SEMIANNUAL **REPORT**

1ST HALF 2018

Rheinmetall generates growth in earnings

- Consolidated sales decline slightly to €2,753 million in the first half of 2018 with improvement in the earnings margin
- Consolidated operating earnings up by €20 million at €154 million
- Automotive increases sales to €1,491 million and operating earnings margin to 8.9%
- Defence posts decline in sales of €80 million to €1,263 million but growth in earnings of €17 million to €31 million
- Order intake in the Defence sector on a par with the previous year
- Order backlog for the Group approximately €7.0 billion

The 2018 forecast figures for the Group have been narrowed down within the anticipated ranges.

RHEINMETALL
GROUP

Rheinmetall in figures

		Q2/2018	Q2/2017 1)	H1/2018	H1/2017 1)
Sales/Results					
Sales	€ million	1,493	1,459	2,753	2,808
of which generated abroad	%	78	80	77	78
Operating result	€ million	107	84	154	134
Operating result margin	%	7.2	5.8	5.6	4.8
EBIT	€ million	99	81	146	131
EBIT margin	%	6.6	5.6	5.3	4.7
EBT	€ million	90	68	127	106
Earnings after taxes	€ million	65	51	92	79
Cash Flow					
Cash flow from operating activities	€ million	(87)	69	(327)	(87)
Cash flow from Investments	€ million	(53)	(50)	(100)	(93)
Operating free cash flow	€ million	(140)	19	(427)	(180)
Balance sheet (June 30)					
Total equity	€ million	-	-	1,975	1,781
Total assets	€ million	-	-	6,329	6,253
Equity ratio	%	-	-	31	28
Cash and cash equivalents	€ million	-	-	337	477
Total assets ./. Cash and cash equivalents	€ million	-	-	5,992	5,776
Net financial debt	€ million	-	-	429	245
Leverage ratio 2)	%	-	-	7.2	4.2
Net gearing 3)	%	-	-	21.7	13.8
Human resources (June 30)					
Rheinmetall Group	FTE	-	-	22,374	21,371
Domestic	FTE	-	-	10,882	10,760
Foreign	FTE	-	-	11,492	10,611
Rheinmetall Automotive					
Sales	€ million	740	728	1,491	1,465
Operating result	€ million	68	67	133	129
Operating result margin	%	9.2	9.2	8.9	8.8
Capital expenditure 4)	€ million	34	33	63	57
Rheinmetall Defence					
Order intake	€ million	570	1,031	1,427	1,422
Order backlog (June 30)	€ million	-	-	6,509	6,661
Sales	€ million	754	731	1,263	1,343
Operating result	%	44	24	31	14
Operating result margin	€ million	5.8	3.3	2.5	1.0
Capital expenditure 4)	€ million	22	19	43	35
Share					
Stock price (June 30)	EUR	-	-	94.56	83.12
Earnings per share	EUR	1.24	1.01	1.79	1.57

1) *The 2017 comparative period is shown according to the previous standards for the recognition of sales, leasing and financial instruments.*

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

3) *Net financial liabilities/equity*

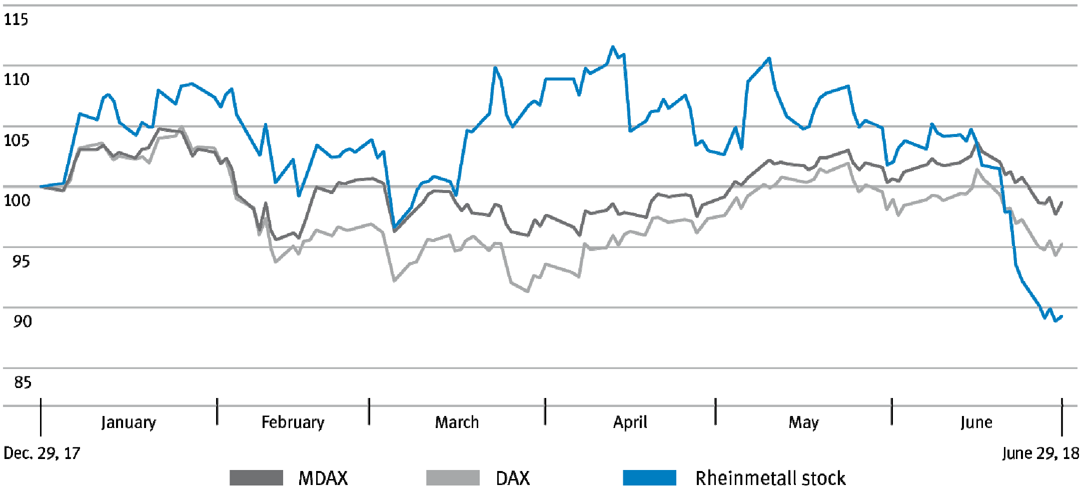
4) *From fiscal 2018, investments also include the acquisition of rights of use from leases.*

The Rheinmetall share

DAX and MDAX

Boosted by positive sentiment on the stock markets, Germany's two most important indices in terms of market capitalization, the DAX and MDAX, reached highs in January 2018 that were not exceeded during the first half of the year. The DAX reached 13,560 points on January 23, while the MDAX came to 27,455 points on January 19. A rapid downward movement then began, pushing the indices down to half-yearly lows. The MDAX dropped to 25,031 points on February 9 and the DAX to 11,787 points on March 26. From the end of March/beginning of April, both indices experienced an upward trend lasting for several weeks, which then gave way to another period of weakness shortly before the end of the second quarter. By the end of the first half of the year on June 29, 2018, the DAX had lost 6 % and stood at around 12,260 points, while the MDAX was down 2 % at 25,854 points.

