



RHEINMETALL AG

THE TECHNOLOGY GROUP FOR SECURITY AND MOBILITY

Capital Markets Day 2014 | Neuss | November 27, 2014

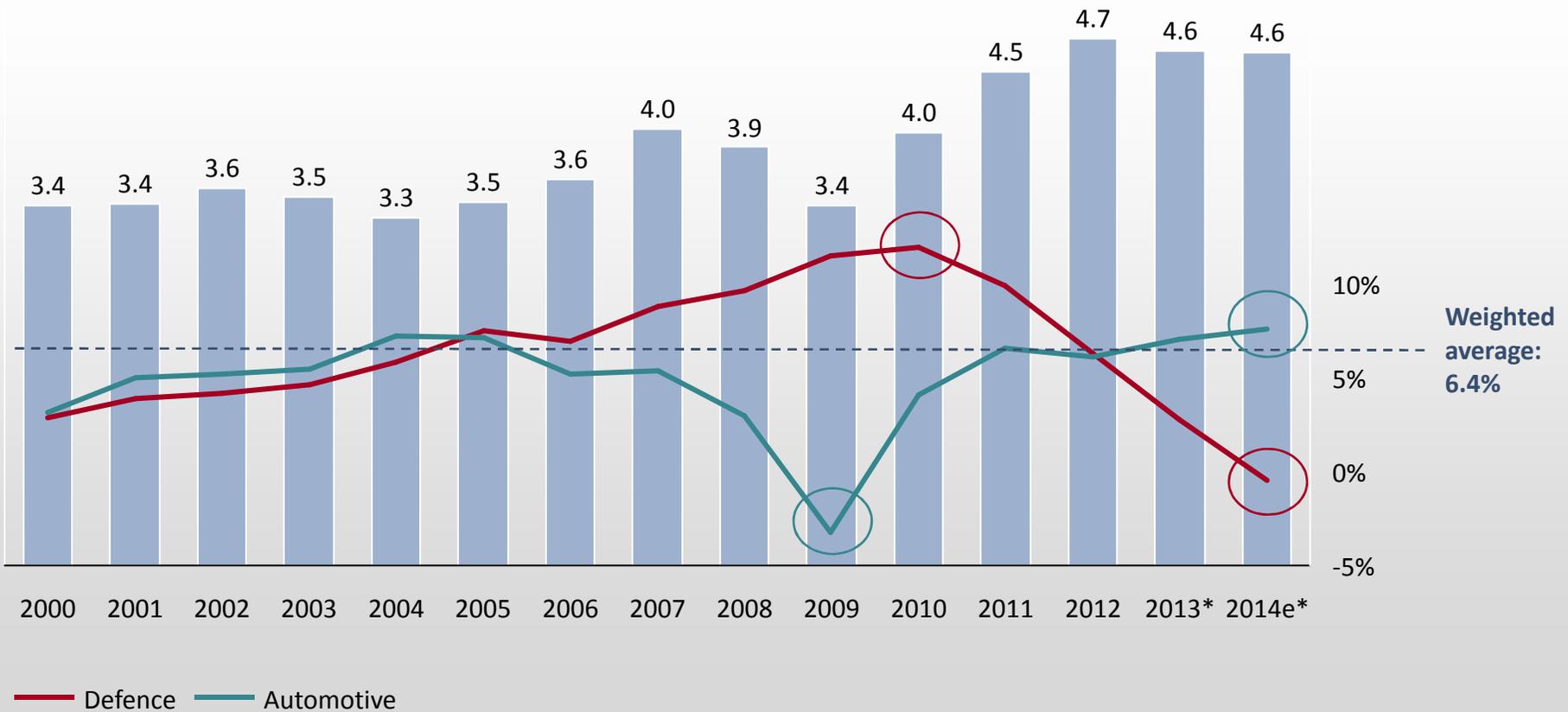
Helmut P. Merch, CFO



Two pillars stabilize group results

Cyclical development of segmental earnings

■ Sales Group and segmental operational margin in EUR billion resp. in % of segmental sales

