Q2

Semiannual Financial Report
H1/2010
Rheinmetall AG

2010

Rheinmetall in figures

Rheinmetall Group key figures € million

	H1/2009	H1/2010	Change
Sales	1,506	1,728	222
Order intake	1,769	1,993	224
Order backlog (June 30)	3,826	5,247	1,421
Employees according to capacity (June 30)	19,942	20,181	239
EBITDA	28	178	150
EBIT	(62)	104	166
EBIT margin in %	(4.1)	6.0	-
EBT	(89)	78	167
Net income/loss	(70)	57	127
Earnings per Share (EpS) in €	(2.04)	1.43	3.47
Capital expenditures	71	80	9
Amortization/depreciation	90	74	(16)
Cash flow	25	134	109
Net financial debt (June 30)	537	338	(199)
Total equity (June 30)	1,000	1,210	210
Total assets (June 30)	3,590	3,869	279

Defence still on course for success, Automotive undergoes sharp turnaround Group raises annual forecasts for 2010

The continued positive development of the Defence corporate sector combined with recovery in the Automotive corporate sector led to a considerable improvement in earnings in the Rheinmetall Group.

- Consolidated sales up 15% to €1,728 million
- Consolidated result before interest and tax (EBIT) improves by €166 million to €104 million
- Defence: Stable development at high level
- Automotive: Significant increase in sales and earnings
- Earnings forecast for 2010 raised to between €260 million and €280 million

Contents

The Rheinmetall share

Stock markets stagnate following strong Q1 | After share prices were marked in the first quarter of the year by the recovery in the global economy, the benchmark indices stagnated in the second quarter. The main reasons for this were increased uncertainty about the stability of the European monetary union and the difficulties of some European countries with the consolidation of their national budgets. As a result of this development, the MDAX was unable to pursue the upward trend that had continued for over a year and recorded a sideways movement. This movement was characterized by a wide margin of fluctuation and ranged within a corridor of 7,400 to 8,700 points.

At the end of the second quarter, the MDAX index, which is of relevance to the Rheinmetall share, stood at 8,009 points, slightly below the closing rate for the first quarter (8,143 points), which represented a decline of 2%. The DAX recorded similar development, falling by 3% in the second quarter to 5,966 points, returning to its level at the beginning of the year.

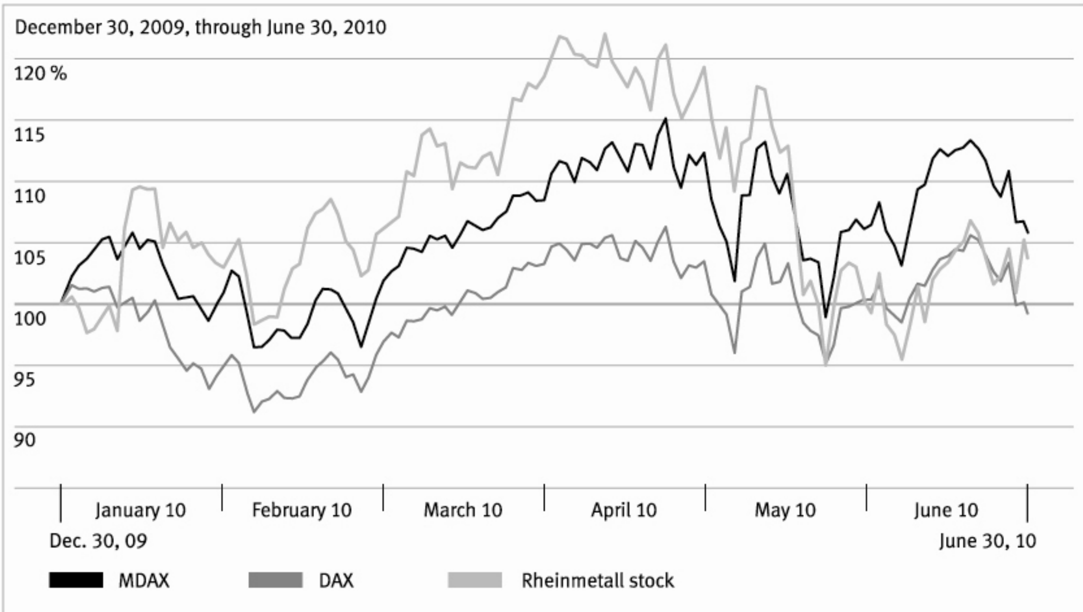
Discussion regarding the defence budget also impacts the share | While the Rheinmetall share performed considerably better than the MDAX in the first quarter, its value once again lost the gains it had recorded above the performance of the index during the second quarter.

In the wake of discussions about possible cuts to the defence budget of the German armed forces, the value of the Rheinmetall share deteriorated on the capital market until it finally reached a quarterly low of €42.50 on May 25, 2010. Rheinmetall used the Capital Market Day it hosted on June 23/24, 2010 to inform analysts in detail of the possible effects of the savings plans on business development and to refer to the diverse opportunities for the Defence sector.

Towards the end of the quarter, the share price rose again slightly, closing at €47.08 on June 30, 2010. Over the first half of the year, the Rheinmetall share gained 5.2% and therefore slightly underperformed the MDAX.

