Semiannual Financial Report

H1 | 2014

Rheinmetall AG

Rheinmetall in figures

Rheinmetall Group key figures € million

		H1/2014	H1/2013	Change
Order situation (continuing operations)				
Order intake [1]	€ million	2,289	2,394	-105
Order backlog (June 30) [1]	€ million	6,548	5,737	811
Sales/Results (continuing operations)				
Sales[1]	€ million	2,131	1,975	156
of which generated abroad	%	76	76	-
Operating result	€ million	32	28	4
Operating result margin	%	1.5	1.4	0.1 Pp.
EBIT	€ million	30	(19)	49
EBIT margin	%	1.4	(1.0)	2.4 Pp.
EBT	€ million	(9)	-54	45
Balance sheet (June 30) (continuing and discontinued operations)				
Total equity	€ million	1,257	1,314	-57
Total assets [1]	€ million	5,114	4,773	341
Equity ratio	%	25	28	-3 Pp.
Cash and cash equivalents [1]	€ million	217	238	-21
Total assets less cash and cash equivalents	€ million	4,897	4,535	362
Net financial debt [1]	€ million	710	346	364
Leverage ratio [2]	%	14.5	7.6	6.9 Pp.
Net Gearing [3]	%	56.5	26.3	30.2 Pp.
Cash Flow (continuing and discontinued operations)				
Cash flow from operating activities	€ million	(448)	(85)	-363
Cash flow from investing activities	€ million	(106)	(82)	-24
Cash flow from financing activities	€ million	325	(93)	418
Cash flow	€ million	(554)	(167)	-387
Employees (June 30) according to capacities (continuing operations)				
Rheinmetall Group[1]		20,338	20,773	-435
Defence		9,228	9,411	-183
Automotive [1]		10,967	11,219	-252
Holding/service companies		143	143	0
Share				
Stock price (June 30)	€	51.70	36.09	15.61
Stock price, annual high	€	57.87	43.51	14.36
Stock price, annual low	€	43.62	35.92	7.70
Earnings per share from continuing operations	€	0.01	(0.66)	0.67

1) *The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"*

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

3) *Net financial liabilities/equity*

Rheinmetall with sales growth and improved result

Rheinmetall posted sales growth in both sectors in the first six months of 2014. However, only the Automotive sector contributed to the improvement in the operating result. Due to a significant reduction in restructuring costs, reported earnings (EBIT) are clearly positive again following a loss in the previous year.

- Consolidated sales up 8 % to €2,131 million in the first six months of 2014
- Defence posts sales growth of 7 % to €895 million
- Automotive increases sales to €1,236 million and sees strong upturn in operating result to €93 million
- Group EBIT improves by €49 million to €30 million

Changes in the Group's portfolio and the cancellation of an export permit for Russia have led to an update in the overall annual forecast for Rheinmetall AG for fiscal 2014.

Contents

The Rheinmetall share

DAX AND MDAX MOVE SIDEWAYS AND REMAIN AT A HIGH LEVEL

The leading German share indices reached their all-time highs on June 10, 2014, with the DAX rising to 10,029 points and the MDAX to 17,168 points. However, these record figures which attracted a great deal of public attention should not disguise the fact that both indices performed only moderately in the first six months of the year. The DAX improved by 3 % to 9,833 points between December 30, 2013 and June 30, 2014, the MDAX by 1% to 16,816 points. Having stagnated in the first quarter of 2014, the DAX increased by 2 % and the MDAX by 3 % in the second quarter of 2014.

In the first six months of 2014, the DAX fluctuated between 9,018 points on March 13, 2014 and the peak figure given above. The MDAX reached its lowest value on April 15, 2014 at 15,662 points. This moderately positive index development reflects the stock exchange's assessment of ongoing economic recovery in western industrialized countries on the one hand and the dampening effect of the conflict in Ukraine, the civil war in Syria and the unstable situation in Iraq on the other.

RHEINMETALL SHARE CONTINUES TO DISPLAY GOOD PERFORMANCE

The Rheinmetall share closed at €51.70 on June 30, 2014, representing an increase of 15% for the first six months of 2014. This increase is primarily attributable to the first quarter. The Rheinmetall share moved sideways in the second quarter of 2014 with an upturn of 1 %, like the DAX and MDAX.

After reaching an annual high of €57.87 on March 5, 2014, a volatile phase then began to develop as time went on in the second quarter of 2014, during which the price fluctuated around the €50 mark. The share price initially fell to €46.86 on May 7, 2014, its lowest point in the second quarter of 2014, before exceeding the €50 mark again shortly after. The share remained above this level for most of June 2014 and even exceeded the €52 mark on several occasions.

MARKET CAPITALIZATION AND TRADING VOLUME

The market capitalization of Rheinmetall AG, calculated based on the free float of shares, rose from €1.7 billion in December 2013 to €1.9 billion in June 2014 (each based on a monthly average). At the same time, Rheinmetall remained in 25th place in Deutsche Börse's MDAX rankings.

In terms of stock exchange turnover, which is calculated based on the past 12 months, it fell from 23rd to 24th in the rankings during the same period. By contrast, stock exchange turnover calculated on the basis of average daily trading volume fell to 201,000 shares on all German stock exchanges, including Xetra, in the first six months of 2014, compared to 257,000 shares in the same period of the previous year.

INVESTOR RELATIONS ACTIVITIES

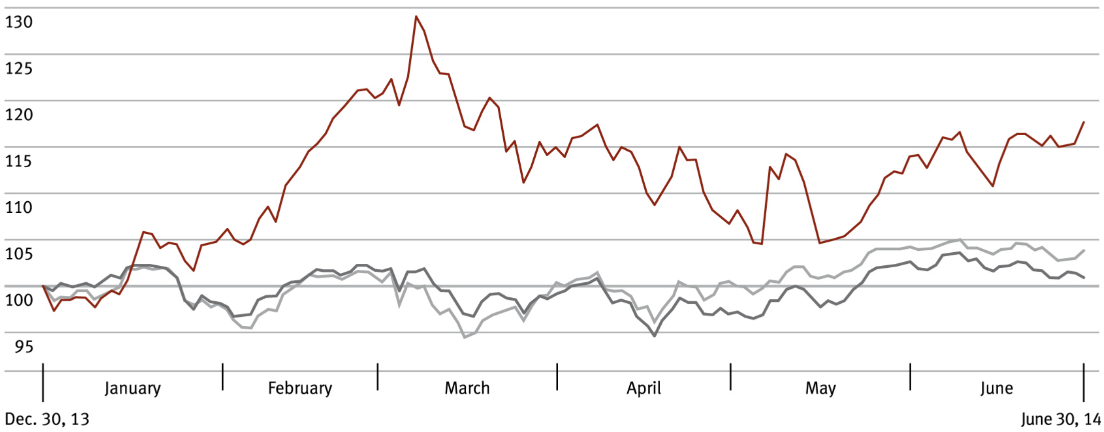
Rheinmetall once again held a number of meetings with analysts and investors in Germany and abroad in the first six months of the year. The management and/or Investor Relations department attended investors' conferences in New York, Frankfurt, London, Berlin and Paris and held roadshows in Zurich, Brussels, Frankfurt, London and Paris.

