

Quarterly Report *1st Quarter* 2017

Rheinmetall increases sales and earnings

Rheinmetall generates significant sales growth and improved operating earnings in the first quarter of 2017.

- Consolidated sales grow 14% to €1,349 million
- Operating earnings for the Group improve by 61% to €50 million
- Automotive increases sales to €737 million, operating margin at high level of 8.4%
- Strong sales growth in Defence of 16% to €612 million and improvement in earnings of €7 million to €-10 million
- Order backlog for the Group of €6.9 billion

The 2017 forecast for the Group is confirmed.

Rheinmetall in figures

		Q1/2017	Q1/2016
Sales/Results			
Sales	€ million	1,349	1,180
of which generated abroad	%	77	76
Operating result	€ million	50	31
Operating result margin	%	3.7	2.6
EBITDA	€ million	107	86
EBIT	€ million	50	31
EBIT margin	%	3.7	2.6
EBT	€ million	38	17
Earnings per share	€	0.56	0.32
Cash Flow			
Cash flow from operating activities	€ million	(156)	(211)
Cash flow from Investments	€ million	(43)	(52)
Operating free cash flow	€ million	(199)	(263)
Order situation			
Order intake	€ million	1,146	1,609
Order backlog (March 31)	€ million	6,877	7,317

		3/31/2017	3/31/2016
Balance Sheet			
Total equity	€ million	1,814	1,498
Total assets	€ million	6,184	5,707
Equity ratio	%	29	26
Cash and cash equivalents	€ million	344	345
Total assets less cash and cash equivalents	€ million	5,840	5,362
Net financial debt	€ million	182	362
Leverage ratio ¹⁾	%	3.1	6.8
Net gearing ²⁾	%	10.0	24.2
Human resources (capacities)			
Rheinmetall Group		21,229	20,759
Defence		10,112	9,706
Automotive		10,955	10,894
Holding/service companies		162	159
Share			
Stock price	€	78.63	70.22
Market capitalization	€ million	3,190	3,059
Stock price, highest level for Q1	€	78.63	70.22
Stock price, lowest level for Q1	€	64.13	55.54
Stock exchange turnover Xetra (daily average Q1)	shares	190,591	234,000
Market capitalization – MDAX ranking Deutsche Börse		21	18
Stock exchange turnover – MDAX ranking Deutsche Börse		22	19

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

2) Net financial liabilities/equity

Rheinmetall Group business trend

€ million	Q1/2017	Q1/2016	Change
Sales	1,349	1,180	169
Operating result	50	31	19
Operating result margin	3.7%	2.6%	-
Operating free cash flow	(199)	(263)	64

Sales and operating earnings increased

Consolidated sales rose by €169 million or 14% year-on-year to €1,349 million in the first quarter of 2017. Adjusted for currency effects, the growth was 12%.

Sales by region € million

	Q1 2017	Q1 2016
Rheinmetall Group	1,349	1,180
Germany	316	284
Other Europe	446	421
North & South America	175	150
Asia	242	272
Other regions	170	53

€10 million of the €19 million improvement in operating earnings to €50 million relates to the Automotive sector, while €7 million relates to Defence and €2 million to Other/Consolidation. As in the same period of the previous year, there were no nonrecurring effects.

Improvement in operating free cash flow

Operating free cash flow was improved by €64 million to €-199 million in the first quarter of 2017. As in the first quarter of the previous year, another allocation to the contractual trust agreement (CTA) of €30 million was made at the beginning of this year.

Rheinmetall Group business trend

Automotive sector

€ million	Sales		Operating result	
	Q1/2017	Q1/2016	Q1/2017	Q1/2016
Automotive	737	654	62	52
Mechatronics	425	370	43	34
Hardparts	249	231	17	13
Aftermarket	83	75	7	5
Other/consolidation	(20)	(22)	(5)	-

Internal restructuring between Mechatronics and Aftermarket

The activities at the Automotive location in Lanciano, Italy, which previously formed part of the Mechatronics division, are now allocated to the Aftermarket division starting from 2017 due to a strategic realignment. The previous years figures have been adjusted accordingly.

