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Rheinmetall: Stable development in Automotive, high order backlog in Defence

- Consolidated sales fall 8% in the first half of 2013
- Operating Group EBIT is €29 million, but €63 million less than previous year
- Automotive counters weakness in European automotive manufacturing and shows earnings stability
- Defence with considerable sales and earnings decline, but double-digit growth in order intake
- Forecast for 2013 as a whole reduced due to lowered expectations for Defence

Business development of the Rheinmetall Group in the first half of 2013 showed a mixed picture. The Automotive sector continued to perform very well despite the declining automotive industry in Europe. By contrast, the Defence business, suffering from budget cuts in major client countries, fell behind the previous years in terms of sales and earnings. However, in the second quarter of 2013, the operating performance of the Defence sector recovered considerably compared with the development of the first three months of the fiscal year.

Armin Papperger, CEO of Rheinmetall AG: "2013 is a year of transition for us, in which we will set the course for profitable growth in the future. We are making good progress in the implementation of our 'Rheinmetall 2015' strategy program. In addition, we have reinforced our position as a leading provider with major orders in strategically important markets for Automotive and Defence."

In the first six months of fiscal 2013, Rheinmetall generated consolidated sales of €2,062 million, which is an 8% decline on the first half of 2012 (€2,253 million). Business volume decreased in the Defence sector in particular, while sales in the Automotive sector developed stably overall.

Declining sales and increased project and acquisition costs in the Defence business resulted in the Rheinmetall Group's operating earnings before interest and taxes (EBIT) falling below the comparative figures of the previous year. For the first six months, Rheinmetall posted operating EBIT (EBIT before special items) of €29 million after €92 million in the first half of 2012.

However, there was positive development quarter-on-quarter. Operating EBIT increased significantly from €-14 million in the first three months to €43 million in the second quarter of 2013.

Including the expenses reported in the first half of 2013 for restructuring measures, Group EBIT shows a loss of €18 million after positive EBIT of €123 million in the previous year.

Defence: Order intake grows in double digits

At €834 million, the sales of Rheinmetall Defence fell below the previous year (€1,010 million) by €176 million or 17% in the first six months of 2013. The decline related to the Wheeled Vehicles and Combat Systems divisions, in which budget cuts in key customer countries – particularly in the case of munitions procurement – made themselves felt. The Unmanned Aerial Systems product unit, the majority of which was sold in mid-2012, contributed €22 million to the previous year's sales.

The decline in sales in particular had a negative impact on earnings performance. After a positive operating EBIT (EBIT before special items) of €25 million was generated in the previous year, which still included an earnings contribution of €2 million from the sold Unmanned Aerial Systems product unit, an operating result of €-48 million was reported for the first half of 2013. However, operating EBIT in the second quarter was only just negative at €-5 million.

In the first half of 2013, costs of €26 million were posted for the ongoing restructuring measures. In total, the Defence sector expects restructuring costs of €40 million to €50 million in 2013.

Rheinmetall Defence strengthened its presence on the international markets, won new client countries and thus increased the order backlog in the first half of the year with a range of important new contracts. As of June 30, 2013, the sector had orders worth €5,383 million on its books, after €4,589 million twelve months earlier.

The Defence sector's order intake increased to €1,282 million in the first half of the year, which is growth of €144 million or 13% on the previous year's figure of €1,138 million. €475 million of this is attributable to one major order, which Rheinmetall received in relation to supplying tanks and self-propelled howitzers to Qatar. Similarly in the second quarter, an order for military trucks worth €70 million was booked for New Zealand.

The major contract for 2,500 military transport vehicles for the Australian armed forces awarded in July 2013 with a total value of approximately €1.1 billion will first be reflected in the figures for the third quarter of 2013.

Around two thirds of the orders from Rheinmetall Defence now originate from customer countries outside Europe: The share of the order intake generated in non-European countries increased from 46% in the same period of 2012 to 66% in the first half of 2013.

Automotive with stable sales development

By increasingly focusing on non-European growth markets, the Automotive sector has succeeded in deflecting the negative influences of the declining automotive industry in Europe.

With sales of €1,228 million in the first six months, the sector reached the level of the same period of the previous year, when sales of €1,243 million were generated. With the marginal decline of 1% or €15 million, the Automotive sector held up well in a weak European automotive market, which shrank by nearly 6% in the same period.

Automotive's earnings also matched the high level of the previous year. Operating EBIT (EBIT before special items) in the first half of 2013 was €77 million, only €4 million below the record figure of the previous year (€81 million).

The main contribution came from the good second quarter. With an operating result of €46 million a clear increase versus the first quarter (€31 million) could be registered.

The restructuring measures to optimize production processes and adjust capacity are going according to plan. For this purpose, expenses of €21 million were posted in the first half of the year. The volume over the year as a whole is expected to amount to €35 million.

The Automotive sector won a series of important orders with innovative technology in the first half of 2013, including several major orders from renowned American automotive manufacturers for the supply of state-of-the-art oil and vacuum pumps, exhaust gas recirculation modules, solenoid valves and throttle bodies. The sales volume of these long-term orders amounts to more than €400 million. Production is scheduled to start in early 2015.

The Chinese joint ventures, which are not included in the sales figures for the Automotive sector, enjoyed growth of 26% (calculated on a 100% basis) in the first six months of 2013, with sales amounting to €246 million as against €196 million in the previous year. With an increase of €5 million or 33%, EBIT climbed more strongly to €20 million.

Annual forecast for Defence lowered; outlook for Automotive confirmed

Despite a better operating result in the second quarter of 2013 than in the first quarter, Rheinmetall no longer expects to achieve the operating result before interest and taxes (EBIT before special items) of €130 million originally anticipated for the Defence sector. The forecast for the operating EBIT of the Defence sector has been lowered to between €60 million and €70 million. The decisive factor in this is the annual sales forecast for the Defence sector, which has been reduced by approximately €100 million from €2.4 billion to €2.3 billion. The main reason lies in budget cuts in key customer countries, pertaining mainly to the munitions business, in which short-term needs fell short of expectations. Besides, Rheinmetall anticipates additional acquisition costs for high-volume programs and increased processing costs for individual orders.

For the Automotive sector, Rheinmetall still expects to achieve its original targets after good business performance in the second quarter of 2013. With estimated

sales of €2.4 billion to €2.5 billion in 2013 as a whole, an operating result before interest and taxes (EBIT before special items) of €140 million is achievable.

For the Group, Rheinmetall now expects an operating result before interest and taxes (EBIT before special items) of between €180 million and €200 million with annual sales of between €4.7 billion and €4.8 billion. The original forecast was EUR 240 million to EUR 260 million.

“Rheinmetall 2015” strategy program

Fiscal 2013 is a year of transition to greater profitability for Rheinmetall. Through the implementation of the “Rheinmetall 2015” strategy program, with a primary focus on internationalization, product innovations and costs, the company aims to sustainably extend its lead in a range of markets and strengthen its profitability. The required restructuring measures are being implemented systematically and on schedule. For the current fiscal year, Rheinmetall expects restructuring costs to total €75 million to €85 million. From 2015, these measures are should result in annual savings of between €60 million and €75 million.