

Quarterly Report *3rd Quarter* 2017

Rheinmetall generates growth in sales and earnings

Rheinmetall closed the first nine months of 2017 with considerable growth in sales and improved operating earnings.

- Consolidated sales grow 6.9% to €4,174 million
- Operating earnings for the Group improve by 27% to €231 million
- Automotive increases sales to €2,149 million, operating margin at high level of 8.7%
- Defence posts sales growth of 5.9% to €2,025 million and improvement in earnings of €28 million to €60 million
- Order backlog for the Group of €7.2 billion

The Group's forecasts for sales and operating return are being affirmed. The forecast figures for the Automotive and Defence sectors have been narrowed down within the anticipated ranges.

Rheinmetall in figures

		Q3/2017	Q3/2016	3Q/2017	3Q/2016
Sales/Results					
Sales	€ million	1,366	1,305	4,174	3,904
of which generated abroad	%	77	75	78	77
Operating result	€ million	97	79	231	182
Operating result margin	%	7.1	6.1	5.5	4.7
EBITDA	€ million	133	131	377	343
EBIT	€ million	75	79	206	182
EBIT margin	%	5.5	6.1	4.9	4.7
EBT	€ million	65	65	171	140
Earnings per share	€	0.83	0.97	2.40	2.22
Cash Flow					
Cash flow from operating activities	€ million	67	98	(20)	(128)
Cash flow from Investments	€ million	(62)	(62)	(155)	(174)
Operating free cash flow	€ million	5	36	(175)	(302)
Order situation					
Order intake	€ million	1,618	1,285	4,484	4,340
Order backlog (Sept. 30)	€ million	-	-	7,234	7,359

		9/30/2017	9/30/2016
Balance Sheet			
Total equity	€ million	1,811	1,527
Total assets	€ million	5,925	5,889
Equity ratio	%	31	26
Cash and cash equivalents	€ million	370	309
Total assets less cash and cash equivalents	€ million	5,555	5,580
Net financial debt	€ million	242	445
Leverage ratio ¹⁾	%	4.4	8.0
Net gearing ²⁾	%	13.4	29.1
Human resources (capacities)			
Rheinmetall Group		21,552	20,982
Defence		10,262	9,951
Automotive		11,108	10,870
Holding/service companies		182	161
Share			
Stock price	€	95.36	61.96
Market capitalization	€ million	4,154	2,699
Stock price, highest level for 3Q	€	95.76	70.61
Stock price, lowest level for 3Q	€	63.75	51.47
Stock exchange turnover Xetra (daily average 3Q)	shares	165,630	190,000
Market capitalization – MDAX ranking Deutsche Börse		20	22
Stock exchange turnover – MDAX ranking Deutsche Börse		22	20

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

2) Net financial liabilities/equity

Business performance of the Rheinmetall Group

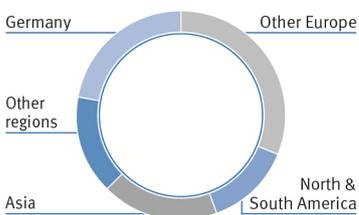
€ million	Q3/2017	Q3/2016	Change	3Q/2017	3Q/2016	Change
Sales	1,366	1,305	61	4,174	3,904	270
Operating result	97	79	18	231	182	49
Operating result margin	7.1%	6.1%	1.0%-P	5.5%	4.7%	0.8%-P
Operating free cash flow	5	36	-31	-175	-302	127

Sales and operating earnings increased

Consolidated sales rose by €270 million or 6.9% year-on-year to €4,174 million in the first nine months. Adjusted for currency effects, growth was 6.2%. The Automotive sector contributed €23 million and the Defence sector €28 million to the improvement in operating earnings of €49 million to €231 million.

Sales by region € million

	Q1-Q3 2017	Q1-Q3 2016
Rheinmetall Group	4,174	3,904
Germany	920	898
Other Europe	1,308	1,278
North & South America	549	509
Asia	755	863
Other regions	642	356



2017 operating earnings adjusted for non-recurring effects

MioEUR	Operating result	Restructuring	Corporate transactions	Other effects	EBIT
Automotive	186	(22)	-	-	164
Defence	60	(3)	(10)	10	57
Other/consolidation	(15)	-	-	-	(15)
Group	231	(25)	(10)	10	206

A key step was taken towards improving the cost situation of the Hardparts division with the decision to close piston production in Thionville, France, in 2018 and to concentrate the production of car pistons in Europe in Czechia. The operating earnings of the Automotive division were adjusted for the anticipated costs to close the piston plant in France.

