Annual Report
Rheinmetall AG

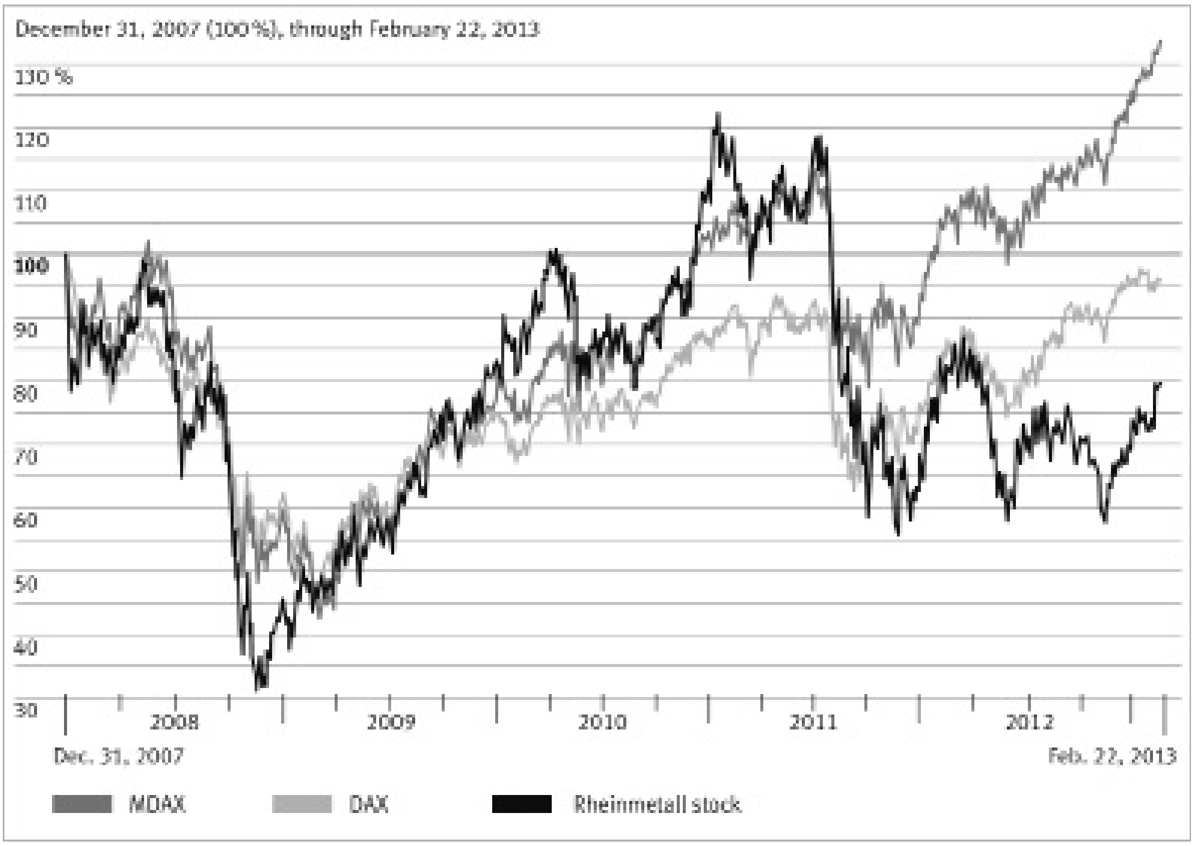
2012

Rheinmetall in figures

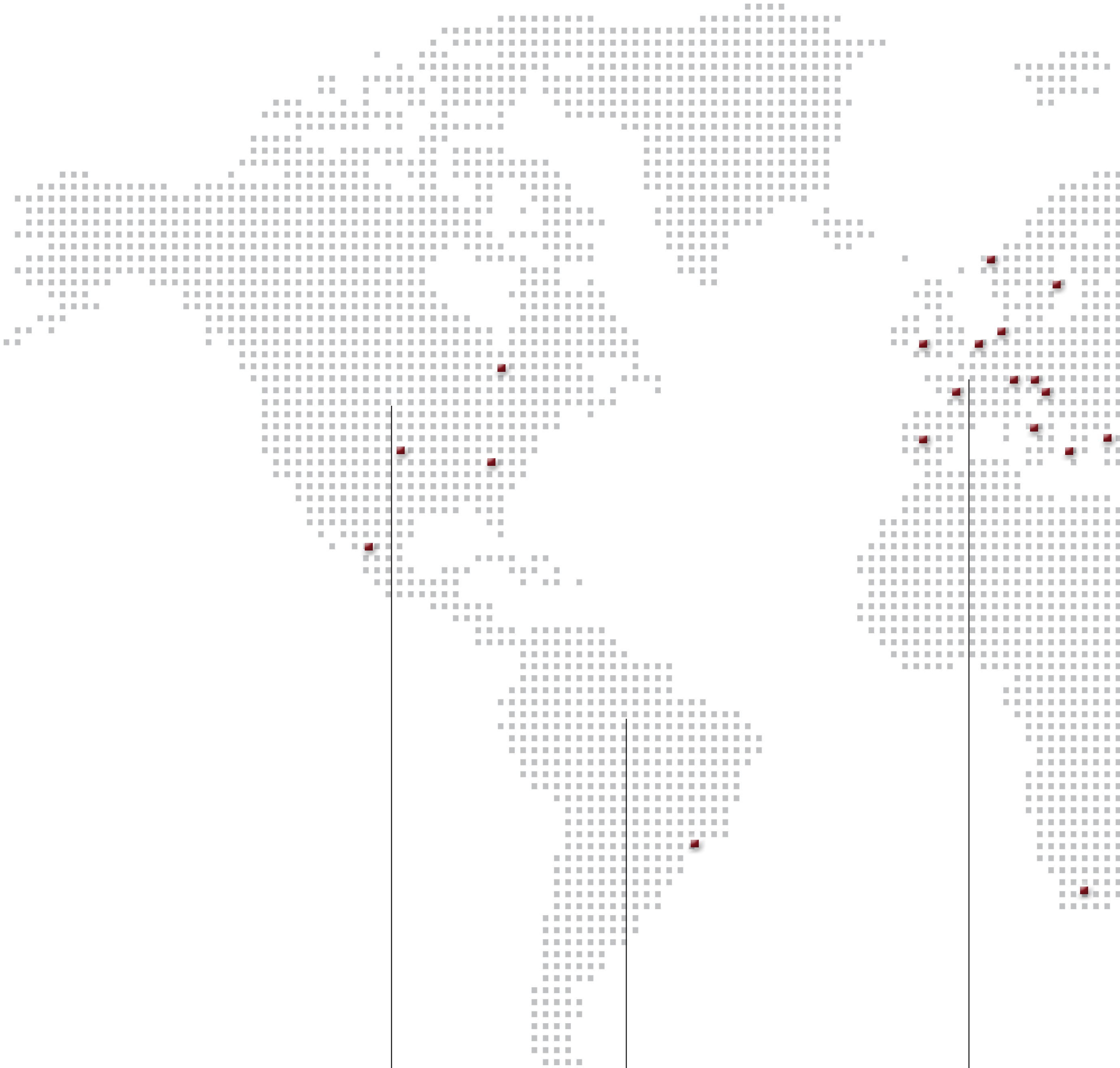
Rheinmetall Group indicators

		2008	2009	2010	2011	2012
Sales	*€ million*	3,869	3,420	3,989	4,454	4,704
Order intake	*€ million*	3,780	4,649	3,974	4,189	5,311
Order backlog (Dec. 31)	*€ million*	3,683	4,940	5,136	4,950	5,405
EBITDA	*€ million*	411	180	464	538	495
EBIT	*€ million*	245	15	297	354	301
EBT	*€ million*	193	(46)	229	295	239
Net income	*€ million*	142	(52)	174	225	190
Cash flow	*€ million*	308	120	344	402	372
Capital expenditures	*€ million*	200	145	189	207	238
Amortization/depreciation/impairment	*€ million*	166	165	167	184	194
Total equity	*€ million*	1,080	1,134	1,355	1,546	1,461
Total assets	*€ million*	3,612	3,835	4,460	4,832	4,899
EBIT margin	*in %*	6.3	0.4	7.4	7.9	6.4
ROCE	*in %*	12.5	0.8	14.6	14.9	11.7
Stock price, annual high	€	53.81	44.74	60.17	66.46	47.23
Stock price, annual closing	€	22.90	44.74	60.17	34.24	36.40
Stock price, annual low	€	16.82	20.41	42.50	30.35	31.36
Earnings per share (EpS)	€	4.09	(1.60)	4.23	5.55	5.00
Dividend per share	€	1.30	0.30	1.50	1.80	1.80
Employees (Dec. 31) according to capacity		21,020	19,766	19,979	21,516	21,767

Rheinmetall stock price trend in comparison to DAX and MDAX



An overview of the Rheinmetall Group



North America

Canada
Mexico
USA

South America

Brazil

Europe

Austria
Czech Republic
France
Germany
Great Britain
Greece
Italy
Netherlands
Norway
Sweden
Switzerland
Spain

Africa
South Africa

Asia
China
India
Japan
Malaysia
Singapore
UAE

Australia

Defence

Combat Systems
Combat Platforms
Infantry
Protection Systems
Propulsion Systems
Combat International

Electronic Solutions
Air Defence Systems
Defence Electronics
Electro-Optics
Simulation and Training

Wheeled Vehicles
Logistic Vehicles
Tactical Vehicles
Customer Service

Automotive

Hardparts
Pistons
Aluminum-Technology
Plain Bearings
Large-Bore Pistons

Mechatronics
Pierburg
Pierburg Pump Technology

Motorservice
International
Domestic

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Report of the Supervisory Board

»Cooperation between the Supervisory Board and Executive Board – a continuous dialog«
The Supervisory Board regularly advised the Executive Board on the management of the Company in the 2012 fiscal year, scrutinizing and carefully monitoring its management in line with the tasks and duties assigned to it in accordance with the law, the Company bylaws, the German Corporate Governance Code and the Supervisory Board rules of procedure. Communication between the Executive Board and Supervisory Board was trusting and constructive.

The Supervisory Board and committees met a total of 18 times in 2012, including five regular Supervisory Board meetings, one extraordinary meeting and 12 committee meetings, and looked in detail at the business trend, earnings and financial position, economic developments, general conditions for international competition and opportunities and risks on regional growth markets. As well as the Group's strategic and corporate orientation and the structural development of the Defence and Automotive sectors, discussions focused on how to ensure competitiveness and future viability of the six divisions. The employment situation, risk situation and risk management were also discussed, as was compliance at the Company. Developments on the capital and foreign exchange markets and the resulting changes and uncertainty in the economic environment were also examined.

The members of the Supervisory Board performed their activities with a great sense of responsibility and dedication. No member of the Supervisory Board attended fewer than half the meetings. With three exceptions, all committee meetings in the year under review were attended by all members.

Members of the Supervisory Board had adequate opportunity at all times to examine thoroughly informative documents and detailed draft resolutions regarding measures or transactions of the Executive Board requiring the approval of the Supervisory Board in accordance with legal and statutory provisions and the rules of procedure. After thorough analysis and detailed discussions, the Supervisory Board made its decisions and granted its approval for the applications made on this basis.

The Supervisory Board was directly involved at an early stage in all strategic, operational and economic decisions of relevance to the Group. All general conditions and developments, measures and decisions of significance to Rheinmetall were discussed and deliberated on in detail by the Supervisory Board based on information provided by the Executive Board verbally and in writing.

Between meetings, the Supervisory Board was informed of the current situation of the Rheinmetall Group and its six divisions by means of the quarterly written reports. In addition to Supervisory Board meetings, numerous work meetings were held between the CEO and Supervisory Board Chairman, ensuring a constant exchange of information, ideas and opinions between the Supervisory Board and Executive Board. The progress of business activities was discussed, along with general economic conditions and strategic and operational targets, their economic significance for Rheinmetall and their expected impact on the Company's financial situation.

