SEMI-ANNUAL REPORT
1ST HALF

2020

Defence remains Rheinmetall’s anchor of stability during coronavirus crisis

- The Group’s half-year sales fall by 7.7% to €2,597 million due to declining automotive markets
- Coronavirus crisis causes drop in consolidated operating result from €163 million to €70 million
- Defence continues to grow: sales rise by 19% to €1,641 million; operating result improved by 75% to €122 million
- Automotive significantly affected by crisis-induced production decline: sales decline by 34% to €956 million with operating result of €-41 million
- Impairment of €300 million on account of significantly reduced growth forecast in Automotive sector
- Annual forecast for Defence specified: sales growth of 6% to 7% expected; aiming for operating result at the upper end of the previous forecast range
- Forecast for Automotive: target is operating net income of between €-30 million and break-even

MOBILITY. SECURITY. **PASSION.**

RHEINMETALL
GROUP

Rheinmetall in figures

		Q2 2020	Q2 2019	H1 2020	H1 2019
Sales/earnings					
Sales	€ million	1,239	1,471	2,597	2,814
of which generated abroad	%	67	72	68	72
Operating result	€ million	36	110	70	163
Operating margin	%	2.9	7.4	2.7	5.8
EBIT	€ million	-266	115	-232	170
EBIT margin	%	-21.5	7.8	-8.9	6.0
EBT	€ million	-276	107	-252	152
Earnings after taxes	€ million	-252	76	-234	110
Cash flow					
Cash flow from operating activities	€ million	-172	-19	-314	-103
Cash flow from investing activities	€ million	-49	-60	-95	-104
Operating free cash flow	€ million	-221	-79	-409	-207
Balance sheet (June 30)					
Equity	€ million	-	-	1,848	1,982
Total assets	€ million	-	-	7,009	6,951
Equity ratio	%	-	-	26	29
Cash and cash equivalents	€ million	-	-	586	541
Total assets less cash and cash equivalents	€ million	-	-	6,423	6,410
Net financial debt (-)/ Net liquidity (+)	€ million	-	-	-586	-386
Leverage ratio [1]	%	-	-	9.1	6.0
Net gearing [2]	%	-	-	31.7	19.5
Human resources (June 30)					
Rheinmetall Group	FTE	-	-	23,251	23,221
Domestic	FTE	-	-	11,527	11,407
Foreign	FTE	-	-	11,724	11,814
Rheinmetall Automotive					
Sales	€ million	338	726	956	1,440
Operating result	€ million	-52	52	-41	102
Operating margin	%	-15.3	7.2	-4.3	7.1
Capital expenditure (net investments)	€ million	17	30	32	54
Rheinmetall Defence					
Order intake	€ million	752	501	1,483	1,065
Order backlog (June 30)	€ million	-	-	10,125	8,307
Sales	€ million	901	746	1,641	1,375
Operating result	€ million	93	60	122	69
Operating margin	%	10.3	8.1	7.4	5.0
Capital expenditure	€ million	38	24	67	42
Shares					
Stock price (June 30, 2020/June 28, 2019)	€	-	-	77.20	107.65
Earnings per share	€	-5.76	1.70	-5.46	2.44

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

The Rheinmetall share

Coronavirus leads to stock market volatility in the first half of 2020

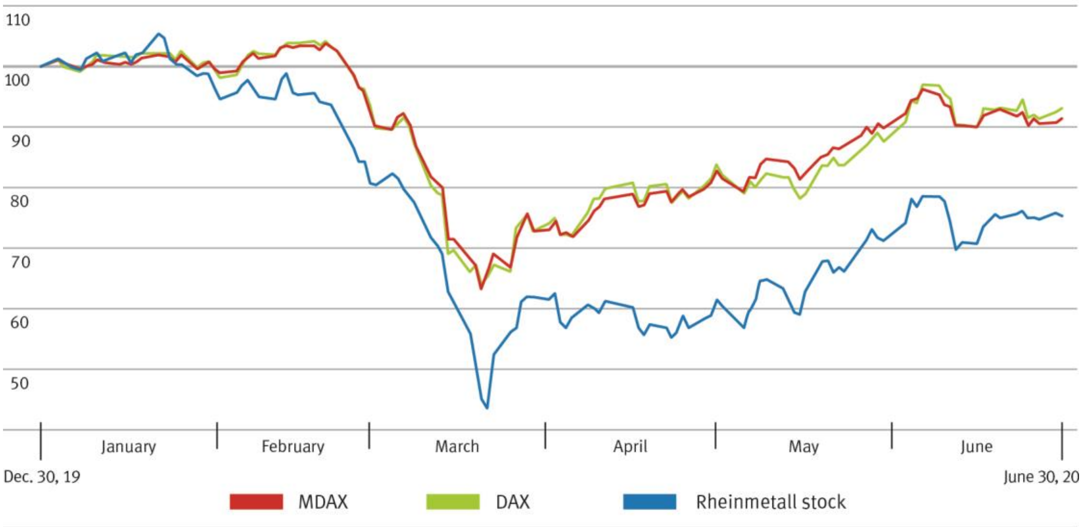
In the first half of 2020, the global spread of coronavirus prompted sometimes extensive quarantine measures and restrictions in many areas of life. Around the globe, economic activity and international trade relations took a massive hit, which plunged the world economy into a profound recession. On the stock markets, which had reached new highs at the beginning of the year, this initially resulted in considerable price losses. Governments and central banks braced themselves against global economic collapse with support measures and extensive aid packages. These measures and the gradual easing of the restrictions put in place to fight the pandemic have led to a significant recovery on global markets, which were not impeded by negative economic data, the drop in the oil price, or rising unemployment.

