBIT margin</b>	
<b>Hardparts</b>	<b>Sales</b>	<b>Electronic Solutions</b>
	<b>EBIT</b>	
	<b>EBIT margin</b>	
<b>Aftermarket</b>	<b>Sales</b>	<b>Vehicle Systems*</b>
	<b>EBIT</b>	
	<b>EBIT margin</b>	

DEFENCE				
2013	2014	2015	2016	2017
3,339	2,812	2,693	3,050	<b>2,963</b>
6,050	6,516	6,422	6,656	<b>6,416</b>
2,155	2,240	2,591	2,946	<b>3,036</b>
60	-9	90	147	<b>174</b>
2.8	-0.4	3.5	5.0	<b>5.7</b>
96	17	175	239	<b>268</b>
4	-67	90	147	<b>172</b>
0.2	-3.0	3.5	5.0	<b>5.7</b>
62	76	96	95	<b>89</b>
9,193	9,184	9,581	10,002	<b>10,251</b>
1,027	977	881	1,112	<b>1,175</b>
31	-4	74	108	<b>117</b>
3.0	-0.4	8.4	9.7	<b>10.0</b>
710	705	759	745	<b>691</b>
11	-53	26	25	<b>20</b>
1.5	-7.5	3.4	3.4	<b>2.9</b>
539	667	1,195	1,392	<b>1,480</b>
-35	-9	3	29	<b>51</b>
-6.5	-1.4	0.3	2.1	<b>3.5</b>

2013 figures adjusted according to IFRS 5 (Discontinued Operations) with regard to the formation of the ATAG JV and according to IFRS 11 (Joint Arrangements)

## Group Q2 2017/2018: Income statement

In €m				Income Statement				
	Q2 2017	Q2 2018	Δ		Q2 2017	Q2 2018	Δ	
Sales	1,459	1,493	34					
	34	40	6					
<b>Total operating performance</b>	<b>1,493</b>	<b>1,533</b>	<b>40</b>	→	<b>Net operating income (EBIT)</b>	81	99	18
Other operating income	36	31	-5			-	2	
Cost of materials	841	794	-47		Net interest income	-13	-11	2
Personnel expenses	389	409	20		<b>Earnings before tax (EBT)</b>	<b>68</b>	<b>90</b>	22
Amortization, depreciation and impairment	55	91	36		Income tax	-17	-25	-8
Other operating expenses	160	182	22		<b>Net income</b>	<b>51</b>	<b>65</b>	14
Income from companies carried at equity	1	7	6		of which:	-	-	
Other financial results	-4	4	8		Minority interest	8	12	4
<b>Net operating income (EBIT)</b>	<b>81</b>	<b>99</b>	<b>18</b>		Rheinmetall shareholder:	43	53	10
					Earnings per share	<b>1.01</b>	<b>1.24</b>	0.23
					<b>EBITDA</b>	<b>136</b>	<b>190</b>	54

## Group H1 2017/2018: Cash flow statement

In €m				Cash Flow Statement			
	H1 2017	H1 2018	Δ		H1 2017	H1 2018	Δ
<b>Net Income</b>	<b>79</b>	<b>92</b>	<b>13</b>				
Amortization, depreciation and impairment	112	155	43				
Dotation of CTA	-30	-40	-10				
Changes in pension provisions	-7	-1	6				
Changes in other provisions	38	12	-26				
Changes in inventories	-107	-229	-122				
Changes in receivables, liabilities(w/o financial debts) and prepaid & deferred items	-156	-292	-136				
Pro rata income from investmenst carried at equity	-5	-14	-9				
Dividends received from investments carried at equity	2	1	-1				
Other non-cash expenses and income	-13	-8	5				
<b>Cash flows from operating activities</b>	<b>-87</b>	<b>-327</b>	<b>-240</b>				
Investments in assets	-93	-100	-7				
Cash receipts from the disposal of assets	1	16	15				
Payments for the purchase of liquid financial assets	-223	-120	103				
Cash receipts from the disposal of liquid financial asse	0	0	0				
<b>Cash flows from investing activities</b>	<b>-129</b>	<b>-52</b>	<b>77</b>				
				Dividends paid out by Rheinmetall AG	-62	-73	-11
				Other profit distributions	-9	-7	2
				Sale of treasury shares	0	0	0
				Capital payment to/capital contributions by non-controlling interests	4	0	-4
				Increase in shares in consolidated subsidiaries	0	0	0
				Borrowing of financial debts	247	112	-135
				Repayment of financial debts	-96	-73	23
				Repayment of leasing obligations	0	0	0
				<b>Cash flows from financing activities</b>	<b>84</b>	<b>-41</b>	<b>-125</b>
				Changes in financial resources	-132	-400	-268
				Changes in cash and cash equivalents due to exchange rates	-7	0	7
				Total change in financial resources	-139	-420	-281
				<b>Opening cash and cash equivalents January 1</b>	<b>616</b>	<b>757</b>	<b>141</b>
				<b>Closing cash and cash equivalents</b>	<b>344</b>	<b>337</b>	<b>-7</b>