MAJOR SHAREHOLDERS

In the first six months of 2014, two investment companies reported a reduction in their stake in Rheinmetall AG in accordance with the German Securities Trading Act. Harris, an investor based in Chicago, USA, fell below the 10% mark and reported a shareholding of 9.82%, while BlackRock, an investor based in New York, USA, fell below the 5% mark and reported a shareholding of 4.95%. The investment company LSV, Wilmington, USA, reported that it had exceeded the 3% threshold with a stake of 3.03%. In July 2014, the investor M & G / Prudential, London, UK, reported that it had exceeded the same threshold, also with a stake of 3.03%.

Rheinmetall stock price trend in comparison to the DAX and MDAX

December 30, 2013, through June 30, 2014



General economic conditions

GLOBAL ECONOMIC RECOVERY LOSES MOMENTUM

The economic downturn in the USA and China and geopolitical risks resulting from armed conflicts in Iraq, Israel and Ukraine have stifled global economic growth. In its World Economic Outlook from July 2014, the International Monetary Fund (IMF) revised its forecasts downwards for the current year. The fund expects global economic output to grow by just 3.4% in 2014. That is 0.3 percentage points less than in the IMF's April forecast. The IMF appears more optimistic with regard to the coming year, raising its forecast from 3.9% in April 2014 to its current level of 4%.

The IMF's experts forecast growth of 1.8 % in 2014 and 2.4 % in 2015 for the mature industrialized nations as a group. The lower growth estimate for the current year is primarily due to development in the USA, whose forecast for gross domestic product (GDP) was reduced from 2.8% in April to 1.7% at present. According to the IMF, this reduction is due to weakness in the US economy in the first quarter of 2014. Growth of 3% is forecast for 2015. The IMF is very positive about Japan's unexpectedly strong economic growth. It is forecast to grow by 1.6% in 2014, 0.3 percentage points more than in its last forecast. The forecast for the United Kingdom for the current year has in fact increased by 0.4 percentage points compared to April, rising to 3.2%.

The situation in the euro zone is mixed. While Germany and Spain are growing, the outlook for France and Italy has been lowered. The IMF still anticipates growth of 1.1% for the 18 euro zone nations as a whole in 2014. According to the information provided, GDP will grow by 1.5% in the coming year instead of 1.4% as was previously predicted. The IMF economists are very pleased with the situation in Germany, where they anticipate growth of 1.9% this year. That is 0.2 percentage points more than forecast previously. Growth of 1.7 % is anticipated for 2015. The Leibniz Institute for Economic Research in Munich (Ifo Institute) appears even more optimistic. In the Ifo economic forecast from June 2014, growth of 2.0% is expected for 2014 and 2.2% for the coming year. The economic researchers believe that this upturn will be driven by domestic demand in particular.

The growth forecast for developing and emerging nations was lowered by 0.2 percentage points compared to April 2014 to 4.6%. This is mainly due to the expectation that growth in China will become weaker. Although China is still a driver of the global economy, the times of double-digit growth rates seem to be over once and for all. The IMF expects China's GDP to increase by 7.4% in 2014, compared to its forecast of 7.6% in April 2014. Economic growth is expected to slow to 7.1 % in 2015. India is clearly over the worst in terms of its economic growth. With growth of 5.4% in 2014 and 6.4% in 2015, the Indian economy is back to being one of the main drivers of growth again following a phase of weakness. Due to the persistently weak economic situation in Brazil, the IMF has cut its forecasts significantly to just 1.3% (2014) and 2.0% (2015).

Of the emerging nations, Russia saw the most severe downward revision. The IMF lowered its forecast for Russian GDP growth in 2014 from 1.3% previously to just 0.2% and justified its decision based on the capital flight owing to the implications of the Ukraine conflict. Growth of just 1.0% is forecast for 2015.

The IMF has warned that global growth could remain weak for longer despite low base rates due to the lack of robust momentum in industrialized countries. There is also a heightened risk of significant increases in oil prices owing to unrest in the Middle East, with corresponding repercussions for the global economy.

SLIGHT UPWARD TREND FOR GLOBAL DEFENSE SPENDING

Despite declining spending in the USA, the country with the largest defense budget in the world, slight growth is emerging in the global defense sector for 2014 and 2015. According to calculations by defense analysts at IHS Jane's (June 2014), arms spending will rise to USD 1,603 billion in 2014, after USD 1,580 billion in 2013. A further increase to USD 1,615 billion is forecast for 2015.

At USD 581 billion, defense spending in the USA in 2014 will be down slightly on its budget in the previous year of USD 586 billion. A further reduction to USD 566 billion is planned for next year. However, this will not be as drastic as was anticipated in the first quarter. Budget cuts are due in particular to the winding down of US operations in Iraq and Afghanistan, but also to general savings. The fact that global defense spending is still increasing overall is mainly attributable to budgets in a number of emerging and developing countries, some of which have risen significantly.

Budgets in countries where Rheinmetall Defence has achieved significant sales successes in recent months, such as in Australia, Norway and Sweden, are displaying a stable to slightly upward trend. Take Australia for instance: While its defense spending still stood at USD 31.9 billion in 2013, its 2014 budget will increase to USD 33.0 billion. A further increase to USD 33.3 billion is expected for 2015.

In Germany, which is still Rheinmetall Defence's most important individual market, defense spending will stand at €32.4 billion in 2014, around €400 million lower than originally budgeted. This is due to a global budget reduction which the German Bundestag's budget committee adopted in the second quarter of 2014. The defense budget still stood at €33.3 billion in 2013. However, according to the Federal Ministry of Defense, the German armed forces are in a position to "absorb and offset" these cuts, meaning that key projects such as the realignment of the German armed forces and international operations are still secured. Furthermore, the 2015 budget will stabilize at the level of the current year at €32.3 billion.

With its expertise in protecting soldiers on deployment, Rheinmetall Defence will exploit market opportunities that result from current or upcoming modernization projects of the German armed forces and NATO nations. However, Rheinmetall Defence will also leverage new market potential in other friendly nations, in due consideration of general conditions in terms of foreign policy and security policy as set out by the German government.

GLOBAL AUTOMOTIVE MARKET IN FORWARD GEAR – WESTERN EUROPE ALSO RETURNS TO GROWTH

In its semi-annual press conference at the start of July 2014, the Association of the German Automotive Industry (VDA) issued a positive interim assessment and spoke about a "year for the automotive industry with growth in production, exports and jobs" that had exceeded expectations at the start of the year. The VDA is also pleased to note that the Western European market has returned to growth following four years of decline.

