Annual Report Rheinmetall AG

2009

Rheinmetall in figures

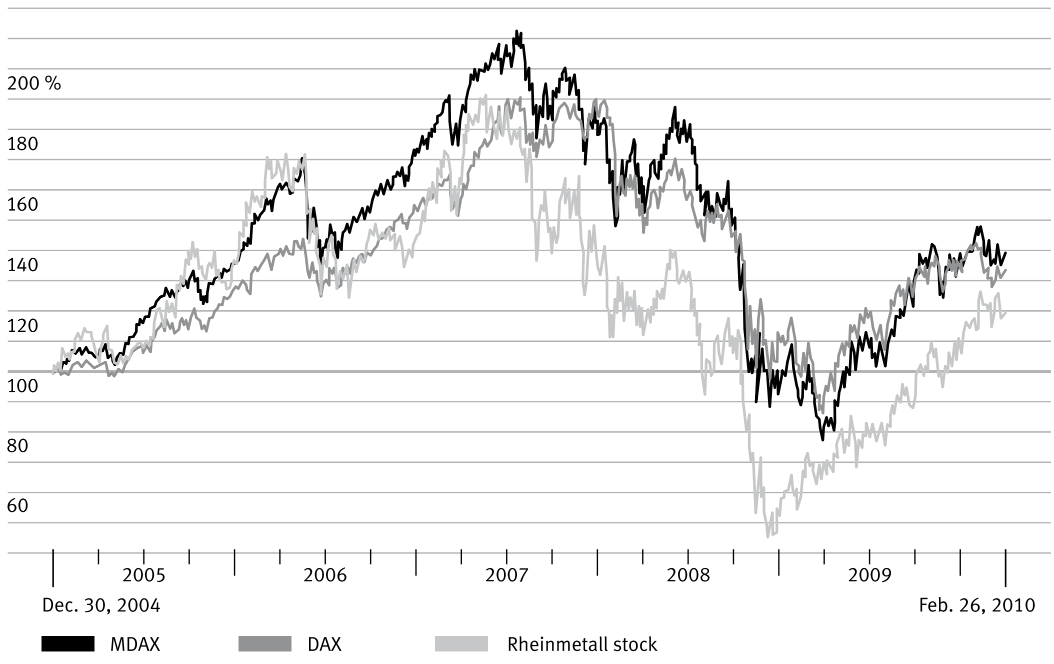
Rheinmetall Group indicators

		2005	2006	2007	2008	2009
Sales	*€ million*	3,454	3,626	4,005	3,869	3,420
Order intake	*€ million*	3,625	3,899	4,040	3,780	4,649
Order backlog (Dec. 31)	*€ million*	2,907	3,183	3,239	3,683	4,940
EBITDA	*€ million*	382	366	438	411	180
EBIT [2]	*€ million*	225	215	270	245	15
EBT [2]	*€ million*	170	164	213	193	(46)
Net income [2]	*€ million*	118	123	150	142	(52)
Cash flow	*€ million*	277	308	352	308	120
Capital expenditures	*€ million*	198	186	202	200	145
Amortization/depreciation	*€ million*	157	151	168	166	165
Total equity [2]	*€ million*	875	937	1,059	1,080	1,134
Total assets [2]	*€ million*	3,423	3,389	3,448	3,612	3,835
EBIT margin	*in %*	6.5	5.9	6.7	6.3	0.4
ROCE [1,2]	*in %*	15.2	12.5	14.5	12.5	0.8
Stock price, annual high	€	55.00	66.41	74.12	53.81	44.74
Stock price, annual closing	€	53.26	57.48	54.38	22.90	44.74
Stock price, annual low	€	38.40	47.80	48.04	16.82	20.41
Earnings per share (EpS) [2]	€	3.19	3.41	4.15	4.09	(1.60)
Dividend per share	€	0.90	1.00	1.30	1.30	0.30
Employees (Dec. 31) according to capacity		18,548	18,799	19,185	21,020	19,766

1) *As from 2006, CE incl. accumulated goodwill amortization*
2) *From 2008, recognition in equity of actuarial gains/losses*

Rheinmetall stock price trend in comparison to DAX and MDAX

December 30, 2004 (100 %), through February 26, 2010



An overview of the Rheinmetall Group

Corporate sector Defence – Rheinmetall Defence

Land Systems

Armored vehicles
Turrets and weapon stations
Support vehicles
Command and functional vehicles
Services/logistics

Locations

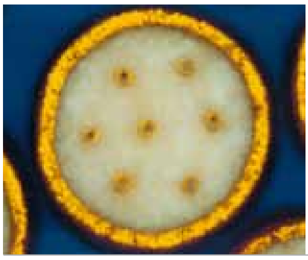
Germany
Netherlands

Weapon and Munitions

Direct fire
Indirect fire
Infantry
Protection systems
Plant engineering

Locations

Germany
Switzerland
Austria
USA
South Africa



Propellants

Propellant systems
Civil chemistry

Locations

Germany
Switzerland

Air Defence

Air defence systems

Locations

Switzerland
Italy
Singapore

C4ISTAR

Reconnaissance
Command
Fire control
Airborne systems

Locations

Germany

Simulation and Training

Flight simulation
Land simulation
Maritime and process simulation

Locations

Germany

Further locations: Canada, Great Britain, Greece, Malaysia, United Arab Emirates

Corporate sector Automotive – Kolbenschmidt Pierburg

KS Kolbenschmidt

Passenger car pistons
Commercial vehicle pistons
Large-bore pistons
Piston systems

Locations

Germany
France
Czech Republic
USA
Mexico
Brazil
Japan
India (associated)
China (joint venture)

Pierburg

Air management
Actuators
Emission reduction
Solenoid valves
Commercial diesel systems

Locations

Germany
Spain
Czech Republic
USA
India
China

Pierburg Pump Technology

Oil pumps
Vacuum pumps
Water circulation and coolant pumps

Locations

Germany
France
Italy
Mexico
Brazil
India

KS Aluminium-Technologie

Aluminium alloy engine blocks
Cylinder heads
Final machining

Locations

Germany
China (joint venture)

KS Gleitlager

Metallic plain bearings
Permaglide®
Continuous castings
Large bearings

Locations

Germany
USA
Brazil

Motor Service

Aftermarket components

Locations

Germany
France
Spain
Turkey
USA
Brazil
China

- **The Puma gets ready to jump**
  The largest order in the
  Company's recent history
- **100 years of Kolbenschmidt Pierburg**
  Huge measures taken in anniversary year
  to counter sector crisis
- **Share price almost doubles in 2009**
  Rheinmetall beats the DAX and MDAX
- **€0.30 dividend despite automotive crisis**
  Confidence in further profitability

Rheinmetall

Retrospective 09

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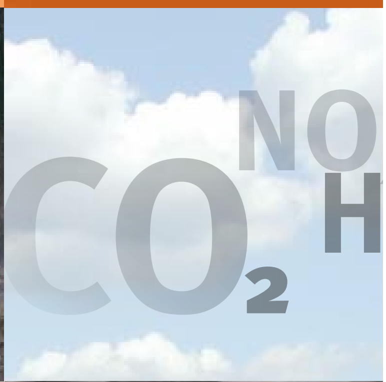
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Contents

Stable on two legs

RHEINMETALL AND THE GLOBAL ECONOMIC CRISIS

Review: In the winter months of 2008/2009, the global economy fell into the worst recession in postwar history. Economic researchers could barely keep up as they revised their forecasts downwards. The financial markets, apparently in freefall, did not stabilize, while in the automotive industry the conveyor belts came to a standstill around the world. Countless companies experienced problems that threatened their survival. This was not the case at Rheinmetall: although the Automotive sector was hit hard by the crisis, the Defence sector was positively robust and continued its growth course despite the general downward trend. With its two-pillar strategy, Rheinmetall was in a much more stable position than many other industrial companies. The Group's resistance to the crisis and its sustained growth potential were rewarded in 2009 with a continuous rise in the share price and the successful placement of a capital increase.

Order intake
4,649
million

Major orders such as those for the Puma infantry fighting vehicle, along with the extensive restructuring program at Kolbenschmidt Pierburg, supported investors' expectations that both sectors of Rheinmetall will emerge stronger from the worldwide recession. In an interview, Klaus Eberhardt, the CEO of Rheinmetall AG, looks back once again over the fiscal 2009 and gives his outlook for the forthcoming challenges.

Mr. Eberhardt, 2009 will go down in the history books as an extremely difficult crisis year worldwide. When you take stock of 2009 for Rheinmetall, what challenge or achievement do you believe to have particularly characterized the past year?

Without doubt, the dramatic crisis across the entire automotive industry combined with previously unimagined falls in production and the equally huge countermeasures taken by our Automotive sector. The management team at Kolbenschmidt Pierburg together with the employees made formidable efforts in countering the crisis, turning things around in the fourth quarter of 2009 with a positive operating result. For me, this huge effort remains the outstanding achievement of fiscal 2009.

At the start of the crisis, we immediately launched drastic cost-cutting and restructuring programs, which laid the foundations for a sustainable recovery. We shouldered restructuring costs of €138 million, but also lowered fixed costs considerably. We put our foot on the brakes of capital expenditure. Thanks to all of this, we preserved our liquidity. We've closed four plants worldwide, and were unfortunately also forced to part with around 3,000 employees since 2008. It pains us to make these cuts, but they are unavoidable in strengthening our competitive position and profitability in the long term.

Yet you had a key advantage over other automotive suppliers: the Defence sector's resistance to the crisis allowed the entire Group to come through the crisis on a comparatively stable basis.

Without doubt, our Defence business proved crisis-proof once again and made a vital contribution to ensuring the stability of the Group. Yet the record sales and results seen in the Defence sector were anything but self-propelled. We worked hard here too – we lowered costs and made a great deal of progress in reducing our working capital. We therefore succeeded in increasing the EBIT margin in Defence from 10.7 % to 11.3 %. And in this respect, I would like to express my sincere thanks to the entire Defence team for the first-rate job they did in 2009.

Has the crisis in the Automotive business already been overcome?

We passed the lowest point in summer 2009 and do feel that the market is recovering. However, we are still operating in a market environment that is still quite unstable and are only at the beginning of the recovery process. However, the new additional orders we have acquired driven by market trends are already consolidating our market position on a sustainable basis. Thanks in particular to the expertise and products of Pierburg regarding fuel and emissions reduction, we are so well positioned that we are benefiting from a kind of special economic situation based on demands for CO_2 reduction and those arising from the Euro 5 and Euro 6 standards. Another trend fuelling our business across the entire Kolbenschmidt Pierburg Group is the downsizing of engines – even on the US market which is beginning to pick up again. To sum this up, downsizing means lowering consumption through the reduction of engine capacity and a corresponding more lightweight design, while retaining engine performance. Even as regards this issue, we are a driving force behind technological development. We are therefore confident that sales in Automotive will have returned to their level from before the crisis as early as 2012, i.e. the best level so far of over €2.2 billion that we achieved in fiscal 2007.

Sales
3,420
million

The breathtaking growth of the automotive markets in China and India amazed the traditional industrial nations in the 2009 crisis year. How are you responding to the enormous growth momentum of the Asian markets?

We don't have to chase to keep up with any trends here either. We have been in the region for a long time and are an integral part of this development. Kolbenschmidt Pierburg has been rooted in the Chinese market since back in 1997. We now have three sites in Shanghai. We've also been present in India with our own company since 2006 and since 2008 we set up a plant in Pune, one of the Indian automotive industry's centers. However, the internationalization of the Kolbenschmidt Pierburg Group has advanced well beyond China and India. We are represented in all centers of global automotive production. Our international share in the automotive business was 67.5 % in 2009.

IN 2012, SALES IN RHEINMETALL AUTOMOTIVE WILL HAVE RETURNED TO PRE-CRISIS LEVELS

With regard to Rheinmetall Defence, the defence sector is considered to be largely immune to economic downturns. However, record levels of debt mean that the compulsion to save is now so great that defence budgets in Germany and many NATO countries are likely to come under pressure. Is Rheinmetall threatened with a phase of stagnation, at least in its core markets?

WE NOW ACHIEVE TWO THIRDS OF SALES IN OUR DEFENCE SECTOR OUTSIDE GERMANY – WITH NATO PARTNERS OR OTHER FRIENDLY NATIONS

I cannot and do not wish to rule out the possibility that defence budgets will come under real pressure in individual countries. But don't forget: we have increased our order backlog to over €4.5 billion. This includes a number of orders which will secure us in the long term. And we're expecting a normal order intake in the coming months. I also still see Rheinmetall Defence on a stable growth path thanks to its specific market position.

There are three main reasons behind this. Firstly, our strategy has been concentrated for years on the issue of protection on deployment, based on new products and targeted acquisitions. Today, our expertise in this growth area is particularly in demand. In Germany and the other NATO states, there is a general consensus that we can send our soldiers on dangerous missions only with the best military equipment and the best possible protection.

At this sensitive juncture, I am not expecting any fundamental changes in procurement policy. A second argument is the fact that land forces are bearing the brunt of foreign deployments. Here, the main focus in future will be on the procurement of new equipment. We will benefit from this as a leading European systems supplier to land forces. And thirdly, there are a number of friendly nations at international level that are increasing their defence budgets further.

Here, our strategy of making our Defence division much more international over the last few years and significantly reducing our dependence on the German defence budget will pay off. We now achieve two thirds of sales in our Defence sector with NATO states and other friendly partners. The latest examples of our internationalization include the expansion of our operations in the USA, our joint venture in the United Arab Emirates and the takeover of Denel Munitions in South Africa.

How has your new South African subsidiary developed then?

We achieved an impressive turnaround within a year at Denel Munitions. Collaboration with our South African colleagues is going extremely well. We complement each other in many respects as regards products and our market focus in our respective regions, and are learning from each other.

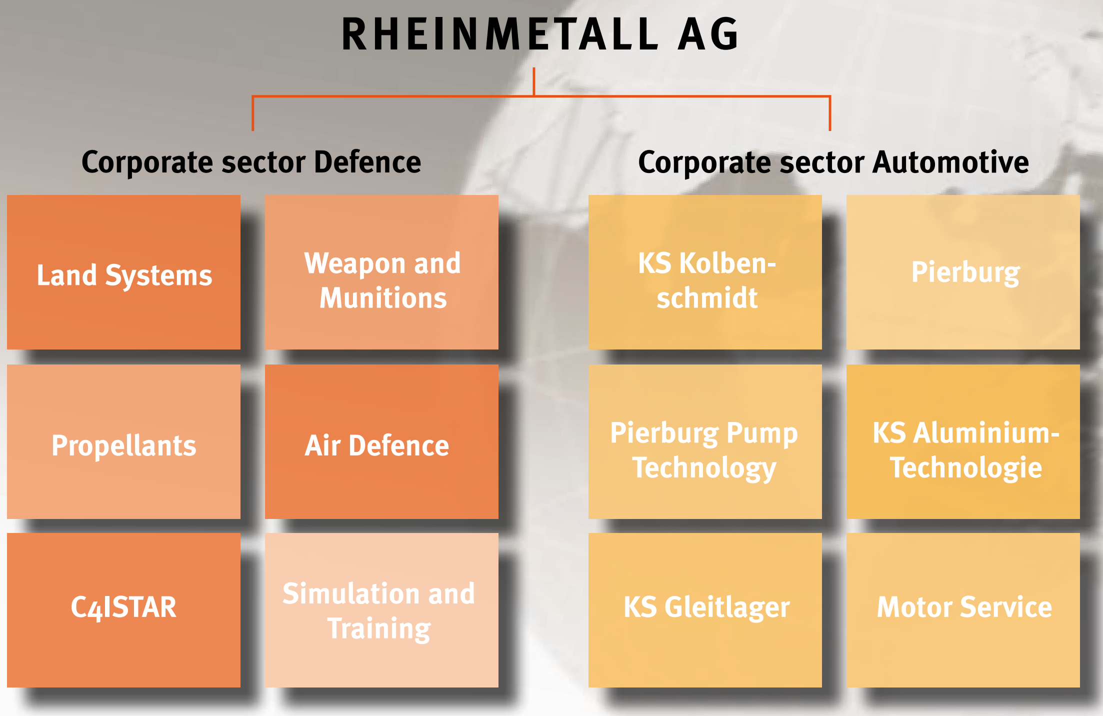
At the beginning of 2010, you celebrated a company marriage that attracted a great deal of attention: the joint venture of Rheinmetall and MAN for wheeled military vehicles. Rheinmetall is in charge of the industrial side. Was this the most strategically important consolidation success in Rheinmetall's recent history?

Here, we are bringing together two vehicle segments which are increasingly converging in terms of technology due to the threats posed during foreign deployments: namely, the tactical vehicles of Rheinmetall and the military trucks of MAN Nutzfahrzeuge geared towards logistics. In this joint venture, we are bringing together the military expertise of Rheinmetall – in terms of protection, for example – and the commercial vehicle expertise of MAN, and will be able to enhance any potential synergies. In this respect, the joint venture will make an important contribution to the consolidation of military vehicles. Together with our partner, we are creating a major international supplier on the market for wheeled military vehicles, which covers the full range of transport, command and multipurpose vehicles.

Figuratively speaking, we are moving up into the champions' league of suppliers to land forces. However, the new partnership with MAN shouldn't make us forget that we have already made huge efforts over the last 20 years to consolidate the German and European defence technology industry: by way of example, the takeover of MaK, Henschel and KUKA Wehrtechnik, of STN ATLAS Elektronik and Oerlikon Contraves in Switzerland and the takeover of the Dutch tank builder Stork.

How and where else do you plan to strengthen your activities in the Defence sector to encourage further imagination in the development of Rheinmetall's share price?

We aren't imagining things – we're allowing actions and facts to speak for themselves. In the Defence sector we are continuing to examine possible part-



nerships and takeovers even after the latest consolidation measures – at both national and international level. Based on our sound business policy over the past few years, we can achieve this.

How do you rate the development of Rheinmetall's share price in 2009?

Just looking at the bare figures shows that the development of Rheinmetall shares was outstanding in 2009, surpassing the performance of the MDAX. At the end of 2009, Rheinmetall's share price was around €45, up 95% on the previous year. The capital market has thus placed confidence in our management of the crisis, as well as rewarding our sustainable growth strategy in the Defence business. So that this remains the case, we are also relying on continuity in our dividend policy. Based on our operating profitability, we will propose to the Annual General Meeting the distribution of a dividend of 30 cents per share.

Order backlog
4,940 million

WE ARE RELYING ON CONTINUITY IN OUR DIVIDEND POLICY AND PROPOSE THE DISTRIBUTION OF 30 CENTS PER SHARE

Looking ahead to the future, what is your forecast for business development in 2010?

We see good prospects for Rheinmetall once again in 2010. It was always our fixed goal to emerge from the crisis rapidly and on a stronger basis. In Automotive, we will increase sales once again and complete the turnaround. And we still see the Defence business on a stable, profitable growth path. For the Group as a whole, we anticipate an increase in sales from the latest figure of €3.4 billion to approximately €3.7 billion. And as far as EBIT is concerned, we are confident that we will live down the €15 million generated in the past crisis year and move towards a figure in the region of €220 million to €250 million. This would almost bring us back to the levels seen in the past

The Puma gets ready to jump

Series contract for the world's most modern infantry fighting

This Puma might not have a soft-footed approach, but its appearance is just as powerful and formidable as that of a big cat: with 1,088 hp, the Puma infantry fighting vehicle appears nimble-footed as its speeds through extremely rough terrain, despite weighing up to 43 tons. Its 10-cylinder engine roars as the tank treads burrow through deep mud, gravel and sand. Even in the interior, the noise level is 95 decibels, which would be criticized in conventional car tests for being uncomfortable. Dr. Peter Hellmeister, one of the managing directors of Projekt System & Management GmbH (PSM), which is in charge of the Puma, nevertheless considers the massive noise reduction to be a major success in development: "In relation to comparable tanks, we've cut noise and vibrations by 90%", explains Hellmeister, who has been head of PSM, a joint venture between Rheinmetall and Krauss-Maffei Wegmann, since 2002. However, this is just one of many technical innovations that make the Puma the world's most modern infantry fighting vehicle and in 2009 brought Rheinmetall the biggest individual order in the company's recent history.

Order 3.1 billion

A total of 405 Puma infantry fighting vehicles with a total value of over €3 billion were ordered for the German armed forces in July 2009. The first series systems are to be delivered from 2010; the Puma will then gradually replace its predecessor, the Marder, which has been in use for almost 40 years. The Puma, which can hold its territory both on foreign missions and in national defence, protects its nine-member crew better than any other infantry fighting vehicle can. "Our tests have shown that the Puma is protected against almost all of the landmine types known around the world. In addition to the strong armor-plating, the virtual "free floating" suspension of the seats ensures that the crew is protected against severe injuries if a mine is detonated", says Peter Hellmeister, who played an important part in developing the Puma.

In any case, the integrated protection system is one of the outstanding strengths of the Puma. Earlier models have particularly effective armor-plating only in the forward section of the vehicle, as they were designed for missions with a clear front line facing forwards and only fitted later with additional side and mine protection. From the start, the Puma offers reliable all-round protection, for example against IEDs or an ambush of antitank fire. However, armor-plating means weight, which is at odds with the need for air-portability and fast transportation in crisis regions. The weight problem has recently been solved with a special device: the protection has a modular structure, i.e. the heavy side elements can be dismantled and transported separately. This reduces the weight from almost 43 tons to around 32 tons.

Another technical highlight is the remote controlled tower, which carries the main weapon and makes it possible to control the tank entirely from the protected interior. The commander and gunner each have access to a 360° periscope, a camera and a thermal imaging device, which allow perfect all-round reconnaissance, day and night. The six gunmen on board also obtain a detailed picture of the situation via monitors. This means they know at all times whether and where direct contact with the enemy can be expected on a forthcoming infantry mission. The Puma can also really show its teeth here: its 30-millimeter cannon can fire up to 200 shots per minute. The use of the latest fire control technology means that the Puma is always ready to fire even on journeys in the most difficult terrain, as the cannon remains focused on the target even when continually moving up and down. “It looks a little like the Puma is being pulled across the terrain on a cord running through its pipe”, says Hellmeister.

And what happens if the Puma encounters a larger “predator”? The Puma does not even need to fear a meeting with a heavy battle tank. It has a fast, long-range computer-assisted target tracking system and can immobilize even a battle tank with targeted shots. The Puma is also equipped with two guided

missiles, which can combat battle tanks and helicopters, for example, at a distance of up to four kilometers. In most cases, however, the Puma will not even need to make use of its heavy weaponry. “It's often the case that the mere presence of a modern tank and knowledge of its excellent features commands respect and can make a vital contribution towards resolving conflict situations”, concludes PSM managing director Hellmeister.

+ + E-MAILS FROM + +

India is becoming increasingly important for the German automotive industry and its suppliers, both as a production location and a market. Pierburg has already been supplying Indian customers with exhaust gas recirculation (EGR) systems for years. Indian emissions legislation and the subsidization of the diesel engine have also created excellent sales opportunities for pneumatic and motorized EGR systems. The founding of Pierburg India Private Ltd. was the next logical step in order to gain a foothold in this thriving market. Pierburg initially built up the areas of application, supplier quality assurance, purchasing and marketing. Pierburg already produces EGR valves at the Village Takwe Budruk plant, 60 km from Pune City, as well as oil, water and vacuum pumps in the Pierburg Pump Technology division. There is a general feeling of economic upturn. Thanks to their increasing income levels, more and more private households are looking to purchase a vehicle: a trend which Pierburg will also continue to benefit from. **++ Günter Maassen, Pierburg Senior Business Development Manager Asia Pacific ++**

We did it: the turnaround was achieved in 2009 as planned. The measures aimed at modernizing plant and production structures and improving organizational processes, introduced as part of the integration of Rheinmetall Denel Munition into the Weapon and Munitions division, have ensured the very good operating performance of the company. Technological expertise, operating strength and experience and a high order backlog are good foundations upon which to continue this success. **++ Norbert Schulze, Managing Director Rheinmetall Denel Munition (Pty) Ltd. ++**

Rheinmetall Defence took advantage of the final of the Dunlop SportMaxx Clio Cup held on the Zandvoort race track in the Netherlands to advertise two variations of the state-of-the-art Boxer vehicle system. Two vehicles of the racing team of the Dutch Army took part in the event: the Boxer command post was used as a pace car for the warm-up stage before the actual race and the Boxer field ambulance was displayed in the exhibit, where it enjoyed a great deal of interest. The event gave Rheinmetall Defence the opportunity to promote itself as the manufacturer of the vehicle system destined for the Dutch and German armed forces in the coming years. **++ André M.V. Vieleers, Managing Director Rheinmetall Nederland B.V. ++**

AT HOME ON BOOMING MARKETS

KOLBENSCHMIDT PIERBURG EXPANDS INVOLVEMENT IN CHINA AND INDIA

Many market observers found themselves rubbing their eyes in disbelief when they looked at the boom in automotive production in China and India in 2009: in the middle of the worst recession since the Second World War, Chinese production figures went through the roof with an increase of almost 45 percent, while the Indian market also performed brilliantly with growth of over 16 percent. Unless you wanted to remain an onlooker in this boom, you needed to set the course in good time. As did Kolbenschmidt Pierburg. The supplier has been active in the "Middle Kingdom" since the late 1980s, initially through cooperation agreements and since 1997 gradually also through several joint ventures and its own companies. When Kolbenschmidt Pierburg made its first venture into the Chinese market in 1988, the world's most populous country had about three million cars. Today there are around 60 million and counting. The figures speak for themselves. Similarly dynamic development is being seen in India. Pierburg has been dealing with the Indian market for 10 years. The supplier has been represented locally by its own company since 2006 and since 2008 set up a plant in Pune, one of the biggest centers of the Indian automobile industry. More important than looking back, however, is the outlook for the future. Kolbenschmidt Pierburg further expanded its involvement in both Asian growth markets in 2009.

Market leader for cylinder heads in China

In China, Kolbenschmidt Pierburg generated sales of €155 million with a total of 1,221 employees in 2009. The joint venture Kolbenschmidt Pierburg Shanghai Nonferrous Components (KPSNC) accounted for a share of 70 percent in this, while the sister company KS Shanghai Pistons contributed 30 percent. KPSNC is today the largest manufacturer of cylinder heads on the Chinese market, producing around two million units per year. The experiences of German managers with the Chinese joint venture partner SAIC are overwhelmingly positive: "Cooperation has definitely proved successful", reports Lothar Schneider, general manager at KPSNC. "Only by working together we could attain the leading position on the market for cylinder heads." No wonder, then, that China still has considerable appeal for other divisions of the group. In 2009, for example, Pierburg GmbH made preparations to begin producing control units, particularly sensors, in Kunshan in 2011. KS Gleitlager GmbH, which is currently represented "only" by a sales office in Shanghai, will also put down deeper roots in the Chinese market and is planning a production site in Kunshan. The third player in the alliance is MS Motor Service Asia Pacific, which specializes in business with spare parts and which is also to establish itself in Kunshan.

Strong demand for emissions cuts and diesel expertise in India

Kolbenschmidt Pierburg has also made crucial progress in India. After Pierburg constructed its own factory in Pune in 2008, production started up at full steam. The Indian subcontinent offers significant market potential for Pierburg's expertise in emissions reduction in particular, as emissions legislation is continuing to move in the direction of international standards. Diesel is also booming in India thanks to government aid – another core area of expertise of the Kolbenschmidt Pierburg Group.

In addition to Pierburg, KS Aluminium-Technologie has also reinforced its presence in India. In 2009, a license agreement was signed with Jaya Hind Industries Ltd. from Pune. The agreement relates to the development and production of cylinder heads, engine blocks and various castings for international automotive manufacturers and suppliers. Horst Binnig, the CEO of KS Kolbenschmidt and KS Aluminium-Technologie, says: "As part of our internationalization strategy, we increasingly focused, in addition to our high-tech main plant in Neckarsulm, on international sites for high-volume products, to gain further cost advantages. Along with China, the Indian market is increasingly playing a pivotal role in this."

EVERYTHING IN THE GREEN?

THE CONSTANT BATTLE FOR IMPROVED EFFICIENCY

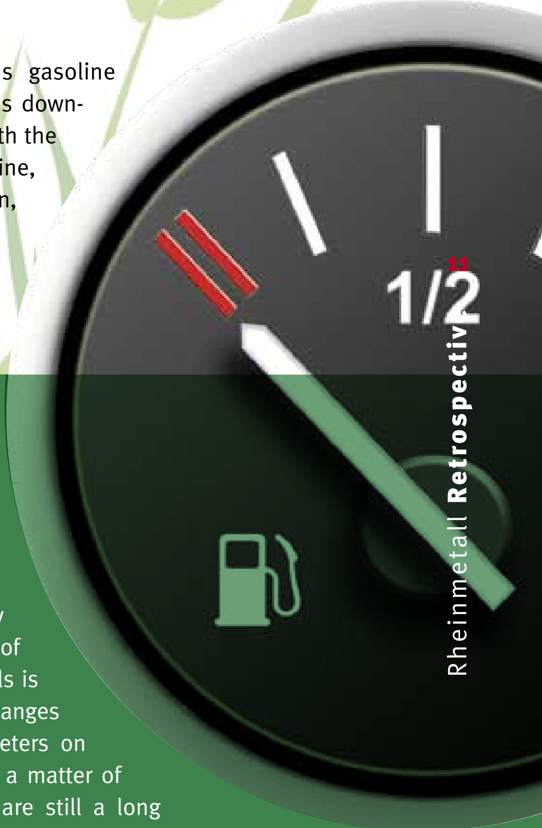
Since gasoline and diesel established the basis for the engines of today, generations of engineers have endeavored to stretch the limits of possibility to obtain an increased level of efficiency. Here, the first diesel engine of 1897 stood head and shoulders above the gasoline engines also developed at this time in terms of efficiency and therefore consumption.

Following the era of trade guilds and the first industrial production, the focus was not only on reducing fuel consumption, but also on longer service life and lower weight. As the first successful large-scale production of aluminum did not take place until 1886, engines including the pistons were made of good old iron up until the time when aluminum successfully infiltrated the domain previously dominated by iron thanks to continually improved alloys. Cast-iron pistons were initially replaced with considerably lighter pistons made of aluminum. This was then followed by the crankcase which was bolted together with the cast-iron cylinders. The first successful large-scale production of complete cylinder blocks made of aluminum did not take place until after World War Two.

The first pellet-type catalytic converters appeared around 60 years ago in the USA. Europe went in another direction. Thanks to continually improved carburetors and the first fuel injection engines, it was possible to dramatically lower specific consumption in comparison to American engines. It had been hoped that catalytic converters could be avoided through the use of lean burn operation, but government policy had other ideas and the catalytic converter was also introduced in Europe.

Back when engine production was resumed after the war, it was common practice in Europe to lower emissions of toxic carbon monoxide (CO), and subsequently unburnt hydrocarbons (HC), from gasoline engines. However, nitrous oxide, which is also a pollutant, increasingly led to problems due to higher engine performance. The three-way catalytic converter helped here, as it reduces all three substances in equal measure.

It is interesting that, even at a very early stage, engine construction was supported by component suppliers who took care of the needs of engine manufacturers with regard to a variety of components. Component suppliers grew with automotive manufacturers and started to conduct their own research operations after the war. Time and time again, there have been a few automotive manufacturers who have tried to manufacture “everything” in-house, but this never lasts for long. Specialist suppliers are simply much better at it. Only in collaboration with suppliers has it been possible, not only to lower consumption on an ongoing basis, but also to comply with statutory emissions regulations, which are not always consistent with the knowledge of constructors.



The key trend as regards gasoline and diesel engines today is downsizing – smaller engines with the performance of a large engine, yet with lower consumption, weight and construction volume. Charged gasoline engines with a capacity of 1.2 liters are venturing into the domain of two-liter engines, and it is a similar situation for diesel engines. Large engines with six or eight cylinders are equaling the performance of racing cars, while also being extremely good for everyday driving, while the torque of large (passenger car) diesels is exceeding that of tractors. Ranges of more than 1,000 kilometers on a 60 liter tank are already a matter of course nowadays. Yet we are still a long way off reaching an end to this development. Based on current knowledge, serious forecasts are predicting future reductions in consumption of 30% or more. As such, the combustion engine is well on its way into the future and will be powering our cars for a long time yet •

Christian Bartsch

AN “OUTPERFORMER” BEATS THE DAX AND MDAX

RHEINMETALL SHARE PRICE ALMOST DOUBLES IN 2009

The start to the 2009 stock market year was not for the faint-hearted. After dramatic slumps in share prices worldwide following the Lehman Brothers collapse in September 2008, the downturn on the stock markets initially continued unchecked in the first quarter of 2009. The DAX continued to lose ground up to the beginning of March 2009, falling by up to 24% compared with the close of 2008. At the end of the first quarter of 2009 a gradual change in sentiment set in on the capital markets, however, supported by an improvement in major economic indicators and corresponding hopes of a global economic upturn. The recovery on the stock markets was aided not least by worldwide support measures from the biggest central banks and numerous national economic stimulus packages and bank rescue funds. As a result, Germany’s most important stock market index embarked on a clear upward trend and closed 2009 at 5,957 points, an increase of 24% on the previous year-end.

The development of the MDAX, in which Rheinmetall shares are listed, was similar. In the first quarter of 2009, the index temporarily lost up to 26% compared with the close of 2008. The MDAX recorded strong gains in the following months, however, ending the year at 7,507 points. This represented an increase of 34% compared with the end of 2008. Rheinmetall significantly surpassed this performance: shares in the Düsseldorf-based group proved markedly resistant to the crisis even in the first few months of 2009 and left the MDAX reference index far behind at the end of 2009, with a 95% increase over the previous year-end.

MDAX climber

Owing to the positive development of the share price and the issue of new shares in connection with a successfully placed capital increase, the market capitalization of Rheinmetall AG rose significantly in 2009. Accordingly, the stock market value on December 30, 2009 was €1.77 billion (2008: €824 million). In terms of the free-float market capitalization, the relevant criterion for the MDAX weighting, Rheinmetall shares rose from 22nd place to 13th position. Following the general trend, the average daily trading volume of the Rheinmetall share decreased substantially, falling from 450,000 shares in the previous year to 248,000. Nevertheless, shares in Rheinmetall AG moved up from 15th place to 14th place in the statistics compiled by Deutsche Börse regarding share turnover volume.

95%
increase in share price

Upward movement within the trend channel

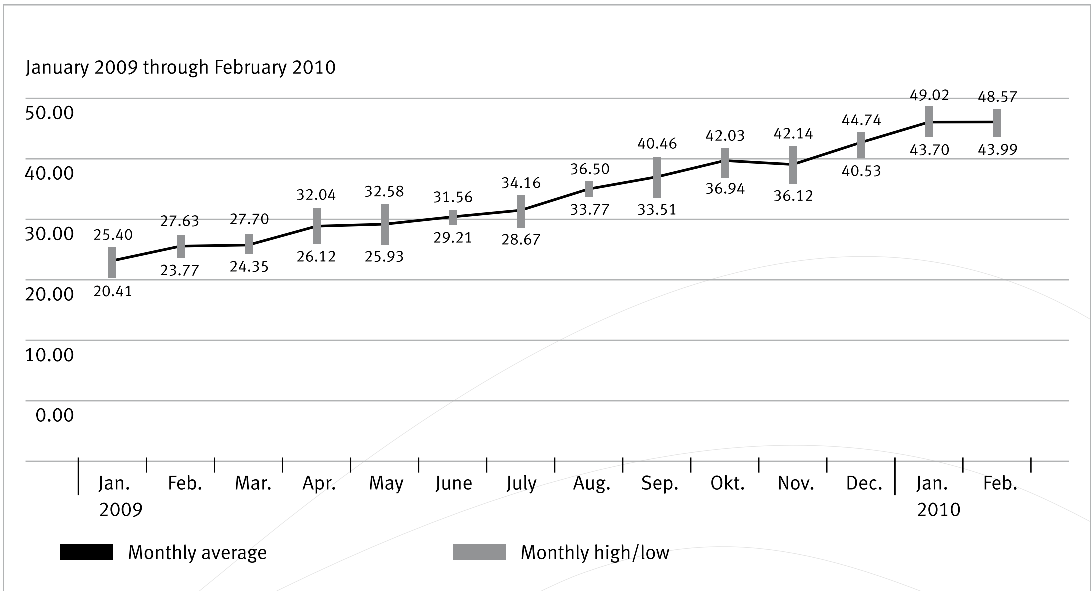
The robust growth course of the Defence sector and the successful restructuring of the Automotive business, together with the Group’s solid financing, were reflected in a large number of positive comments from analysts in 2009. Credit Suisse upgraded Rheinmetall shares from “neutral” to “outperform” in 2009, for example, rating Rheinmetall as an “attractive investment” with regard to the 2010 financial year. DZ Bank noted in February 2010: “The basic figures show both that the restructuring measures in the Automotive sector are taking effect and that growth is continuing in the Defence sector, which means we are expecting a significant increase in margins in 2010." The overall coverage of Rheinmetall by 23 analysts is still at a high level, showing that the capital market is very interested in Rheinmetall shares. It is also very gratifying that Rheinmetall received an award during the 2009 financial year for the best investor relations work in Germany (BIRD 2008) in the target group of private investors with the second place in the MDAX.

Only around half of institutional investors now from Europe

The internationalization of the Rheinmetall Group is becoming increasingly apparent in the ownership structure. The most recent analysis of the ownership structure from December 2009 showed that, although institutional investors from Europe still accounted for the largest group of shareholders with around 46%, their share had fallen by 6 percentage points compared with the survey from February 2009. The share of North American institutional investors remained constant at 31%.

The proportion of own shares held as treasury shares was 3.5% (1,393,536 shares) at the end of the 2009 financial year, compared with 4.5% or 1,607,928 shares on the previous year's balance sheet date. On February 26, 2010, Rheinmetall AG held 1,393,536 treasury shares or 3.5%, unchanged compared to December 31, 2009. At the end of the 2009 financial year, the members of the Supervisory and Executive Boards (including individuals related to them) held an aggregate 437,753 shares or 1.1% of the capital stock of Rheinmetall AG (2008: 419,521 shares or 1.2%). In addition to their contractual pay, executive and senior officers are granted a long-term incentive linked to the absolute value added to the Rheinmetall Group, part of which is disbursed in the form of Rheinmetall stock. In 2009, these beneficiaries received a total of 159,048 shares (up from 79,940 shares). Under the employee stock purchase program, which is open to all German subsidiaries, 591 employees participated, acquiring a total of 54,944 Rheinmetall shares at a discount in two tranches in April and November 2009. The employees have thus acquired a total of 410,173 shares to date •

410,173 shares held by employees



Future emissions standards already within reach

Kolbenschmidt Pierburg at the 2009 International Motor Show (IAA)

The automotive industry has a new theme: the electric car is set to revolutionize transportation and save the environment. Electric euphoria – far from reality or just the start of the future? At the 2009 IAA Motor Show in Frankfurt/Main, the companies of the Rheinmetall subsidiary Kolbenschmidt Pierburg AG tackled the discussion head on. It became clear on the split level stand with around 400 m² exhibition space that these companies intend to continue to be a forerunner in all technical innovations in the industry. The era of the combustion engine is nowhere near over: there's life in here yet, and the automotive market is demanding many new developments.

"With all this excitement, we mustn't overlook the fact that today's electric vehicles in no way represent a replacement for conventional cars," states the CEO of Kolbenschmidt Pierburg AG, Dr. Gerd Kleinert. As to whether electric vehicles will actually catch on, he believes this depends on a number of unresolved problems regarding energy storage. "According to consistent forecasts, combustion engines will continue to dominate the market over the next 20 years," explains Kleinert.

As such, the issues of emissions reduction and exhaust gas treatment have long been on the agendas of car developers. There is a lot to be done. Solutions need to be developed and optimized for the Euro 5 and Euro 6 emissions standards in order to attain the associated limits. At Kolbenschmidt Pierburg, this is no longer a vision of the future – this is what its engineers are actually working on. In Frankfurt/Main, the products presented included a 4-cylinder demo engine containing components aimed at reducing fuel consumption and emissions within the framework of the Euro 6 emissions standard set to come into force in 2014.

As well as the high-performance engine block made of aluminum, visitors to the trade fair were able to check out further developments in action: intercoolers, cooled exhaust gas recirculation systems, an exhaust gas mass flow sensor, a smooth-running piston, a variable oil pump, an electric coolant pump, a vacuum pump and low-friction plain bearings. Many of these, which are the results of many years of research and development work, are already integrated into state-of-the-art series production vehicles and have proved their worth in practice.

Yet the range of sustainable products at Kolbenschmidt Pierburg is even wider. Piston and engine designs are constantly being optimized in order to reduce engine emissions. Further key trends are advances in electrification, direct fuel injection, reducing engine friction and lightweight design. Downsizing, i.e. reducing the number of cylinders and capacity while retaining a comparable level of performance, will also play a dominant role. "Even in the future, there will still be engines with eight, ten or twelve cylinders. But not to the extent seen today," explains Kolbenschmidt Pierburg CEO Dr. Kleinert. Despite ongoing discussion regarding electric mobility, he is looking towards the future full of confidence: "As a company with a history going back one hundred years, we will continue to be a key player on the market in the future thanks to our current groundbreaking new developments and technologies tailored to customer needs across all divisions."

HIGH-TECH AGAINST AMBUSHES

Intelligent missile defence for the German armed forces in Afghanistan

Kunduz, in northern Afghanistan. Under the cover of darkness, a group of men creeps up to within a few hundred meters of the camp of the German ISAF troops. Then everything happens very quickly. With a mortar, a missile put together from old Russian artillery shells is fired on the German soldiers' camp. Fortunately, the lethal impact does not occur. State-of-the-art technology prevents a catastrophe. The new NBS C-RAM missile defence system has located the threat within a fraction of a second and destroyed the missile in the air. The German soldiers breathe a sigh of relief. A scenario that very soon will no longer be a vision of the future. The German armed forces ordered two of these air defence systems, developed by Rheinmetall Air Defence, in 2009 to protect its soldiers. In the troops, the very short-range protection system (NBS) will be used against missiles, artillery and mortars under the name MANTIS.

The technology is a breakthrough in forward operating base protection systems. Over 500 foreign soldiers lost their lives in Afghanistan in 2009 – the highest ever figure in a single year since the fall of the radical Islamist Taliban regime in 2001. The bases of the German armed forces in Kunduz and Masar-i-Sharif have also repeatedly come under fire. So far, however, effective protection has not been possible with existing weapon systems. The reaction time is too short to allow purposeful action during mortar fire, for example. There are often only a few seconds between the launch of the missile and its impact. With MANTIS, the German armed forces will be the first worldwide to have a highly effective tool for defence against missiles and mortar fire. The allied troops in Afghanistan will therefore be observing the defence system of the future with interest: there are good opportunities for export contracts from friendly nations. The first shield is to be installed at the Kunduz base in Afghanistan from 2011. The second system will remain in Germany and will be used to train operating and maintenance staff. The total order volume amounts to around €130 million, including training and spare parts. Rheinmetall will also supply the programmable ammunition, worth around €13 million.

How do the innovative defence systems work? "An NBS C-RAM consists of a control unit and fire control unit, two sensor units and six 35mm guns", explains Bodo Garbe, the division manager responsible. In order to ensure speed, the protection system operates largely automatically both day and night. A radar sensor recognizes immediately if a missile is fired up to three kilometers away and is a threat to a base. The automatic process is as follows: the guns instantly fire around 17 shots per second in the calculated flight path. At the same time, the system automatically warns the soldiers at the base.

