

Semiannual Financial Report

First Half of 2016

Rheinmetall AG

GROWTH IN SALES AND EARNINGS AT RHEINMETALL

Rheinmetall closed the first half of 2016 with considerable growth in sales and improved operating earnings.

- Consolidated sales grow 10 % to €2,599 million adjusted for currency effects
- Operating earnings for the Group improve by 30 % or €24 million to €103 million
- Strong sales growth in Defence of 19 % to €1,250 million and positive operating earnings
- Automotive increases sales after solid second quarter of 2016 to €1,349 million, operating margin at high level of 8.3 %
- Order backlog remains over €7 billion

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

RHEINMETALL IN FIGURES

		Q2/2016	Q2/2015	H1/2016	H1/2015
Sales/Results					
Sales	€ million	1,419	1,221	2,599	2,394
of which generated abroad	%	79	75	78	75
Operating result	€ million	72	57	103	79
Operating result margin	%	5.1	4.7	4.0	3.3
EBITDA	€ million	126	106	212	177
EBIT	€ million	72	57	103	79
EBIT margin	%	5.1	4.7	4.0	3.3
EBT	€ million	58	42	75	48
Earnings per share	€	0.94	0.83	1.26	1.03
Cash Flow					
Cash flow from operating activities	€ million	(15)	(20)	(226)	(168)
Cash flow from Investments	€ million	(60)	(55)	(112)	(111)
Operating free cash flow	€ million	(75)	(75)	(338)	(279)
Order situation					
Order intake	€ million	1,446	1,324	3,055	2,555
Order backlog (June 30)	€ million	-	-	7,306	7,125

		6/30/2016	6/30/2015
Balance Sheet			
Total equity	€ million	1,469	1,294
Total assets	€ million	5,702	5,282
Equity ratio	%	26	24
Cash and cash equivalents	€ million	308	196
Total assets less cash and cash equivalents	€ million	5,394	5,086
Net financial debt	€ million	485	621
Leverage ratio ¹⁾	%	9.0	12.2
Net gearing ²⁾	%	33.0	48.0

Human resources (capacities)			
Rheinmetall Group		20,954	20,642
Defence		9,857	9,422
Automotive		10,941	11,066
Holding/service companies		156	154

Share			
Stock price	€	53.20	45.49
Market capitalization	€ million	2,317	1,801
Stock price, highest level for H1	€	70.61	50.51
Stock price, lowest level for H1	€	52.54	45.27
Stock exchange turnover Xetra (daily average Q2)	shares	212,160	222,174
Market capitalization – MDAX ranking Deutsche Börse		22	29
Stock exchange turnover – MDAX ranking Deutsche Börse		17	25

