

 RHEINMETALL AG

THE TECHNOLOGY GROUP FOR SECURITY AND MOBILITY

Conference Call FY 2014

Düsseldorf | March 19, 2015



Reviewing 2014

Success on markets, mixed picture of results, innovative products



- **Strong Automotive growth** above market and **high Defence order intake** pushing order backlog
- **Outstanding results** in Automotive, but **exceptional negative impacts** on Defence earnings
- **Innovative product pipeline**: new heating and cooling module for electric/hybrid cars, high-energy laser as new weapon technology
- **Dividend payment** of EUR 0.30 proposed despite weak earnings
- **Compliance system** completely rearranged



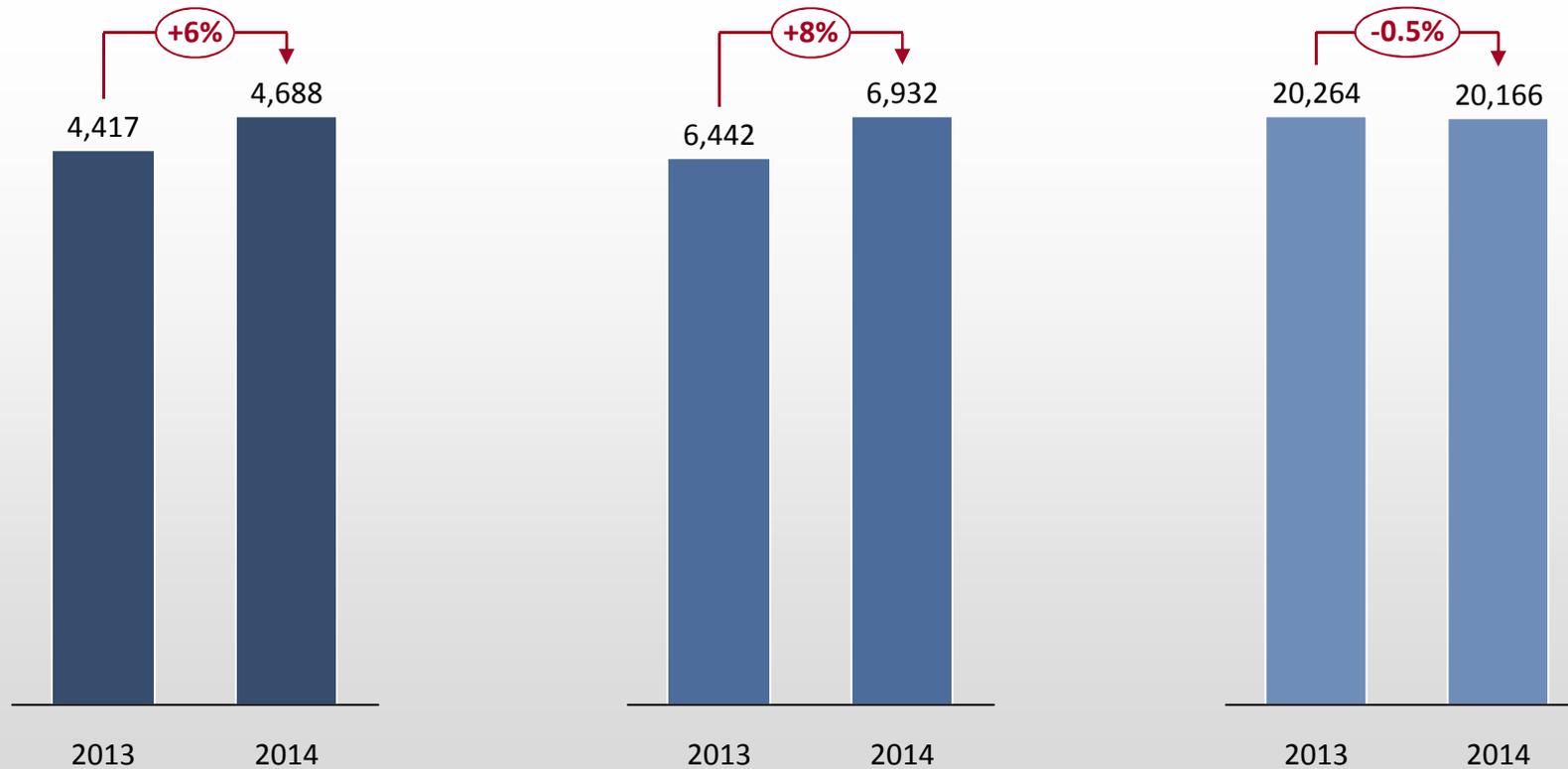
Fiscal year 2014 in detail

Sales increased, order backlog at a high level, headcount reduced

■ Sales in EUR million

■ Order backlog in EUR million

■ Headcount in full-time equivalents



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)



Fiscal year 2014 in detail

Weak earnings due to a set of negative impacts in Defence

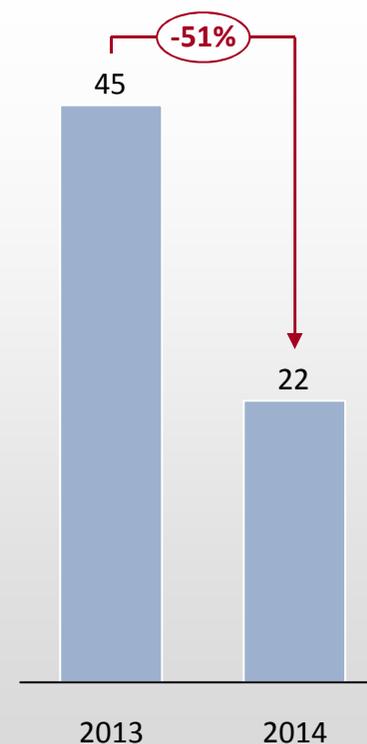
Operational earnings in EUR mn
Operational margin in %



EBIT in EUR million
EBIT margin in %



EBT in EUR million



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)



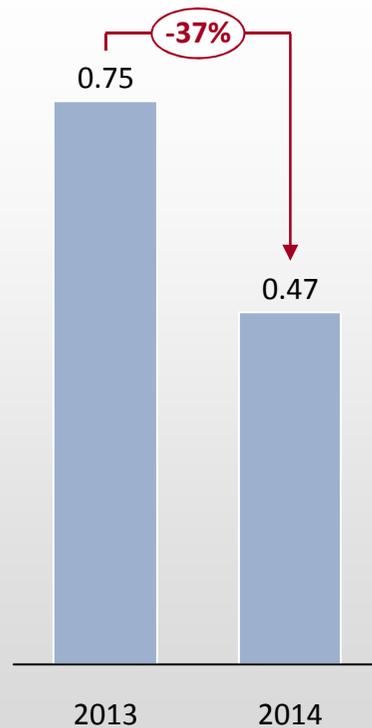
Fiscal year 2014 in detail

Dividend payment proposed despite decreased earnings per share

Net income* in EUR million



Earnings per share* in EUR



Dividend per share in EUR
Payout ratio in %



* Continuing and discontinued operations

** Proposal to the Annual General Meeting

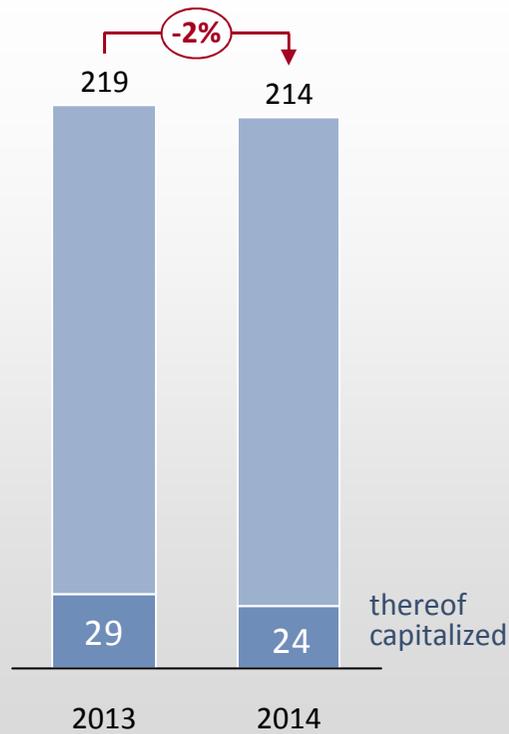
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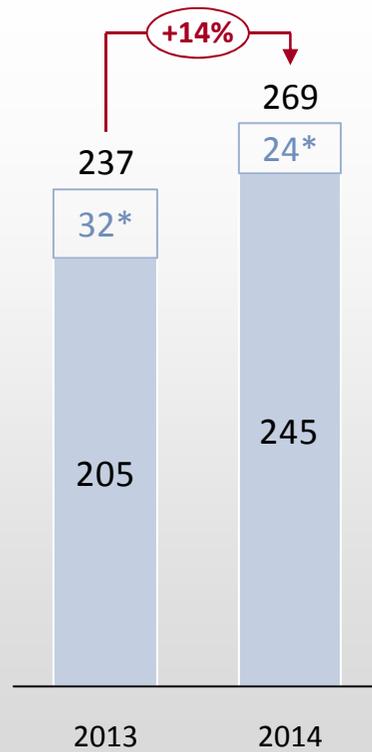
Capex and R&D at a high level

More than EUR 400 million invested in the future

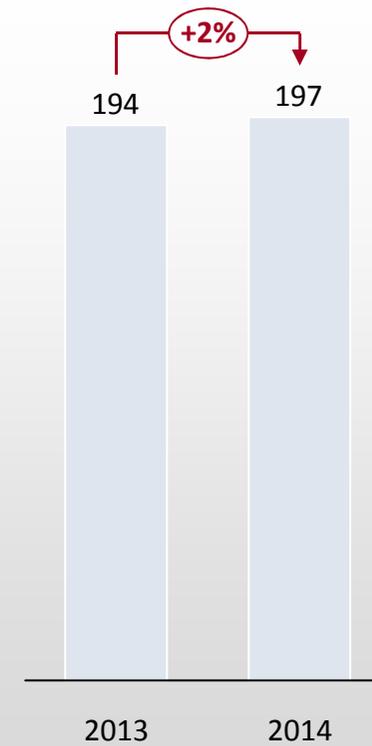
R&D in EUR million



Capex in EUR million



Depreciation & amortization in EUR million



* Subsidies for tooling costs

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)



Balance sheet

Higher pension liabilities due to lower discount rate

■ Pension liabilities in EUR million
Discount rate* in %

■ Equity in EUR million
Equity ratio in % of total assets



- **Low interest rates** burden globally, particularly in Germany and Switzerland
- **Equity ratio reduced** to 23%
- Cash-out of **pension payments stable** (~ EUR 40 million p.a.)