This optimistic assessment is also supported by the latest calculations by analysts at IHS Automotive with regard to the global production of passenger cars and light commercial vehicles up to 3.5 t. According to their calculations, global automotive production increased by 3.5% year on year in the first six months of 2014 to 43 million units. Growth in the triad of Western Europe, NAFTA and Japan stood at 5.4%, whereas the positive overall trend was dampened primarily by the decline in production in South America, Russia and India, which was significant in some cases. By contrast, North America and Japan remained on a growth course in the first six months of 2014, growing by 4.5% and 7.1% respectively. The signs of recovery in Western Europe became more firmly established and led to production growth of 5.3% according to IHS Automotive. Within Europe, Germany continued to post above-average growth, with an increase in production of 6.2%.

China, the largest automotive market in the world, has also remained faithful to its role as the industry's growth driver after the first two quarters of 2014: According to the latest calculations performed by IHS Automotive, production there grew by 9.8%. By contrast, the automotive markets in Brazil (-15.3%), Russia (-5.6%) and India (-3.8%) suffered the effects of ongoing economic and political uncertainty.

Nevertheless, the analysts at IHS Automotive are still optimistic with regard to 2014 as a whole and forecast growth in global automotive production of 3.3% to 85.5 million vehicles based on robust development in China, North America and, once again and to an increasing extent, Western Europe. Production is expected to rise by 3.8% to 88.7 million vehicles next year.

Thanks to its strong local presence in the growth markets of China and North America and its traditionally strong market position in a recovering Western Europe, Rheinmetall Automotive is in a very good position to benefit from the regional upward trends that are currently emerging. Rheinmetall Automotive's recognized strong expertise in the field of environmentally friendly mobility will also provide the opportunity for exceptionally strong growth in virtually all key automotive markets, as the regulatory trend towards stricter fuel and CO_2 reduction requirements is picking up pace around the world.

Rheinmetall Group business trend

The Automotive sector's Aluminium-Technologie business unit is set to continue in the form of a joint venture in the future. Due to this planned transaction, this business unit has been assigned to discontinued operations. The previous period has been adjusted accordingly.

Sales € million (continuing operations)

	H1/2014	H1/2013
Rheinmetall Group [1) 2)]	2,131	1,975
Defence	895	834
Automotive [1) 2)]	1,236	1,141

EBIT € million (continuing operations)

	H1/2014	H1/2013
Rheinmetall Group [2)]	30	(19)
Defence	(54)	(74)
Automotive [2)]	93	55
Others/Consolidation	(9)	0

Operating result € million (EBIT before special items, continuing operations)

	H1/2014	H1/2013
Rheinmetall Group [2)]	32	28
Defence	(52)	(48)
Automotive [2)]	93	76
Others/Consolidation	(9)	0

1) The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"

2) The previous year's figures are adjusted for discontinued operations

SALES GROWTH IN THE FIRST SIX MONTHS OF 2014

In the first six months of 2014, Rheinmetall generated consolidated sales of €2,131 million; compared to the previous year, this is an increase in business volume of €156 million or 8 %. Growth stood at 11% after adjusting for currency effects.

In the first six months of 2014, the proportion of sales achieved abroad in the Group was 76 %, as in the previous year. In addition to the German market (24 %), the key regions in terms of sales volumes were Europe excluding Germany (40 %), followed by Asia (17 %) and North America (10 %).

The sales growth and the first effects of the program to increase cost efficiency that was launched last year contributed to an improvement in the operating result. In the first six months of 2014, the operating result (EBIT before special items) improved by €4 million year on year to €32 million. Earnings before interest and taxes (EBIT) rose from a loss of €-19 million in the first six months of 2013 to €30 million in the first six months of the current year due to a significant reduction in special items (restructuring).

ORDER BACKLOG UP SIGNIFICANTLY YEAR ON YEAR

The Rheinmetall Group recorded an order intake of €2,289 million in the first six months of 2014 (previous year: €2,394 million). On June 30, 2014, the order backlog stood at €6,548 million (December 31, 2013: €6,442 million).

Rheinmetall Group business trend

ASSET AND CAPITAL STRUCTURE

The Rheinmetall Group's total assets amounted to €5,114 million as at June 30, 2014. This corresponds to an increase of €248 million as against December 31, 2013. Non-current assets decreased by €6 million in the period under review to €2,339 million. Current assets increased by €254 million as against December 31, 2013. Here, a decline in cash and cash equivalents was offset by an increase in inventories, trade receivables and assets held for sale. The equity ratio, at 25 %, was below the previous year's figure of 28 %. Non-current liabilities increased by €110 million to €1,688 million. This increase was mainly attributable to a rise in pension provisions of €78 million and in non-current financial debts of €37 million. In the case of the €220 million rise in current liabilities, increases in current financial debts and liabilities in connection with assets held for sale were offset by declines in trade payables and other current liabilities.

Asset and capital structure € million

	6/30/2014	%	12/31/2013	%
Non-current assets 1)	2,339	46	2,345	48
Current assets 1)	2,775	54	2,521	52
Total assets	**5,114**	**100**	**4,866**	**100**
Equity	1,257	25	1,339	28
Non-current liabilities	1,688	33	1,578	32
Current liabilities 1)	2,169	42	1,949	40
Total equity and liabilities	**5,114**	**100**	**4,866**	**100**

1) The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"

CAPITAL EXPENDITURE UP ON PREVIOUS YEAR

The Rheinmetall Group invested a total of €99 million in the first six months of the current fiscal year, compared to €89 million in the previous year. The Automotive sector's main investment was the new harbor site in Neuss. The Defence sector implemented a number of projects to optimize its production and site structures. The investment ratio (capital expenditure as a percentage of sales) was 4.6 % after 4.5 % in the same period of the previous year.

Capital expenditure € million

	H1/2014	H1/2013
Rheinmetall Group	99	89
Defence	28	22
Automotive	64	67
Others/Consolidation	7	0

EMPLOYEE NUMBERS DOWN

On June 30, 2014, a total of 20,338 people were employed by the Rheinmetall Group around the world (continuing operations), down 435 on June 30, 2013. The workforce was reduced by 183 at Rheinmetall Defence and by 252 in the Automotive sector. Of the total workforce, 45 % were employed in the Defence sector, 54 % in the Automotive sector and roughly 1 % at Rheinmetall AG and the service companies.

Employees (capacity)

	6/30/2014	**6/30/2013**
Defence	9,228	9,411
Automotive [1) 2)]	10,967	11,219
Others	143	143
Rheinmetall Group (continuing operations)	20,338	20,773
Rheinmetall Group (discontinued operations)	875	885

1) *The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"*

2) *The previous year's figures are adjusted for discontinued operations*

Rheinmetall Group business trend
Defence sector

Defence key figures € million

	H1/2014	H1/2013	Change
Sales	895	834	61
Operating result	(52)	(48)	-4
Operating result margin *in %*	(5.8)	(5.8)	-
EBITDA	(13)	(30)	17
EBIT	(54)	(74)	20
EBT	(67)	(86)	19
Order intake	1,074	1,282	-208
Order backlog (June 30)	6,174	5,383	791
Employees according to capacity (June 30)	9,228	9,411	-183

DEFENCE SALES UP ON PREVIOUS YEAR

At €895 million, the Defence sector's sales rose by €61 million or 7% in the first six months of 2014 compared to €834 million in the previous year. Growth stood at 9 % after adjusting for currency effects. However, these additional sales were primarily generated in business areas with lower earnings contributions, whereas products with stronger earnings in the area of ammunition posted lower sales.