Another strength of the system is that, in addition to the flight path and the point of impact, the location of the attackers is also calculated precisely. This makes targeted combat of the terrorists much easier. However, this does not exhaust the possibilities. The SysFla air defence system, which is currently being developed and builds on the NBS C-RAM, will – if so commissioned – offer protection against a considerably wider range of threats from the air. Thanks to an intelligent combination of air defence guns and guided missiles, the SysFla concept is designed for combating a wide variety of missiles from a distance of up to 10 km •

Armed forces on deployment

NEW THREATS REQUIRE NEW TECHNOLOGY

"International conflict prevention including the war against international terrorism and supporting our allies are the main objectives and concerns of German security and defence policy," explains the Weißbuch zur Sicherheitspolitik und zur Zukunft der Bundeswehr ("White paper on security policy and the future of the German armed forces") published by the German government in 2006. The then Defence Minister, Peter Struck, summed this policy up succinctly in a government statement issued on March 22, 2004: "The Hindu Kush will be just one of the regions where our security will be defended, if threats to our country form there, such as in the case of international terrorist networks."

Countries with no legal system or government authority, referred to internationally as failed nations, are areas of refuge and operational bases favored by international terrorist groups and organized crime networks. Securing or restoring law and order in these countries is in the interest of the Western industrialized nations. The Federal Republic of Germany is involved in international missions as part of NATO, the EU and the United Nations aimed at stabilizing states at risk and combating organized crime. Up to now, our armed forces have completed deployments in the following countries – Georgia, Congo, Macedonia, Uganda, Kuwait, two deployments in the former Yugoslavia, Iraq, Somalia, Rwanda and Cambodia. German soldiers are currently involved in seven missions – in Sudan, Bosnia-Herzegovina, Kosovo, Djibouti, Lebanon, Somalia and Afghanistan.

Due to the potential threat presented by the enemy, the prevailing local climate and the specific characteristics of the local terrain, foreign deployments mean different requirements as regards the equipment and training of the armed forces compared to national defence. The ruling forces in crisis regions operate in a legal vacuum they have created for themselves, with no regard for national legislation and in violation of international law and international law of war. They employ all available means in order to obtain a military advantage. The current weapons of choice are improvised explosive devices, rockets, mortar missiles and suicide bombs.

Up to and including January 2010, 1,659 coalition soldiers have been killed in action in Afghanistan alone. Up to January 2010, the German armed forces suffered 32 soldiers killed and 132 wounded in Afghanistan. Withdrawing German armed forces from Afghanistan is currently out of the question. The Federal Government made this clear at the Afghanistan conference held in London at the end of January 2010, and on February 26, 2010, the German Parliament extended the deployment mandate by one year.

Terrorists achieve success with the help of technology that can be accessed easily, such as cell phones, which are used to ignite explosive devices, by disregarding any law whatsoever, through the use of internationally banned devices in combat and, not least, through the media impact of their actions. The Western industrialized nations are bound by national and international legal standards. The aim is to secure these, or re-establish them in places where they no longer exist. Combat missions of NATO forces are also subject to strict rules of engagement. The disparity of the weapons and legal concepts of NATO and terrorists is referred to as asymmetry.

RECONNAISSANCE AND PROTECTION ARE A PARTICULARLY HIGH PRIORITY

The equipment required by troops on deployment is developed by industry or made available by modernizing existing devices. There is always one central question here: how can we increase the protection of soldiers? One example of this modernization is the Fuchs armored transport vehicle, which heralds back to the 1970s. It has since undergone extensive adaptation to meet foreign deployment needs, particularly as regards mine protection, thanks to which it has

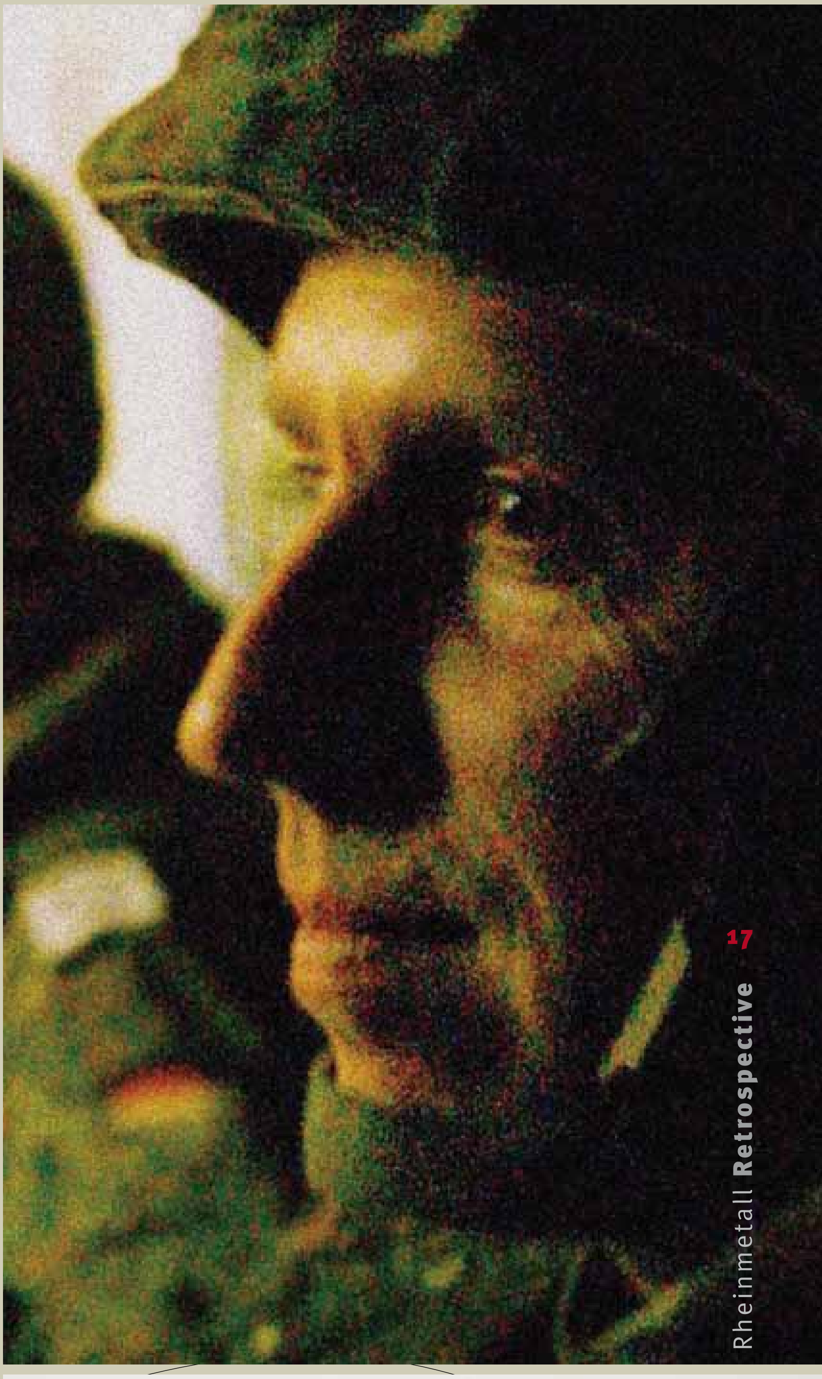
been brought right up-to-date and is still one of the most sought after vehicles amongst soldiers.

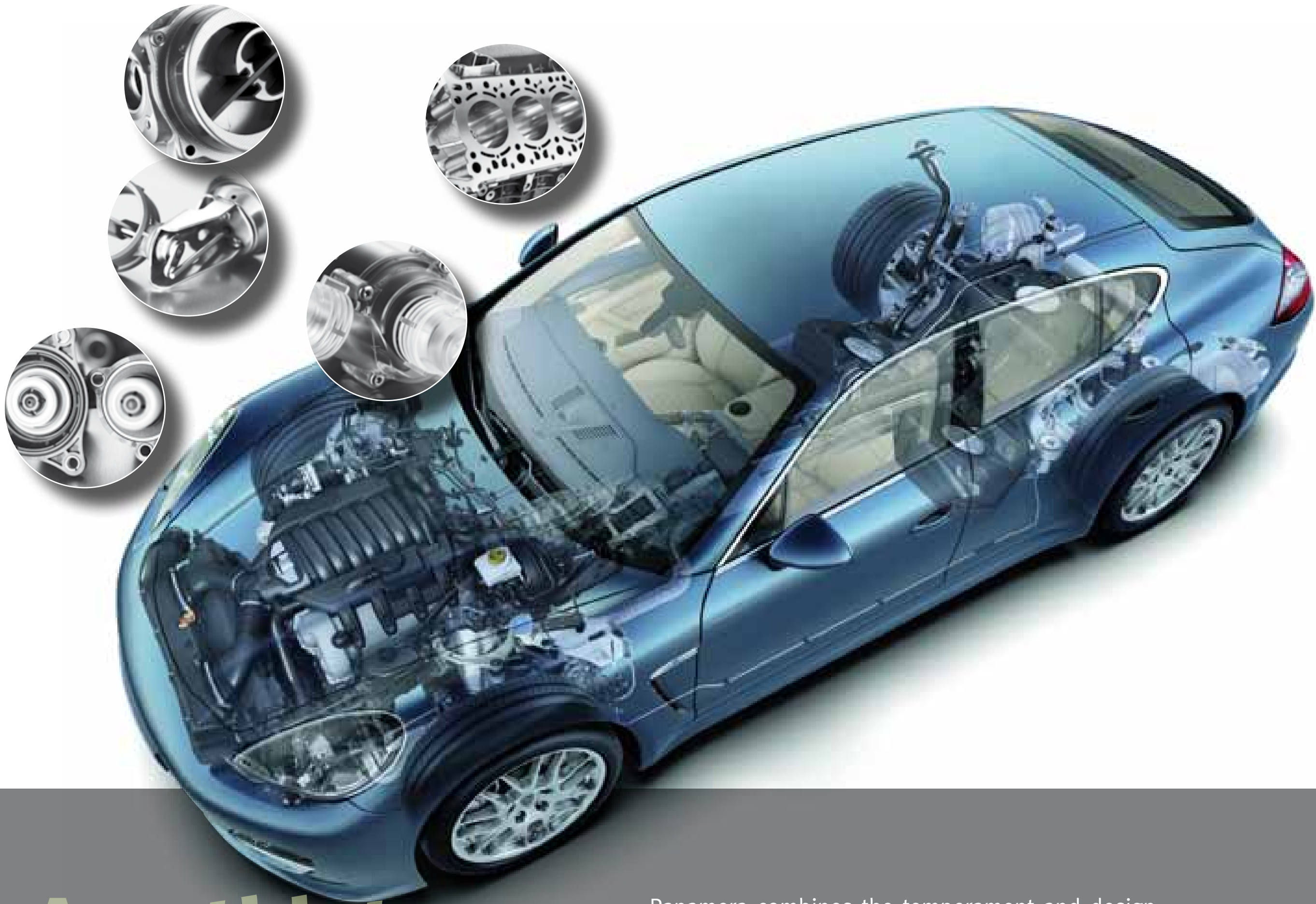
In asymmetric threat scenarios, reconnaissance and protection are a particularly high priority and go hand in hand: effective protection is not possible without reconnaissance and reconnaissance equipment cannot be used effectively and observations analyzed without protection. In hilly or mountainous regions, air reconnaissance observations provide vital information for military command. Here, the German armed forces use the KZO unmanned aerial vehicle for close-range engagements, and will soon commission the Heron system – the first unmanned aerial vehicle system of the German air force – for long-range reconnaissance in Afghanistan.

Bases are particularly at risk, being established in a fixed location, and are safeguarded through active protection against rocket, artillery and mortar attacks (RAM). German troops will soon be provided with a C-RAM system (counter-RAM), which destroys small incoming aerial targets, at the same time as determining where the missile was launched from. Last but not least, a central focus is the soldiers themselves and their direct protection. Another key role is therefore played by the equipment that the soldier carries on him and in future should allow him, combined with a large amount of advanced technology, to perform his duties day or night and in all weather conditions – and at as little risk as possible. The Future Soldier equipment provides him with location-specific information at all times and enables him to take part in networked operations with all units involved, right up to combat vehicles. This information advantage and communication lead to maximum protection and effectiveness on deployment.

The soldier must be provided with appropriate training in order to make use of this advantage. Training centers such as the German Army's Combat Training Center allow for training and performance evaluations. The aims of security policy given at the start of this article require sophisticated technology and a high level of soldier training. It is up to armed forces and industry alike to fulfill these requirements •

Dr. Burkhard Theile





An athlete in a custom-made suit

The roar of the engine sounds familiar, but it is initially met with unbelieving stares. A Porsche with four doors? Does that actually exist? You bet! The new four-door Porsche Panamera was unveiled to the public for the first time at the "Auto Shanghai" exhibition in April 2009. Since its market launch in September, this athlete in a custom-made suit has been a strong player in the league of luxury sedans and four-door sports coupés. It is joined on board by engine technology aplenty from Kolbenschmidt Pierburg.

THE NEW PORSCHE PANAMERA SPRINTING THANKS TO ENGINE TECHNOLOGY FROM KOLBENSCHMIDT PIERBURG

With its fourth model series after the 911, Boxster/Cayman and Cayenne, Porsche has ventured to achieve the fine balance between a powerful sports car and an elegant sedan. Porsche fans who, as business people or parents, have ended up with other luxury brands to date purely for reasons of space will very much appreciate the new addition to the Zuffenhausen-based model range. For the Panamera combines the temperament and design of a dynamic sports car with the space and driving comfort of a luxury sedan. The engine is powerful and dynamic as well as efficient and clean. With top speeds – depending on the engine fitted – of up to 303 km/h and average fuel consumption of between 10.8 l and 12.2 l, it has been possible in this class to combine ultimate driving dynamics with modern fuel efficiency. A large proportion of this is also based on system technology from Kolbenschmidt Pierburg. Electromagnetic valves, divert-air valves and exhaust gas flaps as well as secondary air pump valves and plain bearings from the Rheinmetall subsidiary are in operation under the hood of the Panamera, in addition to the engine block, vacuum pump and water pump. Besides the combination of sportiness and fuel efficiency, the engineers were faced with a different challenge altogether when developing the Panamera: it was necessary to retain the typical beefy sound of a Porsche engine, but the highest level of comfort specifications also needed to be implemented, meaning as low a level of noise as possible. They succeeded in doing this thanks to the specific fine-tuning of the exhaust system, air intake and the engine as well as minimizing wind noise. The result: a pleasantly low noise level prevails in the Panamera interior, which nevertheless still gives its occupants that typical Porsche feeling. As such, the four-door Panamera is still a true Porsche.

A Boxer from a kit

A NEW ARMORED TRANSPORT VEHICLE THAT CAN BE (ALMOST) ANYTHING

Imagine buying a car that can be transformed from a station wagon into a convertible or from a hatchback sedan into a family van in 30 minutes. If this sounds like an unrealistic vision of the future for normal road traffic, it has in principle already become a reality in military use. This is how the modularity concept, which is one of the major strengths of the new Boxer armored transport vehicle, works. What is unique about its construction is that the Boxer can be put together from two basic modules using virtually the same principles as a kit. A "drive module", which forms the basis for the vehicle and is the same for all versions, and a "mission module", which is available in ten variations and can be combined with the drive module depending on the type of use required. What was previously a command vehicle can therefore be a heavily armored ambulance half an hour later. The basic construction has another completely different advantage, however: the modular structure means that armor steel and protective plates can be built in so effectively in several places that the Boxer guarantees particularly good protection against mines and IEDs. The first of these armored "all-rounders" was handed over to the German Federal Office of Defence Technology and Procurement in September 2009. In total, 272 Boxer vehicles have been ordered for the German armed forces and 200 for the Dutch armed forces.

Not only is the Boxer extremely versatile and particularly well protected, it is also a true heavyweight: under its armor steel is a 720 hp V8 engine with a capacity of 16 liters. This "big block" machine drives the armored transport vehicle with an empty weight of 25 tons up to a maximum speed of 103 km/h. The Boxer has the same power to weight ratio as the Leopard 2 battle tank and is therefore also capable of following a "Leo" across difficult terrain. Its 8x8 all-wheel drive and unusually large 27" tires, which provide the necessary grip even in the deepest mud and on extremely rough tracks, play an important part here. "Its high level of mobility under difficult conditions is a particular strength of our 8x8 armored transport vehicle concept", explains Stefan Lischka, the managing director of ARTEC GmbH, the joint venture of Rheinmetall and Krauss-Maffei Wegmann that is in charge of the project. "Even if a mine or an antitank weapon destroys wheels, the Boxer remains maneuverable. With fewer than eight wheels, it also has the necessary mobility to leave the danger zone on its own", Lischka continues. As an armored transport vehicle, the Boxer is measured not least by its payload. The vehicle has set new standards here as well. The Boxer is authorized for a total weight of 35 tons and can fulfill a wide variety of transport functions, from straightforward freight to guide modules, the transportation of troops and ambulance services. Stefan Lischka says, "Thanks to the modular concept, the range of applications knows virtually no bounds." The special highlight is that individual modules even function as 'stand-alone' units, without a set of wheels underneath. This means, for example, that Boxer mission modules can operate "statically" and take on the function of a command post or a small first-aid station. A true all-rounder.

A LIGHT-HOUSE IN DÜSSELDORF

Satisfaction is written all over Dr. Jürgen Wolff's face when he looks out from his office over the growing "Entrepreneur City" in north Düsseldorf. What the head of Rheinmetall Immobilien GmbH has succeeded in getting off the ground as project manager with his eight colleagues at the Rheinmetall Group's former production site in the Derendorf district is a lighthouse property project that radiates well beyond the borders of North Rhine-Westphalia. In 1993, when Rheinmetall completely transferred its defence technology production from Düsseldorf to Unterlüß in Südheide, there were no indications that the site, which covers almost 10 hectares, would enjoy a new period of prosperity. In the last few years, however, the former production site between the Düsseldorf City and the airport has been transformed in various development stages into a kind of flagship district.

FOUNDATION LAID FOR THE "LIGHTHOUSE" IN "ENTREPRENEUR CITY"

In addition to the headquarters of Rheinmetall AG, which has been completely renovated and given a modern glass extension, activity has returned to the entire area once again. The special feature is that the "Entrepreneur City" concept combines the worlds of living and work. Accordingly, a stylish INNSIDE Hotel and attractive apartments for rent and sale have sprung up in proximity to modern office and commercial buildings such as the "Living Office" and the Gerry Weber Showroom. The Entrepreneur City has yet to receive its actual "lighthouse", however: in November 2009, the foundation stone for the "Lighthouse" was laid on Rheinmetall's grounds. This is expected to develop into a real "eye-catcher" in north Düsseldorf.

"Naturally, the Lighthouse doesn't look like a lighthouse on the sea", explains Jürgen Wolff, spreading out a colorful computer animation across his desk. "The building's signature features will be bands of light that will be attached to the façade and will illuminate the six-story building at night." Both in the green inner courtyard of the U-shaped house and in the rooms themselves, the chaos and pulsing energy of the street will fade into the background. By the end of 2010, a joint venture between Rheinmetall Immobilien GmbH and die developer Projektentwicklung GmbH will have completed the Lighthouse. The budget is around €30 million. It is already clear how the 9,500 square meters in the Lighthouse interior will be brought to life. "We've managed to achieve a good mix of office, fashion and leisure", explains Holger Gradzielski, an authorized representative at Rheinmetall Immobilien GmbH and the managing director of the joint venture. On the first two floors, for example, an upmarket fitness club is to be opened with a swimming pool and sauna.

This was all still a long way off in the 1990s, and no one could have guessed the extent to which the transfer of Rheinmetall's production would change the district and ultimately enhance it. "To begin with, we simply rented out all the existing buildings", Jürgen Wolff remembers. However, the planners quickly realized that the area had a very good chance of making the transition from a purely industrial site to a residential and service area, as it is within reach of the city center and has ideal connections to the airport, the trade fair and the motorway. The rest is history.

FINANCING STRATEGY
PROVES ITSELF IN THE CRISIS YEAR OF 2009

Illustration: Dirk Meissner

FRESH MONEY FOR NEW CHALLENGES – CAPITAL INCREASE SUCCESSFULLY PLACED

Continuity, solidity and reliability are important cornerstones of Rheinmetall's financing strategy. In the difficult financial and economic crisis of 2008/2009, however, the forward-looking and (in the best sense of the word) conservative orientation of Rheinmetall's financing strategy proved itself more than ever. This applies both to the Group's group of banks, which is stable but has been carefully further developed, and to the actions of Rheinmetall AG on the money and capital markets. Rheinmetall's solid financing and transparent financial market communications were rewarded in 2009, not least by the successful placement of a capital increase in a very short time. In summary, Rheinmetall managed to secure fresh capital for new challenges in an extremely difficult environment.

A stable investment grade rating is an important cornerstone of the Rheinmetall Group's financing strategy. As automotive business is weak because of the crisis, Moody's lowered its rating for Rheinmetall AG from Baa2/P-2 (negative outlook) by one notch to Baa3/P-3 (negative outlook) in May 2009. Since then, however, the Group has not only made further significant progress from an operational point of view, but has also ensured lasting support for its investment grade rating through the active management of the external funds and capital resources available.

Capital increase successful

In the context of a capital increase without subscription rights, Rheinmetall AG placed 3,599,000 new shares at a price of €29.00 per share in a very short time by means of an accelerated bookbuild offering on July 7, 2009. The issue enjoyed such a high level of demand that it was oversubscribed within a few hours. The total number of issued shares rose to 39,599,000 as a result of this capital measure.

Early refinancing of the bond maturing in June 2010

In the first half of 2009, Rheinmetall AG concluded framework loan agreements with two banks with a term of five years, relating to a total of €200 million. In June 2009, the Group successfully placed a series of promissory note loans with a total volume of €150 million and durations up to 2013 and 2014 with various investors. The purpose of the three transactions was the early refinancing of the €325 million bond due to mature in June 2010 and the general extension of the maturity profile.

Positive net liquidity thanks to a strong operating free cash flow

Despite the unsatisfactory earnings situation in 2009, Rheinmetall AG succeeded in achieving positive net liquidity at the end of the year (€44 million). This improvement of €249 million was aided in particular by operating measures such as the strict reduction of working capital and reduced capital expenditure, as well as a successful capital increase (inflow of €102 million). The resulting operating free cash flow of €186 million has played a major part in widening the scope of the Rheinmetall Group with regard to group financing •

100 years
of Kolbenschmidt Pierburg

A SUPPLIER THAT CONSTANTLY REINVENTS ITSELF

The air is warm. In the production hall of Pierburg Pump Technology in Hartha, between Leipzig and Chemnitz, water circulating pumps are being put together on fully automatic production lines. The noise level is surprisingly low, the atmosphere clinically clean, the floor electromagnetically secured. Production in the Kolbenschmidt Pierburg Group plants has for some time been a textbook example of high-tech manufacturing. There is little to remind us of the backbreaking work from the early years of the automobile industry, when oil-smeared men with black faces and skin shining with sweat had to control fire and metal using the simplest of tools. In the production halls of Kolbenschmidt Pierburg, the implementation of research and development is in the air now. Highly qualified professionals use the latest production technology for their precision work: the manufacture of systems and components that make engines simultaneously more economical and more efficient. With its expertise in the fields of air management, emissions reduction and pumps, Kolbenschmidt Pierburg is today in a leading position in its market sectors. The same applies to the development and production of pistons, engine blocks and plain bearings and in worldwide business with spare parts. 11,230 employees, 30 production sites all over the world and sales of around €1.5 billion in 2009 are the result of 100 years of engine development, in which the company has repeatedly reinvented itself in defiance of all crises.

A look back over the 100-year roots of the automotive supplier. Originally, two companies were "invented": the steel trading company Gebr. Pierburg oHG by Dr. Bernhard Pierburg in Berlin on March 15, 1909. On April 1, 1910, Karl Schmidt then founded Deutsche Ölfeuerungswerke in Heilbronn am Neckar, which later became Kolbenschmidt. Following a checkered history with top technological achievements, but also economically difficult times, the two family businesses were finally taken over by the listed company Rheinmetall AG. Pierburg has belonged to Rheinmetall since 1986, Kolbenschmidt since 1997. In 1998, the two suppliers were merged under the umbrella of Kolbenschmidt Pierburg AG.

Kolbenschmidt, today headquartered in Neckarsulm, is at first glance characterized by an astonishingly high level of continuity in its product portfolio: even when automobiles were in their infancy, pistons, engine blocks and plain bearings were the supplier's core areas of expertise. However, the technological changes have been considerable. For example, the alloy used today under the brand name "Alusil" no longer has any connection with the "Alusil" alloy from 1927. "In modern piston technology, a high level of performance and resilience, optimum piston cooling and a lower noise level are becoming increasingly important," explains Dr. Hans-Joachim Esch, in charge of research and technology within the Kolbenschmidt Pierburg Group. Engine blocks are becoming lighter and friction is being reduced, while plain bearings are becoming more wear-resistant, says the engineer.

At Pierburg – today headquartered in Neuss – the technological upheavals of the last 100 years become even more apparent: if Pierburg had maintained its original product range, the supplier would no longer be present on the market today. The company has continually adapted to altered customer requirements, market structures and competitive environments. For decades, Pierburg focused on the construction and ongoing development of carburetors, with a great deal of success. However, the tightening of emissions standards, the introduction of the regulated three-way catalytic converter and the triumph of injection technology increasingly began to cut the ground from under Pierburg's feet in the 1980s. "Pierburg almost missed this development completely," says Dr. Christian Leitzbach from the central archive of the Rheinmetall Group.

"However, the family company that it was at that time reinvented itself, literally at the last minute, and was fortunately able to build up an additional area of business in time and then turn it into its core business." Even since the late 1960s, Pierburg has been concerned with the issues of reducing emissions and lowering consumption, he says. These future technologies now hold new opportunities. As early as 1970, an exhaust gas recirculation valve was developed with BMW. Some other important products that the name of the former carburetor specialist now stands for include exhaust gas recirculation and secondary air systems, oil, water and vacuum pumps, solenoid valves and throttle valves.

Kolbenschmidt Pierburg will also have to keep reinventing itself in the next 100 years. However, with its expertise in lowering consumption, reducing emissions, lightweight construction and performance enhancement in engines, the Automotive sector of Rheinmetall is in a better position than ever. In the development of engine technology, Kolbenschmidt Pierburg not only has modern production facilities, laboratories and process engineering as well as expertise from the company's 100-year history to draw on, but also the creative talent of its current development teams •

Kolbenschmidt Pierburg will also have to keep reinventing itself in the next 100 years. However, with its expertise in lowering consumption, reducing emissions, lightweight construction and performance enhancement in engines, the Automotive sector of Rheinmetall is in a better position than ever.

Always one step ahead

Maximum performances require an excellent team. Team spirit is a decisive factor in success, in sport as well as in business. Rheinmetall stands for top technical achievements and economic success. We always want to be one step ahead. Therefore, there is one thing that matters for us before anything else: teamwork.

Rheinmetall AG · Rheinmetall Platz 1 · 40476 Düsseldorf · Germany

RHEINMETALL

Rheinmetall

Annual Report 09

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Report of the Supervisory Board

Trusting collaboration between Supervisory Board and Executive Board | Over the past fiscal year, the Supervisory Board performed the functions and duties for which it is responsible in accordance with the law, the Company bylaws, the German Corporate Governance Code and the Supervisory Board rules of procedure with the utmost diligence. The activities of the Supervisory Board focused primarily on maintaining dialog with the Executive Board and providing advice on the management of the Company. The Executive Board and Supervisory Board worked closely together. In 2009, three extraordinary meetings and nine committee meetings took place in addition to four ordinary Supervisory Board meetings.

The Supervisory Board was directly involved in all decisions of key strategic and economic importance to the Group at a very early stage. The members of the Supervisory Board dealt in detail with the Company's situation, the challenges it faced and its future prospects. Shareholder and employee representatives also convened in separate meetings in order to look at the situation of the Company from their perspective and to devise their own proposals. Actions and transactions of the Executive Board requiring approval in accordance with provisions under the law and Company bylaws or the rules of procedure were duly submitted to, and thoroughly reviewed, discussed and approved by, the Supervisory Board.

In addition to the business trend, earnings and financial position, other key issues on the Supervisory Board's agenda were further the strategic development of the corporate sectors, the Rheinmetall Group's long-term positioning, the current risk profile, the risk management system and the compliance system as well as general economic, market and sales data, the operating performance of the corporate sectors and the target achievement potential. Against the backdrop of the merely hesitant recovery of the automotive industry, the Supervisory Board attached great importance to providing ongoing reports on the economic situation in the Automotive sector as well as the results of the restructuring measures introduced. In addition, the Supervisory Board discussed in detail the impact of the weak economy and the effects of government economic stimulus packages on the specific market and industry structures of the Defence and Automotive sectors as well as the resultant options for the strategic focus of these sectors. In view of the uncertainty on the financial markets, the Executive Board reported on the possible adjustments to be made to the financing strategy, which has always included a wide variety of financing instruments and sources of financing with a well-phased maturity profile.

In addition to the intensive work carried out in plenary sessions and in the committees, the Supervisory Board Chairman met with the Chief Executive Officer periodically to exchange information and ideas. In ad hoc meetings, the Chief Executive Officer reported on the current business situation, important business transactions and pending decisions.

On the basis of its supervision activities and the detailed reports provided in writing and verbally as well as the information provided by the Executive Board, the Supervisory Board is satisfied of the propriety and efficiency of the management of the Rheinmetall Group.

Focus of discussions in 2009 | At the meeting held on March 24, 2009, discussions were centered around the annual financial statements of Rheinmetall AG and the Rheinmetall Group for fiscal 2008 and the draft proposals to be submitted to the Annual General Meeting on May 12, 2009. The Supervisory Board also addressed the early refinancing of the bond due in June 2010 through the issuing of €150 million in promissory note capital and arranging two long-term bank credit lines each of €100 million.

In light of the current uncertainty and the difficult assessment of the future impact of the financial crisis on Automotive's business, the Executive Board presented the corporate planning for 2009 to 2011, including financial, capital expenditure and HR planning, at the extraordinary meeting of the Supervisory Board held on April 28, 2009 instead of at the final meeting of the fiscal year as is normal procedure.

The assumptions made by the Executive Board in order to prepare this corporate planning were discussed in depth. Following extensive discussions, the Supervisory Board acknowledged the corporate planning for 2009 to 2011 and approved the 2009 capital expenditure framework plan. The Executive Board also explained the background to the apartheid lawsuit pending in the USA and the current status of these proceedings.

The second ordinary Supervisory Board meeting of the reporting period took place on May 11, 2009. As well as preparing for the Annual General Meeting taking place the following day, the agenda also included providing the Supervisory Board with information on the economic development of the Rheinmetall Group in the first quarter of 2009.

At the extraordinary meeting held on July 2, 2009, the Executive Board informed the Supervisory Board of its intention to utilize part of the authorization to increase the common stock granted by the Annual General Meeting of May 9, 2006. It explained the reasons for this and gave details on the planned capital increase of €9,213,440 against the issue of 3,599,000 no-par bearer shares excluding shareholder subscription rights.

On August 25, 2009, the Executive Board presented the business development of the Rheinmetall Group in the first six months of the year at the meeting of the Supervisory Board. Taking into consideration the ongoing difficulties on the global automotive markets, the Board members discussed Automotive's strategic, technological and operational focus at length.

The topic of discussions at the extraordinary meeting held on October 5, 2009 was the planned collaboration with MAN Nutzfahrzeuge AG in the area of wheeled vehicles used by the military. The Executive Board presented the industrial logic behind the cooperation, explaining that the joint venture, in which Rheinmetall holds a 51% interest, would create an important full-service provider for the market for wheeled military vehicles, covering the entire range of armored and unarmored transport vehicles, command vehicles and multipurpose vehicles for international armed forces.

The Supervisory Board convened for its fourth ordinary meeting on December 8, 2009. The Executive Board presented the financial statements for the third quarter of 2009 and informed all those present of the current business situation of the Rheinmetall Group, the competitive environment and the outlook. The Supervisory Board was then shown the detailed corporate planning for 2010 to 2012, which it subsequently acknowledged. The Supervisory Board approved the capital expenditure plan submitted for fiscal 2010. Furthermore, the Supervisory Board also discussed the fine-tuning of the corporate governance principles and their application within the Company. It also conducted its annual review of its own efficiency, which included looking at workflows within the Supervisory Board, the routing of information from the Executive Board, the interaction of the two Boards and the work of the committees. All areas inspected were given a positive assessment. The regulatory framework for the remuneration of Executive Board members based on the German Stock Corporation Act (AktG) and the German Corporate Governance Code was also discussed.

Work of the committees | The Supervisory Board continued the successful work carried out by its separate committees. The members of the committees provide the Supervisory Board with considerable support and relieve its workload significantly by preparing time-consuming topics with great discussion requirements and meetings of the Board as well as checking resolutions in advance. Where so authorized by the Supervisory Board, certain specific decisions can also be made directly by a committee. With the exception of the Nomination Committee, which consists of two shareholder representatives, all committees are based on joint representation, with two shareholder representatives and two employee representatives.

Tasks which are the responsibility of the Personnel Committee include making preparations for the appointment and withdrawal of Executive Board members and the conclusion, amendment and termination of employment and pension contracts of members of the Executive Board.

Report of the Supervisory Board

The Board held four meetings over the past fiscal year, in March, April, August and December, where, as well as discussing the re-appointment and associated extension of the contracts of Klaus Eberhardt and Dr. Herbert Müller, it also looked at issues such as current developments with regard to Executive Board remuneration.

The Audit Committee held five meetings over the year, in March, May, August, November and December, in which it focused on the accounting, the single-entity separate and consolidated financial statements for fiscal 2008, the proposal on the appropriation of profits and the dividend amount, and discussed the quarterly accounts for fiscal 2009 with the Executive Board prior to publication. The Audit Committee made preparations for awarding the audit assignment to the statutory auditor elected by the Annual General Meeting, while also verifying the independence of said auditor as required by the German Corporate Governance Code. The members of the Audit Committee also monitored the accounting process and the effectiveness of the internal control system, the risk management system and Internal Auditing. In addition to this, the Audit Committee also looked closely at compliance issues and was supplied with the report of the Chief Compliance Officer, who regularly informs the Executive Board and Audit Committee of his activities, and issues immediate notifications in cases of urgency.

The Mediation Committee formed according to Section 27 (3) of the German Codetermination Act (MitbestG), which submits a slate of candidates for Executive Board membership to the Supervisory Board if these have not received the required two-thirds majority of Supervisory Board member votes in the first ballot, did not convene in the past year.

The Nomination Committee, which comprises shareholder representatives and which submits to the Supervisory Board a slate of suitable Supervisory Board candidates for election by the Annual General Meeting in the event of upcoming re-elections, did not meet in 2009. At its meeting on March 24, 2009, the Supervisory Board approved the rules of procedure for the Nomination Committee.

The composition of the committees of the Supervisory Board in the period under review is presented on page 42. The plenary Supervisory Board was regularly informed in depth of the outcome of discussions held at meetings of each of the committees.

Work of the Supervisory Board and the committees | All members of the Supervisory Board performed their functions and duties responsibly and with great dedication. No Supervisory Board member attended fewer than half of all Supervisory Board meetings in the reporting period.

Corporate governance and declaration of conformity | The Supervisory Board was continually informed of developments as regards corporate governance standards. At the meeting held on December 8, 2009, the Supervisory Board and Executive Board discussed the recommendations and suggestions made in the German Corporate Governance Code, together with the changes implemented in 2009. It then issued the updated declaration of conformity in accordance with Section 161 AktG, before making this permanently available to the shareholders on the Company's website. All recommendations of the German Corporate Governance Code as amended up to June 6, 2008 and June 18, 2009 have been fully carried out or will be fully carried out.

There were no conflicts of interest on the part of members of the Supervisory Board or the Executive Board requiring immediate disclosure to the Supervisory Board or which had to be reported at the Annual General Meeting.

In line with Item 3.10 of the current version of the German Corporate Governance Code, the Executive Board and Supervisory Board provide a report on corporate governance within the Company on pages 39 - 45 of the Annual Report.

Composition of the Supervisory Board and Executive Board | There were no changes to the members of the Supervisory Board and its committees in the reporting period.

In 2009, there were no changes to the members of the Executive Board. At its meeting held on March 24, 2009, the Supervisory Board approved the three-year extension of the contracts of Klaus Eberhardt, CEO and Director of Industrial Relations, and Dr. Herbert Müller, member of the Executive Board responsible for Finance and Controlling. These contracts were due to expire with effect from year-end 2009. These Executive Board members will retain the same responsibilities, thus ensuring continuity in the management of Rheinmetall.

Adoption of the single-entity and consolidated financial statements 2009 | In accordance with the resolution of the Annual General Meeting, the Supervisory Board awarded the audit assignment for the single-entity and consolidated financial statements for fiscal 2009 to PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Düsseldorf branch, in December 2009. The scope and areas to focus on in the audit were established by the Audit Committee prior to this.

The single-entity financial statements prepared by the Executive Board in accordance with German GAAP together with the management report for fiscal 2009, as well as the consolidated financial statements prepared on the basis of Section 315a of the German Commercial Code (HGB) in conformity with the International Financial Reporting Standards (IFRS) as required in the European Union together with the Group management report for fiscal 2009 were all audited (including the accounting) by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in accordance with statutory regulations and were issued with an unqualified auditor's opinion.

The Supervisory Board was presented with the single-entity and consolidated financial statement documentation, the profit appropriation proposal and the audit reports issued by the auditing company in sufficient time to ensure that it could carry out an in-depth, careful examination. The statutory auditors who signed the audit reports attended both the Audit Committee proceedings held on March 17, 2010 and the annual accounts meeting of the Supervisory Board held on March 18, 2010. They reported on areas that they focused on in their audit as well as any significant findings and answered questions put forward by the Supervisory Board.

The statutory audit report contains no mention of, or reference to, any misstatement or misrepresentation in the declaration of conformity according the Corporate Governance Code.

The audit performed in line with Section 91 (2) AktG concluded that the Company has an appropriate early risk identification system (ERIS) that conforms to statutory regulations and is able to identify in good time any developments that may jeopardize the Company's continued existence as a going concern. The auditor confirmed that the methods defined by the Company for the management, identification and monitoring of risks incurred are suitable for these purposes and that the management report for Rheinmetall AG and the Group management report present a true, fair and reasonable view of the risks and opportunities of Rheinmetall's future development.

In accordance with the conclusive findings of its own review and on the basis of the Audit Committee's report and recommendation, the Supervisory Board concurred with the statutory auditor's conclusions and approved the single-entity and consolidated financial statements for fiscal 2009. The single-entity financial statements have thus been adopted under the terms of Section 172 AktG. Furthermore, the Supervisory Board also approved the management report for Rheinmetall AG and the Group management report, including the assessment of Rheinmetall's further development, as well as the Executive Board's proposal for the appropriation of net income for the year including the distribution of a dividend of €0.30 per share for the year under review.

Report of the Supervisory Board

In light of the past fiscal year, which has been successful overall despite an increasingly difficult environment, the Supervisory Board would like to thank the customers of the Rheinmetall Group and the shareholders for the trust they have placed in the Group. The Supervisory Board would also like to extend its thanks to the Executive Board, the other corporate officers, as well as all the employees for their outstanding dedication and the hard work they have put in, all in the interest of the Company. In a difficult situation dominated by huge uncertainty, a very good result for the Rheinmetall Group as a whole has been achieved.

Düsseldorf, March 18, 2010
On behalf of the Supervisory Board

Klaus Greinert
Chairman

General economic conditions

Worst of the recession overcome quicker than expected – warning of continuing risks | Across the globe, the start of 2009 was characterized by the most severe recession of the post-war era. The shockwaves left by the financial crisis had completely taken hold in the real economy in the fourth quarter of 2008, leading to an unprecedented economic downturn in the first three months of 2009. Spurred on by multi-billion economic stimulus packages, expansive monetary policy and comparatively low commodity prices, a gradual recovery began in the spring, which started to gain ground in the second half of the year. With the recession initially unfurling quicker and more intensely than anticipated, economic research institutes and international organizations then began to allude to a trend reversal earlier than expected and revised their original forecasts for 2009 slightly upwards.

Whereas in July, the International Monetary Fund (IMF) was still anticipating a 1.4% decrease in global economic output, the IMF economic experts then raised their calculation for 2009 as a whole to a decrease of 0.8% at the start of 2010. The IMF identified China and India as the main driving forces behind this recovery, achieving growth rates of 8.7% and 5.6% respectively. The traditional industrialized nations continued to lag considerably behind this dynamic development: based on 2009 as a whole, the Organization for Economic Cooperation and Development (OECD) calculated a decline in economic output of 3.5% for its 30 member states. Here, the country where the global economic crisis started, the USA, already appeared to be in better shape than the euro zone. According to the OECD, with a decrease of 2.5%, the US economy contracted considerably less than the economic output of the euro zone nations in 2009, which showed a year-on-year decline of 4%. In the case of Germany, the OECD economists calculated a decline in GDP of 4.9%, while the contraction of the Japanese economy was slightly more severe, with a decline of 5.3%.

As at year-end 2009, leading economic research institutes and the Bundesbank as well as the OECD attested to a noticeable improvement in the economic climate in all major economic regions. At the same time, experts were unanimously warning of continuing risks, first and foremost due to the ongoing vulnerable financial system, unexpected exchange rate fluctuations and weak private consumption resulting from slowing momentum behind fiscal policy and rising unemployment. In terms of Europe, a major German daily newspaper summed the situation up as follows: “The European economy is still suffering the ill-effects of the recession – its recovery is shaky on its feet.”

Challenges surrounding security policy free defence sector from global recession | The defence sector is one of the few industries that was not caught up in the wake of the global economic crisis in 2009. This is due to the intensification of the security situation on foreign deployment missions, including the ISAF mission in Afghanistan, as well as the increasing risks posed by international terrorism, unresolved regional conflicts and, just recently, piracy. The current and potential challenges facing security policy require flexible and, at the same time, forward-thinking planning of defence spending, which has again been reflected over the reporting year in countries increasingly investing in the protection of their own troops and the modernization of military equipment. This can be seen not least in the example of the German defence budget, which increased to approximately €31.2 billion in 2009, exceeding the previous year’s figure of €29.5 billion by 6%. Within the budget, defence capital expenditure increased by 8.5%, rising to over €7.6 billion compared with €7.0 billion in 2008. As a result, the share attributable to capital expenditure in the overall defence budget was up again year-on-year, at 24.4% compared with 23.8% in the previous year.

It is to be assumed that, despite the global economic crisis, global defence spending in 2009 reached the previous year’s level estimated by the Stockholm International Peace Research Institute (SIPRI) of approximately USD 1.5 trillion, or even slightly exceeded it. At USD 683 billion, US defence spending again represented the biggest single national budget in 2009, according to an evaluation carried out by Jane’s Defence analysts.

General economic conditions

As such, spending actually fell short of the previous year's record high of USD 696 billion by around 2% as a result of regrouping and new priorities. Nevertheless, an increasingly strong trend towards equipment that helps to protect own troops on foreign deployment is also emerging in the USA, while arms programs based on the concept of the confrontation of major superpowers are becoming less important. In the case of Germany's other major allies, defence budgets in Great Britain and Canada, for example, continued to increase in the year under review, whereas spending in France and the Netherlands remained around the same level as the previous year. The Italian, Spanish, Swedish and Turkish budgets were reduced slightly in 2009.

Adaptation of military equipment to intensified operational reality | In 2009, the significant deterioration of the security situation in Afghanistan exemplified the need to further improve the protection of troops involved in foreign deployment against asymmetric threats. 512 Western coalition soldiers killed in action in the space of one year – the biggest losses since the fall of the Taliban in 2001 – served as a powerful reminder of the need to continually adapt military equipment to the intensification of the reality of operations.