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

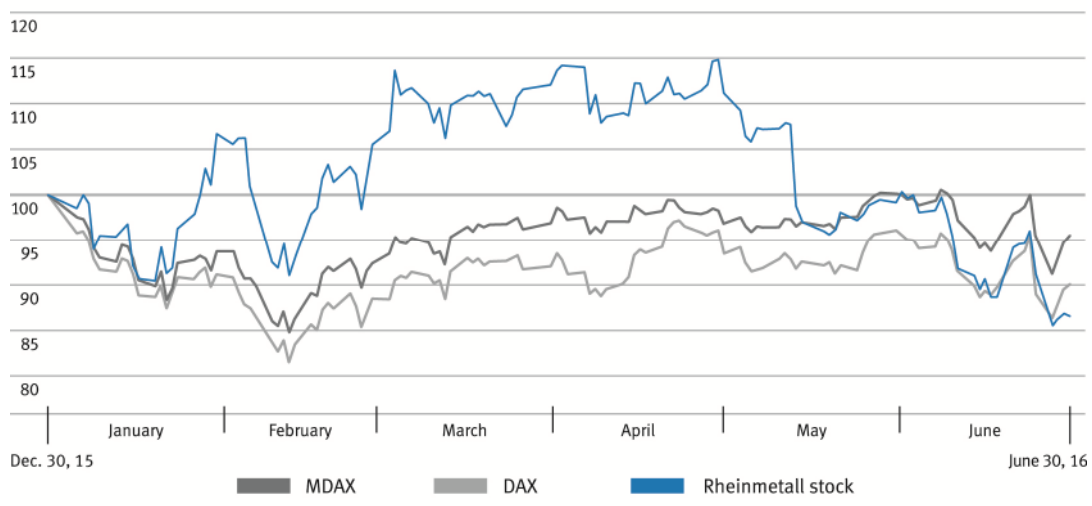
2) Net financial liabilities/equity

THE RHEINMETALL SHARE

DAX AND MDAX

The German stock markets began 2016 with weak development that resulted in lows for the entire first half of the year as early as February. Compared to the end of 2015, the DAX fell by 19% up to February 11, 2016, and the MDAX by 13% up to February 10, 2016. Then the recovery started, which brought the DAX back up to nearly the level of the start of the year with a half-year high of 10,436 on April 21, 2016, and actually took the MDAX above its starting point to 20,892 on June 7, 2016. Great Britain's exit from the EU, demanded by the British voters in the referendum on June 23, 2016, caused uncertainty that put downward pressure on both German leading indices even before the vote occurred. The DAX therefore ended the first half of the year with a drop of 10% and the MDAX with a decline of 5%.

December 30, 2015, through June 30, 2016



RHEINMETALL SHARE

The Rheinmetall share also ran a negative course at the start of the year. The share price initially sank by 10% to €55.34 on January 18, 2016, but then recovered continuously. On March 31, 2016, the stock price exceeded the €70 threshold again for the first time since 2007 and reached the high of €70.61 on April 28, 2016. When the capital market was informed of the business figures for the first quarter of 2016 on May 12, 2016, the price dropped 8% from €66.25 to €60.65. At the end of the first half of the year, the Rheinmetall share was listed at €53.20 and therefore 14% lower than at the end of fiscal year 2015.

INVESTOR RELATIONS ACTIVITIES

The Executive Board and Investor Relations department of Rheinmetall AG continued intensive talks with analysts and investors in the first six months of 2016. These took place at investors' conferences including in New York, London, Frankfurt, and Berlin and in numerous telephone conferences.

GENERAL ECONOMIC CONDITIONS

UNCERTAINTY DUE TO “BREXIT” – GROWING CONCERN FOR THE WORLD ECONOMY

After the British voters' Brexit decision in June 2016, German businesses are uncertain about the potential consequences. Many observers believe that the Brexit vote will do little damage to the German economy in the short term, but more in the medium term. The Cologne Institute for Economic Research (IW) came to this conclusion in an initial analysis of several studies compiled in the run-up to the referendum. The IW assumes that the Britons' "No" to the EU has consolidated the already high level of uncertainty in the German economy. In addition to Brexit, the IW also counts other uncertainty factors including the refugee issue, the European Central Bank's expansionary monetary policy and the declining economic momentum in the emerging economies. A similar assessment is made by the International Monetary Fund (IMF), which revised its forecast for 2016 downward slightly in its latest World Economic Outlook from July. The IMF now predicts growth in global economic output of 3.1% for this year, 0.1 percentage points less than in its April forecast. For 2017, the IMF forecasts global economic growth of 3.4%. This is likewise 0.1 percentage points less than in its April forecast. For the euro zone, the economists expect economic growth of 1.6% in 2016 and 1.4% next year despite the Brexit decision, based on an optimistic assessment of the economic consequences of the upcoming exit negotiations. According to this assessment, the British economy will be most severely affected by Brexit and is expected to grow by only 1.7% in 2016 and 1.3% in 2017. For Germany, the IMF economists anticipate growth of 1.6% this year and 1.2% in 2017. The IMF seems somewhat more optimistic in its outlook for the emerging economies: Overall, growth of 4.1% in 2016 and 4.6% in 2017 is expected here. The Chinese economy is losing momentum again, which remains the main growth driver for the global economy with growth of 6.6% and 6.2%.

INVESTMENTS IN THE DEFENSE SECTOR TENDING TO RISE SLIGHTLY

After a sideways movement in the previous year, global arms spending is tending to rise again this year. According to updated calculations by defense analysts at IHS Jane's, global defense budgets in 2016 amount to USD 1,565 billion, slightly higher than the previous year's figure of USD 1,544 billion. In 2017, global military spending is expected to reach USD 1,570 billion. The USA remains the country with the largest defense budget and according to IHS Jane's will spend around USD 617 billion on armaments in 2016 (2015: USD 606 billion). In contrast, the budget for 2017 is expected to be on a par with 2015 (USD 607 billion). In Germany, the fact that more is being invested in modernizing the armed forces is making itself felt: Defense spending was around €1.3 billion higher than the previous year in 2016 at around €34.3 billion. Germany's defense budget is expected to increase to around €36.6 billion in 2017.

