



RHEINMETALL AG

THE TECHNOLOGY GROUP FOR SECURITY AND MOBILITY

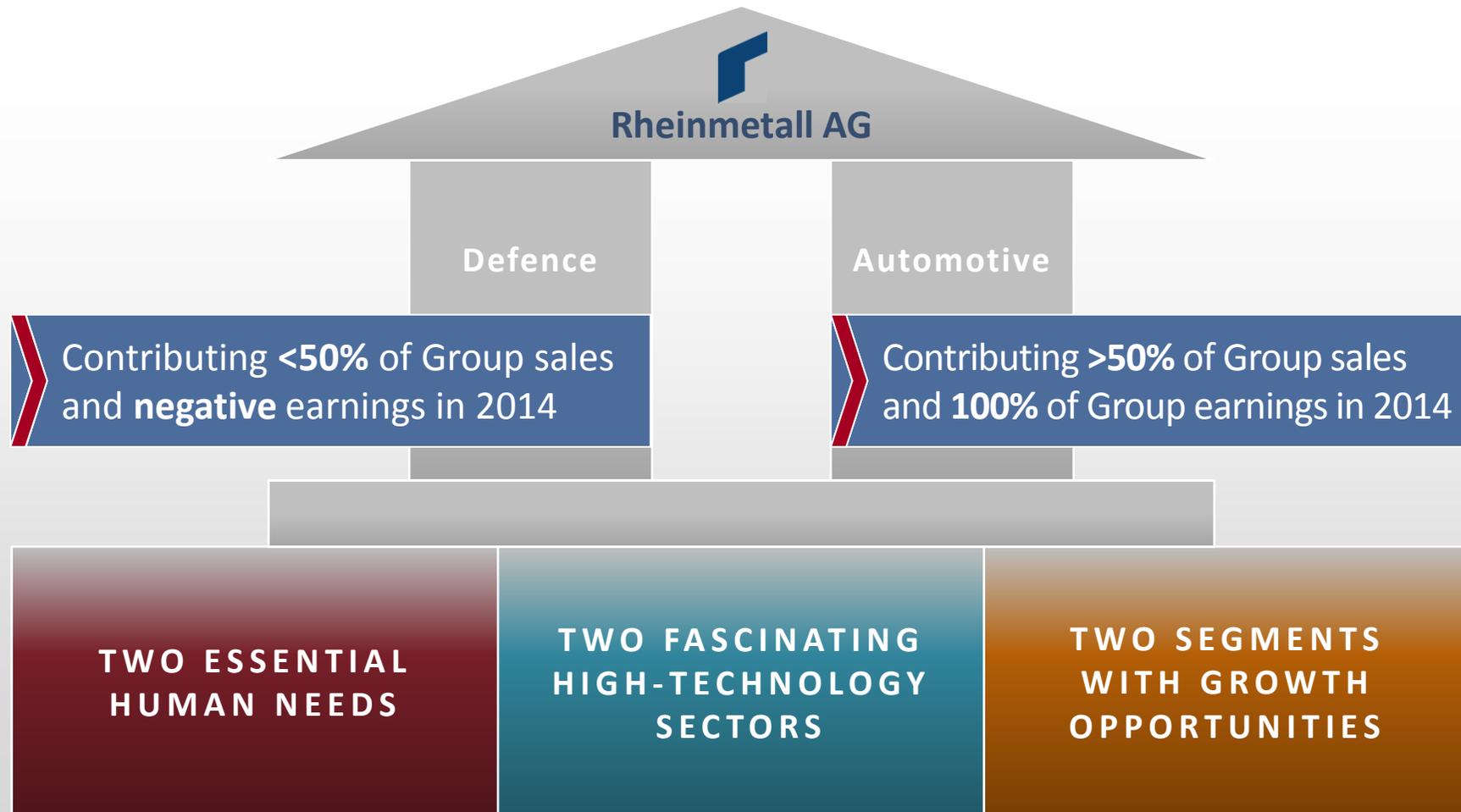
Capital Markets Day 2014 | Düsseldorf | November 26, 2014

Armin Papperger, CEO



Maintaining the two-pillar structure

Minimizing risks and counterbalancing economic cycles





“Rheinmetall 2015”

Automotive fully on track, in Defence time shift of full realization

Internationalization

- **Strong development** of Automotive in China and Mexico
- **Export license delays** affect international Defence orders and thus, the development of certain hubs, e.g. in Russia or Middle East

Growth by products and innovations

- **Strong performance** in Mechatronics (+12%*), **considerable growth** in Hardparts (+6%*)
- **Ramp-up of large system contracts** in Defence, but **weakness in components business** by receding demand and export license delays

Cost efficiency

- **Restructuring on track**, low-cost capacities in Automotive increased, high-cost sites downsized
- **Better focused Defence business** due to comprehensive restructuring; additionally adjustments in two subsidiaries and closing of Oslo site