Particular attention continued to be paid to land forces in 2009, which are bearing the brunt of present foreign deployments. Areas that served as a particular focus in the arming of troops included improved protection of vehicles against ballistic threats and mines, at the same time as optimizing mobility and modularity for a variety of deployment requirements. As one of Europe's leading systems suppliers for land forces, Rheinmetall Defence set several milestones in the area of military vehicle technology in 2009: first and foremost, Rheinmetall was commissioned to build the Puma infantry fighting vehicle, the largest individual order in the history of the Company. The Puma has modular armor-plating, can be transported by air and offers a significantly higher level of protection than the previous model, the Marder. Between 2010 and 2020, the German armed forces will be supplied with 405 of these combat vehicles, newly developed in collaboration with a partner company, with a total value of approximately €3.1 billion. The configuration of the Boxer armored personnel carrier also meets the most stringent protection requirements, delivery of which began to the German armed forces in 2009. The Boxer is a heavily armored, highly mobile wheeled vehicle. Full series production comprises 272 vehicles for the German armed forces and 200 vehicles for the Dutch army. Rheinmetall will also set new standards for vehicle technology with Rheinmetall MAN Military Vehicles, a joint venture between MAN Nutzfahrzeuge and Rheinmetall launched in the reporting year. The first step scheduled to be taken in 2010 is combining the two companies' development and distribution activities as regards wheeled military vehicles under the single umbrella of the new company, which will then take over responsibility for the product and the market. The second stage, which has been contractually agreed, will involve the integration of the respective production capacities of the two companies at the Kassel plant (Rheinmetall) and the Vienna plant (MAN) in the joint venture company. This will be completed by the end of 2011 at the latest.

The Air Defence division, where Rheinmetall Defence is also well positioned, also gained in importance in 2009. Thanks to the NBS C-RAM air defence system completed by Rheinmetall Air Defence in 2009, a significant breakthrough has been made in the development of an effective forward operating base protection system, particularly against mortar fire.

Economic stimulus packages and Asian growth markets slow down the decline of the automotive industry | The year of recession in 2009 brought the year-long upwards trend on the automotive markets to an abrupt halt, at least temporarily, and presented the industry across the globe with unprecedented challenges. The nosedive taken by the automotive markets in the first quarter of 2009 as a result of the financial and economic crisis was on a scale "without precedent" according to the assessment of the Association of the German Automotive Industry (VDA).

The rapid downturn of the global economy, combined with high levels of inventories and overcapacity, led to a sharp fall in automotive production worldwide, particularly in the first three months of 2009. However, as the year went on, the huge economic stimulus packages – in particular the scrappage bonus schemes introduced in the major industrialized nations – and the strong momentum of the Chinese and Indian automotive markets had a stabilizing effect on passenger car production. Although production figures lagged behind the number of new vehicle registrations as a result of the high inventory levels, a trend reversal also started to emerge for production from the third quarter, if not before, meaning that the decline for the year as a whole was less severe than originally feared. According to calculations by the automotive analysts at CSM Worldwide, global production of passenger cars and light commercial vehicles of up to 3.5 t fell by approximately 14% in 2009 to 56.5 million vehicles (2008: 65.5 million). In the triad of Western Europe, NAFTA and Japan, production figures were down 26%.

The NAFTA zone and Japan had to absorb particularly severe falls in production of 32.4% and 30.2% respectively. Western Europe recorded a contraction of 18.4%, while the Eastern European market, which had shown dynamic growth in previous years, posted a sharp fall in production of almost 27% in 2009. In October 2009, German exports rose for the first time since the start of the crisis, which was also reflected in a corresponding recovery of production figures in the fourth quarter. However, it should be noted that the positive trend recorded in the final quarter of 2009 is set against the dramatic downturn in the same quarter of the previous year. In terms of the year as a whole, the number of vehicles produced in Germany fell by 12.5% year-on-year to approximately 4.7 million.

The Chinese market defied the global automotive crisis to an extent that was unexpected: with strong growth in production of almost 45%, China gave particularly impressive proof of its growth momentum in the 2009 crisis year. With 10.6 million units produced, China also clearly outpaced 2008's largest market, Japan, with Japanese production declining to approximately 7.4 million vehicles during the same period. In addition to the Chinese market, India also proved to be a stabilizing factor. Production here grew by 16.4% in 2009.

Restructuring measures taken to counter sector crisis – utilizing market trends | In the fourth quarter of 2008, the Executive Board of Kolbenschmidt Pierburg AG quickly introduced a package of measures to lower costs and adjust capacity. In view of the far-reaching crisis in the sector in the reporting year, this was converted into an extensive restructuring program aimed at securing the company's competitive strength and profitability. In 2009, the Automotive sector spent €138 million on structural and staffing adjustments, yet still allowing for significantly positive profit contributions to be generated, even in the event of longer-term weakness in demand with a corresponding low level of sales. Furthermore, the Automotive sector not only benefited from the fact that the general industry trend towards reducing CO_2 emissions and saving fuel was stepped up further in 2009, but it also did well thanks to products configured to comply with the emission limits specified in the Euro 5 standard in force from January 1, 2011. This was evident not least in the acquisition of a large cross-divisional order for a particularly fuel-efficient engine family for seven automotive brands in total. The Kolbenschmidt Pierburg Group will supply exhaust gas recirculation cooler systems, water pumps, pistons and engine blocks for these diesel engines. Production is scheduled to start in 2010. The annual order volume will total between €130 million and €150 million from 2011.

Rheinmetall Group business trend

Rheinmetall Group sales at €3.4 billion | During the past fiscal year, the Rheinmetall Group generated sales of €3,420 million, down approximately 12% on the €3,869 million achieved in the previous year. While the Defence sector reported another increase in sales, the Automotive sector was forced to post significant sales losses, reflecting typical development in the automotive industry. Rheinmetall Defence accounted for 55% of total sales (previous year: 47%), while Automotive accounted for 45% (previous year: 53%).

Sales *€ million*

	2008	2009
Rheinmetall Group	**3,869**	**3,420**
Defence	1,814	1,898
Automotive	2,055	1,522

At 66%, the international share of consolidated sales in fiscal 2009 was at the level of the previous year (67%). Alongside the German market (34%), the key regions in terms of sales volumes were Europe excluding Germany (37%), followed by Asia (11%) and North and Central America (10%).

Order intake in Rheinmetall Group reaches €4.6 billion | As at the balance sheet date, the Rheinmetall Group reported an order intake of €4,649 million, following €3,780 million in 2008. This is significantly up on the amount of sales generated. At €3,153 million, the Defence sector posted 83% more orders in 2009 than in the previous year. The order intake in the Automotive sector fell from €2,057 million in 2008 to €1,496 million in 2009 as a result of the crisis.

Order intake *€ million*

	2008	2009
Rheinmetall Group	**3,780**	**4,649**
Defence	1,723	3,153
Automotive	2,057	1,496

Surge in Group order backlog to almost €5 billion | At €4,940 million, the order backlog generated by the Rheinmetall Group was up approximately 34% year-on-year. At the end of fiscal 2009, the order backlog in the Defence sector stood at €4,590 million (previous year: €3,307 million). In the Automotive sector, the order backlog as at the balance sheet date totaled €350 million, following €376 million in the previous year.

Order backlog *€ million*

	2008	2009
Rheinmetall Group	**3,683**	**4,940**
Defence	3,307	4,590
Automotive	376	350

Rheinmetall consolidated EBIT impacted by fall in sales and restructuring in Automotive sector | In 2009, EBIT of the Rheinmetall Group declined significantly by €230 million year-on-year as a result of the economic crisis, yet is still positive at €15 million thanks to numerous internal measures to cut costs and efforts made to increase performance.

EBIT *€ million*

	2008	2009
Rheinmetall Group	**245**	**15**
Defence	194	215
Automotive	61	(187)
Others/consolidation	(10)	(13)

The good performance of Defence, which made a €215 million contribution to profits in the year under review, only compensated for the fall in sales and earnings of the Kolbenschmidt Pierburg Group brought about by the slump in global automotive production to a limited extent. The Automotive sector reported a result before interest and taxes (EBIT) for fiscal 2009 of €-187 million (previous year: €+61 million). The Rheinmetall Group reacted to the international economic crisis back in the fourth quarter of 2008, a reaction which was in good time, forward-thinking and consistent. This included launching restructuring projects, which constituted an additional burden of €138 million on the 2009 Automotive result, but which will strengthen the Rheinmetall Group in the future and in the long term.

Operating EBIT of the Rheinmetall Group before crisis management measures was €153 million. Expenses for restructuring and capacity adjustment totaled €110 million. Another €28 million relates to special depreciation, of which €20 million relates to fixed assets and €8 million relates to inventories and receivables.

Operating EBIT *€ million*

	2008	2009
EBIT	**245**	**15**
Restructuring of Automotive/capacity adjustment	12	110
Impairment at Automotive	-	28
Operating EBIT	**257**	**153**

Consolidated result for the year totals €-52 million | With net interest down €9 million and after deducting income taxes of €6 million, a consolidated result for the year of €-52 million was attained, falling short the previous year's figure by €194 million. After deducting profit attributable to minority interests of €6 million, this brings earnings per share to €-1.60 (previous year: €+4.09).

Group net income *€ million*

	2008	2009
EBIT	**245**	**15**
Net interest	(52)	(61)
EBT	**193**	**(46)**
Income taxes	(51)	(6)
Group net income	**142**	**(52)**
Of which:		
Minority interests	1	6
Rheinmetall AG shareholders	141	(58)
Earnings per share (in €)	**4.09**	**(1.60)**

Rheinmetall Group business trend

Cash flow statement | With the consolidated result for the year having declined by €194 million, this resulted in a cash flow from operating activities of €331 million in the 2009 reporting year (previous year: €318 million), thus remaining around the level of the previous year. As such, despite a loss, a high cash flow from operating activities at the good level seen the previous year was generated, thanks in particular to the considerable reduction in working capital and the recognition of provisions for restructuring.

Operating free cash flow (defined as cash flow from operating activities less capital expenditure on intangible assets and property, plant and equipment) amounted to €186 million (previous year: €118 million). After accounting for cash receipts from the disposal of fixed assets and divestments and payments for acquisitions, the free cash flow came to €191 million (previous year: €107 million), which is significantly up year-on-year thanks to the lower level of capital expenditure. The cash flow from financing activities totaled €180 million following a cash outflow of €67 million in the previous year. The raising of promissory note loans and the capital increase contributed approximately €250 million to this.

Cash flow statement *€ million*

	2008	2009
Net cash provided by operating activities	**318**	**331**
Investments in intangible assets and property, plant and equipment	(200)	(145)
Cash receipts from the disposal of intangible assets, property, plant and equipment and investment property	18	8
Net cash outflow from financial investments in/divestments of consolidated subsidiaries and other financial assets	(29)	(3)
Net cash used in investing activities	**(211)**	**(140)**
Net cash used in/cash flow from financing activities	**(67)**	**180**

Asset and capital structure | In July 2009, 3,599,000 new shares were placed with institutional investors in Germany and abroad as part of accelerated bookbuilding. The placement price was €29.00 per share, resulting in gross issue proceeds of €104 million. The common stock of Rheinmetall Aktiengesellschaft was increased by €9 million or approximately 10% through the issue of these shares. €93 million was added to reserves after deduction of placement costs. The net proceeds of the transaction will help to finance the continuation of the successful growth of Defence, secure low-cost external financing and reduce debt.

In fiscal 2009, the equity of the Rheinmetall Group increased by €54 million or 5% to €1,134 million. This increase was mainly the result of the capital increase carried out in July 2009 (€102 million), positive foreign currency effects (€31 million) and the disposal of treasury shares (€9 million). Running counter to this were, in particular, the distribution of the previous year's dividend (€45 million) and the consolidated net loss (€52 million). The liquidity position of the Rheinmetall Group improved considerably. Rheinmetall ended the 2009 reporting year with positive net liquidity of €44 million. As at December 31, 2008, net financial liabilities of €205 million were still reported. Financial liabilities increased year-on-year by €125 million or 31%, which is attributable to the promissory note loans placed in June 2009 with a total volume of €150 million. Together with the long-term framework loan agreements totaling €200 million arranged in the reporting year, these promissory note loans helped with the early refinancing of the €325 million bond due to mature in 2010, which is reported under current financial liabilities as at the end of fiscal 2009. As at the balance sheet date, cash and cash equivalents totaled €577 million following €203 million on the balance sheet date of the previous year. Cash and cash equivalents include €20 million in German treasury notes with terms until April 2010.

Capital structure *€ million*

	Dec. 31, 2008	%	Dec. 31, 2009	%
Equity	**1,080**	**100**	**1,134**	**100**
Current financial liabilities	48	4	353	31
Noncurrent financial liabilities	360	33	180	16
Total financial liabilities	**408**	**37**	**533**	**47**
Cash and cash equivalents/financial resources	(203)	(18)	(577)	(51)
Net financial liabilities	**205**	**19**	**(44)**	**(4)**

In fiscal 2009, the Rheinmetall Group's total assets increased by €223 million or 6% to €3,835 million. The share represented by non-current assets declined by three percentage points to 47%. The carrying amount of intangible assets increased by €25 million to €555 million. This increase is primarily due to capitalized development costs. Property, plant and equipment posted a decline of €48 million to €1,044 million, which was particularly the result of the significant reduction in capital expenditure. Other non-current assets developed counter to this trend. Here, a year-on-year increase of €25 million was posted, which was mainly attributable to deferred tax assets.

The carrying amount of current assets increased by €220 million year-on-year. A cutback in inventories of €153 million to €603 million, the causes of which included strict working capital management, was offset by a significant increase in cash and cash equivalents by €374 million to €577 million. In addition to the inflow from the raising of promissory note loans and the capital increase, this increase was also due to the operating free cash flow.

The equity ratio was unchanged at 30%. Non-current liabilities decreased by €146 million to €962 million, while current liabilities rose €315 million to €1,739 million. As at December 31, 2009, the €325 million bond due in June 2010 is reported under current financial liabilities. Various measures have been taken to refinance this, including the raising of several promissory note loans totaling €150 million.

Asset and capital structure *€ million*

	Dec. 31, 2008	%	Dec. 31, 2009	%
Noncurrent assets	1,814	50	1,817	47
Current assets	1,798	50	2,018	53
Total assets	**3,612**	**100**	**3,835**	**100**
Equity	1,080	30	1,134	30
Noncurrent liabilities	1,108	31	962	25
Current liabilities	1,424	39	1,739	45
Total equity and liabilities	**3,612**	**100**	**3,835**	**100**

Rheinmetall Group business trend

Value added down year-on-year | In fiscal 2009, the Rheinmetall Group generated added value of €1,188 million. The Group's total operating performance came to €3,605 million, compared to €4,175 million in the previous year. At 33%, the ratio of value added to total operating performance was at the same level as the previous year. Value added per employee amounted to €59,000 (previous year: €68,000).

The workforce benefited from the largest share of value added in fiscal 2009 at 98%. 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. For the Group there was negative value added of € 75 million or -6%, following €+99 million or +7% in the previous year.

Source and use of value added *€ million*

	2008		2009	
Source				
Group's total operating performance	4,175		3,605	
Input	(2,653)		(2,252)	
Amortization and depreciation	(166)		(165)	
Value added	**1,356**		**1,188**	
		%		%
Use				
Employees	1,093	82	1,170	98
Treasury	59	4	15	1
Lenders/banks	60	4	66	6
Shareholders	45	3	12	1
Companies	99	7	(75)	(6)
Value added	**1,356**	**100**	**1,188**	**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 staff costs, interest and taxes.

Rheinmetall Group business trend
Defence sector

Key events in 2009 | Since January 1, 2009, Oerlikon Contraves AG, which belongs to the Air Defence division, has operated under the name of Rheinmetall Air Defence AG. The name of the internationally renowned brand Oerlikon has been retained in connection with product names.

In July 2009, American Rheinmetall Munition Inc., based in Stafford (Virginia), USA, was sold by Rheinmetall Waffe Munition GmbH, Unterlüß, to Rheinmetall AG, Düsseldorf, as part of the reorganization of the US activities of the Rheinmetall Group. The company is still assigned to the Weapon and Munitions division for commercial purposes.

With effect from September 1, 2009, Oerlikon Contraves Deutschland GmbH, which is part of the C4ISTAR division, was renamed Rheinmetall Soldier Electronics GmbH. The new name has now established a direct reference to the product portfolio of the company.

The takeover of the British-based RF Engines Limited, Newport, Great Britain, a leading radio intelligence supplier, by the C4ISTAR division also took place with effect from September 1, 2009.

Rheinmetall Defence: Continued growth in 2009 | With a business volume of €1,898 million, the Defence sector achieved a year-on-year increase in sales of approximately 5% at €1,814 million in fiscal 2009.

In the year under review, the international share of sales fell by two percentage points compared to 2008 to 64%. The most important regions for Rheinmetall Defence according to sales were Germany (36%, previous year: 34%), Europe excluding Germany (30 %, previous year: 34%), the Middle East and Asia (16%, previous year: 19%) and North America (10%, previous year: 10%). Other regions accounted for 8 % of sales, following 3% in the previous year.

Land Systems posted significant sales as a result of the state levies of German armed forces vehicles together with associated repairs and maintenance services, in addition to the armored Boxer transport vehicle developed as part of a bilateral project. The Boxer is a highly mobile wheeled vehicle with a modular design which allows for a wide variety of mission-specific vehicle configurations. It provides its occupants with protection against antitank mines and medium-caliber weapons. Further drivers behind sales were the modern command and information system of the German Army (FISH), the delivery of Fuchs armored NBC reconnaissance vehicles and BV 206 field ambulances in various configurations and the first series production of the Yak armored multipurpose vehicle. Overall, the division posted a year-on-year fall in sales of 11% to €474 million.

At €339 million, sales in the Air Defence division in the reporting year were up 4% on the previous year. The partial invoicing of air defence systems for major projects in the Middle East and from the development project for a forward operating base protection system capable of engaging extremely small targets such as rockets, artillery and mortar rounds (C-RAM) on behalf of the German armed forces were just some of the projects that made a significant contribution to sales.

Sales in the Weapon and Munitions division increased by 19% year-on-year in the year under review to €651 million. Export sales were generated with 40 mm practice ammunition for the USA and Great Britain and deliveries of the 27 mm light naval gun to the Middle East. In Germany, sales were generated in particular through the Multi Ammunition Softkill System (MASS) naval protection system and medium and large-caliber weapons.

As in previous years, sizeable deliveries of propellant powders for artillery and tank ammunition to Great Britain dominated sales in the Propellants division, which achieved an increase in sales of 6% compared to 2008, at €91 million.

Rheinmetall Group business trend
Defence sector

Exports of command and control systems and fire control systems for the Leopard 2 main battle tank made a significant contribution to sales in the C4ISTAR division. Partial sales were also realized from the unmanned aerial vehicles contract known as SAATEG (system for conducting long-range reconnaissance missions) acquired in 2009 and services were performed for the cargo loading system of the Airbus A 400 M. Further sales related to light autonomous target systems. At €250 million, the sales volume in 2009 exceeded the previous year's value by 5%.

Significant sales in the Simulation and Training division were associated with the operation and expansion of the German armed forces' combat training center. Flight simulation orders including training programs for the Eurofighter 2000, the Tiger range and the NH90 were also invoiced. At €141 million, sales in the year under review exceeded sales for the previous year by 14%.

Rheinmetall Defence almost doubles order intake in 2009 | In fiscal 2009, the order intake in the Defence sector totaled €3,153 million (previous year: €1,723 million). While fiscal 2008 was largely characterized by smaller and midsize incoming orders, the 2009 reporting year was dominated by the contract awarded in July 2009 for the delivery of 405 Puma infantry fighting vehicles with a total value of approximately €3.1 billion commissioned by the Federal Government, approximately €1.3 billion of which is allocated to Rheinmetall Defence. The Puma infantry fighting vehicle is the most important modernization project for the German Army and will replace the Marder that is over 30 years old. It provides its occupants with a level of protection against mines, antitank weapons fire and improvised explosive devices offered by no other comparable vehicle. This series production order will not only secure jobs and highly advanced German expertise in defence technology in the long term, but also underlines Rheinmetall Defence's technological leading position.

Land Systems obtained a number of orders in Germany in the past fiscal year, which are tied in with the modernization of the equipment of the German armed forces. As well as the order for the series production of the Puma infantry fighting vehicle, eight state-of-the-art mortar combat systems based on the air-portable Wiesel 2 tracked vehicle were also ordered. The newly developed 120 mm weapons platform and the associated command vehicles will make a significant contribution to the mission-based modernization of the equipment of the land forces, as the new system features an enhanced range, heightened precision and optimized targeting. The division was also commissioned to carry out the current upgrade program for the Fuchs 1A8 armored transport vehicle of the German armed forces, involving the improvement and strengthening of axes, brakes, springs and shock absorbers as well as the installation of air conditioning for drivers and squads. Foreign orders for several armored recovery vehicles and NBC vehicles were also carried out.

The main focus as regards the order intake in the Air Defence division was the placing of an order by the German armed forces for two NBS C-RAM (counter-rocket, artillery, mortar) forward operating base protection systems to protect German armed forces in Afghanistan and the associated Advanced Hit Efficiency and Destruction (AHEAD) airburst ammunition. An NBS C-RAM system consists of a control unit and fire control unit, two sensor units and six 35 mm guns.

In connection with the order for the series production of the Puma, Weapon and Munitions was subcontracted by Rheinmetall Landsysteme GmbH to supply weapons for the infantry fighting vehicle. As well as the German and international contracts for the production of 155 mm ammunition, another focus was the orders placed by the USA for the delivery of 120 mm ammunition. Orders for the Munitions Acquisition Supply Solution (MASS) naval protection system were received from Germany and Canada. The German Navy also ordered twelve 27 mm light naval guns.

The follow-up order placed by a British company for the Munitions Acquisition Supply Solution (MASS) project with a duration of ten years was of particular importance for the Propellants division. An order was also received from Great Britain for the delivery of propellants for 105 mm ammunition and other calibers.

A number of important national contracts were awarded to C4ISTAR in fiscal 2009. These include the project-planning stage of the WABEP unmanned aerial vehicles system (system for the standoff engagement of single and pinpoint targets) and the provision of SAATEG unmanned aerial vehicles (system for conducting long-range reconnaissance missions) in order to safeguard German ISAF troops in Afghanistan. Unlike the previous reconnaissance systems of the German armed forces, the advantage of this system lies in the fact that a larger area of operation can be covered and reliable information can be supplied even in adverse weather conditions. In the case of this contract, Rheinmetall Defence is responsible for servicing, maintenance and repairs. The German armed forces also commissioned the division to manufacture a pre-production version of the Future Soldier System equipment in the Expanded System configuration and a multi-sensor platform for the F123 frigate. The Canadian armed forces placed an order for the delivery of electronic surveillance systems with a wide range, which are used to carry out air reconnaissance and detect improvised explosive devices.

Simulation and Training received an important order in the year under review to develop and operate a combat training center. An order was also placed for the delivery of a submarine command team trainer which supports the tactical training of submarine crews in the use of command, sonar and weapon deployment systems. The German army ordered a simulator for the Puma infantry fighting vehicle.

Rheinmetall Defence achieves record level for order backlog | On December 31, 2009, the order backlog of the Defence sector ran to €4,590 million (previous year: €3,307 million). This rise is mainly due to the contract for the series production of the Puma infantry fighting vehicle. The order backlog includes a range of larger-volume projects with a duration over several fiscal years. Sales expectations for fiscal 2010 are already largely ensured thanks to the current order backlog.

Significant increase in earnings at Rheinmetall Defence | In fiscal 2009, the Defence sector generated EBIT of €215 million (previous year: €194 million), a year-on-year increase of 11%. The EBIT margin was 11.3%, following 10.7% in 2008. With double-digit growth rates, Air Defence, Weapon and Munitions, C4ISTAR and Simulation and Training all contributed to this improvement in earnings. Land Systems posted a fall in earnings largely due to reduced sales. Earnings in the Propellants division declined as a result of lower total operating performance and an added burden resulting from higher energy costs and commodity prices.

Rheinmetall Group business trend Automotive sector

Key events in 2009 | The consequences of the global slump in the automotive economy and the sharp fall in demand in industrialized nations and key emerging markets impacted the operations and economic position of the Automotive sector to an unprecedented extent. Thanks to restructuring, measures to adjust capacity, cost variation (such as through the use of short-time working hours), cost-cutting programs and cutbacks in capital expenditure, Automotive was able to counter the downwards trend in automotive production in the past fiscal year.

In the year under review, preparations were made for the reorganization of the Automotive sector, in force with effect from January 1, 2010. The pre-development departments, which determine the direction that the technical work of the Kolbenschmidt Pierburg companies will take, are to be bundled. The Pistons and Aluminium Technology divisions are to be combined in order to optimize processes and costs, particularly those that are indirect at the Neckarsulm site. Moreover, central functions comprising Finance and Controlling, HR, Legal and IT are to be taken away from the divisions and assigned to the Executive Board. This will streamline management structures and optimize the work carried out in these support roles across the divisions.

A large proportion of the production carried out by the Kolbenschmidt Pierburg Group is already located in lower-cost regions. However, further adjustments have still been made. As well as the development and distribution site in Coventry, Great Britain, Pierburg Pump Technology also closed the pump plant in Chihuahua, Mexico, and relocated its remaining activities to the piston plant in Celaya, Mexico. The closure affected both the North American-based plant of the Pistons division located in Fort Wayne and the pistons plant in Hamburg. In the Aluminium Technology division, it was not possible to cushion the impact of the sector crisis through the introduction of short-time working hours alone. It was necessary to take further drastic measures, affecting around 300 employees.

As well as restructuring measures, additional capacity adjustments were also carried out. Besides the French-based location of the Pierburg Pump Technology division, these measures also affected the Neckarsulm site of the Pistons division, as well as its sites in France, the Czech Republic, the USA and Brazil.

The restructuring programs and capacity adjustment measures described above led to a negative impact on earnings of €110 million in 2009. Special amortization of intangible assets and special depreciation of property, plant and equipment, as well as write-downs of receivables and inventories, totaled €28 million.

All employees at sites in Germany and – as far as possible – abroad worked short-time hours in order to avoid further redundancies. Programs to reduce fixed costs aimed at lowering the break-even point have been implemented. Accompanying measures such as cutting back capital expenditure budgets and reducing working capital improved liquidity considerably.

Contrary to original planning, KS Aluminium-Technologie decided against the construction of a site in Romania as a result of the crisis, instead founding the KS ATAG TRIMET Guss GmbH joint venture based in Eastern Germany in collaboration with TRIMET Aluminium AG.

As part of the internationalization strategy and in order to participate in the Chinese growth market, the Pierburg and Motor Service divisions founded the 100% subsidiaries Pierburg China Ltd. and MS Motor Service Asia Pacific Co. Ltd in Kunshan City and Shanghai respectively.

In order to secure and expand the Motor Service business on the Iberian Peninsula, MS Motor Service Aftermarket Iberica S.L. was founded, with headquarters in Abadiano, Spain.

Sharp fall in sales in Automotive sector | The Kolbenschmidt Pierburg Group generated sales of €1,522 million in fiscal 2009. This corresponds to a year-on-year decline of €533 million (26%), which is mainly attributable to the economic crisis that has significantly impacted the automotive industry. This fall in sales is largely consistent with the 26% decline in automotive production in the core Triad markets which are of relevance to the Automotive sector. The falls in sales compared with 2008 attenuated continually over the course of the year, from 41% in the first quarter, to 34% in the second quarter, reaching 21% in the third quarter. The first return to sales growth of 1% took place in the fourth quarter. However, this was in comparison to the low level in the same quarter of the previous year that had already been hit by the crisis.

With falls in sales of more than 30%, the KS Aluminium Technology, KS Plain Bearings and KS Pistons were particularly affected. Sales in the Pierburg, Pierburg Pump Technology and MS Motor Service divisions performed better than the market.

A fall in sales of 37% to €119 million was posted in the KS Aluminium Technology division. The crisis accelerated the expected expiry of premium products, thus leading to an above-average fall in sales in the series production business (-45%). Other sales – for example, those resulting from the invoicing of customers for external tools and development work – only cushioned this development on a proportionate basis.

KS Plain Bearings posted a decline in sales to €126 million (35%). This division was particularly impacted by the sharp fall in sales in the continuous castings product group (47%), where lower castings prices reduced sales further. The decline in the continuous castings product group purely in terms of tonnage was 29%. The falls in sales in the Permaglide and engine plain bearings product groups were limited to less than 30%, with the Permaglide product group being negatively impacted by customers cutting back their inventories as well as economic development.

Sales in the KS Pistons division fell to €466 million (-31%). Here, the falls in sales of pistons for passenger car gasoline engines and commercial vehicle engines were around the same level as the general market. Above-average falls in sales were posted in the case of pistons for passenger car diesel engines and other pistons, for example for construction vehicles and motorized watersports equipment. Despite considerable falls in sales from the second half of the year onwards, large-bore pistons generated a below-average fall in sales for the year as a whole (-15%).

Pierburg achieved sales of €392 million (-23%). In particular as a result of the comparatively good sales performance in the solenoid valves and emission systems product groups – which was primarily due to the increase in heat exchangers – a fall in sales was achieved that was considerably less severe than that of the general market.

Sales of €293 million (-17%) were posted in the Pierburg Pump Technology division. Here, only slight falls in sales of water circulation pumps combined with constant sales of electric water pumps led to a below-average fall in sales overall.

Motor Service almost retained its sales level of the previous year at €185 million (-1%). Falls in sales as a result of the crisis (9%) in the independent aftermarket were almost completely offset by the positive contribution made by the original equipment supplier business taken over from the Pierburg and Pierburg Pump Technology divisions.

Order intake in Automotive sector characterized by falling demand | Hit by the negative development on the national and international automotive markets, the order intake of the Kolbenschmidt Pierburg Group as at the balance sheet date stood at €1,496 million, following €2,057 million in the previous year.

Rheinmetall Group business trend
Automotive sector

Order backlog in Automotive at previous year level | At €350 million, the order backlog of the Kolbenschmidt Pierburg Group as at year-end 2009 was down 7% on the previous year figure of €376 million. The order backlog in the Automotive sector comprises only short notice call orders under long-term contracts with automotive manufacturers.

Earnings suffering from crisis in the automotive industry and restructuring | The Kolbenschmidt Pierburg Group generated EBIT of €-187 million in fiscal 2009, falling short of the previous year's figure by €248 million. EBIT includes burdens from crisis management measures of €138 million. €110 million of this went on expenses for restructuring and capacity adjustments and €28 million on impairment. €20 million of this impairment resulted from special depreciation of fixed assets. €8 million was primarily spent on inventory write-downs, and to a lesser extent, write-downs of receivables. As a result, EBIT before crisis management measures totals €-49 million. Over the course of the year, the program introduced to reduce fixed costs and overheads had a considerable effect. This has already been supplemented by paybacks from restructuring. As such, the operating loss, i.e. EBIT before crisis management expenses, was reduced significantly, from €-40 million in the first quarter, to €-21 million in the second quarter and €-4 million in the third quarter. A positive operating result of €16 million was achieved again as early as the fourth quarter of 2009. This includes the earnings effect of €15 million for 2009 as a whole from the extensions to the useful life of underutilized fixed asset capacity. Of this, €11 million relates to the first three quarters, leaving an operating result of €5 million for the fourth quarter. The Automotive sector has thus returned to profitability.

Rheinmetall Group business trend
Capital expenditure

Capital expenditure down significantly on previous year | The strategic and operating objectives for expanding market shares and securing technological competence were the guiding factors in the allocation of funds. These funds were invested in equipment, facilities, processes and product manufacturing capacities. The Rheinmetall Group's capital expenditure on property, plant and equipment and intangible assets (excluding goodwill) amounted to €145 million in 2009, compared to €200 million in the previous year. This is equivalent to 4.2% of consolidated sales (previous year: 5.2%). Capital expenditure was met with amortization and depreciation of €165 million (previous year: €166 million).

Capital expenditure by corporate sector *€ million*

	2008	2009
Rheinmetall Group	**200**	**145**
Defence	53	74
Automotive	146	70
Others/consolidation	1	1

Capital spending at Rheinmetall Defence up on previous year level | In fiscal 2009, capital expenditure in the Defence sector totaled €74 million (previous year: €53 million). This is equivalent to 3.9% of sector sales, one percentage point up on the previous year. The increase in capital expenditure compared to 2008 is chiefly due to the capitalization of development work in connection with ongoing major projects. Capital spending in 2009 includes development costs of €30 million (previous year: €11 million) capitalized in line with IAS 38.

A strategically significant project was the development activities commenced back in 2008 to create the new generation of lightweight AMPV wheeled vehicles (armored multipurpose vehicles), which feature a high degree of modularity on the basis of standardized components and a platform for a variety of missions. Development costs for an innovative MK 30-2 automatic canon and two different types of 120 mm ammunition were also capitalized in the year under review.

A significant amount of capital expenditure focused on the ongoing development of the Skyshield air defence system into a C-RAM close-range protection system capable of engaging small targets such as rockets, artillery and mortar (RAM) rounds. The development costs in connection with this forward operating base protection system for the German armed forces were capitalized. The Score project launched in 2007 to develop and provide a new basic simulator system with new architecture which limits the previous component count to a minimum was continued.

As well as technological developments, capital expenditure on property, plant and equipment in the Defence companies included a number of smaller individual projects in the year under review. Here, investing activities focused on replacing and rationalizing production plants and machinery, buildings as well as factory and office equipment. The implementation of capex measures within production in order to make targeted improvements to quality assurance, environmental protection, energy saving and health and safety in the workplace were all a central focus. Rheinmetall Defence invested to a lesser extent in the expansion and modernization of available IT infrastructure, particularly in R&D and Sales. Spinning off wheeled vehicle business activities from Rheinmetall Landsysteme GmbH in order to form the Rheinmetall MAN Military Vehicles GmbH joint venture required particular capital expenditure in order to set up a data processing system.

The required modernization of the premises at the South African-based company Rheinmetall Denel Munition acquired in 2008 was of great significance. Capital expenditure focused on production machines and infrastructure in the ammunition and powder plants at the Boksburg and Wellington sites as well as a number of smaller modernization projects at other South African sites.

Rheinmetall Group business trend
Capital expenditure

The modernization of mechanical production at the Unterlüß site was also continued. As well as processing centers and lathes, another focus was technical facilities for the production of heavy metal for new products. In order to modernize the production of medium-caliber ammunition, the Altdorf site in Switzerland used capex funds in order to purchase processing centers and lathes.

Targeted capital expenditure in the area of 40 mm ammunition has allowed Rheinmetall Defence to consolidate its position in promising growth segments offering profitability on a sustainable basis. American Rheinmetall Munitions continued with the project launched in 2008 to develop local ammunition production at the site in Camden, Arkansas. In the Air Defence division, capital was invested in measures aimed at improving infrastructure and expanding machinery capacity in order to handle extra orders at the Zurich location. Propellants invested in the expansion of technical production facilities for surface treatment and the drying of propellant powders at the Aschau and Wimmis sites.

Sharp cutback in capital expenditure in the Automotive sector | As a consequence of the impact of the global economic crisis in the international automotive industry, the Kolbenschmidt Pierburg Group adjusted its capital expenditure planning and invested €70 million in the year under review, €76 million less than the previous year. This significant reduction in the capex volume reflects the efforts made to secure liquidity across all divisions. Despite the difficult situation, a suitable amount of funds were invested in future-oriented projects and necessary plant replacements.

In Germany, Pierburg primarily invested in expanding capacity for the production of electrical divert-air valves and production facilities for new actuator and cooler projects. In Spain and the Czech Republic, preparations were made for the processing of a large order for an EGR cooler module. Capital expenditure in the USA served to expand production capacities for EGR systems.

Capital expenditure in the Pierburg Pump Technology division in Germany concerned the acquisition of customer and project-related manufacturing facilities for electric coolant pumps as well as the expansion of capacity for the production of water circulation pumps. At the French site, two further production lines were set up for water and vacuum pumps. In Livorno in Italy, capacity was expanded for the production of variable oil pumps. In India, the division installed two flexible assembly lines in order to ensure smooth new product start-ups.

At its German sites, KS Pistons primarily invested in expanding the features of individual products, making these traceable (data matrix) and new tools. In the USA, the production of steel pistons was expanded. Capital expenditure at the site in France related to technical modifications to one production plant in order to manufacture a piston for Renault Nissan and the optimization of the production layout by implementing a different machinery arrangement, in addition to facilities to produce a piston for Ford. In Trmice in the Czech Republic, the expansion of the production line for a piston for Jaguar was a central focus.

In the KS Plain Bearings division, capital expenditure on production processes was associated with increased requirements on the part of customers as regards the cleanliness of plain bearings systems. As well as the conversion of production machinery and the initial casting phase using belt casters, various items of machinery were also purchased.

At the Neckarsulm site, the KS Aluminium Technology division assembled a production facility for cylinder heads. Casting machines and equipment for the gravity die-casting procedure were installed, which is a new technology at this site. Funds were also invested in the processing of prototypes and several projects aimed at increasing productivity and improving quality.

Rheinmetall Group business trend
Research and development

Technology and product developments open up growth potential | In addition to the further, systematic development of the current product portfolio and the opening-up of neighboring areas of business, key factors for ensuring the continued growth and long-term competitiveness of the technology Group Rheinmetall include the development of future-oriented, marketable and user-friendly products. Each year, the Group invests large amounts of money in research and development to further optimize products, systems, processes and process engineering as well as to open up neighboring areas of business. Technology, market and industry trends and their impact are researched, analyzed, and assessed on an ongoing basis. The Group's own research and development work is supported by close cooperation with universities and non-university research institutes to benefit from complementary know-how and knowledge transfer in the relevant areas.

In fiscal 2009, €198 million was spent on research and development across the Group, following €199 in the previous year. Of this, €157 million (previous year: €175 million) was immediately billed as expenses and €41 million (previous year: €24 million) capitalized as development costs. The share of R&D expenditure was 5.8% (previous year: 5.1%).

Self-financed R&D by corporate sector *€ million*

	2008	% of sales	**2009**	% of sales
Rheinmetall Group	199	5.1	198	5.8
Defence	61	3.4	85	4.4
Automotive	138	6.7	113	7.4

The Defence sector stands for forward-looking research, technology and development projects in the area of military technology. To safeguard and expand its competitive position, Rheinmetall manages these projects, which are either financed by funds generated internally or implemented on behalf of its customers. In the deployment scenarios undertaken by soldiers, modern technologies can make a crucial contribution to improving survivability, command capability, endurance, mobility and effectiveness in the field.

Future Soldier – Expanded System | The Future Soldier technology program is one of the key modernization projects of the German armed forces. It is designed to offer an all-round improvement in the performance of infantry soldiers across the whole deployment spectrum while minimizing the risks to which they are exposed. The modular combat equipment Expanded System, which was developed by Rheinmetall Defence and is currently considered the best of its kind in the world, integrates infantry forces equipped with reliable communication systems and robust weapons and their vehicles – including the base station – in network-enabled operations. Future Soldier – Expanded System allows soldiers to gain a complete overview of the situation in hand and to exchange information rapidly. Protection for ground troops is significantly improved and their operational effectiveness in a number of key capability categories greatly increased depending on the deployment situation. Following the delivery of 20 system demonstrators in 2008, the contract to supply the pre-series system in the year under review was awarded to Rheinmetall Defence. If an order is placed, which is expected to take place in 2011, the first of the 900 series systems will be delivered to the Bundeswehr at the end of 2012.

Aircraft protection system | IRRADON (infrared radiation donator) is a brand-new and completely ammunition-free system for protecting aircraft from surface-to-air missiles. It is based on the sequential positioning of decoy measures, which can be applied individually and have an aircraft-like infrared signature. The application of the active material is silent, barely visible and residue free. Thanks to its safe handling, easy integration and outstanding cost/benefit ratio, IRRADON offers numerous technical, logistical and commercial advantages over other chaff/flare systems currently in use.

Rheinmetall Group business trend Research and development

Helicopter protection systems | As part of a customer order, ballistic protection kits were developed for two types of helicopter. These were qualified in accordance with military standards and the first series production sets were delivered to customers in Europe, all within the space of six months. The protection systems can, if required, be installed in the helicopter and removed again within a very short period of time. They protect the crew against small arms and machine guns fired from the ground. The use of in-house development capacity combined with the facilities offered by the Unterlüß testing centre, in addition to collaboration with European institutes and partners, ensures ongoing technological development.

Lightweight AMPV | The AMPV (armored multipurpose vehicle) range of vehicles, which is being developed with an industrial partner in a 50/50 joint venture, is geared to the threat situations experienced in current and future armed forces missions. Development objectives include offering maximum protection for soldiers on duty, maximum off-road mobility and a high payload for transporting military systems and equipment. With the heavily armored passenger cell, the all-wheel drive vehicle, which weighs around nine tonnes and can carry a crew of four, offers a level of protection not otherwise seen in this weight class, particularly against mines and IEDs. The multipurpose vehicle, in its different variants as liaison vehicles, is ideal for patrol tasks or as an equipment kit carrier for different missions. The design of the AMPV is oriented toward Germany's GFF 2 (class 2 armored command and multipurpose vehicles) arms program, but is also ideal for export in the growing global market for lightweight armored wheeled vehicles.

Wisent highly mobile command and multipurpose vehicle | With an 8 x 8 drive and weighing 26 tonnes, the newly developed, protected command and multipurpose vehicle (GFF) Wisent offers excellent off-road mobility and a high degree of protection, particularly against mines and IEDs. The chassis features individual wheel suspension to provide a high level of off-road capability and outstanding driving comfort at low running costs. The vehicle features a removable mission module that is operated autonomously and in which different pieces of equipment can be integrated. At the start of 2009, the high protection level offered by the Wisent was successfully verified. Vehicle testing is planned for completion in 2010, which means that an order from the German armed forces can be expected any time as of the end of 2011.

"Green ammunition" for the US armed forces | At the end of the 1990s, the US Army and US Marine Corps invited tenders for a Foreign Comparative test program for 40 mm ammunition to help them train for deployment scenarios under even more realistic conditions while keeping the impact on the environment to a minimum. Rheinmetall won the order with its 40 mm day-and-night signaling grenades MK281. These training projectiles are non-toxic and, because no fuze is required, do not incur any follow-up costs for removing unexploded parts. Another benefit is that they allow soldiers to train all year round even on dry training areas in scrubland without any fire hazard. The US armed forces have since ordered more than three million of these grenades. Armed forces from other countries, such as the United Kingdom, deploy the MK281 as 40 mm high-velocity training ammunition. In 2009, Rheinmetall Defence introduced a similar grenade for low-velocity applications – the M1110 – on the US market.

Innovative propulsion for mortar system | A brand-new propulsion system that is based on combustible molds (Combustible Container Mortar, or CCM) and uses extruded-impregnated powder technology™ has been developed for the 120 mm mortar system, which is about to be introduced by the German armed forces. This new propulsion concept increases the safety, range and effectiveness of the ammunition. The improved mechanical strength of the ammunition and the propulsion system which, in turn, results in greater stability, makes the ammunition much more effective. The performance and accuracy of the ammunition is no way affected by significant temperature fluctuations or when it is dropped from a height of one meter.