With the aid of extensive documents and presentations and the detailed information provided by the Executive Board, the Supervisory Board carried out a critical examination of the Company's management. Based on its intensive work and reviews, it is convinced of the legality and propriety of management by the Executive Board and of the performance of the organization. This includes the functionality and effectiveness of the compliance organization, the internal control system and the risk management system.

»Discussions and resolutions of the plenary assembly in 2012«

One point on the agenda of the annual accounts meeting on March 20, 2012 was discussion of the single-entity and consolidated financial statements certified by PricewaterhouseCoopers (PwC) together with the summarized management report for Rheinmetall AG and the Rheinmetall Group as at December 31, 2011 and the Executive Board's proposal for the appropriation of net income for the year. The auditors reported on the material findings and results of their audits. Both the Executive Board and PwC provided comprehensive answers to the questions of the Supervisory Board. After considering the Company's financial situation and the expectations of shareholders and the capital market, the Supervisory Board approved the Executive Board's proposal for appropriation of net income. The draft proposals to be submitted to the 2012 Annual General Meeting were also discussed, particularly the nominations put forward by the Nomination Committee for candidates to represent the shareholders and the amendments to the bylaws regarding Supervisory Board remuneration, which were approved following detailed discussion. The Supervisory Board was also kept informed of the activities of Internal Auditing in fiscal 2011, the underlying organization and the result of the quality assessment conducted in November 2011 in accordance with the requirements of Deutsches Institut für Interne Revision e.V. (DIIR - German Institute for Internal Auditing). The Chief Compliance Officer also presented the compliance report for 2011 and gave an overview of the status of the compliance organization. The Supervisory Board updated its rules of procedure, which were last amended in December 2009, on its own account.

The extraordinary meeting of the Supervisory Board on May 7, 2012 dealt with the future strategic and operational orientation of the Automotive sector. The Executive Board reported on the status of its deliberations regarding a possible IPO of KSPG AG, outlining the pros and cons and providing an overview of further action after approval of the proposed measures. After detailed discussion of the advantages and disadvantages, the Supervisory Board approved an IPO of KSPG on various conditions, as part of which Rheinmetall would initially retain a majority stake in KSPG and would then gradually cede control. To be able to respond quickly to possible changes in the stock market environment, the plenary assembly transferred all tasks in connection with the planned initial public offering (IPO) to the Audit Committee and authorized it to make all further decisions on behalf of the Supervisory Board.

The second ordinary Supervisory Board meeting of the year took place on May 14, 2012. Points on the agenda included preparation for the shareholders' meeting the following day and information regarding the economic development of the Rheinmetall Group in the first quarter of 2012. On the recommendation of the Personnel Committee, the Supervisory Board appointed Armin Papperger, Chairman of the Defence Sector and a member of the Executive Board of Rheinmetall AG since January 1, 2012, as successor to Klaus Eberhardt as CEO of Rheinmetall AG with effect from January 1, 2013. It also appointed him as Director of Industrial Relations from the same date. The Supervisory Board followed the proposal of the Personnel Committee and appointed Helmut P. Merch as a member of the Executive Board of Rheinmetall AG for five years from January 1, 2013. He replaces Dr. Herbert Müller on this board, where he will be responsible for finance and controlling. The Executive Board also reported on the status of the planned IPO of KSPG AG, explained the conditions and the schedule for the IPO, along with current general conditions, and provided information on the stock market environment.

Following the Annual General Meeting on May 15, 2012, the newly elected Supervisory Board held its constitutive meeting. The members of the Supervisory Board elected Klaus Greinert as Chairman and Dr. Rudolf Luz as Vice Chairman of the Supervisory Board. Furthermore, elections were held for the other shareholder and employee representatives for the Personnel, Audit, Mediation and Nomination Committees in accordance with the law and the Supervisory Board's rules of procedure.

Report of the Supervisory Board

On August 30, 2012, the Executive Board reported on the Group's business development in the first half of 2012 and its expected performance for 2012 as a whole. The Executive Board also outlined the planned strategic and operational realignment of the Tracked Vehicles division. It presented the results of the situation and site analysis and highlighted the need to improve structures and processes on a sustainable basis with a profound and comprehensive restructuring concept, to secure the division's competitiveness and technological leadership. Compliance issues were also discussed. In addition, the Executive Board reported on the rating situation of the Rheinmetall Group based on its Moody's credit rating, and explained methods, parameters, criteria, factors and adjustments.

At the last meeting of the year on December 11, the Executive Board presented its report for the third quarter of 2012. It informed the plenary assembly of the Rheinmetall Group's current business situation and gave its outlook for the remaining months of the fiscal year. The Supervisory Board was then informed in detail of the medium-term corporate planning for 2013 to 2015, including financial, capex and HR planning, and the assumptions made by the Executive Board in preparing this corporate plan were discussed extensively. This included the plausibility of the forecasts presented and of opportunities and risks. The Supervisory Board approved the investment plan submitted for the 2013 fiscal year. It also passed a resolution to mandate PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch, which was elected at the Annual General Meeting on May 15, 2012, to audit the single-entity financial statements, the consolidated financial statements and the summarized management report for Rheinmetall AG and the Rheinmetall Group for the 2012 fiscal year. On the recommendation of the Personnel Committee, Dr. Gerd Kleinert was reappointed as a member of the Executive Board of Rheinmetall AG for the period from July 1, 2013 to December 31, 2013. The Supervisory Board also passed various resolutions regarding components of Executive Board remuneration.

Moreover, the Supervisory Board carried out its annual review of the efficiency of its activities, which included looking at procedures in the Supervisory Board, the distribution of duties and the flow of information between the Board and its committees, the routing of information from the Executive Board and the interaction of the two boards. No need to adjust the number of meetings or committees was identified as a result of the 2012 audit. In the opinion of the Supervisory Board, no changes were required with regard to the preparation, content and procedures of meetings. The Supervisory Board also noted that it included an adequate number of independent members, based on its assessment.

»Activities of the committees in 2012«

In addition to the Mediation Committee that is required by law, the Supervisory Board has set up a further three committees (the Audit, Personnel and Nomination Committees) to support it with its tasks and improve its efficiency. The members of these committees relieve the burden of work of the Supervisory Board by preparing time-consuming topics requiring extensive discussion for meetings of the plenary assembly and examining draft proposals in advance. The committees act in accordance with the law, the Company bylaws, the rules of procedure adapted to the duties of the Supervisory Board and the rules of procedure of the respective committee. In appropriate cases, the Supervisory Board's authority to pass resolutions has been transferred to individual committees where legally possible.

With the exception of the Nomination Committee, which consists of two shareholder representatives, the committees are based on joint representation, with two shareholder representatives and two employee representatives. The Supervisory Board Chairman presides over all committees. He informed the Supervisory Board of each of their activities in the subsequent plenary meeting. The composition of these committees is presented on page 59.

The Personnel Committee, which is responsible for matters relating to the Executive Board and which prepares personnel decisions of the Supervisory Board and resolution recommendations regarding the remuneration system and components of remuneration for the Executive Board, met in March, April, twice in May and in November 2012. During the year under review, the committee dealt with the achievement and agreement of targets for members of the Executive Board, issues relating to Executive Board remuneration and pension arrangements and long-term succession planning for the Executive Board. As well as the appointment of Armin Papperger as CEO and as Director of Industrial Relations from January 1, 2013, committee members prepared for the appointment of Helmut P. Merch as head of Finance and Controlling at Rheinmetall AG from January 1, 2013 and the extension of the appointment of Dr. Gerd Kleinert as a member of the Executive Board of Rheinmetall AG by six months until December 31, 2013. The Personnel Committee also prepared the corresponding contracts of employment.

At its meetings in March, April, August, November and December 2012, the Audit Committee addressed the single-entity and consolidated financial statements and the Executive Board's proposal for the appropriation of net income and the dividend, monitoring the accounting process and the effectiveness of the internal control system, the risk management system and the internal auditing system. Prior to publication, the quarterly results were discussed in detail with the Executive Board. The Audit Committee obtained the declaration of independence from the auditors required in accordance with the German Corporate Governance Code and prepared the Supervisory Board's proposal to the Annual General Meeting for the election of the auditor for fiscal 2012. Other issues discussed at meetings included developments of the risk management and compliance management system. At the December meeting, the head of Group auditing reported as scheduled on the results of the 2012 audits, the activities of Internal Auditing in the year under review and the planning of audits for 2013. The Chief Compliance Officer also presented the compliance report for 2012 and gave an overview of the status of the compliance organization.

It was not necessary to convene the Mediation Committee formed in accordance with Section 27 (3) of the German Codetermination Act (MitbestG) during the past fiscal year.

The Nomination Committee, which comprises shareholder representatives and which submits to the Supervisory Board a slate of suitable Supervisory Board candidates for election by the Annual General Meeting in the event of upcoming re-elections, met twice in 2012. It discussed possible candidates, drew up proposals for the shareholders' side and presented these to the plenary assembly.

»Corporate governance in 2012«

At its meeting on August 30, 2012, the Supervisory Board examined the contents of the German Corporate Governance Code as amended up to May 15, 2012. The annual declaration of conformity to be submitted together with the Executive Board in accordance with Section 161 of the German Stock Corporation Act (AktG) regarding compliance with the recommendations of the German Corporate Governance Code at Rheinmetall AG was approved and made permanently available for shareholders to view on the internet at www.rheinmetall.com. It is also published on page 55 of this annual report.

The Company confirmed that, since it issued its last declaration in December 2011, it has carried out all recommendations of the German Corporate Governance Code as at May 26, 2010. It declares that it has complied with the recommendations of the current version of the Code dated May 15, 2012, with the exception of Item 5.2 (2), and that it will continue to comply with them in future, and has given reasons for the deviation.

Report of the Supervisory Board

In their combined corporate governance report, the Executive Board and Supervisory Board provide information on corporate governance at Rheinmetall in accordance with Item 3.10 of the current German Corporate Governance Code on pages 55 to 62.

There have been no indications of conflicts of interest relating to mandates among members of the Supervisory Board or Executive Board in fiscal 2012 in connection with advisory activities or positions on the boards of other companies which would need to be disclosed to the Supervisory Board immediately and notified in the Annual General Meeting. No former members of the Executive Board of the Company belong to the Supervisory Board.

The auditor submitted a declaration of independence in accordance with Item 7.2.1 of the German Corporate Governance Code. The requirements of Item 7.2.3 of the German Corporate Governance Code regarding the contractual relationship between the Company and the auditor have been fulfilled. During the audit of the annual financial statements, no inaccuracies were noted in the declaration submitted by the Executive Board and Supervisory Board regarding the German Corporate Governance Code.

»Changes in the Executive Board«

Armin Papperger, previously a member of the Management Board Defence, has been a member of the Executive Board of Rheinmetall AG since January 1, 2012. As the new Chairman of the Management Board Defence, he will be the Executive Board member responsible for the Defence sector, which up to December 31, 2011 was managed by Klaus Eberhardt, CEO of Rheinmetall AG. Klaus Eberhardt und Dr. Herbert Müller retired on December 31, 2012. The Supervisory Board would like to thank them both for their many years of dedicated and successful work in leading the Company.

»Changes in the Supervisory Board in 2012«

In accordance with the provisions of the German Stock Corporation Act and the 1976 Codetermination Act, the appointment of all acting members of the Supervisory Board expired at the end of the Annual General Meeting on May 15, 2012, with the exception of the mandates of Dr. Siegfried Goll, Detlef Moog and Toni Wicki.

New elections for the employee representatives on the Supervisory Board were held on March 21, 2012, after which employees are now represented by five operational seats, one member for managerial staff and two positions for trade unions. Heinrich Kmett, Dr. Rudolf Luz, Dr. Michael Mielke, Wolfgang Müller, Harald Töpfer and Wolfgang Tretbar were confirmed in their posts. Julia Cuntz succeeded Joachim Stöber, who retired, while Roswitha Armbruster was elected to replace Peter Winter on the Supervisory Board.

