

 RHEINMETALL AG

THE TECHNOLOGY GROUP FOR SECURITY AND MOBILITY

Conference Call 9M 2014

Düsseldorf | November 6, 2014



Growth and risks

Ambivalent markets for security and mobility products



Defence

- **Geopolitical tensions** – Ukraine, Syria, IS, Gaza – trigger debates on expanding procurement budgets
- **Global markets still challenging**, esp. ammunition market below expectations
- **Export license policy** in Germany remains on case-by-case decisions, but will – if tightened – also affect our future order intake

Automotive

- **Global LV production** continues to **grow**: 2014e + 3.5%, 2015e + 3.3%
- In the current year **robust growth** in NAFTA (+ 5.2%) and China (+ 9.4%), but **weak emerging markets**
- Concerns about an **economic slowdown in Europe**, but still expecting growth: 2014e + 2.5%, 2015e + 1.6%

Source: IHS Automotive (October 2014)



Q3 2014 at a glance

- **Sales increased** by 9% to EUR 3,215 million (+ 11% adjusted for FX effects)
- **Operational earnings down** by EUR 19 million to EUR 39 million, **EBT improved** by EUR 24 million to EUR - 32 million, **EPS** at EUR - 0.39 after EUR - 0.65 in 9M 2013
- **Headcount reduced** by 2% to 20,237 employees
- **Promissory note loans** in the amount of EUR 168.5 million issued in October 2014
- **Outlook updated:**
 - In **Defence**, sales and operational earnings reduced due to a set of external and internal impacts
 - In **Automotive**, sales and earnings raised due to a strong Q3 development

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



The first three quarters 2014 in detail

Continuing operations <i>in EUR million</i>	9M 2013	9M 2014	Δ 9M 2014/ 9M 2013
Sales	2,956	3,215	+ 259
Operational earnings	58	39	- 19
Special items: one-offs, restructuring costs	- 60	- 16	+ 44
EBIT (reported)	- 2	23	+ 25
EBT	- 56	- 32	+ 24
Group net income	- 47	- 20	+ 27
Earnings per share <i>in EUR</i>	- 0.65	- 0.39	+ 0.26
Employees	20,710	20,237	- 473

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



Cash flow statement

Positive operating free cash flow in Q3 due to decrease of working capital

Continuing and discontinued operations <i>in EUR million</i>	Q3 2013	Q1 2014	Q2 2014	Q3 2014	Δ Q3 2014/ Q3 2013
Group net income	- 2	- 13	7	- 14	- 12
Amortization / depreciation	50	48	52	49	- 1
Change in pension accruals	3	- 2	0	1	- 2
Cash flow	51	33	59	36	- 15
Changes in working capital and other items	- 190	- 440	- 102	69	+ 259
Net cash used in operating activities	- 139	- 407	- 43	105	+ 244
Cash outflow for additions to tangible and intangible assets	- 46	- 65	- 47	- 52	- 6
Free cash flow from operations	- 185	- 472	- 90	53	+ 238

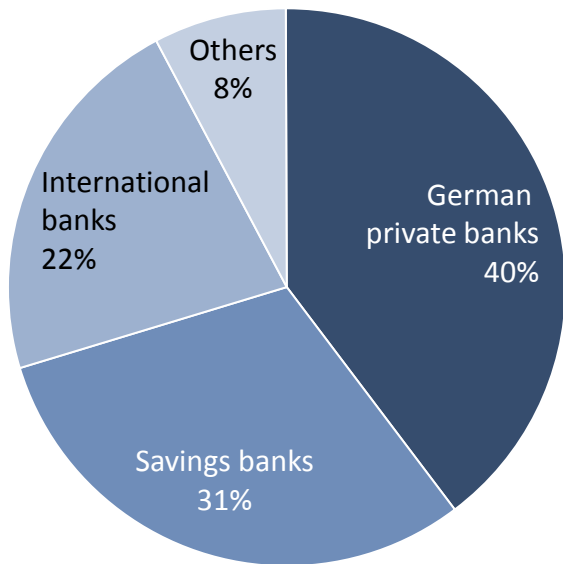
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Improved financial flexibility

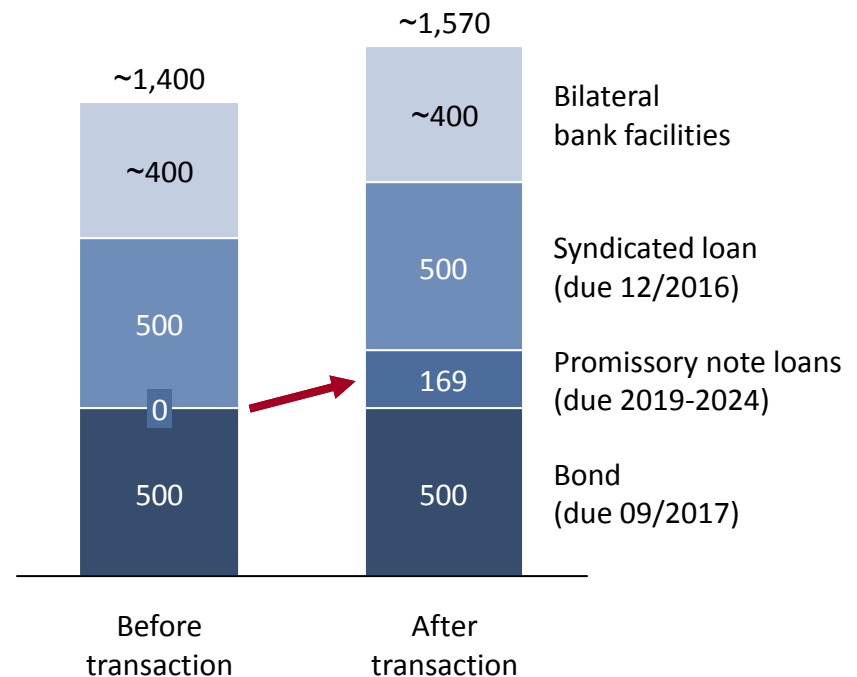
Promissory note loans in the amount of EUR 168.5 million issued

Allocation by investor type



39 banks in total

Cash credit facilities in EUR million



Advantages: – Diversification of the maturity profile
 – Improved independence of volatile markets by ensuring long-term liquidity



RHEINMETALL DEFENCE



Q3 2014 at a glance

- Strong order intake of EUR 1,592 million in 9M 2014 results in a **positive book-to-bill ratio of 1.2**
- **Sales increased by 10%** to EUR 1,384 million (+ 11% adjusted for FX effects)
- **External and internal impacts affect Q3 earnings and will also influence Q4**
- **Operational earnings dropped** by EUR 32 million to now EUR - 84 million due to
 - the **license withdrawal** of the contract with Russia,
 - a **potential warranty case** for naval guns,
 - **delayed or not yet issued export licenses.**



The first three quarters 2014 in detail

Continuing operations <i>in EUR million</i>	9M 2013	9M 2014	Δ 9M 2014/ 9M 2013
Order intake	2,644	1,592	- 1,052
Order backlog	6,285	6,165	- 120
Sales	1,263	1,384	+ 121
Operational earnings (EBIT before special items)	- 52	- 84	- 32
Special items (one-offs, restructuring costs)	- 38	- 16	+ 22
EBIT (reported)	- 90	- 100	- 10
Employees	9,355	9,229	- 126

Special items include:

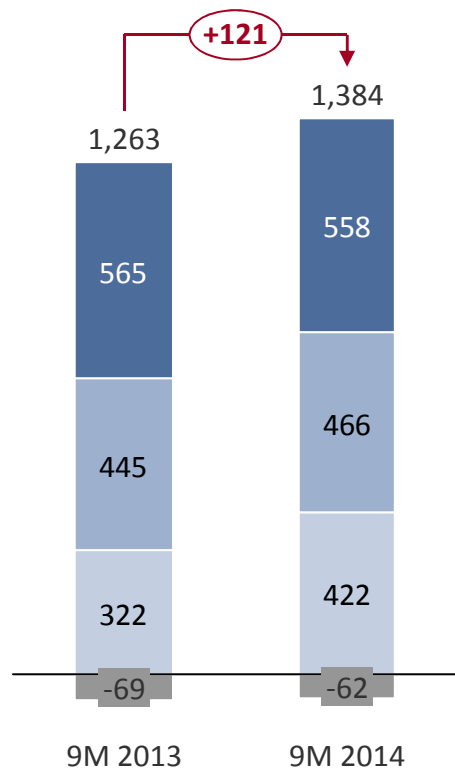
- Restructuring charges subsequent to last year’s program (EUR - 6 million)
- Unexpected sales price correction regarding the 2012 drone business transaction (EUR - 10 million)



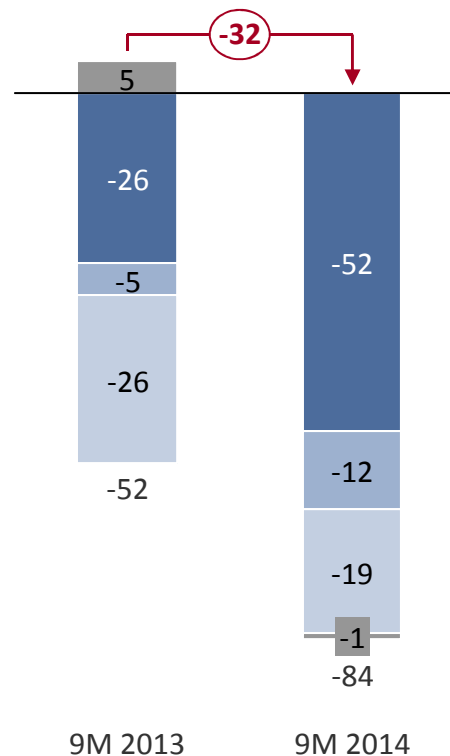
Sales and earnings by division

Headwinds in Combat Systems and Electronic Solutions

■ Sales Defence in EUR million



■ Operational earnings Defence in EUR million



Reasons for earnings development

Combat Systems

- Delayed export licenses
- Provisions for potential warranties in naval guns contract

Electronic Solutions

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

Wheeled Vehicles

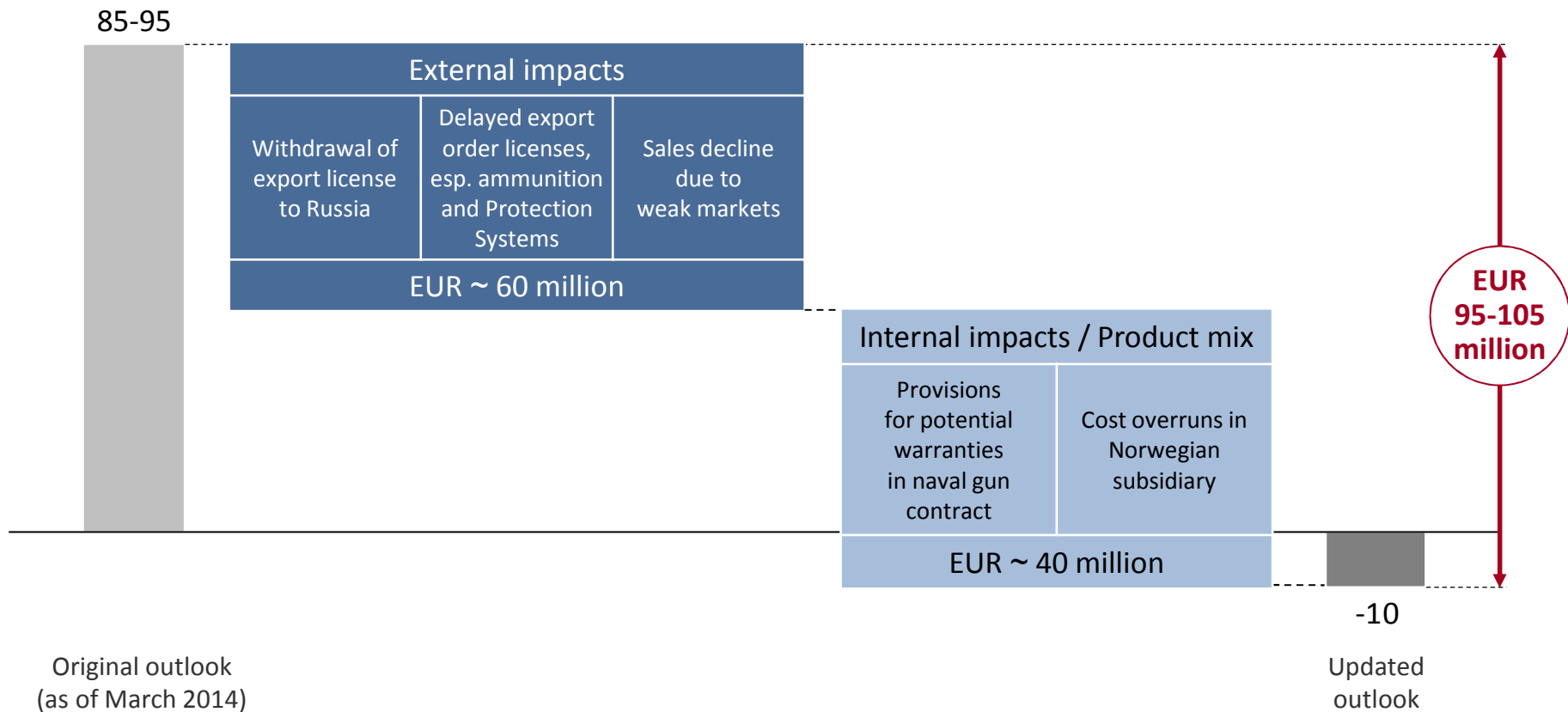
- Higher sales

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



A set of external and internal impacts Defence is facing challenges...

Operational earnings *in EUR million*





A set of external and internal impacts ...but has initiated countermeasures

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

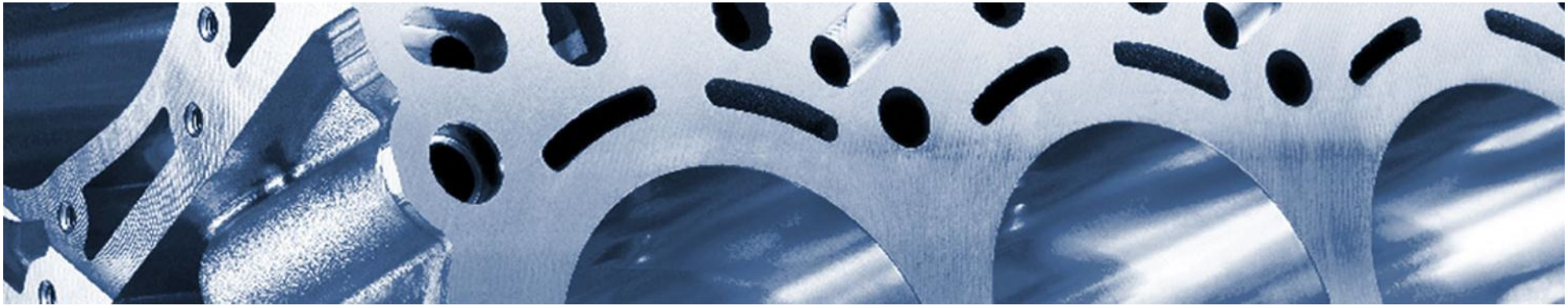
Internal impacts / Product mix	
Provisions for potential warranties in naval gun contract	Cost overruns in Norwegian subsidiary
EUR ~ 40 million	