Growth in sales and earnings

The Automotive sector made a very good start to 2017. Its first-quarter sales amounted to €737 million, representing a year-on-year increase of 13% (11% when adjusted for currency effects). Operating earnings came to €62 million, meaning that the sector achieved an operating margin of 8.4% after 8.0% in the previous year.

The high demand among automotive manufacturers for solutions to reduce emissions of pollutants continued in the first quarter of 2017, causing sales in the Mechatronics division to grow by 15% year-on-year to €425 million. This increase in sales led to a further rise in operating earnings to €43 million (up 26%).

The Hardparts division also made a successful start to 2017. With sales of €249 million in the first quarter of 2017, a year-on-year increase of 8% was achieved. In addition to a recovery on the market for large-bore pistons, in the Pistons business unit this was due particularly to business with small-bore pistons for the European market. Sales in Brazil stabilized at a low level. The division's operating earnings improved to €17 million (up 31%).

The Aftermarket division's sales rose by 11% to €83 million, a development that was mainly attributable to sales with products of the Group's own brands Kolbenschmidt and Pierburg. While there was a positive business performance in the European and Asian sales regions, business with customers in the Middle East was still negatively impacted by the crisis. The division's operating earnings were increased by €2 million to €7 million.

Slight growth at joint ventures with Chinese partners

The consolidated sales figures for Rheinmetall Automotive do not include significant joint ventures with Chinese partners.

The joint ventures in China increased their sales by 2% to €218 million (an increase of 4% when adjusted for currency effects) and thus improved their earnings after taxes to €12 million (up 20%).

The KS HUAYU AluTech Group, our joint venture in Germany, generated a 6% rise in sales. However, its earnings after taxes of €1 million fell short of the previous year's earnings of €3 million on account of startup costs for new products not related to drive systems and due to the discontinuation of the exemption from the Renewable Energy Sources Act levy.

€ million – 100% basis	China Joint Ventures		KS HUAYU	
	Q1/2017	Q1/2016	Q1/2017	Q1/2016
Sales	218	214	76	72
Net income	12	10	1	3

Rheinmetall Group business trend

Defence sector

€ million	Order intake		Sales		Operating result	
	Q1/2017	Q1/2016	Q1/2017	Q1/2016	Q1/2017	Q1/2016
Defence	391	948	612	526	(10)	(17)
Weapon and Ammunition	207	243	191	178	0	(5)
Electronic Solutions	116	515	138	150	(4)	(4)
Vehicle Systems	83	215	350	261	1	(6)
Other/consolidation	(15)	(25)	(67)	(63)	(7)	(2)

Stable development of orders

The Defence sector posted an order intake of €391 million in the first quarter of 2017, thus falling short of the high prior-year figure. The prior-year figure was significantly affected by a major order for the modernization of Skyguard air defense systems in the amount of €390 million. The sector's order backlog remains at a high level of €6,402 million.

Sales growth and recovery of operating earnings

At €612 million, the Defence sector's sales rose significantly by €86 million or 16% in the first quarter of 2017 compared to €526 million in the previous year. Adjusted for currency effects, the growth was 14%. Operating earnings improved by €7 million year-on-year to €-10 million.

The Weapon and Ammunition division increased its sales by €13 million or 7% year-on-year. Thanks to an improved product mix, operating earnings rose by €5 million, resulting in a break-even result in the first quarter of 2017.

Sales in the Electronic Solutions division fell short of the previous year's figure of €150 million. Despite the €12 million decline in sales, operating earnings remained stable at €-4 million.

The Vehicle Systems division achieved an increase in sales of €89 million or 34%, 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 by €7 million to €1 million.

Outlook

Sales growth in both corporate sectors

We expect the Rheinmetall Group to continue its growth course in fiscal 2017. Annual Group sales are expected to grow organically by 4% to 5% in the current fiscal year, based on €5.6 billion in 2016. We expect sales to increase in both corporate sectors.

Sales performance in the Automotive sector is strongly determined by economic development in the key automotive markets of Europe, North and South America and Asia. Based on current expert forecasts regarding trends in global automotive production this year, we expect Rheinmetall Automotive to achieve sales growth of 3% to 4%.