## Group 2017/2018: Balance Sheet

### Balance Sheet

	31.12.2017	01.01.2018	30.06.2018	Δ		31.12.2017	01.01.2018	30.06.2018	Δ
<b>Non-current assets</b>	<b>2,712</b>	<b>2,939</b>	<b>2,920</b>	-19	<b>Equity</b>	<b>1,955</b>	<b>1,950</b>	<b>1,975</b>	25
Goodwill	550	550	550	0	Share capital	112	112	112	0
Other intangible assets	229	229	191	-38	Additional paid-in capital	540	540	546	6
Usage rights		158	163	5	Retained earnings	1,209	1,205	1,223	18
Property, plant and equipment	1,387	1,387	1,371	-16	Treasury shares	-25	-25	-21	4
Investment property	46	46	45	-1	Rheinmetall AG shareholders' eq	1,836	1,832	1,860	
Investments carried at equity	242	242	258	16	Minority interests	119	118	115	-3
Other non-current financial assets	73	142	141	-1	<b>Non-current liabilities</b>	<b>1,905</b>	<b>2,048</b>	<b>2,015</b>	-33
Deferred taxes	185	185	201	16	Provisions for pensions and simil	1,080	1,080	997	-83
					Other non-current provisions	185	204	197	-7
<b>Current assets</b>	<b>3,474</b>	<b>3,468</b>	<b>3,409</b>	-59	Non-current financial debts	572	696	751	55
Inventories	1,172	1,165	1,396	231	Non-current financial liabilities	8	54	48	-54
Contractual assets	-	325	327	2	Other non-current liabilities	48	-	50	50
Trade receivables	1,217	897	1,013	116	Deferred taxes	14	14	20	-70
Liquid financial assets	119	119	85	-34	<b>Current liabilities</b>	<b>2,326</b>	<b>2,409</b>	<b>2,339</b>	-8
Other current financial assets	190	186	207	21	Other current provisions	595	641	656	-65
Income tax receivables	11	11	36	25	Current Financial debts	74	108	100	-43
Cash and cash equivalents	757	757	337	-420	Current financial liabilities	112	-	-	
Assets for disposal	8	8	8		Contractual liabilities	-	636	571	
					Trade liabilities	760	760	717	-8
					Other current liabilities	711	190	182	39
					Income tax liabilities	74	74	113	39
<b>Total assets</b>	<b>6,186</b>	<b>6,404</b>	<b>6,329</b>	-75	<b>Total Liabilities</b>	<b>6,186</b>	<b>6,407</b>	<b>6,329</b>	-78

# Glossary

bn	billions	JV	Joint Venture
bp	basis points	LBP	Large bore piston
CAGR	compounded average growth rate	LV	Light vehicle
CER	Constant Exchange Rates	m	million
CTA	Contractual trust agreement	NEDC	New European Driving Cycle
D&A	Depreciation & Amortization	NEV	New Energy Vehicle
D-LBO	Digitization of land-based operations	NNBS	Short range air defence (Nah- und Nächstbereichsschutz)
DPS	Dividend per Share	NWC	Net working capital
E	Expected	OEM	Original Equipment Manufacturer
EBIT	Earnings before Interest and Tax	Operating FCF	Operating free cash flow
EBITDA	Earnings before Interest, Tax, Depreciation and Amortization	Op. margin	Operating margin
EBT	Earnings before Tax	%P	Percentage points
EIB	European Investment Bank	P&L	Profit & Loss Account
EGR	Exhaust Gas Recirculation	PY	Previous Year
EPS	Earnings per share	RDE	Real Driving Emissions
EPL	Einzelplan (German budget plan)	ROCE	Return on capital employed
ES	Electronic Solutions	RoW	Rest of the World
EV	Electric Vehicle	TLVS	Tactical air defence system
FTE	Full Time Equivalents	VS	Vehicle systems
FX	Foreign exchange rate	WA	Weapon & Ammunition
GDP	Gross Domestic Product	WACC	Weighted average cost of capital
HEV	Hybrid and Electric Vehicles	WLTP	Worldwide Harmonized Light-Duty Vehicles Test Procedure
IAA	Internationale Automobil Ausstellung	WOFE	Wholly owned foreign enterprise
ICE	Internal combustion engine		
IFRS	International Financial Reporting Standards		

## Next events and IR contacts

### ■ Events 2018

Commerzbank Conference	Frankfurt	29 August
RS Portugal - Equinet	Lisbon	3 September
RS France Belgium – Soc Gen	Brussels & Paris	12-13 September
RS Spain - Dt Bank	Madrid	20 September
Goldman Sachs Berenberg Conference	Munich	25 September
RS East Coast - Lampe	Boston & New York	3-4 October
Q3 2018 Earnings call		8 November
Capital Markets Day 2018	Berlin	28-29 November

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### ■ Quick link to documents

Corporate Presentation



Interim Reports



Annual Reports



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