The Annual General Meeting on May 15, 2012 followed the proposals of management and elected Professor Andreas Georgi, Klaus Greinert, Dr. Peter Mitterbauer and Professor Frank Richter to the Supervisory Board as shareholder representatives, along with Professor Susanne Hannemann as a new member, replacing Dr. Peter Mihatsch. The Supervisory Board would like to thank the members who have left the Board for their many years of trusting cooperation, their commitment and their expert advice in the interests of the Company.

»Single-entity and consolidated financial statements for 2012«

In December 2012, in accordance with the resolution of the Annual General Meeting on May 15, 2012, the Supervisory Board mandated PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch, to audit the single-entity and consolidated financial statements together with the summarized management report for Rheinmetall AG and the Rheinmetall Group for fiscal 2012. The scope and focal areas of the audit had been decided on in advance by the Audit Committee.

The single-entity financial statements prepared by the Executive Board in accordance with German GAAP as at December 31, 2012 and the consolidated financial statements prepared on the basis of Section 315a of the German Commercial Code (HGB) in conformity with International Financial Reporting Standards (IFRS) as adopted by the EU, together with the summarized management report for Rheinmetall AG and the Rheinmetall Group, including the accounts, were audited by Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in accordance with statutory regulations and were issued with an unqualified auditor's opinion. The auditor conducted the audit in accordance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW).

All members of the Supervisory Board were presented with the single-entity and consolidated financial statements documentation, the draft proposal on the appropriation of net income and the audit reports submitted by the auditors in good time in order to ensure an in-depth, thorough review.

The statutory audit report contains no mention of, or reference to, any misstatement or misrepresentation in the declaration of conformity according to the German Corporate Governance Code.

The statutory auditors who signed the audit reports were present at the meeting of the Audit Committee on March 12, 2013 and at the annual accounts meeting of the Supervisory Board on March 19, 2013. They reported in detail on the scope, focal points and results of their audit and provided additional information.

The audit performed in line with Section 91 (2) AktG concluded that the Company has an appropriate early risk identification system that conforms to statutory regulations. The auditor confirmed that the methods applied by the Company for the management, identification and monitoring of risks incurred are suitable for these purposes and that the summarized management report for Rheinmetall AG and the Rheinmetall Group presents a true, fair and reasonable view of the risks and opportunities of Rheinmetall's future development.

In accordance with the conclusive findings of its own review and on the basis of the Audit Committee's report and recommendation, the Supervisory Board concurred with the statutory auditor's conclusions and approved the single-entity and consolidated financial statements for fiscal 2012. The single-entity financial statements have thus been adopted under the terms of Section 172 AktG. The Supervisory Board approved the summarized management report, particularly the assessment of Rheinmetall's further development. It also approved the Executive Board's proposal for the appropriation of net income for the year, including the distribution of a dividend of €1.80 per share for the year under review.

Rheinmetall held its ground well and fulfilled expectations in 2012 despite challenging conditions in terms of the market and competition. The members of the Supervisory Board wish to thank the customers of companies in the Rheinmetall Group and shareholders for the confidence they have shown. The Supervisory Board would like to express its gratitude to the Executive Board, executives and employees for their enthusiastic involvement and their high level of personal commitment and thanks them for their successful work in ensuring the well-being of the Company and the shareholders.

Düsseldorf, March 19, 2013
On behalf of the Supervisory Board

Klaus Greinert
Chairman

Rheinmetall on the capital markets

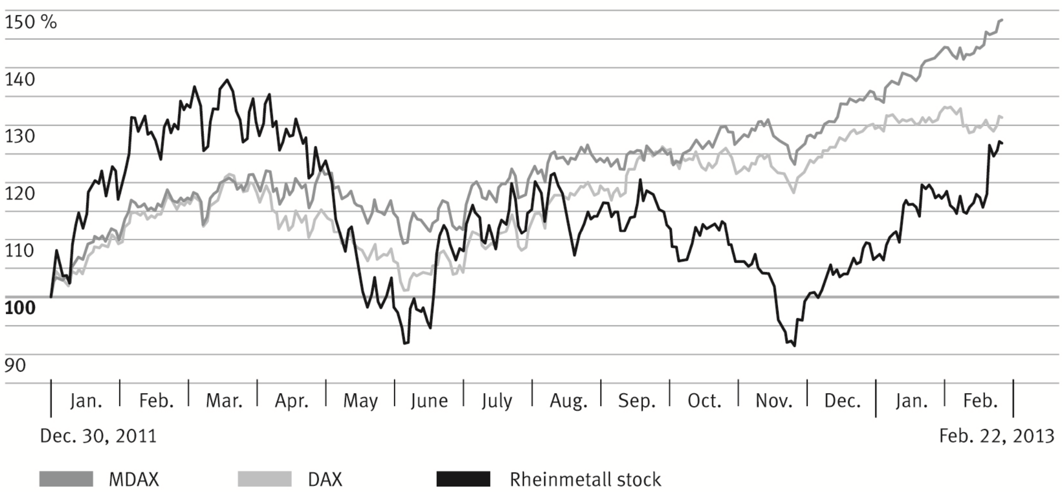
»2012 ON THE STOCK MARKETS«

Stock market trading in 2012 initially saw a trend towards a recovery following the marked decline in the second half of 2011. The DAX recorded strong gains up to mid-March, reaching its highest level in the first half of the year with 6.625 points on April 16, which represented an increase of 21%. However, the index then fell again from early May. Factors that had a negative impact were doubts about the stability of the euro zone sparked by the government crises in Italy and the Netherlands, the presidential elections in France, the situation of Spanish banks and negative economic data. These factors brought the DAX down to an annual low of 5,914 points on June 5, 2012.

The MDAX rose even more sharply than the DAX from the beginning of 2012. It had grown by 23% by May 2, when it peaked at 10,977, its highest level in the first half of the year. In line with the DAX, it then recorded a significant drop to 9,630 points.

The victory of parties that support the euro in the Greek parliamentary elections and the EU summit's agreement on a further rescue package for Greece in June 2012 once again boosted investors' confidence in the capital markets. The announcement by the president of the European Central Bank (ECB) at the end of July that he would do whatever is necessary to preserve the euro sent out another positive signal. The indices recorded gains and continued this trend during the second half of the year, apart from a brief dip in November due to fears about the US fiscal cliff. The DAX reached its annual high of 7,672 points on December 20, 2012 and closed 2012 up 31% compared with 2011, at 7,612 points. The MDAX had gained 41% by the end of the year, closing at 11,914 points. The index reached its annual high of 12,086 points on December 19, 2012.

December 30, 2011 (100%), through February 22, 2013

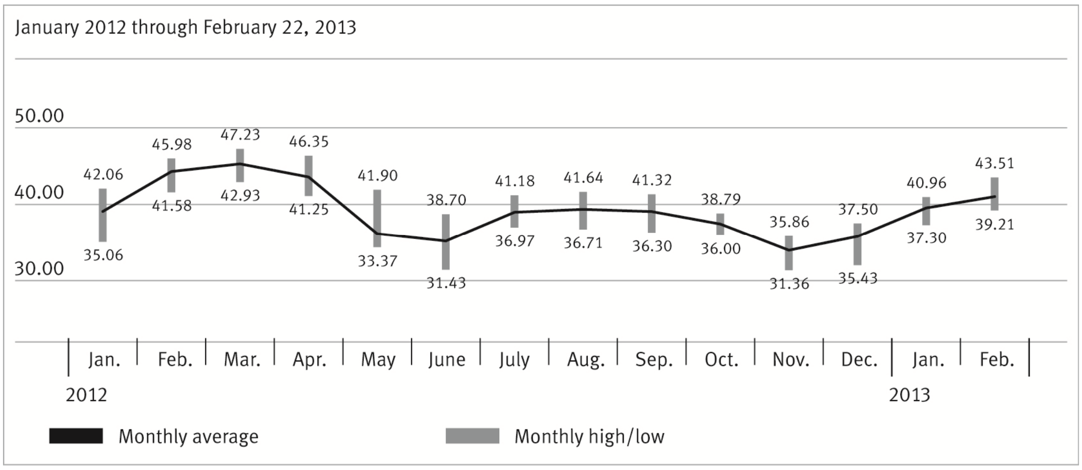


»RHEINMETALL SHARE PRICE TRADING«

Rheinmetall AG shares, which have the securities identification number 703000 (ISIN Code DE0007030009), are traded mainly via Xetra and on all German exchanges, i.e. in Hamburg, Berlin-Bremen, Düsseldorf, Frankfurt am Main, Stuttgart and Munich. According to Bloomberg, 39.2% of the trading volume of Rheinmetall AG shares was processed via Xetra in 2012, compared with 43.6% in 2011. The importance of alternative trading platforms has also increased: BOAT now accounts for 28.4% (2011: 25.7%), Chi-X for 15.1% (2011: 10.4%), Turqoise for 3.9% (2011: 3.1%) and BATS Europe for 3.0% (2011: 3.2%).

»Rheinmetall share price performance«

Rheinmetall shares ended the 2012 fiscal year up 6%, reaching their closing value for the year of €36.40 on December 28. The share price rose significantly in the first few months of 2012, outperforming the DAX and MDAX indices in the first quarter. It reached its annual high of €47.23 on March 15, 2012. A rapid and substantial decline then began, which was more severe than the drop in the two indices. This reaction in the share price was linked to the publication of the Company's figures for the first quarter on April 27 and the announcement of the planned IPO for the Automotive sector on May 7. The capital market days on June 14 and 15, 2012 improved confidence in the shares once again. The share price had risen to €41.64 by August 7, its highest level in the second half of 2012. A downward trend then brought the share price down to its annual low of €31.36 on November 16. This decline was accompanied by the publication of the half-yearly report on August 10, Rheinmetall's announcement on September 14 that it does not believe the conditions for an IPO of the Automotive sector will be fulfilled in the foreseeable future and the response to the figures for the third quarter of 2012, which were published on November 9. Since then, there has been a significant rise in the share price, which has continued into 2013. On February 22, 2013, the closing price stood at €41.47.



»Ranking in the MDAX«

In accordance with the guidelines of Deutsche Börse, a stock corporation's membership of an index depends mainly on two criteria: the market capitalization of freely tradable shares and the trading volume of shares.

The market capitalization is determined based on the number of shares issued, the percentage of free float and the share price. The number of shares in Rheinmetall AG remained constant at 39,599,000. The percentage of free float dropped from 96.6% at the end of 2011 to 95.2% at the end of 2012, resulting in a stock market value of around €1.4 billion based on a closing share price of €36.40 for the year.

In terms of trading volume, Rheinmetall shares were ranked among the top quarter of MDAX stocks at the end of the year – as in 2011 – in 12th place. The average daily trading volume of Rheinmetall shares fell slightly year-on-year in 2012 to around 271,000 shares (2011: around 276,000 shares).

Rheinmetall on the capital markets

»Dividend distribution for fiscal 2012«

Rheinmetall allows its shareholders to enjoy an appropriate share of the Group's earnings, and pays a dividend adjusted to the results for the respective fiscal year. At the Annual General Meeting on May 14, 2013, the Executive Board and Supervisory Board will propose a dividend payment of €1.80 per share (2011: €1.80). The total amount paid out will be €68 million (2011: €69 million). Subject to approval by shareholders, the dividend will be paid the following day. The Company is thus continuing the shareholder-friendly dividend policy that it has pursued for many years. Based on the closing price of the shares of €36.40 at the end of 2012 (2011: €34.24), this results in a dividend yield of 5.0% (2011: 5.3%). The payout ratio, i.e. the dividend in relation to earnings per share, will therefore stand at over 30% once again.

»Disclosures regarding the amount of the share of voting rights«

In fiscal 2012, investors informed the Company that they had exceeded or dropped below the reporting thresholds for changes in the share of voting rights that need to be disclosed in accordance with Section 21 and, for the first time since its introduction on January 1, 2012, Section 25a of the German Securities Trading Act (WpHG). Rheinmetall AG notified the capital markets of this in accordance with Section 26 of the German Securities Trading Act (WpHG) and also informed the general public on its website.