December 29, 2017, through June 29, 2018



Rheinmetall share

The Rheinmetall share initially remained at the levels of over €100 reached in 2017. Having closed 2017 at €105.85, it went on to reach new highs until a historic peak at €118.15 on April 10. Market factors in both corporate sectors then dragged down the share price. In Automotive business, uncertainty about possible US import duties and the effects of the new WLTP test standard, along with profit warnings issued by several companies in the industry, had a negative impact. In the Defence sector, the markets were faced with additional risks owing to a possible breakdown of the coalition government in Berlin and an improved climate in talks between the US and North Korea, which could lead to a drop in defence spending.

Rheinmetall's share price basically ranged between €105 and €115 up to the beginning of June, after which it dropped sharply and closed the first half of the year at €94.56 (-11 %).

Investor Relations activities

Communications with the capital markets initially focused on two major conferences in New York and Frankfurt in January. The Executive Board and Investor Relations department then held numerous talks with investors in the UK, Ireland, Germany, Switzerland and the US and answered questions in several teleconferences.

General economic conditions

Global economy in robust shape despite customs dispute with the US

Despite a rise in global uncertainty, the worldwide economy was in robust shape in the first half of 2018. Unease about the effects of tensions with the US over trade policy, the threat of a deterioration in global economic integration and stagnating Brexit negotiations between the UK and the European Union have had little impact to date on worldwide economic development. The economy in countries in the euro zone continued to develop positively, while there was also a trend towards improvement in emerging countries. Accordingly, in its World Economic Outlook from July the International Monetary Fund forecast growth of 3.9% in global economic output for 2018. Growth of 3.9 % is also projected for 2019. The economy in the euro zone is expected to grow by 2.2 % in 2018. That represents a reduction of 0.2 percentage points compared with the IMF's forecast from April 2018. The outlook for 2019 has been lowered by 0.1 percentage points to 1.9 %. For Germany, the IMF's economists anticipate growth of 2.2 % this year and 2.1 % in 2019. The German economy is thus in line with the figures for the euro zone as a whole. Compared to April, the IMF lowered its growth forecast for 2018 by 0.3 percentage points and raised its growth forecast for 2019 by 0.1 percentage points.

Tensions over trade policy and the diesel crisis weigh down the automotive market

International automotive markets saw muted growth in the first half of 2018, in the context of global trade policy tensions and the diesel crisis in Europe. There are still two main trends that are apparent. While some markets saw a slowdown due to ongoing uncertainty, positive catch-up effects can be seen in countries that had recently suffered as a result of economic crises. Overall, analysts at IHS Markit calculated that there was a 1.7% rise in global production of passenger cars and light commercial vehicles of up to 6 t to 48.2 million vehicles for the first half of 2018. However, the triad markets of Western Europe, NAFTA, and Japan were down by 0.3% on the previous year's figure with 21.3 million units. While Western Europe gained momentum (+1.8 %), production in Germany fell by 3.0 %. The NAFTA region also continued to show signs of cooling off, with a drop of 2.5 %. The situation is completely different in India, where automotive production picked up significantly in the first half of 2018, rising by 11.5 %. Vehicle production also continued its upward trend in China (+2.8 %) in the first six months of 2018. Despite increased uncertainty, global automotive production is set to increase by 2.2 % to 97.3 million vehicles for 2018 as a whole, according to IHS Markit. Growth of 2.3 % to 99.4 million units is currently anticipated for 2019.

Arms spending remains at a high level

NATO allies confirmed their earlier decisions at a summit in Brussels in July 2018 and agreed on a gradual increase in arms spending. According to the most recent calculations by defence analysts at IHS Jane's, global defence budgets in 2018 amount to USD 1,611 billion, slightly higher than the previous year's figure of USD 1,598 billion. The US – the country with the largest defence budget – will remain at the previous year's high level of around USD 643 billion in the current year, according to IHS Jane's. In Germany, the federal government's declaration in November 2016 that Europe must shoulder more of the burden within NATO is starting to have an effect. The previous year's trend towards a rise in arms spending is therefore continuing. Germany's defence budget will increase to around €42.9 billion in 2019 – a further rise of €4.4 billion compared with 2018. The government's defence expenditure will thus now represent 1.31% of gross domestic product. In the medium term, the defence budget will increase to €43.9 billion by 2022 and to 1.5% of GDP by 2025, which assuming average GDP growth of 1.5% would correspond to a figure of €55 billion.

Application of new accounting standards

Application of new accounting standards from 2018

The Rheinmetall Group applies the following new IFRS standards from fiscal 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases

No material effects from the application of IFRS 9

IFRS 9 largely replaces the previous standard for financial instruments, IAS 39. It contains amended regulations on the classification and measurement of financial assets and liabilities, the recognition of impairment and hedge accounting. The application of IFRS 9 has no material effects on the presentation of the Rheinmetall Group's net assets, financial position and results of operations.