WESTERN EUROPE, USA, AND CHINA CARRY THE INTERNATIONAL AUTOMOTIVE INDUSTRY

While the international automotive industry was carried by the major markets of Western Europe, the USA, and China in the first half of 2016, the Association of the German Automotive Industry (VDA) continues to see the emerging countries of Russia and Brazil as "problem children." According to the latest study by analysts from IHS Automotive on the global production of passenger cars and light commercial vehicles up to 6 t, around 45.9 million vehicles rolled off the production lines in the first half of 2016, 2.2% more than in the same period of the previous year. The triad markets of Western Europe, NAFTA, and Japan exceeded the previous year's figure by 3.8% with 22.0 million units. Particularly dynamic in the first half of the year were the markets in Western Europe (+7.4%), Germany (+4.8%), China (+6.0%) and NAFTA (+3.4%), while production in Brazil (-21.6%) and Russia (-18.5%) continued to perform poorly. Japan's performance was also disappointing with a 2.8% decline in production. According to IHS Automotive, global automotive production is set to grow by 3.2% to 91.6 million vehicles in 2016 as a whole.

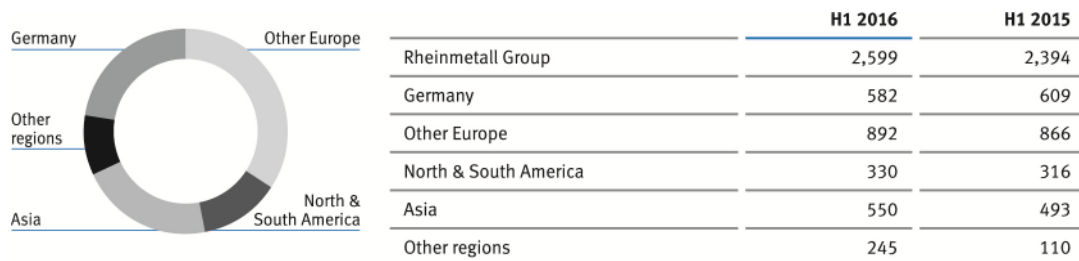
RHEINMETALL GROUP BUSINESS TREND

€ million	Q2/2016	Q2/2015	Change	H1/2016	H1/2015	Change
Sales	1,419	1,221	198	2,599	2,394	205
Operating result	72	57	15	103	79	24
Operating result margin	5.1%	4.7%	-	4.0%	3.3%	-
Operating free cash flow	(75)	(75)	-	(338)	(279)	-59

SALES AND OPERATING EARNINGS INCREASED

Consolidated sales rose by €205 million or 9% year on year to €2,599 million. Adjusted for currency effects, the growth was 10%.

Sales by region € million



The improvement of operating earnings to €103 million resulted exclusively from the business performance of the Defence sector. As in the same period of the previous year, there were no nonrecurring effects.

OPERATING FREE CASH FLOW DECLINES

At €-338 million, operating free cash flow was below the previous year's figure of €-279 million because of a seasonal increase in working capital and payments into a contractual trust agreement (CTA). In the first quarter of 2016, €30 million was paid into a CTA that was initiated in Germany at the end of 2015 to secure pension and partial retirement obligations.

RATING OUTLOOK IMPROVED

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

RHEINMETALL GROUP BUSINESS TREND

DEFENCE SECTOR

€ million	Order intake		Sales		Operating result	
	Q2/2016	Q2/2015	Q2/2016	Q2/2015	Q2/2016	Q2/2015
Defence	803	693	724	545	19	1
Weapon and Ammunition	544	316	315	165	25	0
Electronic Solutions	181	218	179	155	(1)	3
Vehicle Systems	107	263	287	265	1	(1)
Other/consolidation	(29)	(104)	(57)	(40)	(6)	(1)
	H1/2016	H1/2015	H1/2016	H1/2015	H1/2016	H1/2015
Defence	1,751	1,235	1,250	1,054	2	(27)
Weapon and Ammunition	787	481	493	319	20	(11)
Electronic Solutions	696	390	329	314	(5)	1
Vehicle Systems	322	483	548	491	(5)	(14)
Other/consolidation	(54)	(119)	(120)	(70)	(8)	(3)

RHEINMETALL DEFENCE CREATES LEADING MILITARY VEHICLE MANUFACTURER IN EUROPE

Activities in the field of military tracked and wheeled vehicles have been brought together in the new Vehicle Systems division. Wheeled Vehicles was previously its own division. The tracked vehicles business area (Rheinmetall Landsysteme GmbH) was allocated to the Combat Systems division. The other activities of the former Combat Systems division now form the new Weapon and Ammunition division. The Electronic Solutions division is not affected by these changes. The new structure was implemented on January 1, 2016. The divisions' figures for the previous year have been adjusted where necessary.