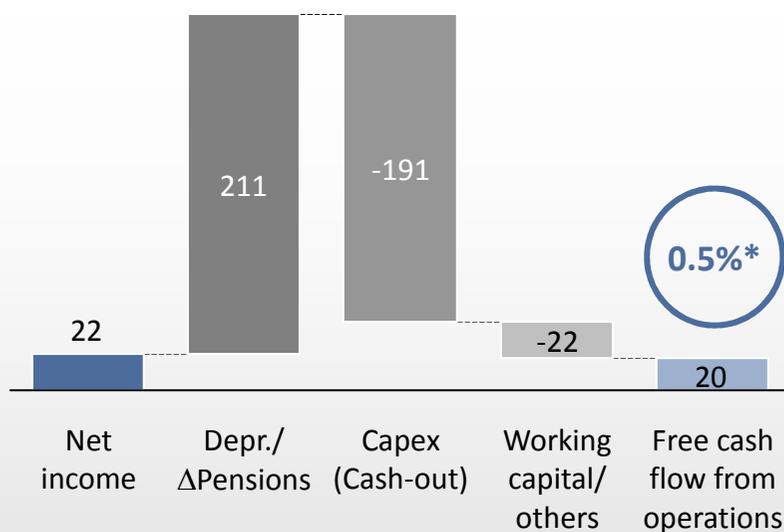
* For German pension liabilities of Rheinmetall



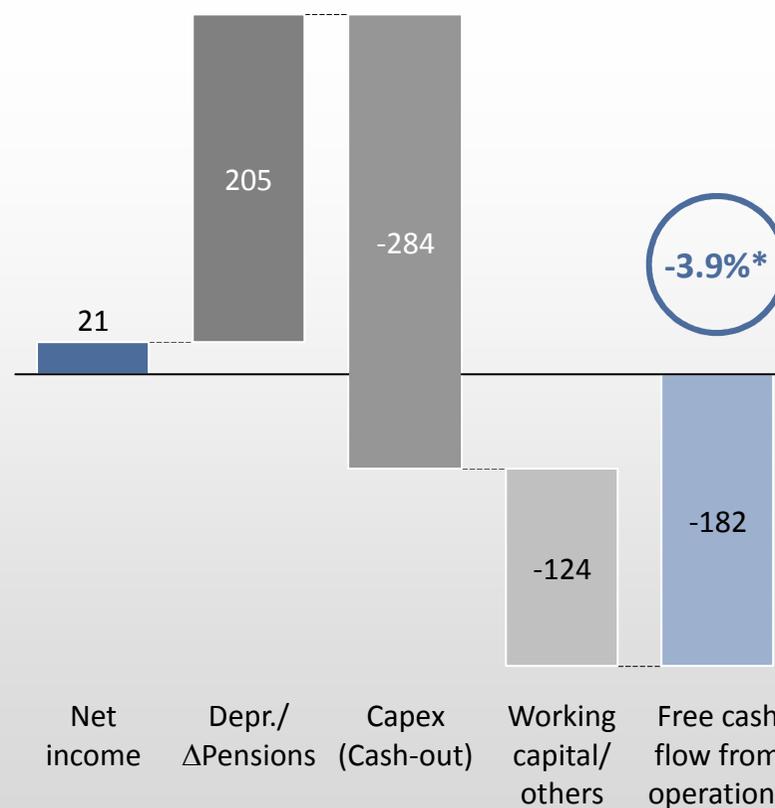
Cash flow statement

High level of capex and increase of working capital burden free cash flow

2013 in EUR million



2014 in EUR million



* in % of sales

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)



Cash flow statement

Main impacts on free cash flow from operations



* 2014 vs. 2013



Cost efficiency program Restructuring measures in the final phase

	Costs 2013	Costs 2014	Total reduction of employees until 2016	Savings 2014	Full annual savings from 2015
Combat Systems (esp. Tracked Vehicles)	15	4	240		
Electronic Solutions (esp. Air Defence Zurich)	14	5	130		
Wheeled Vehicles (esp. Logistic Vehicles)	22	0	230		
Total Defence	51	9	600	13	40
Hardparts* (esp. Pistons Thionville/Neckarsulm)	22		440		
Mechatronics (esp. merging Neuss/Nettetal)	11		100		
Aftermarket	1		10		
Total Automotive*	34	0	550	12	25
Total Group*	85	9	1,150	25	65
Status per December 31, 2014			965		

Note: An arrow points from the 'Total Group' employee reduction of 1,150 to the 'Status per December 31, 2014' employee count of 965, with a label '84%' indicating the percentage reduction.*

* Figures adjusted according to IFRS 5 (Discontinued Operations) with regard to the formation of the ATAG JV



RHEINMETALL AUTOMOTIVE



Reviewing 2014 Automotive in a nutshell



- **Dynamic top line growth** of 8%, mainly driven by **Mechatronics** (+ 13%)
- High growth and equity contribution of **Hardparts** JVs in China
- **Improved results** above expectations
- **New JV with HASCO*** improves growth prospects for aluminum technology
- **15 SoPs**, each with significant order volume and average term of 5-6 years

* HUAYU Automotive Systems (Shanghai) Co. Ltd., part of the SAIC Group

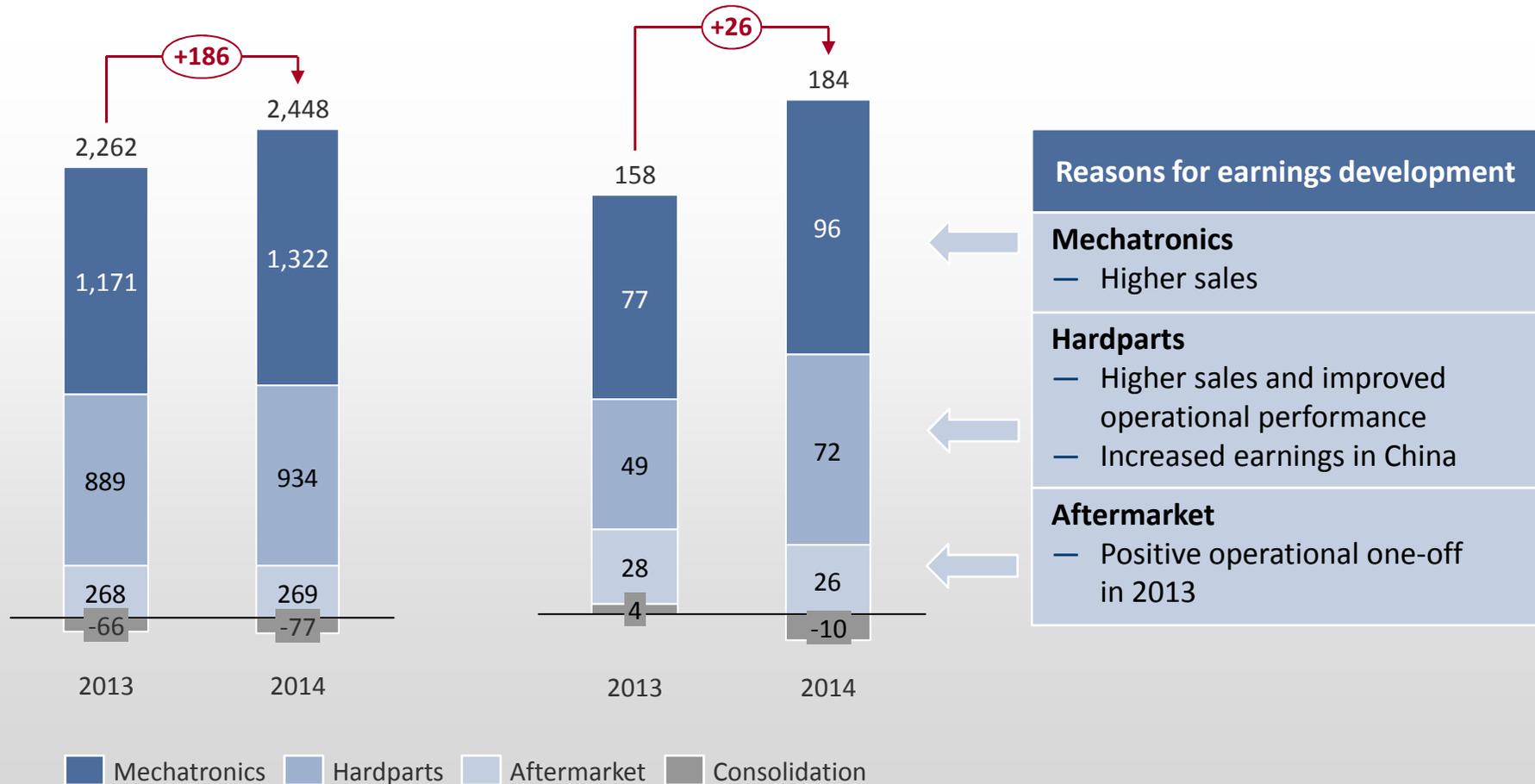


Top- and bottom line growth

Increase of earnings driven by higher sales and improved efficiency

■ Sales Automotive in EUR million

■ Operational earnings Automotive in EUR million



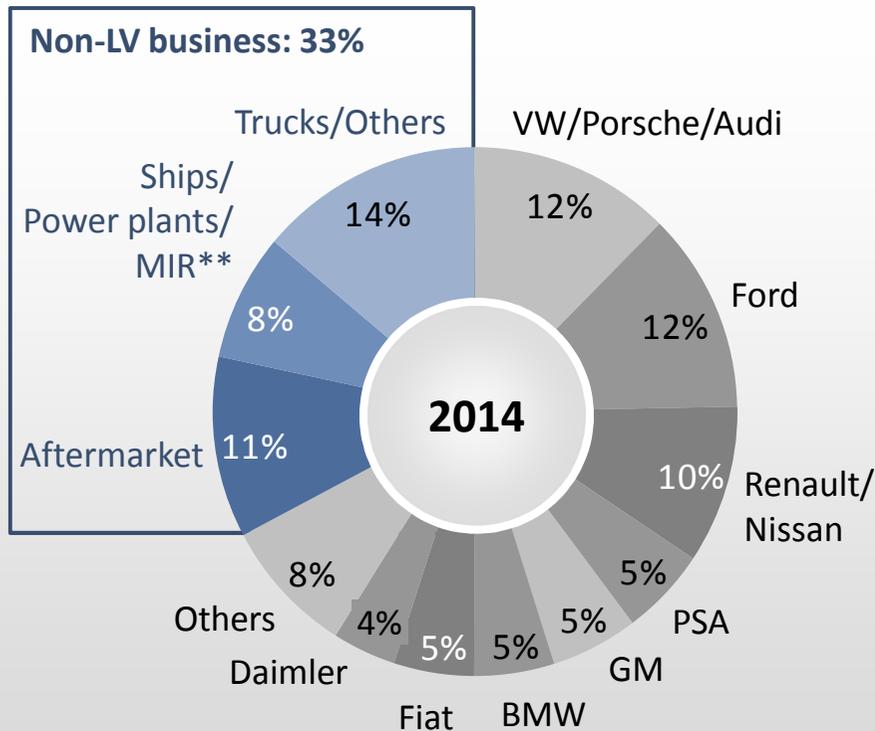
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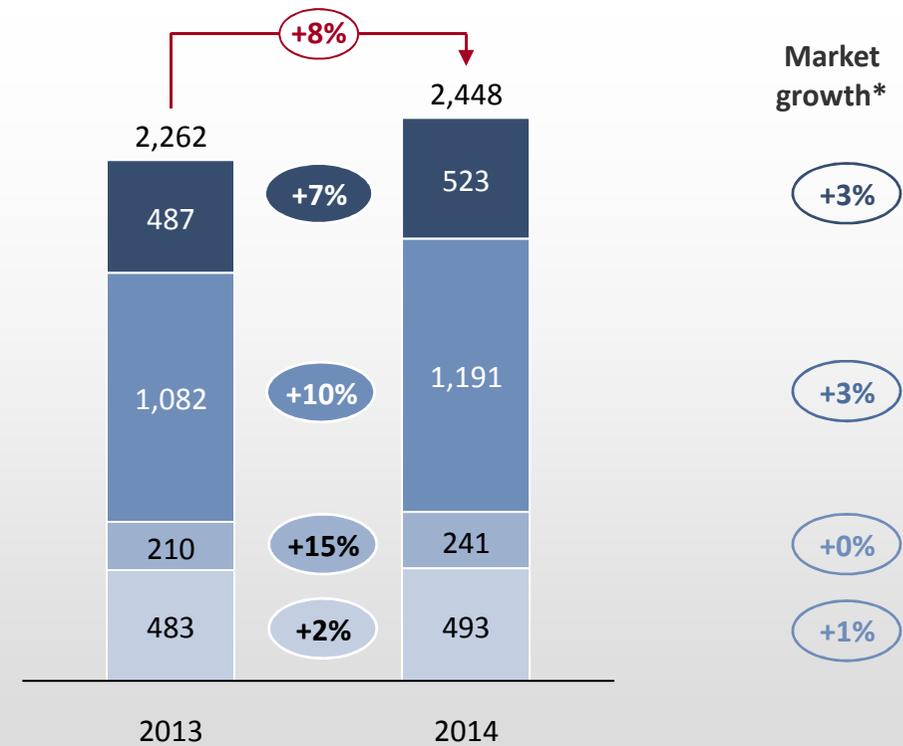
Automotive benefits from balanced customer base