Shape and adjust to markets

- **Claiming compensation** for withdrawal of export license to Russia to minimize financial burden
- In the light of the present political discussion, **establishing early consultations** with German export authorities to prevent 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**



RHEINMETALL AUTOMOTIVE



Q3 2014 at a glance

- **Sales up by 8%** to EUR 1,831 million (+ 11% adjusted for FX effects), whereas global market grew by 4%
- **Headcount reduced** by 3% to 10,861 employees
- **Operational earnings improved** by 22% to EUR 139 million
- **Profitability increased to 7.6%**, compared to 6.7% in 9M 2013
- **Sound growth in Chinese activities** increasing by 26%, while market grew by 11%

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



The first three quarters 2014 in detail

Continuing operations <i>in EUR million</i>	9M 2013	9M 2014	Δ 9M 2014/ 9M 2013
Sales	1,693	1,831	+ 138
Operational earnings (EBIT before special items)	114	139	+ 25
Special items (one-offs, restructuring costs)	- 22	0	+ 22
EBIT (reported)	92	139	+ 47
Employees	11,207	10,861	- 346

Discontinued operations <i>in EUR million</i>	9M 2013	9M 2014	Δ 9M 2014/ 9M 2013
Sales	144	162	+ 18
Operational earnings (EBIT before special items)	2	6	+ 4
EBIT (reported)	2	0	- 2
Employees	878	874	- 4

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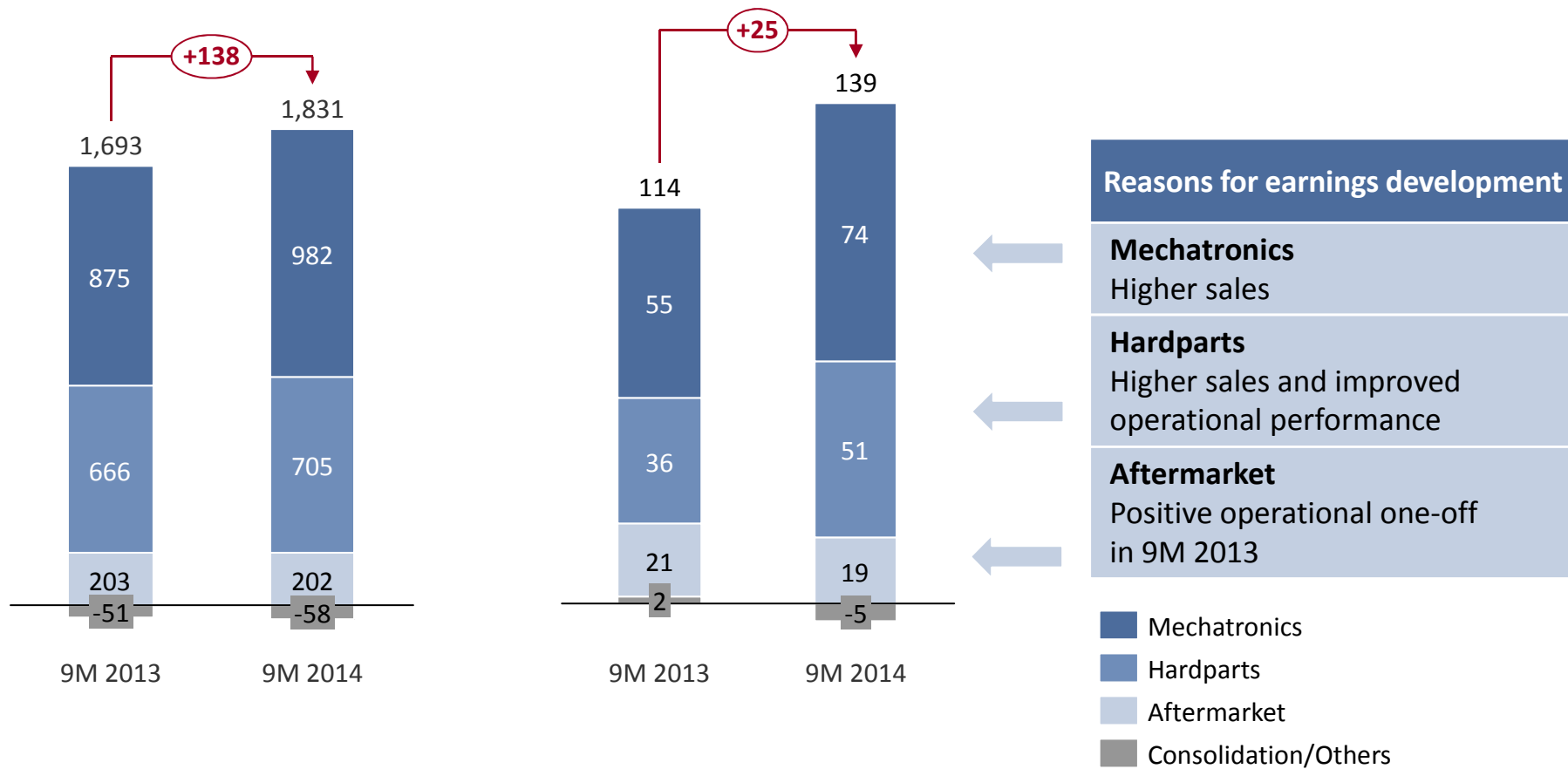


