

# Semi-annual financial report *H1* 2017

## Rheinmetall continues on growth path

Rheinmetall generated significant sales growth and improved operating earnings in the first half of 2017.

- Consolidated sales grow 8.0% to €2,808 million
- Operating earnings for the Group improve by 30% to €134 million
- Automotive increases sales to €1,465 million, operating margin at high level of 8.8%
- Defence posts sales growth of 7.4% to €1,343 million and an improvement in earnings of €12 million to €14 million
- Order backlog for the Group of €7.1 billion

Based on the good business performance in the first half of 2017, the forecast for the Group's sales and operating margin has been increased.

## Rheinmetall in figures

		Q2/2017	Q2/2016	H1/2017	H1/2016
<b>Sales/Results</b>					
Sales	€ million	1.459	1.419	2.808	2.599
of which generated abroad	%	80	79	78	78
Operating result	€ million	84	72	134	103
Operating result margin	%	5,8	5,1	4,8	4,0
EBITDA	€ million	137	126	244	212
EBIT	€ million	81	72	131	103
EBIT margin	%	5,6	5,1	4,7	4,0
EBT	€ million	68	58	106	75
Earnings per share	€	1,01	0,94	1,57	1,26
<b>Cash Flow</b>					
Cash flow from operating activities	€ million	69	(15)	(87)	(226)
Cash flow from Investments	€ million	(50)	(60)	(93)	(112)
Operating free cash flow	€ million	19	(75)	(180)	(338)
<b>Order situation</b>					
Order intake	€ million	1.720	1.446	2.866	3.055
Order backlog (June 30)	€ million	-	-	7.099	7.306

		6/30/2017	6/30/2016
<b>Balance Sheet</b>			
Total equity	€ million	1.781	1.469
Total assets	€ million	6.253	5.710
Equity ratio	%	28	26
Cash and cash equivalents	€ million	477	308
Total assets less cash and cash equivalents	€ million	5.776	5.402
Net financial debt	€ million	245	485
Leverage ratio <sup>1)</sup>	%	4,2	9,0
Net gearing <sup>2)</sup>	%	13,8	33,0
<b>Human resources (capacities)</b>			
Rheinmetall Group		21.371	20.954
Defence		10.194	9.857
Automotive		11.002	10.941
Holding/service companies		175	156
<b>Share</b>			
Stock price	€	83,12	53,20
Market capitalization	€ million	3.621	2.317
Stock price, highest level for H1	€	89,10	70,61
Stock price, lowest level for H1	€	64,13	52,54
Stock exchange turnover Xetra (daily average Q1)	shares	181.873	212.160
Market capitalization – MDAX ranking Deutsche Börse		21	22
Stock exchange turnover – MDAX ranking Deutsche Börse		21	17

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

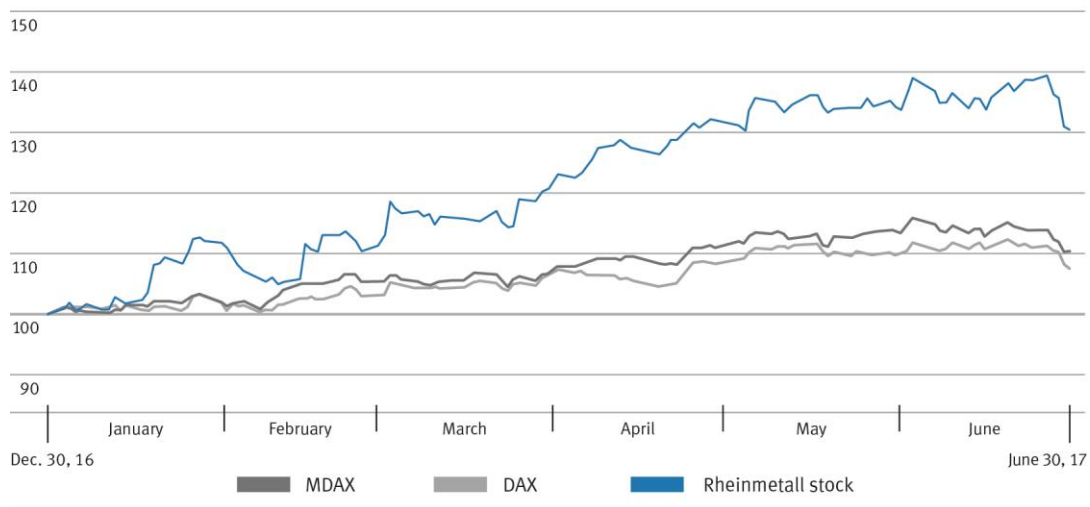
2) Net financial liabilities/equity

## The Rheinmetall share

### DAX and MDAX

After an initially slow start in trading in 2017, the two most significant stock indexes in Germany saw significant increases in the first half of the year. The DAX posted a 7% increase while the MDAX posted a 10% increase in the first six months of the year. Most of the increases were attributable to the first quarter. The DAX climbed 7% in this period and stagnated in the second quarter while the MDAX improved by 6% in the first quarter and 2% in the second quarter.