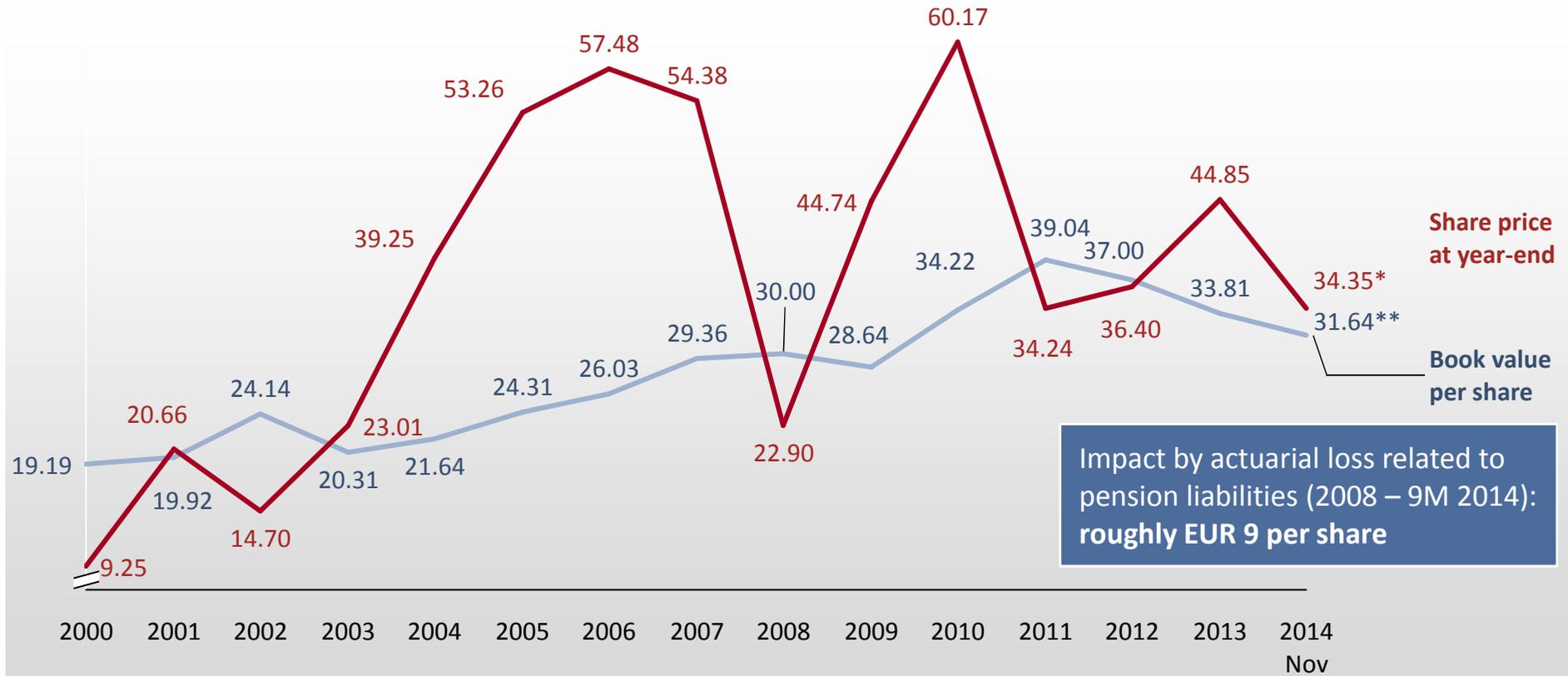


* Continuing operations, i.e. excluding ATAG JV



Continuous growth of book value, but volatile perception of stock exchanges

Book value per share and share price at year-end *in EUR*



Until 2009: 36,000,000 shares; since 2009: 39,599,000 shares

* As of November 24, 2014
 ** As of September 30, 2014



RHEINMETALL DEFENCE



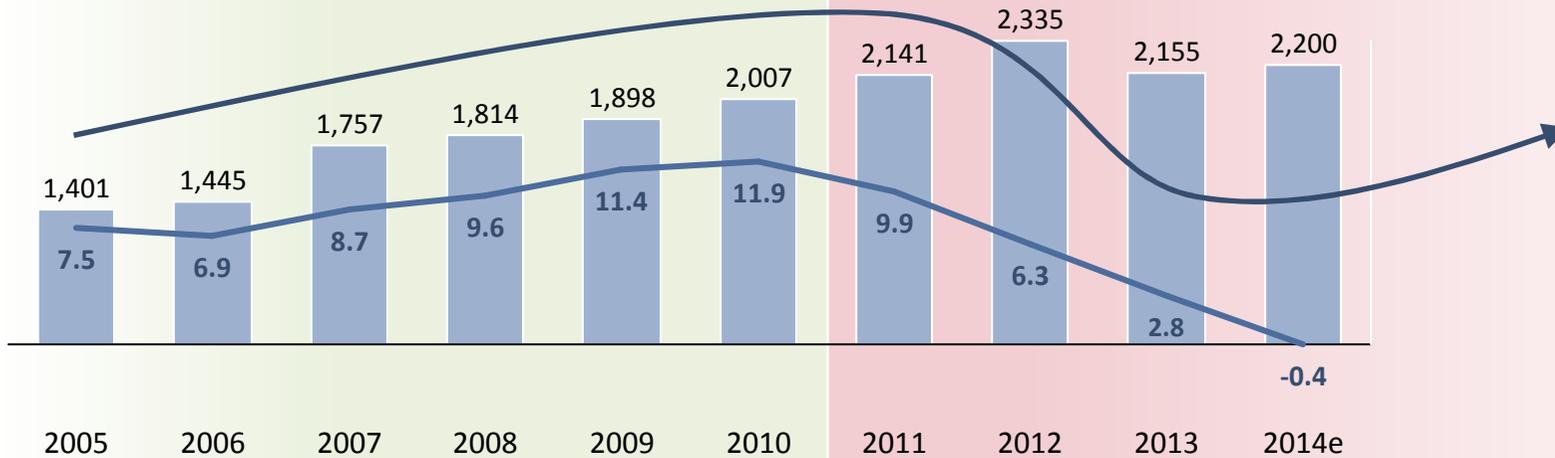
A set of internal and external factors led to steady growth

Strong earnings development, but erosion after weakened demand

■ Sales in EUR million
 Operational margin in % of sales

- + International military operations, e.g. Iraq (2003), Afghanistan (2001)
- + Defence budgets increases
- + Higher share in components business, esp. ammunition
- + Several profitable small and medium-sized acquisitions
- + Reliable German export license policy

- Troops withdrawals from Iraq (until 2011) and Afghanistan (starting 2011)
- Budget cuts in traditional markets due to financial crisis
- Higher share of systems orders with low profitability
- Full consolidation of Wheeled Vehicles
- Tightening German export license policy

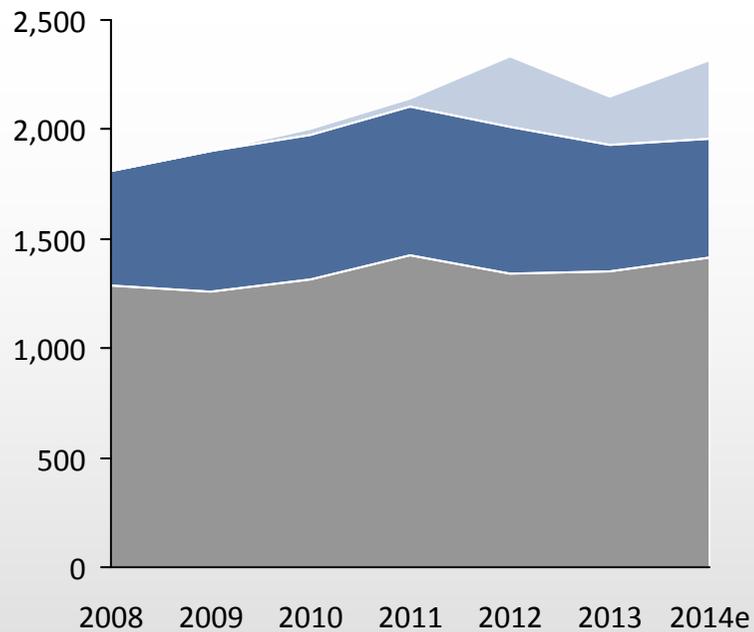




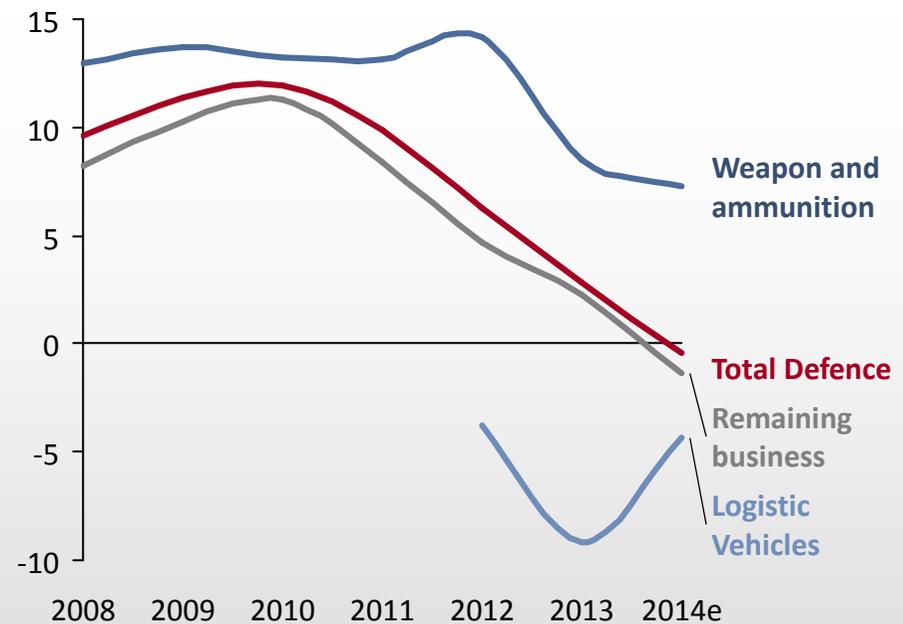
Profitability impacted by product mix effects