As a result, the DAX exhibited significantly increased volatility during the first half of the year. After a new record of 13,789 points was set at the end of February, the leading index plummeted to a half-year low of 8,441 points in March. From that point on, however, the index recovered significantly and closed the first half of 2020 at 12,310 points, down 7.1% on the end of 2019. The MDAX followed this trend with a decline of 8.7% to 25,840 points.

In the wake of the negative development of the global automotive industry, the Rheinmetall share temporarily fell to €44.46 during the first half of the year, down 57% on the closing price of 2019. However, the share recovered from this half-year low and ended the first half of the year at €77.20. Compared with the closing price of 2019, however, this is a drop of 25%.

According to Deutsche Börse AG's ranking at the end of June 2020, Rheinmetall AG was in 57th place in terms of market capitalization and 60th place out of all listed companies in Germany in terms of stock exchange turnover.

December 30, 2019, through June 30, 2020



Investor Relations activities

Communication is essential in times of crisis. The capital market communication by the Executive Board and the Investor Relations department was therefore continued at a high level despite the constraints of the global travel warnings. From March 2020, investor conferences and roadshows in the US, UK, Canada, France, Germany and Switzerland were no longer held in person, but exclusively online. In this way, we had contact with more than 330 investors.

Virtual Annual General Meeting

On May 19, 2020, Rheinmetall AG's Annual General Meeting was for the first time held as a virtual-only event without the shareholders being physically present. Despite the new, unfamiliar format, 52% of the share capital was represented.

The shareholders approved the proposal by the Executive Board and Supervisory Board to distribute a dividend of €2.40 per share for 2019. This put the payout ratio at 31%, compared with 30% in the previous year. Based on the closing price on the day of the Annual General Meeting, the dividend yield was 3.4%.

General economic conditions

Coronavirus pandemic causes collapse in world economy

"A Crisis Like No Other" was the title the International Monetary Fund (IMF) gave its economic outlook for 2020, which is more pessimistic than ever before. The latest World Economic Outlook says that the coronavirus crisis is plunging the world economy into the worst recession since the Great Depression of the 1930s. According to the IMF experts' current estimates from June 2020, global gross domestic product will shrink by 4.9% this year. However, the IMF forecast is even gloomier for the countries of the eurozone, where economic output is expected to plummet by a dramatic 10% in 2020. With a projected drop of 7.8%, Germany is still doing relatively well compared with its neighbors France, Spain and Italy (-13% each). According to the latest IMF figures, the US economy will decline by 8.0% in 2020. China will be the only nation to generate growth (+1.0%). Due to the earlier spread of the coronavirus in China and the Chinese government's extensive countermeasures, the pandemic was checked more quickly and the restrictions scaled back sooner than in other countries. This is why China already began to see a significant economic recovery in the second quarter of 2020. The expected growth in Chinese economic output means that the IMF forecast for emerging and developing countries as a whole is less drastic. Overall, the IMF's economists expect economic output to decline by 3.0% there.

Continued trend towards increasing defence budgets

According to the latest calculations by IHS Jane's, the trend towards increasing defence budgets will continue in 2020, with international arms spending rising from USD 1,777 billion (2019) to USD 1,808 billion. The US is increasing its budget to USD 746 billion in 2020, after USD 742 billion in the previous year. The analysts from IHS Jane's also forecast growing budgets for most NATO member states on account of the commitment by all members to increase defence spending to at least 2% of gross domestic product by 2024. Germany is increasing its budget for 2020 by nearly €2 billion to around €45 billion, but there is no sign yet of reaching the 2% mark by 2024.

Coronavirus pandemic drastically exacerbates situation in the automotive industry

The coronavirus crisis brought international automotive production almost to a complete standstill in the second quarter of 2020 in particular. Production shut down for weeks, problems in the supply chain and a collapse in demand drove the industry to its greatest crisis since the Second World War. At the same time, the challenges already posed by the transformation of the industry have not yet been overcome: the electromobility trend and digitalization call for new solutions. The double-digit slump in vehicle production year-on-year shows that the automotive industry has been particularly affected by the coronavirus pandemic. In the Vehicle Production Forecasts from August 2020 the analysts at IHS Markit have found that the number of light vehicles produced worldwide (vehicles under 6 tons) saw a dramatic drop of 33% year-on-year in the first half of 2020. In absolute figures, only just under 30 million vehicles were manufactured in the first half of 2020, instead of the approximately 45 million in the same period of the previous year. In the triad markets of Western Europe, USMCA (formerly NAFTA), and Japan, the number of vehicles manufactured was down 38% on the previous year. With a decline of 42%, Europe joined South America (-51%) as one of the markets disproportionately affected. Asia (not including Japan) performed somewhat better compared with the international trend, even though the decline of 26% was still a historic setback. China's vehicle production removed itself slightly from Asia's downward trend, but also recorded a sharp drop of 20% in the first half of 2020. In August 2020, the IHS Markit analysts predicted that international production figures would tend to recover slightly in the second half of 2020, when a decline of 9.5% is expected compared with the same period of the previous year. The dramatic trend of the first six months will therefore be mitigated only a little. According to IHS Markit, vehicle production in 2020, with an expected total of 70 million units, is set to be down by around 22% on the previous year's figure.