Limited effects of IFRS 15 and 16 on the presentation of business performance; previous year not adjusted

IFRS 15 consolidates all regulations on the recognition of revenue from contracts with customers. The new standard has no material impact on the nature of the recognition of revenue, which in the Rheinmetall Group can be recognized both at a point in time and over time in the case of customer-specific contracts with customers. The standard changes the recognition of items relevant to contracts with customers.

The Rheinmetall Group is adopting IFRS 16 early from fiscal 2018. Accounting by the lessee has been amended such that, for all leases, assets must be recognized for the rights of use acquired in addition to corresponding financial liabilities.

When transitioning to the new IFRS 15 and 16 standards, we exercised the option to present the comparative period according to the previous standards and thus to leave it unchanged. The comparability of the current reporting period with the corresponding period of the previous year is therefore limited.

The effects on the presentation of business performance are also limited, so additional explanations are only given for those items on which the application of the new standards had material effects.

The transition was made as of January 1, 2018. The balance sheet as of the transition date is set against the closing balance sheet as of December 31, 2017. The reconciliation of the balance sheet items of December 31, 2017, to January 1, 2018, is presented in the notes to the consolidated financial statements.

Business performance of the Rheinmetall Group

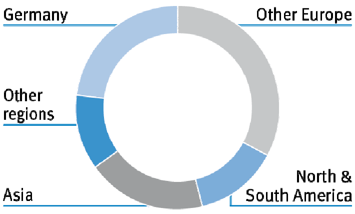
€ million	Q2/2018	Q2/2017	Change	H1/2018	H1/2017	Change
Sales	1,493	1,459	34	2,753	2,808	(55)
Operating result	107	84	23	154	134	20
Operating result margin	7.2%	5.8%	1.4%-P	5.6%	4.8%	0.8%-P
Operating free cash flow	(140)	19	(159)	(427)	(180)	(247)

Slight dip in sales but operating earnings up

Consolidated sales fell by €55 million or 2.0% year-on-year to €2,753 million in the first half of 2018. Adjusted for currency effects, the decline was 0.6%.

The drop in sales at the Group was entirely due to the Defence sector, where sales fell by €80 million in the first half of the year owing to a weaker first quarter. In contrast, the Automotive sector increased its sales by €26 million year-on-year.

Sales by region € million



	H1/2018	H1/2017
Rheinmetall Group	2,753	2,808
Germany	632	607
Other Europe	908	881
North & South America	364	375
Asia	521	480
Other regions	328	465

In the first half of 2018, operating earnings improved by €20 million year-on-year. Of this increase, €4 million was attributable to the Automotive sector and €17 million to the Defence sector. Operating earnings fell by €1 million in Others/Consolidation. Non-recurring effects were recorded in the Defence sector in the amount of €-8 million in the first half of 2018 and €-3 million in the corresponding period of the previous year.

In the first half of 2018, the application of IFRS 15 reduced sales by €2 million due to interest effects, which had an equal impact on operating earnings. The application of IFRS 16 had a positive effect on operating earnings of €2 million. This was due to changes in the recognition of leases. The amortization of capitalized rights of use in the first half of 2018 is €2 million lower than the lease expenses that previously influenced operating earnings.

Deterioration in operating free cash flow

Operating free cash flow deteriorated by €247 million to €-427 million in the first half of 2018. This was due to an increased buildup of working capital due to postponements of deliveries in the Defence sector and to the increased allocation to the contractual trust agreement (CTA) of €40 million at the beginning of 2018 (previous year: €30 million).

Business performance of the Rheinmetall Group
Automotive sector

€ million	Sales		Operating result	
	Q2/2018	Q2/2017	Q2/2018	Q2/2017
Automotive	**740**	**728**	**68**	**67**
Mechatronics	417	407	46	47
Hardparts	250	251	17	16
Aftermarket	97	93	9	9
Other/consolidation	(24)	(23)	(4)	(5)
	H1/2018	H1/2017	H1/2018	H1/2017
Automotive	**1,491**	**1,465**	**133**	**129**
Mechatronics	846	832	90	90
Hardparts	504	500	35	33
Aftermarket	189	176	17	16
Other/consolidation	(48)	(43)	(9)	(10)

Growth in sales and earnings

The Automotive sector recorded year-on-year sales growth of 1.7 % in the first six months of 2018 to €1,491 million. After adjustment for currency effects, the increase came to 4.2 %. Global production of light vehicles recorded comparatively modest growth of 1.7 %. All divisions contributed to this sales growth. Operating earnings for the first half of 2018 rose by 2.8 % to €133 million, resulting in an improvement in the operating margin to 8.9 % (previous year: 8.8 %).

The Mechatronics division's sales grew by 1.6 % year-on-year to €846 million in the first half of 2018 (+2.7 % after adjustment for currency effects). The Commercial Diesel Systems product range made the greatest growth contribution here. In addition, the persistently high demand from automotive manufacturers for solutions from our future-oriented product portfolio to reduce pollutant emissions continued. However, the growth was weakened by the decline of the diesel market. The division's operating earnings amounted to €90 million after the first six months of 2018 and thus reached the same level as in the previous year. Although the operating margin remained high, it slipped slightly by 0.2 percentage points to 10.6 % (previous year: 10.8 %).

