SEMI-ANNUAL REPORT 1ST HALF 2019

2019

Rheinmetall increases sales and operating earnings in the first half of the year

- Consolidated sales increase by 2.2% to €2,814 million, despite declining automotive markets
- Consolidated operating earnings improved by 5.8% to €163 million
- Earnings per share increase by 36.3% to €2.44
- Automotive posts robust development in a weak market environment – operating margin at 7.1%
- Defence increases sales by 8.8% or €112 million to €1,375 million, operating earnings more than doubled to €69 million
- Order backlog for the Group of €8.8 billion

The 2019 forecast is specified. The Group's expected operating margin is confirmed.

MOBILITY. SECURITY. **PASSION.**

RHEINMETALL GROUP

Rheinmetall in figures

		Q2/2019	Q2/2018	H1/2019	H1/2018
Sales/Results					
Sales	€ million	1,471	1,493	2,814	2,753
of which generated abroad	%	72	78	72	77
Operating result	€ million	109	107	163	154
Operating margin	%	7.4	7.2	5.8	5.6
EBIT	€ million	115	99	170	146
EBIT margin	%	7.8	6.6	6.0	5.3
EBT	€ million	107	90	152	127
Earnings after taxes	€ million	77	65	110	92
Cash Flow					
Cash flow from operating activities	€ million	(19)	(87)	(103)	(327)
Cash flow from investments	€ million	(60)	(53)	(104)	(100)
Operating free cash flow	€ million	(79)	(140)	(207)	(427)
Balance sheet (June 30)					
Equity	€ million	-	-	1,982	1,885
Total assets	€ million	-	-	6,951	6,239
Equity ratio	%	-	-	29	30
Cash and cash equivalents	€ million	-	-	541	337
Total assets ./. Cash and cash equivalents	€ million	-	-	6,410	5,902
Net financial debt	€ million	-	-	(387)	(429)
Leverage ratio [1)]	%	-	-	6.0	7.3
Net gearing [2)]	%	-	-	19.5	22.8
Human resources (June 30)					
Rheinmetall Group	FTE	-	-	23,221	22,374
Domestic	FTE	-	-	11,407	10,882
Foreign	FTE	-	-	11,814	11,492
Rheinmetall Automotive					
Sales	€ million	727	740	1,441	1,491
Operating result	€ million	53	68	102	133
Operating margin	%	7.3	9.2	7.1	8.9
Capital expenditure (net investments)	€ million	31	27	54	52
Rheinmetall Defence					
Order intake	€ million	501	570	1,065	1,427
Order backlog (June 30)	€ million	-	-	8,307	6,509
Sales	€ million	746	754	1,375	1,263
Operating result	%	60	44	69	31
Operating margin	€ million	8.1	5.8	5.0	2.5
Capital expenditure	€ million	25	22	42	43
Share					
Stock price (June 28, 2019/June 29, 2018)	EUR	-	-	107.65	94.56
Earnings per share	EUR	1.70	1.24	2.44	1.79

1) *Net financial debt/total assets adjusted for cash and cash equivalents*
2) *Net financial debt/equity*

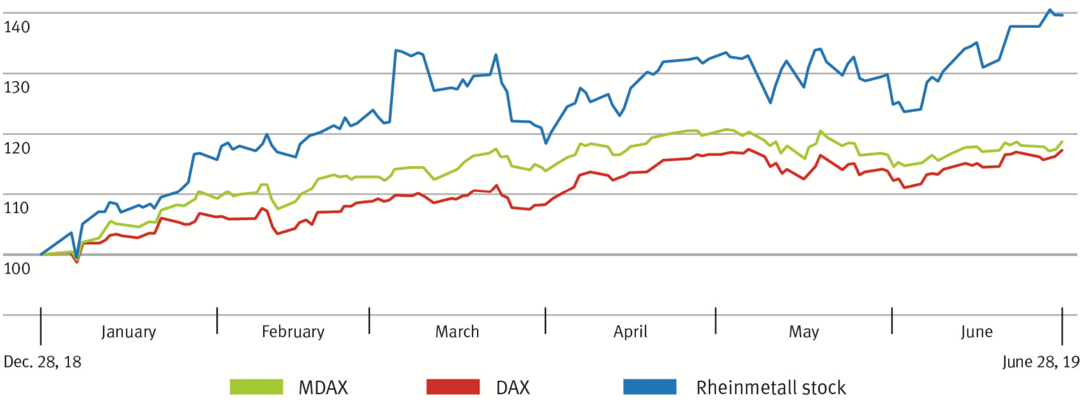
The Rheinmetall share

Double-digit performance for DAX and MDAX

Following on from last year's bleak stock market climate, which resulted in falling share prices especially in the second half of the year, the first half of 2019 ushered in a phase of recovery. The US continued its economic recovery, while Europe's growth prospects became dimmer. Steps taken by the central banks – particularly those by the Federal Reserve Board in the US and the ECB in the euro zone – sought to ease monetary policy, which in turn boosted the upward trend in share prices.

