

Quarterly Report

1st - 3rd Quarter 2016

Rheinmetall AG

GROWTH IN SALES AND EARNINGS AT RHEINMETALL

Rheinmetall closed the first nine months of 2016 with considerable growth in sales and improved operating earnings.

- Consolidated sales grow 10% to €3,904 million adjusted for currency effects
- Operating earnings for the Group improve by 30% or €42 million to €182 million
- Strong sales growth in Defence of 18% to €1,912 million and positive operating earnings of €32 million
- Automotive increases sales after solid third quarter of 2016 to €1,992 million, operating margin at high level of 8.2%
- Order backlog remains over €7 billion

As a result of the good business development in the Defence sector during the first nine months of 2016, the annual Group sales forecast is being adjusted from €5.5 billion to €5.6 billion. The 2016 forecast for the operating margin in the Group is confirmed at around 6%.

RHEINMETALL IN FIGURES

		Q3/2016	Q3/2015	3Q/2016	3Q/2015
Sales/Results					
Sales	€ million	1,305	1,188	3,904	3,582
of which generated abroad	%	75	73	77	74
Operating result	€ million	79	61	182	140
Operating result margin	%	6.1	5.1	4.7	3.9
EBITDA	€ million	131	110	343	288
EBIT	€ million	79	61	182	140
EBIT margin	%	6.1	5.1	4.7	3.9
EBT	€ million	65	48	140	96
Earnings per share	€	0.97	0.86	2.22	1.89
Cash Flow					
Cash flow from operating activities	€ million	98	87	(128)	(81)
Cash flow from Investments	€ million	(62)	(78)	(174)	(189)
Operating free cash flow	€ million	36	9	(302)	(270)
Order situation					
Order intake	€ million	1,285	1,201	4,340	3,756
Order backlog (Sept. 30)	€ million	-	-	7,359	6,988

		9/30/2016	9/30/2015
Balance Sheet			
Total equity	€ million	1,527	1,256
Total assets	€ million	5,857	5,230
Equity ratio	%	26	24
Cash and cash equivalents	€ million	309	198
Total assets less cash and cash equivalents	€ million	5,548	5,032
Net financial debt	€ million	445	619
Leverage ratio ¹⁾	%	8.0	12.3
Net gearing ²⁾	%	29.1	49.3
Human resources (capacities)			
Rheinmetall Group		20,982	20,665
Defence		9,951	9,540
Automotive		10,870	10,971
Holding/service companies		161	154
Share			
Stock price	€	61.96	54.78
Market capitalization	€ million	2,699	2,169
Stock price, highest level for 3Q	€	70.61	57.70
Stock price, lowest level for 3Q	€	51.47	44.74
Stock exchange turnover Xetra (daily average 3Q)	shares	190,000	218,000
Market capitalization – MDAX ranking Deutsche Börse		22	22
Stock exchange turnover – MDAX ranking Deutsche Börse		20	24

1) Net financial liabilities/total assets adjusted for cash and cash equivalents

2) Net financial liabilities/equity

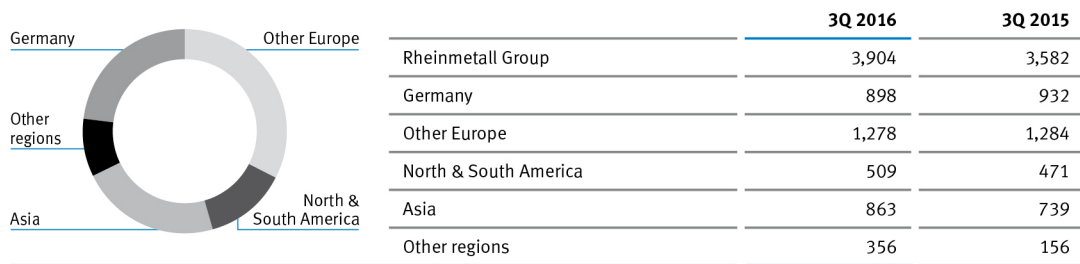
RHEINMETALL GROUP BUSINESS TREND

€ million	Q3/2016	Q3/2015	Change	3Q/2016	3Q/2015	Change
Sales	1,305	1,188	117	3,904	3,582	322
Operating result	79	61	18	182	140	42
Operating result margin	6.1%	5.1%	-	4.7%	3.9%	-
Operating free cash flow	36	9	27	(302)	(270)	-32

SALES AND OPERATING EARNINGS INCREASED

Consolidated sales rose by €322 million or 9% year on year to €3,904 million. Adjusted for currency effects, the growth was 10%.