December 30, 2016, through June 30, 2017



### Rheinmetall share

The Rheinmetall AG share exceeded the positive performance of the DAX and MDAX indexes. Driven by a successful annual financial statements for fiscal 2016, which were published on March 21, 2017, the share rose by 23% in the first quarter, up from €63.90 (December 30, 2016) to €83.12 (March 31, 2017). The dynamic business performance achieved in the first quarter and the strong growth figures in both sectors helped the share to achieve an additional price increase of 6% in the second quarter of 2017, resulting in an increase by 30% to €83.12 in the first half of the year (June 30, 2017). It is worth noting that the Rheinmetall share achieved a closing price of €75.78 on March 1, 2017, and thus exceeded the previous all-time high of €74.12 achieved on May 2, 2007.

### Investor Relations activities

The Executive Board and Investor Relations department of Rheinmetall AG continued to communicate actively with the capital market and also had many in-depth discussions with analysts and investors in the first half of 2017. These took place at various investors' conferences, including in New York, London, Paris, Zurich, Frankfurt, and Berlin, and in numerous telephone conferences.

## General economic conditions

### Global economy defies uncertainty

Despite ongoing uncertainty surrounding the direction of US trade policy under President Trump and upcoming Brexit negotiations in Europe, the global economy was in robust shape in the first half of 2017. In particular, countries in the eurozone gained economic momentum. For 2017, in its World Economic Outlook from July 2017 the International Monetary Fund forecast global economic output to grow by 3.5% in 2017 and 3.6% in 2018. Growth of 3.6% is projected for 2018. The economy in the euro region is expected to grow by 1.9% in 2017, up 0.2 percentage points from the IMF's forecast from April 2017. The IMF revised its forecast for 2018 up by 0.1 percentage point to 1.7%. However, growth expectations for the British economy dropped 0.3 percentage points to 1.7% as against the April forecast. In 2018, the United Kingdom's economic performance is expected to grow by 1.5%. For Germany, the IMF's economists anticipate growth of 1.8% this year and 1.6% in 2018. These figures went up by 0.2 and 0.1 percentage points respectively as against the April forecast, but are moving just below the figures for the eurozone as a whole. According to the IMF's most recent figures, the US economy will grow by 2.1% in both 2017 and 2018. However, the new forecast has been revised down by 0.2 percentage points for 2017 and by 0.4 percentage points for 2018. For the group of emerging economies, which also includes China, India, Brazil according to the IMF, the IMF expects a rise of 4.6% in 2017 and 4.8% in 2018. According to the IMF, China's economy is expected to grow by 6.7% in 2017 and 6.4% in 2018.

### No uniform growth trends on major automotive markets

International automotive markets developed at very different rates in the first half of 2017. Mainly two trends can be identified here: While some markets saw a slowdown due to uncertainty in the diesel vehicle segment, positive catch-up effects can be seen in countries that recently suffered as a result of the financial crisis. Overall, analysts at IHS Automotive determined a 2.6% rise in the global production of passenger cars and light commercial vehicles of up to 6 t to around 47.3 million vehicles for the first half of 2017. The triad markets of Western Europe, NAFTA, and Japan exceeded the previous year's figure by 1.4% with around 22.3 million units. While Western Europe (+0.2%) and Germany (-4.1%) lost momentum, Japan experienced a significant recovery on the automotive market with an increase of 8.1%. However, the NAFTA region also showed signs of cooling off at -0.5% after strong years in the past. The situation in Russia and Brazil was very different: Here, automotive production regained momentum in the first half of 2017 after a lengthy lean spell, rising by 15.6% and 20.5% respectively. Vehicle production also continued its upward trend in China (+3.2%) and India (+8.4%) in the first six months of 2017. According to IHS Automotive, global automotive production is set to increase by 1.8% to around 94.8 million vehicles in 2017 as a whole. An increase of 1.2% to around €95.9 million units is currently anticipated for 2018.

### Trend towards rising investments in the defence sector

The trend towards an increase in global arms spending continued in 2017, as in the previous year. According to the most recent calculations by defence analysts at IHS Jane's, global defence budgets in 2017 amount to USD 1,607 billion, slightly higher than the previous year's figure of USD 1,592 billion. In 2018, global military spending will move up to USD 1,629 billion according to this forecast. For the USA – the country with the largest defence budget – IHS Jane's anticipates an increase to USD 643 billion in the current year after USD 636 billion in 2016. In the coming year, US military spending is set to rise slightly again and then exceed USD 644 billion. In Germany, the federal government reiterated its commitment to increase defence spending to 2% of gross domestic product and took action: In 2017, the German defence budget will increase to €37 billion. This corresponds to nominal growth of €2.7 billion as against 2016. Spending is set to continue rising to €38.5 billion in 2018.