Market capitalization and trading volume | Compared with the corresponding reporting date of the previous year, the market capitalization rose to €1,864 million at the end of the half year, which represented growth of 68%. As in the previous year, Rheinmetall is in 13th place in the MDAX rankings. The average daily trading volume rose from 252,000 to 289,000 shares, which resulted in 16th place in the rankings of Deutsche Börse (previous year: 13th place).

Performance of the Rheinmetall share in relation to the DAX and MDAX



General economic conditions

Accelerated growth for the global economy | The recovery in the global economy progressed faster than expected in the first half of 2010. The International Monetary Fund (IMF) revised its growth forecast for 2010 upwards once again. At the beginning of the year, experts at the IMF had anticipated an increase of 3.9% in worldwide economic output; in April 2010, they raised their forecast to 4.2%, and at the beginning of July they updated it to 4.6%.

According to the IMF, growth is being driven mainly by China and India and increasingly by Brazil. For China, the IMF forecast predicts growth of 10.5%, while growth of 9.4% is anticipated for India and growth of 7.1% for Brazil. Among mature industrialized nations, the USA and Japan showed comparatively strong growth rates of 3.3% and 2.4% respectively. Both countries were hit particularly hard by the global economic crisis of 2008/2009; their economic output rose more sharply in 2010 than in countries in the euro zone, for which the IMF expects overall growth of 1%. With growth of 1.4%, Germany is slightly above average for the euro countries, according to the IMF. One positive factor is that the upturn in the German economy has been slightly stronger than initially assumed. Compared with the forecast in April, economists at the IMF raised their outlook for 2010 by 0.2 percentage points in July. Economists at the Bundesbank are slightly more optimistic in their assessment of the development of German economic output, predicting an increase in the real gross domestic product of 1.9% in 2010.

Although prospects are positive overall, many economists have pointed to risks for the economic recovery. According to the assessment of the IMF, the outlook is darkened in particular by the debt crisis in some European countries, which could potentially lead to turbulence on the financial markets. Question marks therefore remain regarding the sustainability of the upturn. The IMF experts nevertheless anticipate further significant growth of 4.3% in global economic output for 2011. For the euro zone, the forecast for 2011 anticipates growth of 1.3%, while the German economy is expected to grow by 1.6% in the next year.

Further increase in international defence spending – Consolidation and restructuring of budgets in Europe | A few fundamental developments in the defence industry have become apparent from discussions regarding the size of defence budgets so far in 2010. While international defence spending is still on the rise as a whole, the pressure to consolidate budgets is leading to regrouping and cuts in budgets in almost all European countries. Despite drives to cut costs, the modernization of military equipment remains a high political priority, particularly for soldiers in action. For the defence technology industry, these regroupings in defence budgets involve not only risks, but also opportunities. For example, it must be taken into account that the brunt of current foreign deployments of the German armed forces is still being borne by the army – which means that the level of protection of military vehicles against mines and IEDs needs to be improved accordingly. Politicians have repeatedly emphasized the huge responsibility for soldiers in action. They are therefore striving to find solutions that promote the consolidation of budgets at the same time as allowing the necessary modernization of military equipment that is relevant to deployments. As a result, innovative procurement solutions are becoming increasingly important, such as the solution implemented by Rheinmetall Defence with the leasing model for the “Heron 1” unmanned aerial vehicle.

Against this background, it is not yet possible to make any conclusive statements about the future organization of European defence budgets. In Germany, the defence budget for 2010 amounts to €31.1 billion and has thus remained at the same level as for the previous year. The proportion of capital expenditure for military procurement is currently reported as unchanged for 2010 at €5.4 billion, slightly above the previous year’s figure. As the situation currently stands, potential short-term cost-cutting measures will not relate to purchases serving the direct protection of German soldiers on foreign deployments.

In the USA, the country with the highest defence spending, the government has drawn up a defence budget of €708 billion for 2011, an increase of 2% on the previous year's figure. In other parts of the world, such as India, Australia, Brazil and Middle Eastern countries, defence spending continues to show an upward trend for the next few years. There is still considerable need for modernization in the armed forces in these regions. Owing to its consistent internationalization, Rheinmetall Defence is in a good position on these markets.

The crisis has been overcome – Automotive markets continue recovery | Automotive production gathered pace significantly in the first six months of 2010. Many market observers, manufacturers and suppliers share the view that the worst crisis in the sector since the Second World War has been overcome. According to the calculations of market researchers at CSM Worldwide, production on the worldwide markets for passenger cars and light commercial vehicles (up to 3.5t) grew by 38% to around 35 million units in the first six months of 2010, compared with the same period of the previous year, which was marked by the crisis.

The main growth engine is the booming Asian markets in China and India, although the upturn is now being driven by all the relevant automotive markets. In the triad of the NAFTA region, Western Europe and Japan, production figures increased by 40% year-on-year. The NAFTA region showed a particularly strong growth momentum in the first half of 2010, with production soaring by 71%. It must be taken into account here that, as the country in which the global economic crisis originated, the USA recorded unusually severe slumps during the same period of the previous year. Automotive production rose by 42% in Japan, while year-on-year growth in Western Europe in the period under review was 21%. The German market recorded production growth of 18% in the first half of 2010, although the market had benefited in the same period of the previous year from the stimulus provided by the scrappage scheme.