Sales by region € million



The improvement of operating earnings by 30% to €182 million resulted exclusively from the business performance of the Defence sector. As in the same period of the previous year, there were no nonrecurring effects.

OPERATING FREE CASH FLOW DECLINES

At €-302 million, operating free cash flow was below the previous year's figure of €-270 million because of payments into a contractual trust agreement (CTA). In the first quarter of 2016, €30 million was paid into a CTA that was initiated in Germany at the end of 2015 to secure pension and partial retirement obligations.

RHEINMETALL GROUP BUSINESS TREND

DEFENCE SECTOR

€ million	Order intake		Sales		Operating result	
	Q3/2016	Q3/2015	Q3/2016	Q3/2015	Q3/2016	Q3/2015
Defence	574	539	662	571	30	16
Weapon and Ammunition	173	168	227	158	25	8
Electronic Solutions	185	229	172	174	5	9
Vehicle Systems	288	166	361	296	4	(2)
Other/consolidation	(72)	(24)	(98)	(57)	(4)	1
	3Q/2016	3Q/2015	3Q/2016	3Q/2015	3Q/2016	3Q/2015
Defence	2,325	1,774	1,912	1,625	32	(11)
Weapon and Ammunition	960	649	720	477	45	(3)
Electronic Solutions	881	619	501	488	0	10
Vehicle Systems	610	649	909	787	(1)	(16)
Other/consolidation	(126)	(143)	(218)	(127)	(12)	(2)

RHEINMETALL DEFENCE CREATES LEADING MILITARY VEHICLE MANUFACTURER IN EUROPE

Activities in the field of military tracked and wheeled vehicles have been brought together in the new Vehicle Systems division. For this purpose, the tracked vehicles business area (Rheinmetall Landsysteme GmbH) was transferred to the new division from the former Combat Systems division. The other activities of Combat Systems now form the new Weapon and Ammunition division. The Electronic Solutions division is not affected by these changes. The new structure was implemented on January 1, 2016. The divisions' figures for the previous year have been adjusted where necessary.

GOOD ORDER PERFORMANCE CONTINUES

The Defence sector posted a high order intake of €2,325 million in the first nine months of 2016, significantly exceeding the prior-year figure by 31%. The sector's order backlog remains at a record level of €6,891 million.

The Vehicle Systems division acquired the largest single order in the third quarter of 2016 with a volume of €166 million. It is an order to export armored transport vehicles of the Boxer type to the NATO partner Lithuania.

SALES GROWTH AND RECOVERY OF OPERATING EARNINGS

At €1,912 million, the Defence sector's sales rose by €287 million or 18% in the first nine months of 2016 compared to €1,625 million in the previous year. Adjusted for currency effects, the growth was 20%. Operating earnings improved by €43 million year on year to €32 million and were therefore positive in the first nine months of a year for the first time since 2012.

The sales growth in the Weapon and Ammunition division of 51% to €720 million was driven by the wide-ranging nature of the business activities. This improved the division's operating earnings by €48 million to €45 million. The high sales growth is positively influenced among other things by a larger partial delivery of marine ammunition (primarily trading sales) to a customer in the MENA region.

In the Electronic Solutions division, operating earnings just broke even with sales growth of €13 million due in particular to a less favorable product mix. The earnings were again reduced by losses at a Norwegian subsidiary.

The Vehicle Systems division increased sales by 16% to €909 million and reduced the operating loss by €15 million to €-1 million.

RHEINMETALL GROUP BUSINESS TREND

AUTOMOTIVE SECTOR

€ million	Sales		Operating result	
	Q3/2016	Q3/2015	Q3/2016	Q3/2015
Automotive	643	617	51	50
Mechatronics	364	333	36	27
Hardparts	225	237	11	14
Aftermarket	78	74	8	7
Other/consolidation	(24)	(27)	(4)	2
	3Q/2016	3Q/2015	3Q/2016	3Q/2015
Automotive	1,992	1,957	163	164
Mechatronics	1,141	1,084	106	92
Hardparts	699	727	40	53
Aftermarket	225	217	20	21
Other/consolidation	(73)	(71)	(3)	(2)

ACCELERATED SALES GROWTH

Rheinmetall Automotive generated – driven by sales growth of 4% in the third quarter – sales of €1,992 million in the first nine months of 2016, an increase of 2% from the previous year's figure. With operating earnings of €163 million, an operating margin of 8.2% was achieved.

