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Rheinmetall Confirms Group Targets for 2013: Operating Result between €180 Million and €200 Million

- Consolidated sales decline by 6% to €3,092 million in the first three quarters
- Operating Group earnings well below previous year at €60 million
- Defence order backlog climbs to a new high of €6,285 million
- Automotive with sales growth of 7% in the third quarter

The Duesseldorf-based Rheinmetall Group's business performance in the first nine months of 2013 was influenced by divergent development in the markets and the realignment of the Group as part of the 'Rheinmetall 2015' strategy program. A high order intake in Defence and very stable development in Automotive were counteracted by the non-recurring effects of the strategy program and continued weak sales development in Defence.

"We are implementing our 'Rheinmetall 2015' strategy program systematically and as planned. This will hurt in the short term. But step by step we are getting closer to where we want to be at the middle of the decade: an international partner for security and mobility with greatly improved profitability," says Armin Papperger, CEO of Rheinmetall AG. "The Automotive sector is developing very positively despite the difficult market environment. And our internationalization is making good progress in the Defence business, as shown by the exceedingly positive development of the order intake. We are expecting additional impetus in the medium term from the new joint venture with Ferrostaal."

In the first nine months of the fiscal year, Rheinmetall generated sales of €3,092 million, a drop of 6% (Q1-Q3 2012: €3,275 million). While sales in Automotive increased slightly, sales in Defence were considerably lower than in the previous year. In the third quarter, consolidated sales were again just above the same period of the previous year thanks to 7% growth in the Automotive business.

The operating result before interest and taxes (EBIT before special items) was €60 million in the first nine months compared to €122 million in the same period of the previous year. This reflects the divergent performance of the two Defence and Automotive sectors. Defence's operating loss was more than compensated for by Automotive. Including expenses for restructuring amounting to €60 million, the reported Group earnings before interest and taxes (EBIT) are balanced.

Defence Strengthens International Presence

At €1,263 million, sales in the Defence sector fell below the comparative figure of the previous year by €207 million or 14% (Q1-Q3 2012: €1,470 million). The decline in sales related in particular to the Wheeled Vehicles and Combat Systems divisions. Sales in the Combat Systems division suffered from budget cuts in key customer nations, which especially affected munitions business. The Unmanned Aerial Systems product unit, the majority of which was sold in mid-2012, also contributed €22 million to the previous year's sales.

The operating result before interest and taxes (EBIT before special items) fell from €31 million to €-52 million. The decline in earnings affected all three divisions. In the Combat Systems and Electronic Solutions segments, earnings were negatively affected by declining sales and higher project costs. The Wheeled Vehicles division stabilized in the third quarter; the reported loss mainly originated in the first two quarters.

The development of the order intake and order backlog was very positive. In the first three quarters, the order intake increased by 68% to €2,644 million, growth of €1,066 million year-on-year. This shows that Rheinmetall's internationalization strategy is bearing fruit. For example, Rheinmetall has received two high-volume orders from new growth regions: an order from Qatar worth €475 million and from Australia worth €1,100 million. 77% of the orders obtained from January to September 2013 came from customers outside Europe. The order backlog therefore climbed to an all-time high of €6,285 million, up 39% (end of September 2012: €4,528 million).

Defence's strategic priority lies on the opening of new growth markets, not least because of cuts in the defence budgets of traditionally important Rheinmetall customers.

Rheinmetall sees particularly attractive growth opportunities in Asia and the Middle East.

With Rheinmetall International Engineering GmbH, a joint venture of Rheinmetall and Ferrostaal founded in the third quarter of 2013, Rheinmetall has further qualified itself for the necessary internationalization. The joint venture is also intended to open doors to markets to which Rheinmetall has previously had no or only limited access. In addition, the new company will meet the rapidly growing demand for local infrastructure for defence technology. The company will plan and implement turnkey industrial facilities as general contractor or subcontractor. Rheinmetall is also augmenting its skills and capacities in project management with very experienced project managers.

Automotive Counters Weakness in the European Automotive Market

In view of the decline in automotive production in Europe, the Automotive sector has performed very well. In the first nine months, Automotive generated sales of €1,829 million, up €24 million year-on-year. The operating result before interest and taxes (EBIT before special items) improved from €108 million to €116 million.

The Mechatronics division, which primarily manufactures products for reducing emissions, made the greatest contribution to this success with sales growth of 6% or €52 million. In the third quarter alone, Mechatronics increased its sales by 10% to €285 million.

The figures for the Chinese joint venture (which are not included in the sales figures for the Automotive sector) continued to develop dynamically. Sales increased – calculated on a 100% basis – by 26% to €374 million. With an increase of €8 million or 36%, EBIT improved at a disproportionately high rate to €30 million.

Stabilization in the Third Quarter

In the third quarter of 2013, the Rheinmetall Group generated revenues of €1,030 million, up by 1% (Q3 2012: €1,022 million). The operating result before interest and taxes (EBIT before special items) amounted to €31 million, also just above the previous year (Q3 2012: €30 million). The two corporate sectors developed very differently. Rheinmetall Automotive achieved robust sales growth of 7% to €601 million (Q3 2012: €562 million).

The sector's EBIT before special items even increased from €27 million to €39 million. By contrast, Rheinmetall Defence posted a decline in sales of 7% to €429 million (Q3 2012: €460 million). EBIT before special items fell from €6 million to €-4 million.

On Course for 2013 as a Whole

For the Group, Rheinmetall still expects an operating result (EBIT before special items) of between €180 million and €200 million with annual sales of between €4.7 billion and €4.8 billion.

The forecast has been specified on the basis of the Defence sector's business development in the third quarter of 2013. With annual sales of €2.3 billion, the operating result is expected to be €60 million, the lower end of the previous forecast (€60 million to €70 million).

For the Automotive sector, Rheinmetall expects to exceed its original targets after good business performance in the first nine months of 2013. While expected sales in 2013 as a whole remain at €2.4 billion to €2.5 billion, an operating result (EBIT before special items) of €140 million to €150 million is now expected. Previously, an operating result of €140 million was forecast.

For the current fiscal year, Rheinmetall continues to expect restructuring costs in the Group of €75 million to €85 million. From 2015, these measures are expected to result in annual savings of between €60 million and €75 million.

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