RHEINMETALL GROUP

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Rheinmetall Benefiting from Continued Growth at Defence – Group Anticipates Further Sales and Operating Result Growth for 2019

Outlook 2019

- Consolidated sales (before currency effects) forecast to rise between 4% and 6%
- Operating margin at Group level of approximately 8% anticipated
- Automotive expects a stable level of sales and an operating margin of approximately 8%
- Defence anticipates sales to rise (before currency effects) by between 9% and 11% with the operating margin improving to 8.0% to 8.5%.

Fiscal 2018

- Consolidated sales up 4.3% at €6,148 million
- Consolidated operating result up 23% at €492 million
- Earnings after taxes rise by €102 million to €354 million (+ 40%)
- Order backlog at Defence reaches new record of €8,577 million
- Dividend to be raised by 24% from €1.70 to €2.10

Rheinmetall AG is forecasting further growth in organic sales at Group level and a corresponding increase in operating result for fiscal 2019. Primarily driven by continued dynamic development in the Defence sector, the technology corporation’s annual sales are set to grow organically by 4% to 6% in the current fiscal year. For the Automotive sector, Rheinmetall expects a stable level of sales, despite significant market uncertainties.

At the same time, the operating margin forecast for the Group will remain stable at 8% on a par with the previous year (fiscal 2018).

Armin Papperger, Chief Executive Officer of Rheinmetall AG: “Rheinmetall remains on track for profitable growth. We want to increase our overall sales even further and anticipate another increase in earnings. At Defence, the trend toward stepping up the modernization of armed forces linked to the rising budgets is already evident in our order books. Our broad technological positioning means that we are in an ideal position to play a leading role in the modernization of armed forces in Germany and other partner countries.

At Automotive, we cannot entirely avoid the partly declining development on the global markets, but we will continue to benefit from rising demand for environmentally friendly mobility with our products for reducing consumption and emissions. At the same time, we are selectively expanding our e-mobility activities, so that we can play an increasingly important role here, too.”

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Strong growth in operating result – proposed dividend of €2.10 per share

The Rheinmetall Group generated sales of €6,148 million in fiscal 2018, an increase of 4.3% compared with the previous year's figure of €5,896 million. When adjusted for currency effects, the growth is 6.1%. Sales growth was driven by both corporate sectors.

At 72%, the international share of consolidated sales in fiscal 2018 was down slightly on the previous year (76%).

Operating result (EBIT before special items) climbed by 23% to €492 million after €400 million in the previous year. The Group's operating margin rose to 8.0% (previous year: 6.8%).

The Defence sector achieved an operating result of €254 million, 46% above the previous year's figure of €174 million. Rheinmetall Automotive also increased its operating result. At €262 million, the figure was up 5.2% compared with the previous year's figure of €249 million.

Special items resulted from restructuring costs at two Defence locations (€-7 million) and from real estate transactions (€+33 million) at the Berlin site and in connection with a former production facility in Hamburg. Including these special items and after deduction of €24 million in holding costs for Rheinmetall AG, reported EBIT for the Group amounts to €518 million.

At Group level, earnings after taxes amounted to €354 million in the past fiscal year after €252 million in 2017. This represents growth of approximately 40%. Including the earnings attributable to non-controlling interests, earnings per share for 2018 amount to €7.10 (2017: €5.24).

The Executive Board and Supervisory Board will be proposing a dividend of €2.10 per share at the Annual General Meeting on May 28, 2019. This corresponds to a payout ratio of approximately 30%. A dividend of €1.70 per share was paid in the previous year.

Automotive at a new earnings high – operating margin increased to 8.9%

Rheinmetall Automotive again enhanced its business volume in an increasingly challenging market environment in 2018, generating sales of €2,930 million, an increase of €69 million or 2.4% compared with the previous year. When adjusted for currency effects, the growth is 4.2%. By comparison, the global production of light vehicles declined by 1.1% in 2018.

All three divisions once again recorded year-on-year sales growth. Declining demand for diesel products for the light vehicles market was offset, among other things, by new product launches and growth in business with other product groups (including commercial diesel systems, large-bore pistons and gasoline drives). Sales of the Mechatronics division rose by 2.7% to €1,664 million in 2018, owing to a further increase in demand from automotive manufacturers for solutions to reduce fuel consumption and emissions and dynamic growth in business with commercial vehicles. The Hardparts division expanded its sales by 2.2% to €989 million, largely owing to the positive development of business with large-bore pistons and pistons for trucks and off-road vehicles. The Aftermarket division expanded its worldwide replacement parts business by 2.2% to €367 million.