On February 22, 2013, the major shareholder in the Rheinmetall Group was the investment company Harris Associates L.P., Chicago, USA, with more than 10% of Rheinmetall shares.

»Treasury stock«

Rheinmetall AG continued to exercise its right to acquire treasury shares in fiscal 2012, in accordance with the authorization granted to the Company by the Annual General Meeting on May 11, 2010. This authorizes the Executive Board to acquire treasury bearer shares equivalent to a maximum of 10% of the share capital of €101,373,440 up until May 10, 2015.

The proportion of own shares held as treasury stock was 4.8 % (1,881,647 shares) on the balance sheet date for 2012, compared with 3.4 % or 1,350,842 shares at the end of 2011. In 2012, the Company purchased 800,319 shares (2011: 333,025), of which 106,798 (2011: 169,743) shares entered the employee share purchase program and 162,716 (2011: 105,638) shares were used for the long-term incentive program. As at February 22, 2013, 1,881,647 shares or 4.8 % were held as treasury stock by Rheinmetall AG.

»Annual General Meeting for 2012«

Shareholders representing a total of 57.08% of the share capital (2011: 56.99%) of Rheinmetall AG were represented at the Annual General Meeting in Berlin on May 15, 2012. Given the comparatively high free float at Rheinmetall AG, the attendance rate was thus once again high. Shareholders voted in favor of the proposals of management with significant majorities of between 83.7% and 99.8%.

»Investor Relations«

The aim of the Rheinmetall Group's capital market communication is to inform shareholders, potential investors, analysts, fund managers and bank representatives regularly, promptly and comprehensively of developments that are of relevance to the market and, in so doing, to lay the groundwork for a fair and reasonable assessment of the Rheinmetall share on the capital market. Investor relations activities in 2012 focused on presenting the Company at important international financial market centres. The Executive Board and investor relations team answered investors' questions at a total of 17 investor conferences in locations including London, Frankfurt am Main, Paris, Zurich and New York. The focus was on outlining the current business situation, products, markets and potential of the two corporate sectors and strategic and operational measures to ensure growth.

An important event in 2012 was the Capital Markets Day on June 14 and 15 in Düsseldorf, which concentrated on the development of the Defence sector. It was combined with a visit to "Eurosatory", Europe's largest defence fair, which was taking place at the same time in Paris. The Executive Board and representatives of operational management in the Defence sector gave a comprehensive insight into market trends, the business situation, strategy and prospects and were available for discussions.

Other important dates in the investor relations calendar included telephone conferences to report on quarterly results and the accounts press conference on March 21, 2012, at which the figures for the 2011 fiscal year were presented.

The Annual General Meeting provides the opportunity to discuss matters with private investors, who can also contact the Investor Relations department with questions by telephone, in writing or by e-mail all year round.

»Recommendations from reputable analysts regarding Rheinmetall shares«

The attractiveness of Rheinmetall shares was once again reflected in the extensive coverage by international brokerages in 2012. 24 equity research analysts monitored Rheinmetall and published regular studies on the Company's current development. In December 2012, 11 analysts gave Rheinmetall shares a "buy" rating, while a further 11 recommended holding the shares. To avoid conflicts of interest, some brokers had temporarily discontinued their coverage of Rheinmetall shares because they were involved in preparations for the IPO of the Automotive sector. The "Investor Relations" section of the Rheinmetall AG website provides information on the latest recommendations.

General economic conditions

»Global economy loses momentum – risk levels still high due to euro debt crisis«

The worldwide economy noticeably lost momentum in the course of 2012. Accordingly, both important international organizations and leading economic research institutes revised their economic forecasts downwards, in some cases significantly. At the end of November 2012, for example, the Organization for Economic Cooperation and Development (OECD) calculated that its 34 member states would record growth of 1.4% in the 2012 fiscal year, having forecast growth of 1.6% in May 2012. The euro debt crisis once again had the biggest negative impact on the global economy in 2012, while the budget dispute that had been smoldering in the USA for months was defused at the end of 2012/beginning of 2013.

For the USA, the OECD experts calculated that gross domestic product would grow by 2.2 % in 2012. Japan, which has gradually recovered from the consequences of the previous year's severe earthquake and tsunami, recorded growth of 1.6 % in 2012 according to the OECD's calculations. However, the figures for the euro zone were sobering. At the end of November 2012, the OECD lowered its spring forecast, which was already weak, by 0.3 percentage points to minus 0.4%. The euro zone slid into a recession according to the official definition in the third quarter of 2012. In crisis-hit countries in southern Europe especially, there was still no light at the end of the tunnel. Even Germany, the driving force behind growth, began to run out of steam in 2012. According to the OECD, German gross domestic product grew by only 0.9% year-on-year. The OECD experts were thus more or less in line with the fall report of leading German economic research institutes, which was presented in October 2012 and which showed growth of 0.8% for 2012. The ifo business climate index, which serves as a leading indicator of economic development in Germany, sent out a positive signal at the end of the year. The index, which measures the business climate in the manufacturing sector, rose for the second time in a row in December 2012, putting it above the comparative figure for August 2012 for the first time.

Although economic development in emerging countries such as China and India had slowed compared with the previous year, it continued to be characterized by relatively high growth rates in 2012. China in particular was once again a key driver of the global economy, with growth of 7.5% in its gross domestic product. India recorded growth of 4.5% in 2012 according to the OECD, while Brazil's economic output increased by 1.5%.

»Global defence spending around the same as last year«

Developments in global defence spending were characterized by two contradictory effects in 2012. On one hand, major austerity measures continued in many countries, while on the other hand, demand for technical modernization remained high in many armed forces. This can be explained not least by the typically asymmetrical conflict situations in the 21st century. For example, peacekeeping and stabilization troops are exposed to attack tactics that they counter with superior technology and the highest possible level of protection.

On balance, worldwide defence spending remained at around the previous year's level in 2012. According to the calculations of defence analysts at IHS Jane's in January 2013, global defence budgets for 2012 totaled around USD 1,590 billion, compared with the total figure of approximately USD 1,607 billion calculated for 2011. Despite the strain on its budget, even the USA, the country that spends the most on defence worldwide, continued to invest heavily in the modernization of its armed forces. The US defence budget dropped from around USD 696 billion in the previous year to around USD 646 billion in 2012, according to IHS Jane's. While the budget for foreign deployments was cut significantly, however, basic spending in the US defence budget actually rose slightly in 2012, from USD 528 billion in 2011 to USD 531 billion in the year under review.

For most European countries, IHS Jane's has calculated that defence spending stagnated or declined slightly in 2012. The defence budget in Germany for 2012 was €31.9 billion, slightly higher than the previous year's budget of €31.5 billion. Investment in defence amounted to €7.4 billion and was thus similar to the previous year, while its share in the overall defence budget totaled 23.1%, compared with 23.5% in 2011.

According to the calculations of IHS Jane's, the defence budgets of emerging countries such as Brazil, Mexico, Russia, India and Indonesia in particular were increased substantially in 2012, although other important markets for the Defence sector such as Sweden, Norway, Poland, Turkey and the United Arab Emirates also increased their budgets in the year under review.

»Rheinmetall Defence active in growth segments«

Despite stagnating defence budgets in many countries, further growth opportunities arose for Rheinmetall Defence in 2012, which the Company consistently exploited. As a leading European systems supplier for armed forces technology, Rheinmetall further strengthened its position as a partner to the armed forces for the technical modernization of equipment. As a prime example of this, Rheinmetall Defence was commissioned in 2012 by the German armed forces as part of the "Future Soldier – IdZ 2" to supply state-of-the-art equipment for soldiers in a contract worth around €50 million. The order also includes an option for further systems worth around €80 million, which is to be exercised in 2013. This high-tech equipment, which is called "Gladius", allows individual infantry groups and their vehicles to be included in network-enabled operations.

Rheinmetall Defence also expanded its strategic operations in North America in 2012. Among other activities, Rheinmetall is involved in a major procurement project of the Canadian armed forces and is responsible for the subassembly and inspection of 500 armored patrol vehicles of the tactical armored patrol vehicle type from a US manufacturer. Among other activities, Rheinmetall is involved in a major procurement project of the Canadian armed forces and is responsible for the subassembly and inspection of 500 armored patrol vehicles of the tactical armored patrol vehicle type from a US manufacturer.

»Automotive markets: Asia and North America recording growth, Western Europe still weak«

The automotive industry had to deal with the conflicting areas of high growth in North America and Asia, stagnation in South America and significant decline in Western Europe in 2012. The President of the Association of the German Automotive Industry (VDA), Matthias Wissmann, therefore spoke at the end of the year of developments with "positives and negatives": "The automotive industry outside Europe is very dynamic, and the German automotive sector is benefitting disproportionately from this." He said that this dynamism was being driven mainly by the Chinese market, while a second growth area was the key US market, which had regained strength. At the same time, he believed that the "ongoing issue" of the debt crisis in Western and Southern Europe was negatively affecting sentiment among Germans.

This assessment is consistent with the calculations of sector analyses carried out by IHS Automotive for global production of passenger cars and light commercial vehicles up to 3.5t. According to these, worldwide production grew by 6.2 % in 2012 to around 79.5 million vehicles. In the triad markets of Western Europe, NAFTA and Japan, production figures rose by 6.5%.

General economic conditions

The North American market continued its upward trend in 2012, recording growth in production of 16.8% year-on-year. Japanese manufacturers were also working flat out in the year under review. Growth of 19.2% was recorded in Japan, driven by catch-up effects resulting from the previous year's earthquake and tsunami disaster. In contrast, the Western European market went into decline in 2012. Hindered by the debt crisis in the euro zone, automotive production in Western Europe was down 9.3 % on the previous year, which had already been weak.

Even Germany did not fully escape the downward trend, despite being comparatively robust. German production figures for 2012 were down 5.2 % on the previous year. The VDA President described developments on the German market as follows in January 2013: "In the last few months in particular, manufacturers have cut back production more than is actually necessary based on current market demand. In doing this, they are pursuing the aim of reducing inventories of passenger cars."

Once again, growth in the automotive industry was boosted significantly in 2012 by Asia, particularly the major emerging markets of China and India. Experts at IHS Automotive calculated that Chinese production grew by 7.6 %, while the Indian market achieved growth of 8.5 %. The Russian automotive market recovered further in 2012, which was reflected in significant growth of 9.1 % in production. Automotive production in Brazil failed to match the growth dynamic of the other major emerging countries in 2012, only slightly surpassing the previous year's level with growth of just 0.9%.

»Position on growth markets pays off - KSPG continues growth«

In view of the weakness of the Western European automotive market, the consistent internationalization strategy of the Automotive sector once again paid off in 2012. A good example of this is the sector's strong position on the Chinese market, which it expanded further in the year under review. As KSPG is not merely involved in joint ventures in China, but also has an independent market presence through several wholly owned subsidiaries, Rheinmetall Automotive opened a head office for all its Chinese subsidiaries with the "KSPG House" in Zhangjiang (Pudong District) in 2012. Administrative functions are combined there and synergies are achieved in development, sales and marketing.

Furthermore, KSPG benefitted in 2012 from its focus on systems and components, to reduce fuel consumption and emissions. Series production began successfully for a large number of customer projects in this market segment at KSPG in 2012, for both passenger car and truck applications. Examples include variable oil and water pumps, EGR systems and steel pistons. One particular highlight was the launch of an exhaust gas flap for diesel engines for a German manufacturer with an order value of a medium nine-figure sum in euro.

Rheinmetall Group business trend

»Key events in fiscal 2012«

Rheinmetall AG reviewed the sustainability of the Company's two-pillar strategy with its Automotive and Defence sectors in summer 2011. In this context, Rheinmetall examined in particular the option of an IPO of KSPG AG, which represents the Automotive sector in the Rheinmetall Group. In this process, the Executive Board remained open to the possibility of retaining the current two-pillar strategy.

Rheinmetall announced in early May 2012 that it was aiming to list KSPG on the Prime Standard section of the Frankfurt Stock Exchange in the first half of 2012. After the IPO, in which only shares held by Rheinmetall were to be placed, Rheinmetall planned to maintain a majority holding in KSPG initially and then to cede control in stages.