The Hardparts division generated sales growth of 0.8 % to €504 million in the first half of 2018 (+5.5 % after adjustment for currency effects). The Plain Bearings range surpassed the previous year thanks to further growth in India and North America, but also in the European business. The large-bore piston business remained stable year-on-year, while small-bore piston business was down slightly owing to currency effects. The division's operating earnings for the first six months of 2018 came to €35 million (previous year: €33 million). The operating margin rose to 6.9 % (previous year: 6.6 %).

The Aftermarket division increased its sales by 7.6 % year-on-year to €189 million in the first six months of 2018 (+9.8 % after adjustment for currency effects). The Group's Kolbenschmidt and Pierburg brands once again proved to be the main drivers of growth. Business development was positive in the sales regions of Western and Eastern Europe and Americas. In the sales regions of the Middle East and Africa, political and economic conditions led to a slight drop in sales. The division's operating earnings amounted to €17 million in the first half of 2018, compared with €16 million in the same period of the previous year. The operating margin was 9.2 %, as in the previous year.

Sales growth at joint ventures with Chinese partners

Significant joint ventures with Chinese partners are accounted for using the equity method and are therefore not included in the consolidated sales figures for Rheinmetall Automotive.

The joint ventures in China achieved year-on-year growth of 4.5 % to €447 million in the first half of 2018 (+7.9 % after adjustment for currency effects), while the number of light vehicles produced in China rose by 2.8 %. Earnings after taxes for the first six months of 2018 came to €22 million (previous year: €23 million).

Sales of the German joint venture KS HUAYU AluTech Group grew by 9.5 % to €172 million in the first six months of the current fiscal year, mainly owing to high sales from research and development and equipment and tools. Earnings after taxes amounted to €1 million for the first six months of 2018, after a balanced result for the first half of the previous year.

€ million – 100% basis	China Joint Ventures				KS HUAYU			
	Q2/2018	Q2/2017	H1/2018	H1/2017	Q2/2018	Q2/2017	H1/2018	H1/2017
Sales	229	210	447	428	96	81	172	157
Earnings after taxes	12	11	22	23	-	(1)	1	-

Business performance of the Rheinmetall Group
Defence sector

€ million	Order intake		Sales		Operating result	
	Q2/2018	Q2/2017	Q2/2018	Q2/2017	Q2/2018	Q2/2017
Defence	**570**	**1,031**	**754**	**731**	**44**	**24**
Weapon and Ammunition	272	208	249	305	23	12
Electronic Solutions	225	633	197	141	5	(1)
Vehicle Systems	90	230	375	337	23	14
Other/consolidation	(17)	(40)	(67)	(52)	(7)	(1)
	H1/2018	H1/2017	H1/2018	H1/2017	H1/2018	H1/2017
Defence	**1,427**	**1,422**	**1,263**	**1,343**	**31**	**14**
Weapon and Ammunition	889	415	388	496	4	12
Electronic Solutions	345	749	323	279	4	(5)
Vehicle Systems	227	313	672	687	34	15
Other/consolidation	(34)	(55)	(120)	(119)	(11)	(8)

Stable order intake

Incoming orders for the Defence sector in the first half of 2018 were stable year-on-year at €1,427 million, despite negative currency effects of €-33 million. The largest single order was received by the Weapon and Ammunition division from an international customer. It relates to the supply of artillery and tank ammunition and is worth €380 million. The Electronic Solutions division received another major order worth €102 million to supply air defence products in Asia. The order backlog totaled €6,510 million, down slightly on the previous year's figure of €6,661 million.

Slight decline in sales, strong growth in operating earnings

Sales in the Defence sector declined by €80 million or 6.0 % in the first half of 2018 compared with the same period of the previous year. Adjusted for currency effects, the decline was 3.4 %. The drop in sales in the first quarter of 2018 (€-103 million) was partially offset in the second quarter. The Defence sector's operating earnings improved by €17 million to €31 million. The operating earnings do not include non-recurring effects of €8 million that relate to restructuring expenses in the Electronic Solutions division.

In the Weapon and Ammunition division, sales fell by €108 million or 22% year-on-year and operating earnings by €8 million to €4 million. This was primarily because the previous year still included a transaction amounting to around €110 million with a low margin.

The Electronic Solutions division posted an increase in sales of €44 million or 16 % compared with the previous year's figure. The Air Defence & Radar Systems business was the main driver behind this. Operating earnings improved by €9 million to €4 million, thanks to sales growth and cost-cutting measures.

The Vehicle Systems division recorded a slight year-on-year drop in sales of €15 million or 2% in the first half of 2018, although after adjustment for currency effects the division's sales remained at the same level as in the previous year. Sales of military trucks were down year-on-year in the first half of 2018, as bottlenecks in capacity partially continued at some suppliers in the second quarter. However, sales of other types of vehicles increased. Operating earnings more than doubled year-on-year to €34 million. This earnings growth was due in particular to positive product mix effects and favorable cost developments, which were included in the updated project valuations in connection with the regular project reviews. This was offset by a non-scheduled write-down on capitalized development costs in the amount of €24 million for a specially equipped command and multipurpose vehicle, as the marketing opportunities that had previously been expected are no longer realistic in the medium term.

Risks and opportunities

Efficient risk management

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

The material opportunities and risks of the expected development of the Rheinmetall Group are described in detail in the Group Management Report for 2017. There have been no significant changes or new findings in the meantime.