Sales and earnings by division

Increasing sales and better operational performance

■ Sales in EUR million

■ Operational earnings in EUR million



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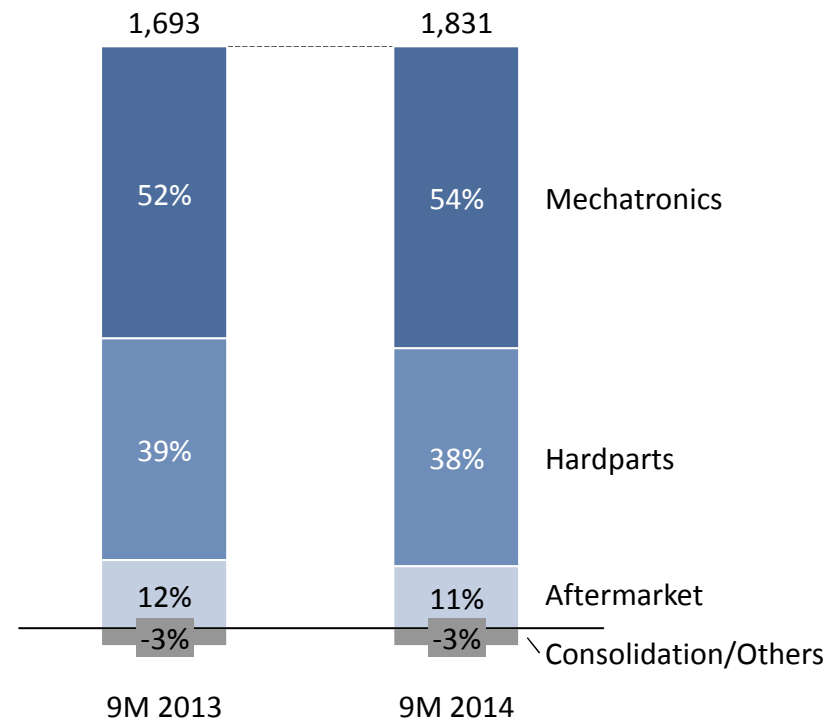
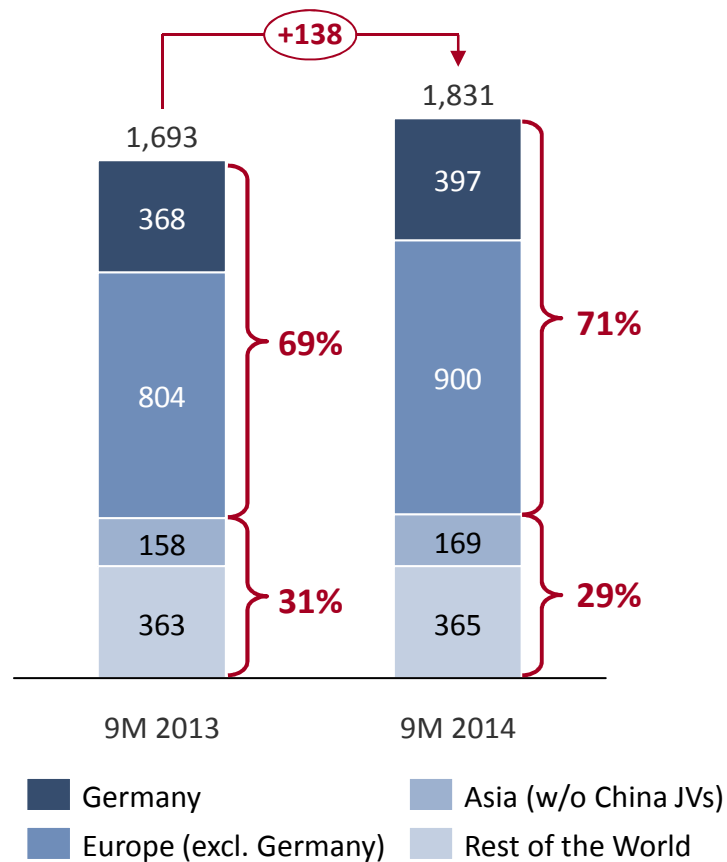


Sales by region and by division

Mechatronics benefits from growth in European markets

■ Sales by region in EUR million

■ Divisional sales share* in %



* Figures before intra-segmental consolidation

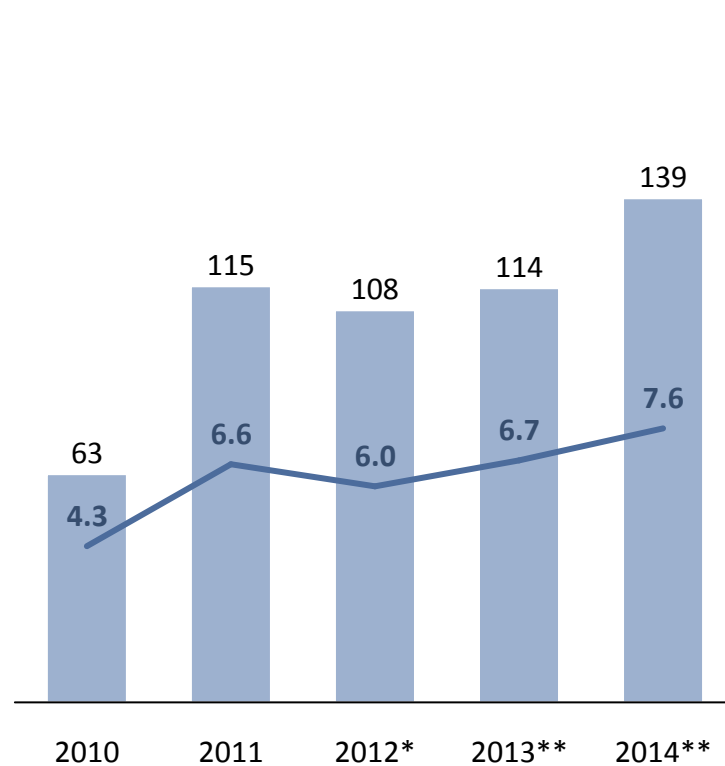
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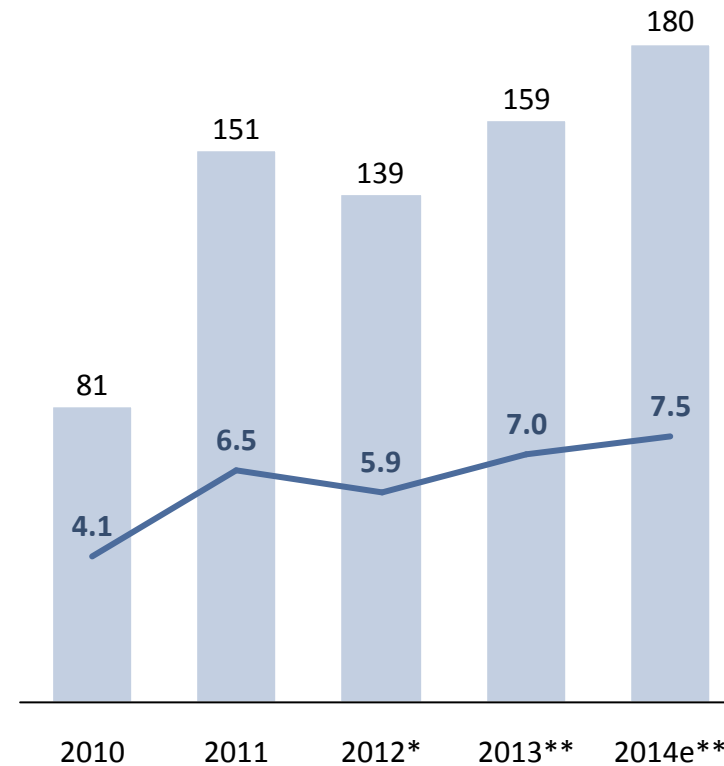
Success story

Operational earnings close to target of 8% operational margin

Operational earnings 9M in EUR million
Operational margin 9M in %



Operational earnings FY in EUR million
Operational margin FY in %



* 2012 figures restated for retrospective application of IAS 19 Employee Benefits (revised 2011)

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



OUTLOOK



Outlook 2014

Defence down, Automotive up

	Sales <i>in EUR billion</i>		Operational earnings <i>in EUR million</i>	
	Previous	Updated	Previous	Updated
Group	4.6 - 4.7	4.6	200 - 220	150
Defence	2.3	2.2	65 - 75	- 10
Automotive	2.3 - 2.4	2.4	155 - 165	180

Current outlook includes **non-operational expenses** of EUR 20 million in Defence

Not yet included: Financial burden resulting from a compliance case in Defence;
due to ongoing investigations and negotiations **financial consequences cannot be quantified** by now

