Annual Report
Rheinmetall AG

2010

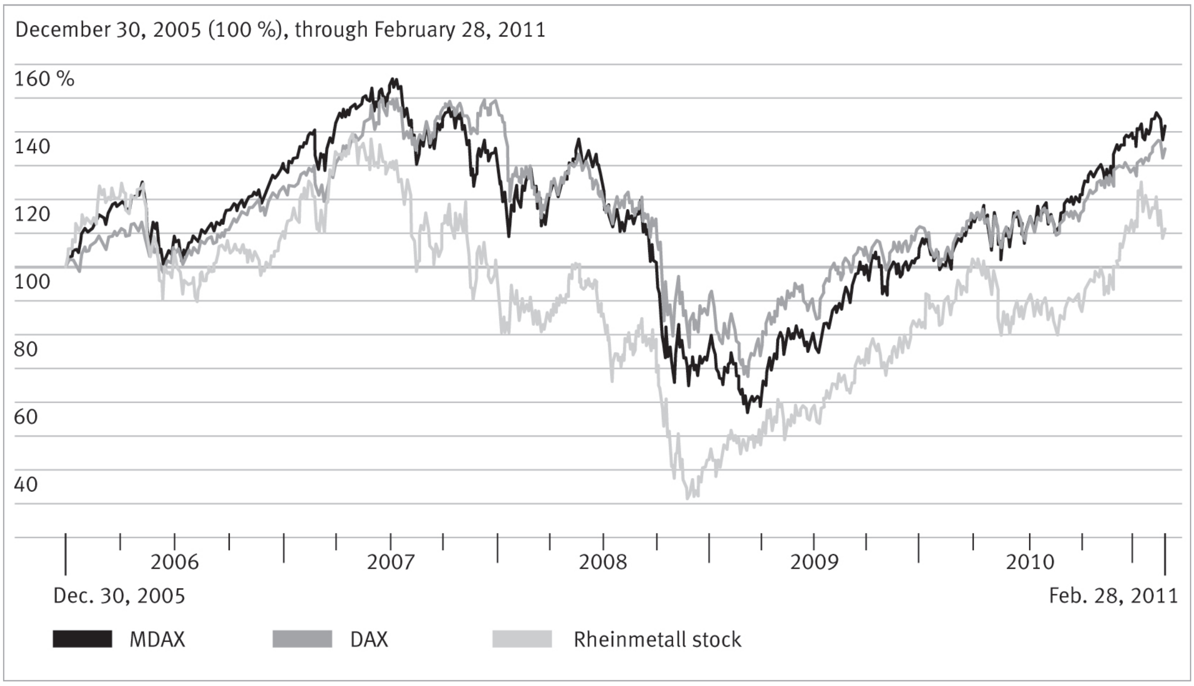
Rheinmetall in figures

Rheinmetall Group indicators

		2006	2007	2008	2009	2010
Sales	*€ million*	3,626	4,005	3,869	3,420	3,989
Order intake	*€ million*	3,899	4,040	3,780	4,649	3,974
Order backlog (Dec. 31)	*€ million*	3,183	3,239	3,683	4,940	5,136
EBITDA	*€ million*	366	438	411	180	464
EBIT [2]	*€ million*	215	270	245	15	297
EBT [2]	*€ million*	164	213	193	-46	229
Net income [2]	*€ million*	123	150	142	-52	174
Cash flow	*€ million*	308	352	308	120	344
Capital expenditures	*€ million*	186	202	200	145	189
Amortization/depreciation	*€ million*	151	168	166	165	167
Total equity [2]	*€ million*	937	1,059	1,080	1,134	1,355
Total assets [2]	*€ million*	3,389	3,448	3,612	3,835	4,460
EBIT margin	*in %*	5.9	6.7	6.3	0.4	7.4
ROCE [1,2]	*in %*	12.5	14.5	12.5	0.8	14.6
Stock price, annual high	€	66.41	74.12	53.81	44.74	60.17
Stock price, annual closing	€	57.48	54.38	22.90	44.74	60.17
Stock price, annual low	€	47.80	48.04	16.82	20.41	42.50
Earnings per share (EpS) [2]	€	3.41	4.15	4.09	-1.60	4.23
Dividend per share	€	1.00	1.30	1.30	0.30	1.50
Employees (Dec. 31) according to capacity		18,799	19,185	21,020	19,766	19,979

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



DEFENCE

Weapon and Munitions
Direct fire
Indirect fire
Infantry
Protection systems
Plant engineering

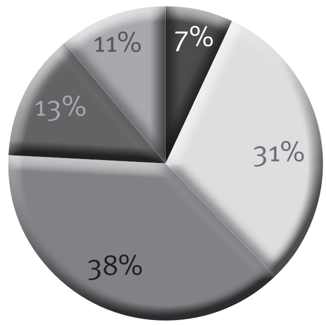
Propellants
Propellant systems
Civil chemistry

Land Systems
Wheeled vehicles
Tracked vehicles
Turret systems
Service

Air Defence
Air defence systems

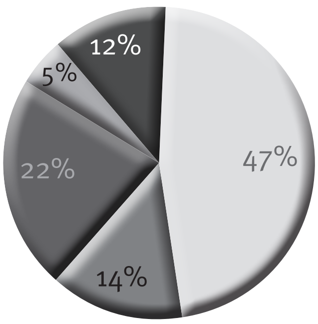
C4ISTAR
Reconnaissance
Command
Fire control
Airborne systems

Simulation and Training
Flight simulation
Land simulation
Maritime and process simulation



Sales per region

- Germany
- Europe (w/o Germany)
- Asia
- North and Central America
- Other



Employees per region

- Europe
- North America
- South America
- Asia/Australia
- Africa

AUTOMOTIVE

KS Kolbenschmidt

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

Pierburg

Air management
Actuators
Emission reduction
Solenoid valves
Commercial diesel systems

Pierburg Pump Technology

Oil pumps
Vacuum pumps
Water circulation
and coolant pumps

KS Aluminium-Technologie

Aluminium alloy engine blocks
Cylinder heads
Final machining

KS Gleitlager

Metallic plain bearings
Permaglide®
Continuous castings
Large bearings

Motor Service

Aftermarket components

Contents

Report of the Supervisory Board

Continuous dialog between the Supervisory Board and Executive Board | In the 2010 fiscal year, the Supervisory Board performed the advisory and supervisory 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. Cooperation between the Executive Board and the Supervisory Board was characterised by trusting and open exchange. In addition to providing advice on the management of the company, the activities of the Supervisory Board focused on continuous support and monitoring of management by the Executive Board. In addition to four scheduled ordinary Supervisory Board meetings, nine committee meetings took place in 2010. All members of the Supervisory Board performed their functions and duties responsibly and with great dedication. The average attendance rate at Supervisory Board meetings was 98 %. With two exceptions, all committee meetings in the year under review were attended by all members. 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 carefully reviewed, thoroughly discussed and approved by, the Supervisory Board.

The Supervisory Board was directly involved in all procedures and decisions of key strategic and economic importance to the Rheinmetall Group at a very early stage. In addition to the business trend, earnings and financial position, important points discussed by the Supervisory Board included the long-term business policy and positioning of the Rheinmetall Group, the sustainable management of the effects of the financial and economic crisis, the employment situation, the risk situation and risk management, compliance organization, economic, market and sales data and the operating performance of the corporate sectors. Moreover, changes in the overall economic environment and the specific market, sector and competitive situation and the associated impact on the prospects and focus of the lead companies of the Rheinmetall Group were discussed. Issues relating to corporate goals, their viability, their economic importance and the expected impact on the company's strategic, operational and financial situation have also been discussed in detail.

As part of its reports on the business situation, the Executive Board provided information on the continuous reviewing and improvement of structures and processes, in order to ensure the competitiveness of the operating units in the long term. In addition to meetings of the Supervisory Board, there were numerous ad hoc meetings between the CEO and the Chairman of the Supervisory Board, which ensured a constant exchange of information, thoughts and opinions between the Supervisory Board and the Executive Board. The business situation, important developments, significant transactions and forthcoming decisions were discussed.

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 legality, propriety and efficiency of the management of the Rheinmetall Group. This also applies to the performance of the compliance organization and of the risk management system.

Focus of discussions in 2010 | One main focus of the annual accounts meeting on March 18, 2010 was the single-entity and consolidated financial statements certified by PricewaterhouseCoopers (PwC) with the corresponding management reports as at December 31, 2009 and the Executive Board's proposal for the appropriation of net income for the year. The auditors reported on the material findings and results of their audits. Both the Executive Board and PwC provided comprehensive answers to the questions of the Supervisory Board. After considering the company's financial situation and the expectations of shareholders and the capital market, the Supervisory Board approved the Executive Board's proposal for the appropriation of profits. Furthermore, the draft proposals to be submitted to the Annual General Meeting for 2010, particularly the global authorizations relating to capital measures, were discussed and approved after detailed discussions. The Executive Board also reported on the status of several acquisition projects with which the planned growth is to be ensured and the internationalization of the Defence sector expanded.

In consultation with the Chairman of the Supervisory Board, the Supervisory Board gave its approval between the meetings on March 18 and May 10, 2010, owing to time constraints, for the application of the Executive Board to submit a voluntary public offer for the acquisition of 100 % of shares in Simrad Optronics ASA, Nøtterøy, Norway, on the basis of a detailed, meaningful submission of the Supervisory Board through votes submitted in writing. At the Supervisory Board meeting on March 18, 2010, the Executive Board had presented in detail the strategic approach and the operational advantages associated with this acquisition.

At its meeting on May 10, 2010, the Supervisory Board was informed about the economic development of the Rheinmetall Group in the first quarter of 2010 and prepared for the Annual General Meeting taking place the following day. It was decided that Dr. Gerd Kleinert would be re-appointed and his contract extended accordingly. In addition, the plenary Supervisory Board dealt with the results of a review of the Executive Board remuneration structure carried out by a prestigious Düsseldorf-based law firm on the basis of the law on the appropriateness of Executive Board remuneration (VorstAG). The Executive Board also reported on the annual meeting of the senior management of Rheinmetall AG, which includes around 280 staff, in April 2010.

At the Supervisory Board meeting on August 25, 2010, the Executive Board presented the half-yearly financial report and the expected business development for 2010. Against the backdrop of the increasing recovery in the automotive industry, the Executive Board reported on the economic situation in the Automotive sector and on the results of the optimization and cost-cutting measures that had been commenced. It outlined the possibilities for future growth and the increasing internationalization of the Kolbenschmidt Pierburg Group, along with the resulting strategic, technological and operational orientation of the Automotive sector. The development of the national and of international defence budgets was also discussed in depth. The Executive Board provided an overview of the escalation in worldwide conflicts since the attacks of September 11, 2001, changes in defence scenarios and equipment requirements and looked in detail at the expected challenges, opportunities and risks for Rheinmetall Defence. The Supervisory Board also approved the issuing of a benchmark bond, after the Executive Board had explained the advantages, which include the diversification of sources of financing, the reduction of dependence on banks and the achievement of an inflow of long-term funds.

The Supervisory Board convened for its fourth ordinary meeting on December 7, 2010. The Executive Board presented its report for the third quarter of 2010 and informed all those present of the current business situation of the Rheinmetall Group, the competitive environment and the outlook for the remaining months of fiscal 2010. After that, the detailed corporate planning for 2011 to 2013 was presented to the Supervisory Board, which acknowledged it. The Supervisory Board approved the capital expenditure plan submitted for fiscal 2011. It also passed a resolution to commission PriceWaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, which was elected at the Annual General Meeting on May 11, 2010, to audit the single-entity financial statements and management report, along with the consolidated financial statements and Group management report, of Rheinmetall AG for fiscal 2010. Furthermore, the Supervisory Board also dealt with the relevant corporate governance regulations and their implementation within the Company. The Supervisory Board also conducted its annual review of its own efficiency, which included looking at workflows within the Supervisory Board, the distribution of duties and the flow of information between the Board and its committees, the routing of information from the Executive Board and the interaction of the two Boards. The 2010 audit showed that there was no discernible need to adjust the number of committees and meetings. In the opinion of the Supervisory Board, no significant changes need to be made to the preparation, content and procedure of the meetings. Furthermore, the Supervisory Board noted that it has an adequate number of independent members in its estimation.

Report of the Supervisory Board

Efficient work on the committees | The Supervisory Board continued its established work with the committees set up to improve its efficiency and prepare Supervisory Board meetings. 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. The Supervisory Board Chairman presides over all committees. The composition of the committees of the Supervisory Board in the period under review is presented on page 51. The entire Supervisory Board was informed promptly, regularly and comprehensively of the activities of the committees. The committees act in accordance with the law, the Company bylaws, the rules of procedure adapted to the duties of the Supervisory Board and the rules of procedure of the respective committee. Where legally possible, the committees also have decision-making powers if these have been transferred by the Supervisory Board.

The Personnel Committee, which prepares personnel decisions of the Supervisory Board and submits resolution recommendations to it regarding the remuneration system for the Executive Board and the content, structure and conclusion of employment contracts with Executive Board members, met in March, May and December 2010. In addition to the re-appointment of Dr. Gerd Kleinert and the associated extension of his contract, the Board dealt with current developments and legal regulations relating to remuneration for Executive Board members, among other issues.

At its meetings in March, May, August, September, November and December 2010, the Audit Committee addressed the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system and the internal auditing system, the single-entity and consolidated financial statements and the Executive Board's proposal for the appropriation of profits and the dividend. Before the publication of the quarterly accounts, the quarterly results were discussed in detail with the Executive Board. The Audit Committee obtained the declaration of independence from the auditors required in accordance with the German Corporate Governance Code and prepared the Supervisory Board's proposal to the Annual General Meeting for the election of the auditor for fiscal 2010. Other important issues discussed at the meetings included the stipulation of conditions for issuing the corporate bond, the development of risk management and the compliance organization. The Audit Committee was informed in detail of the status of the compliance system and the findings of Internal Auditing in the year under review at the meeting on December 6, 2010. The reports on the audits carried out by Internal Auditing in 2010 have been submitted. In addition, the Audit Committee was informed of the implementation of the improvement measures decided on by Internal Auditing in 2009 as part of its audit activities.

The Mediation Committee formed according to Section 27 (3) of the German Codetermination Act (MitbestG) 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, passed two resolutions.

Compliance with corporate governance standards | In fiscal 2010, the Supervisory Board was informed once again of current developments regarding corporate governance standards. The Supervisory Board dealt in detail with the recommendations and suggestions of the Commission of the German Corporate Governance Code as amended on May 26, 2010, and passed the annual declaration of conformity to be submitted together with the Executive Board in accordance with Section 161 of the German Stock Corporation Act (AktG) regarding compliance with the recommendations of the German Corporate Governance Code at Rheinmetall AG.

All recommendations of the German Corporate Governance Code as amended up to June 18, 2009 and May 26, 2010 have been fully carried out or will be fully carried out. Shareholders can find the declaration of conformity on the Company's website, where all declarations of conformity submitted since 2002 are published.

No conflicts of interest relating to mandates arose among members of the Supervisory Board or Executive Board in fiscal 2010 in connection with advisory activities or positions on the Boards of other companies.

The auditor submitted a declaration of independence in accordance with Item 7.2.1 of the German Corporate Governance Code. The requirements of Item 7.2.3 of the German Corporate Governance Code regarding the contractual relationship between the company and the auditor have been fulfilled. During the audit, no inaccuracies were noted in the declaration submitted by the Executive Board and Supervisory Board regarding the Code.

The Executive and Supervisory Boards report on the company's corporate governance in accordance with Item 3.10 of the current German Corporate Governance Code on pages 49 to 53 of this annual report.

Changes to and composition of the Supervisory Board | Henning von Ondarza stepped down from the Supervisory Board with effect from June 30, 2010. The district court of Düsseldorf appointed Detlef Moog on July 8, 2010 as a member of the Supervisory Board until the Company's Annual General Meeting on May 10, 2011, in accordance with Section 104 AktG. Dr. Ludwig Dammer left the Supervisory Board on August 30, 2010 when his employment contract ended. Dr. Michael Mielke joined the Supervisory Board on September 1, 2010 as an elected replacement member and will act as a new employee representative for the remainder of the term of office of this Supervisory Board. The Supervisory Board would like to thank Henning von Ondarza and Dr. Ludwig Dammer for their time on this Supervisory Board, during which they performed their duties responsibly and with dedication and care. Toni Wicki was appointed to the Supervisory Board as the successor to Reinhard Sitzmann by the district court of Düsseldorf in accordance with Section 104 AktG on December 6, 2010, until the next Annual General Meeting on May 10, 2011. Reinhard Sitzmann, who has been involved with the Rheinmetall Group in various posts since 1998, died on October 21, 2010 following a short but severe illness. The members of the Supervisory Board will remember him as an honorable man.

No change to the composition of the Executive Board | No changes were made to the line-up of the Rheinmetall AG Executive Board during the period under review. At the meeting on May 10, 2010, the Supervisory Board resolved to re-appoint Dr. Gerd Kleinert, responsible for the Automotive sector, for the period from March 19, 2011 to June 30, 2013.

Adoption of the single-entity and consolidated financial statements 2010 | The single-entity financial statements for Rheinmetall AG prepared by the Executive Board in accordance with German GAAP, 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, and the summarized management report for the stock corporation and the Group for fiscal 2010, including the accounts, were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch, as appointed at the Annual General Meeting on May 11, 2010, in accordance with statutory regulations and were issued with an unqualified auditor's opinion.

Report of the Supervisory Board

The Company's single-entity financial statements, the consolidated financial statements and the summarized management report of Rheinmetall AG and the Group, together with the auditor's reports, were sent to all members of the Supervisory Board along with the Executive Board's proposal for the appropriation of net income for the year. The statutory auditors who signed the audit reports attended both the Audit Committee proceedings held on March 14, 2011 and the annual accounts meeting of the Supervisory Board held on March 22, 2011. 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 audit performed in line with Section 91 (2) AktG concluded that the Company has an appropriate early risk identification system that conforms to statutory regulations. 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 summarized management report for Rheinmetall AG and the Group presents a true, fair and reasonable view of the risks and opportunities of Rheinmetall's future development.

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

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 2010. The single-entity financial statements have thus been adopted under the terms of Section 172 AktG. The Supervisory Board approved the summarized management report, particularly the assessment of Rheinmetall's further development. It also approved the Executive Board's proposal for the appropriation of net income for the year, including the distribution of a dividend of €1.50 per share for the year under review.

The members of the Supervisory Board wish to thank the customers of companies in the Rheinmetall Group and shareholders for the confidence they have shown in such diverse ways. The Supervisory Board would like to express its gratitude to the Executive Board, executives and employees for their enthusiastic involvement and their high level of personal commitment and thanks them for their contributions to the well-being of the Company and the shareholders.

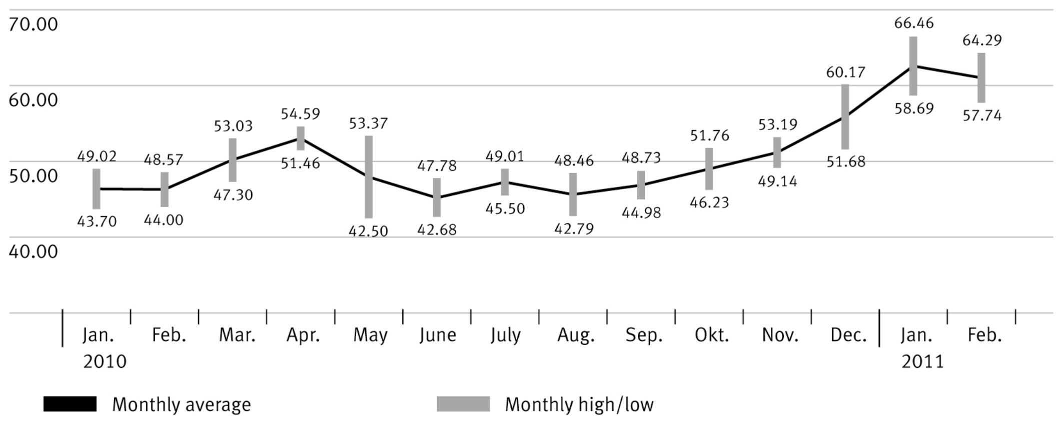
Düsseldorf, March 22, 2011
On behalf of the Supervisory Board

Klaus Greinert
Chairman

Rheinmetall on the capital markets

Stock markets and share price performance | Driven by the continued global economic recovery, the development of the stock markets was positive in 2010. The German stock market also showed a marked upward trend, particularly thanks to the German economy's high level of international competitiveness. Germany's main benchmark index, the DAX, was up 6 % at around 6,300 points by the beginning of the second quarter, compared with 5,957 points on the last day of trading in 2009. After that, the index recorded a sideways movement and fluctuated considerably within a range of 5,600 to 6,400 points. In the fourth quarter, the DAX once again saw a significant upward movement, almost reaching the 7,000-point mark at the end of the year when it stood at 6,914 points, an increase of 16% on the value at the end of the previous year. The performance of the MDAX, which includes the Rheinmetall share, was considerably more positive. By the beginning of the second quarter, the midcaps index was up around 15% at 8,641 points compared with 7,507 points at the close of the previous year; it then moved sideways until the end of August. The index then rose to 10,128 points by the end of 2010, recording a gain of 34% for the year as a whole. The Rheinmetall share held its ground very well in this environment and ended the fiscal year at €60.17. This represented an increase of 35 % on the price of €44.74 at the end of the previous year. Over the year as a whole, the performance of the Rheinmetall share was thus in line with that of the benchmark MDAX index. In a positive stock market environment, share prices initially rose during fiscal 2011, before recording significant drops in February. The Rheinmetall share reached its highest level since mid-2007 at €66.46 on January 18, 2011, but had fallen back to €58.75 by February 28, 2011.

January 2010 through February 2011



Ranking in the MDAX | The average daily trading volume of Rheinmetall shares on the German stock markets fell slightly year-on-year from 248,000 to 234,000 shares. In comparison with the previous year, Rheinmetall thus remained in 14th place at the end of the year in the rankings of Deutsche Börse with regard to stock exchange turnover. A total of 59.8 million Rheinmetall shares were traded during the course of the year, a drop of around 3.2 million shares or 5 % compared with the previous year. In terms of the market capitalization measured on the basis of the free float, the second criterion of relevance to the weighting in the MDAX, the share was in 10th place in the index statistics, compared with 13th place in the previous year. At the closing price of €60.17 at the end of the year, the Company's market capitalization was €2,383 million (previous year: €1,772 million).

Broad international shareholding structure | As the Rheinmetall share has a free float of almost 100 %, it is considered very important to ascertain the shareholding structure regularly. The analysis of this forms an important reference point for the effective regional planning of investor relations activities. The latest shareholder analysis from January 2011 showed that the proportion of European institutional investors has risen by around 6 percentage points to 52 %. The proportion of North American institutional investors is still high, despite a slight drop of 4 percentage points to 27%. The remaining 21% of shares are held by other institutional investors not identified in the survey, by private investors and by Rheinmetall AG or its employees.

Rheinmetall on the capital markets

Treasury stocks | The proportion of own shares held as treasury stocks was 3.3 % (1,293,198 shares) as at December 31, 2010, compared with 3.5 % or 1,393,536 shares on the previous year's balance sheet date. On February 28, 2011, Rheinmetall AG held 1,293,198 treasury shares or 3.3 %, unchanged compared with December 31, 2010. Members of the Supervisory Board and the Executive Board and related parties together held 437,853 shares or 1.1 % of the common stock of Rheinmetall AG as at December 31, 2010 (previous year: 437,753 shares or 1.1 %). In addition to their contractual settlement, Executive Board members and other senior management staff receive a pay component that is paid partly in the form of Rheinmetall shares, as a long-term incentive. This is based on the average adjusted EBT for the last three fiscal years. No shares were issued to these persons in 2010 (previous year: 159,048 shares).

Employee profit-sharing scheme | Since 2008, employees have had the opportunity several times each year to acquire shares in the company. In 2010, 952 employees took part in the employee share purchase program. In addition to companies based in Germany, employees of 19 European Group companies were also entitled to subscribe to shares for the first time. In total, employees acquired 100,338 Rheinmetall shares on favorable terms in two tranches in April and November 2010, with a minimum holding period of two years. Since the share purchase program began, employees have acquired 484,006 Rheinmetall shares.

Disclosures regarding reporting thresholds | In fiscal 2010, investors informed the Company that they had exceeded or dropped below the reporting thresholds for changes in the share of voting rights that need to be disclosed in accordance with Section 21 of the German Securities Trading Act (WpHG). Rheinmetall AG reported on this in accordance with Section 26 WpHG. The Company's website provides information through disclosures published since January 1, 2008.

Intensive dialog with the capital market | The aim of investor relations work is to inform the capital market of all developments relative to the market on a transparent, prompt and proactive basis at all times, thus laying the groundwork for a fair and realistic assessment of the Rheinmetall share. For this reason, Rheinmetall attaches great importance to continuous and comprehensive dialog with its analysts, institutional investors and private shareholders. The management and investor relations team attended 11 capital market conferences in Germany and abroad during the period under review and held 12 road shows. Over 300 meetings were held with investors in 2010. Activities focused above all on major European and North American financial centers, including Frankfurt am Main, London, Edinburgh, Paris, Luxembourg, Madrid, Vienna, Zurich, Stockholm and Oslo, as well as Toronto, Boston, New York, San Francisco and Los Angeles. In view of the growing importance of Asian markets, the investor relations team presented the Rheinmetall Group to Japanese investors for the first time at a conference. Dialog with private shareholders focused on the Annual General Meeting held in Berlin on May 11, 2010.

An important event in 2010 was the Capital Markets Day at the Group headquarters in Düsseldorf. During the event, which lasted a day and a half, the Executive Board and management representatives from both corporate sectors gave a direct and comprehensive insight into business development, strategy and prospects and were available for detailed discussions with the many analysts who had traveled to the conference. Other fixed dates in the investor relations calendar included the telephone conferences on quarterly reports and on the figures for fiscal 2009 on March 23, 2010.

At the end of 2010, the Rheinmetall share was monitored by 22 analysts. As part of their research coverage, analysts regularly published studies and analyses of the Rheinmetall share. Almost without exception, the analysts' investment advice was positive. At the end of the year under review, 19 analysts recommended buying the shares. Three analysts advised investors to "hold" the Rheinmetall share.

Up-to-date information about the Rheinmetall share can be found at www.rheinmetall.com in the Investor Relations section. Annual and interim reports and presentations on road shows, conferences and the Capital Market Days are published there, along with other information.

General economic conditions

Vigorous recovery in the global economy – Germany emerges rapidly from the crisis | The worldwide economy experienced a powerful upturn in 2010. While economic researchers initially revised their forecasts downwards at increasingly short intervals in the crisis year of 2009, the recovery in the economy in 2010 was faster and more powerful than originally expected. The World Bank has calculated growth of 3.9 % in the global economy for 2010 as a whole. Above all, the important growth engines were emerging countries such as China and India, which increased their gross domestic products by 10.0 % and 9.5 % respectively year-on-year.

The mature industrialized nations of the Organization for Economic Cooperation and Development (OECD) recorded growth of 2.7 % in 2010, according to an analysis by the World Bank. This was led by Japan, which saw its gross domestic product up by 4.4 %. With growth of 2.8 %, the US economy developed slightly better than average for the OECD, while growth in the euro zone was relatively low at 1.7%. Germany in particular was a positive exception in Europe. Bundesbank calculated that Germany saw its gross domestic product up by 3.6 %. This represents the strongest growth for the Federal Republic of Germany since reunification. In summer 2010, the economic experts at Bundesbank had forecast considerably lower growth of 1.9 %. At the end of 2010, they were therefore speaking of a “fulminant catching-up process”, which they said would become increasingly widespread. According to the economic experts, the economic recovery was based above all on the success of exports on the global market. However, the momentum from foreign trade has since spread increasingly to the domestic economy, and thus also to business investments and consumer spending. The continuation of the vigorous recovery process in the German economy in 2010 has been highlighted not least by the ifo business climate index, which rose for the seventh consecutive month in December 2010 and reached its highest level since statistics for Germany as a whole began in 1991. The ifo business climate index is based on a monthly survey of around 7,000 companies regarding their current business situation and expectations for the next six months.

According to Bundesbank, risks to further development “arise in particular from continuing uncertainty on the financial markets in connection with the fragile state of public finances in several industrialized nations."

Defence spending still at a high level – Need for modernization puts limit on savings | The development of defence spending in 2010 was shaped by various trends. While budgets in many European countries stagnated at a high level or fell slightly, owing to the increased need to consolidate budgets, defence spending in other parts of the world continued to grow unchecked. Budgets in emerging countries such as India and Brazil, for example, saw particularly strong growth, although armaments expenditure also rose in the Gulf states in 2010.

Furthermore, the need to consolidate budgets conflicted in most western industrialized nations with the ongoing need for substantial modernization of military equipment, particularly in armed forces technology. The current threats and foreseeable potential risks in foreign deployments have continued to make ongoing investment in the improvement of equipment and the protection of soldiers necessary. The ISAF mission in Afghanistan has once again tragically illustrated this. With 642 soldiers killed or injured from the USA, the UK, Canada, France and Germany alone, 2010 brought the biggest losses for the coalition troops since the mission began in 2001. Moreover, the reality of operations calls not only for improved protection, for example in the form of stronger armor-plating for vehicles, but increasingly also for the modernization of weapons and of the types of ammunition.

General economic conditions

The intensification of the security situation in Afghanistan, along with growing risks from international terrorism, piracy and unresolved regional conflicts, are reasons why defence spending remained at a high level or rose further in 2010. In the USA, for example, the country with by far the largest defence budget, analysts at Jane's Defence Information Group estimate that the budget increased to around USD 694 billion in 2010, compared with USD 677 billion in the previous year. Although military programs were also canceled and cut back in the USA, these primarily related to large projects that no longer fit current threats, owing to long development periods, delays and technical problems, while at the same time there have been shifts in favor of more contemporary systems that serve to protect soldiers on foreign deployments.

In Germany, the defence budget for 2010 totaled around €31.1 billion, the same level as the previous year (€31.2 billion). This also applied to defence capital expenditure, which, at almost €7.6 billion, was also roughly the same as the previous year. The proportion of the total defence budget taken up by capital expenditure was 24.3 %, compared with 24.4 % in 2009. In connection with the financing and planned restructuring of the German armed forces, both government and opposition politicians declared that there must not be a reform of the German armed forces based on the cash position. Instead, the vast majority of parties represented in the Bundestag have repeatedly pointed out that Germany's armed forces must be prepared for the current and future challenges of a modern army, in terms of both the number of troops and equipment.

Protection on deployment remains a high priority – Opportunities through shifts in defence budgets | The current shifts in many defence budgets do not just harbor risks, but also open up opportunities. The modernization of land forces was once again a high priority in Germany and friendly states in 2010, as ground troops are still bearing the brunt of the 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 a leading systems supplier for land forces, Rheinmetall Defence consistently exploited the resulting opportunities and further consolidated its market position in 2010. The large orders for the Puma infantry fighting vehicle and the Boxer armored transport vehicle in previous years were followed in 2010 by important follow-up orders for the modernization of the Fuchs armored transport vehicle of the German armed forces and for the repair of Leopard battle tanks for the Canadian armed forces. Rheinmetall entered a new dimension in the field of military vehicles with Rheinmetall MAN Military Vehicles – a new joint venture between MAN Truck & Bus and Rheinmetall, which was launched in May 2010. Its particular strength lies in the fact that the new company combines Rheinmetall's expertise in tactical armored vehicles with MAN's expertise in logistical military trucks.