Business performance of the Rheinmetall Group

€ million	Q2 2020	Q2 2019	Change	H1 2020	H1 2019	Change
Sales	1,239	1,471	-232	2,597	2,814	-217
Operating result	36	110	-74	70	163	-93
Operating margin	2.9%	7.4%	-4.5%-P	2.7%	5.8%	-3.1%-P
Operating free cash flow	-221	-79	-142	-409	-207	-202

Strong Defence sector provides stability during coronavirus crisis

The economic performance of the Rheinmetall Group was likewise heavily influenced by the repercussions of the coronavirus pandemic in the first half of 2020. From the start, protecting employees and ensuring stable business processes were Rheinmetall's highest priorities. Comprehensive measures were adopted in order to minimize the risk of infection for the employees at the roughly 130 Rheinmetall locations worldwide and to ensure the highest possible level of protection in operational processes. In this challenging situation, the clearly positive business performance and the substantially improved operating result in the Defence sector contributed to the Rheinmetall Group's overall stability. However, this only partially offset the crisis-induced decline in the Automotive sector. Overall, the Rheinmetall Group therefore posted a year-on-year reduction in sales and operating result in the first half of 2020.

During the worldwide lockdown of the automotive industry, Rheinmetall took a variety of measures to adapt production according to the respective situations of the individual Automotive sites. There were also government-ordered restrictions on production at some locations. Since May 2020, automotive manufacturers have begun to slowly reactivate their plants outside of China, too. However, the number of vehicles being produced is increasing only slowly because demand remains modest. Moreover, not all supply chains are proving reliable yet. Rheinmetall is therefore working rigorously to keep the supply chain in its own production functional at all locations. In addition, all necessary preparations were made in due time for a controlled restart of the plants whose production was interrupted due to the coronavirus pandemic.

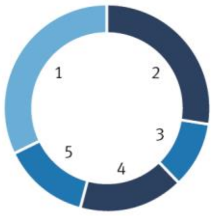
Since the early phase of the coronavirus pandemic, Rheinmetall has also been making substantial contributions in the form of personal protective equipment for the public healthcare sector. To cover the persistently high demand for protective equipment in Germany, the German government has now signed a framework agreement with Rheinmetall for the supply of many millions of articles in the coming months. Rheinmetall has thus become a significant supplier of medical protective equipment in Germany. For 2020, Rheinmetall expects orders worth up to €100 million on the basis of the framework agreement.

Sales and operating result down year-on-year

Consolidated sales decreased by €217 million or 7.7% year-on-year to €2,597 million in the first half of 2020. Adjusted for currency effects, the decline was 7.0%.

The two sectors performed very differently. The Group's drop in sales was entirely due to the Automotive sector, where sales declined by a massive €484 million year-on-year due to the impact of the global coronavirus pandemic. The Defence sector, on the other hand, increased its sales by €266 million year-on-year despite the government-ordered plant closures in certain countries.

Sales by region € million



	H1/2020	H1/2019
Rheinmetall Group	**2,597**	**2,814**
1 Germany	835	785
2 Other Europe	719	906
3 North & South America	268	333
4 Asia	426	496
5 Other regions	348	294

The differing performance of the two sectors is reflected accordingly in the operating result for the first half of 2020. While the Defence sector increased its operating result by €52 million to €122 million, the Automotive sector posted a negative operating result of €-41 million, down €143 million year-on-year. Operating result in Others/Consolidation fell slightly by €2 million, so the Group's operating result decreased by a total of €93 million year-on-year to €70 million.

The Group's reported earnings before interest and taxes (EBIT) amounted to €-232 million in the first half of 2020, €402 million lower than in the previous year. As well as the declining operating result, the reduction in EBIT is largely attributable to negative non-recurring effects of €302 million. These comprise impairment of €300 million, which is almost exclusively attributable to the Hardparts division in the Automotive sector. The impairment charges are primarily due to dramatically reduced production volumes in the international automotive industry for 2020 in the wake of the coronavirus pandemic and to current expert assessments, which – compared with pre-coronavirus forecasts and planning assumptions – anticipate significantly lower growth for passenger cars and light commercial vehicles even over the medium term. In addition, non-recurring effects of €2 million were recognized in the Defence sector as a result of restructuring measures.

Earnings per share decreased by €7.90 to €-5.46 in the first half of 2020 (previous year: €2.44).

Operating free cash flow down year-on-year

Operating free cash flow declined by €202 million to €-409 million in the first half of 2020. This was due in particular to the decline in earnings and a higher increase in working capital in the Defence sector. Unlike in the previous year, operating free cash flow also includes an allocation to the contractual trust agreement (CTA) of €42 million.

