Rheinmetall AG

Annual Report | 2014

Key figures 2014 I Rheinmetall Group

		2014	2013	2012	2011	2010	2009	2008
Order Situation [1]								
Order intake	€ million	**5,278**	5,609	5,311	4,189	3,974	4,649	3,780
Order backlog (Dec. 31)	€ million	**6,932**	6,442	5,405	4,950	5,136	4,940	3,683
Sales/Results [1]								
Sales	€ million	**4,688**	4,417	4,704	4,454	3,989	3,420	3,869
of which generated abroad	%	**75**	73	72	70	69	66	67
Operating result	€ million	**160**	211	268	342	289	153	230
Operating result margin	%	**3.4**	4.8	5.7	7.7	7.2	4.5	5.9
EBIT [1]	€ million	**102**	121	296	354	297	15	245
EBIT margin [1]	%	**2.2**	2.7	6.3	7.9	7.4	0.4	6.3
EBT [1]	€ million	**22**	45	216	295	229	(46)	193
Return on capital employed (ROCE) [3]	%	**3.9**	4.7	11.5	14.9	14.6	0.8	12.5
Balance Sheet								
Total equity	€ million	**1,197**	1,339	1,465	1,546	1,355	1,134	1,080
Total assets [1]	€ million	**5,271**	4,866	4,899	4,832	4,460	3,835	3,612
Equity ratio [1]	%	**22.7**	27.5	29.9	32.0	30.4	29.6	29.9
Cash and cash equivalents	€ million	**486**	445	501	535	629	557	203
Total assets less cash and cash equivalents [1]	€ million	**4,785**	4,421	4,398	4,297	3,831	3,278	3,409
Net financial debt [1,4]	€ million	**330**	147	98	130	76	(44)	205
Leverage ratio [1,5]	%	**6.9**	3.3	2.2	2.9	1.9	(1.3)	6.0
Net gearing [1,6]	%	**27.6**	11.0	6.7	8.4	5.6	(3.9)	19.0
Cash Flow								
Cash flow from operating activities [2]	€ million	**102**	211	359	290	147	331	318
Cash flow from investing activities	€ million	**(274)**	(188)	(219)	(251)	(258)	(140)	(211)
Cash flow from financing activities [1]	€ million	**210**	(76)	(174)	(131)	156	180	(67)
Cash Flow [2]	€ million	**(172)**	23	140	39	(111)	191	107
Human Resources								
Employees (Dec. 31) according to capacity [1]		**20,166**	20,264	21,767	21,516	19,979	19,766	21,020
Domestic		**9,827**	9,729	10,667	10,708	10,656	10,750	10,962
Foreign		**10,339**	10,535	11,100	10,808	9,323	9,016	10,058
Defence		**9,184**	9,193	9,623	9,833	9,037	9,304	9,217
Automotive [1]		**10,830**	10,927	12,003	11,548	10,816	10,339	11,682
Holding/service companies		**152**	144	141	135	126	123	121
Aktie								
Stock price, annual closing	€	**36.27**	44.85	36.40	34.24	60.17	44.74	22.90
Stock price, annual high	€	**57.87**	46.04	47.23	66.46	60.17	44.74	53.81
Stock price, annual low	€	**30.69**	35.01	31.36	30.35	42.50	20.41	16.82
Earnings per share	€	**0.47**	0.75	4.55	5.55	4.23	(1.60)	4.09
Dividend per share	€	**0.30**	0.40	1.80	1.80	1.50	0.30	1.30

[1] Adjusted 2013 figures on the basis of IFRS 11
[2] Adjusted 2013 figures from investments carried at equity
[3] EBIT/average capital employed
[4] Financial liabilities less cash and cash equivalents
[5] Net financial liabilities / total assets adjusted for cash and cash equivalents
[6] Net financial liabilities / equity

SECURITY & MOBILITY
2 CORPORATE SECTORS
6 DIVISIONS

Sales	4,688 € million
Operating Result	160 € million
Employees	22,065
Order Backlog	6.9 € billion
R&D Intensity	4.6%
Capital Expenditure	245 € million

125 YEARS RHEINMETALL

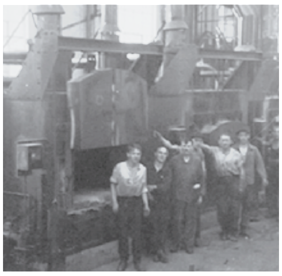
As one of the oldest German companies to be founded originally as a stock corporation, Rheinmetall has stood for continuity and change in the history of German industry and commerce since 1889.

Rheinmetall AG
1889
The year that Rheinische Metallwaaren und Maschinenfabrik was founded

Defence
1896
Heinrich Ehrhardt develops the first ordinance pounder used for field artillery

Automotive
1909
The steel trading company Gebr. Pierburg is founded in Berlin

Automotive
1910
Deutsche Ölfeuerungswerke is founded, which later becomes Kolbenschmidt



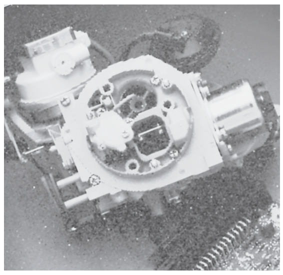
Defence
1933
Rheinmetall acquires the major locomotive manufacturer August Borsig

Automotive
1950
Kolbenschmidt casts the first cylinder head for Porsche in Neckarsulm

Defence
1957
Rheinmetall begins producing the MG 42 and a 20 mm cannon for the German armed forces

Defence
1979
Start of serial production of the 120 mm smoothbore gun for the Leopard 2

Automotive
1983
Pierburg begins serial production of an electronic carburetor



Automotive
1986
The acquisition of Pierburg GmbH leads to the establishment of the Automotive sector

Defence
1994
Rheinmetall presents the Wiesel 2 armored transport vehicle, which can be airlifted

Automotive
1998
The first serially produced engine block is manufactured from aluminum casting

Defence
2002
The first prototype of the GTK Boxer is demonstrated

Defence
2006
Rheinmetall is commissioned to implement the Infantryman of the Future project

Automotive
2011
[illegible]

Defence
2014
Unterlüß becomes the production center for the new Puma infantry fighting vehicle

125 YEARS OF RHEINMETALL

A FIREWORKS DISPLAY OF STRAIGHT TALKING, SHOW INTERLUDES AND PYROTECHNICS

Around 1,000 guests accepted Rheinmetall's invitation to celebrate the Group's 125th anniversary at the exhibition grounds in Düsseldorf on September 12, 2014. It was a glittering evening with a fireworks display of speeches, live performances, dancing and a party atmosphere. A colorful mixture that set off sparks and electrified the audience. The main points of the content were brought out clearly at the beginning by Rheinmetall CEO Armin Papperger and guest speakers Guntram Schneider, Minister for Labor, Integration and Social Affairs of the state of North Rhine-Westphalia, Thomas Geisel, the mayor of Düsseldorf, and Gerriet Danz, the non-fiction author and communications trainer. Minister Schneider, for example, clearly showed his belief in Rheinmetall's Defence sector in his speech.

The official program was brought to an impressive conclusion with a fireworks show, which offered the approximately 1,000 guests a colorful thirty-minute spectacle of the finest quality. Around 30,000 rounds of firework ammunition rose from three launch pads into the dark night sky. Fans, fountains, comets, light batteries, Roman candles, round and cylinder bombs and a lavish pyrotechnic light display added up to a total of over 10,000 individual pyrotechnic effects, which were perfectly coordinated with the background music. Guests from Germany and abroad agreed that it was a night to remember.

OPENING DOORS

SPECIAL SHIPS FOR PROCESSING CRUDE OIL

For the new Rheinmetall International Engineering (RIE), a joint venture with Ferrostaal, the fulfillment of a strategically important large order was on the agenda for 2014: The delivery of modules for processing crude oil on special ships began in Brazil in the summer. The order, which is worth several hundred million, includes fitting six special ships for the extraction of oil and gas. The deal is part of a long-term investment program in which the Brazilian government plans to exploit the deposits in the young offshore oil fields off the coast of Brazil between now and 2020. For Rheinmetall, this success on the civilian market has opened important doors: The Group expects RIE's activities in Brazil to provide fresh impetus for its established Defence business.

FRESH DRIVE DOWN AT THE HARBOR

LOWER RHINE PLANT COMPLETED IN POSSIBLE RECORD TIME

It's not all about ships at this harbor, but about systems and components relating to engines. Rheinmetall Automotive constructed the new Pierburg Lower Rhine plant in the harbor area of Neuss in a possible record time of around one year and started production there in spring 2014. A look back: After the first spadeful of earth was turned in fall 2012 and after completion of the preparatory work, actual construction began in spring 2013. Production facilities have gradually been transferred from the two existing sites in Neuss and Nettetal to the Lower Rhine plant and set up there. Pierburg employs 700 staff at the new site, which manufactures solenoid valves and exhaust gas recirculation coolers, among other products. As well as a foundry and finishing facility, the plant has a state-of-the-art high-bay warehouse.

A NEW GENERATION OF "PREDATORS"

THE ALL-ROUNDER PUMA REPLACES THE MARDER

The final preparations for serial production of the Puma, currently the most modern infantry fighting vehicle in the world, were made at Rheinmetall's site in Unterlüß in Südheide, Lower Saxony, in 2014. New production halls were built and prototypes demonstrated that they could perform – whether in the Arctic cold or in

hot desert sand. The days of the ageing Marder infantry fighting vehicle are thus numbered, and delivery of the largest individual order in Rheinmetall's 125-year history can begin.

150 new jobs will ensure that 20 to 25 Puma infantry fighting vehicles can leave the plant each year. A feat of logistics is required before each maiden voyage. If each individual screw is included, a Puma consists of around 30,000 components. Smaller assemblies are therefore pre-welded and joined together on the floor plate to form the complete hull. Around 800 hours of work are required for the welding of the hull alone. A total of 350 vehicles are ultimately expected to leave the plant.

The Puma is a state-of-the-art solution to the challenges posed by areas of conflict around the world: Maximum protection for the vehicle's crew, the potential to be airlifted and the ability to upgrade and exchange basic systems quickly are requirements that only a brand new vehicle concept like the Puma can fulfill. No other weapon system is better suited to the transformation process in the German armed forces, as the Puma "combines a high level of protection, assertiveness, mobility and leadership ability in an ideal way," according to the former Chief of Staff, Army, Lieutenant-General Hans-Otto Budde. The Marder can at least enter a well-earned retirement.

THE HIGHEST CUSTOMER EXPECTATIONS ARE FULFILLED

LARGE ORDER FROM NORWEGIAN ARMED FORCES FOR RMMV

Twelve weeks of negotiations, countless meetings, almost 35,000 questions – only then was the deal concluded. The Norwegian armed forces awarded an important large order for military logistics vehicles to Rheinmetall MAN Military Vehicles (RMMV) in 2014. A framework agreement between the Norwegians and the joint venture between Rheinmetall AG and MAN Truck & Bus AG governs the supply of innovative vehicles and services up to 2025. The first 120 trucks in the HX 2 series, worth over €100 million, were ordered when the contract was signed. The vehicles are to be delivered by mid-2017. The order also includes logistics services such as the supply of replacement parts and maintenance. The high-tech vehicle family, which comes in a variety of different versions, will be specially adapted for the Norwegians and tailored precisely to their exacting requirements. Some of the trucks will have integrated armored vehicle cabins, which will effectively protect the crew from bombardment and fragmentation effects.

To ensure that cruise ships can safely enter any port, the AIDA fleet places its trust in simulation technology from Rheinmetall Defence.

PIERBURG PLANT IN SOUTH CAROLINA RECEIVES AWARD

A QUALITY PARTNER TO FORD

The Pierburg plant in Fountain Inn received the coveted Ford Q1 Award for outstanding quality and performance in 2014.
Ford awarded the prize to the plant for its exceptional performance in the areas of quality and quality assurance, action planning, customer reviews and continuous improvement. Pierburg produces a variety of products for Ford in Fountain Inn for the reduction of emissions and fuel consumption and the enhancement of vehicle performance. These include EGR valves, throttle valves and control valves. Fountain Inn was not alone in receiving this coveted award, because Ford also presented it to the piston and pump plants in Celaya, Mexico, and the Indian KSPG site in Pune.

CLEVER AND SUCCESSFUL

75 MILLIONTH EGR VALVE FROM THE BASQUE COUNTRY

Exhaust gas recirculation (EGR) is an intelligent method of reducing emissions: A certain amount of exhaust gas is extracted from the exhaust manifold and added to the intake air again. The crucial work is performed by EGR valves, which are among Rheinmetall Automotive's best-selling products. Pierburg's site in the Spanish Basque country plays a key part in this. The 75 millionth exhaust gas recirculation valve was produced in Abadiano in November 2014. Along with convincing technology, increasingly strict emissions regulations around the world have contributed to the triumph of exhaust gas recirculation. Javier Egurrola, head of the site, says: "We have repeatedly responded to the rising quality standards on the market and have grown in line with increasingly tight requirements."

FIT FOR THE FUTURE

JOINT VENTURE WITH CHINESE PARTNER

In China, joint ventures with Chinese partners have been normal for Rheinmetall Automotive for almost 20 years. KSPG has also had a German-Chinese joint venture since 2014 with its head office in Germany, specifically Neckarsulm. KS Aluminium-Technologie was incorporated into a joint venture with HUAYU Automotive Systems (Shanghai) Co., Ltd. (HASCO), which is majority-owned by China's SAIC Group. The aim of this partnership is to exploit opportunities on the

market for aluminum casting together and to expand the business globally. KSPG CEO Horst Binnig says: "We believe that 'Castings' will continue to play an important part in our corporate strategy in future and, with HASCO, we want to make the companies that have merged within the new joint venture into a leading international manufacturer of vehicle components made from aluminum casting."

SLEEPWALKING INTO A SAFE HAVEN

AIDA TRUSTS THE SIMULATION AND TRAINING BUSINESS UNIT

More safety through technical expertise: This formula is vital not only for military developments. Passengers on giant cruise ships also trust the crew to navigate them safely through wind and weather. At the Rostock-based cruise shipping company AIDA, commanders train in simulators from the Simulation and Training business unit of the "Electronic Solutions" division of Rheinmetall Defence. And as AIDA is constantly expanding and refining its fleet, the Rheinmetall technology due to be launched on the market in 2015 has also been adapted to the latest generations of ships.

As most simulators are generic, i.e. they can be used for different types of ships, captains, officers and engineers rarely need to learn a new system in reality. The simulator currently used by AIDA in Rostock looks deceptively like the bridge of the deep-sea liner AIDAblu. During training, harbors including Hamburg, Bangkok and Singapore are shown on 220-degree panoramic screens. Influences such as swell, wind, current, different light conditions and precipitation can also be integrated into maneuvers. This should hopefully ensure that the new AIDAprima always has enough water under its keel in 2015. At any rate, the captains can practice extensively beforehand with the Rheinmetall simulator.

CONTENTS

SUPERVISORY BOARD OF RHEINMETALL AG

Shareholder representatives	Employee representatives
Klaus Greinert Chairman First appointed: July 10, 1997 Appointed until close of the 2017 Annual General Meeting	**Dr. Rudolf Luz** Vice Chairman First appointed: January 26, 2001 Appointed until close of the 2017 Annual General Meeting
Professor Dr. Andreas Georgi First appointed: June 10, 2002 Appointed until close of the 2017 Annual General Meeting	**Roswitha Armbruster** First appointed: May 15, 2012 Appointed until close of the 2017 Annual General Meeting
Dr. Siegfried Goll First appointed: February 28, 2008 Appointed until close of the 2018 Annual General Meeting	**Daniel Hay** First appointed: May 7, 2014 Appointed until close of the 2017 Annual General Meeting
Professor Dr. Susanne Hannemann First appointed: May 15, 2012 Appointed until close of the 2017 Annual General Meeting	**Markus Schaubel** First appointed: July 1, 2014 Appointed until close of the 2017 Annual General Meeting
DDr. Peter Mitterbauer First appointed: October 4, 2006 Appointed until close of the 2017 Annual General Meeting	**Dr. Michael Mielke** First appointed: September 1, 2010 Appointed until close of the 2017 Annual General Meeting
Detlef Moog First appointed: July 8, 2010 Appointed until close of the 2016 Annual General Meeting	**Sven Schmidt** First appointed: July 1, 2014 Appointed until close of the 2017 Annual General Meeting
Professor Dr. Frank Richter First appointed: January 1, 2006 Appointed until close of the 2017 Annual General Meeting	**Harald Töpfer** First appointed: February 9, 2004 Appointed until close of the 2017 Annual General Meeting
Toni Wicki First appointed: December 6, 2010 Appointed until close of the 2016 Annual General Meeting	**Wolfgang Tretbar** First appointed: July 10, 1997 Appointed until close of the 2017 Annual General Meeting

Permanent committees

Personnel Committee
Klaus Greinert (Chairman)
Toni Wicki
Dr. Rudolf Luz
Wolfgang Tretbar

Audit Committee
Klaus Greinert (Chairman)
Professor Dr. Susanne Hannemann
Dr. Rudolf Luz
Roswitha Armbruster

Mediation Committee
Klaus Greinert (Chairman)
Professor Dr. Frank Richter
Dr. Rudolf Luz
Harald Töpfer

Nomination Committee
Klaus Greinert (Chairman)
Professor Dr. Frank Richter

Letter to shareholders
Report of the Supervisory Board

ACTIVITIES OF THE SUPERVISORY BOARD IN FISCAL 2014

During the 2014 fiscal year, the Supervisory Board of Rheinmetall AG performed the tasks assigned to it in accordance with the law, the Company bylaws and its rules of procedure with commitment, responsibility and conscientiousness. We supervised the Executive Board closely, provided it with support and advice on all matters of importance to the Company and monitored its management activities continuously.

We were directly involved at an early stage and to an appropriate extent in all decisions of key strategic, operational and economic importance to the Rheinmetall Group. We examined the Company's situation, challenges, opportunities, risks and prospects in detail.

The Supervisory Board held four regular meetings in the year under review. The Supervisory and Executive Boards worked together constructively in an open atmosphere of trust. All 16 members of the Supervisory Board attended two meetings of the plenary assembly, while the other two were each attended by 15 members. All committee members were present at each committee meeting, with one exception.

The Executive Board reported on matters including business performance, the current earnings and financial position, general economic, macroeconomic and regulatory conditions, the Company's prospects when faced with competition from abroad and opportunities and risks in regional growth markets. Medium-term strategic and operational targets were discussed, along with their economic significance for Rheinmetall and their expected impact on the Company's financial situation. Aside from the Group's corporate orientation and the structural development of the Defence and Automotive sectors and their divisions, discussions focused on measures to ensure competitiveness and future viability and the future long-term position of the Rheinmetall Group. In addition to a number of other key topics, the implementation status of restructuring measures initiated in 2013, the employment situation, the risk situation, risk management and in particular the Company's compliance were also discussed. We were provided with a detailed explanation whenever actual business performance deviated from previous plans and targets.

Measures or transactions of the Executive Board requiring approval in accordance with legal and statutory provisions and the rules of procedure were submitted to us in good time for a decision to be made. After thorough analysis and detailed discussions, the Supervisory Board made its decisions and granted its approval for the applications made on the basis of thoroughly informative documents and detailed draft resolutions.

Between meetings, we were informed of the current situation of the Rheinmetall Group and its two sectors, Defence and Automotive, in writing on a quarterly basis. In addition to the Supervisory Board meetings, the CEO and I engaged in a close exchange of information and ideas. At regular work meetings, for example, we discussed current developments, pending decisions and significant transactions of importance to the assessment of the situation and the Company's development.

On the basis of extensive reports and in-depth presentations and the detailed information provided by the Executive Board, the Supervisory Board carried out a critical examination of the Company's management. Based on our intensive work and reviews, we are convinced of the legality and propriety of management by the Executive Board and of the performance of the organization. This includes the functionality and effectiveness of the internal control system, the risk management system and the compliance management system.

TOPICS AND RESOLUTIONS DURING THE PLENARY ASSEMBLY OF THE SUPERVISORY BOARD

March 2014 – At the annual accounts meeting on March 18, 2014, the Executive Board provided information on business performance during the first two months of the year under review and gave its outlook on results to be expected in the first quarter of 2014. Another agenda item was discussion of the single-entity and consolidated financial statements of Rheinmetall AG as at December 31, 2013, issued with an unqualified auditor's opinion by PricewaterhouseCoopers (PwC), together with the summarized management report for Rheinmetall AG and the Rheinmetall Group and the Executive Board's proposal for the appropriation of net income for the year. The auditors described the scope of their assignment, their audit approach and the focal points of their audit, reported on the material findings and results of their audits and gave details on additional services provided. Both the Executive Board and PwC provided comprehensive answers to our questions. After considering the Company's financial situation and the expectations of shareholders and the capital market, we approved the Executive Board's proposal for appropriation of net income. We also looked at the Supervisory Board's report to the 2014 Annual General Meeting and deliberated in detail on the draft proposals to be submitted to the Annual General Meeting, which we approved. In this connection we also approved the conclusion of new controlling agreements and profit transfer agreements and the amendment of those already in place. We concluded the meeting by discussing achievement of targets by the Executive Board members and their remuneration for fiscal 2013.

May 2014 – On May 5, the Executive Board outlined the Group's business performance in the first quarter and the current economic position of the Rheinmetall Group as at April 2014. The Executive Board informed us of developments in connection with the planned delivery of a combat training center to Russia and the impact of a potential ban on delivery. The Rheinmetall Group's overall country risk for Russia was also discussed in connection with this. In addition, the Executive Board provided an assessment of the Rheinmetall Group's economic situation as at June 30, 2014 and for 2014 as a whole, taking into account expected developments in the macroeconomic environment, the automotive and defense industries, the ammunition market and large projects and including risks. The Executive Board also informed us of the status of the planned joint venture with our Chinese contractual partner Huayu Automotive Systems (Shanghai) Co. (HASCO) in the field of aluminum casting, to which KSPG AG plans to contribute 50 % of its shares in KS Aluminium-Technologie. The Executive Board presented its analysis of the shareholder structure as at the end of 2013. We also dealt with the results of an independent study into the Executive Board's remuneration and concluded, after detailed discussion, that remuneration for 2012 and 2013 was appropriate on the basis of a horizontal review. Owing to the departure of Heinrich Kmett on June 30, 2014 for age-related reasons, we elected Roswitha Armbruster to the Audit Committee as his successor from July 1, 2014. The Supervisory and Executive Boards also used the meeting to make preparations for the Annual General Meeting taking place the following day.

August 2014 – At the meeting on August 28, the Executive Board outlined the business situation for the first six months of 2014 and prospects for overall expected business development in 2014, including the general political situation, the market environment in the two corporate sectors and the scheduled progress of restructuring measures. The Executive Board also provided information on the conclusion of the 50:50 joint venture agreement in the field of aluminum technology with HASCO in July 2014. The aim is to develop this area of business together into a leading international manufacturer of vehicle components made from aluminum casting.

As well as changes in the European defense industry and the resulting strategic and operational opportunities and risks for the Defence sector, the possible effects of the export restrictions imposed by the Federal Ministry of Economic Affairs were discussed in detail. We were also informed of the status of investigation proceedings at our Bremen-based subsidiary Rheinmetall Defence Electronics, which had been accused of bribing Greek government officials. In connection with this, the Executive Board informed us of the extensive reorganization of compliance activities that came into effect at Group level on July 1, 2014, which includes setting up additional resources. After the Executive Board had explained the reasons for plans to issue promissory note loans for long-term refinancing, which have been proposed in view of historically low interest rates, the maturities of long-term credit facilities and the foreseeable liquidity requirement for operating business, we approved this measure. We approved strategic optimizations put forward as part of the Executive Board's report on the development of the Automotive sector. Finally, we dealt with corporate governance at the Rheinmetall Group and adopted the current declaration of conformity that is to be submitted in accordance with Section 161 of the German Stock Corporation Act (AktG).

December 2014 – At the last meeting of the year on December 10, the Executive Board firstly presented its report for the third quarter of 2014. It informed the plenary assembly of the Rheinmetall Group's current business situation and gave its outlook for the remaining months of the fiscal year. We then discussed the Executive Board's planning for the 2015 fiscal year and medium-term planning up to 2017. We also scrutinized the assumptions made by the Executive Board in corporate planning and discussed them in detail with regard to risks to the company associated with the general economic and regulatory environment. The possible scenarios that had been presented by the Executive Board for consolidation of the defense technology industry with the involvement of Rheinmetall were discussed in depth in connection with this. We approved the framework investment plan submitted for the 2015 fiscal year. In addition to our resolution of August 28, 2014 on the issuing of promissory note loans, we approved plans to issue bonds after the Executive Board had commented on the background to this draft resolution. In connection with reports on compliance at the Rheinmetall Group, we also dealt with investigation proceedings by the public prosecutor's office of Bremen regarding Rheinmetall Defence Electronics. After detailed discussions, we approved the draft proposals submitted on ending these administrative offense proceedings at the recommendation of the Audit Committee. We also passed a resolution to mandate PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch, which was elected at the Annual General Meeting on May 6, 2014, to audit the single-entity and consolidated financial statements together with the summarized management report for Rheinmetall AG and the Rheinmetall Group for the 2014 fiscal year. At this meeting we also analyzed and evaluated our activities in an internal efficiency review, which included aspects such as preparation for and procedure during meetings, the scope and content of documents and the level of detail provided in information. In addition, we noted that the Supervisory Board included an adequate number of independent members, based on our own assessment.

COMMITTEES OF THE SUPERVISORY BOARD

In addition to the Mediation Committee required by law in accordance with Section 27 (3) of the German Codetermination Act (MitbestG), the Supervisory Board still has three further permanent committees whose primary task is to prepare time-consuming topics requiring extensive discussion for plenary assemblies and to examine draft proposals in advance.

Page 36 of the corporate governance report contains information on the responsibilities of the committees.

In appropriate cases, the Supervisory Board can transfer its authority to pass resolutions to individual committees where legally possible.

As the Supervisory Board Chairman, I chair all committees and inform the plenary assembly of the content and results of committee meetings during the next meeting of the Supervisory Board.

Personnel Committee – At its meetings in March, May, August and December 2014, the committee dealt with the achievement and agreement of targets for members of the Executive Board, further issues relating to Executive Board remuneration and pension arrangements.

Audit Committee – At its meetings in March, May, August, November and December 2014, the Audit Committee addressed the single-entity and consolidated financial statements and the Executive Board's proposal for the appropriation of net income and the dividend, monitoring the accounting process and the effectiveness of the internal control system, the risk management system and the internal auditing system. Prior to publication, the quarterly and semi-annual results were discussed in detail with the Executive Board. The Audit Committee obtained the declaration of independence from the auditors required in accordance with the German Corporate Governance Code and prepared the Supervisory Board's proposal to the Annual General Meeting for the election of the auditor for fiscal 2014. Other issues discussed at meetings included the development of the risk management and compliance management system.

In addition to proceedings brought by Rheinmetall Air Defence in India against an order for a blacklisting, the Audit Committee dealt with investigations by the public prosecutor's office of Bremen in connection with administrative offense proceedings against Rheinmetall Defence Electronics, in which the company has been accused of allowing a representative to make illegal payments in connection with armaments deals in Greece. After considering all the information available, the members of the Audit Committee voted at their meeting on December 9, 2014 to end criminal investigation proceedings in exchange for payment of a fine, and recommended to members of the Supervisory Board that they approve the corresponding draft proposals of the Executive Board at the plenary assembly on December 10, 2014.

At the December meeting, Internal Auditing presented its report on its auditing activities within the Rheinmetall Group in the past fiscal year, the results of individual audits in 2014 and the planning of audits for 2015 as scheduled. The Chief Compliance Officer also presented the compliance report for 2014 and gave an overview of the status of the compliance organization.

Mediation Committee – This committee, formed in accordance with the provisions of Section 27 (3) of the German Codetermination Act, did not convene during the past fiscal year.

Nomination Committee – The Nomination Committee did not meet during the year under review.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

At our meeting on August 28, 2014, we examined the German Corporate Governance Code and the implementation of the recommendations in the new version of May 13, 2013. The Executive and Supervisory Boards then issued an updated declaration of conformity in accordance with Section 161 AktG, which can be found on page 32. The full wording of the new and previous declarations of conformity has also been published on the Company's website.

In their combined corporate governance report on pages 32 to 39, the Executive Board and Supervisory Board provide information on corporate governance at Rheinmetall in accordance with Item 3.10 of the current German Corporate Governance Code.

CONFLICTS OF INTEREST

There were no indications of conflicts of interest relating to mandates among members of the Supervisory Board or Executive Board in fiscal 2014 in connection with advisory activities or positions on the boards of other companies which would need to be disclosed to the Supervisory Board immediately and reported to the Annual General Meeting.

No former members of the Executive Board of the Company belong to the Supervisory Board.

The auditor submitted a declaration of independence in accordance with Item 7.2.1 of the German Corporate Governance Code. The requirements of Item 7.2.3 of the German Corporate Governance Code regarding the contractual relationship between the Company and the auditor have been fulfilled.

CHANGES TO THE COMPOSITION OF THE EXECUTIVE BOARD

Horst Binnig succeeded Dr. Gerd Kleinert on the Executive Board of Rheinmetall AG on January 1, 2014. As Chairman of KSPG AG, on this Board he is the member responsible for the Automotive sector. The Supervisory Board had appointed him as a member of the Executive Board of Rheinmetall AG until December 31, 2016 at its meeting on August 28, 2013.

CHANGES TO THE COMPOSITION OF THE SUPERVISORY BOARD

Three changes were made to the line-up of the Supervisory Board that involved employee representatives. Julia Cuntz resigned her seat on the Supervisory Board with effect from the close of the Annual General Meeting of Rheinmetall AG on May 6, 2014. As proposed by IG Metall, and with the Company's consent, the registry court of the District Court of Düsseldorf appointed Daniel Hay as her successor from May 7, 2014. His term in office will end at the close of the 2017 Annual General Meeting.

Heinrich Kmett and Wolfgang Müller retired on June 30, 2014. Markus Schaubel and Sven Schmidt joined the Supervisory Board as the members that had been elected to replace these employee representatives on March 21, 2012. Their period of office will run until the end of the Annual General Meeting that will resolve upon the approval of activities for the 2016 fiscal year.

We thanked the departing Supervisory Board members for their good teamwork on our Board and their professional, committed and solution-oriented work in the Company's interests.

An overview of the current composition of the Supervisory Board and its committees is shown on page 2.

Report of the Supervisory Board

SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2014

In December 2014, in accordance with the resolution of the Annual General Meeting on May 6, 2014, we mandated PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch, to audit the single-entity and consolidated financial statements together with the summarized management report for Rheinmetall AG and the Rheinmetall Group for fiscal 2014. The scope and focal areas of the audit had been decided on in advance by the Audit Committee.

The single-entity financial statements prepared by the Executive Board in accordance with German GAAP as at December 31, 2014 and the consolidated financial statements prepared on the basis of Section 315a of the German Commercial Code (HGB) in conformity with International Financial Reporting Standards (IFRS) as adopted by the EU, together with the summarized management report for Rheinmetall AG and the Rheinmetall Group, including the accounts, were audited by Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch, in accordance with statutory regulations and were issued with an unqualified auditor's opinion. The auditor conducted the audit in accordance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW).

The members of the Supervisory Board were issued with the single-entity and consolidated financial statements documentation, the draft proposal on the appropriation of net income and the audit reports submitted by the auditors in good time in order to ensure an in-depth, thorough review. This financial statement documentation was discussed in detail during the Audit Committee's meeting on March 12, 2015 and the Supervisory Board's annual accounts meeting on March 18, 2015 in the presence of the auditors and according to the auditors' report. They provided information on the scope, focal points and results of their audit, answered questions and provided additional information.

We examined the single-entity and consolidated financial statements, the summarized management report and the proposal for the appropriation of net income for the year. There are no objections. We concurred with the results of the audit performed by the auditors.

We approved the single-entity and consolidated financial statements presented by the Executive Board for the 2014 fiscal year. The single-entity financial statements have thus been adopted under the terms of Section 172 AktG. We approved the summarized management report, particularly the assessment of Rheinmetall's further development. We concurred with the Executive Board's proposal for appropriation of net income, which provides for the distribution of a dividend of € 0.30 per share that is entitled to a dividend for the year under review.

Rheinmetall faced major challenges last year. We would like to thank you, our business partners and shareholders, for the trust you have shown in us. We wish to thank the Executive Board, management and employees for their commitment, loyalty and successful work during a fiscal year that has been eventful and at times extremely difficult.

Düsseldorf, March 18, 2015

On behalf of the Supervisory Board
Klaus Greinert
Chairman

Letter to shareholders
Executive Board of Rheinmetall AG

Helmut P. Merch, Armin Papperger, Horst Binnig (from left)

Armin Papperger, engineering graduate
Born in 1963

CEO since January 1, 2013
Member since January 1, 2012
Appointed up to December 31, 2016
Employee of Rheinmetall since 1990

Armin Papperger has also been Chairman of the Management Board Defence since January 1, 2012.

Horst Binnig, engineering graduate
Born in 1959

Member since January 1, 2014
Appointed up to December 31, 2016
Employee of Rheinmetall since 1999

Horst Binnig represents the Automotive sector on the Executive Board of Rheinmetall AG.

Horst Binnig has also been Chairman of KSPG AG since January 1, 2014.

Helmut P. Merch, business graduate
Born in 1956

Member since January 1, 2013
Appointed up to December 31, 2017
Employee of Rheinmetall since 1982

Helmut P. Merch is CFO of Rheinmetall AG and CFO on the Management Board Defence.

Rheinmetall share basic information

	2014
Share class	Bearer shares
Securities identification number (WKN)	703000
International Security Identification Number (ISIN)	DE 0007030009
Stock exchange	All German stock exchanges
Deutsche Börse admission segment	Prime Standard/Regulated Market
Sector	Industrial goods
Indices	MDAX, EURO STOXX 600
Bloomberg ticker symbol	RHM
Reuters ticker symbol	RHMG
Designated Sponsor	Commerzbank, Deutsche Bank
Announcements	Electronic Federal Gazette
First listed on the stock exchange	November 14, 1894

Rheinmetall share key figures

		2014	2013	2012	2011	2010
Equity as at end of the year						
Share capital	€ million	101.37	101.37	101.37	101.37	101.37
Issued shares	Thousands of shares	39,599	39,599	39,599	39,599	39,599
Free float (incl Rh-Treasury Stocks)	%	100	100	100	100	100
Rheinmetall AG treasury stock	%	3.1	3.9	4.8	3.4	3.3
Share price						
Share price at end of fiscal year (Xetra	EUR	36.27	44.85	36.40	34.24	60.17
Performance over the year	%	-19	+23	+6	-43	+34
Highest closing price (Xetra)	EUR	57.87	46.04	47.23	66.46	60.17
Lowest closing price (Xetra)	EUR	30.69	35.01	31.36	30.35	42.50
Stock exchange data						
Stock market value of all shares as at end of the year	€ billion	1.4	1.8	1.4	1.4	2.4
Average turnover per trading day (Xetra)	Thousands of shares	227	215	271	276	234
MDAX ranking at year-end						
according to market capitalization		33	25	25	17	10
according to stock exchange turnover		20	23	12	12	14
Key figures						
Earnings per share	€	0.47	0.75	4.55	5.55	4.23
Equity per share	€	31.34	35.30	35.54	36.76	33.12
Cash flow per share	€	5.91	6.09	9.34	10.49	9.00
Dividend						
Total payout	€ million	11.5	15.2	67.9	68.5	57.5
Payout ratio	%	64	53	36	32	35
Dividend per share entitled to dividends	€	0.30	0.40	1.80	1.80	1.50
Dividend yield	%	0.8	0.9	4.9	5.3	2.5

2014 ON THE STOCK MARKETS – A ROLLERCOASTER RIDE

After two very dynamic years on the stock markets in 2012 and 2013, in which the DAX gained 29% and 25% respectively, markets recorded a sideways movement in 2014. The DAX had climbed 3% by the end of the year. The performance of the MDAX was similar. Having risen by 34% in 2012 and 39% in 2013, it gained only 2% in 2014.

However, this moderate net growth does not reflect the high levels of volatility that share prices were exposed to. Market sentiment was shaped by dampening and stimulating effects triggered by the crisis in Ukraine, Russia's economic troubles, the rapid collapse of the rouble, concerns about Greece and the European economy, the drop in oil prices and the continuation of the expansionary monetary policy of major central banks.

The DAX fluctuated between 9,000 and 10,000 points in the first half of 2014, reaching an all-time high of 10,029 points on June 10, 2014. The MDAX mainly fluctuated within a range of 16,000 to 17,000 points during the same period; this index also reached an unprecedented level of 17,168 points on June 10.

However, volatility increased significantly during the second half of 2014, with the DAX sliding to 8,572 points and the MDAX to 14,733 points in October. Markets were then boosted by the flood of money from the European Central Bank (ECB) and other central banks, the drop in commodities prices, particularly for crude oil, the economic upturn in the USA and the fall in interest rates to as low as zero.

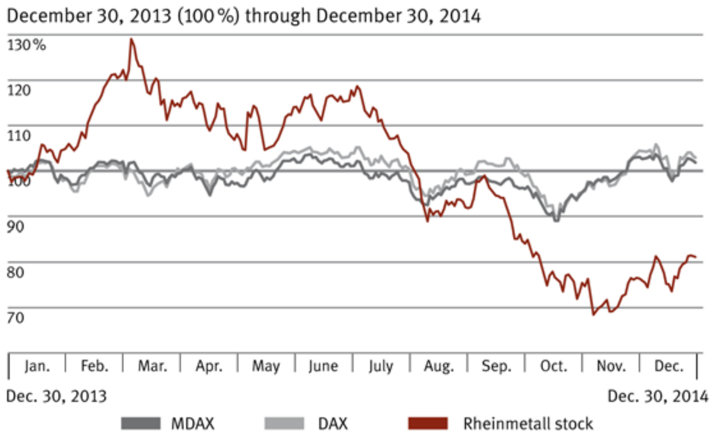
These market developments led to a revaluation of share prices within a few weeks, and the indices reached record highs again on December 5: the DAX climbed to 10,087 points and the MDAX to 17,187 points. Although this upturn did not continue until the end of the year, when the DAX stood at 9,806 points and the MDAX at 16,935 points, dynamic growth resumed at the beginning of 2015.

Rheinmetall stock price trend in comparison to development of the DAX and MDAX

+3% DAX

MDAX +2%

Rheinmetall -19%

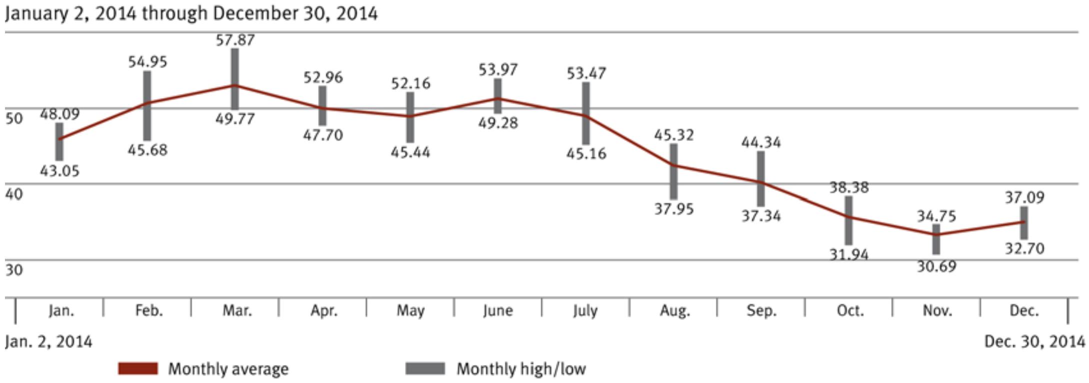


Letter to shareholders
Rheinmetall on the capital markets

RHEINMETALL SHARE PRICE PERFORMANCE DURING THE 2014 FISCAL YEAR

Following a good first quarter and having reached an annual high of €57.87 on March 5, the Rheinmetall share came under considerable pressure later in 2014. While the Automotive sector reported positive sales and earnings development for several quarters, various factors had a negative impact on operating business in the Defence sector. The revocation on August 7, 2014 of the export license for a project to supply Russia made it necessary to adjust the forecast for net income for the year. Owing to further negative effects due to external and internal causes, the forecast had to be lowered again on November 2, 2014. This led to a drop in the share price to a low of €30.69 on November 4. A recovery then began, ending the downward trend of 2014 and leading to a share price of €36.27 at the end of the year. The Rheinmetall share thus lost 19 % over the year as a whole.

Rheinmetall share price performance in €



RHEINMETALL'S SHARE LISTING

Rheinmetall AG shares, which have the securities identification number 703000 (ISIN Code DE0007030009), are traded via Xetra and all German stock exchanges. Alternative trading systems are playing an increasingly important role. These include multilateral trading facilities (MTF) that are similar to stock exchanges, such as Chi-X, Turquoise and Tradegate, which are governed by rules relating to admission, transparency in pricing, liquidity, transaction processing and certain control mechanisms. However, the shares are also traded off the floor on platforms that are referred to collectively under the term OTC (over the counter). These are not generally subject to stock market regulation and are less transparent than stock exchanges and MTF in terms of pricing and liquidity. However, traders benefit from lower costs and are able to carry out larger transactions without other market participants noticing. In contrast, reporting systems such as BATS Chi-X Europe OTC and other systems that are generally run by banks and stock exchanges allow an insight into the volume of transactions carried out here.

Rheinmetall shares processed via trading platforms %

Trading platform	2014	2013
Xetra	37.7	45.4
Over the Counter (OTC)	32.3	46.3
Multilateral Trading Facility (MTF)	28.9	6.9
Floor Exchange	1.1	1.4

MDAX

The Rheinmetall share has been included in the Mid-Cap-DAX (MDAX) since it was launched in January 1996. It comprises 50 shares which immediately follow the shares contained in the DAX based on rankings of market capitalization of free float and stock exchange turnover. In accordance with the guidelines of Deutsche Börse, a stock corporation's membership of an index depends mainly on two criteria: the market capitalization of freely tradable shares and the trading volume of shares.

The market capitalization is determined based on the free float of shares issued, measured at the respective share price. The number of shares in Rheinmetall AG remained constant in the year under review at 39,599,000. To calculate the free float, holdings of treasury shares at Rheinmetall AG are deducted from this. The free float thus increased from 96.1 % at the end of 2013 to 96.9 % at the end of 2014, resulting in a stock market value of €1.392 billion (previous year: €1.706 billion) based on a closing share price of €36.27 for the year (previous year: €44.85). In the corresponding index ranking of Deutsche Börse, the Rheinmetall share slid from 25th to 33rd place.

Ranking in the MDAX by market capitalization of the free float

	2014	2013	2012	2011	2010
Number of shares	39,599,000	39,599,000	39,599,000	39,599,000	39,599,000
Free float of shares	96.9 %	96.1 %	95.2 %	96.6 %	96.7 %
Closing share price	€ 36.27	€ 44.85	€ 36.40	€ 34.24	€ 60.17
Market capitalization	€1.4 billion	€1.7 billlion	€1.4 billion	€1.3 billion	€2.3 billion
Ranking	33	25	25	17	10

In terms of stock exchange turnover, Rheinmetall shares once again achieved a medium ranking among MDAX stocks in Deutsche Börse's index rankings at the end of the year, coming in 20th place. The average daily trading volume of Rheinmetall shares was around 227,000 shares in 2014, above the previous year's level of around 215,000 shares. However, the fact that an increasing number of shares are being traded on alternative platforms such as BOAT, Chi-X, Turquoise, BATS Europe, etc. must also be taken into account.

Stock exchange turnover – all German stock exchanges

	2014	2013	2012	2011	2010
Trading volume	227,256	214,938	271,000	276,172	234,000
Ranking	20	23	12	12	14

DIVIDEND DISTRIBUTION FOR FISCAL 2014

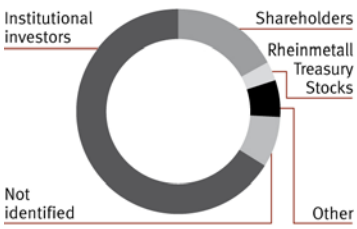
Our dividend policy is earnings-oriented and designed to ensure that our shareholders receive an adequate share in the Group's profit on an ongoing basis. The dividend amount is based on business performance and a payout ratio geared towards Rheinmetall AG's business results. Care is taken to ensure that the dividend is widely accepted by shareholders and that it represents an attractive investment criterion, especially for investors geared towards long-term investment. At the Annual General Meeting on May 12, 2015, the Executive Board and Supervisory Board intend to propose a dividend payment of €0.30 per share that is entitled to a dividend (previous year: €0.40). The total amount paid out will thus be €12 million (previous year: €15 million). Subject to approval by shareholders, the dividend will be paid the following day. Based on the closing price of the shares of €36.27 at the end of 2014 (previous year: €44.85), this results in a dividend yield of 0.8 % (previous year: 0.9 %). The payout ratio, i.e. the dividend in relation to earnings per share, will stand at 64 % in the reporting year (previous year: 53 %).

A BROAD INTERNATIONAL SHAREHOLDER BASE

Rheinmetall has a stable and very large proportion of institutional investors, which has changed only slightly in recent years. We commissioned an external institution to analyze our shareholder structure in December 2014. This involved evaluating publications issued by investment companies and other institutional shareholders.

The findings show that the proportion of institutional investors from Europe has risen by approximately 4 percentage points to 32 %. These investors are primarily based in Germany, the UK, France and Scandinavia. The proportion of institutional investors from North America – most of whom are based in the USA – has fallen and now stands at 33 %, compared with 41 % in the previous year. A further 34 % of shares (previous year: 30 %) are owned by institutional investors and private investors who were not identified during the survey or are shares held by Rheinmetall AG or its management boards and employees. The 50 largest institutional investors hold approximately 57 % (previous year: 62 %) of Rheinmetall AG's shares and have therefore reduced their shareholdings by 5 percentage points.

Shareholder structure as at December 31, 2014 in %



	2014	2013
Institutional investors	66	70
Europe	32	28
North America	33	41
Rest of world	1	1
Shareholders	17	17
Rheinmetall Treasury Stocks	3	4
Other	6	3
Not identified	8	6

TREASURY STOCK

The Annual General Meeting on May 6, 2014 authorized the Executive Board to acquire treasury shares. This authorizes the Executive Board to acquire treasury bearer shares equivalent to a maximum of 10 % of the share capital of €101,373,440 up until May 5, 2019. Rheinmetall AG did not exercise this right in fiscal 2014.

The proportion of own shares held as treasury stock was 1,225,511 shares or 3.1 % on the balance sheet date for 2014 (previous year: 1,524,233 shares or 3.9 %). The Company did not purchase any shares in 2014. Of the treasury stock, 175,385 shares (previous year: 142,857 shares) entered the employee share purchase program and 123,337 shares (previous year: 214,557 shares) were used for the long-term incentive program in the year under review.

Purchase and deployment of treasury stock

	2014	2013	2012	2011	2010
Acquisition of shares	0	0	800,319	333,000	0
Used for employee share purchase program	175,385	142,857	106,798	169,743	110,338
Used for long-term incentive program	123,337	214,557	162,716	105,638	0
Portfolio on December 31	1,225,511	1,524,233	1,881,647	1,350,842	1,293,198
Share of treasury stocks in Rheinmetall shares	3.1 %	3.9 %	4.8 %	3.4 %	3.3 %

RESEARCH COVERAGE OF RHEINMETALL AG

Studies and comments by national and international investment banks and brokers are important tools in helping institutional and private investors to make decisions. Rheinmetall's coverage is still at a high level and confirms the high level of interest shown by the capital market in our Company.

Twenty-one equity research analysts (previous year: 22) published their analyses of current development at the Rheinmetall Group and their assessments and recommendations regarding its shares at regular intervals. As at December 31, 2014, eight analysts gave Rheinmetall shares a "buy" rating, while a further 10 recommended holding the shares. Only three analysts gave the shares a "sell" rating.

Investment recommendations for Rheinmetall shares as at December 31, 2014

Rating	Institution	Headquarters
Buy	Bankhaus Lampe	Düsseldorf
	Berenberg Bank	London
	Commerzbank	Frankfurt am Main
	DZ Bank	Frankfurt am Main
	LBBW	Stuttgart
	Montega	Hamburg
	Oddo Seydler	Frankfurt am Main
	Steubing	Frankfurt am Main
Hold	Citigroup	London
	Deutsche Bank	Frankfurt am Main
	Equinet	Frankfurt am Main
	Exane BNP Paribas	Paris
	Hauck & Aufhäuser	Hamburg
	HSBC	Düsseldorf
	JP Morgan Cazenove	London
	Kepler Cheuvreux	Frankfurt am Main
	UBS	Frankfurt am Main
	Warburg	Hamburg
Sell	Bankhaus Metzler	Frankfurt am Main
	Credit Suisse	London
	Independent Research	Frankfurt am Main

ANNUAL GENERAL MEETING FOR 2014

Approximately 350 shareholders and shareholder representatives came to Berlin for Rheinmetall AG's Annual General Meeting on May 6, 2014, representing 56.51 % of the share capital (previous year: 54.49 %) during voting. As such, attendance at the Annual General Meeting was once again very high, especially given that Rheinmetall's shares are entirely free float with the exception of treasury stock held by Rheinmetall AG.

Shareholders voted with significant majorities of between 85.5 % and 99.9 % in favor of the nine draft proposals from management on the agenda, which included authorization to acquire and use treasury shares as well as capital measures and approval for affiliation agreements.

REGULAR DIALOG WITH THE CAPITAL MARKET

Providing up-to-date information and ensuring continuity and transparency when preparing reports, as well as credibility and reliability, form the basis for our direct dialog and trusting relationships with institutional investors, private shareholders, potential investors and analysts. The aim of our investor relations work is to provide a realistic estimate of the future development of the Rheinmetall Group and to lay the groundwork for a fair assessment of the Rheinmetall share.

The management and investor relations team stay in close contact with representatives of the capital market. We held almost 230 meetings with investors and analysts during the period under review. A large proportion of these took place at a total of 16 investor/analyst conferences and roadshows. We targeted major financial centers in Europe and North America, including Frankfurt am Main, London, Paris, Zurich, Dublin and New York. Numerous individual meetings were also held during investor visits and telephone conferences. The investor relations team – in many cases with the direct involvement of a member of the Executive Board – not only provided comprehensive information on the economic environment, the current business situation and the background to the adjustments to the sales and earnings forecast, but also discussed issues such as new trends, the potential of products and technologies, growth opportunities and risks and existing and future challenges with national and international business partners.

The invitation to the Capital Markets Day in Düsseldorf und Neuss was taken up by 27 analysts and investors. At the two-day event, Executive Board members and managers in the Defence and Automotive sectors provided comprehensive information on the operating business, strategy and prospects and were available for detailed talks. A visit to the new “Lower Rhine” plant for the Automotive sector also allowed participants to get an overview on site of processes, facilities and products.

Other important dates in the investor relations calendar included telephone conferences on the quarterly reports and the accounts press conference on March 19, 2014, at which the results for the 2013 fiscal year were presented.

The Annual General Meeting is an important platform for dialog with private investors, who can also contact the Investor Relations department with questions by telephone, in writing or by e-mail all year round.

DISCLOSURES REGARDING THE AMOUNT OF THE SHARE OF VOTING RIGHTS

The Federal Financial Supervisory Authority (BaFin) not only monitors the reporting thresholds for ownership of shares (Section 21 of the German Securities Trading Act (WpHG)), but also requests notification when financial and other instruments are acquired that entitle the holder to purchase shares (Sections 25 and 25a WpHG). Rheinmetall AG notified the capital markets of this in accordance with Section 26 WpHG and also informed the general public on its website.

Voting rights notifications as at December 31, 2014

Shareholders	Reporting threshold	Total voting rights in %	Publication by Rheinmetall
Harris Associates, Chicago, IL, USA	5 %	9.82	3/18/2014
Wellington, Boston, MA, USA	3 %	3,28	10/27/2014
Dimensional, Austin, Tx, USA	3 %	3,01	08/22/2014
LSV Asset Management, Wilmington, DE, USA	3 %	3,03	01/29/2014
Rheinmetall AG, Düsseldorf, Germany	3 %	3.01	01/10/2008

MONEY AND CAPITAL MARKET FINANCING

As well as financing from banks, Rheinmetall uses direct access to the money and capital markets for Group financing. Its short-term financing requirements are covered by issuing bonds, generally with a maturity of one to three months, as part of the €500 million commercial paper program. In 2014 Rheinmetall benefitted from much more favorable short-term interest rates than in 2013. No bonds were outstanding as at December 31, 2014.

Rheinmetall covers its long-term liquidity requirements by issuing bonds on the capital market. As at the balance sheet date, Rheinmetall was present on the capital market with the €500 million bond issued in 2010, which is due to mature in 2017.

Rheinmetall bond 2010/2017

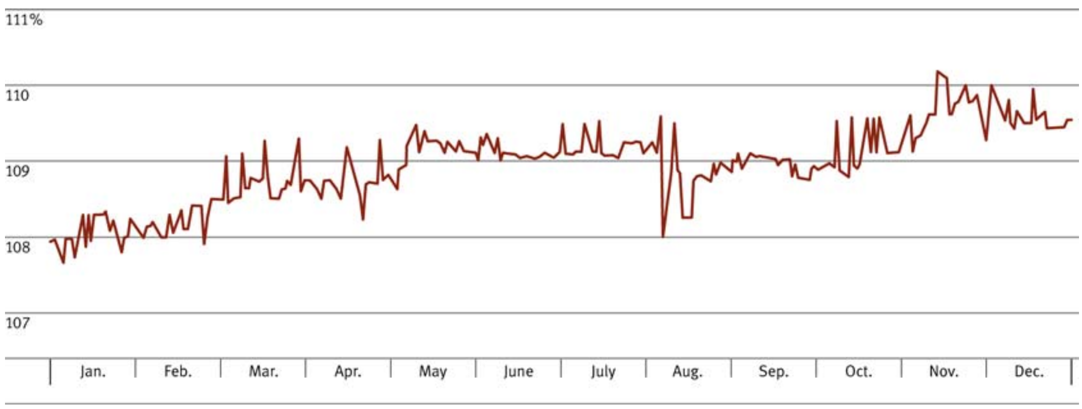
ISIN	Coupon	Maturing	Volume	Issue price	Price 12/31/2014	Price 12/31/2013
XS0542369219	5.25%	2017	€500 million	1	109.5%	107.9%
until 9/21/2014	4.00%					

The Rheinmetall bond (ISIN: XS0542369219) is authorized for trading on various German and international stock exchanges and had a coupon of 4.0 % p.a. when it was issued in 2010.

In accordance with the conditions for the bond, the coupon increased on September 22, 2014 by 1.25 percentage points to 5.25 % p.a. for the following interest year, as Rheinmetall no longer had an investment grade rating at the time the interest was paid.

Despite this “step-up” mechanism, the yield on the bond fell from 1.8 % at the end of 2013 to 1.7 % at the end of 2014, and its price rose – in line with the general market trend – by 1.6 percentage points to 109.5 % during the course of the year.

Price development of the Rheinmetall bond in 2014



SUMMARIZED

MANAGEMENT REPORT

19

Corporate governance
Structure and business activities

BUSINESS ACTIVITIES

Rheinmetall is a German technology group specializing in security and mobility. These two basic requirements have never been more important than in the 21st century. Urbanization, demographic change, globalization, the increasing frequency and intensity of conflicts and climate change with its effects have pushed the need for security and mobility right to the top of the scale of human needs. Our Company has been fulfilling these needs with its developments, systems and products for over a century. As a leading European systems supplier for armed forces technology, Rheinmetall Defence is a reliable and sought-after partner to the armed forces of Germany, NATO and friendly nations. The Automotive sector with KSPG AG is one of the world's leading automotive suppliers in the engine systems and modules sectors.

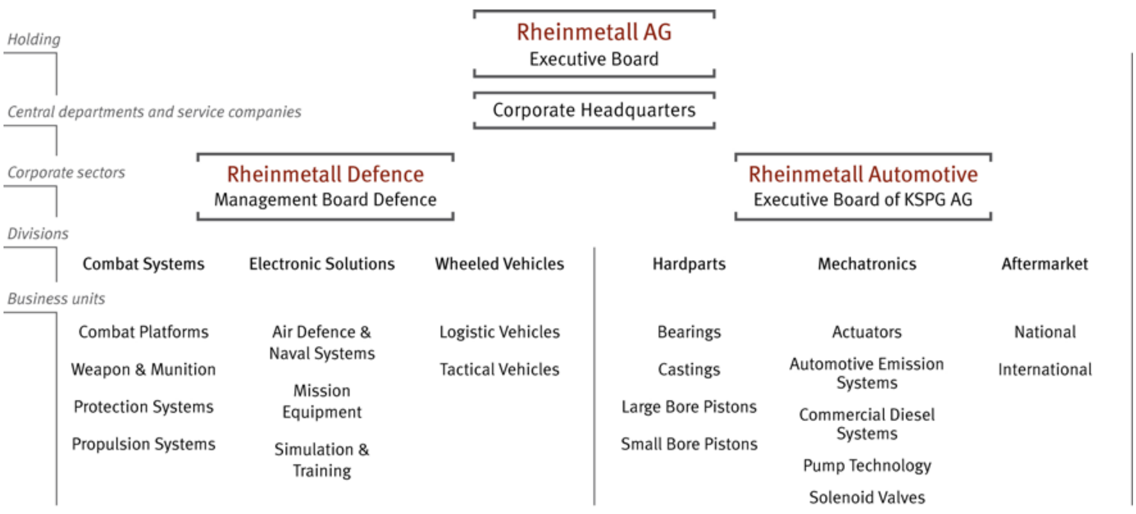
LEGAL STRUCTURE

Rheinmetall AG is a listed stock corporation with its head office in Düsseldorf, which is entered in the commercial register of the District Court of Düsseldorf under the number HRB 39401. Rheinmetall is one of Germany's long-established companies. It was founded in 1889 as "Rheinische Metallwaaren- und Maschinenfabrik Aktiengesellschaft", and in the last fiscal year we were able to look back on 125 years of history. The Company bylaws were last amended on May 6, 2014.