Sales growth outperforms especially the European and Asian markets

■ Sales by customer in %



■ Sales by region in EUR million
Sales growth in %



Market growth*



* Source: IHS Automotive (March 2015)

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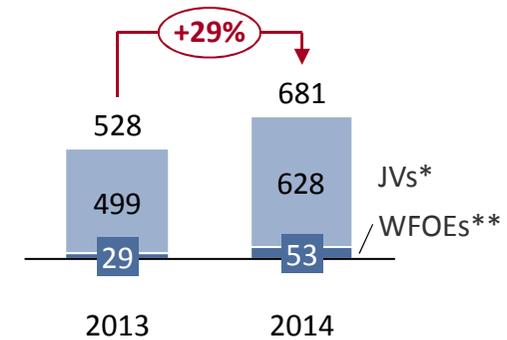
Automotive outperforms strong increase of Chinese LV production

Joint ventures contribute significantly to results and cash flow

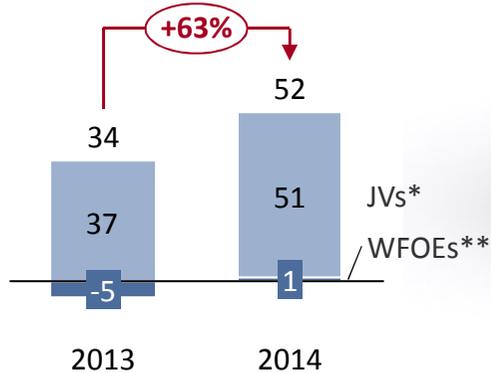
LV production in million units



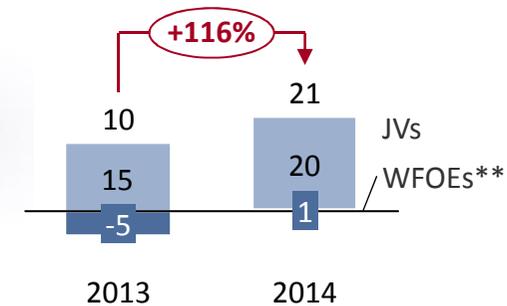
Sales in EUR million



EBIT in EUR million



Contribution to Automotive earnings in EUR million



* 100% figures, Rheinmetall Automotive owns 50% of the joint ventures, consolidated at equity

** WFOE = Wholly Foreign-Owned Enterprise, 100% subsidiary

Source: IHS Automotive (March 2015)



RHEINMETALL DEFENCE



Reviewing 2014 Defence in a nutshell



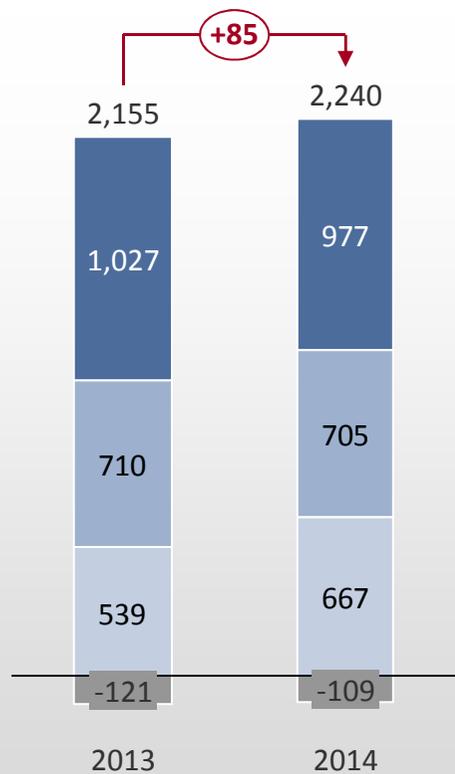
- **Back to top line growth** in a difficult market environment
- 60% of order intake and 50% of sales generated **outside of Europe**
- **High order book coverage** of sales for future periods
- **Negative one-offs and unfavorable shift** from components to systems business pressed down earnings significantly



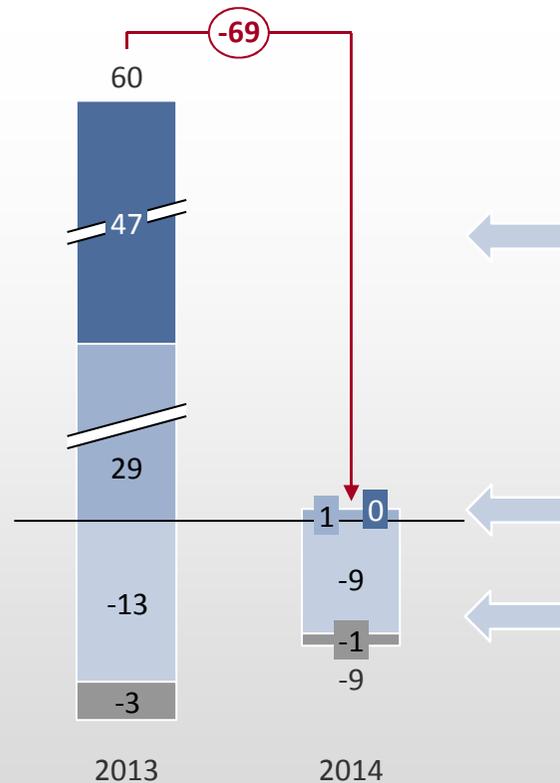
Weak operational performance

External and internal effects impacted earnings

Sales Defence in EUR million



Operational earnings Defence in EUR million



Reasons for earnings development

Combat Systems

- Impact of tightened export policy
- Provisions for potential warranties in naval gun contract

Electronic Solutions

- Withdrawal of export license to Russia
- Sales decline and cost overruns in Norwegian subsidiary

Wheeled Vehicles

- Higher sales

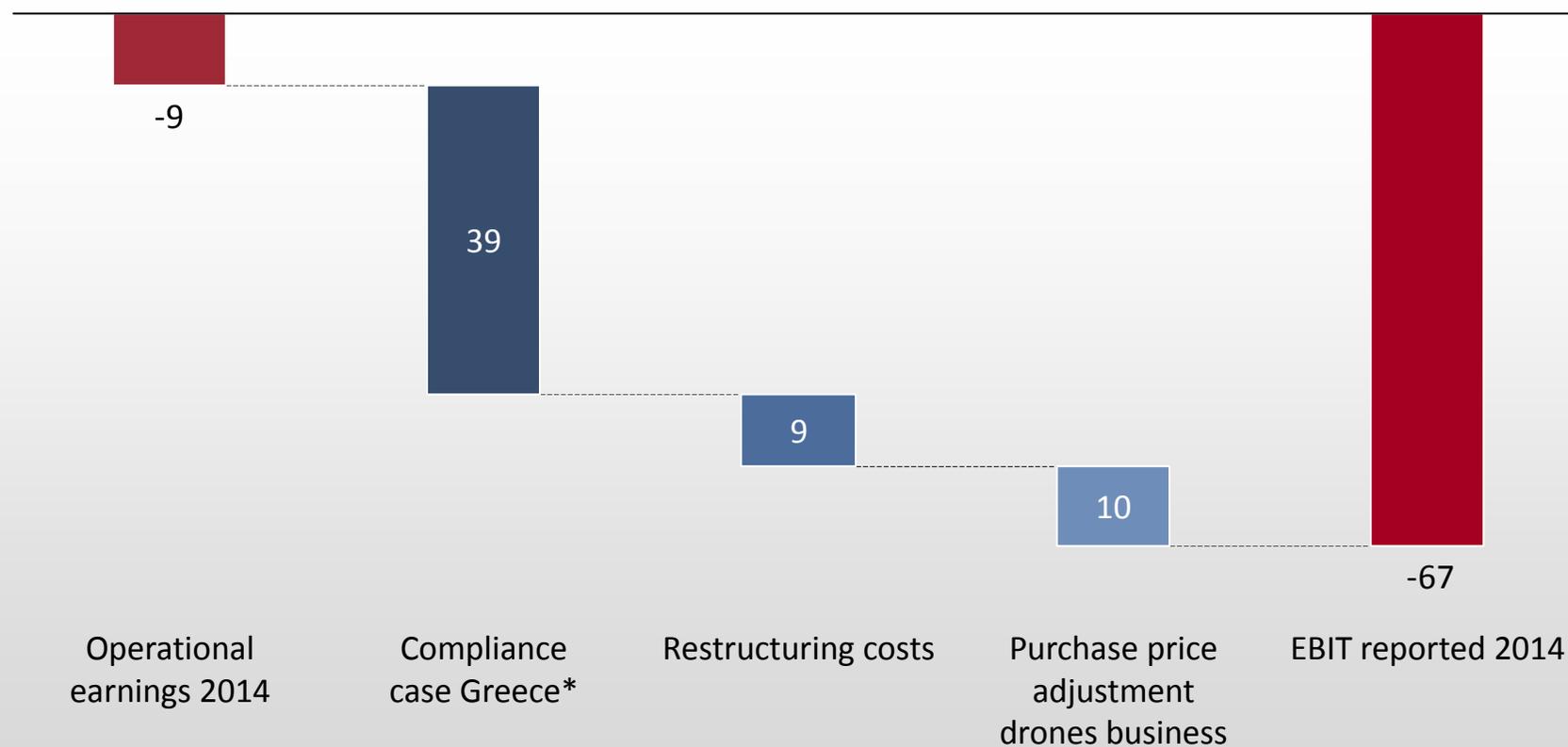
■ Combat Systems
 ■ Electronic Solutions
 ■ Wheeled Vehicles
 ■ Consolidation/Others