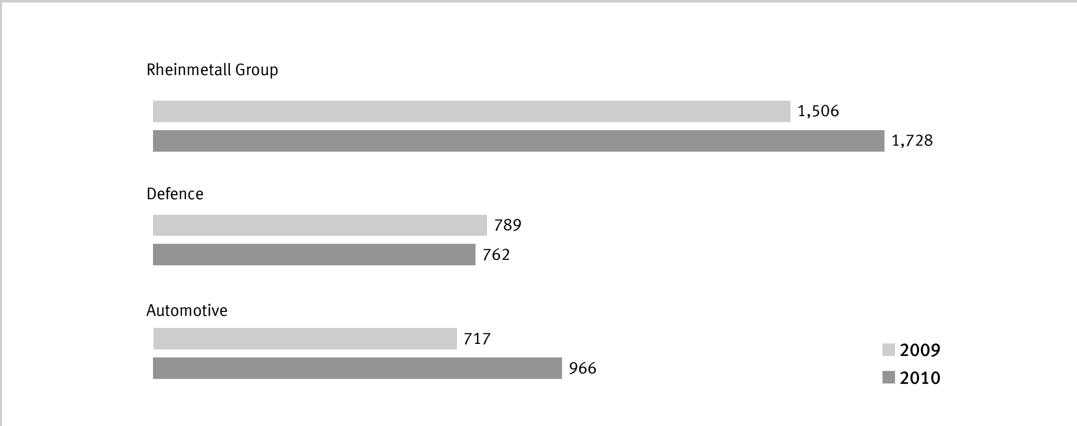
According to the assessment of the Association of the German Automotive Industry (VDA), the signs still point to recovery: "The German automotive industry is recovering from the crisis faster than expected," summed up VDA President Matthias Wissmann at the beginning of July 2010. In particular, the VDA has identified exports as a growth engine, and above all Asian markets. "There's no question – international business is currently the engine of this industry. However, the strong growth in exports in the first half of 2010 needs to be seen against the background of the very weak months in the same period of last year," Wissmann continues. In contrast, moderate growth is expected to be seen in the second half of 2010, as the turning point was reached on the export markets in summer 2009, which means that the basis for comparison in the previous year has improved.

For China, the market researchers at CSM Worldwide calculated production growth of 47% in the first half of 2010, despite the strength of the previous year. The automotive boom also continues unabated in India: the Indian market grew by 37% in the first six months of 2010.

CSM Worldwide is forecasting an increase in global automotive production (passenger cars and light commercial vehicles up to 3.5t) of 17% to 67.3 million units over 2010 as a whole. The sector would thus come very close to the record figure of 68.8 million vehicles from the "pre-crisis year" of 2007. For 2011, the CSM analysts are already predicting a new production record of over 70 million units.

Rheinmetall Group business trend

Sales in H1 € million



Sales increase in the first half of 2010 | The Rheinmetall Group achieved sales of €1,728 million in the first six months of fiscal 2010, exceeding the previous year's figure by €222 million or 15%. This growth in sales is due to the Automotive corporate sector, where the sales proceeds of €966 million exceeded the weak figure of the previous year by 35% in the first half of the current fiscal year. Sales in Defence fell by €27million or 3% in the first six months.

The international share of consolidated sales totaled 69% in the first half of 2010, after 67% in the same period of the previous year. Alongside the German market (31%), the key regions in terms of sales volumes were Europe excluding Germany (41%), followed by Asia (10%) and North America (10 %). In the Defence corporate sector, 66% of sales were generated abroad (previous year: 67%). In Automotive, the share of sales generated with international customers increased from 67% to 71% in the first half of 2010.

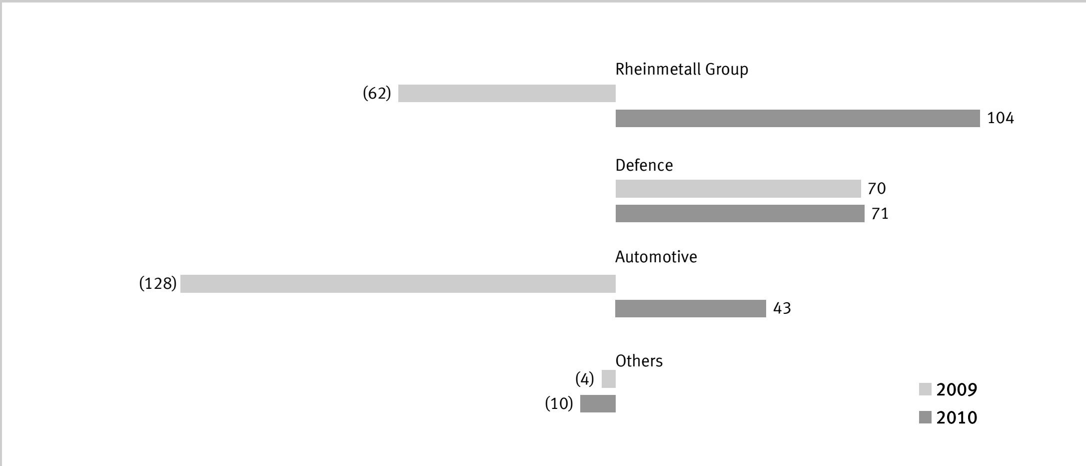
The development and distribution activities of Rheinmetall MAN Military Vehicles GmbH, which were included for the first time at the beginning of May 2010, accounted for €4 million of sales in the first half of the year. Contraves Advanced Devices Sdn Bhd, Malacca/Malaysia, was deconsolidated as of June 30, 2010 and accounts for €5 million of half-yearly sales.