In view of the volatility on the capital markets and political uncertainty in the euro zone, however, Rheinmetall announced in mid-September 2012 that it would not float KSPG AG in the foreseeable future.

»Rheinmetall Group sales at €4.7 billion«

The Rheinmetall Group achieved sales of €4,704 million in the year under review, compared to €4,454 million in the previous year. This represents an increase of 6 %. Rheinmetall Defence accounted for 50 % of total sales (previous year: 48 %), while Automotive accounted for 50 % (previous year: 52 %).

Sales *€ million*

	2011	2012
Rheinmetall Group	**4,454**	**4,704**
Defence	2,141	2,335
Automotive	2,313	2,369

Rheinmetall Defence achieved sales of €2,335 million in the past fiscal year, exceeding the previous year's figure by €194 million or 9 %. Adjusted for changes in the scope of consolidation, growth was down 3 %.

In 2012, the Automotive sector achieved sales of €2,369 million, following €2,313 million in fiscal 2011. Sales for the Chinese joint ventures not included in these figures grew by €90 million to €388 million. At 30 %, this growth in sales in China clearly exceeds growth in Chinese automotive production, which reached 8 % in the past fiscal year.

At 72 %, the international share of consolidated sales in fiscal 2012 was above the level of the previous year (70 %). Alongside the German market (28 %), the key regions in terms of sales volumes were Europe excluding Germany (40 %), followed by Asia (16 %) and North and Central America (10 %). In the Defence sector, 67 % of sales were generated abroad (previous year: 63 %). In the Automotive sector, the proportion of sales achieved with customers abroad rose from 76 % to 77 %.

Rheinmetall Group business trend

»Order intake in the Rheinmetall Group exceeds €5.3 billion«

Order intake in fiscal 2012 reached €5,311 million, following €4,189 million in the previous year. At €2.933 million, the Defence sector was 60 % or €1,102 million up on the previous year. The order intake of the Automotive sector rose from €2,358 million in 2011 to €2,378 million in the year under review.

Order intake *€ million*

	2011	2012
Rheinmetall Group	**4,189**	**5,311**
Defence	1,831	2,933
Automotive	2,358	2,378

»Group order backlog of €5.4 billion«

At €5,405 million, the Rheinmetall Group achieved an order backlog that was significantly up on the level of the previous year (€4,950 million). At the end of fiscal 2012, the order backlog in the Defence sector stood at €4,987 million (previous year: €4,541 million). In the Automotive sector, the order backlog as at the balance sheet date totaled €418 million, following €409 million in the previous year.

Order backlog *€ million*

	2011	2012
Rheinmetall Group	**4,950**	**5,405**
Defence	4,541	4,987
Automotive	409	418

»Rheinmetall consolidated EBIT exceeds €300 million«

In fiscal 2012, the Rheinmetall Group's earnings before interest and tax (EBIT) were €301 million (previous year: €354 million). The only time the Group has performed better was in the record-breaking year 2011. The EBIT margin was 6.4 %, following 7.9 % in the previous year. The Rheinmetall Group achieved earnings before taxes (EBT) of €239 million, down €56 million on the previous year.

With EBIT of €174 million, the Defence sector was 22 % down on the previous year (previous year: €223 million). At 7.4 % (previous year: 10.4 %), the EBIT margin failed to reach the high level seen in previous years. EBT was €159 million (previous year: €207 million).

The Automotive sector reported EBIT of €143 million, which is €8 million down on the previous year's figure. At 6.0 %, the EBIT margin was down slightly on the previous year's figure of 6.5 %. EBT was €126 million (previous year: €135 million).

The EBIT for the area Others/Consolidation includes the results for Rheinmetall AG and was burdened in fiscal 2011 by expenses of €5 million, resulting from changes in the fair value of interest rate derivatives that are not reported in hedge accounting.

EBIT *€ million*

	2011	2012
Rheinmetall Group	**354**	**301**
Defence	223	174
Automotive	151	143
Others/Consolidation	(20)	(16)

»Group net income totals €190 million«

With net interest down €3 million and after deduction of income taxes of €49 million, Group net income of €190 million was achieved in 2012 (previous year: €225 million). Following the deduction of earnings attributable to minority interests, this brings earnings per share to €5.00 (previous year: €5.55), which corresponds to a 10% decline on the previous year.

Group net income *€ million*

	2011	2012
EBIT	**354**	**301**
Net interest	(59)	(62)
EBT	**295**	**239**
Income taxes	(70)	(49)
Group net income	**225**	**190**
of which:		
Minority interests	12	0
Rheinmetall AG shareholders	213	190
Earnings per share (in €)	**5.55**	**5.00**

»Cash flow statement«

With a decline of €35 million in Group net income, 2012 saw a cash flow of €372 million (previous year: €402 million). The cash flow from operating activities was €359 million, up €69 million on the previous year.

Rheinmetall Group business trend

Operating free cash flow (defined as cash flow from operating activities less capital expenditure on intangible assets, property, plant and equipment and investment property) amounted to €125 million (previous year: €93 million). After accounting for cash receipts from the disposal of fixed assets and divestments and payments for acquisitions, the free cash flow came to €140 million (previous year: €39 million), which was up €101 million year-on-year.

Cash flow statement *€ million*

	2011	2012
Gross cash flow	**402**	**372**
Changes in working capital and other	(112)	(13)
Net cash provided by operating activities	**290**	**359**
Investments in intangible assets and property, plant and equipment	(197)	(234)
Operating free cash flow	**93**	**125**
Cash receipts from the disposal of intangible assets, property, plant and equipment and investment property	14	7
Net cash outflow from financial investments in/divestments of consolidated subsidiaries and other financial assets	(68)	8
Free cash flow	**39**	**140**

»Asset and capital structure«

In fiscal 2012, the Rheinmetall Group's total assets increased by €67 million to €4,899 million (+1%). Non-current assets represented 49% of total assets as at December 31, 2012, compared with 47% in the previous year. They rose by €108 million to €2,379 million. This rise was primarily a result of the increase in property, plant and equipment and investments. Investments increased mainly due to the first-time recognition in June 2012 of the 49% share in Rheinmetall Airborne Systems following the sale of 51%. Current assets fell by €41 million in total on the previous year, which was due in particular to a decline of €34 million in cash and cash equivalents as well as the reduction in Rheinmetall Airborne Systems as a disposal group held for sale.

Asset and capital structure *€ million*

	Dec. 31, 2011	%	Dec. 31, 2012	%
Noncurrent assets	2,271	47	2,379	49
Current assets	2,561	53	2,520	51
Total assets	**4,832**	**100**	**4,899**	**100**
Equity	1,546	32	1,461	30
Noncurrent liabilities	1,557	32	1,659	34
Current liabilities	1,729	36	1,779	36
Total equity and liabilities	**4,832**	**100**	**4,899**	**100**

The equity ratio is 30%, following 32% in the previous year. In fiscal 2012, the equity of the Rheinmetall Group fell by €85 million, or 5%, to €1,461 million. This decline resulted primarily from the actuarial gains and losses from pension provisions recognized in equity (€152 million), dividends payouts (€77 million), the purchase of treasury stock (€17 million) and other changes (€29 million). This was countered by the consolidated net profit/loss (€190 million). Of the €102 million increase in non-current liabilities to €1,659 million, €191 million is attributable to the increase in pension provisions. This was countered by the early repayment of promissory note loans (€50 million) and, at €34 million, the reduction of deferred taxes. The €50 million rise in current liabilities resulted primarily from a €107 million rise in prepayments received. Trade payables and other current liabilities decreased by a total of €41 million.

In terms of the total assets adjusted for cash and cash equivalents, the equity ratio was 33% compared to 36% in the previous year. Financial debts fell by €66 million or 10% year-on-year. This decline is attributable to the early repayment of promissory note loans. As at the balance sheet date, cash and cash equivalents totaled €501 million following €535 million on the balance sheet date of the previous year. The net financial debts for 2012 totaled €98 million, following €130 million in the previous year. The proportion of net financial debts in relation to adjusted total assets was 2% in the fiscal year 2010, compared to 3% in the previous year.

Capital structure *€ million*

	Dec. 31, 2011	%	**Dec. 31, 2012**	%
Equity	**1,546**	**36**	**1,461**	**33**
Current financial debts	45	1	27	1
Noncurrent financial debts	620	14	572	13
Total financial debts	**665**	**15**	**599**	**14**
Cash and cash equivalents/financial resources	(535)	(12)	(501)	(12)
Net financial debts	**130**	**3**	**98**	**2**
Total assets adjusted for cash and cash equivalents	**4,297**	**100**	**4,398**	**100**

Rheinmetall Group business trend

»Improvement in value added«

In fiscal 2012, the Rheinmetall Group generated added value of €1,675 million. The Group's total operating performance came to €5,092 million, compared with €4,868 million in the previous year. At 33 %, the ratio of value added to total operating performance was almost at the previous year's level of 34 %. Value added per employee amounted to €77,000 (previous year: €80,000). The workforce benefited from the largest share of value added in fiscal 2012 at 81 %. 3 % was apportioned to the Treasury. Interest payable to lenders in the year under review was 4 %. At €69 million, the shareholders of Rheinmetall AG received a 4 % share of value added. 8 % or €121 million remained within the Rheinmetall Group, following value added of €156 million or 9 % in the previous year.

Source and use of value added *€ million*

	2011	%	**2012**	%
Source				
Group's total operating performance	4,868	100	5,092	100
Input	(3,048)		(3,223)	
Amortization and depreciation	(184)		(194)	
Value added	**1,636**	34	**1,675**	33
		%		%
Use				
Employees	1,268	78	1,361	81
Treasury	78	5	58	3
Lenders/banks	65	4	66	4
Shareholders	69	4	69	4
Companies	156	9	121	8
Value added	**1,636**	**100**	**1,675**	**100**

The Group's total operating performance comprises all income, i.e. total operating performance, other operating income, income from equity holdings, interest income and other financial income. Input includes all expenses excluding personnel expenses, interest and taxes.

Rheinmetall Group business trend
Defence sector

»Key events in 2012«

At the beginning of the year under review, Rheinmetall Defence responded to the ongoing growth and increasing internationalization of its business by introducing a new management system. The Combat Systems, Electronic Solutions and Wheeled Vehicles divisions will represent the core of the new management and organizational structure of Rheinmetall Defence. The six existing divisions and the wheeled vehicle joint venture with MAN Truck & Bus AG have been combined in these three divisions, in a new form in some cases. The aim is to achieve better proximity to markets and customers and to improve the strategic focus in systems business.

In January 2012, Rheinmetall Defence and Cassidian, a division of EADS Deutschland GmbH, announced that they would be pooling their unmanned aerial systems activities (UAS) and working together in the future in the areas of UAS and cargo loading systems as part of a joint venture to be established. This step will significantly improve opportunities for development of the Rheinmetall Defence airborne systems product group. The joint venture will give the product group access to broader development resources and international market opportunities that have not so far existed to any comparable extent. Cassidian holds a stake of 51 % and Rheinmetall Defence a stake of 49 % in the joint venture. For Rheinmetall Defence, the goal was to establish future prospects for the airborne systems product group that are sustainable in the long term, to strengthen its competitive position on a sustainable basis and to secure jobs at the Bremen site. For Cassidian, the integration of this product group from Rheinmetall Defence is a perfect addition to its existing unmanned aerial systems product range.

At the beginning of February 2012, Rheinmetall Waffe Munition GmbH, Unterlüß, sold its 40 % stake in Burkan Munitions Systems L.L.C., Abu Dhabi, United Arab Emirates, to Tawazun Holding Company L.L.C., Abu Dhabi, United Arab Emirates, following the successful completion of the establishment of the ammunition factory.