Lower share of high-margin business, margin dilution by Logistic Vehicles

■ Sales in EUR million



■ Operational margin in % of sales



■ Logistic Vehicles
 ■ Weapon and ammunition
 ■ Remaining Defence business

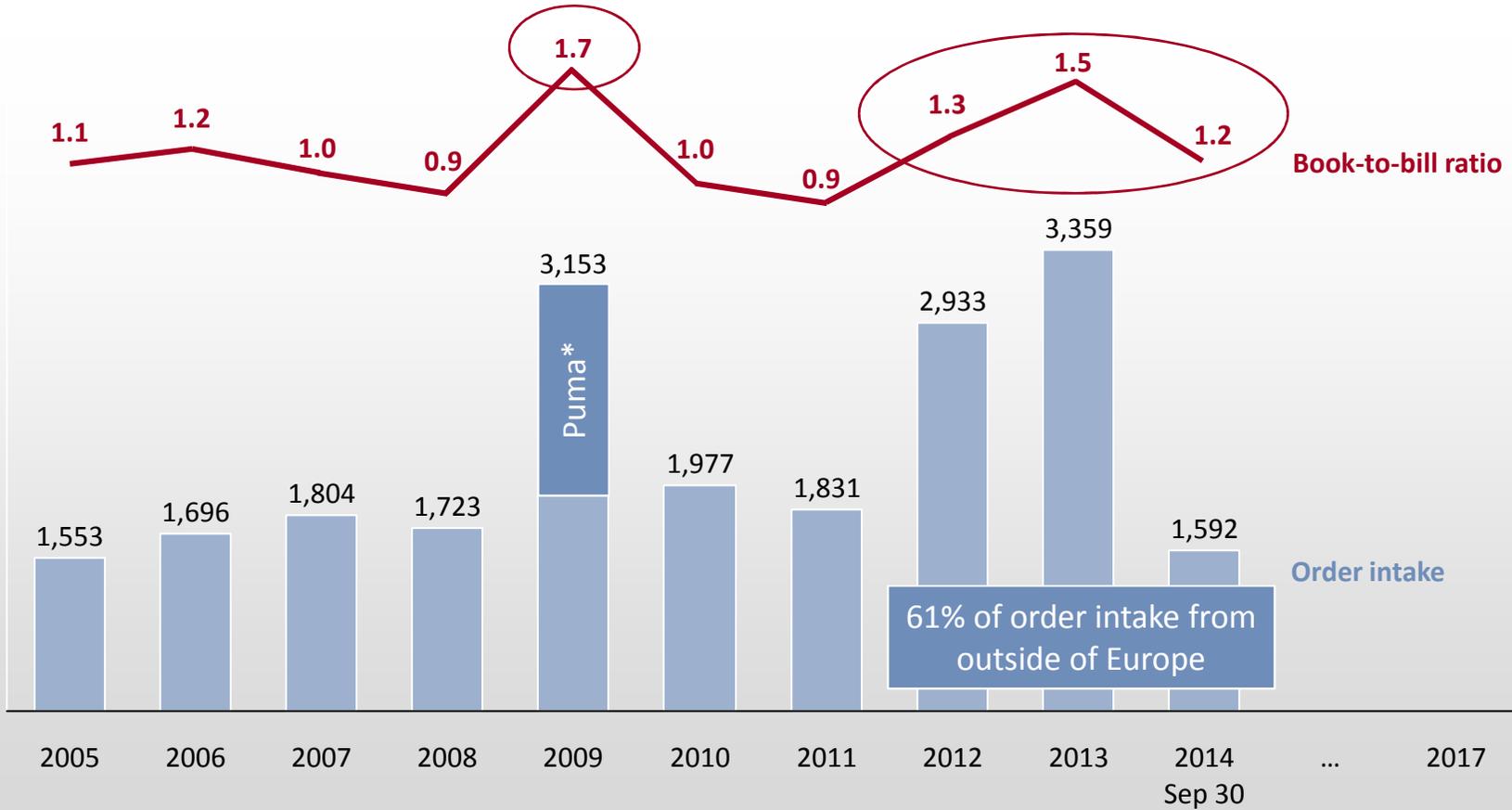
- Weapon and ammunition decisive for profitability of Defence, but receding demand
- Logistic Vehicles important for Rheinmetall's systems house approach, but with lower profitability
- **Consequently, return to double-digit margins not achievable with new business structure**