Order intake exceeds sales | The Rheinmetall Group registered an order intake of €1,993 million in the first half of 2010 (previous year: €1,769 million).

On June 30, 2010, the order backlog amounted to €5,247 million and was thus up significantly on the previous year. The order backlog in the Defence corporate sector amounted to €4,954 million at the end of the quarter (previous year: €3,554 million); it includes orders for large projects with a duration over several fiscal years.

Profitability improved significantly by Automotive | The Rheinmetall Group's EBIT increased by €166 million to €104 million in the first half of 2010, following a negative €62 million in the previous year. Consolidated net profit amounted to €57 million and is thus €127 million up on the previous year's value. Earnings per share were €1.43, compared with a negative €2.04 in the same period of the previous year.

EBIT in H1 € million



Asset and capital structure | Total assets of the Rheinmetall Group rose by €34 million to €3,869 million in the first half of 2010. The share represented by non-current assets increased by two percentage points to 49%. The increase in fixed assets of €54 million is essentially due to exchange rate effects. Deferred tax assets increased by €21 million, which was primarily due to the increase in pension provisions caused by the recognition of actuarial losses in equity. Current assets decreased overall by €59 million compared with December 31, 2009; an increase in inventories and trade receivables was offset by a significant reduction in cash and cash equivalents, mainly owing to the scheduled repayment of the bond in June 2010. The equity ratio was 31%. Of the €75 million increase in non-current liabilities to €1,037 million, the largest share of €51 million is attributable to the recognition of actuarial pension provision losses directly in equity. Of the reduction in current liabilities by €117 million, €69 million relates to current financial liabilities and €44 million to trade payables.

Asset and capital structure € million

	12/31/2009	%	6/30/2010	%
Noncurrent assets	1,817	47	1,910	49
Current assets	2,018	53	1,959	51
Total assets	**3,835**	**100**	**3,869**	**100**
Equity	1,134	30	1,210	31
Noncurrent liabilities	962	25	1,037	27
Current liabilities	1,739	45	1,622	42
Total equity and liabilities	**3,835**	**100**	**3,869**	**100**

Capital expenditure up on previous year | The strategic and operating objectives for expanding market share and securing technological competence are the guiding factors in the capital expenditure of the Rheinmetall Group. €80 million was invested during the first six months of the current fiscal year. This is equivalent to 4.6% of sales (previous year: 4.7%).

Capital expenditure by corporate sector € million

	H1/2009	H1/2010
Defence	30	32
Automotive	40	47
Others	1	1
Rheinmetall Group	**71**	**80**

Employees | As at June 30, 2010, 20,181 persons were employed at Rheinmetall worldwide; this is 415 more than at the end of 2009 (+2%). While the workforce at Rheinmetall Defence remained fairly stable at 9,376 persons, the number of employees in the Automotive corporate sector – measured against the number of employees as at the end of 2009 – increased by 340 persons. This increase was the result of a higher output in connection with the recovery in the market. Of the total workforce, 46% were employed in the Defence corporate sector, 53% in the Automotive corporate sector and roughly 1% at Rheinmetall AG and the service companies.

Rheinmetall Group business trend
Corporate sector Defence

Defence key figures € million

	H1/2009	H1/2010
Sales	789	762
Order intake	1,018	1,084
Order backlog (June 30)	3,554	4,954
Employees according to capacity (June 30)	9,241	9,376
EBITDA	92	96
EBIT	70	71
EBT	59	63
EBIT margin in%	8.9	9.3

Further consolidation of defence operations | 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.

The integration of Verseidag Ballistic Protection GmbH, Krefeld, a specialist in the development and production of civil and military protection technology, is to take place from July 2010. This 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.

In July, the complete takeover of all shares in Simrad Optronics ASA, Nøtterøy/Norway, by Rheinmetall AG was successfully completed. The company operates production facilities in Nøtterøy and Oslo (both in Norway) and in Biddeford, Maine/USA. The product portfolio of Simrad Optronics ASA 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 takeover of the activities of SEI SpA/Italy, which was agreed in March 2010, is expected to be concluded in the third quarter of 2010. With this investment, Rheinmetall Defence will strengthen its position as a supplier of military equipment on the Italian market and in Europe. The company is involved in the area of ammunition development and production.

Slight fall in sales at Defence | The Defence corporate sector achieved sales of €762 million in the first six months of 2010. The figure for the same period of the previous year was €789 million. The gap compared with the previous year is due to invoicing; the total operating performance was much higher in the first half of 2010 than in the same period of the previous year.