We project sales growth of 5% to 6% for our Defence sector in fiscal 2017. As in the previous year, sales expectations for 2017 are largely assured based on high coverage through the existing order backlog.

Improvement in earnings and consolidation of profitability

We expect the operating result at Rheinmetall Automotive to climb again in fiscal 2017, generating an operating margin of at least 8%. In the Automotive sector we are currently examining further necessary optimization of the cost and site structures of our plants, particularly in the Hardparts division. We also anticipate that earnings will continue to improve in the Defence sector in 2017 and expect an operating EBIT margin of between 5.0% and 5.5%.

Taking into account holding costs of €20 million to €25 million, this results in a return of 6.3% for the Rheinmetall Group, as in the previous year.

Consolidated balance sheet

€ million	3/31/2017	12/31/2016
Assets		
Goodwill	554	554
Intangible assets	257	265
Property, plant and equipment	1,371	1,378
Investment Property	54	53
Investments accounted for using the equity method	244	240
Other non-current financial assets	19	13
Other non-current assets	28	23
Deferred taxes	229	236
Non-current assets	2,756	2,762
Inventories	1,245	1,098
Trade receivables	1,337	1,306
Liquid financial assets	272	190
Other current financial assets	54	43
Other current receivables and assets	159	125
Income tax receivables	17	10
Cash and cash equivalents	344	616
Current assets	3,428	3,388
Total assets	6,184	6,150
Equity and liabilities		
Share capital	112	112
Additional paid-in capital	532	532
Retained earnings	1,104	1,074
Treasury shares	(32)	(32)
Rheinmetall AG shareholders' equity	1,716	1,686
Minority interests	98	95
Equity	1,814	1,781
Provisions for pensions and similar obligations	1,153	1,186
Other non-current provisions	141	135
Non-current financial debts	218	220
Other non-current liabilities	86	56
Deferred taxes	25	32
Non-current liabilities	1,623	1,629
Other current provisions	564	516
Current financial debts	580	567
Trade liabilities	750	766
Other current liabilities	783	838
Income tax liabilities	70	53
Current liabilities	2,747	2,740
Total liabilities	6,184	6,150

Consolidated income statement

€ million	Q1/2017	Q1/2016
Sales	1,349	1,180
Changes in inventories and work performed by the enterprise and capitalised	67	76
Total operating performance	1,416	1,256
Other operating income	27	26
Cost of materials	762	688
Personnel expenses	398	364
Amortization, depreciation and impairment	57	55
Other operating expenses	174	148
Income from investments carried at equity	4	8
Other net financial income	(6)	(4)
Earnings before interest and taxes (EBIT)	50	31
Net interest income	3	-
Interest expenses	(15)	(14)
Earnings before taxes (EBT)	38	17
Income taxes	(10)	(5)
Earnings after taxes	28	12
Of which:		
<i>Minority interests</i>	4	(1)
<i>Rheinmetall AG shareholders</i>	24	13
Earnings per share	€0.56	€0.32

Consolidated statement of comprehensive income

MioEUR	Q1/2017	Q1/2016
Net income	28	12
Remeasurement of net defined benefit liability from pensions	1	(78)
Amounts not reclassified in the income statement	1	(78)
Change in value of derivative financial instruments (cash flow hedge)	1	18
Currency conversion difference	2	(13)
Income/expenses from investments accounted for using the equity method	-	(1)
Amounts reclassified in the income statement	3	4
Other comprehensive income after taxes	4	(74)
Comprehensive income	32	(62)
Of which:		
<i>Minority interests</i>	4	5
<i>Rheinmetall AG shareholders</i>	28	(67)