WEAK AMMUNITION BUSINESS IMPACTS EARNINGS DEVELOPMENT

The operating result (EBIT before special items) declined slightly year on year, falling by €4 million to € -52 million. The improvement in earnings in Defence's Wheeled Vehicles division did not offset the fall in earnings in the Electronic Solutions and Combat Systems divisions. The decline in the Combat Systems division was mainly due to the continuing weakness of the ammunition business. EBIT totaled € -54 million in the first six months of the year (previous year €-74 million), with special items (restructuring) having declined by a significant €26 million to €2 million as expected.

SOUND ORDER INTAKE IN DIFFICULT MARKET ENVIRONMENT

The Defence sector posted a sound order intake in the first six months of 2014. At €1,074 million, it failed to reach the previous year's figure of €1,282 million, which includes the large Qatar order (€475 million). At a value of €6,174 million, the Defence sector's order backlog on June 30, 2013 was €791 million higher than the previous year's figure.

Rheinmetall Group business trend
Automotive sector

The Aluminium-Technologie business unit with its main site in Neckarsulm, which forms part of the Hardparts division, is set to continue in the form of a joint venture with the Chinese company HUAYU Automotive Systems Co. Ltd. in future, with which several joint ventures in China already exist. The Aluminium-Technologie business unit has been assigned to the Automotive sector's discontinued operations. The previous period has been adjusted accordingly.

Automotive key figures € million

	H1/2014	H1/2013	Change
Continuing operations			
Sales [1]	1,236	1,141	95
Operating result	93	76	17
Operating result margin *in %* [1]	7.5	6.7	0.8 Pp.
EBITDA	144	106	38
EBIT	93	55	38
EBT	85	48	37
Order intake [1]	1,215	1,112	103
Order backlog (June 30) [1]	374	354	20
Employees according to capacity (June 30) [1]	10,967	11,219	-252
Discontinued operations			
Sales [1]	112	95	17
Operating result	5	1	4
EBIT	(2)	1	-3
Employees according to capacity (June 30) [1]	875	885	-10

1) The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"

SALES GROWTH AND STRONG UPTURN IN EARNINGS AT AUTOMOTIVE

In the first six months of 2014, the Automotive sector benefited from the ongoing positive development of the automotive industry with global production growth of 4 % for passenger cars. Production figures rose 5 % year on year in the triad markets of NAFTA, Japan and Western Europe. Rheinmetall Automotive (KSPG) achieved sales of €1,236 million in the first six months of 2014. With growth of €95 million or 8 % compared to the same period of the previous year, the sector again exceeded the growth of the market. After adjustment for currency effects, sales grew by 12%.

The growth in the operating result (EBIT before special items) was disproportionately high. In the first six months of this year, Rheinmetall's Automotive sector generated a €17 million or 22 % improvement in the operating result to €93 million. The operating result margin therefore increased to 7.5 %, following 6.7 % in the previous year. In addition to the sales growth and an improved operating performance, the increase in earnings is also attributable to initial savings made as a result of last year's restructuring program. EBIT rose by €38 million to €93 million thanks to the restructuring costs incurred.

JOINT VENTURES IN CHINA CONTINUE TO GROW

The Chinese joint ventures, which are not included in the sales figures for the Automotive sector, enjoyed growth of 22 % (calculated on a 100 % basis) in the first six months of 2014, with sales amounting to €300 million as against €246 million in the previous year. Chinese automotive production grew by 10 % in the first half of 2014 compared with the same period of the previous year.

Opportunities and risks

EFFICIENT RISK MANAGEMENT

In the context of a systematic and efficient risk management system, risks at the Rheinmetall Group are limited and of manageable proportions. There are no discernible material risks that could permanently endanger the Group's net assets, financial position or results of operations.

The material opportunities and risks of the expected development of the Rheinmetall Group are described in detail in the Group Management Report for 2013.

There have been changes and new findings in terms of regulatory risks, mainly as a result of political discussion in Germany regarding the future direction of its arms export policy and economic sanctions imposed on Russia which may impair the Rheinmetall Group's operating business.

There have been no other significant changes or new findings in the meantime.

Prospects

RHEINMETALL UPDATES OUTLOOK FOR 2014

Sales – Due to the contribution of the Aluminium-Technologie business unit to a joint venture with the Chinese company HUAYU Automotive Systems Co. Ltd. (HASCO), sales of approximately €200 million which were included in the original sales forecast no longer apply to the Automotive sector or the Rheinmetall Group in fiscal 2014.

As a result, Rheinmetall now expects the Group to achieve sales of between €4.6 billion and €4.7 billion in the current fiscal year (previously: €4.8 billion to €4.9 billion) and the Automotive sector sales of between €2.3 billion and €2.4 billion (previously: €2.5 billion to €2.6 billion). The Defence sector is expected to achieve sales of around €2.3 billion over 2014 as a whole on the basis of the high order backlog, even in a difficult market environment.

Operating result – As a result of the planned joint venture with HASCO, Rheinmetall has also updated the forecast for the Automotive sector's operating result in fiscal 2014 by €10 million to between €155 million and €165 million. However, provided that the development of global automotive production proves just as robust up to the end of the year as it did in the first six months, the original forecast for the operating result of between €165 million and €175 million may still be achieved, despite reclassifying the Aluminium-Technologie business unit.

Due to the fact that the export license for the Mulino combat training center in Russia has been withdrawn owing to changes in the political environment, it is no longer possible to fulfil the respective contract from today's perspective. We already assume that this will lead to financial burdens in the current fiscal year (see Report on post-balance sheet date events). The forecast for the Defence sector's operating result has therefore been adjusted from between €85 million and €95 million previously to between €65 million and €75 million.

Consequently, Rheinmetall expects the Group to achieve an operating result (EBIT) of between €200 million and €220 million in fiscal 2014 (previously: €230 million to €250 million).

Group EBIT – Subsequent expenses arising from non-recurring effects of up to €10 million are expected, meaning that Group EBIT of between €190 million and €210 million is forecast.

Group EBT – From today's perspective, we expect net interest of approximately €75 million, meaning that we anticipate Group EBT within a range of between €115 million and €135 million.

Return on capital employed (ROCE) – We do not expect a significant rise in capital employed in the current fiscal year. If Group EBIT increases as assumed, we anticipate a significant rise in return on capital employed to between 7.5 % and 8.5 %.

Report on post-balance sheet date events

NEW AUTOMOTIVE JOINT VENTURE

In July 2014, KSPG and HUAYU Automotive Systems Co. Ltd. concluded agreements regarding the formation of a joint venture in which the Aluminium-Technologie business unit is set to continue. The approval of the relevant antitrust authorities is still pending.