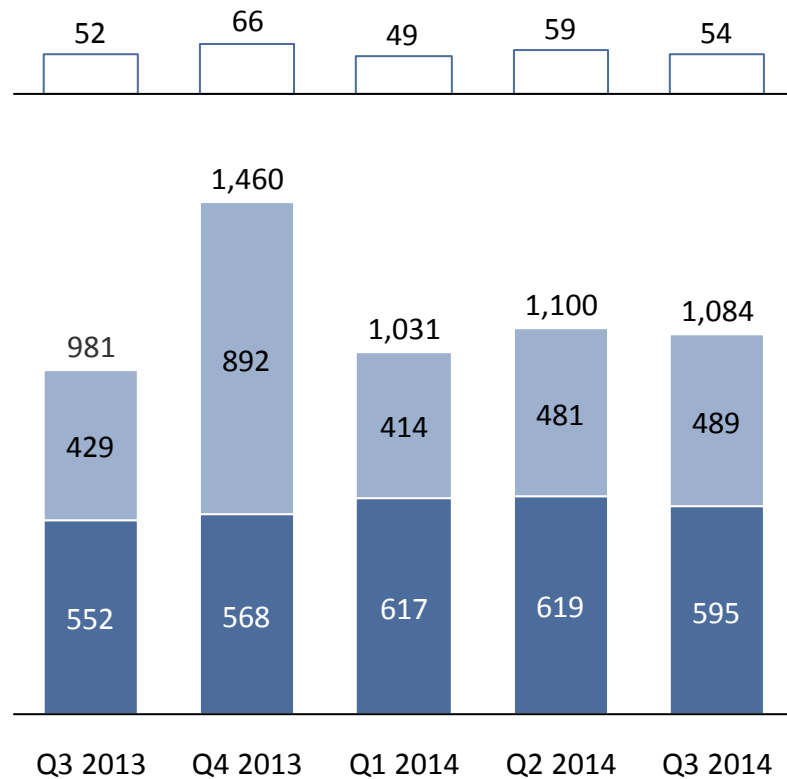


APPENDIX

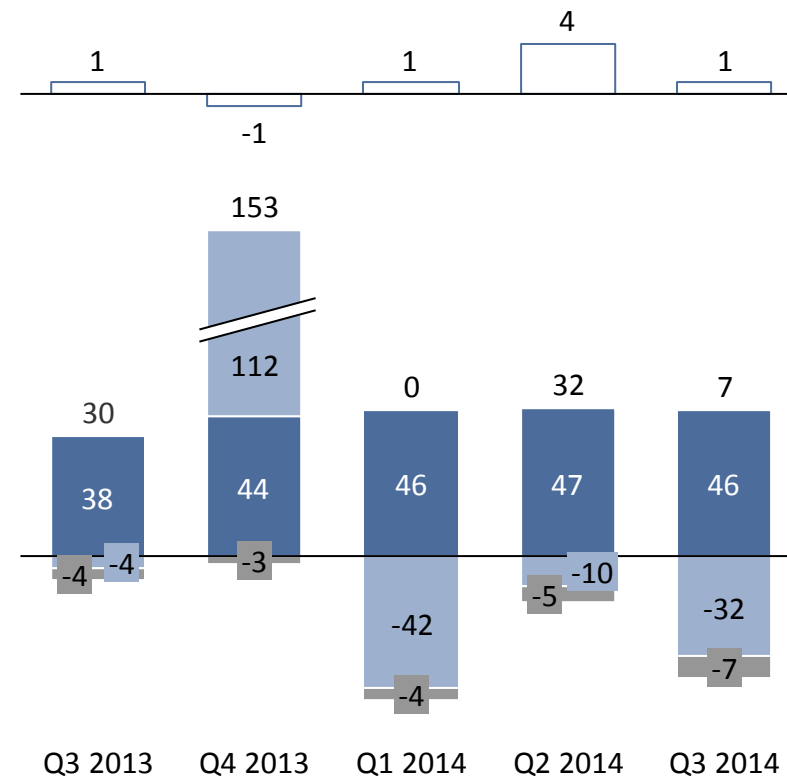


Quarterly development

Sales in EUR million



Operational earnings in EUR million

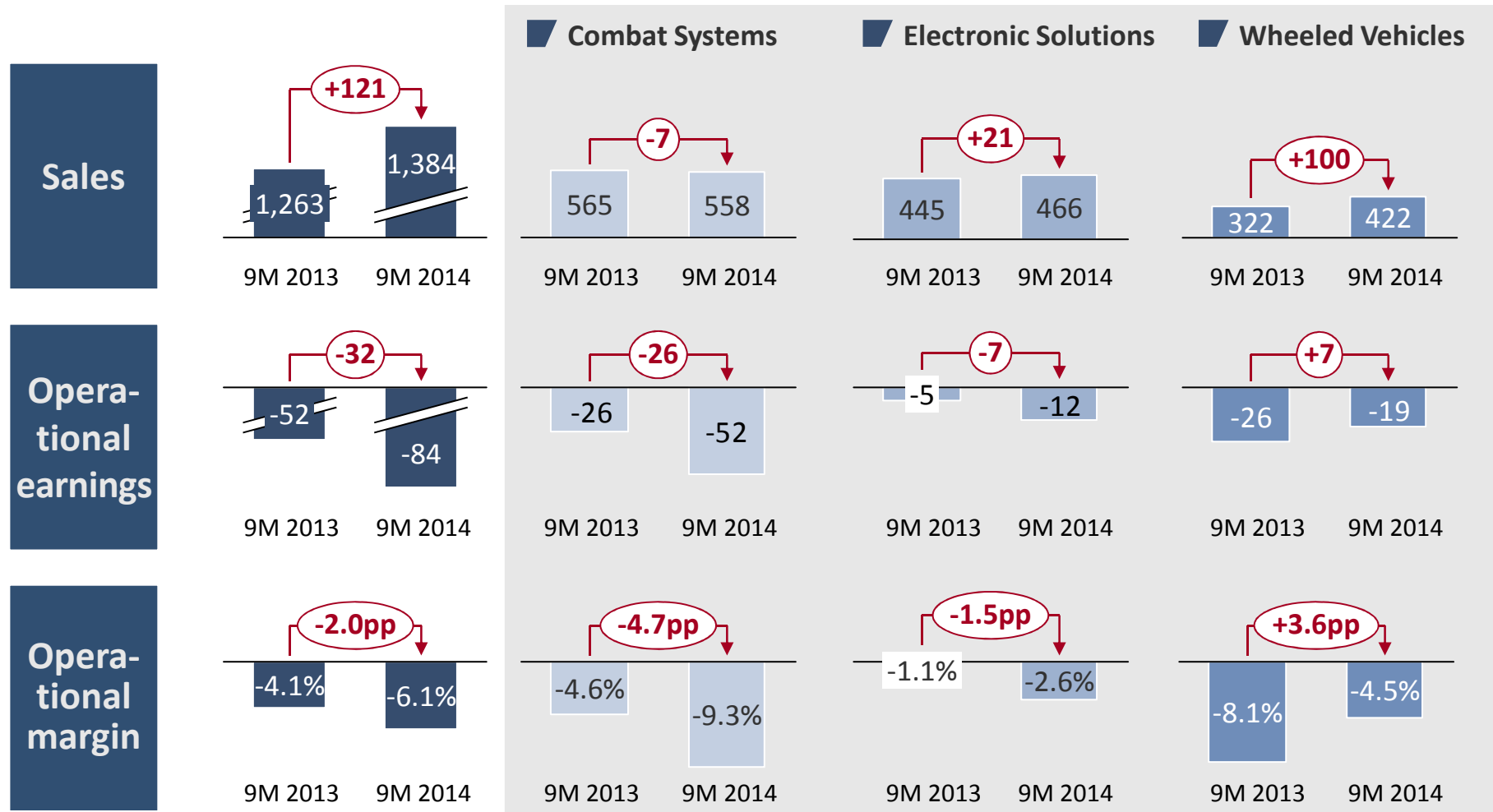


ATAG (to be discontinued)
 Defence
 Automotive
 Consolidation/Others

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Key figures Defence by division (operational before special items)

