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H&K AG

QUARTERLY REPORT

**Results for the
Nine Month Period
to September 30, 2018**

ABOUT HK

We are a leading defence contractor in the small arms sector of the European NATO defence industry. We supply the armed forces of NATO and its allies, many law enforcement agencies and we are the sole supplier of the standard assault rifle to the majority of European NATO members including Germany, Britain and France. We design, produce and distribute small arms, including rifles, side arms, fully automatic weapons and grenade launchers, and a variety of other related products. We have been in operation for more than 65 years and have a strong history of design innovation. We have a strong management team and a highly skilled work force. Our brand name, Heckler & Koch, is well respected and our products are widely considered to be of the highest quality.

For more information, please visit our web site:

www.heckler-koch.com

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “anticipates,” “expects,” “intends,” “may,” “will” or “should” or, in each case, their negative, or other variations or comparable terminology, or by discussions of strategy, plans or intentions. These forward-looking statements include statements that are not statements of historical facts and relate to our current intentions, beliefs or expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report, in statements made by HK representatives in their presentations or in a “Question and Answer” period following such presentations. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods.

We undertake no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the above cautionary statements.

RESULTS AS AT AND FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018

Chief Executive Officer Dr Jens Bodo Koch and Chief Financial Officer Dr Björn Krönert commented:

In the first nine months of 2018 Heckler & Koch's order intake was higher than our sales and our order book more than covers our current expectations for the year's sales. The change processes at our main site in Germany are still underway as planned; in particular the reorganisation of production processes has not yet been completed so improvements in efficiency and performance have not yet reached target levels. This, together with changes in the product mix, resulted in an EBITDA significantly below that achieved in the first nine months of 2017. The negative impact on operating cash flow and therefore on liquidity was lessened by an interest-free € 30 million bridge loan received in April.

Q4/2018 Guidance: We currently expect to achieve higher net sales than for Q3/2018, with EBITDA remaining at a similar level or somewhat below that achieved in Q3/2018. Net working capital is currently expected to be at a similar level to Q3/2018 however operating cash flow is currently expected to be better than in Q3/2018.

NOTE REGARDING PRESENTATION OF FINANCIAL INFORMATION

Some financial information in this report has been rounded and, as a result, the totals in this report may vary slightly from the exact arithmetic aggregation of the figures that precede them.

Certain financial information in this release has been derived from our unaudited, interim, consolidated statements of financial position at September 30, 2018 and 2017 and the related statements of income, comprehensive income, equity and cash flows for the nine month periods ended September 30, 2018 and 2017 prepared in accordance with IFRS, subject only to normal year-end audit adjustments and the absence of notes.

Attached are our

- **Unaudited, Interim, Consolidated Statement of Financial Position**
- **Unaudited, Interim, Consolidated Income Statement**
- **Unaudited, Interim, Consolidated Statement of Comprehensive Income**
- **Unaudited, Interim, Consolidated Statement of Changes in Equity, and**
- **Unaudited, Interim, Consolidated Statement of Cash Flows**

with figures determined according to IFRS as at and for the nine month periods to September 30, 2018 and 2017.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF

(€ millions)	30.09.18	31.12.17
Property, plant & equipment	43.6	43.4
Intangible assets - goodwill	5.1	5.1
Intangible assets - other	36.4	33.3
Other investments & derivatives	2.2	2.3
Deferred tax assets	14.6	14.0
Total non-current assets	102.0	98.1
Inventories	84.9	75.1
Prepayments for inventories	0.4	0.0
Prepayments for other current assets	0.6	0.7
Other loans, investments & derivatives	4.5	2.7
Current tax assets	0.2	0.4
Trade receivables	32.0	21.2
Other receivables	2.7	5.7
Cash & cash equivalents	13.5	18.8
Total current assets	138.9	124.6
Total assets	240.9	222.8
Equity		
Share capital	27.6	27.6
Additional paid in capital	53.0	53.0
Reserves & consolidated retained earnings	(194.2)	(190.0)
Total equity	(113.5)	(109.3)
Liabilities		
Loans & borrowings	183.4	182.2
Finance lease obligations	0.0	-
Employee defined benefit obligations	60.7	62.1
Provisions	2.6	2.6
Deferred tax liabilities	21.6	20.9
Total non-current liabilities	268.4	267.8
Loans & borrowings	30.0	-
Trade payables	20.9	21.2
Other payables	9.8	10.8
Advanced & stage payments received	7.6	6.9
Deferred income	0.0	0.0
Provisions for income taxes	3.3	6.0
Other provisions & accruals	14.3	19.5
Total current liabilities	85.9	64.3
Total liabilities	354.3	332.1
Total equity & liabilities	240.9	222.8

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD JANUARY 1 TO SEPTEMBER 30

(€ millions)