SANCTIONS IMPOSED ON RUSSIA IMPACT RHEINMETALL DEFENCE

Political relations between the Western nations and Russia have deteriorated significantly since June 30, 2014. This is particularly evident from the economic sanctions that the USA and the EU have adopted or made tougher over the past few weeks. The German government has gone a step beyond these sanctions. This directly affects the Defence sector.

Against the backdrop of these changes in the political environment, we no longer expect to fulfil the contract associated with the combat training center in Mulino, Russia, from today's perspective, even in the medium term. If the existing contract with the Russian client is terminated in accordance with the contract and the law, we anticipate a financial burden of between €15 million and €20 million.

However, Rheinmetall is working hard to ensure that these burdens are kept as low as possible including the utilization of all available legal options. We are also holding discussions with the German government with regard to the extent of claims for damages that may exist due to the withdrawal of an export license.

There were no other significant events after the balance sheet date.

Condensed consolidated interim financial statements of Rheinmetall AG for the first six months of 2014

Rheinmetall Group
Balance sheet as at June 30, 2014

Assets € million

	6/30/2014	12/31/2013
Goodwill	553	555
Intangible assets	310	319
Property, plant and equipment[1)]	1,118	1,167
Investment property	13	14
Investments accounted for using the equity method[1)]	155	150
Other non-current financial assets[1)]	7	5
Other non-current assets	6	6
Deferred taxes	177	129
Non-current assets	**2,339**	**2,345**
Inventories[1)]	1,073	940
./. Prepayments received	(42)	(31)
	1,031	909
Trade receivables[1)]	1,173	984
Other current financial assets	29	34
Other current receivables and assets [1)]	163	119
Income tax receivables	41	26
Cash and cash equivalents	217	445
Disposal group held for sale	121	4
Current assets	**2,775**	**2,521**
Total assets	**5,114**	**4,866**

1) *The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"*

Equity and liabilities € million

	6/30/2014	12/31/2013
Share capital	101	101
Additional paid-in capital	310	307
Retained earnings	826	905
Treasury shares	(52)	(58)
Rheinmetall AG shareholders' equity	**1,185**	**1,255**
Minority interests	72	84
Equity	**1,257**	**1,339**
Provisions for pensions and similar obligations	969	891
Other non-current provisions	84	88
Non-current financial debts	569	532
Other non-current liabilities	24	31
Deferred taxes	42	36
Non-current liabilities	**1,688**	**1,578**
Other current provisions	393	388
Current financial debts [1)]	358	60
Trade liabilities	610	721
Other current liabilities	651	739
Income tax liabilities	47	41
Liabilities in connection with assets held for sale	110	-
Current liabilities	**2,169**	**1,949**
Total liabilities	**5,114**	**4,866**

1) The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"

Rheinmetall Group
Income statement for the first six months of 2014

€ million

	H1/2014	H1/2013
Sales [1)]	**2,131**	**1,975**
Changes in inventories and work performed by the enterprise and capitalised	179	123
Total operating performance	**2,310**	**2,098**
Other operating income	60	49
Cost of materials [1)]	1,297	1,121
Personnel expenses [1)]	658	650
Amortization, depreciation and impairment	92	95
Other operating expenses [1)]	304	318
Net operating income	**19**	**(37)**
Net interest [2)]	(39)	(35)
Net investment income and other net financial income [3)]	11	18
Net financial income	**(28)**	**(17)**
Earnings before taxes from continuing operations (EBT)	**(9)**	**(54)**
Income taxes	2	9
Earnings from continuing operations	**(7)**	**(45)**
Earnings from discontinued operations	1	0
Earnings after taxes	**(6)**	**(45)**
Of which:		
Minority interests	*(8)*	*(20)*
Rheinmetall AG shareholders	*2*	*(25)*
Earnings per share after taxes of Rheinmetall AG shareholders from continuing operations (€)	0.01	(0.66)
Earnings per share after taxes of Rheinmetall AG shareholders from discontinued operations (€)	0.04	0.00
EBITDA	122	76
EBIT	30	(19)

1) *The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"*

2) *Of which interest expenses: €40 million (previous year: €36 million)*

3) *Of which income from investments carried at equity: €11 million (previous year: €13 million)*

Rheinmetall Group
Comprehensive income for the first six months of 2014

€ million

	H1/2014	H1/2013
Earnings after taxes	**(6)**	**(45)**
Remeasurement of net defined liability from pensions	(85)	19
Amounts not reclassified in the income statement	**(85)**	**19**
Change in value of derivative financial instruments (cash flow hedge)	9	(27)
Currency conversion difference	13	(38)
Income/expenses from investments accounted for using the equity method	1	-
Amounts reclassified in the income statement	**23**	**(65)**
Other comprehensive income (after taxes)	**(62)**	**(46)**
Comprehensive income	**(68)**	**(91)**
Of which:		
Minority interests	*(4)*	*(33)*
Rheinmetall AG shareholders	*(64)*	*(58)*

Rheinmetall Group
Income statement for Q2 2014

€ million

	Q2 2014	Q2 2013
Sales 1)	**1,100**	**1,054**
Changes in inventories and work performed by the enterprise and capitalised	88	47
Total operating performance	**1,188**	**1,101**
Other operating income	36	27
Cost of materials 1)	668	591
Personnel expenses 1)	327	318
Amortization, depreciation and impairment	47	49
Other operating expenses 1)	161	182
Net operating income	**21**	**(12)**
Net interest 2)	(23)	(18)
Net investment income and other net financial income 3)	10	12
Net financial income	**(13)**	**(6)**
Earnings before taxes from continuing operations (EBT)	**8**	**(18)**
Income taxes	(1)	1
Earnings from continuing operations	**7**	**(17)**
Earnings from discontinued operations	0	1
Earnings after taxes	**7**	**(16)**
Of which:		
Minority interests	*(2)*	*(14)*
Rheinmetall AG shareholders	*9*	*(2)*
Earnings per share after taxes of Rheinmetall AG shareholders from continuing operations (€)	0.22	(0.06)
Earnings per share after taxes of Rheinmetall AG shareholders from discontinued operations (€)	0.02	0.01
EBITDA	78	49
EBIT	31	0

1) The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"

2) Of which interest expenses: €23 million (previous year: €17 million)

3) Of which income from investments carried at equity: €7 million (previous year: €8 million)

Rheinmetall Group
Comprehensive income for Q2 2014

€ million

	Q2/2014	Q2/2013
Earnings after taxes	**7**	**(16)**
Remeasurement of net defined liability from pensions	(47)	-
Amounts not reclassified in the income statement	**(47)**	**-**
Change in value of derivative financial instruments (cash flow hedge)	10	(14)
Currency conversion difference	10	(38)
Income/expenses from investments accounted for using the equity method	2	(3)
Amounts reclassified in the income statement	**22**	**(55)**
Other comprehensive income (after taxes)	**(25)**	**(55)**
Comprehensive income	**(18)**	**(71)**
Of which:		
Minority interests	*3*	*(21)*
Rheinmetall AG shareholders	*(21)*	*(50)*