Close-range protection system | The development of the close-range protection system C-RAM (counter rockets and mortars), which protects against terrorist attacks, was successfully completed in 2009 on behalf of the German Federal Office of Defence Technology and Procurement. This fully qualified complete system, which will be procured by the German armed forces under the name Mantis, comprises a central command unit that enables all-year-round deployment, sensor systems, guns and AHEAD ammunition. In May 2009, a contract to supply two series systems was concluded with the German Army. The handover is planned for the end of 2010. From 2011, the first bases in Afghanistan will be protected by Mantis.

Protection of property and equipment | In September 2005, Rheinmetall Defence showcased a live demonstration of a concept for a base protection system. This laid the basis for the project-planning phase, which began in October 2009. This comprehensive protection concept links long- and close-range reconnaissance sensor technology with state-of-the-art command equipment and weapon systems. Existing components are already included, while new sub-systems available on the market can be integrated. Following an order placed by the German Federal Office of Defence Technology and Procurement, a German consortium headed by Rheinmetall Defence is developing a demonstrator, which is to be put to the test in the summer of 2010 at the Bundeswehr site in Meppen.

Simulation and test environment for the German armed forces | In the year under review, Rheinmetall Defence was commissioned by the German armed forces' Federal Office for Information Management and Information Technology to implement a simulation and test environment for the German armed forces. With the development and delivery of the IT infrastructure as well as the hardware and software required for linking simulated and real deployment systems at 28 sites owned by the German armed forces, Rheinmetall Defence has set the standard for future projects. What makes the simulation and test environment for the German armed forces particularly special is its capacity to link different simulation systems across different sites and their unique individual capabilities to create high-performance simulation networks for complex training measures in a single system network that combines different areas of the armed forces. On top of this, national and international mission and command information systems can also be integrated in this IT infrastructure. This will allow the German armed forces to test future military requirements by means of experiment and train for such scenarios in an even more realistic environment.

Research and development activities in the Automotive sector were strongly influenced by the sustained trends in the automotive industry, including the curbing of CO_2 emissions, the introduction of tighter emissions standards such as Euro 6, cost reductions thanks to state-of-the-art manufacturing procedures and optimized products, as well as extended environmental requirements such as zero-lead bearings.

State-of-the-art engine components, modules and systems in Pierburg | The emissions standard Euro 6, which will for type approval come into effect on September 1, 2014, was the focus of development activities. The engineers worked on EGR systems with improved performance to highlight new ways of fulfilling this standard. One of the components developed here is the second-generation motorized EGR valve. Highly integrated aluminum EGR cooler modules offer enhanced customer benefits. Two other new modules are applications for low-pressure EGR systems. One of these is the high-flow low-pressure EGR valve, which enables greater EGR rates with minimal pressure losses. In addition, an exhaust gas flap can increase the EGR rate still further by means of dynamic pressure and optimize regeneration of the Diesel particle filter.

Rheinmetall Group business trend
Research and development

The successful secondary air pump and secondary air valve product lines developed at Pierburg in response to the increasing demand for high-performance systems for fulfilling the future US emissions limits SULEV (Super Ultra Low Emission Vehicle) and PZEV (Partial Zero Emission Vehicle) have been optimized further. In particular, the development of the side channel pump has seen an improvement in response times and a reduction in the noise levels of the secondary air system. Vehicles engineered to such standards emit up to 90% fewer emissions than the average new vehicle.

In the field of actuators, Pierburg has launched a fourth-generation modular system offering a cost-effective, high-quality concept encompassing throttle and control valves as well as actuators for intake manifolds and electrical exhaust gas flaps. This concept covers both passenger car and commercial vehicle applications. Among other things, it features non-contact, low-cost ECO sensor technology. A space-optimized swirl flap application has now entered series production. The actuator kit has been extended to include a range of new applications with a view to gaining a foothold in the booming market for turbochargers.

With the trend towards downsizing, the solenoid valve product range has benefited from the increased use of turbochargers in gasoline engines. Pierburg developed the fourth-generation electric blow-off valve which, in comparison with the conventional pneumatic systems, offers significant quality and cost benefits. The alternating resistance of the electro-pneumatic converters for wastegate and VTG control has also been improved, which makes them ideal for mounting directly on the engine. The hydraulic valve, which was optimized in 2009 and features a high throughput specially designed for variable oil pumps, will enter series production in 2010.

In the commercial vehicle and industrial engine sector, work has begun on new developments and tried-and-tested products, such as EGR systems for the medium and upper output range, have been launched on the market. EGR valves, EGR mixers, reed valves and EGR coolers have been combined here in a single, optimized unit. The aim was to offer maximum service life and reliability without increasing the low cost of the basic design. The exhaust mass sensor and exhaust gas turbocharger were developed and launched onto the market. A total of three turbocharger sizes and associated variants are now available. In conjunction with the other components, the exhaust mass sensor, which is designed for 12 V and 24 V operations and is now in the testing phase, enables the exhaust mass flow to be regulated quickly and in full.

New pump concepts for protecting the environment | As emissions standards become ever more stringent (emissions standard Euro 5 came into effect for type approval in September 2009), Pierburg Pump Technology has started developing concepts in the field of conventional mechanical water pumps that allow combustion engines to be cooled more precisely in line with requirements. At the International Automobile Fair in Frankfurt/Main, for example, designs for a coolant pump with coupling and a fully variable mechanical water pump were showcased. Unlike purely mechanical pumps, this pump provides the engine with precisely the cooling capacity it needs at a particular operating point, regardless of the engine speed.

The range of electrical water circulation pumps has been expanded to include a performance-optimized variant that can perform a wide range of cooling or heating tasks, such as in stationary heaters, backup heating, post-heating or for run-on times when the engine is stationary. Other applications include turbocharger bearing cooling, exhaust gas cooling in conjunction with an EGR system or cooling the power electronics in hybrid and electric vehicles.

One of the main focuses was on development work on the range of CWA electrical coolant pumps, which now includes a 400 W variant. The third generation of this system will enter series production from the start of 2011 and will be used to cool four- and six-cylinder engines for a renowned German automotive manufacturer. What makes this development special is that the installation space remains unchanged even though the system has twice the output.

Customized pistons | KS Pistons has responded to the increasingly stringent requirements regarding pistons by launching a new generation of aluminum materials. The latest manufacturing methods reinforce the area of the piston bowl lip, which is subjected to severe mechanical stress, thereby significantly increasing the service life of commercial vehicle engine pistons. The innovatively designed ContureKS and DynamiKS cooling duct geometries are already well established on the market. Process innovations have helped significantly improve the abrasion resistance of the steel pistons. New welding techniques are being tested to increase the rigidity of pistons. Unlike the friction-welded steel pistons, the patented SpinteKS pistons are made from a single forging. With this design, the KS Pistons division has managed to create a totally new way of manufacturing monoblock steel pistons. In addition to applications in the USA, this solution is also used at extremely low compression heights in developments in Europe.

LiteKS-2 is a follow-up to the innovative lightweight LiteKS concept. A systematically optimized design reduces the weight of the piston by another 6% on the predecessor model. The next generation of pistons even has a weight advantage of up to 15% over conventional pistons. One result of the fundamental research into reducing friction losses in the engine was the development of the skirt coating technology NanofriKS-1 and NanofriKS-2, which is now well established in the series, and the new high-performance aluminum alloy KS 309 for the coming generation of turbocharged and consumption-optimized gasoline engines. Other innovative products, such as a lightweight steel piston for highly stressed diesel engines in passenger cars, are almost market ready.

Material development based on current market requirements | The materials portfolio for plain bearings in vehicle engines with ever-increasing performance levels and higher torque without the use of lead has been completely reoriented. A reduction in CO_2 levels through downsizing and friction as well as start-stop options in modern high-performance engines also have an influence on plain bearings in engines. In 2009, the KS Plain Bearings division started work on developing special materials and layers both for plain bearings inside the engine as well as engine-related applications, such as injections, with the aim of increasing the load capacity of plain bearings for up to 10 times the number of start-up procedures.

New simulation and test methods that reflect operating conditions were conceived hand in hand with this development. Among other things, the newly developed lead-free galvanic layer, which was applied to a new, lead-free bronze casting material, successfully passed preliminary customer testing.

In the Permaglide product group, the entire materials portfolio was successfully reoriented during the year under review toward dispersion with reduced levels of perfluorinated alkyl carboxylic acids or perfluorinated-alkyl-carboxylic-acid-free dispersion. In customer tests, the first product of a completely new range of Permaglide materials delivered outstanding results for its friction and wear performance in backrest adjustment systems. The materials range has been systematically extended to include specially modified aggregates designed for dual-mass flywheels and shock absorbers.

Rheinmetall Group business trend
Research and development

Increasing use of light metals | The overall weight of modern vehicles has been reduced thanks to the increasing use of light metals in engine blocks and cylinder heads as well as for structural and chassis components. This makes it increasingly important that suppliers can ensure optimized aluminum casting processes. At the same time, thermal and mechanical requirements regarding aluminum are becoming ever more stringent. As such, the development activities carried out by KS Aluminum Technology in 2009 were highly complex. In response to the trend toward small, highly charged engines ("downsizing"), the advance development of an engine block for an R4 cylinder DI Diesel engine, whose ignition pressure breaks through the 200 bar threshold, has been successfully completed thanks to the modular die-cast concept. Based on the high strength values that have been achieved, series development projects are currently ongoing with customers.

The presentation of the divisions at the International Automobile Fair 2009 in Frankfurt/Main was dominated by the concept of downsizing. To reduce friction and in response to the increasing wear and tear to which cylinder barrels are subjected, the focus now is on developing thermal coating technology. The first development projects with customers have already kicked off, and the series production breakpoint is planned from 2013 to 2015. In the area of bodywork structure components, the KS Aluminum Technology division has qualified for the manufacture of structural cast components for a large German automotive manufacturer and been included among the potential suppliers. Other development work is being carried out for large, complex structural cast components with hollow cross-sections and permanent cores. These include, for example, longitudinal beams in the rear of the vehicle or overhanging front axle carriers. The increase in the number of finish-machined, ready-for-assembly components shows just how much confidence automotive manufacturers have in the abilities of KS Aluminum Technology.

Rheinmetall Group business trend
Personnel

Success has 21,508 faces in the Rheinmetall Group | As of the 2009 balance sheet date, Rheinmetall employed 4,415 female employees and 17,093 male employees, following 22,954 employees on December 31, 2008. Unlike the notes to the consolidated financial statements, reporting in this section of the management report has been converted from capacity figures to headcount figures. Data for the previous year is like-for-like. Of these Group employees, 47.1% were employed in the Defence sector (previous year: 44.3%), 52.2% in the Kolbenschmidt Pierburg Group (previous year: 55.0%) and 0.7% at Rheinmetall AG and the service companies (previous year: 0.6%). The percentage employed outside Germany was 44.3%, following 46.8% in the previous year. In 2009, 11,979 people worked for the Rheinmetall Group in Germany (previous year: 12,212), 2,676 in EU states (previous year: 2,947), 1,477 in European countries not belonging to the EU (previous year: 1,543), 1,272 in North America (previous year: 1,616), 1,797 in South America (previous year: 2,277), 590 in Asia (previous year: 613) and 1,717 in Africa (previous year: 1,746).

These figures and the changes to these figures compared to 2008 reflect the varying business development of the sectors. Thanks to their successful growth and the continued strength of their order books, the companies in the Defence sector took on 134 new employees in the reporting year in order to remedy capacity constraints and exploit new business potential, whereas the main focus in the Automotive sector was the adjustment of capacity and the organizational structure at the respective locations as a result of the impact of the global economic crisis on the international automotive markets. When the first signs of the crisis began to emerge back in fall 2008, forward-looking and decisive action was taken in order to lay the foundations, in organizational terms, for the implementation of a short-time working rate of between 30% and 50% at all sites in Germany in early-2009. In the first six months of 2009, up to 6,000 employees worked short-time hours at one time or another. In addition to this, the employment of temporary workers and hired help was almost completely cut back. This made a significant contribution to the immediate adjustment of capacity and securing liquidity.

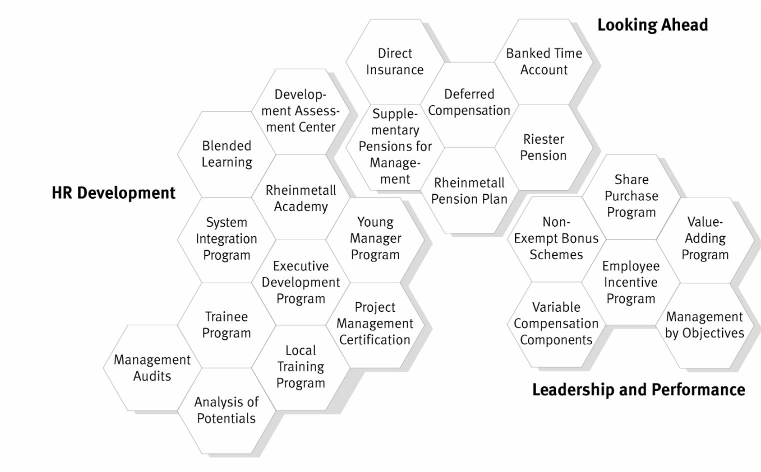
Subsequent to this, the design of structures was reviewed on the basis of forecasts on the medium-term development of business activities in the respective sectors, with a view to optimizing internal functions, processes and interfaces, while retaining as far as possible the strengths of Automotive such as its high level of innovation, performance, flexibility and speed of action. The evaluation of internal reviews and analyses led to the adjustment of the location strategy in the Pistons division. Following this, the production of small pistons for passenger cars was concentrated in Germany at the Neckarsulm site. Furthermore, preparations were made for the introduction of a new organizational structure for the Kolbenschmidt Pierburg Group as a whole with effect from January 1, 2010, bringing with it a considerable streamlining of management structures.

Every effort has been made in collaboration with employee representatives to ensure that the consequences for employees resulting from this reorganization are as socially acceptable as possible. At the Neckarsulm site, a service company of Kolbenschmidt Pierburg AG was set up in order to manage this structural reorganization. Through this company, staff that is no longer to be employed by the Pistons and Aluminium Technology divisions can be deployed to other companies in the region as hired-out workers. At its Hamburg site, the Pistons division set up an interim employment company with the aim of placing employees affected by the closure of the Hamburg plant in new jobs. Overall, the measures to be introduced in the Automotive sector worldwide up to the end of 2010 will lead to a permanent reduction in the total workforce, including temporary workers and hired help, of around 3,060 persons. As such, consistent use has also been made of available options to adjust workforce numbers in Germany and abroad to the altered business conditions in order to overcome the crisis.

An attractive place to work | In an environment of dynamic developments, growing requirements and increasingly complex technologies, products and processes, experienced managers, highly-qualified expert staff and ambitious junior employees all make a significant contribution to attaining corporate goals thanks their knowledge, skills, experience and motivation.

Rheinmetall Group business trend
Personnel

The Rheinmetall Group offers fair, performance-related and competitive remuneration, extensive fringe benefits, wide-ranging professional development opportunities and interesting opportunities for promotion. In terms of competing for junior graduate recruits, the strategy pursued by HR marketing over the past few years of intensely focusing on this target group has proved successful: in the survey carried out by the Berlin-based trendence Institute in 2009, engineering students nearing their final exams and engineering graduates placed the newcomer Rheinmetall in the 72nd spot out of the 100 most attractive employers in Germany.



Talent management | Future talent is identified as part of routine appraisals and provided with specific support. In 2009, it was agreed following a trial phase lasting several years that employee potential appraisals would be carried out for all managerial and junior management staff across the Group on a regular basis. On the basis of a standardized assessment and selection procedure carried out over several stages, the performance and development potential of managerial staff and potential candidates for management positions in all companies of the Rheinmetall Group is identified, analyzed and appraised or updated. A determination of the status quo according to objective criteria allows a forthright dialog about strengths and weaknesses. This helps to improve specialist, methodical and social skills by means of individual measures.

In addition, a substantial amount of the results and findings of these potential appraisals are incorporated into the conception of management and HR development programs, which specifically prepare employees for taking on new or widened areas of responsibility. This stringent HR development tool also facilitates career and succession planning and ensures that key positions in the Group can in most cases be filled with qualified managers from within the Group's own ranks.

As well as training junior staff in-house, Rheinmetall is also in close contact with universities and technical colleges so it can meet qualified graduates from science, technical and business degree courses at an early stage. Here, the Group has set up a platform to be able to present its wide-ranging business activities and the professional opportunities it offers to its employees. Career orientation placements, integrated trainee programs and topic suggestions for degree dissertations give an initial insight into the Rheinmetall Group.

Qualifications and training - ingredients for success | In these rapidly changing circumstances, issues such as time-to-market are becoming decisive factors in maintaining a competitive edge. Employees must have the relevant key skills, and also be able to gain the qualifications necessary to adapt to altered technologies, processes and capital expenditure. As well as developing specialist knowledge, this also involves people skills such as communication skills, teamwork, the ability to lead a team and cultural awareness.

The Rheinmetall Academy is primarily aimed at managers and future talent. The development of managerial and junior staff in the Rheinmetall Group is supported by special programs where, as well as various training modules, networking and therefore “thinking outside the box” of one’s own division play a central role. Through the Executive Development Program geared towards “leading my business”, experienced managers are provided with support enabling them to successfully perform their organizational and managerial role. This allows them in particular to broaden their knowledge regarding corporate management, employee management and change management. Junior staff is prepared for taking on their first management challenges through the Young Manager Program. The Rheinmetall Academy also provides a platform for strategy, project management and internationalization. Qualifications and training in specialist and practical skills are focused on the numerous activities of the divisions. This can be seen in the figures: in Germany alone, the Rheinmetall Group invested approximately €3.4 million (previous year: €4.8 million) in various qualification programs. In fiscal 2009, 11,749 employees (previous year: 14,612) benefited from 2,685 qualification arrangements (previous year: 2,824) over a total of 18,766 days (previous year: 22,441).

Number of apprentices at a high level | As well as university graduates, the operating units primarily require qualified skilled workers. In this regard and in the context of social responsibility, the Group continues to attach great importance to qualified, practical and multifaceted training. For years, Rheinmetall has been providing training that goes well beyond in-house requirements. Worldwide, 774 young people (previous year: 867) are currently receiving vocational training, 585 of whom (previous year: 595) are based in Germany. A wide range of over 30 training courses are on offer in technical, commercial and IT fields. Industrial mechanic, cutting machine operator, tool mechanic and industrial business manager are some of the key job titles at sites in Germany. The apprenticeship ratio for the German locations was 5.5% of the workforce, equaling the level of the previous year. As in the previous year, €10 million was invested in training at the sites in Germany. 148 apprentices (previous year: 190) were taken on as employees in Germany in the past fiscal year.

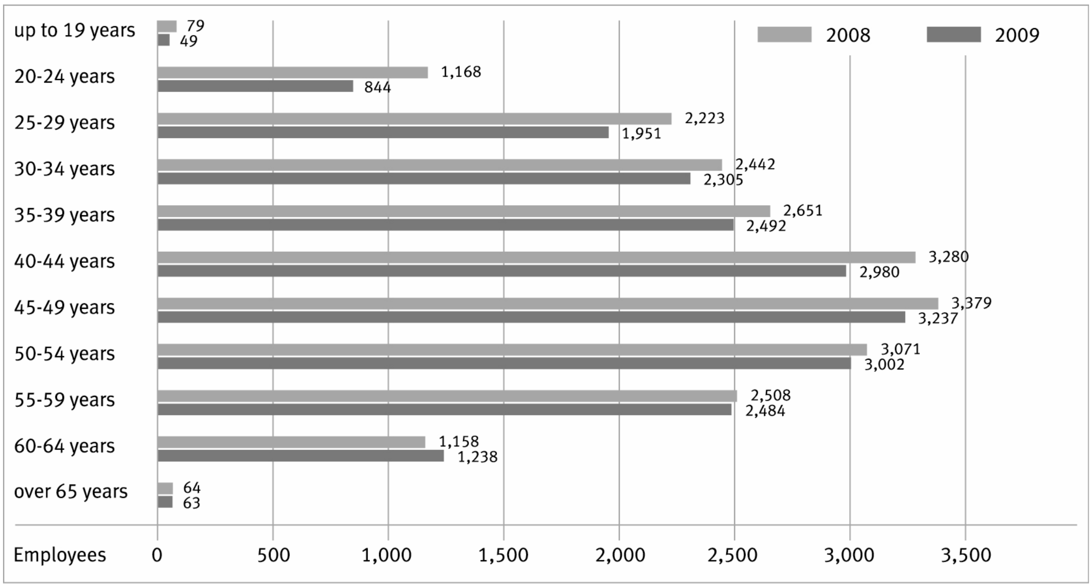
Employees partake in Company’s success | As part of its remuneration policy, Rheinmetall offers attractive terms of employment, focusing on performance-based and profit-related remuneration. Modern, clearly structured and transparent concepts such as variable remuneration, profit-sharing and incentives tied to increases in the value of the Group are designed to promote motivation among senior executives. Executive Board members, managers and executives receive a variable remuneration component linked to company performance and the achievement of agreed targets. This ranges between 0% and 200% depending on the extent to which targets have been achieved. In order to strengthen long-term business prospects, Executive Board members and other senior management staff share in the absolute value added to the Rheinmetall Group. This concept is also geared to the capital market, as up to 60% of the value increase component is paid out in the form of Rheinmetall shares. In addition to executives, exempt employees are also included in the Management by Objectives program, meaning that a variable component of their salary also depends on the achievement of agreed targets and company performance.

“My piece of Rheinmetall” share purchase program | Employees of Group companies within Germany once again had the opportunity in the past reporting year to acquire an interest in Rheinmetall by subscribing to employee shares. In 2009, employees were each able to purchase up to 100 shares and executives up to 200 shares, both on favorable terms. 591 employees subscribed to a total of 54,944 Rheinmetall shares in two tranches in April and November 2009, which cannot be sold for a two-year period.

Rheinmetall Group business trend
Personnel

Demographic change | New challenges are emerging in Europe as a result of demographic change, which is to have a huge impact on the economic success of companies and the job situation for employees. With the working-age population declining and a simultaneous increase in the number of people in older population groups, this is shifting the demographic limits in an unprecedented manner. Demographic change in Germany and other developed nations is also characterized by increasing life expectancy, low birth rates and low net migration gains, which has led to a further increase in the average age of the working population. As a result of demographic change, junior staff is becoming increasingly scarce, the number of employed persons in the 40-49 age group is declining and the focus is shifting to those over 50 years of age. In Germany, for example, gradual entry into retirement at the age of 67, the abolition of early retirement in exchange for semi-retirement arrangements and the development of social insurance systems have led to employees remaining with the Company for a considerably longer period of time.

The length of service in the Rheinmetall Group increased from 13.6 years in 2008 to 14.2 years in 2009. The average age of the workforce over the past year (excluding apprentices and interns) was 43.3 years, compared to 42.6 years in fiscal 2008.



Simulation calculations carried out by the Rheinmetall Group based on the number of employees in 2009 show, with a constant headcount, a significant increase in the average age and a shift in focus to the upper age groups. In order to allow for and counter the impact of this demographic change, areas requiring attention as regards older employees have been defined, such as working hours management, work organization and design, health promotion, qualifications and training. These tools are handled by the HR departments in order to accommodate altered age structures.

Further key personnel figures | Staff costs totaled €1,068 million, declining by €12 million year-on-year. Wages and salaries accounted for €877 million (previous year: €887 million). Social insurance contributions, pension expenses and related employee benefits totaled €191 million (previous year: €193 million). Based on capacity, staff costs per employee remained at the previous year's level of €54,000. The ratio of personnel expenses to total operating performance increased from 27% to 31%. Sales per employee fell from €194,000 in 2008 to €170,000 in 2009. This decline is primarily due to the huge fall in sales in the automotive business.

Communication and marketing

In times of networked markets and an increasingly globalized flow of information, communication is becoming an increasingly significant factor in corporate success. Shareholders, customers, lenders, employees, media and the wider public expect comprehensive information on the products and economic performance of a company. Up-to-date, transparent and objective communication is a matter of course in the Rheinmetall Group as it creates acceptance and trust.

Rheinmetall reports comprehensively on its products and systems, business trends, the financial position, as well as major transactions and significant changes within the Group, taking into consideration the necessary equal treatment of all shareholders. More than 15,000 pages are provided on the World Wide Web, all of which follow a standard design. These pages provide key information on current developments and changes in German, English and other national languages – information which was used by more than 2.5 million visitors to the site in 2009. As well as comprehensive basic information on the Group and the divisions, the Rheinmetall websites also provide a variety of user-specific services and downloads. To round it all off, the website offers numerous links allowing access to specialist topics and information on the Defence and Automotive sectors. Queries on the Company, products and services are answered via the information email addresses. In the year under review, around 1,300 queries were processed by the head office at the Düsseldorf site alone.

In the year under review, Rheinmetall was covered in the business press and specialist publications thanks to 52 press releases.

The companies of the Rheinmetall Group were represented at 71 trade fairs in Germany and abroad in the reporting year. The highlights for the Defence sector were the industry gatherings in Abu Dhabi (IDEX), London (DSEI) and Istanbul (IDEF). As regards the companies of the Kolbenschmidt Pierburg Group, the International Motor Show (IAA) in Frankfurt/Main was of particular significance. As well as showing the corporate video "The Wedding" (in the automotive industry, "wedding" signifies the connecting of the engine and bodywork) which has been awarded several prizes in Germany and abroad, an animated video of the Company's history was also shown to celebrate the 100th anniversary of the companies Kolbenschmidt and Pierburg. As well as around 1,450 brochures, posters, product and service information sheets, the Defence and Automotive sectors also had available multimedia presentations, corporate videos and animations in order to provide customers with information. Around 170 adverts were also shown in specialist media in 2009.

Regular conferences and road shows for institutional investors and analysts ensure ongoing exchange of information with the financial and capital markets. The aim of investor relations work is to inform the capital market of all developments relative to the market on a transparent, comprehensive and proactive basis, thus laying the groundwork for a fair and realistic assessment of the Rheinmetall share. In 2009, the management and Investor Relations visited the key financial centers in Europe and North America, including Frankfurt/Main, London and New York on several occasions as well as Paris, Milan, Edinburgh, Stockholm, Helsinki and Zurich. Around 250 investor meetings were held during these visits, as well as during numerous telephone conferences and one-on-one discussions. The Annual General Meeting held in Berlin once a year also provided the opportunity to discuss issues with investors in-depth.

In July 2009, Rheinmetall continued its successful Capital Markets Days, during which detailed and in-depth presentations are given to capital market participants regarding the sectors and divisions. The event held on the site of Rheinmetall Landsysteme GmbH in Kassel focused on the Defence sector. The Management Board and managerial staff discussed the business development, strategy, prospects and internationalization of the Defence sector with the numerous analysts who had traveled there to attend. The analysts also had the opportunity to get a comprehensive idea of the highly-armored vehicles produced by the Land Systems division.

The Automotive sector held a Tech Day on the premises of a Dutch-based commercial vehicle manufacturer in Eindhoven. The companies presented their latest products and informed interested specialist attendees by means of an extensive program of presentations.

Corporate responsibility

Rheinmetall is one of the hundred largest listed stock corporations in Germany. With operations and production on an international level, the companies of the Rheinmetall Group are involved in the general economic, environmental and social conditions of various countries and regions. Rheinmetall is committed to fair competition and actions which are lawful and socially and ethically responsible. Sustainable economic development is an integral part of business and production processes and serves to secure the long-term future of the Company, which can look back on a 120-year history. As well as continuity, economic growth and the observance of corporate governance principles, the Company's responsibility towards its shareholders, customers and employees as well as the respectful handling of natural resources are all part of the Rheinmetall Group's self-image and corporate culture.

The Code of Conduct adopted in 2003 contains the social responsibility principles. In accordance with this, Rheinmetall will do everything in its power to ensure that economic, environmental policy and social targets are incorporated in medium and long-term strategies and planning and in corporate decisions made on a day-to-day basis, all within the framework of corporate development based on sustainable development.

The compliance guideline sets out principles for lawful and responsible actions. The objective of this is to counteract any potential unlawful or unethical conduct at any early stage and avoid misconduct by implementing suitable measures.

The vast technological expertise of the Rheinmetall Group in its Defence and Automotive sectors derived from around 100 years' experience benefits both people and the environment. The Automotive sector has been working on environmentally friendly automotive solutions long before the start of today's discussions on climate protection. In an age of increasing vehicle numbers across the globe together with global warming, the Kolbenschmidt Pierburg Group, as a longstanding development partner of national and international automotive manufacturers, addresses their needs for innovative solutions in the areas of emissions and consumption reduction, weight reduction and performance enhancement while reconciling mobility trends with environmental protection requirements. Foreign deployments, peacekeeping missions, rapid deployment forces in crisis regions: with the growth in operations abroad, the armed forces of the 21st century find themselves facing new challenges. Effective protection systems are of key importance in providing deployment forces with maximum safety in deployment scenarios undertaken today and in the future. Rheinmetall Defence specializes in the development and production of components and systems designed to protect people, vehicles, aircraft, ships and property. Its products protect the German and NATO armed forces during missions intended to safeguard democracies and peaceful constitutional states.

The economical use of raw materials and energy is one of the central guiding principles for the corporate actions of Group companies, as is the responsible handing of waste materials and emissions. Here, it is vital that environmental protection in the Rheinmetall Group is seen as an integral part of the management system, and that this is appreciated across-the-board. Accordingly, a sense of responsibility is encouraged amongst our employees as regards the environment at all stages of the value-added chain. Rheinmetall strives to reduce its impact on the environment further by means of the best, economically justifiable technology available. Its careful handling of natural resources is underpinned by the use of modern techniques and process technologies, which help to prevent emissions and waste. Its considerate handling of materials, energy, water and waste not only helps to conserve the environment, but also lowers costs. Rheinmetall will continue with its efforts to make even more efficient use of resources and to prevent the production of hazardous substances.

Modern, safe facilities at certified manufacturing sites ensure low-emission production processes that serve to conserve resources. Company processes of relevance to the environment are subject to stringent controls. National regulations and the requirements of international standards regarding quality (ISO 9001 and TS 16409) and environmental protection (ISO 14001) are observed and processes certified accordingly.

Detailed descriptions of the organization, workflows and responsibilities as well as ongoing quality improvement procedures ensure that the requirements made of the Company in the form of customer specifications, sets of standards or other regulations are fulfilled on an environmentally sound basis. Regular certification reviews confirm these high quality standards on an objective basis.

As regards health and safety in the workplace and health management, Rheinmetall employs a range of measures that maintain and promote the well-being and performance of its employees. This includes ensuring the safety of facilities, modern equipment, a high level of protection in the workplace and optimal labor conditions as well as company medical services. By attending health awareness days, employees are able to gain an overview of their state of health.

The Rheinmetall Group assists its employees in planning and securing retirement income. The pension plan, known as “Rheinmetall Plus”, which applies to all Rheinmetall locations in Germany, consists of a basic plan, a performance-related intermediate plan and an employee-financed supplementary plan allowing for various forms of deferred compensation. Taking out a company direct insurance policy or converting variable remuneration components into a company pension (deferred compensation) are additional options to effectively boost future retirement income. Country-specific pension arrangements also exist for employees outside Germany.

The Rheinmetall Group fulfils its commitment to society directly on site. It is largely up to the individual divisions to decide which projects, initiatives and organizations they will support, as needs vary considerably across the various locations where Rheinmetall operates.

The company-owned proving ground of the Defence sector covering a total surface area of approximately 55 m^2 is located in Lower Saxon moorland near to the Unterlüß site. Almost 90% of this surface area is woodland, where two full-time forest rangers maintain the area according to the conditions stipulated for the proper preservation of nature. With 3,400 hectares of forest, this area is one of the largest areas covered by continuous woodland in Lower Saxony. Rheinmetall incorporates active nature conservation into its commitment to this region, where the Company is the largest employer after the German armed forces. The outcome of this commitment 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. The northern section of this company-owned land, the Ellerndorf Heath, is open to the public.

Rheinmetall is also committed to promoting technology, science and craft in the areas where it is located. Understand technology and try it out for yourself - this is the slogan to give young people the opportunity – as part of a school partnership, 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. The companies of the Rheinmetall Group offer work placements in a wide variety of fields and take part in nationwide campaign days. As part of their coordinated further training, specialist teachers from across Germany visit the customer service school of Automotive’s Motor Service division in Dormagen in order to find out in depth about components, modules and systems for fuel supply, air management, emission control, engine cooling and vacuum generation for gasoline and diesel engines.

The companies of the Rheinmetall Group collaborate with universities and research institutes. This spectrum of this collaboration comprises lectureships, guest lectures, attending science conferences and financing an endowed chair. The Automotive sector and the University of Kaiserslautern have had a very successful working relationship for many years. Under the umbrella of the university’s own renowned foundation, the Rheinmetall Foundation pursues its aim of supporting young and talented academics through science scholarships and offering them additional qualification options.

Board remuneration report

Remuneration of the Executive Board | The Supervisory Board of Rheinmetall AG resolves upon and regularly reviews the remuneration system, the amount of Executive Board remuneration and any significant employment contract elements. It makes decisions based on a resolution recommendation given by the Personnel Committee.

Criteria for determining the suitability of an Executive Board member’s remuneration are, in particular, the scope of his responsibilities, his individual performance and the economic situation and success of the Company in comparison to industry peers.

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.

Total remuneration is performance-based and is made up of various components. These comprise a fixed annual salary not linked to performance, performance-related remuneration (profit share), a bonus if applicable, a long-term incentive component as well as fringe benefits and pension commitments. For the fixed portion and the performance-related profit share, an annual target salary is specified, to be reviewed at two to three year intervals. The target salary of Klaus Eberhardt was last adjusted with effect from July 1, 2009. The target salary of Dr. Herbert Müller has been adjusted with effect from January 1, 2010. The target salary of Dr. Gerd Kleinert was last adjusted with effect from July 1, 2007. The annual target salary comprises a 60% fixed component and a 40% variable component.

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

The target value for the performance-related component is based on the budget 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 performance-related remuneration component ranges between 0% and 200%.

Additionally, a long-term incentive program has been put in place that is based on the increase in value of the Rheinmetall Group. This is based on average adjusted EBT (adjusted EBIT according to Notes less interest) for the last three fiscal years compared to the same figure determined the year before. An incentive bonus is distributed if this actual-to-actual comparison shows an increase. After deducting personal income taxes, around 60% of the incentive bonus is granted in the form of Rheinmetall shares which are subject to a 4-year lock-up period. 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. As the figure for average adjusted EBT between 2007 and 2009 has been below the same figure for the previous year, no long-term remuneration has been granted for the past fiscal year.

On the basis of the reference share price as at the end of February 2009 of €24.63 (previous year: €47.49), a total of 14,767 shares (previous year: 10,053 shares) were transferred to the Executive Board of Rheinmetall AG on April 2, 2009 for fiscal 2008. The CEO, Klaus Eberhardt, received 9,845 shares (previous year: 5,027 shares), Dr. Gerd Kleinert received no shares (previous year: 2,513 shares) and Dr. Herbert Müller 4,922 shares (previous year: 2,513 shares). The shares transferred in 2009 are subject to a lock-up period up to and including March 31, 2012. Dr. Gerd Kleinert receives his ongoing remuneration from Kolbenschmidt Pierburg AG. The incentive program compensation is granted by Rheinmetall AG.

€ ’000

	Fixed remuneration incl. fringe benefits	Performance-based remuneration	LTIP	Total	Annual post-retirement pension	Current service cost - pensions
Klaus Eberhardt	818	1,088	16	1,922	315	344
Previous year	796	365	1,039	2,200	297	330
Dr. Gerd Kleinert	516	970	-	1,486	195	-
Previous year	515	58	18	591	195	378
Dr. Herbert Müller	368	498	8	874	175	87
Previous year	372	145	520	1,037	151	86
Total	**1,702**	**2,556**	**24**	**4,282**		
Previous year	1,683	568	1,577	3,828		

Executive Board members are entitled to defined benefit pension commitments, based on 25% of the annual target salary. The retirement age has been fixed at 63 years. The Company has set up provisions for future claims.

Employment contracts with Executive Board members do not include any severance commitment in the event of early departure from office. In the context of the re-appointment and associated extension of the contracts of Klaus Eberhardt and Dr. Herbert Müller, their contracts include a cap which limits the payment of employment termination indemnities to the value of total remuneration for two years or to lower remuneration for the remaining term of the contract. As in the previous year, 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 2009.

Remuneration of the Supervisory Board | The remuneration of the Supervisory Board of Rheinmetall AG is governed by Section 13 of the bylaws, according to which Supervisory Board members receive remuneration comprising a fixed and a variable component, in addition to reimbursement of expenses and meeting attendance fees. The amount of variable remuneration is subject to the dividend distribution. The Supervisory Board Chairman and Vice-Chairman receive double this compensation. The fixed remuneration component is €30,000 and the variable component is €200 for each euro cent of dividend paid out in excess of €0.60. However, this is subject to a cap of €30,000.

Supervisory Board members receive an additional 25% of their fixed and variable remuneration for any committee membership, subject to a ceiling of 50% in the case of multiple offices. A committee chairman is paid an additional 50%, yet this may not exceed 100% if chairing several committees.

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. Total expenditure for meeting attendance fees in the reporting year totaled €120,000 (previous year: €70,000).

Subject to the resolution of the Annual General Meeting on May 11, 2010 regarding the proposed appropriation of net income for 2009, Supervisory Board members will receive the following remuneration for fiscal 2009:

Board remuneration report

€

	Fixed remuneration	Variable remuneration	Committee remuneration	2009 remuneration
Klaus Greinert	60,000	-	30,000	90,000
Previous year	60,000	28,000	44,000	132,000
Joachim Stöber	60,000	-	15,000	75,000
Previous year	60,000	28,000	22,000	110,000
Dr. Andreas Georgi	30,000	-	-	30,000
Previous year	30,000	14,000	-	44,000
Dr. Siegfried Goll	30,000	-	-	30,000
Previous year	25,250	11,783	-	37,033
Dr. Peter Mihatsch	30,000	-	7,500	37,500
Previous year	30,000	14,000	11,000	55,000
DDr. Peter Mitterbauer	30,000	-	-	30,000
Previous year	30,000	14,000	-	44,000
Henning von Ondarza	30,000	-	-	30,000
Previous year	30,000	14,000	-	44,000
Prof. Dr. Frank Richter	30,000	-	15,000	45,000
Previous year	30,000	14,000	22,000	66,000
Reinhard Sitzmann	30,000	-	-	30,000
Previous year	30,000	14,000	-	44,000
Dr. Ludwig Dammer	30,000	-	-	30,000
Previous year	30,000	14,000	-	44,000
Heinrich Kmett	30,000	-	7,500	37,500
Previous year	30,000	14,000	11,000	55,000
Dr. Rudolf Luz	30,000	-	-	30,000
Previous year	30,000	14,000	-	44,000
Wolfgang Müller	30,000	-	-	30,000
Previous year	30,000	14,000	-	44,000
Harald Töpfer	30,000	-	-	30,000
Previous year	30,000	14,000	-	44,000
Wolfgang Tretbar	30,000	-	7,500	37,500
Previous year	30,000	14,000	11,000	55,000
Peter Winter	30,000	-	7,500	37,500
Previous year	30,000	14,000	11,000	55,000
Total	**540,000**	**-**	**90,000**	**630,000**
Previous year	535,250	249,783	132,000	917,033

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

Declaration of corporate governance

Rheinmetall has traditionally been committed to responsible, fair, reliable and transparent corporate policy, focused on expanding and utilizing corporate potential, achieving medium-term financial targets and systematically increasing corporate value on a sustainable basis. Corporate, capital market and codetermination legislation, the bylaws and the German Corporate Governance Code in accordance with internationally recognized standards form the basis of the organization of management and supervision within the Company, with the aim of making the structures of listed companies transparent, thus strengthening trust in the Company and cementing this trust on a long-term basis.

Declaration of conformity 2009 | On June 18, 2009, the Government Commission restated the German Corporate Governance Code. On December 8, 2009, the Executive Board and Supervisory Board of Rheinmetall AG issued the annual declaration of conformity under the terms of Section 161 AktG: "The Executive Board and Supervisory Board of Rheinmetall AG hereby declare,

1. that Rheinmetall AG has fully carried out the recommendations of the Commission of the German Corporate Governance Code as amended up to June 6, 2008 and June 18, 2009, officially communicated in the Electronic Federal Gazette on August 8, 2008 and August 5, 2009 respectively since it issued its last declaration of conformity dated December 2008.

2. that Rheinmetall AG will in future fully carry out the recommendations of the Commission of the German Corporate Governance Code as amended up to June 18, 2009, officially communicated in the Electronic Federal Gazette on August 5, 2009."

Düsseldorf, December 2009
Rheinmetall Aktiengesellschaft
The Supervisory Board   The Executive Board

The current declaration of conformity and all other annual declarations of conformity issued since 2002 have been published on the Company's website (www.rheinmetall.com) in the section "Group – Corporate Governance".

Shareholders and the Annual General Meeting | Rheinmetall AG's shareholders exercise their rights at the Annual General Meeting. The Annual General Meeting is called by the Executive Board or the Supervisory Board as required by the law or when deemed necessary in the interest of the Company. One share grants one vote. Each shareholder is entitled to attend Annual General Meetings, speak there about any items on the agenda, ask relevant questions and propose motions. Shareholders may either exercise their voting right personally at an Annual General Meeting or appoint a proxy at their discretion or give voting power to a Rheinmetall-appointed voting proxy. The Executive Board submits to the Annual General Meeting Rheinmetall's single-entity and consolidated financial statements. The Annual General Meeting votes on matters such as profit appropriation and the approval of the activities of the Executive Board and Supervisory Board and selects shareholder representatives on the Supervisory Board as well as the auditor. In addition to amendments to the bylaws, it also resolves on corporate and capital measures. All documents and information on the Annual General Meeting relevant to decision-making are made available on the Rheinmetall AG website. The Executive Board presentation and the results of the vote can be accessed online shortly after the Annual General Meeting.

Management, control and organization of the Rheinmetall Group | Rheinmetall AG, a listed company headquartered in Düsseldorf, heads the Rheinmetall Group with its two sectors, Defence and Automotive, and defines long-term strategies and corporate policies in its role as management holding company.

Declaration of corporate governance

As a German stock corporation, Rheinmetall has a dual management and control structure: the Group is managed by the overall Executive Board, and the Supervisory Board advises the Executive Board and monitors its company management. The Executive Board and Supervisory Board, each assigned their own areas of authority, cooperate on a constructive, close and trusting basis in all aspects of management and supervision. This cooperation is in the best interests of the Company as a whole and is based on sharing tasks and responsibilities. Rules of procedure are in place for both boards, containing regulations on the composition, tasks, responsibilities and areas subject to approval.

Company transactions are carried out by the Executive Board under the joint responsibility of its members, who are committed to safeguarding the interests of Rheinmetall and increasing corporate value on a sustainable basis. The Executive Board decides on corporate goals, the strategic orientation and Group policy and organization. In particular, these include the control of the Group and the allocation of resources, the HR strategy, filling management positions and presenting the Group to the public and the capital market.

The Executive Board of Rheinmetall AG ensures that the management of the sectors is focused on the interests of the Group as a whole. The clearly demarcated Automotive and Defence sectors, each assigned all the necessary functions, constitute independent sector s within the strategies, targets and guidelines defined by the Group's Executive Board, with responsibility for global operations and each with its own management hierarchy.

The respective divisions of the Defence and Automotive sectors are managed by the Management Board Defence and the Executive Board of Kolbenschmidt Pierburg AG. The division heads report to the members of the Executive Board of the sectors on current business development and discuss strategies, targets and measures during regular review and strategy meetings.

