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Rheinmetall Maintains Two-Pillar Strategy

- **High potential for growth and earnings in both corporate sectors**
- **“Rheinmetall 2015” strategic program focuses on internationalization, product innovations and cost**
- **Consolidated sales grow by 6% in fiscal 2012 to €4,704 million**
- **Earnings per share reach €5.00 (2011: €5.55)**
- **Unchanged dividend of €1.80 per share proposed**
- **2013 outlook: Consolidated sales of between €4.8 billion and €4.9 billion anticipated**
- **Restructuring to impact 2013 result**

The Düsseldorf-based Rheinmetall Group has set itself ambitious growth and earnings targets. Under its “Rheinmetall 2015” strategic program, which is primarily focused on internationalization, product innovations and cost, the company intends to expand its leading position in a range of markets on a sustainable basis. From 2015 onwards, the Group also intends to generate average annual sales growth of between 3% and 5% combined with significantly improved profitability.

“2013 marks for us the beginning of a strategic program which we will use to drive forward the development of our Group into an international partner for security and mobility. Both the Defence and Automotive sectors still harbor huge potential for profitable growth. We are therefore maintaining both pillars,” explains Armin Papperger, CEO of Rheinmetall AG. “However, we still have some work to do in order to be able to realize our next growth spurt. For us, 2013 will become a year of transition towards improved profitability.”

Restructuring costs in 2013 to impact result

The company will introduce restructuring measures as part of “Rheinmetall 2015” that will impact the income statement for the current fiscal year by between €60 million and €80 million. The full saving effects of €55 million to €70 million each year will become apparent from 2015 onwards. The company also aims to improve free cash flow on a sustainable basis. Furthermore, it intends to continue to exploit opportunities to make acquisitions. The dividend policy followed to date will be maintained, with a payout ratio of at least 30%.

Defence expands into growth regions

As a leading European systems supplier for military technology, Rheinmetall Defence continues to operate in a growth market – even though national defence budgets are increasingly subject to fluctuations. The strategic priority of Rheinmetall is therefore

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expanding its presence in high-growth regions. The company sees particular potential in markets outside Europe such as in Asia and Australia. Rheinmetall will consolidate its local presence in international growth regions and systematically pursue the internationalization strategy that has been successfully implemented in recent years. From 2015, around 50% of sales are expected to be generated with customers outside Europe.

Defence will continue to benefit from the ongoing need for substantial technical modernization of a number of armed forces. Therefore, Rheinmetall will also expand its service and systems business. The aim is to create a broad product portfolio with a balanced mix of highly-profitable components business and long-term, large-volume project business. In order to secure profitability and competitiveness on a sustainable basis, Rheinmetall will optimize its location structures and adjust capacity to the order situation in the specific divisions. These measures will bring about further restructuring costs in the current year of between €40 million and €50 million. Non-recurring expenses of €20 million were already incurred in 2012. Rheinmetall anticipates that these measures will result in annual savings of €40 million to €50 million from 2015 onwards. The Defence sector will then return to an EBIT margin of 10%.

Clean technologies from Automotive

Rheinmetall still expects a global growth trend in the international automotive market. Significant impetus for growth is primarily expected to come from the emerging markets – where Rheinmetall is already growing at a faster rate than the market. Rheinmetall will therefore systematically pursue its internationalization strategy of recent years in the Automotive sector, particularly in the Mechatronics division. From 2015, Automotive intends to generate over a third of its sales outside Europe. Particular attention will be paid to the Chinese and Indian markets.

Rheinmetall is benefiting greatly from its focus on systems and components to reduce fuel consumption and emissions. In particular, the mechatronics product business is growing due to emission regulations becoming stricter. Rheinmetall will also be able to realize growth potential in the aftermarket business.

However, cost structures still need to be improved in the Automotive sector, particularly the European production and location structure of the Hardparts division. In addition, Rheinmetall will adjust its capacity to current market development to a greater extent in order to improve overall profitability. These measures will lead to restructuring costs in the Automotive sector in the current fiscal year of between €20 million and €30 million. This will result in annual savings of €15 million to €20 million from 2015. The EBIT margin in the Automotive sector should reach 8% by this time, assuming a normal market environment.