CORPORATE STRUCTURE

Rheinmetall AG is the parent company of the Rheinmetall Group, which has a decentralized structure with its operating sectors of Defence and Automotive. These account for 48 % and 52 % of total sales respectively. As a strategic management holding company, Rheinmetall AG focuses on managing and supervising the Group and deals with cross-company tasks.

Rheinmetall AG's corporate structure



As at February 27, 2015

Rheinmetall AG holds direct or indirect stakes in 169 companies in Germany and abroad (previous year: 169) that belong to the Rheinmetall Group. A total of 139 companies (previous year: 140) are fully consolidated in the consolidated financial statements. 29 companies are carried at equity (previous year: 27). One joint operation (previous year: 2) was included in the consolidated financial statements of Rheinmetall AG on a pro rata basis. Details of the scope of consolidation can be found in the Notes to the consolidated financial statements on pages 195 to 199.

OPERATING SEGMENTS

The Rheinmetall Group's operating activities are distributed across six divisions, which are assigned to the two corporate sectors, Defence and Automotive:

Corporate sector	Division	Areas of activity
Defence	Combat Systems	Armored tracked vehicles NBC protection systems Turret systems and weapon stations Large and medium caliber weapons and ammunition Protection systems Propellants and powder
	Electronic Solutions	Air defence systems Soldier systems Command, control and reconnaissance systems Fire control systems Sensors Land simulation, flight simulation, maritime and process simulation
	Wheeled Vehicles	Wheeled logistics vehicles Wheeled tactical vehicles
Automotive	Mechatronics	Cutting emissions Air management systems Actuators Solenoid valves Water, oil and vacuum pumps
	Hardparts	Pistons Engine blocks and cylinder heads Plain bearings and bushes
	Aftermarket	Global replacement parts business

RHEINMETALL DEFENCE – HIGH-TECH PROTECTION FOR SOLDIERS ON DEPLOYMENT

Our Group's Defence sector is regarded in the defense and security industry as a leading provider of innovative products for German and international armed forces, and offers system and partial system solutions and a wide range of services for capability in the areas of mobility, reconnaissance, management, effectiveness and protection.

All development, production and service activities are geared towards ensuring the best possible protection for soldiers on deployment. Rheinmetall Defence continuously sets new technological standards here: from vehicle, protection and weapon systems, through infantry equipment and air defense, to the networking of function sequences in electro-optics and simulation.

Rheinmetall Defence stands for many years of experience and innovation in armored vehicles, weapons and ammunition and in the areas of air defense and electronics – including for the requirements of the navy and air force and for internal security. Whether it is for requirements specific to different branches of the armed forces or overall requirements, whether it is for external or internal security, the sector has a wide range of platforms and components, which are offered as individual and networked system solutions. This makes Rheinmetall Defence a strong and reliable partner to the German armed forces, their allies and friendly armies, along with civil national security forces.

Corporate governance
Structure and business activities

RHEINMETALL AUTOMOTIVE – INNOVATIVE DRIVE TECHNOLOGY FOR ENGINES OF THE FUTURE

The Automotive sector with the management company KSPG AG is one of the world's major automotive suppliers, particularly in the areas of air management, emissions reduction and pumps and in the development, production and supply of replacement parts for pistons, engine blocks and plain bearings.

The central area of expertise of companies in the Automotive sector lies in reducing emissions, consumption and CO_2, and in making weight savings in and improving the performance of engines and drive components. Rheinmetall Automotive is a leading development supplier to the world's most important manufacturers of passenger cars, light commercial vehicles, heavy goods vehicles and large engines.

Rheinmetall Automotive holds a tier 1 position in the value-added chain of automotive production, i.e. we supply most automotive manufacturers (OEM – original equipment manufacturers) directly and not via other suppliers or system integrators.

GLOBAL PRESENCE

Sustainable relationships with our customers have formed the basis of our business activities in the Defence and Automotive sectors for over 125 years. Rheinmetall's business activities are consistently aligned toward the three largest economic areas of Europe, the USA and Asia. With over 80 production plants, we are represented on all our major sales markets and have a presence in close proximity to our customers.

The proportion of sales achieved abroad in 2000 was approximately 60 %, whereas it now stands at 75 % in 2014. We now employ 11,041 staff abroad (previous year: 11,267 employees), which represents 50.0 % of our total workforce (previous year: 48.8 %). This figure still stood at only 38 % in 2002.

Key Defence and Automotive locations

As at February 27, 2015

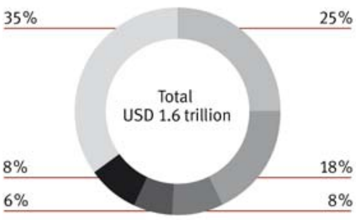
DEFENCE MARKETS

The world of the 21st century is facing changes in the security situation. Terrorism, organized crime and the consequences of the collapse of state structures call for new answers to the challenges and risks associated with external and internal security and new capabilities for international peace-keeping efforts.

The range of products and capabilities of Rheinmetall Defence is tailored to central defense technology requirements resulting nationally and internationally from the ongoing need for substantial technical modernization of many armed forces and new military deployment scenarios.

The market potential for Rheinmetall Defence comes mainly from the defense budgets of customer nations. Rheinmetall Defence is still in an international growth market in the medium term, even though fluctuation in national defense budgets is increasing to varying degrees. The trend towards increased spending is partly due to the fact that the need for modernization in the armed forces remains high in many emerging and developing countries and is partly the result of new challenges in terms of security policy, which are limiting cost-cutting measures in many Western nations.

Top 50 countries with the highest defense spending in 2013



USA 35%

Next 5 25%
China, Russia, Saudi Arabia, France, Japan

Next 10 18%
UK, Germany, India, Brazil, Italy, South Korea, Australia, UAE, Canada, Turkey

Next 14 8%
Israel, Spain, Columbia, Taiwan, Netherlands, Algeria, Iran, Poland, Singapore, Oman, Indonesia, Pakistan, Mexico, Norway

Next 20 6%
Iraq, Sweden, Greece, Kuwait, Thailand, Ukraine, Switzerland, Chile, Belgium, Angola, Argentina, South Africa, Portugal, Malaysia, Denmark, Venezuela, Egypt, Morocco, Azerbaijan, Finland

Rest of the World 8%

Source: SIPRI World Military Expenditure

We will consistently continue with the internationalization of the Defence sector, which has been successfully pursued for years. The sector's strategic priority still lies in expanding its local presence in promising growth regions. We continue to see particular potential in markets outside Europe, such as in the Middle East/North Africa region (MENA), Asia and Australia. From today's perspective, around 50 % of Defence sales are expected to be generated from customers outside Europe from 2015 onwards, with a balanced mix of component business activities and long-term project/systems activities.

In the global rankings of the sector news service "Defense News" from August 2014, Rheinmetall Defence was ranked 28th in 2013 based on sales during the fiscal year, compared with 31st place in fiscal 2012.

Corporate governance
Structure and business activities

AUTOMOTIVE MARKETS

Following the global economic and sovereign debt crisis, worldwide production and sales figures for passenger cars and light commercial vehicles fell dramatically in 2008 and 2009. The markets then recovered in 2010 and 2011, with global automotive production rising again by at least 3 % per year. Growth of over 6 % was achieved in 2012, followed by a rise of 3 % in 2014. Although the automotive industry was in robust condition overall, different regional markets went through phases of weakness or even experienced a sharp decline in sales figures. We are therefore not facing a homogenous international market in the automotive industry, but are required to respond to varying levels of volatility in demand in different regions.

The most important driver of business development in the automotive supply industry is the production and sales figures of automotive manufacturers. These in turn generally depend on classic factors such as the overall economic situation, demographic changes, employment levels, available household income, the degree of state regulation, customer preferences and changes in purchasing behavior in terms of the form of mobility chosen. It is also becoming clear, particularly in emerging economies, that the trend towards urbanization and the level of development and progress in the expansion of transport infrastructure have an impact on sales figures. In addition to these general aspects, ongoing strong trends towards more efficient use of fuels, reductions in emissions and alternative drive technologies have had a particularly strong impact on our business activities.

The sales markets of our Mechatronics and Hartparts divisions are international and entirely geared towards the business-to-business (B2B) market. On the buyer side, we have a comparatively low number of globally operating automotive manufacturers as potential customers. With our international production network in the classic economic areas of Europe, NAFTA and Japan and the BIC nations (Brazil, India and China), we are able to serve virtually all customers at local level and develop appropriate customer relationships according to regional requirements.

The master agreements we have concluded with our major automotive customers do not generally stipulate defined sales volumes. Instead, these agreements offer our customers the option to increase or decrease quantities that have already been ordered at short notice according to their requirements. Our customers are also striving to minimize their procurement risks, for example by attempting to avoid “single sourcing”, whereby a product is purchased from only one supplier. We therefore generally continue to face tough competition, even during ongoing series production.

B2B business also dominates our relationships with buyers in our Aftermarket division. Various distribution channels are used for this. These include websites, call centers and catalogs, as well as training for mechanics. In addition to passing on technical expertise with the aim of strengthening customer loyalty, these courses also allow us to position ourselves as a provider of customized repair solutions.

In the “Global Top Automotive Supplier 2013” study produced by Berylls Strategy Advisors in April 2014, the Automotive sector was ranked 76th based on sales during fiscal 2013, compared with 78th in 2012.

DEFENCE REGULATORY ENVIRONMENT

German military equipment exports are governed by the Basic Law (Grundgesetz - GG), the War Weapons Control Act (Gesetz über die Kontrolle von Kriegswaffen - KWKG) and the Foreign Trade and Payments Act (Außenwirtschaftsgesetz - AWG) in conjunction with the German Foreign Trade and Payments Regulation (Außenwirtschaftsverordnung - AWV).

The "Political Principles Adopted by the Government of the Federal Republic of Germany for the Export of War Weapons and Other Military Equipment" of January 19, 2000 and the Council Common Position of the EU defining common rules governing control of exports of military technology and equipment of December 8, 2008 provide the licensing authorities with guidelines.

Legal regulations on exports of military equipment – The Federal Republic of Germany has one of the strictest export control systems in the world. These strict rules apply in particular to companies in the security and defense industry.

Export law makes a distinction between the following types of goods, which should be understood to refer not only to products, but also to technology and software:

- Purely civilian goods
- Goods with two intended uses
  (so-called dual-use goods, which can be used for both civil and military purposes)
- Military equipment

Purely civilian goods are not generally subject to any export restrictions. With a few exceptions, they can be exported without requiring a license.

The export of dual-use goods has been harmonized at the level of the European Union since 1995. Council Regulation (EC) No. 428/2009 of May 5, 2009 "setting up a Community regime for the control of exports, transfer, brokering and transit of dual-use items" (OJ of May 29, 2009, L 134, P. 1) applies here. A common list of goods lists all dual-use items that are subject to uniform control regulations in all EU countries. The transfer of these goods within the EU is free, apart from a few exceptions.

However, in respect to classic military equipment, there are essentially no harmonized regulations within the EU. There is a Common Military List for the EU, which more or less matches the corresponding lists of EU member states. However, there are no common legal regulations on exports of military equipment. This is linked to Art. 346 of the Treaty on European Union (TEU), which states that all member states can "take measures they consider necessary for the protection of their essential security. In particular, decisions on "the production of weapons, ammunition and war materials or trading in these" are up to the respective national lawmakers. Although there are signs of efforts to harmonize regulations in the Common Foreign and Security Policy, these have not yet been implemented on a large scale within the EU. For this reason, exports of military equipment to other EU countries continue to require a license.

German regulations on military equipment – With regard to defense equipment, the Federal Republic of Germany distinguishes between war weapons and other types of military equipment. Switzerland and Austria use a similar classification system. However, the term "war materials" as used there is not synonymous with "war weapons".

Corporate governance
Structure and business activities

Regulations on war weapons – The War Weapons Control Act (KWKG) lays down particularly strict rules. These are based on Art. 26 (2) of the Basic Law. This states that the manufacture, transportation and marketing of war weapons requires a license from the German government.

Finally, an annex to the KWKG, the War Weapons List, lists all items that are regarded as war weapons. War weapons include not only devices such as battle tanks, armored combat support vehicles and machine guns, but also certain types of ammunition such as tank or artillery ammunition. As well as complete devices and ammunition systems, certain assemblies and components such as the turret and chassis of a battle tank or the projectile, warhead or fuse for certain types of ammunition are defined as war weapons.

The KWKG includes a comprehensive licensing system for war weapons. Almost every activity relating to these goods requires a license. A license is required for the production of war weapons, both during development and in series production. Transfer of the actual control over war weapons also requires a license, as does the purchasing of these weapons. The transportation of war weapons within a country is also subject to licensing. Above all, the importing, exporting and transit of war weapons requires a license. Two licenses are actually necessary for exporting war weapons, one license in accordance with the KWKG and one export license in accordance with the Foreign Trade and Payments Act (AWG)/Foreign Trade and Payments Regulation (AWV). Moreover, the transportation of war weapons using German ships or aircraft outside German territory requires a license. Trading and brokerage transactions involving war weapons that are not intended to affect German territory are also subject to licensing.

Dealings in war weapons are strictly controlled. Each individual movement of war weapons must be entered in the “War Weapons Book”, which must be submitted to the supervisory authority, the Federal Office of Economics and Export Control (BAFA), for checking on a half-yearly basis. In addition, the BAFA conducts an external on-site audit every two years of each company that keeps war weapons, in which it checks not only whether inventories match the entries in the War Weapons Book, but also whether a corresponding receipt is available for each entry.

Regulations on other military equipment – Other types of military equipment are listed in Part I Section A of the Export List, an annex to the AWV. In particular, the export of these goods requires a license. Licenses are also needed for certain types of services and technical support and for some trading and brokerage transactions. It is generally possible to import other types of military equipment without a license.

Decision of the German government on exports of military equipment – The German government makes decisions on exports of military equipment based on its “Political Principles for the Export of War Weapons and Other Military Equipment”. A key component of these principles is the “European Union’s Code of Conduct for Exports of Weapons”. This contains eight test criteria (e.g. observance of human rights, internal situation, compliance with international obligations in the country of receipt) and operational regulations that apply to decisions on which countries military equipment may be exported to.

When it comes to decisions on exports, a distinction is made between three categories of countries:

- EU countries and privileged countries (e.g. Australia)
- Countries on which the UN, EU or OSCE has imposed an arms embargo
- Other countries

Almost all export licenses for military equipment are granted for EU countries and privileged countries. Exports to these countries do not need to be restricted, unless a restriction seems necessary due to specific political reasons in individual cases, e.g. the risk that the goods could be re-exported without authorization.

In contrast, it is not possible to supply military equipment to countries in which there is an arms embargo, apart from a few exceptions.

For other countries, the German government will make a decision on a case-by-case basis, paying particular attention to the criteria set out in the EU Code of Conduct. The government takes a restrictive stance in this context. The Political Principles state with regard to this: “The export… shall not be authorized, unless, in individual cases, specific interests of the Federal Republic of Germany relating to foreign or security policy would argue in favor of an exceptional license, taking into account the interests of the alliance.”

The German government coordinates decisions on exports of military equipment between departments. In particularly important cases, a decision is made by the Federal Security Council, a committee of the federal cabinet.

End-use certificate as a requirement for licenses – Each license for the export of military equipment is dependent on an end-use certificate from the country of receipt. This country must confirm in writing that it will not re-export the goods that are to be exported to other countries without the approval of the German government. When technology is being exported, the end-use certificate also applies to goods manufactured using the exported German technology in the end-use country. The system of end-use certificates has proved itself. All those involved know that they will not be able to receive supplies of military equipment in future if they violate the end-use regulations. For this reason, violations of existing end-use regulations have been very rare in the past.

Facilitation of supplies within the EU – Directive 2009/43 EC of May 6, 2009 “simplifying terms and conditions of transfers of defense-related products within the Community” (OJ of June 10, 2009, L 146, 1 – “ICT” Directive) aims to simplify supplies of military equipment within the EU. In particular, it should be possible for certified companies to supply each other quickly and without too much bureaucracy on the basis of General Licenses. The Federal Republic of Germany implemented the ICT Directive in national law in 2011.

All major companies in the Defence sector applied for certification in 2011. It took some time for the authorities to process these applications. At present, Rheinmetall Waffe Munition GmbH (2013), Rheinmetall MAN Military Vehicles GmbH (2014) and Rheinmetall Defence Electronics GmbH (2014) have obtained ICT certification. However, the relief obtained as a result of this is currently still limited. This is due to the fact that only very few companies within the EU have obtained certification. However, we will begin to reap the benefits when the most important companies in the industry in the EU follow Rheinmetall’s example.

Corporate governance
Structure and business activities

AUTOMOTIVE REGULATORY ENVIRONMENT

The need for mobility is an ongoing worldwide megatrend, which is influenced by technical progress and global developments such as climate change, urbanization and increasing environmental awareness and thus is constantly changing.

After the individual mobility range was extended significantly in the classic triad markets of Europe, NAFTA and Japan in the 1960s and 1970s, the BIC markets of Brazil, India and in particular China followed after a delay. The damaging effects associated with increased mobility, such as traffic volume, emissions and consumption of resources, were reflected only later in society and politics.

Governments around the world have issued limits on emissions and greenhouse gases, with the aim of improving or maintaining air quality and reducing levels of substances that are harmful to health. In particular, increasingly strict standards have been introduced for emissions of hydrocarbons, nitrous gas, carbon monoxide, carbon dioxide and particulates caused by road traffic, to reduce emissions of pollutants.

Limits for various emission standards

Standard	Hydrocarbon		Nitrous gases		Carbon monoxide		Particulates	
	Gasoline	Diesel	Gasoline	Diesel	Gasoline	Diesel	Gasoline	Diesel
	g/km	g/km	g/km	g/km	g/km	g/km	g/km	g/km
Euro 2	0.00	0.00	0.00	0.00	2.20	1.00	0.00	0.80
Euro 3	0.20	0.00	0.15	0.50	2.30	0.64	0.00	0.05
Euro 4	0.10	0.00	0.08	0.25	1.00	0.50	0.00	0.03
Euro 5	0.08	0.00	0.06	0.18	0.00	0.00	0.00	0.01
Euro 6	0.04	0.00	0.03	0.09	0.00	0.00	0.00	0.01
Japan '05	0.05	0.02	0.05	0.14	1.15	0.63	0.00	0.01
Japan '09	0.05	0.02	0.05	0.08	1.15	0.63	0.00	0.01
Tier II, Bin 5	0.01	0.01	0.04	0.04	2.61	2.61	0.01	0.01
Tier II, Bin 4	0.01	0.01	0.03	0.03	1.31	1.31	0.01	0.01
Tier II, Bin 2	0.00	0.00	0.01	0.01	1.31	1.31	0.01	0.01

Source: IHS Automotive, Emission Overview, January 2015

The maximum permissible limits for emissions will be made stricter at international level within the next few years. The focus is on a significant reduction in nitrous gases, carbon monoxide and hydrocarbons. The planned standards require a reduction of up to 50 % in the corresponding emissions.

For emissions of the greenhouse gas carbon dioxide (CO_2), the strictest limits worldwide currently apply and will continue to apply in future in the European Union. After the average CO_2 emissions per kilometer for new passenger car registrations in Europe were reduced from 160 g CO_2/km to 132 g CO_2/km between 2006 and 2012, the maximum limit for the entire fleet of new European passenger cars is already an average of 130 g CO_2 emissions per kilometer in 2015, which corresponds to consumption of around 5.2 liters of fuel per 100 kilometers.

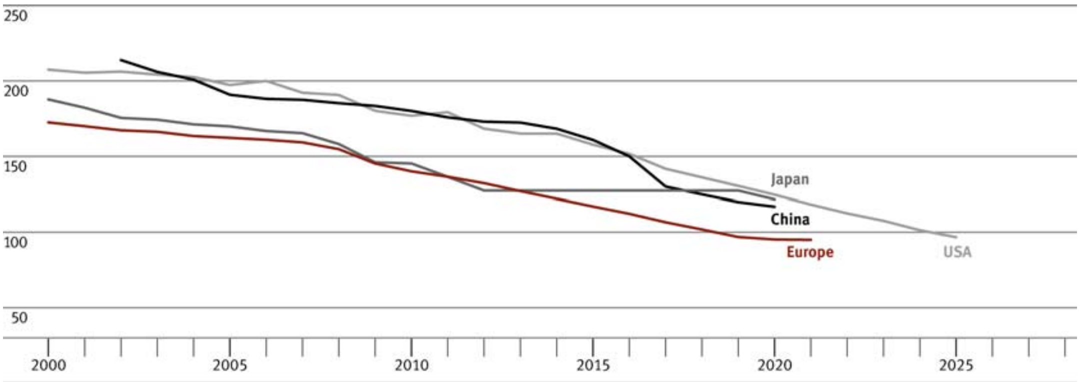
Automotive manufacturers will be punished for failing to meet this limit with gradually increasing fines per excess gram of CO_2. For the first gram, €5 must be paid for every car sold; this then increases to €15 for the second gram, €25 for the third gram and €95 per gram from the fourth gram upwards. From 2019, the fine will amount to €95 per excess gram, starting from the first gram.

In the medium term, the European Commission has adopted a target of 95 g CO_2/km with a fuel consumption of 3.8 liters per 100 kilometers for passenger cars by 2021. For 2025, a further reduction in the target to between 68 g CO_2/km and 78 g CO_2/km with a fuel consumption of 2.7 or 3.1 liters per 100 kilometers is being discussed.

The maximum limit for light commercial vehicles in Europe has been set at 175 g CO_2/km for 2017. This limit will be reduced by 16 % to 147 g CO_2/km by 2020, with a fuel consumption of around 5.6 liters per 100 kilometers.

The CO_2 limit for the automotive industry in the USA will be 125 g CO_2/km in 2020. This will then be reduced to 97 g CO_2/km in 2025, the same level as the EU limit for 2021. The maximum limit in Japan will be 122 g CO_2/km in 2020, while China is discussing a limit of 117 g CO_2/km.

Development of limits for CO_2 emissions in selected countries/regions g CO_2/km



Source: The International Council On Clean Transportation, Passenger Car CO_2 emissions and fuel consumption, November 2014

The continuing trend towards individual mobility – particularly in emerging countries – combined with demands from society and governments to make this more environmentally friendly, taking into account the effects of global climate change, are opening up major growth opportunities for companies in the Automotive sector.

Corporate governance
Structure and business activities

"RHEINMETALL 2015" STRATEGY PROGRAM

Further progress was made in the development of Rheinmetall into a strong, international partner for security and mobility. We believe that the Defence and Automotive sectors both still offer huge potential for profitable growth. We have therefore set ourselves ambitious growth and earnings targets. We wish to build on our position in a range of international markets – which are experiencing significant growth in our business areas – on a sustainable basis, but also to continue to assert our leading position on some established markets.

We have taken important steps in order to realize this next growth spurt. The "Rheinmetall 2015" strategy program has been implemented since 2013, which focuses on internationalization, product innovations and cost efficiency.

INTERNATIONALIZATION
Expansion of business activities outside Europe in the Defence and Automotive sectors

Defence	Automotive
Strengthening local presence in growth markets outside Europe Systematic continuation of hub strategy	Strengthening our presence in Chinese and Indian growth markets Expansion of the Mechatronics division's business activities outside Europe

PRODUCT INNOVATIONS
Organic sales growth of 3% to 5% (CAGR) from 2015, assuming normal economic cycle

Defence	Automotive
Extensive innovation pipeline to secure technological leadership further Expansion of system and service business	Realization of growth potential of Mechatronics products, especially in the case of turbo-charged gasoline engines

COST EFFICIENCY
Restructuring measures with full savings effect from 2015

Defence	Automotive
Adjustment of capacity and processes to improve profitability and competitiveness Optimization of site structures	Strengthening the competitiveness of Hardparts division through improved cost structures Optimization of national and international site structures

Various restructuring measures were continued or completed in the 2014 reporting year. While this was associated with costs of €86 million in 2013, costs in 2014 totaled only €9 million, all of which related to the Defence sector. Annual savings of at least €60 million are expected from 2015 onwards as a result of the measures implemented in the previous two years.

In our Defence sector, we set out to return to organic growth from 2014 onwards. From fiscal 2015, around 50 % of Defence sales are expected to be generated from customers outside Europe. Following the turnaround in the year under review, the trend towards an overall rise in defense spending worldwide is expected to continue. We will concentrate on responsible markets which promise sustainable growth according to industry data and our own assessment. However, we see potential above all in countries in the MENA region, Asia and Australia. Our medium-term target for Rheinmetall Defence's EBIT margin is up to 7 %.

Global automotive production continues to grow. Based on the positive development of demand in the world's three largest automotive markets – Europe, the USA and China – vehicle production thus also looks likely to continue expanding. For passenger cars and light commercial vehicles of up to 3.5 t, analysts at IHS Automotive forecast growth in global production figures of 2.4 % to around 87.6 million vehicles in 2015 alone.

We wish to participate in this foreseeable expansion of global automotive production and achieve growth at Rheinmetall Automotive that slightly exceeds growth achieved by the market as a whole. With the involvement of our Chinese joint ventures, our growth rate is expected to exceed that of the market as a whole. The plan is to generate more than a third of Rheinmetall Automotive's sales outside Europe from 2015, with particular emphasis placed on the Chinese and Indian markets. With a stable economic and market environment, we are aiming for an EBIT margin of around 8 % from 2015.

CORPORATE MANAGEMENT

As a stock corporation under German law, Rheinmetall is subject to strict separation of the decision-making powers exercised by the Executive Board, the Supervisory Board and the Annual General Meeting as management and supervisory bodies.

The Executive Board of Rheinmetall AG ensures that Defence and Automotive are managed and monitored in line with the Group's interests. These are independent corporate sectors with full responsibility for the business within the scope of the strategies, goals and guidelines drawn up by the Group's Executive Board. The Group's Executive Board determines business goals, the basic strategic orientation and the Group's policy and organization.

The Supervisory Board advises and monitors the Executive Board in its management of the Company. It is involved in strategies and planning as well as in all issues of fundamental importance to the Company. The rules of procedure of the Executive Board stipulate areas that are subject to approval by the Supervisory Board for important transactions. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs meetings and represents its interests externally.

Shareholders of Rheinmetall AG exercise their rights at the Annual General Meeting, which is convened by the Executive Board or Supervisory Board as prescribed by law, or when it appears necessary in the interest of the Company.

Further details can be found in the corporate governance report on pages 32 et seq.

CONTROL PARAMETERS: EARNINGS POWER, PROFITABILITY, FINANCIAL SCOPE

At the Rheinmetall Group, the Defence and Automotive sectors are controlled and the economic success of the operational entities is assessed by means of the key figures of sales, operating result (EBIT before special items), EBIT and EBT. Profitability is measured by the management on the basis of ROCE calculated on an annual basis, which represents the ratio of EBIT to average capital employed (average of values as at the December 31 balance sheet date of the previous year and the year under review). Since fiscal 2014, operating free cash flow has been included in target agreements with managers as an additional control and management parameter.

Central management indicators

		2014	2013
Sales	€ million	4,688	4,417
Operating result	€ million	160	212
EBIT	€ million	102	121
EBT	€ million	22	45
Return on capital employed (ROCE)	in %	3.9	4.7

The volume of capital expenditure, research and development expenditure and the headcount represent further indicators that are relevant to management.

Corporate governance
Corporate governance report

In the following chapter, the Executive Board and Supervisory Board will report on corporate governance in the Rheinmetall Group in accordance with Item 3.10 of the German Corporate Governance Code. This chapter also includes the declaration of corporate governance in accordance with Section 289a HGB.

Rheinmetall has traditionally been committed to a responsible, fair, reliable and transparent corporate policy which is geared towards the use and expansion of entrepreneurial potential, achieving medium-term financial targets and increasing the value of the Company on a systematic and sustainable basis. The stock market, capital market and the right of co-determination, the Company bylaws and the German Corporate Governance Code, which is based on internationally recognized standards, form the basis for the organization of management and monitoring at the Company, with the aim of making structures transparent and thus strengthening the trust of national and international investors, business partners, analysts, media, employees and the public in Rheinmetall AG's business policy, management and supervision and securing it in the long term. Effective corporate governance with protection of stakeholders' interests, reporting at an early stage, correct accounting, and trusting and efficient cooperation between the Executive Board and Supervisory Board has a high status at the Rheinmetall Group.

DECLARATION BY THE EXECUTIVE BOARD AND SUPERVISORY BOARD OF RHEINMETALL AG IN ACCORDANCE WITH SECTION 161 AKTG

Section 161 of the German Stock Corporation Act (AktG) obliges the Executive and Supervisory Boards of a stock corporation listed in Germany to declare once a year that the recommendations of the Commission of the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the Federal Gazette have been and are being complied with, or which recommendations have not been or are not being implemented and why not.

On August 28, 2014, the Executive Board and Supervisory Board issued the following updated declaration on the recommendations of the German Corporate Governance Code as amended up to May 13, 2013 in accordance with Section 161 AktG:

"The Executive Board and Supervisory Board of Rheinmetall AG hereby declare,

> that Rheinmetall AG has fully carried out and will continue to carry out the recommendations of the Commission of the German Corporate Governance Code as amended on May 13, 2013, officially communicated in the electronic Federal Gazette on June 10, 2013, since it issued its last declaration of conformity dated August 28, 2013, with one exception.

Exception: Chairmanship of the Audit Committee
By way of derogation from Item 5.2 (2) of the German Corporate Governance Code, the Chairman of the Supervisory Board is also the Chairman of the Audit Committee. In view of the Supervisory Board Chairman's expertise in the areas of accounting and auditing, together with his many years of experience at Rheinmetall AG and resulting detailed knowledge of the Company's corporate sectors, the Executive and Supervisory Boards believe that a deviation from the recommendations of the Code is appropriate and in the interests of good corporate management.

Düsseldorf, August 2014
Rheinmetall Aktiengesellschaft
The Supervisory Board The Executive Board"

The current declaration of conformity, along with the declarations of conformity issued in previous years, has been published on the Company's website (www.rheinmetall.com) in the section "Group – Corporate Governance".

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

Shareholders of Rheinmetall AG exercise their rights before or during the Annual General Meeting within the framework of the options provided by law or the Company bylaws, which is convened by the Executive Board or Supervisory Board as prescribed by law, or when it appears necessary in the interest of the Company. It resolves on all matters regulated by law or the Company bylaws, with binding effect for all shareholders and the Company. The Chairman of the Supervisory Board chairs the Annual General Meeting and determines the order in which the agenda items are addressed as well as the form and manner of voting.

The Annual General Meeting is convened, the agenda items on which a vote will be taken are announced, and the conditions of participation and rights of shareholders are explained within the deadlines prescribed by law and the Company bylaws. All documents and reports required by stock corporation law, supplementary information on the Annual General Meeting and explanations of shareholder rights will be made available on Rheinmetall AG's website, on which any countermotions or nominations from shareholders will also be published.

The Annual General Meeting takes place once a year and must be held in the first eight months of the fiscal year. Here, the Executive and Supervisory Boards give an account of the past fiscal year. The Annual General Meeting resolves on all tasks assigned to it by law or the Company bylaws, such as appropriation of net income and approval of the activities of the Executive and Supervisory Boards, and usually elects shareholder representatives to the Supervisory Board as well as appointing the auditor. The Annual General Meeting also passes resolutions on the bylaws and the objective of the Company, amendments to bylaws and key corporate measures such as affiliation agreements and conversions, the issuing of new shares, convertible bonds and bonds with warrants and authorization to acquire treasury shares. It can decide whether to approve the remuneration system for Executive Board members.

Each share grants one vote in ballots. This excludes treasury shares held by the Company. The 2014 Annual General Meeting took place in Berlin on May 6, 2014. Information about attendance and the results of votes were published online on the Company's website after the event.

MANAGEMENT, CONTROL AND ORGANIZATION OF THE RHEINMETALL GROUP

The Rheinmetall Group with its Defence and Automotive sectors is managed by Rheinmetall AG based in Düsseldorf, which decides the Group's long-term strategic orientation and corporate policy as the management holding company. Rheinmetall AG is a listed company under German law and is subject in particular to the provisions of the German Stock Corporation Act (AktG), capital market regulations and provisions given in the Company bylaws.

A fundamental principle of German stock corporation law is the dual management system comprising the Executive and Supervisory Boards, which each have separate responsibilities. The Group is managed by the Executive Board as a whole, while the Supervisory Board's key tasks involve advising the Executive Board and monitoring its management activities. The Executive and Supervisory Boards work closely, constructively and in an atmosphere of trust, with the aim of ensuring the continued existence of the Company and creating sustainable value added. Rules of procedure are in place for both boards, containing regulations on the composition, tasks, responsibilities and areas subject to approval.

Corporate governance
Corporate governance report

STRUCTURE AND FUNCTION OF THE EXECUTIVE BOARD

The Executive Board manages the Company on its own responsibility, without any instructions from third parties, in accordance with the law, the bylaws and its rules of procedure and taking into account the resolutions of the Annual General Meeting, with the aim of creating sustainable value added. It is responsible for the overall management of the Company. It determines the long-term strategic orientation and corporate policy, as well as the structure and organization of the Rheinmetall Group, and allocates resources. It represents the Company in dealings with third parties. In accordance with Section 6 (1) of the bylaws, the Executive Board of the Company must consist of at least two people. The number of members is determined by the Supervisory Board. In the year under review, the Executive Board comprised Armin Papperger, Horst Binnig and Helmut P. Merch.

The members of the Executive Board bear joint responsibility for management of the Company. They are obliged to act in the Company's best interests, taking into account the interests of stakeholders. Their tasks include deciding on corporate targets, strategic orientation and business policy, controlling and monitoring the Defence and Automotive sectors and establishing an effective risk management system. The Executive Board is responsible for preparing annual and multi-annual planning. It also decides on the Group organization, HR policy and Group financing. Furthermore, the Executive Board draws up the quarterly and semi-annual financial statements and the single-entity and consolidated financial statements of Rheinmetall AG. It implements appropriate measures to ensure that laws, provisions, official regulations and internal corporate guidelines are observed and helps to ensure that subsidiaries comply with these.

In accordance with Section 6 of the Company bylaws, the Executive Board has established rules of procedure for itself, which govern issues such as the work of the Board, matters that are reserved for the Board as a whole and the majority required for resolutions of the Executive Board to be passed, as well as the responsibilities of respective members of the Board. Resolutions of the Executive Board are passed at regular Board meetings. The CEO is responsible for coordinating all areas and sectors of the Executive Board.

Responsibilities of members of the Executive Board of Rheinmetall AG

	Armin Papperger	Horst Binnig	Helmut P. Merch
Corporate sector	Defence	Automotive	
Central departments	Human Resources		Controlling
	Corporate Communications		Accounting
	Corporate Compliance		Treasury
	Law		Tax
	Internal Auditing		IT

Details of cooperation between the Executive and Supervisory Boards can be found in the Company bylaws and the rules of procedure for the Supervisory Board of Rheinmetall AG, which govern transactions and measures requiring approval and the Executive Board's information and reporting requirements. The CEO bears overall responsibility for providing the Supervisory Board with information. He regularly informs the Supervisory Board Chairman of the progress of business activities and the situation of the Company and confers with him on the Company's strategy, business development and risk management. He informs the Supervisory Board Chairman immediately of important events which are of key significance to the assessment of the situation and development as well as to the management of the Company.

STRUCTURE AND FUNCTION OF THE SUPERVISORY BOARD

In accordance with the German Codetermination Act (MitbestG 1976), the Supervisory Board of Rheinmetall AG comprises 16 members, of whom eight are elected by shareholders and eight by employees. The term of office of Supervisory Board members is five years. Supervisory Board members are committed to Rheinmetall's best interests when carrying out their work and are not bound by specific orders or instructions. When candidates are proposed for election to the Supervisory Board, attention is paid to their professional qualifications and personal skills as well as to diversity in the composition of the Board and to independence as defined by the German Corporate Governance Code. Each member of the Supervisory Board shall ensure that he has enough time available to fulfill his mandate. Former Executive Board members of Rheinmetall AG are not represented on the Supervisory Board. The composition of the Supervisory Board and the terms of office of its members are outlined on page 2 of this Annual Report.

The Supervisory Board performs its activities in accordance with statutory provisions, the bylaws of Rheinmetall AG and its rules of procedure. These contain more detailed provisions relating to the composition, duties and responsibilities of the Supervisory Board, the convening, preparation and chairing of meetings, regulations on the committees and the presence of a quorum. Supervisory Board meetings are held in accordance with the provisions of the German Stock Corporation Act (AktG). The shareholder and employee representatives meet separately where necessary to prepare for meetings.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs meetings and represents its interests externally. The Supervisory Board Chairman outlines the activities and decisions of the Supervisory Board in the Report of the Supervisory Board published in the Annual Report and reports on the work of the Board at the Annual General Meeting. He chairs the Annual General Meeting and determines the order in which the agenda items are addressed as well as the form and manner of voting.

The Executive Board informs the Supervisory Board regularly and comprehensively of business development, the financial position and results of operations, planning and achievement of targets and issues relating to compliance, as well as strategy and existing risks. On the basis of these reports, the Supervisory Board monitors the legality, correctness and economic efficiency of management by the Executive Board. The catalog of transactions requiring approval that the Supervisory Board issues for the Executive Board lists transactions and activities that need to be approved by the Supervisory Board. This applies, for example, to the purchase and sale of stakes in companies, investment planning and taking up bonds and long-term loans.

The Supervisory Board of Rheinmetall AG periodically reviews the efficiency of its activities, as required by the provisions of the German Corporate Governance Code. Here, the function of the Supervisory Board and its committees, the routing of information from the Executive Board to the Supervisory Board and the interaction of the two boards is discussed and evaluated. The plenary assembly debates possibilities for improvement in an open discussion and decides on appropriate measures where relevant.

No consultancy agreements or other service or work contracts existed between members of the Supervisory Board and Rheinmetall AG during the period under review.

Corporate governance
Corporate governance report

The Supervisory Board has formed four committees from its members:

Personnel Committee – Tasks that are the responsibility of this committee include selecting suitable candidates to fill Executive Board positions, making preparations for the appointment and withdrawal of Executive Board members and the conclusion, amendment and termination of employment contracts of members of the Executive Board and other agreements with them. It is also responsible for appraising the performance of the Executive Board, regularly examining the amount, suitability and customary level of Executive Board remuneration and overseeing the structure of the Executive Board remuneration system.

Audit Committee – It is the job of the Audit Committee to support the Supervisory Board when performing its supervisory functions. It looks in particular at the consolidated and single-entity financial statements and quarterly accounts and – in addition to the accounting process – the adequacy and effectiveness of the internal control system, Internal Auditing, the risk management system and the compliance management system.

Its activities also include monitoring the independence and selection of the auditor, determining the focal points of the audit and agreeing the fees.

Mediation Committee – The Mediation Committee formed according to Section 27 (3) MitbestG submits to the Supervisory Board a slate of candidates for Executive Board membership if these have not received the required two-third majority of Supervisory Board member votes in the first ballot.

Nomination Committee – The Nomination Committee submits recommendations to the shareholder representatives on the Supervisory Board for the nomination of shareholder representative candidates for election to the Supervisory Board by the Annual General Meeting.

The members of these committees support the Supervisory Board and reduce its workload by preparing time-consuming topics requiring extensive discussion and examining resolutions in advance. In individual cases, the committees also have decision-making powers if these have been transferred by the Supervisory Board. With the exception of the Nomination Committee, which consists of two shareholder representatives, the committees are based on joint representation, with two shareholder representatives and two employee representatives. The composition and tasks of committees are set out in the rules of procedure for the respective committees. More information on the composition of the committees can be found on page 2 of this Annual Report.

The Supervisory Board is regularly informed by the Supervisory Board Chairman of the activities of the committees and of the outcome of discussions held in the respective committee meetings in the subsequent plenary meeting.

TARGETS FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The composition of the Supervisory Board of Rheinmetall AG serves to ensure that qualified individuals advise the Executive Board and monitor its management activities. As a group, the members of the Supervisory Board have the necessary knowledge, skills and professional experience to perform their advisory and monitoring duties properly in an international technology group. They are sufficiently independent and reflect the international activities of Rheinmetall Aktiengesellschaft. Supervisory Board members have in-depth knowledge of areas of operation that are key to the Company, and they have managerial experience in a corporate or operational context. They complement each other in terms of their background, professional career and specialist knowledge.

In 2012, two female shareholder representatives and one female employee representative were elected to the Supervisory Board during the Supervisory Board elections; meaning that the Supervisory Board had exceeded its original aim of having one female shareholder representative and one female employee representative. Julia Cuntz resigned her seat on the Supervisory Board in May 2014, which means that the Supervisory Board of Rheinmetall AG currently has one female shareholder representative and one female employee representative.

The Supervisory Board believes it already has a suitable number of independent members who do not bear a business or personal relationship to the Company or members of the Executive Board that could cause a conflict of interests. To ensure the further prevention of potential conflicts of interest, the Supervisory Board does not include any members who hold board positions or perform advisory activities for key competitors of Rheinmetall AG and its Group companies.

AVOIDANCE OF CONFLICTS OF INTEREST

Any potential conflicts of interest affecting members of the Executive or Supervisory Board must be disclosed to the Supervisory Board immediately. The Supervisory Board shall report at the Annual General Meeting on any conflicts of interest and how they have been dealt with. No conflicts of interest were reported by any members of the Executive or Supervisory Board in the year under review. The offices held by Supervisory Board and Executive Board members are shown on pages 206 to 208.

REMUNERATION OF BOARD MEMBERS

Details on the individual remuneration of Executive Board and Supervisory Board members and the respective remuneration structures are listed in the Board remuneration report within the summarized management report on pages 43 et seq. The Chairman of the Supervisory Board briefed the Annual General Meeting on May 6, 2014 in Berlin on the basic components of Executive Board remuneration, which have also been disclosed on the Company's website.

DIRECTORS' DEALINGS

In accordance with Section 15a of the German Securities Trading Act (WpHG), members of the Executive Board and Supervisory Board and any related parties, as well as employees with managerial responsibilities as defined by WpHG, are obliged to disclose the acquisition or sale of securities or related financial instruments to the Company if transactions concluded within the calendar year exceed €5,000. This information must also be passed on to the Federal Financial Supervisory Authority (BaFin). All securities transactions carried out since 2005 are available to view on the internet at www.rheinmetall.com in the Investor Relations section. Helmut P. Merch, a member of the Executive Board of Rheinmetall AG, notified the Company in November 2014 that he had purchased 5,000 Rheinmetall shares at a price of €30.80 per share via the trading platform XETRA.

RELATED PARTIES

In making decisions and performing their duties, members of the Executive and Supervisory Boards must not pursue their personal interests or take advantage of any business opportunities arising for the Company for their own personal gain, or grant unfair advantages to other persons. Any such transactions or additional work must be disclosed to the Supervisory Board immediately and approved by it.

Corporate governance
Corporate governance report

SHAREHOLDINGS OF BOARD MEMBERS

Members of the Supervisory Board and Executive Board and related parties held the following shareholdings on December 31, 2014:

Shareholdings of Board members

	2014	2014	2013	2013
	Number of shares	%	Number of shares	%
Executive Board	54,993	0.1	70,341	0.2
Supervisory Board	332,600	0.8	332,600	0.8
Total	387,593	0.9	402,941	1.0

D&O INSURANCE

Rheinmetall AG has taken out a D&O insurance policy (Directors' and Officers' liability insurance) for all Executive and Supervisory Board members, whereby a deductible of 10 % of the loss or one and a half times the annual fixed remuneration has been agreed.

COMPLIANCE

Operating in a way that is sustainable from an economic, ecological and social viewpoint is an essential element of Rheinmetall's corporate culture. This also includes integrity in dealings with employees, business partners, shareholders and the public, which is expressed through exemplary conduct.

Compliance includes all instruments, guidelines and measures which ensure that procedures in the companies of the Rheinmetall Group comply with country-specific legislation, general legal conditions, regulatory provisions and the Company's internal directives and that conduct in accordance with the law and regulations is assured. Compliance activities focus on corruption prevention, export controls and cartel law. The compliance organization is described in more detail on pages 119 to 122.

RISK MANAGEMENT

A comprehensive, Group-wide reporting and control system is available to the Executive Board and managers of Rheinmetall AG. This is designed to identify economic and financial risks to which the Company is exposed in the context of its international activities at an early stage. It is intended to ensure that business decisions and ongoing business activities are kept within defined risk limits and comply with legal requirements. The Executive Board regularly informs the Supervisory Board and in particular the Audit Committee of existing risks and their development. The Group updates the monitoring system on an ongoing basis and adapts it to changing general corporate conditions. Details of risk management at Rheinmetall AG are presented in the risk report on pages 88 to 104.

The auditor examines whether the Executive Board has taken the necessary action to set up a suitable early risk identification system as required by Section 91 (2) AktG and ensures that this is able to identify in good time any developments that may jeopardize the Company's continued existence as a going concern.

ACCOUNTING AND AUDITING

Rheinmetall AG prepares the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as required in the European Union. The single-entity financial statements of Rheinmetall AG, which are decisive for the dividend distribution, are prepared according to the provisions of German law, particularly the German Commercial Code (HGB). Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch, performed the statutory audits for 2014. The audit assignment was awarded by the Supervisory Board in December 2014 following the election of the auditor by the Annual General Meeting on May 6, 2014. The Supervisory Board ensures that no conflicts of interest adversely affect the auditor's work and commits it to promptly disclose any incompatibility with the assignment (e.g. non-eligibility or bias). Moreover, the statutory auditor reports on any material findings and events that contradict the declaration of conformity of the Executive Board and Supervisory Board under the terms of Section 161 AktG. The 2014 audit of financial statements has not indicated any such reportable facts.

COMMUNICATION WITH STAKEHOLDERS

The Rheinmetall Group naturally ensures that its communications are up-to-date, transparent and objective. Its communications are geared towards the rights and interests of shareholders, the media and the general public. In accordance with the principle of fair disclosure, the relevant target groups are informed at the same time. Investors, potential investors, customers, employees, lenders, business partners, analysts and interested members of the public are informed of the economic and financial situation, new key developments and significant events or changes at Rheinmetall on the internet at www.rheinmetall.com. In addition to press releases, annual and quarterly reports and presentations in German, English and other languages, the websites include topical information about the Group and its divisions and companies, along with facts about and pictures of products, systems and services. As well as this extensive material, the websites provide a variety of user-specific offers and download options. The range of internet services is rounded off by numerous links, making it easier to access further information about specialist subjects. Questions about the Company and its products and services are answered via information email addresses. Facts and circumstances that may influence the share price on the stock market are published immediately in ad hoc notifications in accordance with the legal regulations (three notifications in the year under review). Rheinmetall publishes securities transactions that are subject to reporting requirements in the media required by law and on its website (one announcement in 2014).

As well as regular attendance at conferences and meetings with investors, roadshows for institutional investors and analysts also ensure the continuous exchange of information with the capital markets. The Annual General Meeting provides the opportunity to discuss matters with private investors, who can also contact the Investor Relations department with questions by telephone, in writing or by e-mail all year round. Corporate Treasury is in direct contact with the financing banks. Corporate Communications maintains dialog with representatives from the national and international specialist press and economic publications. Rheinmetall stays in touch with its customers and also makes new contacts by attending a large number of trade fairs. As well as brochures, posters and product and service leaflets, the Defence and Automotive sectors have multimedia presentations and image films available to provide information to customers. Employees are kept informed through meetings with their line managers, works meetings, notices, the Intranet and e-mail newsletters. In the year under review, the CEO sent two editions of the CEO's letter to employees of the Rheinmetall Group in Germany and abroad and informed them of current business development and the situation of the Company.

Corporate governance
Disclosures required by takeover law

Explanatory report by the Executive Board in accordance with Section 176 (1) Sentence 1 AktG regarding disclosures required by takeover law in accordance with Sections 289 (4) and 315 HGB.

COMPOSITION OF THE SUBSCRIBED CAPITAL

The subscribed capital (common stock) of Rheinmetall AG remained unchanged on the previous year at the balance sheet date of December 31, 2014, at €101,373,440, and was divided into 39,599,000 ordinary bearer shares with no nominal value (no-par value shares), each of which represented €2.56 of the common stock. The shares are fully paid. Different classes of shares do not exist. According to Section 5 (2) of the bylaws, no shareholder is entitled to a physical share certificate. The Company is authorized to issue bearer share certificates that document several shares.

SHAREHOLDER RIGHTS AND OBLIGATIONS

The same rights and obligations are attached to all shares, as set out in the German Stock Corporation Act (AktG), in particular Sections 12, 53a et seq, 118 et seq, and 186 AktG. The shareholder is entitled to asset-related and administrative rights. Asset-related rights primarily include the right to a share in the profits under the terms of Section 58 (4) AktG, the right to net liquidation assets following the dissolution of the Company in accordance with Section 271 AktG and share subscription rights in the event of capital increases according to Section 186 (1) AktG.

Administrative rights comprise the right to attend the Annual General Meeting and the right to speak there, ask questions, submit motions and exercise voting rights. Any shareholder may enforce such rights, in particular through actions for information, avoidance or rescission.

Each share in Rheinmetall AG grants one vote at the Annual General Meeting. This excludes treasury shares held by the Company in accordance with Section 71b AktG, which do not entitle the Company to any rights, particularly any voting rights.

The Annual General Meeting selects shareholder representatives on the Supervisory Board as well as the auditor. It decides on the appropriation of net income and approval of the activities of the members of the Executive Board and Supervisory Board. The Annual General Meeting passes resolutions on the bylaws and the objective of the Company, key corporate measures such as affiliation agreements and conversions, the issuing of new shares, convertible bonds and bonds with warrants and authorization to acquire treasury shares, as well as the performance of a special audit, the early removal of Supervisory Board members and the dissolution of the Company.

Subject to other overriding legal provisions, the Annual General Meeting adopts its resolutions by means of a simple majority of votes cast and, where the law prescribes both a voting and shareholding majority, by means of a simple majority of the common stock represented in the passing of the resolution.

RESTRICTIONS ON VOTING RIGHTS AND SHARE TRANSFER

As at the 2014 balance sheet date, the shares of Rheinmetall AG were not subject to any voting restrictions under the bylaws or legislation. To the extent that Rheinmetall AG issues shares under its long-term incentive program to Executive Board members and other senior management staff, these shares have been subject to a four-year lockup period since 2010. However, this does not apply to retired members of the Executive Board. Eligible staff of the Rheinmetall Group in Germany and other European countries may purchase Rheinmetall AG shares on preferential terms as part of the employee share purchase program. There is a lockup period of two years for these shares.

In the case of acquisition of a defense technology company in Germany, Sections 60 et seq. of the German Foreign Trade & Payments Regulation (AWV) allow the German government to prohibit foreign investors from acquiring 25 % or more of the shares. This regulation aims to safeguard material security interests of the Federal Republic of Germany.

SHAREHOLDINGS EXCEEDING 10 % OF VOTING RIGHTS

The Company did not receive notification from any investors during the reporting year stating that their shareholdings had risen above the threshold of 10 %.

Rheinmetall AG is not aware of any indirect shareholdings as defined by Section 22 of the German Securities Trading Act (WpHG) that exceed 10 % of the voting rights.

SHARES WITH SPECIAL RIGHTS CONFERRING CONTROLLING PRIVILEGES

None of the shares issued by Rheinmetall AG vest rights which confer special control privileges on their holders.

TYPE OF VOTING CONTROL IF EMPLOYEES HAVE SHAREHOLDINGS AND DO NOT EXERCISE THEIR RIGHTS OF CONTROL DIRECTLY

To the extent that Rheinmetall AG issues shares under its long-term incentive program and employee share purchase program, these shares are directly transferred to these individuals subject to a resale lockup period of four or two years. In the case of retired members of the Executive Board, the four-year lockup period does not apply.

As with other shareholders, these beneficiaries are also able to directly exercise the rights of control to which they are entitled based on the transferred shares, subject to the provisions of the law and bylaws.

APPOINTMENT AND REMOVAL OF EXECUTIVE BOARD MEMBERS AND AMENDMENTS TO THE BYLAWS

The appointment and removal of the members of the Executive Board of Rheinmetall AG is based on Sections 84 and 85 AktG and Section 31 MitbestG in conjunction with Section 6 of the bylaws. Executive Board members are appointed by the Supervisory Board for a maximum of five years and may be reappointed or their term of office renewed, for a maximum period of five years in each case.

The provisions of Sections 179 et seq. AktG apply to any amendment of the bylaws of Rheinmetall AG.

In accordance with Section 12 of the bylaws, amendments that affect only the version or wording of the bylaws with regard to the balance and utilization of authorized capital can be carried out by the Supervisory Board without the passing of a resolution by the Annual General Meeting.

Corporate governance
Disclosures required by takeover law

ISSUING NEW SHARES AND REPURCHASING TREASURY SHARES

According to Section 202 AktG, the Annual General Meeting may authorize the Executive Board for a maximum period of five years to increase the common stock by issuing new shares in return for capital contributions. The Annual General Meeting of May 6, 2014 authorized the Executive Board, with the approval of the Supervisory Board, to increase the common stock of the Company through the issue of new no-par shares in return for contributions in cash and/or in kind on one or several occasions up to May 5, 2019, up to an aggregate €50,000,000.00 (authorized capital). The new shares may also be issued to employees of Rheinmetall AG or any subsidiary it controls. The disapplication of subscription rights upon which the Executive Board may resolve with the approval of the Supervisory Board is governed by Section 4 (3) of the bylaws of Rheinmetall AG.

For the purpose of granting shares when options and/or conversion rights are exercised and when option and/or conversion obligations are fulfilled for the holders of bonds with warrants and/or convertible bonds issued on the basis of the authorization, a contingent increase of up to €20,000,000.00 was carried out on the Company's common stock (contingent capital) by way of a resolution of the Annual General Meeting on May 6, 2014. Furthermore, the Executive Board of the Company was authorized by resolution of the Annual General Meeting of May 6, 2014 to issue interest-bearing bearer bonds with warrants and/or convertible bonds with a total nominal value of €800,000,000.00 with a term of up to 20 years on one or several occasions up to May 5, 2019, and to grant the holders of the respective bonds, which carry the same rights, options and conversion rights on new shares of the Company up to a total of 7,812,500 shares, in accordance with the more detailed provisions of the conditions for bonds with warrants and/or convertible bonds.

The purchase of treasury stock is governed by Section 71 AktG. According to the resolution by the Annual General Meeting of May 6, 2014, the Executive Board of Rheinmetall AG is authorized pursuant to Section 71 (1) No. 8 AktG to repurchase treasury bearer shares of Rheinmetall AG not to exceed 10 % of the current common stock of €101,373,440.00. Such treasury shares may be acquired via the stock exchange or by public bid directed at all shareholders or by public invitation to submit a purchase bid. This authorization is valid until May 5, 2019.

AGREEMENTS TERMINABLE UPON A CHANGE OF CONTROL

In December 2011, a banking consortium granted Rheinmetall AG a syndicated credit facility of €500 million with a duration of five years. If more than half of the Rheinmetall AG shares are held directly or indirectly by one or several persons (acting either jointly or severally), or if the person or persons acting jointly or severally fulfill the conditions for appointing members of the Supervisory Board, the agreement's terms and conditions must be terminated or renegotiated.

In September 2010, Rheinmetall AG issued a €500 million bond maturing in June 2017. Upon a change of control, bond holders may call in the bond and request redemption of the bond principal plus interest. In October/November 2014, Rheinmetall issued promissory note loans for a total of €179 million with terms of five, seven and ten years respectively. 39 national and international investors subscribed to these. In the event of a change of control, the promissory note holders also have an extraordinary right to terminate along the lines of the aforementioned agreements. The agreement of these types of rights of termination is standard practice, particularly when granting longer-term loans.

No preventive precautions have been taken against a public takeover bid, the successive acquisition of a controlling stake via share purchases on the stock markets, or control being gained by buying blocks of shares.

COMPENSATION ARRANGEMENTS OF THE COMPANY

No compensation arrangements have been made with members of the Executive Board or employees.