Order intake up on previous year | The order intake for the first half of the current fiscal year amounted to €1,084 million, up €66 million or 6% on the previous year's figure. Rheinmetall Defence secured strategically important international orders. Some notable individual contracts in the first quarter of 2010 were for armored support vehicles for an Asian customer (€112 million) and the partnering agreement for munitions with the UK Ministry of Defence (€119 million). The order intake for the second quarter of 2010 amounted to €619 million, compared with €539 million in the same period of the previous year. In particular, a large order from the Middle East for air defence systems (€219 million) and an order for the supply of weapon systems for the North American market (€64 million) contributed to this high order intake in the second quarter of 2010.

Order backlog of almost €5 billion | As at June 30, 2010, the order backlog amounted to €4,954 million, exceeding the previous year's level of €3,554 million by 39%. This significant increase was mainly the result of the series contract commissioned in July 2009 for the Puma infantry fighting vehicle with a volume of approximately €1.3 billion.

Earnings improved | With EBIT of €71 million, the Defence corporate sector achieved an increase in earnings of €1 million year-on-year in the first half of 2010 at the same time as a decline in sales. Earnings include income from a rate-hedging transaction implemented by a company carried at equity of €5 million, which was recognized in the first quarter of 2010. The EBIT margin rose to 9.3% in the first six months of the year. This stood at 8.9% in the same period of the previous year. The EBIT margin in the second quarter of 2010 amounted to 11.1%.

Rheinmetall Group business trend
Corporate sector Automotive

Automotive key figures € million

	H1/2009	H1/2010
Sales	717	966
Order intake	751	909
Order backlog (June 30)	273	293
Employees according to capacity (June 30)	10,576	10,679
EBITDA	(61)	92
EBIT	(128)	43
EBT	(139)	34
EBIT margin in %	(17.9)	4.5

Significant growth in sales for Automotive | The Automotive corporate sector generated sales of €966 million in the first six months of 2010, thus exceeding the previous year's level by €249 million or 35%. As well as global economic recovery, Pierburg, Pierburg Pump Technology and Pistons particularly benefited from project rollouts and the trend towards the reduction of exhaust emissions.

Increased profitability | Measures to lower the break-even point led to a lasting improvement in profitability. Automotive generated EBIT of €43 million in the first half of 2010, compared with a loss of €128 million in the same period of the previous year. The previous year's figure included €68 million in non-recurring expenditure for capacity adjustments. With the exception of the Aluminum Technology division, all divisions reported positive results in the first half of 2010. The EBIT margin was 4.5%, following a negative margin of 17.9% in the previous year; in the second quarter, a margin of 5.1% was achieved.

Adjustment of capacity | As at June 30, 2010, 10,679 persons were employed in the Automotive corporate sector, which is 103 more than in the same period of the previous year and 340 more than at the end of 2009. The increase in the number of staff, which was linked to output, mainly involved the sites in Brazil, India, Mexico and the Czech Republic. At the site in Neckarsulm, employees were acquired from a personnel services company in the first quarter of 2010, which reported a headcount of 334 employees on June 30, 2010, which is included in the employee figures.

Opportunities and risks

Efficient risk management | In the context of a systematic and efficient risk management system, risks at the Rheinmetall Group are limited and of manageable proportions. There are no discernible material risks which could permanently jeopardize the Group's assets, financial situation or earnings. The material opportunities and risks of the expected development of the Rheinmetall Group are described in detail in the Group management report for 2009. There have been no significant changes or new findings.

Prospects

Annual forecasts raised | Rheinmetall has raised its sales and earnings forecasts for fiscal 2010: for the Group, Rheinmetall expects sales of around €3.9 billion for the current fiscal year, compared with previous forecasts of €3.7 billion. This means an increase of approximately €500 million compared with the previous year, of which €100 million is attributable to the acquisitions made in Defence in the current fiscal year.

For the Defence sector, organic sales growth to around €2 billion and growth including acquisitions to €2.1 billion has been forecast for 2010, following sales of €1.9 billion in the previous year. Based on the expert forecasts from CSM Worldwide, Rheinmetall expects the development of worldwide automotive production to continue to be positive in the second half of 2010, although in terms of the market this will be weaker than in the previous six months, partly owing to seasonal effects. Against this background, Rheinmetall expects annual sales for the Automotive sector to increase to around €1.8 billion, following €1.5 billion in the previous year.

On the basis of the best ever half-yearly result in the current financial year, Rheinmetall is increasing the EBIT forecast in 2010 from €260 million to €280 million. Up to now, €220 million to €250 million had been forecast. Rheinmetall's Defence sector will further improve EBIT compared to the previous year. Rheinmetall's Automotive sector is also anticipating positive EBIT for the second half of 2010, although – in line with sales performance – this will not match the value of the first half of the year.

Report on post-balance sheet date events

Events after the balance sheet date | On July 5, 2010, the complete takeover of all shares in Simrad Optronics ASA, 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 successful 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 51% of the voting rights and shares in Verseidag Ballistic Protection GmbH, Krefeld, was concluded on July 1, 2010.

