

 RHEINMETALL AG

# THE TECHNOLOGY GROUP FOR SECURITY AND MOBILITY

Conference Call Q2 2015

Düsseldorf | August 6, 2015



## Highlights H1 2015

### Strong top line growth, earnings improved, sales outlook specified

- + 9%** — Order backlog continuously above EUR 7 billion
- + 12%** — Sales growth of EUR 263 million
- + 147%** — Operational earnings up to EUR 79 million
- +** — EPS positive at EUR 1.03 (H1 2014: EUR 0.01)
- + 49%** — Free cash flow from operations improved strongly by EUR 272 million to EUR -279 million
- ↗** — Group sales target specified to the upper end of the range



## Key figures H1 2015

| <i>in EUR million</i>                        | H1 2014 | H1 2015       | Δ H1 2015 / H1 2014 |        |
|--|---------|---------------|---------------------|--------|
| Sales  | 2,131   | <b>2,394</b>  | + 263               | + 12%  |
| Operational earnings                         | 32      | <b>79</b>     | + 47                | + 147% |
| Special items: one-offs, restructuring costs | - 2     | <b>0</b>      | + 2                 |        |
| EBIT (reported)                              | 30      | <b>79</b>     | + 49                | + 163% |
| EBIT margin <i>in %</i>                      | 1.4     | <b>3.3</b>    | + 1.9pp             |        |
| EBT  | - 9     | <b>48</b>     | + 57                |        |
| Group net income                             | - 6     | <b>34</b>     | + 40                |        |
| Earnings per share <i>in EUR</i>             | 0.01    | <b>1.03</b>   | + 1.02              |        |
| Free cash flow from operations               | - 550   | <b>- 279</b>  | + 271               | - 49%  |
| Employees (June 30)                          | 20,338  | <b>20,642</b> | + 304               | + 1%   |

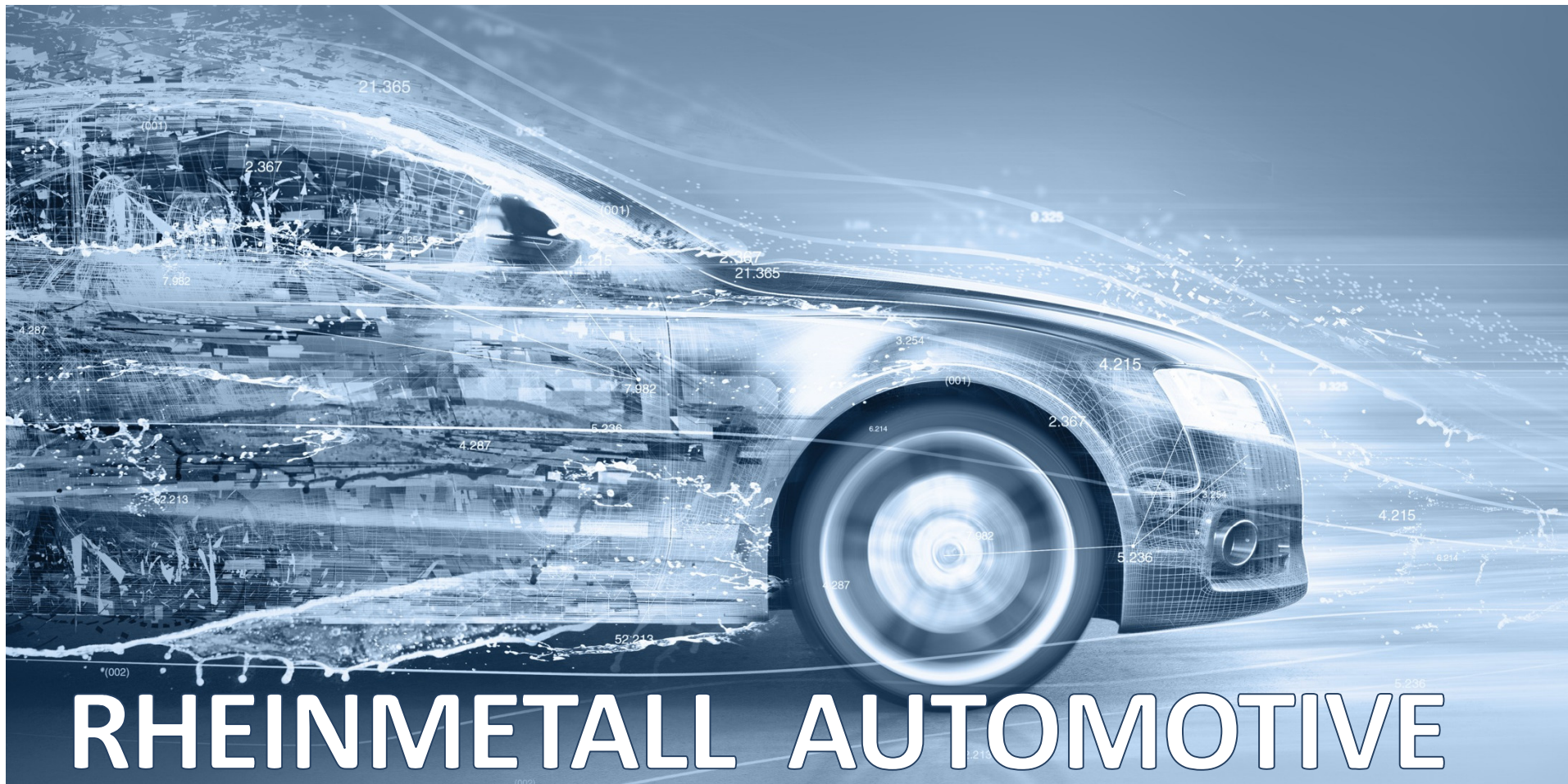


## Key figures Q2 2015 per segment

### Improved profitability in Automotive, break-even in Defence

| Automotive<br><i>in EUR million</i> | Q2 2014 | Q2 2015    | Δ Q2 2015 / Q2 2014 |       |
|-------------------------------------|---------|------------|---------------------|-------|
| Sales                               | 619     | <b>676</b> | + 57                | + 9%  |
| EBIT (reported)                     | 47      | <b>59</b>  | + 12                | + 26% |
| EBIT margin <i>in %</i>             | 7.6     | <b>8.7</b> | + 1.1pp             |       |

| Defence<br><i>in EUR million</i> | Q2 2014 | Q2 2015    | Δ Q2 2015 / Q2 2014 |        |
|----------------------------------|---------|------------|---------------------|--------|
| Sales                            | 481     | <b>545</b> | + 64                | + 13%  |
| EBIT (reported)                  | - 11    | <b>1</b>   | + 12                | - 109% |
| EBIT margin <i>in %</i>          | - 2.3   | <b>0.2</b> | + 2.5pp             |        |



# RHEINMETALL AUTOMOTIVE



## Highlights H1 2015

### Robust sales growth, enhanced profitability, positive free cash flow

- + 8%\*** — **Sales increased** by EUR 104 million, outperforming global markets (+ 1%)
- + 23%** — **Disproportionate increase of EBIT** to EUR 114 million
- + 1.0pp** — **EBIT margin above target** at 8.5%
- + 70mn** — **Free cash flow from operations positive** at EUR 15 million
- + 45%** — **Sales growth of Chinese entities** (FX-adjusted + 20%) remains significantly **above market level**

\* FX-adjusted + 5%



## Key figures H1 2015

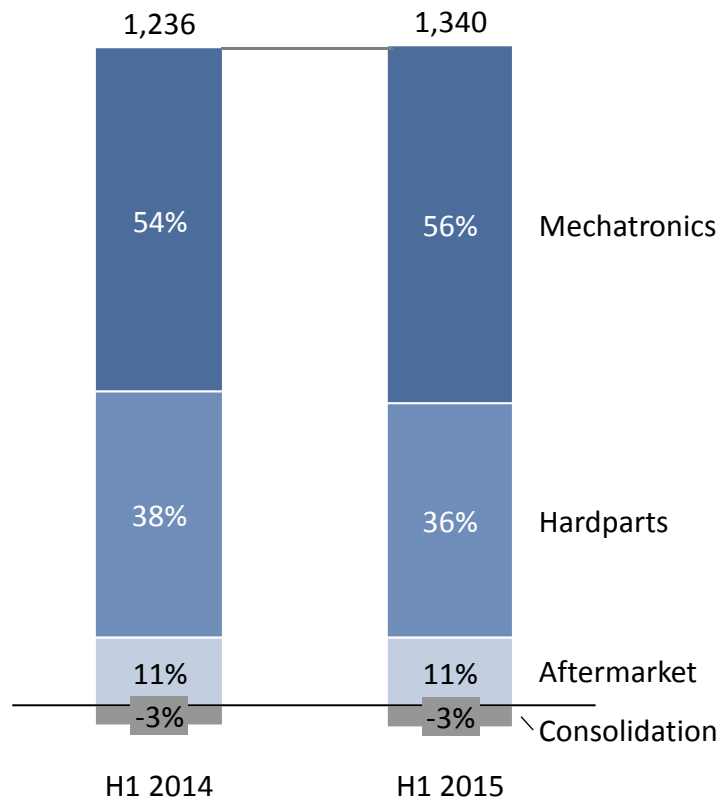
| <i>in EUR million</i>                        | H1 2014 | H1 2015       | Δ H1 2015 / H1 2014 |       |
|--|---------|---------------|---------------------|-------|
| Order intake                                 | 1,215   | <b>1,320</b>  | + 105               | + 8%  |
| Order backlog (June 30)                      | 374     | <b>397</b>    | + 23                | + 6%  |
| Sales  | 1,236   | <b>1,340</b>  | + 104               | + 8%  |
| Operational earnings                         | 93      | <b>114</b>    | + 21                | + 23% |
| Special items: one-offs, restructuring costs | 0       | <b>0</b>      | ± 0                 | ± 0%  |
| EBIT (reported)                              | 93      | <b>114</b>    | + 21                | + 23% |
| EBIT margin <i>in %</i>                      | 7.5     | <b>8.5</b>    | + 1.0pp             |       |
| Free cash flow from operations               | - 55    | <b>15</b>     | + 70                |       |
| Employees (June 30)                          | 10,967  | <b>11,066</b> | + 99                | + 1%  |