The Mechatronics division continued its growth course and increased its sales, despite the completed phase-out of a major European customer contract, to €1,141 million (+5%) and its operating result to €106 million.

The current weakness in the market for large-bore pistons caused by decreases in demand, e.g. for ship and locomotive pistons, and the continuing sharp decline in automotive production in Brazil led to a decline in sales in the Hardparts division to €699 million after €727 million in the previous year. This development caused operating earnings to drop to €40 million.

The Aftermarket division achieved sales of €225 million, growing 4% compared to the previous year. Operating earnings were chiefly reduced by the startup costs of a new small-series plant in the Czech Republic, not quite living up to the previous year at €20 million.

JOINT VENTURES WITH CHINESE PARTNERS CONTINUE TO GROW

The significant joint ventures, which are not included in the sales figures for the Automotive sector, increased sales and earnings after taxes in the first nine months of 2016.

The Chinese joint ventures generated earnings after taxes that improved (+20%) to €30 million while sales increased by 10% to €620 million adjusted for currency effects.

The German joint venture KS HUAYU increased its sales by 15% to €220 million. Earnings after taxes remained at the previous year's level of €7 million.

€ million – 100% basis	China Joint Ventures				KS HUAYU			
	Q3/2016	Q3/2015	3Q/2016	3Q/2015	Q3/2016	Q3/2015	3Q/2016	3Q/2015
Sales	205	166	620	587	68	65	220	192
Net income	11	5	30	25	1	2	7	7

OUTLOOK

SALES GROWTH IN BOTH CORPORATE SECTORS

In fiscal 2016, Rheinmetall expects the growth to continue and sales to rise by more than 5%. The former annual forecast of around €5.5 billion is now being adjusted to around €5.6 billion. As in the previous year, the growth will be driven by both corporate sectors. This positive trend will require the continuation of the good development in the global automotive sector in the fourth quarter of 2016, as experts currently expect.

For the Defence sector, the former sales forecast of €2.8 billion is being increased on the basis of the positive business development in the first three quarters of 2016. Total annual sales are now expected to amount to around €2.9 billion, after just under €2.6 billion in 2015. The development of sales in the Automotive sector will be determined by economic factors. Experts from IHS currently expect global 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.

IMPROVEMENT IN 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 forecasted 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.

REPORT ON POST-BALANCE SHEET DATE EVENTS

At the end of October 2016, Rheinmetall concluded a loan contract with the European Investment Bank (EIB), Luxembourg, for €250 million at an interest rate of 0.962% p.a. and a term of six years. The loan will be disbursed in August 2017. This project-related loan will strengthen research and development activities in the Automotive sector, especially with regard to the reduction of emissions from combustion engines and alternative drive technologies.

CONSOLIDATED BALANCE SHEET

MioEUR	9/30/2016	12/31/2015
Assets		
Goodwill	553	552
Intangible assets	269	275
Property, plant and equipment	1,340	1,314
Investment Property	34	35
Investments accounted for using the equity method	224	203
Other non-current financial assets	14	4
Other non-current assets	18	21
Deferred taxes	285	244
Non-current assets	2,737	2,648
Inventories	1,239	1,052
./. Prepayments received	(32)	(26)
	1,207	1,026
Trade receivables	1,308	1,127
Liquid financial assets	85	50
Other current financial assets	42	49
Other current receivables and assets	150	111
Income tax receivables	19	28
Cash and cash equivalents	309	691
Current assets	3,120	3,082
Total assets	5,857	5,730
Equity and liabilities		
Share capital	112	112
Additional paid-in capital	532	528
Retained earnings	833	891
Treasury shares	(32)	(39)
Rheinmetall AG shareholders' equity	1,445	1,492
Minority interests	82	70
Equity	1,527	1,562
Provisions for pensions and similar obligations	1,309	1,128
Other non-current provisions	135	138
Non-current financial debts	783	759
Other non-current liabilities	61	67
Deferred taxes	30	31
Non-current liabilities	2,318	2,123
Other current provisions	472	454
Current financial debts	56	63
Trade liabilities	642	718
Other current liabilities	785	764
Income tax liabilities	57	46
Current liabilities	2,012	2,045
Total liabilities	5,857	5,730