Condensed consolidated interim financial statements of Rheinmetall AG for H1/2010

Consolidated balance sheet as at June 30, 2010

Assets € million

	12/31/2009	6/30/2010
Intangible assets	555	569
Property, plant and equipment	1,044	1,084
Investment property	23	23
Investments accounted for using the equity method	97	111
Other non-current financial assets	28	28
Other non-current assets	4	8
Deferred taxes	66	87
Non-current assets	**1,817**	**1,910**
Inventories	643	812
./. Prepayments received	(40)	(37)
	603	775
Trade receivables	701	878
Other current financial assets	52	48
Other current receivables and assets	88	113
Income tax receivables	16	20
Cash and cash equivalents	557	125
Non-current assets held for sale	1	-
Current assets	**2,018**	**1,959**
Total assets	**3,835**	**3,869**

Equity and liabilities € million

	12/31/2009	6/30/2010
Share capital	101	101
Additional paid-in capital	303	303
Other reserves	781	733
Net income/loss of Rheinmetall AG shareholders	(58)	55
Treasury shares	(57)	(55)
Rheinmetall AG shareholders' equity	**1,070**	**1,137**
Minority interests	64	73
Equity	**1,134**	**1,210**
Provisions for pensions and similar obligations	610	674
Other non-current provisions	112	111
Non-current financial liabilities	180	179
Other non-current liabilities	28	40
Deferred taxes	32	33
Non-current liabilities	**962**	**1,037**
Current provisions	390	368
Current financial liabilities	353	284
Trade liabilities	521	477
Other current liabilities	416	435
Income tax liabilities	59	58
Current liabilities	**1,739**	**1,622**
Total liabilities	**3,835**	**3,869**

Consolidated income statement

1st half of the year € million

	H1/2009	H1/2010
Sales	**1,506**	**1,728**
Changes in inventories and work performed by the enterprise and capitalised	60	134
Total operating performance	**1,566**	**1,862**
Other operating income	40	47
Cost of materials	753	895
Staff costs	536	586
Amortization, depreciation and impairment	90	74
Other operating expenses	290	256
Net operating loss/income	**(63)**	**98**
Net interest [1)]	(27)	(26)
Net investment income and other net financial income [2)]	1	6
Net financial loss	**(26)**	**(20)**
Earnings before taxes (EBT)	**(89)**	**78**
Income taxes	19	(21)
Net income/loss	**(70)**	**57**
Of which:		
Minority interests	*0*	*2*
Rheinmetall AG shareholders	*(70)*	*55*
Earnings per share	(€ 2.04)	€ 1.43
EBITDA	28	178
EBIT	(62)	104

1) including interest expense of €28 million (previous year: €29 million)

2) including net income from investments carried at equity of €10 million (previous year: €4 million)

Comprehensive income

1st half of the year € million

	H1/2009	H1/2010
Net income/loss	**(70)**	**57**
Actuarial gains and losses from pension provisions	0	(36)
Currency conversion difference	18	76
Change in value of derivative financial instruments (cash flow hedge)	21	(7)
Income/expenses from investments accounted for using the equtiy method	(3)	(6)
Other comprehensive income (after taxes)	**36**	**27**
Comprehensive income	**(34)**	**84**
Of which:		
Minority interests	*3*	*9*
Rheinmetall AG shareholders	*(37)*	*75*

Consolidated income statement

2nd quarter € million

	Q2/2009	Q2/2010
Sales	**796**	**928**
Changes in inventories and work performed by the enterprise and capitalised	16	63
Total operating performance	**812**	**991**
Other operating income	23	24
Cost of materials	392	484
Staff costs	279	303
Amortization, depreciation and impairment	49	37
Other operating expenses	159	129
Net operating loss/income	**(44)**	**62**
Net interest [1)]	(13)	(14)
Net investment income and other net financial income [2)]	4	3
Net financial loss	**(9)**	**(11)**
Earnings before taxes (EBT)	**(53)**	**51**
Income taxes	12	(13)
Net income/loss	**(41)**	**38**
Of which:		
Minority interests	*0*	*2*
Rheinmetall AG shareholders	*(41)*	*36*
Earnings per share	(€ 1.19)	€ 0.93
EBITDA	9	102
EBIT	(40)	65

1) including interest expense of €14 million (previous year: €15 million)

2) including net income from investments carried at equity of €3 million (previous year: €4 million)

Comprehensive income

2nd quarter € million

	Q2/2009	Q2/2010
Net income/loss	**(41)**	**38**
Actuarial gains and losses from pension provisions	0	(12)
Currency conversion difference	14	44
Change in value of derivative financial instruments (cash flow hedge)	16	(9)
Income/expenses from investments accounted for using the equtiy method	(2)	0
Other comprehensive income (after taxes)	**28**	**23**
Comprehensive income	**(13)**	**61**
Of which:		
Minority interests	*3*	*5*
Rheinmetall AG shareholders	*(16)*	*56*

Consolidated cash flow statement

€ million

	H1/2009	H1/2010
Financial resources January 1	**203**	**577**
Net income/loss	(70)	57
Amortization, depreciation and impairments	90	74
Changes in pension provisions	5	3
Gross cash flows	**25**	**134**
Changes in working capital and other items	(244)	(429)
Cash flows from operating activities [1]	**(219)**	**(295)**
Investments in property, plant and equipment, intangible assets and investment property	(71)	(77)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	3	6
Investments in consolidated companies and financial assets	(1)	(11)
Divestments of consolidated companies and financial assets	0	(1)
Cash flows from investing activities	**(69)**	**(83)**
Capital contributions by third parties	-	3
Dividends paid out by Rheinmetall AG	(45)	(11)
Other profit distributions	(2)	(4)
Sale of treasury shares	1	1
Borrowing of financial liabilities	222	279
Repayment of financial liabilities	(31)	(349)
Cash flows from financing activities	**145**	**(81)**
Changes in financial resources	**(143)**	**(459)**
Changes in cash and cash equivalents due to exchange rates	2	7
Total change in financial resources	**(141)**	**(452)**
Financial resources June 30	**62**	**125**