Figures for fiscal 2012

Despite the difficult market environment, the Rheinmetall Group closed the 2012 fiscal year successfully. With consolidated sales of €4,704 million, income exceeded that generated in the previous fiscal year by €250 million or approximately 6% (previous year: €4,454 million). Both sectors contributed to this growth.

At 72%, the proportion of consolidated sales achieved abroad was once again up on the previous year's figure (70%). The key regions in terms of sales volumes were the German home market (28%), Europe excluding Germany (40%), followed by Asia (16%) and North and Central America (10%).

At €301 million (previous year: €354 million), earnings before interest and taxes (EBIT) remained at a high level. The Group has to date performed better only in the record year of 2011. The EBIT margin amounted to 6.4% (previous year: 7.9%).

Stable dividend of €1.80 proposed

After deduction of income taxes of €49 million, Rheinmetall generated net income of €190 million (previous year: €225 million). After deducting profit attributable to minority interests, this brings earnings per share to €5.00 (previous year: €5.55), a decline of 10%.

The Executive and Supervisory Boards will maintain their shareholder-friendly dividend policy and propose to the Annual General Meeting on May 14, 2013 the distribution of an unaltered dividend of €1.80 per share. The payout ratio will therefore stand at over 30% once again.

Record orders in Defence

Despite stagnating defense budgets in many countries, Rheinmetall Defence increased its sales by 9% in fiscal 2012 to €2,335 million (previous year: €2,141 million). This growth is the result of the first-time inclusion of the Rheinmetall MAN Military Vehicles joint venture. 67% of total revenue was generated abroad (previous year: 63%).

The order intake increased by €1,102 million to €2,933 million, which represented growth of 60% (previous year: €1,831 million). This positive development is the result of a successful internationalization strategy. Rheinmetall Defence has systematically expanded its global network of locations and sales and founded key joint ventures in recent years.

At €4,987 million, the order backlog in the Defence sector is up 10% year-on-year (previous year: €4,541 million). The order backlog includes a number of large-volume projects spanning several years, e.g. the contract for the series production of the Puma infantry fighting vehicle and the series contract for the Boxer armored transport vehicle on behalf of the Netherlands.

Earnings before interest and taxes (EBIT) reached €174 million, following €223 million in fiscal 2011. Following adjustment for one-off income (€48 million) and restructuring expenditure (€20 million), EBIT totaled €146 million. The EBIT margin reached 7.4%, following 10.4% in the previous year.

Automotive successful with Mechatronics and in China

The Automotive sector increased its sales by €56 million to €2,369 million in fiscal 2012 (previous year: €2,313 million). The percentage of sales generated abroad rose slightly to 77% (previous year: 76%). While the Mechatronics and Motor Service divisions contributed to sales growth, sales in the Hardparts division remained at the previous year's level. The Mechatronics division benefited primarily from the major trends towards reductions in CO_2 and emissions.

The Chinese joint ventures that are not taken into account in these figures increased their sales by €90 million to €388 million. At 30%, this increase is well above the rise in Chinese automobile production, which totaled 8% last year. Growth in the Automotive sector was driven mainly by products from the Mechatronics division, such as variable oil and coolant pumps, exhaust gas recycling systems and solenoid valves, aimed at reducing emissions and consumption.

At €143 million, earnings before interest and taxes (EBIT) in this sector did not quite reach the previous year's figure (previous year: €151 million). Here, the Mechatronics and Motor Service divisions also maintained the high level achieved in the previous year, whereas the Hardparts division performed worse.

2013 to become a year of transition

Fiscal 2013 will become a year of transition towards improved profitability for Rheinmetall due to restructuring. From today's perspective, the Group expects to achieve sales of between €4.8 billion and €4.9 billion. Both sectors are expected to contribute to this growth. Earnings before interest and taxes (EBIT) of €240 million to €260 million are forecast, not including restructuring costs.

Before consideration of restructuring expenditure, the Automotive sector is expected to achieve an operating result of around €140 million and therefore a profit at the level of the previous year. The Defence sector is anticipated to generate an operating result of around €130 million in 2013.

For fiscal 2014, Rheinmetall is assuming further sales growth in both sectors and expects to see a clear improvement in earnings.