CONSOLIDATED INCOME STATEMENT

€ million	Q3/2016	Q3/2015	3Q/2016	3Q/2015
Sales	1,305	1,188	3,904	3,582
by the enterprise and capitalised	80	31	198	106
Total operating performance	1,385	1,219	4,102	3,688
Other operating income	26	29	85	94
Cost of materials	774	681	2,274	2,006
Personnel expenses	346	327	1,090	1,035
Amortization, depreciation and impairment	52	49	161	148
Other operating expenses	164	133	485	467
Income from investments carried at equity	6	7	18	23
Other net financial income	(2)	(4)	(13)	(9)
Earnings before interest and taxes (EBIT)	79	61	182	140
Net interest income	1	0	2	1
Interest expenses	(15)	(13)	(44)	(45)
Earnings before taxes (EBT)	65	48	140	96
Income taxes	(19)	(18)	(41)	(32)
Earnings after taxes	46	30	99	64
Of which:				
<i>Minority interests</i>	4	(3)	4	-9
<i>Rheinmetall AG shareholders</i>	42	33	95	73
Earnings per share	€0.97	€0.86	€2.22	€1.89

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ million	Q3/2016	Q3/2015	3Q/2016	3Q/2015
Net income	46	30	99	64
Remeasurement of net defined benefit liability from pensions	(6)	4	(143)	5
Land revaluation	-	(2)	-	(1)
Amounts not reclassified in the income statement	(6)	2	(143)	4
Change in value of derivative financial instruments (cash flow hedge)	13	(13)	49	(14)
Currency conversion difference	(1)	(54)	4	12
Income/expenses from investments accounted for using the equity method	(1)	(2)	(2)	3
Amounts reclassified in the income statement	11	(69)	51	1
Other comprehensive income after taxes	5	(67)	(92)	5
Comprehensive income	51	(37)	7	69
Of which:				
<i>Minority interests</i>	9	(13)	20	(12)
<i>Rheinmetall AG shareholders</i>	42	(24)	(13)	81

CASH FLOW STATEMENT

€ million	3Q/2016	3Q/2015
Net income	99	64
Amortization, depreciation and impairments	161	148
Reduction in pension provisions due to payment into external Fund	(15)	-
Changes in other pension provisions	1	1
Reduction in other provisions for partial retirement due to payment into external Fund	(15)	-
Other changes in other provisions	43	35
Changes in inventories	(174)	(141)
Changes in receivables, liabilities (without financial debts) and prepaid & deferred items	(217)	(165)
Pro rata income from investments carried at equity	(18)	(23)
Dividends received from investments carried at equity	8	10
Other non-cash expenses and income	(1)	(10)
Cash flows from operating activities ¹⁾	(128)	(81)
Investments in property, plant and equipment, intangible assets and investment property	(174)	(189)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	1	2
Payments for the purchase of liquid financial assets	(152)	-
Cash receipts from the disposal of liquid financial assets	117	-
Cash receipts from investments in consolidated companies and other financial assets	(13)	(2)
Payments for investments in consolidated companies and other financial assets	2	-
Mittelabfluss aus Investitionstätigkeit	(219)	(189)
Dividends paid out by Rheinmetall AG	(47)	(12)
Other profit distributions	(8)	(6)
Sale of treasury shares	4	3
Additional acquisition of shares in consolidated companies	-	(1)
Borrowing of financial debts	69	43
Repayment of financial debts	(53)	(42)
Cash flows from financing activities	(35)	(15)
Changes in financial resources	(382)	(285)
Changes in cash and cash equivalents due to exchange rates	-	(3)
Total change in financial resources	(382)	(288)
Opening cash and cash equivalents January 1	691	486
Closing cash and cash equivalents Sept. 30	309	198

1) Including:

Net income taxes of €-30 million (previous year: €-19 million)

Net interest of €-35 million (previous year: €-29 million)