1) including net income taxes (expense) of €16 million (previous year/income: €2 million)
including: net interest (expense) of €22 million (previous year: €19 million)

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	**Net loss/income of Rheinmetall AG shareholders**	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)	(2)	(47)
Transfer to/from reserves	-	-	137	-	-	-	(141)	-	(4)	-	(4)
Other comprehensive income	-	-	(4)	*16*	*21*	37	-	-	33	3	36
Net loss	-	-	-	-	-	-	(70)	-	(70)	-	(70)
Other changes	-	-	(4)	-	-	-	-	9	5	-	5
Balance as at June 30, 2009	**92**	**208**	**728**	*(35)*	*76*	**41**	**(70)**	**(57)**	**942**	**58**	**1,000**
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	5
Transfer to/from reserves	-	-	(58)	-	-	-	58	-	-	-	-
Other comprehensive income	-	-	(42)	*69*	*(7)*	62	-	-	20	7	27
Net income	-	-	-	-	-	-	55	-	55	2	57
Other changes	-	-	-	-	-	-	-	2	2	-	2
Balance as at June 30, 2010	**101**	**303**	**601**	*49*	*83*	**132**	**55**	**(55)**	**1,137**	**73**	**1,210**

Notes to the consolidated financial statements

General principles | The condensed consolidated interim financial statements of Rheinmetall AG as at June 30, 2010 were prepared in accordance with the International Financial Reporting Standards (IFRS) and the related interpretations of the International Accounting Standards Board (IASB) for interim reporting as required in the European Union. Accordingly, these interim financial statements do not include all information and disclosures in the notes which are required in line with IFRS for consolidated financial statements at the end of the financial year. In the view of the Executive Board, the interim financial statements include all adjustments required to present a true and fair view of business development in the reporting period. The results achieved in the first six months of 2010 do not necessarily allow for conclusions to be drawn regarding their future development.

The interim financial statements were prepared in accordance with IAS 34 “Interim Financial Reporting” and should be read in context with the consolidated financial statements published by Rheinmetall AG for the 2009 fiscal year. The amendments to IAS 27 “Consolidated and Separate Financial Statements” and IFRS 3 “Business Combinations” were applied for the first time in fiscal 2010. The other accounting policies applied in the interim financial statements are identical to those applied in the consolidated financial statements for the past fiscal year. Since December 31, 2009, actuarial gains and losses arising in connection with the measurement of pension obligations and associated plan assets have been recognized directly in equity. Prior-year comparatives have been restated in this respect. A qualified estimate of the pension obligation is given in the quarterly financial reports, based on the development of actuarial parameters. A discount rate of 4.75% (December 31, 2009: 5.5%) was used for pension provisions in Germany as regards these interim financial statements. This reduction in the interest rate led to an increase in actuarial losses from pension provisions recognized in equity.

For further information on the accounting policies applied, please refer to the consolidated financial statements of Rheinmetall AG as at December 31, 2009. The Group’s reporting currency is the euro; all amounts are given in € million unless otherwise indicated.

Estimates | Preparing the interim 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. Actual values may differ from these estimates.

Scope of consolidation | Besides Rheinmetall AG, the condensed consolidated financial statements include all German and foreign subsidiaries in which Rheinmetall AG holds the majority of voting rights (whether directly or indirectly) or whose financial and business policies are otherwise controlled by the Group. Two companies were founded abroad in the first half of 2010. In Germany, two companies were merged and a division of one company was spun off to an existing subsidiary.

Furthermore, as part of the implementation of a future strategic cooperation agreement with Boustead Heavy Industries Corporation Sdh Bhd, Kuala Lumpur/Malaysia, a contract was concluded in June 2010 regarding the transfer of the majority of shares (51%) in Contraves Advanced Devices Sdn Bhd, Malacca/Malaysia, to the cooperation partner. 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. As Rheinmetall can no longer control the financial and business policies, Contraves Advanced Devices Sdn Bhd, Malacca/Malaysia, and its subsidiary are to be carried at equity as a joint venture in Rheinmetall’s consolidated financial statements.

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.

After the end of the reporting period, the acquisition of 51% of the voting rights and shares in Verseidag Ballistic Protection GmbH, Krefeld, was concluded on July 1, 2010. The company specializes in the development and production of civil and military protection technology. This 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.

On July 5, 2010, the complete takeover of all shares in Simrad Optronics ASA, 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 successful squeeze-out in accordance with the provisions of the Norwegian law on stock companies, Rheinmetall holds 100% of shares in the company. The company operates production facilities in Nøtterøy and Oslo (both in Norway) and in Biddeford, Maine/USA. The product portfolio of Simrad Optronics ASA 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 purchase prices for the acquired companies total €78 million, subject to an adjustment that has yet to be determined from the acquisition of shares in Verseidag Ballistic Protection GmbH, and are to be paid entirely in cash. In the first half of 2010, €13 million was paid. Of the incidental costs of €2 million so far incurred in connection with the share purchases, €1 million were recognized as an expense in the first half of 2010. The data required for the acquisition price allocation are not yet available. The newly acquired companies that are to be included in the Rheinmetall Group as of July 2010 achieved sales of €60 million and earnings before interest and tax (EBIT) of €6 million in the first half of 2010.