STRONG ORDER INTAKE IN DIFFICULT MARKET ENVIRONMENT

The Defence sector posted a high order intake of €1,751 million in the first half of 2016, exceeding the prior-year figure by 42%. The sector's order backlog reached a new record value of €6,905 million.

The Weapon and Ammunition division acquired the largest single order with a volume of €411 million. It was commissioned by an international customer to supply ammunition. The delivery is to take place from this year until 2022.

SALES GROWTH AND RECOVERY OF OPERATING EARNINGS

At €1,250 million, the Defence sector's sales rose by €196 million or 19% in the first six months of 2016 compared to €1,054 million in the previous year. Adjusted for currency effects, the growth was 21%. Operating earnings improved by €29 million year on year to €2 million and were therefore positive in the first half of a year for the first time since 2012.

All business areas contributed to the sales growth in the Weapon and Ammunition division of 55% to €493 million. This improved the division's operating earnings by €31 million to €20 million. The sales growth resulted in particular from a larger partial delivery of marine ammunition to a customer in the MENA region.

In the Electronic Solutions division, operating earnings deteriorated to €-5 million despite sales growth of €15 million due in particular to a less favorable product mix. The earnings were again reduced by losses at a Norwegian subsidiary.

The Vehicle Systems division increased sales by 12% to €548 million and reduced the operating loss by €9 million to €-5 million.

RHEINMETALL GROUP BUSINESS TREND

AUTOMOTIVE SECTOR

€ million	Sales		Operating result	
	Q2/2016	Q2/2015	Q2/2016	Q2/2015
Automotive	695	676	60	59
Mechatronics	397	376	36	34
Hardparts	243	248	16	19
Aftermarket	78	74	7	7
Other/consolidation	(23)	(22)	1	(1)
	H1/2016	H1/2015	H1/2016	H1/2015
Automotive	1,349	1,340	112	114
Mechatronics	777	751	70	65
Hardparts	474	490	29	39
Aftermarket	147	143	12	14
Other/consolidation	(49)	(44)	1	(4)

TARGET MARGIN ACHIEVED

Rheinmetall Automotive generated sales of €1,349 million in the first half of 2016, an increase of 1% from the previous year's figure. Adjusted for currency effects, the growth was 1%. With operating earnings of €112 million, the margin target of 8% was exceeded once again.

The Mechatronics division continued its growth course and increased its sales, despite the expected phase-out of a major European customer contract, to €777 million (+4%) and its operating result to €70 million.

The current weakness in the market for large-bore pistons caused by decreases in demand, e.g. for ship and locomotive pistons, and the continuing sharp decline in automotive production in Brazil led to a decline in sales in the Hardparts division to €474 million after €490 million in the previous year. The lower sales caused operating earnings to fall to €29 million.

The Aftermarket division achieved sales of €147 million, growing 3% compared to the previous year. Operating earnings were chiefly reduced by the startup costs of a new small-series plant in the Czech Republic, not quite living up to the previous year at €12 million.

JOINT VENTURES WITH CHINESE PARTNERS CONTINUE TO GROW

The significant joint ventures, which are not included in the sales figures for the Automotive sector, increased sales in the first half of 2016 while earnings after taxes remained constant.

The Chinese joint ventures (calculated on a 100% basis) slightly increased sales to €415 million with stable earnings after taxes. Adjusted for currency effects, the sales growth was 2%.

The German joint venture KS HUAYU (calculated on a 100% basis) increased its sales by 20% to €152 million. Earnings after taxes were increased to €6 million.