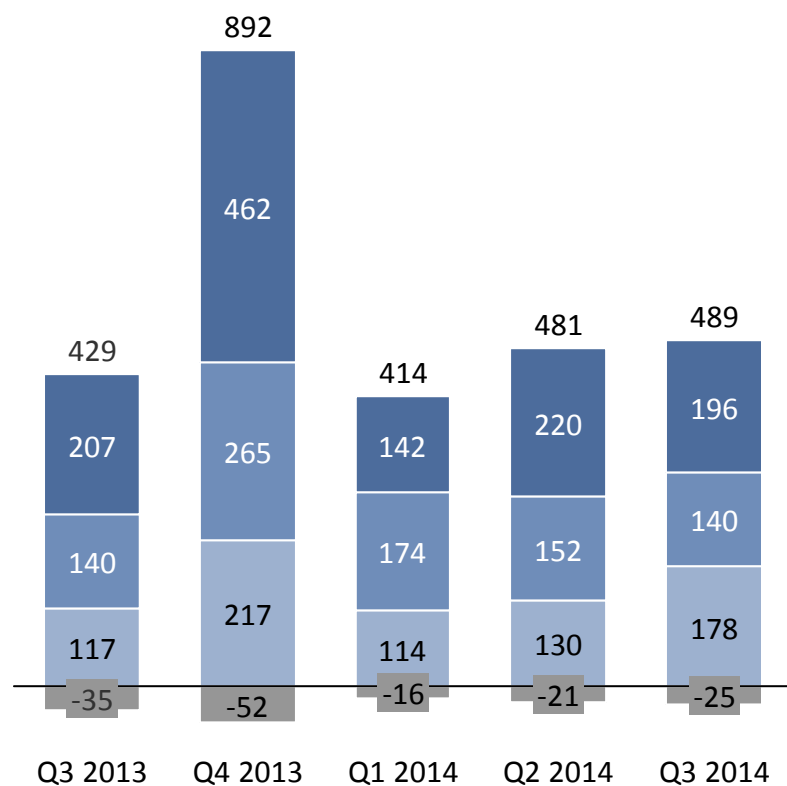


Figures before intrasegmental consolidation

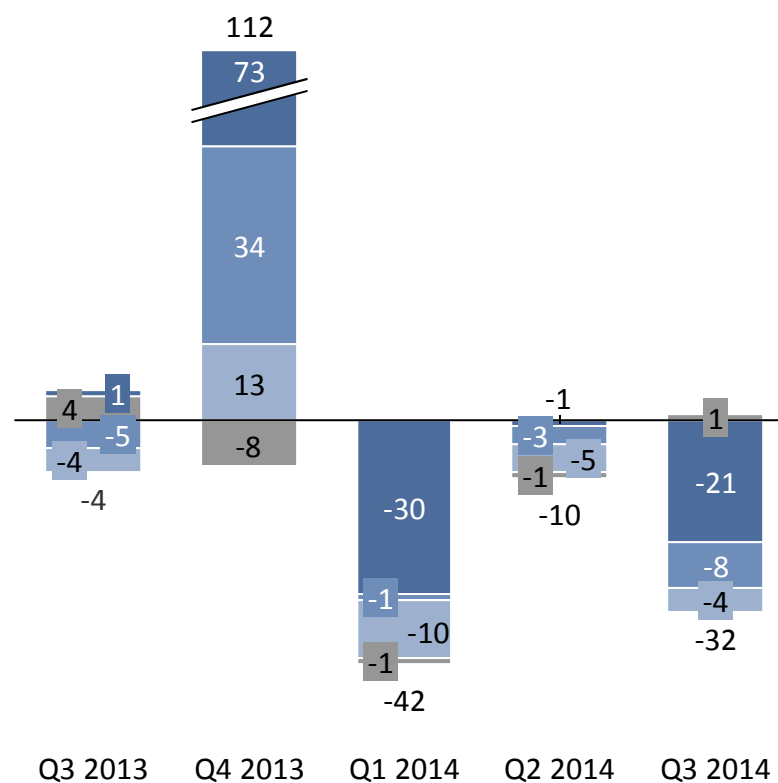


Quarterly development

Sales Defence in EUR million



Operational earnings Defence in EUR million



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



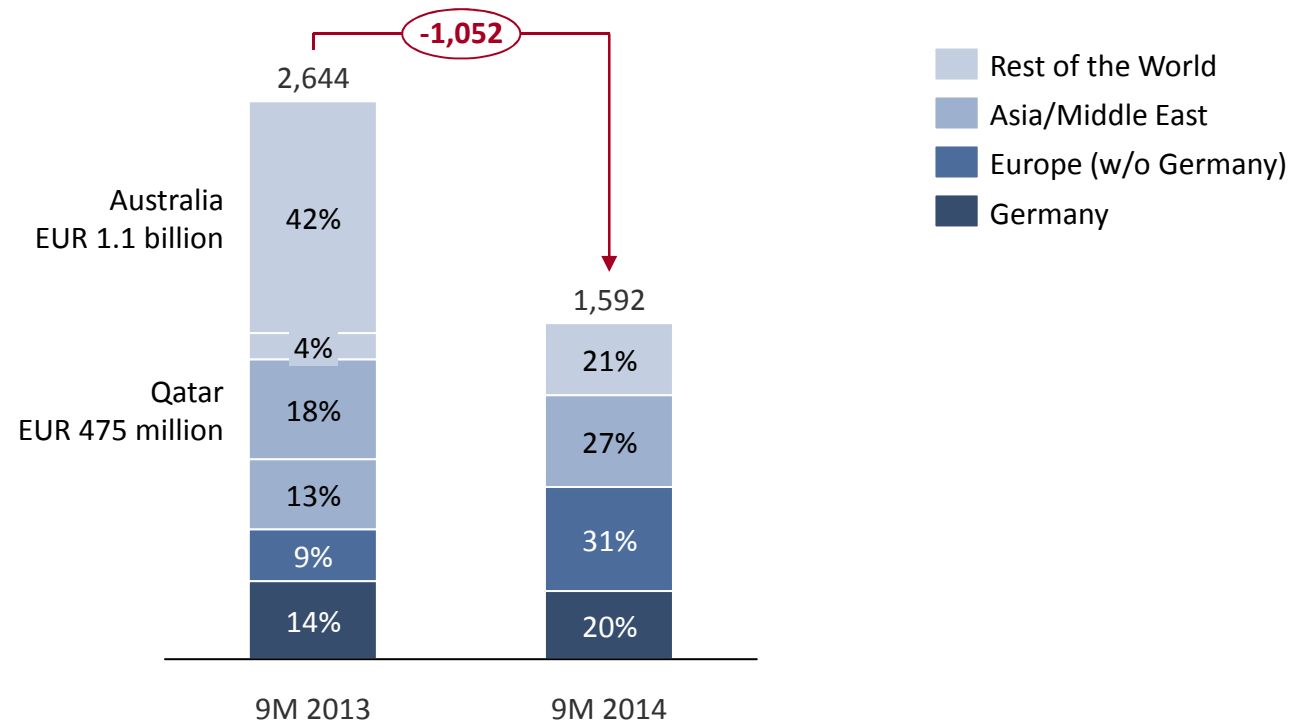
Cash flow statement

<i>in EUR million</i>	Q3 2013	Q1 2014	Q2 2014	Q3 2014	Δ Q3 2014/ Q3 2013
Group net income	- 19	- 39	- 14	- 39	- 20
Amortization / depreciation	23	20	21	21	- 2
Change in pension accruals	3	1	- 1	2	- 1
Cash flow	7	- 18	6	- 16	- 23
Changes in working capital and other items	- 139	- 339	- 86	83	+ 222
Net cash used in operating activities	- 132	- 357	- 80	67	+ 199
Cash outflow for additions to tangible and intangible assets	- 12	- 11	- 15	- 22	- 10
Free cash flow from operations	- 144	- 368	- 95	45	+ 189



