

# QUARTERLY REPORT

Q1/2016

RHEINMETALL AG

## EARNINGS UP AT RHEINMETALL IN THE FIRST QUARTER

Rheinmetall started fiscal 2016 with slight growth in sales and improved operating earnings.

- Consolidated sales grow 2% to €1,180 million adjusted for currency effects
- Operating earnings for the Group improve by €9 million to €31 million
- Strong order intake in Defence of around €950 million and significantly improved earnings
- Automotive maintains profitability at high level of 8% despite lower sales
- Order backlog again reaches over €7 billion
- Moody's rating outlook improved from "negative" to "stable"

The annual Group forecast for 2016 has been confirmed with sales of around €5.5 billion and an operating margin of around 6%.

## RHEINMETALL IN FIGURES

		Q1/2016	Q1/2015
<b>Sales/Results</b>			
Sales	€ million	1,180	1,173
of which generated abroad	%	76	74
Operating result	€ million	31	22
Operating result margin	%	2.6	1.9
EBITDA	€ million	86	71
EBIT	€ million	31	22
EBIT margin	%	2.6	1.9
EBT	€ million	17	6
Earnings per share	€	0.32	0.20
<b>Cash Flow</b>			
Cash flow from operating activities	€ million	(211)	(148)
Investments	€ million	(52)	(56)
Operating free cash flow	€ million	(263)	(204)
<b>Order situation</b>			
Order intake	€ million	1,609	1,231
Order backlog (March 31)	€ million	7,317	7,070

		March 31, 2016	March 31, 2015
<b>Balance Sheet</b>			
Total equity	€ million	1,498	1,165
Total assets	€ million	5,670	5,337
Equity ratio	%	26	22
Cash and cash equivalents	€ million	345	278
Total assets less cash and cash equivalents	€ million	5,325	5,059
Net financial debt	€ million	362	531
Leverage ratio <sup>1)</sup>	%	6.8	10.5
Net gearing <sup>2)</sup>	%	24.2	45.6

<b>Human resources (capacities)</b>			
Rheinmetall Group		20,759	20,442
Defence		9,706	9,359
Automotive		10,894	10,932
Holding/service companies		159	151

<b>Share</b>			
Stock price	€	70.22	45.01
Market capitalization	€ million	3,059	1,782
Stock price, highest level for Q1	€	70.22	47.75
Stock price, lowest level for Q1	€	55.54	34.60
Stock exchange turnover Xetra (daily average Q1)	shares	234,000	251,000
Market capitalization – MDAX ranking Deutsche Börse		18	29
Stock exchange turnover – MDAX ranking Deutsche Börse		19	18

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

2) Net financial liabilities/equity

## RHEINMETALL GROUP BUSINESS TREND

€ million	Q1/2016	Q1/2015	Change
Sales	1,180	1,173	7
Operating result	31	22	9
Operating result margin	2.6%	1.9%	-
Operating free cash flow	(263)	(204)	-59

### SALES AND OPERATING EARNINGS INCREASED

Consolidated sales rose by €7 million or 1% year on year to €1,180 million. Adjusted for currency effects, the growth was 2%.

#### Sales by region € million



This improvement of operating earnings to €31 million resulted exclusively from the business performance of the Defence sector. As in the same period of the previous year, there were no non-recurring effects.

### OPERATING FREE CASH FLOW DECLINES

At €-263 million, operating free cash flow was below the previous year's figure of €-204 million because of an increase in working capital and 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.

### RATING OUTLOOK IMPROVED

On April 4, 2016, the rating agency Moody's changed its outlook for Rheinmetall's Ba1 rating from "negative" to "stable." This improvement was made possible by the positive development of the earning situation, Rheinmetall's conservative financial policy and good liquidity profile, and signs that defense budgets were set to increase again.

## RHEINMETALL GROUP BUSINESS TREND

### DEFENCE SECTOR

€ million	Order intake		Sales		Operating result	
	Q1/2016	Q1/2015	Q1/2016	Q1/2015	Q1/2016	Q1/2015
<b>Defence</b>	<b>948</b>	<b>542</b>	<b>526</b>	<b>509</b>	<b>(17)</b>	<b>(28)</b>
Weapon and Ammunition	243	165	178	154	(5)	(11)
Electronic Solutions	515	172	150	159	(4)	(2)
Vehicle Systems	215	220	261	226	(6)	(13)
Other/consolidation	(25)	(15)	(63)	(30)	(2)	(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. Wheeled Vehicles was previously its own division. The tracked vehicles business area (Rheinmetall Landsysteme GmbH) was allocated to the Combat Systems division. The other activities of the former Combat Systems division 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.