Rheinmetall AG performs support and service functions for the Rheinmetall Group as a whole. These comprise the overall management of matters concerning strategy, HR policy, legislation and tax, communication with key target groups in the Company environment, particularly the capital market and shareholders, mergers and acquisitions, central finance and liquidity management, Group controlling, Group accounting and the optimization of the investment portfolio. Rheinmetall AG ensures that standardized planning, controlling and management processes are applied across the Group and monitors the Group-wide implementation of legislation, guidelines and regulations according to standard criteria as part of the compliance system.

Rheinmetall AG holds direct and indirect interests in 135 companies belonging to the Rheinmetall Group. 108 companies are fully consolidated in the consolidated financial statements. 27 companies are carried at equity. An overview of these companies is given in pages 124 to 127.

Structure and function of the Executive Board | The Executive Board currently consists of three members, who manage the Company under joint and several responsibilities according to standard objectives: It is responsible for the overall management of the Company. It defines long-term strategies and corporate policy as well as the structure and organization of the Rheinmetall Group and allocates resources. The members of the Executive Board are jointly responsible for company management. They are committed to safeguarding Rheinmetall's interests as well as increasing corporate value on a sustainable basis. Notwithstanding his responsibility for Rheinmetall as a whole, each Executive Board member has sole responsibility for the Board division or corporate sector assigned to him in accordance with the applicable management and organizational structure of the Rheinmetall Group. However, he must ensure that priority is always given to the interests of Rheinmetall as a whole over interests, specific to sector and divisions.

In accordance with the allocation of sectors, the CEO, Klaus Eberhardt, is responsible for the Defence sector, Dr. Gerd Kleinert for the Automotive sector and Dr. Herbert Müller for Finance and Controlling.

The Executive Board is subject to rules of procedure regarding its work in accordance with Section 6 of the bylaws. The Executive Board as a whole generally makes decisions in meetings held at least once a month. The CEO is responsible for the coordination of all Executive Board divisions and corporate sectors of the Executive Board. He must ensure that the management of all Executive Board and corporate sectors is consistently aligned to targets established by means of Executive Board resolutions.

Details on collaboration with the Supervisory Board can be found in the rules of procedure for the Supervisory Board of Rheinmetall AG, which contain regulations on transactions and measures requiring approval and the information and reporting obligations of the Executive Board. The CEO assumes overall responsibility for the provision of information to the Supervisory Board and its members. He regularly informs the Chairman of the Supervisory Board of the progress of transactions and the position of the Company and discusses with him the strategy, business development and risk management of Rheinmetall. He immediately informs the Chairman of the Supervisory Board of any significant events of material importance to the assessment of the situation and development as well as the management of the Company.

Structure and function of the Supervisory Board | The Supervisory Board has 16 members, eight of whom are elected by the shareholders and eight by the employees. When carrying out their work, Supervisory Board members are committed to Rheinmetall's best interests, but are not bound by specific instructions. When selecting Supervisory Board members, care is taken to ensure (also in consideration of diversity) that the Board comprises members who possess the necessary knowledge, skills and technical experience and the level of independence required by the German Corporate Governance Code. In the year under review, the members of the Supervisory Board comprised sixteen men and no women. Former Executive Board members of Rheinmetall AG are not represented on the Supervisory Board. The period of office for the Supervisory Board is five years. With the exception of Dr. Siegfried Goll, who has been elected up to the close of the Annual General Meeting in 2013, the term of office for the other shareholder and employee representatives terminates at the close of the Annual General Meeting resolving on the approval of Board activities for fiscal 2011.

The Supervisory Board advises the Executive Board on the management of Rheinmetall and monitors these activities. It is included in strategy and planning as well as all issues of fundamental importance to the Company. In the case of significant transactions, such as large-scale acquisitions and divestments, capital expenditure planning, taking out bonds and long-term loans, the rules of procedure for the Executive Board outline areas subject to approval by the Supervisory Board. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs meetings and represents its interests externally.

The Executive Board provides the Supervisory Board with timely, comprehensive information on planning, business development and the situation of the Group including risk management and compliance, both in writing and at regular meetings, i.e. those generally held once a quarter. If necessary, an extraordinary Supervisory Board meeting is convened for major events. The Supervisory Board is subject to rules of procedure regarding its work. The main areas covered in the rules of procedure are 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. If necessary, the shareholder and employee representatives meet separately in order to prepare for meetings.

No consultancy contracts or other contracts for work or services existed between the Rheinmetall AG and Supervisory Board members in the period under review.

Declaration of corporate governance

The members of the Executive Board and Supervisory Board may not pursue personal interests when making decisions or in conjunction with their Board activities, nor may they take advantage of business opportunities to which the Company is entitled for their own personal gain or grant other parties unfair advantages. This type of transaction or secondary occupations must be disclosed to the Supervisory Board immediately, who must then approve said activities. The Supervisory Board reports to the Annual General Meeting any conflicts of interest and how these have been handled. There were no conflicts of interest on the part of any members of the Executive Board or Supervisory Board in the reporting year.

The offices held by Executive Board and Supervisory Board members are shown on pages 132 to 134.

From its members, the Supervisory Board has created four committees in the form of the Personnel Committee, the Audit Committee, the Mediation Committee in accordance with Section 27 (3) MitbestG and the Nomination, which prepare and supplement its work. The members of the committees provide the Supervisory Board with considerable support and relieve its workload significantly by preparing time-consuming topics with great discussion requirements and meetings of the Board as well as checking resolutions in advance. Where so authorized by the Supervisory Board, certain specific decisions can also be made directly by a committee. With the exception of the Nomination Committee, which consists of two shareholder representatives, all committees are based on joint representation, with two shareholder representatives and two employee representatives.

Tasks which are the responsibility of the Personnel Committee include making preparations for the appointment and withdrawal of Executive Board members and the conclusion, amendment and termination of employment and pension contracts of members of the Executive Board. It is the job of the Audit Committee to support the Supervisory Board when performing its supervisory functions. One member of the Audit Committee is an independent financial expert and has particular knowledge and experience in the application of accounting principles and internal control processes from his professional practice. 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. The Nomination Committee, which is made up solely of shareholder representatives, is responsible for submitting to the Supervisory Board a slate of suitable Supervisory Board candidates for election by the Annual General Meeting.

The committees of the Supervisory Board were composed as follows during the reporting period:

Personnel Committee

Klaus Greinert	Prof. Frank Richter
Chairman	Joachim Stöber
	Wolfgang Tretbar

Audit Committee

Klaus Greinert	Prof. Frank Richter
Chairman	Joachim Stöber
	Heinrich Kmett

Mediation Committee

Klaus Greinert	Dr. Peter Mihatsch
Chairman	Joachim Stöber
	Peter Winter

Nomination Committee

Klaus Greinert	Prof. Frank Richter
Chairman	

The plenary Supervisory Board was regularly informed in depth of the outcome of discussions held at meetings of each of the committees.

The Supervisory Board of Rheinmetall AG periodically reviews the efficiency of its activities, as required by 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.

Remuneration of Board members | Rheinmetall AG satisfies the recommendations of the German Corporate Governance Code to disclose the remuneration of the Executive Board and Supervisory Board on an individual basis. Details on the individual remuneration of Executive Board and Supervisory Board members and the respective remuneration structures are presented in the Board remuneration report within the Group management report on pages 36 et seq. The Supervisory Board Chairman briefed the Annual General Meeting on May 12, 2009 on the basic components of Executive Board remuneration, which have also been disclosed on the Company's website.

D&O insurance | Rheinmetall AG has taken out a D&O policy (Directors' & Officers' liability insurance, including consequential loss) with a reasonable deductible for its Executive Board and Supervisory Board members.

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 both to the Company and the Federal Financial Supervisory Authority (BaFin), if transactions concluded within the calendar year exceed €5,000. Securities transactions reported in the period under review are permanently available to view on the Internet at www.rheinmetall.com in the Investor Relations section.

As of December 31, 2009, the members of the Executive Board and Supervisory Board, including related parties, held an aggregate 437,753 shares or 1.1% (2008: 419,521 shares or 1.2%) of the common stock of Rheinmetall AG, comprising 89,313 shares or 0.2% (2008: 74,871 shares or 0.2%) held by the Executive Board and 348,440 shares or 0.9% (2008: 344,650 shares or 1.0%) held by the Supervisory Board.

Corporate governance practices | For Rheinmetall, sustainable economic, environmental and social actions are an indispensable element of corporate culture. This also includes integrity when dealing with employees, business partners, shareholders and the wider public, expressed in the form of exemplary actions. In order to ensure exemplary actions and conduct across the board, a multilingual compliance guideline has been developed for the Rheinmetall Group as a whole and made available on the Intranet. This is to apply to everyone in equal measure as a guiding principle, i.e. the Executive Board, managers, executives and Group employees. This guideline sets out minimum standards and contains advice on how all employees can work together to ensure its observance.

Compliance covers all instruments, guidelines and measures that serve to ensure that processes within the companies of the Rheinmetall Group comply with local legislation, statutory frameworks, regulatory provisions and internal guidelines and guarantee law-abiding conduct. Compliance has always been an integral part of the corporate culture of the Rheinmetall Group. The Company operates in countries with differing political systems, statutory and social frameworks, standards and ideals.

Declaration of corporate governance

In the interest of its customers, shareholders and employees, over time the Company has set up a comprehensive compliance organization with the aim of identifying legal risks and avoiding the consequences of these, preventing employees from breaching laws and corporate guidelines and supporting said employees in the correct and appropriate application of laws and corporate guidelines.

The compliance principles applicable across the Group include regulations on issues surrounding the placing of orders, the receipt and granting of gifts, competition and cartel law, the prevention of corruption, the prevention of insider violations, industrial and corporate safety and IT security. Every employee is obliged to observe the multilingual compliance guideline provided on the Intranet, and is asked to actively cooperate in the implementation and observance of the compliance program in his area of activity. In order to raise general awareness of compliance risks, numerous seminars and workshops are held where applicable provisions are explained and practical advice is given on correct conduct in specific situations. These classroom training sessions, which also serve as a practical forum for discussions, are accompanied by e-learning programs. Employees can approach contacts within the Company on a strictly confidential basis. The discovery of misconduct entails organizational measures and work-related consequences for the individual concerned.

The compliance program, which is supplemented by policies including the Code of Conduct, various Group-wide guidelines and numerous organizational specifications, is periodically reviewed and updated where necessary by the Compliance team, a network comprising representatives from the Group’s s divisions and the parent’s departments. The Executive Board and the Supervisory Board’s Audit Committee are regularly informed of current developments. In serious cases, the committees are informed immediately.

The Group-wide reporting and control system is designed to detect, record, analyze and control business and financial risks to which the Company is exposed in the context of its international activities. The individual elements of the monitoring system supply reliable information on the current risk situation. They ensure that targets are achieved and costs incurred as a result of the risks detected are kept to a minimum. Risk policy focuses on general business risks, financial risks and the specific risks of divisions. The Executive Board determines the Group’s risk strategy and defines accountabilities, reporting structures, documentation and management of identified risks, as well as thresholds and tolerance limits. The Executive Board periodically reports to the Supervisory Board and the Audit Committee in particular on current risks and their development. The Company is continually improving its monitoring system, adjusting it to changing corporate conditions.

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.

Rheinmetall AG prepares the consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS). This ensures enhanced transparency and better comparability with international competitors. The single-entity financial statements of Rheinmetall AG, required by law and decisive for the dividend distribution, are prepared according to the provisions of the German Commercial Code (HGB).

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Düsseldorf branch, performed the statutory audits for 2009. As proposed by the Audit Committee, the Supervisory Board awarded the audit assignment after agreeing audit focal areas and audit fees with the statutory auditor elected by the Annual General Meeting. The Supervisory Board ensures that no conflicts of interest adversely affect the auditor's work and commits the auditor 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 2009 audit has not indicated any such reportable facts.

Up-to-date, transparent and objective communication is a matter of course within the Rheinmetall Group and addresses the rights and interests of the shareholders, media, and the general public. In accordance with the principle of equal treatment, the relevant target groups are provided with information at the same time. The Company reports comprehensively on business trends, the financial position, as well as major transactions and significant changes within the Group. The website presents, in both English and German, annual and quarterly reports, press releases and other relevant information on current developments and changes. Regular conferences and road shows for institutional investors and analysts ensure ongoing exchange of information with the financial and capital markets. Any facts and circumstances that may impact the share price on the stock exchange are published immediately in an ad-hoc notification as required by law. Securities transactions subject to reporting requirements are published by Rheinmetall in media prescribed by law and on its website. The Annual Document (also published at www.rheinmetall.com) lists all mandatory publications by Rheinmetall AG from fiscal 2009.

Statutory disclosures in accordance with Section 315 (4) HGB and explanatory report

Capital structure | As of December 31, 2009, the common stock of Rheinmetall AG totaled €101,373,440, divided into 39,599,000 bearer shares. Each share represents a €2.56 pro rata interest in the common stock. The shares are fully paid. According to Section 5 (2) of the bylaws, no shareholder is entitled to a physical share certificate. The issuance of global share certificates is permitted.

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 which do not entitle the Company to rights. The Annual General Meeting elects the Supervisory Board members and the statutory auditor whom it is required to appoint. It decides in particular on profit appropriation, official approval of the activities of the Executive Board and Supervisory Board, amendments to the bylaws, capital moves, authorization to acquire treasury shares and, if necessary, 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 | The Executive Board is not aware of any voting restrictions. 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 are subject to a three-year lock-up period up to 2009 stipulated by the Company under private law, which is to be raised to four years from 2010. Shares transferred in this way may not be sold by the beneficiaries prior to the expiration of this lock-up period. Shares issued to eligible staff on preferential conditions as part of the employee share purchase program are subject to a two-year lock-up period.

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 to Executive Board members and other senior management staff in the Rheinmetall Group, these shares are directly transferred to these individuals subject to a resale lock-up period.

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. Shares issued to eligible staff under the employee share purchase program are also subject to a lock-up period, but are not subject to restriction of the attached rights of control.

Shareholdings exceeding 10 % of voting rights | Rheinmetall AG is not aware of any direct or indirect shareholdings as defined by Section 22 German Securities Trading Act (WpHG) that exceed 10% of the voting rights. No corresponding notification pursuant to Section 21 WpHG has been received by Rheinmetall AG.

Shares with special rights conferring controlling privileges | Shares with special rights conferring controlling privileges do not exist at Rheinmetall.

Provisions on the 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 are governed by Sections 84 and 85 AktG and Section 31 of the German Codetermination Act (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 4 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.

Executive Board powers to issue new shares and repurchase 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 9, 2006 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 8, 2011, up to an aggregate €18,432,000 (authorized capital). The new shares may also be issued to employees of Rheinmetall AG or any subsidiary it controls. The exclusion 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.

In the context of a capital increase without subscription rights, Rheinmetall AG placed 3,599,000 new shares at a price of €29.00 per share by means of an accelerated bookbuild offering on July 7, 2009. The issue enjoyed a very high level of demand and was oversubscribed within a few hours.

Subsequent to this action, the Executive Board is now authorized in accordance with Section 4 of the bylaws (and 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 8, 2011, up to an aggregate €9,218,560 (authorized capital).

The purchase of treasury stock is governed by Section 71 AktG. According to the resolution by the Annual General Meeting of May 12, 2009, 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 common stock at that time of €92,160,000. 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 up to October 31, 2010, unless otherwise resolved by the Annual General Meeting before this date.

The proportion of own shares held as treasury stocks was 3.5% (1,393,536 shares) at the end of the 2009 financial year, compared with 4.5% or 1,607,928 shares on the previous year's balance sheet date. On February 26, 2010, Rheinmetall AG held 1,393,536 treasury shares or 3.5%, unchanged compared to December 31, 2009.

Statutory disclosures in accordance with Section 315 (4) HGB and explanatory report

Major agreements terminable upon a change of control | In April 2005, a banking consortium granted Rheinmetall AG a syndicated credit facility of €400 million. This facility was originally scheduled to expire in 2010, but was extended in March 2006 and March 2007 by one year in each case, so it now expires in 2012. If half of the Rheinmetall AG shares are held directly or indirectly by one or several persons (acting either jointly or severally), the agreement's terms and conditions must be renegotiated.

In June 2005, Rheinmetall AG issued a €325 million bond maturing in June 2010. Upon a change of control, bond holders may call in the bonds with between 40 and 60 days' notice as from the publication date of the change of control and request redemption of the bond principal plus interest.

In March 2009, five year credit facilities of €100 million each were made available to Rheinmetall AG by two banks. If a natural person or legal entity holds more than 50% of the common stock or voting rights of Rheinmetall AG, these banks have an extraordinary right to terminate.

In May 2009, Rheinmetall AG issued a promissory note loan of €150 million with a duration of five years. In the event of a change of control, the promissory note holders have an extraordinary right to terminate along the lines of the agreement with the banks mentioned above.

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. In the case of acquisition of a defence technology company in Germany, Section 52 et seq. of the German Foreign Trade & Payments Regulation (AWV) requires that the Federal Government give its prior approval before any non-resident party can purchase 25% of the shares. This Regulation aims to safeguard material security interests of the Federal Republic of Germany.

Compensation arrangements between the Company and Executive Board members and employees in the event of a takeover bid | No compensation arrangements have been made with members of the Executive Board and employees.

Risk report

Risk policy | In view of the increasing momentum and complexity of markets and overall conditions, corporate decisions are increasingly dependent on reliable assessments of potential risks. As a technology group operating at international level, Rheinmetall is exposed to a variety of risks. These risks are prevalent to varying degrees depending on the division, industry and region. This makes it necessary to identify and limit potential risks at an early stage in order to eliminate the possibility of the Company being jeopardized. Corporate policy aims to take and optimize any opportunities that present themselves, make use of and expand success potential, yet at the same time avoid, minimize or offset associated risks as far as possible.

Risk management system increases transparency | The Group-wide standardized risk management system aimed at identifying material risks jeopardizing the continued existence of the Company at an early stage is characterized by the principle of caution. The Executive Board determines the Group's risk strategy and defines accountabilities, management and documentation of identified risks, as well as thresholds and tolerance limits. Risk management, which focuses on financial resources and strategic and operational planning, is regarded as the primary responsibility of the heads of the divisions, the corporate departments, and process and project managers. The risk management system ensures that management decisions and day-to-day operations stay within defined risk limits and comply with legal requirements. It complements existing planning, management and control instruments and is cemented in the organizational structure of the Rheinmetall Group on the basis of consistently defined responsibilities.

The possibility of unfavorable future developments with regard to approved corporate targets is defined as a risk. In order to identify and analyze potential risks, the risk inventory is revised once a year during corporate planning, which contains all material risks affecting corporate targets and sub-targets, early warning indicators, responsibilities and suitable countermeasures.

As part of monthly reporting, current business risks are systematically recorded in risk reports for the subsidiaries as well as the central departments of Rheinmetall AG and are assigned to a rating structure depending on their probability of occurrence and the level of damage to be expected. Within the context of risk aggregation, the individual risk reports are prepared and the overall risk situation for the Company determined. Appropriate preventative, safeguarding and corrective measures reduce the probability of occurrence of risks or limit the damage they may cause. Measures introduced to control risk are monitored on an ongoing basis and adjusted to a new risk assessment where necessary. The Executive Board of Rheinmetall AG is regularly informed of the development of the overall risk situation by the controlling department. If necessary, additional measures are taken in order to limit further and reduce identified potential risks. Risks which come about suddenly or unexpectedly and which have a considerable impact are reported to the Executive Board on an ad hoc basis.

As a process-independent authority, Internal Auditing examines workflows, structures and procedures for their suitability, effectiveness and safety as part of the internal control system on the basis of a project plan adopted by the Executive Board. In the year under review, audit activities focused on capital expenditure, the performance of efficiency, system and regularity audits and compliance with statutory and Group-internal specifications. Any risks or areas of weakness detected in the course of these audits are remedied or removed in cooperation with the managers in charge.

The Supervisory Board also has monitoring responsibilities. It regularly monitors the efficiency of the risk management system on a plenary basis and via the Audit Committee it has deployed. The Audit Committee is informed on the activities and findings of Internal Auditing and the compliance organization.

Risk report

Business risks | In times of advancing globalization, fiercer competition and greater market transparency, market risks are on the rise. The outcome: possible fluctuations in prices, volumes and margins. Concentrating on demanding market segments, product innovation, improvements to processes, production and capacity adjustments and strict cost management has helped to strengthen Rheinmetall's competitive position in the respective industries and secure and expand the profitability of the Rheinmetall Group.

It is not possible to avoid altogether any market risks that come about due to economic cycles, rapid technological change, shortening capital expenditure cycles and increasing intensity of competition. A deterioration of general global conditions regarding economic policy may negatively impact the earnings of the Rheinmetall Group. Thanks to Rheinmetall's presence on the markets of Europe, America and Asia, the diversified product portfolio and continued efforts to internationalize the Defence and Automotive sectors, temporary economic fluctuations and market cycles running counter to the general trend in regions, countries and industries may be offset in part by more favorable trends in other regions and markets. Furthermore, the risk profile of Rheinmetall may also be influenced by structural market risks, such as the emergence of new suppliers, product substitution or consolidation trends on sales markets.

Rheinmetall's market presence and customer proximity connected to international distribution structures make it possible to react to trends at an early stage and align product strategies to respective requirements. On the basis of its high level of technological competitiveness, the Rheinmetall Group systematically develops new products and refines existing products according to customer needs, thanks to which it is able to enjoy commercial success in the long term. Customers are closely involved in the definition, development and testing of new products, thorough advance testing by means of market and competition analyses, feasibility studies and profitability analyses, state-of-the-art project management aimed at reviewing the technical and economic success criteria and securing technological positions through patents, all of which helps to reduce potential R&D-related risks such as misdevelopments and budget overruns. Despite observing the processes described and employing state-of-the-art project management, project monitoring and project controlling measures, the development of new products and the improvement of the existing product portfolio harbors cost risks. This risk is present during the actual development phase, but also after the market launch, as there may be a need for technical reworking which can only be discovered once the product has actually been used or deployed in continuous operation.

Procurement risks exist in the fact that the raw materials, parts and components necessary to manufacture the product are not available, or are not available to a sufficient degree, in the quality and quantity required, or cannot be procured in time or without encountering problems. In order to prevent potential supply bottlenecks and ensure security of supplies, the procurement markets are monitored closely in order to be able to react to changes quickly. A considerable portion of the supply of raw materials is covered by long-term supply contracts and is subject, where possible, to cost escalation clauses in contracts with customers. Procurement risks are also offset throughout the establishment of alternative supply sources, efficient contract management, ongoing supplier evaluations, quality and reliability checks for subcontractors and the development of adequate reserve stocks.

A supply of energy at cost-efficient prices constitutes a risk for competitive production at the division locations. Rising energy costs are addressed by coordinated Group-wide invitations to tender, long contract durations and optimizing the electricity price portfolio via the European Energy Exchange (EEX).

The very complexity of certain projects may harbor risks in the form of unexpected technical obstacles, problems with partners or subcontractors and delays in acceptance and invoicing. These risks may be limited but not fully excluded by such measures as professional project management and extensive quality management efforts plus contractual stipulations.

Acquisition risks | Acquisitions, strategic alliances and joint ventures safeguard the market position of the divisions. They are therefore an important element of the internationalization and growth strategy of the Rheinmetall Group. Suitable companies are examined with regard to their strategic relevance, earnings potential, management quality and future prospects and are evaluated on the basis of yield/risk considerations. Political and economic conditions as well as the market and competitive environment are also investigated in due diligence proceedings, which cover issues such as operations, legal, finance and tax. Following approval proceedings carried out over several stages, the Executive Board, and if necessary the Supervisory Board, of Rheinmetall AG decides on the planned equity investments. Once the transaction has been concluded, the company is integrated into the relevant division on the basis of a timetable and milestone plan.

Financial risks | The companies of the Rheinmetall Group are exposed to interest rate and currency risks in their operations. The ongoing internationalization of procurement, production and financing is reducing the impact exchange rate risks. However, suitable marketable derivative financial instruments (primarily currency forwards, currency options, currency and interest rate swaps and interest rate caps) have also been deployed for the sole purpose of hedging against exchange rate fluctuations and changes in the interest rate. Short positions are generally avoided.

The central liquidity management system, combined with the use of various financing instruments such as bond issues, promissory note loans, syndicated credit facilities, commercial papers, the asset-backed securities program and bilateral credit facilities ensures that sufficient liquidity is available at all times for operating activities and capital expenditure. As a listed company, the Group also has the option of carrying out a capital increase within the context of its Annual General Meeting resolutions.

The current financial market crisis may weaken the equity base of lenders, thus leading to fewer options for the raising of funds. On the costs side, there is the risk that new agreements will be predicated on higher interest rate spreads and guaranty commissions. A broad array of different funding sources and financing instruments with staggered maturities which are closely monitored and therefore revolved, renewed or otherwise updated in good time, enables Rheinmetall to respond flexibly to such challenges. Based on detailed long-term cash requirements planning, the liquidity risk is limited thanks to the availability of credit facilities far exceeding these requirements. The total volume of credit facilities granted has increased slightly during the fiscal year.

Sufficient balance sheet provisions have been recognized for potential losses on long-term contracts or from supply or sourcing agreements, as well as other risks from warranty claims, for example. Given Rheinmetall’s customer mix, credit risks are negligible. The Rheinmetall Group is not dependent on any customers or (critical) countries which could jeopardize the Group’s continued existence as a going concern in the event of negative development.

IT risks | Today’s world of information technology is changing faster than ever before. Information is increasingly becoming a resource that is vital to success. Growing data volumes, short access times and the provision of structured information require state-of-the-art infrastructure. Group-wide parameters and defined routines are increasing performance and reducing the need for coordination. Conceptionally elaborate service packages support the targeted expansion and improved functionality of highly-available, fail-safe IT systems. Capacities consistently tailored to market opportunities, the pooling of resources, close integration with user support and synergies in procurement and service help to improve existing infrastructure and increase its performance.

Risk report

Information and data are exposed to various, and in some cases growing, threats with regard to availability, confidentiality and integrity. Considerable disruptions to application-critical IT systems, applications and infrastructure components can seriously compromise the management of business and production processes and lead to business activities being severely hindered: networks can fail, and programming and operating errors, tampering and external factors can corrupt or delete data. As well as high security standards and Group-wide security guidelines, technical and organizational protective and precautionary measures (such as detailed back-up and recovery procedures, uninterruptible power supply, secure access procedures and daily data mirroring and archiving) limit the risk of severe disruptions and breakdowns. In order to protect against external attacks, the Rheinmetall Group employs various measures, including state-of-the-art firewall systems and virus scanners. Constant testing and adjustment of the IT systems used ensure that IT-supported business processes are processed securely. The installed software and hardware are kept state-of-the-art thanks to regular capital expenditure. Together with specialist service providers certified according to ISO 27001, the technical configuration, functional security structures and efficient operation of the IT systems are periodically reviewed and continuously improved.

Personnel risks | In a technologically-oriented company such as the Rheinmetall Group, the achievement of ambitious corporate targets and sustainable economic success hinges on a variety of staff, including employees with an above-average level of qualifications and a number of specialists from a wide variety of fields. Personnel risks, which may result from a shortage of junior staff, a high turnover rate, a lack of qualifications and low motivation, are countered by numerous performance-related remuneration, HR development and recruitment measures. In view of demographic change, analyses have been carried out on age structures and occupation groups identified where there could be shortages in the future.

A key factor in the further growth of the Group is the development of employees, talented junior management staff and experienced specialist and managerial staff in line with both current and future requirements. On the basis of systematic selection and assessment procedures, high performers are provided with targeted support by means of individual training arrangements in addition to seminar programs carried out over several stages. A wide variety of training programs give Rheinmetall employees the opportunity to continually improve the abilities, skills and knowledge required to be successful in their profession and to gain new qualifications.

Establishing close ties with selected universities, attending university and recruitment fairs, arranging work placements for students and graduates and offering attractive, performance-related remuneration systems and modern pension schemes ensures that new, highly qualified employees are acquired and remain with the Company in the long term. In addition, thanks to being listed on the MDAX, its size and its technologically sophisticated products in the defence and automotive industry, Rheinmetall is renowned for being an attractive employer.

Compliance risks | A compliance organization is designed to ensure proper modes of conduct and behavior on the part of a company and its employees. This is built on proven principles which have governed entrepreneurial activities within the Rheinmetall Group since its formation. It is designed to prevent any disadvantages, loss or damage that the Group may incur as a result of misconduct or violations of the law.

For many years now, the Rheinmetall Group has had a comprehensive set of corporate policies ensuring continuous observance of legal requirements, preventing the violation of applicable legislation and ensuring appropriate actions that are in accordance with respective duties. However, the possibility of risks arising from deliberate unlawful activities of individual parties cannot be ruled out.

Subject to their respective business activities, employees are regularly informed of the relevant rules and regulations and any amendments by means of seminars, workshops and 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.

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

Legal risks | Legal risks encompass in particular those resulting from product liability, competition and cartel laws, patent legislation and tax legislation. Potential loss, damage and liability resulting from ordinary operations are appropriately covered by insurance policies or accounting provisions. In such decisions and in the organization of 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.

In connection with restructuring measures under company law, three legal proceedings have been initiated by external shareholders with a view to reviewing the suitability of the share exchange ratio and the amount of cash compensation offered. In the proceedings instituted to squeeze out Kolbenschmidt Pierburg shareholders, the applications of 108 persons involved in the proceedings were dismissed by the Stuttgart District Court on September 1, 2008. 55 applicants immediately lodged appeals against this decision with the Stuttgart Higher Regional Court. The length and outcome of the other two legal proceedings opened in 1998 and 2003 in connection with the Kolbenschmidt Pierburg merger and the squeeze out of Aditron AG are still open. The Executive Board of Rheinmetall AG does not regard the claims asserted in these court proceedings as justified.

The apartheid legal proceedings brought against Rheinmetall are currently suspended due to ongoing parallel proceedings brought against other companies affected by the apartheid lawsuit. Rheinmetall regards the action as inadmissible and does not regard the US court as having jurisdiction. The claimants are not US citizens, the event did not take place on US territory and prosecutions have already been carried out in Germany for the legal violations upon which the action is based.

Appropriate provisions have been established for the risks arising from the legal proceedings described above and other proceedings as far is regarded necessary. It is difficult to predict the outcome of the legal proceedings currently pending. For this reason, the possibility cannot be ruled out that court decisions or the agreement of settlement terms will lead to expenses that exceed the provisions recognized for this purpose, thus impacting the business and results.

The results of internal tax audits may lead to charges based on audit findings together with interest and tax payments in arrears derived from these. There is also the risk that the tax burden for the Rheinmetall Group may develop unfavorably as a result of changes to tax legislation or court decisions.

Production and environmental risks | A large amount of land owned by the Rheinmetall Group has long been subject to industrial usage. The possibility cannot be ruled out that pollution has also been generated during this time as a result of production that Rheninmetall 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 are effectively reduced by means of strict compliance with relevant laws, requirements and regulations, extensive guidelines on quality assurance and stringent quality controls. In addition to certification in accordance with international standards such as DIN 9001, TS 16949 and ISO 14001, this also includes preventative maintenance, ongoing methodical modernization of equipment and the improvement of production processes and manufacturing techniques.

Risk report

Sufficient provisions have been recognized for necessary measures to safeguard against or clean up identified pollution. The possibility cannot be ruled out that the relevant authorities will issue regulations that may require costly clean up measures. Possible tightening of safety, quality and environmental protection provisions and standards may lead to additional costs for the introduction of measures in order to meet these standards.

Even if Rheinmetall establishes high technical and safety standards in the construction and operation of production facilities and ensures high availability of manufacturing plants through preventative maintenance combined with ongoing checks, modernization and capital expenditure, operations can still be affected by technical disruptions, fire, accidents and human error. These events can lead to accidents where people, property and the environment are harmed. By means of occupational health and safety and environmental protection as well as contingency and hazard prevention plans, accident hazards and health risks should be reduced to a minimum for employees and third parties.

For potential damage or risks resulting from natural hazards and the ensuing disruptions to operations or production downtimes as well as for other conceivable loss occurrences and liability risks such as product liability, warranty or recall risks, insurance cover has been taken out to ensure that the financial consequences of potential risks are contained or completely offset. The extent of such insurance cover is regularly reviewed and adjusted where necessary. Appropriate accounting provisions have been recognized in the 2009 consolidated annual financial statements for risks that occur despite the measures taken and which are not covered, or are only covered in part (deductible), by insurance policies.

Opportunities and risks in the segments | The 21st century world finds itself in a changed security situation. Terrorism, organized crime and the consequences of collapsing state structures call for new responses to internal and external security challenges and hazards as well as new skills in international peace efforts. Rheinmetall Defence is one of the leading European suppliers and specializes in arming land forces with armored military vehicles, weapons and munitions as well as electronic equipment and state-of-the-art air defence systems. The division’s market potential results mainly from the defence budgets of prospective customer nations.

Opportunities for Rheinmetall Defence’s six 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 is tailored to central requirements associated worldwide with the modernization of armed forces and new military deployment scenarios. The Defence sector may also benefit from ad-hoc procurement needs triggered by the deployment of forces in crisis regions.

Reference projects commissioned by the German Army, such as the series contract for the Puma, the Future Soldier program and mortar combat systems, are just as critical to winning orders abroad as is an innovative product range tailored to the new needs of the armed forces and on a par with international competitors. Other growth opportunities may arise for Rheinmetall Defence as a result of the expected ongoing consolidation process in the European arms market.

Defence’s business areas are not directly dependent on the state of the economy. The main risks are associated with its dependency on the spending patterns of public sector budgets in Germany and certain customer nations abroad as well as increasing transatlantic competition. Those export markets which are accessible are exposed to fierce international competition.

Political factors and changes in customer nations, budget restrictions and financing problems may lead to risks in the form of delays and/or the cancellation of contracts. Governments around the world have launched economic stimulus packages aimed at limiting the impact of the financial market crisis. The ensuing pressure on public sector budgets may lead to cutbacks, shifts or delays in defence spending which, in turn, would impair the business activities of Rheinmetall Defence. Higher prefinancing due to worsened downpayment conditions and possible financial interests in projects constitute further risks. Additionally, unexpected difficulties in project processing may lead to unforeseen burdens.

The Automotive sector companies accounted for approximately 45% of sales in the Rheinmetall Group in 2009. The economic climate in the automotive industry and technological development in this sector have a major impact on the Kolbenschmidt Pierburg Group, its sales and earnings.

The Automotive sector currently operates from a position of high technological expertise and financial strength. Restructuring and earnings improvement programs initiated at an early stage and pursued on a stringent basis will secure economic performance, even with lower sales. The Kolbenschmidt Pierburg Group stands to gain once the automotive economy starts to pick up again in the form of increasing sales. In addition, the improved cost basis thanks to the optimization of production structures combined with increasing sales will quickly lead to positive earnings effects, with a more rapid recovery offering additional opportunities. The sector may also benefit from the accelerated implementation of reorganization and restructuring measures.

More restrictive emission legislation and also the increased awareness of markets in terms of ecology with corresponding demands for drive concepts which are energy-efficient and reduce CO_2 output offer Kolbenschmidt Pierburg the opportunity to increase sales and market share on the basis of existing products and those being developed. Whereas in previous years, growth was determined by emissions-driven technologies, particularly for diesel engine drive systems, the main focus in the future will be on making technological changes to conserve resources and reduce fuel consumption and thus CO_2 emissions. The internationally recognized trend towards low-consumption and thus smaller engine sizes will be stepped up through the gradual coming into force of legislation limiting CO_2 emissions. As well as the potential offered by the further development of diesel engine drive systems, which already offer low fuel consumption as it is, new concepts for gasoline engines will make a significant contribution to observing legally prescribed limits. Technologies such as direct fuel injection and downsizing offer Kolbenschmidt Pierburg opportunities to place innovative products. Kolbenschmidt Pierburg will also benefit from the European trend towards low-consumption engines, which is also increasingly making its way into the USA. As well as downsizing and measures aimed at mixture control and gas exchange, the main technologies in demand are developments to minimize friction losses and to utilize auxiliary units according to individual needs. Kolbenschmidt Pierburg already offers customized product solutions in these areas, thus partaking in the growth of the core markets of Europe and the USA.

In times of fiercer competition as a result of global overcapacity and greater market transparency, unexpected changes in regular order placement, shifts in the product range, tighter competition and increasing price pressure are all possibilities. The outcome: possible fluctuations in prices, volumes and margins. Parallel to the shorter product life cycles, vehicle manufacturers find themselves exposed to tight competitive, innovative and cost-reduction constraints which they then pass on to their suppliers. The Automotive sector is limiting the impact of these trends by investing in new products, deploying state-of-the-art manufacturing processes, cost-saving technologies and new materials and realizing potential savings in corporate functions.

Risk report

Potential declines in automotive demand in certain countries are countered by the expansion of international presence and 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 absorb price risks, weak demand and insolvency risks to a certain degree.

Among the cost risks are extremely volatile commodity prices. Such risks are contained by cost escalation clauses in corresponding contracts – especially for aluminum, copper and nickel. Procurement timing and volumes are also controlled and optimized, in addition to relevant hedging tools, by the central Commodities Office. Further procurement risks arise from the potential insolvency of subcontractors. These risks are countered by carefully selecting subcontractors, spreading the risk by distributing the purchase volume across further suppliers and supporting suppliers in emergency situations if necessary.

The automotive industry has been affected to an unprecedented extent by the repercussions of the international economic crisis. Nevertheless, industry experts are still expecting a double-digit increase in global automotive production in 2010 compared to 2009. However, just as with the development of the global economy, this increase still carries a large amount of risk, meaning that a setback is to be expected at any time. Against this backdrop, the Kolbenschmidt Pierburg Group has already set out further measures aimed at neutralizing the potential impact of these economic risks.

General risk situation | The aforementioned risks are not necessarily the only risks to which the Rheinmetall Group is exposed. Risks which have not yet been identified or which are still assessed as insignificant may materialize under altered circumstances, hinder business activities and adversely impact the assets, financial situation and earnings of the Group. The auditor of the annual financial statements 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. It meets all statutory requirements and is capable of identifying risks jeopardizing the continued existence of Rheinmetall at an early stage.

Rheinmetall responded to the consequences of the sudden nosedive taken by the automotive economy and the associated drastic fall in call orders from automotive customers back in the fourth quarter of 2008, a reaction which was early and resolute. The decisive measures taken in the Automotive sector, the preparations for which were made at the end of 2008 and which started to be implemented in the year under review and were continued in 2010, included strict cost-cutting programs, short-time working hours at all locations – wherever this was possible – and reorganization and restructuring projects. The extensive package of measures for cost reduction, capacity adjustment and organizational restructuring made an impact: in the third quarter of 2009, the Kolbenschmidt Pierburg Group managed to reverse the trend, achieving a positive operating result in the fourth quarter of 2009. The Defence sector remained on its growth course in 2009, generating optimum figures for sales, order intake and earnings.

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. From today's perspective and in terms of assets and liquidity, no risks exist on an individual basis, in combination with other risks or as a collectivity that may significantly jeopardize the continued existence of Rheinmetall AG and its subsidiaries as a going concern in the foreseeable future.

Report on accounting-related internal control system and risk management system

The internal control system is the collective body for all control systems used within the Company to ensure that corporate targets are achieved. This is to be understood as the principles, procedures, regulations, methods and measures introduced within the Company and brought in line with each other by the Company management, which are focused on the organizational implementation of decisions made by the management. These are also aimed at securing business activities and making these profitable, as well as recording business transactions in due form and processing and documenting these. They also focus on the reliability of accounting and compliance with legal provisions applicable to the Company.

The accounting-related internal control system ensures that corporate facts and circumstances are recorded, processed and measured correctly on the balance sheet and that they are included in external accounting. It also ensures that information relevant to management and control is made available to the relevant parties in a timely manner, in full and in the correct form, inventories are duly taken, appropriate measures are taken in the event of differences, assets and liabilities are correctly recognized, reported and measured in the financial statements, and legal provisions, the bylaws, internal guidelines and contracts and agreements are observed. Accounting is based on the true and fair" concept and presents a true and fair view of the assets, financial situation and earnings of the Rheinmetall Group.

The internal control system is cemented in the organizational structure of the Rheinmetall Group on the basis of clearly defined responsibilities. The Executive Board of Rheinmetall AG ensures that the management of the sector is focused on the interests of the Group as a whole. The respective divisions of the Defence and Automotive sectors are managed by the Management Board Defence and the Executive Board of Kolbenschmidt Pierburg AG.

The Rheinmetall Group bundles its business 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. Rheinmetall Defence is a leading armed forces technology supplier with a broad portfolio of platforms and components available to the armed forces as individual solutions or as networked systems. The core capabilities cover Land Systems, Weapon and Munitions, Propellants, Air Defence, C4ISTAR and Simulation & Training. The operating activities of this sector are largely characterized by longer-term manufacturing contracts with customers. These orders are recognized in accordance with their percentage of completion, insofar as the corresponding requirements are met. This method records the production cost incurred, plus a markup in line with the percentage of completion, as receivables from contract manufacturing and as revenue. As a rule, the percentage of completion is determined on a cost-to-cost basis, i.e., at the ratio the expenses incurred bear to anticipated total expenses. If the total contract costs cannot be reliably estimated, only sales proceeds up to the amount of the costs actually incurred are recognized. Expected losses on contracts (so-called onerous contracts) are covered by valuation allowances or provisions. These are calculated taking into consideration all foreseeable risks. The sales generated from manufacturing orders are based on estimates of the Percentage of Completion (PoC), which is in turn based on the comparison of the contract costs actually incurred and the expected total costs determined as part of a project calculation.

The activities of the Rheinmetall Group within the context of automotive supplies are pooled in the Automotive sector. The automotive industry is supplied with engine systems and modules, pistons, pumps, plain bearings, engine blocks and emissions reduction and air management systems. The operating activities of the Automotive sector are largely dominated by series production, in contrast to the Defence sector. Changeover times and costs are of critical importance in series production. In order to manage series production on an optimal basis, various software tools are available which help to optimize the series production process by keeping processing times as short as possible.

Report on accounting-related internal control system and risk management system

Requirements, specifications and targets as well as reporting, control and monitoring processes and measures are defined in the companies of the Rheinmetall Group for all key business processes. Taking into consideration the segregation of functions and the dual control principle, responsibilities and the exchange of information between departments and levels are set out in job specifications, workflow charts and workflow descriptions. Regular training sessions and ongoing advanced training ensure that current developments are taken into account in accounting standards and the organization.

The risk arising from misstatement in financial data is countered by means of a bundle of measures and regulations applicable across the Group, such as the accounting guideline, all as part of accounting-related risk monitoring. The annual financial statements of the Group companies are prepared according to local accounting standards, while the consolidated financial statements of Rheinmetall AG are prepared on the basis of Section 315a HGB in conformity with the International Financial Reporting Standards (IFRS) as required in the European Union. Both sets of statements are audited by a statutory auditor. The Executive Boards and management of the Rheinmetall companies document in the letter of representation that they have, to the best of their knowledge, prepared the annual financial statements (consisting of the Rheinmetall report package) in accordance with the provisions of the Rheinmetall-IFRS-accounting guideline, that all necessary information has been disclosed and that the statements present a true and fair view of the assets, financial situation and earnings of the Company. These report packages are standardized and govern specific formal requirements, such as provisions on the reporting of Group clearing transactions.

Accounting transactions are recorded in the single-entity financial statements of the companies, mainly via local accounting systems from the manufacturer SAP. In order to prepare the consolidated financial statements of Rheinmetall AG, the respective single-entity financial statements are supplemented by further information on standardized report packages by the companies, which is then transferred into the SEM-BCS consolidation system from SAP. All consolidation transactions are generated and documented in full in SEM-BCS in order to prepare the consolidated financial statements. These include, for example, capital consolidation, debt consolidation and the consolidation of income/expenses including equity measurement.