In March 2012, Rheinmetall Defence and General Dynamics Ordnance and Tactical Systems (GD-OTS) founded the joint venture Defense Munitions International LLC. The aim of the joint venture is to gain market share, achieve synergies in production, collaborate on development and win contracts from the US army, particularly with the 120 mm high explosive DM11 type of munition, through the mutual use of portfolios and market position in the area of tank ammunition. GD-OTS Global and Rheinmetall Combat Platforms North America Inc., founded in March 2012, each own 50% shares in the joint venture.

By winning the major Russian Army Training Center Mulino project in 2011, Rheinmetall Defence has developed an important customer relationship with the Russian Ministry of Defense and has gained access to the Russian market with a view to the future. The opening of a program office in March 2012 was followed in the same month by the establishment of the joint venture ORR Training Systems LLC, Moscow, Russia. With this new company, the Simulation division is consolidating its market presence in Russia. It is also hoped that this will give Rheinmetall Defence an opportunity to gain a significant position on one of the world's strongest growth markets.

The takeover of the stabilized weapons platform activities of UK company EMDigital Limited allowed Rheinmetall Defence to expand its product portfolio in the field of military ship equipment. Until now, Rheinmetall had been successful in this area mainly with the MLG27 light naval gun and the Millennium on-board gun. With this acquisition, Rheinmetall Defence is aiming to attain a leading market position in the field of maritime weapon stations and platforms. In June 2012, Rheinmetall Advanced Stabilised Platforms Limited, London, UK, was founded. Rheinmetall holds 51 % shares in the company, while Seawood Ltd., St. Helier, Jersey, owns the remaining 49%.

Rheinmetall Group business trend Defence sector

»Rheinmetall Defence posts sales growth from acquisitions«

With sales of €2,335 million, fiscal 2012 saw the Defence sector achieve an increase of €194 million, or 9 %, on the prior-year figure of €2,141 million. This growth resulted exclusively from companies included in consolidation for the first time which, in the year under review, increased sales by €286 million on the previous year. This first-time inclusion of the logistical vehicle systems from the Rheinmetall MAN Military Vehicles joint venture impacted with €284 million. Excluding the companies included in consolidation for the first time, and taking the sale of Rheinmetall Airborne Systems' drone business in June 2012 into account, Rheinmetall Defence recorded a fall in sales of €58 million or 3 %. Alongside the German market (33 %, previous year: 37 %), the key regions in terms of sales volumes were Europe excluding Germany (31 %, previous year: 29 %), followed by the Middle East and Asia (23 %, previous year: 18 %) and North America (8 %, previous year: 11 %). Other regions accounted for 5 % of sales (previous year: 5 %). The proportion of sales achieved abroad rose by 4 percentage points to 67 % compared to 2011.

In the year under review, sales for the Combat Systems division amounted to €1,136 million (previous year: €1,198 million). Rheinmetall Canada recorded sales from deliveries rendered for the Canadian automatic grenade launcher project Close Area Supression Weapon. The companies in South Africa and the USA recorded sales with infantry ammunition for the South African army and US armed forces. In Germany, as part of the Puma infantry fighting vehicle project, sales were generated not only through invoicing for the pre-production run but also from ongoing series production. Rheinmetall Defence achieved further sales through the supply of mortar ammunition to the Netherlands and ammunition components to a US ammunition manufacturer for its international programs. Sales for the supply of practice ammunition and signal rockets also resulted from the long-term partnering agreement with the UK Ministry of Defence. Rheinmetall Defence also supplied ammunition components and pyrotechnics to the US armed forces. Furthermore, propellant powder for artillery and tank ammunition supplied to the UK and France was also invoiced.

In 2012, the Electronic Solutions division achieved sales totaling €748 million (previous year: €799 million). Rheinmetall Defence achieved sales with components for remote-control weapon stations for the US procurement project CROWS II (Common Remote Operating Weapon Station). Sales have also been invoiced for the supply of air defence systems in the Middle East. Further sales were achieved through upgrades to radar systems for naval air defence systems. From the series contract for MANTIS® base protection, sales were invoiced following the handover of the first two systems to the German armed forces. Furthermore, initial sales have been achieved as part of the series production contract for "Gladius" modern infantry equipment (formerly "Future Soldier – IdZ 2"). National sales were achieved with the development and series production deliveries of cargo loading systems for the Airbus A400M. Further sales resulted from the running of the combat training center for the German armed forces in Letzlingen. The first invoices associated with the large order acquired in 2011 for building the Army Training Center Mulino in Russia have also been issued. Sales were also achieved through the maintenance of Tiger helicopter simulators as well as follow-up orders for the Eurofighter flight simulator of the German air force.

In fiscal 2012, the Wheeled Vehicles division achieved sales totaling €567 million (previous year: €255 million). This €312 million growth in sales on the previous year can be attributed to the fact that, in the year under review, sales with logistical vehicles were included for the first time. The delivery of 36 Boxer series production vehicles to the German armed forces contributed enormously to sales with tactical vehicles. As part of the modernization of vehicles, the Fuchs armored transport vehicles belonging to the German armed forces have been upgraded to offer significantly enhanced protection against mines and IEDs and to expand the deployment spectrum of the vehicle. In addition, eleven Fuchs 1A8 field ambulances were delivered to the German armed forces in 2012 as part of a retrofitting contract.

»Significant increase in order intake for Rheinmetall Defence«

In the year under review, the order intake increased by €1,102 million, or 60%, from the prior-year value of €1,831 million to €2,933 million. This positive trend was seen in all divisions. Whereas the order intake in 2011 was dominated by a number of small and medium-sized orders, the order intake in the year under review includes four large individual orders with a volume totaling around €700 million.

In fiscal 2012, the Combat Systems divisions achieved an order intake volume totaling €1,560 million (previous year: €936 million). As part of a procurement project for the Canadian armed forces, the division was commissioned by a US general contractor to undertake the subassembly and servicing of 500 armored patrol vehicles. The companies in Italy and South Africa received orders from the Middle East and USA. In addition, Rheinmetall Defence received an order, scheduled to last several years, from the Middle East and North Africa for various ammunition types. The German armed forces commissioned the delivery of seven Fuchs armored transport vehicles in the new weapons reconnaissance and identification variant. These vehicles bolster the “route clearance system” of the German armed forces for the reconnaissance and removal of IEDs. An order for the delivery of four more armored engineering vehicles to the Canadian army was also won. In addition, the UK issued further orders for the delivery of practice ammunition. Orders were received from France for the supply of Fly-K ammunition as well as propellant powder for artillery ammunition. As part of an ongoing US vehicle program, the company was additionally commissioned to supply protection packages. Alongside add-on armor modules, this order includes ballistic protection components for enhancing the level of protection for another 215 vehicles.

Rheinmetall Group business trend
Defence sector

In 2012, the Electronic Solutions division achieved an order intake volume totaling €949 million (previous year: €628 million). Rheinmetall Defence received a follow-up order from Germany for the supply of components for weapon stations. Another order, this time from Norway, involved an upgrade program for the CV90 tracked vehicle. A larger order, worth €116 million, for the supply of air defence systems was awarded to the division by an Asian customer. Rheinmetall Defence has received further orders associated with the start of series production for the state-of-the-art “Gladius” infantry equipment. In the year under review, the division acquired another order for simulators for the Airbus A400M cargo loading systems. The division also won its first ever order from the Royal Saudi Air Force for existing Eurofighter simulators. Rheinmetall Defence was commissioned by the Swiss army to modernize its tank driving and tactics simulators.

In the last fiscal year, the Wheeled Vehicles division recorded an order intake of €524 million (previous year: €327 million). These include for the first time orders worth more than €348 million for the logistical vehicles included since January 1, 2012. Following the successful fulfilment in 2011 of a large order from Algeria for the supply of Fuchs 2 armored personnel carriers, fiscal 2012 saw Rheinmetall Defence receive a follow-up order for the training of skilled workers. Rheinmetall Defence continued to receive orders for the supply of NBC protection components for Stryker wheeled vehicles. At a domestic level, the division was commissioned to build 33 YAK vehicles for the German armed forces and perform maintenance for 36 Fuchs personnel carriers. In the field of logistical vehicles, a number of orders worth more than €190 million in total were also concluded for the supply of military trucks to customers in Asia and the Middle East.

»Rheinmetall Defence order backlog reaches €5 billion mark«

On December 31, 2012, the order backlog in the Defence sector was €4,987 million, exceeding the previous year’s figure of €4,541 million by €446 million or 10 %. The order backlog as at December 31, 2012 includes a number of large-volume projects spanning several years. The most important projects in this order backlog are still the contract for the series production of the Puma infantry fighting vehicle and the series contract for the Boxer armored transport vehicle from the Netherlands with a total volume of €1.7 billion. As in previous years, the sales expectations of Rheinmetall Defence for fiscal 2013 are already largely covered thanks to the current order backlog.

»Fall in earnings at Rheinmetall Defence«

The Defence sector recorded earnings before interest and taxes (EBIT) of €174 million in fiscal 2012, down €49 million or 22% on the previous year's figure of €223 million. The EBIT margin reached 7.4% in 2012, following 10.4% in the previous year.

The earnings for the previous year included a positive non-recurring effect of €11 million from ADS Gesellschaft für aktive Schutzsysteme mbH, which was included in consolidation for the first time following the majority acquisition and hence was fully consolidated instead of being recognized at equity as previously. In the year under review, income of €48 million was achieved through the sale of 51% of shares in Rheinmetall Airborne Systems GmbH to Cassidian, a division of the EADS Group. However, expenditure on restructuring measures totaling €20 million constituted a negative impact on earnings in 2012. These measures are aimed at boosting future income.

Following adjustment of these special items, 2012 saw an operating result of €146 million (previous year: €212 million). This €66 million fall in earnings was largely due to changes in the scope of consolidation.

In the year under review, the newly consolidated logistical vehicles of Rheinmetall MAN Military Vehicles recorded negative EBIT of €13 million. In 2011, income of €1 million was achieved from agency work for MAN Truck & Bus AG. The Airborne Systems area, which was sold to EADS on June 30, 2012, achieved EBIT of €7 million in the second half of 2011. In the second half of 2012, this income was not countered by any income through derecognition of the area.

In the scope of consolidation comparable against 2011, this fall in earnings can be attributed to the €58 million (3%) fall in sales as well as weaker margins.

In fiscal 2012, the Combat Systems division achieved an operating result of €119 million (previous year: €133 million). In particular, the operating loss in the field of armored tracked vehicles adversely affected earnings in the year under review.

In 2012, the Electronic Solutions division achieved an operating result of €50 million (previous year: €86 million). In addition to the aforementioned effect resulting from derecognition of the Airborne Systems area, the Air Defence Systems and Defence Electronics areas within the division in particular saw a sharp fall in earnings due to the fall in sales on the previous year.

In 2012, the Wheeled Vehicles division saw an operating loss of €23 million, which led to sales falling by €11 million (previous year's loss: €12 million). This reflects the €13 million losses from the newly consolidated logistical vehicles of Rheinmetall MAN Military Vehicles. In the field of tactical vehicles, additional project costs were incurred as a result of delays in the Boxer program for the Netherlands.

Rheinmetall Group business trend Automotive sector

»Key events in 2012«

In 2011, KSPG AG organized its six divisions Pierburg, Pierburg Pump Technology, KS Kolbenschmidt, KS Gleitlager, KS Aluminium-Technologie and Motor Service into the divisions Hardparts, Mechatronics and Motor Service. This new structure is geared towards the market segments of the Automotive business and is intended to ensure optimization of processes across divisions and a stronger strategic focus within the divisions.

Pierburg Pump Technology GmbH, Neuss, founded another joint venture with the Japanese company Mikuni Corporation, Tokyo, in the second quarter of 2012. Through Pierburg Mikuni Pump Technology (Shanghai) Corp., China, a wholly owned subsidiary of the joint venture Pierburg Mikuni Pump Technology Corporation, Tokyo, Japan, founded in 2010, the partners plan to develop, produce and sell electrical water pumps and variable oil pumps for the Chinese market in future. The company is based at KSPG's site in Zhangjiang (Pudong District in the Shanghai region), China.