#### STRONG ORDER INTAKE IN DIFFICULT MARKET ENVIRONMENT

The Defense sector posted a high order intake of €948 million in the first quarter of 2016, exceeding the prior-year figure by 75%. The sector's order backlog reached a new record value of €6,865 million.

The Electronic Solutions division acquired the largest single order with a volume of €390 million. It was commissioned by an international customer to modernize Skyguard air defense systems. Delivery is expected between 2017 and 2020.

#### SALESGROWTH AND RECOVERY OF OPERATING EARNINGS

At €526 million, the Defence sector's sales rose by €17 million or 3% in the first quarter of 2016 compared to €509 million in the previous year. Adjusted for currency effects, the growth was 6%. Operating earnings improved by €11 million year on year to €-17 million.

The sales growth in the Weapon and Ammunition division of 16% to €178 million, to which all business areas contributed, improved the division's operating earnings by €6 million to €-5 million.

In the Electronic Solutions division, expiring projects could not be fully offset by sales with new products. The resulting drop in sales led to a slight decline in the operating earnings of €-4 million.

The Vehicle Systems division increased sales, especially with tactical vehicles, by 15% to €261 million and reduced the operating loss by a notable €7 million to €-6 million.

## RHEINMETALL GROUP BUSINESS TREND

### AUTOMOTIVE SECTOR

€ million	Sales		Operating result	
	Q1/2016	Q1/2015	Q1/2016	Q1/2015
<b>Automotive</b>	<b>654</b>	<b>664</b>	<b>52</b>	<b>55</b>
Mechatronics	380	375	34	31
Hardparts	231	242	13	20
Aftermarket	69	69	5	7
Other/consolidation	(26)	(22)	-	(3)

#### MARGIN TARGET REACHED DESPITE DECLINE IN SALES

Rheinmetall Automotive generated sales of €654 million in the first quarter of 2016, a decline of 1.5% from the previous year's figure. When adjusted for currency effects, the decline was 0.9%. With operating earnings of €52 million, the medium-term margin target of 8% was achieved once again.

The Mechatronics division continued its growth course and increased its sales, despite the planned phase-out of a major European customer project, to €380 million and its operating result to €34 million.

The current weakness in the market for large-bore pistons caused by falls 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 €231 million after €242 million in the previous year. The lower sales caused operating earnings to fall to €13 million.

The Aftermarket division generated sales of €69 million, on a par with the previous year. Operating earnings were chiefly reduced by the startup costs of a new plant in the Czech Republic, not quite living up to the previous year at €5 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 both sales and earnings after taxes in the first quarter of 2016.

The Chinese joint ventures (calculated on a 100% basis) generated growth of 1% to €214 million as against €212 million in the previous year. Adjusted for currency effects, the sales growth was 2%. Earnings after taxes increased to €10 million.

The joint venture KS Huayu (calculated on a 100% basis) increased its sales by 20% to €72 million. Earnings after taxes rose to €3 million.

€ million – 100% basis	China Joint Ventures		KS HUAYU	
	Q1/2016	Q1/2015	Q1/2016	Q1/2015
Sales	214	212	72	60
Net income	10	9	3	2

#### OTHER SIGNIFICANT EVENTS

In the first quarter of 2016, the sector extended the partnership originated in 2015 with the Japanese piston ring specialist Riken and acquired a 30% stake in Riken Automobile Parts (Wuhan) Co. Ltd. in China. The corresponding agreements were signed in September 2015 and have now been implemented having obtained approval from the authorities. Riken Automobile Parts runs a plant for the production of piston rings for passenger cars in Wuhan.

# RHEINMETALL GROUP

## OUTLOOK

### SALES GROWTH IN BOTH CORPORATE SECTORS

In fiscal 2016, Rheinmetall expects the growth to continue and sales to rise by more than 5% to around €5.5 billion, compared with about €5.2 billion in 2015. As in the previous year, this growth will be driven by both corporate sectors. This positive development will require the global automotive sector to remain stable overall and large projects in the Defence sector to be implemented according to schedule.

For the Defence sector, sales are expected to grow to around €2.8 billion after just under €2.6 billion in 2015, because the sales forecast for 2016 is relatively well covered by the current order backlog. The development of sales in the Automotive sector will be determined by economic factors. Experts from IHS currently expect 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.

### IMPROVED 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 forecast 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.