The first half of 2019 saw the DAX rise by 17% to 10,559 points and the MDAX increase by 19% to 21,588 points. While the DAX experienced a consistent price rise, pushing the index up by 9% in the first quarter and 8% in the second quarter, the MDAX's growth leveled off over the course of the year; the 50 shares listed on the index made overall gains of 15% in the first quarter and 4% in the second quarter.

December 28, 2018, through June 28, 2019



Rheinmetall share up 40%

The assessment of the Rheinmetall share was especially pleasing given that it clearly outperformed the two above-mentioned indices overall in the first half of 2019. After reaching €92.88 at the end of the first quarter (an improvement of 20% on last year's closing price of €77.16), the share price climbed to €108.45 at the end of the second quarter, resulting in a 40% increase in share value for the first half of the year. The stock market value (related to all shares) increased from €3.4 billion to €4.7 billion in the same period. This also improved the position of the Rheinmetall share in the Deutsche Börse rankings compared with December 2018. These rankings form the basis for index membership. As at June 2019, the Group went from 54th to 48th place in terms of market capitalization, and from 54th to 51st place in terms of stock exchange turnover.

Investor Relations activities

The Executive Board and Investor Relations department continued their traditionally intensive talks with our shareholders in 2019 as well, attending investor conferences and roadshows in the US, UK, Ireland, Germany and Switzerland. The teleconference program for the presentation of the 2018 annual report on March 13 and the Q1 2019 report on May 9, 2019, also generated a lot of interest.

Annual General Meeting

Attendance at the Annual General Meeting on May 28, 2019, in Berlin reached a record level with 70% of all shares in circulation; it was the highest attendance of an Annual General Meeting since 2005, when Rheinmetall AG's shares were fully transferred to the free float. The Annual General Meeting approved the Executive Board's proposals for all items of the agenda submitted for a vote by a majority of over 95% in each case.

General economic conditions

Pace of global growth slows down

In 2019, the global economy continues to be plagued by ongoing trade disputes and the unforeseeable outcome of the negotiations on the UK's withdrawal from the EU. The International Monetary Fund (IMF) also cites escalating debts in the current low interest rate environment as a risk factor. In their latest World Economic Outlook from July, IMF experts forecast that global economic growth will slow from 3.6% (2018) to 3.2% (2019). For 2020, the economists expect the growth rate to again be around the same level as in 2018 (3.5%). Although the IMF does not believe there is a risk of global recession, it notes that "self-inflicted wounds" like the US-China trade war pose a risk to the global economy. The consequences of this are already affecting the Chinese economy, with the IMF again lowering its forecast slightly in July for the world's most populated country. For 2019, the economists are now anticipating growth in gross domestic product of just 6.2%. They are forecasting a slowdown in economic growth for the US as well. After growth of 2.9% last year, the IMF forecast is just 2.6% for 2019. Germany is even worse off. According to the World Economic Outlook, the rate of growth in the euro zone's biggest economy has fallen below the one percent mark (0.7%), which means that growth has more than halved year-on-year (2018: 1.5%). The IMF is forecasting more robust growth for emerging and developing countries with growth expected to be around 4.1% in 2019, which is down significantly on the previous year (4.5%).

Automotive production goes into reverse

The situation in the international automotive industry is defined by a number of economic and technical changes. The slump experienced by major sales markets like China is one particular factor that is resulting in a rather muted automotive market overall. Within the industry itself, trends like connectivity, sharing, electrification and autonomous driving are also producing considerable change in the market. The complex mix of factors is being exacerbated further by political decisions like the trade policy tensions between China and the US, which have a cross-sector impact. The overall result is declining production figures. For the first half of 2019, the analysts at IHS Markit calculated a significant decrease in the number of light vehicles produced worldwide (vehicles up to 6 t). They fell accordingly by 6.7% from 48.4 million units to just under 45.2 million units. In Europe, it was the UK as a production location that was hardest hit (-20%), but Germany too suffered a downturn of 10% in the first half of 2019. The situation was just as dire across large parts of Asia. Production in China declined by a two-digit figure (-11%). In India, after years of strong growth, the number of units produced fell by 5.5%. Japan was one of the few exceptions to the rule on the Asian market, with Japanese production companies posting growth of 2.3%. The analysts at IHS Markit are currently forecasting a 3.7% decline in global automotive production in 2019 as a whole.