Outlook

Sales growth continues in both corporate sectors

Rheinmetall expects the Group's growth to continue in the current fiscal year. Rheinmetall AG's annual sales are expected to grow organically by around 8% in the current fiscal year, based on €5.9 billion in 2017. Sales are expected to increase in both corporate sectors.

Sales performance in the Automotive sector is strongly influenced by economic development in the significant global automotive markets and by external factors such as the adjustment of European test cycles. Based on current expert forecasts regarding trends in global automotive production this year, which predict growth of 2.1%, Rheinmetall still expects sales growth of 3% to 4% for the Automotive sector.

On the basis of the business performance in the first half of the year, Rheinmetall projects double-digit sales growth of around 12% for the Defence sector in fiscal 2018. This corresponds to the lower end of the previous sales forecast. As in the previous year, this sales forecast for 2018 is largely assured based on relatively high coverage through the existing order backlog.

The growth forecast assumes that exchange rates for the remainder of fiscal 2018 will not change significantly compared to current levels.

Further improvement in earnings expected in fiscal 2018

Assuming stable economic development, Rheinmetall expects an absolute improvement in operating earnings and an operating margin of around 8.5 % for the Automotive sector in fiscal 2018. Rheinmetall also anticipates a further improvement in operating earnings in the Defence sector in 2018 and expects an operating earnings margin of around 6.5%. This corresponds to the upper end of the previous forecast range of 6.0% to 6.5%.

Taking into account holding costs and including expenses in the mid-single-digit millions for the realization and marketing of new technologies, the Rheinmetall Group's margin comes to around 7%.

Supplementary report

At the end of July 2018, Rheinmetall sold the former piston production site in Hamburg to a newly founded joint venture with positive non-operating earnings of €31 million that will be recognized in the third quarter of 2018. The transaction resulted in cash inflow of around €50 million.

Consolidated balance sheet

€ million	6/30/2018	1/1/2018	12/31/2017
Assets			
Goodwill	550	550	550
Other intangible assets	191	229	229
Rights of use	163	158	-
Property, plant and equipment	1,371	1,387	1,387
Investment Property	45	46	46
Investments accounted for using the equity method	258	242	242
Other non-current assets	141	142	73
Deferred taxes	201	185	185
Non-current assets	**2,920**	**2,939**	**2,712**
Inventories	1,396	1,165	1,172
Contractual asset	327	325	-
Trade receivables	1,013	897	1,217
Other current assets	207	186	190
Income tax receivables	36	11	11
Liquid financial assets	85	119	119
Cash and cash equivalents	337	757	757
Assets held for sale	8	8	8
Current assets	**3,409**	**3,468**	**3,474**
Total assets	**6,329**	**6,407**	**6,186**
Equity and liabilities			
Subscribed capital	112	112	112
Additional paid-in capital	546	540	540
Retained earnings	1,223	1,205	1,209
Treasury shares	(21)	(25)	(25)
Rheinmetall AG shareholders' equity	**1,860**	**1,832**	**1,836**
Minority interests	115	118	119
Equity	**1,975**	**1,950**	**1,955**
Provisions for pensions and similar obligations	997	1,080	1,080
Other non-current provisions	197	204	185
Non-current financial debts	751	696	572
Other non-current liabilities	50	54	54
Deferred taxes	20	14	14
Non-current liabilities	**2,015**	**2,048**	**1,905**
Other current provisions	656	641	595
Current financial debts	100	108	74
Contractual liabilities	571	636	-
Trade liabilities	717	760	760
Other current liabilities	182	190	823
Income tax liabilities	113	74	74
Current liabilities	**2,339**	**2,409**	**2,326**
Total liabilities	**6,329**	**6,407**	**6,186**

Consolidated income statement

€ million	Q2/2018	Q2/2017 1)	H1/2018	H1/2017 1)
Sales	1,493	1,459	2,753	2,808
Changes in inventories and work performed by the enterprise and capitalized	40	34	160	101
Total operating performance	**1,533**	**1,493**	**2,913**	**2,909**
Other operating income	31	36	64	63
Cost of materials	794	841	1,525	1,603
Personnel expenses	409	389	804	787
Amortization, depreciation and impairment	91	55	155	112
Other operating expenses	182	160	361	334
Income from investments carried at equity	7	1	14	5
Other net financial income	4	(4)	-	(10)
Earnings before interest and taxes (EBIT)	**99**	**81**	**146**	**131**
Interest income	2	-	3	3
Interest expenses	(11)	(13)	(22)	(28)
Earnings before taxes (EBT)	**90**	**68**	**127**	**106**
Income taxes	(25)	(17)	(35)	(27)
Earnings after taxes	**65**	**51**	**92**	**79**
Of which:				
Minority interests	12	8	15	12
Rheinmetall AG shareholders	*53*	*43*	*77*	*67*
Earnings per share	€1.24	€1.01	€1.79	€1.57

1) *The comparability of the 2017 comparative period is limited, as it is shown according to the previous standards for the recognition of sales, leasing and financial instruments.*