## CONSOLIDATED BALANCE SHEET

€ million	March 31, 2016	Dec. 31, 2015
<b>Assets</b>		
Goodwill	552	552
Intangible assets	269	275
Property, plant and equipment	1,312	1,314
Investment Property	34	35
Investments accounted for using the equity method	219	203
Other non-current financial assets	6	4
Other non-current assets	18	21
Deferred taxes	264	244
<b>Non-current assets</b>	<b>2,674</b>	<b>2,648</b>
Inventories	1,147	1,052
./. Prepayments received	(37)	(26)
	1,110	1,026
Trade receivables	1,202	1,127
Liquid financial assets	117	50
Other current financial assets	39	49
Other current receivables and assets	154	111
Income tax receivables	29	28
Cash and cash equivalents	345	691
<b>Current assets</b>	<b>2,996</b>	<b>3,082</b>
<b>Total assets</b>	<b>5,670</b>	<b>5,730</b>
<b>Equity and liabilities</b>		
Share capital	112	112
Additional paid-in capital	528	528
Retained earnings	824	891
Treasury shares	(39)	(39)
<b>Rheinmetall AG shareholders' equity</b>	<b>1,425</b>	<b>1,492</b>
Minority interests	73	70
<b>Equity</b>	<b>1,498</b>	<b>1,562</b>
Provisions for pensions and similar obligations	1,214	1,128
Other non-current provisions	130	138
Non-current financial debts	758	759
Other non-current liabilities	53	67
Deferred taxes	29	31
<b>Non-current liabilities</b>	<b>2,184</b>	<b>2,123</b>
Other current provisions	492	454
Current financial debts	66	63
Trade liabilities	645	718
Other current liabilities	734	764
Income tax liabilities	51	46
<b>Current liabilities</b>	<b>1,988</b>	<b>2,045</b>
<b>Total liabilities</b>	<b>5,670</b>	<b>5,730</b>

## CONSOLIDATED INCOME STATEMENT

€ million	Q1/2016	Q1/2015
Sales	1,180	1,173
Changes in inventories and work performed by the enterprise and capitalised	76	25
<b>Total operating performance</b>	<b>1,256</b>	<b>1,198</b>
Other operating income	26	25
Cost of materials	688	647
Personnel expenses	362	347
Amortization, depreciation and impairment	55	49
Other operating expenses	150	162
Income from investments carried at equity	8	6
Other net financial income	(4)	(2)
<b>Earnings before interest and taxes (EBIT)</b>	<b>31</b>	<b>22</b>
Net interest income	0	1
Interest expenses	(14)	(17)
<b>Earnings before taxes (EBT)</b>	<b>17</b>	<b>6</b>
Income taxes	(5)	(1)
<b>Earnings after taxes</b>	<b>12</b>	<b>5</b>
Of which:		
<i>Minority interests</i>	(1)	(3)
<i>Rheinmetall AG shareholders</i>	13	8
Earnings per share	€0.32	€0.20

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ million	Q1/2016	Q1/2015
<b>Net income</b>	<b>12</b>	<b>5</b>
Remeasurement of net defined benefit liability from pensions	(78)	(125)
<b>Amounts not reclassified in the income statement</b>	<b>(78)</b>	<b>(125)</b>
Change in value of derivative financial instruments (cash flow hedge)	18	(4)
Currency conversion difference	(13)	83
Income/expenses from investments accounted for using the equity method	(1)	11
<b>Amounts reclassified in the income statement</b>	<b>4</b>	<b>90</b>
<b>Other comprehensive income after taxes</b>	<b>(74)</b>	<b>(35)</b>
<b>Comprehensive income</b>	<b>(62)</b>	<b>(30)</b>
Of which:		
<i>Minority interests</i>	5	4
<i>Rheinmetall AG shareholders</i>	(67)	(34)



## CASH FLOW STATEMENT

€ million	Q1/2016	Q1/2015
Net income	12	5
Amortization, depreciation and impairments	55	49
Changes in pension provisions	(16)	-
Changes in other provisions	25	41
Changes in inventories	(85)	(31)
Changes in receivables, liabilities (without financial debts) and prepaid & deferred items	(180)	(194)
Pro rata income from investments carried at equity	(8)	(6)
Dividends received from investments carried at equity	1	1
Other non-cash expenses and income	(15)	(13)
<b>Cash flows from operating activities <sup>1)</sup></b>	<b>(211)</b>	<b>(148)</b>
Investments in property, plant and equipment, intangible assets and investment property	(52)	(56)
Payments for investments in consolidated companies and other financial assets	(80)	(2)
<b>Cash flows from investing activities</b>	<b>(132)</b>	<b>(58)</b>
Other profit distributions	(2)	(2)
Borrowing of financial debts	17	11
Repayment of financial debts	(14)	(21)
<b>Cash flows from financing activities</b>	<b>1</b>	<b>(12)</b>
<b>Changes in financial resources</b>	<b>(342)</b>	<b>(218)</b>
Changes in cash and cash equivalents due to exchange rates	(4)	10
<b>Total change in financial resources</b>	<b>(346)</b>	<b>(208)</b>
<b>Opening cash and cash equivalents January 1</b>	<b>691</b>	<b>486</b>
<b>Closing cash and cash equivalents March 31</b>	<b>345</b>	<b>278</b>