* 9M 2014 vs. 9M 2013 for continuing operations



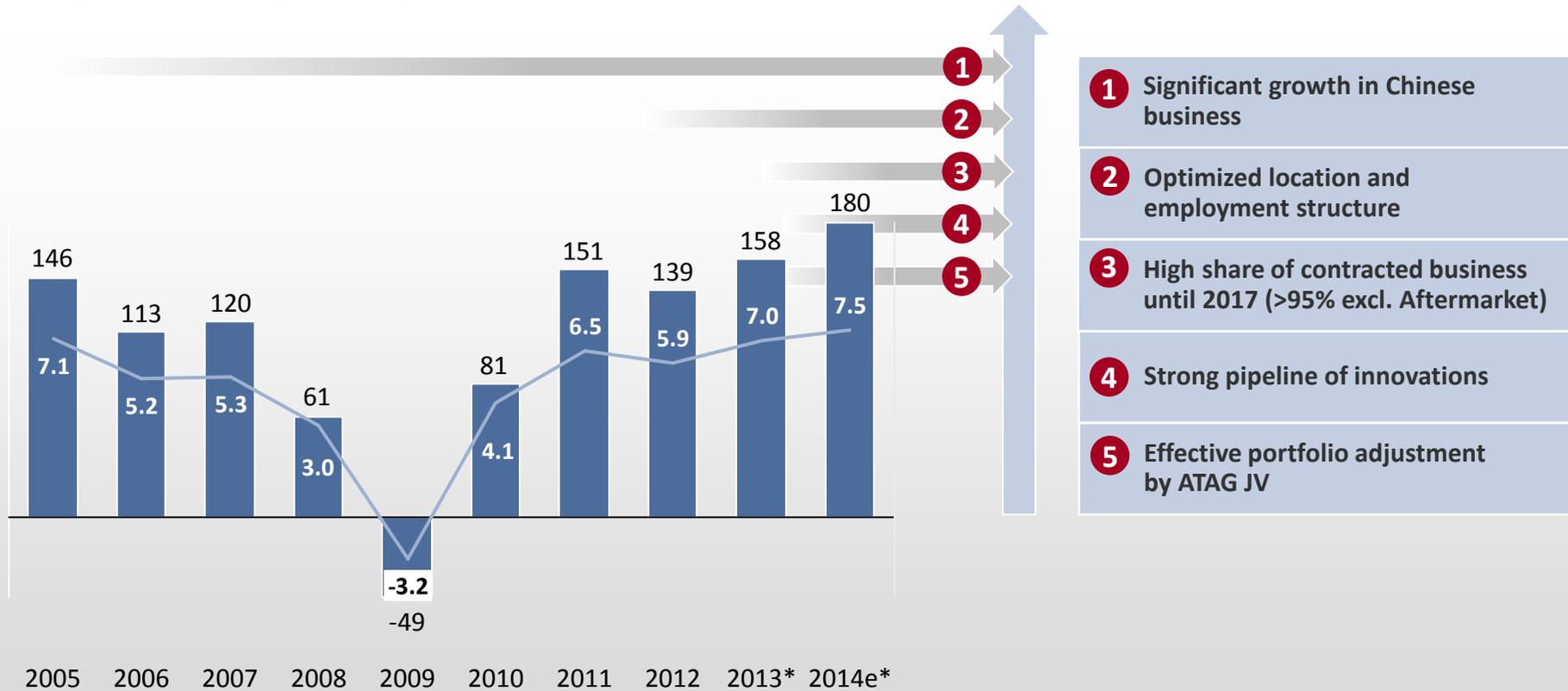
AUTOMOTIVE



Profitable growth

Successful strategy to develop the segment

Operational earnings in EUR million
Operational margin in % of sales



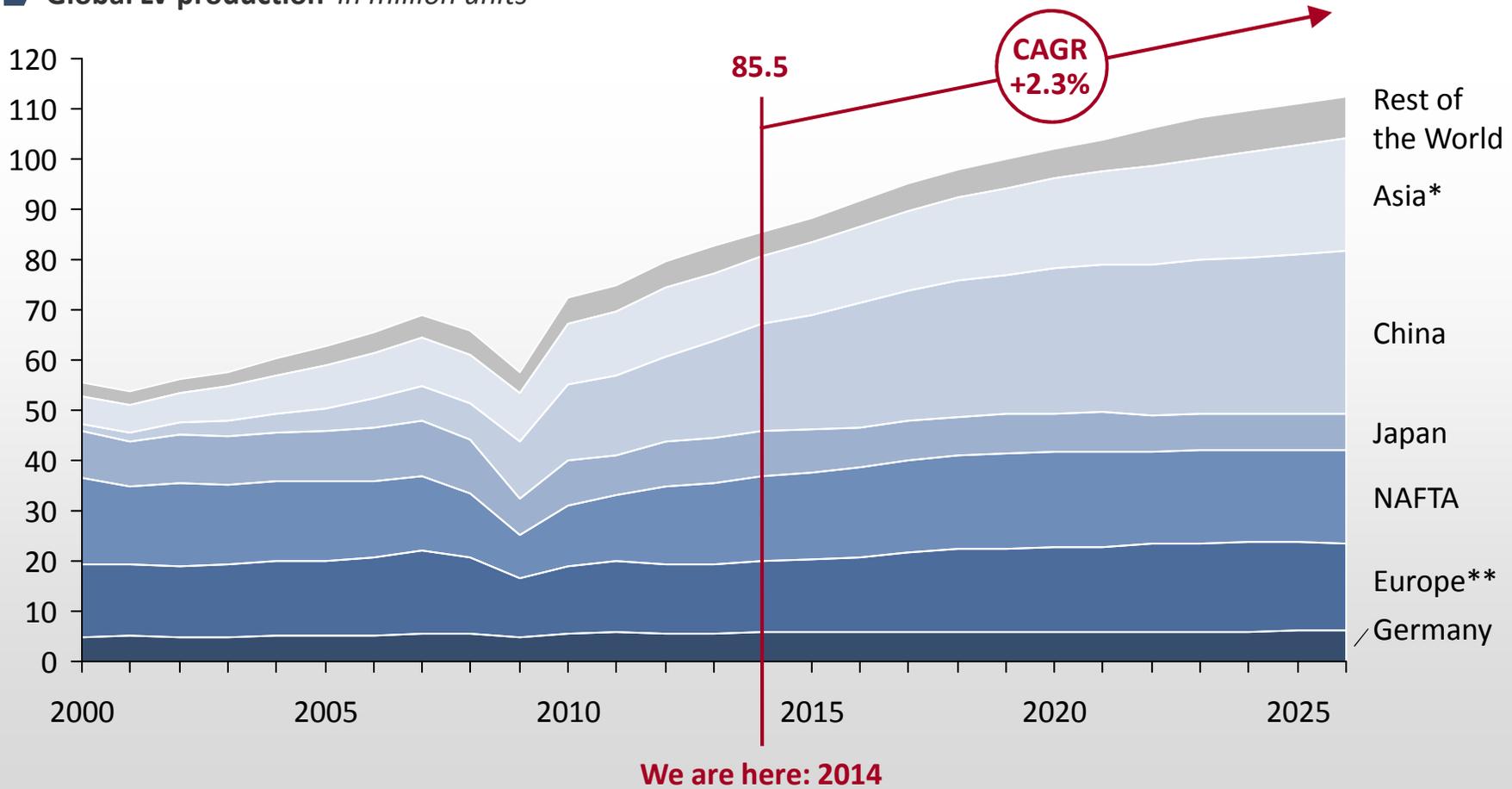
Automotive is on the right track to continue profitable growth