Weak performance

Special items burden earnings

Bridge from operational earnings to EBIT reported *in EUR million*



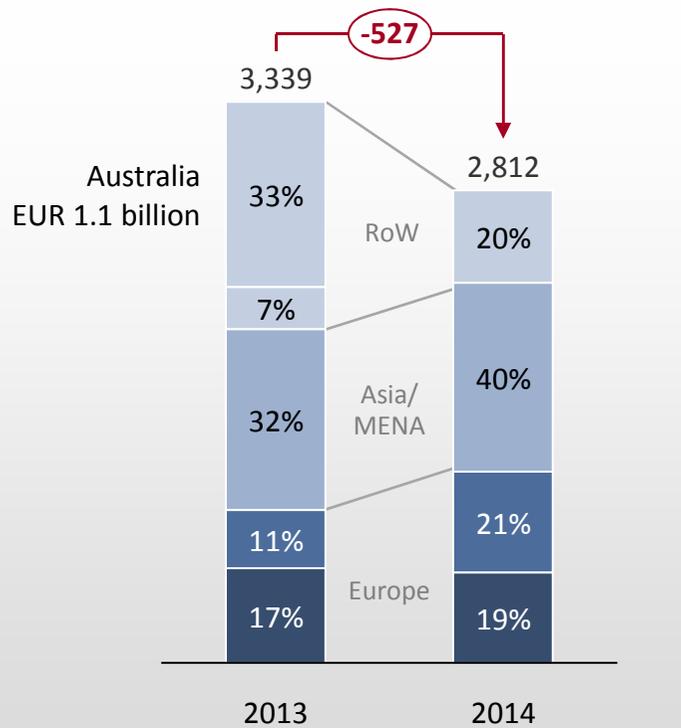
* Incl. EUR 2 million legal fees



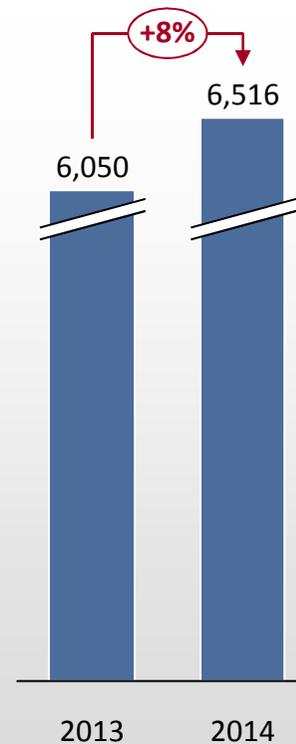
60 percent of order intake received from outside of Europe

Strong order backlog implies high order book coverage of future sales

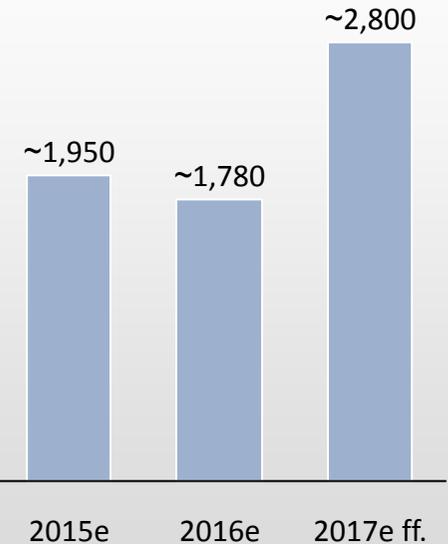
Order intake by region in EUR million



Order backlog...



...turning into sales in EUR mn



- Rest of the World
- Europe (w/o Germany)
- Asia/Middle East
- Germany

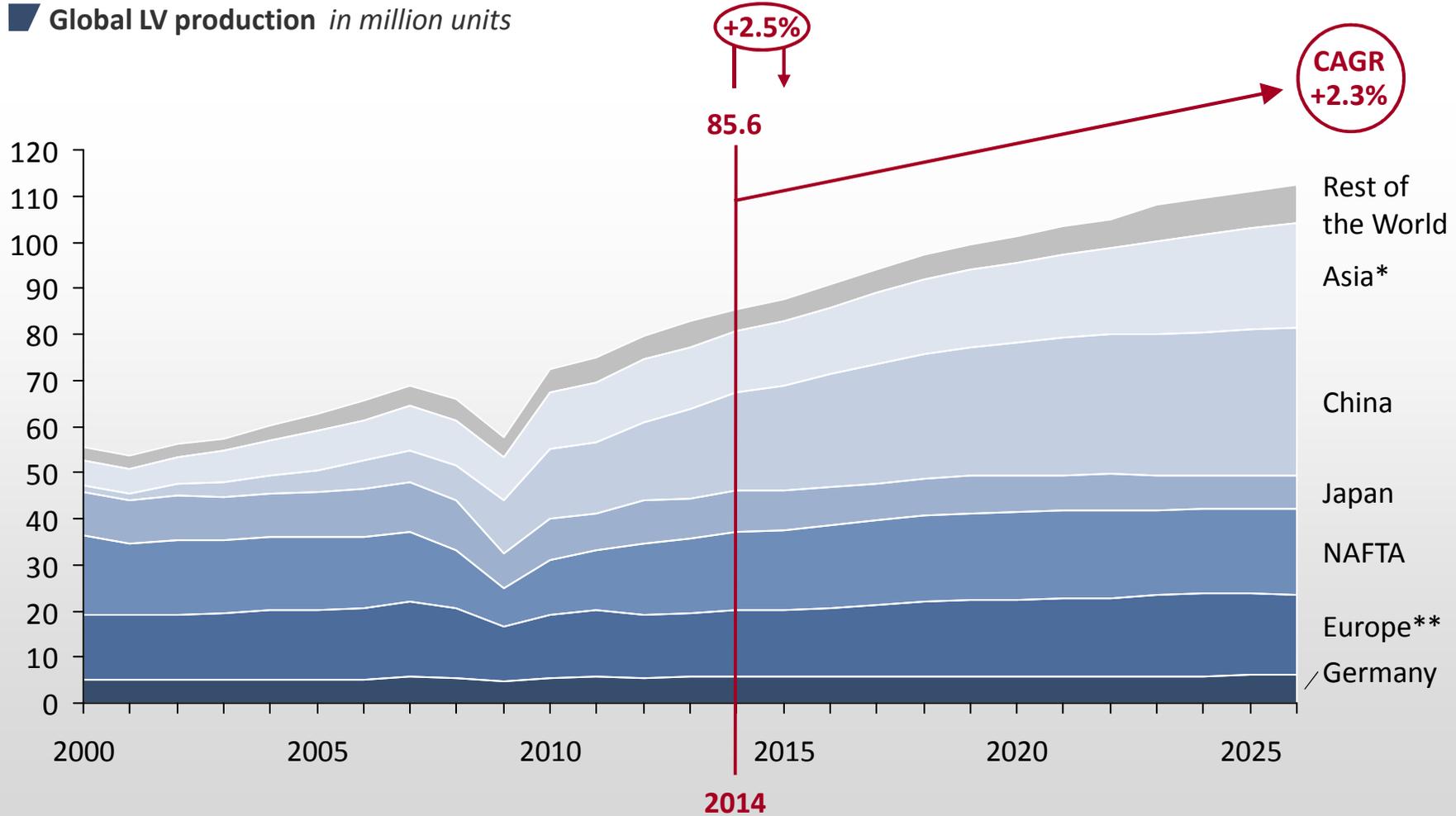


MARKETS AND OUTLOOK



Automotive expected to remain a growth market Tailwind by a continuously increasing global production

Global LV production in million units



Source: IHS Automotive

* Without China and Japan
** Without Germany



Automotive tomorrow

Strategic orientation for Rheinmetall Automotive

- Expanding Mechatronics product portfolio to a global scale
- Utilizing future growth potential of our innovative product pipeline (two third of current sales)
- Broadening the product portfolio to **alternative drive systems** (hybrid/electric)