Corporate governance
Board remuneration report

REMUNERATION OF THE EXECUTIVE BOARD

Rheinmetall AG's pay system is geared towards sustainable corporate development. Using an assessment basis spanning several years, incentives are provided for a sustainable corporate management strategy, in particular as part of the long-term incentive program (LTI). The Supervisory Board of Rheinmetall AG resolves upon and regularly reviews the amount of Executive Board remuneration and any significant employment contract elements following preparation work carried out by the Personnel Committee. The Supervisory Board has performed an extensive review of the remuneration system of the Executive Board on the basis of all relevant information, and has looked in particular at whether the total remuneration of Executive Board members is proportionate to the scope of responsibilities of the Executive Board member in question, his personal performance and the economic situation and success of the Company in comparison with industry peers and ensuring that this remuneration does not exceed standard remuneration unless there are special reasons for this. Remuneration is calculated in such a way as to ensure that it is competitive on a national and international scale, thus offering an incentive for dedicated and successful work. The Supervisory Board most recently reviewed the suitability of current Executive Board remuneration at its meeting on December 10, 2014 and determined that it was appropriate.

Total remuneration is performance-based and is made up of various components. These comprise fixed annual remuneration not linked to performance, performance-related variable remuneration comprising a short-term incentive program (STI) and a long-term incentive program (LTI) as well as fringe benefits and pension commitments. The fixed component makes up 60 % and the STI 40 % of the annual target salary.

FIXED REMUNERATION

The fixed component is paid out on a monthly basis in twelve equal portions. In addition, Executive Board members receive fringe benefits in the form of non-cash remuneration. This mainly consists of contributions to statutory social pension insurance (or any exempting life insurance in lieu) plus the use of a company car.

PERFORMANCE-RELATED VARIABLE REMUNERATION

Performance-related variable remuneration comprises two elements, the STI and the LTI.

The target value (100 %) for the STI is based on planning for the fiscal year. This is subject to the development of two key figures, EBT and return on capital employed (ROCE), which are each weighted at 50 % and used as criteria for determining this figure. The amount paid from the STI ranges between 0 % and 200 % of the target amount. 200 % of the target amount is paid if the planned value is exceeded by 10 %. No payment is made from the STI if target achievement falls 30 % below the planned value. In the case of intermediate target achievement values, a corresponding value within the range is paid out. The target parameters are also used, in combination with others, by managerial staff in order to ensure the uniformity and consistency of the target system in the Group as a whole in this respect.

In order to gear the Executive Board remuneration structure more strongly towards sustainable corporate development, an LTI has also been introduced. The LTI provides for a distribution at the end of the fiscal year in question based on the calculation of the average adjusted EBT from the last three fiscal years. This distribution amount is divided into a cash portion and an equity portion.

Corporate governance
Board remuneration report

The number of shares granted is based on a reference share price which corresponds to the average price on the last five trading days in February of the subsequent fiscal year. The shares granted are subject to a four-year lockup period, during which they are subject to all opportunities and risks inherent in capital market performance. As part of the LTI, the figure to be taken into account when calculating the distribution amount (average adjusted EBT from the last three fiscal years) is limited to a maximum of €300 million. This is therefore a cap intrinsic to the system. The cash portion is mainly used to pay the tax bill incurred upon receipt of the shares and the cash portion. At its meeting on December 11, 2012, the Supervisory Board resolved to waive observance of the four-year lockup period for members of the Executive Board who are retiring.

Average adjusted EBT for fiscal 2013 totaled €206 million. Average adjusted EBT totaled €140 million for fiscal 2014.

The employment contracts make provision for the ability of the Supervisory Board to grant, in exceptional cases and at its own discretion, a special bonus exclusively for (i) special achievements or specific efforts, (ii) if and to the extent to which the Executive Board member has made a particular difference to the Company through his activities (e.g. restructuring success in a particularly difficult market environment). Executive Board members are not entitled to the granting of this special bonus. In fiscal 2014, Mr. Horst Binnig was granted a special bonus of €114,000 for his work before he was appointed to the Executive Board.

In addition to salaries, a group accident and invalidity insurance policy and a D&O insurance policy (Directors' and Officers' liability insurance) are also in place, whereby a deductible of 10 % of the loss or one and a half times the annual fixed remuneration has been agreed.

The contracts of Executive Board members provide for a compensation payment in the event that the position on the Executive Board is terminated prematurely without cause. This is limited to a maximum of two years' salary including fringe benefits (compensation cap) and shall not provide any more payment than the remaining term of the employment contract. The members of the Executive Board did not receive any benefits or equivalent entitlements from third parties with regard to their activities as Executive Board members in fiscal 2014 or in the previous year.

TOTAL REMUNERATION OF THE EXECUTIVE BOARD

Individual details of the remuneration of the Executive Board in fiscal 2014 and pension commitments attributable to individual members of the Executive Board can be found in the following table, in addition to the respective values for the previous year:

Granted benefits € '000

	Armin Papperger CEO From January, 2013[1]		Horst Binnig Member of the Ececutive Board from January 1, 2014		Helmut P. Merch Member of the Ececutive Board from January 1, 2013	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Fixed remuneration	660	600	360	-	462	420
Fringe benefits	23	23	38	-	27	27
Total	**683**	**623**	**398**	**-**	**489**	**447**
One-year variable remuneration (STI)	-	-	450	-	-	-
Multi-annual variable remuneration (LTI)	616	907	308	-	308	453
Total	**1,299**	**1,530**	**1,156**	**-**	**797**	**900**
Pension expenses	1,363	42	836	-	299	63
Total remuneration	**2,662**	**1,572**	**1,992**	**-**	**1,096**	**963**

[1] Member since January 1, 2012

There is no minimum amount of variable remuneration, although there is an upper limit. Remuneration from the STI can amount to a maximum of €880,000 for the CEO Armin Papperger, €480,000 for Horst Binnig and €616,000 for Helmut P. Merch. Remuneration from the LTI can amount to a maximum of €1,320,000 for the CEO Armin Papperger and a maximum of €660,000 each for Horst Binnig and Helmut P. Merch.

Inflows € '000

	Armin Papperger CEO From January 1, 2013[1]		Horst Binnig Member of the Ececutive Board from January 1, 2014		Helmut P. Merch Member of the Ececutive Board from January 1, 2013	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Fixed remuneration	660	600	360	-	462	420
Fringe benefits	23	23	38	-	27	27
Total	**683**	**623**	**398**	**-**	**489**	**447**
One-year variable remuneration (STI)	-	-	450	-	-	-
Multi-annual variable remuneration (LTI)						
Payment	336	494	168	-	168	247
Transfer of shares	280	412	140	-	140	206
Total	**1,299**	**1,529**	**1,156**	**-**	**797**	**900**
Pension expenses	-	-	-	-	-	-
Total remuneration	**1,299**	**1,529**	**1,156**	**-**	**797**	**900**

[1] Member since January 1, 2012

On the basis of the reference share price of €54.28 for the end of February 2014, a total of 16,122 shares were transferred to members of the Executive Board of Rheinmetall AG who were in office in fiscal 2013 on April 2, 2014 as part of the LTI for fiscal 2013. The CEO, Armin Papperger, received 7,587 shares, Dr. Gerd Kleinert received 4,742 shares and Helmut P. Merch received 3,793 shares. The transfer of shares for the LTI for fiscal 2014 will take place at the beginning of April 2015 based on the reference share price as at the end of February 2015.

PENSIONS

Since January 1, 2014, the defined benefit pension commitments in the form of pension amounts agreed on the basis of individual contracts have been replaced by modular defined benefits including a transitional arrangement. The amount is determined on the basis of a proportion of the annual target salary, which is currently an average of 20 %. The retirement age has been fixed at the age of 63. The Company has set up provisions for future claims.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board of Rheinmetall AG is regulated in Section 13 of the bylaws. According to these, Supervisory Board members receive remuneration comprising a fixed component of €60,000 payable after the end of the fiscal year, in addition to reimbursement of expenses and meeting attendance fees. The Supervisory Board Chairman and Vice-Chairman each receive double this compensation.

Supervisory Board members receive fixed remuneration of €15,000 for any committee membership, which is payable after the end of the fiscal year. The chairman of a committee receives €30,000. Supervisory Board and committee members who belonged to the Supervisory Board or committee for only part of the fiscal year receive remuneration on a pro rata basis. The attendance fee for Supervisory Board meetings is €1,000. When attending committee meetings that are not held on the same day as a Supervisory Board meeting, the attendance fee is €500.

Corporate governance
Board remuneration report

Members of the Supervisory Board received the following remuneration for fiscal 2014:

€

		2014	2013
Klaus Greinert	Chairman of the Supervisory Board and Chairman of the Personnel, Audit, Mediation and Nomination Committees	240,000	240,000
Dr. Rudolf Luz	Vice Chairman of the Supervisory Board and member of the Personnel, Audit and Mediation Committees	165,000	165,000
Roswitha Armbruster	Member of the Supervisory Board and member of the Audit Committee (since July 1, 2014)	67,562	60,000
Julia Cuntz	Member of the Supervisory Board (until May 6, 2014)	20,712	60,000
Professor Dr. Andreas Georgi	Member of the Supervisory Board	60,000	60,000
Dr. Siegfried Goll	Member of the Supervisory Board	60,000	60,000
Professor Dr. Susanne Hannemann	Member of the Supervisory Board and member of the Audit Committee	75,000	75,000
Daniel Hay	Member of the Supervisory Board (since May 7, 2014)	39,288	-
Heinrich Kmett	Member of the Supervisory Board and member of the Audit Committee (until June 30, 2014)	37,192	75,000
Dr. Michael Mielke	Member of the Supervisory Board	60,000	60,000
DDr. Peter Mitterbauer	Member of the Supervisory Board	60,000	60,000
Detlef Moog	Member of the Supervisory Board	60,000	60,000
Wolfgang Müller	Member of the Supervisory Board (until June 30, 2014)	29,753	60,000
Professor Dr. Frank Richter	Member of the Supervisory Board and member of the Mediation and Nomination Committees	90,000	90,000
Markus Schaubel	Member of the Supervisory Board (since July 1, 2014)	30,247	-
Sven Schmidt	Member of the Supervisory Board (since July 1, 2014)	30,247	-
Harald Töpfer	Member of the Supervisory Board and member of the Mediation Committee	75,000	75,000
Wolfgang Tretbar	Member of the Supervisory Board and member of the Personnel Committee	75,000	75,000
Toni Wicki	Member of the Supervisory Board and member of the Personnel Committee	75,000	75,000
Total		**1,350,000**	**1,350,000**

In addition, Rheinmetall refunds VAT on Supervisory Board remuneration to the members of the Supervisory Board.

Economic report

Executive Board statement on the general economic situation

Business development in 2014 was characterized by very different trends in the two corporate sectors, Defence and Automotive. While Rheinmetall Automotive once again performed very well in 2014 and surpassed all the previous year's main key figures, the Defence sector had to deal with negative earnings effects and unscheduled burdens.

Rheinmetall Group – actual vs. forecast business performance in 2014

		2014	Forecast Q3/2014	Forecast Q2/2014	Forecast Q1/2014	Forecast 2014	2013
Sales	€ billion	4,688	4.6	4.6 - 4.7	4.8 - 4.9	4.8 - 4.9	4,417
Operating result	€ million	160	150	200 - 220	230 - 250	230 - 250	211

Following consolidated sales of €4.4 billion in fiscal 2013, in March 2014 we forecast that we would achieve sales of between €4.8 billion and €4.9 billion in the year under review, with a contribution of approximately €2.3 billion from Rheinmetall Defence and between €2.5 billion and €2.6 billion from the Automotive sector. At that time, we planned to generate an operating result of between €230 million and €250 million in the Group, with a figure of between €85 million and €95 million anticipated for Defence and between €165 million and €175 million for Rheinmetall Automotive.

Changes in the Group's future portfolio and the cancellation of an export license for delivery of a combat training center to Russia owing to changes in the political environment led at the beginning of August 2014 to an update of the forecast for sales and operating result (EBIT before special items) in fiscal 2014. The incorporation of the Aluminium-Technologie business unit into a joint venture with the Chinese company Huayu Automotive Systems (Shanghai) Co. led to the loss of around €200 million in sales, so we were now anticipating sales of between €2.3 billion and €2.4 billion in the Automotive sector and, with an unchanged sales forecast for the Defence sector, consolidated sales of between €4.6 billion and €4.7 billion for 2014. As a result of these adjustments, the forecast for the Group's operating result in 2014 was then also lowered by €30 million to between €200 million and €220 million.

At the beginning of November 2014, we lowered our sales forecast for Rheinmetall Defence for 2014 from €2.3 billion to around €2.2 billion. With regard to the operating result in the Defence sector, we were now also anticipating a slight loss of €-10 million before special items (previously: €+65 million to €+75 million). About half of the adjustment was due to a drop in sales, caused by export licenses that were not granted or were granted only after a delay, and to a general slowdown in the markets. Unexpected cost overruns in development projects at a Scandinavian subsidiary, the provision for potential warranty claims from a deal with naval gun systems and a deterioration in the product mix were also factors in the adjustment of the operating earnings forecast. In addition, we were anticipating non-operational special items in 2014, which at that time amounted to €20 million (previously: €10 million). As well as delayed costs from the previous year's restructuring program, these non-recurring effects included an unexpected expense in connection with the final contractual step in the sale of the product unit "airborne systems" in 2012. The potential negative financial effects expected as a result of administrative offense proceedings against a Rheinmetall subsidiary in Bremen in connection with corruption inquiries in Greece were not yet included in this figure at that time.

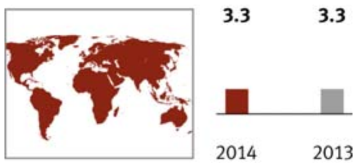
Operating segments – actual vs. forecast business performance in 2014

	Sales			Operating result		
	2014	Target 2014	2013	2014	Target 2014	2013
Defence	€2,240 million	approx. €2.3 billion	€2,155 million	€(9) million	€85-95 million	€60 million
Automotive	€2,448 million	€2.5-2.6 billion	€2,262 million	€184 million	€165-175 million	€158 million

Economic report
General economic conditions

Real economic growth % | **Key statements on economic development in 2014**

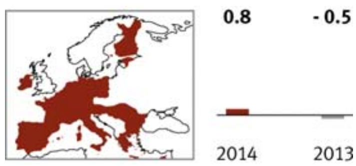
World



Mixed economic stimuli result in muted upward trend

- Mature economies with widely varying economic momentum (overall growth of +1.8 %, compared with +1.3 % in 2013)
- Growth trend slows slightly in emerging countries (+4.4 %, compared with 4.7 % in 2013)
- Upward trend continues in the USA
- Recovery in the euro zone falls short of expectations
- No positive turnaround in Japan
- Low interest rates and the drop in oil prices in the 4th quarter of 2014 stimulate economic output in industrialized countries despite the negative effects of geopolitical crises in Ukraine and the Middle East

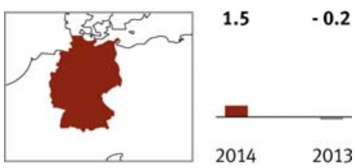
Euro zone



Economic recovery progresses only slowly

- Economic output grows by only 0.8 %
- Annual inflation rate drops to -0.2 % in December 2014, its lowest level since the global economic crisis of 2009
- Base rate falls to historic low of 0.05 %
- France still recording only weak growth as the second-largest economy in the euro zone (+0.4 %)
- Unemployment still at a high level (11.5 %) at the end of 2014

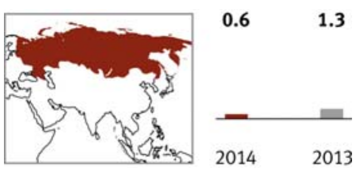
Germany



German economy picks up again after a slight phase of weakness

- Following a temporary slowdown in momentum, economic development improved again at the end of 2014 thanks to low oil prices and private consumption
- German exports prove robust overall, despite the crisis in Ukraine
- Low inflation rate of only 0.9 % (2013: 1.5 %)
- Following a temporary economic slowdown, the ifo business climate index rose for the second time in a row in December 2014

Russian Federation

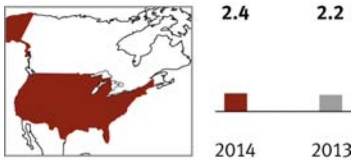


Ukraine conflict and collapse of the rouble plunge the Russian economy into crisis

- Only slight growth of 0.6 %
- Western sanctions and low oil prices curb the Russian economy
- High inflation rate of over 11 %
- Base rates rise to a record high of 17.0 % by the end of the year
- Rouble depreciates by around 50 % within a year

Real economic growth %	Key statements on economic development in 2014

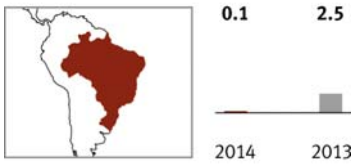
USA



US economy still on course for stable growth

- Expansionary monetary policy and decline in the braking effect of budget consolidation boost the economic upturn
- Unemployment rate drops to around 6 % by the end of the year
- Favorable consumer confidence, but increasing warnings about "boom on credit"
- OECD attests that the USA's growth was strengthened on a lasting basis in the cours of 2014

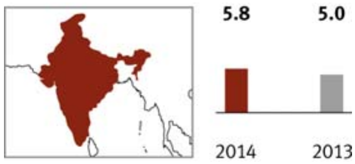
Brazil



Zero growth, but also initial signs of recovery

- Following a decline in the first half of the year, there have been signs of a slight recovery since the third quarter
- Slip into a deep recession avoided, but still no lasting upturn
- Base rate rises to new high of 11.75 %
- Continuing high inflation rate of around 6.5 %
-

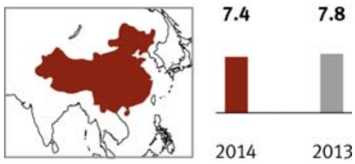
India



Reforms prove effective

- India returns to growth thanks to pro-business reforms
- Inflation rate drops to around 4.4 % by the end of the year
- Government wants to raise the share of industrial production in GDP from 15 % to 25 % by improving general conditions for foreign investors

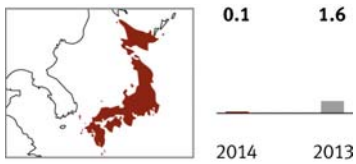
China



China experiences slight slowdown in economic momentum

- Growth loses momentum, but stays at a comparatively high level
- Economy just fails to meet the government's growth target of 7.5 %
- Risk of deflation leads to the first reduction in the base rate for two years (to 5.6 %)
- Government is laying the foundations for an investment program worth billions for further modernization of infrastructure

Japan



Japan slides into a recession

- Following a decline in two consecutive quarters, the Japanese economy slides into a recession in fall 2014
- Increase in VAT from 5 % to 8 % in April noticeably curbs economic development
- The Japanese government's formula, consisting of expansionary monetary policy and increased spending, is unable to halt the economic downturn

Sources: IMF - World Economic Outlook 01/2015; OECD - Economic Outlook No 96, November 2014; "Gemeinschaftsdiagnose" - Herbstgutachten der deutschen Wirtschaftsforschungsinstitute (fall report of German economic research institutes) dated October 9, 2014; Kiel Institute for the World Economy (IfW) – Kiel economic reports 2014/Q4; ifo business climate index, December 2014; eurostat – news releases 1/2015 and 2/2015; Federal Office of Statistics – press release 2/2015; Rheinmetall AG

Economic report
General economic conditions

MIXED STIMULI: ONLY SLIGHT UPWARD TREND IN THE GLOBAL ECONOMY IN 2014

The global economy in the year under review was characterized both by signs of economic recovery and by obstacles to growth and geopolitical crises. In net terms, global economic output grew by 3.3 % in 2014, according to calculations by the International Monetary Fund (IMF). The organization had also calculated global economic growth of 3.3 % for the previous year.

While the USA remained on a robust growth course with an increase in gross domestic product (GDP) of 2.4 %, the recovery in the euro zone failed to meet the IMF's original expectations, with growth of just 0.8 %. Japan was unable to avoid sliding into a recession, and growth in the major emerging countries lost momentum compared with previous years. Although China remained an important driver of the global economy with growth of 7.4 %, a growing body of opinion warned about a risk of deflation and weakening domestic demand in the world's second-largest economy in 2014. The situation in Russia was particularly critical in the year under review, where Western sanctions due to the conflict in Ukraine, the drop in oil prices and the sharp depreciation of the rouble led to a noticeable slowdown in economic momentum. On the other hand, falling oil prices in the fourth quarter of 2014 strengthened consumer confidence and revived the economy in many importing countries. The IMF calculated that German GDP grew by 1.5 % for the year as a whole, despite a temporary phase of weakness in the third quarter.

A TURNAROUND ON THE GLOBAL DEFENSE MARKET: DEFENSE SPENDING INCREASES AGAIN OVERALL

Following a temporary decline in defense budgets in 2012 and 2013, global defense spending increased again slightly in the year under review. According to calculations by defense analysts at IHS Jane's, the global defense market was worth a total of approximately USD 1,603 billion in 2014, compared with around USD 1,579 billion in 2013. The trend towards increased spending is partly due to the fact that the need for modernization in the armed forces remains high in many emerging and developing countries and is partly the result of new challenges in terms of security policy, which are limiting cost-cutting measures in many Western nations. In the USA, for example, the cuts to the defense budget were smaller than originally planned. Instead of spending around USD 575 billion on defense as expected at the beginning of 2014, the USA actually invested approximately USD 581 billion in its armed forces in the year under review according to IHS Jane's, which was only slightly lower than the previous year's figure of around USD 586 billion. The following table provides an overview of development of defense spending in key markets for Rheinmetall Defence.

Defense budgets of selected countries

Country	**Currency**	**2014**	**2013**	Change in %
Germany	€ billion	32.44	33.26	-2.5
World	USD billion	1,603.01	1,579.10	1.5
USA	USD billion	581.05	586.15	-0.9
China	USD billion	176.25	165.23	6.7
Russian Federation	USD billion	78.14	68.89	13.4
Great Britain	USD billion	58.07	59.23	-2.0
France	USD billion	52.65	53.09	-0.8
Saudi Arabia	USD billion	48.46	42.86	13.1

Sources: Federal Ministry of Defense "Detailed plan 14/2014 compared with budget for 2013"; IHS Jane's, as at January 2015

Defense budgets of selected countries

Country	Currency	2014	2013	Change in %
India	USD billion	47.78	46.00	3.9
Australia	USD billion	32.95	31.87	3.4
Italy	USD billion	26.93	27.79	-3.1
Algeria	USD billion	12.03	10.78	11.6
Netherlands	USD billion	10.08	10.46	-3.6
Indonesia	USD billion	8.00	8.51	-6.0
Norway	USD billion	7.34	7.35	-0.1
Sweden	USD billion	6.63	6.59	0.6
South Africa	USD billion	4.45	4.43	0.5
UAE United Arab Emirates	USD billion	4.09	3.90	4.9

Source: IHS Jane's, as at January 2015

TARGETED INTERNATIONALIZATION: DEFENCE SUCCESSFUL IN GROWTH SEGMENTS AND REGIONS

Despite stagnating or declining defense budgets in many Western nations, Rheinmetall Defence exploited market opportunities arising from current or upcoming modernization projects of the German armed forces and NATO nations in a targeted way in 2014. However, it also leveraged 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.

Due to Rheinmetall Defence's consistent internationalization strategy, sales achieved abroad in 2014 accounted for 71 % of the total volume of business (previous year: 68 %). The major international markets in the year under review included NATO nations such as the Netherlands, France, the UK, Canada and the USA. Rheinmetall MAN Military Vehicles received two large orders from Scandinavia: Norway and Sweden gave the go-ahead in 2014 for the purchase of up to 2,000 military commercial vehicles worth a total of over €1 billion between 2014 and 2026. Rheinmetall Defence enjoyed success in the USA with master agreements for modern infantry and smoke ammunition, for example (USD 128 million or €96 million), while the UK ordered large volumes of modern laser light modules for its infantry forces (€33 million).

As well as consolidating our market position in Australia in the field of military vehicles, we also succeeded in expanding our position in the air defense segment in South Africa and Indonesia in 2014. Countries in the Middle East/North Africa region (MENA) also remained important to us in 2014. On the other hand, we were unable to fulfill an order for a combat training center in Russia dating from 2011 as planned, due to a ban on exports following the crisis in Ukraine. Nevertheless, Rheinmetall Defence continued to win over customers on its domestic market with its technology for operating state-of-the-art combat training centers: As part of a new service contract with the German armed forces, Rheinmetall Defence will be responsible for industrial operations support at the combat training center for the army in the Altmark in Saxony-Anhalt until 2018.

Germany remains the most important individual market for Rheinmetall Defence, accounting for 29 % of sales. At the beginning of October 2014, a consortium of advisers to the Ministry of Defense presented a study on the situation with regard to central armaments projects. The report concluded, among other things, that the planning and decision-making processes used until now in procurement will need to be redefined, to ensure more transparency and economic efficiency. This basic objective is also supported by the defense technology industry.

Economic report
General economic conditions

ROBUST GROWTH: AUTOMOTIVE MARKETS IN CHINA, THE USA AND EUROPE IN FORWARD GEAR

The economic environment in which the Automotive sector operates is largely determined by the development of worldwide production of passenger cars and light commercial vehicles up to 3.5 t. According to calculations by analysts at IHS Automotive, this market segment grew by 3.0 % in 2014. Accordingly, global production figures rose to 85.3 million vehicles, compared with 82.8 million units in the previous year.

The fact that production figures in the three biggest markets – China, NAFTA and Western Europe – all increased significantly in 2014 had a particularly positive impact. Growth in China amounted to 9.1 %, while the NAFTA region recorded an increase of 5.2 %. The Western European market was also showing clear signs of a recovery following a prolonged lean period, with automotive production there increasing by 4.5 % year-on-year. In contrast, growth in Japan was relatively low for the year as a whole at just 1.7 %. This was largely due to an increase in VAT in the spring. The global upward trend in automotive production was hindered in particular by the poor performance in Brazil (-13.9 %), the decline in the Indian market (-1.4 %) and the slump in production figures in Russia (-16.0 %), where, in addition to general economic difficulties, sanctions resulting from the crisis in Ukraine have had a detrimental effect on the automotive industry.

Production of passenger cars and light commercial vehicles up to 3.5t in selected countries Millions of units

Country	2014	2013	Change in %
World	85.31	82.80	3.0
Western Europe (incl. Germany)	14.29	13.67	4.5
Germany	5.81	5.62	3.4
Eastern Europa	5.66	5.77	-1.9
Russian Federation	1.73	2.06	-16.0
NAFTA	17.02	16.18	5.2
USA	11.43	10.87	5.2
South America (Brazil and Argentina)	3.58	4.22	-15.2
Brazil	2.97	3.45	-13.9
Asia (incl. Japan)	43.52	41.70	4.4
Japan	8.98	8.83	1.7
China	21.20	19.44	9.1
India	3.57	3.62	-1.4

Source: IHS Automotive as at January 2015

Rheinmetall Automotive has a balanced customer portfolio, which is reflected in an even regional distribution of sales. In 2014, 21 % of Automotive's business was generated in Germany, 38 % in Western Europe (excluding Germany) and 15 % in the NAFTA region (Canada, the USA and Mexico). Rheinmetall Automotive is also represented on the Chinese growth market, although the 4 % share in total sales does not reflect our strength on this market, as we operate there mainly through joint ventures carried at equity.

A MIXED PICTURE: MAJOR REGIONAL DIFFERENCES IN THE COMMERCIAL VEHICLE MARKET

As well as worldwide production of passenger cars and light commercial vehicles up to 3.5 t, the market environment in which Rheinmetall Automotive operates is also shaped by global development of production of commercial vehicles over 6.0 t. For us as an engine specialist, production volumes for engines for heavy commercial vehicles are regarded as an important indicator.

The situation varied considerably from region to region in the year under review. While production of engines for commercial vehicles over 6.0 t grew significantly in the NAFTA region (+14.1 %), there were some substantial drops in production in Brazil (-21.0 %), Western Europe (-3.7 %) and Germany (-3.8 %). One reason for the restraint in demand on the European market in the last fiscal year was the switch to stricter limits under exhaust gas standard Euro 6 from the beginning of 2014. According to ACEA, the European automobile manufacturers' association, this resulted in "panic buying" of vehicles with Euro 5 engines in 2013. The situation in Asia also varied in 2014. While production of truck engines grew by 3.8 % in India and 2.8 % in Japan, production figures in China – as measured against the preceding strong years – declined (-1.4 %). According to calculations by IHS Automotive, global production of engines for commercial vehicles over 6.0 t fell slightly in net terms in 2014 compared with the previous year (-0.4 %).

Production of engines for heavy commercial vehicles over 6.0t in selected countries Thousands of units

Country	2014	2013	Change in %
World	2,911	2,923	-0.4
Western Europe (incl. Germany)	366	380	-3.7
Germany	125	130	-3.8
NAFTA	469	411	14.1
USA	310	271	14.4
Brazil	147	186	-21.0
Asia (incl. Japan)	1,782	1,779	0.2
Japan	326	317	2.8
China	1,031	1,046	-1.4
India	247	238	3.8

Source: IHS Automotive as at January 2015

A FOCUS ON ENVIRONMENTALLY FRIENDLY MOBILITY: RHEINMETALL AUTOMOTIVE ACTIVE IN GROWTH MARKETS

Rheinmetall Automotive's business continued to be positively influenced by two key factors in 2014: Firstly, our strong market position and growth in production in the three largest automotive markets of China, NAFTA and Western Europe, and secondly the ongoing regulatory trend towards environmentally friendly mobility, which has encompassed not only the mature industrialized nations, but increasingly also emerging countries such as China, India and Brazil.

Examples of our success on the market for reduction of pollutants include large orders from Europe and the USA for a newly developed compact exhaust gas recirculation valve (EGR valve) worth a total of €250 million (lifetime). The valve, which has been ordered by renowned European and North American automotive manufacturers, is used in engines that comply with the strict Euro 6 emissions standard.

Economic report
General economic conditions

The strength of Rheinmetall Automotive's position in the field of exhaust gas recirculation can also be seen from our production site in Abadiano, Spain. The 75 millionth exhaust gas recirculation valve was produced there in November 2014. This factory is the main plant for EGR valves within the Automotive sector. The success of this emission-reducing component was mainly due to the fact that emissions regulations are becoming stricter around the world, which is placing higher demands on the technology used. Systems with cooled exhaust gas recirculation have increasingly been built into vehicles from exhaust gas standard Euro 4 onwards, while Euro 6 requires not only highly cooled exhaust gas recirculation but also low-pressure exhaust gas recirculation, which means corresponding added value for Rheinmetall Automotive.

Rheinmetall Automotive consistently pursued its global orientation in 2014. In the area of aluminum casting, we entered into a new partnership with Huayu Automotive Systems (Shanghai) Co. (HASCO) in the year under review and incorporated our existing activities into a 50:50 joint venture based in Neckarsulm with the company, which is majority-owned by China's SAIC Group, at the end of 2014. In view of the emerging positive developments in the market for components cast from aluminum alloys, the joint venture with our Chinese partner will open up new opportunities to expand our casting business internationally.

DEVELOPMENT OF THE METAL AND ENERGY MARKETS IN 2014

The commodities markets experienced considerable volatility and some surprises, particularly with regard to energy, in 2014. Owing to fracking in the USA and weak global demand, oil prices ended the year at their lowest level since May 2009.

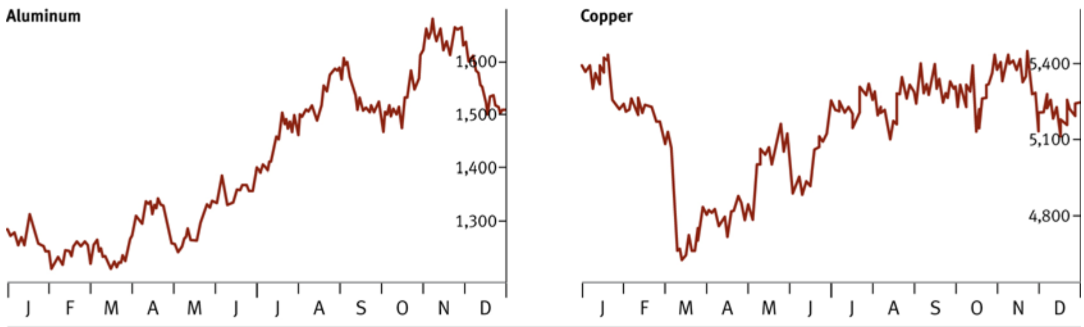
Information specific to metals, such as supply and demand, played only a subordinate role in trading during much of 2014. Instead, external factors such as economic data and exchange rates influenced the development of metal prices. A key driver of prices was the ongoing positive economic development in China, the biggest buyer of metals. China's economic prospects have become visibly bleaker since the summer, beginning with a slowdown in the real estate sector, and this has not left metal prices unscathed. Another factor that has influenced prices on industrial metal markets and that is continuing to influence them is the development of the US currency. The US dollar ended the year up 12 % at its highest level against the euro since August 2012, in contrast to metal prices, which had been rising since halfway through the year.

In net terms, the industrial metals index of the London Metal Exchange (LME) recorded a drop of 8 % in 2014, although the losses were much smaller than in the energy sector and for some precious metals. Among the different metals, nickel, an important component in piston alloys and piston ring carriers, particularly stood out in 2014, when it temporarily increased in price by around 50 %. The main driver of this was the introduction of an export ban on untreated ores in Indonesia, until then the world's biggest exporter of nickel ore. This had led to a noticeable shortage of supply on the global market.

The copper and aluminum markets were also tense in 2014. Contrary to the expectations of many market participants, there was a shortfall in supply on the copper market for the fifth consecutive year at the beginning of 2015. On the aluminum market, financial transactions (purchase of physical quantities, followed by storage of these stocks in warehouses owned by the London Metal Exchange and simultaneous sales of the same quantities on the futures market) and bottlenecks in the supply from warehouses led to long waiting times, with physical premiums reaching record highs.

The commodities markets closed 2014 with the biggest drop for six years. The main reason for this was the sharp fall in energy prices in the second half of the year, while the price indices for other commodities classes – industrial and precious metals and agricultural products – were at around the same level as at the beginning of the year. The price of Brent oil had fluctuated mainly within a narrow range of USD 100 to USD 120 per barrel for over three years before it abruptly dropped below this price range in the fall. The fact that oil prices have almost halved since June is only partly due to misjudgment of supply and demand. The US energy authority had actually predicted at the beginning of the year that there would be an increase in the non-OPEC supply of 1.9 million barrels per day in the current year. Although growth in demand has been slightly lower than was expected at the beginning of 2014, there has not been a huge slump in demand as in the financial crisis of 2008/09. The drop in prices was actually due above all to a change in strategy at OPEC, which is now focusing on defending its market share rather than ensuring a balance on the market, as it usually did until now.

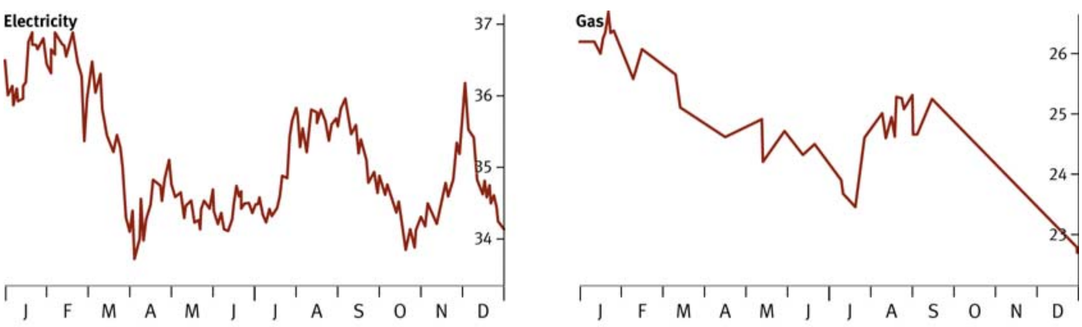
Aluminum and copper prices 2014 €/t



Source: Thomson Reuters Eikon

Electricity and gas prices continued to fall on both the spot market and the futures market in 2014, having declined in 2013. This was primarily due to excess electricity capacity, which was the result of higher volumes generated from renewable energy sources and was also reflected in extremely volatile price development. Forward prices for base-load electricity for supply in 2015 fell by 6.4 % over the course of 2014. The EEX price for supplies of natural gas in 2015 stood at €22.19 per MWh at the end of 2014, which was 16 % lower than at the start of the year. Within the context of our electricity and gas price hedging strategies, we take action several years in advance based on our medium-term planning, meaning that we could not make full use of the decline in EEX prices in 2014 for our own procurement activities. In addition, a further increase in the EEG levy aimed at promoting renewable energies to a record figure of 6.24 cents per kilowatt hour in 2014, compared to 5.27 cents per kilowatt hour in 2013, partly compensated for reduced exchange prices.

Electricity and gas prices 2014 €/MWh



Source: www.eex.com

Economic report
Rheinmetall Group

CONSOLIDATED SALES UP 6 % AT €4,688 MILLION

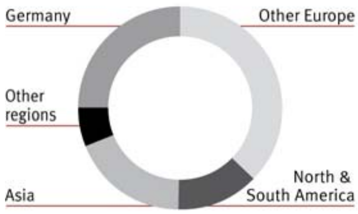
Düsseldorf-based Rheinmetall AG achieved consolidated sales of €4,688 million for fiscal 2014. Sales were thus up 6 % compared with the previous year's figure of €4,417 million; with adjustments for currency effects, growth totaled 7 %.

Sales € million

	2014	2013
Rheinmetall Group	4,688	4,417
Defence	2,240	2,155
Automotive	2,448	2,262

Both sectors contributed to the growth in sales at the Group. The Defence sector achieved sales of €2,240 million in the past fiscal year, an increase of 4 % on the previous year's figure. The Automotive sector increased its sales by 8 % to €2,448 million. At 75 %, the international share of consolidated sales in fiscal 2014 was higher than in the previous year (73 %). In particular, sales in Asia rose significantly and increased their share from 14 % to 19 %.

Sales by region € million



	2014	2013
Rheinmetall Group	4,688	4,417
Germany	1,166	1,183
Other Europe	1,746	1,686
North & South America	613	659
Asia	882	630
Other regions	281	259

OPERATING RESULT FOR THE GROUP AT €160 MILLION

The operating result (EBIT before special items) in the 2014 fiscal year was €160 million (previous year: €211 million). The operating margin was 3.4 %, following 4.8 % in the previous year. While the Defence sector fell far short of the previous year's figure (€60 million) with an operating result of €-9 million, the Automotive sector increased its earnings by 16 % to €184 million. The operating result for "Others/Consolidation" includes the result for Rheinmetall AG.

Operating result € million

	2014			2013		
	Operating result	Special items	EBIT	Operating result	Special items	EBIT
Rheinmetall Group	**160**	**(58)**	**102**	**211**	**(90)**	**121**
Defence	(9)	(58)	(67)	60	(56)	4
Automotive	184	-	184	158	(34)	124
Others/consolidation	(15)	-	(15)	(7)	-	-7

After including negative non-recurring effects of €58 million (previous year: €90 million), EBIT reached €102 million in the year under review and was therefore €19 million down on the previous year's figure of €121 million.

Net interest totaled €80 million, down on the previous year's figure of €76 million. The Rheinmetall Group's earnings before taxes (EBT) were €22 million, compared to €45 million in the previous year.

Earnings from continuing operations reached €16 million, following €32 million in the previous year. After a loss of €10 million in the previous year, discontinued operations recorded a profit of €5 million in 2014. Earnings after taxes totaled €21 million, around the same level as in the previous year (€22 million). Following inclusion of earnings attributable to minority interests, this brings earnings per share to €0.47 (previous year: €0.75), of which €0.34 related to continuing operations (previous year: €1.02).

Group net income € million

	2014	2013
EBIT	**102**	**121**
Net interest	(80)	(76)
EBT	**22**	**45**
Income taxes	(6)	(13)
Earnings from continuing operations	**16**	**32**
Earnings from discontinued operations	5	(10)
Group net income	**21**	**22**
of which:		
Minority interests	3	(7)
Rheinmetall AG shareholders	18	29
Earnings per share from continuing operations (€)	**0.34**	**1.02**

ORDER INTAKE ONCE AGAIN WELL ABOVE SALES

At €5,278 million (previous year: €5,609 million), the order intake for fiscal 2014 was once again well above sales. The order intake for the Defence sector was €2,812 million, below the previous year's figure of €3,339 million, which had included an order for a military truck program worth billions. The order intake of the Automotive sector rose from €2,270 million in 2013 to €2,466 million in the year under review.

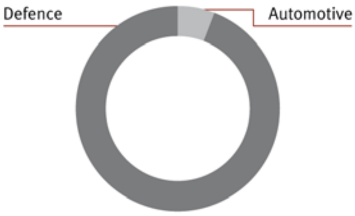
Order intake € million

	2014	2013
Rheinmetall Group	5,278	5,609
Defence	2,812	3,339
Automotive	2,466	2,270

Economic report
Rheinmetall Group

At €6,932 million, the Rheinmetall Group has an order backlog that is significantly up on the level of the previous year (€6,442 million).

Order backlog € million



	2014	2013
Rheinmetall Group	6,932	6,442
Defence	6,516	6,050
Automotive	416	392

CASH FLOW STATEMENT

With earnings after taxes remaining almost constant, 2014 saw a cash flow of €226 million (previous year: €233 million). The cash flow from operating activities was €102 million, down €109 million on the previous year.

Operating free cash flow (defined as cash flow from operating activities less capital expenditure on intangible assets, property, plant and equipment and investment property) amounted to €-182 million (previous year: €20 million). After accounting for cash receipts from the disposal of fixed assets and divestments and payments for acquisitions, the free cash flow came to €-172 million (previous year: €23 million), which was down €196 million year-on-year.

Cash flow statement € million

	2014	2013
Gross cash flow	**226**	**233**
Changes in working capital and other	(124)	(22)
Net cash provided by operating activities	**102**	**211**
Investments in intangible assets and property, plant and equipment	(284)	(191)
Operating free cash flow	**(182)**	**20**
Cash receipts from the disposal of intangible assets, property, plant and equipment and investment property	18	6
Net cash outflow from financial investments in/divestments of consolidated subsidiaries and other financial assets	(8)	(3)
Free cash flow	**(172)**	**23**

ASSET AND CAPITAL STRUCTURE

In fiscal 2014, the Rheinmetall Group's total assets rose by €405 million to €5,271 million (8 %). Non-current assets represented 48 % of total assets as at December 31, 2014, the same as in the previous year. They increased by €159 million to €2,504 million. This increase was mainly due to a rise in deferred tax assets (€110 million) and in investments (€27 million). Current assets increased by €246 million overall year-on-year. There were significant movements in trade receivables (€160 million) and inventories (€48 million).

Asset and capital structure € million

	Dec. 31, 2014	%	Dec.31, 2013	%
Non-current assets	2,504	48	2,345	48
Current assets	2,767	52	2,521	52
Total assets	**5,271**	**100**	**4,866**	**100**
Equity	1,197	23	1,339	27
Non-current liabilities	2,059	39	1,584	33
Current liabilities	2,015	38	1,943	40
Total equity and liabilities	**5,271**	**100**	**4,866**	**100**

The equity ratio is 23 %, following 27 % in the previous year. In fiscal 2014, the equity of the Rheinmetall Group fell by €142 million, or 11 %, to €1,197 million. This decline resulted primarily from actuarial gains and losses recognized in equity (€204 million) and dividend payouts (€24 million). This was countered by earnings after taxes (€21 million) and currency differences (€36 million). The €475 million increase in non-current liabilities to €2,059 million resulted from the rise in pension provisions (€230 million) and in non-current financial debts (€221 million). The increase in non-current liabilities resulted primarily from the rise in prepayments received.

In terms of the total assets adjusted for cash and cash equivalents, the equity ratio was 25 %, compared to 30 % in the previous year. Financial debts rose by €224 million or 38 % year-on-year. This increase is attributable to issuing new promissory note loans. As at the balance sheet date, cash and cash equivalents totaled €486 million, following €445 million on the balance sheet date of the previous year. Net financial debts for 2014 totaled €330 million, following €147 million in the previous year. The proportion of net financial debts in relation to adjusted total assets was 7 % in fiscal 2014, compared to 3 % in the previous year.

Capital structure € million

	Dec. 31, 2014	%	Dec.31, 2013	%
Equity	**1,197**	**25**	**1,339**	**30**
Current financial debts	57	1	54	1
Non-current financial debts	759	16	538	12
Total financial debts	**816**	**17**	**592**	**13**
Cash and cash equivalents/financial resources	(486)	(10)	(445)	(10)
Net financial debts	**330**	**7**	**147**	**3**
Total assets adjusted for cash and cash equivalents	**4,785**	**100**	**4,421**	**100**

Economic report
Rheinmetall Group

ADDED VALUE CONSTANT

In fiscal 2014, the Rheinmetall Group generated added value of €1,400 million. The Group's total operating performance came to €5,085 million, compared with €4,796 million in the previous year. The ratio of added value to the Group's total operating performance was 29 %. Value added per employee amounted to €69,000, as in the previous year. The workforce benefited from the largest share of value added in fiscal 2014 at 92 %. 1 % was apportioned to the Treasury. Interest payable to lenders in the year under review was 6 %. At €12 million, the shareholders of Rheinmetall AG received a 1 % share of value added. €4 million remained within the Rheinmetall Group, following value added of €17 million in the previous year.

Source and use of value added € million

	2014	%	2013	%
Source				
Group's total operating performance	5,085	100	4,796	100
Input	(3,488)		(3,144)	
Amortization and depreciation	(197)		(194)	
Value added	**1,400**	29	**1,458**	30
		%		%
Use				
Employees	1,288	92	1,325	91
Treasury	14	1	23	2
Lenders/banks	82	6	78	5
Shareholders	12	1	15	1
Companies	4	0	17	1
Value added	**1,400**	**100**	**1,458**	**100**

The Group's total operating performance comprises all income, i.e. total operating performance, other operating income, income from equity holdings, interest income and other financial income. Input includes all expenses excluding personnel expenses, interest and taxes.

LIQUIDITY

Cash and cash equivalents increased by €41 million in the reporting year to €486 million. The additional liquidity from the issue of new promissory notes in October/November 2014 was depleted in particular by unfavorable earnings development in the Defence sector. Net financial debts therefore increased by €183 million from €147 million to €330 million. Rheinmetall's liquidity supply was ensured at all times in the past fiscal year through available liquidity and financing lines.

PROGRESS WITH RESTRUCTURING

As well as internationalization and a focus on innovation, increasing cost efficiency in the Defence and Automotive sectors is a central component of the "Rheinmetall 2015" strategy program aimed at improving Rheinmetall AG's profitability on a sustainable basis.

In the Defence sector, the focus of cost efficiency measures is on improving project management activities and adjusting cost structures, which will help to prevent or minimize cost overruns and make employment structures more flexible so that they can be adapted more quickly to business development. The focus was on business with tracked and wheeled vehicles. The implementation of operations and personnel measures had a negative impact of €9 million on earnings in the period under review, compared with €51 million in the previous year. By December 2014, 521 of the planned 600 employees had already left the Rheinmetall Group as part of measures being implemented in the Defence sector.

Measures initiated in the Automotive sector aim to improve cost structures by adapting European production capacity, particularly in the Hardparts division, and optimizing production sites around the world. Automotive also continued to press ahead with the development of service centers around the world. No additional restructuring costs were necessary in 2014 (previous year: €35 million). The measures implemented had already led to the departure of 415 employees by the end of 2014. A total of 560 employees are to leave the company by the beginning of 2016.

CORPORATE SECTOR
DEFENCE
3 DIVISIONS

Sales	2,240 € million
Operating Result	−9 € million
Employees	10,059
Order Income	2.8 € billion
Order Backlog	6.5 € billion
R&D Intensity	2.9 %
Capital Expenditure	76 € million

RHEINMETALL DEFENCE FACED WITH CHALLENGES DUE TO DIFFICULT MARKET ENVIRONMENT

Sales of the Defence sector amounted to €2,240 million in the period under review, an increase of €85 million or 4 % compared with the previous year's figure of €2,155 million. After adjustment for negative changes in exchange rates, growth stood at 5 %.

Sales € million

	2014	2013
Rheinmetall Defence	**2,240**	**2,155**
Combat Systems	977	1,027
Electronic Solutions	705	710
Wheeled Vehicles	667	539
Others/consolidation	(109)	(121)

The Defence sector acquired orders worth €2,812 million in the year under review, compared to €3,339 million in the previous year. However, 2013 was a record year marked by three important international orders with a combined volume of approximately €1,800 million. Despite a drop of €527 million or 16 % year-on-year, the order intake for 2014 was still at a high level, so that, with a rise in sales, the order backlog for subsequent years also increased. The book-to-bill ratio was 1.3 in fiscal 2014. Large orders were received in the Wheeled Vehicles division, firstly for the supply of material kits for the Fuchs armored transport vehicle in the MENA region (Middle East/North Africa) for around €650 million, and secondly a master agreement resulting from an invitation to tender in Scandinavia for the supply of military trucks, with first orders each worth around €100 million in Norway and Sweden.

Order intake € million

	2014	2013
Rheinmetall Defence	**2,812**	**3,339**
Combat Systems	924	1,594
Electronic Solutions	807	615
Wheeled Vehicles	1,185	1,450
Other/consolidation	(104)	(320)

Based on the high order backlog of €6,050 million as at the end of 2013 and the acquisition of new large-volume orders, the order backlog for subsequent years increased further, reaching €6,516 million as at December 31, 2014. Compared to the previous year, this equates to an increase of €466 million or 8 %. The order backlog includes a number of large-volume projects such as the Puma infantry fighting vehicle, the Fuchs wheeled tank for a customer from the MENA region and Australia's Project Land 121, which will be executed over several years. The high order backlog largely covers sales expectations for Rheinmetall Defence for fiscal 2015 and 2016.

DEFENCE'S OPERATING RESULT DOWN SIGNIFICANTLY YEAR-ON-YEAR

In fiscal 2014, the operating result (EBIT before special items) amounted to €-9 million, compared to €60 million in the previous year. The operating EBIT margin fell by 3.2 percentage points from 2.8 % to -0.4 %.

Economic report
Defence sector

Derived operating result € million

2014	Operating result	Restructuring	Corporate transactions	Other effects	EBIT
Rheinmetall Defence	**(9)**	**(9)**	**(10)**	**(39)**	**(67)**
Combat Systems	-	(5)	-	-	(5)
Electronic Solutions	1	(4)	(10)	(39)	(52)
Wheeled Vehicles	(9)	-	-	-	(9)
Others/consolidation	(1)	-	-	-	(1)

2013	Operating result	Restructuring	Corporate transactions	Other effects	EBIT
Rheinmetall Defence	60	(51)	(5)	-	4
Combat Systems	47	(15)	(1)	-	31
Electronic Solutions	29	(14)	(4)	-	11
Wheeled Vehicles	(13)	(22)	-	-	(35)
Others/consolidation	(3)	-	-	-	(3)

In the Combat Systems division, the general weakness of the market, combined with delays in the issuing of export licenses, particularly for ammunition and protective systems, led to unexpectedly large profit losses. Furthermore, provisions had to be made in the third quarter of 2014 for possible warranty claims arising from a deal involving naval gun systems. In the Electronic Solutions division, the withdrawal of the export license for the combat training center to be delivered to Russia, together with a decline in sales due to market forces and unexpected cost overruns for development projects at a Scandinavian subsidiary, had a negative impact on the operating result. The improvement in earnings in the Wheeled Vehicles division did not offset the falls in earnings in the Electronic Solutions and Combat Systems divisions.

EBIT IMPACTED BY NON-RECURRING EFFECTS

Earnings before interest and taxes (EBIT) in 2014 totaled €-67 million, following €4 million in the previous year. This significant drop was partly due to a decline of €-69 million in the operating result. In addition, non-recurring effects had a negative impact of €-58 million on the result in 2014 (previous year: €-56 million). As well as costs of €9 million for the ongoing restructuring program, there was an expense of €10 million in connection with the implementation of the final step in the sale of the Airborne Systems product unit in fiscal 2012. Rheinmetall also agreed to a fine totaling approximately €37 million in order to end investigation proceedings in connection with accusations of unauthorized payments by an external adviser of the Company in Greece for armaments deals with Greece. In addition, around €2 million was spent on legal costs in connection with the case.

EXTENSIVE RESTRUCTURING PROGRAM UNDERWAY

In the past fiscal year, €9 million was spent on restructuring measures in the Defence sector, following €51 million in the previous year. These expenses mainly involved delayed costs for measures initiated in previous years in the Land Systems and Defence Electronics units, as well as additional measures that were necessary in response to a decline in business at companies in Norway and Canada.

COMBAT SYSTEMS DIVISION

In fiscal 2014, the Combat Systems division achieved sales totaling €977 million, which represents a drop of 5 % on the previous year. This was due partly to much more restrictive German export policy and delays in the granting of export licenses in the areas of ammunition and protection and partly to the fact that the market environment remained weak, owing to budget restrictions in countries that have traditionally been customers of Rheinmetall. On the other hand, the division increased its sales with ongoing series production of the Puma infantry fighting vehicle for its domestic customer and the first deliveries for the order acquired in Indonesia in 2013.

The order intake in the division dropped to €924 million in the year under review, compared with €1,594 million in the previous year. The previous year had been marked by large orders from Indonesia and Qatar worth a total of €700 million. The order intake for 2014 was characterized by a large number of small and medium-sized orders. The highlights included orders for ammunition for Greece worth €50 million and for the USA worth €25 million. The American orders are call orders under three new master agreements for infantry and naval ammunition. In addition, incoming orders for ammunition and weapon systems in various configurations, protection components, drive systems and maintenance services for the German armed forces are of considerable importance.

ELECTRONIC SOLUTIONS DIVISION

The Electronic Solutions division showed stable sales of €705 million, compared with €710 million in the previous year. The division achieved significant sales in the area of Air Defence & Naval Systems, particularly with supplies of air defense systems to customers in the Middle East and South-East Asia.

The division's order intake totaled €807 million, above the previous year's figure of €615 million, and included contracts for air defense systems in the Middle East, Africa and South-East Asia worth a total of over €300 million. In addition, the existing contract to operate a combat training center for the German armed forces in Letzlingen was extended for a further four years.

WHEELED VEHICLES DIVISION

At €667 million and with growth of €128 million compared with the previous year, only the Wheeled Vehicles division contributed to sales growth in the Defence sector. The main driver of growth in sales, in addition to the start-up of the "Boxer Netherlands" project, was processing an order to supply trucks to Singapore.

The division once again achieved a good order intake of €1,185 million, following a record year in 2013 (€1,450 million). The previous year's volume was shaped by Australia's Project Land 121, the second-largest individual order in the history of the Rheinmetall Group, which was worth over €1.1 billion. The year under review was marked by a large order from the MENA region (Middle East/North Africa). This order includes Fuchs materials packages that will allow the vehicles to be assembled on site, technical assistance and licenses and is worth around €650 million. In addition, the division won an invitation to tender in Scandinavia to supply military trucks – some of them including the "Protected Compartment" developed by Rheinmetall Defence – to Norway and Sweden, worth a total of around €200 million. Various smaller national and international orders were also received to supply or maintain wheeled tactical or logistics vehicles.

CORPORATE SECTOR
AUTOMOTIVE
3 DIVISIONS

Sales	2,448 € million
Operating Result	184 € million
Employees	11,838
Order Backlog	416 € million
R&D Intensity	6.1 %
Capital Expenditure	158 € million

Economic report
Automotive sector

SALES GROW BY 8 %

Sales in the Automotive sector amounted to €2,448 million in fiscal 2014. Business thus grew by €186 million or 8 % compared with the previous year's figures when calculated on a comparable basis.

Worldwide growth in production of light vehicles was much lower at 3 % in the same period. After elimination of currency effects, sales growth rose to 10 %.

Sales € million

	2014	2013
Rheinmetall Automotive	**2,448**	**2,262**
Mechatronics	1,322	1,171
Hardparts	934	889
Motorservice	269	268
Others/consolidation	(77)	(66)

The previous year's figures have been adjusted owing to the implementation of IFRS 11 "Joint Arrangements" and the application of IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations"

Production of light vehicles lost momentum in China in 2014. Following double-digit growth of 15 % in 2013, only around 9 % more units were produced in 2014. Contrary to this market trend, our Chinese joint ventures, in which we hold a 50 % stake, increased their sales by 26 % to €628 million. As these companies are carried at equity, their sales were not included in consolidated sales. The increase in sales recorded in 2014 was due partly to the first small sales from Pierburg Huayu Pump Technology Co., which was founded in 2013, and in particular to the very good market position of our two joint ventures for pistons and aluminum casting products, which have been run with a Chinese partner for many years.

In fiscal 2014, the proportion of consolidated sales achieved with customers abroad was 79 %. The key regions in terms of sales volumes also remained virtually the same. Alongside Western and Eastern Europe excluding Germany (49 %), these were the German market (21 %), followed by North and South America (19 %) and Asia (10 %).