* Continuing operations, i.e. excluding ATAG JV



Long-term perspective Tailwind by a continuously growing market

Global LV production in million units



Source: IHS Automotive

* Without China and Japan
** Without Germany



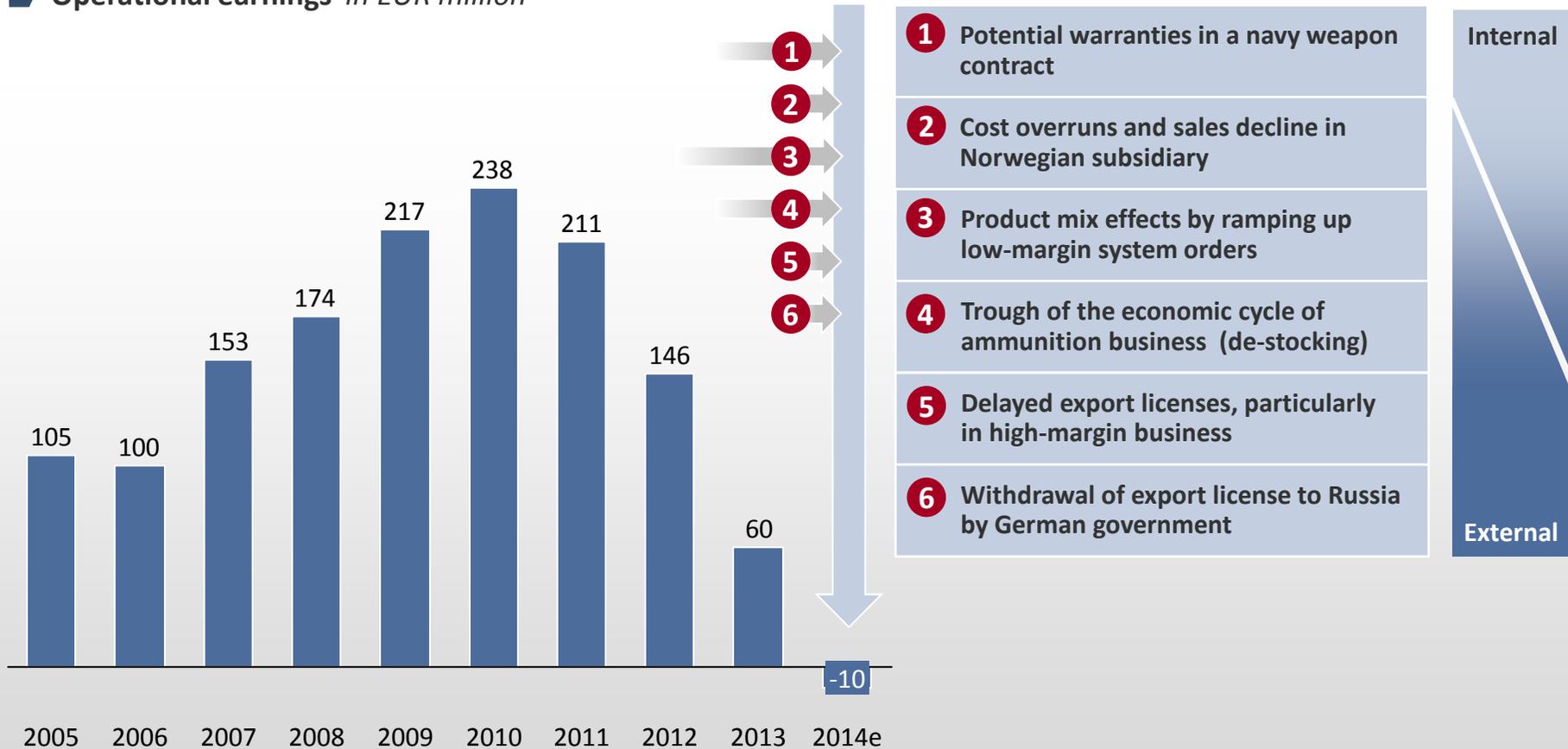
DEFENCE



Deterioration of earnings

A set of internal and external factors impacts Defence business

Operational earnings in EUR million



Business and contract risks materialized – in addition, previously booked profits burden current earnings



External and internal impacts on earnings

Situation analyzed, countermeasures initiated

External impacts		
Withdrawal of export license to Russia	Delayed export order licenses, esp. ammunition and Protection Systems	Sales decline due to weak markets
EUR 20 million	EUR 20 million	EUR 20 million
EUR ~ 60 million		

Internal impacts / Product mix (EUR 10 million)	
Provisions for potential warranties in naval gun contract	Cost overruns in Norwegian subsidiary
EUR 20 million	EUR 10 million
EUR ~ 40 million	

Shape and adjust to markets

- **Claiming compensation** for withdrawal of export license to Russia
- **Establishing early consultations** with German export authorities to prevent delays or unexpected decisions
- **Extending the focus on uncritical markets** regarding export licenses
- **Reassessing investment strategy**

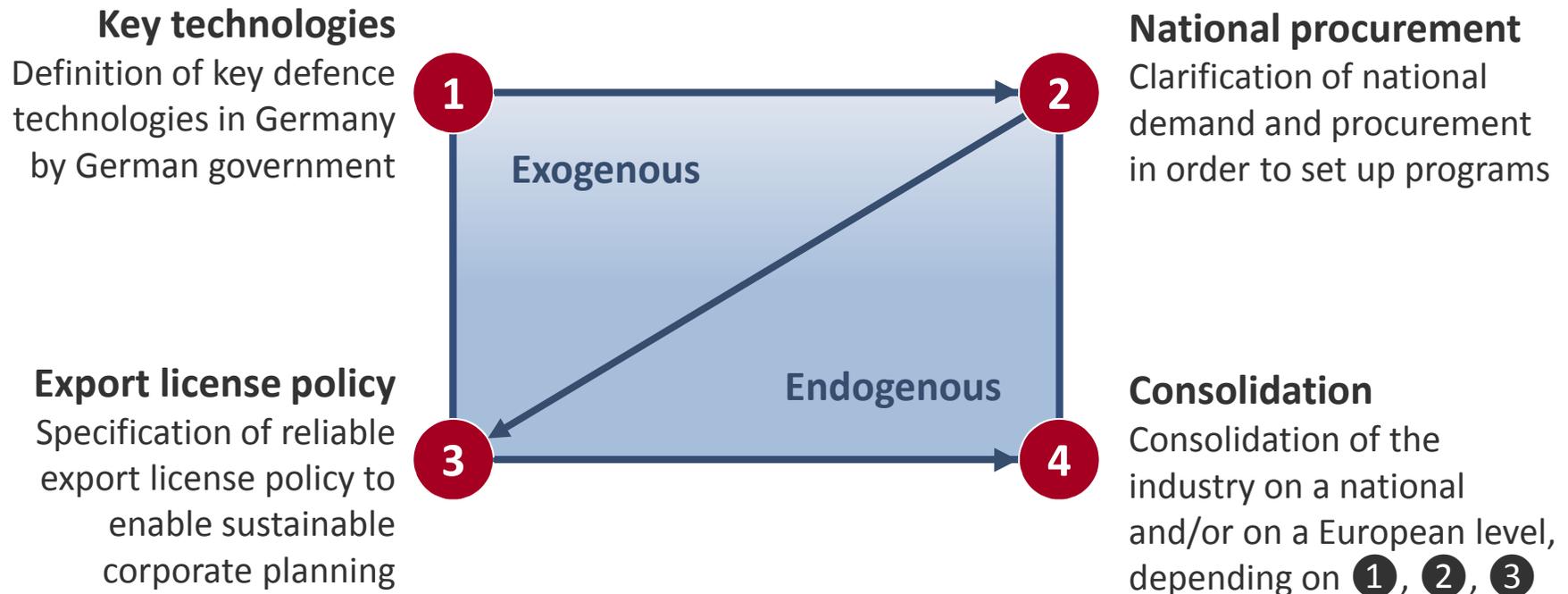
Adapt organization and processes

- **Downsizing capacities** in two international subsidiaries and **closing one site**
- **Continuing improvement of project management skills**
- **Replacing management**