Continued trend towards increasing defence budgets worldwide

The global trend towards growing defence budgets continues into 2019. This is the upshot of the most recent calculations by defence analysts at IHS Jane's. They estimate that global defence spending will rise from USD 1,756 billion (2018) to USD 1,796 billion in 2019. The US continues to have the world's largest defence budget, increasing its spending from USD 718 billion last year to USD 725 billion in 2019. The other NATO member states are also following the trend of increasing their defence spending. At the defence alliance's 70th anniversary celebrations in Washington at the start of April, all member states announced their intention to increase their budgets to at least 2% of gross domestic product by 2024. In 2019, Germany's defence spending is set to increase to €42.9 billion, a considerable rise of €4 billion on 2018. Next year, the defence budget is expected to go up to €44.9 billion.

Business performance of the Rheinmetall Group

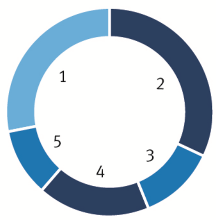
€ million	Q2/2019	Q2/2018	Change	H1/2019	H1/2018	Change
Sales	1,471	1,493	(22)	2,814	2,753	61
Operating result	109	107	2	163	154	9
Operating margin	7.4%	7.2%	0.2%-P	5.8%	5.6%	0.2%-P
Operating free cash flow	(79)	(140)	61	(207)	(427)	220

Sales and earnings growth despite weak automotive markets

Consolidated sales increased by €61 million or 2.2% year-on-year to €2,814 million in the first half of 2019. Adjusted for currency effects, the increase was 2.0%.

The growth in sales at the Group was entirely due to the Defence sector, where sales were €112 million higher in the first half of the year. Sales in the Automotive sector, on the other hand, were €50 million lower than the previous year's figure due to the declining market trend.

Sales by region € million



	H1/2019	H1/2018
Rheinmetall Group	**2,814**	**2,753**
1 Germany	785	655
2 Other Europe	906	908
3 North & South America	333	364
4 Asia	496	498
5 Other regions	294	328

In the first half of 2019, operating earnings improved by €9 million year-on-year. While the Defence sector increased its operating earnings by €38 million to €69 million, the Automotive sector fell €31 million short of the previous year's figure with operating earnings of €102 million. Operating earnings improved by €2 million in Others/Consolidation, which brought the Group's operating earnings up by €9 million. The Defence sector reported non-recurring effects of €2 million (previous year: €8 million) for restructuring; by contrast, operating earnings in the Automotive sector and in Others/Consolidation were adjusted for special items (real estate income of €2 million and insurance income of €7 million respectively). This brought EBIT up by €24 million on the previous year's figure.

Earnings per share increase by 36.3% from € 1.79 in the prior-year period to € 2.44 in the first half of 2019.

Improvement in operating free cash flow

Operating free cash flow improved by €220 million to €-207 million in the first half of 2019. This is particularly attributable to the lower increase in working capital in the Defence sector. The previous year's figure for operating free cash flow included an allocation to the contractual trust agreement (CTA) of €40 million.

Business performance of the Rheinmetall Group
Automotive sector

€ million	Sales		Operating result	
	Q2/2019	Q2/2018	Q2/2019	Q2/2018
Automotive	**727**	**740**	**53**	**68**
Mechatronics	407	417	35	46
Hardparts	251	250	9	17
Aftermarket	92	97	10	9
Other/consolidation	(23)	(24)	(1)	(4)
	H1/2019	H1/2018	H1/2019	H1/2018
Automotive	**1,441**	**1,491**	**102**	**133**
Mechatronics	808	846	66	90
Hardparts	503	504	22	35
Aftermarket	177	189	17	17
Other/consolidation	(47)	(48)	(3)	(9)

Weak automotive industry influences sales and earnings

There was a decline in the global production of light vehicles (vehicles under 6 tons) in the first six months of 2019 – as already seen in the first quarter of 2019. There were 6.7% fewer units produced internationally in the first half of 2019 than in the first half of 2018. The Automotive sector was unable to escape this downward trend on global automotive markets and, as expected, posted sales that were down 3.4% on the same period of the previous year at €1,441 million. Adjusted for currency effects, sales declined by 4.0%. The operating earnings for the first six months of 2019 were down €31 million on the previous year's figure at €102 million. This was associated with a low operating margin compared with the previous year, but it was still relatively high at 7.1% (previous year: 8.9%). Due to real estate income of €2 million, the reported earnings (EBIT) of the Automotive sector in the first half of 2019 were slightly higher than the operating earnings at €104 million.

Sales in the Mechatronics division were down €38 million or 4.4% at €808 million after the first six months of 2019. This decline is largely attributable to the downward trend on passenger car markets and in particular to the persistently weak market performance for diesel vehicles, and was not counterbalanced by the higher sales in truck and pump business. Operating earnings amounted to €66 million in the first half of 2019 after €90 million in the previous year. Earnings were influenced primarily by the market-driven decline in sales, but also by upfront expenditure for expected future growth. The division still achieved a good earnings margin of 8.1% in the first half of 2019, but did not reach the double-digit operating margin of the previous year (10.6%).