Our Mechatronics and Hardparts divisions, which mainly supply their products directly to OEMs, together accounted for 89 % of sales in fiscal 2014. The Aftermarket division represented 11 % of consolidated sales. This ratio remained unchanged year-on-year.

Sales of the aluminum casting business in the Hardparts division, which was incorporated into a joint venture in the year under review, were no longer included in the sales of the Automotive sector in 2014, which means that, calculated on a comparable basis, the shares of the Mechatronics and Hardparts divisions in total sales of Rheinmetall Automotive amounted to 52 % and 37 % respectively, compared with 50 % and 38 % in the previous year.

Economic report
Automotive sector

DOUBLE-DIGIT EARNINGS GROWTH ACHIEVED

The Automotive sector closed fiscal 2014 with earnings before interest and taxes (EBIT) from continuing operations of €184 million. This represented growth of €26 million or 16 % compared with the previous year's operating result of €158 million, calculated on a comparable basis. The operating margin rose by 0.5 percentage points to 7.5 %.

Operating result (before special items) from continuing operations € million

	2014	2013
Rheinmetall Automotive	**184**	**158**
Mechatronics	96	77
Hardparts	72	49
Motorservice	26	28
Others/consolidation	(10)	4

The previous year's figures have been adjusted owing to the implementation of IFRS 11 "Joint Arrangements" and the application of IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations"

EBIT from continuing operations € million

	2014	2013
Rheinmetall Automotive	**184**	**124**
Mechatronics	96	66
Hardparts	72	27
Motorservice	26	27
Others/consolidation	(10)	4

The previous year's figures have been adjusted owing to the implementation of IFRS 11 "Joint Arrangements" and the application of IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations"

EBIT from continuing operations amounted to €124 million in 2013 when calculated on a comparable basis, taking into account restructuring costs of €34 million and changes in the ownership structure of our casting activities. Based on the results reported, EBIT for 2014 (€184 million) was up €60 million or 48 % compared with the previous year. The EBIT margin rose by 2.0 percentage points year-on-year to 7.5 % in 2014.

MECHATRONICS DIVISION

Sales of the Mechatronics division grew by 13 % to €1,322 million in 2014. After adjustment for negative currency effects, growth came to 14 %. High demand from automotive manufacturers around the world for solutions for the reduction of CO_2 and emissions allowed this growth, which was well above the 3 % growth recorded in global light vehicle production. The division was thus once again the growth driver in the Automotive sector.

In applications for exhaust gas recirculation for passenger cars, the most significant growth was achieved with exhaust gas flaps. In addition to new customer projects, this was also attributable to higher volumes called up in existing projects. Sales of commercial vehicles products were also successful, particularly in the case of exhaust gas recirculation valves and exhaust gas flaps. The growth in sales of solenoid valves was mainly due to divert-air valves and pneumatic converters. The intake manifold product group was in the process of being phased out as planned.

We divide products in our pumps business into the areas of commodity and technology. Commodity products are usually unregulated, mechanical products, while technology products can be controlled on a partially or fully variable basis, generally using an electric motor. Demand for technology products continues to grow in line with the need for further reductions in CO_2. In particular, growing sales of products such as variable oil pumps, electrical water circulation pumps and electrical water pumps led to a significant rise in sales compared with the previous year.

The Mechatronics division achieved an operating result of €96 million in fiscal 2014, a year-on-year increase of 25 %. This improvement was due to positive earnings effects from the increase in sales, together with the successful negotiation of terms and conditions in purchasing and marketing. In contrast, advance payments in the form of an increase in the number of employees in indirect areas for planned further sales growth, along with the necessary balance sheet provision for warranty risks associated with individual customer projects, had a negative impact on earnings. The operating margin rose from 6.6 % in the previous year to 7.3 % in fiscal 2014. The central restructuring project in the Mechatronics division – the merger of the Nettetal and Neuss sites at the new "Lower Rhine" site – was successfully completed in 2014. Operations began without any adverse effect on supplies to customers.

HARDPARTS DIVISION

The Hardparts division increased its sales by 5 % year-on-year in 2014, to €934 million. After adjustment for currency effects, growth stood at 7 %. In business with pistons, sales of both small-bore and large-bore pistons rose year-on-year in the year under review. In particular, the start-up of new products in Mexico and the Czech Republic overcompensated for a decline due to market forces in Brazil in business with pistons. With large-bore pistons, increased demand in North America and the start-up of the new production company in China had a positive impact. Higher sales of our maintenance-free or low-maintenance non-motor plain bearings (Permaglide) were generated in Europe and North America, with sales up once again on the previous year.

The Hardparts division achieved an operating result of €72 million in 2014, up €23 million or 47 % on the previous year's figure of €49 million. This improvement in earnings was essentially due to higher sales of small-bore and large-bore pistons and of Permaglide products, with a simultaneous improvement in the quality of profit contributions. Furthermore, the results of Chinese joint ventures carried at equity increased. The operating margin for 2014 was 7.7 %, which exceeded the previous year's margin by 2.2 percentage points.

AFTERMARKET DIVISION

Sales in the Aftermarket division totaled €269 million in 2014, almost the same as the previous year's figure of €268 million. After adjustment for currency effects, the division achieved slight growth of 1 %. Sales of Pierburg products performed well once again, while business with products of the Kolbenschmidt brand declined. Looked at by region, business in the USA and Europe remained positive, and business in China also recorded very strong growth. Sales in Russia, Ukraine and the Middle East did not reach the previous year's level, due to the crises in these regions.

The operating result for the Aftermarket division totaled €26 million in 2014, which represented a drop of €2 million or 7 % compared with the previous year's operating result. Positive effects from improvements in profit contributions were more than offset, particularly by higher personnel expenses and costs for adjusting the distribution of business between companies in Germany. The operating margin fell as a result by 0.8 percentage points to 9.7 %.

Economic report
Financing

PRINCIPLES AND AIMS OF FINANCIAL MANAGEMENT

The Rheinmetall Group traditionally follows a conservative financing policy geared towards sustainability, diversification and internationalization. The top priority of Treasury at Rheinmetall AG is to ensure that the Rheinmetall Group has access to liquidity at all times. This access is ensured through a balance between utilizing the money and capital markets and obtaining financing from banks. In addition to this main aim, the limitation of financial risks such as currency and interest risks and the risk of changes in raw material prices also constitutes a key objective of financial management. We base our financial management at the Rheinmetall Group on the system of key figures used by leading rating agencies for companies with investment grade ratings.

External financing via banks and investors and the allocation of funds within the Rheinmetall Group is generally coordinated centrally by Rheinmetall AG. This pooling of financing requirements allows the Group to make consistent use of the money and capital markets and strengthens its position in negotiations when it comes to optimizing financing structures in terms of availability, security and costs.

In bilateral financing arrangements, the careful selection of financing partners is a key factor in success. Rheinmetall attaches importance to maintaining good and lasting business relationships with an adequate number of banks and insurance companies that are familiar with Rheinmetall's business model and that support it with appropriate advisory and transaction services in the regions that are important to Rheinmetall.

DIFFERENTIATED FINANCING PORTFOLIO

Rheinmetall has a well-diversified financing portfolio in terms of the instruments used and the sources and terms of financing. This ensures that Rheinmetall is largely independent of individual lenders and markets.

Financing instruments € million

	Maturing	Nominal	Financing source
Bond	2017	500	Capital market investors
Promissory notes	2019-2024	179	National and international lenders
Commercial paper (CP)	Indefinite	500	Money market investors
Syndicated loan	2016		11 banks (back-up line for the commercial paper program)
Bilateral credit facilities	2015-2016	3,000	Banks and insurance companies
Asset-backed security program	2016	80-170	Money market investors and banks

Over two thirds of the bilateral credit facilities serve to provide guarantees, which are particularly important in the Defence sector, and they are generally utilized up to a maximum of 70 % to ensure sufficient flexibility at all times. With these instruments, Rheinmetall believes that it is in a good position to provide the financial resources that it needs for its operating activities in the form of liquidity or guarantees at any time. The use of these options is kept as balanced as possible, taking into account aspects relating to liquidity, margins and security.

As at December 31, 2014, Rheinmetall had utilized guarantee lines of €1,493 million, cash credit facilities of €64 million, general credit facilities of €10 million and €101 million of the ABS program. No drawings were made from the syndicated credit facility or the commercial paper program as at the end of 2014.

No significant financing transactions were carried out in fiscal 2014 other than regular transactions for operating activities. Long-term real estate financing agreements worth a total of €70 million were negotiated with banks for the investments in Neuss (construction of the new Lower Rhine Pierburg plant), Bremen (administrative building) and Düsseldorf (new building for Group headquarters); some of these have already been paid out. New promissory note loans with a total nominal volume of €179 million were also issued in October/November 2014. These have extended the short-term financial scope and secured liquidity for the medium to long term at very favorable conditions. Almost 40 national and international lenders have invested in the promissory note loans, which have terms of five, seven and ten years.

RHEINMETALL'S RATING

While a direct image of the Company's creditworthiness can usually be obtained based on bilateral contractual relationships with lenders, investors on the money and capital markets use assessments from independent international rating agencies which rate debtor creditworthiness on a regular basis.

Rheinmetall has had a rating since 1999 from the agency Moody's, which adjusted its credit rating on December 19, 2014 and lowered its outlook from "stable" to "negative". This outlook reflects the agency's assessment of the medium-term development of Rheinmetall's business performance.

Moody's said that its reason for doing this was that Rheinmetall did not fully succeed in the last fiscal year in compensating for poor earnings development in the Defence sector with the results from the Automotive sector, which performed much better. This resulted in a deterioration in the financial indicators that are important to Moody's, which would no longer be adequate for a Ba1 rating if they were to endure. At the same time, the agency has highlighted the Group's relatively good liquidity profile in conjunction with a well-diversified maturity profile.

Rheinmetall's Rating

	2014	2013	2012	2011	2010
Agency	Moody's	Moody's	Moody's	Moody's	Moody's
Long-term rating	Ba1	Ba1	Baa3	Baa3	Baa3
Outlook	Negative	Stable	Negative	Stable	Stable
Since	Dec. 19, 2014	Oct. 9, 2013	Nov. 16, 2012	May 18, 2009	May 18, 2009

Economic report
Research and development

TECHNOLOGY AND PRODUCT DEVELOPMENTS OPEN UP GROWTH OPPORTUNITY

Innovative strength and technological competence are key measures of competitiveness in the rapidly changing world of business. Continuous and targeted research and development work is essential if we want to actively help shape technological change and successfully transact business over the long term in demanding markets. Tradition and innovation – the Rheinmetall technology group enjoys more than 100 years of specialist knowledge and industry experience in the Defence and Automotive sectors.

Our research and development activities play a key role in safeguarding our technological competitiveness and future corporate success. Market, industry and technological trends are systematically observed before being analyzed and assessed in terms of their strategic, operational and economic significance for our business. This enables us to identify development and growth opportunities at an early stage and confront challenges in good time.

In addition, thanks to close collaboration and sharing knowledge between Sales, Development, Production, Service and Marketing as well as project work in partnership with our customers, new product and system requirements are quickly identified and acted upon with a high level of flexibility and in the shortest possible development periods. Product lines are continuously improved and expanded, while new or associated business areas are gradually developed further thanks to innovative products, future-oriented systems and customized support services.

Our own application-related research and development work is enhanced through studies into the latest scientific findings from basic research programs. Another key pillar of our research work is collaboration with industrial partners, renowned scientists and skilled experts who support the transfer of knowledge from research into practice.

Despite sometimes difficult business conditions, €214 million was spent on research and development across the Group in 2014, following €219 million in the previous year. Of this, €190 million (previous year: €190 million) was immediately billed as expenses and €24 million (previous year: €29 million) capitalized as development costs. The share of R&D expenditure in the Rheinmetall Group was 4.6 % (previous year: 5.0 %), 6.1 % in Automotive (previous year: 6.4 %) and 2.9 % in Defence (previous year: 3.4 %), whereby this relates solely to the share of self-financed projects.

Security and mobility will remain major global megatrends in the coming years too. Every year, even during financially difficult periods, we maintain a high level of capital expenditure in our diverse technological expertise.

R&D in the Rheinmetall Group € million

	2014	**2013**
R&D: Expenses	**214**	219
of which capitalized	24	29
R&D: Expenses/sales	4,6	5,0
R&D: Employees	3,026	3,060
R&D: Employees/total workforce	13.7	13.3

The **Defence sector** systematically gears its research and development activities to the mission profiles of armed forces. In these times when crisis prevention is the order of the day for international deployments, soldiers often find themselves in extremely high-risk situations in order to uphold security and freedom. In future military deployment scenarios, technical superiority and optimal equipment not only can be of life-saving importance but also make a key contribution to improving soldiers' ability to lead as well as their stamina, mobility and effectiveness.

Rheinmetall Defence is committed to capability-oriented innovation and is continuously setting new technological standards from vehicle, protection and weapon systems, through infantry equipment and air defense, to the networking of function sequences in simulation and training. The sector specializes in the development and production of components and systems for protecting people, vehicles, aircraft, ships and assets and, in its role as equipment supplier to the German armed forces, NATO and other responsible nations, helps to protect armed forces involved in military operations.

To ensure that it is competitive and to reinforce its leading position on the market, Rheinmetall Defence continually supplements developments commissioned by customers with self-financed projects.

R&D at Rheinmetall Defence € million

	2014	2013
Employees in research and development	2,038	2,059
Employees in research and development as % of total workforce	20.3	20.4
Research and development expenses (self-financed)	65	74
Innovation ratio (research and development expenses in relation to sales)	2.9	3.4

NEW TECHNOLOGY FOR PROGRAMMABLE AMMUNITION

In many different deployment scenarios in military operations, requirements regarding the precision and effectiveness of modern weapons systems are becoming increasingly exacting. One way of meeting these challenges is to use programmable ammunition, whereby the ammunition or fuse on the weapon muzzle receive signals specifying when they are to deploy. This allows the optimum time/location for effective, targeted combat to be chosen.

In response to requirements regarding future lightweight automatic cannons for installation in vehicles protected by gun turrets or weapon stations, for some years now Rheinmetall Defence has been conducting intensive research into new solutions for measuring the speed of and programming projectiles on gun muzzles. The aim is to reduce the number of existing solutions that adversely affect gun barrel vibrations and, in turn, weapon precision and that place undue stress on the turret drives and gun carriage as a whole.

As things currently stand, the inductive measurement technology currently used offers no more potential for weight-reduced measurement and programming bases, which is why the use of – and further research into – a new kind of technology is absolutely essential for the construction of a new lightweight automatic cannon. This technology entails a physical process by which, among other things, the change in radar waves in the gun barrel muzzle is evaluated as the projectile passes through. This research was conducted on behalf of the Federal Ministry of Defense. Proof of basic functionality was provided in the year under review and preparation work for the trials planned for 2015 was completed. Experiments designed to verify performance are to be conducted and completed in 2015, after which this new technological concept will be ready to enter the development stage.

Economic report
Research and development

GENERIC VEHICLE ARCHITECTURES FOR FUTURE MISSION SYSTEMS TO NATO STANDARDS

Information management will play a key role in current and future combat vehicles. Even now, a rapid and precise supply of information tailored to the needs of those involved in the deployment is essential. But the significance of information as an operational factor is set to play an ever greater role. Broadband information networks will be just as important in future combat vehicles as the engine, weapons and armor/protection systems. The integration of various discrete mission elements in a single platform system by means of a networked, in-vehicle information infrastructure will be absolutely essential. The mission system is designed so that it can be modified quickly and easily in line with new deployments through upgrades, replacements or the installation of additional components ("plug-and-play" principle) at the deployment location without the need for any time-consuming integration work.

To enable this, various programs at national and international level have been launched to develop the necessary standards, the most important of which is NGVA (NATO Generic Vehicle Architecture). This new NATO standard for equipping ground vehicles defines the overall concept / individual interfaces, meaning that mission system components from different manufacturers can be easily integrated in vehicles, at least in terms of the electrics, electronics and IT. Rheinmetall Defence is involved in this project on behalf of the Federal Ministry of Defense. In parallel, extensive investigations into the implementation of this new standard in technological solutions for target recognition, target tracking, gun inlet and gun tracking, which in previous years were trialed and demonstrated in close collaboration with the public sector client.

In 2014, the British Ministry of Defense conducted a series of tests as part of the research, experiment and development program for Land Open System Architecture. In one of these experiments, Rheinmetall Defence demonstrated various innovative technologies such as the NGVA-compatible, integrated vehicle mission system, which is installed on the Rheinmetall test carrier "Sensation" and comprises a 360° view for daytime and nighttime work, an acoustic sniper detection system and a remote-control weapon station. Military users were also particularly interested in the capability of connecting the Rheinmetall soldier system, a small, remote-control drone and an external reconnaissance sensor to the vehicle mission system, which was accomplished relatively easily thanks to the NGVA technology. The requirements of the new standard are being systematically pursued as part of the R&D work for Rheinmetall mission systems.

HIGH-ENERGY LASER EFFECTORS FOR MARINE APPLICATIONS

In the year under review, Rheinmetall Defence systematically continued research and trialing work for the construction of a high-energy laser weapon for land, maritime and air forces. While the focus in 2013 was on air defense and the integration of high-energy laser effectors on vehicles, including a GTK Boxer, the focus in 2014 was on maritime applications.

For the first time, the beam emission from a high-energy laser effector was successfully tested over European waters. The aim was to measure the impact of the maritime environment on the laser beam in order to – as in previous trials – obtain useful information regarding the effectiveness of a laser weapon for maritime applications. Over a test course of more than one kilometer on the Baltic Sea, a series of beam emission trials were conducted and the resulting data evaluated.

In parallel with this project, the 27 mm light naval gun (MLG27) was equipped with a high-energy laser effector to check its suitability as a platform for integrating a high-energy laser weapon. Analysis of the test results showed that future high-energy laser weapons for maritime applications – including those installed on an MLG 27 – are technically feasible.

SYSTEMATIC USE OF LIGHTWEIGHT MATERIALS

New deployment scenarios and, in turn, new mission requirement profiles mean that customers are increasingly demanding lightweight but highly efficient systems that can be created only through the systematic use of lightweight materials. Rheinmetall is responding to this challenge with the overarching goal of developing systems that offer major weight savings and optimum system properties at reasonable overall costs. Rheinmetall Defence is focusing here on a system-based approach, with lightweight materials encompassing the entire product portfolio.

For many years, the ability to transport vehicles and equipment by air was a top priority for customers. In the future, however, bridge loading capacity is set to become increasingly important for armored and unarmored vehicles. Improved defense capabilities as well as greater ammunition and fuel capacity without any increase – or even with a reduction – in weight will also play a role. Significantly weight-optimized weapons and ammunition in turn enable the use of lighter weapon stations. Lightweight construction also allows life cycle costs – i.e. all the operational costs that arise throughout the entire lifetime of a product – to be significantly reduced thanks to the more sparing use of resources such as fuel as well as reduced maintenance intervals and transportation outlay.

Using the standard lightweight materials as a basis, Rheinmetall Defence intends to analyze the latest developments in the world of materials (e.g. metamaterials, composite materials, metal foams, nanomaterials) and integrate them in future systems. In parallel with this, the research being conducted into lightweight construction methods will also focus on the extent to which new, ultramodern 3D manufacturing and design methods can be implemented in combination with computer-aided design and optimization tools.

DRIVER ASSISTANCE SYSTEMS IN MILITARY (WHEELED) VEHICLES

Over the past few years, driver assistance systems have become increasingly common in civilian vehicles. This applies, in different ways, to both the passenger car and commercial vehicle sectors. Driver assistance systems are essentially features and functions that provide support for drivers, for example cruise control systems that relieve drivers of various subtasks, lane assistant and fatigue monitoring systems, camera systems and parking sensors for enhanced environment-sensing and ABS/emergency braking assistants. Driver assistance systems generally operate recessively, which means that they can be overridden by the driver. This is extremely important for military applications in particular because, for example, an active daytime driving light system could put the vehicle crew in danger.

In 2014, a sub-study on driver assistance systems in military (wheeled) vehicles was conducted. This involved analyzing the assistance systems available on the market for civilian vehicles and classifying them in terms of their viability for use in tactical and logistical military vehicles. As part of the research, a diverse range of different military deployment scenarios were compared with civilian areas of application.

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One result of a number of studies was that the sensor systems designed for civilian applications have to be tested much more intensively in terms of temperature resistance, shock and vibrations in order to ensure that military standards can be fulfilled. Another aspect that is important particularly for emitting sensor systems is the electromagnetic compatibility of the components. Tests also revealed that it must be possible to deactivate certain driver assistance systems using an additional switch. Overall, analysis of the data and information obtained showed that research should concentrate on enhancing environment-sensing and relieving drivers of specific tasks.

This sub-study also involved gathering data on the degree to which assistance systems comply with the new NATO Generic Vehicle Architecture standard. Analysis of this data showed that a great deal of work - including development work - still needs to be undertaken. Rheinmetall Defence is planning to install different configurations of the components and functions of various assistance systems in system demonstrators and test them for applications in military (wheeled) vehicles.

SYSTEM DEMONSTRATOR: GTK BOXER

In the stressful situations encountered during combat, those inside the combat vehicle need to have all the information – the whats, whens, wheres and hows – displayed for them quickly and in compressed and easy-to-read form. The broadband networking of future combat vehicles for processing and managing information will therefore play an increasingly important role.

Industry is intensifying its research into various key technologies. The findings will be incorporated both in the design of future vehicles as well as in potential measures aimed at upgrading combat performance or increasing service life. In a series of basic research programs, Rheinmetall Defence has concentrated on the following areas:

- Digital driver and crew sights, including sights designed to expand the field of vision, a sight located under the hatch for the driver and a sight replacement for the commander (including 360° vision)

- Modular operator workstations and crew compartment designs featuring universal interfaces with the vehicle and the implementation of ergonomic requirements with newly developed products (e.g. datagloves and high-resolution 3D glasses)

- Generic architectures for in-vehicle data processing systems to ensure compatibility with IT systems used in other countries

- Integration of unmanned systems in a vehicle; taking them outside the closed vehicle and remote-controlling them (i.e. under armored protection)

Following analysis of the research findings, different components and systems were integrated in a GTK Boxer-based system demonstrator and subjected to a series of tests. This vehicle can now be used for national and international demonstrations and for further experiments. Research is set to continue over the next few years and become more in-depth.

A central focus in the field of mobility is – and will remain – the development of efficient, ecofriendly vehicles / vehicle drives. For many years now, the **Automotive sector** has made some key contributions in this area, in particular to reducing fuel consumption and, in turn, CO_2 emissions as well as to minimizing emissions of substances hazardous to the environment and human health. All measures are now globally regulated through tighter legal requirements and require improvements not only to the still-dominant combustion engine but also in the vehicle power train and vehicle as a whole, for example by optimizing the efficiency of power trains or vehicle weight. In addition to activities in the field of passenger cars and light-duty vehicles, the Hardparts and Mechatronics divisions have secured additional market/sales potential in the commercial vehicle segment.

R&D at Rheinmetall Automotive € million

	2014	2013
Employees in research and development	988	992
Employees in research and development as % of total workforce	8.4	8.4
Research and development expenses	149	145
Innovation ratio (research and development expenses in relation to sales)	6.1	6.4

VEHICLE DRIVES: THE DRIVING FORCE OF INNOVATION

The key driving forces of innovation in combustion engines are legally required fuel consumption reductions, emissions reductions, optimization of the engine through downsizing, turbocharging and direct injection as well as greater customer demand for an improved driving experience, greater reliability and longer service lives.

However, alternative drive concepts and, in turn, new technologies are becoming increasingly important. While all-electric vehicle drives still have a number of technological and commercial hurdles to overcome before becoming widely available on the market, it is clear that semi-electric vehicles with mild or full hybridization are gaining ever greater acceptance among customers.

INNOVATIVE PROWESS THANKS TO SYSTEMATIC AND NETWORKED RESEARCH AND DEVELOPMENT

The main condition for the development of new vehicle drive concepts is a sound fundamental understanding of both the technical and market-relevant relationships coupled with ever-expanding expertise regarding the interdependencies of the individual systems and components in the vehicle power train.

At Rheinmetall Automotive, the Research and Technology central department-which is divided into Central Development and New Drive Technology-is responsible at a cross-company level for the systematic and networked development and enhancement of products. Pooling this engineering expertise allows research and development activities to be controlled more effectively, including with regard to cost. To leverage further cost-cutting potential, Central Development worked on simulations, test facilities with engine test benches as well as electronics and material development in the year under review. Highly intensive work took place on leveraging potential synergies in simulation tasks, on modernizing and expanding technology for test benches, on modularizing hardware and software and, in materials engineering, on pooling expert knowledge to characterize material behavior.

Economic report
Research and development

Another focus of research and development work in the Automotive sector involved conducting studies into alternative drive concepts. The “New Drive Technologies” area has developed, for example, a heating/cooling module that enables energy-efficient heating/air-conditioning of the crew compartment by utilizing a significant proportion of heat losses. When this system is used for example in all-electric or semi-electric vehicles, this can extend the vehicle range in electric mode because heating and air-conditioning is not effected by means of the valuable electrical energy stored in the batteries. In parallel with this, Rheinmetall Automotive’s own range extender vehicle has been further optimized.

CO_2 FLEET CONSUMPTION TARGETS ARE A STRONG TECHNOLOGICAL DRIVER

In addition to Europe as a pioneer in the implementation of strict fleet consumption targets, other regions and states such as NAFTA and China are calling for the ever-greater use of technology to achieve these ambitious targets. While in Europe the fleet consumption target for 2021 is 95 g CO_2/km, the EU Commission is discussing whether to reduce the limit by 2025 even further to between 68 g CO_2/km and 78 g CO_2/km.

Such ambitious targets are not likely to be achievable exclusively with combustion engines and the tried-and-tested vehicle components. For this reason as well as due to legislative approval restrictions, the electrification of vehicle drives is set to gain momentum. This tendency is also likely to be observed in other countries such China. Here, the dramatic deterioration in air quality in, for example, urban areas has led to state intervention, with the result that all-electric and semi-electric vehicles are already massively subsidized and easier to register.

TURBOCHARGING AND DOWNSIZING

With control systems for the compressor side of turbochargers in the form of electromagnetic divert-air valves, which are manufactured in their millions, the Mechatronics division is offering a key technology in the field of gasoline engine turbocharging. The global trend toward turbocharged gasoline engines is a highly promising expansion basis that Rheinmetall Automotive is exploiting with its new range of function- and value-optimized divert-air valves. On the basis of existing expertise in the Mechatronics division, especially also in the field of electromotive auxiliary drives, work has begun on developing an electromotive charging system for providing short-duration support for conventional exhaust gas turbocharger.

Downsizing – increasing the specific engine output – is an absolutely essential measure for increasing the efficiency of combustion engines. When it comes to friction, modern engine blocks for highly stressed combustion engines must possess outstanding properties. Friction measurements reveal that iron-coated running surfaces are vastly superior to conventional cylinder contact surfaces. This is why the Hardparts division some time ago developed through to production maturity the Plasma Transferred Wire Arc coating process in combination with a mechanical activation process. Following the successful testing of early coated prototypes in engines with a major customer in the automotive sector, the previous fiscal saw Rheinmetall Automotive receive a significant order, which is scheduled to enter series production in 2015.

DETHROTTLING AND REDUCTION OF EMISSIONS

While turbocharging generates a combustion engine's air supply, the air mass flow produced also needs to be adequately supplied/added to the combustion process. A key technology here is the valve assembly systems in the cylinder head. While turbocharging generates a combustion engine's air supply, the air mass flow produced also needs to be adequately supplied/added to the combustion process. A key technology here is the valve assembly systems in the cylinder head. The primary objectives here also include reducing both emissions and fuel consumption. Our flex valve system, which is used above all in diesel engines, has as a matter of priority undergone production optimization so that it is ready to enter series production. Development work also focused on continuous product enhancement in order to not only improve its function but also optimize its value

The air path, combustion and exhaust side of a combustion engine play a decisive role when it comes to performance, consumption and emissions, which is why a great deal of development outlay is focused on this area. Combustion engine turbochargers are integral to obtaining the specific outputs that have been achieved. In the future, only a very few gasoline engines will do without turbochargers, while nonturbo-charged diesel engines are likely to be a thing of the past.

To comply with the low emission thresholds of, for example, Euro 6 diesel engines, additional measures aimed at reducing emissions of nitrous gases (NOX) are required. One highly efficient and well-established measure is external, cooled exhaust gas recirculation (EGR). Back in fall 2013, a new generation of an even more compact and weight-saving EGR valve for all diesel engines entered series production at a major German automotive manufacturer.

Similar systems designed for gasoline engines are currently under development. In this case, however, EGR is used not to reduce emissions but instead to improve fuel consumption. And it is precisely for supercharged gasoline engines, which are currently extremely popular, that external, cooled exhaust gas recirculation can help to cut consumption significantly. The enormous global popularity of gasoline engines means that this offers significant market potential.

DEMAND-BASED CONTROL OF FLUID FLOWS IN THE COMBUSTION ENGINE AND DRIVE TRAIN

The need to further increase the efficiency of vehicle drives, in particular to minimize fuel and energy consumption, requires that all fluid flows in the combustion engine and throughout the power train as a whole are controlled on an operating-point- and, in turn, demand-specific basis.

One major approach here for combustion engines is coolant control. In response, the Mechatronics division has developed – in addition to its range of conventional mechanical coolant pumps – a range of variable pumps and recently launched them on the market in customer applications. In addition to regulating the thermal behavior of combustion engines, the systems can reduce the pump drive power on a demand-oriented basis, which is effectively equivalent to reducing the friction and, in turn, fuel consumption of an engine.

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Research and development

In the product segment for all-electric coolant pumps, measures aimed at enhancing the value and function of existing product generations have been implemented. The products have also been upgraded in line with the future 48 V on-board power supply, which will allow them to be used in alternative vehicle drive concepts such as hybridized vehicles. In addition to coolant pumps, the Mechatronics division is also developing systems for regulating and measuring the coolant mass flow. These take the form of valve units that are configured either as individual components or in an assembly as multiway systems and, in combination with the coolant pumps, ensure optimum temperature control of engine and peripheral systems. In respect to actuator systems, the Mechatronics division is focusing on the tried-and-tested magneto drives or brush-equipped DC motors from other applications. The application-/function-specific modification of the drives and controller is ensured.

ENHANCEMENT OF AUTOMATIC TRANSMISSION SYSTEMS

The electrification of auxiliary units is continuing apace, also in respect to the oil supply in the drive train. Our Mechatronics division is systematically building up and expanding its range of electric oil pumps for a diverse range of customer applications.

While electric oil pumps are today generally more likely to be found in transmission applications, mechanical and fully variable oil pumps are a highly efficient means of reducing friction in combustion engines. The current state-of-the-art systems are being continuously enhanced and, in the form of systems equipped with electric hydraulic control valves and pressure sensors, offer further potential for optimizing performance.

Certain customer applications also require highly integrated modules featuring a range of functions, for example tandem pump modules which, in addition to controllable mechanical oil pumps, are also equipped with mechanical vacuum pumps. Customers benefit from a space-optimized package, a functionally optimized design as well as a fully installed and tested system. The Mechatronics division is currently preparing the production launch of this technology as part of a major customer project.

THE BASIC ENGINE: STILL THE CENTRAL DRIVE TRAIN COMPONENT

Since the combustion engine is – and looks set to remain well into the future – the central component of the vehicle drive train, the Automotive sector is investing heavily in enhancing operation, performance and consumption. Rheinmetall Automotive offers a wide range of developments and products in response to the major trend toward downsizing and, in turn, turbocharged combustion engines.

But the core of the combustion engine remains the base engine, for which the Hardparts division is continuing to offer important product developments. For diesel engines, the production launch of the steel piston for passenger cars represents a groundbreaking innovation. The primary objective here was to develop a weight-neutral concept offering outstanding performance and with an associated reduction in friction. Steel pistons have also led to a significant reduction in consumption and they also allow the specific output range to be further expanded.

The trend toward higher specific outputs can also be seen worldwide in the gasoline engine segment. With customized piston and bearing systems, the Hardparts division can also offer components for supercharged direct-injection engines. In addition to the ongoing functional and value enhancements being made to aluminum pistons in gasoline engines, among other things through the use of optimized materials, improved design and efficient manufacturing processes, high-tech pistons – e.g. pistons equipped with reinforced ring grooves and piston cooling ducts – are also in series production. It is only logical that the focus of measures aimed at cutting fuel consumption should be on engine friction. To achieve cost-effective and reliable running, the Hardparts division works on optimizing not only piston coatings but also friction bearings.

FRICTION AND WEIGHT OPTIMIZATION

Engine-based concepts for cutting emissions and fuel consumption frequently make greater demands on the lifetime and wear-resistance of the plain bearings. At the same time, however, they also have to be robust and reliable at all times – a conflict that can only be resolved with the help of innovative materials. Our Hardparts division offers two new solutions: the KS S203D galvanic bearing and the KS S203W sputtered bearing. The basis for both bearings is a newly developed steel-bronze composite material as well as two new running surface systems, which have been specially designed for the changed operating conditions in future generations of engines.

In addition to the familiar, piston-specific requirements, issues such as low friction, greater mechanical and thermal strength with lighter pistons, optimized piston transverse motion as well as optimized gas and oil sealing functions can also be derived from the focal points of development work on modern gasoline engines. In response, the Hardparts division launched the LITEKS® piston design for exceptionally lightweight and high-strength pistons and has systematically refined this design over the past few years. LITEKS® pistons are currently around 14 % lighter than the conventional series piston design. This weight reduction was achieved thanks to the new high-performance alloy KS 309 and by systematically adapting the design in line with the resulting material-specific benefits.

The use of steel instead of aluminum for these new pistons developed by the Hardparts division for diesel passenger cars improves thermodynamic efficiency and performance. But the main benefit of lower friction loss as a result of a modified piston design depending on the application is an up to 4 % reduction in fuel consumption. In 2014, the steel piston developed by Hardparts for passenger cars entered series production at a renowned German automotive manufacturer.

Economic report
Capital expenditure

EXPLOITING MARKET OPPORTUNITIES THROUGH HIGHER CAPITAL EXPENDITURE

As in previous years, the Rheinmetall Group made targeted investments in areas offering growth opportunities to strengthen profitability on a sustained basis, to increase international competitiveness and to secure technological expertise in the business areas. Furthermore, to strengthen operating performance capacity and to improve efficiency, investments were made in the expansion and modernization of infrastructure, facilities, equipment, processes and manufacturing capacity. The largest single investment was the construction of the Lower Rhine production center of the Automotive sector in Neuss.

The Rheinmetall Group's capital expenditure on property, plant and equipment and intangible assets amounted to €245 million in 2014, compared with €205 million in the previous year. This is equivalent to 5.2 % of consolidated sales (previous year: 4.6 %). Capital expenditure was met with amortization and depreciation of €197 million (previous year: €194 million).

Capital expenditure € million

	2014	2013
Rheinmetall Group	**245**	**205**
Defence	76	62
Automotive (Net investmens[1])	158	142
Other/Consolidation	11	1

1)Total capital expenditure minus payments received from customers

ONGOING RESERVED INVESTMENT POLICY AT RHEINMETALL DEFENCE

In 2014, the Defence sector invested a total of €76 million in property, plant and equipment and intangible assets, compared with €62 million in the previous year. The investment ratio in 2014 was 3.4 % (previous year: 2.9 %). The higher volume of capital expenditure created the conditions to fulfill the large orders which had been acquired. Of the capital expenditure volume, €16 million (previous year: €15 million) related to capitalized development costs from ongoing key technology projects.

In fiscal 2014, funds totaling €32 million (previous year: €28 million) were invested in the Combat Systems division. The further expansion at the Unterlüß site should be mentioned, particularly the completion of the hall for production of the Puma infantry fighting vehicle and the construction start of a hall to produce protected compartments for military trucks. At Nitrochemie Aschau, there was an investment in equipment for paper deacidification. This civil application for preserving historical documents has been successfully introduced in Switzerland over the last few years by Nitrochemie Wimmis. Now the so-called "Papersave-Swiss" method is to be offered in Germany. In Boksburg, South Africa, the modernization program spanning several years was continued with targeted investments in production and infrastructure facilities.

Key capital expenditure in the Combat Systems division

	Country - location	Measure
Combat Systems	Germany – Unterlüß	New and extended production halls
	Germany – Aschau	Equipment for setting up paper deacidification in line with the "Papersave-Swiss" method
	South Africa – Boksburg	Modernization of infrastructure and production

The total capital expenditure volume of the Electronic Solutions division amounted to €33 million in the period under review (previous year: €22 million). In Bremen, alongside various development projects, the main investments were in developing the site at Rheinmetall Defence Electronics. Since 2012, this concept required the construction of office, integration and storage space as well as the optimization of existing areas. In the Air Defence sector investments were made in developing future products at the key locations of Zurich and Rome. Zurich is developing the GDF twin gun family so as to be able to take the GDF 009 to market maturity. In Rome development work is taking place on extending the product range to include air radar with greater range.

Key capital expenditure in the Electronic Solutions division

	Country – location	Measure
Electronic Solutions	Germany – Bremen	New building and site development
	Switzerland – Zurich	Development of the GDF 009; production systems and tools in the air defence product area
	Italy – Rome	Development of a C-band radar with greater range

The Wheeled Vehicles division invested €11 million in 2014 (previous year: €12 million). Capital expenditure concentrated on extensive production facilities in Kassel and Vienna. Another focus was developing a new generation of military trucks in Vienna. In order to expand an online customer service center and for better network integration of the global sites, investments were made in the IT infrastructure.

Key capital expenditure in the Wheeled Vehicles division

	Country – location	Measure
Wheeled Vehicles	Germany – Kassel	Production facilities
	Austria – Vienna	Development of the new generation of military trucks, varnishing plant, small parts store
	Germany – Kassel Netherlands – Ede	IT investments

HIGH ADVANCE PAYMENTS AT RHEINMETALL AUTOMOTIVE

The Automotive sector invested €158 million in fiscal 2014, compared with €142 million in the previous year. The investment ratio (capital expenditure as a percentage of sales) was 6.5 % in fiscal 2014 (previous year: 6.3 %). The triggers for the ongoing high volume of capital expenditure at Rheinmetall Automotive were the completion of the new Lower Rhine plant in Neuss in the Mechatronics division, continuing technological changes for various product groups and the resulting measures combined with the further internationalization of production sites.

The Mechatronics division invested €89 million in the year under review, after €93 million in the previous year. This includes capital expenditure of EUR 18 million for completing the Lower Rhine production center (previous year: EUR 32 million). The construction is now finished.

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Capital expenditure

In terms of operations, i.e. excluding this structural investment, €71 million was invested, EUR 10 million more on a like-for-like basis than in the previous year. Operating capital expenditure was mainly used to expand capacity in the Pierburg and Pumps business. At Pierburg, this focused on the procurement of machines and systems to produce solenoid valves, exhaust gas recirculation valves, truck applications as well as exhaust gas flaps and at Pumps for electrical water pumps, variable oil pumps and tandem pumps (combined variable oil and vacuum pumps). Tool costs and development projects in both divisions were also capitalized.

Key capital expenditure in the Mechatronics division

Division	Country – location	Measure
Mechatronics	Germany – Neuss	New building Lower Rhine plant
	Germany – Berlin Czech Republic – Ustí	Assembly facilities and tools to produce an exhaust gas flap pump (new project)
	Spain – Abadiano Germany – Neuss	Assembly facilities and tools to produce a module for exhaust gas recirculation (new project)
	France – Thionville	Assembly facilities and tools to produce a variable oil pump (new project)
	Mexico – Celaya	Assembly facilities and tools to produce a tandem pump (new project)

In fiscal 2014, the Hardparts division returned to a normal level of capital expenditure. It invested €64 million in intangible assets and property, plant and equipment after only €46 million in the previous year. The focus of the increase was in the Pistons area with the expansion of steel pistons in Germany and Mexico and the selective modernization and expansion of the production facilities in France, the Czech Republic and Japan. In Castings, specification in die casting, investments were made in modernizing the production facilities and adjusting them to new products (including structural parts). The Bearings area concluded the sinter line project in Mexico and extended continuous casting capacity in the Papenburg plant. In addition, there were a large range of smaller modernization and rationalization measures typical for this area.

Key capital expenditure in the Hardparts division

Division	Country – location	Measure
Hardparts	Germany – Neckarsulm	Production lines for car and truck steel pistons (capacity extension)
	Germany – Neckarsulm	Die cast machine to produce engine blocks (procurement of replacements)
	Germany – Neckarsulm	Processing machines to produce structural parts (new product)
	France – Thionville	Exchange and modernization of machinery (restructuring measure)
	Czech Republic – Ustí	Production line for large-series passenger car pistons (new project)
	Japan – Hiroshima	Processing line for passenger car pistons (capacity expansion)
	China – Kunshan	Development of production facilities for large-bore pistons in China (Stage 2)

Capital expenditure in the Aftermarket division of € 5 million (previous year: € 4 million) related primarily to investments in casting and processing tools. In addition, investments were made in software licenses and in factory and office equipment.

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Rheinmetall AG

RHEINMETALL AG FULFILLS STRATEGIC MANAGEMENT FUNCTIONS

The Rheinmetall Group with its Defence and Automotive sectors is headed by Rheinmetall Aktiengesellschaft, a listed company based in Düsseldorf, which decides the Group's long-term strategic orientation and corporate policy as the management holding company.

Its key tasks include setting targets and guidelines, optimizing the investment portfolio, central financing, risk management and appointing people to management positions in the Group. Support and service functions such as Finance, HR, Corporate Communications, Law, Internal Auditing and Mergers & Acquisitions are held at Group level. Rheinmetall AG ensures that standardized planning, controlling and management processes are applied throughout the Group and monitors Group-wide implementation of laws, guidelines and regulations according to standard criteria within its compliance management system.

The single-entity financial statements of Rheinmetall AG for fiscal 2014 have been prepared in accordance with the accounting regulations of the German Commercial Code (HGB), with due regard to the additional provisions of the German Stock Corporation Act (AktG), and have been issued with an unqualified auditor's opinion by the auditor, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch.

EARNINGS SITUATION OF RHEINMETALL AG

In addition to the results of subsidiaries, the earnings situation of Rheinmetall AG is determined to a large extent by expenses and income in central Group financing.

Income statement of Rheinmetall AG in accordance with HGB (summarized version) € million

	2014	2013
Investment income	42	41
Net interest	(24)	(29)
Other operational income	101	101
Personnel expenses	25	24
Other expenses	99	69
EBT	(5)	20
Taxes on income and revenue	(1)	-
Net profit for the year	(6)	20
Changes in retained earnings	18	(4)
Net earnings	12	16

Net investment income of €42 million was achieved in fiscal 2014, compared with €41 million in the previous year. The Defence sector accounted for €-78 million of this (previous year: €8 million). The Automotive sector achieved net investment income of €119 million (previous year: €32 million). On the basis of a resolution of the Annual General Meeting on September 26, 2014, Rheinmetall Verwaltungsgesellschaft mbH, Düsseldorf and der KSPG AG, Neckarsulm, concluded a profit transfer agreement. On the basis of the profit transfer agreements which had been in place in previous years between Rheinmetall Verwaltungsgesellschaft and Rheinmetall Berlin Verwaltungsgesellschaft mbH, Berlin, with Rheinmetall AG, in the reporting year Rheinmetall AG received both the result of KSPG AG from 2013 (dividend distribution of €36 million) and of €67 million for 2014.

Net interest from central financing improved by €5 million to €-24 million, compared with €-29 million in the previous year. The improvement results primarily from lower interest expenses to affiliated companies as a result of a general decline in interest rates.

Economic report
Rheinmetall AG

In connection with the performance of the duties of a holding company, other operating income and expenses were incurred amounting to €2 million (previous year: €32 million), along with personnel expenses of €25 million (previous year: €24 million). The overall year-on-year reduction in this net balance by €30 million mainly resulted from write-downs on financial assets taken in the fiscal year (€15 million) and the decline in income from write-ups on financial assets (€10 million).

Earnings before taxes amounted to €-5 million (previous year: €20 million). Tax expenses amounted to €1 million in the year under review (previous year: €0 million). After deduction of taxes, there was a net loss of €6 million for fiscal 2014 (previous year: net income of €20 million). After appropriations to retained earnings, net earnings of €12 million were reported.

PROPOSED DIVIDEND

The Executive and Supervisory Boards of Rheinmetall AG are to propose to the Annual General Meeting on May 12, 2015 that the net earnings be used to pay a dividend of €0.30 per share, whereby the treasury shares held by Rheinmetall AG as treasury stock (as at December 31, 2014: 1,225,511) are not entitled to a dividend.

ASSET AND FINANCIAL SITUATION OF RHEINMETALL AG

The asset situation of Rheinmetall AG is largely shaped by its holding function, i.e. by the management of investments and the financing of Group activities. This is reflected above all in the amount of the investments held and in the receivables due from and payables owed to Group companies.

Total assets of Rheinmetall AG decreased by €317 million to €1,728 million. This was mainly due to a €211 million decline in receivables from associated companies (primarily financing and cash pooling) and a €109 million decrease in cash in hand.

The financial assets include shares in associated companies in the amount of €1,046 million (previous year: €1,058 million). This represents a share in total assets of 61 % (previous year: 52 %). Receivables from and liabilities to associated companies amounted to €334 million (previous year: €545 million) and to €382 million (previous year: €851 million) respectively. They account for 19 % and 22 % of total assets respectively.

Of the total assets of €1,728 million as at December 31, 2014 (previous year: €2,045 million), €527 million (previous year: €536 million) is financed from equity. The equity ratio increased from 26 % to 31 %. The decline of €15 million owing to the dividend payment for 2013 was offset by a rise of €10 million due to a reduction in holdings of treasury shares.

Liabilities decreased by €303 million year-on-year to €1,082 million as at December 31, 2014. Of this decrease, €469 million was the result of lower liabilities to subsidiaries. The assumption of promissory note loans totaling €179 million had an opposite effect.

Balance sheet of Rheinmetall AG in accordance with HGB (summarized version) € million

	12/31/2014	12/31/2013
Fixed assets		
Intangible assets, property, plant and equipment	31	24
Financial assets	1,064	1,080
	1,095	1,104
Current assets		
Receivables from affiliated companies	334	545
Other receivables, other assets	41	29
Cash in hand	258	367
	633	941
Total assets	1,728	2,045

	12/31/2014	12/31/2013
Equity	527	536
Provisions	119	124
Liabilities		
Bond	500	500
Liabilities due to banks	179	16
Liabilities to affiliated companies	382	851
Other liabilities	21	18
	1,082	1,385
Total liabilities	1,728	2,045

Economic report
Risks and opportunities

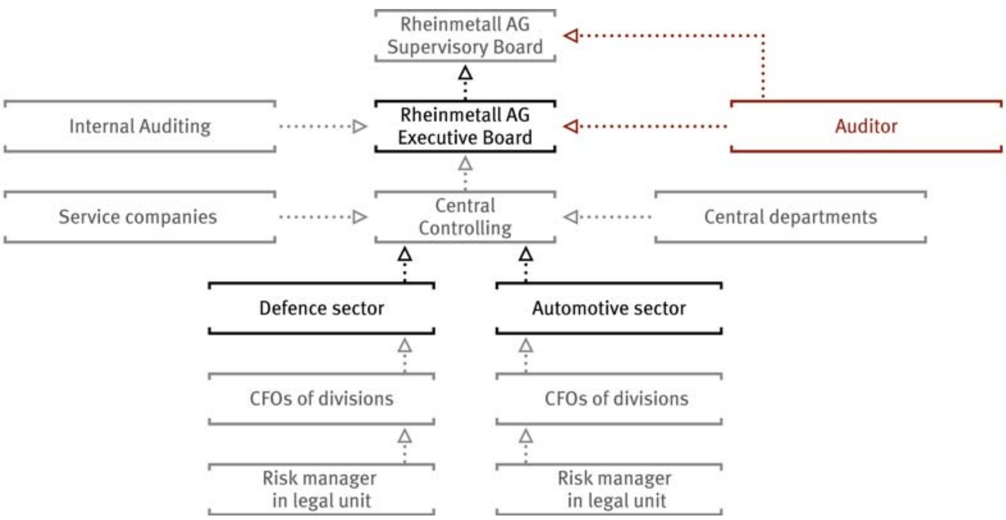
ENTREPRENEURIAL ACTIVITY – LEVERAGING OPPORTUNITIES, LIMITING RISKS

In view of more rapid market changes, growing uncertainty, increasing complexity of general conditions that vary widely around the world and major technological progress, corporate decisions are increasingly dependent on the reliable assessment of potential risks. As a globally operating technology group in the Defence and Automotive sectors with a heterogeneous product portfolio, Rheinmetall is exposed to a wide range of risks which vary depending on the division, industry and region. Corporate policy is geared to generating appropriate returns on a sustained basis, to taking any opportunities that present themselves, leveraging and expanding success potential, while at the same time avoiding, minimizing or offsetting associated risks as far as possible. The objective is to retain the corporate flexibility and financial strength, increasing the enterprise value on a sustained and systematic basis, thus securing the continuation of the Rheinmetall Group on a long-term basis.

RISK MANAGEMENT SYSTEM

Rheinmetall's standardized risk management system aimed at identifying material risks jeopardizing the continued existence of the Company at an early stage forms an integral component of the planning, controlling and reporting systems of the Rheinmetall Group. As well as systematically identifying risks, it also evaluates, controls, documents, communicates and monitors risks. The principles, processes and responsibilities involved in risk management are documented in the guides to the early risk identification system. Risk management, which is geared towards financial resources as well as strategic and operational planning, is considered a primary responsibility of the divisions and departments as well as process and project managers.

Risk organization



IDENTIFICATION OF RISKS

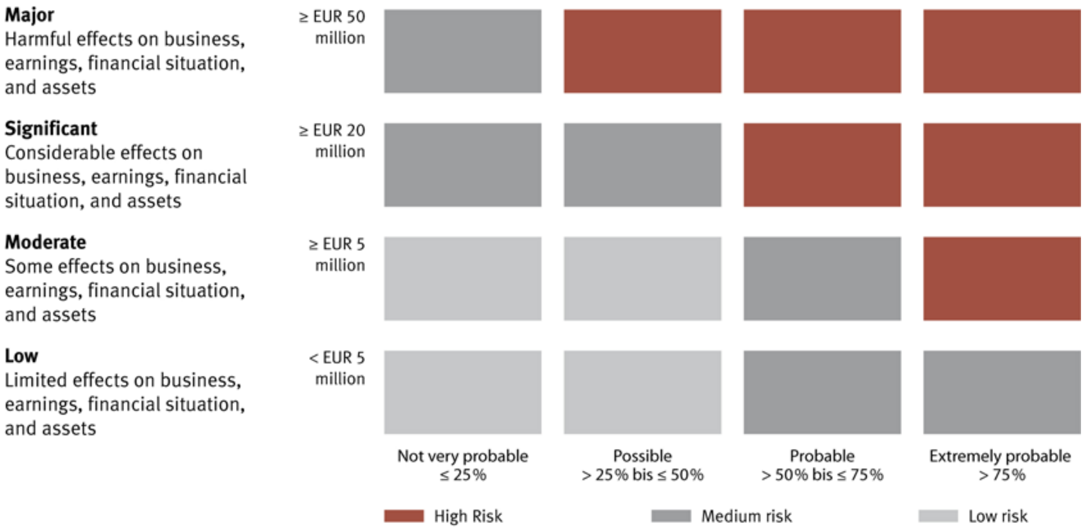
A risk is understood as the unfavorable development of premises or events assumed in planning which could negatively impact achieving operating planning and strategic targets. In order to identify potential risks, the risk inventory is updated once a year during corporate planning. This contains all the most important risks potentially impacting the corporate targets and sub-targets, early warning indicators, responsibilities and suitable countermeasures. Identified risks are analyzed in terms of their probability of occurrence and their impact on business performance and the Rheinmetall Group's earnings, financial situation and assets.

MATERIAL RISK AREAS

Overview of key corporate risks

Risk type	Probability of occurrence	Level of impact
Strategic risks		
Macroeconomic risks	Possible	Considerable
Market risks	Possible	Considerable
Competition risks	Possible	Moderate
Operational risks		
Technology and development risks	Possible	Considerable
Investment risks	Possible	Considerable
Production risks	Possible	Considerable
Procurement risks	Not very probable	Considerable
Project risks	Possible	Considerable
Quality risks	Possible	Considerable
IT risks	Not very probable	Significant
Personnel risks	Not very probable	Moderate
Pension risks	Not very probable	Low
Acquisition and integration risks	Possible	Considerable
Environmental requirements	Not very probable	Moderate
Legal and compliance risks		
Legal risks	Possible	Moderate
Compliance risks	Possible	Considerable
Regulatory risks	Possible	Considerable
Tax risks	Not very probable	Low
Financial risks		
Credit risks	Not very probable	Low
Liquidity risks	Not very probable	Considerable
Currency risks	Probable	Moderate
Interest rate risks	Not very probable	Low
Commodity price risks	Probable	Moderate

Risk classes



Economic report
Risks and opportunities

COLLATING, EVALUATING, CONTROLLING, MONITORING AND REPORTING RISKS

As part of the monthly report, risk reports from the subsidiaries, divisions and central departments of Rheinmetall AG systematically record the current business risks and give a structured assessment of these risks according to their probability of occurrence and the level of damage to be expected.

These individual risk reports are prepared as part of risk aggregation and the overall risk situation of the Company is defined. Appropriate preventative, safeguarding and corrective measures reduce the probability of occurrence of risks or restrict their potential level of damage. The measures introduced to manage risk are monitored on an ongoing basis and adjusted to a new risk assessment where necessary.

Group Controlling regularly informs the Executive Board and managers of the development of the overall risk situation in the Rheinmetall Group, the status of and significant changes to important ventures subject to reporting requirements, and the status of countermeasures that have already been introduced. If necessary, additional measures are taken in order to further limit and reduce identified potential risks. Sudden or unexpected risks with significant consequences are reported to the Executive Board on an ad hoc basis. Individual risks involving net material damage exceeding €5 million and at the same time indicating a probability of occurrence of over 50 % are reported to the Supervisory Board.

MACROECONOMIC RISKS

It is not possible to completely avoid risks that arise due to economic cycles. A deterioration in general economic conditions in the sales regions can adversely impact the sales and earnings situation of the Rheinmetall Group. Geopolitical or economic crises can affect regional markets. The consistent alignment of business toward the major economic areas in Europe, the USA and Asia reduces the dependency in certain customer countries, thereby distributing the risk. The diversified product portfolio of the divisions and the continued efforts to internationalize the Defence and Automotive sectors help to ensure that temporary economic fluctuations can be offset in part by more favorable developments in other regions and markets.

MARKET RISKS

In times of advancing globalization and growing competition and market transparency, market risks are becoming more prevalent. Potential outcomes include fluctuations in prices, volumes and margins. Focusing on high-end market segments, product innovations, process improvements, production and capacity adjustments and strict cost management all contribute to strengthening competitiveness in each of the Company’s industries and securing and building on the profitability of the Rheinmetall Group. Our product range is also highly diversified. Thanks to our broad international presence, we can respond to market and demand fluctuations and balance out developments in individual regions.

COMPETITION RISKS

The risk profile of Rheinmetall can also be negatively affected by the presence of new suppliers or trends towards consolidation on sales markets.

TECHNOLOGY AND DEVELOPMENT RISKS

For technology companies, innovative strength is a key success factor. The future earnings situation of the Rheinmetall Group also depends on the ability to broaden its technology basis on an ongoing basis, to identify technological trends in good time and correctly assess their impact on operational business, to develop new, marketable applications, products, systems and solutions, as well as to launch and apply state-of-the-art production processes. The sometimes long development lead times, continuously refined technologies and intense competition are key factors contributing to uncertainty regarding the economic success of current or future products. Misjudgments in the development and calculation of products, systems or services that are not taken up by the market as expected as well as fundamental changes in customer demand that were not foreseen or responded to adequately can lead to a decline in demand as well as a deterioration in our competitive and economic situation.

But the market presence and customer proximity associated with international distribution structures as well as our supply relationships going back many years make it possible for us to identify trends on the sales markets in good time and to align product strategies consistently toward new requirements. Feasibility studies, profitability analyses, modern project management aimed at reviewing the criteria for technical and economic success, the involvement of customers in the definition, design, development and testing of new products and safeguarding our technological position through patents reduces potential R&D-specific risks such as mis-developments and budget overruns.

Despite compliance with the processes described and the use of modern project management, monitoring and controlling measures, the development of new products and launching these onto the market as well as changes to the existing product portfolio harbor cost risks. These exist not only in the actual design and development phase, but also during market launch where startup costs may be higher than expected or unscheduled delays arise. Risks also exist following market launch due to the potential need for technical improvements which will only come to light following use in real-life situations or through continuous operation.

INVESTMENT RISKS

We review investment decisions carefully over several stages. Investments that exceed a defined limit are presented to the Executive Board for approval after undergoing a review. Nevertheless, unforeseen changes in general conditions can lead to higher investment costs or cause delays to facilities being commissioned.