The operating earnings of the Defence division do not include the restructuring expenses for Vehicle Systems or a non-operating insurance refund. In addition, earnings were adjusted for the expenses relating to the disposal of shares in the former Rheinmetall International Engineering GmbH, Geisenheim.

Improvement in operating free cash flow

Operating free cash flow improved by €127 million to €-175 million (previous year: €-302 million) in the first nine months of 2017. As in 2016, Rheinmetall paid €30 million into a contractual trust agreement (CTA) to safeguard pension and partial early retirement obligations. This addition is included in the operating free cash flow.

Financial liabilities

Rheinmetall reduced its financial liabilities by €187 million to €652 million as of September 30, 2017 (previous year: €839 million). The €500 million bond was repaid in September 2017. In this context, further promissory note loans of €122 million in total with a term of five years and a weighted average interest rate of 1.15 % p.a. were borrowed. The loan agreed with the European Investment Bank, Luxembourg, in the previous year for €250 million at 0.962% p.a. was disbursed in August 2017.

Equity

Equity amounts to €1,811 million as of September 30, 2017 and is therefore up €284 million on the previous year's figure (€1,527 million). The equity ratio improved from 26 % to 31 % while total assets remained largely constant.

Business performance of the Rheinmetall Group

Automotive sector

€ million	Sales		Operating result	
	Q3/2017	Q3/2016	Q3/2017	Q3/2016
Automotive	684	643	57	51
Mechatronics	382	355	40	35
Hardparts	232	225	13	11
Aftermarket	95	82	9	9
Other/consolidation	(25)	(19)	(5)	(4)
	3Q/2017	3Q/2016	3Q/2017	3Q/2016
Automotive	2,149	1,992	186	163
Mechatronics	1,214	1,112	130	104
Hardparts	732	699	46	40
Aftermarket	271	239	25	22
Other/consolidation	(68)	(58)	(15)	(3)

Division structure optimized

The activities at the location in Lanciano, Italy, were reclassified from the Mechatronics division to the Aftermarket division at the start of 2017. The previous years figures have been restated accordingly.

Further growth in sales and earnings

The Automotive sector reported sales of €2,149 million in the first nine months of 2017, an increase of 7.9 % or 7.5 % after the elimination of exchange rate effects. All divisions contributed to this sales growth. Operating earnings amounted to €186 million for the first nine months of 2017 after €163 million in the same period of the previous year (up 14 %). The operating margin for the 2017 reporting period was therefore 8.7 % after 8.2 % in the previous year.

Sales in the Mechatronics division increased significantly due to increased demand for products to reduce fuel consumption. Sales growth of 9.2 % to €1,214 million in the first nine months of 2017 is accompanied by an increase in operating earnings of 25 % to €130 million.

The Hardparts division ended the first nine months of 2017 with sales of €732 million as against €699 million in the same period of the previous year. This marks sales growth of 4.7 %. The rise is due to a continuing recovery in global large-bore piston business and small-bore piston business in Europe. Sales in Brazil improved as a result of positive currency effects in particular. Operating earnings in the division amounted to €46 million for the first nine months of 2017 after €40 million in the previous year (up 15 %).

The Aftermarket division also performed successfully on its markets in the first nine months of the year, with sales up by 13 % at €271 million (previous year: €239 million). The rise in sales with customers in the sales regions of Western and Eastern Europe is particularly interesting. Eastern Europe mainly saw a resurgence in demand from Russian customers, while there was also growth in business with customers in Poland, Ukraine and Romania. Operating earnings amounted to €25 million for the first nine months of 2017 after €22 million in the same period of the previous year (up 14 %).

The loss of €15 million shown under Other/Consolidation for the first nine months of 2017 mainly relates to expenses for R&D projects on electromobility and additions to provisions for environmental risks.