	2018	2017
Revenue	163.7	135.2
Cost of sales	(121.0)	(84.6)
Gross profit	42.6	50.6
Research & development expenses	(3.7)	(3.9)
Sales, marketing & distribution expenses	(18.9)	(17.3)
Administration expenses	(10.9)	(12.8)
Other operating income	2.0	2.9
Other operating expenses	(2.0)	3.0
Results from operating activities	9.1	22.5
Interest income	0.1	0.0
Gains on translation of foreign currencies	1.2	0.0
Total financial income	1.2	0.0
Interest expense	(10.7)	(16.3)
Accretion of non-current liabilities	(2.0)	(1.8)
Valuation of bond early repayment clauses	-	(1.4)
Losses on translation of foreign currencies	0.2	(4.4)
Other financial expense	(0.1)	(0.0)
Total financial expense	(12.6)	(23.9)
Net financial result	(11.3)	(23.8)
Profit / (loss) before income tax	(2.2)	(1.3)
Income tax expense	(1.8)	(5.6)
Profit / (loss) for the period	(4.0)	(7.0)

**CONSOLIDATED STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD JANUARY 1 TO SEPTEMBER 30**

(€ millions)

	2018	2017
Profit / (loss) for the period	(4.0)	(7.0)
Other comprehensive income		
DBO actuarial gains / (losses)	-	-
Related deferred tax	-	-
<i>Items that will never be reclassified to profit or loss</i>	-	-
Forex translation differences for foreign operations	(0.2)	(0.3)
<i>Items that are or may be reclassified to profit or loss</i>	(0.2)	(0.3)
Other comprehensive income / (expense), net of tax	(0.2)	(0.3)
Total comprehensive income for the period	(4.2)	(7.3)
Attributable to the shareholders of H&K AG	(4.2)	(7.3)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD DECEMBER 31, 2016 TO SEPTEMBER 30, 2018**

(€ millions)	Share Capital	Additional Paid in Capital	Translation Reserve	Reserve for Defined Benefit Obligations	Consolidated Retained Earnings	Shareholders' Equity
As of 31.12.2016	21.0	9.9	0.0	(15.4)	(161.9)	(146.4)
Total recognised income & expense	-	-	(0.0)	-	1.9	1.9
As of 31.03.2017	21.0	9.9	(0.0)	(15.4)	(160.0)	(144.5)
Total recognised income & expense	-	-	(0.3)	-	(0.8)	(1.1)
As of 30.06.2017	21.0	9.9	(0.3)	(15.4)	(160.9)	(145.6)
Total recognised income & expense	-	-	0.0	-	(8.1)	(8.0)
As of 30.09.2017	21.0	9.9	(0.3)	(15.4)	(168.9)	(153.6)
Issue of new shares	6.6	43.1	-	-	-	49.7
Total recognised income & expense	-	-	0.0	0.9	(6.4)	(5.4)
As of 31.12.2017	27.6	53.0	(0.2)	(14.4)	(175.3)	(109.3)
Total recognised income & expense	-	-	0.1	-	(2.5)	(2.4)
As of 31.03.2018	27.6	53.0	(0.1)	(14.4)	(177.9)	(111.8)
Total recognised income & expense	-	-	(0.2)	-	0.2	(0.0)
As of 30.06.2018	27.6	53.0	(0.4)	(14.4)	(177.6)	(111.8)
Total recognised income & expense	-	-	(0.1)	-	(1.7)	(1.7)
As of 30.09.2018	27.6	53.0	(0.4)	(14.4)	(179.3)	(113.5)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD JANUARY 1 TO SEPTEMBER 30

(€ millions)	2018	2017
Cash flows from operating activities		
Profit / (loss) for the period	(4.0)	(7.0)
Adjustments for:		
Depreciation	4.8	4.8
Amortisation of intangible assets	1.9	1.8
(Reversal of) impairment losses on intangible assets	0.0	0.0
Net interest expense	12.7	18.1
Change in fair value of derivatives	-	1.4
(Gain) / loss on disposal of property, plant & equipment	(0.0)	(0.0)
Income tax expense	1.8	5.6
	17.2	24.8
Change in inventories	(9.4)	(13.2)
Change in trade & other receivables	(7.7)	2.3
Change in prepayments	(0.2)	(1.7)
Change in trade & other payables	(1.0)	2.7
Change in provisions & employees' defined benefits	(7.4)	(7.8)
	(8.5)	7.1
Income tax paid	(4.0)	(3.2)
Net cash from / (used in) operating activities	(12.5)	3.8
Cash flows from investing activities		
Interest received	0.1	0.0
Proceeds from sale of property, plant & equipment	0.0	0.1
Acq'n of property, plant, equipment & intangibles	(4.9)	(9.1)
Net investment in loans and other	0.0	-
Movement in deposits with terms >3 months	(1.7)	4.7
Capitalised development expenditure	(4.7)	(4.5)
Net cash from / (used in) investing activities	(11.2)	(8.8)
Cash flows from financing activities		
Proceeds from loans / issue of notes	30.0	235.7
Payment of transaction costs	-	(1.8)
Repayment of own bond	-	(220.3)
Interest paid	(11.7)	(17.5)
Payment of finance lease liabilities	(0.0)	-
Net cash from / (used in) financing activities	18.3	(3.9)
Net inc. / (dec.) in cash & cash equivalents	(5.4)	(8.8)
Cash & cash equivalents at January 1	18.8	24.6
Effect of exchange rate fluctuations on cash held	0.1	(0.1)
Cash & cash equivalents at September 30	13.5	15.7