## Business performance of the Rheinmetall Group

€ million	Q2/2017	Q2/2016	Change	H1/2017	H1/2016	Change
Sales	1.459	1.419	40	2.808	2.599	209
Operating result	84	72	12	134	103	31
Operating result margin	5,8%	5,1%	0,7%-P	4,8%	4,0%	0,8%-P
Operating free cash flow	19	(75)	94	(180)	(338)	158

### Sales and operating earnings increased

Consolidated sales rose by €209 million or 8.0% year-on-year to €2,808 million in the first half of 2017. Adjusted for currency effects, growth was 6.7%.

#### Sales by region € million

	H1/2017	H1/2016
Rheinmetall Group	2,808	2,599
Germany	607	582
Other Europe	881	892
North & South America	375	330
Asia	480	550
Other regions	465	245

€17 million of the €31 million improvement in operating earnings to €134 million relates to the Automotive sector, while €12 million relates to Defence and €2 million to Other/Consolidation.

### Improvement in operating free cash flow

Operating free cash flow improved by €158 million to -€180 million in the first half of 2017. This includes a decrease resulting from another allocation to the Contractual Trust Agreement (CTA) to secure pension obligations of €30 million at the beginning of this year.

### Financial liabilities

In the first half of 2017, further promissory note loans of €122 million with a five-year term at a weighted average interest rate of 1.15% p.a. were taken out. €107 million of this amount was paid out by the reporting date. This capital measure relates to the bond of €500 million that will mature in September 2017.

## Business performance of the Rheinmetall Group

### Automotive sector

€ million	Sales		Operating result	
	Q2/2017	Q2/2016	Q2/2017	Q2/2016
<b>Automotive</b>	<b>728</b>	<b>695</b>	<b>67</b>	<b>60</b>
Mechatronics	407	387	47	35
Hardparts	251	243	16	16
Aftermarket	93	82	9	8
Other/consolidation	(23)	(17)	(5)	1
	<b>H1/2017</b>	<b>H1/2016</b>	<b>H1/2017</b>	<b>H1/2016</b>
<b>Automotive</b>	<b>1.465</b>	<b>1.349</b>	<b>129</b>	<b>112</b>
Mechatronics	832	757	90	69
Hardparts	500	474	33	29
Aftermarket	176	157	16	13
Other/consolidation	(43)	(39)	(10)	1

#### Internal restructuring between Mechatronics and Aftermarket

The activities at the location in Lanciano/Italy were reclassified from the Mechatronics division to the Aftermarket division at the start of 2017. The previous year's figures have been adjusted accordingly.

#### Further growth in sales and earnings

The Automotive sector generated €1,465 million in sales in the first half of 2017. As a result, it achieved growth of 8.6% (7.6% when adjusted for currency effects). Operating earnings amounted to €129 million. This equates to an operating margin of 8.8% after 8.3% in the previous year.

The Mechatronics division generated €832 million in sales in the first half of the year (+9.9%). This higher sales led to a 30% rise in operating earnings to €90 million.

In the first half of 2017, the Hardparts division generated €500 million in sales and thus a year-on-year upturn of 5.5%. The large-bore piston business continued its recovery while the small-bore piston business in Europe saw a slight rise. Sales in Brazil recovered due to currency effects. The division's operating earnings amounted to €33 million in the first six months of the year (+14%).

Sales in the Aftermarket division grew by 12% to €176 million. This is mainly attributable to the products sold by the Group's brands, Kolbenschmidt and Pierburg, in the sales regions of Western and Eastern Europe. The division's operating earnings increased by €3 million or 23% to €16 million.

The expenses of -€10 million under Other/Consolidation for the first half of 2017 mainly relate to additions to provisions for environmental risks and R&D projects in the area of electromobility.

#### Slight growth at joint ventures with Chinese partners

The consolidated sales figures for Rheinmetall Automotive do not include significant joint ventures with Chinese partners. Our joint ventures in China increased sales by 3.1% to €428 million in the first half of 2017 (6.0% when adjusted for currency effects) and earnings after taxes by 21.0% to €23 million. The German joint venture KS HUAYU AluTech Group increased its sales by 3.3% to €157 million. Earnings after taxes were affected by high startup costs for new products that were not related to drive systems and the discontinuation of the exemption from the Renewable Energy Sources Act levy. As a result, only a break-even result was reported here.