Book-to-bill ratio since 2012 above average

Increasing share from emerging markets drives order intake

Order intake in EUR million
Book-to-bill ratio

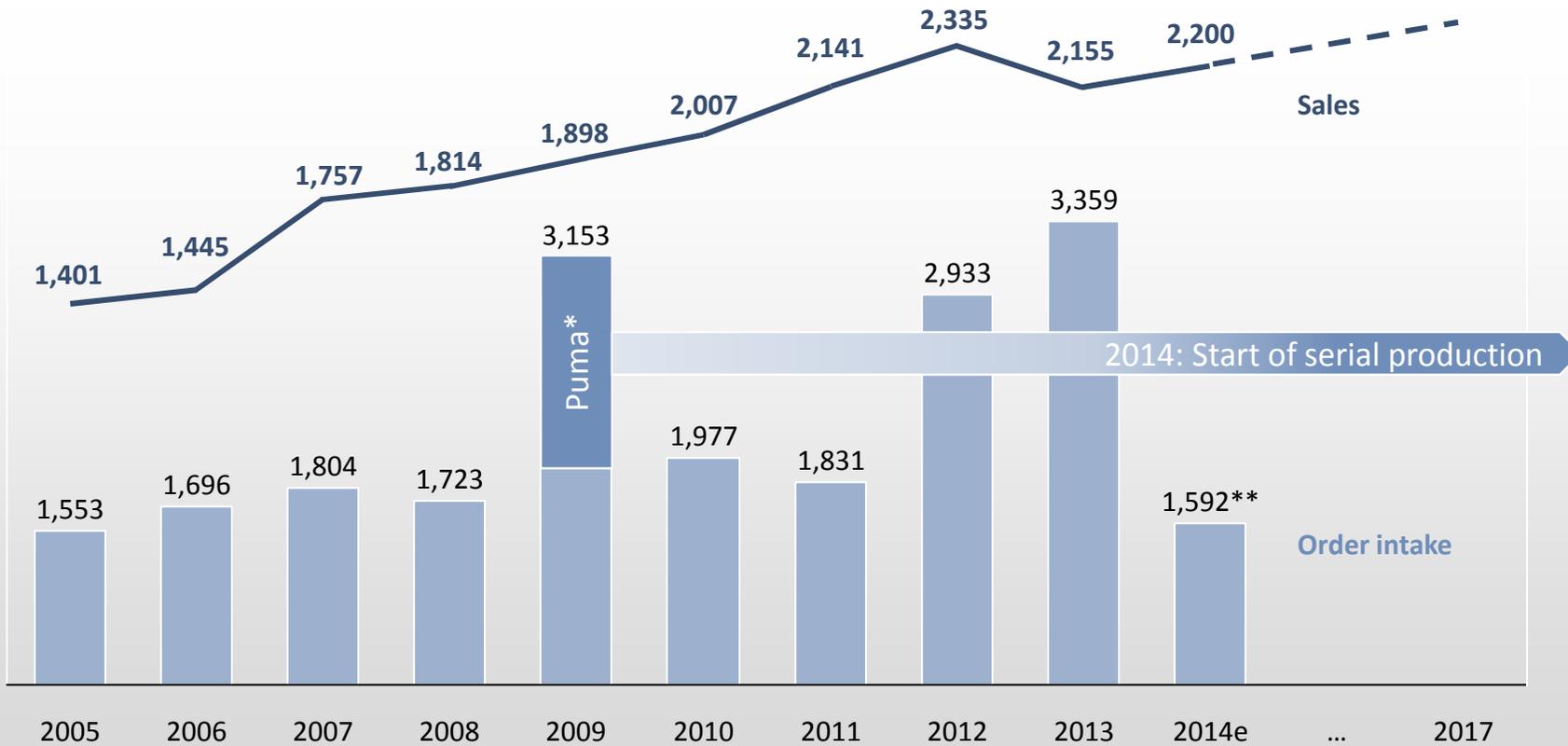


* Serial contract of EUR 1.2 billion, generating significant sales from 2015 onwards



High order intake and ramp-up of Puma Pushing future top line growth

Order intake and sales in EUR million



* Serial contract of EUR 1.2 billion, generating significant sales from 2015 onwards

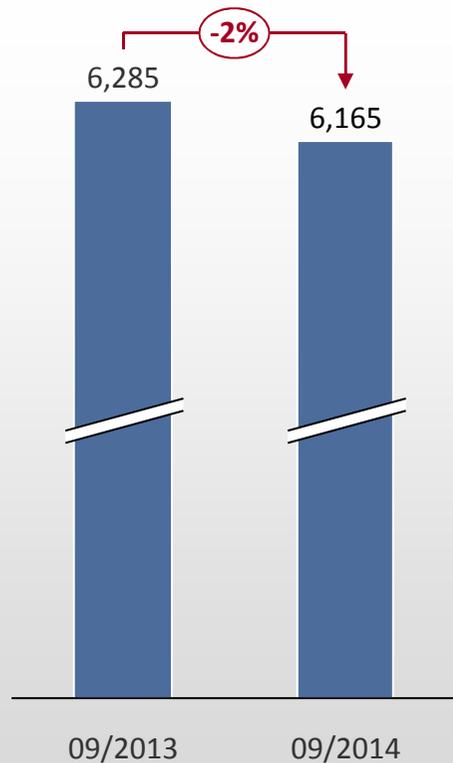
** As of September 30, 2014



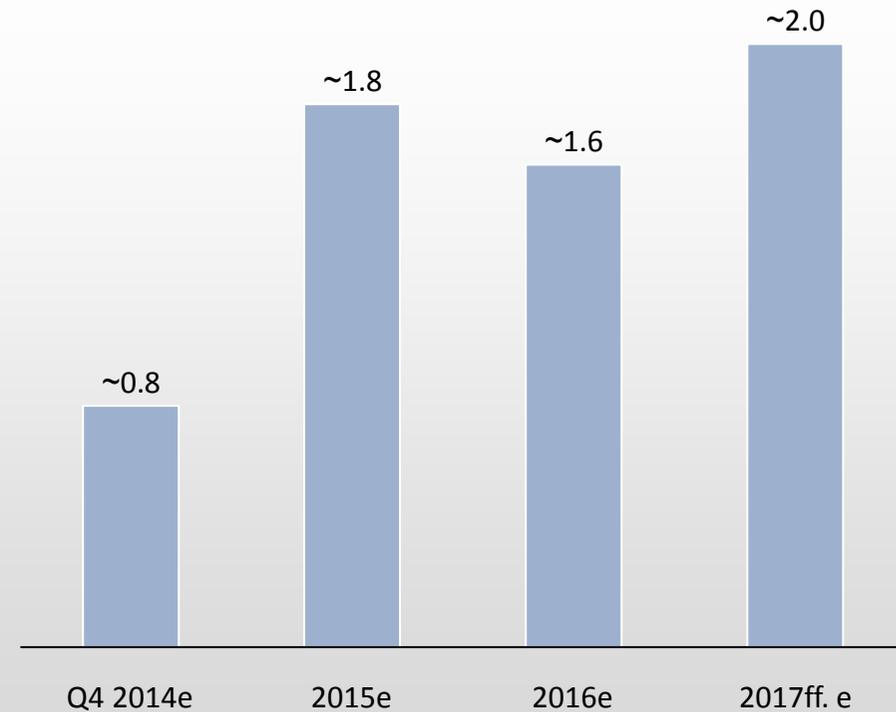
Order backlog

Large-scale systems contracts form the backbone for future top line growth

Order backlog as of September 30, 2014...
in EUR million



...turning into sales
in EUR billion



Expected sales covered by booked orders



Order backlog

Managing the challenges of large-scale orders

They offer long-term chances...

- **Acquisition of new customers in new markets:** Australia, New Zealand, Indonesia, Algeria, Russia
- **Components follow systems:**
 - Establishing product basis for future profitable business
 - Defence is a decade business: Future long-term opportunities by weapon and ammunition, upgrades, service, maintenance
- **Cross-selling:** using contacts to customers for marketing of other products
- **Creating size:** volume improves competitiveness, establishing a long-term workload

...but risks have to be managed:

- **Increased complexity**
 - by size of large-scale contracts
 - by different international business cultures
 - Risks of customer changes of contracts (e.g. reduction from 400 to 350 Puma vehicles)
 - Political risks (e.g. withdrawal of export license to Russia)
- **Cost overruns** by unexpected development problems or supplementary customer's wishes
- **Lower profitability** as a consequence



What did we experience in 2011 – 2014?

Unexpected events diluting earnings		in EUR mn
Cost overruns	Wheeled vehicles (2011), air defence system (2012), tracked vehicles (2013), combat training center (2013), cost overruns in Norwegian subsidiary (2014)	- 54
Warranties	Provisions for potential warranties in a naval gun contract (2014)	- 20
Political risks	Withdrawal of export order license to Russia (2014)	- 20
Order acquisition	Unexpectedly high costs for acquisition of orders (2013)	- 10
Compliance	Financial burden resulting from a compliance case (Greece)	n/a
		- 104



What have we done?