National perspective

The “Magic Square” of German defence industry

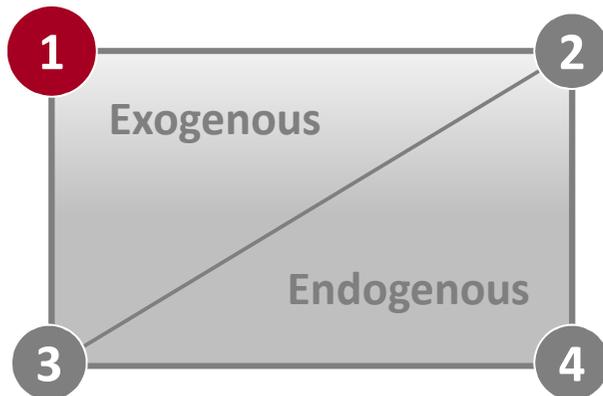




The “Magic Square” of German defence industry

(1) Definition of key defence technologies in Germany

Definition of key defence technologies in Germany



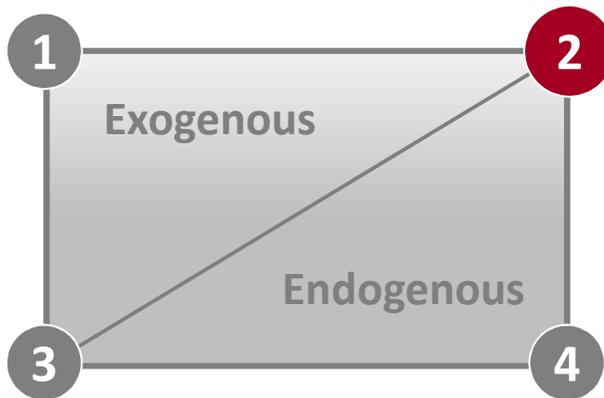
- Fundamental for **long-term German security policy**
- Key question: Which competencies will the German government define as **key national defence technologies?**
- Currently ongoing **high-level discussion** about the first draft of German MoD



The “Magic Square” of German defence industry

(2) Definition of national demand for security products

Clarification of national demand and procurement



- After a period of “peace dividend” and in the light of **rising global conflicts**, we now see a **change in mind** of public opinion and of decision makers
- **Set-up of R&D and procurement programs** for relevant key equipment of German forces



Definition of national demand for security products

First requests and drafts show rethinking of national procurement



New procurement

- Budget request for further 131 Boxer vehicles recently approved
- Continuation of upgrade program for Fox tanks
- Equipping forces by further "Gladius" systems
- Replacement of military trucks fleet
- Request for new main battle tank and discussion about needed number of vehicles

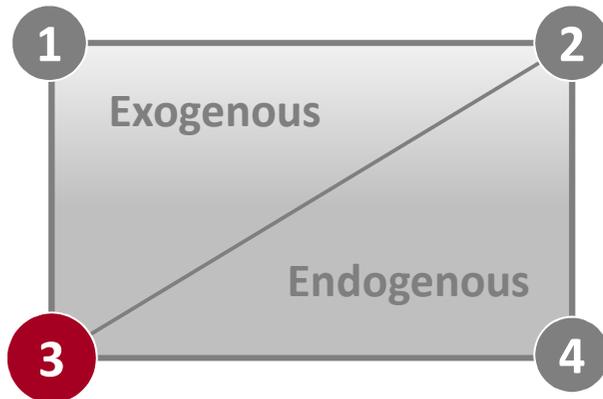


What are the relevant key products for national security in 2020 and beyond?



The “Magic Square” of German defence industry

(3) Export license policy



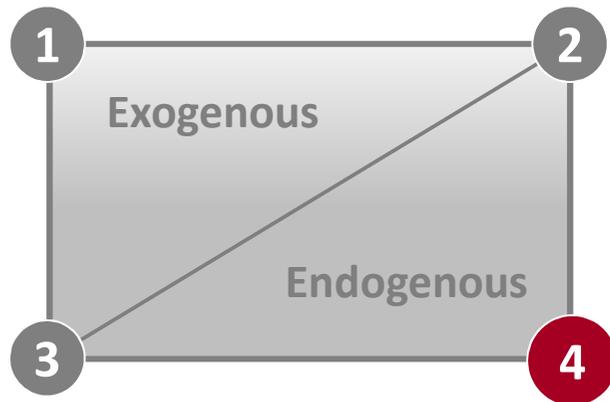
Export license policy

- Currently continuation of previous practice of **case-by-case decisions**,...
- ...but **high uncertainty and costly delays** in the process of issuing licenses
- Thus, **reliable and sustainable guidelines** for exports to third-party countries needed, especially for identified key technologies
- Supplemented by an **improved early warning system**



The „Magic Square“ of German defence industry

(4) National and European consolidation of the defence industry



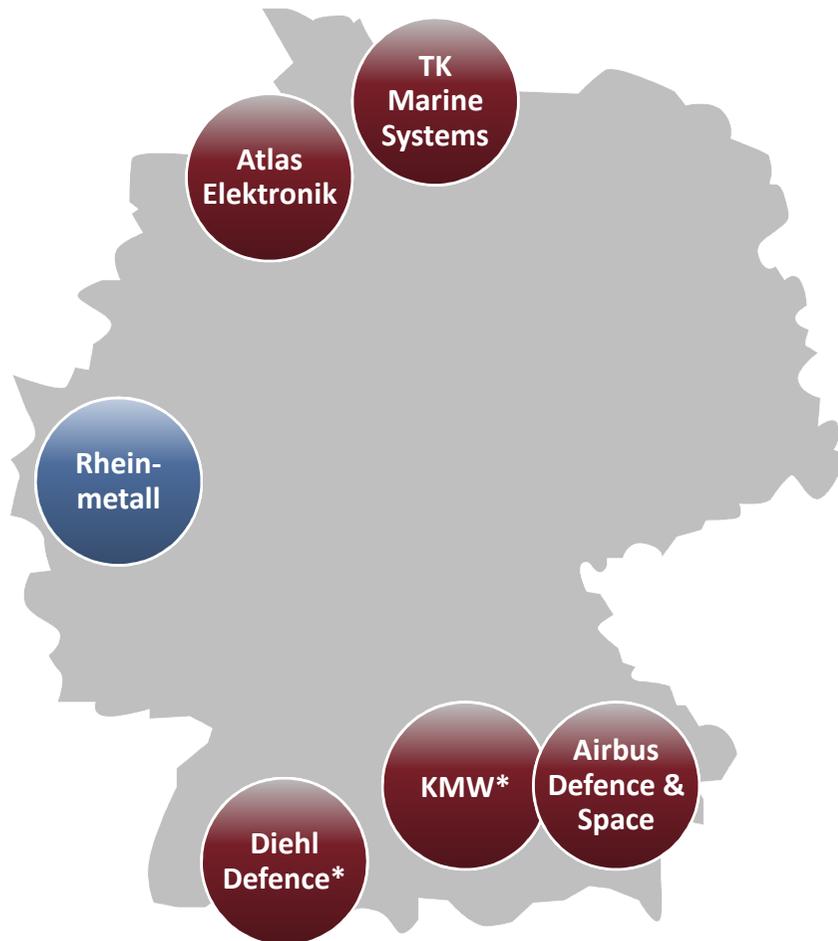
**National and European consolidation
of the defence industry**

- **Discussion opened** by announcement of KMW/Nexter JV and intended divestments of Airbus Defence & Space
- Other way for a successful consolidation:
 - First step: **national consolidation** to realize synergies and to form “national champions”
 - Second step: “**national champions**” establishing on European and on international level



National and European consolidation of the defence industry

First step: Priority of a national consolidation



National consolidation

- only makes sense, **if complying with political and economic conditions** (key technologies, procurement, export policy)
- could pave the way for an international consolidation by **forming “national champions”**

List of companies not complete and only for illustrating reasons

* Family-owned



National and European consolidation of the defence industry Second step: Consolidation of a fragmented European market