Business performance of the Rheinmetall Group
Automotive sector

€ million	Sales		Operating result	
	Q2 2020	Q2 2019	Q2 2020	Q2 2019
Automotive	**338**	**726**	**-52**	**52**
Mechatronics	172	407	-25	35
Hardparts	122	252	-26	10
Aftermarket	68	92	2	9
Others/Consolidation	-23	-24	-4	-2
	H1 2020	H1 2019	H1 2020	H1 2019
Automotive	**956**	**1,440**	**-41**	**102**
Mechatronics	520	808	-15	66
Hardparts	332	503	-29	22
Aftermarket	150	177	6	17
Others/Consolidation	-46	-48	-3	-3

Coronavirus crisis makes dramatic impact in the first half of 2020

In the first half of 2020, the coronavirus crisis left an indelible mark on the development of the global automotive industry. Regulatory orders to stem the pandemic and a significant decline in demand resulted in manufacturers and suppliers throughout the industry shutting down their plants for weeks. In the second quarter of 2020, automotive production in Europe and North America temporarily came almost to a complete standstill. The global production of light vehicles (vehicles under 6 t) declined by 33% year-on-year in the first half of 2020. The Automotive sector was unable to escape this industry trend and posted sales that were down 34% on the same period of the previous year at €956 million. Adjusted for currency effects, sales declined by 33%.

As a result of the crisis-induced sales decline, the Automotive sector closed the first six months of 2020 with operating result of €-41 million (previous year: €102 million). The operating margin was -4.3% (previous year: 7.1%). The reported earnings before interest and taxes (EBIT) of €-341 million in the first half of the year were likewise significantly lower than the previous year's figure of €104 million, which largely resulted from the impairment recognized in the second quarter of 2020. The impairment relates to goodwill (€88 million), intangible assets and property, plant and equipment (€185 million), investments accounted for using the equity method (€17 million), and inventories (€10 million). A total of €291 million was attributable to the Hardparts division.

The negative development of operating result was primarily due to the crisis-induced lack of sales in the second quarter of 2020. The management of the sector countered this development with strict cost management. For example, the number of contract workers was sharply reduced, temporary employment contracts were not extended, employees' working time accounts were significantly decreased and working hours were reduced at numerous production sites and in administration. In addition, drastic cuts were made to all non-staff and administrative costs. These extensive and fast-acting measures significantly reduced the size of the earnings decline in the Automotive sector. In addition, net investments in the first half of the year were reduced by 40% compared with the previous year in order to secure liquidity.

In the first half of 2020, the Mechatronics division generated sales of €520 million, down €288 million or 36% on the previous year's figure. As a result of the sales decline, the division's operating result fell to €-15 million after €66 million in the previous year. The division's operating margin declined from 8.1% in the first half of the previous year to -2.9% in the period under review.

At €332 million, the Hardparts division's sales were down in the first half of 2020, falling by 34% or €172 million year-on-year. Despite the above-mentioned measures to reduce costs, the Hardparts division's operating result amounted to €-29 million, down €51 million year-on-year. The joint ventures accounted for using the equity method, which are assigned to the Hardparts division, also saw a considerable decline in sales. This caused at-equity income to fall to €-13 million (previous year: €-3 million). The operating margin of the Hardparts division declined to -8.7% (previous year: 4.4%).

In the Aftermarket division, sales also decreased by €26 million or 15% year-on-year to €150 million in the first half of 2020 due to the closure of repair shops and reduced mobility. The division's operating result amounted to €6 million. This decline of €11 million compared with the previous year's figure was due both to lower sales and to the first-time allocation of Rheinmetall Amprio GmbH's micromobility activities to the Aftermarket division. The operating margin of the division decreased to 4.1% after 9.6% in the previous year.

Palpable sales recovery in China in the second quarter of 2020

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

After sales collapsed in the first quarter of 2020 as a result of the coronavirus crisis, the Chinese joint ventures increased their sales again in the second quarter of 2020 thanks to a recovery of the Chinese automotive industry. In the first half of 2020, the companies achieved sales of €393 million, down 14% on the previous year's figure. By comparison, the production of light vehicles in China declined by 22% in the same period. Earnings after taxes amounted to €12 million for the first half of 2020 (previous year: €19 million).

The sales performance of the German joint venture KS HUAYU AluTech Group was likewise significantly influenced by the effects of the coronavirus pandemic. The joint venture generated sales of €89 million in the first half of 2020 (-30% year-on-year). Accordingly, earnings after taxes of €-12 million for the first half of 2020 were significantly below the previous year's €-2 million.

€ million – 100% basis	China joint ventures				KS HUAYU			
	Q2 2020	Q2 2019	H1 2020	H1 2019	Q2 2020	Q2 2019	H1 2020	H1 2019
Sales	245	238	393	457	34	62	89	128
Earnings after taxes	14	10	12	19	-11	-1	-12	-2

Business performance of the Rheinmetall Group
Defence sector

€ million	Order intake		Sales		Operating result	
	Q2 2020	Q2 2019	Q2 2020	Q2 2019	Q2 2020	Q2 2019
Defence	**752**	**501**	**901**	**746**	**93**	**60**
Weapon and Ammunition	295	265	278	207	30	10
Electronic Solutions	102	69	224	202	18	17
Vehicle Systems	411	199	457	389	48	33
Others/Consolidation	-56	-31	-57	-51	-4	-
	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019
Defence	**1,483**	**1,065**	**1,641**	**1,375**	**122**	**69**
Weapon and Ammunition	623	608	443	384	15	-1
Electronic Solutions	426	237	398	369	29	27
Vehicle Systems	548	277	903	718	84	45
Others/Consolidation	-113	-57	-103	-96	-7	-1

Renewed increase in incoming orders

The Defence sector's incoming orders rose by 39% or €418 million year-on-year to €1,483 million in the first half of 2020. The Vehicle Systems division made a material contribution to this positive development. It booked the first tranche of €293 million for the German armed forces' new swap-body truck system from a framework agreement with a net volume of around €1.7 billion.