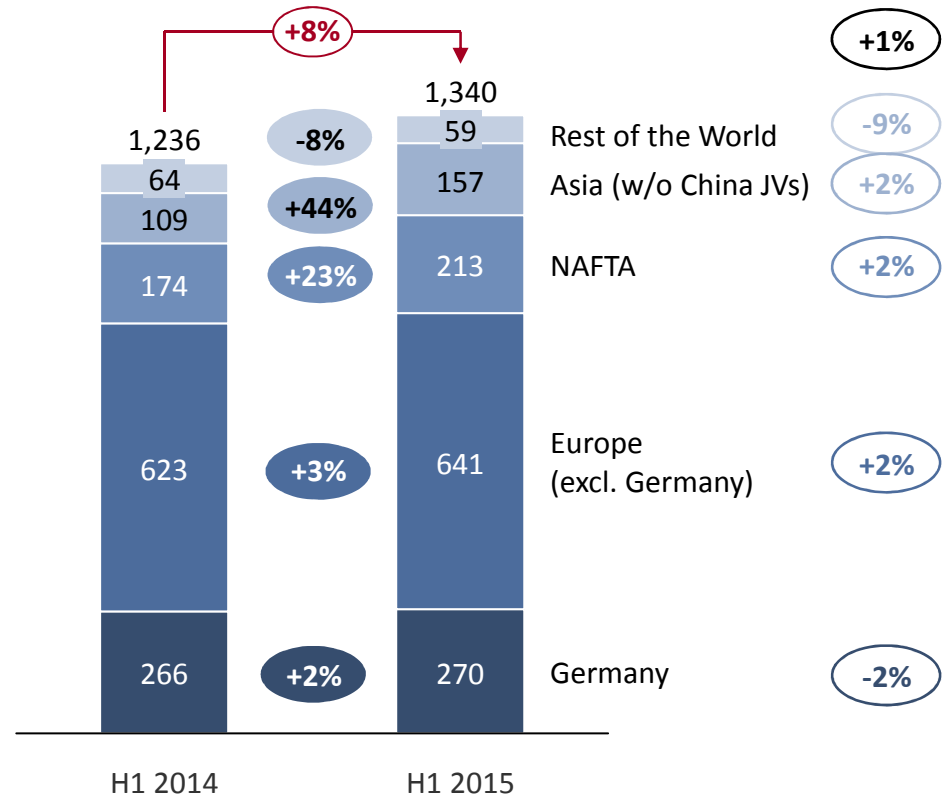
# Mechatronics remains on growth track

## Sound increase of revenues in North America and Asia

Sales by division in EUR million



Sales by region in EUR million



\* H1 2015 vs. H1 2014, source: IHS Automotive (July 2015)

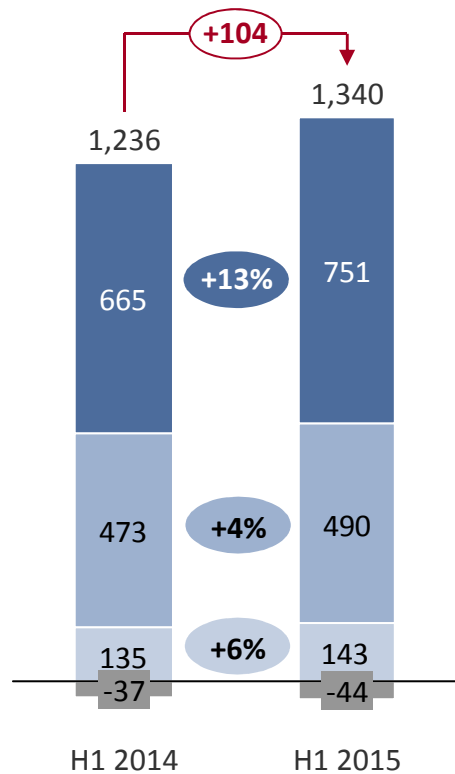




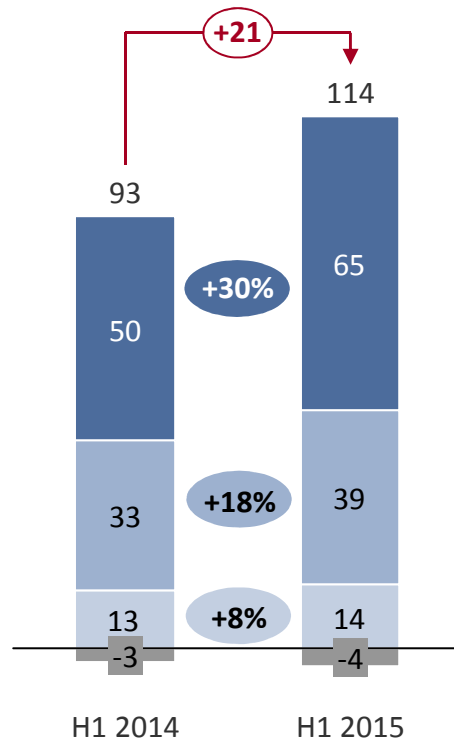
# Substantial sales growth in Mechatronics

## Improved earnings by higher sales and strong JV contributions

Sales Automotive in EUR million



Operational earnings Automotive in EUR million



### Reasons for earnings development

#### Mechatronics

- Higher sales

#### Hardparts

- Increasing earnings contribution of Chinese JVs
- Break-even of large-bore piston subsidiary in China
- At-equity results of new castings JV (former ATAG)

#### Aftermarket

- Higher sales





# China: Economic growth coming to normalized level Again strong performance of Chinese entities

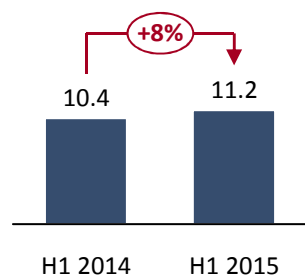
## NEWS

- Signs of **economic slowdown** and **lower Auto market growth**
- Rheinmetall Automotive's direct **exposure to China relatively low** (H1 2015: 3% in consolidated sales and 11% in earnings)
- **Trends for Rheinmetall Automotive:**
  - Increasing Mechatronics business with Chinese OEMs
  - Additional products from JVs and WFOEs enlarging the content per car (e.g. solenoid valves, structural parts)

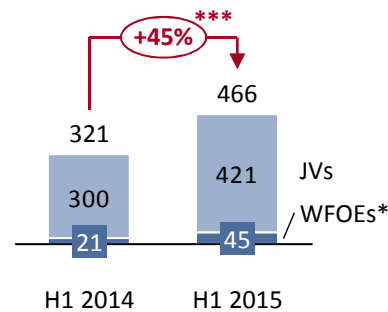


## H1 FIGURES

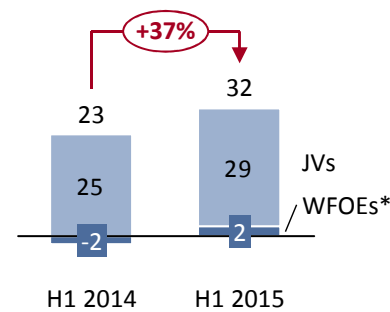
LV production in million units



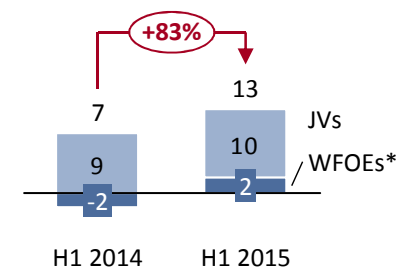
Sales\*\* in EUR million



EBIT\*\* in EUR million



Earnings contribution in EUR million



\* WFOE = Wholly Foreign-Owned Enterprise

\*\* Including 100% figures of the 50/50 joint ventures, consolidated at equity

\*\*\* FX-adjusted + 20%



# RHEINMETALL DEFENCE



## Highlights H1 2015

### Solid order intake, strong top line growth, improved earnings

- > 1** — **Book-to-bill ratio** clearly above 1
- + 9%** — **Order backlog increased** to more than EUR 6.7 billion
- + 18%\*** — **Sales growth** of EUR 159 million
- 48%** — **Operational loss reduced** by EUR 25 million
- + 40%** — **Free cash flow from operations improved** to EUR -279 million