Despite the difficult market environment, in the first half of 2019 sales in the Hardparts division were on a par with the previous year at €503 million (previous year: €504 million). The market-driven decline in plain bearings business was offset by higher sales for large-bore pistons and an asset disposal. Operating earnings decreased to €22 million in the same period, after €35 million in the previous year, with negative effects from the product mix and higher quality costs in particular, but also lower earnings contributions from the division's investments consolidated using the equity method having a particularly strong impact. The operating margin declined to 4.4% in the first half of the year (previous year: 6.9%).

In the Aftermarket division, sales fell by €12 million or 6.6% year-on-year to €177 million in the first six months of 2019. The sales regions of Western Europe and North America were particularly weak. Despite the decline in sales, stable profit contributions and a strict cost management policy resulted in operating earnings of €17 million, like in the previous year, after the first six months of 2019. The operating margin, on the other hand, improved from 9.2% last year to 9.6% in the first half of 2019.

Relatively stable sales development in China, despite strong decline in passenger car production

The Automotive sector's sales do not include the sales of the major joint ventures with Chinese partners as these are included in consolidation using the equity method.

Data from IHS Markit indicated that light vehicle production in China fell by roughly 13% year-on-year in the first half of 2019. In this market environment, Rheinmetall Automotive's joint ventures in China achieved growth in sales that was 2.2% higher than the previous year at €457 million. Adjusted for acquisitions, the joint ventures reported a year-on-year downturn in sales of 1.3%. However, this was far less than the decline in production on the Chinese market as a whole. Earnings after taxes amounted to €19 million for the first half of 2019 (previous year: €22 million).

The sales of the German joint venture KS HUAYU AluTech Group went down by 26% year-on-year to €128 million in the first six months of 2019. This decline can be explained, firstly, by the lower level of orders in the series production business in the current fiscal year as a result of market factors and, secondly, by the disposal of assets that had positively influenced the previous year's sales figures. Accordingly, earnings after taxes of €-2 million for the first half of 2019 were below the previous year's €1 million.

€ million – 100% basis	China Joint Ventures				KS HUAYU			
	Q2/2019	Q2/2018	H1/2019	H1/2018	Q2/2019	Q2/2018	H1/2019	H1/2018
Sales	239	229	457	447	62	96	128	172
Earnings after taxes	10	12	19	22	(1)	-	(2)	1

Business performance of the Rheinmetall Group
Defence sector

€ million	Order intake		Sales		Operating result	
	Q2/2019	Q2/2018	Q2/2019	Q2/2018	Q2/2019	Q2/2018
Defence	**501**	**570**	**746**	**754**	**60**	**44**
Weapon and Ammunition	265	272	207	249	10	23
Electronic Solutions	69	225	201	197	17	5
Vehicle Systems	199	90	389	375	33	23
Other/consolidation	(32)	(17)	(51)	(67)	-	(7)
	H1/2019	H1/2018	H1/2019	H1/2018	H1/2019	H1/2018
Defence	**1,065**	**1,427**	**1,375**	**1,263**	**69**	**31**
Weapon and Ammunition	608	889	384	388	(1)	4
Electronic Solutions	237	345	369	323	27	4
Vehicle Systems	277	227	718	672	45	34
Other/consolidation	(57)	(34)	(96)	(120)	(2)	(11)

Successful M&A activities

The Defence sector acquired a number of companies in the first half of 2019. The Weapon and Ammunition division acquired the minority interests in Rheinmetall Chempro GmbH, Bonn (49%), and Rheinmetall Active Protection GmbH, Bonn (26%), and the operating business of the IBD Deisenroth Engineering Group, Lohmar. The sector also acquired Provectus Robotics Solutions Inc., Ottawa, Canada, a start-up company specializing in the development of advanced robotic systems and software.

Rheinmetall has agreed the reacquisition of parts of the Rheinmetall MAN Military Vehicles GmbH (RMMV) joint venture with MAN Truck & Bus SE. The agreed conditions for completion were met at the end of June 2019. It is aiming to complete this transaction by no later than August 31, 2019.

The acquisitions had no significant impact on the business performance of the Defence sector. Further details about these acquisitions can be found in the notes of this semi-annual report under "Basis of consolidation" (pages 17 and 18).

Order backlog of €8.3 billion

Incoming orders for the Defence sector came to €1,065 million in the first half of 2019, down €362 million on the same period of the previous year. The Weapon and Ammunition and Vehicle Systems divisions posted the largest single orders, which included the first tranche of a master agreement for large-caliber ammunition (€92 million) and a follow-up order for the unprotected transport vehicle (UTF) from the German armed forces (€77 million). The order backlog totaled €8,307 million, much higher than the previous year's figure of €6,509 million.