The order backlog in the Defence sector was €10,125 million as of June 30, 2020. This represents an increase of 22% against the previous year's figure of €8,307 million.

Strong sales growth and significant improvement in operating result

In the first half of 2020, the Defence sector's sales increased by 19% or €266 million year-on-year to €1,641 million. This resulted partly from higher orders and customers bringing delivery dates forward. The Defence sector's operating result improved at a higher rate than sales, namely by 75% year-on-year to €122 million. The operating margin was 7.4% (previous year: 5.0%). Because of the non-recurring effects of €2 million from restructuring measures, the reported earnings before interest and taxes (EBIT) amounted to €120 million, €52 million above the previous year's figure of €67 million.

Sales in the Weapon and Ammunition division – driven mainly by international ammunition business – increased by 15% year-on-year to €443 million in the first half of 2020. With an operating margin of 3.3% (previous year: -0.3%), operating result amounted to €15 million in the first half of 2020 (previous year: €-1 million).

The Electronic Solutions division reported a year-on-year increase in sales of 8.0% or €29 million to €398 million in the first half of 2020. The division's operating result increased by 8.9% to €29 million (previous year: €27 million). The operating margin improved slightly to 7.4%, compared with 7.3% in the previous year.

The Vehicle Systems division increased its sales to €903 million in the first half of 2020. This equates to an increase of 26%, which is due primarily to increased deliveries of logistics and tactical vehicles to German and Australian customers. Operating result improved by €40 million year-on-year to €84 million. The operating margin of the Vehicle Systems division increased to 9.4% (previous year: 6.3%).

Risks and opportunities

Efficient risk management

Systematic and efficient risk management systems have come to hold a particular level of importance during the global coronavirus crisis. At the beginning of the expanding pandemic, coronavirus action teams which analyze and evaluate the local situation on a daily basis and define and communicate measures were formed at all Rheinmetall Group locations. A central crisis team led by the Executive Board is monitoring the global situation and coordinating measures across locations.

As a Tier 1 automotive supplier, the Automotive sector has been affected by the coronavirus pandemic to a greater extent than the Defence sector. The overall effects on Rheinmetall's financial position were significantly reduced by the immediate and extensive measures taken in the Automotive sector in particular to stabilize liquidity, reduce costs and safeguard supply chains. Potential risks for the Rheinmetall Group's net assets, financial position and results of operations arising from the massive sales slumps in the Automotive sector in the first half of 2020 and the much lower growth forecasts for the automotive industry even in the medium term were taken into account through the recognition of impairment of €300 million as of June 30, 2020.

The other material opportunities and risks of the expected development of the Rheinmetall Group are described in detail in the Group Management Report for 2019. Apart from the particular challenges of the coronavirus crisis, no material changes or new findings have arisen. Based on the current assessment of the Rheinmetall Group's risk tolerance, there are no identifiable situations of existential risk for the Rheinmetall Group.

Outlook

Defence forecast specified, forecast for Automotive not yet possible at present

Rheinmetall does not currently expect the coronavirus crisis to have any lasting impact on the Defence sector's business performance in the current year. For this reason, the annual forecast for the Defence sector published in mid-March 2020 has been confirmed and specified in light of the positive development in the first half of 2020. For 2020 as a whole, sales growth is currently expected to be between 6% and 7% (previously: 5% and 7%). A figure of around 10% is now being targeted for the operating margin, i.e. the upper end of the annual forecast of 9% to 10%.

In the Automotive sector, the effects of the coronavirus crisis on end-customer demand, automotive manufacturers' production figures and global supply chains still cannot be reliably forecasted. An adjusted sales and earnings outlook for 2020 as a whole that reflects the changed market situation is still not possible given the existing uncertainties. Provided there is no new lockdown, operating net income of between €-30 million and break-even is currently targeted for the Automotive sector.

Supplementary report

Restructuring measures in the Automotive sector

Due to the massive decline in global production volume in the automotive industry and the much lower growth forecasts for automotive production even in the medium term, Rheinmetall is currently examining strategic options in the Automotive sector. Restructuring provisions of €40 million are anticipated in the third quarter of 2020 in this regard, which will become cash-effective in the period from 2020 to 2022. They mainly include costs for capacity adjustments and production relocations undertaken to optimize the global network of locations in the Hardparts division of €24 million, as well as costs for the realignment and the new structural orientation regarding the preparation of an entry into new markets of the Mechatronics division of €16 million. Rheinmetall informed the capital market about the expected costs of planned restructuring measures in an Ad-hoc release on July 27, 2020.