In addition to armored vehicles, military reconnaissance through unmanned aircraft, known as drones, has become increasingly important for the protection of soldiers. In the year under review, Rheinmetall was commissioned to supply state-of-the-art drone systems of the Heron 1 type to the German armed forces for a further two years, following a current contract. The follow-up order is worth a high eight-figure sum in euros and shows the significant market potential arising from the innovative operating concept of the Heron project.

Crisis in the sector overcome – Automotive industry back in the fast lane | The automotive industry has overcome its biggest crisis since the Second World War and in 2010 returned to sustainable growth. The Association of the German Automotive Industry (VDA) estimates that developments in fiscal 2010 were considerably better than initially assumed. The VDA declared in November 2010: “At the beginning of the year, expectations for both the passenger car and the commercial vehicle sector could at best be classed as cautiously optimistic. At the end of the year, the initial industry consensus forecasts turned out to be too cautious overall.” In December 2010, the VDA noted: “The substantial inventory levels from the past have finally been cut down. The inventory levels of German manufacturers are at a historic low in Germany, while inventories at sites abroad have also been significantly reduced. This means that production and sales are once again running in parallel, both in terms of the level and with regard to the rate of change.”

The VDA’s positive assessment of the market is also reflected in the industry-wide analysis conducted by experts at CSM Worldwide, who observe the global automotive market and provide market information and industry forecasts to manufacturers and suppliers. According to the CSM data, worldwide production of passenger cars and light commercial vehicles up to 3.5 tons grew by 23.5 % to 70.9 million vehicles in 2010 (previous year: 57.4 million). This means that the previous record of 68.8 million vehicles from 2007, the year before the crisis, has already been surpassed. In the triad of Western Europe, NAFTA and Japan, production figures were up 21.5 % in 2010. After a particularly severe market slump in the previous year, the NAFTA region showed an above-average trend towards recovery, with growth of 38.8 %. Japan recorded growth of 19.3 % in production, while growth in Western Europe amounted to only 11 % in 2010, owing to the previous year’s economic stimulus programs. German production figures rose by 11.4 %.

The markets in China and India saw uninterrupted growth. After both countries defied the global crisis in the sector in 2009 with double-digit growth rates, production in China rose by 29.2 % in 2010, while India was slightly ahead for the first time, with growth of 31.1 %.

Automotive benefits from economic recovery – Restructuring measures have a lasting impact | The Automotive corporate sector will emerge stronger from the global crisis. With this objective, Rheinmetall put together a comprehensive package of measures to cut costs and improve efficiency in the fourth quarter of 2008. Consistent countermeasures involving costs of €138 million for structural and personnel adjustments yielded the first positive results in the crisis year of 2009 and formed the basis for the return to profitable growth during the upturn in 2010. In addition to the general recovery in the automotive industry, the Kolbenschmidt Pierburg Group benefited from long-term trends in the sector, particularly a further rise in demand for systems and solutions for the reduction of emissions. This is highlighted, for example, by a large order that started in 2010 and involves annual sales of up to €160 million. This cross-sector order for EGR systems, water pumps, pistons and engine blocks has been awarded for a particularly fuel-efficient family of diesel engines (1.4 l and 1.6 l).

Rheinmetall Group business trend

Rheinmetall Group sales at €4.0 billion | The Rheinmetall Group achieved sales of €3,989 million in the last fiscal year, compared with €3,420 million in the previous year. This represents an increase of 17 %. Rheinmetall Defence accounted for 50 % of total sales (previous year: 55 %), while Automotive also accounted for 50 % (previous year: 45 %).

Sales *€ million*

	2009	2010
Rheinmetall Group	**3,420**	**3,989**
Defence	1,898	2,007
Automotive	1,522	1,982

Rheinmetall Defence achieved sales of €2,007 million in the last fiscal year, exceeding the previous year's figure by €109 million or 6 %. Activities included for the first time in fiscal 2010, which comprised the development and distribution activities of Rheinmetall MAN Military Vehicles GmbH (from May 2010), Simrad Optronics AS (from July 2010), Rheinmetall Verseidag Ballistic Protection GmbH (from July 2010) and RWM Italia Munitions S.r.l. (from December 2010), contributed to the expansion of business with total sales of €83 million. The figures for fiscal 2009 had included sales of €16 million from Contraves Advanced Devices Sdn Bhd, Malacca, Malaysia, which was deconsolidated in June 2010 (2010: €5 million).

With sales of €1,982 million, the Automotive sector surpassed the figure for the preceding crisis year by €460 million or 30 % and is thus well above the level of growth in automobile production worldwide (+24 %) and in the triad (+22 %).

At 69 %, the international share of consolidated sales in fiscal 2010 was above the level of the previous year (66 %). Alongside the German market (31 %), the key regions in terms of sales volumes were Europe excluding Germany (38 %), followed by Asia (13 %) and North and Central America (11 %). In the Defence sector, 66% of sales were generated abroad (previous year: 64 %). In the Automotive sector, the proportion of sales achieved with customers abroad rose from 68 % to 72 %.

Order intake in the Rheinmetall Group reaches €4.0 billion | The order intake for fiscal 2010 reached €3,974 million and was down €675 million on the previous year's figure, which included the series contract commissioned in July 2009 for the Puma infantry fighting vehicle with a volume of approximately €1.3 billion. With adjustments for the Puma contract, the Defence sector registered 7 % more orders in 2010 than in the previous year, with an order intake of €1,977 million. The order intake of the Automotive sector rose from €1,496 million in 2009 to €1,997 million in 2010.

Order intake *€ million*

	2009	2010
Rheinmetall Group	**4,649**	**3,974**
Defence	3,153	1,977
Automotive	1,496	1,997

Group order backlog over €5.1 billion | At €5,136 million, the order backlog of the Rheinmetall Group was around 4% higher than in the previous year. At the end of fiscal 2010, the order backlog in the Defence sector stood at €4,772 million (previous year: €4,590 million). In the Automotive sector, the order backlog as at the balance sheet date totaled €364 million, following €350 million in the previous year.

Order backlog *€ million*

	2009	2010
Rheinmetall Group	**4,940**	**5,136**
Defence	4,590	4,772
Automotive	350	364

Rheinmetall consolidated EBIT at a record level | The earnings before interest and tax (EBIT) of the Rheinmetall Group rose by €282 million from €15 million in the previous year to €297 million in fiscal 2010. The EBIT margin was 7.4%, well above the previous year's level of 0.4%.

At €234 million, the Defence sector exceeded the previous year's result by €19 million or 9%. The result for the Defence sector includes a positive contribution to profits of €8 million (badwill) from the first-time consolidation of RWM Italia Munitions S.r.l., which has taken over the activities of Società Esplosivi Industriali S.p.A. This was countered by an expense of €15 million from write-downs on inventories, which had to be carried out in connection with the adjustment of the product portfolio in the C4ISTAR division. The companies in the Defence sector that were consolidated for the first time in 2010 achieved EBIT of €10 million during the period that they belonged to the Group, after deduction of expenses from the purchase price allocation. The disproportionately large increase in profits compared with the growth in sales led to a rise in the EBIT margin in the Defence sector to 11.6% (previous year: 11.3%).

The Automotive sector recorded EBIT of €81 million in fiscal 2010, following a loss of €187 million in the previous year. €8 million was spent on the further streamlining of structures in the last fiscal year. The previous year's figures had included €138 million in expenses for measures to overcome the crisis. All divisions showed positive results in 2010. The EBIT margin was 4.1%, compared with a negative 12.3% in the previous year.

The EBIT for the area Others/consolidation includes the results for Rheinmetall AG and was burdened in fiscal 2010 by expenses of €5 million from changes in the fair value of interest rate derivatives that are not reported in hedge accounting.

EBIT *€ million*

	2009	2010
Rheinmetall Group	**15**	**297**
Defence	215	234
Automotive	(187)	81
Others/consolidation	(13)	(18)

Rheinmetall Group business trend

Group net income totals €174 million | With net interest down €7 million and after deduction of income taxes of €55 million, Group net income of €174 million was achieved, which exceeded the previous year's figure by €226 million. After deducting profit attributable to minority interests of €12 million, this brings earnings per share to €4.23 (previous year: €-1.60).

Group net income *€ million*

	2009	2010
EBIT	**15**	**297**
Net interest	(61)	(68)
EBT	**(46)**	**229**
Income taxes	(6)	(55)
Group net income	**(52)**	**174**
Of which:		
Minority interests	6	12
Rheinmetall AG shareholders	(58)	162
Earnings per share (in €)	**(1.60)**	**4.23**

Cash flow statement | With an improvement of €226 million in Group net income, 2010 saw a cash flow of €344 million (previous year: €120 million). The cash flow from operating activities was €147 million, down €184 million on the previous year. In the previous year, owing to the decline in the Automotive business, there had been a significant reduction in working capital and a high cash flow from operating activities. In fiscal 2010, the payment of around €40 million for restructuring measures in the Automotive division, along with the build-up of working capital, led to a cash outflow.

Operating free cash flow (defined as cash flow from operating activities less capital expenditure on intangible assets, property, plant and equipment and investment property) amounted to €-39 million (previous year: €+186 million). After accounting for cash receipts from the disposal of fixed assets and divestments and payments for acquisitions, the free cash flow came to €-111 million (previous year: €+191 million), which was down €302 million year-on-year owing to the increase in capital expenditure on consolidated companies.

Cash flow statement *€ million*

	2009	2010
Gross cash flow	**120**	**344**
Changes in working capital and other	211	(197)
Net cash provided by operating activities	**331**	**147**
Investments in intangible assets and property, plant and equipment	(145)	(186)
Operating free cash flow	**186**	**(39)**
Cash receipts from the disposal of intangible assets, property, plant and equipment and investment property	8	12
Net cash outflow from financial investments in/divestments of consolidated subsidiaries and other financial assets	(3)	(84)
Free cash flow	**191**	**(111)**

Asset and capital structure | In September 2010, Rheinmetall successfully placed a seven-year bond with a volume of €500 million and a coupon of 4.0 % with institutional investors in Germany and abroad. This bond will strengthen the liquidity cushion on a sustainable basis and will secure favorable interest rates in the long term.

Asset and capital structure € *million*

	Dec. 31, 2009	%	Dec. 31, 2010	%
Noncurrent assets	1,817	47	2,037	46
Current assets	2,018	53	2,423	54
Total assets	**3,835**	**100**	**4,460**	**100**
Equity	1,134	30	1,355	30
Noncurrent liabilities	962	25	1,547	35
Current liabilities	1,739	45	1,558	35
Total equity and liabilities	**3,835**	**100**	**4,460**	**100**

In fiscal 2010, the Rheinmetall Group's total assets increased by €625 million or 16 % to €4,460 million. The changes in the consolidated balance sheet were essentially due to the acquisitions in the Defence sector and the build-up of working capital, owing to the expansion of the volume of business. Non-current assets represented 46 % of total assets as at December 31, 2010, compared with 47 % in the previous year. They rose by €220 million to €2,037 million. This increase was mainly due to an increase in intangible assets, which rose by €139 million to €694 million, largely owing to the acquisitions that were carried out. Current assets rose by €405 million in total year-on-year, which was due in particular to an increase of €105 million in inventories and of €208 million in trade receivables.

The equity ratio was unchanged at 30 %. In fiscal 2010, the equity of the Rheinmetall Group increased by €221 million or 19 % to €1,355 million. This increase was primarily due to the net income (€174 million) and to positive currency effects (€89 million). This was countered by actuarial gains and losses from pension provisions recognized in equity (€54 million). Of the €585 million increase in non-current liabilities to €1,547 million, €493 million is attributable to the new bond issued in September 2010 and €67 million is attributable to the increase in pension provisions. Of the drop of €181 million in current liabilities, €325 million related to current financial liabilities, owing to the scheduled repayment of the old bond; at the same time, trade payables and other current liabilities increased by a total of €128 million.

In terms of the total assets adjusted for cash and cash equivalents (previous year: financial liabilities), the equity ratio was 35 % (previous year: 34 %). The net financial liabilities for 2010 totaled €76 million, following positive net liquidity of €44 million. Financial liabilities rose by €172 million or 32 % year-on-year. This increase was due to the cash flow from the bond of €493 million placed in September 2010, which was offset by a cash outflow of €325 million from the scheduled repayment of the bond due to mature in June 2010. As at the balance sheet date, cash and cash equivalents totaled €629 million following €577 million on the balance sheet date of the previous year. Cash and cash equivalents as at the previous year's balance sheet date include €20 million in German treasury notes with terms until April 2010. The proportion of net financial liabilities in relation to adjusted total assets is 2 % in the fiscal year 2010.

Rheinmetall Group business trend

Capital structure *€ million*

	Dec. 31, 2009	%	Dec. 31, 2010	%
Equity	**1,134**	**34**	**1,355**	**35**
Current financial liabilities	353	11	34	1
Noncurrent financial liabilities	180	5	671	18
Total financial liabilities	**533**	**16**	**705**	**19**
Cash and cash equivalents/financial resources	(577)	(17)	(629)	(17)
Net financial liabilities	**(44)**	**(1)**	**76**	**2**
Total assets adjusted for financial liabilities/cash and cash equivalents	**3,302**	**100**	**3,831**	**100**

Significant improvement in value added | In fiscal 2010, the Rheinmetall Group generated added value of €1,506 million. The Group's total operating performance came to €4,343 million, compared with €3,605 million in the previous year. At 35 %, the ratio of value added to total operating performance was above the previous year's level of 33%. Value added per employee amounted to €75,000 (previous year: €59,000).

The workforce benefited from the largest share of value added in fiscal 2010 at 79 %. 4 % was apportioned to the Treasury. Interest payable to lenders in the year under review was 5 %. At €58 million, the shareholders of Rheinmetall AG received a 4 % share of value added. 8 % or €117 million remained within the Rheinmetall Group, following negative value added of €-75 million or -6 % in the previous year.

Source and use of value added *€ million*

	2009		2010	
Source				
Group's total operating performance	3,605		4,343	
Input	(2,252)		(2,670)	
Amortization and depreciation	(165)		(167)	
Value added	**1,188**		**1,506**	
		%		%
Use				
Employees	1,170	98	1,197	79
Treasury	15	1	62	4
Lenders/banks	66	6	72	5
Shareholders	12	1	58	4
Companies	(75)	(6)	117	8
Value added	**1,188**	**100**	**1,506**	**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 2010 | With effect from January 1, 2010, the wheeled vehicle business has been spun off from Rheinmetall Landsysteme GmbH, Kiel, in the vehicle systems division, and will continue operating within the newly created Rheinmetall Radfahrzeuge GmbH, Düsseldorf. With this step, preparations got underway for the creation of a joint venture between the Rheinmetall Group and MAN Nutzfahrzeuge AG (since January 1, 2011: MAN Truck & Bus AG). Rheinmetall AG holds 51 % of shares in Rheinmetall MAN Military Vehicles GmbH, Munich, while MAN Truck & Bus AG owns 49 % of the company. The joint venture has been operating on the market since May 1, 2010, following the approval of the antitrust authorities. This has given rise to a full-service provider covering the full range of armored and unarmored transport vehicles, command vehicles and multipurpose vehicles for armed forces in Germany and abroad, which makes a significant contribution towards national and European consolidation in the field of military commercial vehicles. In connection with this, the foreign sales offices in Canada, South Africa and Australia for the military business of MAN Truck & Bus have been integrated into Rheinmetall MAN Military Vehicles. In a first step, the development and distribution activities of Rheinmetall Radfahrzeuge and MAN Truck & Bus in the field of wheeled military vehicles were merged in Rheinmetall MAN Military Vehicles. In a second step, which has already been contractually agreed, the production facilities remaining at the sites in Kassel (Rheinmetall) and Vienna (MAN) are also to be integrated into the joint venture by the end of 2011.

Rheinmetall Defence firstly acquired a majority stake (51 %) in Verseidag Ballistic Protection GmbH, Krefeld, from Jagenberg AG, Krefeld, with effect from July 1, 2010, thereby taking over the corporate management of the specialist for the development and production of civil and military protection technology. In a second step, the remaining 49 % of shares were transferred from Jagenberg AG to Rheinmetall as of December 31, 2010. Verseidag Ballistic Protection develops and produces state-of-the-art ceramic and metallic materials and fiber compounds from high-performance textiles for the effective protection of the crews of civil and military vehicles, but also of aircraft and ships. The Krefeld-based company trades under the name Rheinmetall Verseidag Ballistic Protection GmbH and is assigned to the Weapon and Munitions division.

As part of a strategic cooperation agreement in the production of electronics, Rheinmetall sold 51 % of shares in Contraves Advanced Devices Sdn Bhd, Malakka, Malaysia, which is assigned to the Air Defence division, to its cooperation partner Boustead Heavy Industries Corporation Sdn Bhd, Kuala Lumpur, Malaysia, with effect from July 1, 2010. The cooperation is to offer Rheinmetall Defence improved market access for a broad range of products and technologies for the land, naval and air forces of Malaysia and partner countries in the region. In connection with the equipment and modernization of the armed forces, the transfer of technology is also to be facilitated, particularly for the benefit of the Malaysian armed forces. Contraves Advanced Devices and its subsidiary are to be carried at equity in Rheinmetall's consolidated financial statements as joint ventures. The company was deconsolidated as of June 30, 2010.

After a public takeover bid was submitted to shareholders of the company on May 6, 2010, the complete takeover of all shares in Simrad Optronics ASA, Nøtterøy, Norway, by Rheinmetall AG was completed on July 5, 2010 through the announcement of a squeeze-out in accordance with the provisions of the Norwegian law on stock companies. The product portfolio of the Simrad Optronics Group, which operates internationally, primarily includes components for remote control weapon stations, electro-optical sensors for monitoring, reconnaissance and target-tracking, as well as upgrades for weapon systems. The group operates production facilities in Nøtterøy, Norway, and Biddeford, Maine, USA. With the acquisition, Rheinmetall Defence's range of services was expanded significantly, particularly in the rapidly growing market for weapon stations and in the Scandinavian countries. The company is assigned to the Weapon and Munitions division.

Rheinmetall Group business trend Defence sector

In March 2010, a contract was signed regarding the takeover of the defence activities of Italian company Società Esplosivi Industriali S.p.A., Ghedi, from French company EPC Groupe, Paris. The transfer of the shares to the newly founded RWM Italia Munitions S.r.l., Ghedi, was completed with effect from December 1, 2010. The company operates in the field of the development and production of munitions for Italian and international naval and air forces and is assigned to the Weapon and Munitions division. With this acquisition, Rheinmetall Defence will strengthen its position as a supplier of military equipment on the European market and will expand its production capacity with state-of-the-art production plants.

On September 29, 2010, an agreement was reached with South African company Tellumat (Pty) Ltd., Cape Town, regarding the acquisition of the assets and operations of the Laingsdale Engineering division. The buyer was the newly founded company Rheinmetall Laingsdale (Pty) Ltd., Cape Town, South Africa, in which Rheinmetall Waffe Munition GmbH, Unterlüß, is to acquire 51 % of shares. 49 % of the shares will in future be held by South African company Rheinmetall Denel Munition (Pty) Ltd, Somerset West. The deal was concluded on January 4, 2011. The company specializes in the development and production of precision components in the field of igniters. With the takeover, Rheinmetall Defence will round off its technological portfolio in the field of ammunition.

Rheinmetall Defence continues growth course | With sales of €2,007 million, the Defence sector recorded an increase of €109 million or 6 % in fiscal 2010 compared with the previous year's figure of €1,898 million. Activities included for the first time in fiscal 2010, which comprised the development and distribution activities of Rheinmetall MAN Military Vehicles GmbH (from May 2010), the activities of Simrad Optronics AS (from July 2010), Rheinmetall Verseidag Ballistic Protection GmbH (from July 2010) and RWM Italia Munitions S.r.l. (from December 2010), contributed to the expansion of business with sales of €83 million. The figures for fiscal 2009 had included sales of €16 million from Contraves Advanced Devices Sdn Bhd, Malacca, Malaysia, which was deconsolidated in June 2010 (2010: €5 million).

The proportion of sales achieved abroad rose by 2 percentage points to 66 % compared with 2009. Alongside the German market (34 %, previous year: 36 %), the key regions in terms of sales volumes were Europe excluding Germany (30%, previous year: 30%), followed by the Middle East and Asia (20%, previous year: 16%) and North America (11%, previous year: 10%). Other regions accounted for 6% of sales (previous year: 8%).

Sales in the Weapon and Munitions division increased by 17 % year-on-year in the year under review to €761 million. Significant export sales were generated with 40 mm practice ammunition for the USA and Great Britain and the first deliveries of 81 mm mortar ammunition with modern propellants and active charges to the Netherlands. Additional sales abroad were achieved with part invoices for 27 mm naval recoilless guns for shipping programs and the fitting out of a firing range in the Middle East countries. In Germany, sales were generated in particular with the delivery of 155 mm smoke ammunition to the German armed forces.

As in previous years, sizeable deliveries of propellant powders for artillery and tank ammunition to Great Britain dominated sales in the Propellants division, which remained at the previous year's level in 2010, with sales of €91 million. The market position in Europe was also consolidated in the year under review on the basis of exclusive supply contracts with French customers.

The Land Systems division reported sales of €443 million in the year under review (previous year: €474 million). Key products in terms of sales included the armored recovery vehicle 3 for the Asian market, the armored engineering vehicle 3 for the Netherlands, Sweden and an Asian customer and the state-of-the-art mortar combat system based on the air-portable Wiesel 2 tracked vehicle for the German armed forces. With newly developed 120 mm weapons platforms and the associated command vehicles, a significant contribution has been made to the mission-based modernization of the equipment of the land forces.

The transfer of German armed forces vehicles, together with the associated repairs and maintenance services, contributed to the sales of the service division. Furthermore, significant sales were achieved with the highly mobile Boxer armored wheeled vehicles for Germany and the Netherlands, the modern command and information system of the German Army (FISH) and the modernization of the Fuchs 1A8 armored transport vehicle for Germany.

Sales in the Air Defence division totaled €326 million in the year under review (previous year: €339 million). Further partial invoicing of air defence systems and associated ammunition for major projects in the Middle East and of the series contract for a forward operating base protection system capable of engaging extremely small targets such as rockets, artillery and mortar rounds (Counter-RAM) with the associated airburst ammunition for the German armed forces were some of the projects that made a significant contribution to sales in 2010.

At €258 million, sales of the C4ISTAR division exceeded the previous year's figure of €250 million in 2010. Partial invoicing for the unmanned aerial vehicles contract known as SAATEG (system for conducting long-range reconnaissance missions) from Germany accounted for a substantial proportion of sales. National sales were also achieved through the processing of fire control systems of the mount-adapted aiming device type and through services for the cargo loading systems of the Airbus A 400 M and A 380. Further sales related to the Future Soldier project in the Expanded System configuration for the German armed forces.

Significant sales in the Simulation and Training division were associated with the operation and expansion of the German armed forces' combat training center. A substantial volume of sales also resulted from partial invoicing for a combat training center abroad and the flight simulation contracts for the Eurofighter 2000 and the Tiger helicopter. At €154 million, sales in the year under review exceeded sales for the previous year by 9%.

Rheinmetall Defence secures major contracts | At €1,977 million, the order intake in fiscal 2010 failed to match the previous year's high figure of €3,153 million, which included the series contract to supply 405 Puma infantry fighting vehicles, worth around €1.3 billion. The year under review was characterized mainly by small- and medium-volume orders. Incoming orders worth a total of €112 million related to activities included in consolidation for the first time in 2010, which comprised activities of Rheinmetall MAN Military Vehicles GmbH (from May 2010), Simrad Optronics AS (from July 2010), Rheinmetall Verseidag Ballistic Protection GmbH (from July 2010) and RWM Italia Munitions S.r.l. (from December 2010).

In the Weapon and Munitions division, a long-term partnering agreement was concluded in the year under review with the UK Ministry of Defence for infantry and protection products. In addition, weapon systems and associated service and practice ammunition in caliber 40 mm were commissioned from Canada as part of the "close-area suppression weapon" project (CASW). A total of 304 automatic grenade launchers are to be supplied by the beginning of 2012, which are to replace outdated mortar systems. Another order related to the modernization and repair of 42 battle tanks of the Leopard 2A4 type for the Canadian armed forces. In addition to ongoing orders under the master agreement for 40 mm practice ammunition for the US Marine Corps, the division was commissioned to supply 120 mm mortar ammunition as an initial supply with extended range capability and modern active charges as part of mission-specific immediate requirements for the German armed forces. Orders for the MASS naval protection system were also received from Germany to equip the frigate 125.

Rheinmetall Group business trend
Defence sector

Ten-year contracts to supply propellant powder for artillery ammunition to French customers were of particular importance for the Propellants division. As part of the follow-up order received in 2009 for the Munitions Acquisition Supply Solution project, orders were received from the UK to supply propellants for 105 mm ammunition and for other calibers.

The Land Systems division received an order from a customer in Asia to supply 14 armored engineering vehicles and the associated ancillary services. Together with a cooperation partner, a major development contract was won in the UK for important turret components in the vehicle FRES SV (Future Rapid Effect System Specialised Vehicle) Scout. An initial contract for the development and manufacture of demonstrators was also concluded in the year under review. With regard to armored wheeled vehicles, a series of orders were received in connection with the modernization of the equipment of the German armed forces, which, after delivery, will make an important contribution towards improving protection for soldiers on missions abroad.

With a follow-up order in the current upgrade program of the German armed forces for the Fuchs armored transport vehicle, Rheinmetall Defence will modernize a further 65 Fuchs tanks by 2012. The new Fuchs 1A8 version guarantees significantly better protection against mines and IEDs and expands the deployment spectrum for armored wheeled vehicles. The retrofitting contract also provides for the creation of new versions for different functions, for example for fire protection and the disposal and clearing of weapons. In addition to the contract from the German armed forces to improve the Fuchs armored reconnaissance vehicle to ensure that it has full protection and to replace the NBC modification, an order was placed by the American armed forces for NBC assemblies for the wheeled vehicles Fox and Stryker.

The main focus as regards the order intake in the Air Defence division was a large order to supply 22 Skyguard 3 fire units and the associated logistics services and Advanced Hit Efficiency and Destruction (Ahead) airburst ammunition in the Middle East along with upgrades for 14 radar systems for naval air defence systems from India.

In the year under review, the C4ISTAR division was commissioned to supply state-of-the-art unmanned reconnaissance aircraft of the Heron 1 type to the German armed forces for a further two years, following the current contract. At the Mazar-e-Sharif base in Afghanistan, the air force uses a Heron 1 unmanned aircraft system consisting of two ground segments and three aircraft. This “system for conducting long-range reconnaissance missions” (SAATEG) is used for airborne monitoring and reconnaissance without a time delay in the area of operations of the German ISAF contingent. The advantages of this reconnaissance system lie both in the fact that a larger area of operation can be covered and in the ability to supply reliable reconnaissance results even in adverse weather conditions. With this contract, Rheinmetall Defence is responsible for the servicing, maintenance and repair of the drone system. Furthermore, a significant volume of orders was received from Germany and the UK for laser light modules.

The Simulation and Training division received a large number of small and medium-sized orders in the year under review. Important new contracts included national follow-up orders for the Eurofighter 2000 flight simulator and services for a container crane simulator at the new maritime training center in Elsfleth. In addition, the delivery of a flight simulator for the German simulation center for air and space travel was commissioned, along with orders for the ship handling simulator at a naval academy in the Middle East.

Rheinmetall Defence achieves order backlog of around €4.8 billion | The order backlog of the Defence sector amounted to €4,772 million as at December 31, 2010, exceeding the previous year's figure of €4,590 million by €182 million. This includes a variety of larger projects spanning several fiscal years. The most important projects are still the contract for the serial production of the Puma infantry fighting vehicle and the series contracts for the Boxer armored transport vehicle from the Netherlands and Germany. The companies Simrad Optronics AS, Rheinmetall Verseidag Ballistic Protection GmbH and RWM Italia Munitions S.r.l., which were included in the consolidated financial statements for the first time in the year under review, reported a total order backlog of €137 million as at December 31, 2010. Sales expectations for fiscal 2011 are already largely ensured thanks to the current order backlog.

Significant increase in earnings at Rheinmetall Defence | The Defence sector recorded earnings before interest and tax (EBIT) of €234 million in fiscal 2010 (previous year: €215 million), exceeding the previous year's figure by €19 million or 9 %. The result for the year under review includes a positive contribution to profits of €8 million (badwill) from the first-time consolidation of RWM Italia Munitions S.r.l., which has taken over the activities of Società Esplosivi Industriali S.p.A. This was countered by an expense of around €15 million from write-downs on inventories, which had to be carried out in connection with the restructuring of a product portfolio in the defence electronics division.

Activities included for the first time in fiscal 2010, which comprised the development and distribution activities of Rheinmetall MAN Military Vehicles GmbH (from May 2010), the activities of Simrad Optronics AS (from July 2010), Rheinmetall Verseidag Ballistic Protection GmbH (from July 2010) and RWM Italia Munitions S.r.l. (from December 2010), contributed to the increase in earnings in the Defence sector, with EBIT of €10 million after the purchase price allocation.

With adjustments for the abovementioned one-off effects, all six divisions contributed to the improvement in earnings. The disproportionately large increase in profits compared with the growth in sales led to a rise in the EBIT margin at Rheinmetall Defence to 11.6 % (previous year: 11.3 %).

Rheinmetall Group business trend
Automotive sector

Key events in 2010 | The 2010 fiscal year was marked by the economic recovery and the associated positive effects on the financial situation of the Kolbenschmidt Pierburg Group. The implementation of the restructuring measures to overcome the crisis that were agreed on at the end of 2008 and commenced in early 2009 also played a central part in the development of the business in 2010.

Pierburg Pump Technology GmbH agreed with Mikuni Corporation, Tokyo, to set up a company for the distribution, development and production of electrical coolant pumps and variable oil pumps for the Asian market, in which Pierburg Pump Technology is to hold 51 % of shares. The joint venture is expected to be set up in the first quarter of 2011. In view of future engine concepts for hybrid or electric vehicles, for example, and the reduction in consumption of conventionally powered engines, variable electrical pumps for oil and water are becoming increasingly important. The cooperation will lead to additional market opportunities for both companies with Japanese manufacturers and on the Indian and Chinese automotive markets, particularly through the technology for electrical coolant pumps introduced to the market by Pierburg Pump Technology.

Motor Service expanded its market presence as a systems supplier in business with spare parts for passenger cars and commercial vehicles. With effect from November 15, 2010, Intec S.à.r.l., a company based in Lyon, was acquired from Italy's Ferrero Group via MS Motor Service France. Intec, which specializes in the overhaul and distribution of turbochargers for commercial vehicle applications in the independent spare parts market, has been represented in France for over 20 years. MS Motor Service France will further round off its product portfolio with this acquisition and will now also offer comprehensive solutions in business with turbochargers. With the takeover of the operations of Burkert Fahrzeugteile GmbH & Co. KG in Asperg on December 15, 2010, the Motor Service division has expanded its range of spare parts in engine technology. Burkert specializes in structural parts for commercial vehicles, e.g. crank shafts and cam shafts, cylinder heads, cylinder liners and connecting rods, and is the European market leader in this field. The company, which is based in the Greater Stuttgart area and most recently generated annual sales of approximately €35 million, will continue to be run as an independent company and is now trading under the name BF Germany GmbH.

Strong recovery in sales in the Automotive sector | The Kolbenschmidt Pierburg Group benefited in fiscal 2010 from the 22 % increase in production of light vehicles in the triad markets, achieving sales of €1,982 million, which represented growth of €460 million or 30 % year-on-year. Moreover, new product launches, positive exchange rate effects and the passing on of increases in material prices to customers contributed to the increase in sales. The positive development of sales at the Chinese joint ventures carried at equity (50 % stake), which, based on 100 %, recorded growth of €103 million to €258 million (+66 %), is not included in the sales for the Automotive sector.

