Press Release

RHEINMETALL GROUP

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Rheinmetall reports robust business performance and further growth in profitability – Defence doubles order intake

- Group sales stable year-on-year at €4,164 million in the first three quarters
- Consolidated operating earnings up €21 million at €252 million
- Operating earnings margin for the Group grows from 5.5% to 6.1%
- Automotive increases sales to €2,199 million and operating earnings to €193 million – operating earnings margin climbs to 8.8% after nine months
- Defence posts increase in earnings of €15 million to €75 million with slight decline in sales to €1,966 million
- Order intake in Defence virtually doubled
- Earnings per share rise from €2.40 to €3.59

With high-volume orders and higher consolidated operating earnings, the Düsseldorf technology group Rheinmetall AG is on the home stretch for fiscal 2018. The Group's business performance over the first nine months of the fiscal year has been robust with improved profitability, while sales volumes have remained largely unchanged. Automotive continues to grow faster than the market and again contributed the larger share to consolidated earnings. At the same time, Defence again significantly increased its order backlog and its contribution to earnings.

The Group is slightly raising its forecast earnings margin for the current fiscal year, but simultaneously lowering its projection for sales growth due to a market environment beset by greater uncertainty.

Armin Papperger, CEO of Rheinmetall AG, said: "Rheinmetall is performing robustly and demonstrating its resilience to individual market disruptions. We are confident of further growth and a higher earnings margin. In our Defence sector we are benefiting from the growing backlog of demand for armed forces equipment and the need for military modernization in many countries of the world. In the Automotive sector we are making key contributions to fuel efficiency and emissions reductions, and increasingly to electromobility as well – and here too our pioneering technologies make us optimally poised to continue expanding our global market positions."

Rheinmetall's consolidated sales were on par with the previous year at €4,164 million in the first nine months of 2018 (2017: €4,174 million). Sales were up by 2.0% after adjustment for currency effects.

International markets accounted for 76% of sales (Q3 2017: 78%). In addition to the German market (24%), the key regions in terms of sales volumes were Europe excluding Germany (31%), followed by Asia (19%) and North and South America (13%).

Operating earnings rose by €21 million or 9% to €252 million in the first nine months of 2018 as against €231 million in the previous year.

The Automotive sector and the Defence sector contributed €7 million and €15 million respectively to this improvement. Operating earnings fell by €1 million in Others/Consolidation.

The rise in earnings increases the Group's operating earnings margin from 5.5% in 2017 to 6.1% in the reporting period.

As a result of extraordinary effects, the growth in EBIT was particularly strong, climbing by 32% from €206 million to €273 million. In comparison to the previous year, non-recurring effects included both the sale of a property at the former production site in Hamburg (€30 million) and restructuring expenses in the Electronic Solutions division of -€9 million. In particular, EBIT for the same period of the previous year was squeezed by the cost of provisions on account of the closure of a plant in France.

Earnings per share thus grew from €2.40 to €3.59 in the reporting period.

The order backlog increased significantly thanks to new orders in the Defence sector. Rheinmetall had orders worth €9,315 million on its books as of September 30, 2018, up from €7,234 million as of September 30, 2017.

Automotive enjoys growth in all divisions and slightly higher profitability

Sales in the Automotive sector once again outperformed the market environment, rising to €2,199 million in the first nine months of 2018 – equivalent to year-on-year growth of 2.3% or 4.5% adjusted for currency effects. By comparison, growth in the global production of light vehicles was significantly softer at 1.2%. All divisions once again contributed to the increase in sales. Operating earnings climbed by €7 million to €193 million in the first nine months. The sector's operating earnings margin was up marginally to 8.8% (8.7%).

Sales in the Mechatronics division grew by 1.6% year-on-year to €1,233 million in the first nine months of 2018 (2.7% after adjustment for currency effects). The Commercial Diesel Systems product range generated the strongest growth here. However, the division's growth was muted by the further contraction of the diesel market in Western Europe. Operating earnings amounted to €128 million after the first nine months of 2018, falling slightly short of the high level of the previous year of €130 million.