€ million – 100% basis	China Joint Ventures				KS HUAYU			
	Q2/2017	Q2/2016	H1/2017	H1/2016	Q2/2017	Q2/2016	H1/2017	H1/2016
Sales	210	201	428	415	81	80	157	152
Earnings after taxes	11	9	23	19	(1)	3	-	6

## Business performance of the Rheinmetall Group

### Defence sector

€ million	Order intake		Sales		Operating result	
	Q2/2017	Q2/2016	Q2/2017	Q2/2016	Q2/2017	Q2/2016
<b>Defence</b>	<b>1.031</b>	<b>803</b>	<b>731</b>	<b>724</b>	<b>24</b>	<b>19</b>
Weapon and Ammunition	208	544	305	315	12	25
Electronic Solutions	633	181	141	179	(1)	(1)
Vehicle Systems	230	107	337	287	14	1
Other/consolidation	(40)	(29)	(52)	(57)	(1)	(6)
	<b>H1/2017</b>	<b>H1/2016</b>	<b>H1/2017</b>	<b>H1/2016</b>	<b>H1/2017</b>	<b>H1/2016</b>
<b>Defence</b>	<b>1.422</b>	<b>1.751</b>	<b>1.343</b>	<b>1.250</b>	<b>14</b>	<b>2</b>
Weapon and Ammunition	415	787	496	493	12	20
Electronic Solutions	749	696	279	329	(5)	(5)
Vehicle Systems	313	322	687	548	15	(5)
Other/consolidation	(55)	(54)	(119)	(120)	(8)	(8)

#### Stable development of orders

The Defence sector posted an order intake of €1,422 million in the first half of 2017, thus falling short of the prior-year figure of €1,751 million by 19%. It was particularly influenced by weak development in the first quarter, which fell short of the high prior-year figure. In contrast, the second quarter was impacted by three major orders from the Electronic Solutions division (totaling €531 million) and an increase in orders in Vehicle Systems (€115 million), exceeding the second quarter of the previous year by 28% to €1,031 million. The sector's order backlog remains at a high level of €6,661 million (previous year: €6,905 million).

#### Sales growth and recovery of operating earnings

At €1,343 million, the Defence sector's sales rose by €93 million or 7.4% in the first six months of 2017 compared to €1,250 million in the previous year. Adjusted for currency effects, growth was 5.7%. Operating earnings improved by €12 million year-on-year to €14 million.

Sales in the Weapon and Ammunition division was roughly on a par with the previous year at €496 million. However, operating earnings saw a year-on-year decrease by €8 million. This was mainly attributable to the higher proportion of sales resulting from intra -Group orders with a lower margin in the first half of 2017 as against the strong-margin ammunition orders placed with external customers in the same period of the previous year.

At €279 million, sales in the Electronic Solutions division fell short of the previous year's figure by €50 million, while operating losses remained at the level of the previous year at -€5 million.

The Vehicle Systems division achieved an increase in sales of €139 million or 25%, making it the main driver of the positive development in the Defence sector. This sales growth was primarily driven by the order for military utility vehicles in Australia. The division's operating earnings improved significantly by €20 million to €15 million.

€ million	Operating result	Restructuring	Corporate	Other effects	EBIT
			transactions		
<b>Derivation of operating result Defence</b>	14	(3)	(10)	10	11

The non-recurring effects that were not included in Defence's operating earnings relate to restructuring expenses in Vehicle Systems and an insurance reimbursement that did not result from the operating business. In addition, there were expenses relating to the disposal of shares in Rheinmetall International Engineering GmbH, Geisenheim.

# 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 2016. There have been no significant changes or new findings in the meantime.

# Outlook

## Sales growth in both corporate sectors

We expect the Rheinmetall Group to continue its growth course in fiscal 2017.

In view of the Automotive sector's positive business performance in the first half of 2017, we are increasing our growth forecast for this sector and the Group. Based on current expert forecasts regarding trends in global automotive production, which currently anticipate an increase in production of 1.8% this year, we now expect to achieve sales growth of between 6% and 7% in the Automotive sector. We had previously anticipated sales growth of between 3% and 4%. We still project sales growth of 5% to 6% for our Defence sector in fiscal 2017.

As a result, the forecast for the Rheinmetall Group's annual sales – based on €5.6 billion in 2016 – has increased, and organic growth of around 6% is anticipated for the current fiscal year. We had previously anticipated growth of between 4% and 5% for the Group.

## Improvement in earnings and consolidation of profitability

We have specified our margin forecast for Rheinmetall Automotive. As in the previous year, we anticipate an operating margin of around 8.4% for the current fiscal year as well. We had previously forecast an operating margin of at least 8%. In the Automotive sector, we are currently examining further optimizations of the cost and site structure of our plants, particularly in the Hardparts division. We anticipate that earnings will continue to improve in the Defence sector in 2017 and expect an operating earnings margin of between 5.0% and 5.5%.