Sales in the Pierburg division rose by 31 % from €392 million in the previous year to €515 million in the year under review. This significant improvement is essentially due to the economic recovery and to higher demand for diesel vehicles. In addition, new product launches and increased production in product groups that are seeing rapid growth, such as EGR and solenoid valves, contributed to the increase in sales. Sales were generated in India for the first time through the production of EGR valves, which began at the site in Pune during the year under review.

The improved economic situation had a positive impact on sales of all product groups in the Pierburg Pump Technology division, which achieved sales of €376 million in the year under review, compared with €293 million in 2009. Growth in sales of oil, vacuum and water pumps ranged from 18 % to 39 %. The first sales were generated by the accelerated production of pumps in India.

The KS Kolbenschmidt division recorded sales of €605 million in 2010, an increase of €139 million (+30%) on 2009. While there was a significant general improvement in the economic situation in the automotive sector compared with the crisis year of 2009, demand for large-bore pistons fell by 27 %, largely owing to the weakness of the shipbuilding, rail transport and power plant construction sectors. Excluding business with large-bore pistons, the division recorded an increase in sales of 41%. Demand for pistons for passenger car gasoline engines and commercial vehicle engines was up year-on-year (+39% and +57% respectively). Sales of other pistons, for example for off-road vehicles and motorized watersports equipment, rose by more than 100% year-on-year to €79 million.

KS Aluminium-Technologie achieved sales of €160 million in the year under review, compared with €119 million in the previous year (+35%). This substantial increase is mainly due to the disproportionately large rise in sales of serial products, which grew by 41 %. Despite strong growth in die casting, low-pressure casting remained the product group with the highest sales, while high-pressure casting and supplies of spare parts produced using a squeeze-cast process accounted for only a small proportion of total sales. The additional sales generated by external tools and development work amounted to 17% in total.

All product groups at KS Gleitlager benefited from positive developments in the sector. The division increased its sales year-on-year by €61 million to €187 million (+48%). In addition to metallic plain bearings, which saw sales up by 35 %, and Permaglide products, of which sales rose by 60 %, demand was particularly high for products in the continuous castings group. The year-on-year rise of 55 % in sales of this product group was based on larger sales volumes and on the passing on of much higher copper prices to customers.

Motor Service continued its growth course in 2010. The division's sales totaled €221 million at the end of the year under review, compared with €184 million on December 31, 2009. Factors that influenced this included the positive development of sales volumes and exchange rates and increased sales of Pierburg products.

Order intake in the Automotive sector shaped by recovery in the automotive industry | Influenced by the positive trend on the automotive markets, the Kolbenschmidt Pierburg Group recorded an order intake of €1,997 million in the last fiscal year, exceeding the previous year's figure by €501 million or 33%.

Order backlog up slightly in the Automotive sector | The order backlog in the Automotive sector comprises only short notice call orders under long-term contracts with automotive manufacturers. Compared with €350 million as at December 31, 2009, the order backlog at the end of the 2010 fiscal year stood at €364 million.

Increase in earnings thanks to recovery in the automotive industry and successful restructuring | With earnings before interest and tax (EBIT) of €81 million, the Kolbenschmidt Pierburg Group exceeded the figure for 2009 of €-187 million by €268 million. With adjustments for the expenses of €138 million for measures to overcome the crisis, operating EBIT for 2009 was €-49 million. The increase in EBIT compared with 2009 was essentially due to higher sales and a lower break-even point as a result of the measures carried out during the crisis. The Chinese joint ventures carried at equity also contributed significantly higher results to positive developments at the Kolbenschmidt Pierburg Group than in the previous year. The EBIT for 2010 was negatively affected by restructuring costs of €8 million and start-up costs, most of which were planned, in India, the Czech Republic and the USA and at the joint venture KS ATAG Trimet. Furthermore, the unexpectedly high demand for Kolbenschmidt Pierburg products in the wake of the rapid recovery in the global automotive industry created significant capacity and delivery problems for several suppliers. The affected companies in the Automotive division contributed to the cost of overcoming these problems.

Rheinmetall Group business trend
Financing

Securing and diversification of financing on a sustainable basis | Rheinmetall AG, which is responsible for the financing of the Rheinmetall Group, successfully continued its conservative, well diversified financing strategy in 2010. The focus was deliberately shifted towards the capital markets, thereby reducing dependence on bank facilities. Banks are therefore being used more heavily than before, primarily to provide the necessary guarantees for the operating activities of the Defence sector, for which a total volume of over €1 billion was available at the end of 2010.

A sustainable investment grade rating remains an important building block for ensuring the long-term capital market viability of the Rheinmetall Group. It helps to encourage all business partners to have confidence in the Company's financial stability. In April 2010, ratings agency Moody's raised its outlook for the investment grade rating of Baa3 from “negative” to “stable”.

After Rheinmetall AG refinanced a €325 million bond from 2005 that was due to mature in June 2010 prematurely in spring 2009, it took advantage of the highly favorable capital market environment in late summer 2010 for a new bond transaction. Following a road show in the financial centers of Frankfurt am Main, Munich, Vienna, Zurich, London and Paris, which met with considerable interest from investors, the Company issued its first “benchmark bond”, worth €500 million and with a seven-year term, with great success on September 16, 2010. Despite two spread reductions, the order book was six times oversubscribed within a very short time, with orders from over 250 investors. The final spread of 175 basis points above the mid swap rate gave the bond a coupon of 4.0 % p.a., which, together with the issue price of 99.122 %, corresponds to an effective interest rate of 4.147 % p.a. The allocation of the bond issue, i.e. the distribution of the individual tranches of the bond to interested investors, took into account the target structure with a broad, European spread. With regard to the different types of investors, funds and asset managers dominated the picture with 63 %, followed by retail intermediaries with 21 % and banks and insurers, each of which received 8 %. In terms of regions, Germany/Austria accounted for 45 %, followed by the UK/Ireland with 28 %. 6 % went to Italian investors and 5 % to investors in France, Switzerland and Scandinavia respectively. Investors in the Benelux countries accounted for 3 %, while 2 % of the bond went to other international investors. The issuing of the bond led to a further diversification of the investor base and made it more international on the debt capital side, particularly thanks to the very positive take-up on the important London market.

The bond with the code number (ISIN) XS0542369219 has so far been listed in Luxembourg and on several German exchanges. The smallest tradable unit is €1,000. The performance of the bond on the secondary market since the issue, which has been good for investors, reflects the rise in interest rates since the issue date on the one hand and the reduction in spreads for corporate bonds since then on the other. The closing price of the bond on the last trading day of the fiscal year (December 30, 2010) stood at 99.70 % while the spread above the mid swap rate was 140 basis points. The issue of the bond, which has been given a Baa3 rating by Moody's, was overseen by three relationship banks that have been associated with the Rheinmetall Group for a long time. The bond, which will be used to finance general corporate objectives, has strengthened Rheinmetall's liquidity cushion in the long term at attractive interest rates. At the same time, the maturity profile has been shifted significantly into the future.

In addition to the new bond, promissory notes worth €150 million, the €500 million commercial paper program, the syndicated loan of €400 million due to mature in 2012 and serving as back-up and several bilateral cash credit lines with banks constitute other important building blocks in the financing of the Rheinmetall Group. The volume of the asset backed securities program at the Rheinmetall Group, in which 14 companies from four European countries in both corporate sectors sell customer receivables on a monthly basis, was increased from €140 million to €170 million in December 2010 owing to improved sales in the Automotive sector. The new bond and the promissory notes issued in 2009 led to a significant level of cash and cash equivalents at the end of 2010, which is to be used to finance the building up of working capital during the year.

Rheinmetall Group business trend
Capital expenditures

Capital expenditure at the level of 2007 | The investment policy of the Rheinmetall Group in the year under review focused on hedging the growth strategy. Targeted investments were made in areas that offer opportunities for growth, that will strengthen profitability on a sustainable basis, that will increase international competitiveness and that will protect technological expertise in the various areas of business. After investment in the Kolbenschmidt Pierburg Group was cut back drastically in 2009 as part of a cost-cutting program as a result of the impact of the global financial crisis on the Automotive business, capital expenditure was cautiously increased again in the year under review, following the recovery on the market.

The Rheinmetall Group's capital expenditure on property, plant and equipment and intangible assets (excluding goodwill) amounted to €189 million in 2010, compared with €145 million in the previous year. This is equivalent to 4.7 % of consolidated sales (previous year: 4.2 %). Capital expenditure was met with amortization and depreciation of €167 million (previous year: €165 million).

Capital expenditures *€ million*

	2009	2010
Rheinmetall Group	**145**	**189**
Defence	74	93
Automotive	70	96
Others/consolidation	1	0

Capital expenditure up at Rheinmetall Defence | In fiscal 2010, capital expenditure in the Defence sector totaled €93 million (previous year: €74 million). 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, health and safety in the workplace, environmental protection and energy saving 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. Capital spending includes the development costs of €26 million for ongoing large-scale projects (previous year: €30 million) capitalized in line with IAS 38. This is equivalent to 4.6% of sector sales, compared with 3.9% in the previous year.

With regard to capital expenditure on property, plant and equipment at companies in the Defence sector, there were many smaller individual projects in the year under review. In particular, the comprehensive modernization of production plants and machinery at South African company Rheinmetall Denel Munition (Pty) Ltd., acquired in 2008, which involved numerous investments in expansion and rationalization should be highlighted. Capital expenditure focused on production machines and infrastructure in the ammunition and powder plants at the Boksburg and Wellington sites. Modernization work was also carried out at the sites in Somerset West, Phillippi and Boskop. The total volume invested in 2010 was €12 million.

The modernization of mechanical production at the Unterlüß site was also continued in the year under review. As well as processing centers and powder presses for moldings, another focus was technical facilities for the production of heavy metal. At the site in Altdorf, Switzerland, an investment was made for the purchasing of lathes and processing centers for medium-caliber ammunition. By expanding the capacity of the assembly line for 40 mm ammunition, American Rheinmetall Munitions Inc. continued the process of building up its local ammunition production at the site in Camden, Arkansas, which was commenced in 2008. Through this targeted capital expenditure, Rheinmetall Defence has strengthened its strategic competitive position in a promising growth market.

Rheinmetall Group business trend
Capital expenditures

At the production sites in Aschau and Wimmis, the Propellants division invested in the automation of manufacturing processes for the production of cartridges. Owing to an explosion during the production process, investments were made in the reconstruction of a production plant at the Aschau site in the civil chemistry product group.

Spinning off wheeled vehicle business activities from Rheinmetall Landsysteme GmbH in order to form Rheinmetall MAN Military Vehicles GmbH required capital expenditure in production facilities and in setting up a standardized IT platform across different sites.

To improve the technical image effects in simulators with a high quality of detail and display, the Simulation and Training division invested in new software technologies.

With regard to technological developments, projects of importance to Rheinmetall Defence continued in fiscal 2010. One important individual project was the development of the new generation of lightweight AMPV wheeled vehicles (armored multipurpose vehicles) together with another German armaments company as a cooperation partner, which was commenced in 2008. Development work was capitalized for a test vehicle that is characterized by a high level of modularity based on standardized components and a platform for different missions. The Air Defence division concentrated on the further development of a close-range protection system capable of engaging small targets such as rockets, artillery and mortar rounds. Some of the development costs from this project were capitalized.

Moreover, the Score project launched in 2007 for the development and provision of a new basic simulator system was continued. Capital expenditure also focused on capitalized development work for the Leopard 2 turret and the purchase of a manufacturing license for 60 mm mortar ammunition for the transfer of active materials. In addition, development costs for an innovative 30 mm weapon for the Puma infantry fighting vehicle were capitalized in the year under review.

Slightly higher investment ratio in the Automotive sector | The Kolbenschmidt Pierburg Group invested €96 million in fiscal 2010, €26 million more than in the previous year, when a restrictive investment policy was pursued as a result of the impact of the worldwide economic crisis on the international automotive industry. In line with the general recovery on the markets, capital expenditure was adjusted to expected business development in the year under review. The investment ratio in the year under review was 4.8 %, compared with 4.6% in the previous year.

The Pierburg division invested in Germany in production facilities for new actuator and cooler projects and also expanded its capacity for the production of electrical divert-air valves. Funds were also used for investment in the commercial vehicles business. A large order for the supply of an EGR cooler module called for more production capacity at the sites in Spain and the Czech Republic. In the USA, capacity was built up for the production of EGR systems. At the site in Pune, India, owned by the Pierburg division, production commenced following investment in manufacturing facilities.

In the Pierburg Pump Technology division, capital expenditure in Germany focused on expanding capacity in the growth areas of water circulation and electrical coolant pumps. The French site primarily purchased new tools for customer projects. In Italy, capex funds were used to expand capacity for the production of oil and water pumps.

In connection with the transfer of a production line from Hamburg to Neckarsulm, the KS Kolbenschmidt division made some investments to round off this product line. Investments were made at sites in the USA and Japan in the production of pistons for gasoline engines. To ensure that the anticipated rise in demand for steel pistons in the next few years can be met, forward-looking investments were made in the respective production lines at the German and American sites. Various maintenance measures that were postponed in fiscal 2009 were carried out in 2010 in order to ensure that production processes ran smoothly.

The acquisition of a piece of land in Romania in fiscal 2008 led to payments for development and infrastructure services in the KS Aluminium-Technologie division in the year under review. Investments were also made in the expansion of the gravity die-casting activities in Neckarsulm. As part of a customer project, funds were invested in machinery and equipment at the low-pressure foundry in order to expand capacity.

The requirements of customers of the KS Gleitlager division in terms of the degree of purity of the products are increasing constantly. The quantity and size of residual dirt particles clinging to products upon delivery are to be reduced further. In a first step, investments were therefore made in cleaning plants, supply systems and the associated infrastructure. Tools were also purchased for the manufacture of new products and existing plants were modernized.

Rheinmetall Group business trend
Research and development

Innovation – The basis for lasting success | Intensive and comprehensive research and development activities strengthen the Group's market position in the Defence and Automotive sectors and ensure that the Rheinmetall Group remains competitive from a technological viewpoint. They are a key factor in commercial success. In the year under review, 3,048 engineers worked at the Rheinmetall Group (previous year: 2,751). Technological, market and sector trends are consistently analyzed, which makes it possible to identify new requirements at an early stage. Close interdisciplinary collaboration between Sales, Development, Production, Service and Marketing, as well as project work in partnership with customers, leads to the creation of new or improved market-oriented products, made-to-measure systems and standardized complete solutions. The Group's own research and development work is rounded off with close cooperation with universities and non-university research institutes to benefit from complementary know-how and knowledge transfer. In fiscal 2010, €214 million was spent on research and development across the Group, following €198 in the previous year. Of this, €176 million (previous year: €157 million) was immediately billed as expenses and €38 million (previous year: €41 million) capitalized as development costs. The share of R&D expenditure was 5.4 % (previous year: 5.8 %).

R&D by corporate sector *€ million*

	2009	% of sales	2010	% of sales
Rheinmetall Group	**198**	5.8	**214**	5.4
Defence (self-financed)	85	4.4	88	4.4
Automotive	113	7.4	126	6.4

The **Defence sector** is geared towards the extended requirement profile of national and international armed forces, with forward-looking research, technology and development projects in the area of defence technology. With the increase in military operations abroad such as peacekeeping missions and the dispatch of forces to crisis regions, the armed forces of the 21st century find themselves facing new challenges. Against this backdrop, the industry requires efficient solutions that are available quickly in order to respond to the current threats. 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. To ensure that it is competitive and to reinforce its leading position on the market, Rheinmetall Defence continually supplements developments commissioned by customers with self-financed research and development activities.

Modular upgrade solution for battle tanks | The extended deployment spectrum for armed forces has also led to changes in requirements for battle tanks. In addition to the classic duel situation anticipated until now, heavy battle tanks will in future also have to survive asymmetrical scenarios and fulfill important tasks to safeguard troops on deployment in crisis regions. In terms of protection, weapons, command and networking capability and reconnaissance and visualization systems, new technologies offer the opportunity to improve the performance of the overall system significantly. Sustainability – particularly on deployment in warm climate zones – can also be improved considerably in future. On the Afghanistan mission in particular, the overall Leopard 2 system has proved itself impressively against asymmetrical threats such as mines and improvised explosive devices, saved the lives of crew and guaranteed effectiveness in combat. With the "MBT (Main Battle Tank) Revolution", Rheinmetall Defence is offering a modular upgrade solution for battle tanks that is adjusted to the respective requirements of the user in accordance with the principle of building blocks, whilst simultaneously offering further growth potential for the future. Innovative components of the "MBT Revolution" include, in particular, the state-of-the-art fire control, the spectrum of modern reconnaissance tools and a comprehensive protection package with comparatively little increase in weight and minimal changes in the vehicle contour. The "MBT Revolution" was presented for the first time at the Eurosatory defence technology fair in Paris in 2010.

Vehicle-supported ground-penetrating radars for weapons defence | The "German Route Clearance Package" weapons reconnaissance and clearing system has been developed against the backdrop of the increasing threat to German soldiers from IEDs in Afghanistan. The overall system consists of four vehicles that are used respectively for reconnaissance and the clearing of IEDs, as command vehicles and for transport. For reconnaissance, a remote control detection system on the vehicle platform Wiesel is used with a newly developed antenna. To increase reconnaissance performance, a metal detector is integrated into a ground-penetrating radar. The clearing of IEDs takes place via the remote control clearing system MiniMinewolf. To protect soldiers, both the Wiesel and the MiniMinewolf are unmanned and are controlled by the associated radio control function on a Fuchs 1A8 armored transport vehicle. A Rheinmetall logistics vehicle of the MULTI FSA type (mechanized handling, storage and transport integration – protective equipment for vehicles) is used to transport the unmanned vehicles. As part of mission-specific immediate requirements, seven complex complete systems are to be implemented by the end of 2011. A high-precision manipulator arm is also being developed to ensure that accuracy to within the nearest centimeter can be achieved when defusing weapons. With an operating range of over 10 m and a high loading capacity, suspicious objects can be verified and defused at a safe distance.

Lightweight AMPV | The AMPV (armored multipurpose vehicle) developed in a 50:50 company with an industrial partner is geared towards Germany's arms program for lightweight armored command and multipurpose vehicles, as well as export in the growing global market for lightweight armored wheeled vehicles. The AMPV has been designed for "out of area" military operations and the diverse associated threats to armed forces. With a weight of around nine tons, the multipurpose vehicle ensures a level of protection not available until now in this weight class, particularly against mines and IEDs, thanks to its heavily armored passenger cell for a crew of five. The all-wheel drive vehicle offers maximum off-road mobility and a high payload for transporting equipment. In its various versions, the AMPV is suitable as a liaison vehicle, for reconnaissance tasks and as an equipment kit carrier for different missions. At the end of 2010, a prototype was delivered to a customer abroad for mobility demonstrations, while a further two models are to be delivered to the German armed forces for testing in 2011. At the same time, the vehicle has been developed for serial production since mid-2010, so that from 2012 onwards further demand can be met for the lighter class of armored command and multipurpose vehicles in Germany.

40 mm airburst ammunition | Rheinmetall's airburst ammunition (ABM) is an ideal ammunition for contemporary vehicle main armament, ground-based anti-aircraft guns and naval applications. The airburst ammunition is supplied with data from the fire control computer via an electric fuse programming coil as it departs the weapon and is inductively programmed. Since the ejection interval can be altered, Rheinmetall airburst ammunition has a broad deployment spectrum. Rheinmetall Defence has developed a completely new type of 40 x 53 mm airburst ammunition, with the aim of an insensitive, i.e. explosive-free, propulsion unit and warhead, along with infrared programming that is not sensitive to interference. This ammunition significantly increases the safety of soldiers, the maximum effective range and effectiveness in the field.

Innovative protection solutions for the safety of armed forces | Rheinmetall Defence further expanded its portfolio in fiscal 2010 through targeted acquisitions in the field of protection and now has a unique range of expertise in sophisticated protection technology. The product portfolio ranges from passive systems (armor-plating for vehicles), through active solutions (such as sound and flash stun grenades and decoy launcher systems) for land, air and naval forces, to armored vehicles and system solutions in the field of the protection of assets and air defence. Only with a combination of appropriate active and passive protection solutions can a high level of security be achieved today for military vehicles.

Rheinmetall Group business trend
Research and development

In the area of armor-plating for military systems, particularly for lightweight protection systems against threats such as machineguns and automatic cannon, state-of-the-art ceramic and metallic materials and fiber compounds from high-performance textiles are used. In national and international certificates and comparative tests, the advanced stage of development and the close-to-production maturity of an innovative standoff protection system for military vehicles were demonstrated in 2010. “Active Defence Systems” (ADS) is the world’s most high-performance system for the protection of military vehicles of practically all weight classes against threats in the field, particularly through antitank hand weapons and guided missiles, along with certain improvised booby-traps.

MANTIS® close-range protection system | Development activities for the qualification of the Skyshield air defence system, which is designed to combat very small ballistic targets such as rockets, artillery and mortar rounds (Counter-RAM), continued in 2010. In individual approval stages, the basic system performance and key elements in the chain of functionality were successfully demonstrated. This complete system, which will be procured by the German armed forces under the name Mantis® (Modular Automatic and Network capable Targeting and Interception System), comprises a central command unit that enables all-year-round deployment, sensor units, guns and Ahead ammunition. In addition to the high accuracy, the system is distinguished in particular by the fact that it can be networked with higher-echelon and adjacent command systems. Two systems for close-range protection capable of large-scale reconnaissance and standoff defence against terrorist threats were commissioned by the German Federal Office of Defence Technology and Procurement in May 2009.

Protection of stationary assets and equipment | In January 2010, Rheinmetall Defence was commissioned by the German Federal Office of Defence Technology and Procurement to build a demonstrator “protection system for equipment and assets”. Six months later, a German consortium led by Rheinmetall Defence delivered this demonstrator protection system to the German armed forces base in Meppen. The comprehensive protection concept linked the desired close- and short-range reconnaissance sensor technology with modern command equipment and a modern weapon system. In parallel to the national development project for a protection system for equipment and assets, Rheinmetall Defence was commissioned by the European Defence Agency (EDA) to create a demonstrator for cross-border protection of military equipment and assets. The Franco-German project FICAPS (Future Interoperability of Camp Protection Systems) aims to develop joint networked protection solutions to improve cooperation between the armed forces of various nations (interoperability).

Night vision training in a simulator | Rheinmetall Defence has developed a laser projection system with which highly effective and realistic night vision training can be provided in simulators using original equipment. To present the outside view in the simulator, the AVIOR laser projection system projects a night scene with a laser beam that reproduces both the intense darkness and the brightness of artificial light sources with high contrast and realistically. The development of the latest generation of AVIOR has a modular structure with regard to image resolution and brightness. The outside view during the day can also be projected in the simulator by AVIOR laser projectors with a high level of brightness, very brilliant colors and good contrast.

The **Automotive sector** has geared its research and development activities towards the requirements of the automotive industry. Focal points include the reduction of consumption and CO_2, the fulfillment of strict emissions standards such as Euro 6, the implementation of more stringent environmental requirements and continued cost reductions through improvements to products and optimized manufacturing processes. To ensure that Rheinmetall Automotive continues to enjoy success on technologically sophisticated markets and can always offer customers the best possible solution for their requirements, the central department for research and technology was set up at the beginning of the year under review, in which advance developments are consolidated and the development activities of all divisions are coordinated. Closer cooperation will ensure better use of technical expertise and knowledge of processes and thus also of synergies, while costs will be reduced for service functions such as engine test benches.

Pierburg focuses on reduction of emissions and consumption | In the Pierburg division, development activities continued to focus on products to reduce consumption and emissions. Legal regulations, such as the Euro 6 emissions standard for type approval that is to come into effect on September 1, 2014, define the minimum requirements for this. The fulfillment of these requirements calls for EGR systems with increased performance, among other things. Pierburg is pursuing various development strategies in order to achieve this. Firstly, the second generation motorized EGR valve is being developed as a highly integrated version in aluminum EGR cooler modules; secondly, further developments and new developments are underway with regard to applications for low-pressure EGR systems. In this context, we should highlight the high-flow low-pressure EGR valve, which allows greater EGR rates with minimal loss of pressure, along with a new exhaust gas flap that increases the EGR rates by means of higher dynamic pressure whilst simultaneously optimizing the regeneration of the diesel particle filter.

As a combination of both types of valves, the combined valve offers in a single unit the possibility of fulfilling both functions, i.e. the regulation of the EGR rate and the simultaneous restriction of fresh air, in order to increase exhaust gas recirculation. Another focus is the current development of applications for the new compact EGR valve for gasoline engines and small diesel engines, which takes into account the requirements of increasingly tight installation space.

The requirements of the functionality of the on-board diagnosis system are increasing steadily. In order to achieve an even more compact solution, a pressure sensor that until now has been fitted externally is to be integrated into the design of an electric actuator and gradually introduced into serial production in various new projects. In addition, 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) are being optimized on an ongoing basis. The focus is above all on shorter response times and a reduction in the noise levels of the secondary air system.

Pierburg has expanded its market share for throttle, control and swirl valves. The basis for this is the fourth-generation modular system, which constitutes a cost-effective, high-quality series concept. The use of non-contact, low-cost sensor technology to determine the position of the throttle valves is to be extended. The modular system is also used in actuators for intake manifolds and in particular in electrical exhaust gas flaps. The product family is currently being extended to include particularly high-performance control valves for commercial vehicle applications, in which brushless engines are also used. Another type of component is modular electric actuators for wastegate systems, which are to meet the demands of the growing market for turbochargers, in view of the ongoing trend towards downsizing.

Rheinmetall Group business trend
Research and development

This trend towards downsizing is leading to increased use of turbochargers in gasoline engines. Pierburg began serial production of the fourth generation electric blow-off valve, which offers quality and cost benefits, for these applications in 2010. Furthermore, the electro-pneumatic converter for controlling the bypass valve in order to regulate the manifold pressure and the variable turbine geometry was optimized further with regard to speed and robustness. A hydraulic valve developed specifically for higher throughputs with variable oil pumps has been in serial production since 2010.

Developments in commercial vehicles and industrial engines continued the expansion of the product portfolio begun in the last few years. The focus was on the introduction or approval of EGR modules, which, as assemblies, include the components EGR valve in a poppet valve or flap valve version, exhaust gas cooler and reed valve. The exhaust gas and intake air are brought together in mixer modules, with the focus on fluidic design. It must be ensured on one hand that the service life and reliability of the components satisfy the high demands of the market and on the other that they have a modular structure and are cost-effective. The exhaust mass sensor and exhaust gas turbocharger were developed further and at the same time presented to the market. A complete turbocharger construction program is now available for engines with a capacity of 4 l to 14 l. The exhaust mass sensor is designed for both 12-volt and 24-volt operations and is currently being tested by customers. In conjunction with other components, it enables the exhaust mass flow to be regulated quickly and effectively and thus allows an effective reduction in emissions.

New pump concepts for commercial vehicles | In view of the Euro 6 emissions standard for commercial vehicles, which is to come into effect in 2013 and which aims to reduce exhaust gas emissions significantly, manufacturers of commercial vehicles are accelerating the development and introduction of auxiliary engine units that help to reduce fuel consumption. At the International Automobile Fair for commercial vehicles in Hanover in 2010, Pierburg Pump Technology presented variable and switchable mechanical water and oil pumps that help to reduce the vehicle's CO_2 emissions by providing the lubricant or coolant in accordance with requirements, depending on the operating point.

In passenger car applications, Pierburg Pump Technology is also working consistently on products that reduce CO_2 emissions. The range of electrical water pumps has been expanded, so that seven pumps of varying strengths are available, from the small water circulation pump for the vehicle heating circuit with an electrical power of 15 W to the coolant pump for cooling a 6-cylinder engine with an electrical power of 400 W. This broad product portfolio can also be used for applications in hybrid and electric vehicles, e.g. to cool batteries, to cool the voltage converter or to cool the electric motor. Electric vacuum and oil pumps are being developed for these vehicle drive concepts. By using existing electric motors for electric water pumps, the division can generate cost benefits with these products.

With purely mechanical products such as vacuum pumps, further reductions have been achieved in driving power through the optimization of various details, which help to reduce fuel consumption.

Low-friction pistons for peak performance | Continuous increases in power density as a result of downsizing, charging and direct fuel injection require made-to-measure technology packages for use in new generations of gasoline and diesel engines with optimized consumption and thus CO_2 emissions. For the pistons, this means reduced friction and low weight, high strength and reliability. KS Kolbenschmidt has responded to these requirements for gasoline engines with the new high-performance alloy KS309™, the further development of the lightweight concept LITEKS-2® and the shaft coating NANOFRIKS®, the first piston shaft coating based on nanoparticles that has successfully gone into international serial production.

In diesel engines, the innovative cooling duct geometries CONTUREKS® and DYNAMIKS® are used, through which potential can be opened up for further improvements in performance. Targeted materials engineering at the edge of the trough is used in combination with the innovative cooling duct geometries and eloxal protective coatings for extreme requirements of diesel pistons. Where aluminum alloys can no longer be used because of very high thermal and mechanical stress, steel pistons are used. With the patented STEELTEKS™ pistons, a completely new method of constructing and manufacturing monoblock steel pistons has now also become a reality, in addition to established versions. The steel piston, which is manufactured from a single forging, has been developed for particularly low compression heights and has now successfully gone into serial production. Lightweight steel pistons for individual applications for high-performance passenger car diesel engines are at the stage of serial development.

Downsizing and lightweight design | Compliance with future emission limits places high demands on the construction of engines and vehicles. This calls on the one hand for the drive train to be designed more efficiently and on the other for the consistent use of lightweight materials. Crank cases are exposed to increasingly severe stresses through growing peak pressures and extreme temperature changes, as a result of which requirements in terms of strength, rigidity and durability are increased. In order to meet these constantly increasing technical challenges, the material properties of the crank cases have been improved. This development is to be applied in the reduced-capacity engine blocks that are to go into serial production in 2011. Together with customers, the development of thermal coating technology was accelerated in order to minimize friction and improve the cylinder barrels' resistance to wear and tear. The first prototypes of newly developed coatings are undergoing motor testing.

In the field of lightweight design, KS Aluminium-Technologie has qualified to supply aluminum chassis cast parts to another major German automotive manufacturer. In addition, development activities for bodywork cast parts were commenced with one customer. The steel sheet metal constructions used until now can in future be replaced by aluminum.

With the development of a gearbox manufactured using low-pressure chill casting for heavily loaded trucks, which is to go into serial production in 2012, the division entered the commercial vehicle market in 2010.

KS Aluminium-Technologie is also demonstrating its expertise in the production of large aluminum cast parts outside the automotive industry. Solar inverter cases manufactured in die casting, which are replacing the sheet metal constructions used today, have been delivered to a leading solar technology manufacturer since mid-2010.

Rheinmetall Group business trend
Research and development

New materials in response to new requirements | Measures to reduce fuel consumption, combined with the reduction of CO_2 emissions from vehicle engines, have a massive influence on the mechanical and tribological stress on the motor plain bearings. KS Gleitlager therefore pressed ahead with the targeted development of basic materials and coatings for these products in the year under review.

A new bronze material with a lead-free galvanic layer has been launched on the market with the crankshaft bearings for a new diesel engine. This product is to be serially produced by the galvanic line at the Papenburg factory that has been converted for this purpose. Testing of the new polymer antifriction coating layer that is to reduce the wear and tear of engine bearings under start-stop conditions showed promising results both in engine tests by customers and in the very rigorous tests on the internal test bench for engine bearings. Furthermore, the development of a new dual material system based on aluminum began, with which the addition of silicon to the alloy has significantly increased resistance to wear and tear at the same time as improving load-bearing capacity. The new roll-bonded clad antifriction material is to be used in crankshaft bearing shells and thrust washers in start-stop engines and in jacks in vehicle gearboxes.