\* FX-adjusted + 15%



## Key figures H1 2015

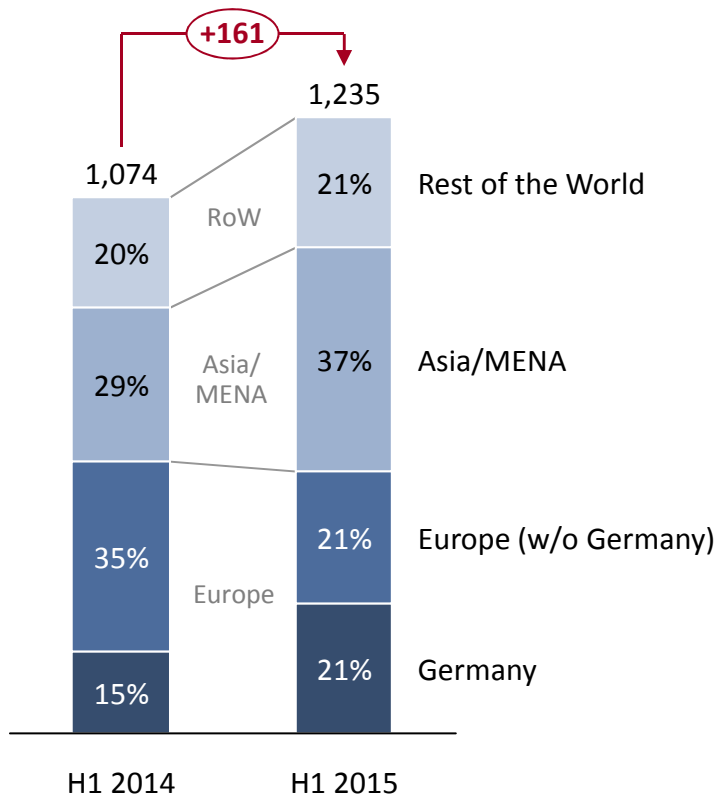
| <i>in EUR million</i>                        | H1 2014 | H1 2015      | Δ H1 2015 / H1 2014 |       |
|--|---------|--------------|---------------------|-------|
| Order intake                                 | 1,074   | <b>1,235</b> | + 161               | + 15% |
| Order backlog (June 30)                      | 6,174   | <b>6,728</b> | + 554               | + 9%  |
| Sales  | 895     | <b>1,054</b> | + 159               | + 18% |
| Operational earnings                         | - 52    | <b>- 27</b>  | + 25                | - 48% |
| Special items: one-offs, restructuring costs | - 2     | <b>0</b>     | + 2                 |       |
| EBIT (reported)                              | - 54    | <b>- 27</b>  | + 27                | - 50% |
| EBIT margin <i>in %</i>                      | - 6.0   | <b>- 2.6</b> | + 3.4pp             |       |
| Free cash flow from operations               | - 462   | <b>- 279</b> | + 183               | - 40% |
| Employees (June 30)                          | 9,228   | <b>9,422</b> | + 194               | + 2%  |