The regional distribution of sales for fiscal 2018 remained virtually unchanged year-on-year. The share of sales generated with customers abroad totaled 80% (previous year: 81%).

The joint ventures operated with a Chinese partner in China and Germany are accounted for using the equity method and are therefore not included in the sales of Rheinmetall Automotive. Sales of these companies totaled €1,193 million in fiscal 2018, which corresponds to a year-on-year growth of 2.6%, or 4.4% after adjustment for currency effects.

Operating result of Rheinmetall Automotive (EBIT before special items) came to €262 million for the last fiscal year, a new record in the company's history. This is growth of €13 million or 5% compared with the previous year's figure of €249 million.

The sector's operating margin rose to 8.9% (previous year: 8.7%), which also represents a new record.

Defence significantly increases result – major orders bring record order backlog

Defence increased its sales by €185 million or 6.1% to €3,221 million in the reporting period after €3,036 million in the previous year. When adjusted for currency effects, the growth was 7.9%. Among other factors, sales growth was due to increased deliveries of trucks for the major project Land 121 in Australia and to the fact that series production was being utilized to full capacity for the Puma infantry fighting vehicle for the German armed forces. In addition, the start-up of the major project Future Soldier System – also with the German armed forces – contributed to a significant increase in sales in the Electronic Solutions division. The Weapon and Ammunition division, in contrast, suffered a year-on-year drop in sales of approximately 10% or €119 million in 2018, owing to the loss of trading sales.

In 2018, the sector's order intake reached nearly twice the previous year's figure. In fiscal 2018, Defence posted orders worth €5,565 million, after €2,963 million in the previous year. This is growth of €2,602 million or 88%, which resulted primarily from two high-volume orders for the Australian armed forces. The order for 211 Boxer vehicles for the Australian armed forces stands out here in particular, as it marks the largest single order in the company's history, with a total value of approximately €2.1 billion.

The book-to-bill ratio was 1.7 in 2018 (previous year: 1). The individual divisions of the Defence sector likewise demonstrated their future growth potential with a respective book-to-bill ratio of over 1.

The order backlog increased significantly to a new record of €8,577 million, which equates to growth of 34% after €6,416 million in fiscal 2017.

The Defence sector also significantly increased its earnings. Operating result (EBIT before special items) amounted to €254 million in the past fiscal year, soaring by €80 million or 46% compared with the previous year. Special items of €-7 million – resulting from restructuring expenses in the Electronic Solutions division – led to reported EBIT of €247 million for the fiscal year.

This significant improvement in results was achieved thanks to the positive performance of the Electronic Solutions and Vehicle Systems divisions in particular. Both divisions increased their operating results by more than 100% year-on-year, which was due above all to improved utilization of capacity and organic growth in both areas.

Rheinmetall Defence's operating margin rose to 7.9% in fiscal 2018, significantly exceeding the previous year's figure of 5.7%.

Outlook 2019

Rheinmetall continues on its growth trajectory

Rheinmetall expects another organic growth phase for the Group in the current fiscal 2019. Rheinmetall AG's annual sales are expected to grow organically and before currency effects by 4% to 6% in the current fiscal year, based on €6.1 billion in fiscal 2018. This sales growth is driven by dynamic development in the Defence sector. By contrast, due to the general market development, perceptible growth contributions from the Automotive sector are not to be expected in fiscal 2019.

Sales performance in the Automotive sector is strongly influenced by the economic development in the automotive markets of Europe, North and South America and Asia, as well as by an anticipated, perceptible market recovery in the second half of the year. In the context of a currently cautious market expectation for the Automotive sector, for the year as a whole Rheinmetall anticipates for the Automotive sector a generally stagnating to slightly positive sales performance before currency effects.

Rheinmetall anticipates sales will climb by between 9% and 11% for the Defence sector in fiscal 2019, which is already assured based on relatively high coverage through the existing order backlog.

Further absolute improvement in earnings expected in fiscal 2019

Rheinmetall expects an operating margin of approximately 8% for the Automotive sector in fiscal 2019, based on the anticipated market development and the sales forecast derived from this. Rheinmetall anticipates a further improvement in operating result in the Defence sector in 2019 and expects an operating margin of between 8.0% and 8.5%.

Taking into account holding costs, the Rheinmetall Group's operating margin comes to approximately 8%.

Statements and forecasts referring to the future

This release contains statements referring to the future. These statements are based on the current estimates and forecasts of Rheinmetall AG and the information currently available to it. The statements referring to the future are not to be understood as guarantees of the future developments and results that they describe. These instead depend on a number of factors. They involve various risks and uncertainties, and are based on assumptions that may prove to be inaccurate. Rheinmetall does not undertake a commitment to update statements referring to the future made in this release.