€ million – 100% basis	China Joint Ventures				KS HUAYU			
	Q2/2016	Q2/2015	H1/2016	H1/2015	Q2/2016	Q2/2015	H1/2016	H1/2015
Sales	201	209	415	421	80	67	152	127
Net income	9	11	19	20	3	3	6	5

OPPORTUNITIES AND RISKS

EFFICIENT RISK MANAGEMENT

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

The material opportunities and risks of the expected development of the Rheinmetall Group are described in detail in the Group Management Report for 2015. There have been no significant changes or new findings in the meantime.

OUTLOOK

SALES GROWTH IN BOTH CORPORATE SECTORS

In fiscal 2016, Rheinmetall expects the growth to continue and sales to rise by more than 5% to around €5.5 billion, compared with about €5.2 billion in 2015. As in the previous year, this growth will be driven by both corporate sectors. This positive trend will require further good development in the global automotive sector and the manufacture and delivery of high-volume orders according to schedule in the Defence sector.

For the Defence sector, sales are expected to grow to around €2.8 billion after just under €2.6 billion in 2015, because the sales forecast for 2016 is relatively well covered by the current order backlog. The development of sales in the global Automotive sector will be determined by economic factors. Experts from IHS currently expect automotive production to rise by 3,2% this year. In this context, Rheinmetall Automotive expects sales to grow to around €2.7 billion in 2016 as a whole.

IMPROVEMENT IN EARNINGS AND FURTHER INCREASE IN PROFITABILITY AT DEFENCE

Rheinmetall anticipates further improvements in Group earnings in fiscal 2016. In connection with the sales growth in 2016, profitability is expected to continue increasing in the Defence sector, with a forecast return on sales of between 4.5% and 5.0% based on operating earnings before interest and taxes. Profitability is expected to remain stable at Rheinmetall Automotive in 2016, with the return expected to be about 8%. Taking into account holding costs of around €20 million, this results in an expected return of about 6% for the Rheinmetall Group.

REPORT ON POST-BALANCE SHEET DATE EVENTS

There were no significant events after the balance sheet date.

CONSOLIDATED BALANCE SHEET

€ million	6/30/2016	12/31/2015
Assets		
Goodwill	552	552
Intangible assets	269	275
Property, plant and equipment	1,328	1,314
Investment Property	34	35
Investments accounted for using the equity method	225	203
Other non-current financial assets	13	4
Other non-current assets	18	21
Deferred taxes	288	244
Non-current assets	2,727	2,648
Inventories	1,194	1,052
./. Prepayments received	(8)	(26)
	1,186	1,026
Trade receivables	1,211	1,127
Liquid financial assets	40	50
Other current financial assets	36	49
Other current receivables and assets	164	111
Income tax receivables	30	28
Cash and cash equivalents	308	691
Current assets	2,975	3,082
Total assets	5,702	5,730
Equity and liabilities		
Share capital	112	112
Additional paid-in capital	530	528
Retained earnings	790	891
Treasury shares	(36)	(39)
Rheinmetall AG shareholders' equity	1,396	1,492
Minority interests	73	70
Equity	1,469	1,562
Provisions for pensions and similar obligations	1,299	1,128
Other non-current provisions	130	138
Non-current financial debts	760	759
Other non-current liabilities	51	67
Deferred taxes	30	31
Non-current liabilities	2,270	2,123
Other current provisions	457	454
Current financial debts	73	63
Trade liabilities	695	718
Other current liabilities	678	764
Income tax liabilities	60	46
Current liabilities	1,963	2,045
Total liabilities	5,702	5,730

CONSOLIDATED INCOME STATEMENT

€ million	Q2/2016	Q2/2015	H1/2016	H1/2015
Sales	1,419	1,221	2,599	2,394
Changes in inventories and work performed by the enterprise and capitalised	42	50	118	75
Total operating performance	1,461	1,271	2,717	2,469
Other operating income	33	40	59	65
Cost of materials	812	678	1,500	1,325
Personnel expenses	380	359	744	708
Amortization, depreciation and impairment	54	50	109	99
Other operating expenses	173	174	321	334
Income from investments carried at equity	4	10	12	16
Other net financial income	(7)	(3)	(11)	(5)
Earnings before interest and taxes (EBIT)	72	57	103	79
Net interest income	1	-	1	1
Interest expenses	(15)	(15)	(29)	(32)
Earnings before taxes (EBT)	58	42	75	48
Income taxes	(17)	(13)	(22)	(14)
Earnings after taxes	41	29	53	34
Of which:				
<i>Minority interests</i>	1	(3)	-	(6)
<i>Rheinmetall AG shareholders</i>	40	32	53	40
Earnings per share	€0.94	€0.83	€1.26	€1.03