STATEMENT OF CHANGES IN EQUITY

€ million	Shared capital	Additional paid-in capital	Total retained earnings	Treasury shares	Rheinmetall AG shareholders equity	Minority interests	Equity
Balance as at January 1, 2015	101	310	756	(48)	1,119	78	1,197
Net income	-	-	73	-	73	(9)	64
Other comprehensive income	-	-	8	-	8	(3)	5
Comprehensive income	-	-	81	-	81	(12)	69
Dividends payout	-	-	(12)	-	(12)	(6)	(18)
Disposal of treasury shares	-	-	-	8	8	-	8
Other Changes	-	1	(1)	-	-	-	-
Balance as at Sept. 30, 2015	101	311	824	(40)	1,196	60	1,256
Balance as at January 1, 2016	112	528	891	(39)	1,492	70	1,562
Net income	-	-	95	-	95	4	99
Other comprehensive income	-	-	(108)	-	(108)	16	(92)
Comprehensive income	-	-	(13)	-	(13)	20	7
Dividends payout	-	-	(47)	-	(47)	(8)	(55)
Disposal of treasury shares	-	-	-	7	7	-	7
Other Changes	-	4	2	-	6	-	6
Balance as at Sept. 30, 2016	112	532	833	(32)	1,445	82	1,527

Composition of retained earnings

€ million	Difference of currency conversion	Re-measurement of net defined benefit liability from pensions	Land revaluation	Hedge reserve	Other income from investments carried at equity	Other reserves	Total retained earnings
Balance as at January 1, 2015	1	(448)	83	(19)	-	1,139	756
Net income	-	-	-	-	-	73	73
Other comprehensive income	12	6	(1)	(13)	4	-	8
Comprehensive income	12	6	(1)	(13)	4	73	81
Dividends payout	-	-	-	-	-	(12)	(12)
Other Changes	-	(3)	-	-	-	2	(1)
Balance as at Sept. 30, 2015	13	(445)	82	(32)	4	1,202	824
Balance as at January 1, 2016	21	(464)	84	(38)	7	1,281	891
Other comprehensive income	-	-	-	-	-	95	95
Comprehensive income	3	(144)	-	35	(2)	-	(108)
Dividends payout	3	(144)	-	35	(2)	95	(13)
Dividends payout	-	-	-	-	-	(47)	(47)
Other Changes	-	-	-	-	-	2	2
Balance as at Sept. 30, 2016	24	(608)	84	(3)	5	1,331	833

SEGMENT REPORT

€ million	Defence		Automotive		Other/Consolidation		Group	
	3Q/2016	3Q/2015	3Q/2016	3Q/2015	3Q/2016	3Q/2015	3Q/2016	3Q/2015
External sales	1,912	1,625	1,992	1,957	-	-	3,904	3,582
Operating result	32	(11)	163	164	(13)	(13)	182	140
EBIT	32	(11)	163	164	(13)	(13)	182	140
<i>of which:</i>								
<i>At Equity income</i>	(4)	5	22	18	-	-	18	23
<i>Amortization, depreciation</i>	66	63	90	84	2	1	158	148
Interest income	1	1	1	2	-	(2)	2	1
Interest expenses	(23)	(19)	(11)	(12)	(10)	(14)	(44)	(45)
EBT	10	(29)	153	154	(23)	(29)	140	96
Other data								
Operating free cash flow	(216)	(304)	(41)	70	(45)	(36)	(302)	(270)
Order intake	2,325	1,774	2,015	1,982	-	-	4,340	3,756
Order backlog Sept. 30	6,891	6,547	468	441	-	-	7,359	6,988
Employees as at Sept. 30 (capacities)	9,951	9,540	10,870	10,971	161	154	20,982	20,665
Net financial debts	154	144	(37)	(113)	328	588	445	619

LEGAL INFORMATION AND CONTACT

DATES

MARCH 16, 2017
Annual Report 2016

MAY 4, 2017
Report on Q1/2017

MAY 9, 2017
Annual General Meeting

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Rheinmetall's website at www.rheinmetall.com contains detailed business information about the Rheinmetall Group and its subsidiaries, current trends, 15-minute stock price updates, press releases, and ad hoc notifications. Investor Relations information forms an integral part of this website and provides all of the relevant details for download.

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