Rheinmetall Group
Cash flow statement for the first six months of 2014

€ million

	H1/2014	H1/2013
Opening cash and cash equivalents January 1 [1)]	**445**	**502**
Earnings after taxes	(6)	(45)
Amortization, depreciation and impairments	100	100
Changes in pension provisions	(2)	(8)
Gross cash flows	**92**	**47**
Changes in working capital and others	(540)	(132)
Cash flows from operating activities [2)]	**(448)**	**(85)**
Investments in property, plant and equipment, intangible assets and investment property	(114)	(89)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	2	1
Investments in consolidated companies and financial assets	(6)	(2)
Divestments of consolidated companies and financial assets	12	8
Cash flows from investing activities	**(106)**	**(82)**
Dividends paid out by Rheinmetall AG	(15)	(68)
Other profit distributions	(8)	(7)
Sale of treasury shares	6	2
Cash receipt from partial sales of consolidated companies	0	4
Borrowing of financial debts	390	9
Repayment of financial debts	(48)	(33)
Cash flows from financing activities	**325**	**(93)**
Changes in financial resources	**(229)**	**(260)**
Changes in cash and cash equivalents due to exchange rates	1	(4)
Total change in financial resources	**(228)**	**(264)**
Closing cash and cash equivalents June 30	**217**	**238**

1) The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"

2) Including:

Net income taxes of €-22 million (previous year: €-19 million)

Net interest of €-26 million (previous year: €-21 million)

Rheinmetall Group
Statement of changes in equity

€ million

	Share capital	Additional paid-in capital	*Difference of currency conversion*	*Statement of fair value and other valuations*	*Other reserves*	**Retained earnings**	Treasury shares	**Rheinmetall AG shareholders equity**	Minority interests	**Equity**
Balance as at December 31, 2013	**101**	**307**	***41***	***76***	***901***	**1,018**	**(72)**	**1,354**	**111**	**1,465**
Earnings after taxes	-	-	*-*	*-*	*(25)*	(25)	-	(25)	(20)	(45)
Other comprehensive income	-	-	*(32)*	*(20)*	*19*	(33)	-	(33)	(13)	(46)
Comprehensive income	**-**	**-**	***(32)***	***(20)***	***(6)***	**(58)**	**-**	**(58)**	**(33)**	**(91)**
Dividends payout	-	-	*-*	*-*	*(68)*	(68)	-	(68)	(7)	(75)
Other changes	-	-	*-*	*-*	*2*	2	12	14	1	15
Balance as at June 30, 2013	**101**	**307**	***9***	***56***	***829***	**894**	**(60)**	**1,242**	**72**	**1,314**
Balance as at January 1, 2014	**101**	**307**	***(34)***	***55***	***884***	**905**	**(58)**	**1,255**	**84**	**1,339**
Earnings after taxes	-	-	*-*	*-*	*2*	2	-	2	(8)	(6)
Other comprehensive income	-	-	*13*	*6*	*(85)*	(66)	-	(66)	4	(62)
Comprehensive income	**-**	**-**	***13***	***6***	***(83)***	**(64)**	**-**	**(64)**	**(4)**	**(68)**
Dividends payout	-	-	*-*	*-*	*(15)*	(15)	-	(15)	(8)	(23)
Other changes	-	3	*-*	*-*	*-*	-	6	9	-	9
Balance as at June 30, 2014	**101**	**310**	***(21)***	***61***	***786***	**826**	**(52)**	**1,185**	**72**	**1,257**

Notes to the consolidated financial statements

GENERAL PRINCIPLES

The condensed consolidated interim financial statements of Rheinmetall AG as at June 30, 2014 were prepared in accordance with the International Financial Reporting Standards (IFRS) and the corresponding interpretations of the International Accounting Standards Board (IASB) for interim reporting as required to be applied in the European Union. Accordingly, the notes to these interim financial statements do not include all of the information and disclosures that are required in accordance with IFRS for consolidated financial statements at the end of the fiscal year. In the view of the Executive Board, the interim financial statements contain all of the adjustments required to present a true and fair view of business development in the reporting period. The results achieved in the first six months of 2014 do not necessarily allow for conclusions to be drawn as to future development.

The accounting policies applied to the assets and liabilities in the interim financial statements are the same as those applied in the consolidated financial statements for fiscal 2013, with the exception of the accounting treatment of arrangements regarding joint operations.

In the interim financial statements, the following new or amended standards were applied for the first time, because their application is mandatory from January 1, 2014.

IFRS 10	“Consolidated Financial Statements”
IFRS 11	“Joint Arrangements”
IFRS 12	“Disclosure of Interests in Other Entities”
Amendment to IAS 28	“Investments in Associates and Joint Ventures”
Amendment to IAS 32	“Financial Instruments: Presentation”
Amendment to IAS 39	“Financial Instruments: Recognition and Measurement”

IFRS 11 affected the assets, earnings and Notes to Rheinmetall’s consolidated financial statements. All other amended or new standards did not result in significant changes to assets, earnings or the Notes.

IFRS 10 “Consolidated Financial Statements” contains principles for presenting and preparing consolidated financial statements. The new standard contains a different definition of control, on the basis of which the group of subsidiaries which must be consolidated is defined. In addition to the voting rights, other contractual agreements or constructive patterns can lead to control if the parent company can determine the financial and business activities of another company, achieve variable returns from this and influence the level of the returns.

IFRS 11 “Joint Arrangements” contains the regulations for recognition in the balance sheet of joint arrangements with one or more companies, and thus replaces IAS 31 “Interests in Joint Ventures”. The main amendments relate to the abolition of the voting right of the proportionate consolidation of joint ventures, the terminology used and the categorization of joint arrangements. A review of activities in the Rheinmetall Group that are performed jointly with other companies found that two joint ventures qualify as joint operations. These two companies have been carried at equity in the consolidated financial statements to date. The investment book value in the consolidated financial statements was €7 million as at December 31, 2013.