— Comprehensive restructuring

- Expenses for lay-offs and relocation of plants: EUR 77 million since 2012
- Reduction of headcount planned until 2015: 600 employees
- Effect partially absorbed by preparation for roll-outs of large orders in the coming years and by simultaneously downsizing and enlarging different German production sites

— Optimizing processes to improve project management

- New approval process for new bidding
- Comprehensive and intensive management training
- Hiring experienced project managers and starting a trainee program
- Close project controlling by quarterly top management reviews for 75% of project volume

— Significant changes on top management level

- Roughly 13% of managers on first and second levels of divisions replaced



What remains to be done?

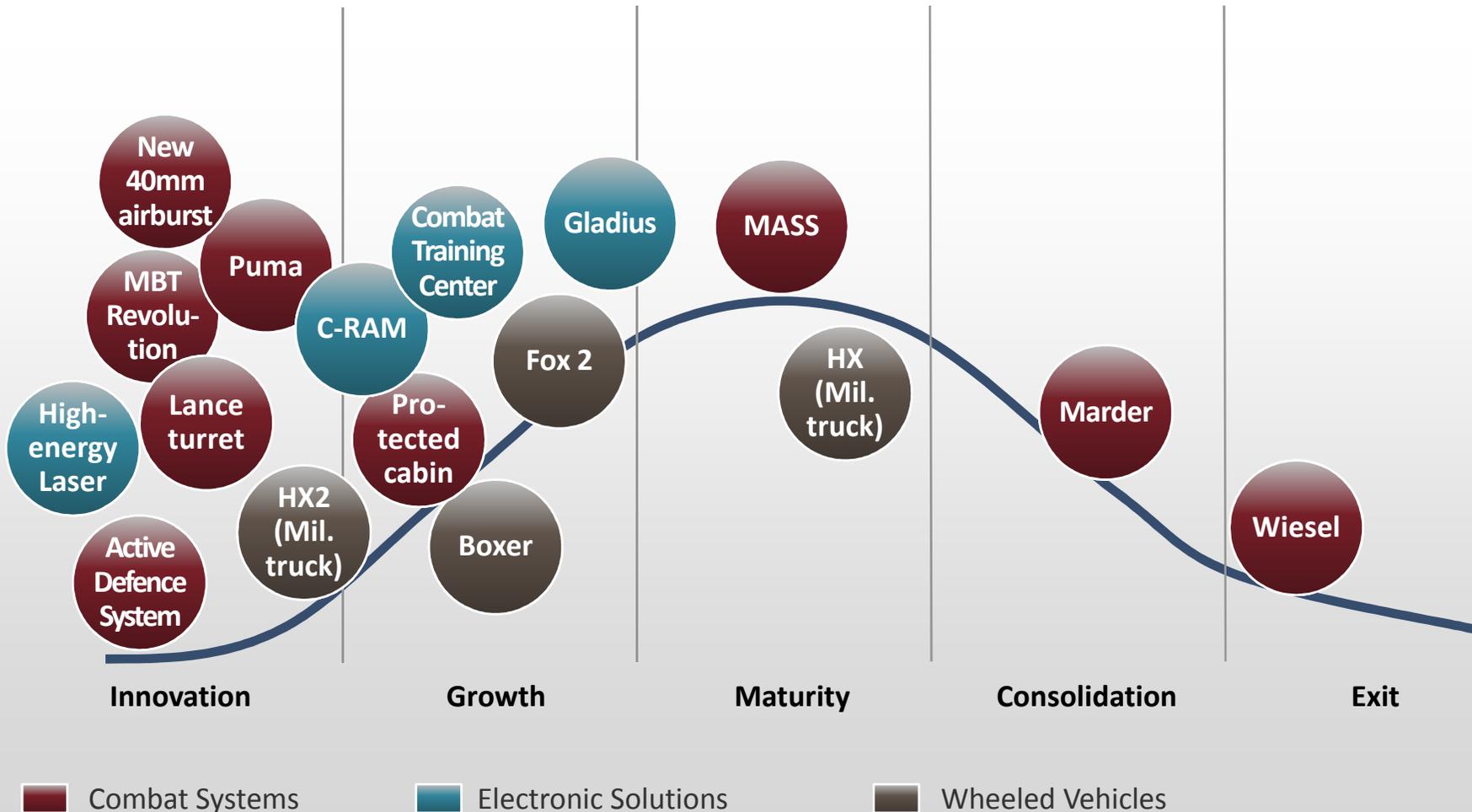
- Higher emphasis on **claim management and working capital management**
- **Reassessing investment strategy** in combination with hub strategy, e.g. ammunition research center in South Africa
- **Strengthening entrepreneurial thinking** of top management in divisions and business units
- Enhancing consultations with German government in order to **obtain better assessment of export order decisions**



Order potential beyond the backlog

Front-loaded pipeline of innovative products

Selective products per division positioned in the life time cycle



■ Combat Systems
 ■ Electronic Solutions
 ■ Wheeled Vehicles



RHEINMETALL AUTOMOTIVE



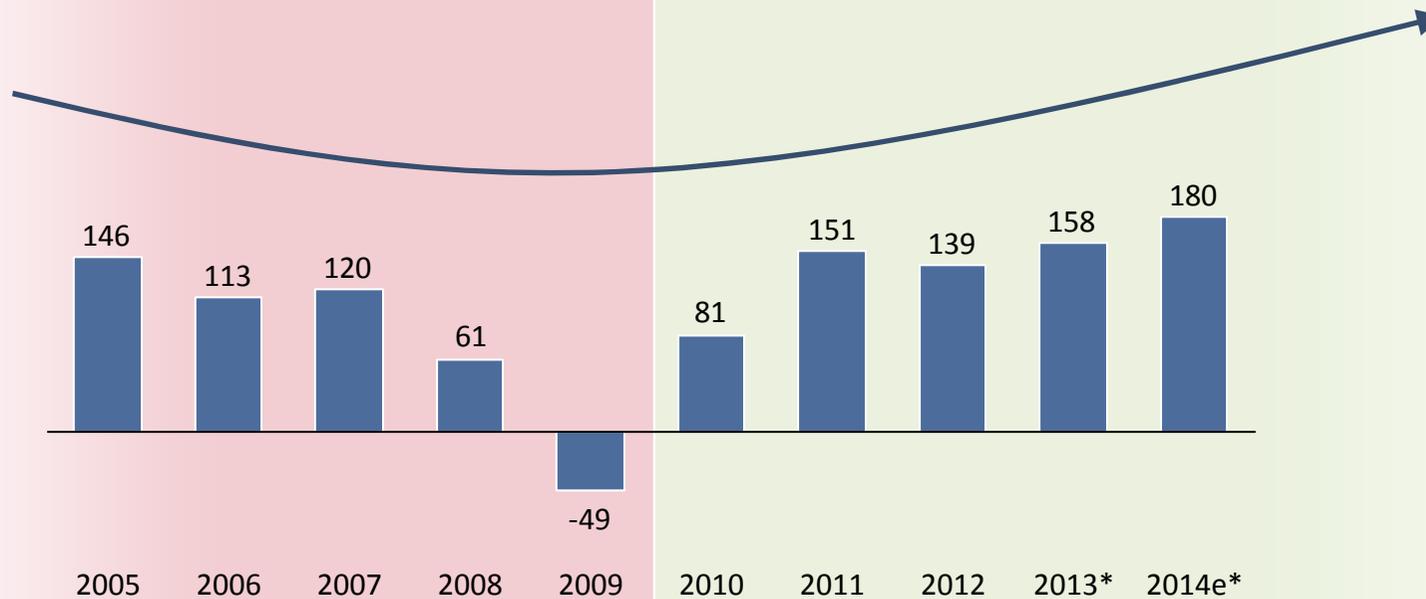
A set of internal and external factors leads to steady growth