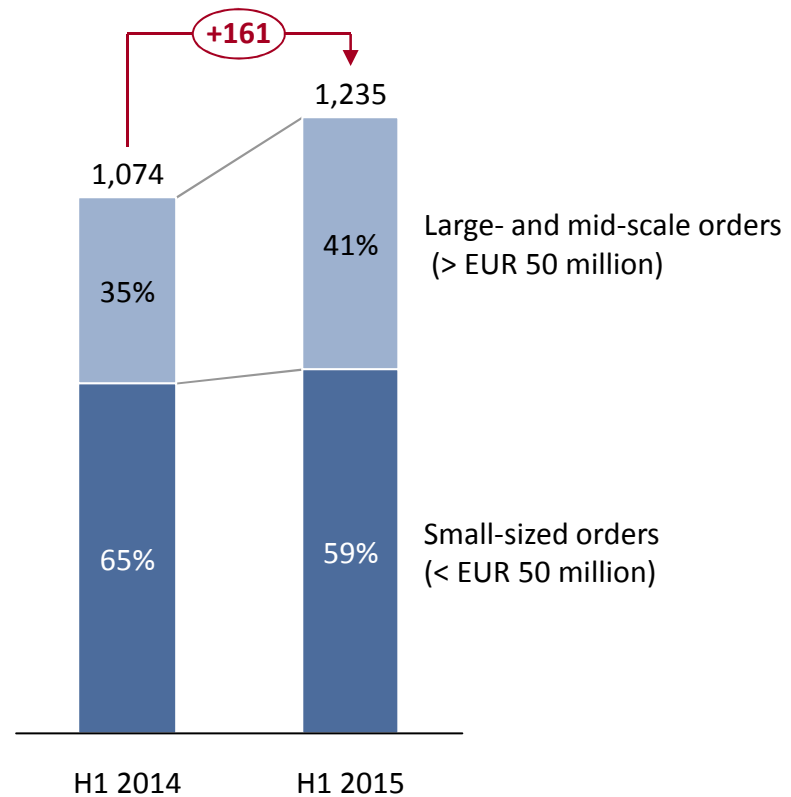
# Order intake

## Higher share of non-European contracts, stable basis of small-sized orders

Order intake by region in EUR million



Order intake by order size in EUR million

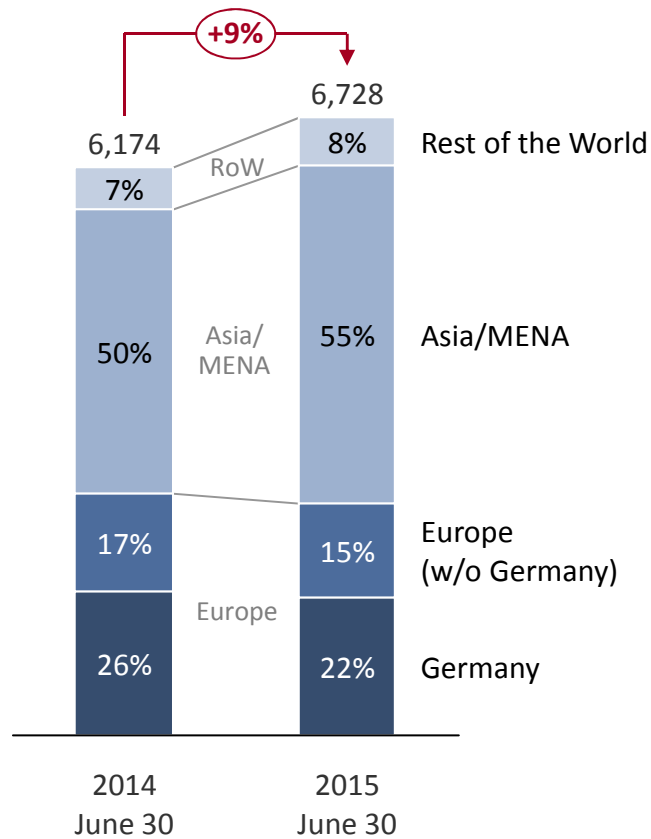




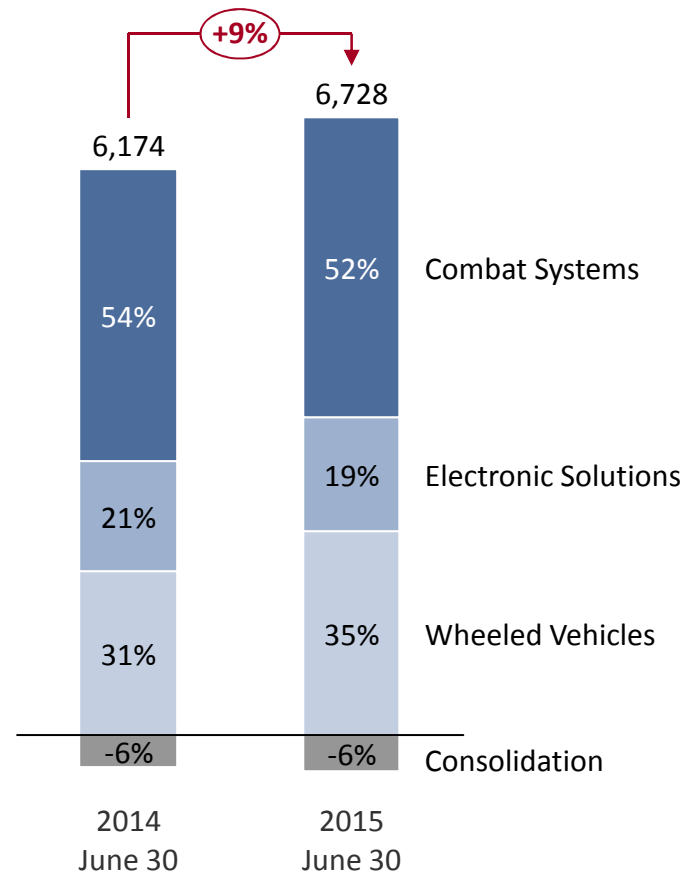
# Order backlog

## Effective internationalization, increase of order book esp. in Wheeled Vehicles

Order backlog by region in EUR million



Order backlog by division in EUR million

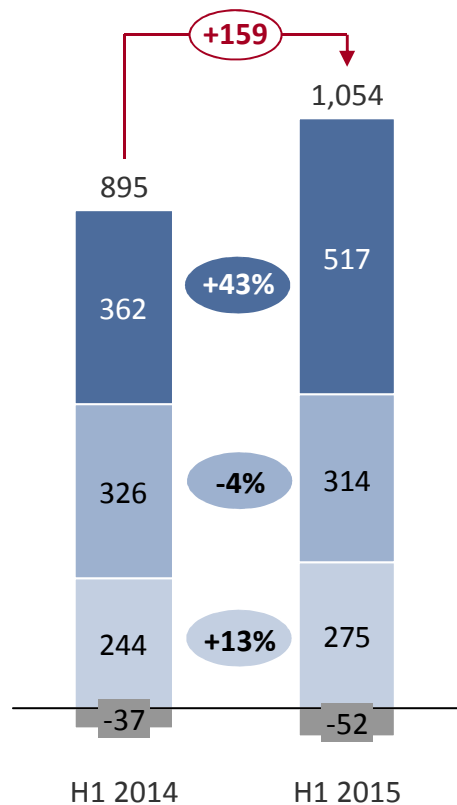




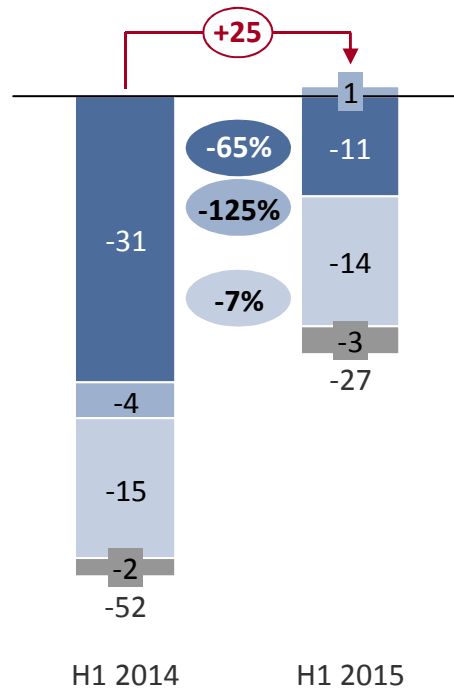
# Higher sales by large-scale projects, especially in Combat Systems

## Earnings improved, but still loss reported

Sales Defence in EUR million



Operational earnings Defence in EUR million



### Reasons for earnings development

#### Combat Systems

- Higher sales in Tracked Vehicles and Ammunition

#### Electronic Solutions

- More favorable product mix

#### Wheeled Vehicles

- Higher sales, but in low-margin business "Logistic Vehicles"

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

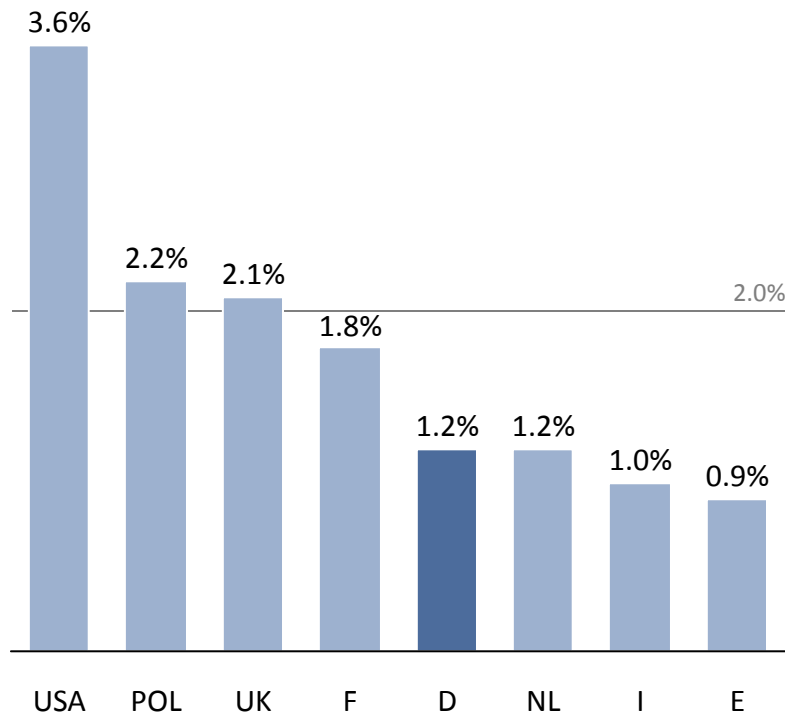




## Mid-term perspective

# Rising budgets in several NATO countries expected, among them Germany

Defence budgets 2015e in % of GDP



- NATO summit in Wales 2014 decides **return to higher defence budgets** (target level of 2% of GDP within 10 years)
- **Germany committed to 2% target** including a higher share of procurement
- **German land forces:** Target to fulfil operational NATO requirements, i.e. full readiness by **higher number of vehicles and sufficient level of ammunition**

Source: NATO

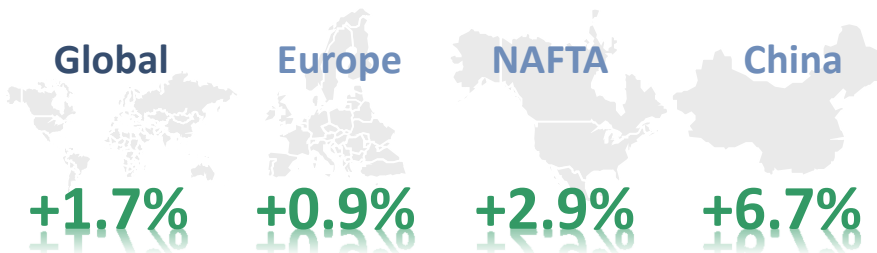




## Market environment

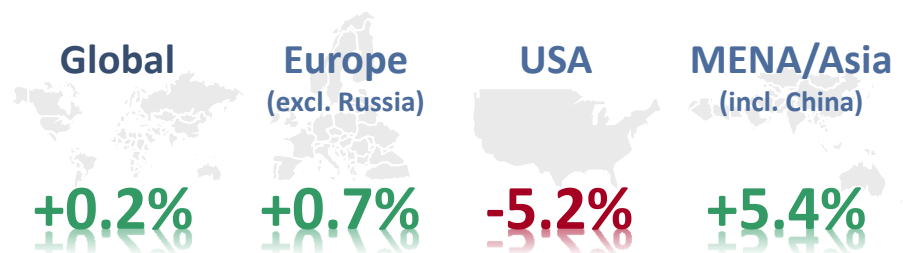
### LV production continues to grow, Defence globally stable

#### AUTOMOTIVE



- Global LV production expected to grow by roughly 2% in 2015
- More optimistic picture of Europe than in Q1:
  - Now positive estimates for France and UK
  - Germany slightly increasing
  - Strong growth in Spain and Italy
  - Decline in Eastern Europe (Russia)
- NAFTA: Still solid growth driven by USA and Mexico
- China: Growth slowing down to normalized level

#### DEFENCE



- Germany: 4 out of 5 key technologies, recently defined by the Government, are covered by Rheinmetall’s product range
- Europe: Conflict-induced security policy triggers increase of budgets, particularly in the Baltic states and Scandinavia
- Strong growth in MENA and Asia/Pacific, whereas continuing budget reduction in the US

Figures 2015e vs. 2014

Source: IHS Automotive (July 2015), IHS Jane’s (July 2015)