In the Permaglide range of materials, the newly developed antifriction material for bearings in backrest adjustment systems went into serial production in the year under review. The first steps were also taken towards the development of a cost-optimized pump bearing material. In the common rail pump market, this is to close the cost/performance gap between simple plain bearings based on PTFE (polytetrafluoroethylene) and the high-end PEEK (polyether ether ketone) bearings.

After the Federal Ministry of Education and Research approved the funds requested, a three-year research project was commenced with the Fraunhofer Institute for Mechanics of Materials, which involves the development of polymer antifriction materials and high-performance antifriction layers through the integration of carbon nanotubes into the polymer matrix.

Rheinmetall Group business trend
Personnel

21,706 employees represent Rheinmetall in dealings with customers and business partners | The companies of the Rheinmetall Group are represented on highly competitive markets that are shaped by dynamic developments and demand a high level of specialist expertise. Experienced managers, highly qualified expert staff, practice-oriented specialists and highly motivated junior employees make a significant contribution to attaining corporate goals and securing and expanding the Group's economic success on a sustainable basis, thanks to their knowledge, skills, experience and motivation.

As at the 2010 balance sheet date, Rheinmetall employed 21,706 employees, following 21,508 employees on December 31, 2009. Of this total, 19.5 % were women. Of the Group employees, 45.3 % were employed in the Defence sector (previous year: 47.1 %), 54.0 % in the Automotive sector (previous year: 52.2 %) and 0.7 % at Rheinmetall AG and the service companies (previous year: 0.7%). The percentage of employees working outside Germany rose by 0.8 % to 45.1 %, with the Automotive sector expanding its workforce outside Germany by 677 staff. Of the employees based outside Germany, the largest number were in Europe (4,644 employees; previous year: 4,153) (of which non-EU states: 1,638, previous year: 1,477), while 2,192 employees were based in South America (previous year: 1,797) and 1,325 in North America (previous year: 1,272). 1,193 employees were based in South Africa (previous year: 1,717), 437 in Asia (previous year: 590) and 8 in Australia (previous year: 0). The Rheinmetall Group employs 467 managers, 51 of whom are women (11 %, previous year: 9 %).

Talent management | The Group-wide agreement concluded in 2009 for the systematic identification and assessment of future talent was implemented in the year under review with the employee potential appraisal carried out in all divisions. Using the matrix, which divides the 17 management skills of relevance to Rheinmetall into five skill areas, all managers, junior managers and other people identified as having future talent were systematically assessed with regard to their performance, their achievement of targets and their current strengths/weaknesses profile and development plans were drawn up based on this. This analysis led to an individual assessment of potential for the respective employee, which the line manager discussed in a detailed feedback meeting, at which potential for development – in the form of a specific position or a career path (management, project and expert career path) – was highlighted and agreements were reached on individual measures for the improvement of technical, methodological and social skills. Succession planning is an integral part of employee potential appraisals at Rheinmetall. Among other points, it shows which positions are set to become vacant in the next few years, which of them must be filled in view of strategic HR planning and for which of these posts that must be filled a definite successor has already been found or internal or external recruitment is required.

Personality and values	Social competencies	Leadership competencies	Cogitation and meth. competencies	Entrepreneurial competencies
Attitude	Ability to integrate	Management of employee resources	Ability to structure	Visionary and strategic thinking
Ability to work under pressure	Ability to communicate and cope with conflicts	Assessment of employee performance	Ability to innovate	Customer focus
Open-mindedness	Sensitivity	Evaluation of employee development potential	Ability to implement	Profit orientation
	Cross-cultural competency			Decisiveness and readiness to take risks

The Rheinmetall skills model: the basis for employee potential appraisals, succession planning and training

Rheinmetall Group business trend
Personnel

Technological fields and key workers | The strategy of growth based on technological expertise that builds on existing strengths, which has been pursued successfully for years, has proved itself. Technological, market and sector trends and their impact on the international business activities of the Group companies have been systematically researched, analyzed and assessed for years. The results and findings of these analyses are taken into account in strategic and operational planning processes, in order to ensure the future viability of the divisions. In this context, it is essential to link developments in the technologies that are of strategic relevance to Rheinmetall with the planning of staff requirements and staff development and with succession planning, so that the companies' expected future requirements in terms of specialist staff, managers and specialists can be reliably calculated and the achievement of medium- to long-term corporate goals can be further secured.

Staff development as a strategic factor in success | Training of employees in line with requirements is regarded as a key factor in success and is geared towards the strategic needs of the sectors, through staff development. The aim is to secure a high level of qualifications in the long term and to expand this continually, so that the predicted growth can be achieved in the companies of the Rheinmetall Group.

Through training and personal development, managers and employees at all levels are prepared for the current and future challenges of their tasks. On the basis of the Rheinmetall skills model, which is the foundation for all assessment tools such as employee potential appraisals, specific requirements in terms of further training, project work and learning partnerships are determined.

In 2010, the Rheinmetall Academy offered internal training and qualification measures for the fields of corporate management, management skills, methodological skills, project work and internationalization, in addition to external seminars and events, so that managers and junior staff can prepare for further technical, management and project work. These training courses and workshops constitute a platform for employees to exchange knowledge, experiences and opinions, beyond the usual functional, hierarchical and regional borders. The Rheinmetall Academy was realigned in 2010 in the same way as the structure of the skills model. A total of 477 people attended events at the Rheinmetall Academy in the year under review, compared with 372 in the previous year. In line with changes and innovations in the markets and Group companies, the range of training courses available at the Rheinmetall Academy is continually being expanded to include current issues and new programs. This targeted support also facilitates succession planning that is geared towards future developments. Wherever possible, positions are filled by employees with operational experience from within the Group's own ranks.

The collective training agreement applies to all employees, in accordance with which training requirements are determined and individual support measures for employees are planned. In total, the Rheinmetall Group invested around €3.4 million in the various training programs in Germany alone in fiscal 2010 (previous year: €3.4 million). In the year under review, 10,112 employees (previous year: 11,749) benefited from 2,531 qualification measures (previous year: 2,685) over a total of 16,951 days (previous year: 18,766). Female employees of the Rheinmetall Group made use of training services in proportion to their share of the total workforce.

Staff marketing – Rheinmetall as an employer | For the second consecutive year, Rheinmetall was voted one of the 100 most attractive employers in Germany in 2010 in the “trendence study” presented by Manager Magazin regarding the attractiveness of German engineering companies as employers by around 10,000 participating students at technical schools, achieving 82nd place (previous year: 72nd place). This showed that the consistent presence in recruitment marketing at university fairs, graduate conferences, recruitment events and online job centers, which has been coordinated throughout the Group for several years, is bearing fruit. In addition to classic and modern resources for selecting staff, the Rheinmetall Group therefore relies on the targeted expansion of existing cooperation agreements with universities, technical colleges and research institutes for the recruitment of well-trained specialist staff and managers.

At the same time, it is becoming clear that efforts to market the Group to the target universities, through the online presence and the use of various channels involving social media to reach future employees, can be reinforced further. In particular, it is the aim to reach Rheinmetall’s key target group of young, well-educated engineers and to ensure that these students and young professionals are made aware of the Group as an attractive employer. The trendence study shows that recruitment marketing offers potential in appealing to female students on technical degree courses: they account for almost 20% of the target group that is of interest to Rheinmetall. All companies of the Rheinmetall Group are facing increasingly tough competition from other companies for qualified staff. Attracting competent professionals for the companies is therefore one of the key tasks of HR work. In addition to performance-related pay and progressive employee benefits, Rheinmetall focuses in particular on wide-ranging prospects in the Defence and Automotive sectors, interdisciplinary career paths, opportunities for employment in the international Group companies and attractive training services.

Number of apprentices at a high level | Rheinmetall remains strongly committed to all-round, practice-oriented training for young people in technical, commercial and business fields. Worldwide, 729 young people (previous year: 774) received vocational training, 566 of whom (previous year: 585) were based in Germany. A wide range of over 30 training courses are on offer at the Group. Industrial mechanic, cutting machine operator, tool mechanic and industrial business manager are some of the key job titles at sites in Germany. At 18.6 %, the percentage of female apprentices was in line with the percentage of women in the total workforce. The apprenticeship ratio for the German locations was 5.4% of the workforce, equaling the level of the previous year (5.5%). As in the previous year, €10.3 million was invested in training at the sites in Germany. 159 young people (previous year: 148) commenced training at Rheinmetall’s German companies in the last fiscal year, while 132 apprentices (previous year: 102) transferred to a permanent or temporary employment contract after successfully completing their training.

Employee profit-sharing scheme “My piece of Rheinmetall” | Since 2008, employees have had the opportunity several times each year to acquire shares in the company. In the last fiscal year, 952 employees took part in the employee share purchase program. In addition to Rheinmetall Group companies based in Germany, employees of 19 European Group companies were also entitled to subscribe to shares for the first time in the year under review. In total, employees acquired 100,338 Rheinmetall shares on favorable terms in two tranches in April and November 2010, with a minimum holding period of two years. Since the share purchase program began, employees have acquired 484,006 Rheinmetall shares.

Rheinmetall Group business trend Personnel

Performance-related and success-oriented payment systems | Attractive pay is an important argument in recruitment and an equally important component in ensuring the retention of capable and dedicated staff at the company. The regulations on pay are based on standard criteria for the market and are weighted according to the success of the individual and the company, depending on the level of management responsibility.

The company's success is reflected in employees' pay in two ways: employees receive a share in the profits if the development of the company's key figures is good. The performance of the company also plays an important part in company pensions: a performance-related component in contributions ensures that additional provisions are built up here for support in old age.

In addition to fixed salary components, Rheinmetall offers managers various variable performance incentives and additional benefits. By focusing on goals, this pay system provides incentives to take on challenges and assume responsibility. The performance-based salary components, which lie within a range of 0% to 200% of the target profit share, depending on the extent to which targets are achieved, are linked to individual goals and the transparent management variables of the company through the setting of personal targets.

In addition to executives, exempt employees are also included in the Management by Objectives program, meaning that their personal performance is also linked to the success of the company.

As a long-term incentive, Executive Board members, managers and executives receive an additional pay component. As a long-term staff retention and incentive instrument, the concept includes payment of up to 50% in Rheinmetall shares, which are subject to a four-year lock-up period. As the recipients are to be taxed immediately on the Rheinmetall shares granted, practically the entire amount is granted in shares. 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.

Demographic change | Like other European countries, Germany is undergoing a profound demographic change, of which the government and the economy are showing increasing awareness. Developments in Germany and other Western industrialized nations are characterized by increasing life expectancy, low birth rates and low net migration gains, which has led to an increase in the average age of the working population. In addition, there will be fewer suitable junior staff. Competition for employees is already noticeably more intense than a few years ago. 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.

Against this background, Rheinmetall adapted various areas requiring attention as regards demographical management at its companies to the respective situation in 2010 and managed them through the HR departments. This includes measures to promote health, qualifications and training, work organization and design and working hours management. One success has already been seen in 2010: the trend towards a constantly ageing workforce was broken – the average age of employees was 43.3 years, the same level as the previous year (43.3 years).

The length of service in the Rheinmetall Group remained constant in the year under review compared with the previous year, at 14.2 years.

Compatibility of work and family | The Rheinmetall Group regards the wish of many employees for better compatibility of work and family as an obligation in HR policy, through which the change that is taking place in society, with a stronger focus on families, is also to be promoted within the company.

Rheinmetall thus supports both male and female employees returning to work after parental leave to find childcare solutions, for example through increased cooperation with providers of crèches and day care centers, or through flexible organization of working hours with the option of part-time work.

The new legal option to obtain parental benefit for a longer period – in practice, often used as "paternal leave" – is already a reality in many divisions of companies in the Rheinmetall Group.

Further key personnel figures | Staff costs in the fiscal year totaled €1,181 million, exceeding the previous year's figure by €113 million. Wages and salaries accounted for €975 million (previous year: €877 million). Social insurance contributions, pension expenses and related employee benefits totaled €206 million (previous year: €191 million). Based on capacity, staff costs per employee amounted to €59,000 (previous year: €54,000). The ratio of personnel expenses to total operating performance dropped from 31 % to 29 %. Sales per employee rose from €170,000 in 2009 to €199,000 in 2010.

Rheinmetall Aktiengesellschaft

Rheinmetall AG fulfills strategic holding functions | 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. The position of Rheinmetall AG is largely determined by the commercial success of the Group companies.

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 media, 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 149 companies (previous year: 135) belonging to the Rheinmetall Group. 122 companies (previous year: 108) are fully consolidated in the consolidated financial statements. As in the previous year, 27 companies are carried at equity. An overview of these companies is given on pages 134 to 137.

The single-entity financial statements of Rheinmetall AG have been prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The provisions of the German Accounting Law Modernization Act (BilMoG), which came into force in fiscal 2010, were also applied for the first time. The previous year's figures have not been adjusted.

Earnings situation of Rheinmetall AG | The earnings situation of Rheinmetall AG is determined to a large extent by the results of subsidiaries and by expenses and income in central Group financing.

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

	2009	2010
Investment income	(29)	67
Net interest	(17)	(31)
Write-down / write-up of treasury stock	26	-
Other operational income	62	62
Staff costs	27	28
Other expenses	43	53
EBT	(28)	17
Taxes on income and revenue	(3)	(2)
Net profit for the year / Net loss for the year	(31)	15
Changes is retained earnings	43	43
Net earnings	12	58

Net investment income of €67 million was achieved in fiscal 2010, compared with €-29 million in the previous year. The Defence sector accounted for €59 million of this (previous year: €114 million) and the Automotive sector for €9 million (previous year: €-142 million). The diverse measures to overcome the crisis had had a negative impact on the net investment income of the Automotive sector in the previous year.

Net interest from central financing amounted to €-31 million, a drop of €14 million compared with the previous year. Expenses from the accrual of pension provisions in the amount of €5 million were recognized in net interest for the first time in fiscal 2010. Interest expenses for bonds and promissory note loans amounted to €24 million, compared with €18 million in the previous year.

In connection with the performance of the duties of a holding company, other operating income and expenses were incurred amounting to €9 million on balance (previous year: €19 milion), along with staff costs of €28 million (previous year: €27 million). The deterioration in these income and expense items compared with the previous year, which totaled €11 million, was essentially due to exchange losses amounting to €6 million on balance (previous year: €0 million) and additions to provisions for risks from hedging transactions amounting to €5 million (previous year: €1 million).

Earnings before taxes rose by €45 million to €17 million. Tax expenses amounted to €2 million (previous year: €3 million). After deduction of taxes, net income of €15 million remained for fiscal 2010 (previous year: net loss of €28 million). After appropriations of retained earnings, net earnings of €58 million were reported.

The Executive and Supervisory Boards of Rheinmetall AG are to propose to the Annual General Meeting on May 10, 2011 that the net earnings be used to pay a dividend of €1.50 per share, whereby the 1,293,198 shares held by Rheinmetall AG as treasury stock are not entitled to a dividend.

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

The total assets of Rheinmetall AG increased by €307 million to €2,091 million. Of the increase in assets, a significant proportion (€237 million) was the result of an increase in receivables from subsidiaries, while €100 million was due to a rise in cash in hand.

The financial assets include shares in associated companies in the amount of €1,103 million (previous year: €1,026 million). This represents a share in total assets of 53 % (previous year: 58 %). In fiscal 2010, the addition of all shares in Simrad Optronics AS was included in the amount of €76 million. Receivables from and liabilities to associated companies amounted to €402 million (previous year: €165 million) and to €787 million (previous year: €603 million) respectively. They account, respectively, for 19% and 37% of total assets.

Of the total assets of €2,091 million as at December 31, 2010 (previous year: €1,784 million), €510 million (previous year: €557 million) is financed from equity. The application of the provisions of the German Accounting Law Modernization Act in fiscal 2010 led to the offsetting of treasury shares against equity and thus to a reduction in equity of €52 million as at the balance sheet date. The equity ratio dropped from 31% to 24%. The net income led to growth of €15 million, which was offset by a reduction of €12 million owing to the dividend payment for 2009.

Liabilities rose by €351 million to €1,459 million as at December 31, 2010. Of this increase, €184 million was the result of a rise in liabilities to subsidiaries and €175 million was due to the issue of a €500 million bond in fiscal 2010 and the scheduled repayment of the €325 million bond.

Rheinmetall Aktiengesellschaft

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

	Dec. 31, 2009	**Dec. 31, 2010**
Fixed assets		
Intangible assets, property, plant and equipment	28	23
Financial assets	1,044	1,120
	1,072	1,143
Current assets		
Receivables from affiliated companies	165	402
Treasury shares	57	0
Other receivables, other assets	66	21
Cash in hand	424	525
	712	948
Total assets	1,784	2,091

	Dec. 31, 2009	**Dec. 31, 2010**
Equity	557	510
Provisions	119	122
Liabilities		
Bond, liabilities due to banks	475	650
Liabilities to affiliated companies	603	787
Other liabilities	30	22
	1,108	1,459
Total liabilities	1,784	2,091

Corporate responsibility (Sustainability report)

Rheinmetall – founded in 1889 as "Rheinische Metallwaaren- und Maschinenfabrik Actiengesellschaft" – is one of the hundred largest listed corporations in Germany and enjoys success on the international defence and automotive markets. Its name is associated with tradition, experience and progress. Rheinmetall focuses on what is important: products, performance, employees. This is also reflected positively in sales figures, balance sheets and the stock market value. Between what is tried and tested and what is new, timeless values determine Rheinmetall's self-image: credibility and trust. State-of-the-art technology and expertise. Financial stability and transparency. These shared values connect employees all over the world in their different cultures.

Traditionally, Rheinmetall is committed to open global trade and fair competition and to acting in a way that is legal and socially and ethically responsible. The Group follows the approach of taking into account the interests of shareholders, employees and other groups linked to the company, along with ecological and social issues, when implementing corporate goals. The principles of social responsibility were stipulated in the Code of Conduct in 2003. The Code of Conduct deals, among other points, with responsible management in the advancing process of internationalization and globalization, respect for human rights and safe working conditions. Sustainable economic activity is an integral part of business and production processes and helps to secure the Company's long-term future.

Corporate governance and compliance | The companies of the Rheinmetall Group have always been guided by national and international principles, values and customs, in order to ensure good and responsible corporate management. They act with integrity and in accordance with the laws of the countries in which they operate. For many years now, Rheinmetall has had a comprehensive set of corporate policies ensuring observance of legal requirements, preventing the violation of applicable legislation and ensuring appropriate actions that are in accordance with respective duties. Subject to their respective business activities, employees are regularly informed of the relevant rules and regulations and any amendments by means of seminars, conferences, workshops and other communication measures. The Chief Compliance Officer monitors compliance with the relevant regulations and regularly reports to the Executive Board and the Supervisory Board's Audit Committee on current developments.

Protection on deployment | 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. Rheinmetall Defence is one of the prestigious systems suppliers in the international defence and security industry. In the protection of armed forces in particular, Rheinmetall has been treading new paths for years. The companies in this corporate sector specialize in the development and production of components and systems for the protection of people, vehicles, aircraft, ships and assets. They are a strong partner to the German armed forces, its allies and friendly armies, along with civil national security forces, and protect the forces involved in operations to protect democracies and peaceful constitutional states.

Industrial solutions for environmentally friendly engine technology | The divisions of the Kolbenschmidt Pierburg Group have been working for a long time on solutions for environmentally friendly automotive technology and, with their products, help to ensure that constantly growing requirements in terms of mobility are not in conflict with the protection of the environment. In a time in which the number of vehicles worldwide is increasing and the global climate is becoming hotter, the trend towards saving fuel, reducing CO_2 and lowering overall emissions – supported by legal guidelines – has accelerated. As an important development partner to the national and international automotive industry, Rheinmetall Automotive makes a significant contribution to reducing emissions, consumption and weight and optimizing performance through numerous innovative components, modules and systems for engine technology.

Corporate responsibility (Sustainability report)

Environmental protection | As part of an integrated approach, environmental protection plays an important part in the companies of the Rheinmetall Group. The respectful handling of natural resources, economical use of raw materials and energy and, where possible, avoidance of damaging effects on the environment at all stages – from the procurement of raw materials, through product development, production, packaging and transport to waste disposal and recycling – lead to the improvement of the economic and ecological results of the Group. A sense of responsibility is encouraged amongst employees as regards the environment at all stages of the value-added chain.

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. Regular certification reviews confirm these high quality standards on an objective basis.

Detailed descriptions of the organization, workflows and responsibilities as well as ongoing quality improvement procedures ensure that the requirements made of the companies in the form of customer specifications, sets of standards or other regulations are fulfilled in a way that is as environmentally sound as possible. Rheinmetall will continue with its efforts to make even more efficient use of resources and to prevent the production of hazardous substances.

Rheinmetall worldwide | Employees of the Rheinmetall Group identify with a distinctive corporate culture that focuses on professional performance, initiative, responsibility and a shared understanding. They cooperate across functional, organizational and national boundaries. Dealings between employees and management are characterized by mutual trust, respect and understanding. With sites in 24 countries on five continents, supply relationships in 73 countries and 9,799 employees abroad, diversity is a reality. Daily practice shows that this diversity in languages, eduction and training, abilities and ways of thinking and working has a positive impact on cooperation and helps to secure the future viability of the companies in the international competitive environment. Openness to foreign cultures and exchange between the sites is also encouraged through secondments. In the year under review, around 100 German employees completed a stay abroad.

Investing in knowledge | The companies of the Rheinmetall Group support the transfer of knowledge. Cooperation agreements with technical colleges and institutes ensure an intensive exchange between the economy, science and research, which benefits both sides. Together with the prestigious foundation of the University of Kaiserslautern, the Rheinmetall Foundation supports talented young academics in Germany with financial donations for a specific purpose, which allow participation in international studies or internship programs. Kolbenschmidt Pierburg also supports young scientists at an international level with the chair for vehicle aggregate technology at the renowned University of Tongji in Shanghai, China.

Commitment to training | Rheinmetall also fulfills its social responsibilities through in-house training for 729 young people, of whom 566 are in Germany, which lays the foundations for them to have a qualified profession later. Moreover, Rheinmetall Defence Electronics offers dual courses in IT and business management, for example, while Rheinmetall MAN Military Vehicles offers study courses in the fields of mechanical and electrical engineering and industrial engineering with business management in collaboration with the University of Kassel.

First insights into the world of work | Gaining a first insight into professional life through practical experience: Rheinmetall is also committed to promoting technology, science and craft in the areas where it is located. Young people are made aware of opportunities in technical professions through school partnerships, for example. Companies in the Rheinmetall Group are also involved in nationwide campaign days and offer work placements in a wide variety of fields.

Health and safety | With regard to health and safety in the workplace and health management, Rheinmetall focuses on health care in line with requirements, which maintains and supports the wellbeing and performance of employees. This includes the safety of facilities and production processes, modern equipment, the ergonomic design of work stations and good working conditions, along with company medical services. Employees also benefit from occupational health checks, free influenza vaccinations and various prevention programs, which provide tips on healthy living, for example.

Pensions | The Rheinmetall Group supports employees in planning and implementing protection that supplements statutory pension schemes and that increases financial security in retirement. This "Rheinmetall Plus" system, which applies to sites in Germany, consists of a basic plan, a performance-related intermediate plan financed by the employer and a supplementary plan financed by the employee, allowing for various forms of deferred compensation. The pension scheme has an identical structure for staff and managers; higher incomes are reflected in increased benefits. Country-specific pension arrangements also exist for employees outside Germany.

Commitment to society | The companies of the Rheinmetall Group are closely linked to their sites and are therefore involved in local charitable and cultural projects. In the Defence sector, Rheinmetall Waffe Munition supports the Albert-König Museum in Unterlüß, for example. In the year under review, employees and managers of the Kolbenschmidt Pierburg Group supported three charitable organizations in the Heilbronn area, which are involved mainly in work with children, with donations. In order to promote culture, Rheinmetall AG supported two opera houses in the year under review.

Nature conservation on the heath | At the heath in Lower Saxony, not far from Unterlüß, Rheinmetall Defence has been testing its products for over 100 years. The land owned by the company – apart from a small restricted area – encompasses 3,400 hectares of forest and 800 hectares of heath. 90 % of the area is managed in line with the typical, original character of the landscape, with flora and fauna maintained by two full-time forest rangers, in accordance with the strict regulations for integrated nature conservation. Active planning of the landscape means that individual habitats are created for the unique flora and fauna. The result is an unusually rich array of flora, which in turn attracts a rare diversity of insects and birds and also provides a habitat for large wild animal populations. The northern section of the Rheinmetall land, the Ellerndorf Heath, is open to the public.

Board remuneration report

Remuneration of the Executive Board | Rheinmetall AG's pay system is geared towards sustainable corporate development. Through participation using an assessment basis spanning several years, incentives are provided for a long-term corporate management strategy. The Supervisory Board of Rheinmetall AG resolves upon and regularly reviews 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 with 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 June 1, 2010. The annual target salary for members of the Executive Board 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% of the target profit share.

Additionally, a long-term incentive program has been put in place that is based on the average adjusted EBT for the last three fiscal years. Half of the incentive is granted in the form of Rheinmetall shares, which are subject to a four-year lock-up period. As the recipients are to be taxed immediately on the Rheinmetall shares granted, practically the entire amount is granted in shares. 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.

Executive Board members are entitled to defined benefit pension commitments, based on approximately 25% of the annual target salary. The retirement age has been fixed at 63 years. The Company has set up provisions for future claims. The pension commitments of Klaus Eberhardt and Dr. Herbert Müller have been increased with effect from January 1, 2010 and those of Dr. Gerd Kleinert with effect from June 1, 2010.

TEUR

	Fixed remuneration incl. fringe benefits	Performance based remuneration	LTIP	Total	Annual post-retirement pension	Current service cost-pensions
Klaus Eberhardt	838	1,074	974	2,886	400	343
Previous year	818	1,088	16	1,922	315	344
Dr. Gerd Kleinert	537	676	487	1,700	203	304
Previous year	516	970	-	1,486	195	-
Dr. Herbert Müller	425	560	487	1,472	175	113
Previous year	368	498	8	874	151	87
Total	**1,800**	**2,310**	**1,948**	**6,058**		
Previous year	1,702	2,556	24	4,282		

The contracts of Executive Board members provide for a compensation payment in the event that the position on the Executive Board is terminated prematurely without cause. This is limited to a maximum of two years' salary including fringe benefits (compensation cap) and shall not provide any more payment than the remaining term of the employment contract. 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 2010.

Remuneration of the Supervisory Board | The remuneration of the Supervisory Board of Rheinmetall AG is regulated in Section 13 of the bylaws. According to these, Supervisory Board members receive remuneration comprising a fixed 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 €80,000 (previous year: €120,000).

Subject to the resolution of the Annual General Meeting on May 10, 2011 regarding the proposed appropriation of net income for 2010, Supervisory Board members will receive the following remuneration for fiscal 2010.

Board remuneration report

EUR

	Fixed remuneration	Variable remuneration	Fixed committee remuneration	Variable committee remuneration	2010 remuneration
Klaus Greinert	60,000	36,000	30,000	18,000	144,000
Previous year	60,000	-	30,000	-	90,000
Joachim Stöber	60,000	36,000	15,000	9,000	120,000
Previous year	60,000	-	15,000	-	75,000
Prof. Dr. Andreas Georgi	30,000	18,000	-	-	48,000
Previous year	30,000	-	-	-	30,000
Dr. Siegfried Goll	30,000	18,000	-	-	48,000
Previous year	30,000	-	-	-	30,000
Dr. Peter Mihatsch	30,000	18,000	7,500	4,500	60,000
Previous year	30,000	-	7,500	-	37,500
DDr. Peter Mitterbauer	30,000	18,000	-	-	48,000
Previous year	30,000	-	-	-	30,000
Detlef Moog	14,417	8,650	-	-	23,067
Previous year	-	-	-	-	-
Henning von Ondarza	15,000	9,000	-	-	24,000
Previous year	30,000	-	-	-	30,000
Prof. Dr. Frank Richter	30,000	18,000	15,000	9,000	72,000
Previous year	30,000	-	15,000	-	45,000
Reinhard Sitzmann	24,250	14,550	-	-	38,800
Previous year	30,000	-	-	-	30,000
Toni Wicki	2,083	1,250	-	-	3,333
Previous year	-	-	-	-	-
Dr. Ludwig Dammer	20,000	12,000	-	-	32,000
Previous year	30,000	-	-	-	30,000
Heinrich Kmett	30,000	18,000	7,500	4,500	60,000
Previous year	30,000	-	7,500	-	37,500
Dr. Rudolf Luz	30,000	18,000	-	-	48,000
Previous year	30,000	-	-	-	30,000
Dr. Michael Mielke	10,000	6,000	-	-	16,000
Previous year	-	-	-	-	-
Wolfgang Müller	30,000	18,000	-	-	48,000
Previous year	30,000	-	-	-	30,000
Harald Töpfer	30,000	18,000	-	-	48,000
Previous year	30,000	-	-	-	30,000
Wolfgang Tretbar	30,000	18,000	7,500	4,500	60,000
Previous year	30,000	-	7,500	-	37,500
Peter Winter	30,000	18,000	7,500	4,500	60,000
Previous year	30,000	-	7,500	-	37,500
Total	**535,750**	**321,450**	**90,000**	**54,000**	1,001,200
Previous year	540,000	-	90,000	-	630,000

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

Declaration of corporate governance

The confidence that national and international investors, business partners, analysts, the media and employees have in the business policy, management and supervision of Rheinmetall AG is influenced to a large extent by comprehensible, responsible corporate management that is geared towards the creation of value and profitable growth. Effective corporate governance that protects the interests of shareholders and ensures early reporting, correct accounting and efficient cooperation between the Executive and Supervisory Boards plays a key part at the Rheinmetall Group.

Unqualified declaration of conformity for 2010 | Section 161 of the German Stock Corporation Act (AktG) obliges the Executive and Supervisory Boards of a stock corporation listed in Germany to declare once a year that the recommendations of the Commission of the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been and are being complied with, or which recommendations have not been or are not being implemented and why not. On May 26, 2010, the Government Commission restated the German Corporate Governance Code. On December 7, 2010, 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 18, 2009 and May 26, 2010, officially communicated in the Electronic Federal Gazette on August 5, 2009 and July 2, 2010 respectively, since it issued its last declaration of conformity dated December 2009.

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 May 26, 2010, officially communicated in the Electronic Federal Gazette on July 2, 2010.

Düsseldorf, December 2010
Rheinmetall Aktiengesellschaft
The Supervisory Board The Executive Board"

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

Shareholders and the Annual General Meeting | Shareholders of Rheinmetall AG exercise their rights of codetermination and control at the Annual General Meeting. They may either exercise their voting right personally at the Annual General Meeting or appoint a proxy at their discretion or give voting power to a Rheinmetall-appointed voting proxy. The Annual General Meeting, at which the Executive Board and Supervisory Board account for the past fiscal year, takes place on an annual basis. In special cases, the German Stock Corporation Act allows for an extraordinary general meeting to be convened. 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. Furthermore, the Annual General Meeeting passes resolutions on the bylaws and the objective of the company, on amendments to the bylaws and key corporate measures such as affiliation agreements and conversions, on the issuing of new shares, convertible bonds and bonds with warrants and on authorization to acquire treasury shares. It can pass resolutions on the approval of the remuneration system for Executive Board members. Each share grants one vote. 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.