Slight growth at joint ventures with Chinese partners

The consolidated sales figures for Rheinmetall Automotive do not include the sales of the significant joint ventures with Chinese partners as these are included in consolidation using the equity method. The sales of our joint ventures in China increased by 2.3 % to €634 million in the first nine months of 2017 (6.1% after adjustment for currency effects). Earnings after taxes were up 10% at €33 million.

The KS HUAYU AluTech Group joint venture in Germany increased its sales by 10 % to €242 million. Owing to the consistently high start-up costs for new products not related to drive systems and the discontinuation of the exemption from the Renewable Energy Sources Act levy, earnings after taxes were slightly negative for the first nine months of 2017 at €-1 million.

€ million – 100% basis	China Joint Ventures				KS HUAYU			
	Q3/2017	Q3/2016	3Q/2017	3Q/2016	Q3/2017	Q3/2016	3Q/2017	3Q/2016
Sales	206	205	634	620	85	68	242	220
Earnings after taxes	10	11	33	30	(1)	1	(1)	7

Business performance of the Rheinmetall Group

Defence sector

€ million	Order intake		Sales		Operating result	
	Q3/2017	Q3/2016	Q3/2017	Q3/2016	Q3/2017	Q3/2016
Defence	870	574	682	662	46	30
Weapon and Ammunition	284	173	248	227	28	25
Electronic Solutions	197	185	165	172	6	5
Vehicle Systems	434	288	370	361	13	4
Other/consolidation	(45)	(72)	(101)	(98)	(1)	(4)
	3Q/2017	3Q/2016	3Q/2017	3Q/2016	3Q/2017	3Q/2016
Defence	2,292	2,325	2,025	1,912	60	32
Weapon and Ammunition	699	960	744	720	40	45
Electronic Solutions	946	881	444	501	1	-
Vehicle Systems	747	610	1,057	909	28	(1)
Other/consolidation	(100)	(126)	(220)	(218)	(9)	(12)

Stable development in orders

The Defence sector reported an order intake of €2,292 million in the first three quarters of 2017, on par with the previous year's figure of €2,325 million. Around half of this relates to major and assorted minor contracts with German armed forces. In particular, the Weapon and Ammunition and Vehicle Systems divisions increased their incoming orders by 64% and 51% respectively year-on-year in the third quarter of 2017.

The Defence sector's order backlog remains at a high level of €6,732 million (previous year: €6,891 million).

Sales growth and increase in operating earnings

At €2,025 million, the Defence sector's sales rose by €113 million or 5.9% in the first three quarters of 2017 compared to €1,912 million in the previous year. Adjusted for currency effects, growth was 5.0%. Operating earnings improved by €28 million year-on-year to €60 million.

Sales in the Weapon and Ammunition division rose by €24 million to €744 million in the first nine months of 2017. However, operating earnings for this period were down by €5 million year-on-year, essentially on account of the higher share of sales resulting from low-margin intra-Group orders as compared to profitable ammunition orders placed with external customers in the same period of the previous year.

Sales in the Electronic Solutions division were down by €57 million on the previous year at €444 million (€501 million). Operating profit was stable at the level of the previous year at €1 million.

The Vehicle Systems division achieved an increase in sales of €148 million or 16%, making it the main driver of the positive development in the Defence sector. This sales growth was primarily driven by the order for military utility vehicles in Australia. The division's operating earnings improved significantly by €29 million to €28 million.

Outlook

Sales growth in both corporate sectors

We expect the Rheinmetall Group to continue its growth course in fiscal 2017.

In view of the Automotive sector's positive business performance in the first three quarters of 2017, we are affirming our growth forecast for this sector and the Group. Based on current expert forecasts regarding trends in global automotive production, which currently anticipate an increase in production of 1.9% this year, we expect to achieve sales growth at the upper end of our forecast range of between 6% and 7% in the Automotive sector. For fiscal 2017 we are forecasting sales growth in our Defence sector at the lower end of the projected range of 5% to 6%.

After €5.6 billion in 2016, we are still anticipating organic growth of around 6% for the Rheinmetall Group in the current fiscal year.

Improvement in earnings and consolidation of profitability

We are affirming our margin forecast for Rheinmetall Automotive, which was raised slightly in August 2017. We are anticipating an operating margin of around 8.4% in the current fiscal year. We expect that earnings will continue to improve in the Defence sector in 2017, and are now forecasting an operating earnings margin at the upper end of the previously projected range of between 5.0% and 5.5%.