Positive sales development and strong rise in operating earnings

Sales in the Defence sector went up by €112 million or 8.8% to €1,375 million in the first half of 2019 compared with the same period of the previous year. Adjusted for currency effects, the increase was 9.0%. The Defence sector's operating earnings improved by €38 million to €69 million in the first half of 2019. Operating earnings are yet to take into account non-recurring effects of €2 million relating to restructuring expenses in the Weapon and Ammunition division (previous year: €8 million in restructuring expenses in the Electronic Solutions division).

Sales in the Weapon and Ammunition division were down slightly on the previous year at €384 million in the first half of 2019 (previous year: €388 million). At €-1 million, operating earnings remained €5 million lower than in the previous year. The main reason for this was lower sales of high-margin products. The operating margin deteriorated from 1.0% last year to -0.3%.

The Electronic Solutions division reported an increase in sales of €46 million or 14% to €369 million. The main driver of this increase in sales was the delivery of soldier systems to the German armed forces. Operating earnings improved by €23 million to €27 million due not only to increased sales, but also to positive product mix effects and the elimination of losses from a foreign subsidiary. The operating margin improved to 7.3% (previous year: 1.2%).

The Vehicle Systems division reported an increase in sales of €46 million or 6.8% to €718 million in the first half of 2019. Sales of military trucks were up year-on-year in the first half of 2019 at €67 million. The improved utilization of capacity linked to this volume effect increased operating earnings by €11 million to €45 million. The operating margin improved to 6.3% (previous year: 5.1%).

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 2018. There have been no significant changes or new findings in the meantime.

Outlook

Outlook specified due to market developments in Automotive and Defence – Group forecast for operating earnings margin remains the same

In fiscal 2019, the Rheinmetall Group expects to continue its growth trajectory, despite the persistently weaker trend for global automotive production. Sales growth is currently expected to remain in line with original expectations, albeit at a somewhat more modest figure than previously forecast.

Starting from €6.1 billion in fiscal 2018, the Rheinmetall Group's annual sales are expected to grow organically and before currency effects by around 4% in the current fiscal year. This corresponds to the lower end of the previous growth forecast for consolidated sales (4% to 6%).

In the Defence sector, sales are expected to grow organically and before currency effects by around 11%, which corresponds to the upper end of the previous growth forecast (increase of sales in the region of 9% to 11%).

On the other side there has been a deterioration in experts' forecasts for future global automotive production in the second half of the year, in which a tangible market recovery was expected to take place. The experts at IHS Markit have lowered their 2019 forecast to a production downturn of 3.7% for the time being. A number of major automotive manufacturers and important suppliers are now anticipating a decline in global automotive production of between 4% and 5% against the previous year's figure. Rheinmetall is following this assumption. In light of these gloomier market expectations, for 2019 as a whole Rheinmetall is no longer anticipating a stagnant to slightly positive sales performance in the Automotive sector, but a slightly negative sales performance of between -2% and -3%.

Based on these market expectations for the automotive business and the new sales forecast derived from that, Rheinmetall anticipates an operating earnings margin of around 7% in the Automotive sector in 2019. The previous forecast, which was still based on a considerable market recovery in the second half of the year, was around 8%.

Rheinmetall anticipates a further improvement in operating earnings in the Defence sector in fiscal 2019 and forecasts an improved operating earnings margin of around 9% (the previous forecast was between 8% and 8.5%).

Taking into account holding costs, the Rheinmetall Group's expected operating margin for 2019 as a whole comes to around 8%, which means that the previous forecast is unchanged.

Significant issues

Settlement of contingent claim to compensation with regard to Greece

Together with its subsidiary Rheinmetall Electronics GmbH, Rheinmetall AG concluded a composition agreement with AXA Corporate Solutions Deutschland and HDI Global SE as insurers and its former Executive Board members Klaus Eberhardt, Dr. Gerd Kleinert and Dr. Herbert Müller on March 28, 2019.

The Annual General Meeting approved the proposed settlement by a majority on May 28, 2019. The payment from the insurer of €6.75 million has been received by Rheinmetall AG and is not included in the Group's operating earnings.

Supplementary report

Continued M&A activities

In the Defence sector, 55% of the shares in BAE Systems Global Combat Systems Ltd., Hampshire, England, were acquired effective July 1, 2019. The provisional purchase price of €31 million is made up of cash only and has been transferred to BAE.

For more details, please refer to the information in the notes under "Basis of consolidation" (pages 17 to 19).

Rheinmetall equipping the German armed forces

Rheinmetall is taking on a key role in supplying state-of-the-art equipment to the NATO spearhead Very High Joint Readiness Task Force 2023 (VJTF 2023), which will be furnished by the German armed forces. Contracts have now been awarded to a consortium for the "System Panzergrenadier VJTF 2023" project, in which Rheinmetall's gross order volume comes to over €470 million (net order volume: €397 million).