## Outlook FY 2015

**Top line targets specified to the upper end of the range**

### Outlook 2015

|                   | Sales <i>in EUR billion</i> |           |         | Operational margin <i>in %</i> |                  |
|-------------------|-----------------------------|-----------|---------|--------------------------------|------------------|
|                   | 2014                        | 2015e     |         | 2014                           | 2015e            |
|                   |                             | Original  | Updated |                                |                  |
| <b>Group</b>      | 4,688                       | 4.8 - 5.0 | ~ 5.0   | 3.4                            | <b>approx. 5</b> |
| <b>Defence</b>    | 2,240                       | 2.3 - 2.4 | ~ 2.4   | - 0.4                          | <b>3</b>         |
| <b>Automotive</b> | 2,448                       | 2.5 - 2.6 | ~ 2.6   | 7.5                            | <b>8</b>         |

### Assumptions

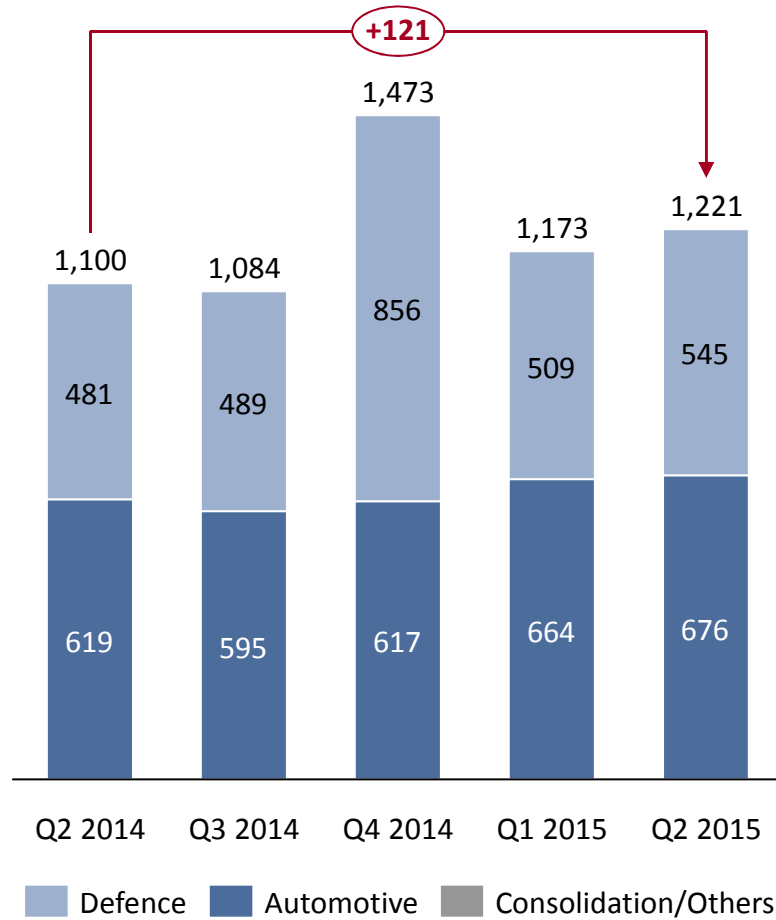
- Key large-scale projects in Defence to be realized as scheduled, no significant one-offs
- Global automotive industry growing as forecast



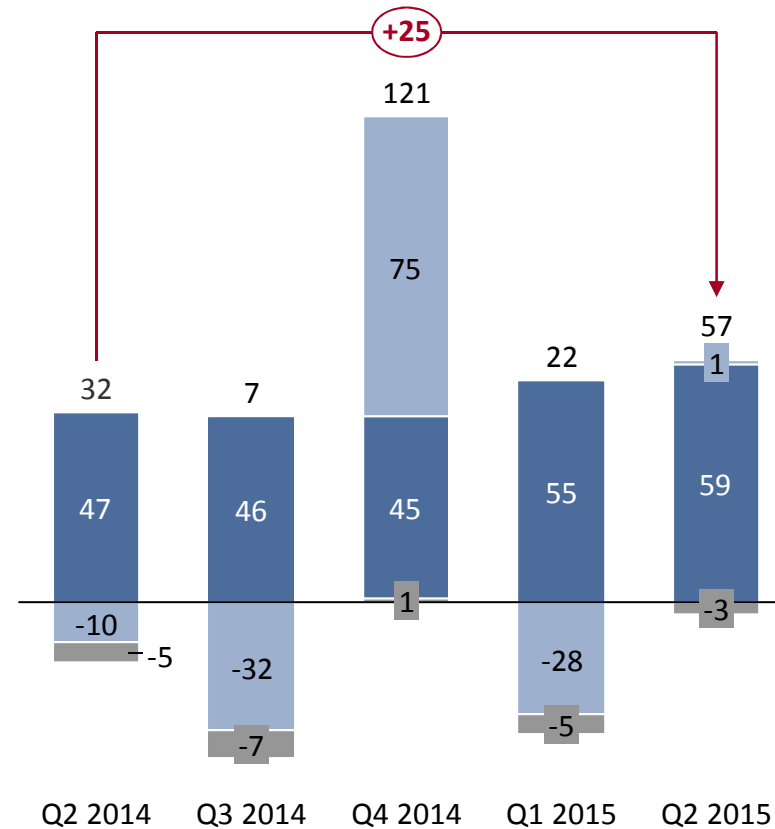


# Quarterly development

■ Sales in EUR million



■ Operational earnings in EUR million





## Balance sheet

| <i>in EUR million</i>           | 31.12.<br>2013 | 31.12.<br>2014 | 30.06.<br>2015 | Δ 30.06.15/<br>31.12.14 |
|---------------------------------|----------------|----------------|----------------|-------------------------|
| <b>Assets</b>                   | <b>4,866</b>   | <b>5,271</b>   | <b>5,282</b>   | <b>+ 11</b>             |
| Non-current assets              | 2,345          | 2,504          | 2,577          | + 73                    |
| Current assets                  | 2,521          | 2,767          | 2,705          | - 62                    |
| <b>Equity &amp; Liabilities</b> | <b>4,866</b>   | <b>5,271</b>   | <b>5,282</b>   | <b>+ 11</b>             |
| Equity                          | 1,339          | 1,197          | 1,294          | + 97                    |
| Pension liabilities             | 891            | 1,121          | 1,108          | - 13                    |
| Other non-current liabilities   | 687            | 938            | 935            | - 3                     |
| Current liabilities             | 1,943          | 2,015          | 1,945          | - 70                    |
| Equity ratio                    | 28%            | 23%            | 24%            | + 1pp                   |
| Net debt                        | 147            | 330            | 621            | + 291                   |
| Working capital                 | 622            | 813            | 1,062          | + 249                   |