Consolidated statement of comprehensive income

€ million	Q2/2018	Q2 2017 1)	H1/2018	H1 2017 1)
Earnings after taxes	**65**	**51**	**92**	**79**
Remeasurement of net defined benefit liability from pensions	37	23	35	24
Amounts not reclassified in the income statement	**37**	**23**	**35**	**24**
Change in value of derivative financial instruments (cash flow hedge)	(24)	3	(21)	4
Currency conversion difference	2	(39)	(7)	(37)
Income/expenses from investments accounted for using the equity method	1	(8)	1	(8)
Amounts reclassified in the income statement	**(21)**	**(44)**	**(27)**	**(41)**
Other earnings after taxes	**16**	**(21)**	**8**	**(17)**
Comprehensive income	**81**	**30**	**100**	**62**
Of which:				
Minority interests	(1)	*6*	*4*	*10*
Rheinmetall AG shareholders	*82*	*24*	*96*	*52*

1) *The comparability of the 2017 comparative period is limited, as it is shown according to the previous standards for the recognition of sales, leasing and financial instruments.*

Statement of cash flows

€ million	H1/2018	H1/2017 [1)]
Earnings after taxes	92	79
Amortization, depreciation and impairment	155	112
Reduction in pension provisions due to payment into external Fund (CTA)	(40)	(30)
Other changes in pension provisions	(1)	(7)
Income from disposition of non-current assets	(3)	-
Other changes in other provisions	12	38
Changes in inventories	(229)	(107)
Changes in receivables, liabilities (without financial debts) and prepaid & deferred items	(292)	(156)
Pro rata income from investments carried at equity	(14)	(5)
Dividends received from investments carried at equity	1	2
Other non-cash expenses and income	(8)	(13)
Cash flows from operating activities [2)]	**(327)**	**(87)**
Investments in property, plant and equipment, intangible assets and investment property	(100)	(93)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	16	1
Payments for the purchase of liquid financial assets	(120)	(213)
Cash receipts from the disposal of liquid financial assets	154	185
Payments for investments in consolidated companies and other financial assets	(2)	(9)
Cash flows from investing activities	**(52)**	**(129)**
Dividends paid out by Rheinmetall AG	(73)	(62)
Other profit contributions	(7)	(9)
Increase in shares in consolidated subsidiaries	-	4
Borrowing of financial debts	112	247
Repayment of financial debts	(73)	(96)
Cash flows from financing activities	**(41)**	**84**
Changes in financial resources	**(420)**	**(132)**
Changes in cash and cash equivalents due to exchange rates	-	(7)
Total change in financial resources	**(420)**	**(139)**
Opening cash and cash equivalents January 1	**757**	**616**
Closing cash and cash equivalents June 30	**337**	**477**

1) The comparability of the 2017 comparative period is limited, as it is shown according to the previous standards for the recognition of sales, leasing and financial instruments.

2) of which:
Net income taxes of €-32 million (previous year: €-36 million)
Net interest of €-10 million (previous year: €-5 million)

Statement of changes in equity

€ million	Subscribed capital	Additional paid-in capital	Total retained earnings	Treasury shares	Rheinmetall AG shareholders' equity	Minority interests	Equity
Balance as at January 1, 2017	**112**	**532**	**1,074**	**(32)**	**1,686**	**95**	**1,781**
Earnings after taxes	-	-	67	-	67	12	79
Other comprehensive income	-	-	(15)	-	(15)	(2)	(17)
Comprehensive income	-	-	52	-	52	10	62
Dividends payout	-	-	(62)	-	(62)	(9)	(71)
Disposal of treasury shares	-	-	-	4	4	-	4
Other changes	-	4	(3)	-	1	4	5
Balance as at June 30, 2017	**112**	**536**	**1,061**	**-28**	**1,681**	**100**	**1,781**
Balance as at December 31, 2017	**112**	**540**	**1,209**	**-25**	**1,836**	**119**	**1,955**
Adjustment to IFRS 15	-	-	(4)	-	(4)	(1)	(5)
Balance as at January 1, 2018	**112**	**540**	**1,205**	**-25**	**1,832**	**118**	**1,950**
Earnings after taxes	-	-	77	-	77	15	92
Other comprehensive income	-	-	19	-	19	(11)	8
Comprehensive income	-	-	96	-	96	4	100
Dividends payout	-	-	(73)	-	(73)	(7)	(80)
Disposal of treasury shares	-	-	-	4	4	-	4
Other changes	-	6	(5)	-	1	-	1
Balance as at June 30, 2018	**112**	**546**	**1,223**	**(21)**	**1,860**	**115**	**1,975**

Composition of retained earnings

€ million	Currency conversion difference	Remeasurement of net defined benefit liability from pensions	Land revaluation	Hedge reserve	Other income from investments carried at equity	Other reserves	Total retained earnings
Balance as at January 1, 2017	44	(511)	85	9	8	1,439	**1,074**
Earnings after taxes	-	-	-	-	-	67	67
Other comprehensive income	(34)	24	-	3	(8)	-	(15)
Comprehensive income	(34)	24	-	3	(8)	67	52
Dividends payout	-	-	-	-	-	(62)	(62)
Other changes	-	-	-	-	-	(3)	(3)
Balance as at June 30, 2017	10	(487)	85	12	-	1,441	**1,061**
Balance as at December 31, 2017	(19)	(482)	85	23	(3)	1,605	**1,209**
Adjustment to IFRS 15	-	-	-	-	-	(4)	(4)
Balance as at January 1, 2018	(19)	(482)	85	23	(3)	1,601	**1,205**
Earnings after taxes	-	-	-	-	-	77	77
Other comprehensive income	(3)	35	-	(14)	1	-	19
Comprehensive income	(3)	35	-	(14)	1	77	96
Dividends payout	-	-	-	-	-	(73)	(73)
Other changes	-	-	-	-	-	(5)	(5)
Balance as at June 30, 2018	(22)	(447)	85	9	(2)	1,600	**1,223**