Declaration of corporate governance

Management, control and organization of the Rheinmetall Group | Rheinmetall AG, a company headquartered in Düsseldorf, manages 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. Rheinmetall AG is a listed company under German law and is subject, in particular, to the provisions of the German Stock Corporation Act, capital market regulations and the provisions of the bylaws. A fundamental principle of the German law on stock companies is the dual management system with the bodies of the Executive Board and Supervisory Board, each of which has its own separate responsibilities. The Group is managed by the overall Executive Board, while the key tasks of the Supervisory Board involve advising the Executive Board and monitoring its company management. The Executive and Supervisory Boards cooperate closely, constructively and in an atmosphere of trust on the basis of sharing tasks and responsibilities, with the aim of ensuring the company's survival and a sustainable increase in the value of the company. Rules of procedure are in place for both boards, containing regulations on the composition, tasks, responsibilities and areas subject to approval.

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 Defence and Automotive sectors, each assigned all the necessary functions, constitute independent sectors 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 responsibly 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.

Structure and function of the Executive Board | The Executive Board 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 Executive Board manages the Company on its own responsibility and without instructions from third parties, in accordance with the law, the bylaws and its rules of procedure and taking into account the resolutions of the Annual General Meeting, with the aim of a sustainable increase in value. It represents the Company in dealings with third parties. In accordance with Section 6 (1) of the bylaws, the Executive Board of the Company must consist of at least two people. The number of members is determined by the Supervisory Board. The rules of procedure of the Executive Board regulate the work of the Board, the responsibilities of the respective members of the Executive Board, matters reserved for the overall Executive Board and the majority required for Executive Board resolutions. 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.

Structure and function of the Supervisory Board | In accordance with the German law on co-determination (MitbestG 1976), the Supervisory Board of Rheinmetall AG consists of eight shareholder representatives and eight employee representatives. The period of office for the Supervisory Board is five years. When carrying out their work, Supervisory Board members are committed to Rheinmetall's best interests, but are not bound by specific instructions. When nominations are made for Supervisory Board elections, consideration is to be given to the knowledge, abilities and technical experience required in order to perform the tasks and to diversity in the composition of the Board and independence as defined by the German Corporate Governance Code. During the year under review, the Supervisory Board comprised 16 men. Former Executive Board members of Rheinmetall AG are not represented on the Supervisory Board. With the exception of Dr. Siegfried Goll, Detlef Moog and Toni Wicki, 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. Dr. Siegfried Goll has been elected up to the close of the Annual General Meeting in 2013, while the Supervisory Board seats of Detlef Moog and Toni Wicki expire at the close of the Annual General Meeting on May 10, 2011.

The Executive Board informs the Supervisory Board regularly and comprehensively about the development of the business, the financial and earnings situation, planning and the achievement of targets and issues relating to compliance, as well as about strategy and existing risks. On the basis of these reports, the Supervisory Board monitors the legality, correctness, practicability and economic efficiency of management by the Executive Board. The catalog of transactions requiring approval issued by the Supervisory Board for the Executive Board lists the transactions and activities for which the approval of the Supervisory Board is required. This applies, among other points, to the acquisition and sale of interests in companies, investment planning and taking out bonds and long-term loans.

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. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs meetings and represents its interests externally. He outlines the activities of the Supervisory Board and its committees each year in the Report of the Supervisory Board published in the annual report and verbally at the Annual General Meeting.

Some of the activities of the Supervisory Board are performed by committees of the Supervisory Board. The Supervisory Board has formed four committees from its members. 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. Klaus Greinert (Chairman), Prof. Frank Richter, Joachim Stöber and Wolfgang Tretbar belong to the Personnel Committee.

It is the job of the Audit Committee to support the Supervisory Board when performing its supervisory functions. It reviews the quarterly accounts and the half-yearly financial report and prepares resolutions of the Supervisory Board for the adoption of the single-entity financial statements and the approval of the consolidated financial statements. The Audit Committee monitors the accounting process and the effectiveness of the internal control system, the risk management system and the internal auditing system. In addition, the Audit Committee deals with compliance issues. In addition to Klaus Greinert as Chairman, the committee includes Prof. Frank Richter, Joachim Stöber and Heinrich Kmett.

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. Klaus Greinert (Chairman), Dr. Peter Mihatsch, Joachim Stöber and Peter Winter belong to the Mediation Committee.

The task of the Nomination Committee is to put forward suitable candidates to the Supervisory Board for election at the Annual General Meeting. Klaus Greinert (Chairman) and Prof. Frank Richter belong to the Nomination Committee.

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

The offices held by Executive Board and Supervisory Board members are shown on pages 142 to 144.

Declaration of corporate governance

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

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 summarized management report on pages 46 et seq. The Supervisory Board Chairman briefed the Annual General Meeting on May 11, 2010 on the basic components of Executive Board remuneration, which have also been disclosed on the Company's homepage.

D&O insurance | Rheinmetall AG has taken out a D&O policy (Directors' & Officers' liability insurance) for its Executive Board and Supervisory Board members. From July 1, 2010, a deductible of 10% of the loss, up to the amount of one and a half times the annual fixed remuneration, has been agreed. This adjustment was taken into account in connection with the extension of Dr. Gerd Kleinert's contract. The settlement for Klaus Eberhardt and Dr. Herbert Müller complies with the legal guidelines in place before July 1, 2010.

Securities transactions subject to reporting requirements (Directors' Dealings) | Rheinmetall AG was not made aware in the year under review of any transactions involving the purchase or sale of shares in Rheinmetall AG or related financial instruments that were subject to reporting requirements by members of executive bodies or related parties. Securities transactions reported since 2005 are permanently available to view on the Internet at www.rheinmetall.com in the Investor Relations section.

Shares held by the Executive and Supervisory Boards | As at December 31, 2010, members of the Supervisory Board and the Executive Board and related parties together held 437,853 shares or 1.1% of the common stock of Rheinmetall AG (previous year: 437,753 shares or 1.1%), of which the Executive Board held 89,313 shares or 0.2% (previous year: 89,313 shares or 0.2%) and the Supervisory Board held 348,440 shares or 0.9% (previous year: 348,440 shares or 0.9%).

Relevant 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.

The Rheinmetall Group has a comprehensive compliance program that is developed and adapted to changing requirements by the Executive Board, based on the proposals of the Compliance team, a network comprising representatives from the Group's divisions and the parent's main departments. The aim of the compliance system is to prevent employees from breaching laws and corporate guidelines and to support them in the correct application of laws and corporate guidelines. In addition to the compliance guidelines, the Code of Conduct, various Group-wide guidelines and numerous organizational specifications that set out minimum standards of conduct for all employees of the Rheinmetall Group are important instruments in this.

The Group-wide compliance activities focus on the areas of cartel law and the prevention of corruption. In addition, the compliance program at the Company serves to prevent insider offenses and to ensure industrial and occupational safety and IT security, among other issues. 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 Executive Board and the Supervisory Board's Audit Committee are regularly informed of current developments. In serious cases, the committees are informed immediately.

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 consistent risk management system that applies throughout the Company, which consists of a series of interlinked planning, control and information systems, ensures that corporate decisions and ongoing business activities are kept within defined risk limits and comply with legal requirements. Details of risk management at Rheinmetall AG are presented in the risk report on pages 57 to 65. This includes the report on the accounting-related internal control and risk management system required in accordance with the German Accounting Law Modernization Act (BilMoG). 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) as required in the European Union. The single-entity financial statements of Rheinmetall AG, required by law and decisive for the dividend distribution, are prepared according to the provisions of German law, particularly the German Commercial Code (HGB).

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Düsseldorf branch, performed the statutory audits for 2010. The audit assignment was awarded by the Supervisory Board based on the proposals of the Audit Committee. 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 2010 audit has not indicated any such reportable facts.

In accordance with the principle of equal treatment, Rheinmetall informs private and institutional investors, potential investors, analysts and interested members of the public regularly and in a transparent way of the current economic and financial situation of the Company, important new developments and significant changes in the Group via the internet at www.rheinmetall.com. Press releases, annual and quarterly reports, presentations and background information on specific issues can be found on the Company's websites. The dates for regular financial reporting are also listed there. Information that is likely to have a significant impact on the share price is announced in ad hoc reports and is also published on the homepage. 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 2010.

Statutory disclosures in accordance with Sections 289 (4) and 315 (4) HGB and explanatory report

Capital structure | As at December 31, 2010, 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 members of the Supervisory Board 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 have since 2010 been subject to a four-year lock-up period stipulated by the Company. 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 of the 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 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 11, 2010 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 10, 2015, up to an aggregate €50,000,000.00 (authorized capital). The new shares may also be issued to employees of Rheinmetall AG or any subsidiary it controls. The 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 accordance with a resolution of the Annual General Meeting on May 11, 2010, a contingent capital increase of up to €20,000,000.00 has been approved for the Company's common stock (contingent capital). The contingent capital increase is to be carried out through the issue of up to 7,812, 500 bearer shares or – if the Company's bylaws at the time of issuing the bond also permit the issue of registered shares – new registered shares in accordance with Section 4 (4) of the bylaws of Rheinmetall AG.

The purchase of treasury stock is governed by Section 71 AktG. According to the resolution by the Annual General Meeting of May 11, 2010, the Executive Board of Rheinmetall AG is authorized pursuant to Section 71 (1) No. 8 AktG to repurchase treasury bearer shares of Rheinmetall AG not to exceed 10 % of the current common stock of €101,373,440.00. Such treasury shares may be acquired via the stock exchange or by public bid directed at all shareholders or by public invitation to submit a purchase bid. This authorization is valid up to May 10, 2015, unless otherwise resolved by the Annual General Meeting before this date.

The proportion of own shares held as treasury stocks was 3.3 % (1,293,198 shares) at the end of the 2010 fiscal year, compared with 3.5 % or 1,393,536 shares on the previous year's balance sheet date. On February 28, 2011, Rheinmetall AG held 1,293,198 treasury shares or 3.3 %, unchanged compared with December 31, 2010.

Statutory disclosures in accordance with Sections 289 (4) and 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 September 2010, Rheinmetall AG issued a €500 million bond maturing in June 2017. 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 promissory note loans totaling €150 million with a duration of four or 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, Sections 52 et seq. of the German Foreign Trade & Payments Regulation (AWV) require 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 and report in accordance with Sections 289 (5) and 315 (2) No.5 HGB

Using opportunities – Limiting risks | In the Defence and Automotive sectors, the Rheinmetall Group's international orientation and its broad range of products and services offer it a variety of economic opportunities, the exploitation of which inevitably involves risks of varying severity, depending on the division, the industry and the region. Business 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. The aim is to maintain entrepreneurial and financial flexibility, to increase the value of the Company on a sustainable basis and thus to ensure the survival of the Rheinmetall Group in the long term.

Group risk management | The comprehensive, standardized Group-wide risk management system aimed at identifying material risks jeopardizing the continued existence of the Company at an early stage is based on risk policy principles specified by the Executive Board of Rheinmetall AG, which are geared towards financial resources and strategic and operational planning, and which specify guidelines and responsibilities and how to manage and document identified risks, as well as thresholds. This ensures that management decisions and business activities are monitored on an ongoing basis and managed actively, and that action plans can be drawn up as required, in order to comply with legal requirements.

In order to identify, analyze and assess potential risks, the risk inventory is revised once a year during corporate planning, which contains all material risks affecting corporate targets and sub-targets, probability of occurrence, the possible level of damage, early warning indicators, responsibilities and suitable countermeasures. On this basis, the operating units and central divisions record, manage and report risks associated with the current business situation and future development, along with the probability of their occurrence and the financial impact, on a monthly basis in accordance with prescribed standardized parameters. This detailed reporting system, which is embedded in the integrated planning, management and information process, informs the Executive Board and managers of the status of, and significant changes to, important ventures that are subject to reporting requirements and of the status of countermeasures that have already been commenced. The measures commenced to manage the identified risks appropriately are monitored on an ongoing basis and adjusted to a new risk assessment where necessary. If necessary, adequate additional measures are taken in order to further limit and reduce identified potential risks. The Executive Board of Rheinmetall AG is regularly informed of the development of the overall risk situation by the Group controlling department. Significant risks that come about unexpectedly and undesirable developments that have a considerable impact are reported to the Executive Board on an ad hoc basis.

Business risks | The companies of the Rheinmetall Group are exposed to general economic and political risks in the regions and countries in which they operate. In addition, the divisions are subject to risks that are typical for the defence and automotive industries. Through the geographical focus on the major economic zones of Europe, America and Asia, dependence on risks in individual customer nations is limited. A heterogeneous structure characterized by twelve divisions, the continuous expansion of the international orientation and a diversified product portfolio also help to reduce risks.

Sales risks are reduced through the targeted expansion of the existing market, product and customer segments, increased key account management and long-term contracts, among other points. Strict cost management and product innovation, improvements to processes, quality assurance and the development of new customer groups help to safeguard the competitiveness of Group companies or improve it further.

Risk report and report in accordance with Sections 289 (5) and 315 (2) No.5 HGB

The future earnings situation of the Rheinmetall Group also depends on the ability to recognize technological trends in time and to correctly assess their impact on the operating activities, to develop marketable new products and to apply state-of-the-art production processes. The lead times for development, which in some cases are long, constantly evolving technology and intense competition are uncertain factors that may compromise the economic success of current products or those developed in the future. The development of products, systems or services that are not received by the market as planned and significant changes in customer demand that were not anticipated or to which it has not been possible to respond adequately may result in a decline in demand and a deterioration in the competitive position and economic situation. The market presence and long-standing supply relationships associated with international distribution structures make it possible to identify trends on the sales markets and future requirements of products at an early stage. Feasibility studies, profitability analyses, state-of-the-art project management aimed at reviewing the criteria for technical and economic success, the involvement of customers at early stages in the definition and testing of new products and securing the technological position through patents reduces potential R&D-related risks such as misdevelopments and budget overruns.

High technical and safety standards help to counteract potential production risks. The availability of production plants is ensured through preventative maintenance with ongoing checks, constant modernization and targeted investment. For potential damage and associated disruptions to operations or production downtimes and for other conceivable loss occurrences and liability risks, reasonable 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.

Risks may arise in connection with the procurement of raw materials, parts and components in the form of unexpected shortages, delays and bottlenecks in delivery, quality problems and price increases. These are countered through ongoing observation of the market, structured procurement concepts and the avoidance of dependence on suppliers. International purchasing activities, careful selection of suppliers, annual supplier reviews, quality and reliability checks on suppliers, alternative suppliers, medium- and long-term supply contracts and adequate reserve stocks also reduce potential risks. Furthermore, cost escalation clauses are agreed in contracts where possible, in order to minimize the negative effects of increases in purchase prices.

An inadequate energy supply for companies of the Rheinmetall Group under cost-efficient conditions constitutes a risk for maintaining competitive production at the sites. Rising energy costs are addressed by bundling procurement volumes and through invitations to tender, long contract durations and optimizing the electricity price portfolio via the European Energy Exchange (EEX).

Acquisition and integration risks | Acquisitions, strategic alliances and joint ventures remain an important element of the ongoing internationalization and growth strategy, in order to increase market share, improve market position and supplement existing business. Companies that could potentially complement the business are subjected to a careful analysis of opportunities and risks through comprehensive due diligence procedures and are assessed on the basis of yield/risk considerations. Following approval proceedings carried out over several stages, the Executive Board, and if necessary the Supervisory Board, of Rheinmetall AG decides on whether to implement acquisition plans. However, it is possible that the objectives and potential synergies targeted with the acquisition may not be achieved or that they may not be achieved to the planned extent. The integration process may also prove to be more difficult or more intensive in terms of time or costs than expected. Risks may arise in connection with the activities of newly acquired companies that were not previously known or that were considered insignificant.

Financial risks | The key tasks of Rheinmetall AG include securing financial requirements for both operating activities and capital expenditure. In addition to the optimization of Group financing, the focus here is on limiting financial risks. The liquidity risks of the Rheinmetall Group are hedged on the basis of short-, medium- and long-term liquidity forecasts, by ensuring that the total volume of credit facilities available definitely exceeds the Group's foreseeable requirements. Money and capital market products and bilateral and syndicated loans are used as financial instruments.

Interest rate risks arise through changes in market interest rates. Interest caps and swaps are used to limit these risks. Currency risks, which result from a large number of payment flows in different currencies, are hedged at the time that they arise. Currency forwards and currency swaps are used here. The use of derivative financial instruments purely for speculation purposes is prohibited. Counterparty risks on conclusion of financial transactions are limited through restriction to counterparties with first-rate credit ratings.

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 countries which could jeopardize the Group's continued existence as a going concern in the event of negative development.

IT risks | Information and data are exposed to various growing threats with regard to availability, confidentiality and integrity. The organizational and IT networking of sites and complex systems involves risks. 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, operations can break down or be interrupted and programming and operating errors, tampering and external factors can lead to the corruption, deletion or theft of data. Potential IT risks are limited through modern IT infrastructure standards, IT security guidelines and adequate precautions to protect against data losses, unauthorized access to data and misuse of data, among other measures. The installed software and hardware are kept state-of-the-art thanks to regular capital expenditure, while appropriate back-up and recovery procedures, virus scanners and firewalls are also implemented. 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 | The achievement of ambitious corporate targets and the sustainable economic success of the Rheinmetall Group also depend on the qualifications, knowledge, skills and motivation of employees. Fluctuations in staff and problems finding qualified specialist staff and managers with the desired commercial, technical or industry-specific skills could constitute a risk. This is countered through attractive pay and pension systems, comprehensive training services, individual opportunities for development, the early identification and support of future talent and the consistent development of management. In view of demographic change, analyses of age structures are carried out, the results of which are taken into account in the organization of work and the company, in HR planning and in qualification measures.

Risk report and report in accordance with Sections 289 (5) and 315 (2) No.5 HGB

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.

The Rheinmetall Group has for years had a variety of regulations in place in the form of organizational and operating instructions, which ensure compliance with legal guidelines at all times and prevent infringements of the applicable laws, in addition to ensuring appropriate actions that are in accordance with respective duties. 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 can arise through legal disputes with competitors, business partners or customers and through changes to the legal framework in the relevant markets. 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. Potential loss, damage and liability resulting from ordinary operations are appropriately covered by insurance policies or accounting provisions.

In connection with restructuring measures under company law, two legal proceedings have been initiated by external shareholders with a view to reviewing the suitability of the amount of cash compensation offered. In the proceedings instituted in 2007 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 duration and outcome of the other proceedings opened in 2003 in connection with the squeeze-out of Aditron AG are also still unknown. The Executive Board of Rheinmetall AG does not regard the claims asserted in these court proceedings as justified.

In the legal proceedings initiated by external shareholders in 1998 in connection with the merger of Kolbenschmidt AG and Pierburg GmbH, the senate of Stuttgart Higher Regional Court presented a proposal for the amicable termination of proceedings to the parties to the proceedings at a hearing on January 19, 2011, which was accepted by the parties.

The apartheid legal proceedings brought against Rheinmetall are currently suspended due to one ongoing parallel proceeding 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 as is considered necessary. It is very difficult to determine or predict the outcome of pending proceedings or of the threat of proceedings. Costs can arise on the basis of court or official decisions or the agreement of settlements that are not covered or not fully covered by provisions or insurance policies and can thus have an impact on the business and its 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 increase as a result of changes to tax legislation or court decisions.

Production and environmental risks | Production can be compromised by technical disruptions, fire, accidents and human error, even if high technical and safety standards apply. The availability of industrial premises and production plants is ensured through preventative maintenance with ongoing checks, regular inspections and maintenance work, constant modernization and targeted investment. Occupational health and safety and environmental protection as well as contingency and hazard prevention plans should reduce accident hazards and health risks to a minimum for employees and third parties or prevent them completely if possible. For potential damage and associated disruptions to operations or production downtimes and for other conceivable loss occurrences and liability risks, reasonable insurance cover has been taken out as is usual in the industry 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.

A large amount of land owned by the Rheinmetall Group has for decades 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 Rheinmetall is not yet aware of. Rheinmetall operates an active environmental management system. Environmental Officers monitor compliance with statutory requirements at the production locations. The risk potential arising from production processes and environmental protection risks is effectively reduced by means of strict compliance with relevant laws, requirements and regulations, extensive guidelines on quality assurance and stringent quality controls. This includes certification in accordance with international standards such as DIN 9001, TS 16949 and ISO 14001. Sufficient provisions have been recognized for necessary measures to safeguard against or clean up identified pollution. It is possible that the relevant authorities may issue regulations that require costly clean up measures. The tightening of safety, quality and environmental protection provisions and standards may lead to additional costs and liability risks over which Rheinmetall would have no influence. In this context, reference is made to the implementation of the EU Regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). In addition to direct costs that may arise owing to additional measures for the fulfillment of these standards, market structures can change to the disadvantage of Rheinmetall.

Opportunities and risks in the Defence sector | The world of the 21st century is confronted with changes in the 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 of defence technology 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. A substantial proportion of the market potential comes from the defence budgets of customer nations.

Risk report and report in accordance with Sections 289 (5) and 315 (2) No.5 HGB

Opportunities for Rheinmetall Defence's individual 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 resulting internationally from 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 infantry fighting vehicle, the Future Soldier program and mortar combat systems, are just as critical to winning orders abroad as 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 defence market.

Defence's business areas are not directly dependent on the state of the economy. However, risks lie in dependence on spending patterns for public budgets in Germany and foreign customer nations. The comprehensive economic stimulus programs set up since the outbreak of the financial and economic crisis to limit its effects on economic development in the respective countries resulted in many Western industrialized nations in a sharp rise in budget deficits. This leads to shifts and cuts in state budgets, which also affects defence. Political influences and changes in the defence technology requirements of customer nations, along with the possible budget restrictions described or general financing problems, could result in further risks in the form of delays in awarding contracts, time extensions or the cancellation of orders. Risks also arise from increasing transatlantic competition. Those export markets which are accessible are exposed to fierce international competition. 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.

Opportunities and risks in the Automotive sector | The Automotive sector operates from a position of high technological expertise and financial strength. In the past crisis, the necessary restructuring measures and cost reductions were commenced and implemented at an early stage and to the extent required. The Kolbenschmidt Pierburg Group can therefore benefit from the recovery in the automotive industry through increasing sales and profits. In addition, the improved cost basis thanks to the optimization of production structures offers opportunities for a further improvement in profits if the recovery in the sector continues in the next few years.

Further opportunities arise from the use of all possibilities for increasing price quality, particularly in the case of planned product innovations up to the start of serial production. Moreover, improvements in quality and the reduction of the reject rate opens up additional opportunities.

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 processes 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 charging and downsizing offer Kolbenschmidt Pierburg opportunities to place competitive, 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 addition to the above measures relating to the drive train, lightweight construction is a primary aim of future vehicle development, owing to the need to save fuel. This applies in particular to vehicles with a battery-electric drive. Thanks to its expertise in the fields of aluminum and magnesium technology, Kolbenschmidt Pierburg has opportunities here in completely new applications. The first development contracts with prestigious automotive manufacturers have already been received.

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

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 recovered in the last fiscal year from the impact of the international economic crisis. Industry experts expect more moderate growth in the triad markets in 2011 compared with 2010. Further strong growth is anticipated above all in Asian markets. Although the level of certainty in forecasts has risen compared with the previous two years, there is still a risk of setbacks. Any change with regard to customers, e.g. relocation of production sites, loss of customers, sale of companies, insolvencies, declines in demand and changes in customer requirements, can lead to a decline in operating activities and/or reduce the value of investments.

Risk report and report in accordance with Sections 289 (5) and 315 (2) No.5 HGB

Accounting-related internal control and risk management system (report in accordance with Sections 289 (5) and 315 (2) No. 5 HGB) | The internal control and risk management system with regard to the accounting process (accounting-related ICS) at the Rheinmetall Group includes suitable organizational, control and monitoring structures, which ensure that all business processes and transactions are recorded in the accounting system promptly, accurately and consistently in accordance with legal requirements, other accounting principles and internal Group guidelines. Changes in accounting principles are analyzed to determine whether adjustments to internal Group guidelines and systems are necessary.

In addition to defined control mechanisms, e.g. manual coordination processes and technical coordination processes for systems, the accounting-related ICS is based on the separation of functions and compliance with guidelines and operating instructions. The main Accounting department is responsible for central management of the (Group) accounting process at Rheinmetall AG. The effectiveness of the accounting-related ICS is monitored by the Audit Committee of Rheinmetall AG.

The single-entity financial statements of Rheinmetall AG and of the companies included in consolidation are prepared in accordance with the respective national accounting principles and then transferred to financial statements in accordance with IFRS. The central IFRS accounting guidelines prescribed by Rheinmetall AG are to be observed. The IFRS accounting guidelines ensure standardized accounting, measurement, calculation of results and reporting obligations for the companies included in the consolidated financial statements of the Rheinmetall Group. The management of each Group company must monitor compliance with IFRS accounting guidelines and confirm the correctness of the financial statements in a corresponding declaration. The IFRS accounting guidelines cover all IFRS regulations that are of relevance to Rheinmetall AG. The content of the guidelines is the responsibility of the main Accounting department of Rheinmetall AG. The IFRS accounting guidelines are continually adapted to changes in IFRS and are made available to all companies included in the consolidated financial statements after being reviewed by the auditor. It is the responsibility of the management of the respective companies to ensure the correctness of the financial statements prepared in accordance with national and international accounting principles. This also includes compliance with Group-wide guidelines and procedural regulations, including compliance with the regulations on the timely execution of accounting-related processes and systems. In principle, the single-entity financial statements of the companies included in consolidation in accordance with IFRS are drawn up in SAP-based accounting systems (SAP-FI). Procedures are implemented in the accounting process to ensure the correctness of the financial statements.

The consolidated financial statements of Rheinmetall AG are drawn up with the aid of the consolidation software SAP SEM-BCS. A standardized chart of accounts and standardized consolidation forms are incorporated into this system, which must be applied by all companies included in the consolidated financial statements, taking into account the Group-wide IFRS accounting guidelines, and are summarized in a Group report package. Rheinmetall AG stipulates the deadlines for the consolidated financial statements centrally and monitors compliance with these. After the data from the single-entity financial statements in accordance with IFRS have been entered into the SAP consolidation module SAP SEM-BCS, the data are subjected there to automatic plausbility checks. If the system generates error or warning messages during automatic checks, these are to be dealt with for the person responsible for the single-entity financial statements before the data are forwarded to the consolidation center. Further technical system checks are monitored centrally by employees in the consolidation department of Rheinmetall AG and supplemented with manual checks. It is necessary to run through approval processes throughout the entire accounting process. Generally, the dual control principle applies at every level. Throughout the entire accounting process, the subsidiaries are supported by central contacts.

As a central process-independent unit, the Group Auditing department assesses the effectiveness of the ICS using a systematic and targeted approach. In particular, the function of Internal Auditing includes the examination, assessment and monitoring of the adequacy and effectiveness of, and compliance with, the ICS, including the accounting system. In consultation with the Executive Board and the Group companies, the Group Auditing department develops a risk-oriented annual audit and project plan.

At its meetings, the Audit Committee of Rheinmetall AG deals regularly with the accounting process and the effectiveness of the internal control system, the risk management system and the internal auditing system. In addition to the suitability, effectiveness, monitoring and management of the processes implemented, potential risks of incorrect statements in financial reporting are discussed.

As part of their audit, the auditors of companies included in the consolidated financial statements confirm that the IFRS accounting guidelines have been applied correctly and in full. Moreover, both the single-entity financial statements drawn up by the Group companies and the single-entity and consolidated financial statements of Rheinmetall AG are checked by the respective auditor to ensure compliance with the applicable accounting principles. The audit also includes an assessment of the effectiveness of the accounting-related ICS based on spot checks.

General risk situation | Potential risks for companies in the Rheinmetall Group include on the one hand factors that cannot be influenced or that can be influenced only indirectly, such as the national and international economy and the general economic situation, and on the other hand risks that can be influenced directly, which are generally operational risks. These are analyzed through the established risk management system at an early stage and countermeasures are initiated if necessary.

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 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 and confirmed that it fulfills all legal requirements and is suitable for identifying risks that could jeopardize the continued existence of the Group at an early stage.

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

Prospects

Upturn continues – but slight slowdown in growth | Obtaining accurate economic forecasts proved to be a difficult undertaking both in the recent global economic crisis and in the subsequent upward phase. The forecasts of leading economic research institutions and economics institutions in some cases had to be adjusted several times to actual economic developments. Continued uncertainty following the unexpectedly strong boom in 2010 means that there is considerable variation in forecasts by economic researchers for the next few years. However, one fundamental trend that has emerged is that experts expect the economic upturn to continue in 2011, but are anticipating a slowdown in the growth momentum. The World Bank, for example, is predicting an increase in global economic output of 3.3 % for 2011, having calculated growth of 3.9 % for 2010. According to the World Bank, this slight slowdown in the economy is not unexpected. The World Bank points out that many countries responded to the worst recession since the Second World War with economic stimulus packages worth billions, in order to boost the economy. However, these support measures have now come to an end in many places. In addition, the fulminant catching-up process slackened in some cases towards the end of the "post-crisis year" of 2010.

The World Bank has identified emerging and developing countries as the strongest growth drivers, which, according to current forecasts, are set to achieve overall growth of 6.0 % in 2011. The biggest boost will once again come from China, with growth of 8.7 %, and from India, with growth of 8.4 %. The gross domestic product of Brazil will also see an above-average increase according to the World Bank forecast, with growth of 4.4 %. The 34 member states of the OECD will achieve overall growth of 2.3 % in 2011, while growth in the euro zone will be comparatively modest, at 1.4 %. Among mature industrialized nations, the USA – the country in which the global economic crisis began in fall 2008 – will continue its recovery process at a stable level, with growth of 2.8 %. In contrast, experts at the World Bank have forecast growth of only 1.8 % for Japan.

In Germany, Bundesbank expects the upward trend to continue following the strong recovery in 2010, even if the rate of growth slows. For 2011, experts have forecast growth of 2.0 % in German economic output, which means that Germany will remain above average for the euro zone. The German government is slightly more optimistic in its "Annual Economic Report for 2011", in which it predicts growth of 2.3 % in the gross domestic product. The positive overall sentiment was also reflected in the ifo business climate index at the beginning of 2011: the most important economic barometer in Germany reached a new record high in January 2011.

Bundesbank estimates that Germany's GDP will already have returned to a pre-crisis level at the end of 2011. According to Bundesbank, economic growth in Germany is still being driven largely by demand for exports, although growth is expected to become more modest as German exports expanded considerably faster than the sales markets in 2010. Bundesbank expects to see noticeable positive developments in investment. The unexpectedly rapid and powerful revival in the German economy now means that investments in plant replacements that were postponed during the crisis have become more urgent. As use of capacity increases, the issue of expansion of capacity is also said to be coming to the fore again. On balance, Bundesbank president Axel Weber stated: "In my view, there are a number of good reasons to be cautiously optimistic about 2011. " However, he warned that prospects also depend on the extent to which the right lessons have been learned from the crisis. Weber declared in January 2011 that "significant challenges" remained in Germany "with the cleaning up required in the financial system and the organization of state finances."

Risks to price stability in Europe emerged in early 2011. The president of the European Central Bank (ECB), Jean-Claude Trichet, emphasized that monetary watchdogs will monitor the development of prices very closely. "There are signs of increased inflationary pressure in the short term. We think that inflation could rise to above 2 % for a certain period, before dropping back to below this level towards the end of the year," Trichet says.