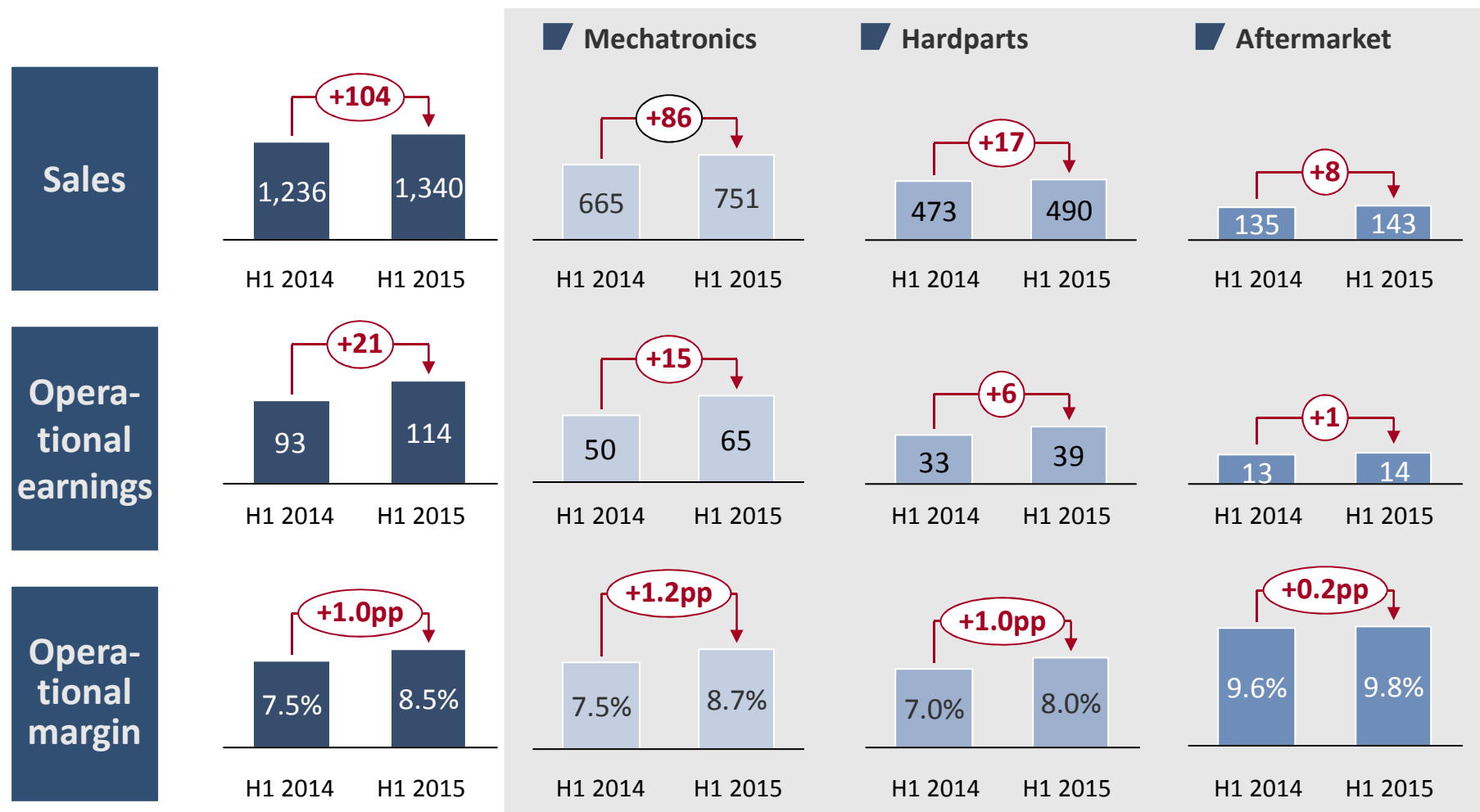
## Cash flow statement

| <i>in EUR million</i>  | Q2<br>2014  | Q3<br>2014 | Q4<br>2014 | Q1<br>2015   | Q2<br>2015   | Δ Q2<br>2015/2014 |
|--|-------------|------------|------------|--------------|--------------|-------------------|
| Group net income   | 7           | - 14       | 41         | 5            | <b>29</b>    | + 22              |
| Amortization / depreciation                                  | 52          | 49         | 59         | 49           | <b>50</b>    | - 2               |
| Change in pension accruals                                   | 0           | 1          | - 2        | 0            | <b>1</b>     | + 1               |
| <b>Cash flow</b>   | <b>59</b>   | <b>36</b>  | <b>98</b>  | <b>54</b>    | <b>80</b>    | <b>+ 21</b>       |
| Changes in working capital and other items                   | - 92        | 67         | 337        | - 202        | <b>- 100</b> | - 8               |
| <b>Net cash used in operating activities</b>                 | <b>- 33</b> | <b>103</b> | <b>435</b> | <b>- 148</b> | <b>- 20</b>  | <b>+ 13</b>       |
| Cash outflow for additions to tangible and intangible assets | - 49        | - 50       | - 120      | - 56         | <b>-55</b>   | - 6               |
| <b>Free cash flow from operations</b>                        | <b>- 82</b> | <b>53</b>  | <b>315</b> | <b>- 204</b> | <b>- 75</b>  | <b>+ 7</b>        |