From fiscal 2014, these companies will be included in the consolidated financial statements together with pro-ratable assets, liabilities, income and expenses. The previous year's figures have been adjusted as follows:

€ million

	Jan. 1, 2013		
Balance sheet	**reported**	**Change**	**adjusted**
Property, plant and equipment	1,177	12	1,189
Investments accounted for using the equity method	147	-7	140
Other non-current financial assets	8	-1	7
Inventories	796	2	798
Trade receivables	1,032	2	1,034
Other current receivables and assets	124	2	126
Other assets	1,615	0	1,615
Total assets	**4,899**	**10**	**4,909**
Equity	1,465	0	1,465
Current financial debts	27	10	37
Other liabilities	3,407	0	3,407
Total liabilities	**4,899**	**10**	**4,909**

	Dec. 31, 2013		
Balance sheet	**reported**	**Change**	**adjusted**
Property, plant and equipment	1,156	11	1,167
Investments accounted for using the equity method	157	-7	150
Other non-current financial assets	6	-1	5
Inventories	906	3	909
Trade receivables	982	2	984
Other current receivables and assets	118	1	119
Other assets	1,532	0	1,532
Total assets	**4,857**	**9**	**4,866**
Equity	1,339	0	1,339
Current financial debts	51	9	60
Other liabilities	3,467	0	3,467
Total liabilities	**4,857**	**9**	**4,866**

€ million

	H1/2013		
Statement of comprehensive income	**reported**	**Change**	**adjusted**
Net income	(45)	0	(45)
of which sales	*2,062*	*5*	*2,067*
of which personnel expenses	*681*	*1*	*682*
of which cost of materials	*1,165*	*2*	*1,167*
of which other operating expenses	*327*	*2*	*329*
Other comprehensive income	(46)	-	(46)
Comprehensive Income	**(91)**	**0**	**(91)**

	Q2/2013		
Statement of comprehensive income	**reported**	**Change**	**adjusted**
Net income	(16)	0	(16)
of which sales	*1,100*	*2*	*1,102*
of which personnel expenses	*334*	*0*	*334*
of which cost of materials	*613*	*1*	*614*
of which other operating expenses	*185*	*1*	*186*
Other comprehensive income	(55)	-	(55)
Comprehensive Income	**(71)**	**0**	**(71)**

In IFRS 12 “Disclosure of Interests in Other Entities”, all Notes about companies which are under the control, joint management or controlling influence of the reporting company are combined together in a standard (included in IAS 27, IAS 28 and IAS 31 to date).

The amendments to IAS 32 “Financial Instruments: Presentation” clarify the offsetting of financial receivables and financial liabilities.

The amendments to IAS 39 “Financial Instruments: Recognition and Measurement” deal with the transfer of derivatives to central transaction partners when certain size criteria are exceeded and relate primarily to banks. A similar transfer to central regulatory bodies does not result in the discontinuation of hedge accounting.

The following new or amended standards and interpretations were published in the first six months of 2014. Endorsement in EU law is still pending.

Amendment to IAS 16	“Property, Plant and Equipment”
Amendment to IAS 38	“Intangible Assets”
Amendment to IFRS 11	“Joint Arrangements”
IFRS 14	“Regulatory Deferral Accounts”
IFRS 15	“Revenue from Contracts with Customers”

The amendments to IAS 16 and IAS 38 primarily relate to the clarification that a sales-based method is not an appropriate depreciation method for property, plant and equipment and intangible assets as this method does not reflect the consumption of an asset's future economic benefits. This amendment is to be applied prospectively for fiscal years from 2016 onwards. These amendments will not impact the net assets and results of operations of the Rheinmetall Group.

The amendments to IFRS 11 "Joint Arrangements" contain guidance on accounting for acquisitions of interests in joint operations. This clarifies that the acquirer must apply the regulations given in IFRS 3 "Business Combinations" and other relevant standards on accounting and disclosures and that interests already held shall not be remeasured upon acquisition. This amendment is to be applied prospectively for fiscal years from 2016 onwards. These clarifications will not impact the net assets and results of operations or the Notes of the Rheinmetall Group.

The new standard IFRS 14 "Regulatory Deferral Accounts" provides for simplifications in connection with regulatory deferral accounts arising from price regulation when applying IFRS for the first time. This standard will not affect Rheinmetall's consolidated financial statements.

The new standard IFRS 15 "Revenue from Contracts with Customers" specifies when or during what period sales are to be recognized from contracts with customers and in what amount. This replaces all previous standards and interpretations on the recognition of sales. The new standard is to be applied for fiscal years from 2017 onwards. The extent to which this will impact the net assets and results of operations of the Rheinmetall Group is currently being examined.

ESTIMATES

The preparation of the interim financial statements requires assumptions and estimates affecting the application of accounting principles within the Group and the disclosure of assets and liabilities, income and expenses. The actual amounts may differ from these estimates.

A qualified estimate of pension obligations is given in the quarterly financial reports based on the development of actuarial parameters. In the present interim financial statements, a discount rate of 2.75 % (December 31, 2013: 3.25 %) was applied for pension provisions in Germany and a rate of 1.70 % (December 31, 2013: 2.30 %) for Switzerland. These constitute countries with significant pension obligations. The reduction in the interest rate led to an increase of actuarial losses from pension obligations recognized in equity. All other parameters relevant to the measurement of pension obligations remained unchanged as at December 31, 2013.

SCOPE OF CONSOLIDATION

Besides Rheinmetall AG, the condensed consolidated financial statements include all German and foreign subsidiaries in which Rheinmetall AG holds the majority of voting rights (whether directly or indirectly) or other rights which enable it to control significant activities of the investee. An addition to the scope of consolidation was posted in the first six months of 2014 as a result of the formation of a company in Europe outside Germany.

The sale of 50% of the main share of the Automotive sector's Aluminium-Technologie business unit to the Chinese company HUAYU Automotive Systems Co. Ltd. was concluded when the contract was signed on July 18, 2014. Rheinmetall will surrender the majority of its voting rights in this business unit on the basis of the planned sale and will then continue the business unit as a joint venture together with the investor. As the requirements for reclassification as discontinued operations in accordance with IFRS 5 were met at the end of the second quarter, the disposal business unit is presented separately in the balance sheet and income statement in the quarterly financial report for the first six months of 2014.

The carrying amounts of assets and liabilities to be disposed of from the Aluminium-Technologie business unit break down as follows:

€ million

	6/30/2014
Disposal group held for sale	
Property, plant and equipment	60
Inventories	32
Trade receivables	17
Other assets	12
Total	**121**
Liabilities in connection with assets held for sale	
Provisions for pensions	33
Other provisions	14
Financial debts	6
Trade liabilities	23
Other liabilities	34
Total	**110**

The result from discontinued operations of the Aluminium-Technologie business unit includes the following items:

€ million

	Q2/2014	Q2/2013	H1/2014	H1/2013
Sales	59	49	112	95
Expenses	56	49	108	95
Loss from the measurement of discontinued operations at fair value less costs of disposal	7	0	7	0
Earnings before taxes from discontinued operations	**(4)**	**0**	**(3)**	**0**
Income taxes	4	0	4	0
Earnings after taxes from discontinued operations	**0**	**0**	**1**	**0**
of which Rheinmetall AG shareholders	*0*	*0*	*1*	*0*

Due to its classification as a discontinued operation as at June 30, 2014, the disposal business unit was measured at the lower of carrying amount or fair value less costs of disposal. This resulted in impairment of €5 million of property, plant and equipment and of €2 million of goodwill assigned to this business unit.

Cash flows assigned to the discontinued operations break down as follows:

€ million

	H1/2014	H1/2013
Cash flows from operating activities	(2)	(4)
Cash flows from investing activities	(3)	(4)
Cash flows from financing activities	0	1

TREASURY SHARES

The Annual General Meeting on May 6, 2014 authorized the Executive Board to acquire treasury shares equivalent to a maximum of 10 % of the share capital of €101,373,440 up until May 5, 2019. In the first six months of the current fiscal year, this right was not exercised. As at June 30, 2014, the portfolio of treasury shares amounted to 1,350,903 (previous year: 1,557,948; December 31, 2013: 1,524,233) with acquisition costs totaling €52 million (previous year: €60 million, December 31, 2013: €58 million), which were deducted from equity. The proportion of treasury shares in subscribed capital is 3.41 %.