The World Bank has forecast a further slight increase in global growth momentum in 2012, predicting a rise of 3.6% in economic output. This would mean that the upward trend would once again come closer to the growth rate of 2010, in which the level of growth was 3.9%. The main drivers of development are again set to be the up-and-coming industrialized nations and emerging countries, which will build on the previous year's growth with growth of 6.1%. India could surpass China's growth rate for the first time in 2012. The World Bank forecast predicts growth of 8.7% in India's gross domestic product, while growth in China is expected to amount to 8.4%. Further robust growth is also expected for Brazil, where World Bank experts predict growth of 4.3%. The economic output of the OECD countries will rise by 2.6% in 2012, with the USA again performing slightly better than average for the 34 member states, with growth of 2.9%.

The World Bank expects an increase in economic output of 2.0% for both Japan and the states in the euro zone in 2012. According to the current forecast of Bundesbank, German GDP will rise by 1.5% in 2012, putting Germany slightly below the average for the euro countries following above-average growth rates in 2010 and 2011. Nevertheless, economic researchers in Germany also expect the upturn to continue.

Shifts in defence budgets in western industrialized nations – Growth momentum remains strong in emerging countries | The budget deficits of many Western industrialized nations, which have grown rapidly over the last few years, not least as a legacy of the financial and economic crisis, led in 2010 to cuts and shifts in national budgets. In many places, defence cannot escape the planned cuts in public spending. Robert Gates, the US defence minister, announced cuts in the armaments budget at the beginning of 2011. This is intended to save an additional USD 78 billion within five years. A large proportion of the cost cuts are to result from a reduction in the number of troops. The minister announced that the number of soldiers would be cut by 47,000 from 2015 onwards. Furthermore, the salaries of civilian employees are also to be frozen, according to media reports. A project worth USD 14.4 billion involving an amphibian land vehicle for the marines, which is not said to be capable of dealing with current threats and operational requirements, is also to be scrapped. Procurement projects serving to protect and improve the effectiveness of soldiers, for example during the ISAF mission in Afghanistan, are not affected by the cuts.

According to the calculations of analysts at Jane´s Defence Information Group, the US budget for 2011 will be around USD 695 billion, the same level as the budget for 2010. In contrast, defence spending in the emerging industrialized nations of India and Brazil, as well as in Australia and various Middle Eastern countries, is continuing to show a clear upward trend, as the armed forces there still have a long way to go in terms of modernization. In this respect, the increased international focus of Rheinmetall Defence – at present, the proportion of sales achieved abroad is 66% – opens up further growth potential for the company.

In Germany, the defence budget for 2011 has been drawn up in accordance with the structure of the armed forces up to now. It provides for expenditure of around €31.5 billion with a force of 251,000 soldiers. This represents a nominal increase compared with fiscal 2010 of almost €400 million. Following a cabinet decision on June 7, 2010, a structural reform of the German armed forces is now officially underway, which, distributed across several years, is to lead to further savings.

Prospects

The precise development of the defence budget from 2012 onwards will be determined to a large extent by the results of the structural committee and the tax receipts of the German government. The first concrete findings on this matter are not expected to be known until March 2011, when the federal budget is drawn up. Irrespective of this, the modernization of military equipment for soldiers in action remains a high priority for the German government. The six serious incidents in which a total of eight German soldiers were killed and at least 25 injured in Afghanistan in 2010 alone have once again highlighted the need to improve protection of our own troops.

Automotive markets on course for growth – "Hotspot" of Asia | The international automotive markets not only recovered significantly faster than expected in 2010, but also gained considerable momentum late in the year. The Association of the German Automotive Industry (VDA) was nevertheless cautious with regard to further prospects in its economic barometer for December 2010. "A look back over 2010 shows how forecasts were fraught with uncertainty in the wake of the Lehman collapse, and how they are expected to remain so for the foreseeable future. [...] Against this background, it is difficult to give an outlook for 2011. [...] It is becoming apparent that the voices of those pointing towards risks are growing louder." Irrespective of this, automotive analysts at CSM Worldwide predict a clear upward trend for global automotive production for the coming years. Based on the boom year of 2010, they are anticipating a further increase in worldwide production of passenger cars and light commercial vehicles of around 5% to 74.6 million vehicles in 2011. India will achieve the highest growth for the first time, with experts at CSM predicting an increase in production of 18.1%. However, the upward trend is also set to continue in China in 2011, despite the enormous strength of the preceding years. The CSM forecast assumes growth of 10.8% in Chinese automotive production. Against the background of uninterrupted growth in India and China, the VDA recently described Asia as a "hotspot" for the global automotive market.

In the NAFTA zone, production figures are to rise by 8.7%, while a drop in production of 3.0% is expected for Japan in 2011, following a powerful recovery in the previous year and the discontinuation of government support programs. In Western Europe and Germany, the strong catch-up effect from 2010 will also have an impact on production in 2011. According to the CSM forecast, only minimal growth of 0.2% in Western Europe and 0.5% in Germany can be expected.

For 2012, the experts at CSM predict a further increase in growth momentum. Global production of passenger cars and light commercial vehicles of up to 3.5 tons is then expected to rise by 7.6% to 80.2 million vehicles. Asia will remain the crucial growth engine of the global automotive market in 2012. Growth of 14.3% and 11.2% respectively is expected for India and China, while Japanese production is also set to grow again by 3.0%. According to the CSM forecast, the NAFTA region will continue its recovery with an increase in production of 7.7% and will significantly exceed 2008 production levels for the first time again in 2012. Growth of 2.2% is expected for Western Europe, while a similar rise in production of 2.3% is anticipated for Germany.

With regard to products, the main impetus for growth will continue to come from technologies for reducing fuel consumption and CO_2, one of the core areas of expertise at Rheinmetall Automotive. That the combustion engine will not be superseded by the electric motor in the long term has been demonstrated not least by a study by management consultancy McKinsey & Company, which was published in January 2011. The study states: "Despite strong growth rates for electric vehicles, the combustion engine will dominate the market for a long time. Although two out of three vehicles will be fitted with an (additional) electric motor by 2030, three out of four cars will still have a combustion engine."

Rheinmetall Group expects sales growth to continue | Based on the forecasts of experts at CSM Worldwide, who expect the growth in worldwide automotive production to continue this year and next, and against the backdrop of the high order backlog in the Defence division, which began 2011 with an order coverage rate of over 70 %, Rheinmetall predicts consolidated sales of around €4.3 billion for the current fiscal year, which represents growth of 8%. Both the Automotive and the Defence sector will contribute to this growth.

Supported by new orders, particularly for products that are of importance with regard to compliance with international standards for emissions limits, Rheinmetall estimates that the Automotive sector will see growth in sales in 2011 that will be slightly above the 5 % growth in global automotive production predicted by CSM. Sales of around €2.1 billion are expected in the division in the current fiscal year.

Rheinmetall expects the Defence sector to achieve sales of approximately €2.2 billion for the fiscal year. This forecast does not yet include the share in sales for Rheinmetall MAN Military Vehicles GmbH, which relates to the logistics vehicles of MAN. The amount of these sales depends on the setting up of the second stage of the joint venture, which is to take place by the end of fiscal 2011 at the latest. This second stage of the joint venture, in which Rheinmetall holds 51 % of shares, also includes the full integration of MAN's production site in Vienna.

Consolidated EBIT to grow significantly in 2011 | Based on the positive developments in the Defence and Automotive sectors, Rheinmetall AG as the management holding company expects to see a further rise in net investment income and net income in 2011 and 2012.

On the basis of the growth forecasts for the Group's two corporate sectors, Rheinmetall is anticipating a disproportionately large improvement in the EBIT in relation to the rise in sales, predicting EBIT of between €330 million and €360 million in 2011.

In particular, the Automotive sector, for which – assuming the market growth predicted by CSM and in connection with further operational improvements – EBIT of between €110 million and €130 million is expected, will contribute to this improvement in results.

For the Defence sector, Rheinmetall still expects to see a sales return of over 10 % and EBIT of between €230 million and €250 million for the current fiscal year. One prerequisite for this is that all large ongoing projects can be implemented according to schedule.

In 2012, Rheinmetall expects sales and profits in both corporate sectors to increase further.

Report on post-balance sheet date events

Events after the balance sheet date | On September 29, 2010, an agreement was reached with South African company Tellumat (Pty) Ltd., Cape Town, regarding the acquisition of the assets and operations of the Laingsdale Engineering division. The buyer was the newly founded company Rheinmetall Laingsdale (Pty) Ltd., Cape Town, South Africa, in which Rheinmetall Waffe Munition GmbH, Unterlüß, is to acquire 51 % of shares. 49 % of the shares will in future be held by South African company Rheinmetall Denel Munition (Pty) Ltd, Somerset West. The deal was concluded on January 4, 2011. The company specializes in the development and production of precision components in the field of igniters. With the takeover, Rheinmetall Defence will round off its technological portfolio in the field of ammunition.

Rheinmetall Defence is further expanding its portfolio in the field of sophisticated protection technology and thus its position as a systems supplier for land forces. With effect from February 1, 2011, Rheinmetall increased its stake in ADS Gesellschaft für aktive Schutzsysteme mbH, Lohmar, from 25 % to 74 % and, as the majority shareholder, took over the management of the business. The remaining 26 % of shares are still held by IBD Deisenroth, Lohmar. By expanding its investment under corporate law, Rheinmetall Defence is exercising an option that was agreed in 2006. ADS Gesellschaft für aktive Schutzsysteme recently successfully concluded the development of the “Active Defence System” (ADS), one of the world’s most innovative and powerful technologies in the field of military protection. The ADS system belongs to a new generation of standoff protection technologies and is used in the protection of military vehicles of practically all weight classes against threats in the field, particularly through antitank hand weapons and guided missiles, along with certain improvised booby-traps. The highly effective close-range protection system detects approaching enemy ammunition and responds within microseconds with targeted energy that destroys the object immediately before it reaches its target and thus minimizes collateral damage in the area around the vehicle. The first series contract for the project has been signed.

Directors’ dealings of which Rheinmetall AG has been informed since January 1, 2011 have been published on the website.

Düsseldorf, March 3, 2011

Rheinmetall Aktiengesellschaft
The Executive Board

Klaus Eberhardt   Dr. Gerd Kleinert   Dr. Herbert Müller

Consolidated financial statements 2010 of Rheinmetall AG

Rheinmetall Group
Consolidated balance sheet as of December 31, 2010

Fixed Assets *€ million*

	Note	Dec. 31, 2009	Dec. 31, 2010
Intangible assets	(6)	555	694
Property, plant and equipment	(7)	1,044	1,104
Investment property	(8)	23	21
Investments accounted for using the equity method	(9)	97	106
Other non-current financial assets	(13)	28	33
Other non-current assets	(12)	4	8
Deferred taxes	(29)	66	71
Non-current assets		**1,817**	**2,037**
Inventories	(10)	643	739
./. Prepayments received		(40)	(31)
		603	708
Trade receivables	(11)	701	909
Other current financial assets	(13)	52	58
Other current receivables and assets	(12)	88	94
Income tax receivables		16	25
Cash and cash equivalents	(14)	557	629
Non-current assets held for sale		1	-
Current assets		**2,018**	**2,423**
Total assets		**3,835**	**4,460**

Equity and Liabilities *€ million*

	Note	Dec. 31, 2009	Dec. 31, 2010
Share capital		101	101
Additional paid-in capital		303	304
Other reserves		781	751
Net income of Rheinmetall AG shareholders		(58)	162
Treasury shares		(57)	(52)
Rheinmetall AG shareholders' equity		**1,070**	**1,266**
Minority interests		64	89
Equity	(15)	**1,134**	**1,355**
Provisions for pensions and similar obligations	(16)	610	677
Other non-current provisions	(17)	112	112
Non-current financial liabilities	(18)	180	671
Other non-current liabilities	(20)	28	37
Deferred taxes	(29)	32	50
Non-current liabilities		**962**	**1,547**
Current provisions	(17)	390	395
Current financial liabilities	(18)	353	34
Trade liabilities	(19)	521	593
Other current liabilities	(20)	416	472
Income tax liabilities		59	64
Current liabilities		**1,739**	**1,558**
Total liabilities		**3,835**	**4,460**

Rheinmetall Group
Consolidated income statement for fiscal 2010

€ million

	Notes	2009	2010
Sales		**3,420**	**3,989**
Changes in inventories and work performed by the enterprise and capitalised		(25)	69
Total operating performance	(21)	**3,395**	**4,058**
Other operating income	(22)	127	136
Cost of materials	(23)	1,652	1,989
Staff costs	(24)	1,068	1,181
Amortization, depreciation and impairment	(25)	165	167
Other operating expenses	(26)	624	579
Net operating income		**13**	**278**
Net interest [1)]	(27)	(61)	(68)
Net investment income and other net financial income [2)]	(28)	2	19
Net financial income		**(59)**	**(49)**
Earnings before taxes (EBT)		**(46)**	**229**
Income taxes	(29)	(6)	(55)
Net income		**(52)**	**174**
Of which:			
Minority interests	(30)	*6*	*12*
Rheinmetall AG shareholders		*(58)*	*162*
Earnings per share	(31)	(€1.60)	€ 4.23
EBITDA		180	464
EBIT		15	297

1) *Of which interest expense: €72 million (previous year: €66 million)*
2) *Of which income from investments carried at equity: €22 million (previous year: €10 million)*

Comprehensive income 2010

€ million

	2009	2010
Net income	**(52)**	**174**
Actuarial gains and losses from pension provisions	(18)	(54)
Currency conversion difference	34	89
Change in value of derivative financial instruments (cash flow hedge)	37	13
Income/expenses from investments accounted for using the equtiy method	(2)	(7)
Other comprehensive income (after taxes)	**51**	**41**
Comprehensive income	**(1)**	**215**
Of which:		
Minority interests	*12*	*21*
Rheinmetall AG shareholders	*(13)*	*194*

Rheinmetall Group
Consolidated statement of cash flows for fiscal 2010

€ million

	2009	2010
Financial resources January 1	**203**	**577**
Net income	(52)	174
Amortization, depreciation and impairments	165	167
Changes in pension provisions	7	3
Gross cash flows	**120**	**344**
Income from disposition of non-current assets	1	(2)
Changes in other provisions	94	1
Changes in inventories	153	(84)
Changes in receivables, (non-financial) liabilities and prepaid & deferred items	(29)	(104)
Other non-cash expenses and income	(8)	(8)
Cash flows from operating activities [1)]	**331**	**147**
Investments in property, plant and equipment, intangible assets and investment property	(145)	(186)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	8	12
Investments in consolidated companies and financial assets	(12)	(103)
Divestments of consolidated companies and financial assets	9	19
Cash flows from investing activities	**(140)**	**(258)**
Capital contributions by third parties	-	2
Rheinmetall AG capital increase	102	-
Dividends paid out by Rheinmetall AG	(45)	(11)
Other profit distributions	(4)	(4)
Sale of treasury shares	1	4
Borrowing of financial liabilities	172	504
Repayment of financial liabilities	(46)	(339)
Cash flows from financing activities	**180**	**156**
Changes in financial resources	371	45
Changes in cash and cash equivalents due to exchange rates	3	7
Total change in financial resources	**374**	**52**
Financial resources December 31	**577**	**629**

For comments on the cash flow statement, see Note (33).

1) *including:*

net interest of €42 million (previous year: €29 million)

net income taxes of €39 million (previous year: €5 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, 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 / as at January 1, 2010	**101**	**303**	**711**	*(20)*	*90*	**70**	**(58)**	**(57)**	**1,070**	**64**	**1,134**
Dividends payout	-	-	(11)	-	-	-	-	-	(11)	(4)	(15)
Changes in scope of consolidation	-	-	(1)	-	-	-	-	-	(1)	4	3
Transfer to/from reserves	-	-	(58)	-	-	-	58	-	-	-	-
Other comprehensive income	-	-	(57)	*80*	*9*	89	-	-	32	9	41
Net income	-	-	-	-	-	-	162	-	162	12	174
Other changes	-	1	8	-	-	-	-	5	14	4	18
Balance as at December 31, 2010	**101**	**304**	**592**	*60*	*99*	**159**	**162**	**(52)**	**1,266**	**89**	**1,355**

For comments on equity, see Note (15).

Notes to the consolidated financial statements
Segment reporting

€ million

Corporate sectors		Defence		Automotive		Others / Consolidation		Group	
		2009	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
Balance sheet (December 31)									
Equity	(1)	795	971	633	687	(294)	(303)	1,134	1,355
Pension provisions	(2)	285	354	283	281	42	42	610	677
Net financial liabilities	(3)	(197)	(178)	(223)	(209)	376	463	(44)	76
Capital employed	(1)+(2)+(3)	883	1,147	693	759	124	202	1,700	2,108
Additions to capital employed		77	77	169	169	(122)	(122)	124	124
Capital employed December 31		960	1,224	862	928	2	80	1,824	2,232
Average capital employed	(4)	955	1,092	962	895	(12)	41	1,905	2,028
Income statement									
External sales		1,898	2,007	1,522	1,982	-	-	3,420	3,989
Of which domestic (in %)		*35.8*	*33.7*	*32.5*	*27.9*	-	-	*34.3*	*30.8*
Of which foreign (in %)		*64.2*	*66.3*	*67.5*	*72.1*	-	-	*65.7*	*69.2*
Equity income		5	12	5	9	0	1	10	22
EBITDA		263	297	(70)	183	(13)	(16)	180	464
Amortization and depreciation		(48)	(63)	(117)	(102)	0	(2)	(165)	(167)
Of which impairment		*0*	*0*	*(21)*	*(6)*	-	*(2)*	*(21)*	*(8)*
EBIT	(5)	215	234	(187)	81	(13)	(18)	15	297
Interest income		6	5	2	4	(3)	(5)	5	4
Interest expenses		(30)	(32)	(25)	(22)	(11)	(18)	(66)	(72)
Net interest		(24)	(27)	(23)	(18)	(14)	(23)	(61)	(68)
EBT		191	207	(210)	63	(27)	(41)	(46)	229
Income taxes		(48)	(41)	37	(25)	5	11	(6)	(55)
Net income		143	166	(173)	38	(22)	(30)	(52)	174
EBIT rate of return (in %)		11.3	11.6	(12.3)	4.1	-	-	0.4	7.4
Other data									
ROCE (in %)	(5) / (4)	22.5	21.4	(19.4)	9.1	-	-	0.8	14.6
Capital expenditures		74	93	70	96	1	0	145	189
R&D expenditures		85	88	113	126	-	-	198	214
Order intake		3,153	1,977	1,496	1,997	-	-	4,649	3,974
Order backlog December 31		4,590	4,772	350	364	-	-	4,940	5,136
Prepayments received		396	584	22	8	-	-	418	592
Employees as at December 31 (capacities)		9,304	9,037	10,339	10,816	123	126	19,766	19,979

€ million

Regions	Germany		Rest of Europe		North America		Asia		Other regions / Consolidation		**Group**	
	2009	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
External sales Defence	679	677	576	598	185	219	308	392	150	121	1,898	2,007
External sales Automotive	494	552	675	934	157	211	78	117	118	168	1,522	1,982
External sales Total	1,173	1,229	1,251	1,532	342	430	386	509	268	289	3,420	3,989
in % of Group sales	34	31	37	38	10	11	11	13	8	7	-	-
Assets	1,006	1,029	397	539	101	111	42	46	76	94	1,622	1,819

For comments on the segment reports, see Note (34).

Notes to the consolidated financial statements
Fixed-asset analysis

€ million

	Gross values					
2009	Jan.1, 2009	Additions	Disposals	Book transfers/ step-up	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**

2010	Jan.1, 2010	Additions	Disposals	Book transfers	Adjustment scope of consolidation	Currency differences
Intangible assets						
Development costs	135	38	4	-	-	4
Concessions, industrial property rights and licenses	103	8	3	6	5	1
Other intangible assets	38	9	0	1	77	2
Goodwill	422	-	0	-	25	1
Prepayments made	2	1	0	(2)	-	0
	700	**56**	**7**	**5**	**107**	**8**
Property, plant and equipment						
Land, equivalent titles, and buildings (incl. buildings on leased land)	959	6	2	1	2	56
Production plant and machinery	1,735	42	81	40	11	75
Other plant, factory and office equipment	506	26	34	11	2	15
Prepayments made and construction in progress	58	59	1	(53)	1	3
	3,258	**133**	**118**	**(1)**	**16**	**149**
Investment Property	**42**	**0**	**0**	**0**	**-**	**0**
Total	**4,000**	**189**	**125**	**4**	**123**	**157**

	Amortization, depreciation and impairment								Net value
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	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**

Dec. 31, 2010	Jan.1, 2010	Additions	Disposals	Book transfers	Write-ups	Adjustment scope of consolidation	Currency differences	**Dec. 31, 2010**	**Dec. 31, 2010**
173	52	12	-	-	-	-	1	65	108
120	83	9	3	1	-	0	2	92	28
127	10	9	-	-	-	-	(1)	18	109
448	0	-	-	-	-	-	-	-	448
1	-	-	-	-	-	-	-	-	1
869	**145**	**30**	**3**	**1**	**-**	**0**	**2**	**175**	**694**
1,022	467	25	1	(2)	-	(1)	35	523	499
1,822	1,341	75	78	(1)	-	0	54	1,391	431
526	406	34	31	0	-	(3)	12	418	108
67	-	1	-	-	-	-	-	1	66
3,437	**2,214**	**135**	**110**	**(3)**	**-**	**(4)**	**101**	**2,333**	**1,104**
42	**19**	**2**	**0**	**0**	**-**	**-**	**0**	**21**	**21**
4,348	**2,378**	**167**	**113**	**(2)**	**-**	**(4)**	**103**	**2,529**	**1,819**

Notes to the consolidated financial statements
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(1) General information | The consolidated financial statements of Rheinmetall AG have been prepared in 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 the Group management report, which is consolidated with the management report of Rheinmetall AG, are to be submitted to the operator of the electronic Federal Gazette and published in the electronic Federal Gazette.

The new and revised standards and interpretations applied for the first time in the consolidated financial statements in 2010, which were obligatory, are listed below.

IAS 27 (amended)	Consolidated and Separate Financial Statements
IFRS 2 (amended)	Share-Based Payments
IFRS 3 (amended)	Business Combinations
IFRS improvements	Collective standard published 2009

The following new and amended standards and interpretations, which were applied for the first time ahead of schedule in the consolidated financial statements for 2010, have also been taken into account.

IAS 24 (amended)	Related Party Disclosures
IAS 32	Financial Instruments: Presentation
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The transitional provisions have been duly complied with.

Amendments to IAS 27 Consolidated and Separate Financial Statements and IFRS 3 Business Combinations were published together and refer in particular to accounting for newly acquired non-controlling equity interests in an enterprise. 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 a transaction between owners, without being recognized in the income statement. Acquisition-related costs must be expensed in full. The amended standards are to be applied from fiscal 2010 onwards. In particular, the effects of the amendments resulted from the recognition as an expense of acquisition-related costs in connection with acquisitions, which did not have a significant impact on the Group's earnings situation in the year under review.

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. There were no effects on the Rheinmetall consolidated financial statements.

The collective standard IFRS Improvements includes amendments to ten IFRS standards and two interpretations. Most of the amendments concern the clarification or correction of existing regulations. The amendments do not have a significant impact on the consolidated financial statements of the Rheinmetall Group.

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. No significant effects on the consolidated financial statements resulted from the amendments.

With the amendment to IAS 32, the regulation of the balance sheet recognition of subscription rights in foreign currency, such as options and warrants, has changed. Under certain conditions, such subscription rights are to be reported by the issuer as equity and not as liabilities. This ensures that these subscription rights receive the same treatment as subscription rights in the functional currency of the issuer, which were already to be recognized as equity. This amendment has no impact on the Rheinmetall Group.

An amendment has been made to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" that targets companies that have made advance payments on existing minimum funding requirements in connection with pension plans. The benefit from these advance payments is to be recognized as an asset. This amendment does not have a significant impact on Rheinmetall's consolidated financial statements.

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

IAS 12 (amended)	Income taxes
IFRS 1 (amended)	First-Time Adoption of IFRS
IFRS 7 (amended)	Financial Instruments: Disclosures
IFRS 9	Financial Instruments
IFRS improvements	Collective standard published 201
IFRIC 19	Extinguishing Financial Liabilities

The amendment to IAS 12 Income Taxes relates to the measurement of deferred taxes for properties held for investment, which are measured at fair value, and for intangible assets and property, plant and equipment, which are measured in accordance with the revaluation model. Until now, the measurement of deferred taxes for these assets has depended on whether the company intends to realize the carrying amount through use or through a sale. The new regulation implies a refutable assumption of realization through the sale of the asset. Application of the amendment is mandatory as of January 1, 2012. Application ahead of schedule is permitted. This amendment will have no impact on the assets and earnings situation of the Rheinmetall Group.

The published amendment to IFRS 7 Financial Instruments: Disclosures relates to extended disclosures in the Notes in the event of the transfer of financial assets with regard to corresponding financial liabilities and the risks of a remaining exposure. In addition, disclosures are required for substantial transfers around the end of a reporting period. Application is to become compulsory for the first time for fiscal years beginning on or after July 1, 2011, whereby early application is permitted. This amendment will not have a significant impact on the notes to Rheinmetall's consolidated financial statements.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for the classification and measurement of financial assets and liabilities. First-time application will become compulsory as of January 1, 2013. Application ahead of schedule is possible. The resulting effects on Rheinmetall's consolidated financial statements are currently deemed to be not significant.

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As part of its annual updating process, the IASB published the collective standard Improvements to IFRS in May 2010, through which smaller amendments are to be made to six IFRS standards and one interpretation. Application of the amendments is mandatory as of January 1, 2011.
No significant effects on Rheinmetall's consolidated financial statements are currently expected.

The application of IFRIC 19 Extinguishing Financial Liabilities, which deals with the recognition in the balance sheet of the repayment of financial liabilities with equity instruments, is compulsory for fiscal years beginning on or after July 1, 2010; early application is permitted. No significant effects on Rheinmetall's consolidated financial statements are currently expected.

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

The fiscal year of Rheinmetall AG and its consolidated subsidiaries corresponds to 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 2010 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
Facula Grundstücks-Vermietungsgesellschaft mbH
Facula Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Rheinmetall Allee 2 KG
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 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
KS Grundstücksverwaltung Beteiligungs GmbH
Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin
GVG Grundstücksverwaltung Gleitlager GmbH & Co. KG
GVH Grundstücksverwaltung Hamburg GmbH & Co. KG
Kolbenschmidt Pierburg Innovations GmbH
BF Germany GmbH
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
Eurometaal Holding Deutschland GmbH

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(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. Companies over which Rheinmetall has a controlling influence, which is generally assumed if there is a stake of between 20% and 49% (associated companies) are carried at equity. Companies that are jointly managed (joint ventures) are also carried at equity.

Scope of consolidation – Companies included

	Dec. 31, 2009	Additions	Disposals	**Dec. 31, 2010**
Fully consolidated subsidiaries				
Domestic	47	3	2	48
Foreign	61	15	2	74
	108	**18**	**4**	**122**
Investments accounted for using the equity method				
Domestic	17	-	-	17
Foreign	10	1	1	10
	27	**1**	**1**	**27**

The fully consolidated subsidiaries added resulted from the setting up of five companies (three of which were abroad), the acquisition of one group of companies abroad, one share purchase in Germany and a spin-off under company law. The disposals of fully consolidated subsidiaries relate to the sale of a majority stake in a subsidiary abroad and the accrual and merger of two companies in Germany with existing subsidiaries.

The first step in bringing together the joint activities of Rheinmetall AG and MAN Nutzfahrzeuge AG in the field of wheeled military vehicles came into effect at the beginning of May 2010. Rheinmetall firstly sold 49% of shares in Rheinmetall MAN Military Vehicles GmbH, Munich, which was newly founded the previous year, to MAN, so that Rheinmetall now holds 51% of shares in the company and MAN 49%. The development and distribution activities of the two companies in the area of wheeled military vehicles were then merged in Rheinmetall MAN Military Vehicles GmbH by means of a spin-off in exchange for a capital increase and through a purchase. As part of this, four foreign companies were added. The assets and liabilities transferred at this first stage do not constitute operations leading to a business combination as defined by IFRS 3.

With effect from July 1, 2010, 51% of the shares and voting rights in Verseidag Ballistic Protection GmbH, Krefeld, were acquired. The company specializes in the development and production of civil and military protection technology. The acquisition will allow Rheinmetall to expand its expertise further in the area of ballistic protection, strengthen its sales expertise and open up further markets in Europe. For the purchase price allocation for Verseidag, the shares that were not acquired (49 %) were measured in terms of the prorated revalued net assets of the company. The remaining 49% of shares in Verseidag were acquired with effect from December 31, 2010. In connection with this acquisition of additional shares, the difference of €3 million between the purchase price and the minority interests recognized in equity was recognized in equity. At the same time, minority interests held until now were assigned to the shareholders' equity of Rheinmetall AG.

On July 5, 2010, the complete takeover of all shares in Simrad Optronics AS, Nøtterøy/Norway, by Rheinmetall AG was successfully completed. After the end of the offer period for the public takeover bid to shareholders in the company, which was made on May 6, 2010, and a squeeze-out in accordance with the provisions of the Norwegian law on stock companies, Rheinmetall holds 100% of shares in the company. The acquisition of Simrad Optronics AS, which has a controlling influence over several companies, has resulted in the addition of a total of seven foreign companies. The group operates production facilities in Nøtterøy and Oslo (both in Norway) and in Biddeford, Maine/USA. The product portfolio of the group primarily includes components for remote control weapon stations, for combat vehicles and electro-optical sensors for monitoring, reconnaissance and target-tracking. With the acquisition, Rheinmetall's range of services will be expanded significantly, particularly in the rapidly growing market for weapon stations and in the Scandinavian countries.

The acquisition of the defence activities of SEI SpA/Italy by the subsidiary RWM Italia Munitions S.r.l., Ghedi/Italy, which was founded during the year under review, came into effect on December 1, 2010. The takeover of assets worth €36 million includes the areas of development and production of ammunition for naval and air forces. The acquisition will allow Rheinmetall to expand its position as a supplier of military equipment on the Italian market and in Europe.

International business with spare parts for vehicles was strengthened with two acquisitions in the Automotive sector, in the form of the acquisition of assets, on November 15, 2010 and December 15, 2010. These acquisitions were carried out by Intec France S.A.S., which was founded in France, and BF Germany GmbH, founded in Germany.

The purchase prices for the acquisitions totaled €115 million (of which €74 million for Simrad Optronics AS) and were made up almost entirely of cash and cash equivalents. The incidental costs of €3 million incurred in connection with the acquisitions were recognized as an expense under other operating expenses.

The assets and liabilities taken over from the acquisitions in 2010 were entered into the Group's accounts at their fair value at the time of the acquisition. Based on the carrying amounts before the acquisition, which had to be adjusted for hidden reserves and charges, taking into account deferred taxes, the following fair values were calculated, which in some cases are provisional.

€ million

	Pre-acquisition book values	**Adjustments**	**Fair values**
Goodwill	-	25	25
Other intangible assets	-	80	80
Property, plant and equipment	20	-	20
Inventories	38	-	38
Receivables	15	-	15
Cash and cash equivalents	4	-	4
Other current assets	4	-	4
Current liabilities	30	1	31
Noncurrent liabilities	13	22	35

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The fair values of the assets and liabilities acquired are divided among the major acquisitions as follows.

€ million

	Simrad Goup	Verseidag	RWM Italia Munitions (SEI SpA)	Others	Total
Goodwill	23	2	0	0	**25**
Other intangible assets	57	5	13	5	**80**
Property, plant and equipment	6	1	12	1	**20**
Inventories	14	3	11	10	**38**
Receivables	13	2	0	0	**15**
Cash and cash equivalents	3	1	0	0	**4**
Other current assets	3	0	1	0	**4**
Current liabilities	22	2	6	1	**31**
Noncurrent liabilities	23	5	6	1	**35**

The fair values of the receivables roughly correspond to the contractually agreed gross amounts.