Effective measures initiated to recover after the heavy crisis in 2008/2009

Operational earnings in EUR million

- Increasing raw material prices and the World Financial Crisis 2008/09 led to declining profits in the automotive industry
- Strict and comprehensive restructuring programs in order to reduce costs in 2009

- + Strong recovery, especially driven by increasing LV production in China, North America and Europe
- + High growth impact by innovative products
- + Improved cost structure by low-cost production facilities
- + Further restructuring in 2013 initiated

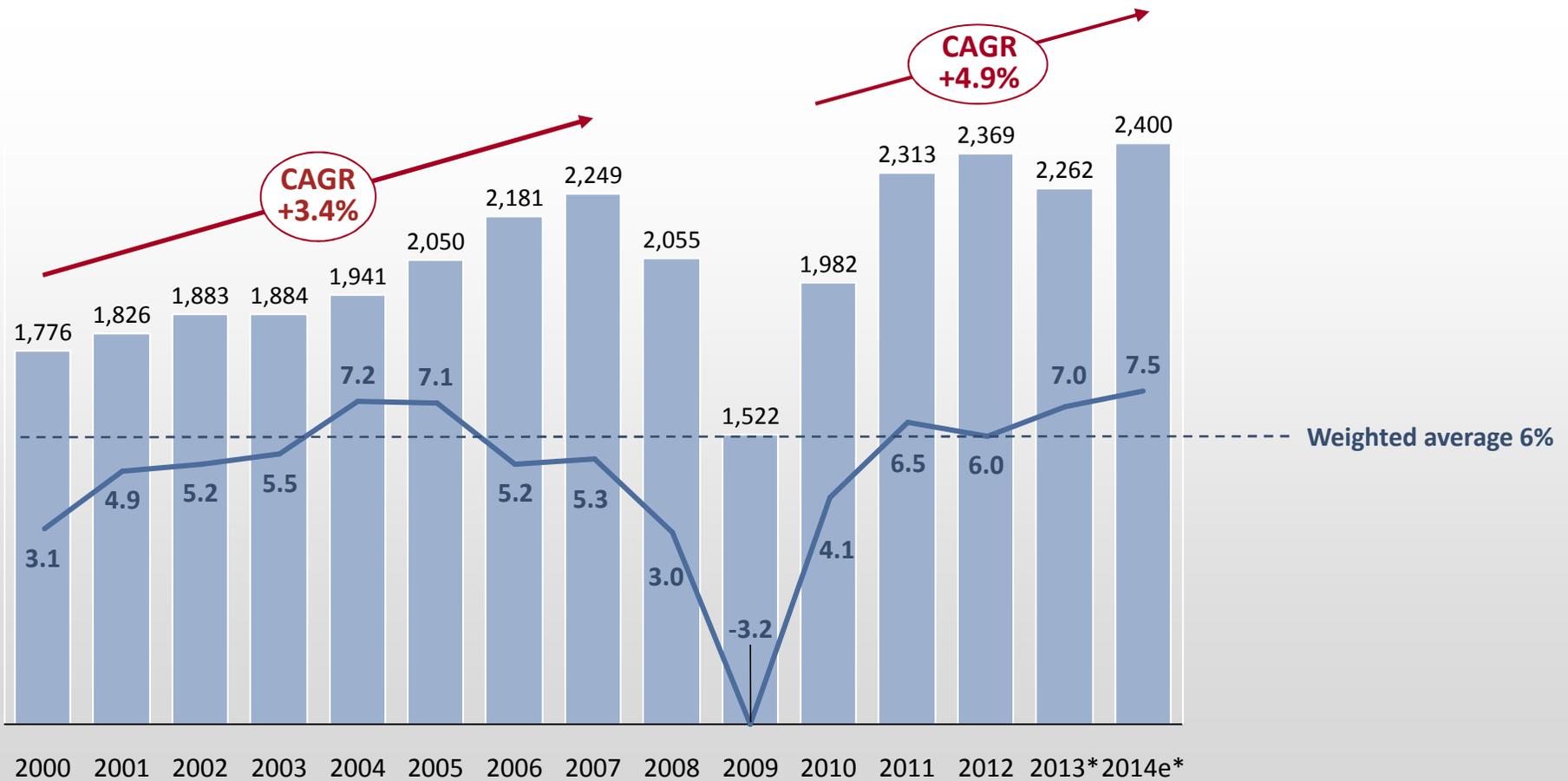


* Continuing operations, i.e. excluding ATAG JV



Strong underlying growth of sales Automotive with higher strength than before the crisis

■ Sales in EUR million
Operational margin in % of sales



* Continuing operations, i.e. excluding ATAG JV



Securing further productivity and profitability

Continued efforts brought capex to a sustainable level

■ Capex in EUR million
 Capex ratio in % of sales



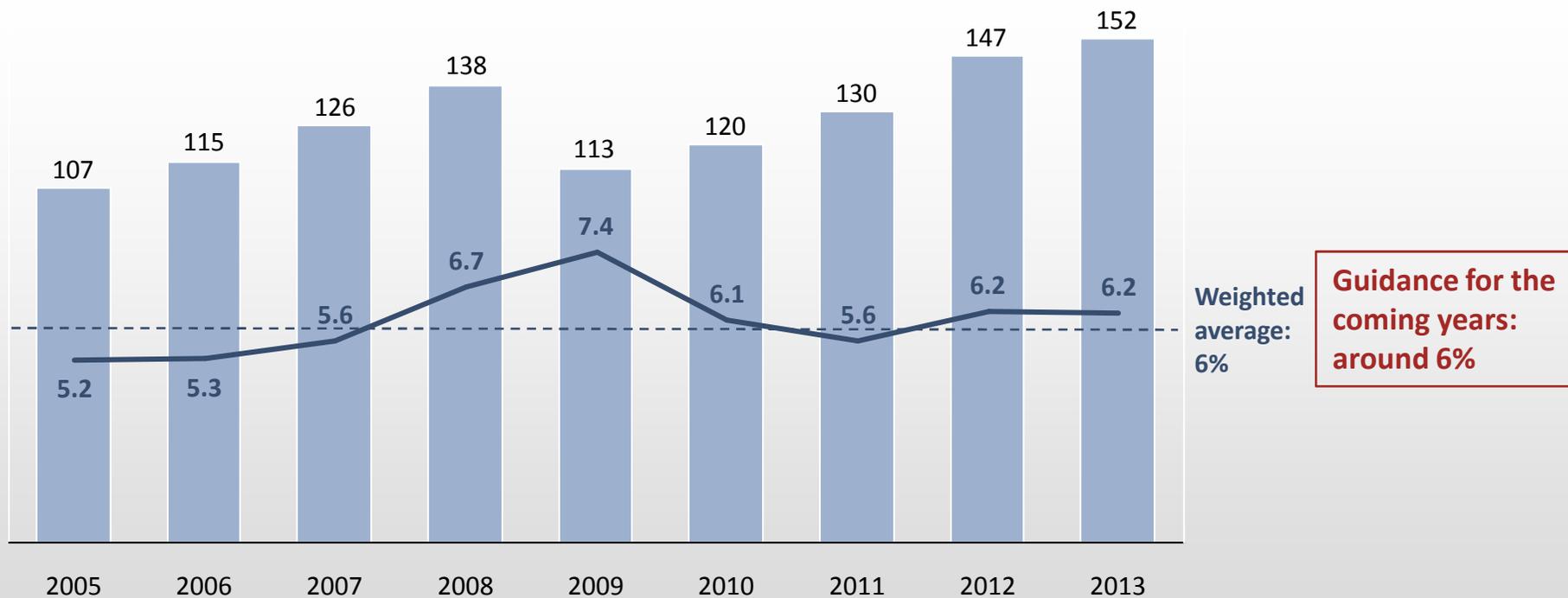
Guidance for the coming years: around 6%