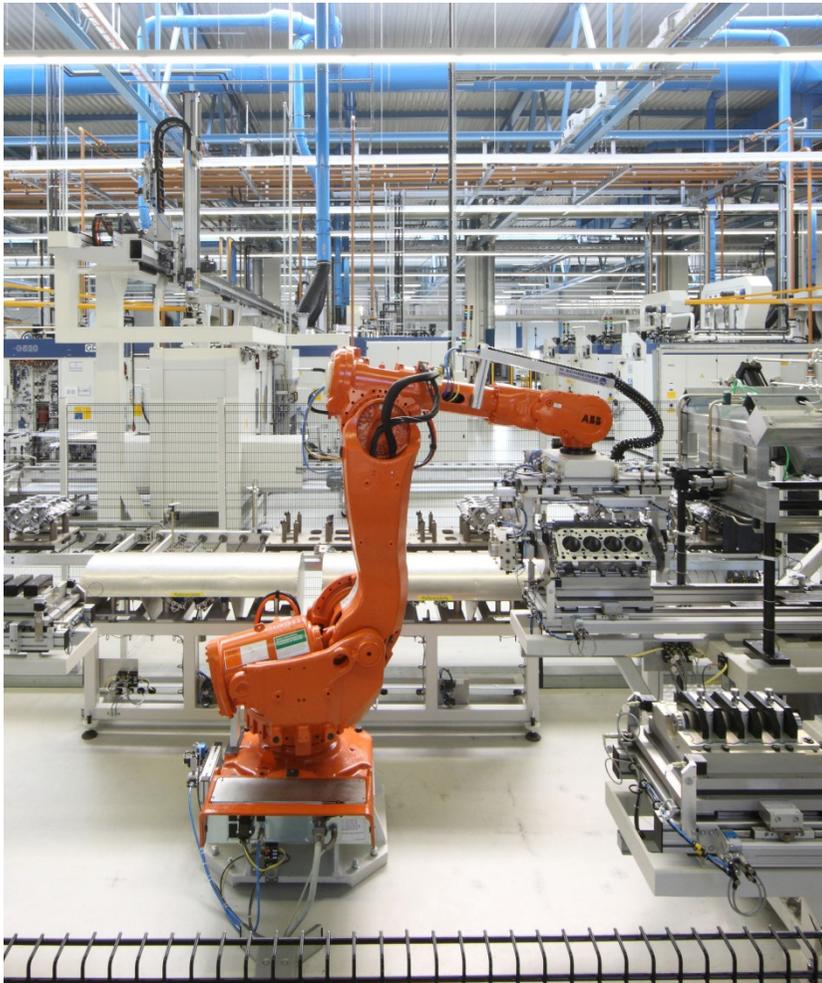
Mobility





Future growth drivers

Automotive will grow stronger than the market



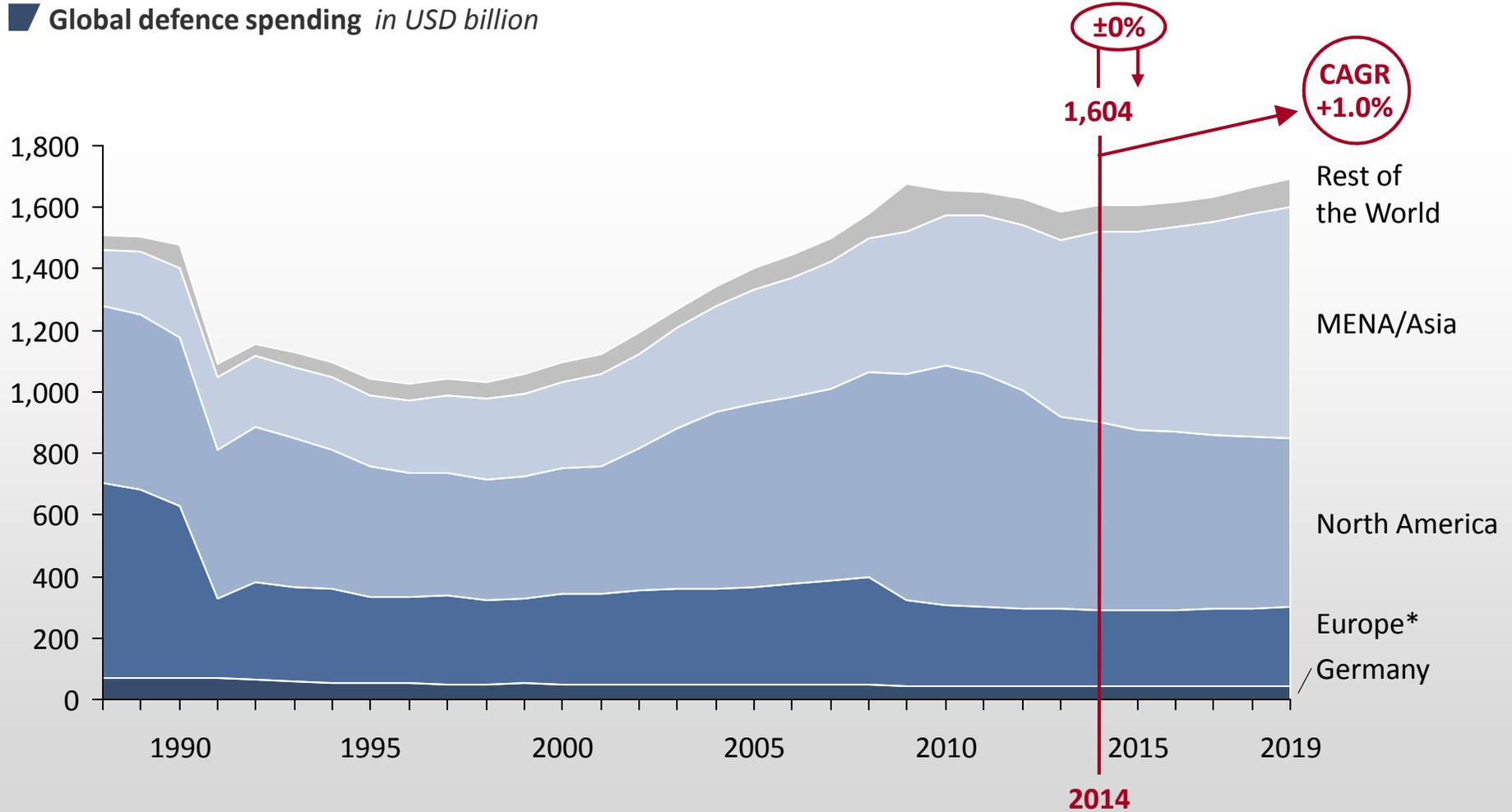
- **Robust product pipeline:** market introduction of steel pistons for LVs, SoP of EGR combi valve and variable coolant pump
- Continuing the **shift to low-cost production sites** by new significant orders with SoPs 2015-2018
- **High share of contracted business** until 2017 (~ 90% excl. Aftermarket)
- **Increasing share of products for reducing emissions and fuel consumption** from 51% in 2013 to 60% mid-term



Slight growth for defence markets expected

Rising budgets particularly in the MENA region and Asia/Pacific

Global defence spending in USD billion



Source: IHS Jane's, SIPRI (www.sipri.org), Rheinmetall team analysis

* Without Germany



Defence tomorrow Strategic orientation for Rheinmetall Defence

- Turning high order backlog into profitable sales
- Our involvement in national consolidation requires political decisions (key technologies, procurement and export policy)
- Reassessing investment strategy with focus on our international hubs

Security





Future growth drivers Land systems in Europe in the focus again



- **New NATO approach** provides for stronger role of Germany, combined with higher defence investments
- **German defence budget will rise mid-term:** first procurement projects identified, e.g. Boxer
- **Renewed emphasis** on armored vehicles and tanks
- **Ramp-up of large-scale orders,** e.g. Puma, trucks Australia, Qatar, Fox MENA



Short-term outlook

Outlook 2015				
	Sales <i>in EUR billion</i>		Operational margin <i>in %</i>	
	2014	2015e	2014	2015e
Group	4.7	4.8 - 5.0	3.4	approx. 5
Defence	2.2	2.3 - 2.4	- 0.4	3
Automotive	2.4	2.5 - 2.6	7.5	8

Assumptions

- Key large-scale projects in Defence to be realized as scheduled, no significant one-offs
- Global automotive industry growing as forecast



Mid-term guidance

Mid-term targets

Defence

— Operational margin at 7%

Automotive

— Operational margin at 8%

Preconditions

- Globally stable macroeconomic environment
- Reliable political frame conditions regarding fiscal and export policy



Summary



- **Future growth and increasing results** in both segments
- **Improving cash flow** situation
- **Concentration on operational performance**
- Focus on **rating improvement**
- **Increase of earnings per share and dividend**



APPENDIX

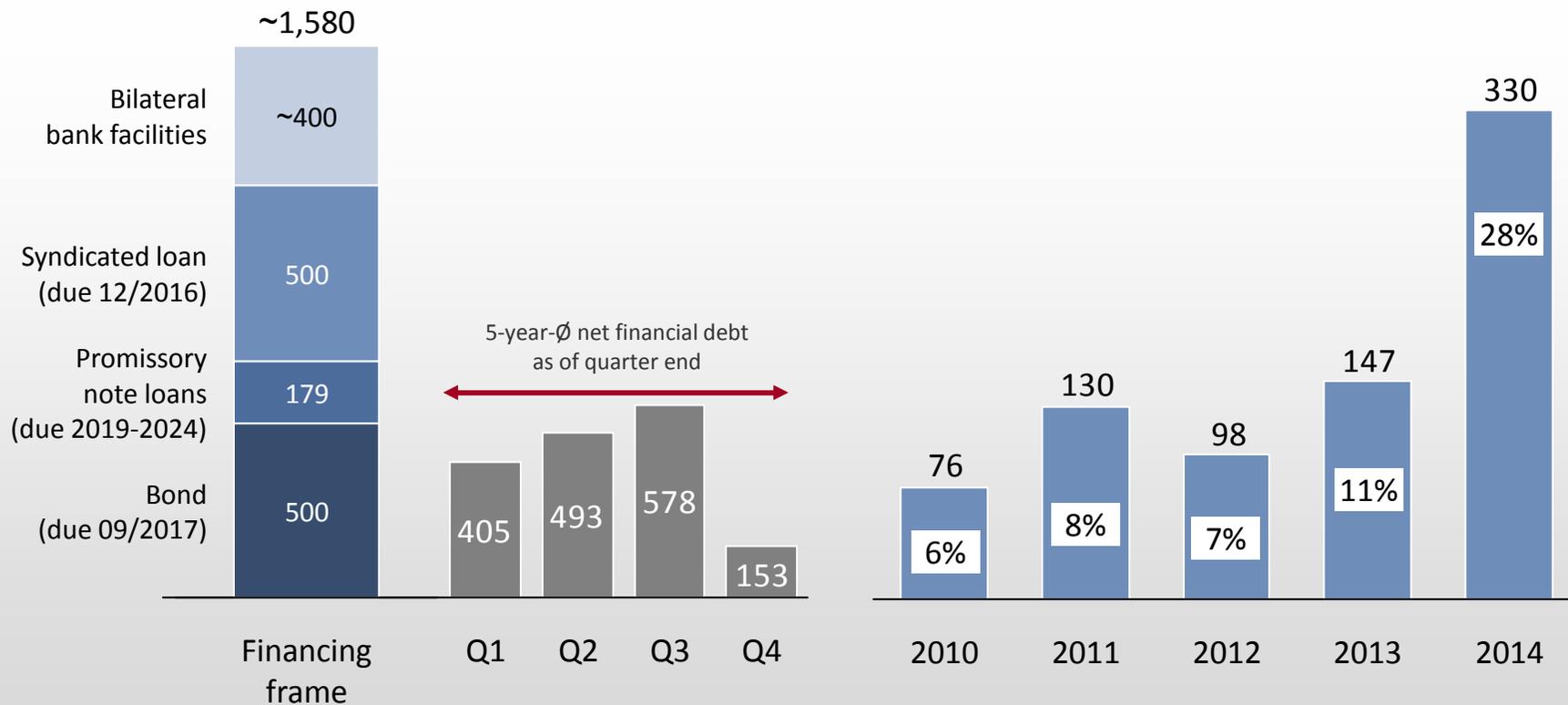


High cash credit facilities

Net financial debt high due to high level of receivables

Cash credit facilities (as of December 31, 2014)
in EUR million

Net financial debt (at year-end) in EUR million
Net gearing* in %



* Net debt in % of equity



Fiscal year 2014 in detail

<i>in EUR million</i>	2013	2014	Δ 2014/2013
Sales	4,417	4,688	+ 271
Operational earnings	211	160	- 51
Special items: one-offs, restructuring costs	- 90	- 58	+ 32
EBIT (reported)	121	102	- 19
EBT	45	22	- 23
Group net income*	22	21	- 1
Earnings per share* <i>in EUR</i>	0.75	0.47	- 0.28
Dividend <i>in EUR</i>	0.40	0.30**	- 0.10
Payout ratio <i>in%</i>	53	64	+ 11 pp
Employees (Dec 31)	20,264	20,166	- 98

* Continuing and discontinued operations

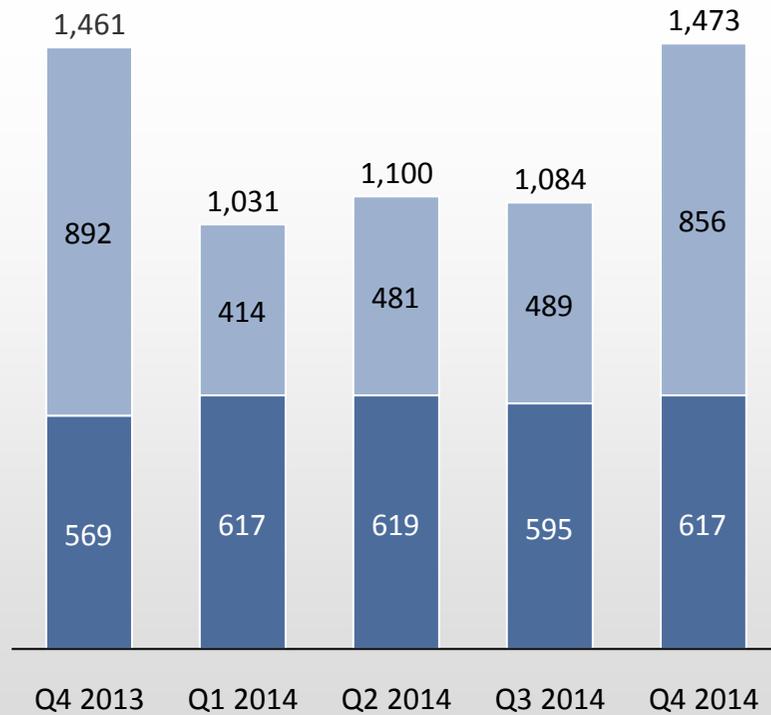
** Dividend proposal to the Annual General Meeting