The largest influences from the purchase price allocations concluded as at the balance sheet date for the acquisition of shares in Simrad Optronics AS and Verseidag Ballistic Protection GmbH result from the fair values of the intangible assets, of which €57 million related to Simrad, €13 million to RWM Italia Munitions and €5 million to Verseidag. These primarily comprise the valuation of customer relationships, technology and the order backlog. Goodwill was recognized in the amount of the share attributable to shareholders in Rheinmetall AG. It reflects the expected potential from synergy effects and future market developments. Taking into account deferred taxes, the provisional purchase price allocation for the takeover of SEI SpA leads to an excess of the net assets acquired, measured at fair value, over the purchase price. This excess is expected to be €8 million. This badwill has been recognized in the income statement under other operating income and results mainly from the first-time recognition of intangible assets such as technology, customer relationships and the order backlog.

Without taking into account badwill, however, the companies and business operations acquired had the following impact on the Group's earnings situation according to the purchase price allocation.

€ million

	Simrad Group	Verseidag	RWM Italia Munitions (SEI SpA)	Others	Total
Sales	45	6	3	1	**55**
EBIT	7	0	1	0	**8**

If the acquisitions had taken place on January 1, 2010, the Rheinmetall Group would have achieved additional sales of around €61 million, while the EBIT would have been about €6 million higher.

The disposal from fully consolidated subsidiaries was connected to the implementation of a strategic cooperation agreement with Boustead Heavy Industries Corporation Sdn Bhd, Kuala Lumpur/Malaysia. In August 2010, the majority of shares (51%) in Contraves Advanced Devices Sdn Bhd, Malacca/Malaysia, were transferred to the cooperation partner. The price for the sale of the shares was €6 million and was to be paid in cash. Taking into account the fair value of the remaining stake of 49% and the net assets of €11 million that were disposed of, there was a capital gain of €0 million, which was recognized in other operating income. The cooperation is to offer Rheinmetall improved market access for a broad range of products and technologies for the land, naval and air forces of Malaysia and partner countries in the region. Contraves Advanced Devices Sdn Bhd, Malacca/Malaysia, and its subsidiary have been carried at equity in Rheinmetall's consolidated financial statements as joint ventures since the sale of the majority interest.

With effect from January 4, 2011, Rheinmetall has taken over the assets and liabilities of the Laingsdale Engineering division of South African company Tellumat (Pty) Ltd., Cape Town. The shares have been acquired by Rheinmetall Laingsdale (Pty) Ltd., Cape Town/South Africa, after Rheinmetall Waffe Munition GmbH, Unterlüß, purchased 51% of the company and Rheinmetall Denel Munition (Pty) Ltd., Somerset West/South Africa, purchased 49% at the beginning of fiscal 2011 and then carried out a capital increase. The division that has been acquired specializes in the development and production of precision components for igniters and will thus supplement Rheinmetall's technological portfolio in the field of ammunition. Moreover, the acquisition serves to further expand distribution activities in South Africa and other customer nations.

After the balance sheet date, Rheinmetall also increased its share of the capital and voting rights of ADS Gesellschaft für aktive Schutzsysteme mbH, Lohmar, from 25% to 74% with effect from February 1, 2011. The investment, which is accounted for using the equity method, is thus included in the Rheinmetall Group as a fully consolidated subsidiary as of February 2011. ADS is involved in the development of standoff protection technologies for military vehicles. With the acquisition of the majority of voting rights in the company, Rheinmetall has expanded its expertise and its position on the market for protection technologies further.

The purchase prices for these acquisitions total €53 million. The necessary activities in connection with the purchase price allocations have not yet been completed.

(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. Any acquisition-related costs incurred are recognized in expenses.

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Goodwill to be recognized at the time of acquisition is calculated from the cost of the subsidiary acquired, the fair value of the prorated net assets attributable to minority interests and the fair value of shares held in the subsidiary prior to the acquisition, minus the revalued net assets acquired.

Any resulting 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 of the net assets acquired that relate to non-controlling interests are assigned to 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 reported as an equity measure.

Receivables and payables, expenses and income and intercompany profits/losses among consolidated companies are eliminated. Unless allocable to goodwill, taxes are deferred for all temporary differences from the consolidation of receivables/payables, income/expenses, and the elimination of intercompany profits/losses.

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 comply with the principles for fully consolidated subsidiaries.

In the case of the gradual acquisition of a company, the difference between the carrying amount of the shares up to now and their fair value is recognized in income when the company is fully consolidated for the first time. In the case of the disposal of a subsidiary, the result arising from the sale price and the fair value of the remaining shares, less the Group carrying amounts for the subsidiary, is to be recognized in income.

(4) Currency translation | 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. Any currency translation differences that arise are duly recognized in the net financial result.

The single-entity financial statements of foreign Group companies whose functional currency is not the euro are translated into euro as the Group currency in accordance with the functional currency concept. As a rule, their functional currency corresponds to the local currency as the currency of the primary business environment in which such companies operate. Translation is carried out using the rate on the reporting date, whereby assets and liabilities are translated at the middle rate as at the reporting date and the income statement at the average annual rate. The translation differences resulting from this are recognized in, and only in, equity as other comprehensive income (OCI). Goodwill resulting from the capital consolidation of newly acquired foreign companies is reported in the functional currency of the acquired company at the level of the corporate sector in question and is translated at the rate on the reporting date.

(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 they relate 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.

Within the Rheinmetall Group, goodwill is allocated to the relevant sectors according to its potential benefit. The value of goodwill is tested once annually for impairment, and during the year if impairment is indicated. There was no impairment during the year under review. In the impairment test, the carrying amount is compared with the recoverable amount. The value in use is generally used as a recoverable amount. If this value is below the carrying amount, a check is made as to whether the net fair value (NFV: fair value less costs to sell) is higher. If the carrying amount exceeds the recoverable amount, an impairment loss is then charged on the difference. A cash-generating unit's value in use is calculated according to the DCF method, discounting future cash flows over a three-year corporate planning period. For periods after the detailed planning period, cash flows are extrapolated from the last planning period, taking into account growth allowances.

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.

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Key planning assumptions by Automotive are based on the sector forecasts underlying sales plans and covering the worldwide automotive market trend, the planned engine programs of carmakers, specific customer commitments to individual projects, as well as on Automotive-specific adjustments to allow for planned product innovations and cost savings.

Rheinmetall's WACC was used as the discount rate:

Defence sector	8.9%	(Previous year: 10.0%)
Automotive sector	9.7%	(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: 1.0%)

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.

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 and technologically realized and either it is to be used internally or marketing is planned, and if its costs can be reliably measured and there is reasonable assurance that 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 is tested for impairment once 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.

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

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.

Leasing | If leasing transactions result in the transfer of virtually all opportunities and risks associated with ownership of an asset to the lessee, these are to be qualified as finance leases. All other leasing transactions are to be reported as operating leases. The companies of the Rheinmetall Group act both as lessees and as lessors.

Property, plant and equipment obtained under a finance lease are capitalized at the lower of their fair value or the present value of minimum lease payments and depreciated on a straight-line basis over the shorter of their estimated useful lives or underlying lease terms. At the same time, a financial liability is recognized in the corresponding amount and written down over the term of the lease using the effective interest method. For rentals involving operating leases, rent and lease payments are recognized in expenses.

When the Group acts as a lessor, a receivable is capitalized in the amount of the net present value of the agreed minimum lease rates as part of the finance lease and is written down over the term of the lease. In the case of operating leases, rental income is recognized in other operating income.

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 over useful lives of 20 to 50 years. The market value of investment property is stated under Note (8). Generally accepted valuation techniques are used to determine fair market values, in most cases based on regular expert reports by an independent appraiser (updated as of December 31, 2008).

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Financial instruments | A financial instrument is based on a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. 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 measured 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. Acquisition-related costs are recognized in expenses for financial instruments measured at fair value in subsequent periods. For all other financial instruments, acquisition-related costs are to be included in the first-time measurement.

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 | Securities are assigned to the “available for sale” measurement category. 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 finance 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.

Derivatives are measured at fair value. The fair value is determined on the basis of input factors observed directly or indirectly on the market and thus corresponds to level 2 of the designations provided by IFRS 7. In the Rheinmetall Group, the foreign exchange rates applicable on the balance sheet date and yield curves are key input factors in calculating the fair value of derivatives for currency and interest rate hedges. In the case of interest caps, the market value is calculated on the basis of the Black/Scholes model, taking into consideration volatilities. The discounted cash flow method is used for interest rate swaps, currency swaps and currency forwards. The euro yield curve used to measure the interest rate derivatives takes into account basis spreads from fiscal 2010 onwards. The fair value of the commodity futures is derived from the value of all contracts at market as of the valuation date.

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 effective portion of the changes in the fair value of the designated derivative is recorded directly in equity in the surplus from statement at fair value and other remeasurement. 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 portion of changes in the fair value of the hedge 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. As a rule, this 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 progress. If the net realizable value of inventories previously written down increases, the ensuing reversal is routinely offset against cost of materials (raw materials and supplies) or shown as an 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.

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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 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 construction contracts require more than one year for settlement, contract costs also include allocable borrowing costs. If the net result from a percentage of completion contract cannot be reliably estimated, sales are 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: 16% 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. The calculation of the extent of the obligations is predicated on assumptions such as mortality, expected future pay and pension increases, plan participant turnover rates, interest rate variations, as well as other actuarial parameters. The fair value of 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 actual 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 plans, 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, although 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.

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.

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 are measured at the fair value of the consideration received or to be received minus discounts, reductions or other deductions. Sales from supply agreements are realized with the passage of risk to the customer if the sales amount can be reliably estimated and a flow of benefits is probable. Under (longer-term) manufacturing contracts with customers, sales are prorated according to the percentage of completion. The stage of completion is measured in accordance with the ratio of contract costs incurred so far to the estimated total contract costs. Sales from service contracts and, as a rule, sales from contracted development work are recognized in accordance with the stage of completion, if the result can be reliably estimated.

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 of the parameters used are described in the comments on impairment.

On an annual basis and on other occasions if appropriate, an assessment is made as to whether there are indications of a possible impairment and whether the fair value of intangible assets, property, plant and equipment or properties held for investment is lower than their carrying amount. When calculating the fair value, assumptions and estimates are made on the cash flows from realizable sales prices, costs and the discount rates.

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The yield curves used in the measurement of derivatives include assumptions about the expected future development of interest rates, taking into account estimated liquidity risks dependent on terms. Moreover, the measurement models used also incorporate parameters that are based on assumptions about volatilities and discount rates.

The measurement of pension provisions and other obligations is based on actuarial parameters such as the discount rate, salary increases, the expected income from fund assets, the mortality rate and the development of health care costs. A change in the discount rate of +/–0.25 percentage points compared with the interest rate applied as at the balance sheet date for defined benefit pension plans in Germany would lead to a 3% reduction or increase in the present value of the DBO of €587 million. For the main foreign defined benefit pension plans, the present value of the DBO of €1,154 million would be reduced or increased by 2% if a change of +/–0.25 percentage points in the discount rate is assumed. This sensitivity analysis does not take into account the fact that changes in market conditions that have an impact on the discount rate can also influence the relevant fund assets. It is therefore not possible to draw conclusions about the development of pension provisions from variations in the discount rate. Any discrepancy between the parameters assumed and the actual conditions on the balance sheet date has no impact on net income, as actuarial gains and losses resulting from the discrepancy are recognized directly in equity.

Sales realization for construction orders is 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. Pro rata sales for the period are worked out on the basis of the calculated level of completion and the estimated total revenue.

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 implemented on the basis of recognized measurement procedures, generally on the basis of forecast cash flows. In particular, when measuring intangible assets, assumptions and estimates on expected development, the expected economic lives and the discount rates are to be made.

When assessing and accounting for legal risks, estimates on the possible occurrence and the level of the expected obligations are made. In the process, the management deploys internal legal 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 result in amounts differing from these estimates. Such differences, if impacting on the accounting, are recognized in the period of change where the change affects this period only. 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 | Research and development costs of €214 million (previous year: €198 million) were incurred in the fiscal year. Of this amount, development costs of €38 million met the capitalization criteria according to IFRS (down from €41 million).

Breakdown of capitalized goodwill:

€ million

	Dec. 31, 2009	Dec. 31, 2010
Defence sector	253	279
Automotive sector	169	169
	422	**448**

Write-downs of €4 million were carried out on intangible assets in the previous year. Almost all of these write-downs related to development costs.

(7) Property, plant and equipment | Total impairment taken in 2010 was €6 million (previous year: €16 million), including €3 million charged to land, land rights and buildings (previous year: €2 million), €1 million to technical equipment and machinery (previous year: €11 million), €1 million to other plant, factory and office equipment (previous year: €3 million) and €1 million to construction in progress (previous year: €- 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 €210 million (up from €203 million), which includes a step-up of €111 million (up from €110 million). Regarding the movement of the revaluation reserve, see the comments on total equity in Note (15).

€57 million of property, plant and equipment (down from €59 million) is subject to restrictions on disposal in the form of land charges.

On the basis of leases, €3 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. As in the previous year, the remaining terms of the leases range from 1 to 3 years. The contractually agreed interest rates lie between 4.7% and 6.5% (previous year: 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*

	2009				2010			
	2010	2011-2014	from 2015	Total	2011	2012-2015	from 2016	Total
Lease payments	1	1	-	2	0	1	-	1
Discounts	0	0	-	0	0	0	-	0
Present values	**1**	**1**	**-**	**2**	0	**1**	**-**	**1**

The purchasing obligation from firm capital expenditure contracts totals €27 million (up from €22 million).

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(8) Investment property | The investment properties have a total fair value of €33 million (down from €39 million), largely determined on the basis of external appraisal reports as of December 31, 2008. In the year under review, rental income of €1 million (unchanged) was earned, contrasting with direct operating expenses of €2 million (previous year: €1 million). Impairment of €2 million was taken (previous year: €1 million).

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

Joint ventures *€ million*

		2009	**2010**
Assets	(Dec. 31)	250	324
Of which non-current		*88*	*115*
Equity	(Dec. 31)	38	63
Debt	(Dec. 31)	212	261
Of which non-current		*4*	*16*
Income		232	364
Expenses		227	348
Annual income		5	16

Associated companies *€ million*

		2009	**2010**
Assets	(Dec. 31)	71	85
Equity	(Dec. 31)	21	24
Debt	(Dec. 31)	50	61
Sales		62	70
Annual income		5	6

Development of investments *€ million*

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**

2010	**Book value Jan. 1, 2010**	Addition	Change not affecting Income Statement	Prorated net profit	Dividend payout	**Book value Dec. 31, 2010**
Joint ventures	48	5	(7)	16	(6)	**56**
Associated companies	49	-	-	6	(5)	**50**
	97	**5**	**(7)**	**22**	**(11)**	**106**

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 joint venture Contraves Advanced Devices Sdn Bhd in Malaysia is to open up access to the markets for product technology for the land, naval and air forces of Malaysia and partner countries in the region.

The Automotive sector is stepping up its presence on the Asian market for pistons and other engine parts through the joint ventures Kolbenschmidt Shanghai Piston Co. Ltd. and Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd. in China and the associated company Shriram Pistons & Rings Ltd. in India.

(10) Inventories

€ million

	Dec. 31, 2009	Dec. 31, 2010
Raw materials and supplies	209	253
Work in process	288	293
Finished products	53	77
Merchandise	53	71
Prepayments made	40	45
	643	**739**
./. Prepayments received	(40)	(31)
	603	**708**

The book value of inventories stated at the lower net fair value (net fair value: fair value less selling costs) totals €54 million (up from €44 million). Valuation allowances of €20 million (previous year: €14 million) were recognized in the year under review. 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, 2009	Dec. 31, 2010
Customer receivables	448	507
Of which with remaining term of more than 1 year	*0*	*1*
Of which from joint ventures and associated companies	*13*	*41*
Receivables from construction contracts	253	402
	701	**909**

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Breakdown of construction contract receivables

€ million

	Dec. 31, 2009	Dec. 31, 2010
Production costs incurred	2,263	2,565
Plus margins (less losses)	475	453
	2,738	**3,018**
Progress billings	(2,485)	(2,616)
Receivables from construction contracts	**253**	**402**

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

€ million

	Dec. 31, 2009	Dec. 31, 2010
Production costs incurred	31	10
Losses incurred by stage of completion	0	0
Anticipated losses	0	0
	31	**10**
Progress billings	(31)	(10)
Payables from construction contracts	**0**	**0**

Sales from construction contracts total €831 million in the fiscal year (previous year: €752 million).

(12) Other receivables and assets

Other receivables and assets are as follows:

€ million

	Dec. 31, 2009	Of which current	Of which non-current	Dec. 31, 2010	Of which current	Of which non-current
Receivables from						
Other taxes	25	25	-	33	33	0
Prepayments made	1	1	-	3	3	0
Subsidies/grants receivable	38	38	-	35	35	-
Compensation claims	-	-	-	6	-	6
Subsidies	3	3	-	3	3	-
Deferred income	10	6	4	8	7	1
Other	15	15	-	14	13	1
	92	**88**	**4**	**102**	**94**	**8**

(13) Other financial assets

€ million

	Dec. 31, 2009	Of which current	Of which non-current	**Dec. 31, 2010**	Of which current	Of which non-current
Receivables from						
Loans	7	1	6	8	1	7
Other	7	6	1	5	3	2
Securities	24	23	1	3	3	-
Derivatives without hedge accounting	15	6	9	19	17	2
Derivatives in cash flow hedge	27	16	11	56	34	22
	80	**52**	**28**	**91**	**58**	**33**

Securities of €3 million (down from €24 million) have been stated at fair value. Loans of €8 million (previous year: €7 million) are carried at amortized cost in line with IAS 39.

(14) Cash and cash equivalents

€ million

	Dec. 31, 2009	**Dec. 31, 2010**
Bank balances in credit institutions, checks, cash in hand	557	629

The disposal of €13,000 of cash and cash equivalents is restricted (down from €46,000). In the year under review, they correspond to the cash and cash equivalents in the cash flow statement. In the previous year, the Federal Treasury note reported under other financial assets was assigned to cash and cash equivalents.

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(15) Equity | The subscribed capital of Rheinmetall AG amounts to €101,373,440.00 (unchanged) and is divided into 39,599,000 shares (with no nominal value).

The Annual General Meeting on May 11, 2010 granted the Executive Board the authority to extend the authorization granted on May 12, 2009 to acquire treasury shares equivalent to a maximum of 10% of the share capital of €101,373,000 up to May 10, 2015. The Company did not exercise this authority in the past fiscal year.

By resolution of the Annual General Meeting on May 11, 2010, the Executive Board of the Company was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company up to May 10, 2015 by issuing once or several times new no-par shares in return for contributions in cash and/or in kind, up to a total of €50,000,000.00 (authorized capital). The new shares may also be issued to employees of Rheinmetall AG or any subsidiary it controls. By resolution of the Annual General Meeting on May 11, 2010, the Executive Board was authorized to decide on the further details of the issuing of shares as part of authorized capital, with the approval of the Supervisory Board. The Supervisory Board was authorized to amend the Company bylaws in accordance with the respective holdings and the respective utilization of the authorized capital.

Furthermore, the Executive Board of the Company was authorized by resolution of the Annual General Meeting of May 11, 2010 to issue interest-bearing bearer bonds with warrants and/or convertible bonds up to a total nominal value of €750,000,000.00 with a term of up to 20 years on one or several occasions, with the approval of the Supervisory Board, up to May 10, 2015, and to grant the holders of the respective bonds, which carry the same rights, options and conversion rights on new shares of the Company up to a total of 7,812,500 shares, in accordance with the more detailed provisions of the conditions for bonds with warrants and/or convertible bonds. The bonds with warrants and/or convertible bonds can also bear variable interest, whereby the interest rate can be wholly or partly dependent on the amount of the Company's dividend, as with an income bond. The Annual General Meeting resolved on May 11, 2010 to carry out a contingent increase of the Company's common stock by up to €20,000,000.00 through the issue of up to 7,812,500 bearer shares or – if the Company's bylaws at the time of issuing the bond also permit the issue of registered shares – new registered shares (contingent capital). The contingent capital increase is to serve shares granted when options and/or conversion rights are exercised and when option and/or conversion obligations are fulfilled for the holders of bonds with warrants and/or convertible bonds issued on the basis of the authorization granted by the Annual General Meeting on May 11, 2010. The Executive Board was authorized by resolution of the Annual General Meeting of May 11, 2010 to stipulate further details of the implementation of the contingent capital increase, with the approval of the Supervisory Board. The Supervisory Board was authorized to amend Section 4 of the Company bylaws in accordance with the respective utilization of the contingent capital and after the expiry of all option periods and/or conversion periods.

The increase in the additional paid-in capital is linked to the sale of treasury shares. The sales proceeds from the disposal of treasury shares were recognized in the retained earnings up to the amount of the respective costs on acquisition; the surplus amount (in 2010: €1 million) was assigned to the additional paid-in capital.

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, 2009	**78**	**(23)**	**55**
Change in fair value	-	29	29
Disposals / book transfers	0	6	6
December 31, 2009 / January 1, 2010	**78**	**12**	**90**
Change in fair value	-	21	21
Disposals / book transfers	0	(12)	(12)
December 31, 2010	**78**	**21**	**99**

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

€ million

	Dec. 31, 2009	**Dec. 31, 2010**
Gains in property	110	111
Deferred taxes	(32)	(33)
	78	**78**

In fiscal 2010, Rheinmetall AG paid a dividend of €11 million or €0.30 per share (previous year: €45 million or €1.30 per share) to its shareholders.

Minority interests refer to the Automotive sector at €0 million (previous year: €2 million), and to Defence at €89 million (up from €62 million).

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 includes minority interests, 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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(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 €68 million (previous year: €66 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, 2006	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010
Present value of DBO	1,428	1,344	1,405	1,474	1,741
Fund assets	887	878	828	864	1,064
Pension obligations not covered by fund assets	**541**	**466**	**577**	**610**	**677**

The following actuarial parameters have been used:

Parameters *in %*

	Dec. 31, 2009			Dec. 31, 2010		
	Domestic	USA	Switzerland	Domestic	USA	Switzerland
Discount rate	5.50	5.50	3.25	5.25	5.07	2.50
Salary growth (general)	2.75	0.00	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	4.00	-	8.50	4.00
Health care expense rise	-	6.0-11.0	-	-	5.2-8.2	-

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 and benefit exclusively the beneficiaries. Any return of income and assets to the contributing companies is excluded.

Pension provisions *€ million*

	2009			2010		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Development of present value of DBO						
Present value of DBO as at Jan. 1	509	896	**1,405**	544	930	**1,474**
Currency differences	-	(2)	**(2)**	-	168	**168**
Current service cost	9	8	**17**	12	9	**21**
Past service cost	-	-	**-**	1	-	**1**
Interest cost	29	34	**63**	29	33	**62**
Employee contributions	-	7	**7**	-	7	**7**
Entry payments	-	7	**7**	-	6	**6**
Pension payments	(31)	(65)	**(96)**	(31)	(70)	**(101)**
Curtailments / settlements	-	(6)	**(6)**	-	(13)	**(13)**
Actuarial gains and losses	28	10	**38**	15	81	**96**
First-time inclusion of pension obligations	-	41	**41**	17	3	**20**
Present value of DBO at Dec. 31	**544**	**930**	**1,474**	**587**	**1,154**	**1,741**
Of which funds financed	-	*902*	***902***	*8*	*1,129*	***1,137***
Of which internally funded	*544*	*28*	***572***	*579*	*25*	***604***
Development of fund assets						
Fair value of fund asset at Jan. 1	-	828	**828**	-	864	**864**
Currency differences	-	-	**-**	-	159	**159**
Expected return on fund assets	-	33	**33**	-	38	**38**
Employer contributions	-	9	**9**	-	17	**17**
Employee contributions	-	7	**7**	-	7	**7**
Entry payments	-	7	**7**	-	6	**6**
Pensions paid by funds	-	(63)	**(63)**	-	(66)	**(66)**
Curtailments / settlements	-	(6)	**(6)**	-	(8)	**(8)**
Actuarial gains and losses	-	12	**12**	-	27	**27**
First-time inclusion of fund assets	-	37	**37**	8	12	**20**
Fair value of fund assets at Dec. 31	**-**	**864**	**864**	**8**	**1,056**	**1,064**
Pension obligations not covered by fund assets as at Dec. 31	544	66	**610**	579	98	**677**
Pension provisions as at Dec. 31	**544**	**66**	**610**	**579**	**98**	**677**

In the year under review, the plan assets returned a profit of €65 million (after a loss of €45 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.

Net cumulative actuarial gains and losses in equity (before taxes) totaled €174 million on December 31, 2010 (previous year: €105 million). Those of the current year total €69 million.

Notes to the consolidated financial statements
Notes on the balance sheet

Plan asset structure:

in %

	2009	2010
Equities	26	27
Treasuries and corporates/securities	15	16
Real estate and property investment funds	40	43
Other	19	14
Total	**100**	**100**

Development of empirical adjustments *in %*

	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010
Present value of DBO	0.3	0.4	1.2	(1.1)	(0.8)
Fund assets	2.0	0.6	(16.3)	1.2	2.8

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

Breakdown of pension expense:

€ million

	2009			2010		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Service cost	9	8	**17**	12	9	**21**
Past service cost	-	-	**-**	1	-	**1**
Accrual of expected pension obligations	29	34	**63**	29	33	**62**
Curtailments/settlements	-	-	**-**	-	(5)	**(5)**
Expected return on fund assets	-	(33)	**(33)**	-	(38)	**(38)**
Total	**38**	**9**	**47**	**42**	**(1)**	**41**

The service cost and the result from curtailments/settlements are reported under personnel expenses. 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*

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*

2010	Personnel	Structural measures	Guarantees	Noticeable losses	Contract-related costs	Other provisions	Total
As at January 1, 2010	**145**	**121**	**54**	**34**	**73**	**75**	**502**
Utilization	112	48	14	11	21	25	231
Reversal	2	13	9	4	7	8	43
Added / provided for	124	16	26	9	39	41	255
Accrual	1	1	0	1	0	0	3
Changes in scope of consolidation	2	0	0	-	0	2	4
Currency differences / Other	6	1	2	1	5	2	17
As at December 31, 2010	**164**	**78**	**59**	**30**	**89**	**87**	**507**
Cash outflows							
Short term (‹ 1 year)	**133**	**43**	**45**	**20**	**83**	**71**	**395**
Long term	**31**	**35**	**14**	**10**	**6**	**16**	**112**
Of which 1 - 5 years	*27*	*34*	*13*	*10*	*5*	*15*	*104*
Of which › 5 years	*4*	*1*	*1*	-	*1*	*1*	*8*

Provisions for restructuring mainly cover the reduction in the workforce that is planned in order to adjust capacity (including termination settlements and pre-retirement part-time work). Other provisions relate primarily to €7 million of legal, consulting and audit fees (previous year: €5 million), €11 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 on the balance sheet

(18) Financial liabilities

€ million

	Dec. 31, 2009	Of which current	Of which non-current	**Dec. 31, 2010**	Of which current	Of which non-current
Bond	325	325	-	493	-	493
Promissory notes	149	-	149	149	-	149
Bank liabilities	54	27	27	49	23	26
Leasing	2	1	1	1	0	1
Other	3	0	3	13	11	2
	533	**353**	**180**	**705**	**34**	**671**

Amounts to banks of €18 million (previous year: €20 million) are secured by land charges and similar rights. In addition, €9 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

				Dec. 31, 2009		Dec. 31, 2010	
Interest terms	Weighted interest rate (in %)	Currency (ISO code)	Maturing in	Book value	Fair value	Book value	Fair value
Bond							
Fixed	3.5	EUR	2010	325	327	-	-
Fixed	4.0	EUR	2017	-	-	493	499
				325	**327**	**493**	**499**
Promissory notes							
Fixed	6.8	EUR	2014	38	34	38	45
Variable		EUR	2013	49	49	49	49
Variable		EUR	2014	62	62	62	62
				149	**145**	**149**	**156**
Bank liabilities							
Fixed	4.9	EUR	2013	1	1	1	1
Fixed	3.7	EUR	2016	4	4	3	3
Fixed	4.4	EUR	2020	10	10	10	10
Fixed	3.7	EUR	2026	5	5	5	5
Variable		USD	2010	4	4	-	-
Variable		INR	2010/2011	0	0	4	4
Variable		CNY	2011	-	-	1	1
Variable		EUR	2010/2011	20	20	16	16
Variable		EUR	2023	10	10	9	9
				54	**54**	**49**	**49**
Leases							
Fixed	5.8	EUR	2010-2013	2	2	1	1
Other financial liabilities							
Variable		ZAR	2011	-	-	9	9
Variable		EUR	sundry until 2017	3	3	4	4
				3	**3**	**13**	**13**
Total				**533**	**531**	**705**	**718**

Notes to the consolidated financial statements
Notes on the balance sheet

(19) Trade payables

€ million

	Dec. 31, 2009	Dec. 31, 2010
Trade liabilities	521	593
Of which from joint ventures and associated companies	*12*	*14*

€5 million of trade payables have a remaining term of more than one year. The carrying amount of trade payables roughly equals their fair value.

(20) Other liabilities

The other liabilities break down as follows:

€ million

	Dec. 31, 2009	Of which current	Of which non-current	Dec. 31, 2010	Of which current	Of which non-current
Advance payments received	232	232	-	256	256	-
Liabilities from social security	15	13	2	17	15	2
Liabilities due to members of executive bodies and employees	12	12	-	16	16	-
Liabilities from other taxes	43	36	7	37	29	8
Monies in transit from debt collection	74	74	-	87	87	-
Derivatives without hedge accounting	15	7	8	19	11	8
Derivatives in cash flow hedge	8	4	4	19	9	10
Deferred income	12	5	7	18	10	8
Other	33	33	-	40	39	1
	444	**416**	**28**	**509**	**472**	**37**

As in the previous year, all of the advance payments received on orders have a remaining term of up to one year. 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 and interest rate hedging transactions (previous year: currency hedging transactions). These fair values would only be realized if the derivatives were terminated early, which is unlikely at present. The increase in liabilities from derivatives is attributable to the development of exchange rates in 2010. See Note (37) for details of the Rheinmetall Group’s hedging strategies.

Notes to the consolidated financial statements
Notes on the income statement

(21) Total operating performance

€ million

	2009	2010
Sales		
from sale of products	2,969	3,523
from services	232	278
from development contracts	219	188
Total sales	**3,420**	**3,989**
Increase/decrease in inventory of finished products and services and WIP	(76)	20
Other work performed by the enterprise and capitalized	51	49
	3,395	**4,058**

(22) Other operating income

€ million

	2009	2010
Revenue from disposal of assets / divestments	5	4
Income from reversal of provisions	35	43
Income from recognition of badwill	-	8
Income from reversal of value adjustments	3	1
Income from compensation and refunds	12	12
Income from sundry rental agreements and leases	8	7
Income from grants and subsidies	8	5
Income from canteens and ancillary operations	3	4
Income from credit notes for previous years	21	15
Income from residue utilization	2	5
Other secondary income	30	32
	127	**136**

(23) Cost of materials

€ million

	2009	2010
Cost of raw materials, supplies, and merchandise purchased	1,419	1,731
Cost of services purchased	233	258
	1,652	**1,989**

Notes to the consolidated financial statements
Notes on the income statement

(24) Personnel expenses

€ million

	2009	2010
Wages and salaries	877	975
Social security and related employee benefits	108	121
Pension expenses	83	85
	1,068	**1,181**

Annual average head count (FTE)

	2009	2010
Automotive sector	10,738	10,600
Defence sector	9,253	9,354
Rheinmetall AG / Other	124	125
	20,115	**20,079**

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

Impairments break down as follows:

€ million

	2009	2010
Intangible assets	4	0
Property, plant and equipment	16	6
Investment property	1	2
	21	**8**

Of impairments, €6 million (previous year: €21 million) relate to the Automotive sector and €2 million to a service company.