- European defence industry still **broadly fragmented**
- **Large public shareholding** in many European defence players complicate a possible consolidation
- Political discussions about the need of international consolidation induced by **shrinking budgets in Europe**

List of companies not complete and only for illustrating reasons

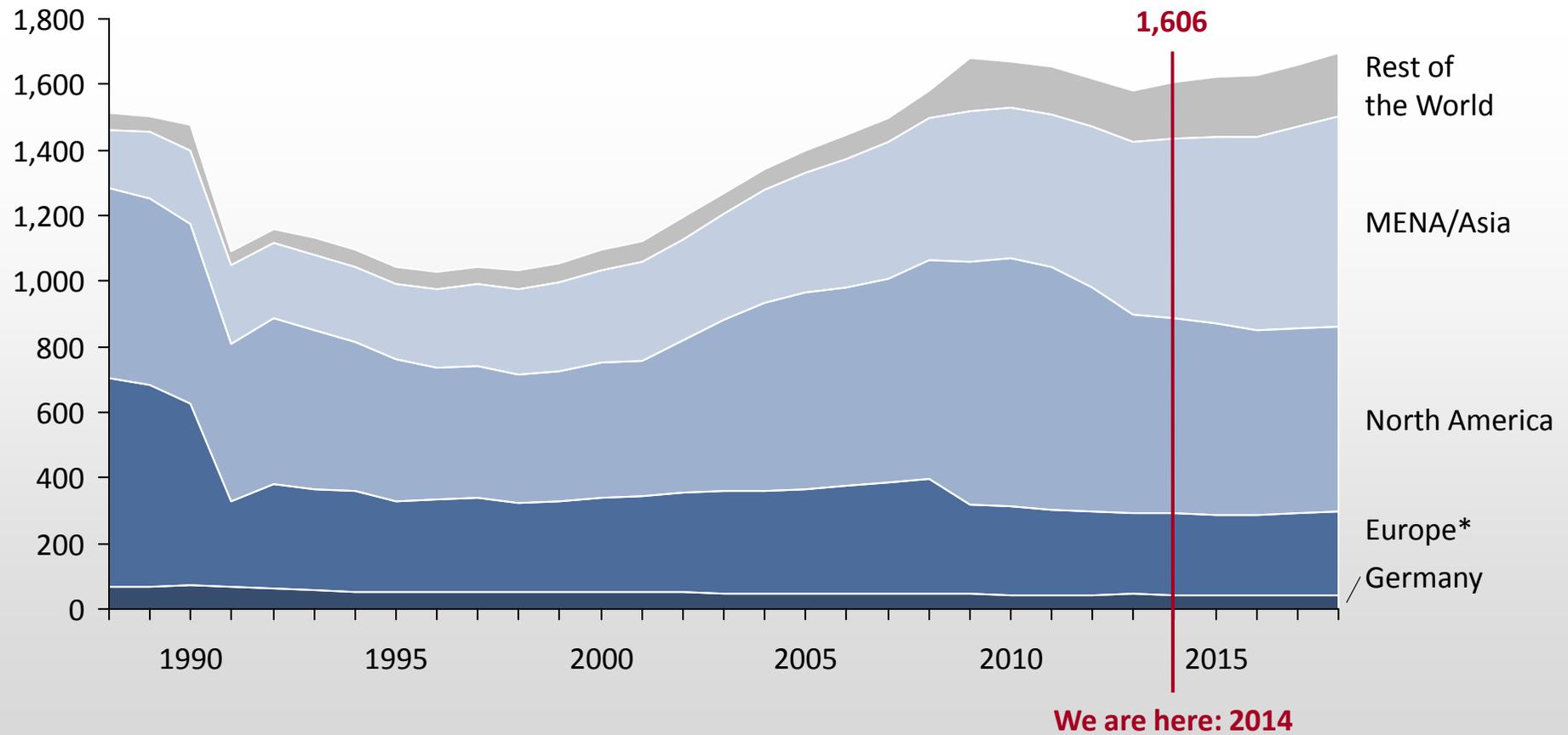
* State owns >25% of shares



International perspective

Defence is a growing market due to globally increasing need for security

Global defence spending in USD billion



Source: IHS Janes, SIPRI (www.sipri.org), Rheinmetall team analysis

* Without Germany



Future markets and hub development

Main factors for intensifying our internationalization



Export restrictions implying obstacles for R&D spending in Germany



Stagnating defence budgets in traditional markets



Unbalanced relation between domestic sales share and value creation



Unequal political support (= unbalanced global competition)



Dynamic growth in new markets (Asia/Pacific, Middle East, Latin America)



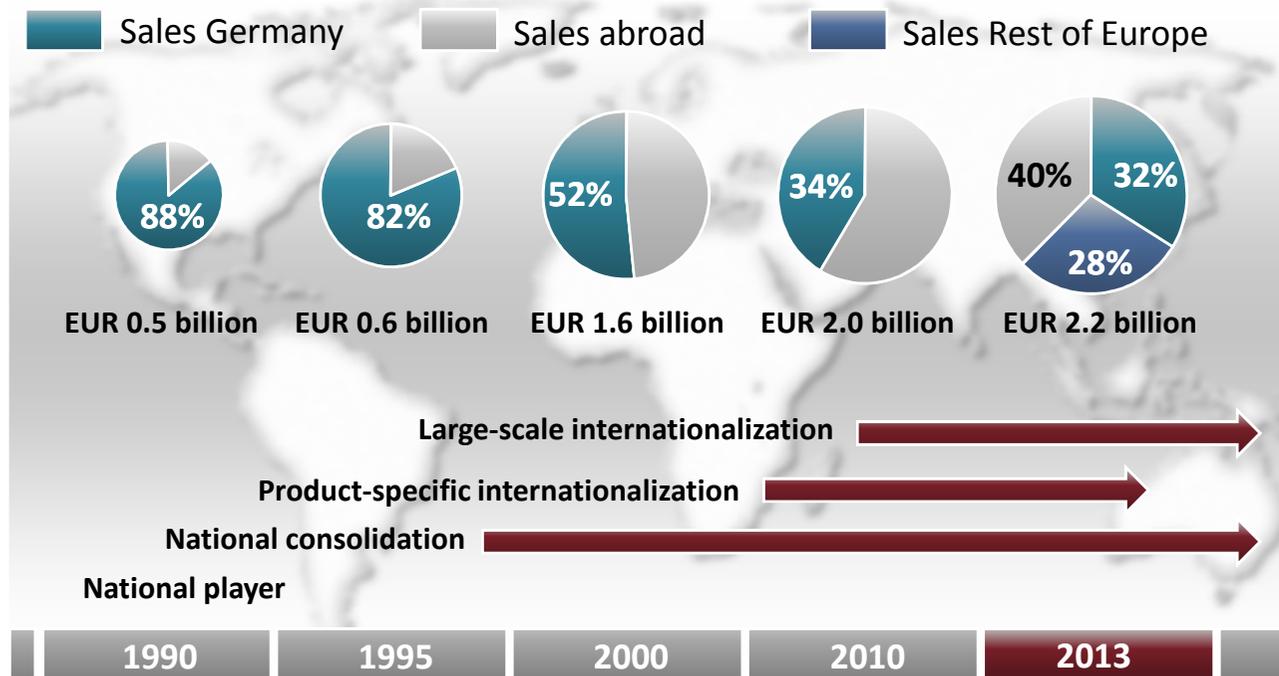
Increasing demand for local content, i.e. local production, manufacturing, assembly