Consolidated balance sheet

€ million	6/30/2019	12/31/2018
Assets		
Goodwill	552	550
Other intangible assets	175	172
Rights of use	173	170
Property, plant and equipment	1,307	1,310
Investment Property	42	42
Investments accounted for using the equity method	298	285
Other non-current assets	188	205
Deferred taxes	281	217
Non-current assets	**3,016**	**2,951**
Inventories	1,497	1,259
Contractual asset	473	338
Trade receivables	1,080	1,185
Other current assets	233	178
Income tax receivables	36	22
Liquid financial assets	75	100
Cash and cash equivalents	541	724
Assets held for sale	-	2
Current assets	**3,935**	**3,808**
Total assets	**6,951**	**6,759**
Equity and liabilities		
Subscribed capital	112	112
Additional paid-in capital	553	547
Retained earnings	1,220	1,383
Treasury shares	(17)	(21)
Rheinmetall AG shareholders' equity	**1,868**	**2,021**
Minority interests	114	151
Equity	**1,982**	**2,172**
Provisions for pensions and similar obligations	1,117	972
Other non-current provisions	204	210
Non-current financial debts	719	704
Other non-current liabilities	85	80
Deferred taxes	43	15
Non-current liabilities	**2,168**	**1,981**
Other current provisions	605	656
Current financial debts	284	151
Contractual liabilities	798	650
Trade liabilities	683	797
Other current liabilities	302	231
Income tax liabilities	129	121
Current liabilities	**2,801**	**2,606**
Total liabilities	**6,951**	**6,759**

Consolidated income statement

€ million	Q2/2019	Q2/2018	H1/2019	H1/2018
Sales	1,471	1,493	2,814	2,753
Changes in inventories and work performed by the enterprise and capitalized	74	40	164	160
Total operating performance	**1,545**	**1,533**	**2,978**	**2,913**
Other operating income	42	31	78	64
Cost of materials	825	794	1,589	1,525
Personnel expenses	421	409	842	804
Amortization, depreciation and impairment	68	91	133	155
Other operating expenses	167	182	332	361
Income from investments carried at equity	8	7	13	14
Other net financial income	1	4	(3)	-
Earnings before interest and taxes (EBIT)	**115**	**99**	**170**	**146**
Interest income	2	2	4	3
Interest expenses	(10)	(11)	(22)	(22)
Earnings before taxes (EBT)	**107**	**90**	**152**	**127**
Income taxes	(30)	(25)	(42)	(35)
Earnings after taxes	**77**	**65**	**110**	**92**
Of which:				
Minority interests	4	12	5	15
Rheinmetall AG shareholders	*73*	*53*	*105*	*77*
Earnings per share	€1.70	€1.24	€2.44	€1.79

Consolidated statement of comprehensive income

€ million	Q2/2019	Q2 2018	H1/2019	H1 2018
Earnings after taxes	**77**	**65**	**110**	**92**
Remeasurement of net defined benefit liability from pensions	(65)	37	(107)	35
Amounts not reclassified in the income statement	**(65)**	**37**	**(107)**	**35**
Change in value of derivative financial instruments (cash flow hedge)	3	(24)	6	(21)
Currency conversion difference	(3)	2	16	(7)
Income/expenses from investments accounted for using the equity method	(6)	1	2	1
Amounts reclassified in the income statement	**(6)**	**(21)**	**24**	**(27)**
Other earnings after taxes	**(71)**	**16**	**(83)**	**8**
Comprehensive income	**6**	**81**	**27**	**100**
Of which:				
Minority interests	5	*(1)*	*7*	*4*
Rheinmetall AG shareholders	*1*	*82*	*20*	*96*

Statement of cash flows

€ million	H1/2019	H1/2018
Earnings after taxes	110	92
Amortization, depreciation and impairment	133	155
Allocation of CTA assets to secure pension obligations	-	(40)
Changes in pension provisions	(1)	(1)
Income from disposition of non-current assets	(1)	(3)
Changes in other provisions	(42)	12
Changes in working capital	(233)	(455)
Changes in receivables, liabilities (without financial debts) and prepaid & deferred items	(69)	(66)
Pro rata income from investments carried at equity	(13)	(14)
Dividends received from investments carried at equity	6	1
Other non-cash expenses and income	7	(8)
Cash flows from operating activities [1)]	**(103)**	**(327)**
Investments in property, plant and equipment, intangible assets and investment property	(104)	(100)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	8	16
Payments for the purchase of liquid financial assets	(225)	(120)
Cash receipts from the disposal of liquid financial assets	250	154
Payments for investments in consolidated companies and other financial assets	(18)	(2)
Cash flows from investing activities	**(89)**	**(52)**
Dividends paid out by Rheinmetall AG	(90)	(73)
Other profit contributions	(2)	(7)
Increase in shares in consolidated subsidiaries	(26)	-
Borrowing of financial debts	189	112
Repayment of financial debts	(63)	(73)
Cash flows from financing activities	**8**	**(41)**
Changes in financial resources	**(184)**	**(420)**
Changes in cash and cash equivalents due to exchange rates	1	-
Total change in financial resources	**(183)**	**(420)**
Opening cash and cash equivalents January 1	**724**	**757**
Closing cash and cash equivalents June 30	**541**	**337**