Taking into account holding costs of €20 million to €25 million, this results in a slight increase in the operating margin of around 6.5% for the Rheinmetall Group. We had previously anticipated a margin of 6.3% for the Group, as in the previous year.



## Consolidated balance sheet

€ million	6/30/2017	12/31/2016
<b>Assets</b>		
Goodwill	551	554
Intangible assets	253	265
Property, plant and equipment	1.351	1.378
Investment Property	54	53
Investments accounted for using the equity method	246	240
Other non-current financial assets	11	13
Other non-current assets	38	23
Deferred taxes	223	236
<b>Non-current assets</b>	<b>2.727</b>	<b>2.762</b>
Inventories	1.195	1.098
Trade receivables	1.388	1.306
Liquid financial assets	219	190
Other current financial assets	39	43
Other current receivables and assets	167	125
Income tax receivables	41	10
Cash and cash equivalents	477	616
<b>Current assets</b>	<b>3.526</b>	<b>3.388</b>
<b>Total assets</b>	<b>6.253</b>	<b>6.150</b>
<b>Equity and liabilities</b>		
Share capital	112	112
Additional paid-in capital	536	532
Retained earnings	1.061	1.074
Treasury shares	(28)	(32)
<b>Rheinmetall AG shareholders' equity</b>	<b>1.681</b>	<b>1.686</b>
Minority interests	100	95
<b>Equity</b>	<b>1.781</b>	<b>1.781</b>
Provisions for pensions and similar obligations	1.111	1.186
Other non-current provisions	149	135
Non-current financial debts	315	220
Other non-current liabilities	76	56
Deferred taxes	21	32
<b>Non-current liabilities</b>	<b>1.672</b>	<b>1.629</b>
Other current provisions	528	516
Current financial debts	626	567
Trade liabilities	655	766
Other current liabilities	905	838
Income tax liabilities	86	53
<b>Current liabilities</b>	<b>2.800</b>	<b>2.740</b>
<b>Total liabilities</b>	<b>6.253</b>	<b>6.150</b>

## Consolidated income statement

€ million	Q2/2017	Q2/2016	H1/2017	H1/2016
Sales	1.459	1.419	2.808	2.599
Changes in inventories and work performed by the enterprise and capitalised	34	42	101	118
<b>Total operating performance</b>	<b>1.493</b>	<b>1.461</b>	<b>2.909</b>	<b>2.717</b>
Other operating income	36	33	63	59
Cost of materials	841	812	1.603	1.500
Personnel expenses	389	380	787	744
Amortization, depreciation and impairment	55	54	112	109
Other operating expenses	160	173	334	321
Income from investments carried at equity	1	4	5	12
Other net financial income	(4)	(7)	(10)	(11)
<b>Earnings before interest and taxes (EBIT)</b>	<b>81</b>	<b>72</b>	<b>131</b>	<b>103</b>
Net interest income	-	1	3	1
Interest expenses	(13)	(15)	(28)	(29)
<b>Earnings before taxes (EBT)</b>	<b>68</b>	<b>58</b>	<b>106</b>	<b>75</b>
Income taxes	(17)	(17)	(27)	(22)
<b>Earnings after taxes</b>	<b>51</b>	<b>41</b>	<b>79</b>	<b>53</b>
Of which:				
<i>Minority interests</i>	8	1	12	-
<i>Rheinmetall AG shareholders</i>	43	40	67	53
Earnings per share	€1,01	€0,94	€1,57	€1,26

## Consolidated statement of comprehensive income

€ million	Q2/2017	Q2/2016	H1/2017	H1/2016
<b>Net income</b>	<b>51</b>	<b>41</b>	<b>79</b>	<b>53</b>
Remeasurement of net defined benefit liability from pensions	23	(59)	24	(137)
<b>Amounts not reclassified in the income statement</b>	<b>23</b>	<b>(59)</b>	<b>24</b>	<b>(137)</b>
Change in value of derivative financial instruments (cash flow hedge)	3	18	4	36
Currency conversion difference	(39)	18	(37)	5
Income/expenses from investments accounted for using the equity method	(8)	-	(8)	(1)
<b>Amounts reclassified in the income statement</b>	<b>(44)</b>	<b>36</b>	<b>(41)</b>	<b>40</b>
<b>Other comprehensive income after taxes</b>	<b>(21)</b>	<b>(23)</b>	<b>(17)</b>	<b>(97)</b>
<b>Comprehensive income</b>	<b>30</b>	<b>18</b>	<b>62</b>	<b>(44)</b>
Of which:				
<i>Minority interests</i>	6	6	10	11
<i>Rheinmetall AG shareholders</i>	24	12	52	(55)