Order intake by region

Order intake by region *in EUR million*

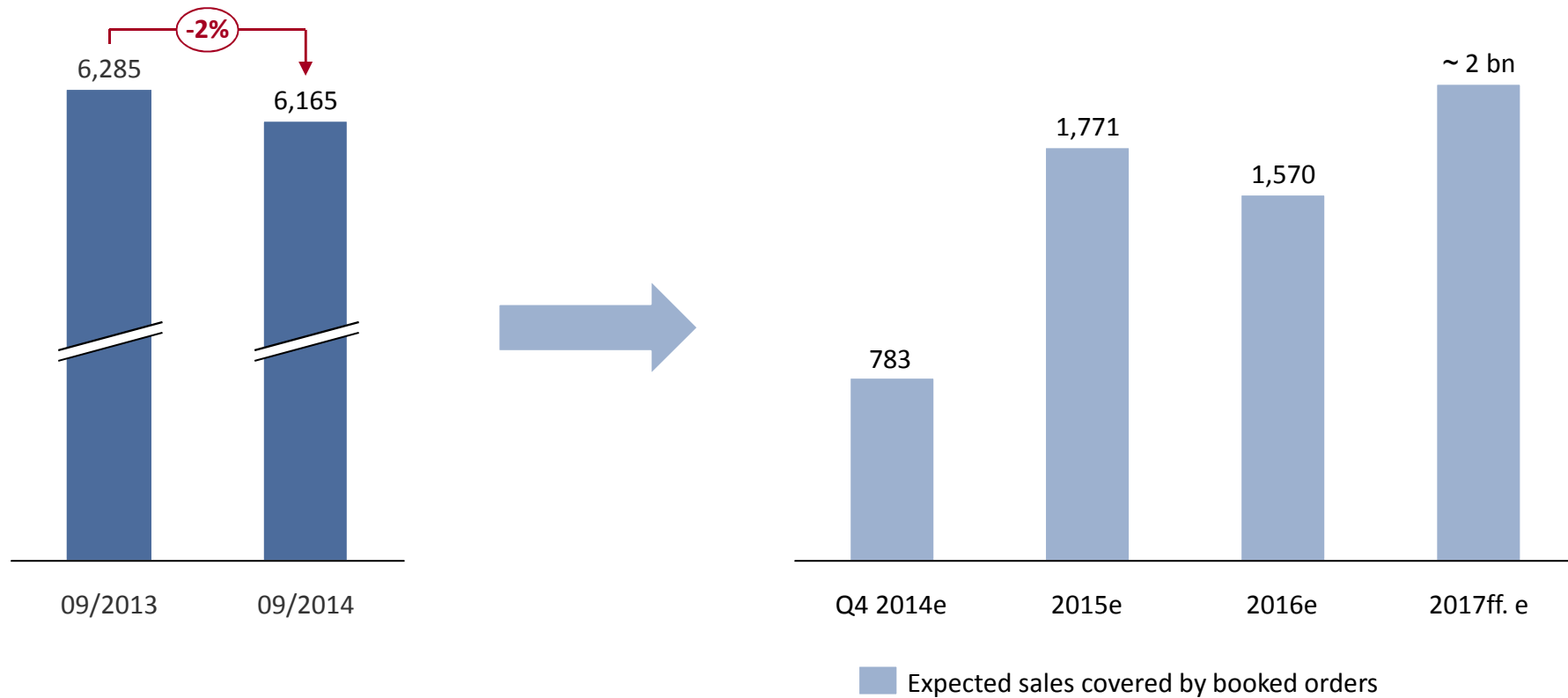




Order backlog

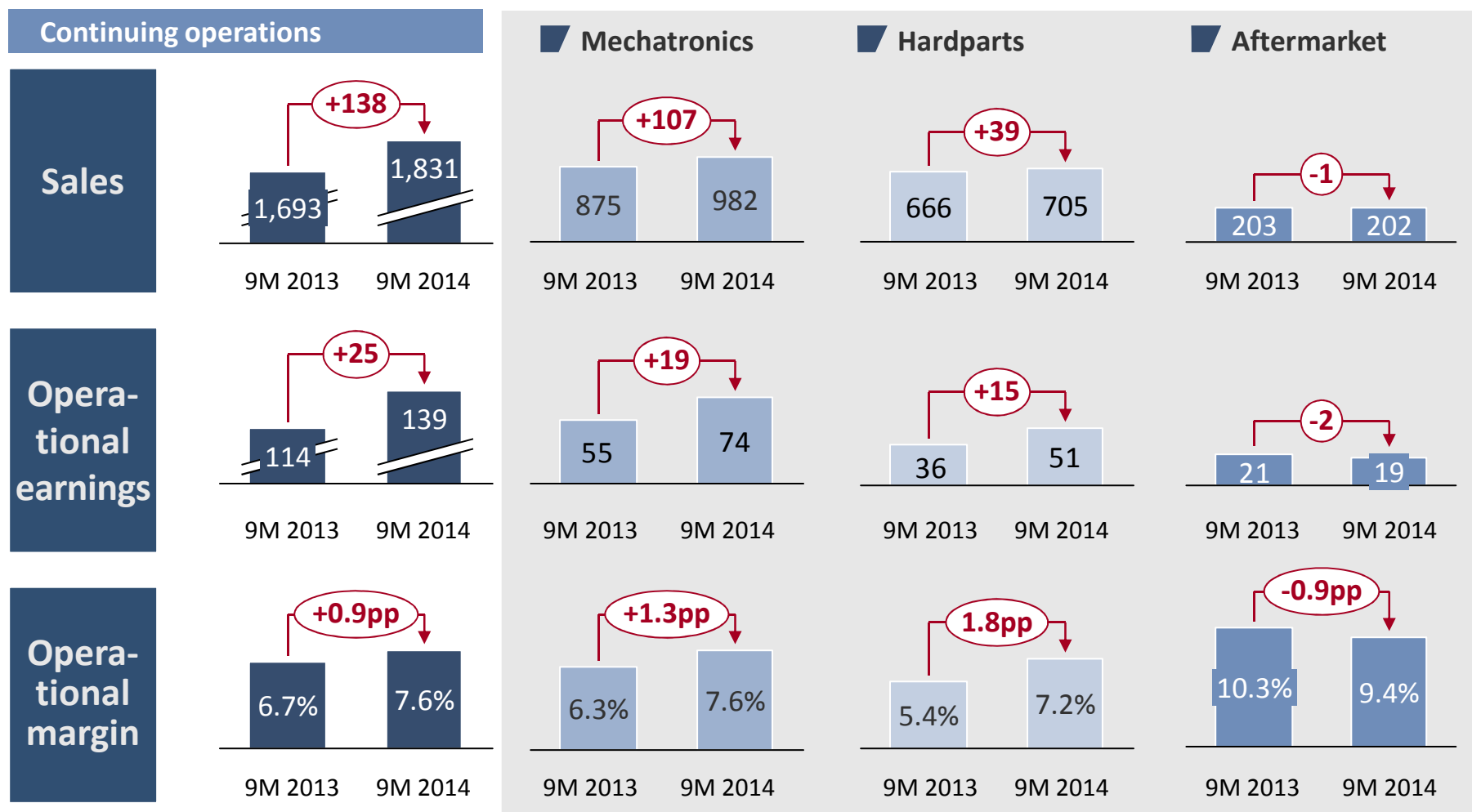
Large-scale system contracts form the backbone for future top line growth

Order backlog as of September 2014... in EUR million ...turning into sales in EUR million





Key figures Automotive by division (operational before special items)