New production site in Australia commences operations

In July 2020, Rheinmetall Defence Australia Pty Ltd’s new headquarters and Military Vehicle Centre of Excellence (MILVEHCOE) near Brisbane in Queensland were largely completed. The new site, which will perspectively count more than 450 employees, is Rheinmetall’s largest infrastructure investment anywhere in the world to date and will act as a regional hub for the development, production and maintenance of military vehicles in Australia and the Asia-Pacific region. The new plant location was constructed by the state of Queensland on behalf of Rheinmetall and has initially been let to Rheinmetall Defence Australia Pty Ltd under a ten-year lease with Queensland. At the commencement of the lease in July 2020, this results in the recognition of a right-of-use asset and a lease liability of €52 million in Rheinmetall’s consolidated financial statements. At the end of the lease term, ownership of the site will be transferred to Rheinmetall Defence Australia Pty Ltd in return for payment of AUD 1.

Consolidated balance sheet

€ million	30.06.2020	31.12.2019
Assets		
Goodwill	475	567
Other intangible assets	242	233
Rights of use	193	204
Property, plant and equipment	1,110	1,361
Investment property	39	42
Investments accounted for using the equity method	285	309
Other non-current assets	271	255
Deferred taxes	289	224
Non-current assets	**2,905**	**3,195**
Inventories	1,653	1,463
Contract asset	450	388
Trade receivables	1,111	1,147
Other current assets	252	242
Income tax receivables	52	41
Liquid financial assets	-	20
Cash and cash equivalents	586	920
Current assets	**4,104**	**4,220**
Total assets	**7,009**	**7,415**
Equity and liabilities		
Share capital	112	112
Capital reserves	556	553
Retained earnings	1,065	1,478
Treasury shares	-13	-17
Rheinmetall AG shareholders' equity	**1,719**	**2,125**
Non-controlling interests	128	146
Equity	**1,848**	**2,272**
Provisions for pensions and similar obligations	1,132	1,169
Other non-current provisions	195	214
Non-current financial debt	870	880
Other non-current liabilities	86	86
Deferred taxes	21	16
Non-current liabilities	**2,304**	**2,365**
Other current provisions	703	709
Current financial debt	302	112
Contract liability	931	948
Trade liabilities	588	695
Other current liabilities	243	215
Income tax liabilities	90	99
Current liabilities	**2,857**	**2,779**
Total equity and liabilities	**7,009**	**7,415**

Consolidated income statement

€ million	Q2 2020	Q2 2019	H1 2020	H1 2019
Sales	1,239	1,471	2,597	2,814
Changes in inventories and work performed by the enterprise and capitalized	32	74	158	164
Total operating performance	**1,271**	**1,545**	**2,754**	**2,978**
Other operating income	25	42	51	78
Cost of materials	627	824	1,431	1,588
Staff costs	406	421	848	842
Amortization, depreciation and impairment	339	68	414	133
Other operating expenses	152	167	312	332
Income from investments accounted for using the equity method	-13	8	-14	13
Other net financial income	-24	1	-17	-3
Earnings before interest and taxes (EBIT)	**-266**	**115**	**-232**	**170**
Interest income	2	2	4	4
Interest expenses	-12	-11	-24	-22
Earnings before taxes (EBT)	**-276**	**107**	**-252**	**152**
Income taxes	25	-31	18	-42
Earnings after taxes	**-252**	**76**	**-234**	**110**
Of which:				
Non-controlling interests	-3	3	2	4
Rheinmetall AG shareholders	*-248*	*73*	*-235*	*105*
Earnings per share	-5.76 EUR	1.70 EUR	-5.46 EUR	2.44 EUR

Consolidated statement of comprehensive income

€ million	Q2 2020	Q2 2019	H1 2020	H1 2019
Earnings after taxes	**-252**	**76**	**-234**	**110**
Remeasurement of net defined benefit liability from pensions	-30	-65	10	-107
Amounts not reclassified to the income statement	**-30**	**-65**	**10**	**-107**
Change in value of derivative financial instruments (cash flow hedge)	11	3	-36	6
Currency translation difference	-5	-2	-56	17
Income/expenses from investments accounted for using the equity method	-4	-7	-4	2
Amounts reclassified to the income statement	**2**	**-6**	**-96**	**24**
Other comprehensive income after taxes	**-28**	**-71**	**-86**	**-83**
Total comprehensive income	**-280**	**5**	**-320**	**27**
Of which:				
Non-controlling interests	*-*	*4*	*-16*	*7*
Rheinmetall AG shareholders	*-280*	*1*	*-303*	*20*

Statement of cash flows

€ million	H1 2020	H1 2019
Earnings after taxes	-234	110
Amortization, depreciation and impairment	414	133
Allocation of CTA assets to secure pension and partial retirement obligations	-42	-
Other changes in pension provisions	-2	-1
Income from disposals of non-current assets	-	-1
Changes in other provisions	-9	-42
Changes in working capital	-373	-233
Changes in receivables, liabilities (without financial debt) and prepaid & deferred items	-65	-68
Pro rata income from investments accounted for using the equity method	14	-13
Dividends received from investments accounted for using the equity method	6	6
Other non-cash expenses and income	-24	7
Cash flow from operating activities [1)]	**-314**	**-103**
Investments in property, plant and equipment, intangible assets and investment property	-95	-104
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	1	8
Payments for the purchase of liquid financial assets	-	-225
Cash receipts from the disposal of liquid financial assets	19	250
Payments for investments in consolidated companies and other financial assets	-2	-18
Cash flow from investing activities	**-77**	**-90**
Dividends paid out by Rheinmetall AG	-104	-90
Other profit distributions	-2	-2
Increase in shares in consolidated subsidiaries	-	-26
Borrowing of financial debt	230	189
Repayment of financial debt	-61	-63
Cash flow from financing activities	**64**	**8**
Changes in cash and cash equivalents	**-327**	**-184**
Changes in cash and cash equivalents due to exchange rates	-6	1
Total change in cash and cash equivalents	**-334**	**-183**
Opening cash and cash equivalents January 1	**920**	**724**
Closing cash and cash equivalents June 30	**586**	**541**