## Cash flow statement

€ million	H1/2017	H1/2016
Net income	79	53
Amortization, depreciation and impairments	112	109
Reduction in pension provisions due to payment into external Fund	(30)	(15)
Changes in other pension provisions	(7)	1
Reduction in other provisions for partial retirement due to payment into external Fund	-	(15)
Other changes in other provisions	38	21
Changes in inventories	(107)	(156)
Changes in receivables, liabilities (without financial debts) and prepaid & deferred items	(156)	(201)
Pro rata income from investments carried at equity	(5)	(12)
Dividends received from investments carried at equity	2	2
Other non-cash expenses and income	(13)	(13)
<b>Cash flows from operating activities <sup>1)</sup></b>	<b>(87)</b>	<b>(226)</b>
Investments in property, plant and equipment, intangible assets and investment property	(93)	(112)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	1	1
Payments for the purchase of liquid financial assets	(213)	(67)
Cash receipts from the disposal of liquid financial assets	185	77
Payments for investments in consolidated companies and other financial assets	(9)	(13)
<b>Cash flows from investing activities</b>	<b>(129)</b>	<b>(114)</b>
Dividends paid out by Rheinmetall AG	(62)	(47)
Other Profit contributions	(9)	(8)
Increase in shares in consolidated subsidiaries	4	-
Borrowing of financial debts	247	23
Repayment of financial debts	(96)	(13)
<b>Cash flows from financing activities</b>	<b>84</b>	<b>(45)</b>
<b>Changes in financial resources</b>	<b>(132)</b>	<b>(385)</b>
Changes in cash and cash equivalents due to exchange rates	(7)	2
<b>Total change in financial resources</b>	<b>(139)</b>	<b>(383)</b>
<b>Opening cash and cash equivalents January 1</b>	<b>616</b>	<b>691</b>
<b>Closing cash and cash equivalents June 30</b>	<b>477</b>	<b>308</b>

1) Including:

Net income taxes of -€36 million (previous year: -€21 million)

Net interest of -€5 million (previous year: -€2 million)

## Statement of changes in equity

€ million	Shared capital	Additional paid-in capital	Total retained earnings	Treasury shares	Rheinmetall AG shareholders equity	Minority interests	Equity
<b>Balance as at January 1, 2016</b>	<b>112</b>	<b>528</b>	<b>891</b>	<b>(39)</b>	<b>1.492</b>	<b>70</b>	<b>1.562</b>
Net income	-	-	53	-	53	-	53
Other comprehensive income	-	-	(108)	-	(108)	11	(97)
Comprehensive income	-	-	(55)	-	(55)	11	(44)
Dividends payout	-	-	(47)	-	(47)	-8	(55)
Disposal of treasury shares	-	-	-	3	3	-	3
Other changes	-	2	1	-	3	-	3
<b>Balance as at June 30, 2016</b>	<b>112</b>	<b>530</b>	<b>790</b>	<b>(36)</b>	<b>1.396</b>	<b>73</b>	<b>1.469</b>
<b>Balance as at January 1, 2017</b>	<b>112</b>	<b>532</b>	<b>1.074</b>	<b>(32)</b>	<b>1.686</b>	<b>95</b>	<b>1.781</b>
Net income	-	-	67	-	67	12	79
Other comprehensive income	-	-	(15)	-	(15)	(2)	(17)
Comprehensive income	-	-	52	-	52	10	62
Dividends payout	-	-	(62)	-	(62)	(9)	(71)
Disposal of treasury shares	-	-	-	4	4	-	4
Other changes	-	4	(3)	-	1	4	5
<b>Balance as at June 30, 2017</b>	<b>112</b>	<b>536</b>	<b>1.061</b>	<b>(28)</b>	<b>1.681</b>	<b>100</b>	<b>1.781</b>