- Capex focused on strong development of Mechatronics
- Hardparts with emphasis on further improvement of the cost structure



Research and development as basis for future orders Focus on improving efficiency of R&D spending

■ R&D in EUR million
■ R&D in % of sales



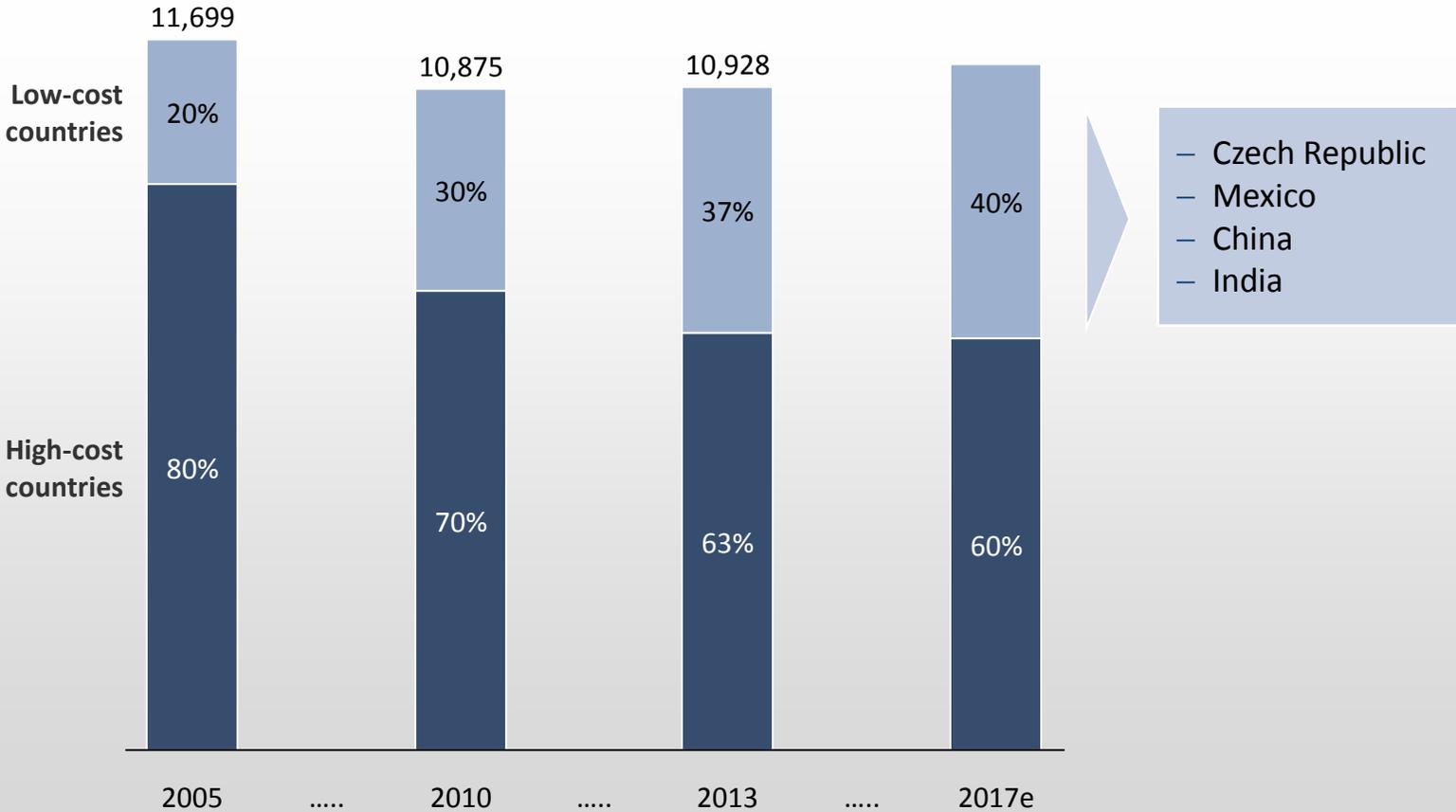


Cost management

Headcount in low-cost countries continuously increasing

Headcount in full-time equivalents

Split of headcount by high cost- and low-cost countries in % of total headcount

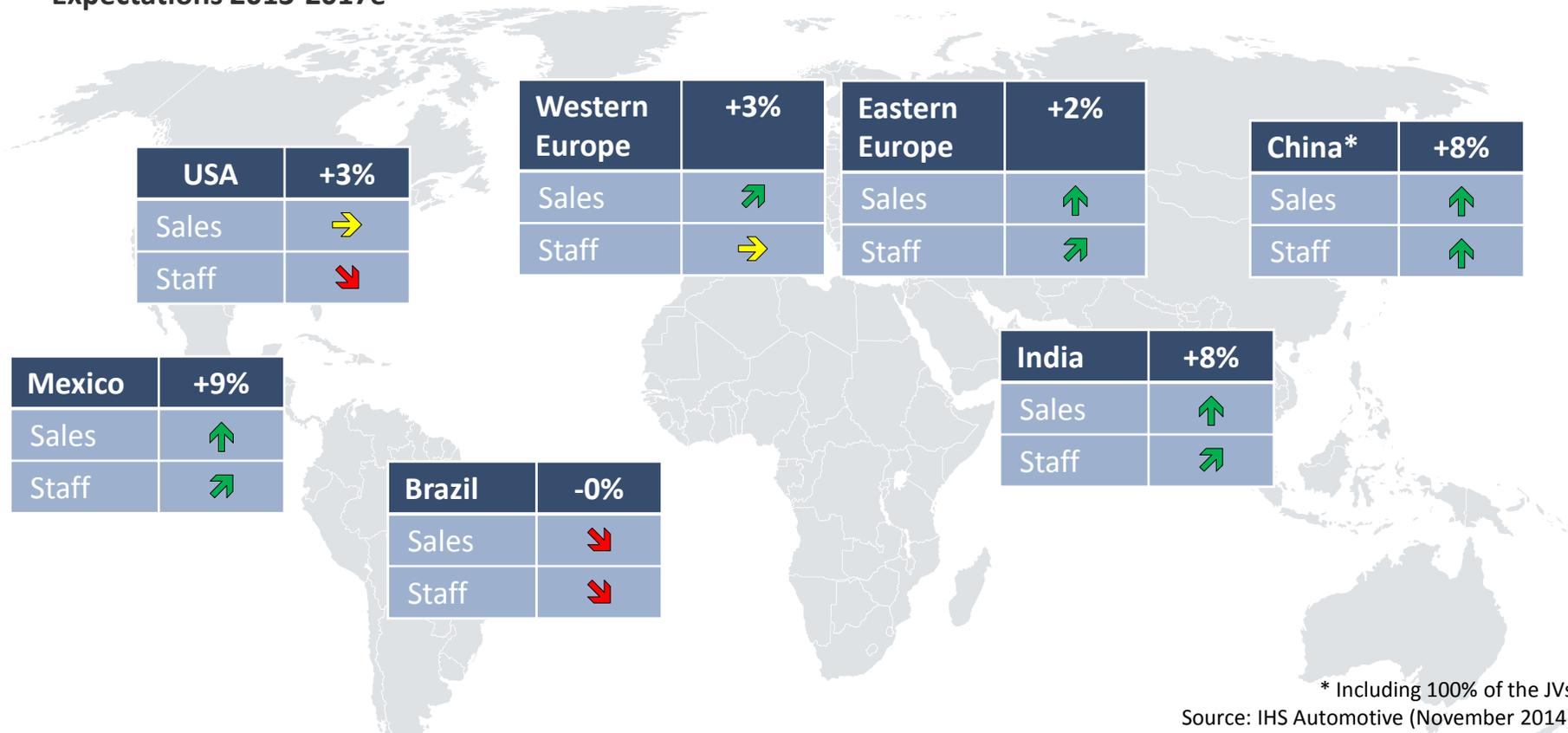




Internationalization

“Continental shift” in Rheinmetall’s sales and staff figures

LV production forecasts 2013-2017e in % (CAGR)
Expectations 2013-2017e



Rheinmetall will save costs in traditional markets and expand its footprint in growth regions



PERSPECTIVE 2015 AND BEYOND