SHARE-BASED REMUNERATION

A long-term incentive program exists within the Rheinmetall Group, under which beneficiaries receive Rheinmetall shares with a four-year lock-up period in addition to a cash payment. On April 1, 2014, the beneficiaries of the incentive program for fiscal 2013 received a total of 123,337 shares (previous year: a total of 214,557 shares on April 4, 2013, for fiscal 2012).

SHARE PURCHASE PROGRAM FOR EMPLOYEES

Eligible staff of the Rheinmetall Group in Germany, and in other European countries, may purchase Rheinmetall AG shares on preferential terms. There is a lockup period of two years for these shares. Within specified subscription periods, employees are given the opportunity to acquire a limited number of shares at a discount of 30 % on the applicable share price. Employees purchased 49,943 shares for €2 million on June 3, 2014.

EARNINGS PER SHARE

Since there are no outstanding shares, options or similar instruments that could dilute earnings per share, basic and diluted earnings per share are identical. Treasury shares are included in the weighted number of shares.

€ million

	Q2/2014	Q2/2013	H1/2014	H1/2013
Weighted number of shares *in million*	38.22	37.95	38.15	37.84
Earnings after taxes of Rheinmetall AG shareholders from continuing operations	9	-3	1	(25)
Earnings per share from continuing operations (€)	**0.22**	(0.06)	**0.01**	(0.66)
Earnings after taxes of Rheinmetall AG shareholders from discontinued operations	0	1	1	0
Earnings per share from discontinued operations (€)	**0.02**	**0.01**	**0.04**	**0.00**

RELATED PARTIES

Corporate related parties for the Rheinmetall Group are the joint ventures and associated companies carried at equity and the proportion of joint operations not included in the consolidated financial statements. As well as customer receivables and trade payables, the volume of unpaid items also includes prepayments received and made and loans to corporate related parties of €2 million (€2 million on December 31, 2013).

The interest income from such loans amounts to an unchanged €0 million.

€ million

	Volume of products/ services provided		Volume of products/ services received		Volume of open items	
	H1/2014	**H1/2013**	**H1/2014**	**H1/2013**	**6/30/2014**	**6/30/2013**
Joint Ventures/Joint Operations [1)]	84	55	4	3	(20)	(76)
Associated companies	2	3	14	12	(3)	(2)
	86	**58**	**18**	**15**	(23)	**(78)**

1) The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"

In an arm's length transaction, the Rheinmetall Group purchased supplies and services totaling less than €1 million from PL Elektronik GmbH, Lilienthal, whose sole shareholder is Mr. Armin Papperger, CEO of Rheinmetall AG.

DISCLOSURES ON FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value include derivatives held to hedge currency, interest rate, commodity price and electricity price risks. The fair values are determined on the basis of input factors observed directly or indirectly on the market. This corresponds to level 2 of the fair value hierarchy defined by IFRS 13. The input factors used and the measurement methods applied are described in the consolidated financial statements as of December 31, 2013. The fair values of financial instruments included on the balance sheet are comprised as follows:

€ million

	6/30/2014	12/31/2013
Derivatives without hedge accounting	7	7
Derivatives with hedge accounting	6	5
Financial assets	**13**	**12**
Derivatives without hedge accounting	12	16
Derivatives with hedge accounting	28	46
Financial liabilities	**40**	**62**

SEGMENT REPORTING

The definition of the reportable segments and the controlling system are described in the consolidated financial statements for the year ended December 31, 2013. The definition of segments and the accounting methods are applied unchanged from December 31, 2013.

€ million

Corporate sectors	Defence		Automotive 2)		Others / Consolidation		Group	
	H1/2014	**H1/2013**	**H1/2014**	**H1/2013**	**H1/2014**	**H1/2013**	**H1/2014**	**H1/2013**
External sales 1)	895	834	1,236	1,141	-	-	2,131	1,975
Amortization and depreciation	41	44	51	51	0	0	92	95
Of which impairment	*0*	-	-	*0*	-	-	*0*	*0*
Operating result	(52)	(48)	93	76	(9)	-	32	28
Restructuring expenditure	(2)	(26)	-	(21)	-	-	(2)	(47)
EBIT	(54)	(74)	93	55	(9)	-	30	(19)

1) *The previous year's figures are adjusted due to the implementation of IFRS 11 "Joint Arrangements"*

2) *Continuing operations*

Reconciliation of segment EBIT to Rheinmetall Group EBT € million

	H1/2014	H1/2013
Segment EBIT	39	(19)
Others	(9)	3
Consolidation	0	(3)
Group EBIT	**30**	**(19)**
Group net interest	(39)	(35)
Group EBT	**(9)**	**(54)**

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In July 2014, KSPG and HUAYU Automotive Systems Co. Ltd. concluded agreements regarding the formation of a joint venture in which the Aluminium-Technologie business unit is set to continue. The approval of the relevant antitrust authorities is still pending.

As a result of a deterioration in political relations between the Western nations and Russia at the start of the second half of 2014 and the associated withdrawal by the German government of the export license granted to us for a combat training center in Mulino (Russia), we no longer expect to fulfil the existing contract in the medium term. We anticipate that termination of the contract will result in a financial burden of between €15 million and €20 million.

There were no other significant events after the balance sheet date.

Disclosure in accordance with Section 37w (5) Sentence 6 of the German Securities Trading Act (WpHG)

The condensed consolidated interim financial statements as at June 30, 2014 – consisting of the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and selected Notes – and the Group interim management report for the period from January 1 to June 30, 2014 were not audited in accordance with Section 317 of the German Commercial Code (HGB) or subjected to a review by a person qualified to audit financial statements.

Responsibility statement

We represent that, to the best of our knowledge and in accordance with applicable accounting principles for interim reporting, the condensed consolidated interim financial statements of Rheinmetall AG present a true and fair view of the Rheinmetall Group’s assets, financial situation and earnings, and that the Group interim management report describes fairly, in all material respects, the Group’s business trend and performance, the Group’s position and the significant risks and opportunities of the Group’s expected future development in the remaining months of the fiscal year.

Düsseldorf, August 6, 2014

Armin Papperger Horst Binnig Helmut P. Merch

Legal information and contact

FINANCIAL CALENDAR

November 6, 2014
Report on Q3/2014

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This financial report contains statements and forecasts referring to the future development of the Rheinmetall Group which are based on assumptions and estimates made by the management. If the underlying assumptions do not materialize, the actual figures may differ from such estimates. Uncertain factors include changes in the political, economic and business environment, exchange and interest rate fluctuations, the introduction of rival products, poor uptake of new products, and changes in business strategy.

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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