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Rheinmetall with a good start to fiscal 2016: high order intake and increased earnings in the first quarter

- Consolidated sales up 2 % to €1,180 million in the first quarter when adjusted for currency effects
- Operating earnings for the Group improve by €9 million to €31 million
- Strong order intake in Defence of around €950 million and significantly improved earnings
- Automotive maintains profitability at high level of 8 %
- Order backlog reaches new high of €7.3 billion
- Rating outlook improved from “negative” to “stable”

The Düsseldorf-based Rheinmetall Group started the new fiscal year with a slight increase in sales and a sharper rise in earnings. The Group's order backlog has reached a new high.

The Düsseldorf technology group has confirmed its annual forecast for 2016 and continues to target consolidated sales of roughly €5.5 billion and an operating margin of around 6 % for the fiscal year.

Armin Papperger, CEO of Rheinmetall AG: “Having obtained important orders and performed successfully overall, we are on track to achieve our targets for 2016. In the first quarter, which is typically rather weak in this industry, the Defence sector impressed with a high order intake, increased sales and a further improvement in operating earnings. Automotive still shows high profitability and has maintained sales and earnings at the good level of the previous year.”

In the first quarter of 2016, Rheinmetall generated consolidated sales of €1,180 million, a slight increase of 1 % (same quarter of the previous year: €1,173 million). Adjusted for currency effects, the growth was 2 %, with the proportion of business activities abroad increasing to 76 % after 74 % in the first quarter of 2015.

Earnings before interest and taxes (EBIT) increased from €22 million to €31 million, growing by €9 million or approximately 40 %. This positive development resulted from the good business performance of the Defence sector.

At the end of the first quarter, the order backlog in the Rheinmetall Group amounted to €7.3 billion, which represents growth of €247 million on the comparative figure for the previous year.

In April 2016, the rating agency Moody's raised its outlook for Rheinmetall's Ba1 rating from "negative" to "stable." This improvement was made possible by the positive development of the earning situation, Rheinmetall's conservative financial policy and good liquidity profile, and signs of increasing defense budgets.

Defence: strong order intake and recovery of operating earnings

At €526 million, the Defence sector's sales rose by €17 million or 3 % in the first quarter compared to €509 million in the previous year. Adjusted for currency effects, the growth was 6 %. Operating earnings improved by €11 million year on year to €-17 million.

Rheinmetall Defense posted a high order intake of €948 million in the first quarter of 2016, exceeding the prior-year figure of €542 million by 75 %. The sector's order backlog reached a new record value of €6,865 million at the end of the quarter. The Electronic Solutions division acquired the largest single order with a volume of €390 million. It was commissioned by an international customer to modernize air defense systems, delivery of which is expected between 2017 and 2020.

Rheinmetall won another strategically important, high-volume order in Poland, where the Group was awarded a contract for the comprehensive modernization of 128 Leopard 2 battle tanks. For Rheinmetall, the project entails a total order volume of around €220 million. €130 million of this was posted in the first quarter of 2016.

Rheinmetall formed the Vehicle Systems division as of January 1, 2016, thus creating a leading military vehicle manufacturer in Europe, which is expected to generate sales of €1.4 billion in 2016. For this purpose, existing activities in the field of military tracked and wheeled vehicles were brought together in a new division. Rheinmetall is therefore the only provider in the West that covers the complete spectrum of military tracked vehicles and tactical and logistical wheeled vehicles.

Automotive still highly profitable

Rheinmetall Automotive generated sales of €654 million in the first quarter of 2016, a decline of 2 % from the previous year's figure of €664 million. When adjusted for currency effects, the decline was 1 %. This is primarily explained by the economic weakness in the market for large-bore pistons, the continuing decline in automotive production in Brazil as well as the planned phase-out of a substantial contract concerning the Mechatronics division.

With operating earnings of €52 million, the margin target of 8 % was achieved once again.

The joint ventures in China, which are not included in the sales figures for the Automotive sector, increased their sales slightly in the first quarter of 2016. In the first three months of the year, their business volume amounted to €214 million (Q1 2015: €212 million).

Recent orders obtained underscore Rheinmetall Automotive's successful international positioning with both Mechatronics and Hardparts and in the Aftermarket division. For example, the latest order of mechatronic components for a Chinese automotive manufacturer had a total value of €85 million.

A large order for steel pistons, piston pins and rings for a renowned automotive manufacturer obtained recently by the Hardparts division entails lifetime sales of €118 million. Rheinmetall Automotive will produce piston modules for three-cylinder

engines of a large American automotive manufacturer with a total value of around €33 million.

In the first quarter of 2016, Rheinmetall Automotive extended the partnership for the development and sale of piston systems with the Japanese piston ring specialist Riken, which has been in place since April 2015, and acquired a 30 % stake in Riken Automobile Parts (Wuhan) Co. Ltd. in China.

Two companies, both market leaders in the fields of piston and piston ring technology around the world, have thus come together in a pioneering global partnership.

OUTLOOK

Sales growth in both corporate sectors

In 2016, Rheinmetall expects the growth to continue and sales to rise by more than 5 % to around €5.5 billion, compared with about €5.2 billion in 2015. As in the previous year, this growth will be driven by both corporate sectors. This positive development will require the global automotive sector to remain stable overall and large projects in the Defence sector to be implemented according to schedule.

For the Defence sector, sales are expected to grow to around €2.8 billion after just under €2.6 billion in 2015, because the sales forecast for 2016 is relatively well covered by the current order backlog. The development of sales in the Automotive sector will be determined by economic factors. Experts from IHS currently expect automotive production to rise by 3 % this year. In this context, Rheinmetall Automotive expects sales to grow to around €2.7 billion in 2016 as a whole.

Improved earnings and further increase in profitability at Defence

Rheinmetall anticipates further improvements in Group earnings in fiscal 2016. In connection with the sales growth in 2016, profitability is expected to continue increasing in the Defence sector, with a forecast return on sales of between 4.5 % and 5.0 % based on operating earnings before interest and taxes. Profitability is expected to remain stable at Rheinmetall Automotive in 2016, with the return expected to be about 8 %. Taking into account holding costs of around €20 million, this results in an expected return of about 6 % for the Rheinmetall Group.