First view on 2015 and beyond



Defence to be focused on operational improvement

- Tough cost and project surveillance
- Avoiding unexpected one-offs by strictly controlling our risk profile
- Returning to profitability in 2015



Automotive fully on track

- Increasing sales by innovative products and stronger presence in international markets
- Maintaining and improving the present margin level



Rheinmetall – concentration on cash flow and EPS

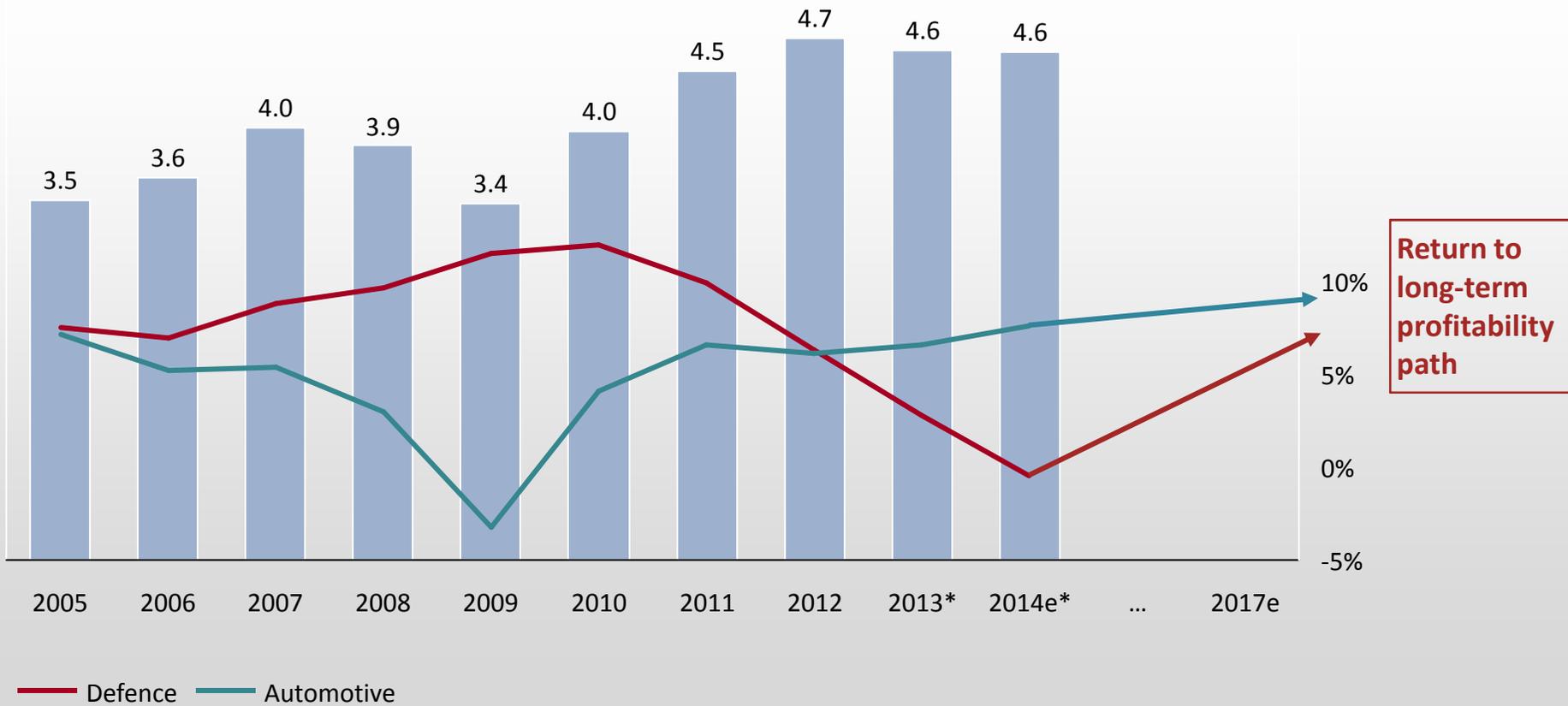
- Improving cash flow
- Increasing earnings per share



Mid-term view

Concentration on balanced earnings in both segments

■ Sales Group in EUR billion
 Segmental operational margin in % of segmental sales



* Continuing operations, i.e. excluding ATAG JV



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