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)

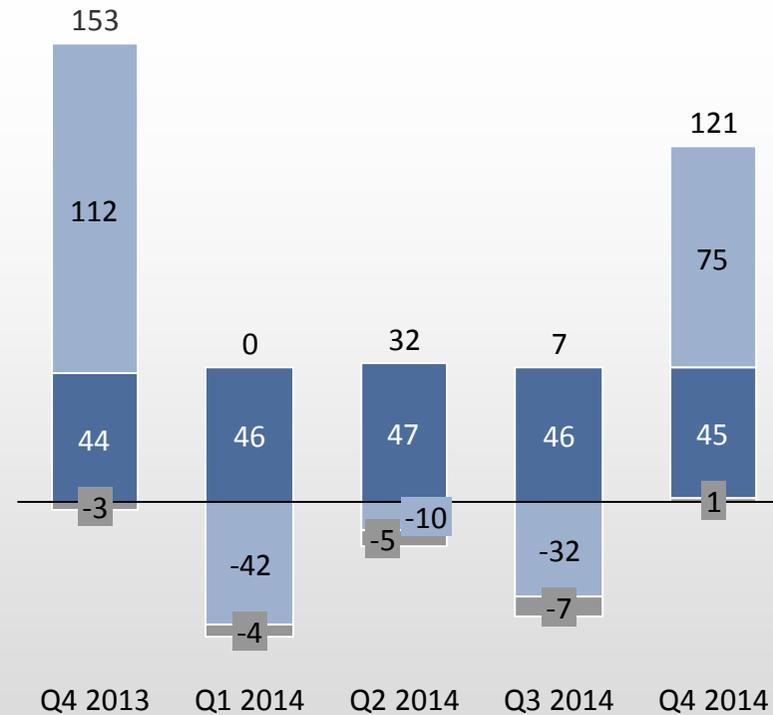


Quarterly development

Sales in EUR million



Operational earnings in EUR million



■ Defence ■ Automotive ■ Consolidation/Others

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



Cash flow statement

Continuing operations <i>in EUR million</i>	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Δ Q4 2014/ Q4 2013
Group net income	69	- 13	7	- 14	41	- 28
Amortization / depreciation	64	48	52	49	59	- 5
Change in pension accruals	2	- 2	0	1	- 2	- 4
Cash flow	135	33	59	36	98	- 37
Changes in working capital and other items	287	- 436	- 95	70	337	+ 50
Net cash used in operating activities	422	- 403	- 36	106	435	+ 13
Cash outflow for additions to tangible and intangible assets	- 56	- 64	- 48	- 52	- 120	- 64
Free cash flow from operations	366	- 467	- 84	54	315	- 51



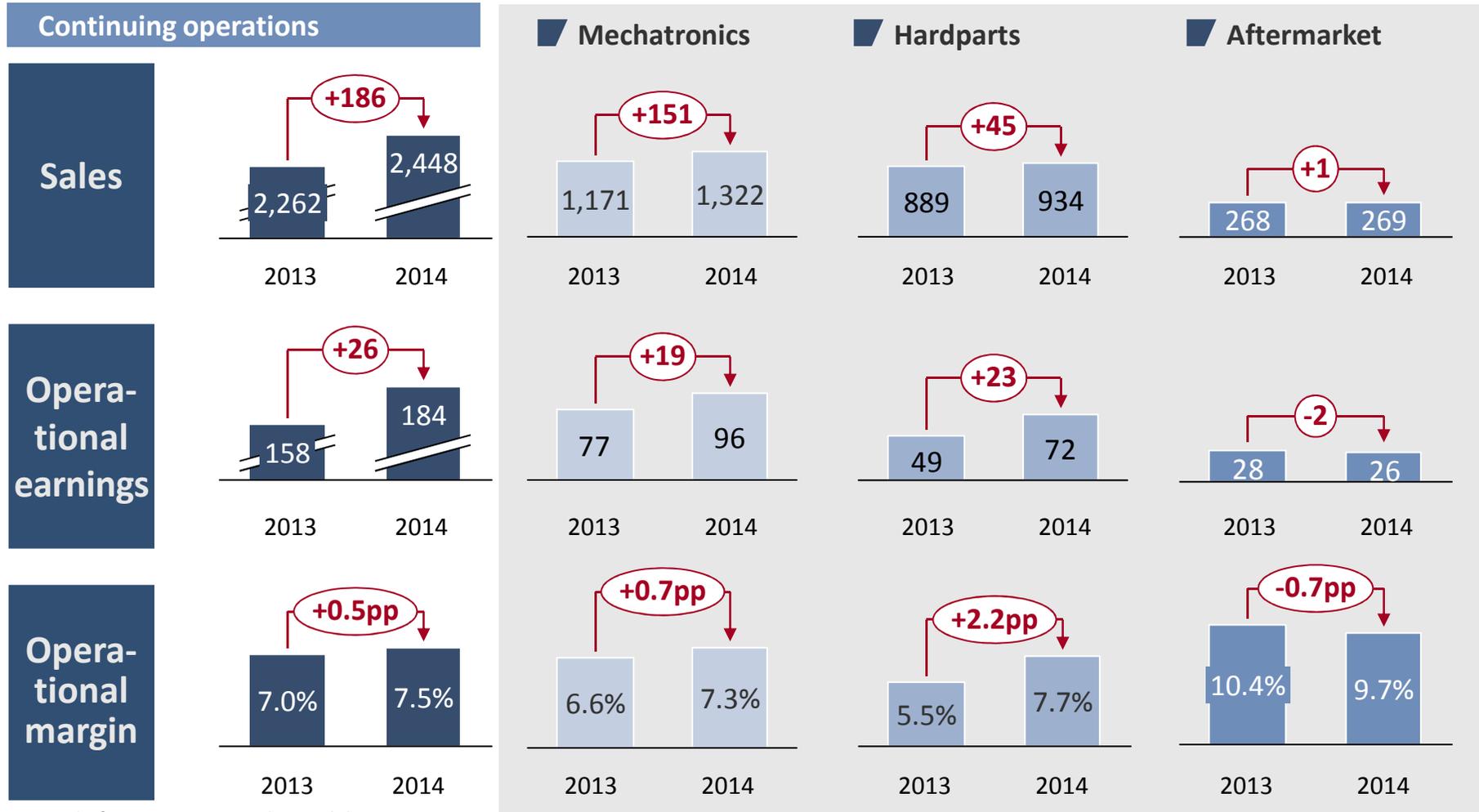
Fiscal year 2014 in detail

Continuing operations <i>in EUR million</i>	2013	2014	Δ 2014/2013
Sales	2,262	2,448	+ 186
Operational earnings	158	184	+ 26
Special items: one-offs, restructuring costs	- 34	0	+ 34
EBIT (reported)	124	184	+ 60
Employees (Dec 31)	10,927	10,830	- 97

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)



Key figures Automotive by division (operational before special items)



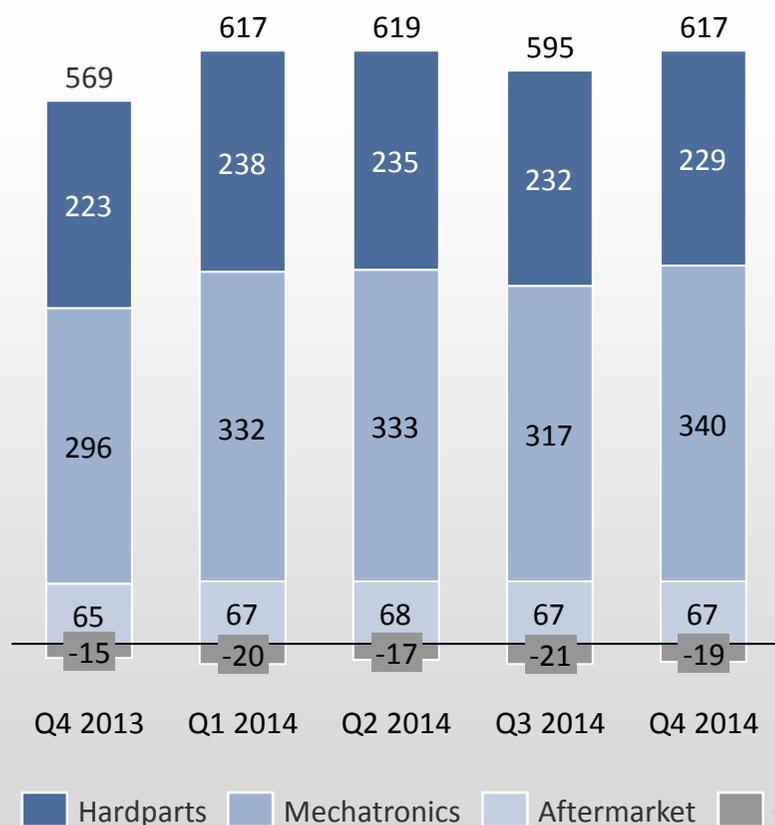
Figures before intrasegmental consolidation

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

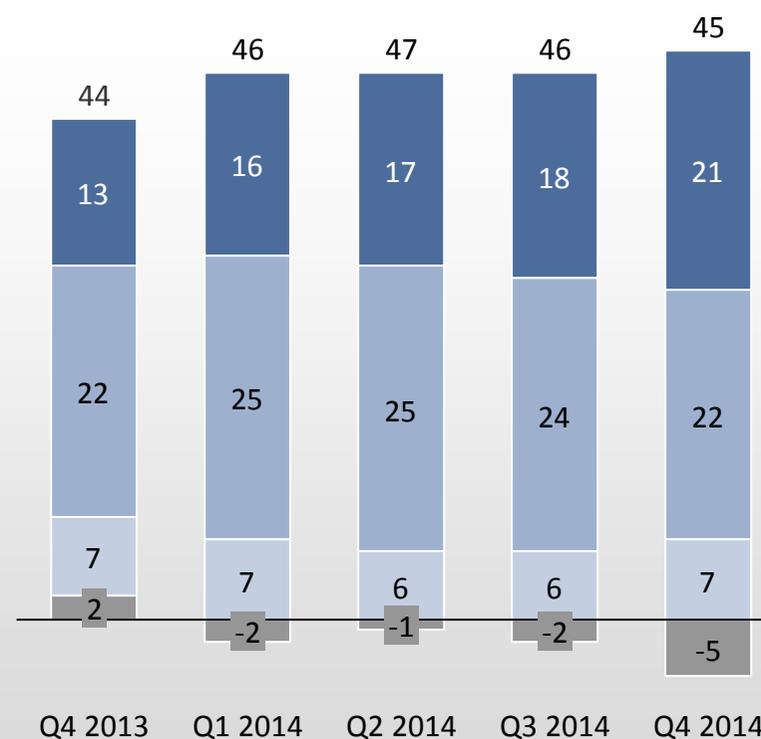


Quarterly development

Sales Automotive in EUR million



Operational earnings Automotive in EUR million



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



Cash flow statement

Continuing operations <i>in EUR million</i>	2013	2014	Δ 2014/2013
Group net income	81	132	+ 51
Amortization / depreciation	121	122	+ 1
Change in pension accruals	- 4	0	+ 4
Cash flow	198	254	+ 56
Changes in working capital and other items	25	- 24	- 49
Net cash used in operating activities	223	230	+ 7
Cash outflow for additions to tangible and intangible assets	- 127	- 196	- 69
Free cash flow from operations	96	34	- 62