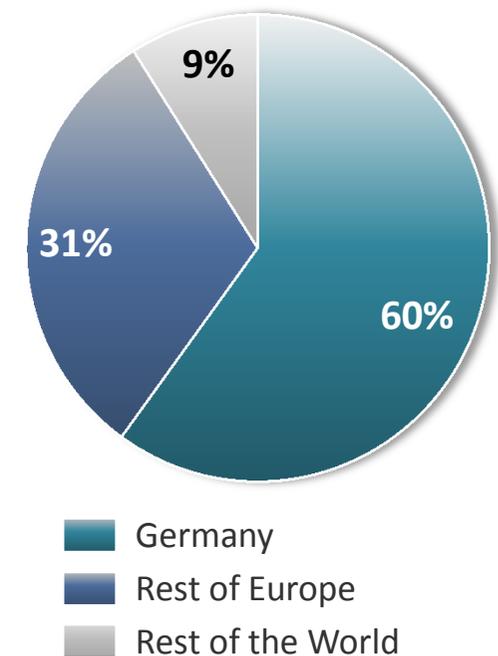
Future markets and hub development

Unbalanced relation between domestic sales share and value creation

Development of international sales share *in %*



Value creation 2013 (gross margin split by regions) *in %*

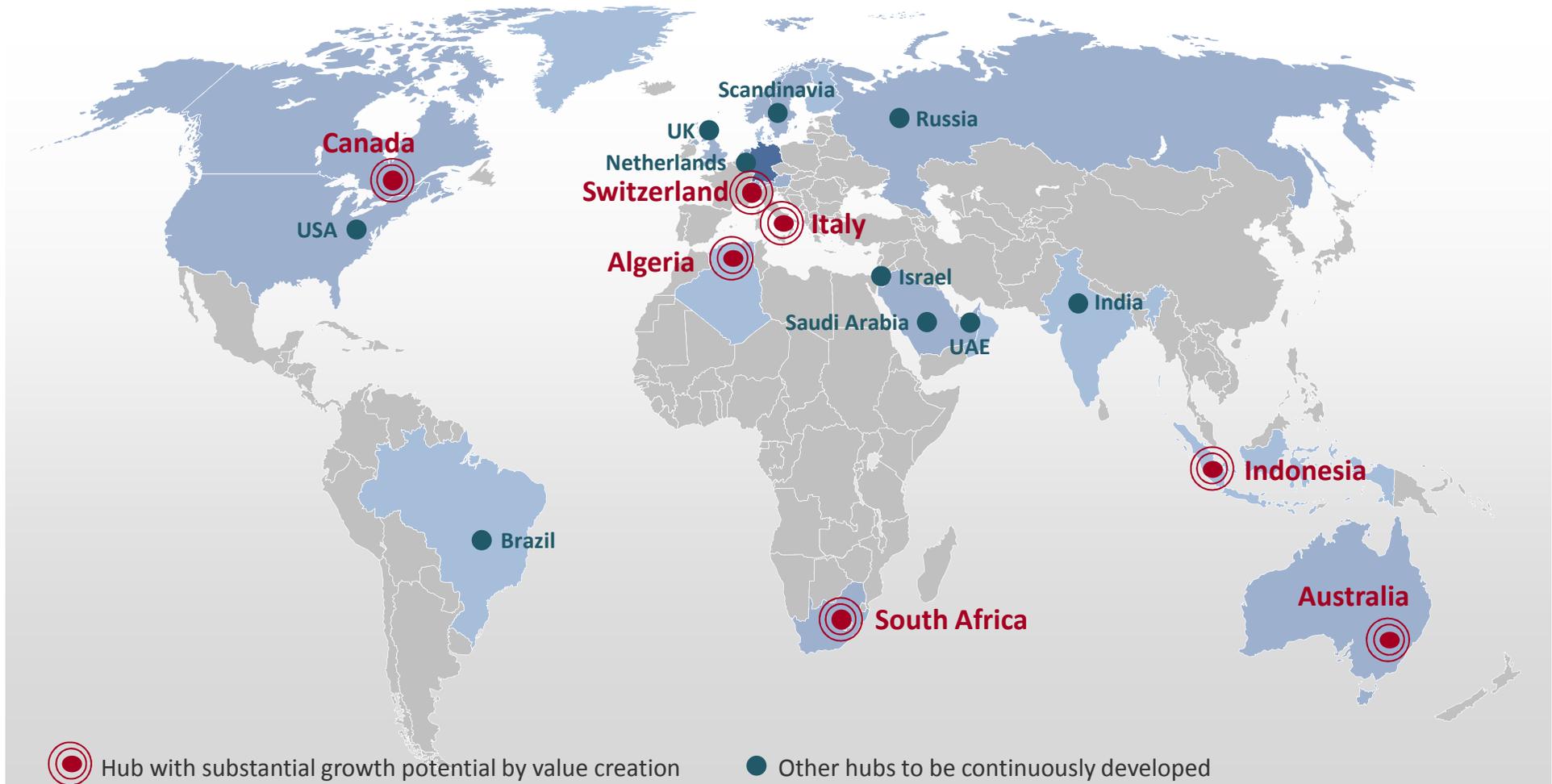


Unbalanced relation: More than 90% of value creation and gross margin generated in Europe, while European revenues only represent roughly 60%