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ million	Q2/2016	Q2/2015	H1/2016	H1/2015
Net income	41	29	53	34
Remeasurement of net defined benefit liability from pensions	(59)	126	(137)	1
Land revaluation	-	1	-	1
Amounts not reclassified in the income statement	(59)	127	(137)	2
Change in value of derivative financial instruments (cash flow hedge)	18	3	36	(1)
Currency conversion difference	18	(17)	5	66
Income/expenses from investments accounted for using the equity method	-	(6)	(1)	5
Amounts reclassified in the income statement	36	(20)	40	70
Other comprehensive income after taxes	(23)	107	(97)	72
Comprehensive income	18	136	(44)	106
Of which:				
<i>Minority interests</i>	6	(3)	11	1
<i>Rheinmetall AG shareholders</i>	12	139	(55)	105

CASH FLOW STATEMENT

€ million	H1/2016	H1/2015
Net income	53	34
Amortization, depreciation and impairments	109	99
Reduction in pension provisions due to payment into external Fund	(15)	-
Changes in other pension provisions	1	1
Reduction in other provisions for partial retirement due to payment into external Fund	(15)	-
Other changes in other provisions	21	44
Changes in inventories	(156)	(87)
Changes in receivables, liabilities (without financial debts) and prepaid & deferred items	(201)	(230)
Pro rata income from investments carried at equity	(12)	(16)
Dividends received from investments carried at equity	2	3
Other non-cash expenses and income	(13)	(16)
Cash flows from operating activities ¹⁾	(226)	(168)
Investments in property, plant and equipment, intangible assets and investment property	(112)	(111)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	1	1
Payments for the purchase of liquid financial assets	(67)	-
Cash receipts from the disposal of liquid financial assets	77	-
Payments for investments in consolidated companies and other financial assets	(13)	(2)
Cash flows from investing activities	(114)	(112)
Dividends paid out by Rheinmetall AG	(47)	(12)
Other profit distributions	(8)	(6)
Dsale of treasury shares	-	3
Borrowing of financial debts	23	27
Repayment of financial debts	(13)	(28)
Cash flows from financing activities	(45)	(16)
Changes in financial resources	(385)	(296)
Changes in cash and cash equivalents due to exchange rates	2	6
Total change in financial resources	(383)	(290)
Opening cash and cash equivalents January 1	691	486
Closing cash and cash equivalents June 30	308	196

1) Including:

Net income taxes of €-21 million (previous year: €-19 million)

Net interest of €-23 million (previous year: €-20 million)

STATEMENT OF CHANGES IN EQUITY

€ million	Shared capital	Additional paid-in capital	Total retained earnings	Treasury shares	Rheinmetall AG shareholders equity	Minority interests	Equity
Balance as at January 1, 2015	101	310	756	(48)	1,119	78	1,197
Net income	-	-	40	-	40	(6)	34
Other comprehensive income	-	-	65	-	65	7	72
Comprehensive income	-	-	105	-	105	1	106
Dividends payout	-	-	(12)	-	(12)	(6)	(18)
Disposal of treasury shares	-	-	-	8	8	-	8
Other Changes	-	1	-	-	1	-	1
Balance as at June 30, 2015	101	311	849	(40)	1,221	73	1,294
Balance as at January 1, 2016	112	528	891	(39)	1,492	70	1,562
Net income	-	-	53	-	53	-	53
Other comprehensive income	-	-	(108)	-	(108)	11	(97)
Comprehensive income	-	-	(55)	-	(55)	11	(44)
Dividends payout	-	-	(47)	-	(47)	(8)	(55)
Disposal of treasury shares	-	-	-	3	3	-	3
Other Changes	-	2	1	-	3	-	3
Balance as at June 30, 2016	112	530	790	(36)	1,396	73	1,469