Cash flow statement

€ million	Q1/2017	Q1/2016
Net income	28	12
Amortization, depreciation and impairments	57	55
Reduction in pension provisions due to payment into external Fund	(30)	(15)
Changes in other pension provisions	(4)	(1)
Reduction in other provisions for partial retirement due to payment into external Fund	-	(15)
Other changes in other provisions	56	40
Changes in inventories	(145)	(85)
Changes in receivables, liabilities (without financial debts) and prepaid & deferred items	(120)	(180)
Pro rata income from investments carried at equity	(4)	(8)
Dividends received from investments carried at equity	2	1
Other non-cash expenses and income	4	(15)
Cash flows from operating activities ¹⁾	(156)	(211)
Investments in property, plant and equipment, intangible assets and investment property	(43)	(52)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	2	-
Payments for the purchase of liquid financial assets	(202)	(67)
Cash receipts from the disposal of liquid financial assets	120	-
Payments for investments in consolidated companies and other financial assets	-	(13)
Cash flows from investing activities	(123)	(132)
Capital contributions by non-controlling interests	4	-
Other profit distributions	(5)	(2)
Borrowing of financial debts	14	17
Repayment of financial debts	(8)	(14)
Cash flows from financing activities	5	1
Changes in financial resources	(274)	(342)
Changes in cash and cash equivalents due to exchange rates	2	(4)
Total change in financial resources	(272)	(346)
Opening cash and cash equivalents January 1	616	691
Closing cash and cash equivalents March 31	344	345

1) Including:

Net income taxes of €-1 million (previous year: €-7 million)

Net interest of €-4 million (previous year: €-5 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	-	-	13	-	13	(1)	12
Other comprehensive income	-	-	(80)	-	(80)	6	(74)
Comprehensive income	-	-	(67)	-	(67)	5	(62)
Dividends payout	-	-	-	-	-	(2)	(2)
Balance as at March 31, 2016	112	528	824	(39)	1,425	75	1,498
Balance as at January 1, 2017	112	532	1,074	(32)	1,686	95	1,781
Net income	-	-	24	-	24	4	28
Other comprehensive income	-	-	4	-	4	-	4
Comprehensive income	-	-	28	-	28	4	32
Dividends payout	-	-	-	-	-	(5)	(5)
Capital increases	-	-	-	-	-	4	4
Other Changes	-	-	2	-	2	-	2
Balance as at March 31, 2017	112	532	1,104	(32)	1,716	98	1,814

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	-	-	-	-	-	13	13
Other comprehensive income	(13)	(79)	-	13	(1)	-	(80)
Comprehensive income	(13)	(79)	-	13	(1)	13	(67)
Balance as at March 31, 2016	8	(543)	84	(25)	6	1,294	824
Balance as at January 1, 2017	44	(511)	85	9	8	1,439	1,074
Net income	-	-	-	-	-	24	24
Other comprehensive income	2	1	-	1	-	-	4
Comprehensive income	2	1	-	1	-	24	28
Other Changes	-	-	-	-	-	2	2
Balance as at March 31, 2017	46	(510)	85	10	8	1,465	1,104

Segment report

€ million	Defence		Automotive		Other/Consolidation		Group	
	Q1/2017	Q1/2016	Q1/2017	Q1/2016	Q1/2017	Q1/2016	Q1/2017	Q1/2016
External sales	612	526	737	654	-	-	1,349	1,180
Operating result	(10)	(17)	62	52	(2)	(4)	50	31
EBIT	(10)	(17)	62	52	(2)	(4)	50	31
<i>of which:</i>								
At Equity income	(3)	-	7	8	-	-	4	8
Amortization, depreciation	24	22	32	33	1	-	57	55
Interest income	1	1	-	1	2	(2)	3	-
Interest expenses	(8)	(7)	(3)	(4)	(4)	(3)	(15)	(14)
EBT	(17)	(23)	59	49	(4)	(9)	38	17
Other data								
Operating free cash flow	(72)	(104)	(118)	(139)	(9)	(20)	(199)	(263)
Order intake	391	948	755	661	-	-	1,146	1,609
Order backlog March 31	6,402	6,865	475	452	-	-	6,877	7,317
Employees as at March 31 (capacities)	10,112	9,706	10,955	10,894	162	159	21,229	20,759
Net financial debts March 31	(24)	36	1	66	205	260	182	362

Legal information and contact

Dates

AUGUST 3, 2017

Report on Q2/2017

NOVEMBER 7, 2017

Report on Q3/2017

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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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