Taking into account holding costs of €20 million to €25 million, this results in an operating return of slightly more than 6.5% for the Rheinmetall Group.

Consolidated balance sheet

€ million	9/30/2017	12/31/2016
Assets		
Goodwill	551	554
Intangible assets	247	265
Property, plant and equipment	1,340	1,378
Investment Property	55	53
Investments accounted for using the equity method	249	240
Other non-current financial assets	15	13
Other non-current assets	37	23
Deferred taxes	221	236
Non-current assets	2,715	2,762
Inventories	1,218	1,098
Trade receivables	1,353	1,306
Liquid financial assets	40	190
Other current financial assets	41	43
Other current receivables and assets	142	125
Income tax receivables	46	10
Cash and cash equivalents	370	616
Current assets	3,210	3,388
Total assets	5,925	6,150
Equity and liabilities		
Share capital	112	112
Additional paid-in capital	540	532
Retained earnings	1,082	1,074
Treasury shares	(25)	(32)
Rheinmetall AG shareholders' equity	1,709	1,686
Minority interests	102	95
Equity	1,811	1,781
Provisions for pensions and similar obligations	1,104	1,186
Other non-current provisions	170	135
Non-current financial debts	584	220
Other non-current liabilities	70	56
Deferred taxes	20	32
Non-current liabilities	1,948	1,629
Other current provisions	551	516
Current financial debts	68	567
Trade liabilities	791	766
Other current liabilities	650	838
Income tax liabilities	106	53
Current liabilities	2,166	2,740
Total liabilities	5,925	6,150

Consolidated income statement

€ million	Q3/2017	Q3/2016	3Q/2017	3Q/2016
Sales	1,366	1,305	4,174	3,904
Changes in inventories and work performed by the enterprise and capitalised	41	80	142	198
Total operating performance	1,407	1,385	4,316	4,102
Other operating income	19	26	82	85
Cost of materials	730	774	2,333	2,274
Personnel expenses	384	346	1,171	1,090
Amortization, depreciation and impairment	59	52	171	161
Other operating expenses	179	164	513	485
Income from investments carried at equity	7	6	12	18
Other net financial income	(6)	(2)	(16)	(13)
Earnings before interest and taxes (EBIT)	75	79	206	182
Net interest income	3	1	6	2
Interest expenses	(13)	(15)	(41)	(44)
Earnings before taxes (EBT)	65	65	171	140
Income taxes	(22)	(19)	(49)	(41)
Earnings after taxes	43	46	122	99
Of which:				
<i>Minority interests</i>	7	4	19	4
<i>Rheinmetall AG shareholders</i>	36	42	103	95
Earnings per share	€0.83	€0.97	€2.40	€2.22

Consolidated statement of comprehensive income

MioEUR	Q3/2017	Q3/2016	3Q/2017	3Q/2016
Net income	43	46	122	99
Remeasurement of net defined benefit liability from pensions	(1)	(6)	23	(143)
Amounts not reclassified in the income statement	(1)	(6)	23	(143)
Change in value of derivative financial instruments (cash flow hedge)	5	13	9	49
Currency conversion difference	(22)	(1)	(59)	4
Income/expenses from investments accounted for using the equity method	(3)	(1)	(11)	(2)
Amounts reclassified in the income statement	(20)	11	(61)	51
Other comprehensive income after taxes	(21)	5	(38)	(92)
Comprehensive income	22	51	84	7
Of which:				
<i>Minority interests</i>	4	9	14	20
<i>Rheinmetall AG shareholders</i>	18	42	70	(13)