PRODUCTION RISKS

Production operations can be compromised by unexpected technical disruptions and unforeseen events such as natural disasters, fire, accidents and human error, even if high technical and safety standards apply. The availability of industrial premises and production plants is ensured through preventative maintenance with ongoing checks, regular inspections and maintenance work, constant modernization and targeted investment. Problems at partner companies' sites or within the supply chain can lead to disruptions (e.g. in logistics), which can result in detrimental effects or losses. For potential damage and associated disruptions to operations, extended business interruptions, production downtime caused by a lack of plant availability and for other conceivable loss occurrences and liability risks, reasonable insurance cover has been taken out, where available, as is usual in the industry to ensure that the financial consequences of potential risks are contained or completely offset.

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Although the existing insurance cover is regularly reviewed in terms of covered risks and insured sums and adjusted if necessary, it can prove insufficient in certain cases.

PROCUREMENT RISKS

Procurement risks may arise due to the raw materials, parts and components required to manufacture products, applications and systems not being available or not in a suitable quality and necessary quantity, or due to it not being possible to purchase these in good time and without problems, or at prices that are in line with the market. Procurement risks can be reduced through the careful selection of reliable suppliers, identification of alternative supply sources, efficient contract management, continuous supplier assessments, quality and reliability checks on suppliers, and the organization of adequate reserve stocks. A significant proportion of the supply of raw materials is covered by long-term supply contracts and issued with cost escalation clauses where possible in contracts with customers. Delivery delays, shortfalls or quality problems can lead to disruptions in production and claims for compensation.

An inadequate energy supply for companies of the Rheinmetall Group under cost-efficient conditions constitutes a risk for competitive production at the sites. It is not possible to ensure complete hedging of fluctuations in the price of energy sources or to guarantee that increases in energy prices will be passed onto customers. Rising energy costs are addressed by bundling procurement volumes and through invitations to tender, long contract durations and optimizing the electricity price via the European Energy Exchange in Leipzig.

Germany's energy turnaround is expected to lead to expansion of electricity grids and a significant increase in the share represented by renewable energies. We believe constantly rising electricity prices and the growing EEG levy represent a risk - a development that can jeopardize the ability of energy-intensive industrial companies, like some companies in the Automotive sector, to compete on the international marketplace.

The proceedings against the Federal Republic of Germany due to suspected inadmissible subsidies in the form of extensive exemptions of companies with high electricity requirements from the so-called EEG levy have been concluded. The key result is that limitations of the payment obligation of the EEG levy granted on the basis of the EEG 2012 are in compliance with the internal market and are thus approved. However, the EU Commission considers a small portion of the exemptions granted as distorting competition, which thus results in an obligation to make a repayment. Two companies have been sent repayment assessments. The resulting repayment amounts total €0.1 million.

PROJECT RISKS

The complexity of projects can entail risks in planning, calculating, implementing and processing. These include not only uncertainty in calculations, but also unexpected technical problems, underestimations of the level of complexity, cost increase, capacity and supply bottlenecks as well as quality problems with business partners or suppliers, unforeseeable developments during assembly and deferred dates of acceptance and settlement. These risks can be minimized, though not excluded altogether, through professional project management, project milestones, verification levels for each project stage, comprehensive quality management measures and the appropriate formulation of contracts.

QUALITY RISKS

Our quality management systems have been certified in accordance with ISO 9001 and ISO/TS 16949 for many years now. In addition, methods including Six Sigma, lean management and failure mode and effects analysis (FMEA) are used to prevent quality risks.

IT RISKS

In an age of ongoing digitalization, data are exposed to a wide range and in some cases rapidly increasing threats with regard to availability, confidentiality and integrity. Increasing data volumes, short access times and structured information provision require highly available, fail-safe und redundantly designed IT systems and applications as well as state-of-the-art communication infrastructures for managing complex, IT-driven business and production processes. A wide range of causes can result in faults or damage occurring, which severely impact business operations of the company with serious ramifications for business. Operational faults and interruptions can result in it not being possible to access or use networks, data can be tampered with, destroyed or stolen as a result of program/user errors, manipulation or external influences such as espionage or hacker attacks.

In addition to the deployment of products from leading suppliers such as SAP and Microsoft, high security standards combined with corporate process and security guidelines, technical and organizational emergency, protective and precautionary measures, such as modern back-up and recovery procedures, uninterruptible power supply, strictly secured access systems, the restrictive issue of access rights as well as daily mirroring and archiving of data restrict the risk of serious interruptions and disruptions to complex systems and networks. Methods used to provide protection against external attacks include state-of-the-art firewall systems and virus scanners. Ongoing assessment of software results in functionalities and applications being extended, security gaps which have been identified being closed and errors which have occurred being rectified. This safeguards secure and smooth processing of the numerous IT-supported business processes on an ongoing basis. On the basis of regular investment, the software and hardware installed is up to date. Together with competent service partners certified to ISO 27001, the technical configuration, functional security structures and efficient operation of the IT architecture are reviewed on a regular basis and continuously improved.

PERSONNEL RISKS

In a technology-driven company such as the Rheinmetall Group, the attainment of ambitious corporate targets and sustainable business success also depends on staff with above-average qualifications and many experienced specialists across a wide spectrum of areas. A high level of personnel fluctuation among executives and employees in key positions can results in important expert knowledge and skills being lost. Problems with not being able to find suitable managers, specialist and junior staff with the desired commercial, technical or industry-specific skills for job vacancies, or not being able to find these staff quickly enough, can have just as much of an adverse impact on the Company as an aging workforce, insufficient qualifications or a lack of motivation among employees. These risks are countered by means of various measures ensuring performance-related remuneration that is in line with the market and includes performance-based incentive systems, modern personnel management, qualified staff development and staff recruitment geared towards specific target groups, as well as forward-looking succession planning. Regulations on deputies also help to cushion the impact of the departure or loss of staff in key positions or employees who cannot be replaced automatically. Moreover, age structure analyses are carried out at regular intervals in view of demographic change, and professional groups and functions are identified in which there may be a skills shortage in future.

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Risks and opportunities

PENSION RISKS

The Rheinmetall Group's companies in Germany, Switzerland and other countries have committed to their employees defined benefit plans as part of company pension plans. These pension plans grant eligible staff lump sum payments or lifelong pensions, depending on how the plan is designed. Pension amounts are subject to increases that are fixed, variable or linked to inflation. The development of inflation and longevity represent risks. Existing obligations under pension plans are covered by separate assets (e.g. real estate, bonds or shares) to differing degrees. The value of these pension assets is subject to market risks, especially interest rate, spread and share risks. Investment strategies for pension assets as regards value risk and yield expectations are geared towards the maturity structure of the covered obligations.

ACQUISITION AND INTEGRATION RISKS

The companies in the Rheinmetall Group regularly examine options for acquisitions or strategic partnerships. These are a key component of the growth and internationalization strategy which are also used to improve market positions, add more products to existing business areas, tap into new markets with growth potential, gain innovative technologies or minimize risks. The companies identified on the basis of market assessment and analysis are examined with regard to their strategic and operating alignment, their earnings potential and development perspectives. They are also subjected to a careful analysis of opportunities and risks and are assessed on the basis of yield/risk considerations. In systematic due-diligence processes, competent experts check operating, legal and financial aspects. Following approval proceedings carried out over several stages, the Executive Board and, with a transaction volume exceeding €25 million, also the Supervisory Board, of Rheinmetall AG decides on the acquisition project. After the closing, the companies are integrated in the relevant division on the basis of schedules and milestone planning.

Every transaction of this kind brings with it the danger that the targets, growth and return expectations as well as the potential synergies may not be achieved at all, or not to the planned extent or are achieved later than anticipated. The integration of staff, processes, technologies and products in existing operational structures can also prove more complexity, difficult, time-consuming and costly than expected. What is more, risks can arise in connection with the activities of newly acquired companies that were either not previously known or not considered significant. According to IFRS, impairment tests need to be taken to the end of the year. These could result in impairment being taken on goodwill or investments which negatively impact the Group result.

ENVIRONMENTAL REQUIREMENTS

A large amount of land owned by the Rheinmetall Group has been subject to industrial usage for decades. For this reason, it cannot be ruled out that pollution has also been generated during this time as a result of production that Rheinmetall is not yet aware of. Rheinmetall operates an active environmental management system. Environmental Officers monitor compliance with statutory requirements at the production locations. The risk potential arising from production processes and environmental protection risks is effectively reduced by means of strict compliance with relevant laws, requirements and regulations, extensive guidelines on quality assurance and stringent quality controls. This includes certification in accordance with international standards such as DIN 9001, TS 16949 and ISO 14001. Sufficient provisions have been recognized for necessary measures to safeguard against or clean up identified pollution. It is possible that the relevant authorities may issue regulations that require costly clean up measures. The tightening of safety, quality and environmental protection provisions and standards may lead to additional unplanned costs and liability risks over which Rheinmetall would have no influence.

LEGAL RISKS

Rheinmetall aims to avoid legal disputes as far as is possible. Nevertheless, on national, European or international level in the relevant markets legal risks can arise due to legal disputes with competitors, business partners, customers or authorities and as a result of changes to the legal or regulatory framework. These include, in particular, risks arising from guarantees, product liability, export controls, competition and cartel law, patent law and tax law. When making decisions and designing business processes, the Group is not only supported by detailed advice from its own specialists but, in certain cases, also calls in renowned outside experts and specialists. Potential loss, damage and liability resulting from ordinary operations are appropriately covered by insurance policies or accounting provisions.

Following the squeeze-out of external shareholders at Aditron AG in 2002, investors initiated legal proceedings in order to review the adequacy of the cash compensation of €26.50 offered. After the hearing before the 3rd commercial court of the district court of Düsseldorf on July 12, 2012, the court set the amount of cash compensation per share at €36.44 in its decision on August 29, 2012. Rheinmetall lodged an appeal against this decision at the Düsseldorf Higher Regional Court on October 12, 2012. On September 3, 2014, the Higher Regional Court announced that in parallel proceedings the Senate had submitted the question of the valuation standards to be applied which is also relevant to this case to the Federal Court of Justice for a decision. Until then, the proceedings relating to Rheinmetall are suspended.

The apartheid legal proceedings brought against Rheinmetall in 2009 were rejected based on the decision made by the New York District Court on December 26, 2013. The judgement became legally binding in 2014. The proceedings have thus been concluded.

Appropriate provisions have been established based on the known facts for the risks arising from the legal proceedings described above and other proceedings as far as is considered necessary and economically viable. However, it is naturally difficult to predict the outcome of pending legal proceedings. Costs can arise on the basis of court or official decisions or the conclusion of settlements that are not covered or not fully covered by allowances or insurance policies and thus exceed the provisions that have been made. However, after a thorough review, we do not believe this will occur.

COMPLIANCE RISKS

Compliance cases can cause many different types of damage and can have serious consequences, such as the discontinuation of business relationships, exclusion from orders, negative assessments on capital markets, imposition of fines, the absorption of profits, claims for damages as well as civil or criminal proceedings. There is also the risk of significant and lasting damage to the Group's reputation and thus a detrimental effect on its market position. In itself, the examination and clarification of alleged cases can result in considerable internal and external costs.

The compliance organization is designed to ensure proper modes of conduct and behavior on the part of a company and its employees and make sure that potential or actual infringements of external or internal regulations are responded to appropriately. It is designed to prevent any liability risks, risks of incurring a penalty or a fine, and reputational risks, as well as other financial disadvantages, loss or damage that the Company may incur as a result of misconduct or violations of the law.

Economic report
Risks and opportunities

For more than three decade now, Rheinmetall has had a comprehensive set of corporate policies which are updated at regular intervals. These take the form of guidelines as well as organizational and operating instructions aimed at ensuring compliance with legal guidelines at all times and prevent infringements of the applicable laws, in addition to ensuring appropriate actions that are in accordance with respective duties during day-to-day business activities. Subject to their respective areas of responsibility, employees in Germany and abroad are periodically informed of the relevant rules and regulations and any amendments to these as well as rules of conduct for everyday business activities by means of seminars, workshops, interactive e-learning courses and other communication measures. The Chief Compliance Officer regularly reports to the Executive Board and the Supervisory Board's Audit Committee on current developments as regards compliance.

However, despite extensive and multi-level inspection and control mechanisms, the possibility of risks arising from unlawful activities of individual parties cannot be ruled out. Alleged cases are investigated actively. In investigative proceedings we cooperate with the relevant authorities. Proven misconduct results in consequences for those involved as well as to adjustments in the organization. However, the financial impact of compliance cases on the Group result is very difficult to estimate. Depending on the case and the circumstances, a not insignificant range is to be assumed.

REGULATORY RISKS

Regulatory and legislative changes at national or European level may involve risks that could negatively affect our earnings situation. For example, this applies to new laws and other amended legal frameworks, e.g. export controls.

TAX RISKS

Tax risks can result from changes in the legal or tax structure of the Group or from assessment periods which are still open. The differing assessment of circumstances during audits can lead to claims on the part of the tax authorities. There is also the risk that the tax burden for the Rheinmetall Group could increase as a result of changes to tax legislation or court decisions.

FINANCIAL RISKS

Rheinmetall is faced with various financial risks as part of its ordinary business activities, e.g. liquidity risks, counterparty risks and market price risks, which can have a large effect on the Group's earnings and assets.

Liquidity risk, i.e. the risk that existing or future payment obligations will not be met or will not be met when due, is identified and analyzed as part of rolling twelve-month planning. The projected net liquidity position is compared with existing financing facilities to identify potential financing gaps at an early stage. Financing requirements are covered on the money and capital markets and via individual or several banks. In doing so, appropriate reserves are held for potential plan deviations. Prepayments represent a key element in reducing liquidity risks in the Defence sector. Guarantees must be regularly provided for these.

In terms of guarantees, requirements are derived from project plans on a regular basis and care is taken to ensure that credit lines are utilized at a rate of between 50 % and 70 %. As a result there is sufficient scope for future or unplanned guarantee volumes. Rheinmetall's liquidity requirements are currently financed in the long term by the bond maturing in 2017, the promissory note loans issued in 2014 and the syndicated credit facility limited up to December 2016. The commercial paper program and asset-backed security program together with various bilateral cash credit facilities used to cover peaks in liquidity throughout the year complete the financing profile.

Counterparty risks exist in connection with deposits, financing commitments and other financial receivables such as positive fair values arising from hedging transactions. Rheinmetall counters these risks by awarding commercial banking business on a broadly diversified basis and subject to creditworthiness. Financial transactions are only performed with banking or insurance partners with an investment grade rating from a recognized rating agency. Given Rheinmetall's customer mix, credit risks arising from operations are negligible. These risks are assessed on an individual basis in connection with long-term orders and reduced or hedged by means of prepayments, credit insurance, guarantees or letters of credit. The Rheinmetall Group is not dependent on any customers or countries that could jeopardize the Group's continued existence as a going concern in the event of negative development.

The increasing internationalization of Rheinmetall's business in the Defence and Automotive sectors has resulted in a significant increase in cash flows in foreign currencies. In order to estimate the potential earnings effects arising from these cash flows, Rheinmetall performs simple scenario simulations. The structure of currency exposures is arranged differently in the Defence and Automotive sectors, meaning that the control procedures for these exposures are also different. While posted receivables and liabilities and fixed cash flows in foreign currencies are hedged when they arise, highly probable planned cash flows in the Automotive sector are also hedged on a selective basis.

Interest rate risks arise from changes in money and capital market interest rates. In the case of fixed interest financial instruments, fair values fluctuate as a function of interest rates, whereas variable-interest financial instruments are subject to a cash flow risk as future interest payments can fluctuate in terms of their amount. Interest rate risks are immaterial to Rheinmetall. The strategic financing elements of bond and promissory notes either have fixed coupons or are hedged. The cash flow risk from short-term financing via commercial paper, the securitization of receivables (ABS) and bilateral credit facilities was limited back in 2009 via interest rate swaps and caps. Commodity price risks are limited by agreeing price variation clauses in customer and supplier contracts. In cases where this is not possible or only to a limited extent, these risks are hedged financially using derivatives. This is regularly the case for industrial metals and in the energy sector. Hedging decisions are made and documented in regular committee meetings. Only standard instruments such as swaps with counterparties with impeccable credit ratings are used.

Economic report
Risks and opportunities

RISKS IN THE DEFENCE SECTOR

Defence's business areas are not directly dependent on the state of the economy. However, risks lie in dependence on spending patterns for public budgets in Germany and foreign customer nations. This continues to lead to shifts and cuts in state budgets, which also affect defense. Political and economic influences and changes in the defense technology requirements of customer nations, along with budget restrictions or general financing problems on the part of customers, can result in risks in the form of delays awarding contracts, time extensions or even the cancellation of orders. Risks also arise from increasing transatlantic competition.

Additionally, unforeseeable difficulties in project processing can lead to unforeseen burdens. As well as uncertainty in calculations, these also include altered economic and technical terms and conditions following the conclusion of a contract, unplanned changes or additional customer requirements, unexpected technical difficulties or faults, problems with business partners or suppliers and deferred dates of acceptance and settlement. By means of professional project management and comprehensive quality management measures, as well as the appropriate formulation of contracts, it is possible to limit these risks, but not to exclude them altogether.

The expansion of international business activities harbors the risk that, in some regions of the world, due to the industry-specific practices in place in the countries in question, delays may arise in order processing or risks arising from the payment practices of customers or business partners that are customary in these regions may increase. As a matter of principle, Rheinmetall Defence works with contractual parties with good creditworthiness. Risks are limited as far as possible by means of professional project management, comprehensive project controlling and suitable formulation of contracts. However, despite ongoing monitoring, delayed payments or even payment defaults on the part of contractual parties may unexpectedly arise.

Rheinmetall Defence has a strong export orientation. Approximately 29 % of sales are made with customers outside Germany. New laws or changes to general legal conditions, in procedural matters with existing directives or in the licensing practice for military equipment exports can negatively impact the development of our Defence business and thus the earnings situation at the Rheinmetall Group.

OPPORTUNITIES IN THE DEFENCE SECTOR

Opportunities thanks to the modernization of armed forces – In most western industrialized nations, there is an ongoing need for extensive modernization of military equipment, especially in terms of armed forces technology. Current threats and foreseeable potential risks in foreign military deployments mean that ongoing investment is still needed in improving equipment and protecting soldiers. Cost-cutting measures are therefore being pushed to their limits. Effective protection systems are of central importance in the deployment scenarios of today and the future, in order to offer a maximum level of safety to soldiers. The companies in this corporate sector specialize in the development and production of components and systems for the protection of people, vehicles, aircraft, ships and assets. They are a strong partner to the German armed forces, its allies and friendly armies, along with civil national security forces, and protect the forces involved in foreign operations.

Opportunities for the business units in the three Defence divisions are tied to the changing military requirements of the German armed forces and other armed forces from around the world. The range of products and capabilities of Rheinmetall Defence is tailored to central defense technology requirements resulting internationally from the ongoing need for substantial modernization of armed forces and new military deployment scenarios. Reference projects commissioned by the German armed forces, such as the series contract for the Puma infantry fighting vehicle, the “Gladius” infantry project and the order for the MANTIS® close-range protection system, are key factors to winning orders abroad.

Opportunities thanks to political developments – Foreign deployments of UN and NATO troops, crisis intervention, peace keeping missions: Due to constant changes in national and international security and defense policy, brought about, for example, by geopolitical realignment of economically strong nations, territorial disputes and escalating conflicts, the armed forces of the 21st century are being faced with new challenges in national security, as well as in the planning, implementation and securing of military deployments.

Huge threats to external and internal security arise from unstable nations and dictatorial regimes as well as terrorists and radical activists. Effective protection systems are of central importance in the deployment scenarios of today and the future, in order to offer a maximum level of safety to soldiers.

The Defence sector may benefit from ad hoc procurements triggered by the deployment of forces in crisis regions.

Opportunities thanks to further internationalization – Defence’s strategic priority lies in tapping into new growth markets, not least due to cuts in defense budgets of traditionally important Rheinmetall customers. We believe the Middle East and Asia represent particularly attractive growth opportunities.

Targeted support of the internationalization strategy was provided with the foundation of Rheinmetall International Engineering in 2013. The 50:50 joint venture of Rheinmetall and Ferrostaal Industrieanlagen commenced operations in 2014. It is expected to be a pathfinder into precisely those markets where Rheinmetall has had no access or only limited access up to now. The company is also expected to accommodate the rapidly growing need for local defense technology infrastructure. The company will plan and implement turnkey industrial facilities as a general contractor or subcontractor. Under the name “Defence Solutions”, the company combines and provides Rheinmetall Defence’s defense technology product expertise in combination with Ferrostaal’s core expertise in the areas of project management, project development, EPC contracting (engineering, procurement, construction), and production planning and management. Rheinmetall is participating in a key market trend in this process, as the development of local infrastructure will continue to become increasingly important for international clients rather than traditional imports of arms. Rheinmetall International Engineering will also operate in the international oil and gas industry as a contractor and subcontractor. As well as the MENA (Middle East North Africa) states, future target markets are also Asia and South America.

Opportunities thanks to consolidation – Other growth opportunities may arise for us as a result access of the expected ongoing consolidation process in the European defense market. This may occur as a result of targeted acquisitions of products and/or technology or on the basis of company acquisitions which allow more rapid regional market access.

Economic report
Risks and opportunities

RISKS IN THE AUTOMOTIVE SECTOR

In times of fiercer competition as a result of overcapacity in the triad markets, unexpected changes in regular order placement, shifts in the product range, tighter competition and increasing price pressure are all possibilities. Potential outcomes include fluctuations in prices, volumes and margins.

In parallel to the shorter product life cycles, vehicle manufacturers find themselves exposed to fierce competitive, innovative and cost reduction constraints, which they then pass on to their suppliers. Companies in the Automotive sector are limiting the impact of these trends by investing in new products, deploying modern manufacturing processes, cost-saving technologies and new materials and realizing potential savings in corporate functions.

Declines in automotive demand in certain countries are countered by the expansion of international presence and by marketing products outside the automotive industry. Advantageous economic parameters for new locations and expanding existing production capacities are exploited.

Additionally, the diversified customer structure allows fluctuations in the production figures of individual automotive manufacturers to be balanced out. Thanks to the broad product range and low reliance on individual customers, it is possible to cushion price risks, weak demand and insolvency risks.

Bottlenecks in supply and sharp fluctuations in prices for energy and raw materials involve significant risks. Price risks for raw materials, particularly aluminum, copper and nickel, are countered with cost escalation clauses in contracts on the sales side. When procuring raw materials that are traded on the stock market, the sector’s central Commodities Office manages the timing of purchases and the volume purchased in consultation with the operating units, making use of financial hedging instruments.

The potential insolvency of suppliers represents a further risk on the procurement side. This risk is countered by carefully selecting subcontractors, spreading the risk by distributing the purchase volume across further suppliers and supporting suppliers in emergency situations if necessary.

Appropriate insurance cover is in place for warranty, product liability and recall risks, which is reviewed periodically and adjusted where necessary.

Any change with regard to customers, e.g. relocation of production sites, loss of customers, sale of companies, insolvencies, declines in demand and changes in customer requirements, can lead to a decline in operating activities and/or reduce the value of investments.

OPPORTUNITIES IN THE AUTOMOTIVE SECTOR

Technological opportunities – In the triad markets of Western Europe, the USA and Japan, increasingly tight restrictions apply to emissions of pollutants. Countries around the world have also defined fleet emission targets for carbon dioxide. If automotive manufacturers do not adhere to carbon dioxide fleet emission targets, they will have to pay large fines. As drive systems are responsible for over 50 % of the carbon dioxide emissions produced by passenger vehicles, it is essential that automotive manufacturers improve fuel efficiency further and thereby lower carbon dioxide emissions. Rheinmetall Automotive will therefore continue to exploit its capacity for innovation, with the aim of remaining a technological leader in the future and benefiting from developments on the market for drive systems.

Efforts made by engineers to develop low-consumption and, as a rule, smaller passenger car engines will also lead to key technological innovations in terms of diesel and gasoline engines. For Rheinmetall Automotive, technologies such as charging and downsizing offer opportunities to supply components and systems that are simultaneously innovative and competitive. Already we have made a substantial contribution to reducing fuel consumption with divert-air valves, wastegate actuators and pressure control values for exhaust gas turbochargers.

As well as technical measures to reduce consumption and emissions in combustion engines that have a direct effect on mixture control and gas exchange, work is increasingly being carried out on applications that will indirectly help to minimize friction losses and utilize auxiliary units according to individual needs. Companies in the Automotive sector already offer solutions in these areas, such as specially coated pistons, plain bearings and engine blocks or variable oil, coolant and water pumps, and are thus benefitting from the increase in worldwide demand for these products.

In addition to measures aimed at saving fuel in the drive train, lightweight construction will also play a more important role in the future. This applies to vehicles with combustion engines, but above all to vehicles with a hybrid or fully electric drives. Thanks to its expertise in aluminum and magnesium casting technology, Rheinmetall Automotive has opportunities here in new applications. The order gained by the Hardparts division for a structural part from a well-known German automobile manufacturer is being prepared for series production.

Geographical opportunities – The Automotive sector intends to expand its operations on a geographical basis, especially in the growing automotive markets of Brazil, India and China (BIC). These emerging economies are expected to offer automotive manufacturers and their suppliers growth potential in the coming years, due firstly to rising demand for passenger vehicles and light and heavy commercial vehicles, and secondly to the introduction of increasingly strict requirements to reduce fuel and carbon dioxide emissions. Our aim is to benefit from these megatrends by expanding our existing production capacities in Brazil, India and China and deploy effectively our expertise from the triad market. In concrete terms, we will build on our market presence in China, for example, in order to benefit from expected medium-term to long-term growth in this region, in particular by expanding our existing 100 % subsidiaries and concluding strategic joint ventures. We also wish to increase our market share in India by means of our production facilities in Pune and Ahmednagar.

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Opportunities thanks to diversification – As with passenger cars and light commercial vehicles, emissions targets for pollutants and greenhouse gases also apply to heavy commercial vehicles. Particularly stable, highly-developed and innovative drive systems must therefore also be introduced for vehicles of this category. Rheinmetall Automotive has extensive specialist knowledge developed in connection with advanced drive technologies for passenger cars which can be used effectively.

We also have long-standing close relations with manufacturers of heavy commercial vehicles which we have developed through our collaboration with these manufacturers in the development of pistons as a key pistons supplier in this segment. We were therefore also able to supply products from the Mechatronics division to these customers and manufacturers of heavy construction site vehicles and agricultural machinery, such as exhaust gas recirculation valves, exhaust gas recirculation cooling modules and exhaust gas mass sensors and believe that there is huge demand for further drive technologies in this segment.

We also use our specialist technological expertise from the Hardparts division for products outside the automotive industry, for example, in order to develop large-bore pistons and plain bearings specifically for electricity generation, heavy construction site vehicles, mining equipment, locomotives, shipbuilding and agricultural machinery.

Opportunities thanks to strong brands – A solid presence on the replacement parts market for automotive drive systems helps to stabilize our business activities, while at the same time providing the opportunity to create further demand for our extensive drive system product portfolio. We believe that we have a strong position on the global replacement parts market for drive systems because we sell well-known brands such as Kolbenschmidt, Pierburg and TRW via the Aftermarket division and are able to supply our customers at short notice. The product packages we create for our customers contain our own products and third-party products. This means we can provide our customers with all the parts and tools they require in a “one-stop shop” to cover their drive component requirements. We also offer training schemes for mechanics which increases customer loyalty and strengthens customers’ perception of the Aftermarket division as a provider of integrated solutions.

Opportunities as a result of high market entry barriers – On the basis of units sold, Rheinmetall Automotive has important market share in many of the market segments in which it operates. The majority of the markets in which we operate have a strong level of consolidation. Typically there are two to five main competitors, particularly for pistons and plain bearings. In view of the broad basis of our knowledge, combined with our technological expertise in relation to our products and their manufacture, it is difficult for potential competitors to offer a comparable portfolio of products and services at competitive prices, and thus to gain market share. Furthermore, for access to most of the markets in which we operate, considerable investment is required. In our view, potential competitors could not or would not want to make this investment. As we manufacture high volumes for most of our products, we have considerably reduced unit costs. In our opinion, most potential competitors would have higher unit costs if they wanted to manufacture in the same quality when making an entry into the market.

INTERNAL ACCOUNTING-RELATED CONTROL AND RISK MANAGEMENT SYSTEM

The internal control and risk management system related to the accounting process at the Rheinmetall Group includes all principles, procedures and measures which ensure, by both organizational and technical means, that all business processes and transactions are recorded in the accounting system promptly, accurately and consistently. In addition to defined control mechanisms, e.g. manual coordination processes and technical coordination processes for systems, this includes the separation of administrative, executive, settlement and approval functions together with guidelines and operating instructions. Changes to the economic, legal and regulatory environment of the Rheinmetall Group are analyzed to determine whether adjustments to the accounting-related control and risk management system are necessary.

Accounting guidelines – The IFRS accounting guidelines cover all IFRS regulations that are of relevance to Rheinmetall AG. They explain the IFRS regulations and specify accounting procedures. The guidelines must be observed by all companies included in the consolidated financial statements, thereby ensuring standardized accounting. The IFRS accounting guidelines are adapted to changes in IFRS at least once a year. Companies are informed about specific changes to guidelines. The content of the guidelines is the responsibility of the main Accounting department of Rheinmetall AG.

Accounting processes in companies included in the consolidated financial statements – It is the responsibility of the management of the respective companies to prepare the financial statements of companies included in the consolidated financial statements. The accounts and financial statements are prepared using SAP-based accounting systems (SAP-FI). Procedures are implemented in the accounting process to ensure the correctness of the accounts and financial statements. The management of each Group company monitors compliance with IFRS accounting guidelines and other guidelines and operating instructions in force across the Group. The management must confirm the correctness of the financial statements in a corresponding declaration.

Consolidation and the Group accounting process – The main Accounting department of Rheinmetall AG is responsible for central management of the Group accounting process. It stipulates the schedule for the consolidated financial statements and monitors compliance with deadlines.

The consolidated financial statements of Rheinmetall AG are drawn up with the aid of the consolidation software SAP SEM-BCS. A standardized, binding chart of accounts is incorporated in this system, which covers virtually all the information required for the IFRS consolidated financial statements of Rheinmetall AG. The individual companies record the financial statements prepared in accordance with IFRS accounting guidelines in the consolidation software. After recording this IFRS single-entity financial statement data, this then undergoes an automatic plausibility check and system-based validation. If error or warning messages are displayed during this process, these are to be analyzed and dealt with by the person responsible for the single-entity financial statements. Employees in the main Accounting department then perform additional automatic and manual checks. The consolidation measures undergo system-based checks and automatic plausibility checks.

The consolidated financial statements are also audited on the basis of standardized reports using comparisons of target and actual performance, trend and deviation analyses and detailed evaluations. A check is carried out every quarter to ensure the completeness of the scope of consolidation.

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Auditing and monitoring – As an authority independent in terms of instructions and processes in line with a guideline promulgated by the Executive Board, Internal Auditing examines workflows, structures and procedures for their suitability, effectiveness, security and correctness on the basis of an audit plan adopted by the Executive Board. The audit plan establishes the focal areas for the risk-oriented audit activities and the scope of the audits to be performed. These are then implemented by the auditing companies as mandated by Rheinmetall AG. Risks identified and weaknesses discovered during these audits are promptly eliminated by the management responsible. The Executive Board and Audit Committee of the Supervisory Board are informed of the results of the audit and on the implementation status of improvement measures in a review.

The auditor examines the consolidated financial statements and the summarized management report to determine whether they comply with applicable accounting regulations and other relevant provisions. It checks the IFRS accounting guidelines and makes these available to the auditors of companies included in the consolidated financial statements. The auditors of these companies check whether the IFRS accounting guidelines have been applied in full to the financial statements prepared for consolidation purposes and establishes the correctness of the annual financial statements prepared in accordance with applicable accounting principles. The audits performed by these auditors also include an assessment of the effectiveness of the accounting-related internal control system based on spot checks in subdivisions.

EXECUTIVE BOARD STATEMENT ON THE RISK SITUATION

Potential risks for companies in the Rheinmetall Group include on the one hand factors that cannot be influenced, such as the national and international economy and the general economic situation, and on the other hand risks that can be influenced directly, which are generally operational risks.

The aforementioned risks are not necessarily the only risks to which the Rheinmetall Group is exposed. Risks that have not yet been identified or that are still assessed as insignificant can materialize under altered circumstances, hinder business activities and adversely impact the assets, financial situation and earnings of the Group. The auditor, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, examined the early risk identification system of the Rheinmetall Group to ensure that it complies with the provisions of the Stock Corporation Act as part of its audit of the consolidated annual financial statements and confirmed that it fulfills all legal requirements in accordance with Section 91 (2) AktG and is suitable for identifying developments that could jeopardize the continued existence of the Group at an early stage.

In accordance with the basis outlined for the assessment of risk factors and taking into account the overall risk situation, major asset, financial and earnings risks jeopardizing the Rheinmetall Group on a long-term basis were not identifiable during the past fiscal year. The overall risk situation in the Rheinmetall Group did not change substantially in fiscal 2014 compared to the previous year.

The assessment of the overall risk situation is the product of consolidated consideration of all individual material risks. We are convinced that the risks presented are limited and manageable. In our opinion, no risks exist from today's perspective on an individual basis, in combination with other risks or as a collectivity that may significantly jeopardize the continued existence of Rheinmetall AG and the Rheinmetall Group as a going concern in the foreseeable future.

Economic report
Prospects

GENERAL ECONOMIC CONDITIONS

Real economic growth | **%** | **Key statements on forecast economic development in 2015**

World

3.5

Global economy with curbed momentum

- At the beginning of 2015, IMF lowers its economic forecast from October 2014 by 0.3 percentage points
- Positive effect as a result of low oil prices is more than offset by negative factors such as weak capital expenditure in many industrial and emerging nations
- Driven by momentum in the USA, mature economies achieve growth of 2.4 %, after 1.8 % in 2014
- With an upturn of 4.3 %, slight deceleration of growth momentum in the emerging nations (2014: 4.4 %)

Eurozone

1.2

Economic recovery progresses only slowly

- Due to weak capital expenditure, growth lags behind expectations
- IMF lowers forecast for the three large economies of the Eurozone (Germany, France, Italy). On the other hand, Spain better than anticipated
- After change in government, concern about reforms in Greece
- Controversial large-scale purchases of government bonds by the European Central Bank to combat the danger of deflation and weak growth

Germany

1.3

Robust growth, but little momentum

- Muted export prospects as a result of the crisis of the Russian economy and the slight reduction in momentum of other emerging countries
- Economy supported by private consumption
- Low oil price and robust employment market results in ongoing positive consumer climate

Russia

-3.0

Russia in a deep recession

- Fall in oil prices and repercussions of the Ukraine conflict result in strong slowdown in the Russian economy
- High inflation and ongoing weakness of the rouble
- Standard & Poor's rating agency lowers rating from BBB- to BB+ ("junk"/highly speculative investment)

USA

3.6

US economy locomotive among the mature industrialized countries

- Favorable energy prices drive private consumption
- Slight increase in interest levels expected, but expansionary monetary policy to remain in place
- Risks for US exports as a result of rising USD

Brazil

0.3

Recovery progresses only slowly

- Re-elected President Rousseff announced "impulses for growth"
- But scope for action limited by budget deficit
- Consumer climate negatively impacted by high inflation
- Key interest rate raised to new high of 12.25 % at the beginning of 2015

India

6.3

Upswing gains momentum

- In terms of economic growth, India almost catches up with China
- New government announces "biggest tax reform since independence"
- The introduction of a sales tax should ease the flow of goods within India, resulting in impulses to push growth

China

6.8

Growth engine losing momentum

- Lowest growth rates for 25 years
- Chinese central bank with expansionary monetary policy to stimulate growth
- IMF welcomes decision to reduce dependency of the economy on the property sector and to promote domestic consumption

Japan

0.6

Japanese economy disappoints economic experts

- Economic recovery makes only slow progress due to weak capital expenditure and cloudy consumer climate
- IMF makes small downward revision to growth expectations
- But rising exports are an initial signal for economic recovery

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ECONOMY STIMULATED BY LOW OIL PRICE: HOWEVER GLOBAL ECONOMY WITH CURBED MOMENTUM

Since the beginning of 2015, oil prices have remained low. According to estimates from the International Monetary Fund (IMF), this acts as a type of economic stimulus package in many countries, thus stimulating consumption. At the same time, IMF has issued a warning against strong counter movements on the basis of numerous negative factors, such as weak capital expenditure due to weak growth prospects in many industry and emerging nations. IMF is concerned primarily by declining momentum in China, the pronounced weakness of the Russian economy and the slow recovery in the Eurozone and Japan. This is compounded by the fact the economic development in oil exporting countries is markedly impaired by lower oil prices. It is the USA which provides the primarily upside. Here the recovery should accelerate. However, the IMF reduced its 2015 growth forecast downwards by 0.3 percentage points to 3.5%. However, in January 2015 Director of the Research Department at IMF, Oliver Blanchard, expressed the hope that the effect emanating from the low oil price would be greater than anticipated at the beginning of the year.

ONGOING UPWARD TREND: INCREASING INVESTMENT WORLDWIDE IN THE DEFENCE SECTOR

Following the turnaround in the year under review, the trend towards a rise in defense spending worldwide will continue in 2015. According to the calculations by defense analysts at IHS Jane's, the defense sector will grow to a volume of USD 1,623 billion this year, compared with approximately USD 1,603 billion in 2014. It is true that in the USA, the country with the highest defense spending worldwide, the 2015 budget will decline to approximately USD 566 billion (2014: USD 581 billion). However, with increasing investments in many emerging nations, particularly Russia, the decline in the US budget will be more than compensated for on a global basis. Furthermore, other industrial nations, such as the Federal Republic of German and Australia, will expand their defense budgets slightly.

The ongoing and high need of modernization in many armed forces is a key factor driving the overall upturn in military spending. While rapid progress is being made in terms of technological development and new dangers arise from asymmetrical potential threats, many armies have severely obsolete military equipment. If governments want to fulfill their responsibility towards their soldiers, increasingly complex deployment requirements mean ongoing investments in the protection of soldiers are essential. The following table provides an overview of the very varied budget planning in selected countries.

Defence budgets of selected countries

Country	Currency	2015	2014	Change in %
Germany	€ billion	32.97	32.44	1.6
World	USD billion	1,623.00	1,603.00	1.2
USA	USD billion	565.77	581.05	-2.6
China	USD billion	188.98	176.25	7.2
Russian Federation	USD billion	91.56	78.14	17.2
Great Britain	USD billion	56.57	58.07	-2.6
France	USD billion	51.96	52.65	-1.3
Saudi Arabia	USD billion	51.91	48.46	7.1
Indien	USD billion	50.47	47.78	5.6
Australia	USD billion	33.31	32.95	1.1
Italy	USD billion	26.81	26.93	-0.4
Algeria	USD billion	12.81	12.03	6.5
Netherlands	USD billion	10.06	10.08	-0.2

Sources: Budget Law 2015, Bundesgesetzblatt 2104, Part 1 No. 64, individual plan 14, and IHS Jane's as at January 2015

Defence budgets of selected countries

Country	Currency	2015	2014	Change in %
Indonesia	USD billion	8.64	8.00	8.0
Norway	USD billion	7.51	7.34	2.3
Sweden	USD billion	6.66	6.63	0.5
UAE United Arab Emirates	USD billion	4.53	4.09	10.8
South Africa	USD billion	4.46	4.45	0.2

Source: IHS Jane's as at January 2015

SUCCESSFUL INTERNATIONALIZATION – EXPLOITING MARKET OPPORTUNITIES WITH RESPONSIBILITY

The vigorous internationalization strategy at Rheinmetall Defence – the international share of sales has reached 71 % – has created the possibility for benefiting from military modernization programs, also outside the Federal Republic of Germany and NATO. At the same time we are aware of our responsibilities. We are expanding our international market presence in due consideration of foreign policy and security policy requirements in nations friendly to the Federal Republic of Germany. For Rheinmetall Defence we see appropriate conditions for further growth, for example in Australia, Indonesia and in the MENA countries (Middle East/North Africa). In addition, there are again new market opportunities as a result of the slight increase in defense spending in Germany and the stabilization of the defense budget in the USA.

AUTOMOBILE MARKET IN FORWARD GEAR – CHINA, USA AND WESTERN EUROPE WITH PRODUCTION UPTURN

According to a statement from the Association of the German Automotive Industry (VDA), at the end of the year the world's two largest automobile markets continued to gain momentum. The recent rise in registration figures from a Western European market which has been hit by various crises indicates a continuation of the recovery in 2015.

Based on the positive development of demand in the world's three largest automotive markets, vehicle production thus also looks likely to continue growing. For passenger cars and light commercial vehicles of up to 3.5 t which is the most important segment for Rheinmetall Automotive, analysts at IHS Automotive forecast growth in global production figures of 2.7 % to around 87.6 million vehicles in 2015. The following table provides an overview of on the 2015 forecast in relevant markets.

Production of passenger cars and light commercial vehicles up to 3.5t in selected countries Millions of units

Country	2015	2014	Change in %
World	87.63	85.31	2.7
Western Europe (incl. Germany)	14.58	14.29	2.0
Germany	5.75	5.81	-1.0
Eastern Europe	5.66	5.66	0.0
NAFTA	17.44	17.02	2.5
USA	11.89	11.43	4.0
Brazil	3.02	2.97	1.7
Asia (incl. Japan)	45.67	43.52	4.9
Japan	8.50	8.98	-5.3
China	22.98	21.20	8.4
India	3.89	3.57	9.0

Source: IHS Automotive as at January 2015

Economic report
Prospects

COMMERCIAL VEHICLE MARKET WITH POSITIVE SIGNALS – ENGINE PRODUCTION PICKING UP

With the reporting year seeing a slight downturn in production of engines for heavy commercial vehicles, a recovery in the market segment is anticipated for 2015. Although a minus figure looks likely, particularly for China, considerable increases primarily in the NAFTA, in Brazil and India, result in the trend being positive overall. For global production of engines for heavy commercial vehicles over 6.0 t, IHS Automotive is forecasting a rise of 2.1% to around 2.97 million units.

Production of heavy commercial vehicles over 6.0t in selected countries Thousands of units

Country	2015	2014	Change in %
World	2,973	2,911	2.1
Western Europe (incl. Germany)	379	366	3.6
Germany	128	125	2.4
NAFTA	516	469	10.0
USA	330	310	6.5
Brazil	154	147	4.8
Asia (incl. Japan)	1,759	1,782	-1.3
Japan	327	326	0.3
China	955	1,031	-7.4
India	285	247	15.4

Source: IHS Automotive as at January 2015

AT HOME IN GROWTH SEGMENT – ENVIRONMENTALLY-FRIENDLY MOBILITY REMAINS THE TRENDING ISSUE

Both in the passenger car and the commercial vehicle market, solutions for environmentally friendly mobility are in demand more than ever. With our expertise for systems and components, which make key contributions to reducing fuel consumption and pollutants, we are excellently equipped for the relevant requirements from legislators and vehicle manufactures - worldwide. Rheinmetall Automotive has a strong presence in all important growth markets. In addition to our products used to optimize the combustion engine, we also offer our Range Extender, a practical solution for problems posed by range in the electromobility growth segment. Thus Rheinmetall Automotive as development partner of automobile manufactures has created the possibility to benefit from all foreseeable market trends.

EXECUTIVE BOARD STATEMENT ON EXPECTED DEVELOPMENT IN 2015

Expected sales growth in both sectors – For the current year of 2015, we are expecting growth to continue in the Rheinmetall Group. In 2015, we expect the Rheinmetall Group to achieve sales of between €4.8 billion and €5.0 billion, following €4.7 billion in 2014. As in the previous year, both sectors will contribute to this growth. This positive trend will require stable development of the global automotive sector and the realization of large projects in the Defence sector according to schedule.

Sales – 2015 forecast

		Forecast 2015		2014
Rheinmetall Group	€ billion	4.8 - 5.0	€ million	4,688
Defence	€ billion	2.3 - 2.4	€ million	2,240
Automotive	€ billion	2.5 - 2.6	€ million	2,448

For the Defence sector – on the basis of the relatively high coverage of sales expectations for 2015 on the basis for the order backlog at the beginning of the year – sales growth to between €2.3 billion and €2.4 billion is anticipated after €2.2 billion in 2014. Development in the Automotive sector will be determined to a decisive extent by the global automotive industry. Experts currently expect growth of 2.7 % in international automotive production in 2015. On this basis, after sales for €2.4 billion in the Automotive sector last year, for the current fiscal year of 2015 we expect sales growth to a level between €2.5 billion and €2.6 billion.

Improved profitability and results – On the basis of the forecast sales growth, we expect the Group to achieve higher profits in fiscal year 2015. Moreover, after the Group-wide restructuring measures have been completed and as a result of the improved cost basis in both sectors, we anticipate profitability to improve. In the Defence sector this trend will be additionally driven by the discontinuation of special effects which negatively and significantly impacted the earnings trend in 2014.

Operating result – 2015 forecast

		Forecast 2014		2014
Rheinmetall Group	%	approx. 5	%	3.4
Defence	%	3	%	(0.4)
Automotive	%	8	%	7.5

In the Defence sector, for fiscal year 2015 we expect a return to profitability and an EBIT margin of 3 %. For the Automotive sector, we anticipate achieving the EBIT margin target with an EBIT margin of 8 %. After taking account of holding costs, which we forecast at approximately €20 million, this results in a margin expectation for the current fiscal year of around 5 %. With a slight increase in net investment income for the Rheinmetall AG management holding, net income in the low double-digit millions in euro is expected in fiscal 2015.

Group EBT – On the basis of the expected improvement of Group EBIT and taking account of the markedly improved net interest result against the previous year, we anticipate a corresponding rise of the EBT margin across the Group.

Return on capital employed (ROCE) – As a result of the growth, we expect a moderate recovery 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 approximately 8 %.

Entrepreneurial responsibility
Employees

KEY FIGURES

Employees in the Rheinmetall Group

	2014	2013	2012	2011	2010
Employees	22,065	23,082	23,471	22,641	21,706
Men	17,636	18,669	19,267	18,250	17,475
Women	4,429	4,413	4,474	4,391	4,231
Trainees	838	911	899	801	729
Germany	495	561	578	579	566
Abroad	343	350	321	222	163
Part-time staff	813	800	768	773	690
Interns	289	319	309	280	220
Graduates	127	126	178	168	58
Disabled persons Germany	539	625	627	657	659
Foreign employees in Germany	694	895	878	898	929
Length of service in years	14.0	14.0	14.1	14.2	14.2
Average age in years	43.7	44.0	43.5	43.5	43.3

Employees in Germany and abroad

	2014	2013	2012	2011	2010
Total	22,065	23,082	23,471	22,641	21,706
Germany	11,024	11,815	11,947	11,959	11,907
Abroad	11,041	11,267	11,794	10,682	9,791
Europe excl. Germany	3,762	3,694	3,857	2,981	3,006
Europe Non-EU	1,293	1,436	1,532	1,596	1,638
North America	1,299	1,363	1,469	1,469	1,325
South America	2,310	2,533	2,464	2,327	2,192
Asia	1,119	1,064	1,148	979	437
Africa	1,160	1,121	1,299	1,320	1,193
Australia	98	56	25	10	8
Ratio abroad	50.0	48.8	49.7	47.2	45.1

Female employees by area

	Defence		Automotive		Holding + Service Companies		Rheinmetall Group	
	Number	%	Number	%	Number	%	Number	%
2014	1,735	17.3	2,619	22.1	75	44.6	4,429	20.1
2013	1,814	18.0	2,524	19.7	75	46.3	4,413	19.1
2012	1,818	17.3	2,580	19.7	76	48.7	4,474	18.9
2011	1,829	18.4	2,488	19.8	74	49.7	4,391	19.4
2010	1,729	17.5	2,437	20.8	65	45.8	4,231	19.5

Other key figures

		2014	2013	2012	2011	2010
Personnel expenses	€ million	1,272	1,308	1,337	1,260	1,181
Personnel expenses/employees	€ '000	58	57	63	62	59
Sales/employees	€ '000	212	200	217	218	199
Personnel expenses ratio	%	27	28	28	28	29

A CHANGING WORKFORCE

Rheinmetall Group companies operate in intensely competitive markets characterized by dynamic developments. To achieve the next phase of growth, the "Rheinmetall 2015" strategy program focusing on internationalization, product innovations and cost efficiency was launched in fiscal 2013. Associated with this is an even greater focus on entrepreneurship, leaner structures and a better distribution of resources. With the integration of Aluminium-Technologie in a new joint venture with a Chinese partner and personnel adjustments made as part of restructuring measures, the number of employees in the Rheinmetall Group – as at December 31, 2014-was 22,065, down on last year's figure of 23,082.

In Germany and other developed countries, the companies are facing new challenges in response to the changing age structure. The population structure is changing as birth rates decrease and life expectancy rises to unprecedented levels. This trend also impacts on the composition of workforces. Our challenge therefore involves identifying available potential, recruiting and training junior staff and developing our employees' skills (further) in order to ensure a smooth handover. Through detailed structural analyses and simulations, interdisciplinary teams are developing new personnel programs that take into account the different existing situations and trends at the national and international sites as well as their impact on the age structure of the employees. These site-specific measures include the targeted transfer of knowledge and experience from older colleagues to their younger counterparts, the creation of mixed-age teams, the systematic training of junior employees as well as a more intensive, target-group-specific recruiting and HR marketing drive. This strategy also includes adapting work and organizational processes as well as additional measures and offerings aimed at promoting good health. In the year under review, 7,432 employees (33.7 % of the workforce) were aged 50 years or more, with the previous year's figure at 7,950 (34.4%).

INTERNATIONALITY AND DIVERSITY

Following the systematic internationalization of business, the past few years have seen the Rheinmetall Group's workforce become much more international as a result. The percentage of employees working abroad in 2009 was 43.3 %, whereas this rose to 50.0 % in the year under review. In 2014, 694 employees in our German companies were of foreign nationality (previous year: 895). Management teams comprise executives from Germany and abroad as well as multinational teams that work together on major projects. In addition, another 47 German employees were posted to foreign Group sites in 2014 (previous year: 69).

Our employees are as diverse as our markets, industries, activities and business partners. It is our employees who shape the profile, reputation and distinctiveness of our company. A total of 22,065 Rheinmetall employees make up an international community reflecting a diverse spectrum of cultures and languages, ethnic and social backgrounds as well as skills, talents and expectations. With sites spread across five continents and supply relationships in more than 80 countries, diversity is today a ubiquitous feature of the Rheinmetall Group. Daily practice shows that this diversity enriches cooperation and is an asset to the corporate culture.

Even today, women are less likely than men to enter a career with a technical or scientific background. On top of that, men also tend to prefer the defence and automotive industries. For these reasons, the number of women occupying management positions in our technology group is less than that in other industries. In the year under review, the Rheinmetall Group employed 2,028 managers across its first four levels (previous year: 1,988), of whom 146 or 7.2 % were women (previous year: 142 or 7.1 %). Of the senior management staff comprising approximately 254 people, 3.9 % are women (previous year: 4 %).

Entrepreneurial responsibility

Employees

Whether young or old, a new employee at Rheinmetall or a long-standing one-our corporate culture is designed to ensure that each and every employee can incorporate their personal qualities, skills, expertise and commitment and contribute to the long-term achievement of our corporate goals. In 2014, the average age of employees (excluding trainees and interns) in the Rheinmetall Group was 43.7 (previous year: 44.0). In the year under review, the average tenure with the company was 14.1 years, slightly down on the previous year's level (14.4 years).

Equal opportunities for all means that Rheinmetall employees with disabilities or health problems are integrated in the working life of the company and able to bring their skills and ideas to the table. In the year under review, the German-based Rheinmetall companies employed 539 severely disabled people (previous year: 625).

QUALIFICATION AND PROFESSIONALIZATION

Training in the Rheinmetall Group – Another aspect of Rheinmetall's approach to social responsibility is its ongoing commitment to diverse and practical vocational training for young people in technical, business and IT professions. Worldwide, 838 young people (previous year: 911) received vocational training, 495 of whom (previous year: 561) were based in Germany. Within a wide spectrum of over 30 training courses and dual courses of study on offer, industrial mechanic, mechatronics engineer, machining mechanic and industrial business manager represented some of the most important professions at locations within Germany. The percentage of female trainees in Germany was 11.2 % (previous year: 16.6 %). The apprenticeship ratio for the German locations remained stable at 5.4 % of the workforce (previous year: 5.4 %). Rheinmetall invested €10.2 million (previous year: €10.6 million) in training at sites in Germany in 2014. In 2014, 204 people (previous year: 170) started their training at Rheinmetall companies in Germany, while 171 trainees (previous year: 202) took up temporary or permanent employment after successfully completing their training.

Further training for employees – The further development of employees, talented management trainees and experienced specialist and managerial staff in line with current and future requirements is a key success factor in the further growth and future viability of the Rheinmetall Group in view of demographic factors and the skills shortage that is expected in many locations. The high level of qualification of our workforce must be secured and expanded on an ongoing basis in order to achieve the economic targets of the Group companies.

A range of training opportunities help Rheinmetall employees to plan their own development, achieve their individual learning targets and expand their skill set to meet the requirements of their current or new position. Staff development and qualification measures are offered on the basis of regular needs assessments. In addition to the findings obtained from the potential analysis and staff development interviews, which are conducted on the basis of the collective agreement for qualification, other sources for identifying needs include the target agreement process and investment planning. Training opportunities can also be derived from strategic objectives (e.g. through increased internationalization of the Group).

Established development programs for managers and junior staff – Top performers and future talent are identified and provided with targeted support as part of systematic assessments. This takes place on the basis of the Rheinmetall competence model in which the relevant leadership and management competencies are anchored in five key areas. As part of a standardized, multi-stage selection and assessment process carried out at regular intervals, the performance and development potential of managers and potential management candidates are identified, analyzed and evaluated.

The process of determining an individual's current status allows for open dialog regarding strengths and weaknesses as well as structured feedback regarding opportunities for individual development and promotion. Personalized staff development measures help to improve a candidate's entrepreneurial, technical, methodical and social skills. Furthermore, managers-to-be can get involved in management potential analyses and/or individual assessments in which their skills and competence profile are analyzed in even greater detail.

The Rheinmetall Academy systematically prepares these employees for assuming leadership or specialist roles at various stages of their professional careers. The modular content of its courses and programs is designed strictly for matters of strategy, management, leadership, methodical competence, project management and internationalization. The Executive Development program and Manager's Leadership program focus on "Leading My Business" and help experienced managers to perform their organizational and managerial duties successfully. In particular, they help them to build on their knowledge of corporate controlling, employee leadership and change management. Junior staff are prepared to take on their first managerial challenges in the Young Manager program. The content of the Project Manager program is tailored to the tasks and activities performed by employees of the Rheinmetall Group. These supplement the technical and methodical project management skills acquired in certification course to include training in aspects of team leadership.

In 2014, 700 employees (previous year: 650) attended the 62 single- or multi-day events (previous year: 63) organized by the Rheinmetall Academy. These training courses, programs and workshops geared toward various hierarchical levels and functions constitute a platform for employees to exchange overall knowledge, ideas, experience and opinions. In 2014, Rheinmetall invested around €4.3 million (previous year: €3.7 million) in training programs in Germany alone. In 2014, 7,287 employees (previous year: 6,644) benefited from 3,195 qualification measures (previous year: 2,294) over a total of 15,062 days (previous year: 13,632).

RECRUITING

Companies in the Rheinmetall Group are faced with increasingly tough competition from other companies to gain qualified personnel. Acquiring skilled professionals for these companies is therefore a key task in HR work. In addition to performance-based remuneration and progressive social benefits, Rheinmetall focuses especially on ensuring a broad range of professional opportunities in the Defence and Automotive sectors, interdisciplinary career paths, opportunities for secondments to international Group companies and attractive training opportunities to develop employees' specialist and personal skills, as well as diversity and equal opportunities.

In addition to its own training for junior employees, Rheinmetall uses traditional and modern employee selection methods and is also in close contact with universities, colleges and research institutes in order to get to know suitable science, technology and business graduates at an early stage. The attractive employee profile and target-group-specific appearances at university fairs, graduate conferences, recruitment events and online job sites is increasingly bearing fruit.

In addition to direct entry routes, we offer a range of opportunities for interns from universities and graduates, particularly in technical disciplines. While 166 people (previous year: 193) worldwide completed internships at Rheinmetall Defence in the year under review as part of their university education or final papers (bachelor's or master's thesis and degree dissertations), the figure in Automotive was 235 (previous year: 240) worldwide.

Entrepreneurial responsibility
Employees

WORK-LIFE BALANCE

Career success depends, among other things, on how content an employee is outside of their working hours. With more flexible working hours, many employees want to create a more healthy balance between their professional goals and their family and private interests. For us, it is important to support our employees with a family-friendly HR policy. Options including working hour models with varying weekly working hours and a range of part-time options as well as flexitime on trust allow employees a more flexible timeframe and, in turn, greater personal freedom. Rheinmetall also offers parents financial support in helping them to find individual childcare solutions for their child or children. The option to obtain parental benefit for a longer period is also utilized in the Rheinmetall companies. In 2014, 157 employees were on parental leave in the German companies (84 female employees, 73 male employees; previous year: 69 female employees, 57 male employees).