Access regulations regarding data processing are subject to the principle of function segregation. Arrangements have been made across the Group to prevent data losses and the susceptibility of data to tampering by means of breakdown and security concepts, back-up procedures and physical and software-based security measures. Efforts are also made to ensure that, in the event of changes to the IT systems used for the underlying accounting in the companies, accounting transactions are recorded in full and on an accrual basis.

The Executive Board and Supervisory Board of Rheinmetall AG, the Management Board Defence and the Executive Board of Kolbenschmidt Pierburg AG as well as the management and supervisory boards of the lead companies perform monitoring activities at their respective organizational level. They are regularly provided with information via detailed and stringent reporting. The companies provide Group Controlling with monthly reports on their business figures using SAP-Business-Warehouse-Software. The attainment of objectives specifically agreed in planning is monitored on an ongoing basis within this standard reporting, deviations promptly analyzed and suitable countermeasures introduced. These reports primarily include key figures on the development of sales, order intake, HR, liquidity and earnings, in addition to an income statement and important key figures regarding working capital and capital expenditure on a quarterly basis.

In addition to controls such as programmed plausibility checks integrated into processes and process-independent monitoring measures, such as internal auditing, the early risk identification system is also a component of the internal control system. Internal auditing regularly checks the functionality, regularity, reliability and efficiency of internal control and risk management system in the Rheinmetall Group. If gaps or areas of weakness are discovered in this process, appropriate measures are taken to remedy these issues. The early risk identification system of the Rheinmetall Group is examined as part of the audit of the financial statements to ensure that it complies with the provisions of the Stock Corporation Act and is checked to determine whether it meets all statutory requirements and can identify risks jeopardizing the continued existence of the Company at an early stage.

Prospects

Growth momentum in emerging markets – traffic lights of economic activity on "amber" in traditional industrialized nations | According to the assessment of the majority of economists, the global economy has returned to a growth phase following the deep recession of winter 2008/2009. The Organization for Economic Cooperation and Development (OECD) described the situation as at year-end 2009 with the comment "we're over the worst". At the same time, both international organizations and economic research institutes and associations are warning against being overly optimistic about the economy. During this upturn, a split world is emerging, with strong growth rates in emerging markets and comparatively weak growth in the mature industrialized nations. "Things won't get any worse, but they won't get much better either": This was how the President of the Federation of German Industries (BDI), Hans-Peter Keitel, described the economic prospects of the German economy in 2010. From the perspective of the BDI, it is likely to take until 2014 or 2015 for Germany to return to the economic level it reached in 2007, the year before the onset of the global economic crisis.

In terms of the overall global economy, the International Monetary Fund (IMF) expects growth in economic output of 3.9% in 2010 compared to 2009. According to the IMF, particular drivers behind this growth will be the emerging nations of China and India with dynamic increases in GDP of 10.0% and 7.7% respectively, while the traditional industrialized nations as a whole will achieve growth of just 2.1%. In terms of the trend, this forecast corresponds with the assessment of the OECD: in 2010, the organization expects growth of 1.9% for its 31 member states. According to the forecast, with growth of 2.5%, the USA will perform considerably better than the euro zone, which will grow by 0.9%, and Japan, where growth of 1.8% is expected. Growth in Germany is expected to reach 1.4%. Positive signals for the German economy include the development of the ifo Business Climate Index, which improved for the tenth time in a row in January 2010. Nevertheless, the ifo Institute sees the "traffic lights of economic activity on amber in Germany" in its forecast in 2010. It sees the expiry of government support programs as a particular factor behind this deceleration, while the need to consolidate public sector budgets is becoming ever more urgent. It also expects export growth to be moderate, as the economy will not radically improve, even in the main consumer nations. Against this backdrop, the ifo Institute anticipates growth in German GDP in real terms of 1.7% in 2010. The forecast of the German Institute for Economic Research (DIW) is slightly more optimistic, anticipating an increase in growth of 2.1%.

Despite the expiry of government economic stimulus packages, growth in Germany and other mature industrialized nations in 2010 will initially still be powered to a considerable extent by the momentum produced by fiscal policy. However, according to a number of economic researchers, private consumption is likely to weaken as a result of a rise in unemployment and the prospect of restrained wage increases aimed at restoring company revenues. According to the OECD, the main momentum behind growth as 2010 progresses will primarily come from the revival of world trade. It believes that the upturn in non-OECD nations – particularly China – will serve as a key driving force.

For 2011, the OECD expects an increase in economic output of 2.5% in its member states. Here, the USA will achieve slightly above-average growth of 2.8%. For Japan, the organization forecasts an increase of 2%, while growth in the euro zone is set to total just 1.7%. In Germany, the OECD expects an increase in GDP in real terms of 1.9% and is thus slightly more optimistic than the ifo Institute, for example, which anticipates growth in German economic output of 1.2% in 2011.

In 2011, the most dynamic driver behind economic growth will once again be China. According to the latest IMF forecast, the increase in growth here is expected to be 9.7%. A number of economic researchers also see India as a driving force behind economic recovery. The IMF forecasts growth in Indian GDP of up to 7.8% in 2011.

Prospects

High level of stability in defence sector despite need for consolidation | Due to the huge economic stimulus packages introduced to counter the global economic crisis, there will be a significantly growing need to consolidate a number of national budgets in the coming years. Nevertheless, there are currently no signs that the governments of the NATO states and their friendly nations will switch to a defence policy based on the cash position. The foreseeable challenges facing security policy resulting from military deployments abroad, international terrorism, volatile regimes and unresolved regional conflicts are simply too large to do this. In addition, the necessary modernization of the armed forces and the closing up of capability gaps require technologically complex procurement projects with long-term planning horizons.

The continuity that is of the essence when ensuring a responsible defence budget is also reflected in the German defence budget for 2010, which corresponds roughly to the previous year's budget, with a volume of €31.14 billion following €31.18 billion in 2009. At almost €7.7 billion, defence capital expenditure, which is necessary for the procurement of modern military equipment, has actually increased slightly. In 2010, the share represented by this in the overall budget is 24.7%, following 24.4% in 2009.

In the USA, the 2010 defence budget will be slightly down on the high value for the previous year, at approximately USD 665 billion compared to approximately USD 683 billion in 2009. However, the US is continuing to make huge investments in the modernization of its armed forces and the protection of own troops. According to the specialist magazine DefenseNews, US budget planning for 2011 includes an increase in military spending to the new record level of USD 708 billion. While Italy is reducing its defence spending slightly in 2010 compared to the previous year, the defence budgets of France, Spain and Germany are around the same level as 2009. A slight increase in defence spending is actually to be expected in Great Britain. Furthermore, extensive modernization programs are pending in some Asian countries, which have been less severely affected by the global economic crisis. These will lead to increasing expenditure in the defence sector.

Automotive industry still faced with huge challenges | Following the expiry of government scrappage schemes and economic stimulus packages, the automotive industry in numerous countries will also be faced with a difficult period in 2010. "2010 will again subject the entire automotive industry to major tests of endurance," explained, for example, Matthias Wissmann, President of the Association of the German Automotive Industry (VDA), in December 2009. "In 2010, we cannot expect a return to the high levels of spending on the global markets similar to those seen in 2008." However, a slight increase compared to 2009 is within the realms of possibility according to the VDA.

With regard to the global production of passenger cars and light commercial vehicles of up to 3.5 t, the industry analysts at CSM Worldwide forecast an increase of 8.7% to 61.4 million vehicles in 2010 (2009: 56.5 million). However, this figure is considerably down on the number of units produced in 2008 (65.5 million) and 2007 (68.6 million). The CSM Worldwide experts predict a noticeable recovery in the NAFTA zone in 2010, where a strong return to growth at 23.6% is expected after three years of crisis. However, the industry's driving force in Western Europe will not quite get into gear. With a decline of 2.3% in 2010, expectations for production in Western Europe are still muted. The contraction in Germany is even expected to reach 5.3%. However, following the drastic slump in reporting year 2009, a return to growth of 5.6% is expected in Eastern Europe in 2010. CSM Worldwide also forecasts a significant recovery for the Japanese market: here, production is expected to grow by 15.7%. Following 45% growth in 2009, a comparatively moderate increase of 5.1% is expected in China in 2010. The industry is increasingly pinning its hopes on the Indian market. At 14.3%, double-digit growth is again expected for production here according to the CSM Worldwide forecast.

As well as growing demand from emerging markets such as China and India, the VDA can see positive market signals for German premium carmakers in particular. It states that these manufacturers barely benefited from the scrappage scheme, as the government aid primarily benefited foreign manufacturers of small cars. On the other hand, the advantage of this now is that Audi, BMW, Daimler and Porsche can all expect comparatively stable business in 2010. An effect that will also be reflected positively in the Automotive sector thanks its firm roots in the premium segment.

According to CSM Worldwide data, the upturn will arrive in practically all market regions by 2011 at the latest. Production is then expected to increase by 8.4% to approximately 66.6 million vehicles, again slightly exceeding the level of 2008. As well as renewed significant growth of 14.9% in the NAFTA zone and 5.9% in Japan, the Western European market will for the first time post a return to production growth of around 3%. With growth of 5.3%, Germany is expected to make an above-average contribution to this upturn in Western Europe. The upwards trend will continue unabated in China and India: here, the CSM Worldwide analysts expect a rise in automotive production of 7.1% and 12.5% respectively in 2011. Growth momentum in terms of products will continue to emanate primarily from technologies aimed at limiting emissions and reducing CO_2. The Kolbenschmidt Pierburg Group is also well prepared for the market trends emerging here.

Further growth in Defence business | Rheinmetall Defence will also be able to draw on a product portfolio based on leading technology and aligned with current deployment requirements in coming years. Here, the protection of soldiers on deployment is still a central focus. The sector will also benefit from its increasingly international orientation and also expects an order intake above organic sales growth in the coming years. The sector started fiscal 2010 with a high order coverage rate of almost 70% and expects organic sales growth of more than 5% for the current fiscal year and a further improvement in EBIT. A further increase in earnings is expected for 2011. Rheinmetall Defence also sees good opportunities in the coming years to exceed its medium-term target of EBIT of 10%. This requires the realization of ongoing large-scale projects according to schedule and the non-appearance of huge interventions in defence budgets in the short term.

Significant recovery in Automotive sector | Based on expert forecasts from CSM Worldwide, which expect an increase in automotive production of around 10% in all key automotive markets in the current and coming year, the Automotive sector also anticipates a trend reversal in sales performance. This development will also be supported by new orders posted for products, which are of significance with regards to current emissions standards and those to be expected in the medium term. For this reason, the sector sees good opportunity for sales growth of slightly over 10% this year. On the basis of the significant improvement in plant and cost structures in the past few months and the associated lowering of the break-even point, the Automotive sector predicts positive EBIT for the current fiscal year and a further improvement in earnings in 2011. In the medium term, it will remain the target of the sector to achieve an EBIT yield of 8% in relation to sales.

Good prospects for 2010 in Rheinmetall Group | On the basis of the forecasts of the two sectors, Defence and Automotive, Rheinmetall sees good prospects in 2010 for a return to organic growth and a considerable increase in results. With stable upwards development in the automotive economy – according to forecasts – Rheinmetall expects an increase in sales to around €3.7 billion and an improvement in EBIT from €15 million in 2009 to between €220 million and €250 million in 2010. A further increase in sales and earnings is expected for the Group in 2011. The forecast development will be supported by a financial and asset situation that will open up sufficient courses of action, in particular thanks to the early refinancing of the bond due in mid-2010 and the successful capital increase.

Report on post-balance sheet date events

Events after the balance sheet date | On January 12, 2010, Rheinmetall announced the formation of the company Rheinmetall MAN Military Vehicles GmbH, Munich. The new company is a joint venture between Rheinmetall AG and MAN Nutzfahrzeuge AG. Following approval by the cartel authorities, Rheinmetall will hold a 51% interest and MAN a 49% interest in Rheinmetall MAN Military Vehicles GmbH. Rheinmetall will incorporate products including the Fuchs and Boxer armored transport vehicles. The bringing together of these two companies is planned in two stages. Development and sales in the area of wheeled military vehicles will be bundled first of all, together with around 370 employees initially. The production capacities of the two companies at the Kassel plant (Rheinmetall) and the Vienna plant (MAN) will be integrated in the joint venture company by the end of 2011 at the latest. Once the second stage is completed, Rheinmetall MAN Military Vehicles GmbH will employ approximately 1,300 employees and, from today's perspective, will generate annual sales of more than €1 billion. By forming this joint venture, Rheinmetall made an important contribution to consolidation on the national and European markets for military vehicle systems.

On January 1, 2010, the reorganization of the management structure of the Automotive sector approved by the Executive Board of the Kolbenschmidt Pierburg Group came into force. This includes, in particular, the centralization of functions comprising Finance and Controlling, HR, Legal, IT and pre-development, whereby these functions are taken away from the divisions. Furthermore, the management of the KS Pistons and KS Aluminium Technology divisions has been combined in order to optimize processes and costs, particularly those that are indirect, through improved collaboration of the two divisions at the Neckarsulm site.

Düsseldorf, March 5, 2010

Rheinmetall Aktiengesellschaft
The Executive Board

Klaus Eberhardt Dr. Gerd Kleinert Dr. Herbert Müller

Consolidated financial statements 2009
Rheinmetall AG

Rheinmetall Group
Consolidated balance sheet as of December 31, 2009

Fixed Assets *€ million*

	Note	Jan. 1, 2008	Dec. 31, 2008	Dec. 31, 2009
Intangible assets	(6)	484	530	555
Property, plant and equipment	(7)	1,046	1,092	1,044
Investment property	(8)	14	15	23
Investments accounted for using the equity method	(9)	84	93	97
Other non-current financial assets	(13)	10	9	28
Other non-current assets	(12)	6	5	4
Deferred taxes	(29)	53	70	66
Non-current assets		**1,697**	**1,814**	**1,817**
Inventories	(10)	726	782	643
./. Prepayments received		(24)	(26)	(40)
		702	756	603
Trade receivables	(11)	779	710	701
Other current financial assets	(13)	38	25	52
Other current receivables and assets	(12)	70	81	88
Income tax receivables		8	22	16
Cash and cash equivalents	(14)	163	203	557
Non-current assets held for sale	(7)	-	1	1
Current assets		**1,760**	**1,798**	**2,018**
Total assets		**3,457**	**3,612**	**3,835**

Equity and Liabilities *€ million*

	Note	Jan. 1, 2008	Dec. 31, 2008	Dec. 31, 2009
Share capital		92	92	101
Additional paid-in capital		208	208	303
Other reserves		596	648	781
Net income of Rheinmetall AG shareholders		154	141	(58)
Treasury shares		(46)	(66)	(57)
Rheinmetall AG shareholders' equity		**1,004**	**1,023**	**1,070**
Minority interests		42	57	64
Equity	(15)	**1,046**	**1,080**	**1,134**
Provisions for pensions and similar obligations	(16)	542	577	610
Other non-current provisions	(17)	106	98	112
Non-current financial liabilities	(18)	384	360	180
Other non-current liabilities	(20)	12	21	28
Deferred taxes	(29)	26	52	32
Non-current liabilities		**1,070**	**1,108**	**962**
Current provisions	(17)	316	312	390
Current financial liabilities	(18)	15	48	353
Trade liabilities	(19)	554	511	521
Other current liabilities	(20)	412	507	416
Income tax liabilities		44	46	59
Current liabilities		**1,341**	**1,424**	**1,739**
Total liabilities		**3,457**	**3,612**	**3,835**

Rheinmetall Group
Consolidated income statement for fiscal 2009

€ million

	Note	2008	2009
Sales		**3,869**	**3,420**
Changes in inventories and work performed by the enterprise and capitalised		58	(25)
Total operating performance	(21)	**3,927**	**3,395**
Other operating income	(22)	145	127
Cost of materials	(23)	2,005	1,652
Staff costs	(24)	1,080	1,068
Amortization, depreciation and impairment	(25)	166	165
Other operating expenses	(26)	578	624
Net operating income		**243**	**13**
Net interest [1)]	(27)	(52)	(61)
Net investment income and other net financial income [2)]	(28)	2	2
Net financial income		**(50)**	**(59)**
Earnings before taxes (EBT)		**193**	**(46)**
Income taxes	(29)	51	6
Net income		**142**	**(52)**
Of which:			
Minority interests	(30)	*1*	*6*
Rheinmetall AG shareholders		*141*	*(58)*
Earnings per share	(31)	€ 4.09	(€1.60)
EBITDA		411	180
EBIT		245	15

[1)] *Of which interest expense: € 66 million (previous year: € 60 million)*
[2)] *Of which income from investments carried at equity: € 10 million (previous year: € 5 million)*

Comprehensive income 2009

€ million

	2008	2009
Net income	**142**	**(52)**
Actuarial gains and losses from pension provisions	(32)	(18)
Revaluation of properties required for business purposes	8	0
Currency conversion difference	(9)	34
Change in value of derivative financial instruments (cash flow hedge)	(32)	37
Income/expenses from investments accounted for using the equtiy method	6	(2)
Other comprehensive income (after taxes)	**(59)**	**51**
Comprehensive income	**83**	**(1)**
Of which:		
Minority interests	*(1)*	*12*
Rheinmetall AG shareholders	*84*	*(13)*

Rheinmetall Group
Consolidated statement of cash flows for fiscal 2009

€ million

	2008	2009
Financial resources	**163**	**203**
Net income	142	(52)
Amortization, depreciation and impairments	166	165
Changes in pension provisions	0	7
Gross cash flows	**308**	**120**
Income from disposition of non-current assets	(3)	1
Changes in other provisions	(25)	94
Changes in inventories	(16)	153
Changes in receivables, (non-financial) liabilities and prepaid & deferred items	71	(29)
Other non-cash expenses and income	(17)	(8)
Cash flows from operating activities [1]	**318**	**331**
Investments in property, plant and equipment, intangible assets and investment property	(200)	(145)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	18	8
Investments in consolidated companies and financial assets	(35)	(12)
Divestments of consolidated companies and financial assets	6	9
Cash flows from investing activities	**(211)**	**(140)**
Capital contributions by third parties	7	-
Rheinmetall AG capital increase	-	102
Dividends paid out by Rheinmetall AG	(45)	(45)
Other profit distributions	(6)	(4)
Buy-back of treasury shares	(39)	-
Sale of treasury shares	8	1
Borrowing of financial liabilities	41	172
Repayment of financial liabilities	(33)	(46)
Cash flows from financing activities	**(67)**	**180**
Changes in financial resources	40	371
Changes in cash and cash equivalents due to exchange rates	0	3
Total change in financial resources	**40**	**374**
Financial resources December 31	**203**	**577**

For comments on the cash flow statement, see Note (32).

[1] *including:*

net interest of €29 million (previous year: €33 million)

net income taxes of €5 million (previous year: €40 million)

Rheinmetall Group
Statement of changes in equity

€ million

	Share capital	Additional paid-in capital	Retained earnings	Difference of currency conversion	Statement of fair value and other valuations	Total of fair value changes	Group net income/loss allocated to shareholders of Rheinmetall AG	Treasury shares	Rheinmetall AG shareholders equity	Minority interests	Equity
Balance as at December 31, 2007	**92**	**208**	**581**	*(43)*	*79*	**36**	**145**	**(46)**	**1,016**	**43**	**1,059**
Changes of accounting Pensions	**-**	**-**	**(21)**	-	-	**-**	**9**	**-**	**(12)**	**(1)**	**(13)**
Balance as at January 1, 2008	**92**	**208**	**560**	*(43)*	*79*	**36**	**154**	**(46)**	**1,004**	**42**	**1,046**
Dividends payout	-	-	(45)	-	-	-	-	-	(45)	(6)	(51)
Changes in scope of consolidation	-	-	-	-	-	-	-	-	-	22	22
Transfer to/from reserves	-	-	154	-	-	-	(154)	-	-	-	-
Other comprehensive income	-	-	(25)	*(8)*	*(24)*	(32)	-	-	(57)	(2)	(59)
Net income	-	-	-	-	-	-	141	-	141	1	142
Other changes	-	-	-	-	-	-	-	(20)	(20)	-	(20)
Balance as at December 31, 2008 / as at January 1, 2009	**92**	**208**	**644**	*(51)*	*55*	**4**	**141**	**(66)**	**1,023**	**57**	**1,080**
Dividends payout	-	-	*(45)*	-	-	-	-	-	(45)	(4)	(49)
Capital increase	9	95	(2)	-	-	-	-	-	102	-	102
Transfer to/from reserves	-	-	141	-	-	-	(141)	-	-	-	-
Other comprehensive income	-	-	*(21)*	*31*	*35*	66	-	-	45	6	51
Net income	-	-	-	-	-	-	(58)	-	(58)	6	(52)
Other changes	-	-	*(6)*	-	-	-	-	9	3	(1)	2
Balance as at December 31, 2009	**101**	**303**	**711**	*(20)*	*90*	**70**	**(58)**	**(57)**	**1,070**	**64**	**1,134**

For comments on equity, see Note (15).

Notes to the consolidated financial statements
Segment reporting

€ million

Corporate sectors		Defence		Automotive		Others / Consolidation		Group	
		2008	2009	2008	2009	2008	2009	2008	2009
Balance sheet (December 31)									
Equity	(1)	697	795	553	633	(170)	(294)	1,080	1,134
Pension provisions	(2)	271	285	267	283	39	42	577	610
Net financial liabilities	(3)	(96)	(197)	72	(223)	229	376	205	(44)
Capital employed	(1)+(2)+(3)	872	883	892	693	98	124	1,862	1,700
Additions to capital employed		77	77	169	169	(122)	(122)	124	124
Capital employed December 31		949	960	1,061	862	(24)	2	1,986	1,824
Average capital employed		949	955	1,037	962	(19)	(12)	1,967	1,905
Income statement									
External sales		1,814	1,898	2,055	1,522	0	0	3,869	3,420
Of which domestic (in %)		*34.1*	*35.8*	*32.8*	*32.5*	-	-	*33.4*	*34.3*
Of which foreign (in %)		*65.9*	*64.2*	*67.2*	*67.5*	-	-	*66.6*	*65.7*
Equity income		1	5	4	5	0	0	5	10
EBITDA		237	263	184	(70)	(10)	(13)	411	180
Amortization and depreciation		(43)	(48)	(123)	(117)	-	0	(166)	(165)
Of which impairment		-	*0*	(8)	(21)	-	-	(8)	(21)
EBIT	(5)	194	215	61	(187)	(10)	(13)	245	15
Operating EBIT		194	215	73	(49)	(10)	(13)	257	153
Interest income		11	6	4	2	(7)	(3)	8	5
Interest expenses		(28)	(30)	(30)	(25)	(2)	(11)	(60)	(66)
Net interest		(17)	(24)	(26)	(23)	(9)	(14)	(52)	(61)
EBT		177	191	35	(210)	(19)	(27)	193	(46)
Income taxes		(34)	(48)	(17)	37	-	5	(51)	(6)
Net income		143	143	18	(173)	(19)	(22)	142	(52)
EBIT rate of return (in %)		10.7	11.3	3.0	(12.3)	-	-	6.3	0.4
Other data									
ROCE (in %)	(5) / (4)	20.4	22.5	5.9	(19.4)	-	-	12.5	0.8
Capital expenditures		53	74	146	70	1	1	200	145
R&D expenditures		61	85	138	113	-	-	199	198
Order intake		1,723	3,153	2,057	1,496	-	-	3,780	4,649
Order backlog December 31		3,307	4,590	376	350	-	-	3,683	4,940
Prepayments received		478	396	22	22	-	-	500	418
Employees as at December 31 (capacities)		9,217	9,304	11,682	10,339	121	123	21,020	19,766

€ million

Regions	Germany		Rest of Europe		North America		Asia		Other regions / consolidation		**Group**	
	2008	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**
External sales Defence	618	679	612	576	176	185	336	308	72	150	**1,814**	**1,898**
External sales Automotive	674	494	912	675	223	157	100	78	146	118	**2,055**	**1,522**
External sales Total	1,292	1,173	1,524	1,251	399	342	436	386	218	268	**3,869**	**3,420**
in % of Group sales	33	34	40	37	10	10	11	11	6	8	**--**	**--**
Assets	1,022	1,006	401	397	114	101	37	42	63	76	**1,637**	**1,622**

For comments on the segment reports, see Note (33).

Notes to the consolidated financial statements
Fixed-asset analysis

€ million

	Gross values					
2008	Jan. 1, 2008	Additions	Disposals	Book transfers/ step-up	Adjustment scope of consolidation	Currency differences
Intangible assets						
Development costs	91	24	9	0	-	2
Concessions, industrial property rights and licenses	94	5	2	0	0	0
Other intangible assets	16	-	-	0	20	(1)
Goodwill	391	0	-	-	28	0
Prepayments made	1	1	-	0	-	0
	593	**30**	**11**	**0**	**48**	**1**
Property, plant and equipment						
Land, equivalent titles, and buildings (incl. buildings on leased land)	926	12	16	23	0	17
Production plant and machinery	1,650	60	38	38	6	20
Other plant, factory and office equipment	480	32	30	8	3	(3)
Prepayments made and construction in progress	68	66	4	(60)	0	(1)
	3,124	**170**	**88**	**9**	**9**	**33**
Investment Property	**24**	**-**	**0**	**2**	**-**	**0**
Total	**3,741**	**200**	**99**	**11**	**57**	**34**

2009	Jan. 1, 2009	Additions	Disposals	Book transfers	Adjustment scope of consolidation	Currency differences
Intangible assets						
Development costs	108	41	14	0	-	0
Concessions, industrial property rights and licenses	97	4	1	2	-	1
Other intangible assets	35	0	-	0	2	1
Goodwill	419	-	1	-	3	1
Prepayments made	2	1	-	(1)	-	0
	661	**46**	**16**	**1**	**5**	**3**
Property, plant and equipment						
Land, equivalent titles, and buildings (incl. buildings on leased land)	962	7	8	(8)	-	6
Production plant and machinery	1,736	35	76	28	0	12
Other plant, factory and office equipment	490	14	20	12	0	10
Prepayments made and construction in progress	69	43	3	(51)	-	0
	3,257	**99**	**107**	**(19)**	0	**28**
Investment Property	**26**	**-**	**3**	**19**	**-**	**0**
Total	**3,944**	**145**	**126**	**1**	**5**	**31**

The Book transfers/step-up column for 2008 covers an overall €11 million increase in the fair value of essential land.

	Amortization, depreciation and impairment								Net value
Dec. 31, 2008	Jan. 1, 2008	Additions	Disposals	Book transfers	Write-ups	Adjustment scope of consolidation	Currency differences	**Dec. 31, 2008**	**Dec. 31, 2008**
108	37	11	-	-	-	-	1	49	59
97	69	9	2	0	-	0	0	76	21
35	3	3	-	0	-	-	0	6	29
419	-	0	-	-	-	-	-	0	419
2	-	-	-	-	-	-	-	-	2
661	**109**	**23**	**2**	**0**	**-**	**0**	**1**	**131**	**530**
962	437	21	16	0	0	-	13	455	507
1,736	1,263	86	37	0	-	0	15	1,327	409
490	378	35	29	0	-	1	(2)	383	107
69	-	-	-	-	-	-	-	-	69
3,257	**2,078**	**142**	**82**	**0**	**0**	**1**	**26**	**2,165**	**1,092**
26	**10**	**1**	**0**	**0**	**-**	**-**	**0**	**11**	**15**
3,944	**2,197**	**166**	**84**	**-**	**0**	**1**	**27**	**2,307**	**1,637**

Dec. 31, 2009	Jan. 1, 2009	Additions	Disposals	Book transfers	Write-ups	Adjustment scope of consolidation	Currency differences	**Dec. 31, 2009**	**Dec. 31, 2009**
135	49	13	10	-	-	-	0	52	83
103	76	8	1	0	-	-	0	83	20
38	6	4	-	0	-	0	0	10	28
422	0	0	0	-	-	-	0	-	422
2	-	-	-	-	-	-	-	-	2
700	**131**	**25**	**11**	**0**	**-**	**0**	**0**	**145**	**555**
959	455	23	5	(8)	-	-	2	467	492
1,735	1,327	81	74	0	-	0	7	1,341	394
506	383	35	19	0	-	0	7	406	100
58	-	-	-	-	-	-	-	-	58
3,258	**2,165**	**139**	**98**	**(8)**	**-**	**0**	**16**	**2,214**	**1,044**
42	**11**	**1**	**2**	**8**	**-**	**-**	**1**	**19**	**23**
4,000	**2,307**	**165**	**111**	**0**	**-**	**0**	**17**	**2,378**	**1,622**

Notes to the consolidated financial statements
Accounting principles

(1) General information | The consolidated financial statements have been prepared in due accordance with the regulations of Art. 315a (1) German Commercial Code ("HGB") and hence with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). A Group-wide accounting guideline binding on all companies included in the consolidated financial statements ensures that all current rules and principles are consistently applied and interpreted. The consolidated financial statements and group management report are filed with, and published in, the digital version of the Federal Gazette.

The new and revised standards and interpretations applied for the first time in the consolidated financial statements in 2009, which were obligatory, are listed below.

IAS 1 (amended)	Presentation of Financial Statements
IAS 23 (amended)	Borrowing Costs
IAS 27 (amended)	Consolidated and Separate Financial Statements
IAS 32 (amended)	Financial Instruments: Presentation
IAS 39 (amended)	Financial Instruments: Recognition and Measurement
IFRS 1 (revised)	First-Time Adoption of IFRS
IFRS 7 (revised)	Financial Instruments: Disclosures
IFRS improvements	Amendments of 20 IFRS Standards
IFRIC 9 (amended)	Reassessment of Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes

The following new and revised standards and interpretations were included in the consolidated financial statements for the first time in 2009 as a result of early application.

IAS 39 (amended)	Financial Instruments: Recognition and Measurement
IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distribution of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

The transitional provisions have been duly complied with.

The amendments to IAS 1 Presentation of Financial Statements primarily affect the presentation of changes in equity which do not originate from transactions with shareholders. The profit or loss for the period is presented including other comprehensive income in a statement of total income. The amendments affect the presentation of the financial statements but not the Group's assets, financial situation and earnings.

A further amendment to IAS 1 has taken place in conjunction with an amendment to IAS 32 Financial Instruments: Presentation and relates to the extended definition of equity for certain puttable financial instruments and for financial instruments with a claim to pro rata net assets in the event of liquidation. Moreover, additional disclosures in the notes are required for financial instruments affected by the amendments. The effects of these amendments on the presentation of the Rheinmetall consolidated financial statements are not material.

IAS 23 Borrowing Costs was amended to the effect that the borrowing costs incurred are to be capitalized for assets which are manufactured over an extended period of time. This changed the Rheinmetall Group's accounting and valuation principles as to date, borrowing costs have always been expensed. In the Rheinmetall Group, this change will particularly affect the accounting of capitalized development costs for new development projects from 2009.

As no new long-term development projects were begun in fiscal 2009, there were no effects from the amended accounting in the year under review. In the wake of the amendment of IAS 23, borrowing costs incurred are attributable to contract costs when recognizing construction contracts with effect from 2009 in accordance with IAS 11. There are no effects from this on assets and earnings for the Rheinmetall Group, but generally only amended information on the receivables and liabilities from construction contracts with regard to the incurred production costs and margins. As financing for the ongoing construction contracts in the year under review is covered by payments from clients, there are no effects on the notes.

The IASB has issued several amendments to IAS 39 Financial Instruments: Recognition and Measurement. These concern clarifications as to the effective date of the new regulation for the reclassification of financial instruments and the assessment of embedded derivatives in conjunction with a reclassification (amended at the same time as IFRIC 9), as well as expanded regulations for the financial reporting of hedge accounting in two specific scenarios, i.e. the designation of inflation risks as underlying and the designation of a unilateral risk in an hedged item. Further amendments to the financial instruments concern the amendments to IFRS 7 Financial Instruments: Disclosures, which serve to improve the disclosures for financial instruments and provide expanded disclosures on assessments on the fair value and the liquidity risk. These amendments have no significant effects on the Rheinmetall consolidated financial statements.

The Improvements to IFRS document summarizes 35 minor modifications of current Standards and is subdivided into two parts. The first section deals with amendments of potential impact on the presentation, recognition or valuation, the second one with terminological and editorial improvements. Unless a specific Standard provides otherwise, the amendments must be applied to financial statements for fiscal years commencing on or after January 1, 2009. There are no significant amendments to the presentation of the consolidated financial statements.

The further previously amended standards and amended and revised interpretations have no or no significant effect on the Rheinmetall Group.

In the case of the following amended or revised Standards and Interpretations, published by the IASB in 2009, adoption is not mandatory or adoption into the EU Community Law has not yet taken place.

IAS 24 (amended)	Related Party Disclosures
IAS 27 (amended)	Consolidated and Separate Financial Statements
IAS 32 (amended)	Financial Instruments: Presentation
IFRS 1 (revised)	First-Time Adoption of IFRS
IFRS 2 (revised)	Share-Based Payments
IFRS 3 (revised)	Business Combinations
IFRS 9	Financial Instruments
IFRS improvements	Amendments of 10 Standards and 2 Interpretations
IFRIC 8 (withdrawn)	Scope of IFRS 2
IFRIC 11 (withdrawn)	IFRS 2 – Group and Treasury Share Transactions
IFRIC 14 (amended)	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 19	Extinguishing Financial Liabilities

Notes to the consolidated financial statements
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The amendments to IAS 24 Related Party Disclosures include a revised definition of a related party, as well as exceptions to the disclosure requirements for state-controlled companies. Mandatory adoption is scheduled for the fiscal year beginning January 1, 2010; early adoption is permitted. No significant effects on the consolidated financial statements are expected to result from the amendments.

Amendments to the IAS 27 Group and Separate Financial Statements and IFRS 3 Business Combinations were published together and refer to accounting for newly acquired non-controlling equity interests in an enterprise, providing two measurement options. Any non-controlling interest in an acquiree may either be measured at fair value (full goodwill method) or as such interest's prorated share of the acquiree's net identifiable assets. In addition, acquisitions or the disposal of part of the shares without loss of control should be disclosed as transaction between owners, without being recognized in the income statement. Acquisition-related costs must be expensed in full. The revised standards require application to business combinations transacted in fiscal years commencing on or after July 1, 2009. Rheinmetall will not use the full goodwill method for minority acquisitions and it is therefore currently assumed that the revised Standard amendments will have no significant effect on the Group’s results of operations.

The amendments to IFRS 2 Share-based Payments relate to share-based payments with cash on settlement granted within the Group and clarify the reporting for the separate financial statements of a subsidiary. The related regulations, which were previously contained in and revised by the Interpretations IFRIC 8 Scope of IFRS 2 and IFRIC 11 Group and Treasury Share Transactions, were integrated into the revised version of the Standard. Application of the amendments is mandatory as of January 1, 2010. There will be no effects on the Rheinmetall consolidated financial statements.

With regard to the project for complete replacement of IAS 39 Financial Instruments: Recognition and Measurement initiated by the IASB over three phases, the first part was completed with the publication of IFRS 9 Financial Instruments in November 2009. The Standard includes new requirements for classifying and assessing financial assets. Application of the requirements is mandatory as of January 1, 2013, although earlier application is permitted. The resulting effects on Rheinmetall’s consolidated financial statements are currently deemed to be not significant.

IFRIC 19 Extinguishing Financial Liabilities is concerned with the reporting of the redemption of financial liabilities with equity instruments. Application of the Interpretation is mandatory as of July 1, 2010; earlier application is permitted. No significant effects on Rheinmetall’s consolidated financial statements are currently expected.

No significant effects on Rheinmetall’s consolidated financial statements are expected to result from the further amended and revised Standards and Interpretations.

The consolidated financial statements are presented in Euro (€). Unless otherwise stated, amounts are throughout indicated in € million (including prior-year comparatives). Non-rounded amounts may differ. The consolidated income statement has been presented in the total-cost format.

During the preparation of the 2009 consolidated financial statements, the accounting and valuation principles applied were amended with regard to the financial reporting of pension obligations.

The actuarial gains and losses arising in the context of the assessment of pension obligations and associated plan assets were previously recognized over the average residual service years of employees, provided that they lay outside a 10% corridor of the higher amount of the DBO's present value or the plan assets' fair value. Amendments from the asset cap were recognized immediately. In the fourth quarter of 2009, the accounting of pension provisions was amended to the effect that actuarial gains and losses, as well as changes from the asset cap are fully recognized directly in equity without affecting the income statement. The change to the accounting method took place with regard to an improved presentation of the asset and financial situation of the consolidated financial statements on the reporting date, as facts on the balance sheet can therefore be recognized in the year of their economic origin. The amendment to accounting was made retroactively and affects the balance sheet, income statement and income and expenses recognized in equity, but not the cash flow statement.

There were adjustments to the net opening balance on January 1, 2008 which led to a €20 million increase to €542 million in the case of provisions for pensions and similar obligations and a €13 million reduction to €1,046 million in the case of equity. Deferred taxes in the amount of this difference were taken into consideration. As a result, deferred tax assets on pensions increased by €9 million to €53 million and deferred tax liabilities on pensions by €2 million to €26 million. The effects on the corresponding figures reported the previous year are shown in the following overview.

Notes to the consolidated financial statements
Accounting principles

€ million

	Amount published	Adjustment	Amount adjusted
	Dec. 31, 2008		
Balance sheet assets			
Deferred taxes	43	27	**70**
Other assets	3,545	(3)	**3,542**
Total assets	**3,588**	**24**	**3,612**
Balance sheet liabilities			
Other reserves	691	(43)	**648**
Group net profit for the year for shareholders in Rheinmetall AG	134	7	**141**
Other equity of shareholders in Rheinmetall AG	234	-	**234**
Rheinmetall AG shareholders' equity	**1,059**	**(36)**	**1,023**
Minority interests	59	(2)	**57**
Equity	**1,118**	**(38)**	**1,080**
Provisions for pensions and similar obligations	523	54	**577**
Deferred taxes	44	8	**52**
Other liabilities	1,903	-	**1,903**
Total liabilities	**3,588**	**24**	**3,612**
	2008		
Income statement			
Staff costs	1,079	1	**1,080**
Net operating income	244	(1)	**243**
Net interest	(62)	10	**(52)**
Earnings before taxes (EBT)	184	9	**193**
Income taxes	49	2	**51**
Net income	135	7	**142**
Of which:			
Minority interests	*1*	*0*	***1***
Rheinmetall AG shareholders	*134*	*7*	***141***
Earnings per share	€3.89	€0.20	**€4.09**

A further amendment concerns the financial accounting of a multi-employer pension plan of a Swiss subsidiary. This plan, generally based on defined benefit obligations, was previously accounted for as a defined contribution plan under the terms of IAS 19.30, so that no obligations were indicated alongside the contributions to the pension fund reported as expenses. As the relevant information for defined benefit plan accounting in accordance with IAS 19.48 ff. Is now available for the current period and is guaranteed for future periods, the pension plan will also be reported accordingly from the 2009 fiscal year. The amendment led to the first recognition of pension obligations not affecting income of €4 million before deferred taxes on January 1, 2009. Equity decreased accordingly by €3 million.

The fiscal year of Rheinmetall AG and its consolidated subsidiaries equals the calendar year. Rheinmetall AG (Local Court of Registration: Düsseldorf, Commercial Register No. HRB 39401) has its registered office in Düsseldorf at Rheinmetall Platz 1.

Based on the provisions of Arts. 264(3) and 264b HGB governing companies and trading partnerships, respectively, the following German enterprises have elected not to disclose their 2009 financial statements:

Rheinmetall Berlin Verwaltungsgesellschaft mbH
Rheinmetall Verwaltungsgesellschaft mbH
Rheinmetall Industrie Ausrüstungen GmbH
Rheinmetall Industrietechnik GmbH
MEG Marine Electronics Holding GmbH
Rheinmetall Versicherungsdienst GmbH
Rheinmetall Immobiliengesellschaft mbH
Rheinmetall Maschinenbau GmbH
Rheinmetall Bürosysteme GmbH
EMG EuroMarine Electronics GmbH
SUPRENUM Gesellschaft für numerische Superrechner mbH
Kolbenschmidt Pierburg AG
Pierburg GmbH
KS Kolbenschmidt GmbH
KS Gleitlager GmbH
KS ATAG GmbH
KS Aluminium-Technologie GmbH
KS ATAG Bearbeitungsgesellschaft mbH
KS ATAG Beteiligungsgesellschaft mbH
Werkzeugbau Walldürn GmbH
MS Motor Service International GmbH
MS Motor Service Deutschland GmbH
GVN Grundstücksverwaltung Neckarsulm GmbH & Co. KG
KS Grundstücksverwaltung GmbH & Co. KG
Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin
GVG Grundstücksverwaltung Gleitlager GmbH & Co. KG
GVH Grundstücksverwaltung Hamburg GmbH & Co. KG
Pierburg Pump Technology GmbH
Rheinmetall Waffe Munition GmbH
Rheinmetall Defence Electronics GmbH
Rheinmetall Dienstleistungszentrum Altmark GmbH
Rheinmetall Technical Publications GmbH
Rheinmetall Landsysteme GmbH
Rheinmetall Radfahrzeuge GmbH
Rheinmetall Soldier Electronics GmbH (vormals Oerlikon Contraves GmbH)
Eurometaal Holding Deutschland GmbH
Rheinmetall Vorrat Nr. Zwei GmbH

Notes to the consolidated financial statements
Accounting principles

(2) Scope of consolidation | Besides Rheinmetall AG, the consolidated financial statements include all German and foreign subsidiaries in which Rheinmetall AG holds the majority of voting rights (whether directly or indirectly) or whose financial and business policies are otherwise controlled by the Group. Generally, companies are newly consolidated or derecognized when control is transferred. Associated affiliates (i.e., companies in which a stake between 20% and 49% is owned and on which a controlling influence is exercised) and joint ventures are stated at equity.

Scope of consolidation – Companies included

	Dec. 31, 2008	Additions	Disposals	**Dec. 31, 2009**
Fully consolidated subsidiaries				
Domestic	44	3	-	47
Foreign	57	6	2	61
	101	**9**	**2**	**108**
Investments accounted for using the equity method				
Domestic	15	2	-	17
Foreign	10	-	-	10
	25	**2**	**-**	**27**

The fully consolidated subsidiaries added in 2009 refer to eight newly organized enterprises (including five abroad) and one acquiree (abroad). The reductions relate to two mergers.

In September 2009, all shares in RF Engines Limited, Newport, UK, were acquired at a price of €7 million. This company specializes in the development of signal processing and analysis technology. The assets and debt acquired were recognized at fair value. Adjustments of €2 million were made to other intangible assets compared to their carrying amounts prior to the acquisition. These mainly related to customer relations. The acquisition price allocation produced goodwill of €3 million. For fiscal 2009, RF Engines Limited contributed EBIT of €0 million to the Group's result.

(3) Consolidation principles | The financial statements of consolidated German and foreign companies are prepared in accordance with Group-wide uniform accounting and valuation methods.

Subsidiaries included for the first time are consolidated according to the acquisition method (involving full revaluation) by contrasting the cost of shares acquired against the subsidiaries' prorated equity revalued as of the date of change of control. Cost equals the fair values of the assets given, liabilities assumed, and equity instruments issued by the acquirer, in exchange for the acquisition, plus any related direct costs.

Where cost exceeds the revalued net identifiable assets acquired, the positive difference is capitalized as goodwill within intangible assets. Any residual badwill is immediately reported in other operating income.