1) *Of which:*
Net income taxes of €-49 million (previous year: €-47 million)
Net interest of €-8 million (previous year: €-9 million)

Statement of changes in equity

€ million	Share capital	Capital reserves	Total retained earnings	Treasury shares	Rheinmetall AG shareholders' equity	Non-controlling interests	Equity
As of January 1, 2019	**112**	**547**	**1,384**	**-21**	**2,022**	**151**	**2,173**
Earnings after taxes	-	-	105	-	105	4	110
Other comprehensive income after taxes	-	-	-85	-	-85	2	-83
Total comprehensive income	-	-	20	-	20	7	27
Dividend payout	-	-	-90	-	-90	-2	-92
Disposal of treasury shares	-	-	-	4	4	-	4
Changes in shares in subsidiaries	-	-	-94	-	-94	-42	-136
Other changes	-	6	2	-	8	-	8
Balance as at June 30, 2019	**112**	**553**	**1,221**	**-17**	**1,868**	**114**	**1,982**
As of January 1, 2020	**112**	**553**	**1,478**	**-17**	**2,125**	**146**	**2,272**
Earnings after taxes	-	-	-235	-	-235	2	-234
Other comprehensive income after taxes	-	-	-68	-	-68	-18	-86
Total comprehensive income	-	-	-303	-	-303	-16	-320
Dividend payout	-	-	-104	-	-104	-2	-105
Disposal of treasury shares	-	-	-	4	4	-	4
Other changes	-	3	-6	-	-3	-	-3
Balance as at June 30, 2020	**112**	**556**	**1,065**	**-13**	**1,719**	**128**	**1,848**

Composition of retained earnings:

€ million	Currency translation difference	Remeasurement of net defined benefit liability from pensions	Hedges	Other comprehensive income from investments accounted for using the equity method	Other reserves	Total retained earnings
As of January 1, 2019	-14	-432	7	-5	1,828	**1,384**
Earnings after taxes	-	-	-	-	105	105
Other comprehensive income after taxes	15	-107	5	2	-	-85
Total comprehensive income	15	-107	5	2	105	20
Dividend payout	-	-	-	-	-90	-90
Changes in shares in subsidiaries	-	-3	-	-	-92	-94
Other changes	-	-	-	-	2	2
Balance as at June 30, 2019	-	-542	12	-4	1,754	**1,221**
As of January 1, 2020	13	-527	17	-8	1,981	**1,478**
Earnings after taxes	-	-	-	-	-235	-235
Other comprehensive income after taxes	-46	10	-28	-4	-	-68
Total comprehensive income	-46	10	-28	-4	-235	-303
Dividend payout	-	-	-	-	-104	-104
Other changes	-	-	-	-	-6	-6
Balance as at June 30, 2020	-32	-517	-10	-12	1,636	**1,065**

Segment report

€ million	Automotive		Defence		Others/Consolidation		Group	
	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019
Sales	956	1,440	1,641	1,375	-1	-2	2,597	2,814
Operating result	-41	102	122	69	-10	-8	70	163
Special items	-300	2	-2	-2	-	7	-302	7
EBIT	-341	104	120	67	-10	-1	-232	170
Of which:								
At equity income	*-18*	*11*	*4*	*1*	-	-	*-14*	*13*
Amortization and depreciation	*81*	*79*	*57*	*50*	*4*	*4*	*142*	*133*
Impairment	*273*	-	-	-	-	-	*273*	-
Interest income	2	2	2	4	-	-2	4	4
Interest expenses	-12	-10	-20	-16	8	5	-24	-22
EBT	-352	95	103	55	-2	1	-252	152
Other data								
Operating free cash flow	-146	-14	-293	-224	30	31	-409	-207
Order intake	796	1,409	1,483	1,065	-1	-2	2,278	2,473
Order backlog June 30	287	447	10,125	8,307	-	-	10,411	8,754
Employees June 30 (FTE)	10,915	11,623	12,074	11,333	263	265	23,251	23,221
Net financial debt (-) / Net liquidity (+) June 30	-176	-36	-85	-52	-325	-298	-586	-386

Notes to the consolidated financial statements

General principles

The condensed consolidated interim financial statements of Rheinmetall AG as at June 30, 2020, 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 2019. The results achieved in the first six months of 2020 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 0.98% was applied for pension provisions in Germany compared with 1.07% on December 31, 2019, and a rate of 0.33% was applied for those in Switzerland compared with 0.27% on December 31, 2019. This made German pension obligations €16 million higher and Swiss pension obligations €8 million lower than they were at the start of the year. In addition, the recognition of income from plan assets that exceeded interest income led to an €18 million reduction in the pension provision in other comprehensive income. All other parameters relevant to the measurement of pension obligations remained unchanged compared with December 31, 2019.