The Hardparts division generated sales growth of 3.1% to €755 million in the first nine months of 2018 (7.1% after adjustment for currency effects). Plain bearings outperformed the previous year with further growth in India, North America and in European business as well. Small-bore and large-bore pistons likewise bettered the previous year's level. The division's operating earnings rose to €50 million in the first three quarters of 2018 (previous year: €46 million).

The Aftermarket division increased its sales by 3.7% year-on-year to €281 million in the first nine months of 2018 (6.1% after adjustment for currency effects). In particular, sales developed positively on the markets of Western and Eastern Europe and those of North and South America. The division's operating earnings amounted to €26 million in the first three quarters of the reporting period after €25 million in the same period of the previous year.

In local currency, the sales of the joint ventures in China not included in the figures for the Automotive sector rose by 4.3% in the reporting period (7.9% adjusted for currency effects) to the equivalent of €661 million – in spite of a 4.7% contraction of the Chinese market.

Defence: Incoming orders at record level, operating earnings increased

The Defence sector virtually doubled its incoming orders year-on-year to €4,471 million in the first three quarters of 2018. The strong growth in orders is a result of the activities of the Vehicle Systems division, where major orders worth around €2.5 billion in total to deliver Boxer wheeled armored vehicles and military trucks to the Australian armed forces are a particular highlight. The order backlog thus climbed from €6,732 million in the previous year to €8,787 million.

Sales in the Defence sector declined by €59 million or 2.9% to €1,966 million in the first three quarters of 2018. The drop was only 0.6% adjusted for currency effects. This decrease relates to the first half of 2018, while sales increased by €21 million in the third quarter of 2018 on a standalone basis.

The Defence sector's operating earnings improved by €15 million to €75 million in the first nine months.

Sales in the Weapon and Ammunition division fell by €160 million or 22% year-on-year in the first nine months. This was partly on account a trading contract of around €110 million that was included in the previous year. Further declines in sales arose as a result of the postponement of the acceptance of orders by customers. The drop in sales had a disproportionate impact on operating earnings, which were down by €26 million or 65% year-on-year at €14 million.

The Electronic Solutions division reported an increase in sales of €49 million or 11% compared to the figure for the previous year. Air Defence and Radar Systems were the main drivers behind this. The division's operating earnings improved by €11 million to €12 million as a result of sales growth and cost-cutting measures.

The Vehicle Systems Division increased its sales marginally by €10 million or 0.9% year-on-year in the first three quarters of 2018. Operating earnings more than doubled year-on-year to €64 million. In particular, the rise in earnings was caused by positive effects from the product mix towards higher-margin products. In addition, there were favorable cost developments that, in turn, were incorporated into updated valuations in the context of regular project reviews.

OUTLOOK

<u>Sales growth continues in both corporate sectors</u>

Rheinmetall expects the Group's growth to continue in the current fiscal year. Rheinmetall AG's annual sales are set to grow organically by around 5% in the current fiscal year based on €5.9 billion in 2017. Sales are expected to increase in both corporate sectors.

Sales performance in the Automotive sector is strongly influenced by the economic performance of the key global automotive markets and by external factors such as the current adjustment of European test cycles. Based on the latest expert forecasts for the uncertain development of global automotive production this year, which assume lower growth compared to previous estimates of only 1.4%, Rheinmetall now expects sales growth of 2% to 3% in the Automotive sector (previously 3% to 4%).

On the basis of business performance in the first three quarters, Rheinmetall is projecting sales growth of between 6% and 7% in the Defence sector in fiscal 2018. The reduction in the sales guidance from the originally published growth forecast (12%) takes particular account of the effects of outstanding export licenses and the expected sales lost owing to a tragic explosion at a site in South Africa in September 2018.

The growth forecast assumes that exchange rates will not change significantly in the fourth quarter of 2018 compared to current levels.

Further improvement in earnings expected in fiscal 2018

Assuming stable economic development, Rheinmetall expects an absolute improvement in operating earnings and an operating margin of slightly more than 8.5% for the Automotive sector in fiscal 2018. Rheinmetall now also anticipates a further improvement in operating earnings in the Defence sector in 2018 and an operating earnings margin slightly in excess of 7%, higher than the previous forecast range of 6.0% to 6.5%.

Taking into account holding costs and including expenses in the mid-single-digit millions for the realization and marketing of new technologies, the Rheinmetall Group has a margin of more than 7%.