ATTRACTIVE REMUNERATION SYSTEMS

Attractive performance-related pay is a key aspect in recruiting staff and also an important component in ensuring the retention of capable and dedicated staff at the Company. Pay schemes are based on standard market criteria and are weighted based on the individual's and Company's success subject to the extent of managerial responsibility. In addition to fixed salary components, Rheinmetall offers managers variable incentives that reward individual performance as well as a range of benefits. This remuneration system provides incentives to take on challenges and assume responsibility by means of target-related pay.

In addition to a fixed component as part of "Management by Objectives", managers and employees not covered by collective wage agreements receive a variable remuneration component linked, via personal target agreements, to individual targets and company success. Depending on the extent to which targets have been achieved, the bandwidth of this variable remuneration component is somewhere between 0 % and 200 % of the variable target income.

The Company's success benefits employees in two ways, including staff covered by collective wage agreements: First, employees receive an annual bonus subject to the performance of their division or sector and, second, the increase in the value of the Company achieved is paid out in a success-oriented component in the company pension, thus leading to improved support in old age.

Division heads, managers and executives receive a long-term incentive in addition to this short-term component, which is geared towards long-term corporate success and includes payment of 40 % of the long-term incentive amount in Rheinmetall shares, which are subject to a four-year lockup period. The number of shares is based on the average price on the last five trading days in February of the subsequent fiscal year. 60 % of the long-term incentive is paid in money and is primarily used to pay tax on the Rheinmetall shares immediately.

We have also for many years been supporting our employees with company pensions in order to financially secure their standard of living in retirement. The pension scheme has an identical structure for staff and managers, but higher incomes are reflected in increased benefits. This system, which applies to all sites in Germany, consists of three components: a reliable basic plan, a performance-related intermediate plan linked to the increase in Company value and a supplementary plan financed by the employee, allowing for various forms of compensation such as deferred compensation, direct insurance or a Riester pension.

Entrepreneurial responsibility
Corporate social responsibility

SUSTAINABLE BUSINESS PRACTICES

The companies of the Rheinmetall Group undertake production operations around the world and are involved in the economic, ecological and social conditions of the different countries and regions where they are active. Rheinmetall is committed to fair competition as well as to acting in a way that is upright and legal, socially and ethically responsible. Sustainable business practices have always been an integral part of its business and production processes and serve to secure the long-term future of a company which can look back on a successful 125-year history. As well as continuity, economic growth and compliance with principles of good corporate governance, a responsibility towards shareholders, customers and employees and the careful use of natural resources are a matter of course for the Rheinmetall Group and are embedded in its corporate culture.

CODE OF CONDUCT

In the pursuit of its business targets, the Rheinmetall Group strives to take account of not only the concerns of its shareholders, employees and other affiliated groups but also ecological and social aspects. The fundamentals of social responsibility are set out in the Code of Conduct, which was adopted back in 2003. According to this, Rheinmetall will do everything in its power as part of a corporate development strategy based on sustainable development to combine economic, environmental policy and social objectives with medium-term and long-term strategies and plans and with corporate decisions made on a daily basis. Areas covered by this Code of Conduct include responsible entrepreneurship in the ongoing process of globalization, observance of human rights and safe working conditions.

CORPORATE RESPONSIBILITY PANEL

The public's interest in sustainability, environmental protection, conservation, corporate governance and corporate responsibility is increasing. More and more people from all areas of society are demanding to know more about our business. Expectations regarding transparency and requirements regarding comparability are growing. Investors are looking for sustainable investments. Employees want a secure job, but at the same time more and more want to create a healthier balance between their professional goals and their family and private interests. Ecofriendly products are in ever-greater demand. Legislators, authorities and also nongovernmental stakeholders are demanding compliance with ever more stringent regulations and limits. People living close to industrial production sites worry about impairments to their quality of life. Communities, associations and aid organizations value the support provided by companies to their social, cultural and sporting activities.

Rheinmetall is responding to these ongoing trends in the area of corporate responsibility and, in the year under review, restructured its Corporate Responsibility area. The Corporate Responsibility Panel, in which managers from all the divisions and the holding company are represented, will drive forward the growth of sustainability-related activities undertaken in the Rheinmetall Group.

INDUSTRIAL SOLUTIONS FOR ENVIRONMENTALLY FRIENDLY ENGINE TECHNOLOGY

The Rheinmetall Automotive divisions have already been working for a long time on ecofriendly automotive technology solutions and, with their products, are helping to ensure that the ever-growing demand for mobility does not stand in contradiction to environmental protection. In these times of ever-increasing traffic on the roads and global warming, the trend toward saving fuel, cutting CO_2 emissions and reducing harmful emissions generally - a trend supported through increasingly strict legislation - has over the past few years progressed at an accelerated rate. As a key development supplier to the national and international automotive industry, Rheinmetall Automotive offers numerous innovative engine technology components, modules and systems that make a significant contribution to reducing harmful emissions, cutting fuel consumption, reducing weight and optimizing performance.

Entrepreneurial responsibility
Corporate social responsibility

OCCUPATIONAL HEALTH AND SAFETY AND WORKPLACE HEALTH PROMOTION

Preventing accidents and safeguarding the health of employees at their place of work are some of the key aims. With regard to health and safety in the workplace and health management, Rheinmetall focuses on identifying and assessing potential risks and on health care in line with requirements, which maintains and supports the personal wellbeing and professional performance of employees. This includes the safety of facilities and production processes, modern equipment, the ergonomic design of work stations and good working conditions, along with company medical services.

The framework company agreement on health management, which was concluded two years between the Executive Board and European Works Council and that defines, for all European Group sites, the introduction and further development of company and inter-plant health management in consideration of aspects concerning occupational health and safety, promotion of good health, addiction prevention and occupational rehabilitation following illness was, in 2014 too, systematically applied by the health management committees, which includes members of the works management / HR department and employee representatives.

During the year, employees benefit from a range of prevention programs in addition to medical checkups. The programs cover free vaccinations and regular preventive checkups, in-house and external sporting activities as well as support services and medically coordinated occupational rehabilitation following lengthy illness.

ENVIRONMENTAL PROTECTION

Environmental protection is of key importance in the companies of the Rheinmetall Group, in keeping with a holistic understanding. The careful use of natural resources, economical use of raw materials and energy and, where possible, the avoidance of environmental damage at every stage – from procurement of raw materials to product development, production, packaging and transport, right up to disposal and recycling – help to improve economic and ecological results within the Group. Employees' sense of responsibility toward the environment is encouraged at all levels of the value-added chain.

Rheinmetall makes every effort to further minimize its environmental load with the best available, economically viable technology. The careful use of natural resources is supported by state-of-the-art technology and processes that minimize emissions and waste. The considerate handling of materials, energy, water and waste not only minimizes environmental damage, but also cuts costs. Efforts to deploy resources even more efficiently and to avoid the generation of hazardous materials are ongoing.

Safe and modern facilities at certified production sites ensure resource-conserving and low-emission production processes. Environmentally relevant procedures in the companies are subject to strict monitoring. Country-specific regulations and the requirements of international standards for quality (ISO 9001 and TS 16409) and environmental protection (ISO 14001) are observed and processes certified accordingly. In the Defence sector, eight companies/sites are currently certified in accordance with ISO 14001, one in accordance with ISO 50001 and two in accordance with OHSAS 18001. In Rheinmetall Automotive, 20 companies/sites are certified in accordance with ISO 14001 and three in accordance with ISO 50001.

Detailed descriptions of the organization, workflows and responsibility and ongoing quality improvement processes ensure that the requirements imposed on the Company in the form of customer specifications, regulations and other provisions are met in as environmentally friendly a way as possible. Efforts to deploy resources even more efficiently and to avoid the generation of hazardous materials to a large extent are ongoing.

NATURE CONSERVATION

Rheinmetall Defence has been trialing its products on heathland near Unterlüß in Lower Saxony for more than 100 years now. The company-owned land - except for a small restricted zone - encompasses 3,400 hectares of forest and 800 hectares of heathland. In keeping with the original character of the landscape and its flora and fauna, around 90 % of this area is maintained, through hunting, by two full-time forest rangers and cultivated in accordance with the strict rules of integrated nature conservation. Active landscaping helps to create individual habitats for the unique range of flora and fauna. The result is an unusually rich array of flora, which in turn attracts a rare diversity of insects and birds and also provides a habitat for large wild animal populations.

ECOFRIENDLY CONSTRUCTION

Sustainable construction is becoming increasingly important, with “green” buildings fulfill high ecological standards. With state-of-the-art equipment and appointments, they save energy and so help to protect the environment. The Lighthouse, doubleU and casa altra buildings on the former site of Rheinmetall AG in the Düsseldorf suburb of Derendorf have the “silver” certificate from the German Sustainable Building Council (DGNB). At the end of 2015, the Group headquarters is set to be relocated to a new building on the last available plot of land in Derendorf. The property is also set to be certified according to the guidelines of DGNB, which evaluates technical, functional, sociocultural, ecological and economic criteria. The Group will aim to receive certification in the "silver" category, which is issued when at least 65 % of requirements are met.

The Automotive division’s Lower Rhine plant, which opened in November 2014, has already obtained a pre-certificate in the “silver” category from the DGNB. Among the factors that helped it to fulfill the strict criteria was the environmentally sensitive use of materials during construction, highly effective heat recovery in the compressed air system and the foundry smelting furnaces for waste heat utilization. As a whole, the buildings fall short of the requirements of the energy saving regulations for new buildings by more than 25%.

INVESTING IN KNOWLEDGE

Rheinmetall is also committed to promoting interest in technology, science and craft in the areas where it is located. Understand technology and try it out for yourself. This is the slogan under which young people are given the opportunity - as part of school partnerships, for example - to get to know technology through hands-on tasks and develop a better understanding of links between technology and commerce by gaining an early insight into the industry. We also support, for example, student scholarship initiative run by the Roland Berger Stiftung, which supports talented, committed and motivated children and young people from socially disadvantaged families. The stipendiaries receive a personalized educational plan and receive the support of voluntary mentors on the path toward their school leaving examinations.

Entrepreneurial responsibility

Corporate social responsibility

The German companies in the Rheinmetall Group are involved in nationwide activity days and offer internships in a broad range of disciplines not only for schoolchildren but also for people looking for new directions in their professional life.

We offered 416 places for interns from universities and diploma students in the year under review (previous year: 445). As part of the “Deutschlandstipendium” initiative launched by the German Federal Ministry of Education and Research, our Rheinmetall Scholarship Program sponsors five students from the Technical University of Munich, five from the Leibniz University of Hanover and five from the University of Bremen as well as two students from the Otto von Guericke University in Magedeburg.

With professorships for lightweight components, automotive power-plant engineering and vehicle engine technology at the renowned Tongji University in Shanghai, China, Rheinmetall Automotive is supporting young scientists at international level too. In the year under review, KSPG has also endowed a junior professor at RWTH Aachen specializing in the research and development of mechatronic systems in combustion engines. The increasing electrification of the drive train leads to diverse possibilities for increasing efficiency and further reducing emissions from combustion engines. This new professor also conducts research into virtual engine development and the development of hybrid drives.

COMMITMENT TO THE LOCAL COMMUNITY

Social acceptance is an important requirement for economic success. Rheinmetall is a living, breathing part of society and an enduring presence even in times of change, regardless of the markets and countries in which our companies operate. Many Rheinmetall companies can look back on a long tradition. They have been connected with their sites for many years and are strongly rooted in the local community - after all, this is where their customers, employees and business partners live. Our social engagement extends beyond the borders of our factory premises. We get involved, for example, in sport and education as well as provide direct support for local social projects and charitable organizations. Decisions about which projects to support are made by the management of the respective companies or by the Executive Board of Rheinmetall AG, since requirements vary greatly between the various locations where Rheinmetall operates.

Rheinmetall Defence in Unterlüß was one of the first companies in the district of Celle to get involved in the “training ambassadors” pilot project, which involves around 60 companies with more than 90 training ambassadors. This EU project was initiated by the Chamber of Industry and Commerce in Lüneburg-Wolfsburg as a way of guiding students through the transition from school to a career. The idea behind the project is that trainees who are already in their second or third year of apprenticeship give students at general and vocational schools the opportunity to learn more about their apprenticeship trade.

KSPG AG, the management company of the Automotive sector, is supporting the handball players at Neckarsulmer Sport-Union and is also involved with the Heilbronner Falken ice hockey team. A few years ago, we also lent our name to the Kolbenschmidt-Arena. In addition to the AutoArenA Motorsport team, we also sponsor the Formula Student team from the University of Duisburg in an annual, international engineering competition for students in which the teams have to design and build a racing car from scratch and then race it against the competitors from the other universities. But to win the competition, it is not enough simply to win the race because a whole host of other factors such as the design, racing performance, financial planning and sales argumentation are taken into account, too.

Detailed information on sustainability in the Rheinmetall Group can be found under the heading “Responsibility” on our website at http://www.rheinmetall.com.

Entrepreneurial responsibility
Corporate compliance

CORPORATE COMPLIANCE

Rheinmetall's reputation, its business success and the confidence of customers, shareholders, business partners, employees and the public in the Company depend not only on the quality of its products and services, but also to a large extent on good corporate governance. Rheinmetall firmly believes in sustainable corporate management and commits itself to impeccable conduct that is characterized by responsibility, integrity, respect and fairness, in line with its values and principles. The Company is an honest, loyal and reliable partner to its stakeholders.

The members of the Executive Board and managers, executives and employees have an obligation to comply at all times with all the applicable laws, guidelines and regulations, conduct themselves correctly in business dealings, to preserve the Company's tangible and intangible assets and to avoid anything that can result in operational or financial disadvantages or damage to the image of individual companies or the Group. Rheinmetall AG's Executive Board takes a zero-tolerance approach to illegal and/or unethical behavior and to corrupt business practices, no matter what the circumstances. This "tone from the top", which is also published on our internet and intranet site, was once again explicitly and unambiguously emphasized at the top management meeting in April 2014, which was attended by 254 people.

COMPLIANCE MANAGEMENT SYSTEM

In the day-to-day business of an international company, the different national political and legal systems as well as traditions, customs, moral concepts and societal norms of different cultural groups have to be taken into account. In addition to the applicable legislation of the countries of exportation, European Union regulations as well as anti-corruption laws such as the US Foreign Corrupt Practices Act and the UK Bribery Act, which was introduced in mid-2011, must be strictly observed. The requirements that our companies have to fulfill are therefore many and varied. More than ever, management and employees need guidance when it comes to national and international business and in relations with business partners, office holders, authorities and other state bodies in order to avoid potential errors and any resulting reputational, business or liability risks.

With a comprehensive set of corporate policies, up-to-date information on key trends and developments, regular training and personal consultation, the Group-wide Compliance Management System is designed to ensure consistent processes and procedures as well as law-abiding and rule-compliant conduct that assist employees in applying laws and corporate guidelines correctly and in the appropriate manner and to protect them against violations.

The central Compliance Management System, which focuses on the protection of fair competition, corruption prevention and export control, is firmly anchored in Group-wide management and control structures and includes all instruments, processes, guidelines, instructions and extensive measures intended to ensure that procedures in the companies of the Rheinmetall Group comply with the applicable country-specific legislation, general legal conditions, regulatory provisions and the Company's own guidelines. It also creates an organizational structure that allows the applicable standards to be publicized across the divisions. If binding legal regulations in individual countries deviate from the rules set out in the compliance management system, the stricter regulation shall apply.

Entrepreneurial responsibility
Corporate compliance

The Compliance Management System is updated at regular intervals not only in line with the applicable legal requirements but also in the light of new findings from reporting, comparisons with other compliance systems and the assessment of external specialists. It is also reviewed on an ad-hoc basis if any breach of compliance regulations is suspected or discovered. Implementation of the Compliance Management System is monitored through monthly reports prepared by the Compliance Officer for the Corporate Compliance Office as well as through routine and special audits conducted by Internal Auditing and the compliance organization.

COMPLIANCE ORGANIZATION

Compliance at Rheinmetall is taken very seriously and has for a long time been an integral part of the corporate culture. To provide its employees with guidance and the ability to conduct business with confidence, the company set up a compliance organization very early on providing standardized general conditions and clear guidelines for legally and rule-compliant, ethically correct and fair conduct in day-to-day business.

More stringent compliance requirements as well as ongoing investigations into procedures in India and Greece meant that, effective as of July 1, 2014, the existing compliance organization was not only restructured but also significantly expanded so that the required Group-wide organizational, communication and control structures can be controlled even more effectively and in an even more targeted manner.

In addition to the Corporate Compliance Systems Officers at holding level in the Defence sector, the Compliance Officers from the three divisions and, in the Automotive sector, the six Regional Compliance Officers for Europe, Brazil, India, China, Japan and the NAFTA sales region are assigned to the Chief Compliance Officer, who reports directly to the CEO of Rheinmetall AG. In addition, Compliance Officers in the Rheinmetall Defence and Rheinmetall Automotive companies undertake preliminary work for the six aforementioned Regional Compliance Officers. This ensures, more effectively than before, that employees have a direct point of contact in their immediate work environment for all matters concerning compliance and can seek help and guidance.

The Chief Compliance Officer, who also attends Executive Board meetings on the latest compliance issues, keeps the Executive Board and Supervisory Board's Audit Committee regularly informed of the status and effectiveness of the Compliance Management System and of the latest developments. In serious cases, the committees are informed immediately. In their meetings held in December 2014, the Audit Committee and Supervisory Board discussed in detail the compliance organization of the Rheinmetall Group as well as the closure of misdemeanor proceedings against Rheinmetall Defence Electronics.

COMPLIANCE GUIDELINES

In decision-making processes, issues of compliance in terms of risk aspects are considered not only when it comes to considerations regarding the strategic and operational alignment of the Rheinmetall Group but also in day-to-day business. The relevant procedure is defined in the early risk detection system manuals, on which the annual risk inventory and monthly risk notifications are based.

During the performance of their tasks and duties, all employees – from the Executive Board through company managers to staff employed in the operational and administrative units – are obligated to comply with a range of internal corporate policies covering the following areas:

- Compliance
- Code of Conduct
- Weapons and export control in the Federal Republic of Germany
- Export control law in other states
- Avoidance of corruption and other criminal acts
- Handling offset obligations
- IT security
- Corporate security
- Weapons law in the Federal Republic of Germany
- Conduct regarding gifts, hospitality and invitations to events
- Compliance with regulations concerning antitrust law
- Social media

The relevant documents can be found quickly and easily on the intranet.

HANDLING INFORMATION

If an employee has information on questionable activities or potential issues, or suspected or actual misconduct, he or she can approach his or her line manager, the personnel department, the legal department, the Chief Compliance Officer, other compliance officers or other contacts within the Company, for example in Internal Auditing. Since January 2, 2015, an independent, external ombudsman – a lawyer by profession – can be contacted free of charge at any time of the day. He receives information from callers – who, if requested, can be kept anonymous – regarding suspected illegal business practices, violations of regulations or company-related offences. Protection is guaranteed for all whistleblowers, who need not fear reprisals. Employees involved in investigations into possible breaches of compliance will be assumed to be innocent until the opposite is proven. Attempts to prevent evidence from being passed on to the relevant authorities will not be tolerated.

Information received is analyzed on the basis of a systematic follow-up process. Line managers, Chief Compliance Officers, Compliance Officers, the ombudsman and, if necessary in individual cases, Internal Auditing shall carry out systematic follow-up checks on the basis of fixed schedules and shall take appropriate measures to properly clarify the facts that have been reported, involving external specialists if necessary. Confidentiality and discretion take top priority here. If necessary, we will involve the relevant authorities and cooperate with them to resolve the matter. Proven misconduct is sanctioned and entails organizational measures and, for the employees who committed the offence(s), consequences under labor law, civil law and criminal law.

PROCEDURES AT SUBSIDIARIES

Illegal conduct can cause many different types of damage and can have serious consequences such as the loss of business relationships, exclusion from contracts, negative ratings on the capital market, the imposition of fines, the absorption of profits, claims for damages and criminal proceedings. There is also the risk of significant and lasting damage to the Group’s reputation and thus a detrimental effect on its market position.

Entrepreneurial responsibility
Corporate compliance

In summer 2013, the Bremen-based Rheinmetall Defence Electronics was accused of allowing a representative of the company in Greece to make illegal payments in connection with armaments deals in Greece. As part of the administrative offense proceedings, the public prosecutor's office of Bremen had accused our subsidiary of not having in place the proper internal controls required to uncover and prevent the suspect payments. Following discussion of the case by the Executive Board and Supervisory Board of Rheinmetall AG, Rheinmetall Defence Electronics accepted the fine imposed in December 2014 of around €37 million, which concluded the criminal investigation proceedings.

In March 2012, Rheinmetall Air Defence was blacklisted – in our opinion, unfairly – by the Indian Ministry of Defence. In September 2012, Rheinmetall Air Defence went before the Delhi High Court to contest this order and the consequent exclusion from the Indian market. Proceedings are ongoing. Rheinmetall Air Defence has always stressed to the Indian authorities that the accusations made are unfounded and that the company has adhered to the law at all times. Unless the accusations are refuted, Rheinmetall Air Defence will be barred from transacting any business with the Indian Ordnance Factory Board until 2022, nor will it be considered for any procurement orders.

COMPLIANCE TRAINING

To make employees at all hierarchical levels aware of compliance risks, numerous seminars and workshops are held, some of which are tailored to specific functions such as buyers or sales staff. Legislation and important provisions are explained, further content is provided and, based on case studies, practical advice is given on correct conduct in specific situations during everyday work. These classroom training sessions, which also serve as a practical forum for discussions, are accompanied by interactive online programs. As part of compliance awareness trainings, around 1,180 employees at sites in Germany and abroad received instruction not only in general compliance issues, but also in prevention of corruption, export controls and cartel and competition laws during the reporting year. The content of the training is designed by compliance officers with the involvement of the Corporate Compliance Office, consulting external experts if necessary in individual cases. Depending on the participants, the content is adapted or supplemented with country-specific or regional features.

CONFLICTS OF INTEREST

In making decisions and performing their duties, members of the Executive and Supervisory Boards must not pursue their personal interests or take advantage of any business opportunities arising for the Company for their own personal gain, or grant unfair advantages to other persons. In accordance with Section 4.3.4 and Section 5.5.2 of the German Corporate Governance Code, any potential conflicts of interest involving members of the Supervisory Board or Executive Board must be disclosed immediately.

Each employee is committed to the best interests of the Company. Personal interests and company interests must be kept strictly separate. In accordance with the compliance guidelines, employees of the Rheinmetall Group are required to avoid conflicts of interest between their personal and business relationships. Only objective criteria shall count in business relationships and HR-related decisions. In the event of suspected or actual conflicts of interest, employees are obligated to inform their line managers.

INSIDER INFORMATION

Persons with insider knowledge as defined by stock corporation legislation are listed in an insider directory and undertake to comply with the associated provisions.

Report on post-balance sheet date events

Between the December 31, 2014 balance sheet date and the date on which the 2014 consolidated financial statements were issued, no significant events occurred at Rheinmetall AG that would have had an impact on the Company's earnings, assets and financial situation.

Düsseldorf, February 27, 2015

Rheinmetall Aktiengesellschaft
The Executive Board

Armin Papperger   Horst Binnig   Helmut P. Merch

CONSOLIDATED FINANCIAL STATEMENTS

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Rheinmetall Group
Balance sheet as at December 31, 2014

Assets € million

	Note	Dec. 31, 2014	Dec. 31, 2013
Goodwill	(8)	552	555
Intangible assets	(8)	295	319
Property, plant and equipment	(9)	1,175	1,167
Investment property	(10)	37	14
Investments carried at equity	(11)	177	150
Other non-current financial assets	(14)	8	5
Other non-current assets	(15)	21	6
Deferred taxes	(31)	239	129
Non-current assets		**2,504**	**2,345**
Inventories	(12)	1,017	940
./. Prepayments received		(60)	(31)
		957	909
Trade receivables	(13)	1,144	984
Other current financial assets	(14)	35	34
Other current receivables and assets	(15)	106	119
Income tax receivables		39	26
Cash and cash equivalents	(16)	486	445
Disposal group held for sale	(4)	-	4
Current assets		**2,767**	**2,521**
Total assets		**5,271**	**4,866**

The amounts for the comparative year 2013 were adjusted due to the first-time application of IFRS 11.

Rheinmetall Group
Balance sheet as at December 31, 2014

Equity and liabilities € million

	Note	Dec. 31, 2014	Dec. 31, 2013
Share capital		101	101
Additional paid-in capital		310	307
Retained earnings		756	905
Treasury shares		(48)	(58)
Rheinmetall AG shareholders' equity		**1,119**	**1,255**
Minority interests		78	84
Equity	(17)	**1,197**	**1,339**
Provisions for pensions and similar obligations	(18)	1,121	891
Other non-current provisions	(19)	101	88
Non-current financial debts	(20)	759	538
Other non-current liabilities	(22)	47	31
Deferred taxes	(31)	31	36
Non-current liabilities		**2,059**	**1,584**
Other current provisions	(19)	404	388
Current financial debts	(20)	57	54
Trade liabilities	(21)	714	721
Other current liabilities	(22)	800	739
Income tax liabilities		40	41
Current liabilities		**2,015**	**1,943**
Total liabilities		**5,271**	**4,866**

The amounts for the comparative year 2013 were adjusted due to the first-time application of IFRS 11.

Rheinmetall Group
Income statement for fiscal 2014

€ million

	Note	2014	2013
Sales		**4,688**	**4,417**
Changes in inventories and work performed by the enterprise and capitalised		126	143
Total operating performance	(23)	**4,814**	**4,560**
Other operating income	(24)	145	114
Cost of materials	(25)	2,671	2,472
Personnel expenses	(26)	1,272	1,249
Amortization, depreciation and impairment	(27)	197	194
Other operating expenses	(28)	742	669
Net operating income		**77**	**90**
Net interest [1]	(29)	(80)	(76)
Income from investments carried at equity		30	27
Other net financial income	(30)	(5)	4
Net financial income		**(55)**	**(45)**
Earnings before taxes (EBT)		**22**	**45**
Income taxes	(31)	(6)	(13)
Earnings from continuing operations		**16**	**32**
Earnings from discontinued operations		5	(10)
Net income		**21**	**22**
Of which:			
Minority interests		*3*	*(7)*
Rheinmetall AG shareholders		*18*	*29*
Earnings per share from continuing operations	(32)	€0.34	€1.02
Earnings per share from discontinued operations	(32)	€0.13	€(0.27)
EBITDA		299	315
EBIT		102	121

[1] Of which interest expense: €82 million (previous year: €78 million)

The amounts for the comparative year 2013 were adjusted due to the application of IFRS 5 and the first-time application of IFRS 11.

Rheinmetall Group
Comprehensive income for fiscal 2014

€ million

	2014	2013
Net income	**21**	**22**
Remeasurement of net defined benefit liability from pensions	(204)	22
Revaluation of properties	(1)	5
Amounts not reclassified in the income statement	**(205)**	**27**
Change in value of derivative financial instruments (cash flow hedge)	3	(29)
Currency conversion difference	36	(84)
Other income from investments carried at equity	7	(5)
Amounts reclassified in the income statement	**46**	**(118)**
Other comprehensive income (after taxes)	**(159)**	**(91)**
Comprehensive income	**(138)**	**(69)**
Of which:		
Minority interests	*(1)*	*(23)*
Rheinmetall AG shareholders	*(137)*	*(46)*

The amounts for the comparative year 2013 were adjusted due to the application of IFRS 5 and the first-time application of IFRS 11.

Rheinmetall Group
Statement of changes in equity

€ million

	Shared capital	Additional paid-in capital	*Difference of currency conversion*	*Re-measurement of net defined benefit liability from pensions*	*Land revaluation reserve*	*Hedge reserve*
Balance as at January 1, 2013	**101**	**307**	41	(281)	79	(3)
Net income	-	-	-	-	-	-
Other comprehensive income	-	-	(75)	18	5	(19)
Comprehensive income	**-**	**-**	(75)	18	5	(19)
Dividends payout	-	-	-	-	-	-
Change in equity interest without loss of control	-	-	-	-	-	-
Changes in scope of consolidation	-	-	-	-	-	-
Disposal of treasury shares	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Balance as at December 31, 2013/ as at January 1, 2014	**101**	**307**	(34)	(263)	84	(22)
Net income	-	-	-	-	-	-
Other comprehensive income	-	-	35	(197)	(1)	2
Comprehensive income	**-**	**-**	35	(197)	(1)	2
Dividends payout	-	-	-	-	-	-
Changes in scope of consolidation	-	-	-	12	-	1
Disposal of treasury shares	-	-	-	-	-	-
Capital increases	-	-	-	-	-	-
Other changes	-	3	-	-	-	-
Balance as at December 31, 2014	**101**	**310**	1	(448)	83	(19)

For comments on equity, see Note (17).

	Other income from investments carried at equity	*Other reserves*	**Retained earnings**	Treasury shares	**Rheinmetall AG shareholders equity**	Minority interests	**Equity**
	(1)	1,183	**1,018**	**(72)**	**1,354**	**111**	**1,465**
	-	29	**29**	-	**29**	(7)	**22**
	(4)	-	**(75)**	-	**(75)**	(16)	**(91)**
	(4)	29	**(46)**	**-**	**(46)**	**(23)**	**(69)**
	-	(68)	**(68)**	-	**(68)**	(7)	**(75)**
	(2)	4	**2**	-	**2**	2	**4**
	-	-	**-**	-	**-**	1	**1**
	-	-	**-**	14	**14**	-	**14**
	-	(1)	**(1)**	-	**(1)**	-	**(1)**
	(7)	1,147	**905**	**-58**	**1,255**	**84**	**1,339**
	-	18	**18**	-	**18**	3	**21**
	6	-	**(155)**	-	**(155)**	(4)	**(159)**
	6	18	**(137)**	**-**	**(137)**	**(1)**	**(138)**
	-	(15)	**(15)**	-	**(15)**	(9)	**(24)**
	1	(12)	**2**	-	**2**	-	**2**
	-	-	**-**	10	**10**	-	**10**
	-	-	**-**	-	**-**	4	**4**
	-	1	**1**	-	**4**	-	**4**
	-	1,139	**756**	**(48)**	**1,119**	**78**	**1,197**

Rheinmetall Group
Cash flow statement for fiscal 2014

€ million

	2014	2013
Net income	21	22
Amortization, depreciation and impairments	208	214
Changes in pension provisions	(3)	(3)
Gross cash flows	**226**	**233**
Income from disposition of non-current assets	(11)	(1)
Changes in other provisions	39	14
Changes in inventories	(83)	(133)
Changes in receivables, liabilities without financial debts and prepaid & deferred items	(56)	159
Pro rata income from investments carried at equity	(30)	(27)
Dividends received from investments carried at equity	31	15
Other non-cash expenses and income	(14)	(49)
Cash flows from operating activities [1]	**102**	**211**
Investments in property, plant and equipment, intangible assets and investment property	(284)	(191)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	18	6
Investments in consolidated companies and financial assets	(6)	(5)
Change in divestments of consolidated companies and financial assets	(2)	2
Cash flows from investing activities	**(274)**	**(188)**
Capital contributions by non-controlling interests	5	4
Change in equity interest without loss of control	-	4
Dividends paid out by Rheinmetall AG	(15)	(68)
Other profit distributions	(9)	(7)
Shares issued to employees	13	5
Borrowing of financial debts	687	80
Repayment of financial debts	(471)	(94)
Cash flows from financing activities	**210**	**(76)**
Changes in financial resources	**38**	(53)
Changes in cash and cash equivalents due to exchange rates	3	(4)
Total change in financial resources	**41**	**(57)**
Opening cash and cash equivalents January 1	**445**	**502**
Closing cash and cash equivalents December 31	**486**	**445**

For comments on the cash flow statement, see Note (34).
The amounts for the comparative year 2013 were adjusted due to the first-time application of IFRS 11.

[1] *Including:*
Net interest of €-51 million (previous year: €-47 million), net income taxes of €-57 million (previous year: €-45 million)

Notes to the consolidated financial statements of Rheinmetall AG

Notes to the consolidated financial statements
Segment reporting

€ million

Corporate sectors		Defence		Automotive		Other/ Consolidation		Group	
		2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Income statement									
External sales		2,240	2,155	2,448	2,262	-	-	4,688	4,417
At Equity income		9	8	21	17	0	2	30	27
Amortization, depreciation and impairment		(85)	(92)	(111)	(101)	(1)	(1)	(197)	(194)
Of which impairment		*(1)*	*(2)*	*(6)*	*(3)*	-	-	*(7)*	*(5)*
EBIT	(1)	(67)	4	184	124	(15)	(7)	102	121
Interest income		2	4	1	2	(1)	(4)	2	2
Interest expenses		(30)	(31)	(18)	(18)	(34)	(29)	(82)	(78)
Net interest		(28)	(27)	(17)	(16)	(35)	(33)	(80)	(76)
EBT		(95)	(23)	167	108	(50)	(40)	22	45
Operating result		(9)	60	184	158	(15)	(7)	160	211
Special items		(58)	(56)	-	(34)	-	-	(58)	(90)
Other data									
Operating free cash flow		(132)	(38)	34	96	(84)	(38)	(182)	20
Order intake		2,812	3,339	2,466	2,270	-	-	5,278	5,609
Order backlog December 31		6,516	6,050	416	392	-	-	6,932	6,442
Employees as at December 31 (capacities)		9,184	9,193	10,830	10,927	152	144	20,166	20,264
Net financial debts	(2)	(151)	(230)	(41)	(101)	522	478	330	147
Pension provisions	(3)	605	427	391	355	125	109	1,121	891
Equity	(4)	685	843	642	626	(130)	(130)	1,197	1,339
Capital Employed	(2)+(3)+(4)	1,139	1,040	992	880	517	457	2,648	2,377
Additions to capital employed		358	359	168	169	(405)	(407)	121	121
Capital employed December 31		1,497	1,399	1,160	1,049	112	50	2,769	2,498
Average capital employed	(5)	1,448	1,431	1,105	1,082	81	38	2,634	2,551
ROCE (in %)	(1) / (5)	(4.6)	0.3	16.7	11.5	-	-	3.9	4.7

The segment reporting disclosures regarding the reporting year and the comparative year relate to continuing operations.

€ million

Regions	Germany		Rest of Europe		North America		Asia		Other regions / Consolidation		Group	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
External sales Defence	643	696	555	604	121	177	641	420	280	258	2,240	2,155
External sales Automotive	523	487	1,191	1,082	364	329	241	210	129	154	2,448	2,262
External sales Total	1,166	1,183	1,746	1,686	485	506	882	630	409	412	4,688	4,417
in % of Group sales	25	27	37	38	10	12	19	14	9	9	-	-
Assets	1,189	1,223	589	571	131	123	68	57	82	81	2,059	2,055

For comments on the segment reports, see Note (35).

Notes to the consolidated financial statements
Fixed asset analysis

€ million

Gross values

2014	Jan.1, 2014	Additions	Disposals	Book transfers	Adjustment scope of consolidation	Currency differences
Intangible assets						
Goodwill	555	-	2	-	0	(1)
Development costs	257	24	-	0	(2)	0
Concessions, industrial property rights and licenses	160	9	2	2	(1)	2
Other intangible assets	199	0	-	-	-	(5)
Prepayments made	1	1	-	(1)	-	0
	1,172	**34**	**4**	**1**	**(3)**	**(4)**
Property, plant and equipment						
Land, equivalent titles, and buildings (incl. buildings on leased land)	1,069	30	7	9	(51)	13
Production plant and machinery	1,918	46	47	48	(175)	39
Other plant, factory and office equipment	517	40	29	13	(16)	4
Prepayments made and construction in progress	108	119	0	(107)	(2)	2
	3,612	**235**	**83**	**(37)**	**(244)**	**58**
Investment property	**21**	**0**	**2**	**36**	**-**	**0**
Total	**4,805**	**269**	**89**	**0**	**(247)**	**54**

2013	Jan.1, 2013	Additions	Disposals	Book transfers/ increase	Adjustment scope of consolidation	Currency differences
Intangible assets						
Goodwill	560	-	-	-	-	(5)
Development costs	230	29	-	-	-	(2)
Concessions, industrial property rights and licenses	156	6	1	5	(4)	(2)
Other intangible assets	206	0	0	0	2	(9)
Prepayments made	1	1	-	(1)	0	0
	1,153	**36**	**1**	**4**	**(2)**	**(18)**
Property, plant and equipment						
Land, equivalent titles, and buildings (incl. buildings on leased land)	1,072	6	6	16	-	(19)
Production plant and machinery	1,904	46	55	76	(1)	(52)
Other plant, factory and office equipment	515	14	19	19	0	(12)
Prepayments made and construction in progress	118	103	1	(107)	0	(5)
	3,609	**169**	**81**	**4**	**(1)**	**(88)**
Investment property	**27**	**-**	**6**	**-**	**-**	**0**
Total	**4,789**	**205**	**88**	**8**	**(3)**	**(106)**

The book transfers/increase column for 2013 includes an increase in the fair values of essential plots of land owned for business purposes in the amount of €8 million.

		Amortization, depreciation and impairment						Net value
Dec. 31, 2014	Jan.1, 2014	Amortization and depreciation of the reporting year	Disposals	Book transfers	Adjustment scope of consolidation	Currency differences	**Dec. 31, 2014**	**Dec. 31, 2014**
552	-	2	2	-	-	-	-	552
279	101	27	-	-	(2)	0	126	153
170	122	13	2	0	(1)	2	134	36
194	75	17	0	-	-	(3)	89	105
1	-	-	-	-	-	-	-	1
1,196	**298**	**59**	**4**	**0**	**(3)**	**(1)**	**349**	**847**
							-	
1,063	575	20	7	(11)	(36)	9	550	513
1,829	1,448	94	45	0	(129)	31	1,399	430
529	422	34	27	0	(15)	3	417	112
120	-	-	-	-	-	-	-	120
3,541	**2,445**	**148**	**79**	**(11)**	**(180)**	**43**	**2,366**	**1,175**
							-	
55	**7**	**1**	**1**	**11**	**-**	**-**	**18**	**37**
							-	
4,792	**2,750**	**208**	**84**	**0**	**(183)**	**42**	**2,733**	**2,059**

Dec. 31, 2014	Jan.1, 2013	Amortization and depreciation of the reporting year	Disposals	Book transfers	Write-ups	Currency differences	**Dec. 31, 2014**	**Dec. 31, 2014**
555	-	-	-	-	-	-	-	555
257	79	23	-	-	-	(1)	101	156
160	113	13	1	0	0	(3)	122	38
199	57	20	-	-	-	(2)	75	124
1	-	-	-	-	-	-	-	1
1,172	**249**	**56**	**1**	**0**	**0**	**(6)**	**298**	**874**
1,069	568	22	4	0	1	(10)	575	494
1,918	1,437	101	55	0	0	(35)	1,448	470
517	415	34	18	0	0	(9)	422	95
108	0	-	-	0	-	0	0	108
3,612	**2,420**	**157**	**77**	**0**	**1**	**(54)**	**2,445**	**1,167**
21	**8**	**1**	**2**	**-**	**-**	**-**	**7**	**14**
4,805	**2,677**	**214**	**80**	**0**	**1**	**(60)**	**2,750**	**2,055**

The amortization and depreciation of the reporting year also includes the values for the Aluminium-Technologie business unit, which has been disposed of (see Note (4) for more details). This amortization and depreciation is included in the income statements in the earnings from discontinued operations item.

Notes to the consolidated financial statements
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(1) GENERAL DISCLOSURES

Rheinmetall AG is the parent company of the Rheinmetall Group and has its registered office in Düsseldorf at Rheinmetall Platz 1 (Düsseldorf Commercial Register, HRB 39401). The consolidated financial statements of Rheinmetall AG have been prepared in accordance with the regulations of Section 315a (1) German Commercial Code ("HGB") and hence with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements and the Group management report, which is consolidated with the management report of Rheinmetall AG, are to be submitted to the operator of the Federal Gazette and published in the Federal Gazette.

The fiscal year of Rheinmetall AG and the financial statements of subsidiaries included in the consolidated financial statements correspond to the calendar year. The consolidated financial statements are presented in euro (€). Unless otherwise stated, amounts are indicated throughout in € million (including prior-year comparatives). Non-rounded amounts may differ. The consolidated income statement has been presented in the total-cost format.

Accounting standards applied for the first time in fiscal 2014 – In fiscal 2014, 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"

The first-time application of IFRS 10, IFRS 11 and IFRS 12 was retrospective and complied with the IASB's amended Transition Guidance of June 2012. Only IFRS 11 affected the assets and earnings of Rheinmetall's consolidated financial statements. In addition, IFRS 12 resulted in amended disclosures regarding joint ventures, associates, and the companies of Rheinmetall's consolidated group in which non-controlling interests are held outside the group. All other amended or new standards did not result in significant changes to the assets, financial situation and 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. The effects of the new standard on the Rheinmetall Group are presented in Note (2).

IFRS 12 “Disclosure of Interests in Other Entities” combines all disclosures about companies which are under the control, joint management or controlling influence of the reporting entity in one standard (previously included in IAS 27, IAS 28 and IAS 31). It also requires disclosures on non-consolidated structured entities.

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.

Accounting standards issued but not yet applied in fiscal 2014 – The following standards and interpretations have been issued but do not yet have to be applied. In some cases, endorsement in EU law is still pending.

IFRS 9	“Financial Instruments”
Amendment to IFRS 10	“Consolidated Financial Statements”
Amendment to IFRS 11	“Joint Arrangements”
IFRS 14	“Regulatory Deferral Accounts”
IFRS 15	“Revenue from Contracts with Customers”
Amendment to IAS 1	“Presentation of Financial Statements”
Amendment to IAS 16	“Property, Plant and Equipment”
Amendment to IAS 19	“Employee Benefits”
Amendment to IAS 28	“Investments in Associates and Joint Ventures”
Amendment to IAS 38	“Intangible Assets”
IFRS improvements	“2010-2012 cycle”
IFRS improvements	“2011-2013 cycle”
IFRS improvements	“2012-2014 cycle”
IFRIC 21	“Levies”

IFRS 9 was published as a complete standard in 2014, bringing together all previously published regulations and the new regulations on the recognition of impairment and limited amendments to the classification and measurement of financial assets. At the same time, the date for first application of this standard was delayed until fiscal years beginning on or after January 1, 2018. The effects of the application of IFRS 9 on the consolidated financial statements of Rheinmetall AG are still being examined.

With the amendments to IAS 28 and IFRS 10, inconsistencies between the two standards with respect to an entity’s transactions with associates and joint ventures were eliminated. If the subject of the transaction is a business as defined by IFRS 3, the seller must recognize the resulting gain or loss in full. If only individual assets are sold in a transaction, the gain or loss need only be recognized proportionally. The amended rules will apply in fiscal years from January 1, 2016 onwards. The changes will not affect the net assets and results of operations of the Rheinmetall Group.

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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 of 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.

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 be applied for the first time on January 1, 2016. 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, financial situation and results of operations of the Rheinmetall Group is currently being examined.

The amendment to IAS 1 “Presentation of Financial Statements” includes in particular clarifications on assessing the materiality of notes to the financial statements, on presenting additional line items in the statement of financial position and statement of comprehensive income, on presenting other comprehensive income from equity-accounted associates and joint ventures, and on the structure of the notes to the financial statements. The clarifications must be applied from fiscal 2016 onward. The resulting changes are being examined.

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. The changes will not affect the net assets and results of operations of the Rheinmetall Group.

The amendment to IAS 19 “Employee Benefits” clarifies the accounting recognition of contributions to defined benefit plans paid by employees or third parties. In certain circumstances, these amounts can reduce the service cost during the period when the service was rendered. This amendment is to be applied from fiscal 2016.

The improvements to IFRS standards in the 2010-2012 and 2011-2013 cycles (to be applied from fiscal 2016 and 2015 respectively) relate mainly to clarifications and corrections to share-based remuneration, business combinations, disclosures on reportable segments, property, plant and equipment, related parties, and fair value measurement.

The improvements to IFRS standards in the 2012-2014 cycle include clarifications and specifications regarding the calculation of the discount rate for post-retirement benefits, interim reporting and Notes on financial instruments. Separate guidelines have also been incorporated for cases in which a company reclassifies an asset from the “held for sale” category to the “held for distribution” category and vice versa and for cases in which recognition as “held for distribution” is discontinued. The effects of the annual improvements for 2012-2014 are currently still being examined. No material impact is expected on the net assets and results of operations of the Rheinmetall Group.

IFRIC 21 regulates the recognition of levies imposed by government institutions and specifies accounting for obligations in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets.” Application is mandatory from fiscal 2015.

(2) CHANGE TO THE COMPARATIVE VALUES IN THE CONSOLIDATED FINANCIAL STATEMENTS

The comparative values in the consolidated financial statements were changed because of modifications to accounting policies and the requirements of IFRS 5. These changes are explained and presented in table form below.

First-time application of IFRS 11 – As part of the first-time application of IFRS 11, there was a review of operations in the Rheinmetall Group conducted jointly with other entities. This revealed that the two joint arrangements Advanced Bearing Materials LLC., Greensburg/USA, and KS ATAG TRIMET Guss GmbH, Harzgerode, are to be classified as joint operations. To date, these two companies had been carried at equity in the consolidated financial statements. The investment book value in the consolidated financial statements was €7 million as at January 1, 2013. The pro rata assets and liabilities of the two joint operations were transferred into the consolidated financial statements in this amount. The transferred pro rata net assets are based on the respective equity interests in the joint arrangements. The pro rata income and expenses of the joint operations were likewise transferred into the consolidated financial statements.

IFRS 5 – The comparative values of the 2013 income statement were also adjusted in the wake of the partial sale of the Aluminium-Technologie business unit. Due to the removal of this business unit from the Rheinmetall scope of consolidation, the income statement for 2014 was presented in accordance with the requirements of IFRS 5 regarding discontinued operations. Details of discontinued operations are given in Note (4).

Construction contracts – The determination of deferral items regarding receivables and liabilities from construction contracts was amended with retroactive effect from fiscal 2013 in order to obtain more meaningful information about construction contracts. These deferral accounts arise from production costs incurred plus the margin, less anticipated losses and less prepayments received and progress billings. Any resulting positive balances are recognized as receivables from construction contracts and negative balances as liabilities from construction contracts. Previously, payments received and progress billings that exceeded production costs plus margin/less losses were recognized as liabilities under prepayments received. As of December 31, 2013, the amended calculation resulted in a €130 million increase of liabilities from construction contracts within the other current liabilities item, and an opposing reduction of prepayments received of the same amount.

Cash flow statement – As of fiscal 2014, pro rata earnings and dividends received from investments carried at equity are allocated to cash flow from operating activities. The operational management of investments carried at equity has increased in importance, so an allocation of cash returns from these entities in the form of dividends to operating activities provides more reliable and relevant information about the financial situation of the Rheinmetall Group. The comparative year has been adjusted accordingly.

Notes to the consolidated financial statements
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The adjusted figures in the balance sheets as of January 1, 2013, and December 31, 2013, and in comprehensive income 2013 can be seen in the tables below. All disclosures for the previous year that were affected by the adjustment were amended accordingly in comparison to the published 2013 Annual Report of Rheinmetall AG.

Adjusted balance sheets € million

	Dec. 31, 2014		
Balance sheet	**reported**	Amendment to IFRS 11	**adjusted**
Property, plant and equipment	1,177	12	1,189
Investments carried at equity	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
Non-current financial debts	572	7	579
Current financial debts	27	3	30
Other liabilities	2,835	0	2,835
Total liabilities	**4,899**	**10**	**4,909**

	Dec. 31, 2013		
Balance sheet	**reported**	Amendment to IFRS 11	**adjusted**
Property, plant and equipment	1,156	11	1,167
Investments carried at equity	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
Non-current financial debts	532	6	538
Current financial debts	51	3	54
Other liabilities	2,935	0	2,935
Total liabilities	**4,857**	**9**	**4,866**

Adjusted comprehensive income € million

	2013			
		Amendment to		
Statement of comprehensive income	**reported**	IFRS 11	IFRS 5	**adjusted**
Net income	22	0	0	22
Of which sales	*4,613*	*12*	*(208)*	*4,417*
Of which other operating income	*107*	*0*	*7*	*114*
Of which cost of materials	*2,573*	*7*	*(108)*	*2,472*
Of which personnel expenses	*1,308*	*3*	*(62)*	*1,249*
Of which amortization, depreciation and impairment	*212*	*2*	*(20)*	*194*
Of which other operating expenses	*687*	*2*	*(20)*	*669*
Other comprehensive income after taxes	(91)	-	-	(91)
Comprehensive income	**(69)**	**0**	**0**	**(69)**
Earnings per Share	€0.75	0	0	€0.75

(3) SCOPE OF CONSOLIDATION

Besides Rheinmetall AG, the consolidated financial statements include all German and foreign subsidiaries over which Rheinmetall AG can directly or indirectly exercise a controlling influence. Rheinmetall AG controls an entity if it holds the majority of voting rights or other rights and is therefore able to steer the significant activities of the investee, is exposed to the risk of variable returns from the investment and can use its power over the investee to influence its returns. Entities over which Rheinmetall AG exercises joint control are included pro rata in the Rheinmetall consolidated financial statements if Rheinmetall AG has rights to assets attributable to it and obligations for the investee's liabilities (joint operations). Jointly controlled entities, whereby Rheinmetall AG has rights to the net assets of the investee, are included in the consolidated financial statements using the equity method. Associates over which Rheinmetall AG can exert significant influence are also carried at equity.

Scope of consolidation – Companies included

	Dec. 31, 2013	Additions	Disposals	**Dec. 31, 2014**
Fully consolidated subsidiaries				
Domestic	48	-	3	45
Foreign	92	4	2	94
	140	**4**	**5**	**139**
Joint operations				
Domestic	1	-	1	-
Foreign	1	-	-	1
	2	**-**	**1**	**1**
Investments carried at equity				
Domestic	16	1	-	17
Foreign	11	1	-	12
	27	**2**	**-**	**29**

Notes to the consolidated financial statements
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In fiscal 2014, two fully consolidated companies were disposed of by sale, two by merger and one by liquidation. In contrast, there were four company formations.

(4) ASSETS HELD FOR SALE/DISCONTINUED OPERATIONS

In 2014, 50 % of the Aluminium-Technologie business unit, which previously belonged to the Automotive sector, was sold to the Chinese company HUAYU Automotive Systems (Shanghai) Co. Ltd. with effect as of December 1, 2014, at a purchase price of €17 million. Through the sale and the subsequent loss of the majority in the voting rights, this business unit was deconsolidated. In future, Aluminium-Technologie will be continued as a joint venture with the investor under the name KS HUAYU AluTech GmbH, which is included in investments carried at equity as of December 31, 2014.

Due to the classification of this business unit as a discontinued operation as at June 30, 2014, it was measured at the lower of carrying amount or fair value less costs of disposal. The fair value was determined on the basis of the estimated realizable purchase price (level 3 of fair value measurement). This resulted in impairment of €5 million of property, plant and equipment and of €2 million of goodwill assigned to this business unit.

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

€ million

	1-11/2014	**1-12/2013**
Sales	207	213
Expenses	195	223
Loss form the measurement of discontinued operations at fair value less costs of disposal	8	-
Gain or loss on disposal	(1)	-
Earnings before taxes from discontinued operations	**3**	**(10)**
Income Taxes	(2)	0
Earnings after taxes from discontinued operations	**5**	**(10)**
Of which Rheinmetall AG shareholders	*5*	*(10)*

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

€ million

	1-11/2014	**1-12/2013**
Cash flows from operating activities	2	25
Cash flows from investing activities	(5)	(6)
Cash flows from financing activities	(1)	1

Effects of the sale on balance sheet items € million

	2014
Property, plant and equipment	(65)
Inventories	(60)
Trade receivables	(20)
Cash and cash equivalents	(19)
Other assets	(11)
Provisions for pensions	37
Trade liabilities	25
Other liabilities	79
Net assets from discontinued operations	**(34)**
Fair value of remaining shares carried at equity	16
Total change in balance sheet due to partial disposal with change of control	(18)
Purchase price received (cash)	17
Outgoing cash and cash equivalents	(19)
Change in cash and cash equivalents from divestments	**(2)**

(5) CONSOLIDATION PRINCIPLES

First-time consolidation occurs on the date of the transfer of control according to the acquisition method. The total of the cost of the subsidiary acquired, the fair value of the prorated net assets attributable to non-controlling interests and the fair value of shares held in the subsidiary prior to the acquisition is compared against the remeasured net assets acquired. Cost equals the fair values of the assets given, liabilities assumed, and equity instruments issued by the acquirer, in exchange for the acquisition. Any acquisition-related costs incurred are recognized in expenses.

Any positive difference resulting from first-time consolidation is capitalized as goodwill within intangible assets. Any badwill is reported in other operating income. The hidden reserves and charges identified in the revaluation of the net assets acquired that relate to non-controlling interests are assigned to the item for minority interests in capital subject to consolidation.

Receivables and payables, expenses and income and intercompany profits/losses among fully consolidated companies are eliminated. Unless allocable to goodwill, taxes are deferred for all temporary differences from the consolidation of receivables/payables, income/expenses, and the elimination of intercompany profits/losses.

In the case of joint operations, which are included pro rata in the consolidated financial statements, all consolidation measures are accordingly prorated.

Notes to the consolidated financial statements
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Shares in associates are stated at equity. Taking the historical cost of the shares as of the date of their acquisition, the investment book value is increased or decreased to reflect such changes in the equity of the associate as are allocable to the Rheinmetall Group. Goodwill of investees is determined to the same principles as full consolidation. Any resulting goodwill is included in the investment book value. If profits arise from transactions between the Rheinmetall Group and the associate, these are corrected on a pro rata basis.

In the case of the gradual acquisition of a company, the difference between the carrying amount of the shares up to now and their fair value is recognized in income when the company is fully consolidated for the first time. When holdings in fully consolidated subsidiaries are sold without loss of control, the difference between the cost and minority interests is recognized in equity. When holdings in fully consolidated subsidiaries are sold with loss of control, the result arising from the sale price plus the fair value of the remaining shares and less the Group carrying amounts for the subsidiary is recognized in income.

(6) CURRENCY CONVERSION

In the separate financial statements of consolidated companies, each foreign currency transaction is recognized at the historical rate. Monetary assets and liabilities originally denominated in a foreign currency are translated at the rate on the reporting date. Other assets and liabilities are either translated using the historical cost rate if carried at cost, or, if carried at fair value, are recognized at the rate at the date of measuring the fair value. Any currency translation differences that arise are duly recognized in the net financial result.

The single-entity financial statements of Group companies whose functional currency is not the euro are translated into euro as the Group currency. As a rule, their functional currency corresponds to the local currency as the currency of the primary business environment in which such companies operate. Translation is carried out using the rate on the reporting date, whereby assets and liabilities are translated at the average spot exchange rate as at the reporting date and the income statement at the average annual rate. The translation differences resulting from this are recognized in, and only in, equity as other comprehensive income (OCI).

(7) ACCOUNTING POLICIES

The key accounting and valuation methods applied to Rheinmetall AG's consolidated financial statements are described below.

Cost – Purchase cost includes the purchase price and, with the exception of company acquisitions as defined by IFRS 3 and financial instruments measured at fair value, all incidental costs that can be directly attributed to the purchase. Where applicable, cost equals the fair value of the asset given in an exchange of assets transaction as at the date of the exchange. Any cash compensation is accounted for accordingly.

The production cost includes the costs directly allocable to the production or conversion process, as well as reasonable portions of production-related overheads, the latter also comprising indirect materials and indirect labor, as well as production-related depreciation and social security expenses. Overheads are allocated to production costs on the basis of the production facilities' normal capacity utilization.

Financing costs are capitalized as costs if they relate to assets which are produced or purchased over a period exceeding one year.

Grants and allowances – Government grants provided for the acquisition of an asset are directly offset against the capital expenditures. Any government grants for expenses for purposes other than investment activities are recognized as deferred income and amortized to profit via other operating income when the related expenses are incurred. Private investment-related grants from customers are also recognized as deferred income and amortized to profit over the contract term. If the grant involves the transfer of economic ownership of the capital good to the customer, the revenue is recognized on the date of the transfer.

Impairment – If there is an indication that the value of an intangible or tangible asset may be impaired, and if the recoverable amount is below amortized or depreciated cost, impairment is recognized. If indications for impairment cease to exist, impairment losses are reversed, with the exception of goodwill. The reversal cannot exceed the value what would have resulted for amortized cost that would have resulted if no impairment had been charged.

Within the Rheinmetall Group, goodwill from business combinations is allocated to the cash-generating units when it arises according to its potential benefit. At this level, the management is responsible for monitoring goodwill. The main cash-generating units that are monitored are the Defence and Automotive sectors and, in individual cases, units identified below this level. The value of goodwill is tested at least once a year for impairment and during the year if impairment is indicated. In the impairment test, the carrying amount is compared with the recoverable amount. The value in use, which is calculated using the discounted cash flow method based on the current corporate planning, is generally used as a recoverable amount. If this value is below the carrying amount, a check is made as to whether the net fair value (NFV: fair value less costs to sell) is higher. If the carrying amount exceeds the recoverable amount, an impairment loss is then charged on the difference, which is recognized as a write-down. Subsequent reversal is inadmissible.