In the United Kingdom, the interest rate of 2.1% as of December 31, 2019, has now fallen to 1.5%. The change in measurement inputs led to an €18 million increase in the provision. For the recognized pension obligations of Rheinmetall BAE Systems Land Ltd. that are not covered by plan assets, Rheinmetall has a claim to reimbursement from the BAE Group in the same amount, which compensates for the remeasurement of the net defined benefit liability from pensions.

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. In the first six months of 2020, two new companies were added to the group of consolidated subsidiaries through being founded and one through being acquired. One company left the consolidated group due to liquidation.

Effects of the coronavirus crisis on accounting

In the first half of 2020, the Rheinmetall Group's business performance was considerably influenced by the effects of the coronavirus crisis. While the Defence sector increased both sales and operating result year-on-year despite the difficult general economic situation, the Automotive sector posted massive sales declines and a deterioration in operating result. The effects of the coronavirus pandemic and the measures immediately taken by the management to secure the Rheinmetall Group's earnings and liquidity situation are described in detail in the Group interim management report.

In addition, the developments in connection with the coronavirus pandemic have made it necessary to review the assumptions and estimates used to measure assets, liabilities, income, and expenses. For the preparation of the Rheinmetall Group's semi-annual report for the first half of 2020, this particularly affected the impairment testing of goodwill, intangible assets and property, plant and equipment, investments accounted for using the equity method, and deferred tax assets.

The substantial sales declines in the first half of 2020 and the significantly lowered growth forecasts for the international automotive industry on account of the coronavirus crisis necessitated an impairment test on the carrying amounts recognized in the Automotive sector. For this purpose, the latest corporate planning approved by the Supervisory Board, on which measurement as of December 31, 2019, was based, was adjusted on the basis of the data currently available and the management's expectations.

In light of the updated assumptions and estimates, the total impairment in the Automotive sector on recognized goodwill, intangible assets and property, plant and equipment, investments accounted for using the equity method, and to a minor extent inventories amounted to €300 million as of June 30, 2020. The impairment relates almost entirely to the Hardparts division. It resulted primarily from the international automotive industry's drastically reduced production volume on account of the coronavirus crisis in 2020 and from significantly lower – compared with pre-coronavirus forecasts and planning assumptions – growth forecasts for passenger cars and light commercial vehicles even over the medium term. A global production downturn of over 20% on 2019 levels is forecast for the current year. Experts' projections suggest that production will not return to pre-crisis levels before 2024.

The impairment test of deferred tax assets is based in particular on company-specific expectations of the future income situation of each Group company. Taking the updated planning assumptions as a result of the coronavirus crisis into account, an impairment charge of €5 million on deferred tax assets were recognized as of June 30, 2020. Furthermore, an amount of around €20 million, which mainly resulted from the impairments recognized in the second quarter of 2020, were not recognized as deferred tax assets due to the currently uncertain income expectations.

The drawing of short-time working allowance is also notable as a matter relevant to accounting as of June 30, 2020. This resulted in a reduction in personnel costs of €19 million in the first half of 2020.

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 March 27, 2020, the beneficiaries of the incentive program for fiscal year 2019 received a total of 112,326 shares. In addition, there was a further transfer of a total of 110 shares on June 17, 2020 (previous year: a total of 101,290 shares on April 2, 2019, and another 158 shares on July 10, 2019, for fiscal year 2018).

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	
	2020	2019	2020	2019
Products/services provided H1	174	171	70	11
Products/services received H1	2	-	9	13
Receivables June 30/Dec. 31	124	122	85	48
Liabilities June 30/Dec. 31	-4	-4	-2	-2
Receivables from finance leases June 30/Dec. 31	15	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, 2019. The fair values of financial instruments included on the balance sheet are comprised as follows:

€ million	30.06.2020	31.12.2019
Derivatives without hedge accounting	32	17
Derivatives with hedge accounting	13	27
Financial assets	**46**	**44**
Derivatives without hedge accounting	31	8
Derivatives with hedge accounting	33	6
Financial liabilities	**64**	**13**

Segment reporting

The definitions of the reportable segments, Automotive and Defence, and the controlling system are described in the consolidated financial statements for the year ended December 31, 2019. At the start of fiscal year 2020, Rheinmetall Amprio GmbH from Others was allocated to the reportable Automotive sector for the first time. The sector definitions and the accounting policies are otherwise applied unchanged from December 31, 2019.

Reconciliation of net financial debt / net liquidity and EBIT of the sectors to Group figures

€ million	30.06.2020	30.06.2019
Net financial debt (-) / Net liquidity (+)		
Sectors	-261	-89
Others	-325	-298
Consolidation	-	-
Net financial debt (-) / Net liquidity (+) of Group	**-586**	**-386**

	H1 2020	H1 2019
EBIT		
Sectors	-222	171
Others	-10	-1
Consolidation	-	-
Group EBIT	**-232**	**170**
Group net interest	-19	-18
Group EBT	**-252**	**152**

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, 2020 – 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, 2020, 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 6, 2020

Armin Papperger   Helmut P. Merch   Peter Sebastian Krause

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Dates

November 6, 2020
Report on Q3/2020

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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. All figures in this financial report have been rounded on a standalone basis. This can result in minor differences when adding figures together. The new rounding method can also lead to minor deviations between the previous year's figures stated here and the figures in the semi-annual report for the first half of 2019.

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.