1) Including:

Net income taxes of €-7 million (previous year: €-5 million)

Net interest of €-19 million (previous year: €-9 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
<b>Balance as at January 1, 2015</b>	<b>101</b>	<b>310</b>	<b>756</b>	<b>-48</b>	<b>1,119</b>	<b>78</b>	<b>1,197</b>
Net income	-	-	8	-	8	(3)	5
Other comprehensive income	-	-	(42)	-	(42)	7	(35)
Comprehensive income	-	-	(34)	-	(34)	4	(30)
Dividends payout	-	-	-	-	-	(2)	(2)
<b>Balance as at March 31, 2015</b>	<b>101</b>	<b>310</b>	<b>722</b>	<b>-48</b>	<b>1,085</b>	<b>80</b>	<b>1,165</b>
<b>Balance as at January 1, 2016</b>	<b>112</b>	<b>528</b>	<b>891</b>	<b>(39)</b>	<b>1,492</b>	<b>70</b>	<b>1,562</b>
Net income	-	-	13	-	13	(1)	12
Other comprehensive income	-	-	(80)	-	(80)	6	(74)
Comprehensive income	-	-	(67)	-	(67)	5	(62)
Dividends payout	-	-	-	-	-	(2)	(2)
<b>Balance as at March 31, 2016</b>	<b>112</b>	<b>528</b>	<b>824</b>	<b>(39)</b>	<b>1,425</b>	<b>73</b>	<b>1,498</b>

### 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
<b>Balance as at January 1, 2015</b>	<b>1</b>	<b>(448)</b>	<b>83</b>	<b>(19)</b>	<b>-</b>	<b>1,139</b>	<b>756</b>
Net income	-	-	-	-	-	8	8
Other comprehensive income	76	(124)	1	(6)	11	-	(42)
Comprehensive income	76	(124)	1	(6)	11	8	(34)
Dividends payout	-	-	-	-	-	-	-
<b>Balance as at March 31, 2015</b>	<b>77</b>	<b>(572)</b>	<b>84</b>	<b>(25)</b>	<b>11</b>	<b>1,147</b>	<b>722</b>
<b>Balance as at January 1, 2016</b>	<b>21</b>	<b>(464)</b>	<b>84</b>	<b>(38)</b>	<b>7</b>	<b>1,281</b>	<b>891</b>
Net income	-	-	-	-	-	13	13
Other comprehensive income	(13)	(79)	-	13	(1)	-	(80)
Comprehensive income	(13)	(79)	-	13	(1)	13	(67)
Dividends payout	-	-	-	-	-	-	-
<b>Balance as at March 31, 2016</b>	<b>8</b>	<b>(543)</b>	<b>84</b>	<b>(25)</b>	<b>6</b>	<b>1,294</b>	<b>824</b>

## SEGMENT REPORT

€ million	Defence		Automotive		Other/ Consolidation		Group	
	Q1/2016	Q1/2015	Q1/2016	Q1/2015	Q1/2016	Q1/2015	Q1/2016	Q1/2015
External sales	526	509	654	664	-	-	1,180	1,173
Operating result	(17)	(28)	52	55	(4)	(5)	31	22
EBIT	(17)	(28)	52	55	(4)	(5)	31	22
<i>of which:</i>								
At Equity income	-	(1)	8	7	-	-	8	6
Amortization, depreciation and impairment	22	21	33	28	-	-	55	49
Interest income	1	1	1	1	(2)	(1)	-	1
Interest expenses	(7)	(7)	(4)	(4)	(3)	(6)	(14)	(17)
EBT	(23)	(34)	49	52	(9)	(12)	17	6
<b>Other data</b>								
Operating free cash flow	(104)	(168)	(139)	(26)	(20)	(10)	(263)	(204)
Order intake	948	542	661	689	-	-	1,609	1,231
Order backlog March 31	6,865	6,629	452	441	-	-	7,317	7,070
Employees as at March 31 (capacities)	9,706	9,359	10,894	10,932	159	151	20,759	20,442
Net financial debts	36	5	66	-20	260	546	362	531

# LEGAL INFORMATION AND CONTACT

## FINANCIAL CALENDAR

**AUGUST 4, 2016**

Report on Q2/2016

**NOVEMBER 3, 2016**

Report on Q3/2016

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