Intangible assets – Intangible assets are capitalized at cost. Research costs are always recognized in expenses. Development costs are not capitalized unless and until a newly developed product or process can be clearly defined and technologically realized and either it is to be used internally or marketing is planned, and if its costs can be reliably measured and there is reasonable assurance that an economic benefit will be derived in future. Any other development costs are immediately expensed.

Notes to the consolidated financial statements
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Finite-lived intangible assets are amortized by straight-line charges from the date of first use over the economic lives.

The measurement is subject to the following useful lives:

	Years
Concessions and industrial property rights	3-15
Development costs	5-10
Customer relations	5-15
Technology	5-15

Goodwill is not amortized.

Property, plant and equipment – Property, plant and equipment are carried at cost less accumulated depreciation and any impairment. Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives unless in exceptional cases another method better reflects the pattern of consumption.

Property, plant and equipment are depreciated over the following periods of economic life:

	Years
Buildings	20-50
Other structures	8-30
Equivalent titles	5-15
Production plant and machinery	3-20
Other plant, factory and office equipment	3-15

Essential plots of land owned for business purposes are carried according to the revaluation method at fair value.

Leasing – Agreements which transfer the right to use assets for a specified period of time in return for payment or a series of payments are qualified as leases.

If leasing transactions result in the transfer of virtually all opportunities and risks associated with ownership of an asset to the lessee, these are to be qualified as finance leases. All other leasing transactions are to be reported as operating leases.

Property, plant and equipment used under a finance lease are capitalized at the lower of their fair value or the present value of minimum lease payments and depreciated on a straight-line basis over the shorter of their estimated useful lives or underlying lease terms. At the same time, a financial liability is recognized in the corresponding amount and written down over the term of the lease using the effective interest method. For usage involving operating leases, rent and lease payments are recognized in expenses over the term of the lease on a straight-line basis.

Investment property – These are properties held for investment, i.e. to earn rental income or benefit from long-term capital appreciation, and not for use in production or administration.

Investment properties (unless land) are carried at cost less accumulated depreciation and any impairment. Depreciation is recognized on a straight-line basis over useful lives of 20 to 50 years.

Financial instruments – A financial instrument is based on a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The first-time recognition of financial instruments occurs at fair value. Acquisition-related costs are to be included here, unless the financial instrument is measured at fair value in subsequent periods. Standard market purchases and sales of financial assets are recognized for the first time on the settlement date, i.e. the date when the financial instrument is delivered or the payment is made. Notwithstanding this, derivatives are recognized for the first time as of the date when the contract is concluded or the trading date.

Subsequent measurement of financial instruments is based on the respective measurement category as defined by IAS 39. The "Loans and receivables" category includes loans, trade receivables and cash and cash equivalents. "Available-for-sale" includes equity instruments and securities. "Held for trading" financial assets and liabilities relates to derivatives. "Financial liabilities" relate to the bond, promissory note loans, liabilities to banks, trade payables and other financial liabilities.

Loans – Loans are recognized at amortized cost. Valuation allowances are formed for expected default risks, taking into account customer credit rating, specific country risks and the structure of the financing transaction. Non-interest receivables are discounted by applying rates that match their maturity upon first-time recognition and written down using the effective interest method.

Trade receivables – Customer receivables included in trade receivables are recognized at amortized cost. Account is taken of the default risk with appropriate valuation allowances. For receivables sold in the asset-backed securities program, current financial assets are recognized in the amount of the risk retained, along with other current liabilities in the corresponding amount, for continuing involvement.

Please see the comments on "Construction contracts" for information about receivables from construction contracts, which are also included in trade receivables.

Cash and cash equivalents – Cash equivalents comprise any liquid assets with a remaining term of less than three months at the date of their purchase or investment. Cash and cash equivalents are carried at nominal value.

Securities – Securities are generally measured at fair value. Where such fair value is not reliably determinable, they are carried at cost. Unrealized gains and losses are shown as other comprehensive income and recognized in the surplus from statement at fair value and other remeasurement.

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If there are substantial indications of impairment or when selling securities, the cumulated amount recognized in equity is reclassified to the income statement at the level of impairment or the disposal value.

Derivative financial instruments – In the Rheinmetall Group, derivatives are used exclusively to hedge against currency, interest rate, commodity price and energy price risks. Future cash flows from current underlyings or planned transactions are hedged.

Derivatives with a positive fair value are reported under other financial assets and derivatives with a negative fair value are recorded in other liabilities.

If the conditions for an effective hedge of cash flows in line with IAS 39 are met, they are accounted for as cash flow hedges. The effective portion of the changes in the fair value of the designated derivative is recorded directly in equity in the surplus from statement at fair value and other remeasurement. The cumulative changes in fair value are reclassified from equity to the income statement if the hedged item is recognized in the income statement. Changes in the fair value attributable to the ineffective portion of the hedge are always recognized in the income statement.

The changes in the fair value of derivatives used for hedging purposes, but which are not recorded in hedge accounting in line with IAS 39, are immediately recognized in the income statement.

Financial liabilities – Financial liabilities are measured at amortized cost as at the reporting date, using the effective interest method.

Inventories and prepayments received – Inventories are recognized at cost. As a rule, this equals weighted average values. Inherent risks due to reduced utility or to obsolescence are adequately allowed for. If the net realizable value (NRV) of any inventories at the balance sheet date is below their carrying amount, they are written down to net realizable value. The write-down either raises the cost of materials (raw materials and supplies) or changes the net inventory level of finished products and work in progress. If the net realizable value of inventories previously written down increases, the ensuing reversal is routinely offset against cost of materials (raw materials and supplies) or shown as a change in inventories of finished products and work in progress.

Prepayments received from customers for contracts which are not manufacturing or construction contracts are openly deducted directly from inventories if production cost has already been incurred for the respective contract, any other prepayments being recognized as liabilities.

Construction contracts – Construction contracts from customers are accounted for in accordance with their percentage of completion. Sales are recognized on the basis of percentage of completion, which is determined on a cost-to-cost basis, i.e. at the ratio the contract costs incurred bear to anticipated contract costs. Sales are recognized in the amount of contract costs incurred during the period plus a prorated margin and a receivable from construction contracts is recognized in the same amount. If the net result from a percentage of completion contract cannot be reliably estimated, prorated profits are not realized, but instead sales are recognized only at the level of costs actually incurred (zero profit method). Progress billings with and without payments received and advance payments are deducted from receivables from construction contracts. Any resulting negative balances are recognized as liabilities from construction contracts. Expected losses on contracts are recognized in expenses immediately in full.

Deferred taxes – Taxes are deferred for temporary differences between the values of balance sheet items according to IFRS and according to the local tax law of the individual companies. Deferred tax assets also include the tax assets receivable from the expected future utilization of tax loss carryovers (if their realization is reasonably certain). Deferred taxes are determined by applying the local tax rates current or announced in each country at the balance sheet date. For domestic taxes, a tax rate of 30 % is used, as was done in the previous year. This rate covers corporate income tax, the solidarity surtax thereon, and municipal trade tax. Taxation rates outside Germany range between 16 % and 38 %, as in the previous year.

For obligations to the respective national tax authorities that are uncertain in terms of amount and probability of occurrence, tax provisions are recognized on the basis of appropriate estimates. The company-specific tax rate applicable on the balance sheet date is applied. Other factors are also considered, such as experience from previous tax audits and different legal interpretations between taxpayers and fiscal authorities with regard to the relevant issue. Uncertain income tax items are recognized at the most probable value.

No deferred tax liabilities for temporary differences of shares in subsidiaries were recognized, since Rheinmetall can control the reversal of such differences and the reversal is not probable in the foreseeable future.

Pensions – Provisions for pensions and similar obligations are calculated using the projected unit credit method for defined benefit plans. The calculation of the extent of the obligations is predicated on assumptions such as mortality, expected future pay and pension increases, plan participant turnover rates, interest rate variations, as well as other actuarial parameters. The fair value of the plan assets is deducted from the DBO volume. Any excess of plan assets over the DBO volume (a so-called defined benefit asset) is not recognized unless Rheinmetall can actually utilize or realize it. If there are deviations between the actuarial assumptions and the actual development of underlying parameters used to calculate the projected unit credits and the market value of the pension assets, gains and losses arise from remeasurement of the net defined benefit liability. These effects arising from remeasurement and the asset cap are recognized directly in equity under retained earnings in the year they occur.

Payments to defined contribution plans (DCP), under which the company incurs no obligations other than to pay the contributions to earmarked post-employment benefit plans, are recognized in net income in the year they are incurred.

The Rheinmetall Group also participates in multi-employer pension plans which are accounted for according to rules for defined benefit plans.

Provisions – The remaining provisions take into account all identifiable commitments and obligations to third parties if based on past transactions or events and if it is probable that an outflow of resources (which can be reliably estimated) embodying economic benefits results. Non-current provisions are shown, if the effect of discounting is significant, at the settlement amount discounted as of the balance sheet date. The settlement amount also accounts for identifiable future cost increases.

Notes to the consolidated financial statements
Accounting principles

Recognition of sales – Sales result primarily from the sale of goods. In addition, sales are generated from services in the context of service and maintenance activities and contracted development work. Sales are measured at the fair value of the consideration received or to be received minus discounts, reductions or other deductions. Sales from supply agreements are realized with the passage of risk to the customer if the sales amount can be reliably estimated and a flow of benefits is probable. Under construction contracts with customers, sales are recognized according to the percentage of completion method. Sales from service contracts and sales from contracted development work are recognized in accordance with the stage of completion, if the result can be reliably estimated. The stage of completion is measured in accordance with the ratio of costs incurred for work performed so far to the estimated total contract costs, or on a pro rata basis in the case of service contracts.

Expenses – Operating expenses are recognized when caused or when the underlying service, etc. is used.

Interest and dividends – Interest income and expense are recognized on an accrual basis. Dividends are recognized in income when the legal claim to payment is established.

Summary of main measurement methods:

Assets	
Goodwill	Cost (subsequent measurement: impairment test)
Other intangible assets	(Amortized) cost
Property, plant and equipment	
Essential plots of land owned for business purposes	Cost Subsequent measurement: Remeasurement at fair value
Other	(Amortized) cost
Investment property	(Amortized) cost
Investments accounted for using the equity method	Equity method
Financial assets	
Loans and receivables	(Amortized) cost
Held for trading purposes	Recognized in income at fair value
Inventories	Lower of cost and net realizable value
Trade receivables	(Amortized) cost
Cash and cash equivalents	Nominal value

Equity and liabilities	
Provisions for pensions and similar obligations	Present value of DBO
Other provisions	Discounted settlement amount
Financial debts	(Amortized) cost
Trade liabilities	(Amortized) cost
Other liabilities	
Financial liabilities held for trading	Recognized in income at fair value
Miscellaneous	(Amortized) cost

Estimates – Preparing the consolidated financial statements required certain assumptions and estimates which impact on the application of accounting principles within the Group and the disclosure of assets and liabilities, income and expenses.

When examining the recognition of goodwill of €552 million as at December 31, 2014 (previous year: €555 million), assumptions and estimates relating to forecasts and discounting future cash flows were made to determine the recoverable amount of the relevant cash-generating units. Details of the parameters used are described in the comments on impairment.

On an annual basis and on other occasions if appropriate, the carrying amounts as at December 31, 2014 of other intangible assets of €295 million (previous year: €319 million), property, plant and equipment of €1,175 million (previous year: €1,167 million) and properties held for investment of €37 million (previous year: €14 million) are assessed to determine whether there are indications of a possible impairment and whether the fair value is lower than their carrying amount. When calculating the fair values, assumptions and estimates are made on the cash flows from realizable sales prices, costs and the discount rates. The yield curves used in the measurement of derivatives include assumptions about the expected future development of interest rates, taking into account estimated liquidity risks dependent on terms. Moreover, the measurement models used also incorporate parameters that are based on assumptions about volatilities and discount rates.

The measurement of pension provisions and similar obligations of €1,121 million as at December 31, 2014 (previous year: €891 million) is based on the determination of actuarial parameters such as the discount rate, salary increases, the mortality rate and the development of health care costs. The impact of changes in parameters applied as of the balance sheet date on the present value of the DBO is presented in Note (18). Any discrepancy between the parameters assumed at the beginning of the fiscal year and the actual conditions on the balance sheet date has no impact on earnings after taxes, as gains and losses resulting from the discrepancy based on the remeasurement of the net defined benefit liability are recognized directly in equity.

Sales realization for construction contracts totaling €548 million in fiscal 2014 (previous year: €662 million) is based on estimates regarding the expected total contract costs and contract revenue. Comparing the actual contract costs incurred with expected total costs shows the percentage of completion as at the balance sheet date, on the basis of which the prorated sales for the period are calculated.

The determination of future tax advantages which reflect the recognition of deferred tax assets (€239 million as at December 31, 2014; previous year: €129 million) is based on assumptions and estimates on the development of tax income and tax legislation in the countries of the Group companies working there.

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In the context of business combinations, the fair values of the identifiable assets, liabilities and contingent liabilities may be based on estimates at the time of acquisition. To determine fair values, independent valuation appraisals or internal calculations are implemented on the basis of recognized measurement procedures, generally on the basis of forecast cash flows. In particular, when measuring intangible assets, assumptions and estimates on expected development of business activities, the expected economic lives and the discount rates are to be made.

When assessing and accounting for legal risks, estimates on the possible occurrence and the level of the expected obligations are made. In the process, the management deploys internal legal assessments and evaluations by external attorneys.

The respective assumptions and estimates are based on premises which represent the most recent knowledge. The estimates and the underlying assumptions are examined on an ongoing basis. Actual developments may result in amounts differing from these estimates. Such differences, if impacting on the accounting, are recognized in the period of change where the change affects this period only. If changes in estimates affect both the current period and future periods, these are recognized accordingly in the periods in question.

(8) GOODWILL; OTHER INTANGIBLE ASSETS

Breakdown of capitalized goodwill:

€ million

	Dec. 31, 2014	Dec. 31, 2013
Defence sector	381	382
Automotive sector	171	173
	552	**555**

Goodwill was tested for impairment as at December 31, 2014. No impairment was revealed. The impairment test uses the value in use of the cash-generating unit, which is calculated using the discounted cash flow method based generally on a three-year detailed planning period. For periods after the detailed planning phase, cash flows are extrapolated from the last planning period, taking into account growth rates based on the long-term inflation forecast.

In the Rheinmetall Group, the corporate plan is prepared on the basis of empirical and current forecast data. Within the Defence sector, planning is predicated on projects already included in its order backlog, on customer enquiries and, most importantly, on national defense budgets of EU nations and NATO, duly allowing for new-market access and cost-paring programs.

Key planning assumptions by Automotive are based on the sector forecasts underlying sales plans and covering the worldwide automotive market trend, the planned engine programs of carmakers, specific customer commitments to individual projects, as well as on Automotive-specific adjustments to allow for planned product innovations and cost savings.

Rheinmetall's WACC (before tax) was used as the discount rate:

Defence sector	8.4%	(previous year: 8.3%)
Automotive sector	10.2%	(previous year: 10.4%)

For the period after the last planning year, the following growth rates are deducted from the risk-specific pretax discount rate:

Defence sector	1.0%	(previous year: 1.0%)
Automotive sector	1.0%	(previous year: 1.0%)

In addition to the impairment test, each cash-generating unit was subjected to sensitivity analyses. These analyses assumed scenarios based firstly on a 0.5 percentage point higher discount rate and secondly on a 0.5 percentage point lower growth rate. For further sensitivity, the expected EBIT used to calculate the terminal value was reduced by a flat rate of 10 %. None of the sensitivity analyses resulted in impairment of the recognized goodwill.

Research and development costs of €214 million were incurred in the fiscal year (previous year: €219 million). Of the total research and development costs incurred, €24 million (previous year: €29 million) were capitalized as development costs.

(9) PROPERTY, PLANT AND EQUIPMENT

Essential plots of land owned for business purposes are measured at fair value. Generally accepted valuation techniques are used to determine fair value, which are in most cases based on the expert reports of an independent appraiser. External appraisal reports are obtained at regular intervals, most recently on the reporting date of December 31, 2013. Based on indicative land values for the relevant plot of land and additional analyses of transactions involving comparable properties, appropriate premiums or discounts are determined, taking into account the characteristics of the land and the specific use of the property. These indications are reviewed regularly, which could result in a change to fair values. The measurement method is attributed to level 3 of the measurement hierarchy in IFRS 13.

The fair value of essential plots of land owned for business purposes was €222 million (previous year: €228 million), which includes a step-up of €117 million (previous year: €118 million). A 10 % change in indicative land values would lead to an equivalent change in fair values, assuming that premiums and discounts remain the same.

As in the previous year, borrowing costs of €1 million have been capitalized in capitalized property, plant and equipment. The Group borrowing rate was 4.90 % (previous year: 5.5 %).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOTES ON THE BALANCE SHEET

Total impairment taken in 2014 was €2 million (previous year: €15 million), which related primarily to plots of land and buildings (previous year: €3 million for land and buildings, €8 million for technical equipment and machinery, and €4 million for factory and office equipment).

€115 million of property, plant and equipment (previous year: €40 million) is subject to restrictions on disposal in the form of land charges.

On the basis of leases, €7 million in technical equipment and machinery are capitalized (previous year: €11 million). Here, normal restrictions on disposal apply. In addition, one Group company's building lease agreement for a plot of land is recognized as a capital lease in the amount of €4 million (previous year: €4 million).

The future lease payments under capital leases, the interest portions included therein, and the present values of future lease payments, which are recognized as financial debts, are shown in the table below:

Capital leases € million

	2014				2013			
	2015	2016-2019	from 2020	Total	2014	2015-2018	from 2019	Total
Lease payments	1	4	20	25	1	5	20	26
Discounts	0	(1)	(13)	(14)	0	(1)	(13)	(14)
Present values	**1**	**3**	**7**	**11**	**1**	**4**	**7**	**12**

The purchasing obligation from firm capital expenditure contracts totals €29 million (previous year: €25 million).

(10) INVESTMENT PROPERTY

The investment properties have a total fair value of €47 million (previous year: €23 million), partially determined on the basis of independent external appraisal reports (last reporting date for regularly prepared reports: December 31, 2013) and partially on the basis of own calculations. Generally accepted valuation techniques are used to determine the fair value – a combination of the discounted cash flow method and the sales comparison approach. Both methods come under level 3 of the measurement hierarchy in IFRS 13. The discounted cash flow method is used to discount annual cash flows of leased properties and to determine the fair value. A standard market discount rate is used in addition to market rents, which reflects the specific country's local property market and the features of the property. The sales comparison approach is used for land that cannot be rented on a long-term basis and is based on indicative land values or transactions involving similar plots of land.

In the year under review, rental income of €4 million (previous year: €1 million) was earned, contrasting with direct operating expenses of €1 million (previous year: €1 million). No impairment was taken, as in the previous year.

(11) INVESTMENTS CARRIED AT EQUITY

The major investments carried at equity are firstly the joint ventures Kolbenschmidt Shanghai Piston Co. Ltd., Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd. and Pierburg Huayu Pump Technology Co. Ltd. (together China Joint Ventures), which are based in Shanghai and operated with the Chinese SAIC Group, and with which the Automotive sector is strengthening its position on the Chinese market for pistons, pumps for automotive applications and other engine parts. Secondly, the joint venture KS HUAYU AluTech GmbH (KS HUAYU), Neckarsulm, which originated likewise in partnership with the SAIC Group on December 1, 2014, is also significant for the Rheinmetall Group in the Aluminium-Technologie business unit.

The joint venture Rheinmetall International Engineering GmbH, Geisenheim (RIE), operated with Ferrostaal GmbH, Essen, which commenced operations in this fiscal year through the contribution of the respective business activities of both partners, is allocated to the Defence sector. The joint venture will plan and implement industrial facilities both as general contractor and as subcontractor. The new joint venture is intended to promote the internationalization of the defence business in new markets.

For the sake of completeness, the financial information for KS HUAYU relates to fiscal 2014 as a whole, including the period in which this business unit was fully consolidated in the Rheinmetall Group. Amounts for comparative periods are not shown for KS HUAYU or RIE, as these joint ventures have existed only since the reporting year.

Financial information (100 % basis) of the major investments carried at equity € million

	China Joint Ventures		KS HUAYU	RIE
	2014	2013	2014	2014
Current assets (Dec. 31)	250	195	104	126
Of which cash and cash equivalents	*35*	27	*25*	*16*
Non-current assets (Dec. 31)	249	200	72	12
Current liabilities (Dec. 31)	346	261	96	98
Of which financial debts	*25*	62	*1*	-
Non-current liabilities (Dec. 31)	1	0	50	28
Of which financial debts	*1*	-	*5*	*9*
Sales	628	499	220	238
Amortization and depreciation	30	19	5	2
Net interest	(3)	(3)	(1)	0
Income taxes	11	4	2	2
Net income	37	30	7	3

Notes to the consolidated financial statements
Notes on the balance sheet

Development of the major investments carried at equity € million

	China Joint Ventures		KS HUAYU	RIE
	2014	2013	2014	2014
Net assets Jan. 1	134	118	31	0
Capital contribution from shareholders	-	-	-	10
Comprehensive income	53	27	(1)	2
Net income	*37*	*30*	*7*	*3*
Other income	*16*	*(3)*	*(8)*	*(1)*
Dividend	(35)	(11)	-	-
Net assets Dec. 31	**152**	**134**	**30**	**12**
Investment in %	50	50	50	50
Carrying amount of investment Dec. 31	76	67	15	6
Dividend received	19	6	-	-

The following table shows the financial information for the investments carried at equity that, considered individually, are immaterial for the presentation of the Rheinmetall consolidated financial statements. The amounts given all relate to the portion attributable to Rheinmetall:

€ million

	2014		2013	
	Joint venture	Associated companies	Joint venture	Associated companies
Carrying amount of shares	18	62	22	61
Net income	6	3	7	5
Other income	1	2	0	(3)
Comprehensive income	7	5	7	2

(12) INVENTORIES

€ million

	Dec. 31, 2014	Dec. 31, 2013
Raw materials and supplies	313	315
Work in process	420	358
Finished products	102	90
Merchandise	88	88
Prepayments made	94	89
	1,017	**940**
./. Prepayments received	(60)	(31)
	957	**909**

Additions to write-downs totaled €39 million (previous year: €32 million). In the year under review, inventories previously written down were written up by €2 million as in the previous year. Inventories are not used to collateralize liabilities, as in the previous year.

(13) TRADE RECEIVABLES

€ million

	Dec. 31, 2014	Dec. 31, 2013
Customer receivables	774	570
Of which with remaining term of more than 1 year	*2*	*0*
Of which from joint ventures and associated companies	*52*	*19*
Receivables from construction contracts	370	414
	1,144	**984**

Receivables and liabilities from construction contracts € million

	Dec. 31, 2014	Dec. 31, 2013
Production costs incurred	3,902	3,413
Plus margins / less anticipated losses	505	455
Progress billings / payments received	(4,131)	(3,584)
Total	**276**	**284**
Of which receivables from construction contracts	*370*	*414*
Of which liabilities from construction contracts	*(94)*	*(130)*

Sales from construction contracts totaled €548 million in fiscal 2014 (previous year: €662 million).

(14) OTHER FINANCIAL ASSETS

€ million

	Dec. 31, 2014	Of which current	Of which non-current	Dec. 31, 2013	Of which current	Of which non-current
Derivatives in cash flow hedge	9	5	4	5	5	0
Derivatives without hedge accounting	13	12	1	7	7	0
Loans	4	3	1	4	0	4
Securities	4	2	2	3	2	1
Other	13	13	0	20	20	0
	43	**35**	**8**	**39**	**34**	**5**

Securities in the amount of €4 million (previous year: €3 million) are recognized at amortized cost. The major individual item in other financial assets relates to creditors with debit balances of €5 million (previous year: €6 million).

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(15) OTHER RECEIVABLES AND ASSETS

€ million

	Dec. 31, 2014	Of which current	Of which non-current	Dec. 31, 2013	Of which current	Of which non-current
Other taxes	47	47	0	48	48	0
Subsidies/grants receivable	22	9	13	25	25	-
Deferred income	13	10	3	9	8	1
Prepayments made	11	11	0	7	7	0
Compensation claims	7	2	5	6	1	5
Other	27	27	0	30	30	0
	127	**106**	**21**	**125**	**119**	**6**

The subsidies/grants receivable relate chiefly to grants paid by public administrative bodies to subsidize the in-house development of new technologies.

(16) CASH AND CASH EQUIVALENTS

€ million

	Dec. 31, 2014	Dec. 31, 2013
Bank balances in credit institutions, checks, cash in hand	486	445

Of cash and cash equivalents, €1 million is subject to restrictions on disposal, as in the previous year.

(17) EQUITY

Subscribed capital – The subscribed capital of Rheinmetall AG amounts to €101,373,440.00 (unchanged) and is divided into 39,599,000 shares (with no nominal value).

Authorized capital – By resolution of the Annual General Meeting of May 6, 2014, the Executive Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company up to May 5, 2019, by issuing once or several times new no-par shares in return for contributions in cash and/or in kind, up to a total of €50,000,000.00. The new shares may also be issued to employees of Rheinmetall AG or any subsidiary it controls. The Executive Board was authorized to decide on the further details of the issuing of shares as part of authorized capital, with the approval of the Supervisory Board. The Supervisory Board is authorized to amend the Company bylaws in accordance with the respective holdings and the respective utilization of the authorized capital.

Contingent capital – Furthermore, the Executive Board of the Company was authorized by resolution of the Annual General Meeting of May 6, 2014 to issue interest-bearing bearer bonds with warrants and/or convertible bonds up to a total nominal value of €800,000,000.00 with a term of up to 20 years on one or several occasions, with the approval of the Supervisory Board, up to May 5, 2019, and to grant the holders of the respective bonds, which carry the same rights, options and conversion rights on new shares of the Company up to a total of 7,812,500 shares, in accordance with the more detailed provisions of the conditions for bonds with warrants and/or convertible bonds. The bonds with warrants and/or convertible bonds can also bear variable interest, whereby the interest rate can be wholly or partly dependent on the amount of the Company's dividend, as with an income bond.

In connection with the above bonds with warrants and/or convertible bonds, the Annual General Meeting resolved on May 6, 2014 to carry out a contingent increase of the Company's common stock by up to €20,000,000.00 through the issue of up to 7,812,500 bearer shares or – if the Company's bylaws at the time of issuing the bond also permit the issue of registered shares – new registered shares (contingent capital). The contingent capital increase is to serve shares granted when options and/or conversion rights are exercised and when option and/or conversion obligations are fulfilled for the holders of bonds with warrants and/or convertible bonds issued on the basis of the authorization granted by the Annual General Meeting on May 6, 2014. The Executive Board was authorized to stipulate further details of the implementation of the contingent capital increase, with the approval of the Supervisory Board. The Supervisory Board was authorized to amend Section 4 of the Company bylaws in accordance with the respective utilization of the contingent capital and after the expiry of all option periods and/or conversion periods.

Treasury shares – By resolution of the Annual General Meeting of May 6, 2014, the Executive Board of the Company is authorized to acquire treasury bearer shares equivalent to a maximum of 10 % of the share capital existing on this date of €101,373,440. The acquisition may be via the stock exchange or by public bid directed at all shareholders or by public invitation to submit a purchase bid.

The Executive Board is authorized to retire the treasury shares acquired on the basis of this authorization or earlier authorizations without further Annual General Meeting resolutions, in full or in part, or with the approval of the Supervisory Board to

- sell the treasury shares to shareholders with subscription rights via offer,
- sell the treasury shares without shareholder subscription rights via the stock exchange or otherwise, for example to investors, if the relevant treasury shares are sold at a price not significantly below the stock market price of shares in the Company of the same class on the date of the sale. This authorization applies only if the shares issued without subscription rights for authorized capital do not exceed a total of 10 % of the share capital either on the effective date or the exercise date of this authorization.
- use the treasury shares without shareholder subscription rights for the purpose of acquiring a company, parts of a company or holdings in companies. This applies only if the total of the shares issued without subscription rights in return for contributions in cash and in kind do not exceed a total of 20 % of the share capital either on the effective date or the exercise date of this authorization.
- use the treasury shares to meet settlement claims of creditors of bonds with warrants and/or convertible bonds, or
- transfer the treasury shares without subscription rights to members of management and employees of the Company and of dependent Group companies.

As in the previous year, no treasury shares were acquired in the reporting year. Disposals related to the long-term incentive program and the share purchase program for employees, which are described in Note (39). Sales proceeds from the disposals are used for general financing purposes. As of December 31, 2014, the portfolio of treasury shares amounted to 1,225,511 shares with acquisition costs of €48 million. The amount of subscribed capital attributable to treasury shares totaled €3,137,000. This represents a share in subscribed capital of 3.09 %.

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Retained earnings – The retained earnings include earnings generated by the Rheinmetall Group in the past less profit distributed.

Effects from the currency translation of subsidiaries' financial statements not prepared in euro, from the remeasurement of pension plans and essential plots of land owned for business purposes recognized directly in equity, from the measurement of derivatives in cash flow hedges and other income from investments carried at equity (other income) are also included here.

Other income € million

	2014			2013		
	Gross amount	Tax effect	Net amount	Gross amount	Tax effect	Net amount
Remeasurement of net defined benefit liability from pensions	(266)	(62)	(204)	23	1	22
Currency conversion	36	-	36	(84)	-	(84)
Change in value of derivatives (Cash flow hedges)	5	2	3	(40)	(11)	(29)
Land revaluation	(2)	(1)	(1)	8	3	5
Other income from investments carried at equity	7	-	7	(5)	-	(5)
	(220)	**(61)**	**(159)**	**(98)**	**(7)**	**(91)**

In fiscal 2014, Rheinmetall AG paid a dividend of €15 million or €0.40 per share (previous year: €68 million or €1.80 per share) to its shareholders from its retained earnings.

At the Annual General Meeting on May 12, 2015, the Executive Board and Supervisory Board intend to propose a dividend payment of €0.30 per share (2013: €0.40). The total amount paid out will be €12 million (2013: €15 million).

Minority interests – Major non-controlling interests are held in the subgroup of Rheinmetall MAN Military Vehicles GmbH, Munich, amounting to 49 %. The Group's financial information is shown below.

€ million

	2014	2013
Minority interests included in equity (Dec. 31)	(2)	7
Assets (Dec.31)	537	525
Of which non-current	*151*	*153*
Of which inventories	*109*	*107*
Liebilities (Dec. 31)	541	510
Of which non-current	78	51
External sales	657	536
Internal sales	10	3
Net income	(14)	(38)
Of which from minority interests	*(7)*	*(19)*
Comprehensive income	(18)	(39)
Of which from minority interests	*(9)*	*(19)*
Cash flows from operating activities	(44)	(108)
Dividend	-	-

Capital management – Rheinmetall's capital management aims at establishing the best possible equity-debt ratio.

According to Rheinmetall's definition, equity is composed of interests attributable to its own shareholders and to other shareholders, as both are available to the Group.

For more details, see our statements on the financing strategy as well as on the asset and capital structure in our group management report.

(18) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Rheinmetall's company pension systems consist of both defined contribution and defined benefit plans.

Defined contribution plans – Under defined contribution plans, the relevant company pays contributions to earmarked pension institutions, which are recognized in personnel expenses. The company does not enter into any further obligations; a provision is not recognized.

Defined benefit plans – Under its defined benefit plans, Rheinmetall is obligated to meet its confirmed benefit obligations to active and former employees. Pension accruals provide for obligations under vested rights and current pensions payable to eligible active and former employees, retirees and surviving dependents, taking into account any plan assets.

Rheinmetall has implemented a Group-wide defined benefit plan for its subsidiaries based in Germany, which consists of three levels: a basic plan and a corporate performance-related intermediate plan, each of which are financed by the employer, and a supplementary plan financed through deferred compensation. The agreed retirement benefits comprise old-age pensions as well as invalidity pensions and pensions for surviving dependents. The annual pension contribution or the amount of deferred compensation for each beneficiary in accordance with actuarial principles is converted into a capital component. The total pension capital when benefits become due is based on the sum of all capital components. In the case of the basic plan and intermediate plan, pension capital is paid out in the form of a life-long pension that increases annually in accordance with an agreement. In the case of the supplementary plan financed solely by the employee, the pension capital is paid out as a lump sum when benefits become due.

Other pension plans exist in Germany, but these are no longer available to new employees joining the Group. The agreed retirement benefits comprise old-age pensions as well as invalidity pensions and pensions for surviving dependents. Depending on the plan, these are based on agreed fixed amounts per year of service or on a percentage of the employee's final salary before leaving the Rheinmetall Group. Ongoing retirement benefits are subject to compensation for inflation.

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Other significant pension plans in the Rheinmetall Group exist in the Swiss subsidiaries, each of which are managed via pension funds for several companies (multi-employer plans). These are defined benefit plans used to cover pensions and risks arising from invalidity and death for former employees, their relatives and surviving dependents. Upon retirement, the pension is based on the available retirement assets multiplied by conversion rates determined by pension fund regulations, whereby payment can take place monthly or in certain cases as a lump sum. Pension plans are financed by contributions made by the employer and employee, primarily at a rate of 50 % each, which are paid into pension funds. The pension funds are independent foundations that do not belong to the Rheinmetall Group, whose funds are due solely to pension beneficiaries. Any return of assets and income to the contributing companies is excluded. The top bodies in the foundations comprise equal numbers of employer and employee representatives of the relevant companies. The foundations are responsible for investments. Principles of security, risk distribution, yield and liquidity must be observed in this process in order to be able to render the agreed benefits from the foundation's assets when due. Both contributions paid into the pension funds and future benefits arising from these are reviewed regularly by the foundation's bodies and may be changed after taking into account the foundation's financial options. In the event of a shortage of cover, the pension funds can levy remedial contributions from all associated employers if other measures do not lead to the desired result. Liability of the Swiss subsidiaries towards the companies belonging to the pension funds is excluded. At one Swiss subsidiary, benefits from the pension fund provided for in accordance with the pension plan are also covered by an insurance policy.

The following provides an overview of the financing status of pension obligations:

€ million

	Dec. 31, 2014				Dec. 31, 2013			
	Germany	Switzerland	Others	**Total**	Germany	Switzerland	Others	**Total**
Present value of DBO	902	1,130	163	**2,195**	783	991	148	**1,922**
Plan assets	11	954	109	**1,074**	10	920	103	**1,033**
Asset cap	-	0	-	**0**	-	(2)	-	**(2)**
Pension provision	**891**	**176**	**54**	**1,121**	**773**	**73**	**45**	**891**

Pension provisions developed as follows:

€ million

	2014				2013			
	Germany	Switzerland	Others	**Total**	Germany	Switzerland	Others	**Total**
As at Jan. 1	773	73	45	**891**	767	88	64	**919**
Pension payments	(36)	-	(4)	**(40)**	(35)	-	(4)	**(39)**
Employer contributions paid into funds	(1)	(9)	(2)	**(12)**	(1)	(10)	(8)	**(19)**
Pension cost	40	9	1	**50**	42	7	5	**54**
Remeasurement of net defined liability	152	102	12	**266**	(1)	(11)	(11)	**(23)**
Currency differences/Other	(37)	1	2	**(34)**	1	(1)	(1)	**(1)**
Pension provisions	**891**	**176**	**54**	**1,121**	**773**	**73**	**45**	**891**

The following presents changes in the present value of the DBO:

€ million

	2014				2013			
	Gemany	Switzerland	Other	**Total**	Gemany	Switzerland	Other	**Total**
As at Jan. 1	783	991	148	**1,922**	778	1,032	162	**1,972**
Current service cost	16	9	3	**28**	18	10	3	**31**
Past service cost	0	-	(3)	**(3)**	-	(5)	-	**(5)**
Interest cost	24	22	6	**52**	25	20	5	**50**
Actuarial gains (-)/losses (+)								**-**
from change in financial assumptions	148	116	11	**275**	-	(35)	(5)	**(40)**
from change in demographic assumptions	-	8	4	**12**	-	48	-	**48**
from empirical adjustments	4	4	-	**8**	(1)	25	1	**25**
Employee contributions	1	8	1	**10**	1	8	1	**10**
Entry payments	-	6	-	**6**	-	15	-	**15**
Pension payments	(36)	(47)	(18)	**(101)**	(37)	(110)	(11)	**(158)**
Curtailments	-	(9)	-	**(9)**	(1)	-	-	**(1)**
Disposals from the scope of consolidation	(38)	-	-	**(38)**	-	-	-	**-**
Currency differences		22	11	**33**	-	(17)	(8)	**(25)**
Present value of DBO at Dec. 31	**902**	**1,130**	**163**	**2,195**	**783**	**991**	**148**	**1,922**

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Pension plans in Germany and Switzerland relate to the following beneficiaries:

Number of people

	Dec. 31, 2014		Dec. 31, 2013	
	Germany	Switzerland	Germany	Switzerland
Active employees	9,155	1,141	9,947	1,219
Vested rights of former employees not subject to expiration	2,240	-	2,519	-
Pensioner	11,191	2,018	10,967	2,034
Total	**22,586**	**3,159**	**23,433**	**3,253**

The average duration of pension obligations is 15 years at the German companies and 11 years at companies based in Switzerland.

In order to determine the present value of the DBO in due consideration of actuarial factors, measurement assumptions were made according to standard principles and per country, taking into account the respective economic circumstances. Discount rates are derived from yields on fixed-interest corporate bonds with a suitable duration and currency which are rated “AA” or better. The discount rate for Germany is determined using a standard procedure specified by the Group actuary on the basis of market data as of December 31, 2014 and the duration for a mixture of active employees and retirees. The following table presents the key underlying actuarial parameters:

Parameters in %

	Dec. 31, 2014		Dec. 31, 2013	
	Germany	Switzerland	Gemany	Switzerland
Discount rate	2.04	1.20	3.25	2.30
Salary growth (general)	2.75	1.00	2.75	1.00
Salary growth (fixed sums)	1.25	-	1.25	-
Pension growth	1.75	-	1.75	-

The following table shows the parameters where a change in values determined as of the balance sheet date would have a significant impact on the present value of the DBO. Pension commitments in Switzerland are excluded from changes in the present value of the DBO based on assumptions on pension development, as the pension funds’ regulations do not stipulate ongoing adjustment to future pensions. Instead, the foundation board decides on any adjustments. The impact of changes in wage and salary development is immaterial to the German pension plans, so an analysis was not performed. The potential impact of a change in mortality expectations was analyzed by increasing the individual statistical life expectancy of each employee by one year. Calculations at German Group companies are based on the “Richttafeln 2005 G” mortality tables produced by Professor Klaus Heubeck, while foreign Group companies use country-specific mortality tables.

Change in present value of DBO in € million

	Dec. 31, 2014		Dec. 31, 2013	
	Germany	Switzerland	Germany	Switzerland
Discount rate - 0.25 %	35	32	29	26
Discount rate + 0.25 %	(33)	(30)	(27)	(26)
Pension development - 0.50 %	(35)	-	(31)	-
Pension development + 0.50 %	37	-	33	-
Wages and salary growth - 0.25%	-	(1)	-	(2)
Wages and salary growth + 0.25%	-	1	-	1
Increase in life expectancy by 1 year	44	47	35	38

The Rheinmetall Group is exposed to various risks as a result of defined benefit pension commitments. As well as general actuarial risks arising from the measurement of pension obligations, the plan assets harbor investment risks.

The investment strategy and composition of assets managed by pension funds are geared towards yield targets, risk tolerance and short-term and medium-term liquidity requirements. Internally financed pension commitments are financed from the cash flow from operating activities of the Rheinmetall Group.

The fair value of the plan assets is attributable to the following items:

in %

	Dec. 31, 2014	Dec. 31, 2013
Real estate	40	42
Equities, Funds	34	29
Fixed-interest securities	12	13
Other	14	16
Total	**100**	**100**

The fair values of shares, funds, fixed-interest securities and other investments are determined based on market prices in an active market. The fair values of property are not based on market prices in an active market.

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The fair value of the plan assets developed as follows:

€ million

	2014				2013			
	Germany	Switzerland	Other	**Total**	Germany	Switzerland	Other	**Total**
As at Jan. 1	10	920	103	**1,033**	11	945	98	**1,054**
Interest income from plan assets		21	5	**26**	1	18	3	**22**
Income from plan assets excluding interest income	-	25	3	**28**	-	50	7	**57**
Employer contributions	1	9	2	**12**	1	10	8	**19**
Employee contributions	-	8	1	**9**	-	8	1	**9**
Entry payments	-	6	-	**6**	-	15	-	**15**
Pension payments from plan assets	-	(47)	(14)	**(61)**	(2)	(110)	(7)	**(119)**
Settlements	-	(8)	-	**(8)**	(1)	-	-	**(1)**
First-time inclusion of plan assets	-	-	-	**-**	-	-	-	**-**
Currency differences	-	20	9	**29**	-	(16)	(7)	**(23)**
Plan assets as at Dec. 31	**11**	**954**	**109**	**1,074**	**10**	**920**	**103**	**1,033**

Items from pensions (before taxes) included in comprehensive income are presented below.

€ million

	2014				2013			
	Germany	Switzerland	Other	**Total**	Germany	Switzerland	Other	**Total**
Current service cost	16	9	3	**28**	18	10	3	**31**
Past service cost	0	-	(3)	**(3)**	-	(5)	-	**(5)**
Curtailments	-	(1)	-	**(1)**	-	-	-	**-**
Net interest expense	24	1	1	**26**	24	2	2	**28**
Amounts recognized in the income statement	**40**	**9**	**1**	**50**	**42**	**7**	**5**	**54**
Income from plan assets excluding interest income	-	(25)	(3)	**(28)**	-	(50)	(7)	**(57)**
Change in asset cap	-	(1)	-	**(1)**	-	1	-	**1**
Actuarial gains (-) / losses (+) from present value of DBO	152	128	15	**295**	(1)	38	(4)	**33**
Amounts recognized directly in equity from remeasurement of net defined benefit liability	**152**	**102**	**12**	**266**	**(1)**	**(11)**	**(11)**	**(23)**
Total included in comprehensive income	**192**	**111**	**13**	**316**	**41**	**(4)**	**(6)**	**31**

The service cost and the result from settlements are reported under personnel expenses. Net interest expense is included in net interest.

€17 million (previous year: €19 million) of the service cost is attributable to internally financed pension plans and €11 million (previous year: €7 million) to externally financed pension plans.

Personnel expenses of €66 million (previous year: €69 million) were also incurred in the year under review for defined contribution pension commitments, which mainly related to payments to statutory pension institutions in Germany.

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Cash outflows of €40 million (previous year: €39 million) arose as a result of pension payments in connection with internally financed pension plans. Payments of from employers and employees totaling €21 million (previous year: €19 million) were made to pension funds for externally financed pension plans.

The following cash outflows are expected in fiscal 2015 as a result of pension obligations:

Estimated cash outflows in the subsequent year € million

	2015
Employer contributions to fund-financed pension plans	9
Employee contributions to fund-financed pension plans	7
Employer's pension payments to internally financed pension plans	36

(19) OTHER PROVISIONS

Statement of changes in provisions € million

2014	Personnel	Structural measures	Guarantees	Noticeable losses	Contract-related costs	Other provisions	Total
As at January 1	**147**	**77**	**54**	**18**	**78**	**102**	**476**
Utilization	122	42	11	6	36	31	248
Reversal	4	6	5	1	5	8	29
Added / provided for	135	14	56	9	48	52	314
Accrual	1	0	0	0	0	1	2
Change in scope of consolidation	(7)	(1)	(1)	-	-	(4)	(13)
Currency differences / Other	1	0	1	0	3	(2)	3
As at December 31	**151**	**42**	**94**	**20**	**88**	**110**	**505**
Cash outflows							
Short term (‹ 1 year)	**121**	**24**	**75**	**16**	**73**	**95**	**404**
Long term	**30**	**18**	**19**	**4**	**15**	**15**	**101**
Of which 1 - 5 years	*22*	*18*	*16*	*4*	*13*	*14*	*87*
Of which › 5 years	*8*	*0*	*3*	*-*	*2*	*1*	*14*

2013	Personnel	Structural measures	Guarantees	Noticeable losses	Contract-related costs	Other provisions	Total
As at January 1	**163**	**55**	**51**	**22**	**90**	**96**	**477**
Utilization	135	28	11	10	49	30	263
Reversal	6	4	8	3	3	11	35
Added / provided for	124	58	23	9	41	47	302
Accrual	1	1	0	0	0	0	2
Currency differences / Other	0	(5)	(1)	0	(1)	0	(7)
As at December 31	**147**	**77**	**54**	**18**	**78**	**102**	**476**
Cash outflows							
Short term (< 1 year)	**120**	**60**	**42**	**16**	**68**	**82**	**388**
Long term	**27**	**17**	**12**	**2**	**10**	**20**	**88**
Of which 1 - 5 years	*20*	*17*	*11*	*2*	*10*	*10*	*70*
Of which > 5 years	*7*	*0*	*1*	*-*	*0*	*10*	*18*

Provisions for restructuring mainly cover the reduction in the workforce that is planned in order to adjust capacity (including termination settlements, pre-retirement part-time work and redundancy plans). Other provisions relate primarily to €12 million of discounts and bonuses (previous year: €10 million), €12 million for environmental risks (previous year: €9 million), and €5 million of legal, consulting and audit fees (previous year: €6 million).

(20) FINANCIAL DEBTS

€ million

	Dec. 31, 2014	Of which current	Of which non-current	**Dec. 31, 2013**	Of which current	Of which non-current
Bond	508	-	508	496	-	496
Promissory notes	179	-	179	15	15	-
Bank liabilities	114	54	60	62	33	29
Leasing	12	1	11	12	1	11
Other	3	2	1	7	5	2
	816	**57**	**759**	**592**	**54**	**538**

The €500 million bond issued in September 2010 will mature in September 2017. Since September 2014, the original coupon of 4.0 % has been subject to a step up of 1.25 percentage points and totals 5.25 % p.a. as of the balance sheet date. The inclusion of the increase in interest in the measurement of the bond using the effective interest method resulted in a €11 million increase in the principal recognized as a liability.

The promissory note loan maturing in June 2014 was repaid on schedule. In October and November 2014, Rheinmetall AG issued promissory note loans totaling €179 million for general corporate financing.

Notes to the consolidated financial statements
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Promissory note loans € million

			Dec. 31, 2014	Dec. 31, 2013
Maturing in	Interest terms	Currency	Nominal value	Nominal value
June 2014	6,83 %	EUR	-	15
October 2019	1,83 %	EUR	28	-
October 2019	6-months-EURIBOR + 1,40 %	EUR	77	-
November 2019	1,91 %	EUR	10	-
October 2021	2,35 %	EUR	19	-
October 2021	6-months-EURIBOR + 1,65 %	EUR	16	-
October 2024	3,00 %	EUR	25	-
October 2024	6-months-EURIBOR + 1,90 %	EUR	4	-
			179	**15**

The liabilities to banks of €58 million (previous year: €24 million) are secured by land charges and similar rights.

Information on lease liabilities is given in Note (9).

(21) TRADE LIABILITIES

€ million

	Dec. 31, 2014	Dec. 31, 2013
Trade liabilities	714	721
Of which from joint ventures and associated companies	*4*	*4*

As in the previous year, €0 million of trade payables have a remaining term of more than one year.

(22) OTHER LIABILITIES

€ million

	Dec. 31, 2014	Of which current	Of which non-current	Dec. 31, 2013	Of which current	Of which non-current
Advance payments received	421	421	-	361	361	-
Monies in transit from debt collection (ABS program)	96	96	-	87	87	-
Liabilities from other taxes	44	44	-	44	44	0
Liabilities from construction contracts	94	94	-	130	130	-
Derivatives in cash flow hedge	41	27	14	46	26	20
Derivatives without hedge accounting	15	9	6	16	10	6
Liabilities from social security	12	11	1	13	12	1
Other	124	98	26	73	69	4
	847	**800**	**47**	**770**	**739**	**31**
Of which financial liabilities	*171*	*140*	*31*	*191*	*162*	*29*

As in the previous year, all of the advance payments received on orders have a remaining term of up to one year.

(23) TOTAL OPERATING PERFORMANCE

€ million

	2014	2013
Sales		
from sale of products	4,115	4,024
from services	182	204
from development contracts	391	189
Total sales	**4,688**	**4,417**
Increase/decrease in inventory of finished products and services and WIP	88	99
Other work performed by the enterprise and capitalized	38	44
	4,814	**4,560**

(24) OTHER OPERATING INCOME

€ million

	2014	2013
Reversal of provisions	29	35
Disposal of assets/divestments	14	3
Sundry rental agreements and leases	11	6
Refunds	9	14
Income from residue utilization	6	4
Credit notes for previous years	5	6
Income from reversal of value adjustments	5	1
Grants and subsidies	3	4
Income from canteens and ancillary operations	3	4
Other secondary income	60	37
	145	**114**

(25) COST OF MATERIALS

€ million

	2014	2013
Cost of raw materials, supplies, and merchandise purchased	2,428	2,212
Cost of services purchased	243	260
	2,671	**2,472**

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(26) PERSONNEL EXPENSES

€ million

	2014	2013
Wages and salaries	1,052	1,024
Social security and related employee benefits	132	135
Pension expenses	88	90
	1,272	**1,249**

Annual average head count (FTE)

	2014	2013
Automotive sector	10,918	11,157
Defence sector	9,226	9,422
Rheinmetall AG / Other	145	135
	20,289	**20,714**

(27) AMORTIZATION AND DEPRECIATION

For the allocation of these charges to intangible assets, property, plant and equipment and investment property, see the statement of changes in assets.

Impairments break down as follows:

€ million

	2014	2013
Intangible assets	6	0
Property, plant and equipment	2	5
	8	**5**

€5 million of the impairments on intangible assets relate to capitalized development costs in the Automotive sector.

(28) OTHER OPERATING EXPENSES

€ million

	2014	2013
Repairs and maintenance	88	76
Distribution costs	77	63
IT costs	60	60
Rents, leases	55	53
Additions to provisions	55	38
Incidental staff costs	49	37
Travel expenses	48	46
Audit, legal and consultancy fees	45	41
Administrative costs	40	47
Warranty	41	19
Promotion and advertising expenses	22	19
Expenses for redundancy plans, termination indemnities, partial retirement	16	76
Insurance	16	17
Facility cleaning and security/surveillance	15	13
Other taxes	8	10
Losses on disposal of fixed assets/divestments and consolidated companies	4	6
Write-down of receivables	3	5
Other	100	43
	742	**669**

The “other” item shows the expense from profit absorption and fines totaling €37 million from the concluded criminal proceedings relating to unlawful payments in connection with an order in Greece.

(29) NET INTEREST

€ million

	2014	2013
Interest income	**2**	**2**
Net Interest expense for pension obligations	26	28
Accrual of other non-current provisions	2	2
Other interest and similar expenses	54	48
Interest expenses	**82**	**78**
Net interest	**(80)**	**(76)**

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NOTES ON THE INCOME STATEMENT

(30) OTHER FINANCIAL RESULTS

€ million

	2014	2013
Currency result	0	2
Guarantee commissions	(9)	(2)
Profit from derivative financial instruments	3	4
Other	1	-
	(5)	**4**

The result from derivatives of €3 million (previous year: €4 million) primarily includes the net hedging result, against which the provisions on hedge accounting in accordance with IAS 39 are not applied, and mainly relates to currency and interest rate hedges.

(31) INCOME TAXES

€ million

	2014	2013
Current income tax expense	49	52
Earlier-period income taxes	(3)	(8)
Deferred taxes	(40)	(31)
	6	**13**

The table below presents a reconciliation of expected tax expense to recognized actual tax expense. A tax rate of 30 % is applied to earnings before taxes in order to calculate the expected tax expense. This rate covers German corporate income tax, the solidarity surtax thereon and municipal trade tax.

€ million

	2014	2013
Earnings from continuing operations before taxes	22	45
Expected income tax expense (tax rate of 30%; previous year: 30%)	**7**	**14**
Foreign tax rate differentials	(3)	3
Effects of loss carryforwards and change in value adjustment	13	8
Reduction of tax expense due to previously unrecognized loss carryovers and temporary differences	(12)	(7)
Tax-exempt income	(5)	(5)
Non-deductible expenses	8	9
Earlier-period income taxes	(3)	(8)
Other	1	(1)
Actual income tax expense	**6**	**13**

Deferred taxes can be allocated to the following balance sheet items:

€ million

	Dec. 31, 2014		Dec. 31, 2013	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryforwards and tax credits	85	-	73	-
Interest barrier carried forward	13	-	8	-
Fixed assets	21	143	10	149
Inventories and receivables	71	41	85	67
Pension provisions	184	1	123	1
Other provisions	28	5	26	3
Liabilities	37	44	27	39
Other	6	3	7	7
	445	**237**	**359**	**266**
Set off	(206)	(206)	(230)	(230)
	239	**31**	**129**	**36**
Of which noncurrent	*209*	*26*	*112*	*20*
Deferred taxes recognized directly in equity	184	36	118	37
Of which land revaluation	-	*34*	-	*35*
Of which pensions	*173*	-	*105*	-
Of which hedges	*11*	*2*	*13*	*2*

In addition to capitalized deferred tax assets from loss carryovers and tax credits, further tax loss carryovers and tax credits exist in Germany and abroad totaling €498 million (previous year: €468 million) which cannot be utilized or whose deferred tax assets were adjusted by value adjustments. Of this, €238 million (previous year: €234 million) is allocable to German loss carryovers, €257 million (previous year: €230 million) to foreign loss carryovers and another €3 million (previous year: €4 million) to tax credits. The German loss carryovers, and €103 million of the foreign loss carryovers (previous year: €79 million), are not subject to expiration. Most of the foreign loss carryovers subject to expiration can still be utilized for more than 9 years, as in the previous year. Write-downs of deferred tax assets changed by €1 million (previous year: €-1 million). Within the Group, €33 million (previous year: €30 million) in deferred tax assets were recognized at companies with ongoing tax losses due to positive corporate planning. No deferred tax liabilities have been recognized for temporary differences in connection with shares in subsidiaries, as the Group is able to manage the progress of reversal over time and the temporary differences will not be reversed in the foreseeable future. Taxes of €7 million (previous year: €7 million) relate to the main differences.

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(32) EARNINGS PER SHARE (€)

Earnings per share are calculated as a ratio of the consolidated result of the shareholders of Rheinmetall AG and the weighted average number of shares in circulation during the fiscal year. Since there were no shares, options or similar instruments outstanding as of December 31, 2014 or December 31, 2013 that could dilute earnings per share, basic and diluted earnings per share are identical. The portfolio of treasury shares is included in the weighted number of shares.

€ million

	2014	**2013**
Weighted number of shares *million*	38.21	37.93
Consolidated net profit/loss for the year for shareholders of Rheinmetall AG – continuing operations	13	39
Earnings per share from continuing operations	**€0.34**	**€1.02**
Consolidated net profit/loss for the year for shareholders of Rheinmetall AG – discontinued operations	5	(10)
Earnings per share from discontinued operations	**€0.13**	€(0.27)
Consolidated net profit for the year for shareholders of Rheinmetall AG – total	18	29
Earnings per share – total	**€0.47**	**€0.75**

(33) ADJUSTED EBIT

€ million

	2014	**2013**
EBIT	**102**	**121**
One-off expenses and income in connection with:		
Investments	1	3
Properties	(12)	(2)
Restructuring	13	84
Other	65	-
EBIT (adjusted)	**169**	**206**

Notes to the consolidated financial statements
Notes on the cash flow statement

(34) CASH FLOW STATEMENT

Of the net interest included in the cash flow from operating activities, €2 million (previous year: €2 million) related to interest payments received and €53 million (previous year: €49 million) to interest payments made.

The cash outflow for investments in consolidated entities and financial assets related mainly to the €3 million capital contributions to the joint venture Rheinmetall International Engineering GmbH, Geisenheim, and a €2 million capital increase of the joint venture Pierburg Huayu Pump Technology Co. Ltd., Shanghai/China. In the previous year, payments of €2 million in connection with the formation of the Pierburg Huayu Pump Technology Co. Ltd. joint venture in Shanghai in China and the €2 million asset deal at Rheinmetall Simulation Australia Pty. Ltd. in Deakin in Australia were reported here.

The item change in cash and cash equivalents from divestments of consolidated entities includes the payment of the sales price of €17 million for 50 % of the shares in the Aluminium-Technologie business unit less the disposed of cash and cash equivalents of €19 million (further details of this transaction are given in Note (4)).

Notes on segment reporting

(35) SEGMENT REPORTING

The Group bundles its activities in two sectors, Defence and Automotive, which are organized and run as independent segments where the respective products, services and customer profiles are grouped accordingly. Reporting on these reportable segments is in accordance with the Rheinmetall Group's internal organizational and reporting structures.