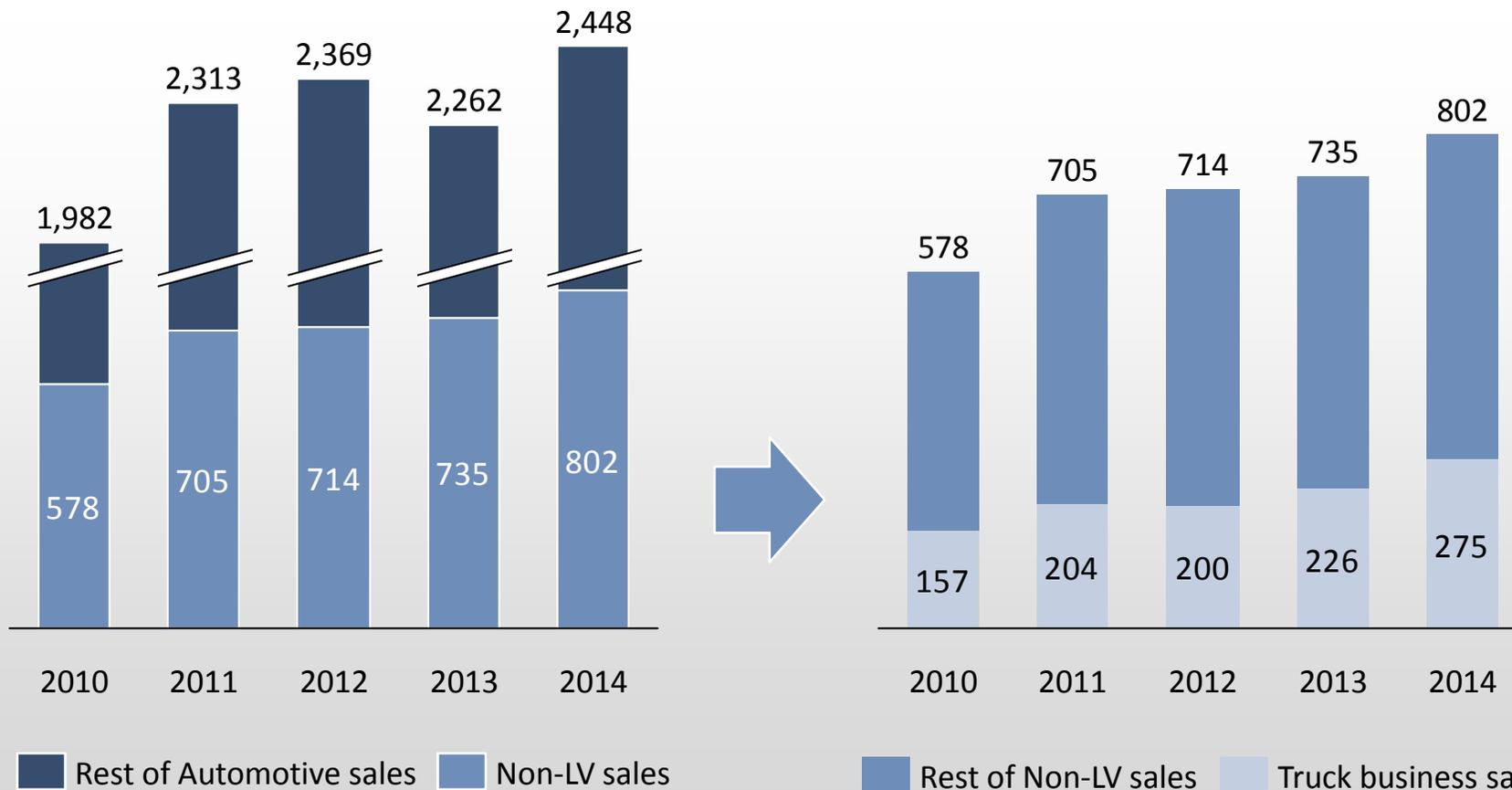


Strong growth in non-LV business

Sales of truck business doubled within 5 years

■ Sales Automotive and non-LV sales in EUR million

■ Non-LV sales and truck business sales in EUR million



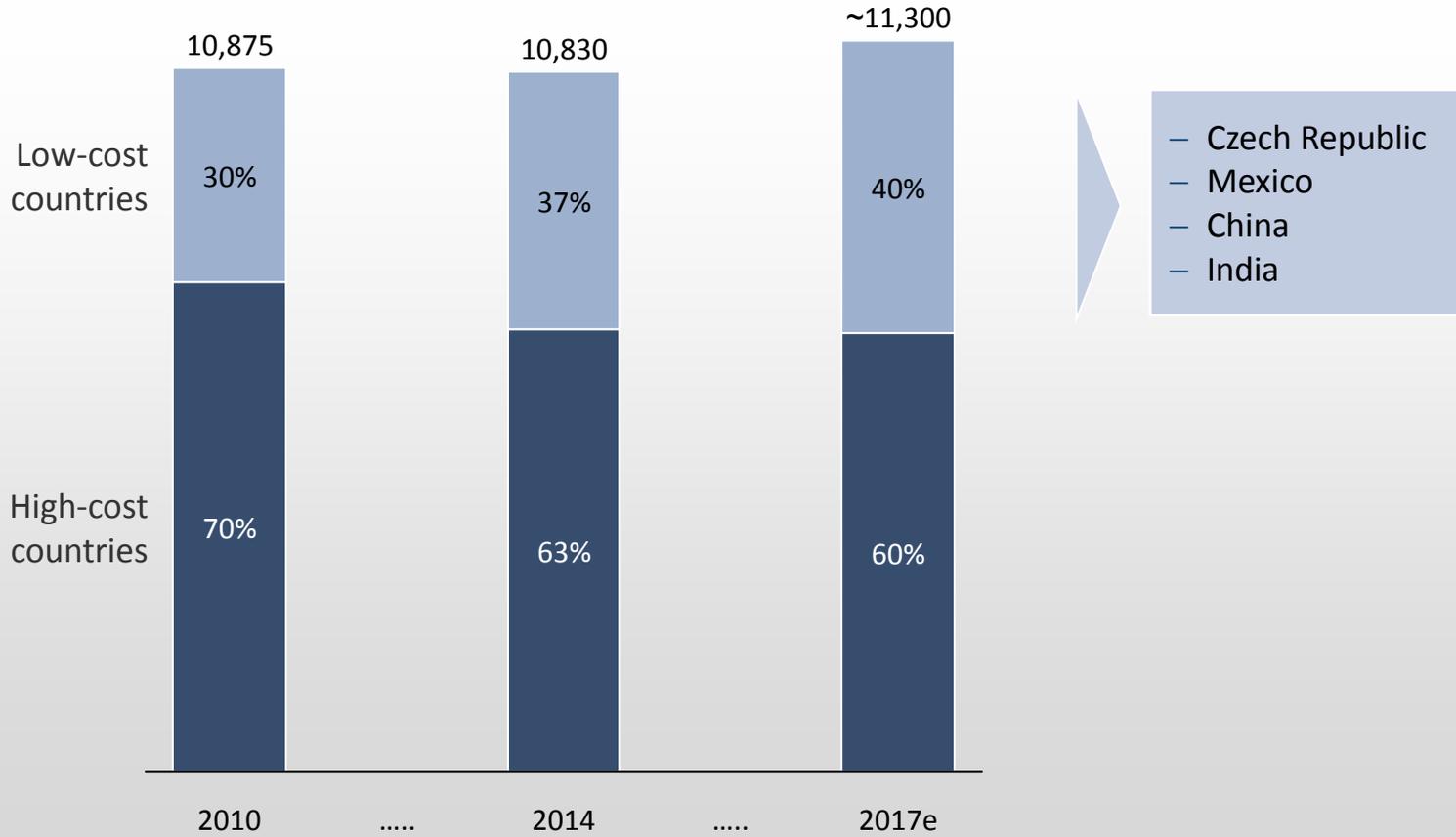
2013 figures adjusted according to IFRS 5 (Discontinued Operations) with regard to the formation of the ATAG JV and according to IFRS 11 (Joint Arrangements)



Cost efficiency

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





Fiscal year 2014 in detail

<i>in EUR million</i>	2013	2014	Δ 2014/ 2013
Order intake	3,339	2,812	- 527
Order backlog (Dec 31)	6,050	6,516	+ 466
Sales	2,155	2,240	+ 85
Operational earnings	60	- 9	- 69
Special items: one-offs, restructuring costs	- 56	- 58	- 2
EBIT (reported)	4	- 67	- 71
Employees (Dec 31)	9,193	9,184	- 9