(26) Other operating expenses

€ million

	2009	2010
Losses on disposal of fixed assets/divestments	6	4
Expenses for redundancy plans, termination indemnities, partial retirement	91	17
Distribution costs	64	62
Repairs and maintenance	62	75
Promotion and advertising expenses	13	17
Other administrative costs	137	152
Rents, leases	42	44
Incidental staff costs	32	39
Facility cleaning and security/surveillance	10	12
Services purchased	10	12
Audit, legal and consultancy fees	37	40
Write-down of receivables	3	3
Other taxes	10	7
Other provisions	65	59
Other	42	36
	624	**579**

The previous year's expenses for redundancy plans, termination indemnities and partial retirement related mainly to the capacity adjustments carried out in the Automotive sector as a result of the crisis.

(27) Net interest

€ million

	2009	2010
Other interest and similar income	5	4
Interest income	**5**	**4**
Interest expense for pension obligations	30	24
Accrual of other non-current provisions	2	3
Other interest and similar expenses	34	45
Interest expenses	**66**	**72**
Net interest	**(61)**	**(68)**

Notes to the consolidated financial statements
Notes on the income statement

(28) Net investment income and other net financial income

€ million

	2009	2010
Investment income		
Defence Sector	5	12
Automotive Sector	5	9
Other	0	1
	10	**22**
Other financial results		
Currency result	(6)	(4)
Profit from derivative financial instruments	1	4
Guarantee commissions	(1)	(2)
Other	(2)	(1)
	(8)	**(3)**
Investment profit and other financial results	2	19

The result from derivatives of €4 million (previous year: €1 million) primarily includes the net hedging result, against which the provisions on hedge accounting in accordance with IAS 39 are not applied, and mainly relates to currency and interest rate hedges.

(29) Income taxes

€ million

	2009	2010
Current income tax expense	18	34
Earlier-period income taxes	5	12
Deferred taxes	(17)	9
	6	**55**

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

€ million

	2009			2010		
	Gross amount	Tax effect	Net amount	Gross amount	Tax effect	Net amount
Actuarial gains and losses from pensions	(25)	(7)	(18)	(69)	(15)	(54)
Currency conversion	34	-	34	89	-	89
Cash flow hedges	50	13	37	18	5	13
Revaluation of properties required for business purposes	0	0	0	0	0	0
Income/expenses from investments accounted for using the equity method	(2)	-	(2)	(7)	-	(7)
	57	**6**	**51**	**31**	**(10)**	**41**

The table below presents a reconciliation of expected tax expense to recognized actual tax expense. The expected tax expense is determined on the basis of the earnings before taxes. This rate covers German corporate income tax, the solidarity surtax thereon and municipal trade tax.

€ million

	2009	2010
EBT	(46)	229
Expected income tax expense (tax rate of 30%; previous year: 30%)	**(14)**	**69**
Foreign tax rate differentials	(6)	(4)
Effects of loss carryforwards and change in value adjustment	23	(9)
Reduction of tax expense due to previously unrecognized loss carryovers and temporary differences	(5)	(10)
Tax-exempt income	(5)	(7)
Non-deductible expenses	7	7
Earlier-period income taxes	5	12
Other	1	(3)
Actual income tax expense	**6**	**55**

Of other effects, €1 million (previous year: €0 million) relates to changes in tax rates for foreign companies.

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

€ million

	Dec. 31, 2009		**Dec. 31, 2010**	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryforwards and tax credits	60	0	65	0
Fixed assets	9	105	19	140
Inventories and receivables	11	37	37	59
Pension provisions	47	3	65	4
Other provisions	35	0	35	1
Liabilities	27	6	23	16
Other	14	18	3	6
	203	**169**	**247**	**226**
Set off	(137)	(137)	(176)	(176)
	66	**32**	**71**	**50**
Of which non-current	*49*	*2*	*55*	*14*
Of which not affecting income	*28*	*39*	*47*	*50*

Notes to the consolidated financial statements
Notes on the income statement

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 €468 million (previous year: €447 million) which cannot be utilized or whose deferred tax assets were adjusted by value adjustments. Of this, €268 million (previous year: €290 million) is allocable to German loss carryovers, €172 million (previous year: €150 million) to foreign loss carryovers and another €10 million to tax credits (previous year: €7 million). The German loss carryovers, and €10 million of the foreign loss carryforwards (previous year: €34 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 €3 million in 2010 (previous year: €8 million). Outside Germany, companies have capitalized deferred tax assets of €3 million (previous year: €30 million) which have posted ongoing losses due to realigned business operations.

€–33 million of deferred taxes recognized directly in equity (previous year: €–32 million) relate to land revaluation, €41 million to pensions (previous year: €26 million) and €–10 million to hedges (previous year: €5 million).

€1 million in non-current taxes (previous year: €1 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 €12 million (previous year: €8 million) and minority interests reporting a loss to €0 million (previous year: €2 million).

(31) Earnings per share | Earnings per share are calculated as a ratio of the consolidated result of the shareholders of Rheinmetall AG and the weighted average number of shares in circulation during the fiscal year. Since there were no shares, options or similar instruments outstanding as of December 31, 2010 or December 31, 2009 that could dilute earnings per share, basic and diluted earnings per share are identical. The repurchase of treasury shares and the capital increase carried out in the previous year are included in the weighted number of shares.

€ million

	2009	2010
Consolidated net profit/loss for the year for shareholders of Rheinmetall AG	(58)	162
Weighted number of shares *million*	36.26	38.23
Earnings per share	**(€1.60)**	**€4.23**

(32) Adjusted EBIT

	2009	2010
EBIT	**15**	**297**
One-off expenses and income in connection with:		
Investments	-	2
Properties	-	2
Restructuring (previous year: expenses linked to the crisis in Automotive)	138	19
EBIT (adjusted)	**153**	**320**

By way of exception, the one-off expense for restructuring and capacity adjustments in connection with the crisis was reported as the sole adjustment item in the Automotive sector in 2009.

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

(33) Cash flow statement | As at January 1, 2010, cash and cash equivalents consisted of cash and a Federal Treasury note of €20 million included in other financial assets. As at December 31, 2010, cash and cash equivalents consisted exclusively of cash.

Of the net interest included in the cash flow from operating activities, €4 million (previous year: €6 million) related to interest payments received and €46 million (previous year: €35 million) to interest payments made.

The cash outflow of €109 million (previous year: €6 million) for the acquisition of consolidated companies related to the acquisitions described under Note (2). Of the purchase prices agreed, an amount of €6 million had not yet been paid by the end of fiscal 2010.

Cash and cash equivalents of €4 million (previous year: €1 million) were assumed as part of company acquisitions. A further €2 million in cash was added in connection with the commencement of the activities of Rheinmetall MAN Military Vehicles GmbH.

The dividends received from joint ventures and associated companies are included in cash receipts from financial assets and are listed under Note (9).

Notes on segment reporting

(34) 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 modules and components, 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).

Notes to the consolidated financial statements
Notes on segment reporting

Net financial liabilities reflect financial liabilities less cash and cash equivalents. Inter-segment loans within the Group are assigned to cash and cash equivalents. 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.

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, 2009	Dec. 31, 2010
Net financial liabilities		
Net financial liabilities of segments	(420)	(387)
Others	481	543
Consolidation	(105)	(80)
Net financial liabilities of Group	**(44)**	**76**
EBIT		
EBIT of segments	28	315
Others	(226)	64
Consolidation	213	(82)
Group EBIT	**15**	**297**
Group net interest	(61)	(68)
Group EBT	**(46)**	**229**

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
Other notes

(35) Contingent liabilities | Surety bonds and guarantees 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 guarantees or bonds.

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, guarantees 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 initiated in 1998, the share exchange ratio determined during the merger of Kolbenschmidt AG with Rheinmetall Beteiligungen AG (now Kolbenschmidt Pierburg AG) is being examined with regard 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 applicants and the counsel for external shareholders lodged appeals against this decision with the Stuttgart Higher Regional Court. At the hearing on January 19, 2011, the senate of Stuttgart Higher Regional Court presented a proposal for the amicable termination of proceedings to the parties to the proceedings, which was accepted by the parties. The appeals that had been lodged were then withdrawn. In return, Kolbenschmidt Pierburg AG will bear the costs of the appeal proceedings and the out-of-court costs of the opposing party on the basis of the goodwill for the proceedings of €200,000. With the resolution of February 1, 2011 of the 20th civil senate of Stuttgart Higher Regional Court, the proceedings were thus terminated and the verdict issued by Heilbronn Regional Court became legally binding.

With regard 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 regarding the squeeze-out of Kolbenschmidt Pierburg AG in 2007, 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
Other notes

(36) 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, €44 million was posted as expenses for operating leasing (up from €42 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

	2009				**2010**			
	2010	2011-2014	from 2015	**Total**	2011	2012-2015	from 2016	**Total**
Buildings	21	56	48	**125**	24	64	41	**129**
Other leases	12	18	2	**32**	13	20	0	**33**
	33	**74**	**50**	**157**	**37**	**84**	**41**	**162**

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 with a term to the end of 2014. The future (unrecognized) accumulated obligations under this assumed lease totaled €2 million (previous year: €4 million). Provisions of €11 million were established for subleasing risks (previous year: €13 million).

€2 million was generated in the period from subleasing further properties leased by Rheinmetall (down from €3 million). The future income expected during the non-cancelable lease term totals €4 million (down from €7 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).

(37) Additional information on financial instruments | This note provides a comprehensive summary of the significance of financial instruments to the Rheinmetall Group. Additional disclosures relevant to financial instruments are also made.

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

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*	

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Financial instruments *€ million*

2010	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)	909	909	-	-	-	909
Other financial assets	(13)	91					
Securities			-	3	-	-	3
Derivatives without hedge accounting			-	-	19	-	19
Derivatives with cash flow hedge			-	-	-	56	56
Other financial assets			13	-	-	-	13
Cash and cash equivalents	(14)	629	629	-	-	-	629
		1,629	**1,551**	**3**	**19**	**56**	**1,629**
Of which valuation							
at amortized cost			*1,551*	-	-	-	
at fair value			-	*3*	*19*	*56*	
Financial liabilities							
Financial liabilities	(18)	705					
Financial liabilities excl. leases			704	-	-	-	717
Lease liabilities			-	-	-	1	1
Trade liabilities	(19)	593	593	-	-	-	593
Other liabilities	(20)	509					
Non-financial liabilities		(305)					
Financial liabilities		204					
Derivatives without hedge accounting			-	-	19	-	19
Derivatives with cash flow hedge			-	-	-	19	19
Other financial liabilities			166	-	-	-	166
		1,502	**1,463**	**-**	**19**	**20**	**1,515**
Of which valuation							
at amortized cost			*1,463*	-	-	*1*	
at fair value			-	-	*19*	*19*	

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 receivables are discounted by applying rates that match their maturity. The current book values of such receivables (less any allowances) will then substantially correspond to their fair values.

The 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 each month on a revolving basis. The maximum volume of €140 million in the previous year rose to €170 million in fiscal 2010. As of December 31, 2010, the nominal value of receivables sold came to €158 million (previous year: €134 million).

In line with IAS 39, sales of receivables apply as disposal. As the remaining risks are insignificant for the Company, an asset item of €3 million is established for the maximum continuing involvement (previous year: €2 million), along with a corresponding liability item for the associated liabilities.

Collateral provided | Liens of €3 million (previous year: €3 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: €5 million) and other interest expense of €32 million (down from €34 million) result primarily from loans and receivables as well as financial liabilities carried at amortized cost.

The net loss on loans and receivables was €4 million (previous year: loss of €1 million) and breaks down as follows:

€ million

	2009	2010
Other financial income and expenses	(1)	(2)
Write-ups	3	1
Write-downs and additional allowances	(3)	(3)

Expenses of €2 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 €–4 million (previous year: €–6 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 in the year under review (previous year: below €1 million), mainly from the sale of securities. The profit resulting from derivatives excluding hedge accounting totaled €4 million (previous year: €1 million) and is included in the other financial result.

Notes to the consolidated financial statements
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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.

Foreign currency risk | Due to the international nature of the Rheinmetall Group's business, certain operational currency risks arise from the fluctuating exchange rates between the functional currencies of Group companies and other currencies. Open positions exposed to a currency risk are hedged through derivatives, generally currency forwards, as well as currency swaps. In the Defence sector, in the context of central financing, Rheinmetall AG has begun assuming the foreign exchange management for subsidiaries. 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 via Kolbenschmidt Pierburg AG. The transactions 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, Canadian dollar and South African rand 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 €540 million (up from €419 million). In the year under review, fair value changes of €30 million (previous year: €29 million) were recognized in OCI only, while €13 million (up from €3 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 €637 million (up from €416 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 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, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
Without hedge accounting						
Foreign exchange contract	292	567	61	63	5	7
Cross currency swap	59	-	-	-	0	0
Other	65	70	48	32	(5)	(1)
	416	**637**	**109**	**95**	**0**	**6**
With hedge accounting						
Foreign exchange contract	419	540	174	206	8	25

Sensitivity analysis | If all exchange rates between the local currency used by the Company and the hedged currency had been altered by +/–10 % as at the balance sheet date, the following changes would have resulted with regard to currency hedge derivatives on the other net financial income and the hedge reserve before taking into account deferred taxes.

Sensitivity analysis currency hedge *€ million*

	- 10 percent		**+ 10 percent**	
	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
Currency hedges				
Net financial result	2	(2)	(2)	2
Hedging reserve	(4)	2	4	(2)

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Interest rate risk | As part of the Group-wide management of interest rate risks, Rheinmetall AG uses interest rate hedging instruments (interest rate swaps and interest rate caps). The interest rate swaps essentially serve to hedge variable interest on promissory note loans and future variable interest payments. The interest rate caps were concluded to hedge future interest payments from floating-rate loans.

The table below shows the nominal volume, time to maturity and fair value of all hedges to limit interest rate risks at December 31. 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, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
Without hedge accounting						
Interest rate options	250	200	200	200	3	1
Interest rate swaps	126	126	105	125	(3)	(7)
	376	**326**	**305**	**325**	**0**	**(6)**
With hedge accounting						
Interest rate swaps	112	112	112	112	(1)	(3)

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

In the reporting year, changes in market value totaling €2 million (previous year: €1 million) were taken into equity in the hedging reserve.

Sensitivity analysis | If the yield curve had been 100 basis points (bp) higher or loweer as at the balance sheet date, the following changes would have resulted with regard to the interest rate derivatives on the other net financial income and the hedge reserve, before taking into account deferred taxes.

Sensitivity analysis interest rate hedges *€ million*

	- 100 bp		+ 100 bp	
	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
Interest rate hedges				
Net financial result	(7)	(11)	8	15
Hedging reserve	(4)	(5)	4	5

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 the basis of a financial settlement. The hedging strategy provides for these derivatives to be used exclusively to hedge present underlyings or forecast transactions in the scope of the sector's primary operating activities.

In the year under review, a total fair value gain of €7 million (previous year: €14 million) was recognized in OCI only and another gain of €4 million recycled from OCI to the cost of materials (previous year: €7 million).

Commodity hedges *€ million*

	Nominal volume		Remaining term > 1 year		Fair value	
	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
Without hedge accounting						
Commodity futures	0	2	0	1	0	0
With hedge accounting						
Commodity futures	24	39	16	16	12	15

Sensitivity analysis | If the future price curve for commodity prices for the respective hedged metals had been altered by +/–10%, the following changes would have resulted with regard to commodity futures derivatives on the other net financial income and the hedge reserve before taking into account deferred taxes.

Sensitivity analysis material price hedging *€ million*

	- 10 percent		+ 10 percent	
	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
Material price hedging				
Net financial result	0	0	0	0
Hedging reserve	(4)	(4)	4	4

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Default risk (credit risk) | The default risk from financial assets is that the other contractual party does not fulfill his obligations. For loans granted and customer receivables, the maximum risk is at the level of the values carried in the balance sheet. The default risk from derivative finance instruments is limited to the amount of the positive fair value of the derivatives carried on the balance sheet.

In 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, 2009	**Dec. 31, 2010**
Trade receivables unimpaired but past due		
for up to 30 days	57	48
for up to 180 days	45	34
for more than 180 days	27	40
	129	122
Impaired	6	28
Neither impaired nor past due	318	365
	453	**515**
Individual value adjustments	(5)	(8)
	448	**507**

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 the bond issued in 2010. For further details of such credit facilities, see the management report.

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

Cash outflows *€ million*

	Dec. 31, 2009			Dec. 31, 2010		
	2010	2011-2014	from 2015	2011	2012-2015	from 2016
Bond	336	-	-	20	80	533
Promissory notes	5	161	-	8	171	-
Other bank liabilities	28	11	23	18	11	21
Capital lease liabilities	1	1	-	0	1	-
Other financial debts	1	2	1	1	2	1
	371	**175**	**24**	**47**	**265**	**555**
Financial derivatives with						
negative fair value	12	11	1	20	18	-
positive fair value	22	20	-	51	24	-

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.

(38) Share-based remuneration | A long-term incentive program exists within the Rheinmetall Group, under which beneficiaries receive Rheinmetall shares with a four-year lock-up period in addition to cash payment. The number of shares granted is based on the average price on the last five trading days in February of the subsequent fiscal year. The expense recognized in 2010 for share-based remuneration totaled €6 million. A provision was recognized in the corresponding amount.

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As part of the Rheinmetall Group's share purchase program, eligible staff of the Rheinmetall Group in Germany, and since 2010 also in other European countries, may purchase Rheinmetall AG shares on preferential conditions. Such shares are subject to a lockup 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 2010, Rheinmetall Group employees purchased 100,338 shares altogether (previous year: 55,344) for €3 million (previous year: €1 million). Expenses of €2 million (previous year: €1 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
April 27 - May 10, 2010	51.65	15.49	37,539	1
Oct. 27 - Nov. 09, 2010	50.46	15.14	62,799	2

(39) 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 – as in the previous year – 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 and associated companies (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	
	2009	**2010**	**2009**	**2010**	**2009**	**2010**
Joint ventures	92	100	4	11	(5)	(1)
Associated companies	7	31	10	10	5	22
	99	**131**	**14**	**21**	**-**	**21**

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:

€ thousand

	2009	**2010**
Short-term payments due	4,206	5,982
Deferred compensation	76	76
	4,282	**6,058**
Additional post-retirement benefits	431	760

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

Supervisory Board fees amounted to €1,081,000 in the year under review (previous year: €750,000) 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 remaining unchanged at €15 million. €481,000 was paid to former Executive Board members or their surviving dependants of Rheinmetall DeTec AG (merged with Rheinmetall AG in 2005), as in the previous year. The accruals for pension obligations to these persons totaled an unchanged €6 million.

(40) Auditor's fees | In fiscal 2010 and 2009, the following fees of the statutory auditor (PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft) were expensed in Germany:

€ thousand

	2009	**2010**
End-of-year auditing services	1,927	2,077
Other verification services	2	295
Tax consultancy services	72	27
Other services	458	257
	2,459	**2,656**

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.

(41) Corporate governance | In December 2010, 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 3, 2011
Rheinmetall Aktiengesellschaft
The Executive Board

Klaus Eberhardt Dr. Gerd Kleinert Dr. Herbert Müller

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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
MEG Marine Electronics Holding GmbH, Bremen / Germany				100
Rheinmetall Berlin 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, Virginia / USA	USD			100
Benntec Systemtechnik GmbH, Bremen/ Germany		(1)		49
BIL Industriemetalle GmbH & Co. 886 KG, Grünwald / Germany			94	
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 (Schweiz) AG, Urdorf / Switzerland	CHF			80
LDT Laser Display Technology GmbH, Jena / Germany				51
MAN Military Vehicle Systems RSA (Pty) Ltd., Pretoria / South Africa	ZAR	(1)		36
Nitrochemie AG, Wimmis / Switzerland	CHF			51
Nitrochemie Aschau GmbH, Aschau / Germany				55
Nitrochemie Wimmis AG, Wimmis / Switzerland	CHF			55
Nordic Defence Supply AS, Oslo / Norway	NOK			100
Oerlikon Contraves GmbH, Zürich / Switzerland	CHF			100
Oerlikon Contraves Pte Ltd., Singapur / 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	
Rheinmetall Denel Munition Pty. Ltd., Somerset West / South Africa	ZAR			51
Rheinmetall Dienstleistungszentrum Altmark GmbH, Letzlingen / Germany			100	

Company		Direct share of capital in %	Indirect share of capital in %
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 Schweiz AG, Zürich / Switzerland	CHF		100
Rheinmetall Soldier Electronics GmbH, Stockach / Germany		100	
Rheinmetall Technical Publications GmbH, Bremen / Germany		100	
Rheinmetall MAN Military Vehicles GmbH (vorm. Rheinmetall Vorrat Nr. Zwei GmbH), München / Germany			51
Rheinmetall MAN Military Vehicles Österreich GesmbH, Wien / Austria			51
Rheinmetall MAN Military Vehicles Canada Ltd., Ottawa / Canada	CAD		51
Rheinmetall MAN Military Vehicles Australia Pty Ltd., Canberra / Australia	AUD		51
Rheinmetall Verseidag Ballistic Protection GmbH, Krefeld / Germany			100
Rheinmetall Waffe Munition ARGES GmbH, Schwanenstadt / Austria			100
Rheinmetall Waffe Munition GmbH, Unterlüß / Germany		100	
Rheinmetall Waffe Munition South Africa (Pty) Ltd., Somerset West / South Africa	ZAR		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 Italia Munitions S.r.l., Ghedi / Italy			100
RWM Schweiz AG, Zürich / Switzerland	CHF		100
RWM Zaugg AG, Lohn-Ammannsegg / Switzerland	CHF		100
Vinghøg AS, Nøtterøy / Norway	NOK		100
Vingtech Australia Pty. Ltd., Alphington, Victoria / Australia	AUD		55
Vingtech Corp., Biddeford, Maine / USA	USD		100
Vingtech Saab AS, Nøtterøy / Norway	NOK		51
Servo Kontroll AS, Oslo / Norway	NOK		100
Simrad Optronics AS, Nøtterøy / Norway	NOK	100	
Automotive sector			
BF Germany GmbH, Neuenstadt / Germany			100
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
Intec France S.A.S., Meyzieu / France			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, Berlin / Germany			100
Kolbenschmidt Pierburg AG, Neckarsulm / Germany			100

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Company		Direct share of capital in %	Indirect share of capital in %
Kolbenschmidt Pierburg Innovations GmbH, Neckarsulm / Germany			100
KS Aluminium-Technologie GmbH, 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 / 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
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., 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

Company			Direct share of capital in %	Indirect share of capital in %
Pierburg s.r.o., Usti / Czech Republic	CZK			100
Pierburg Systems S.L., Abadiano / Spain				100
Rheinmetall North America Inc., Southfield / USA	USD		100	
Société Mosellane de Services S.C.I., Basse-Ham (Thionville) / France				100
Werkzeugbau Walldürn GmbH, Walldürn / Germany				100
Investments carried at equity				
Holding companies / service companies/ other				
doubleU development GmbH (vorm. MK 5 Development GmbH), Düsseldorf / Germany		(2)		10
LIGHTHOUSE Development GmbH, Düsseldorf / Germany		(2)		10
Unternehmerstadt GmbH, Düsseldorf / Germany				50
Defence sector				
ADS Gesellschaft für aktive Schutzsysteme mbH, Lohmar / Germany				25
Advanced Pyrotechnic Materials Pte Ltd, Singapur / Singapore	SGD			49
AIM Infrarot-Module GmbH, Heilbronn / Germany				50
ARGE RDE/CAE (GbR), Bremen / Germany				50
ARTEC GmbH, München / Germany		(2)		64
Burkan Munitions Systems L.L.C., Abu Dhabi / UAE	AED			40
Contraves Advanced Devices Sdn Bhd, Malaka / Malaysia	MYR			49
DynITEC GmbH, Troisdorf / Germany				45
EuroSpike GmbH, Röthenbach/Peg/Germany				40
GIWS Gesellschaft für Intelligente Wirksysteme mbH, Nürnberg / Germany				50
Hartchrom Defense Technology AG, Steinach / Switzerland	CHF			38
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
Nostromo Defensa S.A., Córdoba / Argentina	ARS			30
Oy Finnish Defence Powersystems Ab, 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
(2) Controlling influence owing to distribution 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, which is consolidated with the management report of Rheinmetall AG, describes fairly, in all material respects, the Group's business trend and performance, the Group's position and the significant risks and opportunities of the Group's expected future development.

Düsseldorf, March 3, 2011

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 Aktiengesellsschaft, Düsseldorf, comprising the balance sheet, 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, which is combined with the management report of the Rheinmetall Aktiengesellschaft, Düsseldorf, for the business year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of 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 combined management report. We believe that our audit provides a reasonable basis for our opinion.
Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 4, 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Peter Albrecht	Uwe Schwalm
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Balance sheet of Rheinmetall Aktiengesellschaft as of December 31, 2010

Assets *€ '000*

	Dec. 31, 2009	Dec. 31. 2010
Fixed assets		
Intangible assets	146	303
Property, plant and equipment	27,692	22,880
Financial assets	1,044,146	1,120,263
	1,071,984	**1,143,446**
Current assets		
Receivables and other assets	180,631	418,665
Securities	106,628	-
Cash in hand	423,989	524,563
	711,248	**943,228**
Deferred income	**1,002**	**4,939**
Total assets	**1,784,234**	**2,091,613**

Equity and liabilities *€ '000*

	Dec. 31, 2009	Dec. 31. 2010
Share capital	101,373	101,373
Treasury stock (notional value relating to the share capital)	-	(3,310)
	101,373	98,063
Capital reserves	303,419	304,098
Retained earnings	140,559	50,451
Net earnings	11,500	57,800
Equity	**556,851**	**510,412**
Special tax-allowable reserves	**3,050**	-
Provisions	**118,972**	**122,312**
Liabilities		
Bond	325,000	500,000
Liabilities due to banks	150,000	150,167
Other liabilities	630,361	808,722
	1,105,361	**1,458,889**
Total liabilities	**1,784,234**	**2,091,613**

Income statement of Rheinmetall AG
For fiscal 2010

€ '000

	2009	2010
Investment income	(28,856)	67,576
Net interest	(16,784)	(31,017)
Write-down / write-up of treasury stock	25,510	-
Net financial income	**(20,130)**	**36,559**
Other operational income	61,986	62,537
Staff costs	27,085	28,198
Amortization of intangible and depreciation of tangible assets (incl. write-down)	1,710	1,595
Other operating expenses	41,143	50,469
Außerordentliche Aufwendungen	-	956
EBT	**(28,082)**	**17,878**
Taxes on income and revenue	(2,591)	(2,337)
Net profit for the year / Net loss for the year	**(30,673)**	**15,541**
Appropriations of retained earnings	67,683	98,916
Appropriation to retained earnings	25,510	56,657
Net earnings	**11,500**	**57,800**

Supervisory Board

Klaus Greinert
Mannheim
Businessman
Chairman

Membership in Supervisory Boards

Advisory Board of Gebr. Röchling KG
(Chairman)
DURAVIT AG
(Chairman) (up to June 22, 2010)
(Vice Chairman) (from June 22, 2010)
DURAVIT S.A.

Joachim Stöber *)
Biebergemünd
Member of the German Metalworkers' Unions
General Secretariat
Vice Chairman
Membership in Supervisory Boards
GEA Group AG

Dr. Ludwig Dammer *)
Düsseldorf
(up to August 30, 2010)
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 in 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 in Supervisory Boards

Leuze Geschäftsführungs-GmbH
Voss Holding GmbH & Co. KG
Witzenmann GmbH

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

Membership in Supervisory Boards

Kolbenschmidt Pierburg AG

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

Membership in Supervisory Boards

Kolbenschmidt Pierburg AG (Vice-Chairman)

Dr. Michael Mielke *)
Berlin
(from September 1, 2010)
Head of Product Division Actuators
Pierburg GmbH,
Werk Berlin

Dr. Peter Mihatsch
Sindelfingen
Consulting engineer

Membership in Supervisory Boards

ADC Krone GmbH
Vodafone Deutschland GmbH
Vodafone D2 GmbH

*) *Selected by employees*

DDr. Peter Mitterbauer
Gmunden, Österreich
CEO of Miba AG

Membership in Supervisory Boards

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

Detlef Moog
Mülheim an der Ruhr
(from July 8, 2010)
Consulting engineer

Membership in Supervisory Boards

Rheinmetall Waffe Munition GmbH (Chairman)
Rheinmetall Landsysteme GmbH (Chairman)

Wolfgang Müller *)
Bad Rappenau
Works Council Chairman of
Kolbenschmidt Pierburg AG
KS Kolbenschmidt GmbH
KS ATAG GmbH
KS Aluminium-Technologie GmbH
MS Motor Service International GmbH

Membership in Supervisory Boards

KS Aluminium-Technologie GmbH
KS ATAG GmbH

Henning von Ondarza
Bonn
(up to June 30, 2010)
Retired General

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

Membership in Supervisory Boards

Advisory Board Gebr. Röchling KG
Universitätsklinikum Ulm

Reinhard Sitzmann
Weichs
(up to October 21, 2010)
General Manager of
Hirschmann Multimedia Holding B.V

Membership in 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 Radfahrzeuge GmbH and
Rheinmetall MAN Military Vehicles GmbH,
Kassel operation

Membership in Supervisory Boards

Rheinmetall MAN Military Vehicles GmbH (Vice-Chairman)

Toni Wicki
Oberrohrdorf, Schweiz
(from December 6, 2010)
Consulting engineer

Membership in Supervisory Boards

Board of Directors of Implenia AG
Shareholder Committee Nitrochemie Aschau GmbH
(Vice president) (up to December 31, 2010)
Board of Directors of Nitrochemie AG
(Vice president) (up to December 31, 2010)
Board of Directors of Nitrochemie Wimmis AG
(Vice president) (up to December 31, 2010)

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

Membership in Supervisory Boards

Rheinmetall Defence Electronics GmbH

*) *Selected by employees*

Executive Board Rheinmetall AG

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)

Rheinmetall MAN Military Vehicles GmbH (Chairman) (from May 28, 2010)

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 Shanghai Piston Co. Ltd. (Chairman)

Rheinmetall North America Inc. (Director)

KS Aluminium-Technologie GmbH (Chairman)

KS ATAG GmbH (Chairman)

KS Gleitlager GmbH (Chairman)

KS Kolbenschmidt GmbH (Chairman)

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, Merger & Acquisitions,
Chief Compliance Officer

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
Chaiman

Helmut P. Merch
Erkrath
Finance & Controlling, IT

Armin Papperger
Hermannsburg
Land Systems, Weapon and Munitions, Propellants

Heinz Dresia
Krefeld
Air Defence, C4ISTAR, Simulation and Training

Ingo Hecke
Meerbusch
Human Resources

Shaun Liebenberg
Meerbusch
(up to June 30, 2010)
International Business Development

Financial diary 2011

March 23, 2011
Annual accounts press conference

March 23, 2011
Analysts conference

06. Mai 2011
Report on Q1 2010

10. Mai 2011
Annual General Meeting

29. Juli 2011
Report on Q2 2010

11. November 2011
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, 2011. 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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