Composition of retained earnings

€ million	Difference of currency conversion	Re-measurement of net defined benefit liability from pensions	Land revaluation	Hedge reserve	Other income from investments carried at equity	Other reserves	Total retained earnings
Balance as at January 1, 2015	1	(448)	83	(19)	-	1,139	756
Net income	-	-	-	-	-	40	40
Other comprehensive income	60	1	1	(2)	5	-	65
Comprehensive income	60	1	1	(2)	5	40	105
Dividends payout	-	-	-	-	-	(12)	(12)
Balance as at June 30, 2015	61	(447)	84	(21)	5	1,167	849
Balance as at January 1, 2016	21	(464)	84	(38)	7	1,281	891
Net income	-	-	-	-	-	53	53
Other comprehensive income	5	(138)	-	26	(1)	-	(108)
Comprehensive income	5	(138)	-	26	(1)	53	(55)
Dividends payout	-	-	-	-	-	(47)	(47)
Other Changes	-	-	-	-	-	1	1
Balance as at June 30, 2016	26	(602)	84	(12)	6	1,288	790

SEGMENT REPORT

€ million	Defence		Automotive		Other/Consolidation		Group	
	H1/2016	H1/2015	H1/2016	H1/2015	H1/2016	H1/2015	H1/2016	H1/2015
External sales	1,250	1,054	1,349	1,340	-	-	2,599	2,394
Operating result	2	(27)	112	114	(11)	(8)	103	79
EBIT	2	(27)	112	114	(11)	(8)	103	79
<i>of which:</i>								
<i>At Equity income</i>	(3)	2	15	14	-	-	12	16
<i>Amortization, depreciation</i>	44	42	64	56	1	1	109	99
Interest income	1	1	1	1	(1)	(1)	1	1
Interest expenses	(15)	(13)	(8)	(8)	(6)	(11)	(29)	(32)
EBT	(12)	(39)	105	107	(18)	(20)	75	48
Other data								
Operating free cash flow	(221)	(279)	(88)	15	(29)	(15)	(338)	(279)
Order intake	1,751	1,235	1,304	1,320	-	-	3,055	2,555
Order backlog June 30	6,905	6,728	401	397	-	-	7,306	7,125
Employees as at June 30 (capacities)	9,857	9,422	10,941	11,066	156	154	20,954	20,642
Net financial debts	158	122	9	(59)	318	558	485	621

RHEINMETALL GROUP

GENERAL PRINCIPLES

The condensed consolidated interim financial statements of Rheinmetall AG as at June 30, 2016, were prepared in accordance with the IFRS applicable to interim reporting as published by the IASB and required to be applied in the EU. The accounting policies applied to the assets and liabilities in the interim financial statements are the same as those applied in the consolidated financial statements for fiscal year 2015. The results achieved in the first six months of 2016 do not necessarily allow for conclusions to be drawn as to future development.

ESTIMATES

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

A qualified estimate of pension obligations is given in the quarterly financial reports based on the development of actuarial parameters. In the present interim financial statements, a discount rate of 1.40% (December 31, 2015: 2.21%) was applied for pension provisions in Germany and a rate of 0.20% (December 31, 2015: 0.80%) for Switzerland. These constitute countries with significant pension obligations. The reductions in the interest rates for Germany and Switzerland led to the pension provision being increased by a total of €189 million compared to the start of the year. All other parameters relevant to the measurement of pension obligations remained unchanged compared with December 31, 2015.

SCOPE OF CONSOLIDATION

Besides Rheinmetall AG, the condensed consolidated financial statements include all German and foreign subsidiaries in which Rheinmetall AG holds the majority of voting rights (whether directly or indirectly) or other rights which enable it to control significant activities of the investee. Three new subsidiaries were founded in the first six months of 2016.

EQUITY

Authorized capital – By resolution of the Annual General Meeting of May 10, 2016, the Executive Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company up to May 9, 2021, 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 (new authorized capital).

Contingent capital – The Executive Board of the Company was authorized by resolution of the Annual General Meeting of May 10, 2016, to issue interest-bearing bearer bonds with warrants and/or convertible bonds up to a total nominal value of €800,000,000 with a term of up to 20 years on one or several occasions, with the approval of the Supervisory Board, up to May 9, 2021, 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.

Treasury shares - The Annual General Meeting on May 10, 2016, authorized the Executive Board to acquire treasury shares equivalent to a maximum of 10% of the share capital of €111,510,656 up until May 9, 2021. In the first six months of the current fiscal year, this right was not exercised. As at June 30, 2016, the portfolio of treasury shares amounted to 961,421 (previous year: 1,062,935; December 31, 2015: 1,035,785) with acquisition costs totaling €36 million (previous year: €40 million; December 31, 2015: €39 million), which were deducted from equity. The proportion of treasury shares in subscribed capital is 2.21%.