Segment report

€ million	Defence		Automotive		Other/Consolidation		Group	
	H1/2018	**H1/2017**	**H1/2018**	**H1/2017**	**H1/2018**	**H1/2017**	**H1/2018**	**H1/2017**
External sales	1,263	1,343	1,491	1,465	(1)	-	2,753	2,808
Operating result	31	14	133	129	(10)	(9)	154	134
Special items	(8)	(3)	-	-	-	-	(8)	(3)
EBIT	23	11	133	129	(10)	(9)	146	131
of which:								
At Equity income	-	*(8)*	*14*	*13*	-	-	*14*	*5*
Amortization, depreciation (scheduled)	*54*	*46*	*74*	*64*	*3*	*2*	*131*	*112*
Amortization, depreciation (non-scheduled)	*24*	-	-	-	-	-	*24*	-
Interest income	2	1	1	1	-	1	3	3
Interest expenses	(16)	(16)	(8)	(6)	2	(6)	(22)	(28)
EBT	9	(4)	126	124	(8)	(14)	127	106
Other data								
Operating free cash flow	(410)	(105)	(14)	(49)	(3)	(26)	(427)	(180)
Order intake	1,427	1,422	1,464	1,444	-	-	2,891	2,866
Order backlog June 30	6,509	6,661	494	438	-	-	7,003	7,099
Employees as at June 30 (FTE)	10,556	10,194	11,594	11,002	224	175	22,374	21,371
Net financial debts June 30	215	19	(50)	(68)	264	294	429	245

Notes to the consolidated financial statements

General principles

The condensed consolidated interim financial statements of Rheinmetall AG as at June 30, 2018 were prepared in accordance with the IFRS applicable to interim reporting as published by the IASB and as adopted in the EU. The accounting policies applied to the assets and liabilities in the interim financial statements are the same as those applied in the consolidated financial statements for fiscal year 2017, with the exception of the new IFRS standards outlined below, which are to be applied from 2018. The results achieved in the first six months of 2018 do not necessarily allow conclusions to be drawn as to future development.

Estimates

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

A qualified estimate of pension obligations is given in the quarterly financial reports based on the development of actuarial parameters. In these interim financial statements, a discount rate of 1.75 % was applied for pension provisions in Germany, as at December 31, 2017, and a rate of 0.94 % was applied for those in Switzerland, compared with 0.74 % on December 31, 2017. There were no changes for German pension obligations, in contrast to pension obligations in Switzerland. Here, pension obligations have fallen by €21 million compared with the beginning of the year. In addition, the recognition of income from plan assets that exceeded interest income led to a reduction in the pension provision in other operating income. All other parameters relevant to the measurement of pension obligations remained unchanged compared with December 31, 2017.

Basis of consolidation

Besides Rheinmetall AG, the condensed consolidated financial statements include all German and foreign subsidiaries in which Rheinmetall AG holds the majority of voting rights (whether directly or indirectly) or other rights which enable it to control significant activities of the investee. A new subsidiary was founded abroad in the first six months of 2018.

Application of new accounting standards from 2018

The application of IFRS 9 for financial instruments has no material effects on the presentation of the Rheinmetall Group's net assets, financial position and results of operations. The newly introduced principle of the "expected loss approach" to the measurement of trade receivables has no material effects on the amount of impairment. The amended rules for the application of hedge accounting likewise result in no material changes in measurement. There is a change with regard to the classification of trade receivables that could potentially be sold as part of the Group's ABS program. These receivables were previously measured at amortized cost and from 2018 at fair value. As the two carrying amounts are virtually identical for these receivables, the measurement does not result in any changes.

Notes to the consolidated financial statements

The transition to IFRS 15 and IFRS 16 resulted in the following adjustments to balance sheet items on the transition date of January 1, 2018:

€ million	12/31/2017	IFRS 15	IFRS 16	1/1/2018
Rights of use from leases	-	-	158	158
Other non-current assets	73	69	-	142
Remaining other non-current assets	2,639	-	-	2,639
Non-current assets	2,712	69	158	2,939
Inventories	1,172	(7)	-	1,165
Contractual asset	-	325	-	325
Trade receivables	1,217	(320)	-	897
Other current assets	73	(4)	-	69
Remaining other current assets	1,012	-	-	1,012
Current assets	3,474	(6)	-	3,468
Total assets	**6,186**	**63**	**158**	**6,407**
Equity	1,955	(5)	-	1,950
Other non-current provisions	185	19	-	204
Non-current financial debts	572	-	124	696
Other non-current liabilities	1,148	-	-	1,148
Non-current liabilities	1,905	19	124	2,048
Other current provisions	595	46	-	641
Current financial debts	74	-	34	108
Contractual liabilities	-	636	-	636
Other current liabilities	823	(633)	-	190
Remaining other current liabilities	834	-	-	834
Current liabilities	2,326	49	34	2,409
Total liabilities	**6,186**	**63**	**158**	**6,407**

Application of IFRS 15

Other long-term assets are increased by the capitalization of contract acquisition and fulfillment costs. The corresponding obligations are recognized in other non-current and current provisions. The asset items are written down with the recognition of revenue from contracts with customers.