## Key figures Automotive by division

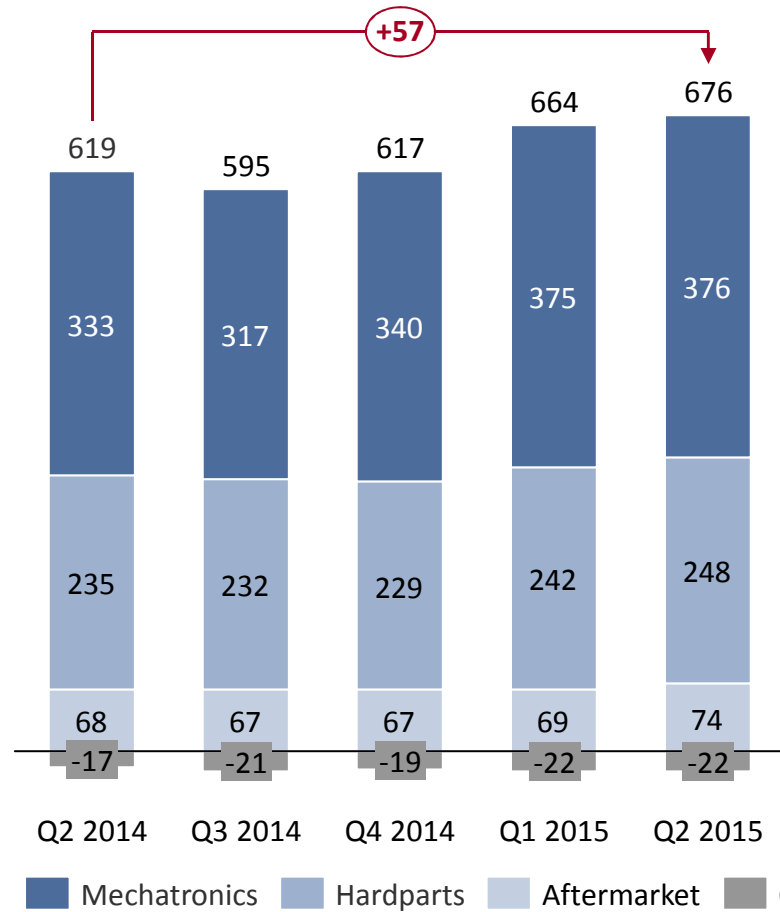


Figures before intrasegmental consolidation

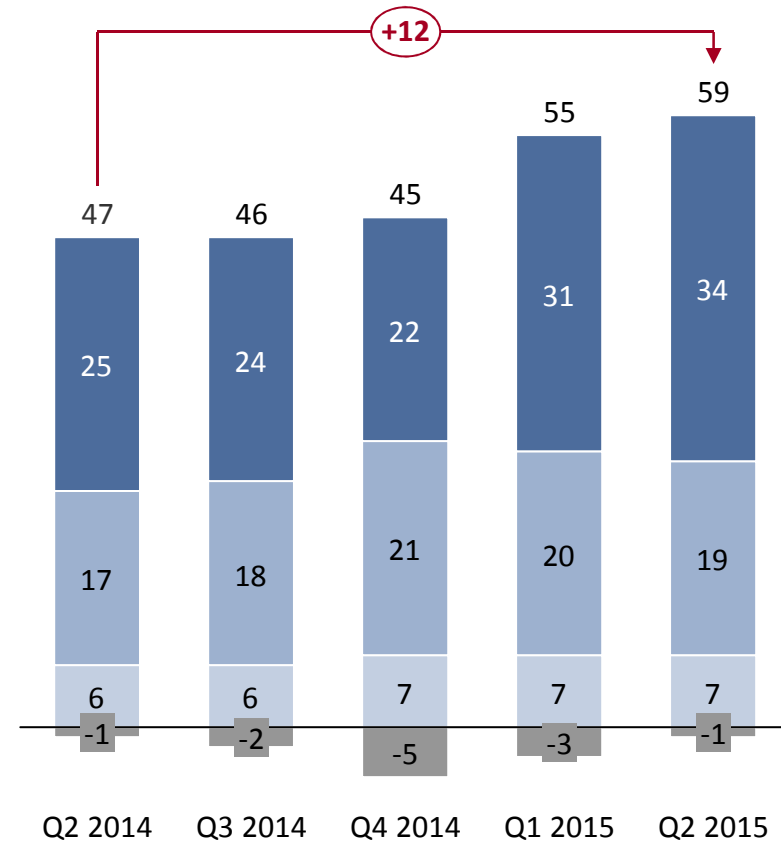


# Quarterly development

Sales Automotive in EUR million



Operational earnings Automotive in EUR million



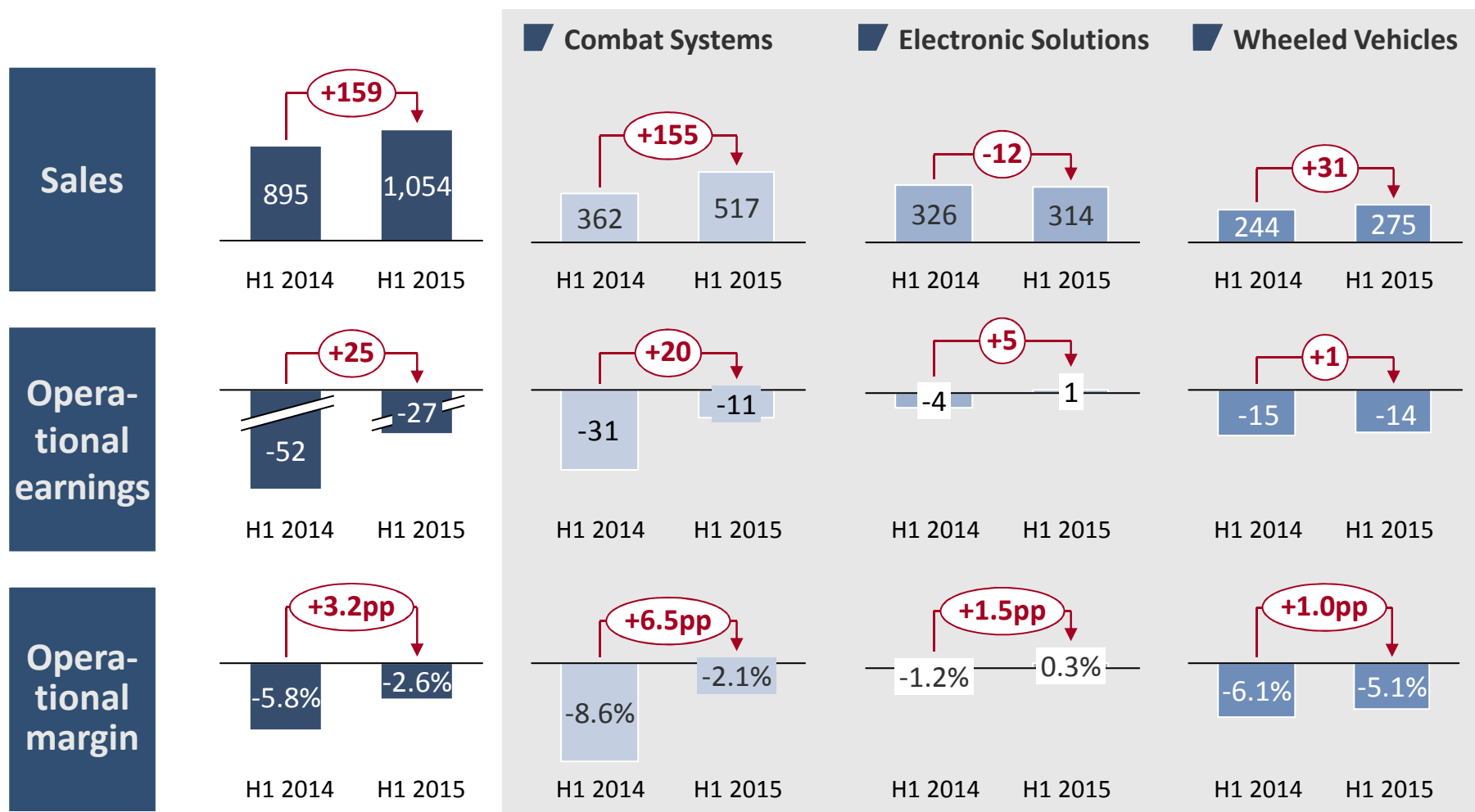


## Cash flow statement

| <i>in EUR million</i>  | Q2<br>2014 | Q3<br>2014 | Q4<br>2014 | Q1<br>2015  | Q2<br>2015  | Δ Q2<br>2015/2014 |
|--|------------|------------|------------|-------------|-------------|-------------------|
| Net income   | 33         | 37         | 29         | 40          | <b>43</b>   | + 10              |
| Amortization / depreciation                                  | 31         | 27         | 36         | 28          | <b>28</b>   | - 3               |
| Change in pension accruals                                   | 1          | 0          | - 1        | 0           | <b>0</b>    | - 1               |
| <b>Cash flow</b>   | <b>65</b>  | <b>64</b>  | <b>64</b>  | <b>68</b>   | <b>71</b>   | <b>+ 6</b>        |
| Changes in working capital and other items                   | - 18       | 0          | 78         | - 60        | <b>4</b>    | + 22              |
| <b>Net cash used in operating activities</b>                 | <b>47</b>  | <b>64</b>  | <b>142</b> | <b>8</b>    | <b>75</b>   | <b>+ 28</b>       |
| Cash outflow for additions to tangible and intangible assets | - 26       | - 29       | - 88       | - 34        | <b>- 34</b> | - 8               |
| <b>Free cash flow from operations</b>                        | <b>21</b>  | <b>35</b>  | <b>54</b>  | <b>- 26</b> | <b>41</b>   | <b>+ 20</b>       |