1) *Of which:*
Net income taxes of €-47 million (previous year: €-32 million)
Net interest of €-9 million (previous year: €-10 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, 2018[1]	**112**	**540**	**1,115**	**(25)**	**1,742**	**118**	**1,860**
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[1]	**112**	**546**	**1,133**	**(21)**	**1,770**	**115**	**1,885**
Balance as at January 1, 2019	**112**	**547**	**1,383**	**(21)**	**2,021**	**151**	**2,172**
Earnings after taxes	-	-	105	-	105	5	110
Other comprehensive income	-	-	(85)	-	(85)	2	(83)
Comprehensive income	-	-	20	-	20	7	27
Dividends payout	-	-	(90)	-	(90)	(2)	(92)
Disposal of treasury shares	-	-	-	4	4	-	4
Changes in shares in subsidiaries	-	-	(95)	-	(95)	(42)	(137)
Other changes	-	6	2	-	8	-	8
Balance as at June 30, 2019	**112**	**553**	**1,220**	**(17)**	**1,868**	**114**	**1,982**

Composition of retained earnings

€ million	Currency conversion difference	Remeasure-ment of net defined benefit liability from pensions	Hedge reserve	Other income from investments carried at equity	Other reserves	Total retained earnings
Balance as at January 1, 2018[1]	(19)	(482)	23	(3)	1,596	**1,115**
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[1]	(22)	(447)	9	(2)	1,595	**1,133**
Balance as at January 1, 2019	(15)	(431)	7	(5)	1,827	**1,383**
Earnings after taxes					105	105
Other comprehensive income	16	(107)	5	1	-	(85)
Comprehensive income	16	(107)	5	1	105	20
Dividends payout	-	-	-	-	(90)	(90)
Changes in shares in subsidiaries	-	(3)	-	-	(92)	(95)
Other changes	-	-	-	-	2	2
Balance as at June 30, 2019	1	(541)	12	(4)	1,752	**1,220**

1) Previous year's figures adjusted due to the ended use of the valuation method for operating land (€-85 million) and full application of IFRS 9 (€-5 million)

Segment report

€ million	Automotive		Defence		Other/Consolidation		Group	
	H1/2019	**H1/2018**	**H1/2019**	**H1/2018**	**H1/2019**	**H1/2018**	**H1/2019**	**H1/2018**
External sales	1,441	1,491	1,375	1,263	(2)	(1)	2,814	2,753
Operating result	102	133	69	31	(8)	(10)	163	154
Special items	2	-	(2)	(8)	7	-	7	(8)
EBIT	104	133	67	23	(1)	(10)	170	146
of which:								
At Equity income	*11*	*14*	*2*	-	-	-	*13*	*14*
Amortization, depreciation (scheduled)	*79*	*74*	*50*	*54*	*4*	*3*	*133*	*131*
Amortization, depreciation (non-scheduled)	-	-	-	*24*	-	-	-	*24*
Interest income	2	1	4	2	(2)	-	4	3
Interest expenses	(10)	(8)	(16)	(16)	4	2	(22)	(22)
EBT	96	126	55	9	1	(8)	152	127
Other data								
Operating free cash flow	(14)	(14)	(224)	(410)	31	(3)	(207)	(427)
Order intake	1,409	1,464	1,065	1,427	(1)	-	2,473	2,891
Order backlog June 30	447	494	8,307	6,509	-	-	8,754	7,003
Employees as at June 30 (FTE)	11,623	11,594	11,333	10,556	265	224	23,221	22,374
Net financial debts June 30	(36)	50	(52)	(215)	(299)	(264)	(387)	(429)

Notes to the consolidated financial statements

General principles

The condensed consolidated interim financial statements of Rheinmetall AG as at June 30, 2019, were prepared in accordance with the IFRSs 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 2018. The results achieved in the first six months of 2019 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 1.23% was applied for pension provisions in Germany compared with 1.80% on December 31, 2018, and a rate of 0.46% was applied for those in Switzerland compared with 1.15% on December 31, 2018. This made German pension obligations €85 million and Swiss pension obligations €87 million higher than they were at the start of the year. In addition, the recognition of income from plan assets that exceeded interest income led to a €23 million 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, 2018.

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 that enable it to control significant activities of the investee. The Group acquired eight new subsidiaries through share acquisitions in the first six months of 2019.

M&A activities of the Defence sector

Effective April 1, 2019, Rheinmetall acquired the former minority shareholders' interests in Rheinmetall Chempro GmbH, Bonn (49%), and in Rheinmetall Protection Systems GmbH (formerly Rheinmetall Active Protection GmbH), Bonn (26%).