Future markets and hub development

Realizing growth potential by more value creation in international hubs

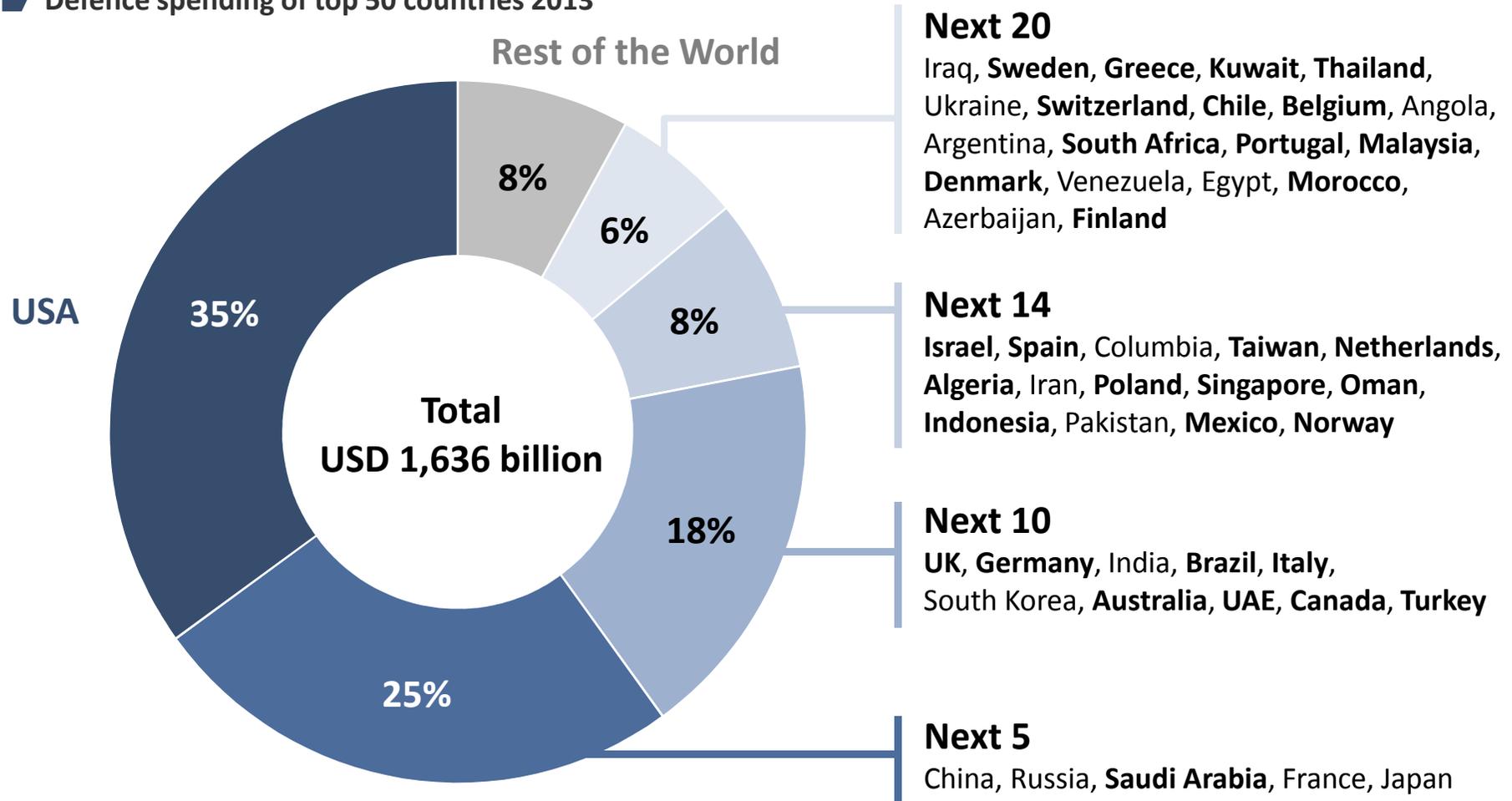




Future markets and hub development

Intensifying today's hub structure by covering global markets

Defence spending of top 50 countries 2013



Source: SIPRI World Military Expenditure (www.sipri.org)



Mitigating compliance risks

Compliance is an essential element of Rheinmetall's corporate culture



- Due to current cases in India and Greece, we completely **reshuffled our compliance system**
- **Countermeasures initiated**
 - Supporting official investigations
 - Additional external investigations authorized
 - Internal compliance organization strongly enlarged and improved
 - External ombudsman appointed



PERSPECTIVE 2015 AND BEYOND



Defence tomorrow

Strategic orientation for Rheinmetall Defence

- Improving operational performance to resolve earnings trough in the short term
- Minimizing project risks and corresponding one-offs by **strengthening project management capabilities**
- **Reassessing investment strategy** in combination with hub strategy
- Combining existing product portfolio with **new business concepts**, e.g. Ferrostaal JV

Security

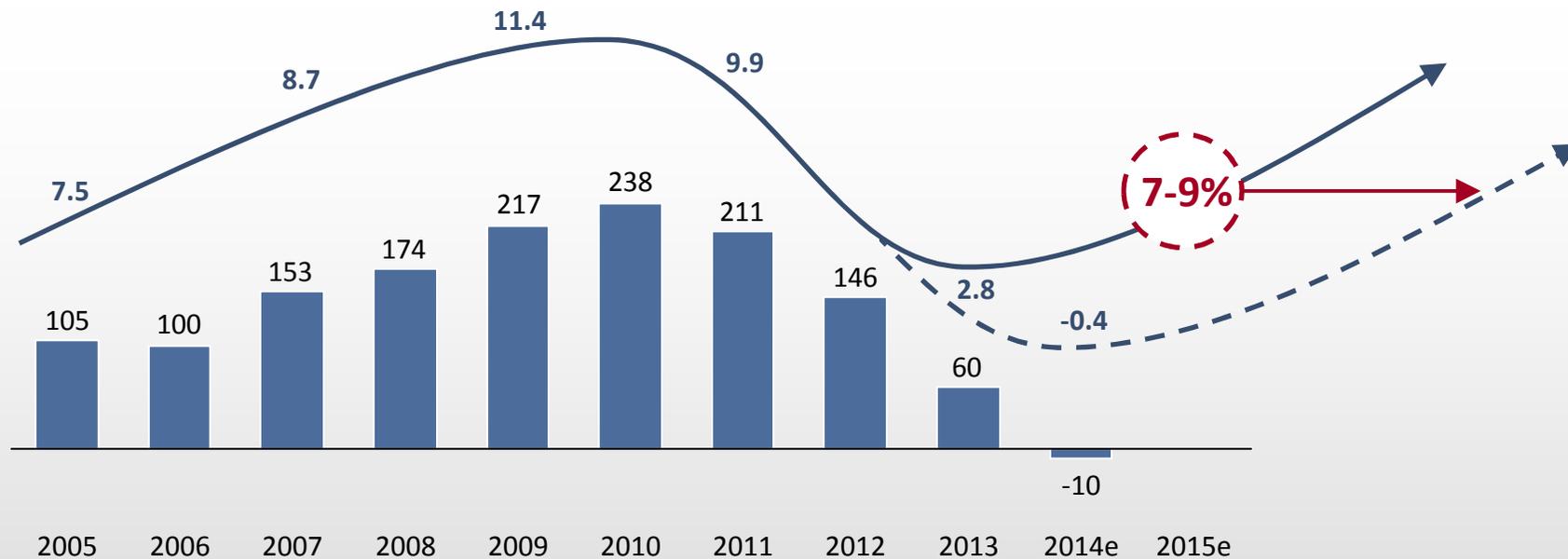




Earnings trough in Defence

Original margin target not to be achieved in the short to medium term

Operational earnings in EUR million
Operational margin in % of sales



Assumptions and drivers:

- Recovery of defence markets in NATO and “NATO-equivalent” countries
- Recovery of weapon and ammunition business
- Normalization of the export license process in Germany



Automotive tomorrow

Strategic orientation for Rheinmetall Automotive

- **Growth** with existing products in emerging markets, e.g. Mexico, China
- **Growth with new products** in existing markets, e.g. variable valve train
- **Expanding Aftermarket** business
- Safeguarding restructuring success
- **Increasing the operational flexibility** in economic up- and downturns
- **Improving efficiency of R&D** spending