## Key figures Defence by division

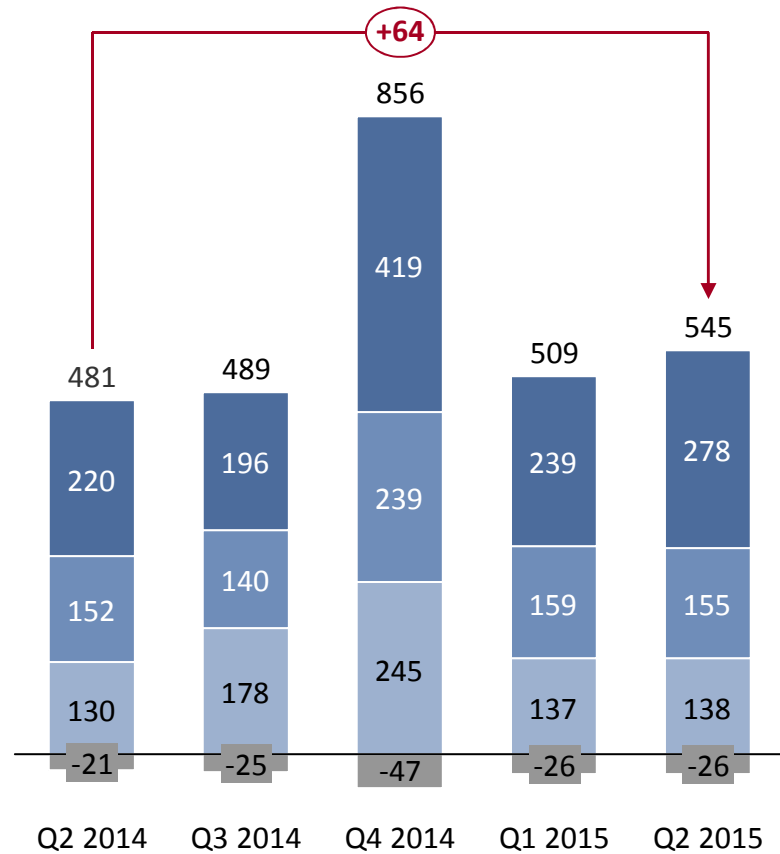


Figures before intrasegmental consolidation

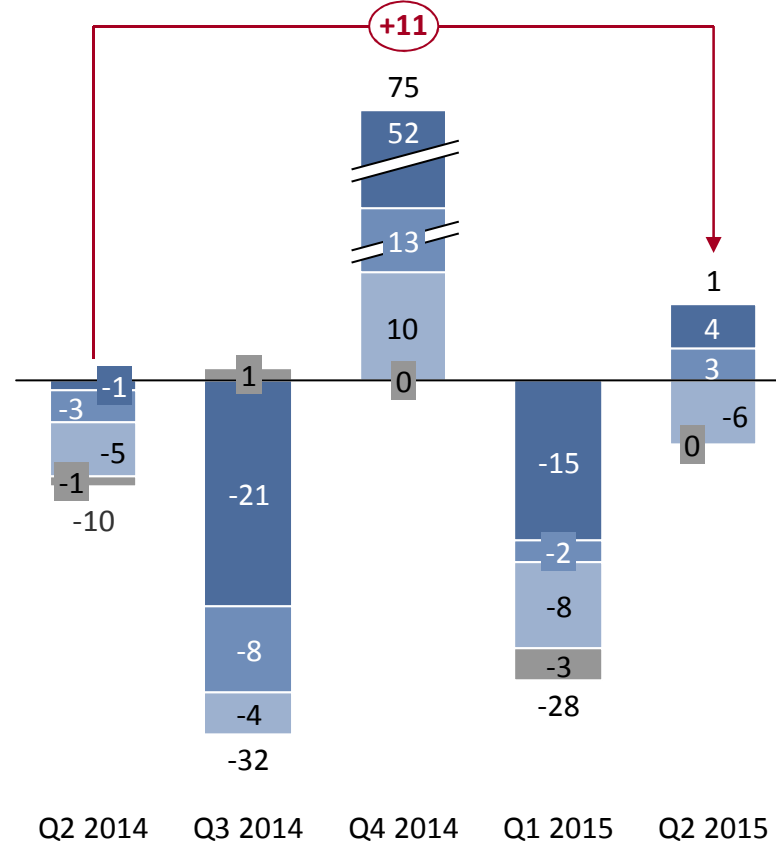


# Quarterly development

Sales Defence in EUR million



Operational earnings Defence in EUR million



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



## Cash flow statement

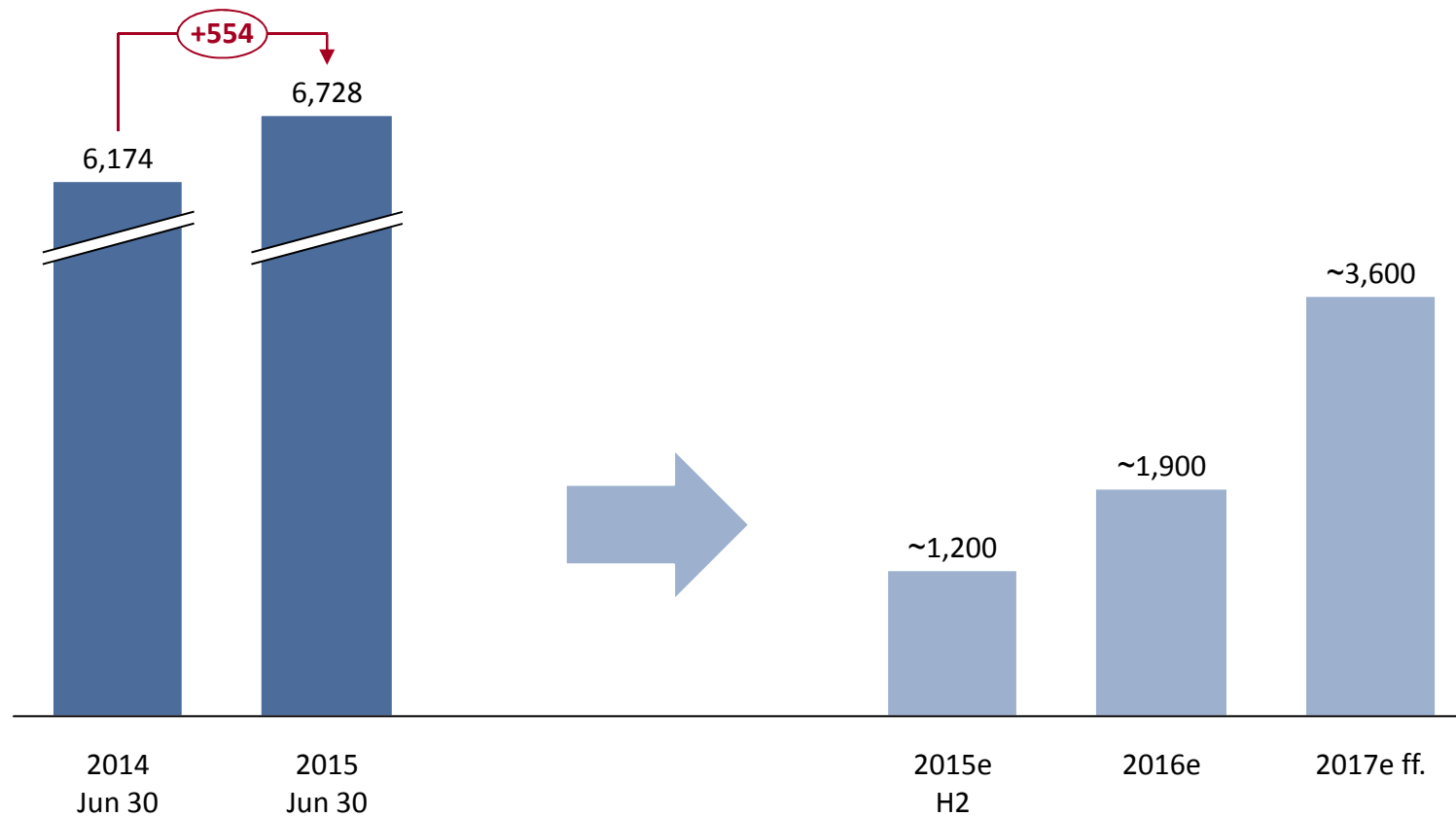
| <i>in EUR million</i>  | Q2<br>2014  | Q3<br>2014  | Q4<br>2014 | Q1<br>2015   | Q2<br>2015   | Δ Q2<br>2015/2014 |
|--|-------------|-------------|------------|--------------|--------------|-------------------|
| Net income   | - 14        | - 39        | 20         | - 30         | - 8          | + 6               |
| Amortization / depreciation                                  | 21          | 21          | 23         | 21           | 21           | ± 0               |
| Change in pension accruals                                   | - 1         | 2           | - 2        | 1            | 2            | + 3               |
| <b>Cash flow</b>   | <b>6</b>    | <b>- 16</b> | <b>41</b>  | <b>- 8</b>   | <b>15</b>    | <b>+ 9</b>        |
| Changes in working capital and other items                   | - 86        | 85          | 270        | - 142        | - 113        | - 27              |
| <b>Net cash used in operating activities</b>                 | <b>- 80</b> | <b>69</b>   | <b>311</b> | <b>- 150</b> | <b>- 98</b>  | <b>- 18</b>       |
| Cash outflow for additions to tangible and intangible assets | - 15        | - 22        | - 28       | - 17         | - 14         | + 1               |
| <b>Free cash flow from operations</b>                        | <b>- 95</b> | <b>47</b>   | <b>283</b> | <b>- 167</b> | <b>- 112</b> | <b>- 17</b>       |



## Order backlog and sales split per year High order book coverage of mid-term future sales

Order backlog (as of June 30) ..... in EUR million

..... turning into sales in EUR million

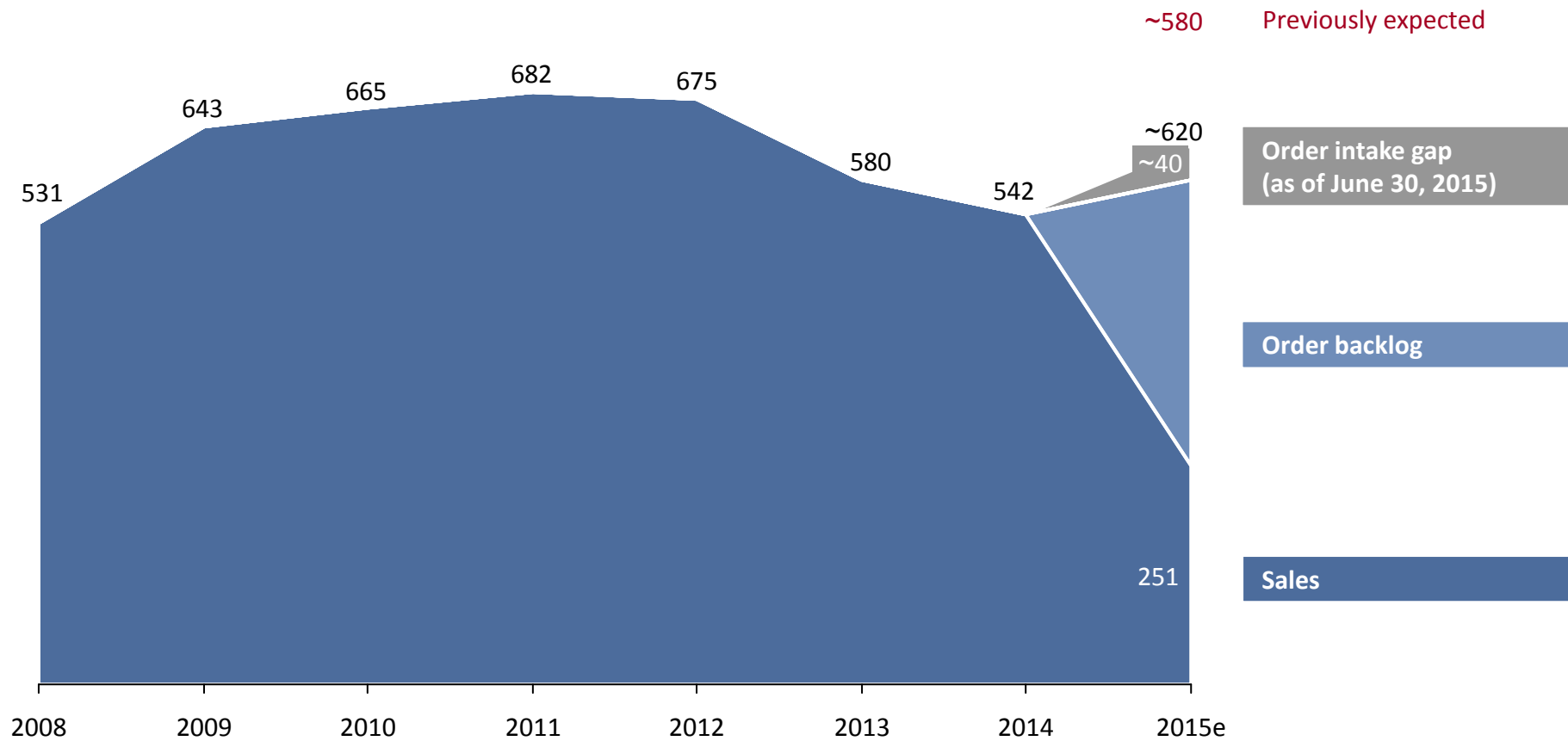




## Weapon and ammunition business

# Sales expectations for FY2015 raised due to favorable order situation

Sales weapon and ammunition business (as of June 30, 2015) in EUR million







## Disclaimer

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