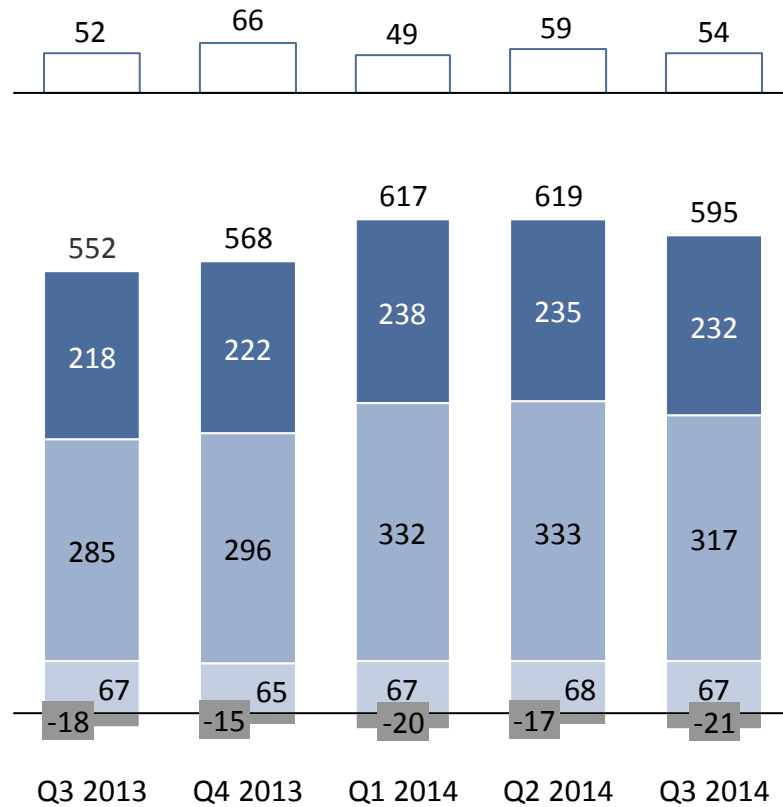
Figures before intrasegmental consolidation

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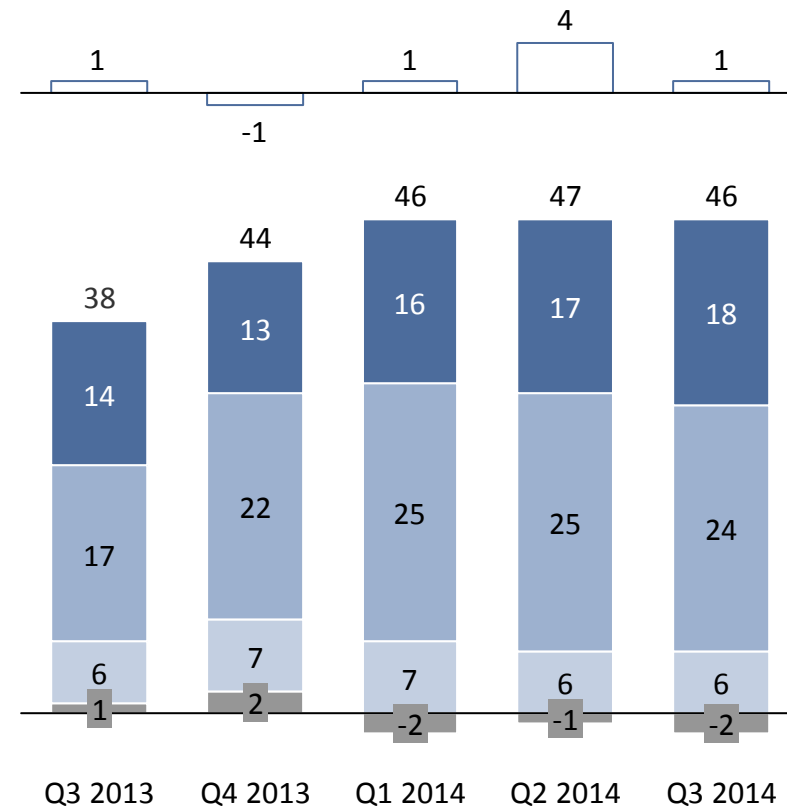


Quarterly development

Sales Automotive in € million



Operational earnings Automotive in € million



ATAG (to be discontinued)
 ■ Hardparts
 ■ Mechatronics
 ■ Aftermarket
 ■ Consolidation/Others

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Cash flow statement

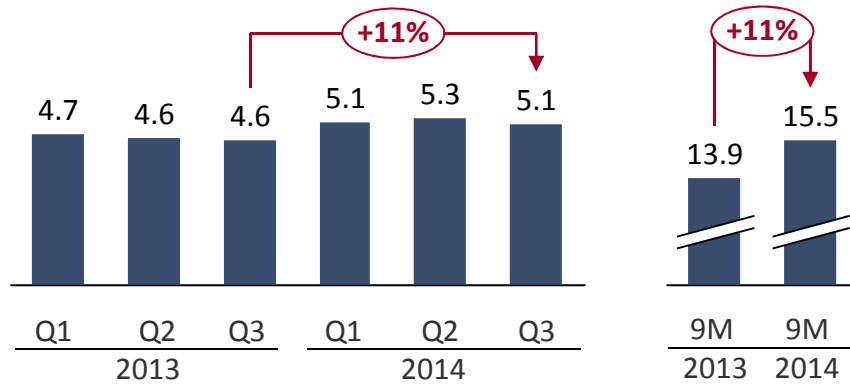
Continuing and discontinued operations <i>in EUR million</i>	Q3 2013	Q1 2014	Q2 2014	Q3 2014	Δ Q3 2014/ Q3 2013
Group net income	27	33	33	37	+ 10
Amortization / depreciation	27	28	31	27	± 0
Change in pension accruals	0	0	1	0	± 0
Cash flow	54	61	65	64	+ 10
Changes in working capital and other items	- 36	- 88	- 24	- 1	+ 35
Net cash used in operating activities	18	- 27	41	63	+ 45
Cash outflow for additions to tangible and intangible assets	- 32	- 53	- 26	- 29	+ 3
Free cash flow from operations	- 14	- 80	15	34	+ 48



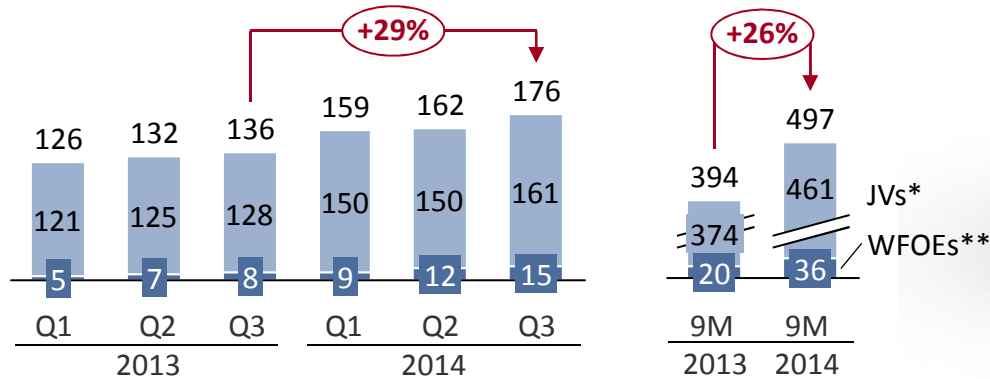
Growth market China

Automotive outperforms strong increase of Chinese LV production

LV production in million units



Sales in EUR million



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

** WFOE = Wholly Foreign-Owned Enterprise

Source: IHS Automotive (October 2014)



Financial calendar

Nov 26-27, 2014 Capital Markets Day, Düsseldorf/Neuss

May 12, 2015 Annual General Meeting



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