The Defence sector brings together all activities in the defence technology market. As a systems supplier, Rheinmetall Defence develops and supplies armed forces technology, including vehicle, protection and weapon systems, air defence systems, infantry equipment, networking of function sequences and simulation.

The activities of the Rheinmetall Group relating to automotive supplies are pooled in the Automotive sector. As well as the focus on products such as engines, plain bearings and large-bore and small-bore pistons, emissions reduction and air management systems are developed and manufactured in the field of engine technology, in order to implement customer-specific solutions for combustion engines. As well as supplying automotive manufacturers, the Automotive sector operates in the aftermarket business, supplying wholesalers, engine repair shops and independent garages with replacement parts through a global distribution network.

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Notes on segment reporting

As well as the Group holding company (Rheinmetall AG), “Other/Consolidation” includes Group service companies and other non-operating companies, plus consolidation transactions. Transactions between the sectors take place on an arm’s length basis.

The sectors of the Rheinmetall Group are controlled by means of sales, operating result (EBIT before special items), EBIT and EBT performance indicators. Profitability is assessed by the management on the basis of ROCE calculated on an annual basis, which represents the ratio of EBIT to average capital employed (average of values as at the December 31 balance sheet date of the previous year and the year under review). In addition, as of the reporting year, operating free cash flow is included in target agreements with managers as an additional control and management parameter. Operating free cash flow comprises the cash flow from operating activities and capital expenditure on property, plant and equipment, intangible assets, and investment property.

Capital employed is calculated as the sum of equity, pension provisions and net financial debts. Net financial debts reflect financial debts less cash and cash equivalents. Inter-segment loans within the Group are assigned to cash and cash equivalents. Additions to capital employed include amortization of goodwill accumulated in the past.

The indicators for internal controlling and reporting purposes are based on the accounting principles described in Note (7).

The following reconciles the net financial debts of the sectors to those of the Group and the EBIT of the sectors to consolidated EBT:

€ million

	Dec. 31, 2014	Dec. 31, 2013
Net financial debts		
Net financial debts of sectors	(192)	(331)
Others	520	479
Consolidation	2	(1)
Net financial debts of Group	**330**	**147**

	2014	2013
EBIT		
EBIT of sectors	117	128
Others	25	62
Consolidation	(40)	(69)
Group EBIT	**102**	**121**
Group net interest	(80)	(76)
Group EBT	**22**	**45**

When presenting segment information by geographical region, foreign sales in the Defence sector are reported based on the country of destination, while those of the Automotive sector are reported according to where the customer is based. Segment assets include intangible assets, property, plant and equipment and investment properties according to the respective location of the company.

(36) CONTINGENT LIABILITIES

Furthermore, several guarantees have been issued in favor of non-consolidated interests as part of joint projects, which are primarily carried out in the form of joint ventures. There are letters of comfort for the purposes of contract performance, whereby Rheinmetall may also be held liable for the performance of the other joint venture partners in its relations with third parties. However, in internal relations, it is only liable for its own share of products and services by virtue of corresponding rights of recourse. Moreover, a letter of comfort involving a joint and several liability has been issued to secure the financing of the capex costs for a joint venture. No cash outflows are expected. In addition, commitments exist in favor of joint ventures and associated affiliates for credit and guarantee facilities granted to the affiliated companies. Rheinmetall's liability is equal to the equity interest held. No cash outflows are expected here.

Contingent liabilities € million

	Dec. 31, 2014	Dec. 31, 2013
Letters of comfort	2,750	2,939
Collateral promise	6	6
Credit enhancement	13	0
Advance payment guarantees	14	17
Other	10	4
	2,793	**2,966**

Legal proceedings have been brought by external shareholders regarding the merger of Aditron AG with Rheinmetall AG in 2003 and the squeeze-out in connection with this, with a view to reviewing the adequacy of the cash compensation offered. The district court of Düsseldorf issued a ruling in favor of the other party in 2012, which exceeds the amount of cash compensation demanded by the claimants. Rheinmetall immediately lodged an appeal against this decision. On September 3, 2014, Düsseldorf Higher Regional Court announced that in parallel proceedings the Senate had submitted the question of the valuation standards to be applied which is also relevant to this case to the Federal Court of Justice for a decision. Until then, the proceedings relating to Rheinmetall are suspended.

(37) OTHER FINANCIAL OBLIGATIONS

Financial commitments in line with customary business standards exist under master agreements with suppliers, as well as under contracts for services. For the purchasing obligations for capital expenditure projects, refer Note (9).

In the reporting year, €55 million was posted as expenses for operating leasing (previous year: €53 million). Apart from leases predominantly involving business property, the other standard contracts cover the rental of vehicles and business, factory and office equipment, which includes hardware and software.

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The following discounted cash outflows under leases are expected in future periods:

€ million

	2014				2013			
	2015	2016-2019	from 2020	**Total**	2014	2015-2018	from 2019	**Total**
Buildings	27	74	53	**154**	25	69	42	**136**
Other leases	13	11	0	**24**	15	12	0	**27**
	40	**85**	**53**	**178**	**40**	**81**	**42**	**163**

€1 million was generated in the period from subleasing further properties leased by Rheinmetall (previous year: €2 million). Future income of €1 million (previous year: €3 million) is expected during the non-cancelable lease term.

(38) ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are broken down below, based on carrying values according to the valuation categories as defined by IAS 39, and summarized under the two classes “Measured at amortized cost” and “Measured at fair value.”

Financial instruments € million

2014		Recognition in balance sheet				
		Book value Dec. 31	Amortized costs	Fair value	Fair value Dec. 31	Valuation hierarchy under IFRS 13
Financial assets						
Loans and receivables						
Trade receivables	(13)	1,144	1,144	-	1,144	
Other financial assets	(14)	21	21	-	21	
Cash and cash equivalents	(16)	486	486	-	486	
Held for trading purposes						
Derivatives without hedge accounting	(14)	13	-	13	13	Level 2
Derivatives with cash flow hedge [1)]	(14)	9	-	9	9	Level 2
Total		**1,673**	**1,651**	**22**	**1,673**	
Financial liabilities						
Liabilities						
Bond, promissory notes	(20)	687	687	-	744	Level 1
Financial debts excl. leases	(20)	117	117	-	87	Level 2
Trade liabilities	(21)	714	714	-	714	
Other liabilities excl. Derivatives	(22)	115	115	-	115	
Held for trading purposes						
Derivatives without hedge accounting	(22)	15	-	15	15	Level 2
Derivatives with cash flow hedge [1)]	(22)	41	-	41	41	Level 2
Total		**1,689**	**1,633**	**56**	**1,716**	

[1)] *Not a valuation category as defined by IAS 39.*

Financial instruments € million

2013		Recognition in balance sheet				
		Book value Dec. 31	Amortized costs	Fair value	Fair value Dec. 31	Valuation hierarchy under IFRS 13
Financial assets						
Loans and receivables						
Trade receivables	(12)	984	984	-	984	
Other financial assets	(13)	27	27	-	27	
Cash and cash equivalents	(15)	445	445	-	445	
Held for trading purposes						
Derivatives without hedge accounting	(13)	7	-	7	7	Level 2
Derivatives with cash flow hedge [1]	(13)	5	-	5	5	Level 2
Total		**1,468**	**1,456**	**12**	**1,468**	
Financial liabilities						
Liabilities						
Bond, promissory notes	(20)	512	512	-	556	Level 1
Financial debts excl. leases	(20)	68	68	-	69	Level 2
Trade liabilities	(21)	721	721	-	721	
Other liabilities excl. Derivatives	(22)	129	129	-	129	
Held for trading purposes						
Derivatives without hedge accounting	(22)	16	-	16	16	Level 2
Derivatives with cash flow hedge [1]	(22)	46	-	46	46	Level 2
Total		**1,492**	**1,430**	**62**	**1,537**	

[1] *Not a valuation category as defined by IAS 39.*

The market value of financial assets and financial liabilities measured at fair value is determined on the basis of input factors observed directly or indirectly on the market. In the Rheinmetall Group, the foreign exchange rates applicable on the balance sheet date and yield curves are key input factors in calculating the fair value of derivatives for currency and interest rate hedges. In the case of interest caps, the market value is calculated on the basis of the Black/Scholes model, taking into consideration volatilities. The discounted cash flow method is used for interest rate swaps, currency swaps and currency forwards. The euro yield curve used to measure the interest rate derivatives takes into account basis spreads. The fair value of the commodity futures is derived from the value of all contracts at market as of the valuation date. The forward rates applicable on the balance sheet date are used to determine the market value of energy derivatives (electricity and gas derivatives).

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Given the short term to maturity of such instruments, the market value of current financial assets and liabilities carried at amortized cost (cash, cash equivalents, current receivables, trade payables and other financial liabilities) largely corresponds to book value.

Rheinmetall measures non-current fixed and floating-rate receivables at amortized cost taking into account customer credit standing, specific country risks, and the structure of the financing transaction. Taking this approach, expected collection or default risks are duly allowed for. Non-interest receivables are discounted by applying rates that match their maturity. The current book values of such receivables (less any allowances) will then substantially correspond to their fair values.

The fair value of liabilities to banks and other financial debts, payables under capital leases, as well as of other noncurrent financial payables was determined by discounting the associated future cash flows at rates that match the time to maturity of similar debts.

Derecognition – Under an asset-backed securities program, the Rheinmetall Group sells customer receivables each month on a revolving basis. The maximum volume in 2014 was €170 million (previous year: €136 million). As at December 31, 2014, the nominal value of receivables sold came to €101 million (previous year: €136 million).

In line with IAS 39, sales of receivables apply as disposal. The remaining risks are insignificant for the Group. An asset item of €1 million is established for the maximum continuing involvement (previous year: €2 million), along with a corresponding liability item for the associated liabilities.

Collateral provided – Liens of €2 million (previous year: €2 million) rest on financial assets to protect employees from insolvency risks in connection with pension systems.

Net result from financial instruments – Financial instruments gave rise to the following income and expenses recognized in the income statement, broken down according to valuation categories as defined by IAS 39.

€ million

	2014	2013
Loans and receivables / liabilities		
Interest income	2	2
Interest expenses	(53)	(49)
Currency result	0	2
Income from valuation allowances	(14)	(6)
Write-ups	1	1
Other financial results	(4)	(2)
	(68)	**(52)**
Held for trading purposes	2	4
Net result from financial instruments	**(66)**	**(48)**

Finance market risks – The operations and financing transactions of the Rheinmetall Group as an international group are exposed to financial market risks, mainly from liquidity, counterparty default, electricity, gas and commodity prices, exchange rate volatility and interest rate changes. In accordance with the Group-wide risk management system of Rheinmetall AG, such risks are not only identified, analyzed and measured, but also managed by taking actions to avoid, contain or limit such risks. Inherent financial risks are proactively managed to ensure that at the balance sheet date, no significant risks emanate from financial instruments.

Derivative financial instruments – Derivative financial instruments are used to reduce currency, interest rate and commodity price risks. Such instruments are acquired only for underlying transactions that are planned or already recognized on the balance sheet; no such derivatives may be acquired for speculation. All transactions involving derivatives are subject to stringent monitoring, which is particularly ensured through the strict separation of the contracting, settlement and control functions. Provided that the necessary criteria are met and automatic offsetting of the hedged item and the hedging instrument is not possible, changes in the fair value of hedging transactions are recognized in the hedge reserve in the context of cash flow hedge accounting. The effectiveness of these transactions is subject to ongoing monitoring, using the critical terms match method prospectively and the dollar offset testing method retrospectively.

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The table below shows the nominal volume, time to maturity and fair value of all hedges at December 31.

€ million

	Nominal volume				Fair value	
	Remaining term < 1 year		Remaining term > 1 year			
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Without hedge accounting						
Currency hedges	432	492	75	91	1	0
Interest rate hedges	100	273	-	107	(3)	(6)
Commodity hedges	11	5	2	-	0	0
Electricity price hedges	12	8	6	0	(1)	(3)
	555	**778**	**83**	**198**	**(3)**	**(9)**
With hedge accounting						
Currency hedges	376	331	162	170	(29)	(32)
Interest rate hedges	-	-	104	7	(1)	(1)
Commodity hedges	20	24	17	18	0	(5)
Electricity price hedges	7	6	6	6	(1)	(3)
	403	**361**	**289**	**201**	**(31)**	**(41)**

In the year under review, fair value changes in derivatives of €10 million before deduction of deferred taxes (previous year: €50 million) were recognized in the hedge reserve, while €9 million (previous year: €6 million) of this was reclassified to sales and €6 million (previous year: €6 million) was reclassified to the cost of materials.

There were only immaterial ineffective portions.

Foreign currency risk – Due to the international nature of the Rheinmetall Group’s business, certain operational currency risks arise from the fluctuating exchange rates between the functional currencies of Group companies and other currencies. Open positions exposed to a currency risk are hedged through derivatives, generally currency forwards, as well as currency swaps. Foreign exchange trading in the Defence sector is contracted almost exclusively with Rheinmetall AG. Here, currency hedge transactions are concluded with subsidiaries and squared either directly or in a portfolio approach via banks. In the Automotive sector, these transactions are concluded on a central basis via KSPG AG. The most important currency hedges contracted by German companies refer to US dollar, Swiss franc, Canadian dollar and Norwegian krone transactions, while the foreign companies mostly hedge euro-based and US dollar-based purchasing and sales transactions. These hedges are measured as of the balance sheet date and recognized at a fair value which is determined according to the DCF method.

Interest rate risk – As part of the Group-wide management of interest rate risks, Rheinmetall AG uses interest rate hedging instruments (interest rate swaps and interest rate caps). The interest rate swaps essentially serve to hedge variable interest on promissory note loans and future variable interest payments. The interest rate caps were concluded to hedge future interest payments from floating-rate loans.

Commodity price risk – The Rheinmetall Group is exposed to price volatility risks from commodity buying, such as metals. By means of materials cost escalator agreements with customers, the major part of these risks from volatile metal prices is shifted to customers, albeit with a time lag. Moreover, the Automotive sector (where most of these risks exist) has also used derivative financial instruments for risk management, mainly exchange-traded commodity futures contracted on the basis of a financial settlement.

Energy price risk (electricity and gas price) – Owing to volatile prices on the energy market, derivative financial instruments have been concluded to secure the price of electricity for the consumption volumes planned for the period from 2015 to 2017. The gas price was secured for the consumption volumes planned for 2015.

Sensitivity analysis – As part of sensitivity analyses as defined by IFRS 7 for the risk variables concerned, the effects that a change in the respective values as at the balance sheet date would have on other net financial income and the hedge reserve, before taking into account deferred taxes, are examined. With regard to foreign currency risk, a change of -/+ 10 % in all exchange rates between the local currency used by the Company and the hedged currency is assumed as at the balance sheet date. Analysis of interest rates assumes a change in the yield curve of -/+ 100 basis points (bp) as at the balance sheet date. For the analysis of commodity price risks, a change of -/+ 10 % in the price curve for material prices for the respective hedged metals and of -/+ 10 % in the forward curve for energy prices (electricity and gas) is assumed.

Sensitivity analyses € million

	Other financial results		Cash flow hedge reserve	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Currency hedges				
Exchange rates (total) -10% / +10%	13 / -13	5 / -5	-6 / 6	-5 / 5
of which USD - 10% / + 10%	+8 / -8	+6 / -6	+4 / -4	+3 / -3
of which CHF - 10% / + 10%	-1 / +1	-2 / +2	+1 / -1	+2 / -2
of which NOK - 10% / + 10%	+2 / -2	+1 / -1	-2 / +2	-6 / +6
of which CAD - 10% / + 10%	+3 / -3	-1 / +1	-5 / +5	+3 / -3
Interest rate hedges				
Yield curve -100 BP / +100 BP	-1 / 1	-2 / 2	-5 / 5	0 / 0
Commodity hedges				
Price curve for material prices -10% / +10%	0 / 0	0 / 0	-4 / 4	-3 / 3
Electricity price hedges				
Forward curve for electricity prices -10% / +10%	0 / 0	0 / 0	-1 / 1	-2 / 2

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Default risk (credit risk) – The default risk from financial assets is that the other contractual party does not fulfill his obligations. For loans granted and customer receivables, the maximum risk is at the level of the values carried in the balance sheet. The default risk from derivative finance instruments is limited to the amount of the positive fair value of the derivatives carried on the balance sheet. In order to minimize the default risk with derivative financial instrument contracts, the Rheinmetall Group sets high requirements in respect of its counterparties, restricting itself exclusively to German and foreign banks with impeccable ratings.

In the Rheinmetall Group, the monitoring and the recognition of default risk from customer receivables takes place on a decentralized basis in the operating units. However, there are corporate policies for proper debtor management. Individual assessments (where appropriate, based on current trends and qualitative information) may be used in addition to database-supported rating and default data on an external data supplier. Current del credere risks are covered by valuation allowances.

There are no significant valuation allowances for customer receivables included in trade receivables at the Rheinmetall Group. Due to the type of transaction and the customer structure, non-payment rarely occurs and there is only the need to post defaults. As of the balance sheet date, there were no indications that any unimpaired and overdue receivables of the A/R portfolio would remain unpaid.

Aged analysis of customer receivables past due € million

	Dec. 31, 2014	Dec. 31, 2013
Trade receivables unimpaired but past due		
for up to 30 days	78	66
for up to 180 days	66	47
for more than 180 days	66	36
	210	**149**
Impaired	6	9
Neither impaired nor past due	564	421
	780	**579**
Individual value adjustments	(6)	(9)
	774	**570**

No important credit concentrations exist in the Rheinmetall Group.

Liquidity risk – Sufficient liquidity at all times is ensured by the Rheinmetall Group especially by a cash budget and forecast over a specified time horizon, as well as through existing, partly unutilized finance facilities, including credit lines granted by banks on a syndicated basis, a commercial paper (CP) program and an asset-backed securities program. For further details of such credit facilities, see the "Financing" section of the management report.

The undiscounted contractually agreed payments from repayment and interest components in connection with financial liabilities and derivative financial instruments are listed below as of the balance sheet date.

Cash outflows € million

	Dec. 31, 2014			Dec. 31, 2013		
	2015	2016-2019	from 2020	2014	2015-2018	from 2019
Bond	26	549	-	20	551	-
Promissory notes	4	129	70	17	-	-
Other bank liabilities	57	33	33	34	14	19
Capital lease liabilities	1	4	21	1	4	22
Other financial debts	1	1	1	5	1	1
	89	**716**	**125**	**77**	**570**	**42**
Financial derivatives with						
negative fair value	36	20	-	36	26	-
positive fair value	5	17	-	12	0	-

The fair values of derivatives on the reporting date should be seen in the context of the associated underlyings, whose values generally show an opposite trend to those of the derivatives, irrespective of whether these have already been accounted for or are pending. The derivatives would only produce a cash outflow at the amount shown above if they were terminated early.

The Rheinmetall Group's financial resources comprise cash and cash equivalents, financial current assets available for sale, and the cash provided by operating activities. In contrast, the capital requirements cover the redemption of financial debts (principal and interest), capital expenditure, and the funds needed for operating activities.

(39) SHARE PROGRAMS

Long-term-incentive-program – There is a long-term incentive remuneration program (LTI) for the Executive Board and the managers of the Rheinmetall Group in order to involve management in the Company's long-term development. Under this program, the beneficiaries are paid performance-related remuneration for the past fiscal year in the subsequent year. The basis of the calculation of the remuneration amount is the average adjusted EBT of the Rheinmetall Group of the last three fiscal years. The remuneration for fiscal 2014 is based on the average adjusted EBT for the years 2012 to 2014, limited to a maximum of €300 million. Average adjusted EBT for LTI remuneration totaled €140 million for fiscal 2014. This is multiplied by a personal factor according to individual commitment. In 2014, the Supervisory Board resolved to increase the personal factors of Executive Board members by 25 % from fiscal 2015.

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The remuneration for members of the Executive Board comprises a component settled in shares of 50 % of the assessment basis and a cash component of 60 % of the assessment basis. The remuneration for German managers is measured according to the respective assessment basis, with 40 % and 60 % being settled in shares and cash respectively. Managers working outside Germany receive remuneration of 50 % of the determined assessment basis in shares.

The number of shares granted is determined in the subsequent year on the basis of the average price on the last five trading days in February of a year (reference price), with a deduction of 20 % in the case of managers (relevant share value). The portion of the assessment basis to be granted in shares is divided by the relevant share value to determine the number of shares to be granted. The shares granted are subject to a lock-up period of four years. If employment is terminated by the employer, the Executive Board member or manager receives remuneration pro rata for each completed calendar month of employment.

An expense totaling €8 million (previous year: €12 million) was reported for the LTI program in fiscal 2014.

The reference price in February 2014 was €54.28. For fiscal 2013, a total of 123,337 shares were transferred to the entitled participants of the LTI program on April 2, 2014 (previous year: a total of 214,557 shares were transferred for fiscal 2012 on April 2, 2013).

The shares attributable to the Executive Board members are presented in the remuneration report included in the management report.

Share purchase program – As part of the Rheinmetall Group's share purchase program, eligible staff of the Rheinmetall Group in Germany and other European countries may purchase Rheinmetall AG shares on preferential conditions. Such shares are subject to a lock-up period of 2 years. 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. In fiscal 2014, Rheinmetall Group employees purchased 175,385 shares in total (previous year: 142,857) for €6 million (previous year: €5 million). Expenses of €0 million (previous year: €2 million) were incurred for this program, recognized as personnel expenses. The gain on disposal from the sale of treasury shares to employees totaled €3 million (previous year: €0 million).

Subscription period	Share price in €	Discount per share in €	No. of shares purchased by staff
April 25 - May 8, 2014	49.150	14.740	49,943
Oct. 24 - Nov 6, 2014	33.065	9.915	125,442

(40) OTHER INFORMATION ON RELATED PARTIES

For the Rheinmetall Group, corporate related parties are the joint ventures and associates carried at equity. The volume of products/services provided to corporate related parties primarily relates – as in the previous year – to sales proceeds from the sale of finished and unfinished goods to project companies and to services performed as part of construction contracts with project companies of the Defence sector. 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 €1 million (previous year: €2 million). The interest income from such loans amounts to an unchanged €0 million. The scope of related-party transactions is shown in the table below.

€ million

	Volume of products/ services provided		Volume of products/ services received		Volume of open items	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Joint ventures	262	175	7	4	20	(37)
Associated companies	3	5	19	34	(3)	(2)
	265	**180**	**26**	**38**	**17**	**(39)**

Please see the comments under Note (36) “Contingent liabilities” for details of the Rheinmetall Group’s contingent liabilities in connection with joint ventures.

Business relationships exist between a subsidiary of Rheinmetall AG and PL Elektronik GmbH, Lilienthal, whose sole shareholder is Mr. Armin Papperger, a member of the Rheinmetall AG Executive Board, and which is managed by a party related to Mr. Armin Papperger. PL Elektronik GmbH provides development services and produces and supplies electric igniters to order. The transactions are carried out on an arm’s-length basis. The volume of products/services received in fiscal 2014 amounted to €1 million.

Remuneration of the Executive Board and the Supervisory Board – The reportable compensation of senior management within the Group comprises that paid to active Executive Board and Supervisory Board members.

The expenses for compensation paid or payable to active members of the Executive Board break down as follows:

€ ’000

	2014	**2013**
Fixed remuneration incl. fringe benefits	1,570	1,614
Performance based remuneration	450	329
LTI	1,232	1,926
	3,252	**3,869**

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The post-retirement benefit amounts reflect the service cost for pension entitlements. The net present value of pension commitments, which corresponds to the amount of provisions, totals €7,712,000 for members of the Executive Board active at year-end (previous year: €3,690,000).

Supervisory Board compensation including attendance fees amounted to €1,410,000 (previous year: €1,425,000). In addition to Supervisory Board remuneration, those employee representatives who are employees of the Rheinmetall Group also receive compensation unrelated to their service on the Supervisory Board. The employee representatives received a total of €608,000 (previous year: €624,000) from these services.

For further details and itemization of each member's remuneration, see the Board remuneration report within the combined management report of the Rheinmetall Group and Rheinmetall AG.

€2,074,000 (previous year: €1,822,000) was paid to former members of the Executive Board or their surviving dependents. Pension provisions for these persons totaled €33,722,000 (previous year: €26,122,000). €580,000 (previous year: €569,000) was paid to former Executive Board members of Rheinmetall DeTec AG (merged with Rheinmetall AG in 2005) or their surviving dependents. Pension provisions for these persons totaled €8,901,000 (previous year: €8,262,000).

(41) AUDITOR'S FEES

In fiscal 2014, the following fees of the statutory auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) were expensed in Germany:

€ '000

	2014	**2013**
End-of-year auditing services	2,317	2,257
Other verification services	52	16
Tax consultancy services	3	3
Other services	115	362
	2,487	**2,638**

The auditing fees cover Rheinmetall AG's single-entity and consolidated financial statements and the accounts of all subsidiaries audited by PwC in Germany. Fees for other services mainly relate to activities in the context of audits accompanying projects and due diligence services. All services not related to the audit of the financial statements were approved by the Audit Committee.

(42) EXERCISE OF EXEMPTION PROVISIONS UNDER HGB

Based on the provisions of Section 264 (3) HGB governing companies and Section 264b HGB governing partnerships, the following German enterprises have elected not to prepare notes or management reports or to disclose their 2014 financial statements:

BF Germany GmbH
EMG EuroMarine Electronics GmbH
GVG Grundstücksverwaltung Gleitlager GmbH & Co. KG
GVMS Grundstücksverwaltung Service GmbH & Co. KG
GVN Grundstücksverwaltung Neckarsulm GmbH & Co. KG
Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin
Kolbenschmidt Pierburg Innovations GmbH
KS ATAG Beteiligungsgesellschaft m.b.H
KS Gleitlager GmbH
KS Grundstücksverwaltung Beteiligungs GmbH
KS Grundstücksverwaltung GmbH & Co. KG
KS Kolbenschmidt GmbH
KSPG AG
MEG Marine Electronics Holding GmbH
MS Motorservice Deutschland GmbH
MS Motorservice International GmbH
Pierburg GmbH
Pierburg Grundstücksverwaltung GmbH & Co. KG
Pierburg Pump Technology GmbH
Rheinmetall Ballistic Protection GmbH
Rheinmetall Berlin Verwaltungsgesellschaft mbH
Rheinmetall Defence Electronics GmbH
Rheinmetall Dienstleistungszentrum Altmark GmbH
Rheinmetall Eastern Markets GmbH
Rheinmetall Immobilien GmbH
Rheinmetall Immobilien Hamburg GmbH
Rheinmetall Immobilien Hamburg Objekt Friedensallee GmbH & Co. KG
Rheinmetall Industrietechnik GmbH
Rheinmetall Insurance Services GmbH
Rheinmetall Landsysteme GmbH
Rheinmetall Maschinenbau GmbH
Rheinmetall Soldier Electronics GmbH
Rheinmetall Technical Publications GmbH
Rheinmetall Verwaltungsgesellschaft mbH
Rheinmetall Waffe Munition GmbH
SUPRENUM Gesellschaft für numerische Superrechner mbH

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(43) CORPORATE GOVERNANCE

In August 2014, Rheinmetall AG published its declaration of conformity according to the German Corporate Governance Code pursuant to Section 161 AktG on the internet at www.rheinmetall.com in the section “Group – Corporate Governance,” thus making it available to shareholders.

Düsseldorf, February 27, 2015

Rheinmetall Aktiengesellschaft
The Executive Board

Armin Papperger	Horst Binnig	Helmut P. Merch

Notes to the consolidated financial statements
Shareholdings

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € 'ooo	Net income for the year in € 'ooo
Fully consolidated subsidiaries					
Holding companies / service companies / other					
EMG EuroMarine Electronics GmbH, Neckarsulm/Germany			100	31,686	45
MEG Marine Electronics Holding GmbH, Düsseldorf/Germany	(1)		100	5,000	0
Rheinmetall Berlin Verwaltungsgesellschaft mbH, Berlin/Germany	(1)	100		213,750	0
Rheinmetall Immobilien GmbH, Düsseldorf/Germany		100		207,576	96
Rheinmetall Immobilien Hamburg GmbH, Düsseldorf/Germany		100		1,683	2
Rheinmetall Immobilien Hamburg Objekt Friedensallee GmbH & Co. KG, Düsseldorf/Germany			100	14,660	(311)
Rheinmetall Industrietechnik GmbH, Düsseldorf/Germany	(1)	100		26	0
Rheinmetall Insurance Services GmbH, Düsseldorf/Germany	(1)	100		308	19
Rheinmetall Maschinenbau GmbH, Düsseldorf/Germany		100		(6,035)	244
Rheinmetall Verwaltungsgesellschaft mbH, Düsseldorf/Germany	(1)		100	733,843	0
SUPRENUM Gesellschaft für numerische Superrechner mbH, Bremen/Germany			100	(1,397)	0
Defence sector					
ADS Gesellschaft für aktive Schutzsysteme mbH, Lohmar/Germany			74	20,397	(3,907)
American Rheinmetall Defense, Inc., Biddeford, Maine/USA		100		37,608	1,613
American Rheinmetall Munition Inc., Stafford, Virginia/USA			100	(8,760)	(2,069)
Benntec Systemtechnik GmbH, Bremen/Germany	(2)		49	2,702	448
BIL Industriemetalle GmbH & Co. 886 KG, Grünwald/Germany	(3)	94		(272)	129
Eurometaal N.V., Hengelo/Netherlands			100	10,451	(72)
I.L.E.E. AG, Urdorf/Switzerland			100	5,996	597
Laser 2000 AG, Urdorf/Switzerland			80	0	0
LDT Laser Display Technology GmbH, Jena/Germany			100	1,478	428
MarineSoft Entwicklungs- und Logistikgesellschaft mbH, Rostock/Germany	(2)		49	1,285	(7)
Nitrochemie AG, Wimmis/Switzerland			51	842	1
Nitrochemie Aschau GmbH, Aschau/Germany			55	13,357	5,590
Nitrochemie Wimmis AG, Wimmis/Switzerland			55	45,327	2,775
Oerlikon Contraves GmbH, Zurich/Switzerland		100		16	0
Oerlikon Contraves Pte Ltd., Singapore/Singapore			100	2,249	36
RD Investment AG, Zurich/Switzerland			69	7,603	6,809
RFEL LTD, Newport, Isle of Wight/Great Britain			100	1,942	83
Rheinmetall Air Defence AG, Zürich/Switzerland		100		25,402	10,478
Rheinmetall Ballistic Protection GmbH, Krefeld/Germany	(1)		100	4,591	(519)
Rheinmetall Canada Inc., St.-Jean-sur-Richelieu/Canada		100		71,606	(1,891)
Rheinmetall Chempro GmbH, Bonn/Germany			51	29,477	4,043
Rheinmetall Combat Platforms North America Inc, Wilmington, Delaware/USA			100	4	0

Notes to the consolidated financial statements
Shareholdings

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € 'ooo	Net income for the year in € 'ooo
Rheinmetall Communication and Simulation Technologies plc, Singapore/Singapore			100	205	17
Rheinmetall Defence Australia Pty Ltd., Deakin West/Australia		100		0	0
Rheinmetall Defence Electronics GmbH, Bremen/Germany	(1)	100		28,852	39
Rheinmetall Defence UK Limited, London/Great Britain		100		7,383	(1,223)
Rheinmetall Denel Munition Pty. Ltd., Somerset West/South Africa			51	50,174	9,117
Rheinmetall Dienstleistungszentrum Altmark GmbH, Letzlingen/Germany	(1)	100		25	(5)
Rheinmetall Eastern Markets GmbH, Düsseldorf/Germany	(1)	100		799	29
Rheinmetall Hellas S.A. i.L., Athens/Greece		100		187	(184)
Rheinmetall Italia S.p.A., Rome/Italiy			100	97,552	3,260
Rheinmetall Laingsdale (Pty) Ltd., Cape Town/South Africa			76	1,899	(204)
Rheinmetall Landsysteme GmbH, Unterlüß/Germany	(1)	100		33,816	3,402
Rheinmetall Ltd, Moscow/Russian Federation			100	407	25
Rheinmetall MAN Military Vehicle Systems RSA (Pty) Ltd., Pretoria/South Africa	(2)		36	20	72
Rheinmetall MAN Military Vehicles Australia Pty Ltd., Canberra/Australia			51	434	36
Rheinmetall MAN Military Vehicles Canada Ltd., Ottawa/Canada			51	853	0
Rheinmetall MAN Military Vehicles GmbH, Munich/Germany		51		72,710	9,399
Rheinmetall MAN Military Vehicles Nederland B.V., Ede/Netherlands			51	(9,049)	(3,053)
Rheinmetall MAN Military Vehicles Österreich GesmbH, Vienna/Austria			51	21,996	(17,645)
Rheinmetall MAN Military Vehicles Österreich Holding GesmbH, Vienna/Austria			51	100,123	(12)
Rheinmetall MAN Military Vehicles UK Ltd., Swindon/Great Britain			51	0	0
Rheinmetall Mexico Simulation and Training S.A. de C.V., Mexico City/Mexico			100	147	(50)
Rheinmetall Netherlands B.V., Hengelo/Netherlands			100	49,076	490
Rheinmetall Nordic AS, Nøtterøy/Norway		100		39,385	(28,459)
Rheinmetall Protection Systems Nederland B.V., Ede/Netherlands			100	(102)	(113)
Rheinmetall Schweiz AG, Zurich/Switzerland			100	288	9
Rheinmetall Simulation Australia Pty. Ltd., Adelaide/Australia			100	1,323	(27)
Rheinmetall Simulation International AG, Muri/Switzerland			100	584	476
Rheinmetall Soldier Electronics GmbH, Stockach/Germany	(1)	100		1,519	745
Rheinmetall Technical Assistance GmbH, Kassel/Germany	(1)		51	23	0
Rheinmetall Technical Publications GmbH, Bremen/Germany	(1)	100		1,430	1,618
Rheinmetall Waffe Munition ARGES GmbH, Schwanenstadt/Austria	(1)		100	1,636	6
Rheinmetall Waffe Munition GmbH, Unterlüß/Germany	(1)	100		105,928	8,173
Rheinmetall Waffe Munition South Africa (Pty) Ltd., Somerset West/South Africa			100	(28)	(6)
RM Euro B.V., Hengelo/Netherlands		100		52,787	464
RTP Schweiz AG, Zurich/Switzerland			100	83	0
RTP-UK Ltd., Bristol/Great Britain			100	4,297	1,440
RWM Beteiligungsverwaltung Austria GmbH, Schwanenstadt/Austria			100	14,245	340
RWM Italia S.p.A., Ghedi/Italy			100	15,400	2,137
RWM Schweiz AG, Zurich/Switzerland			100	31,338	4,592
RWM Zaugg AG, Lohn-Ammannsegg/Switzerland			100	10,067	693
Servo Kontroll AS, Oslo/Norway			100	1,335	11

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € 'ooo	Net income for the year in € 'ooo
Swiss SIMTEC AG, Thun/Switzerland			100	2,257	331
Vinghøg AS, Nøtterøy/Norway			100	(3,738)	(23,487)
Vingtech Australia Pty. Ltd., Alphington, Victoria/Australia			55	51	0
Vingtech LLC, Biddeford, Maine/USA			100	23,582	2,018
Automotive sector					
BF Engine Parts LLC, Istanbul/Turkey			100	664	124
BF Germany GmbH, Asperg /Germany	(1)		100	10,129	(1,163)
GVG Grundstücksverwaltung Gleitlager GmbH & Co. KG, Neckarsulm/Germany			100	6,548	172
GVMS Grundstücksverwaltung Service GmbH & Co. KG, Neckarsulm/Germany			100	24	(14)
GVN Grundstücksverwaltung Neckarsulm GmbH & Co. KG, Neckarsulm/Germany			100	5,004	305
Intec France S.A.S., Meyzieu/France			100	849	(18)
Karl Schmidt Trading Company S. de R.L. de C.V. Celaya/Mexico			100	(74)	(198)
Kolbenschmidt de México, S. de R.L. de C.V., Celaya/Mexico			100	8,701	2,492
Kolbenschmidt K.K., Yokohama/Japan			100	24,477	3,221
Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin, Neckarsulm/Germany	(1)		100	6,742	191
Kolbenschmidt Pierburg Innovations GmbH, Neckarsulm/Germany	(1)		100	(1,235)	420
Kolbenschmidt USA Inc., Marinette/USA			100	0	0
KS ATAG Beteiligungsgesellschaft m.b.H., Neckarsulm/Germany	(1)		100	10,263	0
KS ATAG Romania S.R.L., Bukarest/Romania			100	3,830	(968)
KS CZ Motorservice s.r.o., Usti/Czech Republic			100	3,325	(409)
KS France S.A.S, Basse-Ham (Thionville)/France			100	25,202	1,207
KS Gleitlager de México S. de R.L. de C.V., Celaya/Mexico			100	(1,192)	(1,137)
KS Gleitlager GmbH, St. Leon-Rot/Germany	(1)		100	12,518	735
KS Gleitlager North America LLC, Marinette/USA			100	(3,914)	(1,956)
KS Grundstücksverwaltung Beteiligungs GmbH, Neckarsulm/Germany			100	106	8
KS Grundstücksverwaltung GmbH & Co. KG, Neckarsulm/Germany			100	24,430	253
KS Kolbenschmidt Czech Rebublic a.s., Usti/Czech Republic			100	28,111	(6,255)
KS Kolbenschmidt France S.A.S., Basse-Ham (Thionville)/France			100	15,076	2,619
KS Kolbenschmidt GmbH, Neckarsulm/Germany	(1)		100	57,570	880
KS Kolbenschmidt US Inc., Marinette/USA			92	3,041	5,443
KS Large Bore Pistons LLC., Marinette/USA			100	27,174	4,196
KSLP (China) Co. Ltd., Kunshan/China			100	2,963	(1,742)
KSPG AG, Neckarsulm/Germany	(1)		100	333,922	570
KSPG Automotive Brazil Ltda., Nova Odessa/Brazil			100	70,883	2,001
KSPG Automotive India Private Ltd., Mumbai Maharashtra/India			100	23,985	(2,265)
KSPG Finance & Service Ltd., St. Julians/Malta			79	164,265	1,641
KSPG Holding USA Inc., Delaware/USA			100	240,551	3,838
KSPG Malta Holding Ltd., St. Julians/Malta		21	79	166,497	2,328

Notes to the consolidated financial statements
Shareholdings

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € '000	Net income for the year in € '000
KSPG Netherlands Holding B.V., Amsterdam/Netherlands			100	75,606	(4)
KSUS International, LLC., Marinette/USA			100	28,250	12,742
Mechadyne International Ltd., Kirtlington/Great Britain			100	2,178	1,058
MS Motorservice Aftermarket Iberica S.L., Abadiano/Spain			100	3,152	1,113
MS Motorservice Asia Pacific Co. Ltd., Shanghai/China			100	3,108	167
MS Motorservice Deutschland GmbH, Asperg/Germany	(1)		100	3,382	(74)
MS Motorservice France S.A.S., Villepinte/France			100	13,983	2,037
MS Motorservice International GmbH, Neuenstadt/Germany	(1)		100	37,220	561
MS Motorservice Istanbul Dis Ticaret ve Pazarlama A.S., Istanbul/Turkey			51	3,159	184
Pierburg China Ltd., Kunshan City/China			100	1,656	1,544
Pierburg Gestion S.L., Abadiano/Spain			100	29,754	16,170
Pierburg GmbH, Neuss/Germany	(1)		100	107,131	95
Pierburg Grundstücksverwaltung GmbH & Co. KG, Neuss/Germany			100	5,854	(124)
Pierburg Mexico S.A. de C.V., Chihuahua/Mexico			100	0	0
Pierburg Mikuni Pump Technology (Shanghai) Corp., Shanghai/China			51	4,807	(247)
Pierburg Mikuni Pump Technology Corporation, Odawara/Japan			51	2,443	171
Pierburg Pump Technology France S.à r.l., Basse-Ham (Thionville)/France			100	38,569	3,057
Pierburg Pump Technology GmbH, Neuss/Germany	(1)		100	32,872	(293)
Pierburg Pump Technology India Private Limited, Mumbai Maharashtra/India			100	2	0
Pierburg Pump Technology Italy S.p.A., Lanciano/Italy			100	25,706	4,958
Pierburg Pump Technology Mexico S.A.de C.V., Mexico City/Mexico			100	6,130	240
Pierburg Pump Technology UK Ltd., London/Great Britain			100	1	0
Pierburg Pump Technology US LLC., Marinette/USA			100	(4,520)	(55)
Pierburg S.A., Abadiano/Spain			100	32,749	21,122
Pierburg s.r.o., Usti/Czech Republic			100	38,032	24,650
Pierburg Systems S.L., Abadiano/Spain			100	65	84
Pierburg US, LLC , Fountain Inn (Greenville)/USA			100	8,223	2,632
Société Mosellane de Services S.C.I., Basse-Ham (Thionville)/France			100	10,167	(29)
Joint Operations					
Automotive sector					
Advanced Bearing Materials LLC., Greensburg/USA	(5)		50	3,712	19

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € 'ooo	Net income for the year in € 'ooo
Investments carried at equity					
Holding companies / service companies / other					
casa altra development GmbH, Düsseldorf/Germany	(6)		35	(1,352)	30
LIGHTHOUSE Development GmbH, Düsseldorf/Germany	(4), (6)		10	25	102
Unternehmerstadt GmbH, Düsseldorf/Germany	(5)		50	40	25
Defence sector					
Advanced Pyrotechnic Materials Pte Ltd, Singapore/Singapore	(5)		49	4,148	1,542
AIM Infrarot-Module GmbH, Heilbronn/Germany			50	5,899	1,431
ARGE RDE/CAE (GbR), Bremen/Germany	(5)		50	69	1
ARTEC GmbH, Munich/Germany	(5), (6)		64	1,100	75
Cassidian Airborne Solutions GmbH, Bremen/Germany	(6)	49		3,330	3,550
Contraves Advanced Devices Sdn Bhd, Malacca/Malaysia	(5)		49	9,745	3,976
Defense Munitions International, LLC, Wilmington, Delaware/USA	(5)		50	8	0
DynITEC GmbH, Troisdorf/Germany	(6)		35	3,282	1,122
EuroSpike GmbH, Röthenbach/Pegnitz/Germany	(5)		40	1,159	1,113
GIWS Gesellschaft für Intelligente Wirksysteme mbH, Nürnberg/Germany	(5)		50	1,236	(66)
Hartchrom Defense Technology AG, Steinach/Switzerland			38	1,776	46
HFTS Helicopter Flight Training Services GmbH, Hallbergmoos/Germany	(5)		25	41,080	12,404
HIL Industrie-Holding GmbH, Bonn/Germany	(5)		33	57	(5)
KBR Rheinmetall Holdings Limited, Leeds/Great Britain	(5)		50	0	0
LOG GmbH, Bonn/Germany	(6)		25	539	(589)
N2 Defense LLC, Arlington, Virginia/USA	(5), (6)		50	(51)	(1)
ORR Training Systems LLC, Moskau/Russian Federation	(5)		25	(120)	(226)
Oy Finnish Defence Powersystems Ab, Helsinki/Finland			30	335	(1)
PSM Projekt System & Managment GmbH, Kassel/Germany	(5)		50	592	(44)
Rheinmetall International Engineering GmbH, Geisenheim/Germany	(5)	50		12,066	2,733
Werk Aschau Lagerverwaltungsgesellschaft mbH, Aschau/Germany	(5)		28	25	0
Automotive sector					
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., Shanghai/China	(5)		50	91,729	28,395
Kolbenschmidt Shanghai Piston Co. Ltd., Shanghai/China	(5)		50	57,073	12,776
KS HUAYU AluTech GmbH, Neckarsulm/Germany	(5)		50	31,000	6,992
Pierburg Huayu Pump Technology Co. Ltd., Shanghai/China	(5)		50	3,438	(4,043)
Shriram Pistons & Rings Ltd., Neu Delhi/India			20	77,296	7,133

(1) Profit transfer agreement
(2) Full consolidation due to majority of voting rights
(3) Classified as structured entity
(4) Controlling influence owing to distribution of voting rights
(5) Joint ventures
(6) Equity and result from previous years

Responsibility statement

We represent that, to the best of our knowledge and in accordance with applicable accounting principles, the consolidated 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 management report, which is consolidated with the management report of Rheinmetall AG, 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.

Düsseldorf, February 27, 2015

Rheinmetall Aktiengesellschaft
The Executive Board

Armin Papperger Horst Binnig Helmut P. Merch

Auditors' report and opinion

RHEINMETALL AG, DÜSSELDORF, INDEPENDENT AUDITOR'S REPORT AND OPINION

We have audited the consolidated financial statements prepared by the Rheinmetall AG, Düsseldorf, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the Rheinmetall AG, Düsseldorf, for the business year from January 1 to December 31, 2014. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and in the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.
Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Düsseldorf, March 3, 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Gerd Bovensiepen
Wirtschaftsprüfer (German Public Auditor)

Norbert Klütsch
Wirtschaftsprüfer (German Public Auditor)

ADDITIONAL INFORMATION

Balance sheet of Rheinmetall AG as of December 31, 2014

Assets '000

	Note	12/31/2014	12/31/2013
Fixed assets	(1)		
Intangible assets		3,799	417
Property, plant and equipment		27,332	24,054
Financial assets		1,063,541	1,080,352
		1,094,672	**1,104,823**
Current assets			
Receivables and other assets	(2)	369,694	570,723
Cash in hand	(3)	258,009	367,281
		627,703	**938,004**
Deferred income	(4)	**5,271**	**2,548**
Total assets		**1,727,646**	**2,045,375**

Equity and Liabilities '000

	Note	12/31/2014	12/31/2013
Share capital		101,373	101,373
Treasury stock (notional value relating to the share capital)		(3,137)	(3,902)
		98,236	97,471
Capital reserves		309,844	307,234
Retained earnings		107,307	114,856
Net earnings		12,000	16,000
Equity		**527,387**	**535,561**
Provisions	(6)	**119,016**	**123,871**
Liabilities	(7)		
Bond		500,000	500,000
Liabilities due to banks		178,500	15,606
Other liabilities		402,318	870,337
		1,080,818	**1,385,943**
Deferred income		**425**	**-**
Total liabilities		**1,727,646**	**2,045,375**

Income statement of Rheinmetall AG
for fiscal 2014

’000

	Note	2014	2013
Investment income	(11)	41,997	41,086
Net interest	(12)	(24,091)	(29,497)
Net financial income		**17,906**	**11,589**
Other operational income		101,385	101,778
Staff costs		25,238	23,906
Amortization of intangible and depreciation of tangible assets (incl. write-down)		2,032	1,274
Depreciation of financial assets	(15)	15,045	-
Other operating expenses	(16)	81,336	67,136
Extraordinary expenses	(17)	922	922
Earnings before taxes (EBT)		**(5,282)**	**20,129**
Taxes on income and revenue	(18)	(537)	(593)
Net profit for the year		**(5,819)**	**19,536**
Appropriations to retained earnings		-	3,536
Appropriations of retained earnings		17,819	-
Net earnings		**12,000**	**16,000**

Supervisory Board

Klaus Greinert
Mannheim
Businessman
Chairman

Membership in Supervisory Boards

DURAVIT AG
(Vice Chairman)
DURAVIT S.A.

Dr. Rudolf Luz *)
Weinsberg
1st delegate of the
German Metalworkers' Union
Vice Chairman

Membership in Supervisory Boards

KSPG AG
Stellvertretender Vorsitzender

Roswitha Armbruster *)
Schramberg
Chairwoman of Works Council of the
Defence sector of Rheinmetall AG

Chairwoman of Works Council
Rheinmetall Waffe Munition GmbH
Branch Mauser Oberndorf

Vice Chairwoman of the Group's Works Council
Rheinmetall AG

Membership in Supervisory Boards

Rheinmetall Waffe Munition GmbH

Julia Cuntz *)
Berlin
(until May 6, 2014)
Member of the German Metalworkers' Union
General Secretariat

Membership in Supervisory Boards

euro engineering AG

Professor Dr. Andreas Georgi
Starnberg
Professor of Leadership and Control Problems
in Enterprise
Ludwig-Maximilians-Universität Munich
Consultant

Membership in Supervisory Boards

Asea Brown Boveri Aktiengesellschaft
Felix Schoeller Holding GmbH & Co. KG
Oldenburgische Landesbank AG

Dr. Siegfried Goll
Markdorf
Consulting engineer
Former CEO of ZF Friedrichshafen AG

Membership in Supervisory Boards

Voss Holding GmbH & Co. KG
Witzenmann GmbH

Professor Dr. Susanne Hannemann
Bochum
Professor of Applied Business Administration,
in particular company taxation and auditing
Bochum University of Applied Sciences

Daniel Hay
Hattingen
(from May 7, 2014)
1st delegate of the
German Metalworkers' Union

Heinrich Kmett *)
Fahrenbach/Robern
(until June 30, 2014)
Chairman of the Location Works Council of
KSPG AG
KS Kolbenschmidt GmbH
KS ATAG GmbH
KS Aluminium-Technologie GmbH
MS Motor Service International GmbH

Membership in Supervisory Boards

KSPG AG
(until June 30, 2014)

Dr. Michael Mielke *)
Berlin
Head of Product Division Actuators
Pierburg GmbH, Berlin Plant

*) *Elected by the employees*

DDr. Peter Mitterbauer
Gmunden, Österreich

Member of the Executive Board
Miba AG

Membership in Supervisory Boards

Miba AG
Andritz AG (until March 2014)
Erste Österreichische Spar-Casse Privatstiftung
Oberbank AG
ÖIAG Österreichische Industrieholding AG
Chairman (until June 2014)

Detlef Moog
Mülheim an der Ruhr

Consulting engineer

Wolfgang Müller *)
Bad Rappenau
(until 30. Juni 2014)

Chairman of the Works Council of
KS Aluminium-Technologie GmbH and
Werkzeugbau Walldürn GmbH
(until March 18, 2014)

Vice Chairman of the Location Works Council of
KSPG AG
KS Kolbenschmidt GmbH
KS ATAG GmbH
KS Aluminium-Technologie GmbH
MS Motor Service International GmbH
(until March 18, 2014)

Membership in Supervisory Boards

KS ATAG GmbH

Professor Dr. Frank Richter
Ulm

Chairman of the Management Board
DURAVIT AG

Membership in Supervisory Boards

Advisory Board Gebr. Röchling KG
Advisory Board Duralog Duravit Logistik GmbH
(Chairman)
Duravit Egypt S.A.E.
(Chairman)
Duravit (China) Sanitaryware Co. Ltd.
(Chairman)
Duravit Yapi Ürünleri San. Ve. Tic. A.S.
(President)
Duravit Tunisia S.A.
(President)
Duravit India Pvt. Ltd.
(Chairman)

*) *Elected by the employees*

Markus Schaubel *)
Lauffen am Neckar
(from July 1, 2014)

Chairman of the Works Council of
KSPG AG
KS Kolbenschmidt GmbH
MS Motorservice International GmbH

Chairman of the Sub-Works Council of
KSPG AG

Vice Chairman of the the Group's Works Council
Rheinmetall AG

Membership in Supervisory Boards

KSPG AG
KS Kolbenschmidt GmbH
Vice Chairman

Sven Schmidt *)
Wiesloch
(from July , 2014)

Chairman of the Works Council of
KS Gleitlager GmbH

Chairman of the Works Council of
KS Gleitlager GmbH

Vice Chairman of the Sub-Works council of
KSPG AG

Member the Group's Works Council
Rheinmetall AG

Membership in Supervisory Boards

KSPG AG

Harald Töpfer *)
Kassel

Chairman of Works Council of
Rheinmetall MAN Military Vehicles GmbH,
Kassel operation

Membership in Supervisory Boards

Rheinmetall MAN Military Vehicles GmbH
Vice Chairman

Wolfgang Tretbar *)
Nettetal

Member of Works Council of
Pierburg GmbH, Nettetal Plant

Toni Wicki
Oberrohrdorf, Schweiz

Consulting engineer

Rheinmetall AG Executive Board

Armin Papperger
Düsseldorf

Chairman

Director of Industrial Relations

Chairman of Management Board Defence

Membership in Supervisory Boards

Nitrochemie AG
President

Nitrochemie Aschau GmbH
Chairman

Nitrochemie Wimmis AG
President

Rheinmetall Defence UK Limited
Chairman Board of Directors

Rheinmetall Denel Munition (Pty) Ltd
Chairman

Rheinmetall Laingsdale (Pty) Ltd
Chairman

Rheinmetall MAN Military Vehicles GmbH
Chairman

Rheinmetall Waffe Munition South Africa (Pty) Ltd
Chairman

RWM Beteiligungsverwaltung Austria GmbH
Managing Director
(up to October 25, 2014)

Helmut P. Merch
Erkrath

Finance and Controlling

CFO of Management Board Defence

Membership in Supervisory Boards

KSPG AG

Nitrochemie AG

Nitrochemie Aschau GmbH

Nitrochemie Wimmis AG

Rheinmetall Denel Munition (Pty) Ltd

Rheinmetall MAN Military Vehicles GmbH

Rheinmetall Waffe Munition South Africa (Pty) Ltd

Horst Binnig

Bad Friedrichshall
(from January 1, 2014)

Chairman oft he Executive Board
of KSPG AG
(from January 1, 2014)

Membership in Supervisory Boards

Kolbenschmidt Pierburg Shanghai
Nonferrous Components Co. Ltd.
Director
(up to March 24, 2014)
Chairman
(from March 24, 2014)

Kolbenschmidt Shanghai Piston Co., Ltd.
Director
(up to March 24, 2014)
Vice Chairman
(from March 24, 2014)

KS Aluminium-Technologie GmbH
Chairman

KS Gleitlager GmbH
Chairman

KS Kolbenschmidt GmbH
Chairman

KSPG Holding USA, Inc.
Director
(from January 2, 2014)

MS Motor Service Istanbul Dis Ticaret Ve Pazarlama A.S.

Pierburg GmbH
Chairman

Pierburg HUAYU Pump Technology Co., Ltd.
Vice Chairman Board of Directors

Bertrandt AG

Kolbenschmidt de México S. de R.L. de C.V.
Director
(up to May 22, 2014)

KS Kolbenschmidt US, Inc.
Director
(up to March 31, 2014)

Kolbenschmidt USA, Inc.
Director
(up to March 31, 2014)

KS ATAG GmbH
(from January 10, 2014)
(up to March 11, 2014)
Chairman
(from March 11, 2014)
(up to July 31, 2014)

KSLP (China) Co. Ltd.
Director
(up to April 15, 2014)

Pierburg Gestión S.L.
Member of the Administrative Board
(up to March 31, 2014)

Pierburg S.A.
Chairman of the Administrative Board
(up to March 31, 2014)

Pierburg Systems S.L.
Chairman of the Administrative Board
(up to March 31, 2014)

Pierburg US, LLC
Chairman Board of Managers
(up to March 31, 2014)

Senior Executive Officers

Dr. Andreas Beyer, LL.M.
Sindelfingen
(up to June 30, 2014)
Law, Internal Auditing, Merger & Acquisitions,
Chief Compliance Officer

Peter-Sebastian Krause
Erkrath
Human Resources and Senior Management
(from January 1, 2014)

Chief Compliance Officer

Dr. Andreas Beyer, LL.M.
Sindelfingen
(up to June 30, 2014)

Michael Salzmann
Düsseldorf
(from July 1, 2014)

Executive Board Automotive

Horst Binnig
Bad Friedrichshall
Chairman
Strategy, Marketing, Operations
(from January 1, 2014)

Peter-Sebastian Krause
Erkrath
Human Resources, Law

Dr. Peter P. Merten
Herrsching
Finance and Controlling, IT

Management Board Defence

Armin Papperger
Düsseldorf
Chairman

Helmut P. Merch
Erkrath
Finance and Controlling, IT

Dr. Andreas Schwer
Düsseldorf
Division Combat Systems

Bodo Garbe
Düsseldorf
Division Electronic Solutions

Pietro Borgo
München
Division Wheeled Vehicles

Peter Sebastian Krause
Erkrath
(from January 1, 2014)
Human Resources

Legal information and contact

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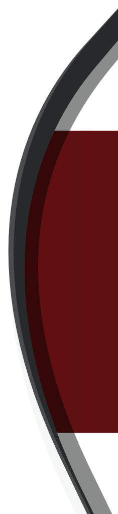
This report contains statements and forecasts referring to the future development of the Rheinmetall Group which are based on assumptions and estimates made by the management. A number of factors, many of which are beyond Rheinmetall's control, influence the business activities, success, business strategy and results of the Company. Statements regarding the future are based on current plans, targets, estimates and forecasts and only take into account findings made up to and including the date this report was produced. If the underlying assumptions do not materialize, the actual figures may differ from such estimates. Uncertain factors include changes in the political and economic environment, changes to national and international laws and regulations, market fluctuations, the development of global market prices for commodities, exchange rate and interest rate fluctuations, the impact of rival products and competitive prices, the acceptance of and demand for new products, the effect of changes to customer structures and changes to the business strategy. Rheinmetall does not intend, nor does it undertake a particular commitment, to update statements referring to the future or to adjust these to events or developments following the publication of this annual report.



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