The hidden reserves and charges identified in the revaluation which relate to minority interests are reported in the adjustment item for minority interests in capital subject to consolidation. When additional shares in already fully consolidated subsidiaries are acquired, the difference between cost and minority interests is recognized as goodwill.

Within the Rheinmetall Group, goodwill is allocated to the sectors according to its potential benefit. The value of goodwill is tested once annually for impairment, and during the year if impairment is indicated, by comparing the carrying value to the recoverable amount, the latter generally being determined from the value in use. The value in use is generally used as a recoverable amount. If this value is below the carrying amount, a check is made 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. A cash-generating unit's value in use is calculated according to the DCF method, discounting future cash flows over the medium-term corporate planning period. In the Rheinmetall Group, the corporate plan is prepared on the basis of empirical and current forecast data.

Within the Defence sector, planning is substantially predicated - besides on projects and inquiries already included in its order backlog - on national defence 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 current WACC is used as the discount rate:

Defence sector	10.0%	(Previous year: 9.8%)
Automotive sector	10.0%	(Previous year: 10.0%)

For the period after the last planning year, the following growth allowance is deducted from the risk-specific pretax discount rate:

Defence sector	1.0%	(Previous year: 1.0%)
Automotive sector	1.0%	(Previous year: 0.0%)

Neither the discount rate increase by 0.5 percentage points, nor the growth allowance decrease by 0.5 percentage points impair goodwill. Goodwill impairment losses are immediately recognized as write-downs in the corresponding income statement line. However, any subsequent reversal is prohibited.

Expenses, losses, income and gains from intragroup transactions, as well as intercompany receivables/payables and profits/losses 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.

Shares in associated affiliates and joint ventures 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 these associated affiliates/joint ventures as are allocable to the Rheinmetall Group.

To determine the goodwill (if any) of investees, principles analogous to full consolidation are adopted, capitalized goodwill being mirrored in the investment book value. Consolidation transactions substantially conform with the principles described above for fully consolidated subsidiaries.

Notes to the consolidated financial statements
Accounting principles

(4) Currency translation | The functional currency concept has been adopted to translate the annual financial statements of non-German group companies into euros. As a rule, their functional currency corresponds to the local currency as the currency of the primary business environment in which such companies operate. Therefore, assets and liabilities are translated at the middle rate on the reporting date, and the income statements at the annual average rate. The translation differences resulting herefrom are recognized in, and only in, equity as other comprehensive income (OCI). Goodwill created from the capital consolidation of a newly acquired non-German company is assigned to the acquiree and translated at the current rate of the acquiree's functional currency. 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. If carried at cost, other assets and liabilities are translated using the historical cost rate and, if carried at fair value, at the rate at the date of measuring the fair value. Currency translation differences are duly recognized in the net financial result.

(5) Accounting policies | The key accounting and valuation methods applied on the basis of the Group-wide uniform accounting guideline to Rheinmetall AG's consolidated financial statements are described below.

Cost | Purchase cost includes the purchase price and 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 of internally generated assets from which future economic benefits are likely to flow to the Group and whose value can be reliably determined, 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, all based on normal workloads. Financing costs are capitalized as costs if it relates to assets which are produced or purchased over a period exceeding one year.

Subsidies and grants | Public subsidies and customer grants or allowances which by their nature are considered investment grants are directly offset against the capital expenditures, whereas any grants or allowances for expenses for purposes other than investing activities are deferred as income and amortized to the income statement when the related expenses are incurred. Where the effect of interest from discounting is material, long-term deferred income is carried at the settlement amount discounted as of the balance sheet date.

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, a write-down is charged. When the reasons for write-down have ceased to exist, the asset is written up to an amount not exceeding its amortized or depreciated cost excluding write-down.

For goodwill impairment testing, see Note (3), Consolidation principles.

Reversals on goodwill impairment are not permitted.

Intangible assets | Intangible assets are capitalized at cost. Research costs are always expensed. Development costs are not capitalized unless and until a newly developed product or process can be clearly defined, technologically realized and used either internally or marketing is planned, and if there is reasonable assurance that its costs will be recovered by future cash inflows. Any other development costs are immediately expensed.

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	5-7
Customer relations	5
Technology	10-25

Goodwill is not amortized but its value tested for impairment one a year, or whenever deemed appropriate.

Property, plant and equipment | Property, plant and equipment is carried at depreciated cost less depreciation and impairment. Property, plant and equipment (if finite-lived) are depreciated on a straight-line basis over their estimated useful lives unless in exceptional cases another method better reflects the pattern of consumption.

Notes to the consolidated financial statements
Accounting principles

Property, plant and equipment are depreciated over the following period 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

A review of the useful lives of plant and machinery carried out in the Automotive sector in fiscal 2009 led to a reassessment and extension of the operating useful lives of these assets. The fall in demand across the entire automotive industry in the wake of the crisis led to the ongoing utilization below capacity of production facilities, meaning that these can be used over a longer period of time.

Essential plots of land owned for business purposes are carried according to the revaluation method at fair value, which generally equals market value. Generally accepted valuation techniques are used to determine fair market values, which are in most cases based on the expert reports of an independent appraiser. External appraisal reports are as a rule obtained every three years, the latest being the valuation as of December 31, 2008.

Finance leases | Property, plant and equipment obtained under a finance lease are capitalized at cost (i.e., at the lower of their fair values 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.

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 depreciated cost less any impairment. Depreciation is recognized on a straight-line basis via useful lives from 20 to 50 years. The fair market value of investment properties, determined according to generally accepted valuation techniques and substantially based on values indicated by an independent appraiser (updated as of December 31, 2008), is stated in Note (8).

Financial instruments | A financial instrument is based on a contract that gives rise to a financial asset of one entity and of a financial liability or equity instrument of another entity. Key financial assets in the Rheinmetall Group are cash and cash equivalents, trade receivables, loans, securities and derivatives with a positive fair value. Key financial liabilities relate to a bond, promissory note loans, liabilities to banks from leases, trade payables as well as derivatives with negative market values.

In the Rheinmetall Group, financial instruments are broken down into those measured at market value and those measures at amortized cost.

Financial instruments are generally recognized at the settlement date, with the exception of derivatives which are recognized on the trading date. The first-time measurement of financial instruments occurs at fair value.

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 amortized cost.

Available-for-sale financial assets | The available-for-sale measurement category is assigned to securities. Measurement is generally at market value. Where such fair market value is not reliably determinable, the assets are carried at amortized cost. Unrealized gains and losses are shown as other comprehensive income and recognized in the surplus from statement at fair value and other remeasurement. If there are substantial indications of impairment before 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.

Trade receivables and other financial assets | Receivables are measured at amortized cost. Account is taken of the default risk with appropriate valuation allowances. Receivables sold under an ABS program are offset against customer receivables received within trade receivables and, at the amount of the continuing involvement (i.e., the risk retained), shown as both other current receivables and other current liabilities.

Loans bearing normal market interest are recognized at amortized cost. Loans at nil or no interest rates are carried to the net present value.

Liabilities | Financial liabilities are measured at amortized cost as at the reporting date, using the effective interest method.

Liabilities resulting from capital leases are recognized at the present value of future minimum lease payments.

All other liabilities are measured at amortized cost, which as a rule equals the settlement or repayment amount.

Derivative financial instruments | In the Rheinmetall Group, derivatives are used exclusively to hedge against currency, interest rate and commodity price risks. Future cash flows from current underlyings or planned transactions are hedged.

Notes to the consolidated financial statements
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Derivatives are measured at fair value, corresponding to level 2 of the designations provided by IFRS 7, according to which the fair value is determined on the basis of input factors that can be observed directly or indirectly. 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. 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 yield curves used for measurement do not take basis spreads into account. Basis spreads should reflect the difference in interest for liquidity risks with varying durations. According to the assessment of the Rheinmetall Group, basis spreads observed on the balance sheet date constitute a comparatively short-term phenomenon, which can be disregarded based on the time up to the due date of the derivatives (until 2015).

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 in line with IAS 39 are met (Cash Flow Hedge Accounting), the changes in the fair value of the designed derivative in the context of the hedging strategy is recorded directly in equity in the surplus from statement at fair value and other remeasurement. If the hedged item is recognized in profit or loss, the cumulated gains or losses previously recognized in equity are recognized in the income statement. Any ineffective hedge portion is always immediately recognized in the income statement.

The changes in the fair value of derivates used for hedging purposes, but which are not recorded in hedge accounting in line with IAS 39, are immediately recognized in the income statement. These derivatives are allocated to the held for trading measurement category.

Inventories and prepayments received | Inventories are recognized at cost, which as a rule equals average values. Risks inherent in inventories 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, such inventories are written down to net realizable value. The write-down either raises the cost of materials (raw materials and supplies) or reduces the net inventory level of finished products and work in process. 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 increase in inventories of finished products and work in progress.

Prepayments received from customers for contracts which are not manufacturing or construction contracts under the terms of IAS 11 are, if production cost has already been incurred for the respective contract, openly deducted directly from inventories, any other prepayments being recognized as liabilities.

Construction contracts | Where the criteria and requirements of IAS 11 are met, manufacturing orders or construction contracts from customers are recognized in accordance with their percentage of completion. This method records the production cost incurred, plus a markup in line with the percentage of completion, as receivables from contract manufacturing and as sales. As a rule, the percentage of completion is determined on a cost-to-cost basis, i.e., at the ratio the expenses incurred bear to anticipated total expenses. If the construction contracts require more than one year for settlement, contract costs also included allocable borrowing costs. If the net result from a percentage of completion contract cannot be reliably estimated, sales is recognized only at the level of costs actually incurred. Expected losses on manufacturing contracts (so-called onerous contracts) are either covered by an appropriate write-down or else covered by a provision, taking account of all foreseeable risks. Receivables on construction contracts are deducted directly from advance payments of payments resulting from part settlements up to a maximum of the performance already provided. Additional payments are reported under payments received.

Deferred taxes | Taxes are deferred for temporary differences between the values of assets and liabilities in the IFRS-based balance sheet and those in the individual companies' tax accounts. 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 41% (previous year: 18% to 41%).

No deferred tax liabilities for temporary differences of shares in subsidiaries and associated affiliates were recognized since Rheinmetall can control the reversal of such differences and the reversal is not probable in the foreseeable future.

Provisions | Provisions for pensions and similar obligations are calculated using the projected unit credit-method for defined benefit plans. Accruals for pensions and similar obligations are determined for defined benefit plans according to the projected unit credit (PUC) method, which 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 any existing pension plan assets is deducted from pension accruals. 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 actually development of the underlying parameters to calculate the projected unit credits and the market value of the pension funds, actuarial losses or gains result. These actuarial gains and losses and the effects from the asset cap are recognized immediately in 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 plan, are recognized in net income in the year they are incurred. In addition, the Rheinmetall Group participates to a minor extent in some multi-employer plans which, albeit generally based on defined benefit obligations, are accounted for as defined contribution plans under the terms of IAS 19:30 if no information is available that would suffice for defined benefit plan accounting. With one Dutch subsidiary the defined benefit pension plan is treated as a defined contribution plan as it is not possible to make an exact allocation of the assets of the post-employment benefit fund to the companies involved. A deficit of the assets in the post-employment benefit fund discovered in the 2009 fiscal year resulted in additional payments being required from the subsidiary in an amount less than € 1 million which was recognized as an expense in 2009. The multi-employer plans of a Swiss subsidiary had also be recognized on the basis of defined contribution plans. However, in the reporting year there was a changeover, so that this pension plan was recognized as a defined benefit plan in line with its nature.

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. Noncurrent 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
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Recognition of sales | Sales results primarily from the sale of goods. In addition, sales is generated from services in the context of service and maintenance activities and contracted development work. Sales is 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 estimates and a flow of benefits probable. Under (longer-term) manufacturing contracts with customers, sales are prorated according to the percentage of completion. If the result can be reliably estimated, sales from service contracts is recognized pro rata of their progress. Sales from contracted development work is as a rule recognized according to work progress.

Other operating income | Other operating income is recognized upon performance of the contract for goods/services or upon passage of risk to the customer.

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.

Estimates | Preparing the consolidated financial statements requires 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, assumptions and estimates on forecasts and discounting future cash flows are made to determine the recoverable amount of the relevant cash-generating units. Details on the parameters used are described in section (3) Consolidation principles.

On an annual basis and if appropriation an assessment is made if there are indications of a possible impairment of the carrying amount of intangible or intangible assets or properties held for investment. In the case of an impairment, when calculating the fair value, assumptions and estimates are made on the cash flows from realized sales prices and the discount rates.

The measurement of pension provisions and other obligations is bases on actuarial assumptions such as the discount rate, salary increases, the mortality rate and the development of health care costs. A deviation of the assumed parameters from the conditions which actually occur does not have any impact on the result for the period as actuarial gains and losses are recognized directly in equity.

Sales realization for construction orders are based on estimates for the level of completion which results from comparing the actual contract costs with the expected total costs calculated in the context of a project calculation.

The determination of future tax advantages which reflect the recognition of deferred tax assets is based on assumptions and estimates on the development of tax income and the tax legislation in the countries of the Group companies working there.

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 implementing 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 the expected development of 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 obligation are made. In the process the management deploys internal legal advice as well as that of 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 results 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. Changes are duly accounted for prospectively in the period of change and future periods if the change affects both the current and future periods.

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(6) Intangible assets | In the year under review, non-contracted R&D expenses of €198 million were incurred (down from €199 million). Of this amount, development costs of €41 million met the capitalization criteria according to IFRS (up from €24 million).

Breakdown of capitalized goodwill:

€ million

	Dec. 31, 2008	Dec. 31, 2009
Defence sector	250	253
Automotive sector	169	169
	419	**422**

The impairment of intangible assets came to €4 million (previous year: also €4 million) and affected almost entirely development costs (previous year: €4 million).

(7) Property, plant and equipment | Total impairment taken in 2009 was €16 million (previous year: €3 million), including €2 million charged to land, land rights and buildings (previous year: €0 million), €11 million to technical equipment and machinery (previous year: €1 million) and €3 million to other plant, factory and office equipment (up from €2 million).

In accordance with the revaluation method, essential plots of land are stated at fair value, which generally equals their market values. The fair value was €206 million (down from €208 million), which includes a step-up of €110 million (up from €109 million). Regarding the movement of the revaluation reserve, see the comments on total equity in Note (15).

€38 million of property, plant and equipment (up from €37 million) is subject to restrictions on disposal in the form of land charges.

On the basis of leases, €2 million in technical equipment and machinery are capitalized (previous year: €2 million). Here normal restrictions on disposal apply.

As a rule, such leases include a purchase option. The remaining lease terms vary between 1 and 3 years (previous year: 1 - 4 years). Depending on market conditions and contracting date, the interest rate underlying capital leases is an unchanged 6.5%. 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 liabilities, are shown in the table below:

Capital leases *€ million*

	2008				2009			
	2009	2009-2013	from 2014	Total	2010	2011-2014	from 2015	Total
Lease payments	1	2	-	3	1	1	-	2
Discounts	0	0	-	0	0	0	-	0
Present values	**1**	**2**	**-**	**3**	**1**	**1**	**-**	**2**

The purchasing obligation from firm capital expenditure contracts totals €22 million (down from €26 million).

Real estate of €1 million (previous year: €1 million) has been reclassified as noncurrent assets held for sale.

(8) Investment property | The investment properties have a total fair value of €39 million (up from €32 million), largely determined on the basis of external appraisal reports as of December 31, 2009). In the year under review, rental income of €1 million (unchanged) was earned, contrasting with direct operating expenses of an unchanged €1 million. Impairment of €1 million was taken (previous year: €1 million).

(9) Investments accounted for using the equity method | The pro-ratable assets, liabilities, income and expenses of joint ventures and associated affiliates break down as follows:

Joint ventures *€ million*

		2008	2009
Assets	(Dec. 31)	182	250
Of which non-current		*75*	*88*
Equity	(Dec. 31)	34	38
Debt	(Dec. 31)	148	212
Of which non-current		*11*	*4*
Income		210	232
Expenses		209	227
Annual income		1	5

Associated companies *€ million*

		2008	2009
Assets	(Dec. 31)	91	71
Equity	(Dec. 31)	20	21
Debt	(Dec. 31)	71	50
Sales		60	62
Annual income		4	5

Development of investments *€ million*

2008	**Book value Jan. 1, 2008**	Addition	Change not affecting Income Statement	Prorated net profit	Dividend payout	**Book value Dec. 31, 2008**
Joint ventures	37	-	9	1	(2)	**45**
Associated companies	47	-	-	4	(3)	**48**
	84	**-**	**9**	**5**	**(5)**	**93**

2009	**Book value Jan. 1, 2009**	Addition	Change not affecting Income Statement	Prorated net profit	Dividend payout	**Book value Dec. 31, 2009**
Joint ventures	45	5	(3)	5	(4)	**48**
Associated companies	48	-	-	5	(4)	**49**
	93	**5**	**(3)**	**10**	**(8)**	**97**

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Defence's key joint ventures include PSM Projekt System & Management GmbH and ARTEC GmbH (two project management companies for the PUMA and Boxer contracts), as well as HIL Industrie-Holding GmbH as a public-private partnership (PPP) model for repair logistics for the army. This also includes the joint venture HFTS Helicopter Flight Training Services GmbH for the provision and maintenance of flight simulators and an interest in the associated affiliate AIM Infrarot-Module GmbH, a specialist in the development and manufacture of electronic components equipped with infrared technology.

The two joint ventures Kolbenschmidt Shanghai Piston Co. Ltd. and Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd. are destined for Automotive's access to the Chinese market for pistons and other engine components.

(10) Inventories

€ million

	Dec. 31, 2008	Dec. 31, 2009
Raw materials and supplies	259	209
Work in process	330	288
Finished products	83	53
Merchandise	60	53
Prepayments made	50	40
	782	**643**
./. Prepayments received	(26)	(40)
	756	**603**

The book value of inventories stated at the lower net fair value (net fair value: fair value less selling costs) totals €44 million (down from €73 million). In the reporting year valuation adjustments of €14 million were taken as in the previous year. In the year under review, inventories previously written down were written up by €2 million (previous year: €2 million). As in the previous year, inventories do not collateralize any liabilities.

(11) Trade receivables

€ million

	Dec. 31, 2008	Dec. 31, 2009
Customer receivables	461	448
Of which with remaining term of more than 1 year	*1*	*0*
Of which from joint ventures and associated companies	*11*	*13*
Receivables from construction contracts	249	253
	710	**701**

Breakdown of construction contract receivables

€ million

	Dec. 31, 2008	Dec. 31, 2009
Production costs incurred	2,533	2,263
Plus margins (less losses)	523	475
	3,056	**2,738**
Progress billings	(2,807)	(2,485)
Receivables from construction contracts	**249**	**253**

Obligations from construction contracts are included in the sundry other liabilities and break down as follows:

€ million

	Dec. 31, 2008	Dec. 31, 2009
Production costs incurred	34	31
Losses incurred by stage of completion	(4)	0
Anticipated losses	0	0
	30	**31**
Progress billings	(30)	(31)
Payables from construction contracts	**0**	**0**

Sales from construction contracts total €752 million in the fiscal year (previous year: €739 million).

(12) Other receivables and assets

Other receivables and assets are as follows:

€ million

	Dec. 31, 2008	Of which current	Of which non-current	**Dec. 31, 2009**	Of which current	Of which non-current
Receivables from						
Other taxes	24	23	1	25	25	-
Prepayments made	3	3	-	1	1	-
Subsidies/grants receivable	32	32	-	38	38	-
Subsidies	-	-	-	3	3	-
Tool costs	3	3	-	0	0	-
Deferred income	11	7	4	10	6	4
Other	13	13	-	15	15	-
	86	**81**	**5**	**92**	**88**	**4**

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(13) Other financial assets

€ million

	Dec. 31, 2008	Of which current	Of which non-current	**Dec. 31, 2009**	Of which current	Of which non-current
Receivables from						
Loans	8	1	7	7	1	6
Other	9	9	-	7	6	1
Securities	1	-	1	24	23	1
Derivatives without hedge accounting	8	7	1	15	6	9
Derivatives in cash flow hedge	8	8	-	27	16	11
	34	**25**	**9**	**80**	**52**	**28**

Securities of €24 million (up from €1 million) have been stated at fair value. This includes a Federal Treasury note acquired in the reporting year with a fair value of €20 million and a duration until April 14, 2010. The Federal Treasury note is allocated to cash and cash equivalents in the cash flow statement. Loans of €7 million (previous year: €8 million) are carried at amortized cost in line with IAS 39.

(14) Cash and cash equivalents

€ million

	Dec. 31, 2008	**Dec. 31, 2009**
Bank balances in credit institutions, checks, cash in hand	203	557

The disposal of €0.046 million of cash and cash equivalents is restricted (up from €0.035 million). They cover the same assets in the balance sheet and cash flow statement as in 2008. In the year under review, the Federal Treasury note reported under other financial assets is assigned to cash and cash equivalents.

(15) Equity | By resolution of the Annual General Meeting on May 9, 2006, the Executive Board of Rheinmetall AG was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company up to May 8, 2011 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 €18,432,000 (authorized capital). The new shares may also be issued to employees of Rheinmetall AG or any subsidiary it controls. The Company did not exercise this authority in the 2009 fiscal year.

As of December 31, 2009, Rheinmetall AG's share capital was €101,373,440 (previous year: €92,160,000), divided into 39,599,000 fully paid-up no-par bearer shares (previous year: 36,000,000). In July 2009, 3,599,000 new no-par shares with a pro rata nominal amount in the share capital of €2.56 per share were placed with institutional investments in Germany and abroad as part of an accelerated bookbuilding procedure. The placement price was €29.00 per share, resulting in gross issue proceeds of €104,371,000. With the issue of shares, the Rheinmetall AG share capital was increased by 10% (€9,213,440).

After this measure, the Executive Board, is now authorized, with the approval of the Supervisory Board, to increase the share capital of the Company by issuing once or several times up May 8, 2011 new no-par shares in return for contributions in cash and/or in kind, up to a total of €18,432,000 (authorized capital).

The Annual General Meeting on May 12, 20009 granted the Executive Board the authority to acquire treasury shares equivalent to 10 percent of the current share capital up to October 31, 2010. The Company did not exercise this authority in the past fiscal year.

The additional paid-in capital were increased by the issue of new no-par shares by €95 million. The issue costs incurred of €2 million were offset against retained earnings taking taxes into consideration.

A breakdown and analysis of OCI from the statement at fair value and other remeasurement are shown below:

€ million

	Reserve for revaluation of properties	Reserve for hedging transaction	Reserve from fair value and other valuations
January 1, 2008	**70**	**9**	**79**
Change in fair value	8	(26)	(18)
Disposals / book transfers	-	(6)	(6)
December 31, 2008 / January 1, 2009	**78**	**(23)**	**55**
Change in fair value	-	29	29
Disposals / book transfers	0	6	6
December 31, 2009	**78**	**12**	**90**

Breakdown of the land revaluation reserve (recognized for essential land capitalized within tangible assets):

€ million

	Dec. 31, 2008	**Dec. 31, 2009**
Gains in property	109	110
Deferred taxes	(31)	(32)
	78	**78**

Capital management | Rheinmetall's capital management aims at establishing the best possible equity-debt ratio.

In line with the IFRS definition, Rheinmetall's total equity comprises minority interests, too, since these are at the Group's disposal.

For more details, see our statements on the financing strategy as well as on the asset and capital structure in our group management report.

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Minority interests mainly refer to the Automotive sector at €2 million (previous year: €2 million), and to Defence at €62 million (up from €55 million).

(16) Provisions for pensions and similar obligations | The company pension systems consist of both defined contribution and defined benefit plans. Under the DCPs, Rheinmetall incurs no obligation other than the payment of contributions to earmarked pension funds. These pension expenses are shown within personnel expenses and need not be provisioned. In the year under review, a total €66 million (previous year: €64 million) was paid to DCPs, specifically the Statutory Social Security Insurance in Germany.

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 dependants. Such obligations primarily encompass pensions, both basic and supplementary. The individual, confirmed, pension obligations entitle employees to benefits that vary according to country and company and, as a rule, are measured according to service years and pensionable pay. Moreover, at the German subsidiaries, a performance-related pension obligation has been incurred whose amount hinges on the achievement of certain benchmarks for the ROCE formula. Being a noncurrent provision for the accumulated postretirement benefit obligation, the accrued health care obligations to the retirees of some US subsidiaries are also included in the pension accruals recognized hereunder.

Movement analysis of the present value of the DBO and the plan assets (as time series):

€ million

	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009
Present value of DBO	1,522	1,428	1,344	1,405	1,474
Fund assets	903	887	878	828	864
Pension obligations not covered by fund assets	**619**	**541**	**466**	**577**	**610**

The following actuarial parameters have been used:

Parameter *in %*

	Dec. 31, 2008			Dec. 31, 2009		
	Domestic	USA	Switzerland	Domestic	USA	Switzerland
Discount rate	6.00	6.30	3.50	5.50	5.50	3.25
Salary growth (general)	2.75	4.00	1.50	2.75	0.00	1.50
Salary growth (fixed sums)	1.25	-	-	1.25	-	-
Pension growth	1.75	-	-	1.75	-	-
Expected return on fund assets	-	8.50	3.75	-	8.50	4.00
Health care expense rise	-	6.0-11.0	-	-	6.0-11.0	-

The non-German DBO primarily refer to benefit obligations incurred by Swiss and US subsidiaries, most of which are plan-funded. The plan assets of the Swiss subsidiaries have been transferred to independent pension funds are benefit exclusively the beneficiaries. Any return of income and assets to the contributing companies is excluded.

Pension provisons *€ million*

	2008			2009		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Development of present value of DBO						
Present value of DBO as at Jan. 1	506	838	**1,344**	509	896	**1,405**
Currency differences	-	87	**87**	-	(2)	**(2)**
Current service cost	10	7	**17**	9	8	**17**
Interest cost	27	30	**57**	29	34	**63**
Employee contributions	-	5	**5**	-	7	**7**
Entry payments	-	8	**8**	-	7	**7**
Pension payments	(31)	(61)	**(92)**	(31)	(65)	**(96)**
Curtailments / settlements	-	(6)	**(6)**	-	(6)	**(6)**
Actuarial gains and losses	(3)	(12)	**(15)**	28	10	**38**
First-time inclusion of pension obligations	-	0	**0**	-	41	**41**
Present value of DBO at Dec. 31	**509**	**896**	**1,405**	**544**	**930**	**1,474**
Of which funds financed	-	*866*	***866***	-	*902*	***902***
Of which internally funded	*509*	*30*	***539***	*544*	*28*	***572***
Development of fund assets						
Fair value of fund asset at Jan. 1	-	878	**878**	-	828	**828**
Currency differences	-	88	**88**	-	-	**-**
Expected return on fund assets	-	41	**41**	-	33	**33**
Employer contributions	-	8	**8**	-	9	**9**
Employee contributions	-	5	**5**	-	7	**7**
Entry payments	-	8	**8**	-	7	**7**
Pensions paid by funds	-	(59)	**(59)**	0	(63)	**(63)**
Curtailments / settlements	-	(6)	**(6)**	-	(6)	**(6)**
Actuarial gains and losses	-	(135)	**(135)**	-	12	**12**
First-time inclusion of fund assets	-	-	**-**	-	37	**37**
Fair value of fund assets at Dec. 31	**-**	**828**	**828**	**-**	**864**	**864**
Pension obligations not covered by fund assets as at Dec. 31	509	68	**577**	544	66	**610**
Pension provisions as at Dec. 31	**509**	**68**	**577**	**544**	**66**	**610**

In the year under review, the plan assets returned a profit of €45 million (after a loss of €94 million in the previous year) before the net currency result recognized in equity. The contributions expected for the following fiscal year will be the same as in the reporting year.

In 2008, actuarial gains and losses of €-120 million and the effect from the asset cap of €+76 million were recognized directly in equity. Net cumulative actuarial gains and losses in equity (before taxes) totaled €105 million on December 31, 2009 (previous year: €79 million). Those of the current year total €26 million.

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Plan asset structure:

in %

	2008	2009
Equities	25	26
Treasuries and corporates/securities	16	15
Real estate and property investment funds	39	40
Other	20	19
Total	**100**	**100**

Development of empirical adjustments *in %*

	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009
Present value of DBO	0.3	0.4	1.2	(1.1)
Fund assets	2.0	0.6	(16.3)	1.2

The long-term return is determined by the investment strategy defined for each asset class.

Breakdown of pension expense:

€ million

	2008			2009		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Service cost	10	7	**17**	9	8	**17**
Accrual of expected pension obligations	27	30	**57**	29	34	**63**
Expected return on fund assets	-	(41)	**(41)**	-	(33)	**(33)**
Total	**37**	**(4)**	**33**	**38**	**9**	**47**

Service cost is reported under staff costs. The accrual of expected pension obligations and the expected return on fund assets are contained in interest expenses on a netted basis.

(17) Other provisions

Statement of changes in provisions *€ million*

2008	Personnel	Structural measures	Guarantees	Noticeable losses	Contract-related costs	Other provisions	Total
As at January 1, 2008	**136**	**46**	**55**	**24**	**88**	**73**	**422**
Utilization	82	10	14	6	46	30	188
Reversal	7	2	10	3	7	12	41
Added / provided for	78	18	22	7	40	39	204
Accrual	-	-	-	1	-	1	2
Currency differences / Other	4	-	-	-	1	6	11
As at December 31, 2008	**129**	**52**	**53**	**23**	**76**	**77**	**410**
Cash outflows							
Short term (< 1 year)	**96**	**21**	**44**	**13**	**74**	**64**	**312**
Long term	**33**	**31**	**9**	**10**	**2**	**13**	**98**
Of which 1 - 5 years	*29*	*30*	*9*	*10*	*2*	*12*	*92*
Of which > 5 years	*4*	*1*	-	-	-	*1*	*6*

2009	Personnel	Structural measures	Guarantees	Noticeable losses	Contract-related costs	Other provisions	Total
As at January 1, 2009	**129**	**52**	**53**	**23**	**76**	**77**	**410**
Utilization	82	17	14	6	26	28	173
Reversal	3	2	11	3	6	10	35
Added / provided for	99	90	23	19	28	34	293
Accrual	0	0	0	1	0	1	2
Currency differences / Other	2	(2)	3	0	1	1	5
As at December 31, 2009	**145**	**121**	**54**	**34**	**73**	**75**	**502**
Cash outflows							
Short term (< 1 year)	**120**	**76**	**44**	**17**	**70**	**63**	**390**
Long term	**25**	**45**	**10**	**17**	**3**	**12**	**112**
Of which 1 - 5 years	*21*	*43*	*9*	*17*	*3*	*11*	*104*
Of which > 5 years	*4*	*2*	*1*	-	-	*1*	*8*

Provisions for restructuring mainly cover the measures required for capacity adjustments for reducing the workforce in the Automotive sector (termination settlements, pre-retirement part-time work, etc.). Other provisions provide relate primarily to €5 million of legal, consulting and audit fees (previous year: €6 million), €9 million of discounts and bonuses (previous year: €9 million), and €5 million for environmental risks (previous year: €5 million).

Notes to the consolidated financial statements
Notes to the consolidated balance sheet

(18) Financial liabilities

€ million

	Dec. 31, 2008	Of which current	Of which non-current	Dec. 31, 2009	Of which current	Of which non-current
Bond	325	-	325	325	325	-
Promissory notes	-	-	-	149	-	149
Bank liabilities	76	46	30	54	27	27
Leasing	3	1	2	2	1	1
Other	4	1	3	3	0	3
	408	**48**	**360**	**533**	**353**	**180**

Amounts to banks of €20 million (previous year: €24 million) are secured by land charges and similar rights. In addition, €10 million of the financing for the property owned by the consolidated special purpose entity is secured by land charges (previous year: €10 million).

The analyses below reflect the terms, and book and fair values, of financial liabilities, the fair values being determined on the basis of interest rates current at the balance sheet date for corresponding maturities/redemption patterns:

€ million

Interest terms	Weighted interest rate (in %)	Currency (ISO code)	Maturing in	Dec. 31, 2008		Dec. 31, 2009	
				Book value	Fair value	Book value	Fair value
Bond							
Fixed	3.5	EUR	2010	325	320	325	327
Promissory notes							
Fixed	6.8	EUR	2014	-	-	38	34
Variable		EUR	2013	-	-	49	49
Variable		EUR	2014	-	-	62	62
				-	**-**	**149**	**145**
Bank liabilities							
Fixed	4.9	EUR	2013	1	2	1	1
Fixed	3.7	EUR	2016	5	5	4	4
Fixed	4.4	EUR	2020	10	10	10	10
Fixed	3.7	EUR	2026	5	5	5	5
Variable		INR	2009/2010	8	8	0	0
Variable		USD	2009/2010	8	8	4	4
Variable		BRL	2009	1	1	-	-
Variable		EUR	2009/2010	28	28	20	20
Variable		EUR	2023	10	10	10	10
				76	**77**	**54**	**54**
Leases							
Fixed	6.5	EUR	2010-2012	3	3	2	2
Other financial liabilities							
Variable		EUR	sundry until 2017	4	3	3	3
Total				**408**	**403**	**533**	**531**

(19) Trade liabilities

€ million

	Dec. 31, 2008	Dec. 31, 2009
Trade liabilities	511	521
Of which from joint ventures and associated companies	*4*	*12*

€1 million of trade payables had a remaining term of more than one year in the previous year. The book value of trade payables substantially equals their fair value.

(20) Other liabilities

The other liabilities break down as follows:

€ million

	Dec. 31, 2008	Of which current	Of which non-current	Dec. 31, 2009	Of which current	Of which non-current
Advance payments received	280	280	-	232	232	-
Liabilities from social security	12	11	1	15	13	2
Liabilities due to members of executive bodies and employees	12	12	-	12	12	-
Liabilities from other taxes	44	39	5	43	36	7
Monies in transit from debt collection	90	90	-	74	74	-
Derivatives without hedge accounting	13	13	-	15	7	8
Derivatives in cash flow hedge	39	28	11	8	4	4
Deferred income	8	4	4	12	5	7
Other	30	30	-	33	33	-
	528	**507**	**21**	**444**	**416**	**28**

€89 million of advance payments received on orders have a remaining term above one year (previous year: €83 million). The payables for derivatives have been marked to market, the carrying amount of the remaining liabilities approximating their fair value.

Liabilities resulting from derivative financial instruments largely relate to market value of currency hedging transactions (previous year: currency and material price hedging transactions). These fair values would only be realized if the derivatives were terminated early, which is unlikely at present. The decline in liabilities from derivatives is attributable to the development of exchange rates and commodity prices in 2009. In the reporting year, all commodity transactions posted positive fair values due to commodity prices being higher than when hedging took place. This is posted in other financial assets (13). See Note (36) for details of the Rheinmetall Group's hedging strategies.

Notes to the consolidated financial statements
Notes to the consolidated income statement

(21) Total operating performance

€ million

	2008	2009
Sales		
from sale of products	3,443	2,969
from services	199	232
from contracted development work	227	219
Total sales	**3,869**	**3,420**
Increase/decrease in inventory of finished products and services and WIP	26	(76)
Other work performed by the enterprise and capitalized	32	51
	3,927	**3,395**

(22) Other operating income

€ million

	2008	2009
Revenue from disposal of assets / divestments	5	5
Income from reversal of provisions	41	35
Income from recognition of badwill	15	-
Income from reversal of value adjustments	2	3
Income from compensation and refunds	7	12
Income from sundry rental agreements and leases	8	8
Income from grants and subsidies	14	8
Income from canteens and ancillary operations	3	3
Income from credit notes for previous years	14	21
Income from prototype and tooling costs refunded	2	6
Income from residue utilization	5	2
Other secondary income	29	24
	145	**127**

(23) Cost of materials

€ million

	2008	2009
Cost of raw materials, supplies, and merchandise purchased	1,769	1,419
Cost of services purchased	236	233
	2,005	**1,652**

(24) Staff costs

€ million

	2008	2009
Wages and salaries	887	877
Social security and related employee benefits	112	108
Pension expenses	81	83
	1,080	**1,068**

Annual average head count (FTE)

	2008	2009
Automotive sector	11,865	10,738
Defence sector	7,922	9,253
Rheinmetall AG / Other	123	124
	19,910	**20,115**

(25) Amortization, depreciation and impairment | For the allocation of these charges to intangible assets, property, plant and equipment, see the statement of changes in assets.

Impairments break down as follows:

€ million

	2008	2009
Intangible assets	4	4
Property, plant and equipment	3	16
Investment property	1	1
	8	**21**

Impairments of intangible assets and property, plant and equipment relate to the Automotive sector and are attributable to the effects of the economic crisis which severely affected the automotive industry. The devaluation of intangible assets relates to the capitalized development costs for projects no longer taking place. In the case of property, plant and equipment, write-downs of €11 million were carried out on key plant and machinery, €3 million on factory and office equipment and €1 million on production buildings, as property, plant and equipment related to projects could no longer be used due to the loss of customer contracts, with the fall in production figures leading to capacity adjustments.

The measures taken in the Automotive sector as a result of the crisis including write-downs of €20 million and the extension of the useful lives of facilities and machinery with an opposite effect of €15 million impacted the operating result by €5 million overall. It is not possible to make a reliable estimate of the future impact of the extension of these useful lives. This is of minor significance to the Group.

Notes to the consolidated financial statements
Notes to the consolidated income statement

(26) Other operating expenses

€ million

	2008	2009
Losses on disposal of fixed assets/divestments	2	6
Expenses for redundancy plans, termination indemnities, partial retirement	13	91
Distribution costs	69	64
Repairs and maintenance	83	62
Promotion and advertising expenses	18	13
Other administrative costs	154	137
Rents, leases	37	42
Incidental staff costs	30	32
Facility cleaning and security/surveillance	10	10
Services purchased	15	10
Audit, legal and consultancy fees	36	37
Write-down of receivables	4	3
Other taxes	10	10
Other provisions	56	65
Other	41	42
	578	**624**

The increase in expenses for redundancy plans, termination indemnities and partial retirement by €78 million to €91 million mainly relates to the capacity adjustments which became necessary in the Automotive sector as a result of the crisis.

(27) Net interest

€ million

	2008	2009
Other interest and similar income	8	5
Interest income	**8**	**5**
Interest expense for capital leases	1	0
Interest expense for pension obligations	16	30
Accrual of other non-current provisions	2	2
Other interest and similar expenses	41	34
Interest expenses	**60**	**66**
Net interest	**(52)**	**(61)**

(28) Net investment income and other net financial income

€ million

	2008	2009
Investment income		
Profit from joint ventures and associated companies	5	10
	5	**10**
Other financial results		
Currency result	14	(6)
Profit from derivative financial instruments	(13)	1
Guarantee commissions	(1)	(1)
Other	(3)	(2)
	(3)	**(8)**
Investment profit and other financial results	**2**	**2**

The result from derivatives of €1 million (previous year: €-13 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 hedges.

(29) Income taxes

€ million

	2008	2009
Current income tax expense	30	18
Earlier-period income taxes	(1)	5
Deferred taxes	22	(17)
	51	**6**

The tax effect on income and expenses recognized directly in equity is presented in the following overview:

€ million

	2008			2009		
	Gross amount	Tax effect	Net amount	Gross amount	Tax effect	Net amount
Actuarial gains and losses from pensions	(44)	(12)	(32)	(25)	(7)	(18)
Currency conversion	(9)	-	(9)	34	-	34
Cash flow hedges	(44)	(12)	(32)	50	13	37
Revaluation of properties required for business purposes	8	-	8	0	-	0
Income/expenses from investments accounted for using the equity method	6	-	6	(2)	-	(2)
	(83)	**(24)**	**(59)**	**57**	**6**	**51**

Notes to the consolidated financial statements
Notes to the consolidated income statement

The table below presents a reconciliation of expected tax expense to recognized actual tax expense. The expected tax expense is determined by multiplying EBT by a tax rate of 30% (previous year: 30%). This rate covers German corporate income tax, the solidarity surtax thereon and municipal trade tax.

€ million

	2008	2009
EBT	193	(46)
Expected income tax expense (tax rate of 30%; previous year: 30%)	**58**	**(14)**
Foreign tax rate differentials	(2)	(6)
Effects of loss carryforwards and change in value adjustment	5	23
Reduction of tax expense due to previously unrecognized loss carryovers and temporary differences	(3)	(5)
Tax-exempt income	(10)	(5)
Non-deductible expenses	6	7
Earlier-period income taxes	(1)	5
Other	(2)	1
Actual income tax expense	**51**	**6**

Deferred taxes can be allocated to the following balance sheet items:

€ million

	Dec. 31, 2008		Dec. 31, 2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryforwards and tax credits	46	0	60	0
Fixed assets	15	94	9	105
Inventories and receivables	7	39	11	37
Pension provisions	49	14	47	3
Other provisions	21	1	35	0
Liabilities	22	2	27	6
Other	10	2	14	18
	170	**152**	**203**	**169**
Set off	(100)	(100)	(137)	(137)
	70	**52**	**66**	**32**
Of which non-current	*48*	*19*	*49*	*2*
Of which not affecting income	*10*	*33*	*28*	*39*

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 €447 million (previous year: €437 million) which cannot be utilized or whose deferred tax assets were adjusted by value adjustments. Of this, €290 million (previous year: €289 million) is allocable to German loss carryovers, €150 million (previous year: €142 million) to foreign loss carryovers and another €7 million to tax credits (previous year: €6 million). The German loss carryovers, and €34 million of the foreign loss carryforwards (previous year: €23 million), are not subject to expiration. Most of the foreign loss carryovers subject to expiration can be utilized for more than 9 years (previous year: more than 9 years). Write-downs of deferred tax assets changed by €8 million in 2009 (previous year: €9 million). Outside Germany, companies have capitalized deferred tax assets of €30 million (previous year: €26 million) which have posted ongoing losses due to realigned business operations.

€-32 million of deferred taxes recognized directly in equity (previous year: €-31 million) relate to land revaluation, €26 million to pensions and €-5 million to hedges (previous year: €8 million).

€1 million in non-current taxes (previous year: €2 million) in line with Section 37 (4) of the German Corporation Income Tax Act (KStG) are reported under income tax receivables.

(30) Minority interests | Minority interests in profit came to €8 million (previous year: €5 million) and minority interests reporting a loss €2 million (previous year: €4 million).

(31) Earnings per share | Earnings per share is 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, 2009 or December 31, 2008 that could dilute earnings per share, basic and diluted earnings per share are identical. The repurchase of treasury shares and the capital increase are included in the weighted number of shares.

€ million

	2008	**2009**
Consolidated net profit/loss for the year for shareholders of Rheinmetall AG	141	(58)
Weighted number of shares *million*	34.54	36.26
Earnings per share	**€4.09**	**(€1.60)**

Notes to the consolidated financial statements
Notes to the cash flow statement

(32) Cash flow statement | In the year under review, the presentation of the cash flow statement was amended to the effect that the balance of interest paid and received is not longer allocated to financing activities, and is instead included in the cash flow from operating activities. This altered presentation emphasizes the operating nature of interest payments. Like-for-like figures for the previous year have been adjusted accordingly.

As at January 1, 2009, financial resources consisted solely of cash and cash equivalents. As of December 31, 2009, financial resources also included a Federal Treasury note of €20 million, which is reported under other financial assets.

The cash outflow for the purchase of consolidated companies of €6 million (previous year: €33 million) relates to the acquisition of RF Engines Limited, Newport, Isle of Wight, Great Britain. For more information about dividends received from joint ventures and associated affiliates, refer to Note (9).

Cash and cash equivalents of €1 million (previous year: €9 million) were assumed as part of company acquisitions.