### Composition of retained earnings

€ million	Difference of currency conversion	Re-measurement of net defined benefit liability from pensions	Land revaluation	Hedge reserve	Other income from investments carried at equity	Other reserves	Total retained earnings
<b>Balance as at January 1, 2016</b>	<b>21</b>	<b>(464)</b>	<b>84</b>	<b>(38)</b>	<b>7</b>	<b>1.281</b>	<b>891</b>
Net income	-	-	-	-	-	53	53
Other comprehensive income	5	(138)	-	26	(1)	-	(108)
Comprehensive income	5	(138)	-	26	(1)	53	(55)
Dividends payout	-	-	-	-	-	(47)	(47)
Other changes	-	-	-	-	-	1	1
<b>Balance as at June 30, 2016</b>	<b>26</b>	<b>(602)</b>	<b>84</b>	<b>(12)</b>	<b>6</b>	<b>1.288</b>	<b>790</b>
<b>Balance as at January 1, 2017</b>	<b>44</b>	<b>(511)</b>	<b>85</b>	<b>9</b>	<b>8</b>	<b>1.439</b>	<b>1.074</b>
Net income	-	-	-	-	-	67	67
Other comprehensive income	(34)	24	-	3	(8)	-	(15)
Comprehensive income	(34)	24	-	3	(8)	67	52
Dividends payout	-	-	-	-	-	(62)	(62)
Other changes	-	-	-	-	-	(3)	(3)
<b>Balance as at June 30, 2017</b>	<b>10</b>	<b>(487)</b>	<b>85</b>	<b>12</b>	<b>-</b>	<b>1.441</b>	<b>1.061</b>

## Segment report

€ million	Defence		Automotive		Other/Consolidation		Group	
	H1/2017	H1/2016	H1/2017	H1/2016	H1/2017	H1/2016	H1/2017	H1/2016
External sales	1.343	1.250	1.465	1.349	-	-	2.808	2.599
Operating result	14	2	129	112	(9)	(11)	134	103
Special effects	(3)	-	-	-	-	-	(3)	-
EBIT	11	2	129	112	(9)	(11)	131	103
<i>of which:</i>								
<i>At Equity income</i>	(8)	(3)	13	15	-	-	5	12
<i>Amortization, depreciation</i>	46	44	64	61	2	1	112	106
<i>Impairment</i>	-	-	-	3	-	-	-	3
Interest income	1	1	1	1	1	(1)	3	1
Interest expenses	(16)	(15)	(6)	(8)	(6)	(6)	(28)	(29)
EBT	(4)	(12)	124	105	(14)	(18)	106	75
<b>Other data</b>								
Operating free cash flow	(105)	(221)	(49)	(88)	(26)	(29)	(180)	(338)
Order intake	1.422	1.751	1.444	1.304	-	-	2.866	3.055
Order backlog June 30	6.661	6.905	438	401	-	-	7.099	7.306
Employees as at June 30 (capacities)	10.194	9.857	11.002	10.941	175	156	21.371	20.954
Net financial debts June 30	19	158	(68)	9	294	318	245	485

# Notes to the consolidated financial statements

## General principles

The condensed consolidated interim financial statements of Rheinmetall AG as at June 30, 2017, were prepared in accordance with the IFRS applicable to interim reporting as published by the IASB and as adopted in the EU. The accounting policies applied to the assets and liabilities in the interim financial statements are the same as those applied in the consolidated financial statements for fiscal year 2016. The results achieved in the first six months of 2017 do not necessarily allow for 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 2.00% (December 31, 2016: 1.75%) was applied for pension provisions in Germany and a rate of 0.77% (December 31, 2016: 0.77%) was applied for those in Switzerland. These constitute countries with significant pension obligations. The increase in the interest rate for Germany led to pension provisions decreasing by a total of €34 million compared to the start of the year. All other parameters relevant to the measurement of pension obligations remained unchanged compared with December 31, 2016.

## Scope of consolidation

Besides Rheinmetall AG, the condensed consolidated financial statements include all German and foreign subsidiaries in which Rheinmetall AG holds the majority of voting rights (whether directly or indirectly) or other rights which enable it to control significant activities of the investee. Three new subsidiaries were founded in the first six months of 2017, and a disposal was reported as a result of an internal merger.

The shares in Rheinmetall International Engineering GmbH, Geisenheim, were transferred to the former joint venture partner, Ferrostaal Industrieanlagen GmbH, Essen, in May 2017. Access to new defence markets, which had been planned with the establishment of the joint venture in 2013, did not occur. The joint venture's ongoing projects did not develop as expected either. An agreement was reached with the joint venture partner, under which it is to take over the shares after a capital contribution and continue the operating business alone. In turn, Rheinmetall is to be exempt from all risks arising from projects still ongoing when these shares are transferred.

## Equity

**Authorized capital** – By resolution of the Annual General Meeting of May 10, 2016, the Executive Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company up to May 9, 2021, by issuing once or several times new no-par shares in return for contributions in cash and/or in kind, up to a total of €50,000,000 (new authorized capital).

**Contingent capital** – The Executive Board of the Company was authorized by resolution of the Annual General Meeting of May 10, 2016, to issue interest-bearing bearer bonds with warrants and/or convertible bonds up to a total nominal value of €800,000,000 with a term of up to 20 years on one or several occasions, with the approval of the Supervisory Board, up to May 9, 2021, and to grant the holders of the respective bonds, which carry the same rights, options, and conversion rights on new shares of the Company up to a total of 7,812,500 shares, in accordance with the more detailed provisions of the conditions for bonds with warrants and/or convertible bonds.