Non-current assets held for sale | On December 31, 2009, non-current assets held for sale related to real estate of €1 million which was sold in the first quarter of 2010.

Treasury shares | The Annual General Meeting of May 12, 2009 renewed the Executive Board's authorization, as granted on May 6, 2008, to acquire treasury shares to an extent of up to 10% of the common stock at that time of €92,160,000 by October 31, 2010. As at June 30, 2010, the portfolio amounts to 1,355,997 treasury shares (previous year: 1,406,054), acquired at a total cost of €55 million (previous year: €57 million), which is deducted from equity. This authority was not exercised during the first six months of the current fiscal year.

Employee share purchase program | The Rheinmetall Group offers Rheinmetall AG shares to eligible employees in Germany on preferential conditions. There is a lock-up period of two years for these shares. 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. The first subscription period ran from April 27 to May 10, 2010, with employees acquiring 37,539 shares for €1 million.

Earnings per share | Since there are no outstanding shares, options or similar instruments which could dilute earnings per share, basic and diluted earnings per share are identical. Treasury stock and the capital increase carried out in July 2009 are included in the weighted number of treasury shares.

	Q2/2009	Q2/2010	H1/2009	H1/2010
Consolidated net profit/loss for shareholders of Rheinmetall AG *€ million*	(41)	36	(70)	55
Weighted number of shares *million*	34.6	38.2	34.5	38.2
Earnings per share (€)	**(1.19)**	**0.93**	**(2.04)**	**1.43**

Cash flow statement | As at January 1, 2009, June 30, 2009 and June 30, 2010, financial resources consisted solely of cash and cash equivalents. As of December 31, 2009/January 1, 2010, financial resources also included a Federal Treasury note of €20 million, which is reported under other financial assets.

Related parties | For the Rheinmetall Group, corporate related parties are the joint ventures and associated companies carried at equity. The joint ventures make a particular contribution to the expansion of Defence and Automotive operations. The volume of products/services provided to corporate related parties primarily relates to sales proceeds from the sale of finished and unfinished goods to project companies and sales proceeds from army maintenance services under a public-private partnership model in the Defence corporate sector. In addition, loans to joint ventures – unchanged at €3 million – are also included in the volume of unpaid items. 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	
	H1/2009	**H1/2010**	**H1/2009**	**H1/2010**	**12/31/2009**	**6/30/2010**
Joint ventures	26	22	1	3	(5)	-
Associated companies	2	4	5	5	5	13
	28	**26**	**6**	**8**	**0**	**13**

As previously, no transactions were made with individuals who constitute related parties of the Rheinmetall Group.

Segment reporting | Please refer to the consolidated financial statements as at December 31, 2009 for the delimitation of the reportable segments and the control system. There are no changes since this date as regards segment delimitation and valuation methods.

€ million

Corporate sectors	Defence		Automotive		Others / Consolidation		Group	
	H1/2009	**H1/2010**	**H1/2009**	**H1/2010**	**H1/2009**	**H1/2010**	**H1/2009**	**H1/2010**
External sales	789	762	717	966	-	-	1,506	1,728
Amortization and depreciation	22	25	67	49	1	0	90	74
Of which impairment	-	-	0	-	-	-	0	-
EBIT	70	71	(128)	43	(4)	(10)	(62)	104

Reconciliation of segment EBIT with Rheinmetall Group EBT:

€ million

	H1/2009	**H1/2010**
EBIT		
Segment EBIT	(58)	114
Others	0	(9)
Consolidation	(4)	(1)
Group net interest	(27)	(26)
Group EBT	**(89)**	**78**

Disclosures in accordance with Section 37w (5) clause 6 Securities Trading Act (WpHG)

The condensed consolidated interim financial statements as at June 30, 2010 – consisting of the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and selected explanatory disclosures in the notes – and the Group interim management report for the period from January 1 to June 30, 2010 have not been audited in accordance with Section 317 HGB or subjected to a review by a person qualified to audit financial statements.

Responsibility statement

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

Düsseldorf, August 10, 2010

Klaus Eberhardt Dr. Gerd Kleinert Dr. Herbert Müller

Additional information

Financial diary

August 11, 2010
Report on Q2 2010

November 15, 2010
Report on Q3 2010

March 24, 2011
2010 annual report

May 6, 2011
Report on Q1 2011

May 10, 2011
Annual General Meeting

Legal information

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

Rheinmetall's website at **www.rheinmetall.com** contains detailed business information about the Rheinmetall Group and its subsidiaries, present trends, 15-minute stock price updates, press releases, and ad hoc notifications. Investor Relations information is an integral part of this website, where all the relevant details are available to download.

Our quarterly financial report is available to download from **www.rheinmetall.com** in both English and German, the latter version prevailing in any case of doubt, or may be obtained directly from the Company.

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