KSPG AG acquired 100 % of shares in Mechadyne International Limited, Kirtlington, UK, via Kolbenschmidt Pierburg Innovations GmbH on July 27, 2012. Mechadyne has specialized for over 20 years in technologies to reduce emissions and the fuel consumption of combustion engines. Its expertise in the field of variable valve controls is of particular importance. This acquisition strengthens Rheinmetall Automotive's expertise in the reduction of fuel consumption and CO_2 emissions. In addition to univalve technology, the Mechatronics division now has an extended range of mechanical valve trains that can be used in both gasoline and diesel engines.

With the symbolic ground-breaking ceremony in November 2012, the starting signal was given for a new construction project in Neuss harbor. A production plant for the Mechatronics division is to be completed there by mid-2014, covering an area of 70,000 square meters. The two existing production plants in Neuss and Nettetal, North Rhine-Westphalia, will then be consolidated at the new site. Around 600 employees here will produce solenoid valves, EGR systems and other components for passenger cars and commercial vehicles.

Rheinmetall Automotive has been present on the Chinese market since 1997 via two joint ventures, which achieved sales of around €388 million in 2012. KSPG has founded three wholly owned subsidiaries in China in the last few years, with which the Automotive sector will operate alone on the Chinese automotive market in future. With the "KSPG House", opened in Zhangjiang in mid-November 2012, Rheinmetall Automotive now has a strong local organization and can respond better to the needs of customers in China.

Two international projects that were launched in 2011 were concluded in the last fiscal year. The plain bearing operations that were acquired in India at the end of the third quarter of 2011 were transferred from the site in Khadki (Pune) to KSPG's own plant in Takwe, about an hour's drive away. In the year under review, the North and South American production sites of the KS Gleitlager division were merged in a newly constructed hall in Mexico.

»Moderate sales growth in the Automotive sector«

Despite the sharp decline in automotive production (-9 %) in Western Europe, the Automotive sector achieved sales of €2,369 million in 2012, which represented growth of €56 million or 2% compared with the previous year. Growth in the Automotive sector was thus lower than the 6 % increase recorded in global production of light vehicles, which was due to weak demand from Western European automotive manufacturers. While the Mechatronics and Motor Service divisions contributed to sales growth at Rheinmetall Automotive, sales in the Hardparts division remained at the previous year's level. The Chinese joint ventures carried at equity by KSPG and therefore not taken into account in sales (50 % stakes) recorded a much more dynamic development than the Chinese automotive market as a whole, which grew by 8% in the last fiscal year. Based on 100%, the joint ventures increased their sales by €90 million to €388 million (+30%).

The Mechatronics division registered growth in sales of 6% to €1,091 million in 2012. This improvement was achieved mainly through a large number of product launches and increases in production in high-growth product groups, particularly those serving the major trends towards reductions in CO_2 and emissions, and through new factories in growth markets in the NAFTA and Asia regions. Series production of the latest generation of EGR products for international customers began at various sites in Europe. Sales of throttle bodies also exceeded the previous year's figures. In the solenoid valves product group, sales of electrical switchover and divert-air valves increased. KSPG Mechatronics, which has a dominant position on the worldwide market for electrical divert-air valves, is benefitting directly from the trend towards downsizing in engine construction and improvements in performance through exhaust gas turbochargers. In business with pumps, growth was recorded in sales of variable oil and water pumps in particular. Additional sales were achieved above all with electrical water pumps and water circulation pumps, the latter mainly for use in turbocharger cooling. Production of EGR systems and oil, water and vacuum pumps was stepped up at KSPG Automotive India in line with increased demand, ensuring that the division participated in growth in this region and further strengthened its position on the important Asian market.

Sales in the Hardparts division totaled €1,087 million in the year under review, down slightly on the year before (€1,092 million). Development was positive in business with large-bore pistons. As with small-bore pistons, demand improved here in the USA and Japan owing to catch-up effects following the crises of the preceding years. Sales of small-bore pistons for passenger cars failed to match the previous year's figures in Western Europe, owing to falling demand. Sales from series production of engine blocks rose slightly, driven by exports of individual premium vehicles. Products manufactured using a low-pressure casting process, which account for the lion's share of the division's product portfolio, were once again the drivers of growth. Furthermore, considerably more external tools were invoiced in 2012 than in the previous year. Sales of maintenance-free or low-maintenance non-motor plain bearings in the Permaglide product group suffered as a result of drops in sales of high-volume French and Italian manufacturers, owing to the economy. The continuous castings product group also saw a drop in sales due to low orders from the European sanitary fittings industry. The plain bearings business that was acquired in India from Kirloskar Oil Engines Ltd. on October 1, 2011 was included in sales for the first time in the year under review.

The Motor Service division recorded growth in sales of 2 % to €264 million in 2012. Companies that operate internationally increased their sales in the independent after market in particular. The development of companies that focus on their respective local markets varied, although they mostly operate in regions where the economy is weak. While companies in Brazil were unable to escape the negative overall conditions and saw a drop in sales, other companies recorded growth in sales despite the fact that market conditions were sometimes difficult. Companies in France and Spain in particular managed to gain market share.

Rheinmetall Group business trend
Automotive sector

»Order intake and order backlog virtually unchanged«

The Automotive sector's order intake totaled €2,378 million (previous year: €2,358 million) in the fiscal year. The order backlog in Rheinmetall Automotive comprises only short-notice call orders under long-term contracts with automotive manufacturers. As at the end of fiscal 2012, the order backlog had risen to €418 million, compared with €409 million on December 31, 2011.

»Consistently high earnings«

The Automotive sector closed the 2012 fiscal year with earnings before interest and taxes (EBIT) of €143 million, down 5 % on the previous year's figure of €151 million. While the Mechatronics and Motor Service divisions matched the previous year's good earnings level, earnings in the Hardparts division were down year-on-year. The EBIT margin of the Automotive sector dropped to 6.0 % in the year under review, compared with 6.5% in the previous year.

The Mechatronics division absorbed advance payments for new projects being pursued as part of its growth strategy, investment in the build-up of its business with heavy truck applications, customer delays to launches of new high-margin products and one-off effects with a negative impact on earnings due in particular to problems with guarantees and suppliers in the year under review. Despite these effects on business, the division achieved earnings of €69 million, similar to the previous year's figure, although the EBIT margin dropped to 6.3% compared with 6.7% in 2011.

EBIT for the Hardparts division fell by 6% to €61 million in 2012, leading to a drop in the EBIT margin to 5.6%. Although the division benefitted from high demand in Asia and the very positive development of high-margin business with large-bore pistons through its company in Japan and its joint ventures in China and India, one-off project costs associated with the acquisition of the plain bearing operations of Kirloskar, India, and the merger of the North and South American production activities in Mexico had a negative impact on earnings in the plain bearing business. Declining sales, particularly with southern European customers, due to the economic situation further reduced earnings.

The Motor Service division recorded growth in EBIT of 4% to €25 million in 2012. The margin rose from 9.3% to 9.5% accordingly. Integration costs and a decline in business in South America placed a further burden on earnings.

The future-oriented development projects Univalve and Range Extender were continued as planned. As there were still no series contracts, expenditure for these projects had a negative impact on earnings in the Automotive sector.

Rheinmetall Group business trend
Financing

»Conservative financial management«

The Rheinmetall Group follows a sustainable financing policy that is geared towards the long term and is based on the broad diversification of financing instruments and sources of financing, with staggered maturity profiles. This protects the Group's financial independence and flexibility and limits financing risks. Rheinmetall firstly optimizes its financing requirements internally through cash pooling and ensures that the Group has adequate cash and liquidity reserves at all times to fulfill its payment obligations and take advantage of business opportunities. The financing mix is kept as balanced as possible, taking into account aspects relating to liquidity, margins and security.

Rheinmetall maintains good business relations with an adequate number of financing partners, mainly banks and insurance companies, and operates its own financing programs such as bonds and commercial papers, which ensure direct access to the money and capital markets.

»Money and capital market financing«

A €500 million bond maturing in 2017 with a coupon of 4% was issued in 2010. This bond is a core element in the long-term financing strategy with which Rheinmetall plans to secure the Group's liquidity requirements until the bond matures. It is admitted for trading on various German and international exchanges under the identification number (ISIN) XS0542369219. Falling interest rates in fiscal 2012 and a reduction in credit risk premiums since mid-2012 as the euro crisis subsided led to significant increases in prices for corporate bonds. The Rheinmetall bond also benefited from this trend. Its closing price on the last trading day of 2012 (December 28) was 108.6 %, compared with 100.9 % on December 30, 2011. In addition to the attractive coupon of 4 %, investors thus recorded a significant price gain of 7.7 percentage points.

Rheinmetall Bond – Price Development 2012

While the bond covers long-term financing requirements, short-term peaks in liquidity are generally covered by the €500 million multi-currency commercial paper program that has been in place since 2002. Given the extremely high market liquidity in the year under review, combined with comparatively few investment grade investment opportunities, this instrument constituted the most favorable short-term financing option during the year.

Rheinmetall Group business trend
Financing

»Financing from banks and insurers«

Another core element of long-term liquidity provisioning is the credit line of €500 million negotiated in December 2011, which was arranged with a consortium of 11 banks and expires in 2016. This credit line serves mainly as a reserve facility for the commercial paper program and for short-term liquidity requirements. However, it can also be used for general corporate financing and is thus an extremely flexible financing instrument that offers the Group additional room for maneuver.

Rheinmetall also has various binding bilateral loan agreements with a wider group of national and international financial institutions than those providing the syndicated loan. These loans supplement the cash, but mainly cover the guarantees needed to process operating business, with a volume of over €1.2 billion.

The €170 million asset backed securities program represents an important component of the financing mix. As part of this program, 14 European Rheinmetall Group companies regularly sell trade receivables to a bank on a non-recourse basis.

Financing via promissory note loans was reduced from €85 million to €35 million in the year under review through accelerated repurchases owing to the good liquidity situation. Details of financing instruments are outlined on pages 111 f.

»Investment grade rating is a cornerstone of capital market viability«

The confidence of all business partners in the financial stability of the Rheinmetall Group and unrestricted access to the money and capital markets is supported and furthered by our consistent investment grade rating of Baa3 from rating agency Moody's. Moody's confirmed this rating in November 2012, although it adjusted its outlook from "stable" to "negative", partly in view of the further intensification of competition in the Defence and Automotive sectors. Consequently, Moody's will monitor the Company's development more closely and decide again on the issuer rating within 12 to 18 months after the rating. The significant year-on-year increase in pension liabilities, which was due to the sharp drop in reference interest rates for discounting in Germany in the year under review, was also viewed critically.

Rheinmetall Group business trend
Capital expenditure

»Exploiting market opportunities through higher capital expenditure«
As in previous years, the Rheinmetall Group invested heavily again in the year under review. The strategic and operating objectives for expanding market share in the respective regional sales markets and securing competitiveness in technology-driven sectors determined the allocation of funds. To strengthen operating performance capacity and to improve the efficiency of our plants, we invested in the expansion and modernization of infrastructure, facilities, equipment, processes and product manufacturing capacity. The Group's capital expenditure on property, plant and equipment and intangible assets (excluding goodwill) amounted to €238 million in 2012, compared with €207 million in the previous year. This is equivalent to 5.1 % of consolidated sales (previous year: 4.6 %). Capital expenditure was met with amortization and depreciation of €194 million (previous year: €184 million).

Capital expenditure *€ million*

	2011	2012
Rheinmetall Group	**207**	**238**
Defence	102	90
Automotive	104	148
Others/Consolidation	1	0

»Reserved investment policy at Rheinmetall Defence«
In 2012, the Defence sector invested a total of €90 million in property, plant and equipment and intangible assets, compared with €102 million in the previous year. The investment ratio in 2012 was 3.9% (previous year: 4.8%). The reduced capital expenditure volume in 2012 reflects necessary savings in response to the decline in earnings on the previous year. Here, capital expenditure on property, plant and equipment focused on replacing and rationalizing production plants and machinery and factory and office equipment, as well as investment in buildings and construction. In addition, investments were made in optimizing site infrastructure and production processes as well as in the ongoing internationalization of production. In the year under review, important projects were continued and pro rata development costs from these projects were capitalized as required by IAS 38, as part of technological development. Of the total capital expenditure volume, €29 million (previous year: €25 million) related to capitalized development costs for ongoing projects.