Until December 31, 2017, receivables from construction contracts were shown under trade receivables. From 2018, these assets are shown separately in the balance sheet as a contract asset of a similar amount. The reduction in current liabilities is attributable to liabilities from construction contracts and prepayments received, which are now reported separately in the balance sheet as a contract liability.

The adjustment of equity by €-5 million is primarily attributable to longer-term contracts with customers from the Defence sector, which were still in progress at the transition date and which include a financing component.

Application of IFRS 16

Due to the initial adoption of IFRS 16 as of January 1, 2018, rights of use of €158 million were capitalized in fixed assets, while financial lease liabilities of the same amount were recognized in maturity bands.

Balance sheet figures

The transition to the new standards also has effects on the following balance sheet figures:

€ million	12/31/2017	1/1/2018	Change
Cash and cash equivalents	757	757	-
Liquid financial assets	119	119	-
Financial debts	(646)	(804)	(158)
Net financial debts	**230**	**72**	(158)
Equity	1,955	1,950	(5)
Total assets	6,186	6,407	221
Equity ratio	31.6%	30.4%	-1.2%-P

Share-based remuneration

A long-term incentive program exists within the Rheinmetall Group, under which beneficiaries receive Rheinmetall shares with a four-year lock-up period in addition to a cash payment. On April 3, 2018, the beneficiaries of the incentive program for fiscal year 2017 received a total of 89,724 shares (previous year: a total of 98,101 shares on April 4, 2017, for fiscal year 2016).

Related parties

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

€ million	Joint Ventures		Associated Companies	
	2018	2017	2018	2017
Products/services provided H1	154	163	2	1
Products/services received H1	1	-	-	-
Receivables June 30/Dec. 31	119	107	5	2
Liabilities June 30/Dec. 31	(6)	(23)	(2)	(2)
Receivables from finance leases June 30/Dec. 31	8	8	-	-

Disclosures on financial instruments

Financial assets and liabilities measured at fair value include derivatives held to hedge currency, interest rate, commodity price, and electricity price risks. The fair values are determined on the basis of input factors observed directly or indirectly on the market. This corresponds to Level 2 of the fair value hierarchy defined by IFRS 13. The input factors used and the measurement methods applied are described in the consolidated financial statements as at December 31, 2017. The fair values of financial instruments included on the balance sheet are comprised as follows:

Notes to the consolidated financial statements

€ million	6/30/2018	12/31/2017
Derivatives without hedge accounting	8	18
Derivatives with hedge accounting	25	38
Financial assets	**33**	**56**
Derivatives without hedge accounting	3	11
Derivatives with hedge accounting	27	7
Financial liabilities	**30**	**18**

Segment reporting

The definition of the reportable segments and the controlling system are described in the consolidated financial statements for the year ended December 31, 2017. The definition of the Automotive and Defence sectors and the accounting methods are applied unchanged from December 31, 2017.

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

€ million	6/30/2018	6/30/2017
Net financial debts		
Net financial debts of sectors	165	(49)
Others	264	285
Consolidation	-	9
Net financial debts of Group	**429**	**245**
	H1/2018	**H1/2017**
EBIT		
EBIT of sectors	156	140
Others	(3)	(10)
Consolidation	(7)	1
Group EBIT	**146**	**131**
Group net interest	(19)	(25)
Group EBT	**127**	**106**

Disclosure in accordance with Section 37w (5) sentence 6 of the German Securities Trading Act (WpHG)

The condensed consolidated interim financial statements as at June 30, 2018 – consisting of the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, cash flow statement, statement of changes in equity and selected notes – and the Group interim management report for the period from January 1 to June 30, 2018 were not audited in accordance with Section 317 of the German Commercial Code (HGB) or subjected to a review by a person qualified to audit financial statements.

Responsibility statement

We confirm 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 condensed Group interim management report describes fairly, in all material respects, the Group's business trends and performance, the Group's position, and the significant risks and opportunities of the Group's expected future development in the remaining months of the fiscal year.

Düsseldorf, August 2, 2018

Armin Papperger Helmut P. Merch Horst Binnig Peter Sebastian Krause

Legal information and contact

Dates

November 8, 2018
Report on Q3/2018

Contacts

Corporate Communications

Peter Rücker
Phone: + 49 211 473 4320
Fax: + 49 211 473 4158
peter.ruecker@rheinmetall.com

Investor Relations

Franz-Bernd Reich
Phone: + 49 211 473 4777
Fax: + 49 211 473 4157
franz-bernd.reich@rheinmetall.com

Supervisory Board: Ulrich Grillo, Chairman
Executive Board: Armin Papperger, Chairman, Helmut P. Merch, Horst Binnig, Peter Sebastian Krause

Rheinmetall Aktiengesellschaft, Rheinmetall Platz 1, 40476 Düsseldorf/Germany
Phone: + 49 211 473 01, fax: +49 211 473 4746, www.rheinmetall.com

This financial report contains statements and forecasts referring to the future development of the Rheinmetall Group, which are based on assumptions and estimates made by the management. If the underlying assumptions do not materialize, the actual figures may differ from forecasts. 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 on the Rheinmetall Group and its subsidiaries, current trends, 15-minute stock price updates, press releases and ad hoc notifications. Investor Relations information forms an integral part of this website and provides all of the relevant details for download.

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