Rheinmetall also acquired the operating business of the IBD Deisenroth Engineering Group, Lohmar. This acquisition will bridge technological gaps (protection against medium and large-caliber ammunition) and generate opportunities for in-house development and all-round research, development and production expertise in the field of protection. With these acquisitions, Rheinmetall has brought all the Defence sector's protection activities together under one roof and thus strengthened its position as system provider for the army. The provisional purchase price of €12 million was paid in cash. Contingent purchase price adjustments in the form of a working capital mechanism were contractually agreed. First-time inclusion in the Rheinmetall consolidated financial statements was on June 1, 2019.

Rheinmetall acquired all the shares in Provectus Robotics Solutions Inc., Ottawa, Ontario, Canada. It has already paid €2 million (cash) of the purchase price. Further purchase price payments of €2 million are contingent on the attainment of EBITDA targets. Rheinmetall is expecting these targets to be met. First-time inclusion in the Rheinmetall consolidated financial statements was on June 1, 2019. This acquisition will enable Rheinmetall to expand its technology spectrum in the field of robotics and autonomous driving. The main product of the acquired company is software, and the company's acquisition should be regarded primarily as a technology investment. This goodwill reflects the non-separable expertise of the Provectus workforce.

Breakdown of assets and liabilities into balance sheet items:

	Carrying Amount before acquisition	Adjustment purchase price allocation	Fair values
Other intabible assets	1	4	5
Property, plant equipment	1	-	1
Other non-current assets	-	-	-
Inventories	8	-	8
Receivables	7	-	7
Cash and cash equivalents/Other current assets	2	-	2
Total assets	**19**	**4**	**23**
Non-current liabilities	(1)	(1)	(2)
Non-current liabilities	(6)	-	(6)
Net assets acquired	**12**	**3**	**15**
Goodwill	-	1	1
Total	**12**	**4**	**16**
Purchase Price			**16**

Rheinmetall has agreed the reacquisition of parts of the Rheinmetall MAN Military Vehicles GmbH (RMMV) joint venture with MAN Truck & Bus SE. The agreed conditions for completion were met at the end of June 2019. It is aiming to complete this transaction by no later than August 31, 2019. As at June 30, 2019, Rheinmetall AG recognized the purchase price liability for acquisition of the minority interests worth €111 million. This transaction reduces consolidated equity by €111 million.

Transactions after the reporting date

In the Defence sector, 55% of the shares in BAE Systems Global Combat Systems Ltd., England, were acquired effective July 1, 2019. The provisional purchase price of €31 million was transferred to BAE. Contingent purchase price adjustments arise from the contractually agreed working capital mechanism and future orders. The company, which will now trade under the name Rheinmetall BAE Systems Land, will be based in Telford, England. Through the new company, Rheinmetall wants to play a central role in production of the Mechanized Infantry Vehicle (MIV) for the British Army.

Notes to the consolidated financial statements

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 2, 2019, the beneficiaries of the incentive program for fiscal year 2018 received a total of 101,290 shares (previous year: a total of 89,724 shares on April 3, 2018, for fiscal year 2017).

Related parties

For the Rheinmetall Group, corporate related parties include 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	
	2019	**2018**	**2019**	**2018**
Products/services provided H1	171	154	11	2
Products/services received H1	-	2	13	7
Receivables June 30/Dec. 31	129	143	30	43
Liabilities June 30/Dec. 31	(6)	(9)	(2)	(3)
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 and gas 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, 2018. The fair values of financial instruments included on the balance sheet are comprised as follows:

€ million	**6/30/2019**	**12/31/2018**
Derivatives without hedge accounting	8	10
Derivatives with hedge accounting	24	18
Financial assets	**32**	**28**
Derivatives without hedge accounting	6	11
Derivatives with hedge accounting	9	13
Financial liabilities	**15**	**24**

Segment reporting

The definitions of the reportable segments and the controlling system are described in the consolidated financial statements for the year ended December 31, 2018. The definitions of the Automotive and Defence sectors and the accounting methods are applied unchanged from December 31, 2018.

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

€ million	6/30/2019	6/30/2018
Net financial debts		
Net financial debts of sectors	(88)	(165)
Others	(299)	(264)
Consolidation	-	-
Net financial debts of Group	**(387)**	**(429)**

	H1/2019	H1 2018
EBIT		
EBIT of sectors	171	156
Others	(1)	(3)
Consolidation	-	(7)
Group EBIT	**170**	**146**
Group net interest	(18)	(19)
Group EBT	**152**	**127**

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, 2019 – 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, 2019, 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 1, 2019

Armin Papperger   Helmut P. Merch   Horst Binnig   Peter Sebastian Krause

Legal information and contact

Dates

November 7, 2019
Report on Q3/2019

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This financial report contains statements and forecasts referring to the future business performance 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 acceptance 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 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.