**Treasury shares** - The Annual General Meeting on May 10, 2016, authorized the Executive Board to acquire treasury shares equivalent to a maximum of 10% of the share capital of €111,510,656 up until May 9, 2021. In the first six months of the current fiscal year, this right was not exercised. As at June 30, 2017, the portfolio of treasury shares amounted to 772,687 (previous year: 961,421; December 31, 2016: 870,788) with acquisition costs totaling €28 million (previous year: €36 million; December 31, 2016: €32 million), which were deducted from equity. The proportion of treasury shares in subscribed capital is 1.77%.

#### 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 4, 2017, the beneficiaries of the incentive program for fiscal year 2016 received a total of 98,101 shares (previous year: a total of 74,364 shares on April 1, 2016, for fiscal year 2015).

#### Related parties

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

€ million	Joint Ventures		Associated Companies	
	2017	2016	2017	2016
Products/services provided H1	163	126	1	1
Products/services received H1	-	3	-	7
Receivables June 30 /Dec.31	73	84	1	1
Liabilities June 30 /Dec.31	(9)	(7)	(2)	(2)

#### Disclosures on financial instruments

Financial assets and liabilities measured at fair value include derivatives held to hedge currency, interest rate, commodity price, and electricity price risks. The fair values are determined on the basis of input factors observed directly or indirectly on the market. This corresponds to Level 2 of the fair value hierarchy defined by IFRS 13. The input factors used and the measurement methods applied are described in the consolidated financial statements as at December 31, 2016. The fair values of financial instruments included on the balance sheet are comprised as follows:

€ million	6/30/2017	12/31/2016
Derivates without hedge accounting	3	12
Derivates with hedge accounting	32	24
<b>Financial assets</b>	<b>35</b>	<b>36</b>
Derivates without hedge accounting	5	13
Derivates with hedge accounting	11	13
<b>Financial liabilities</b>	<b>16</b>	<b>26</b>

# Notes to the consolidated financial statements

## Segment reporting

The definition of the reportable segments and the controlling system are described in the consolidated financial statements for the year ended December 31, 2016. The definition of the Automotive and Defence segments and the accounting methods are applied unchanged from December 31, 2016.

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

€ million	6/30/2017	6/30/2016
<b>Net financial debts</b>		
Net financial debts of sectors	(49)	167
Others	285	317
Consolidation	9	1
<b>Net financial debts of Group</b>	<b>245</b>	<b>485</b>
	<b>H1/2017</b>	<b>H1/2016</b>
<b>EBIT</b>		
EBIT of sectors	140	114
Others	(10)	(10)
Consolidation	1	(1)
<b>Group EBIT</b>	<b>131</b>	<b>103</b>
Group net interest	(25)	(28)
<b>Group EBT</b>	<b>106</b>	<b>75</b>

## Significant events after the balance sheet date

In July 2017, the 49% share in Airbus DS Airborne Solutions GmbH (previously Rheinmetall Airborne Systems GmbH) was sold to the majority shareholder Airbus Defence and Space GmbH. This marks the completion of Rheinmetall's withdrawal from the cargo loading system and drone business, which was initiated in fiscal 2012 with the sale of majority interests to Airbus DS Airborne Solutions GmbH. The majority shareholder exercised its contractual call option for the remaining shares. The sale of these shares did not result in any earnings.

In July 2017, the Vehicle Systems division signed a framework agreement on the supply of 2,271 HX2 transport vehicles to the German armed forces. The framework agreement has an order volume of €760 million (net). The first batch of 558 vehicles with an order volume of €200 million (net) was supplied. The delivery of this first batch covers the period from 2018 to 2021.



## 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, 2017 – 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, 2017, 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 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 3, 2017

Armin Papperger

Horst Binnig

Peter Sebastian Krause

Helmut P. Merch

# Legal information and contact

## Dates

**NOVEMBER 7, 2017**  
Report on Q3/2017

## Contacts

### Corporate Communications

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

### Investor Relations

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

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

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

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

Rheinmetall's website at [www.rheinmetall.com](http://www.rheinmetall.com) contains detailed business information about the Rheinmetall Group and its subsidiaries, current trends, 15-minute stock price updates, press releases, and ad hoc notifications. Investor Relations information forms an integral part of this website and provides all of the relevant details for download.

All rights reserved. Subject to technical change without notice. The product designations mentioned in this financial report may constitute trademarks, the use of which by any third party could infringe upon the rights of their owners.

You can request the quarterly report from the company or download it at [www.rheinmetall.com](http://www.rheinmetall.com). In case of doubt, the German version shall apply.

Copyright © 2017