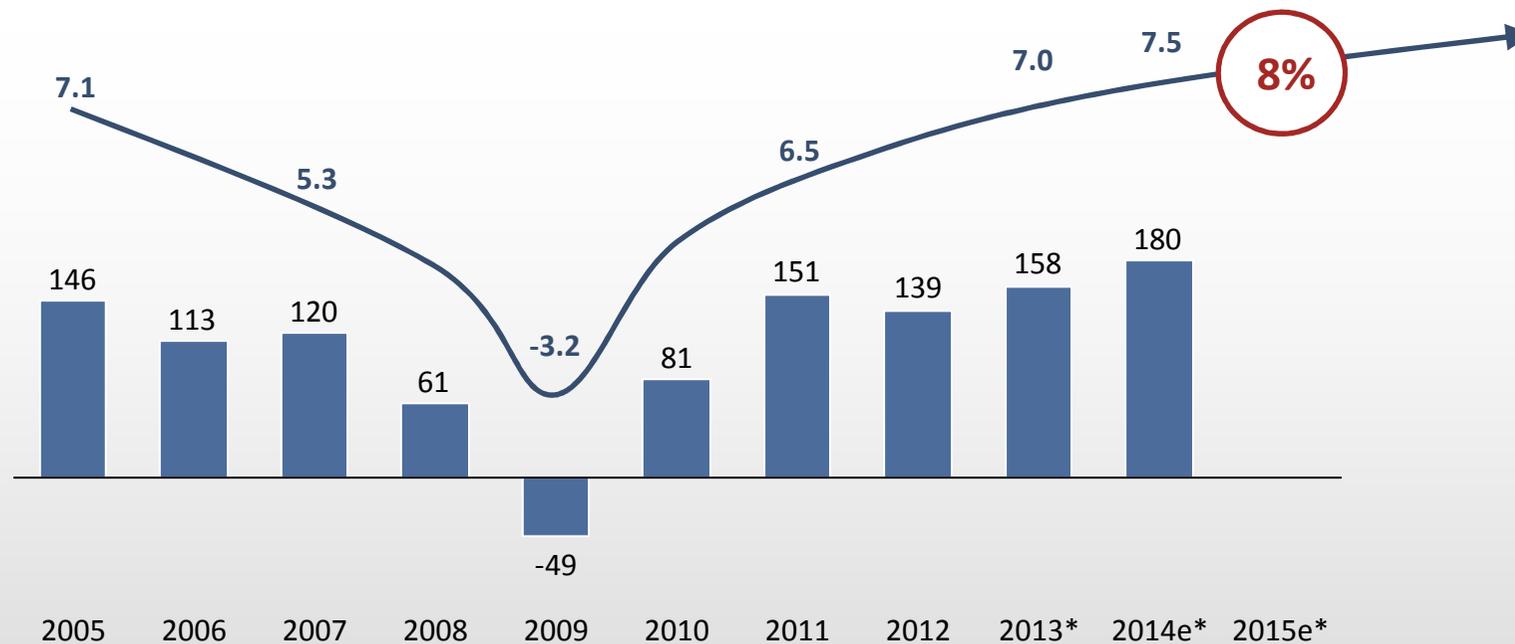
Mobility





Sustainable improvement in Automotive Optimistic to succeed the original margin target in time

Operational earnings in EUR million
Operational margin in % of sales



Assumptions and drivers:

- No considerable economic slowdown in global light vehicle production
- Strong growth of Mechatronics above market average

* Continuing operations, i.e. excluding ATAG JV

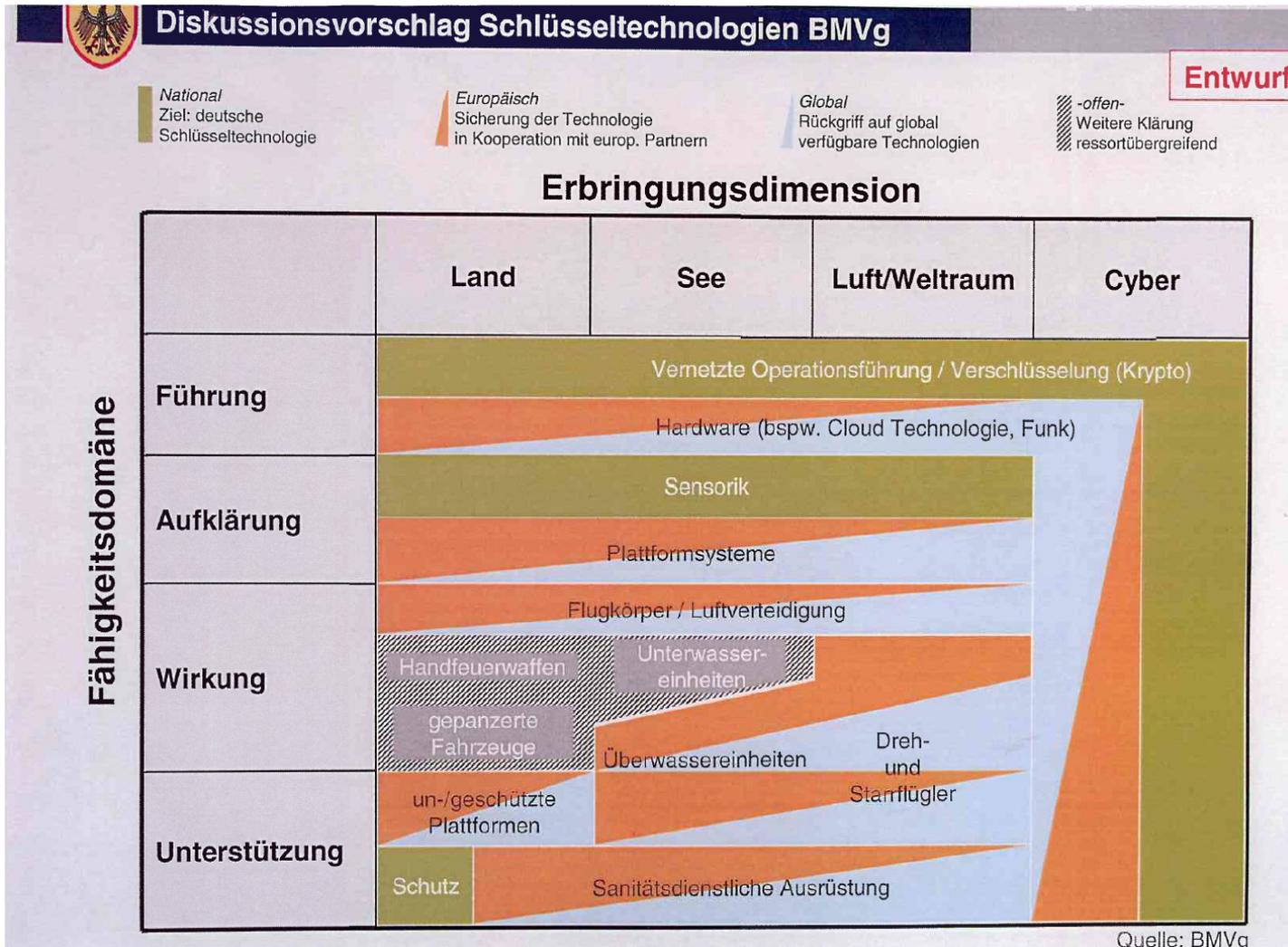


APPENDIX



Definition of key defence technologies in Germany

First draft by German Ministry of Defence





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