Cash flow statement

€ million	3Q/2017	3Q/2016
Net income	122	99
Amortization, depreciation and impairments	171	161
Reduction in pension provisions due to payment into external Fund (CTA)	(30)	(15)
Changes in other pension provisions	(6)	1
Reduction in other provisions for partial retirement due to payment into external Fund (CTA)	-	(15)
Other changes in other provisions	80	43
Changes in inventories	(142)	(174)
Changes in receivables, liabilities (without financial debts) and prepaid & deferred items	(201)	(217)
Pro rata income from investments carried at equity	(12)	(18)
Dividends received from investments carried at equity	3	8
Other non-cash expenses and income	(5)	(1)
Cash flows from operating activities ¹⁾	(20)	(128)
Investments in property, plant and equipment, intangible assets and investment property	(155)	(174)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	2	1
Payments for the purchase of liquid financial assets	(213)	(152)
Cash receipts from the disposal of liquid financial assets	363	117
Cash receipts from investments in consolidated companies and other financial assets	-	(13)
Payments for investments in consolidated companies and other financial assets	(9)	2
Cash flows from investing activities	(12)	(219)
Dividends paid out by Rheinmetall AG	(62)	(47)
Profit contributions to other companies	(10)	(8)
Sale of treasury shares	4	4
Capital contributions by non-controlling interests	4	-
Borrowing of financial debts	401	69
Repayment of financial debts	(537)	(53)
Cash flows from financing activities	(200)	(35)
Changes in financial resources	(232)	(382)
Changes in cash and cash equivalents due to exchange rates	(14)	-
Total change in financial resources	(246)	(382)
Opening cash and cash equivalents January 1	616	691
Closing cash and cash equivalents September 30	370	309

1) Including:

Net income taxes of €-50 million (previous year: €-30 million)

Net interest of €-26 million (previous year: €-31 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, 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
Balance as at January 1, 2017	112	532	1,074	(32)	1,686	95	1,781
Net income	-	-	103	-	103	19	122
Other comprehensive income	-	-	(32)	-	(32)	(6)	(38)
Comprehensive income	-	-	71	-	71	13	84
Dividends payout	-	-	(62)	-	(62)	(10)	(72)
Disposal of treasury shares	-	-	-	7	7	-	7
Other changes	-	8	(1)	-	7	4	11
Balance as at Sept. 30, 2017	112	540	1,082	-25	1,709	102	1,811

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, 2016	21	(464)	84	(38)	7	1,281	891
Net income	-	-	-	-	-	95	95
Other comprehensive income	3	(144)	-	35	(2)	-	(108)
Comprehensive income	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
Balance as at January 1, 2017	44	(511)	85	9	8	1,439	1,074
Net income	-	-	-	-	-	103	103
Other comprehensive income	(53)	23	-	9	(11)	-	(32)
Comprehensive income	(53)	23	-	9	(11)	103	71
Dividends payout	-	-	-	-	-	(62)	(62)
Other changes	-	-	-	-	-	(1)	(1)
Balance as at Sept. 30, 2017	(9)	(488)	85	18	(3)	1,479	1,082

Segment report

MioEUR	Automotive		Defence		Other/Consolidation		Group	
	3Q/2017	3Q/2016	3Q/2017	3Q/2016	3Q/2017	3Q/2016	3Q/2017	3Q/2016
External sales	2,149	1,992	2,025	1,912	-	-	4,174	3,904
Operating result	186	163	60	32	(15)	(13)	231	182
Special effects	(22)	-	(3)	-	-	-	(25)	-
EBIT	164	163	57	32	(15)	(13)	206	182
<i>of which:</i>								
At Equity income	19	22	(7)	(4)	-	-	12	18
Amortization, depreciation (scheduled)	96	90	66	66	3	2	165	158
Amortization, depreciation (non-scheduled)	5	3	1	-	-	-	6	3
Interest income	1	1	2	1	3	-	6	2
Interest expenses	(10)	(11)	(24)	(23)	(7)	(10)	(41)	(44)
EBT	155	153	35	10	(19)	(23)	171	140
Other data								
Operating free cash flow	32	(41)	(157)	(216)	(50)	(45)	(175)	(302)
Order intake	2,192	2,015	2,292	2,325	-	-	4,484	4,340
Order backlog Sept. 30	502	468	6,732	6,891	-	-	7,234	7,359
Employees as at Sept. 30 (capacities)	11,108	10,870	10,262	9,951	182	161	21,552	20,982
Net financial debts Sept. 30	(146)	(37)	80	154	308	328	242	445

Legal information and contact

Dates

MARCH 15, 2018

Annual Report 2017

MAY 4, 2018

Report on Q1/2018

MAY 8, 2018

Annual General Meeting

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Rheinmetall's website at www.rheinmetall.com contains detailed business information on 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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