SHARE-BASED REMUNERATION

A long-term incentive program exists within the Rheinmetall Group, under which beneficiaries receive Rheinmetall shares with a four-year lock-up period in addition to a cash payment. On April 1, 2016, the beneficiaries of the incentive program for fiscal year 2015 received a total of 74,364 shares (previous year: a total of 95,481 shares on April 2, 2015, for fiscal year 2014).

RELATED PARTIES

For the Rheinmetall Group, corporate related parties are the joint ventures and associated companies carried at equity. The volume of unpaid items includes mostly customer receivables and trade payables.

€ million	Volumes of products/ service provided		Volumes of products/ service received		Volumes of open items	
	H1/2016	H1/2015	H1/2016	H1/2015	6/30/2016	12/31/2015
Joint ventures	126	125	3	5	32	62
Associated companies	1	2	7	8	-	(2)
	127	127	10	13	32	60

DISCLOSURES ON FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value include derivatives held to hedge currency, interest rate, commodity price, and electricity price risks. The fair values are determined on the basis of input factors observed directly or indirectly on the market. This corresponds to level 2 of the fair value hierarchy defined by IFRS 13. The input factors used and the measurement methods applied are described in the consolidated financial statements as at December 31, 2015. The fair values of financial instruments included on the balance sheet are comprised as follows:

€ million	6/30/2016	12/31/2015
Derivates without hedge accounting	10	24
Derivates with hedge accounting	14	2
Financial assets	24	26
Derivates without hedge accounting	8	17
Derivates with hedge accounting	31	78
Financial liabilities	39	95

RHEINMETALL GROUP

SEGMENT REPORTING

The definition of the reportable segments and the controlling system are described in the consolidated financial statements for the year ended December 31, 2015. The definition of segments and the accounting methods are applied unchanged from December 31, 2015.

Reconciliation of net financial debts and EBIT of the segments to Group figures

€ million	6/30/2016	6/30/2015
Net financial debts		
Net financial debts of sectors	167	63
Others	317	558
Consolidation	1	-
Net financial debts of Group	485	621
	H1/2016	H1/2015
EBIT		
EBIT of sectors	114	87
Others	(10)	(8)
Consolidation	(1)	0
Group EBIT	103	79
Group net interest	(28)	(31)
Group EBT	75	48

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date.

DISCLOSURE IN ACCORDANCE WITH SECTION 37W (5) SENTENCE 6 OF THE GERMAN SECURITIES TRADING ACT (WPHG)

The condensed consolidated interim financial statements as at June 30, 2016 – consisting of the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, cash flow statement, statement of changes in equity and selected notes – and the Group interim management report for the period from January 1 to June 30, 2016, were not audited in accordance with Section 317 of the German Commercial Code (HGB) or subjected to a review by a person qualified to audit financial statements.

RESPONSIBILITY STATEMENT

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

Düsseldorf, August 3, 2016

Armin Papperger

Horst Binnig

Helmut P. Merch

LEGAL INFORMATION AND CONTACT

FINANCIAL CALENDAR

NOVEMBER 3, 2016

Report on Q3/2016

CONTACTS

Corporate Communications

Peter Rucker

Phone: +49 211 473-4320

Fax: +49 211 473-4158

peter.ruecker@rheinmetall.com

Investor Relations

Franz-Bernd Reich

Phone: +49 211 473-4777

Fax: +49 211 473-4157

franz-bernd.reich@rheinmetall.com

Supervisory Board: Klaus Greinert, Chairman

Executive Board: Armin Papperger, Chairman, Horst Binnig, Helmut P. Merch

Rheinmetall Aktiengesellschaft, Rheinmetall Platz 1, 40476 Düsseldorf/Germany

Phone: + 49 211 473 01, fax: +49 211 473 4746, www.rheinmetall.com

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

Rheinmetall's website at www.rheinmetall.com contains detailed business information about the Rheinmetall Group and its subsidiaries, current trends, 15-minute stock price updates, press releases, and ad hoc notifications. Investor Relations information forms an integral part of this website and provides all of the relevant details for download.

All rights reserved. Subject to technical change without notice. The product designations mentioned in this financial report may constitute trademarks, the use of which by any third party could infringe upon the rights of their owners.

You can request the quarterly report from the company or download it at www.rheinmetall.com. In case of doubt, the German version shall apply.

Copyright © 2016