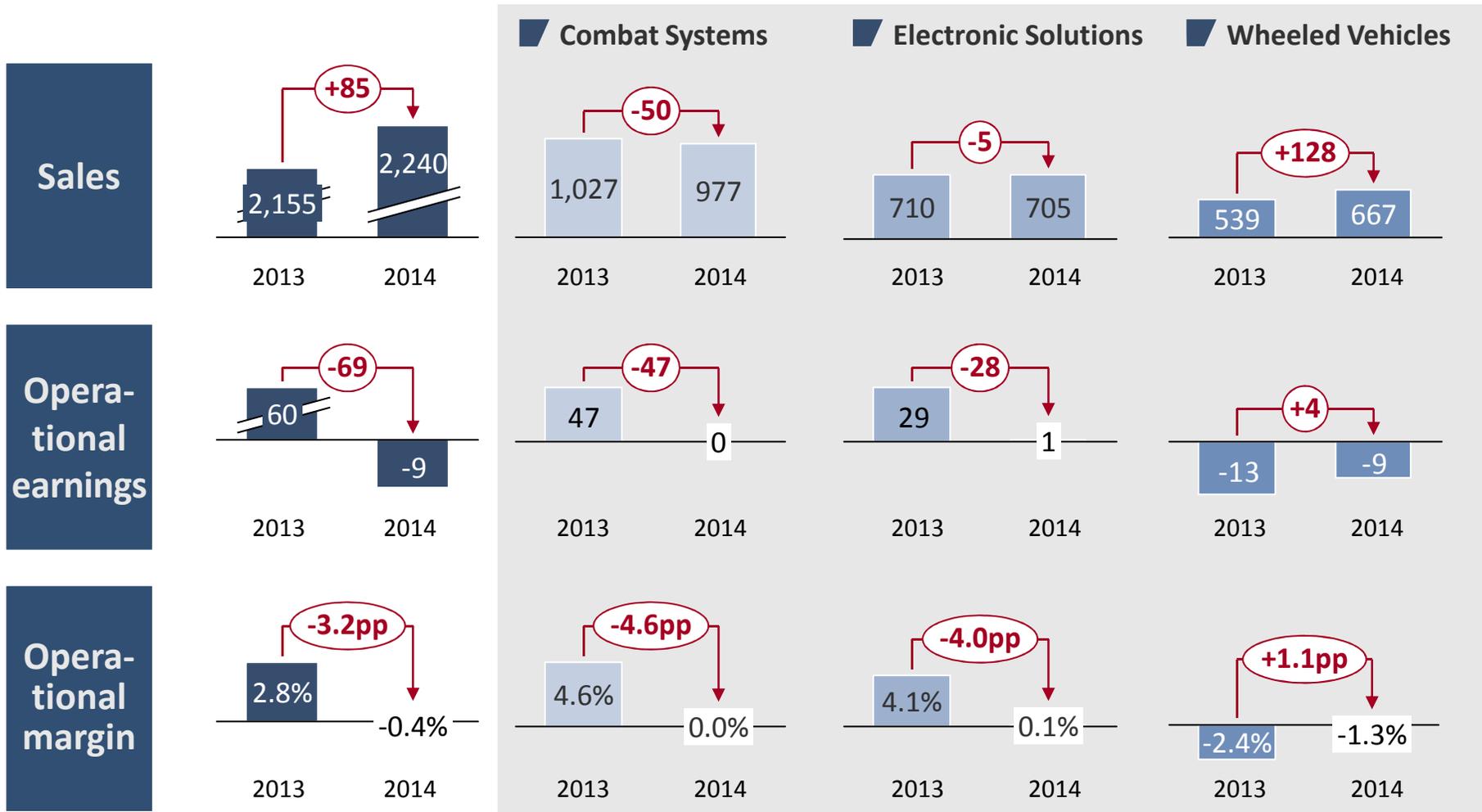


Cash flow statement

Continuing operations <i>in EUR million</i>	2013	2014	Δ 2014/2013
Group net income	- 27	- 72	- 45
Amortization / depreciation	92	85	- 7
Change in pension accruals	2	0	- 2
Cash flow	67	13	- 54
Changes in working capital and other items	- 47	- 69	- 22
Net cash used in operating activities	20	- 56	- 76
Cash outflow for additions to tangible and intangible assets	- 58	- 76	- 18
Free cash flow from operations	- 38	- 132	- 94



Key figures Defence by division (operational before special items)

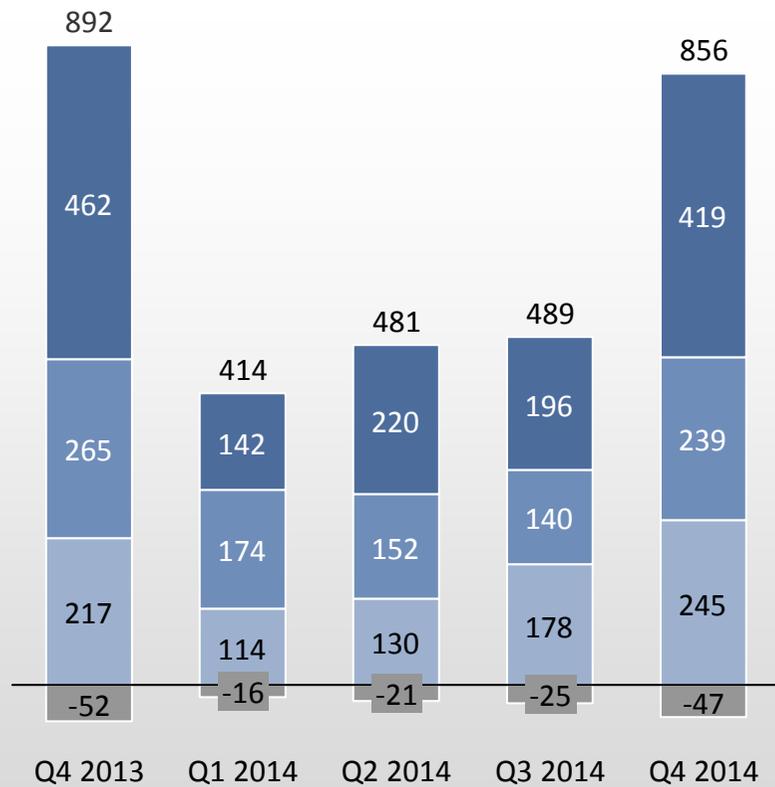


Figures before intrasegmental consolidation

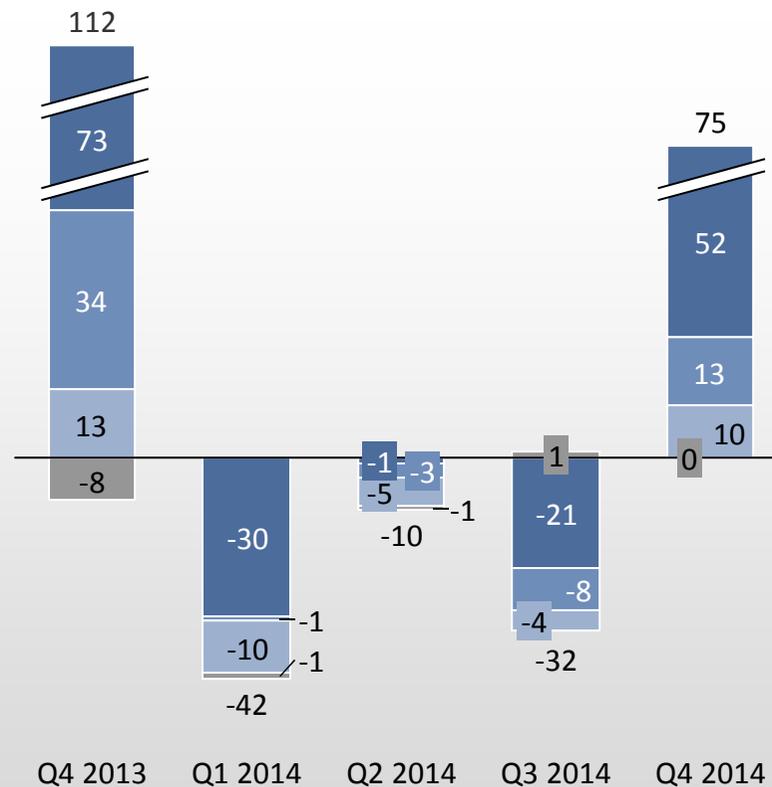


Quarterly development

Sales Defence in EUR million



Operational earnings Defence in EUR million

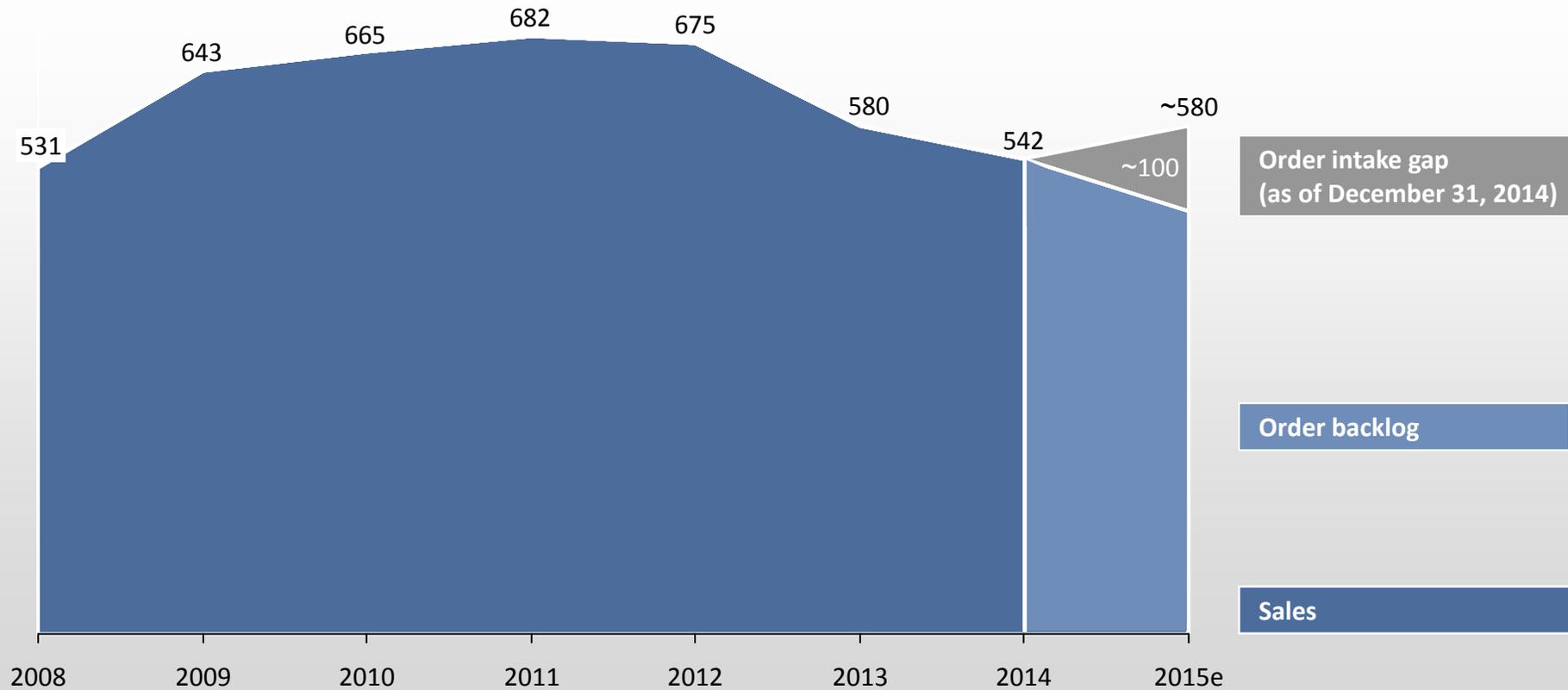


■ Combat Systems
 ■ Electronic Solutions
 ■ Wheeled Vehicles
 ■ Consolidation/Others



Weapon and ammunition business Recovery to be expected due to high share of booked orders

Sales weapon and ammunition business (as of December 31, 2014) in EUR million





Disclaimer

This presentation contains “forward-looking statements” within the meaning of the US Private Securities Litigation Reform Act of 1995 with respect to Rheinmetall’s financial condition, results of operations and businesses and certain of Rheinmetall’s plans and objectives. These forward-looking statements reflect the current views of Rheinmetall’s management with respect to future events. In particular, such forward-looking statements include the financial guidance contained in the outlook for 2015.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as “will”, “anticipates”, “aims”, “could”, “may”, “should”, “expects”, “believes”, “intends”, “plans” or “targets”. By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. In particular, such factors may have a material adverse effect on the costs and revenue development of Rheinmetall. Further, the economic downturn in Rheinmetall’s markets, and changes in interest and currency exchange rates, may also have an impact on Rheinmetall’s business development and the availability of financing on favorable conditions. The factors that could affect Rheinmetall’s future financial results are discussed more fully in Rheinmetall’s most recent annual and quarterly reports which can be found on its website at www.rheinmetall.com.

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