Notes to the consolidated financial statements
Notes to segment reporting

(33) 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 segment brings together all activities in the area of armed forces technology. Rheinmetall Defence supplies a broad portfolio of platforms and components available to the armed forces as individual solutions or as networked systems. The core capabilities cover the Land Systems, Weapon and Munitions, Propellants, Air Defence, C4ISTAR and Simulation & Training divisions.

The activities of the Rheinmetall Group within the context of automotive supplies are pooled in the Automotive sector. The automotive industry is supplied with engine systems and modules, such as pistons, pumps, plain bearings, engine blocks and emissions reduction and air management systems. As well as supplying automotive manufacturers, the Automotive sector also operates in the aftermarket business, supplying wholesalers, engine repair shops and independent garages with replacement parts through a global distribution network.

As well as the Group holding company (Rheinmetall AG), "Other/Consolidation" includes Group service companies and other non-operating companies, plus consolidation transactions.

The sectors of the Rheinmetall Group are controlled by means of EBIT and EBT performance indicators and sales. Furthermore, the management also uses key figures for order intake, order backlog and net financial liabilities to monitor and control the sectors. 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).

Operating EBIT does not include the measures taken as a result of the crisis to restructure and adjust the capacity of the Automotive sector.

Net financial liabilities reflect financial liabilities less cash and cash equivalents. Inter-segment loans within the Group are assigned to cash and cash equivalents. In addition, a current Federal Treasury note of €20 million held by Rheinmetall AG, that is due on April 14, 2010, was assigned to cash and cash equivalents in 2009. Capital employed is calculated as the sum of equity, pension provisions and net financial liabilities. Additions to capital employed include amortization of goodwill accumulated in the past.

Capital expenditure relates to the intangible assets, property, plant and equipment and investment properties. Goodwill or assets resulting from acquisition price allocation are not counted towards capex.

The indicators for internal controlling and reporting purposes are based on the accounting principles described in Note (3) to the IFRS consolidated financial statements. Inter-segment sales are generally carried out at normal market conditions in the same way as transactions with third parties.

Notes to the consolidated financial statements
Notes to segment reporting

The following reconciles the net financial liabilities of the segments to those of the Group and the operating result of the segments to consolidated EBT:

€ million

	Dec. 31, 2008	Dec. 31, 2009
Net financial liabilities		
Net financial liabilities of segments	(24)	(420)
Other areas	367	481
Consolidation	(138)	(105)
Net financial liabilities of Group	**205**	**(44)**
EBIT		
Segment EBIT	255	28
Other areas	(31)	(226)
Consolidation	21	213
Group net interest	(52)	(61)
Group EBT	**193**	**(46)**

In the year under review, the Defence sector generated sales with the Federal Office of Defence Technology and Procurement that exceed 10% of consolidated sales.

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.

Notes to the consolidated financial statements
Supplementary disclosures

(34) Contingent liabilities | As in previous years, surety bonds and guarantees still exist in connection with the divestment of former business activities. This primarily relates to rental loss sureties and performance bonds for sold companies. These companies regularly and duly perform their obligations and there are no signs of any future enforcement of such guaranties or bonds.

The split-up of the former STN Atlas Elektronik GmbH, Bremen, resulted in a joint and several liability for liabilities assigned under this split-up. In the previous year, the extension until the end of 2009 of the claim deadline (which had expired) in the course of a pending action for damages against the other joint and several obligor in the obligee's favor was approved. The lawsuit in question was settled in the course of fiscal 2009, without recourse to the Rheinmetall Group.

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. Performance bonds exist 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, guaranties exist in favor of joint ventures and associated affiliates for credit facilities granted to the affiliated companies. Rheinmetall's liability is equal to the equity interest held. No cash outflows are expected here.

As part of restructuring measures under company law, three legal proceedings have been initiated by external shareholders with a view to reviewing the suitability of the share exchange ratio and the amount of cash compensation offered.

In the judicial review proceedings ongoing since 1998, the share exchange ratio determined during the merger of Kolbenschmidt AG with Rheinmetall Beteiligungen AG (now Kolbenschmidt Pierburg AG) is being examined with regards to its suitability. On April 12, 2007, the Heilbronn Regional Court dismissed all pending petitions for cash compensation based on an adjusted share exchange ratio. The Court held that the different values determined in the Court-appointed expert's review of the share exchange ratio were inside the generally acceptable bandwidths of enterprise valuation, and that the Court therefore saw no grounds for adjusting the merger-related share exchange ratio through any cash compensation. The Heilbronn Regional Court's decision is not yet res judicata, the counsels for the external shareholders having lodged an appeal with the Stuttgart Higher Regional Court. No facts emerged with regard to this case in the year under review. Kolbenschmidt Pierburg still assumes that the Stuttgart Higher Regional Court will endorse the first instance's decision.

With regards to the squeeze-out initiated in 2003 of Aditron AG which was merged with Rheinmetall AG in the same reporting year, the legal proceedings initiated are still pending.

In the proceedings instituted to squeeze out Kolbenschmidt Pierburg AG, the applications of 108 persons involved in the proceedings were dismissed by the Stuttgart District Court on September 1, 2008. 55 applicants immediately lodged appeals with the Stuttgart Higher Regional Court. A ruling has not yet been given on this.

Notes to the consolidated financial statements
Supplementary disclosures

(35) Other financial obligations | Various 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 to the comments on Property plant and equipment in Note (7).

In the reporting year, €42 million was posted as expenses for operating leasing (up from €37 million). Apart from business property leases, the other standard contracts cover the rental of vehicles and business, factory and office equipment, which includes DP hardware and software.

The following discounted cash outflows under leases are expected in future periods:

€ million

	2008				2009			
	2009	2010-2013	From 2014	**Total**	2010	2011-2014	From 2015	**Total**
Buildings	23	60	42	**125**	21	56	48	**125**
Other leases	11	18	2	**31**	12	18	2	**32**
	34	**78**	**44**	**156**	**33**	**74**	**50**	**157**

In addition, under an agreement on the divestment of a business segment in earlier years, Rheinmetall committed itself to assume the lease for a partially let property. The future (unrecognized) accumulated obligations under this assumed lease totaled €4 million (previous year: €9 million). Provisions of €13 million were established for subleasing risks (previous year: €10 million).

€3 million was generated in the period from subleasing further properties leased by Rheinmetall (down from €4 million). The future income expected during the non-cancelable lease term totals €7 million (up from €4 million).

There is also an obligation to pay up €1 million for shares in an associated affiliate as the capital has yet not been called (previous year: €1 million).

(36) Additional information on financial instruments | This note provides a comprehensive summary of the significance of financial instruments to the Rheinmetall Group, besides making additional disclosures relevant to financial instruments.

The table below breaks down recognized financial assets and liabilities by valuation category and class, additionally stating their current fair values.

Financial instruments *€ million*

2008	Note	Balance sheet value	Loans and receivables/ liabilities	Available for sale	Held for trading purposes	Outside valuation categories of IAS 39	Fair value
Financial assets							
Trade receivables	(11)	710	710	--	--	--	710
Other financial assets	(13)	34					
Securities			--	1	--	--	1
Derivatives without hedge accounting			--	--	8	--	8
Derivatives with cash flow hedge			--	--	--	8	8
Other financial assets			17	--	--	--	17
Cash and cash equivalents	(14)	203	203	--	--	--	203
		947	**930**	**1**	**8**	**8**	**947**
Of which valuation							
at amortized cost			*930*	--	--	--	
at fair value			--	*1*	*8*	*8*	
Financial liabilities							
Financial liabilities	(18)	408					
Financial liabilities excl. leases			405	--	--	--	400
Lease liabilities			--	--	--	3	3
Trade liabilities	(19)	511	511	--	--	--	511
Other liabilities	(20)	528					
Non-financial liabilities		(366)					
Financial liabilities		162					
Derivatives without hedge accounting			--	--	13	--	13
Derivatives with cash flow hedge			--	--	--	39	39
Other financial liabilities			110	--	--	--	110
		1,081	**1,026**	**-**	**13**	**42**	**1,076**
Of which valuation							
at amortized cost			*1,026*	--	--	*3*	
at fair value			--	--	*13*	*39*	

Notes to the consolidated financial statements Supplementary disclosures

Financial instruments *€ million*

2009	Note	Balance sheet value	Loans and receivables/ liabilities	Available for sale	Held for trading purposes	Outside valuation categories of IAS 39	Fair value
Financial assets							
Trade receivables	(11)	701	701	--	--	--	701
Other financial assets	(13)	80					
Securities			--	24	--	--	24
Derivatives without hedge accounting			--	--	15	--	15
Derivatives with cash flow hedge			--	--	--	27	27
Other financial assets			14	--	--	--	14
Cash and cash equivalents	(14)	557	557	--	--	--	557
		1,338	**1,272**	**24**	**15**	**27**	**1,338**
Of which valuation							
at amortized cost			*1,272*	--	--	--	
at fair value			--	*24*	*15*	*27*	
Financial liabilities							
Financial liabilities	(18)	533					
Financial liabilities excl. leases			531	--	--	--	529
Lease liabilities			--	--	--	2	2
Trade liabilities	(19)	521	521	--	--	--	521
Other liabilities	(20)	444					
Non-financial liabilities		(317)					
Financial liabilities		127					
Derivatives without hedge accounting			--	--	15	--	15
Derivatives with cash flow hedge			--	--	--	8	8
Other financial liabilities			104	--	--	--	104
		1,181	**1,156**	**-**	**15**	**10**	**1,179**
Of which valuation							
at amortized cost			*1,156*	--	--	*2*	
at fair value			--	--	*15*	*8*	

Given mainly the short term to maturity of such instruments, the fair value of cash, cash equivalents, current receivables, trade payables and other financial liabilities substantially equals book value.

Rheinmetall measures noncurrent fixed and floating-rate receivables 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 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 exchange-listed bond issue is marked to market as of the balance sheet date. 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.

Further balance sheet disclosures

Derecognition | Under an ABS program, the Rheinmetall Group sells customer receivables with a maximum volume of €140 million (previous year: €170 million) on a revolving basis. As of December 31, 2009, the nominal value receivables sold came to €134 million (previous year: €170 million).

In line with IAS 39, sales of receivables apply as disposal. As the remaining risks are insignificant for the Company, an asset item and a corresponding liability item each of €2 million is established for the maximum continuing involvement (previous year: €2 million).

Collateral provided | Liens of €3 million (up from €1 million) rest on financial assets to protect employees from insolvency risks in connection with pension systems.

Other disclosures on the income statement | The other interest income of €5 million (previous year: €8 million) and other interest expense of €34 million (down from €41 million) result primarily from loans and receivables as well as financial liabilities carried at amortized cost.

The net loss on loans and receivables was €1 million (previous year: loss of €5 million) and breaks down as follows:

€ million

	2008	**2009**
Other financial income and expenses	(3)	(1)
Write-ups	2	3
Write-downs and additional allowances	(4)	(3)

Expenses of €1 million (previous year: €1 million) are allocable to financial liabilities stated at amortized cost and mainly relate to guaranty commissions; they are included in the other financial results.

The net currency/foreign exchange result totaled €-6 million (previous year: €14 million) and was incurred for loans and receivables as well as liabilities carried at amortized cost.

The category financial assets available for sale produced a net profit of €1 million (previous year: €1 million) from the write-down, reversal and disposal of securities. The profit resulting from derivatives excluding hedge accounting totaled €1 million (previous year: €13 million) and is included in the other financial result.

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Finance market risks | The operations and financing transactions of the Rheinmetall Group as an international group are exposed to financial risks, mainly from liquidity, counterparty default, commodity prices, exchange rate volatility and interest rate changes. In accordance with the Group-wide implemented 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, including contracting derivative financial instruments. 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. The effectiveness is subject to ongoing monitoring, using the critical terms match method prospectively and the dollar offset testing method retrospectively.

Inherent financial risks are proactively managed to ensure that at the balance sheet date, no significant risks emanate from financial instruments. Even if to the end of 2009 economic research institutes and international organizations were expecting an improvement of the economic climate in all economic regions, there are risks resulting from the global finance crisis. There remain in place and emanate primarily from the vulnerable finance system and unexpected currency fluctuations. For this reason, the management attaches great importance to these risks. Future finance risks may mainly arise from external funding problems, rising refinancing costs, and higher hedge contracting expenses. Especially in the Automotive sector, the future default risks attaching to trade receivables from customers will depend on how these face the challenges posed by the financial crisis.

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 options and swaps. In the Defence sector, in the context of central financing Rheinmetall AG began assuming the foreign exchange management for subsidiaries in the reporting year. Here currency hedge transactions are concluded with subsidiaries and the relevant counter-transactions with banks. In the Automotive sector, these transactions are concluded on a central basis. The transactions with banks are only concluded with banks which have ratings ensuring that they can fulfill the obligations from these contracts. The most important currency hedges contracted by German companies refer to US dollar, Swiss franc, Norwegian krone and Swedish krona sales transactions while the foreign companies mostly hedge euro-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. Provided that the necessary criteria are met, the changes in the fair value of hedging transactions are recognized in the hedge reserve in the context of cash flow hedge accounting.

As at the reporting date, the nominal volume of cash flow hedge accounting totaled €419 million (up from €368 million). In the year under review, fair value changes of €29 million (previous year: €28 million) were recognized in OCI only, while €3 million (down from €4 million) was reclassified from OCI to the income statement (mainly net sales). There were only immaterial ineffective portions of currency hedges.

Hedges covering a nominal volume of €416 million (up from €277 million) were not recognized in hedge accounting as defined by IAS 39 since either automatic offsetting mechanisms existed or the documentation requirements were not satisfied.

The table below shows the nominal volume, time to maturity and fair value of all currency hedges open at December 31. The fair values at the balance sheet date correspond to prices for financial instruments in arm's length transactions.

Currency hedges *€ million*

	Nominal volume		**Remaining term > 1 year**		**Fair value**	
	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009
Without hedge accounting						
Foreign exchange contract	275	292	17	61	(3)	5
Cross currency swap	-	59	-	-	-	0
Other	2	65	0	48	0	(5)
	277	**416**	**17**	**109**	**(3)**	**0**
With hedge accounting						
Foreign exchange contract	313	419	86	174	(26)	8
Other	55	-	-	-	3	-
	368	**419**	**86**	**174**	**(23)**	**8**

Sensitivity analysis | If the exchange rates for the respective functional currency had been 10% higher or lower on the closing date, there would have been the following changes.

The result from derivative financial instruments without hedging relationships would have been €2 million higher/lower (previous year: €5 million).

Before deferred taxes the hedge reserve position would have been €4 million higher/lower (previous year: €19 million).

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Interest rate risk | For the Rheinmetall Group's financing activities, such funding tools as floating-rate facilities are used. Interest rate hedges such as caps and interest rate swaps (including interest/currency swaps) contain the risks emanating from market rate changes.

Such hedges are contracted centrally by Rheinmetall AG, as well as locally at subsidiary level.

The interest rate hedges listed in the table were open as of the reporting date. The table shows the nominal volumes, remaining terms and fair values as indicated, most presenting no hedging relationship. The fair values at the balance sheet date correspond to prices for financial instruments in arm's length transactions.

Interest rate hedges *€ million*

	Nominal volume		Remaining term > 1 year		Fair value	
	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009
Without hedge accounting						
Interest rate options	50	250	50	200	-	3
Interest rate swaps	34	126	32	105	(2)	(3)
	84	**376**	**82**	**305**	**(2)**	**0**
With hedge accounting						
Interest rate swaps	-	112	-	112	-	(1)
	-	**112**	**-**	**112**	**-**	**(1)**

As at the reporting date, the nominal volume of cash flow hedge accounting totaled €112 million (previous year: €– million). In the reporting year, these relate to interest swaps bought to hedge the variable interest of promissory notes.

In the reporting year, changes in market value totaling €1 million (previous year: €0 million) were taken into equity in the hedging reserve. For this reason there was no transfer to the income statement. The hedging transactions were 100% effective.

Hedges with a nominal volume of €376 million (previous year: €84 million) were not recognized in hedge accounting in line with IAS 39. This includes interest caps with a nominal value of €200 million (market value €3 million) which were concluded in the reporting year to secure future interest payments from a floating rate loan. In addition, interest swaps to hedge future floating rate interest payments were concluded with a nominal value of €100 million (market value: €-1 million).

Sensitivity analysis | If the yield curve had been 100 bp higher or lower on the reporting date, the net financial result would have been €7 million lower (-100 bp) or €8 million higher (+100 bp) (previous year: €1 million at +/- 100 bp).

Before deferred taxes the hedge reserve position would have been €4 million higher or lower (previous year: €0 million).

Commodity price risk | The Rheinmetall Group is exposed to price volatility risks from commodity buying, such as metals. By agreeing with customers on materials cost escalator clauses, 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 a financial basis. Hedging strategy and the extent of underlyings to be hedged have been specified with binding effect in a corporate guideline, thus ensuring that such derivatives are exclusively used to hedge present underlyings or forecasted transactions in the scope of the sector's primary operating activities. The derivatives are part of cash flow hedges, and the fair value changes in perfect hedges are recognized in OCI only until the underlying materializes or falls due. If hedge effectiveness is less than 100%, changes in fair value are recognized in the income statement. There was no ineffectivity in the reporting year.

In the year under review, a total fair value gain of €14 million (up from an €8 million loss) was recognized in OCI only and another gain of €7 million recycled from OCI to the cost of materials (up from €1 million).

The fair value of the commodity futures is derived from the value of all contracts at market as of the valuation date and therefore corresponds to the current value of the contract portfolio at year-end.

The notional volume of the hedging reserve represents the sum total of all purchase and selling contracts and is shown non-netted.

Commodity hedges *€ million*

	Nominal volume		**Remaining term > 1 year**		**Fair value**	
	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009
With hedge accounting						
Commodity futures	19	24	-	16	(9)	12

Commodity futures also exist which are not recognized in hedge accounting, the nominal volumes and fair values of which are less than €0.5 million.

Sensitivity analysis | If the future price curve (assuming it to remain constant over the hedged term) of each hedged metal had changed by 10%, the related OCI would have risen or dropped by €4 million (prior-year range: €+/-1 million) while the net financial result would not have been affected, since at December 31, 2009 virtually all open contracts had a hedging relationship.

Notes to the consolidated financial statements
Supplementary disclosures

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 the Rheinmetall Group the monitoring and the recognition of default risk from customer receivables takes place decentrally 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.

The past due analysis for customer receivables received within trade receivables below clearly shows that receivables for which value allowances are made are insignificant. 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, 2008	Dec. 31, 2009
Trade receivables unimpaired but past due		
for up to 30 days	70	57
for up to 180 days	35	45
for more than 180 days	12	27
	117	129
impaired	5	6
neither impaired nor past due	343	318
	465	**453**
Individual value adjustments	(4)	(5)
	461	**448**

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.

To a small extent, companies in the Rheinmetall Group have made financial commitments by granting loans to associates. Over and above this scope, the Rheinmetall Group has no important credit concentrations.

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 bilateral or syndicated basis, a commercial paper (CP) program, an asset backed securities program, promissory notes, and a bond issue. For further details of such credit facilities, see the management report.

The table below shows as of December 31 all discounted contractually agreed payments for recognized financial liabilities, as well as the derivative financial instruments and their fair value.

€ million

	Dec. 31, 2008			Dec. 31, 2009		
	2009	2010-2013	from 2014	2010	2011-2014	from 2015
Bond	11	336	-	336	-	-
Promissory notes	-	-	-	5	161	-
Other bank liabilities	47	11	25	28	11	23
Capital lease liabilities	1	2	-	1	1	-
Other financial debts	1	2	1	1	2	1
	60	**351**	**26**	**371**	**175**	**24**
Financial derivatives with						
negative fair value	38	13	-	12	11	1
positive fair value	15	1	-	22	20	-

The associated cash flow risk from the financial liabilities is confined to cash outflows.

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, 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.

(37) Share-based remuneration | A long-term incentive program exists within the Rheinmetall Group, under which beneficiaries share in the increase in value of the Rheinmetall Group in that they receive Rheinmetall shares in addition to cash payment. For the purposes of this program, shareholder value is deemed to have risen if the average adjusted EBT for the preceding three fiscal years exceeds that of the prior three-year period. The number of shares granted is based on the average price on the last five trading days in February of the subsequent fiscal year. As the figure for average adjusted EBT between 2007 and 2009 has been below the same figure for the previous year, no share-based remuneration has been granted for the past fiscal year. The expense recognized in 2008 for share-based remuneration totaled €4 million. On April 2, 2009, participants in the incentive program for fiscal 2008 received a total of 159,048 shares (for 2007: 79,940).

Notes to the consolidated financial statements
Supplementary disclosures

The Rheinmetall Group has a share purchase program, under which eligible staff of German Rheinmetall companies may purchase Rheinmetall AG shares on preferential conditions. Such shares are subject to a lock-up period of 2 years. Within specified subscription periods, the employees are given the opportunity to acquire a limited number of shares at a discount of 30% on the applicable share price. In fiscal 2009, Rheinmetall Group employees purchased 55,344 shares altogether (previous year: 355,229) for €1 million (previous year: €8 million). Expenses of €1 million (previous year: €3 million) were incurred for this program, recognized as personnel expenses.

Subscription window	Share price in €	Discount per share in €	No. of shares purchased by staff	Sales proceeds from shares purchased by employees in € million
Oct. 28 - Nov. 11, 2008 retrospectively	20.01	6.00	400	0
April 15 - April 28, 2009	27.95	8.38	42,426	1
Oct. 27 - Nov. 9, 2009	38.99	11.7	12,518	0

(38) Other information on related parties | For the Rheinmetall Group, corporate related parties are the joint ventures and associated companies carried at equity. Especially the joint ventures contribute to the expansion of Defence and Automotive operations. The volume of products / services provided to corporate related parties primarily relates to sales proceeds from the sale of finished and unfinished goods to project companies and sales proceeds from army maintenance services under a public-private partnership model in the Defence sector. Moreover, the volume of unpaid items includes loans of €3 million to joint ventures (previous year: €3 million), interest income from such loans amounting 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	
	2008	**2009**	**2008**	**2009**	**2008**	**2009**
Joint ventures	111	92	10	4	(10)	(5)
Associated companies	5	7	9	10	-	5
	116	**99**	**19**	**14**	**(10)**	**-**

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

	2008	**2009**
Short-term payments due	3,700	4,206
Deferred compensation	128	76
	3,828	**4,282**
Additional post-retirement benefits	795	431

The post-retirement benefit amounts reflect the current service cost for pension entitlements.

Supervisory Board fees amounted to €0.750 million in the year under review (down from €0.987 million) and are all due in the short term.

For further details and itemization of each member's remuneration, see the Board remuneration report within the Group management report.

An unchanged €2 million was paid to former Executive Board members or their surviving dependants, the accruals for pension obligations to these persons totaling €15 million (previous year: €16 million). €0.481 million (down from €0.586 million) was paid to former Executive Board members or their surviving dependants of Rheinmetall DeTec AG (merged with Rheinmetall AG in 2005), the accruals for pension obligations to these persons totaling an unchanged €6 million.

(39) Auditor remuneration | In fiscal 2009 and 2008, the following fees of the statutory auditor (PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft) were expensed in Germany:

€ '000

	2008	2009
End-of-year auditing services	2,031	1,927
Verification services	41	2
Tax consultancy services	81	72
Other services	461	458
	2,614	**2,459**

The auditing fees cover Rheinmetall AG's single-entity and consolidated financial statements and the accounts of all subsidiaries audited by PWC in Germany. Tax consultancy fees primarily comprised fees for project-related consultancy services. Fees for other services mainly relate to activities in the context of audits accompanying projects.

(40) Corporate Governance | In December 2009, 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, March 5, 2010
Rheinmetall Aktiengesellschaft
The Executive Board

Klaus Eberhardt Dr. Gerd Kleinert Dr. Herbert Müller

Notes to the consolidated financial statements
Shareholdings

Company		Direct share of capital in %	Indirect share of capital in %
Fully consolidated subsidiaries			
Holding companies / service companies / other			
EMG EuroMarine Electronics GmbH, Neckarsulm / Germany			100
Facula Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Rheinmetall Allee 2 KG, Düsseldorf / Germany			100
Facula Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf / Germany			100
LIGHTHOUSE Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf / Germany			100
MEG Marine Electronics Holding GmbH, Bremen / Germany			100
Rheinmetall Berlin / Germany Verwaltungsgesellschaft mbH, Berlin / Germany		100	
Rheinmetall Bürosysteme GmbH, Düsseldorf / Germany		100	
Rheinmetall Immobiliengesellschaft mbH, Düsseldorf / Germany		100	
Rheinmetall Industrie Ausrüstungen GmbH, Neckarsulm / Germany		100	
Rheinmetall Industrietechnik GmbH , Düsseldorf / Germany		100	
Rheinmetall Maschinenbau GmbH, Düsseldorf / Germany		100	
Rheinmetall Versicherungsdienst GmbH, Düsseldorf / Germany		100	
Rheinmetall Verwaltungsgesellschaft mbH, Düsseldorf / Germany			100
SUPRENUM Gesellschaft für numerische Superrechner mbH, Bremen / Germany			100
Defence sector			
American Rheinmetall Munition Inc., Stafford / USA	USD	100	
Benntec Systemtechnik GmbH, Bremen / Germany	(1)		49
BIL Industriemetalle GmbH & Co. 886 KG, Grünwald / Germany		94	
Contraves Advanced Devices Sdn Bhd, Melaka / Malaysia	MYR		100
Contraves Sdn Bhd, Melaka / Malaysia	MYR		100
Eurometaal Holding Deutschland GmbH, Düsseldorf / Germany			100
Eurometaal Holding N.V., Hengelo / Netherlands			100
Eurometaal N.V., Hengelo / Netherlands			100
I.L.E.E. AG, Urdorf / Switzerland	CHF		100
Laser 2000 (Switzerland) AG, Urdorf / Switzerland	CHF		80
LDT Laser Display Technology GmbH, Jena / Germany			51
Nitrochemie AG, Wimmis / Switzerland	CHF		51
Nitrochemie Aschau GmbH, Aschau / Germany			55
Nitrochemie Wimmis AG, Wimmis / Switzerland	CHF		55
Oerlikon Contraves GmbH, Zürich / Switzerland	CHF	100	
Oerlikon Contraves Pte. Ltd., Singapore / Singapore	SGD		100
Rheinmetall Air Defence AG, Zürich / Switzerland	CHF	100	
Rheinmetall Canada Inc., St.-Jean-sur-Richelieu / Canada	CAD	100	
Rheinmetall Chempro GmbH, Bonn / Germany			51
Rheinmetall Defence Electronics GmbH, Bremen / Germany		100	
Rheinmetall Defence UK Limited, London / Great Britain	GBP	100	

Company		Direct share of capital in %	Indirect share of capital in %
Rheinmetall Denel Munition (Proprietary) Limited, Pretoria / South Africa	ZAR		51
Rheinmetall Dienstleistungszentrum Altmark GmbH, Letzlingen / Germany		100	
Rheinmetall Hellas S.A., Athen / Greece		100	
Rheinmetall Italia S.p.A., Rom / Italy			100
Rheinmetall Landsysteme GmbH, Kiel / Germany		100	
Rheinmetall Nederland B.V., Amsterdam / Netherlands			100
Rheinmetall Radfahrzeuge GmbH, Düsseldorf / Germany		100	
Rheinmetall Switzerland AG, Zürich / Switzerland	CHF		100
Rheinmetall Soldier Electronics GmbH (vorm. Oerlikon Contraves GmbH), Stockach / Germany		100	
Rheinmetall Technical Publications GmbH, Bremen / Germany		100	
Rheinmetall Vorrat Nr. Zwei GmbH, Düsseldorf / Germany		100	
Rheinmetall Waffe Munition ARGES GmbH, Schwanenstadt / Austria			100
Rheinmetall Waffe Munition GmbH, Unterlüß / Germany		100	
RF Engines Limited, Newport, Isle of Wight / Great Britain	GBP		100
RM Euro B.V., Hengelo / Netherlands		100	
RTP-UK Ltd., Bristol / Great Britain	GBP		100
RWM Beteiligungsverwaltung Austria GmbH, Schwanenstadt / Austria			100
RWM Switzerland AG, Zürich / Switzerland	CHF		100
RWM Zaugg AG, Lohn-Ammannsegg / Switzerland	CHF		100
Automotive sector			
GVG Grundstücksverwaltung Gleitlager GmbH & Co. KG, Neckarsulm / Germany			100
GVH Grundstücksverwaltung Hamburg GmbH & Co. KG, Neckarsulm / Germany			100
GVN Grundstücksverwaltung Neckarsulm GmbH & Co. KG, Neckarsulm / Germany			100
Karl Schmidt Unisia Inc., Marinette / USA	USD		92
Kolbenschmidt de Mexico S.de R.L. de C.V., Celaya / Mexico	MXN		100
Kolbenschmidt K.K., Yokohama / Japan	JPY		100
Kolbenschmidt Liegenschaftsverwaltung GmbH, Berlin / Germany			100
Kolbenschmidt Pierburg AG, Neckarsulm / Germany			100
KS Aluminium-Technologie GmbH, Neckarsulm / Germany			100
KS ATAG Bearbeitungsgesellschaft m.b.H., Neckarsulm / Germany			100
KS ATAG Beteiligungsgesellschaft m.b.H., Neckarsulm / Germany			100
KS ATAG GmbH, Neckarsulm / Germany			100
KS ATAG Romania S.R.L. , Bukarest / Romania	RON		100
KS France S.A.S, Basse-Ham (Thionville) / France			100
KS Gleitlager GmbH, St. Leon-Rot / Germany			100
KS Gleitlager USA Inc., Fountain Inn (Greenville) / USA	USD		100
KS Grundstücksverwaltung Beteiligungs GmbH, Neckarsulm / Germany			100
KS Grundstücksverwaltung GmbH & Co. KG, Neckarsulm / Germany			100
KS Kolbenschmidt Czech Rebublic a.s., Usti / Czech Republic	CZK		100
KS Kolbenschmidt France S.A.S., Basse-Ham (Thionville) / France			100

Notes to the consolidated financial statements
Shareholdings

Company		Direct share of capital in %	Indirect share of capital in %
KS Kolbenschmidt GmbH, Neckarsulm / Germany			100
KS Large Bore Pistons Inc., Marinette / USA	USD		100
KS Personaldienstleistungsgesellschaft mbH, Neckarsulm / Germany			100
KS Produtos Automotivos Ltda., Nova Odessa / Brazil	BRL		100
KSPG Automotive Brazil Ltda., Nova Odessa / Brazil	BRL		100
KSPG Finance & Service Ltd., St. Julians / Malta			100
KSPG Malta Holding Ltd., St. Julians / Malta		21	79
KSPG Netherlands Holding B.V., Amsterdam / Netherlands			100
KSUS International LLC., Marinette / USA	USD		100
KUS Canada Inc., Leamington / Canada	USD		92
MS Motor Service Aftermarket Iberica S.L., Abadiano / Spain			100
MS Motor Service Asia Pacific Co., Ltd. (vorm. MS Motor Serv. Sh. Tr. Comp.), Shanghai / China	CNY		100
MS Motor Service Deutschland GmbH, Weinstadt / Germany			100
MS Motor Service France S.A.S., Goussainville / France			100
MS Motor Service International GmbH, Neuenstadt / Germany			100
MS Motor Service Istanbul Dis Ticaret ve Pazarlama A.S., Istanbul / Turkey	TRL		51
Pierburg China Ltd., Kunshan City / China	CNY		100
Pierburg Gestion S.L., Abadiano / Spain			100
Pierburg GmbH, Neuss / Germany			100
Pierburg Inc., Fountain Inn (Greenville) / USA	USD		100
Pierburg India Private Limited, Mumbai Maharashtra / India	INR		100
Pierburg Mexico S.A. de C.V., Chihuahua / Mexico	MXN		100
Pierburg Pump Technology GmbH, Neuss / Germany			100
Pierburg Pump Technology India Private Limited, Mumbai Maharashtra / India	INR		100
Pierburg Pump Technology Italy S.p.A., Lanciano / Italy			100
Pierburg Pump Technology France S.à r.l., Basse-Ham (Thionville) / France			100
Pierburg Pump Technology S.A. de C.V., Chihuahua / Mexico	MXN		100
Pierburg Pump Technology UK Ltd., Laindon Basildon, Essex / Great Britain	GBP		100
Pierburg Pump Technologie US LLC., Marinette / USA	USD		100
Pierburg S.A., Abadiano / Spain			100
Pierburg s.r.o., Usti / Czech Republic	CZK		100
Rheinmetall North America Inc. (vorm. KS Intern. Inv. Corp.), Southfield / USA	USD	100	
Société Mosellane de Services S.C.I., Basse-Ham (Thionville) / France			100
Werkzeugbau Walldürn GmbH, Walldürn / Germany			100

Company		Direct share of capital in %	Indirect share of capital in %
Investments carried at equity			
Holding companies / service companies / other			
LIGHTHOUSE Development GmbH, Düsseldorf / Germany			10
MK 5 Development GmbH, Düsseldorf / Germany			10
Unternehmerstadt GmbH, Düsseldorf / Germany			50
Defence sector			
ADS Gesellschaft für aktive Schutzsysteme mbH, Lohmar / Germany			25
Advanced Pyrotechnic Materials Private Ltd., Singapore / Singapore	SGD		49
AIM Infrarot-Module GmbH, Heilbronn / Germany			50
ARGE RDE/CAE (GbR), Bremen / Germany			50
ARTEC GmbH, München / Germany			64
Burkan Munitions Systems L.L.C., Abu Dhabi / UAE	AED		40
DynITEC GmbH, Troisdorf / Germany			35
EuroSpike GmbH, Röthenbach / Germany			40
GIWS Gesellschaft für Intelligente Wirksysteme mbH, Nürnberg / Germany			50
Hartchrom Defense Technology AG, Steinach / Switzerland	CHF		38
Hellenic Simulation and Training Systems Commercial and Industrial Societe Anonyme (HSTS S.A.), Agia Paraskevi / Greece			50
HFTS Helicopter Flight Training Services GmbH, Hallbergmoos / Germany			25
HIL Industrie-Holding GmbH, Bonn / Germany			33
LOG Logistik-Systembetreuungs-Gesellschaft mbH, Bonn / Germany			25
N2 Defense LLC, Arlington, Virginia / USA	USD		50
Oy Finnish Defence Power Systems AB, (FDPS), Helsinki / Finland			30
PSM Projekt System & Managment GmbH, Kassel / Germany			50
SysFla GmbH, Unterschleißheim / Germany			50
Werk Aschau Lagerverwaltungsgesellschaft mbH, Aschau / Germany			28
Automotive sector			
Advanced Bearing Materials LLC., Greensburg / USA	USD		50
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., Shanghai / China	CNY		50
Kolbenschmidt Shanghai Piston Co. Ltd., Shanghai / China	CNY		50
KS ATAG TRIMET Guss GmbH, Harzgerode / Germany			50
Shriram Pistons & Rings Ltd., New Delhi / India	INR		20

(1) Full consolidation due to majority of voting rights

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 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, March 5, 2010
Rheinmetall Aktiengesellschaft
The Executive Board

Klaus Eberhardt Dr. Gerd Kleinert Dr. Herbert Müller

Auditor’s 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 balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group 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 on the group 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 group 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 the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities 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 group 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 full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group 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 8, 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Peter Albrecht	Uwe Schwalm
Wirtschaftsprüfer	Wirtschaftsprüfer

Balance Sheet of Rheinmetall Aktiengesellschaft as of December 31, 2009

Assets *€ '000*

	Dec. 31, 2008	Dec. 31, 2009
Fixed assets		
Intangible assets	91	146
Property, plant and equipment	28,988	27,692
Financial assets	904,403	1,044,146
	933,482	**1,071,984**
Current assets		
Receivables and other assets	381,227	180,631
Securities	36,822	106,628
Cash in hand	101,338	423,989
	519,387	**711,248**
Deferred income	**578**	**1,002**
Total assets	**1,453,447**	**1,784,234**

Equity and liabilities *€ '000*

	Dec. 31, 2008	Dec. 31, 2009
Share capital	92,160	101,373
Capital reserves	208,262	303,419
Retained earnings	182,639	140,559
Net earnings	45,009	11,500
Equity	**528,070**	**556,851**
Special tax-allowable reserves	**3,131**	**3,050**
Provisions	**115,347**	**118,972**
Liabilities		
Bond	325,000	325,000
Liabilities due to banks	-	150,000
Other liabilities	481,899	630,361
	806,899	**1,105,361**
Total liabilities	**1,453,447**	**1,784,234**

Income Statement of Rheinmetall AG for fiscal 2009

€ '000

	2008	2009
Investment income	63,038	(28,856)
Net interest	(6,294)	(16,784)
Write-down / write-up of treasury stock	(30,427)	25,510
Net financial income	**26,317**	**(20,130)**
Other operational income	58,331	61,986
Staff costs	29,754	27,085
Amortization of intangible and depreciation of tangible assets (incl. write-down)	1,675	1,710
Other operating expenses	37,338	41,143
EBT	**15,881**	**(28,082)**
Taxes on income and revenue	10,448	2,591
Net profit for the year / Net loss for the year	**5,433**	**(30,673)**
Appropriations of retained earnings	78,722	67,683
Appropriation to retained earnings	39,146	25,510
Net earnings	**45,009**	**11,500**

Supervisory Board

Klaus Greinert
Mannheim
Businessman
Chairman

Membership of Supervisory Boards

Beirat Gebr. Röchling KG (Chairman)
DURAVIT AG (Chairman)
DURAVIT S.A.

Joachim Stöber *)
Biebergemünd
Member of the German Metalworkers' Union's General Secretariat
Vice-Chairman

Membership of Supervisory Boards

GEA Group AG

Dr. Ludwig Dammer *)
Düsseldorf
Director Business Excellence and Quality & Process
Pierburg GmbH

Professor Dr. Andreas Georgi
Starnberg
Professor of Leadership and Control Problems in Enterprise
Ludwig-Maximilians-Universität Munich
Consultant

Membership of Supervisory Boards

Asea Brown Boveri Aktiengesellschaft
Felix Schoeller Holding GmbH & Co. KG
Oldenburgische Landesbank AG
RWE Dea AG

Dr. Siegfried Goll
Markdorf
Consulting Engineer
Former CEO of ZF Friedrichshafen AG

Membership of Supervisory Boards

Leuze Geschäftsführungs-GmbH
Rohwedder AG
SAF-Holland S.A.
Voss Holding GmbH & Co. KG
Witzenmann GmbH

Heinrich Kmett *)
Fahrenbach/Robern
Works Council Chairman of
Kolbenschmidt Pierburg AG
KS Kolbenschmidt GmbH
MS Motor Service International GmbH

Membership of Supervisory Boards

Kolbenschmidt Pierburg AG

Dr. Rudolf Luz *)
Neckarsulm
1st delegate of the Metalworkers Union
Heilbronn-Neckarsulm

Membership of Supervisory Boards

Kolbenschmidt Pierburg AG (Vice-Chairman)

Dr. Peter Mihatsch
Sindelfingen
Consulting engineer

Membership of Supervisory Boards

Arcor AG
ADC Krone GmbH
Giesecke & Devrient GmbH (Chairman)
Strabag Property and Facility Services GmbH
Vodafone Deutschland GmbH
Vodafone D2 GmbH

*) *Selected by employees*

DDr. Peter Mitterbauer
Gmunden, Österreich
CEO of
Miba AG

Membership of Supervisory Boards

Andritz AG
Erste Österreichische Spar-Casse Privatstiftung
FFG Österreichische Forschungsförderungsgesellschaft mbH (Chairman)
Oberbank AG
ÖIAG Österreichische Industrieholding AG (Chairman)

Wolfgang Müller *)
Bad Rappenau
Works Council Chairman of
KS Aluminium-Technologie GmbH

Membership of Supervisory Boards

KS Aluminium-Technologie GmbH
KS ATAG GmbH

Henning von Ondarza
Bonn
Retired General

Professor Dr. Frank Richter
Ulm
Professor of Corporate Governance and Finance
Ulm University

Membership of Supervisory Boards

Advisory Board Gebr. Röchling KG
GSW Gemeinnützige Siedlungs- und
Wohnungsbaugesellschaft Berlin mbH
Ulm University

Reinhard Sitzmann
Weichs
General Manager of
Hirschmann Multimedia Holding B.V.

Membership of Supervisory Boards

Shareholder Committee Opti M & A GmbH
Advisory Board of Hirschmann Car Communication GmbH
Advisory Board of Xiamen Hongfa Electroacoustic Co., Ltd.

Wolfgang Tretbar *)
Nettetal
Works Council Chairman of
Pierburg GmbH,
Nettetal plant

Harald Töpfer *)
Kassel
Works Council Chairman of
Rheinmetall Landsysteme GmbH,
Kassel operation

Peter Winter *)
Achim
Member of Works Council of
Rheinmetall Defence Electronics GmbH

Membership of Supervisory Boards

Rheinmetall Defence Electronics GmbH

*) *Selected by employees*

Executive Board

Klaus Eberhardt
Düsseldorf
Chairman (CEO)
Director of Industrial Relations

Chairman of the Defence sector

Membership of Supervisory Boards

Kolbenschmidt Pierburg AG
(Chairman)
Hirschmann Automotive GmbH
MTU Aero Engines Holding AG
(Chairman)
MTU Aero Engines GmbH
(Chairman)
Eckart Wälzholz-Junius Familienstiftung
Dietrich Wälzholz Familienstiftung

Dr. Gerd Kleinert
Gottmadingen
CEO of Kolbenschmidt Pierburg AG

Membership of Supervisory Boards

Kolbenschmidt Pierburg Shanghai
Nonferrous Components Co. Ltd.
(Vice-Chairman)
KS Aluminium-Technologie GmbH
(Chairman)
KS ATAG GmbH
(Chairman)
KS Gleitlager GmbH
(Chairman)
KS Kolbenschmidt GmbH
(Chairman)
KS International Investment Corp.
Läpple AG
(Chairman)
Pierburg GmbH
(Chairman)
Advisory Board Gebr. Röchling KG

Dr. Herbert Müller
Bonn
Finance and Controlling

Membership of Supervisory Boards

Kolbenschmidt Pierburg AG

Senior Executive Officers

Dr. Andreas Beyer, LL.M.
Sindelfingen
Law, Internal Auditing, M&A

Ingo Hecke
Meerbusch
Human Resources and Senior Management

Executive Board Automotive

Dr. Gerd Kleinert
Gottmadingen
Chairman
Strategy, Marketing, Operations

Dr. Peter P. Merten
Herrsching
Finance & Controlling, IT

Peter-Sebastian Krause
Erkrath
Human Resources, Law

Management Board Defence

Klaus Eberhardt
Düsseldorf
Chairman

Helmut P. Merch
Erkrath
Finance & Controlling, IT

Detlef Moog
Mülheim a.d. Ruhr
(up to December 31, 2009)
Land Systems, Weapon and Munitions, Propellants

Armin Papperger
Hermannsburg
(from January 1, 2010)
Land Systems, Weapon and Munitions, Propellants

Heinz Dresia
Krefeld
Air Defence, C4ISTAR, Simulation and Training

Ingo Hecke
Meerbusch
Human Resources

Shaun Liebenberg
Meerbusch
International Business Development

Financial diary 2010

March 23, 2010
Annual accounts press conference

March 23, 2010
Analysts conference

May 7, 2010
Report on Q1 2010

May 11, 2010
Annual General Meeting

August 11, 2010
Report on Q2 2010

November 15, 2010
Report on Q3 2010

All dates are provisional. Subject to change.

Legal information and contact

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This report was published on March 23, 2010. The annual report of Rheinmetall AG is available in German (original version) and English (non-binding translation). Both versions are available to download at www.rheinmetall.com.

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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