In fiscal 2012, funds totaling €42 million (previous year: €57 million) were invested in the the Combat Systems division. The division purchased five industrial 10-kW laser modules for test purposes as part of the ongoing basic research and development of a high-energy laser weapon as well as to secure the necessary research and technology orders. At the Unterlüß site, Rheinmetall invested in the construction of an armor steel machining center for production of sheet metal ready for welding for different types of vehicle in order to expand the supply chain. This required the purchase of appropriate production machines and plants and the creation of the necessary infrastructure. Capex funds were used for the manufacture of a hardware demonstrator in connection with the development of a new personnel carrier based on the Marder infantry fighting vehicle. Numerous investments were made in the expansion and rationalization of production plants and machinery as part of the modernization program spanning several years in South Africa. As well as optimizing infrastructure and production lines, capital expenditure focused on targeted measures at the Boksburg and Wellington sites. Furthermore, the relocation of 40 mm production from the Philippi site to a new building at Somerset West was completed.

The total capital expenditure volume of the Electronic Solutions division amounted to €25 million in the period under review (previous year: €31 million). Air Defence Systems invested primarily in tools and production plants.

Rheinmetall Group business trend
Capital expenditure

The physical removal of the airborne systems division from the Rheinmetall Defence Electronics plant following the spin-off of Rheinmetall Airborne Systems has required the construction of a new building and the optimization of existing areas. Based on customer requirements, the existing Skyshield fire unit has been adapted at the Zurich site for a cost-effective air defence gun suitable for small-scale series production.

The Wheeled Vehicles division made investments totaling €23 million (previous year: €12 million). Integration of the Rheinmetall MAN Military Vehicles joint venture in the Rheinmetall Defence network continued and, among other things, investments were made in the expansion of IT systems and process landscapes. Capex funds were also used to develop the Ede site in connection with the acceleration of local series production for the Dutch Boxer program. Investments were made in new and replacement production equipment and plants for tactical and logistical vehicles at the sites in Kassel and Vienna. Development costs were capitalized for further development for series production of the new generation of lightweight armored multipurpose vehicles (AMPV), which is taking place in cooperation with another German armaments company.

»High advance payments in the Automotive sector«

Capital expenditure in the Automotive sector amounted to €148 million or 6.2 % of sales in fiscal 2012, compared with €104 million or 4.5 % in the previous year. The high volume of capital expenditure in 2012 was essentially due to accelerated efforts in the year under review to introduce technological changes for various product groups, internationalize the production sites and expand capacity in response to customer orders.

Capital expenditure in the Mechatronics division totaled €66 million in the year under review (previous year: €62 million). In the area of air management and emissions reduction, capex funds in Germany were used primarily to expand capacity in the solenoid valves segment and for production equipment for electrical exhaust gas flaps and new projects in the actuators product group, as well as for the launch of the truck business. Capital expenditure abroad focused on assembly facilities for exhaust gas flaps and production equipment for one-way valves, as well as on machinery and plants for the production of EGR systems. In business with pumps, investment in Germany concentrated on additional capacity for the growth areas of electrical water pumps and water circulation pumps. Companies abroad mainly purchased production equipment and assembly facilities for variable oil pumps, vacuum pumps and mechanical processing. Funds were also invested in the construction of a new building as part of the expansion of a plant.

The Hardparts division invested €77 million in intangible assets and property, plant and equipment in fiscal 2012, considerably more than the previous year's figure of €38 million. Capex activities were stepped up in all areas of the division. However, the focus was on KS Kolbenschmidt, where business with small-bore pistons was systematically expanded further, preparations were made for the production of steel pistons for commercial vehicles and the machinery at a European site was modernized with a new processing concept. At KS Aluminium-Technologie, capex activities focused on the purchase of the necessary processing machines for two key customer projects and the expansion of tool construction capacity. At KS Gleitlager, a significant proportion of investment in Germany related to tools. The main investment projects at foreign companies in this division involved a new sinter line and measures to eliminate trichloroethylene.

In the Motor Service division, capex funds totalling €4 million were invested in tools for new products (previous year: €4 million). GMVS Grundstücksverwaltung Service GmbH & Co. KG acquired a plot of land in Neuenstadt. Furthermore, the Chinese subsidiary of KSPG Motor Service invested in IT and in the move to KSPG's building in Shanghai.

Rheinmetall Group business trend
Research and development

»Research and development are an important basis for corporate success«
Ongoing and targeted research and development activities are essential for proactively shaping technological progress and achieving long-term economic success in technologically challenging industries. Rheinmetall enjoys more than 100 years of research and development experience in the Defence and Automotive sectors and brings its expertise, competence and knowledge to bear for its customers.

Successful military operations require well-equipped armed forces. In these times when crisis prevention is the order of the day for international deployments, soldiers often find themselves in extremely high-risk situations in order to uphold security and freedom. Rheinmetall Defence specializes in the development and production of components and systems for protecting people, vehicles, aircraft, ships and assets and, in its role as equipment supplier to the German armed forces as well as NATO and other responsible nations, helps to protect armed forces involved in foreign operations.

KSPG has been developing ecofriendly automotive technology solutions since long before climate protection became a matter of topical debate. In these times of global warming and ever-increasing road traffic, the KSPG Group – as a long-standing development partner of national and international automotive manufacturers – offers innovative solutions that meet the requirements of manufacturers when it comes to reducing emissions, lowering consumption, reducing weight and optimizing performance, thereby helping to ensure that mobility does not conflict with the protection of the environment.

With their wealth of expertise, competence and experience, our highly qualified engineers and technicians work tirelessly to develop solutions that meet highly complex customer requirements. Every year, Rheinmetall invests massively in research and development with the aim of enhancing its technological competence, expanding its market position and securing the foundations for future corporate success. Market, industry and technological trends are systematically observed before being analyzed and assessed in terms of their strategic and economic significance. Thanks to close collaboration between Sales, Development, Production, Service and Marketing as well as intense project work in partnership with customers, new requirements regarding products, systems, processes and applications are quickly identified and acted upon in the shortest possible development periods. Product lines are continuously improved and expanded, while new or associated business areas are gradually developed further thanks to innovative products, future-oriented systems and customized services. Our own application-related research and development work is enhanced through studies into the latest scientific findings from basic research programs and collaboration with industrial partners, renowned scientists and skilled experts who support the transfer of knowledge from research into practice.

In fiscal 2012, €230 million was spent on research and development across the Group, following €212 million in the previous year. Of this, €191 million (previous year: €177 million) was immediately billed as expenses and €39 million (previous year: €35 million) capitalized as development costs. The share of R&D expenditure in the Rheinmetall Group was 4.9 % (previous year: 4.8 %), 6.2 % in Automotive (previous year: 5.6 %) and 3.5 % in Defence (previous year: 3.8 %), whereby this relates to the share of self-financed projects.

R&D by corporate sector *€ million*

	2011	% of sales	2012	% of sales
Rheinmetall Group	**212**	4.8	**230**	4.9
Defence (self-financed)	82	3.8	83	3.5
Automotive	130	5.6	147	6.2

Rheinmetall Group business trend
Research and development

The **Defence sector** systematically gears its research and development activities to the mission profiles of national and international armed forces. Optimal equipment and technical superiority are frequently of life-saving importance to armed forces. With its globally recognized core competencies, Rheinmetall Defence stands for capability-oriented innovation and is continuously setting new technological standards: from vehicle, protection and weapon systems, through infantry equipment and air defence, to the networking of function sequences in simulation and training. The portfolio encompasses more than 1,000 products, primarily for use by land forces, but also by marines, the air force and special forces. To ensure that it is competitive and to reinforce its leading position on the market, Rheinmetall Defence continually supplements developments commissioned by customers with self-financed projects.

»New reconnaissance technologies and unmanned ground vehicles«

In the multinational project “Distributed Integrated Testing Environment”, which looks into the intelligent networking of a wide range of information sources for intelligence gathering, reconnaissance and surveillance, Rheinmetall Defence is focusing on integrated reconnaissance, command and control, engagement and support systems. In the year under review, the project is once again focusing on areas including processes for generating and preparing geodata and environmental data as well as on the integration of sensor data in higher-level simulation architecture. Thanks to its expertise in the simulation of unmanned airborne sensor carriers, Rheinmetall Defence is making a significant contribution to image data processing and the incorporation of a crew compartment simulator for the Leo 2 defence system.

In the key field of decision-making and support in time-critical situations, research is continuing into new reconnaissance technologies and their integration in real-time cause-and-effect chains to relieve the burden on armed forces in critical threat situations. As part of a project, launched in 2011 in collaboration with the German armed forces, focusing on systems for identifying targets, tracking targets and commencing engagement, 2012 saw additional research into reconnaissance sensor systems, including laser warners, sensors for the acoustic detection of exterior noise and a process for detecting changes in the surroundings along a route.

»New protection and engagement technology«

To further enhance the protection of the crew and vehicles in future deployment scenarios under consideration of the maximized payload, new steel manufacturing processes and material properties are currently being analyzed in close collaboration with a research institute and an industry partner. The focus of research here is on alloys, which offer improved ballistic protection and resistance to mines thanks to their greater degree of hardness and more pronounced elasticity. The hunt is also on for solutions aimed at further optimizing the properties of crucial linkage elements within the vehicle structure.

High-energy weapons systems based on high-strength microwave, high-energy laser and non-linear junction technology are a central focus of activities in the field of research and technology. In the field of laser technology, Rheinmetall Defence is focusing on the construction and testing not only of a demonstrator for counter-rocket, artillery, mortar and missile as well as air defence scenarios, but also of a mobile demonstrator for unexploded ordnance devices (UXO). In the year under review, two laser weapons stations with a beam power of 20 kW and 30 kW were constructed and aimed at a target. This was therefore the first time that a demonstrator with a total power greater than 50 kW has been seen in Europe. As part of work on the UXO scenario, a 1-kW high-energy laser demonstrator was installed in a vehicle and successfully trialed. Multiple series of tests showed that, with this demonstrator, mines and grenades of different types with graduated impact – in the form of explosive ignition, deflagration and controlled burnout – can be successfully destroyed.

»Biological reconnaissance systems«

Threats arising from the use of NBC weapons remain among the biggest challenges for state, military and civilian preventive security. Mobile NBC reconnaissance systems from Rheinmetall Defence are deployed by the NBC defence corps of many international armed forces. A technological challenge is and will remain the mobile detection of biological weapons and hazardous biological agents. Rheinmetall Defence integrated an innovative biological reconnaissance system in a vehicle provided by a customer. The main feature of this system is that all the work involved in the verification of hazards is performed at a safety workbench located inside a protected mobile platform. This ensures optimum protection of the crew and the environment.

»Mobile tactical training system«

Multinational deployments in conflict areas with asymmetric threats and civil-war-like conditions require maximum interoperability and communicative capability on the part of the military in combined, joint-armed-forces missions. These pose new challenges and technological requirements for training systems. In response to these demands, the year under review saw Rheinmetall Defence further refine the mobile tactical training system Advanced Network Trainer (ANTares) which, in addition to flight crew coordination training, allows entire mission contingents to undergo tactical mission training in the country of deployment. Rheinmetall Defence now has a wide of range of training cubicles for airborne and ground-based command posts, which can either be used as a generic workstation or form the basis for the reconfiguration of platform-specific simulation components.

»30-mm caliber air-burst-capable weapon«

Using its own resources, Rheinmetall Defence has developed a 30-mm caliber air-burst capable weapon (Wotan 30) with an electrical – i.e. externally driven – breech movement for mechanically overriding all weapon functions. Compared with self-driven systems in this caliber, this ensures greater reliability with considerably reduced weight, minimal wear and lower operating costs. The weapon can be easily installed in turret systems or gun carriages because the modules required for remotely controlling the Wotan 30 are an integral component of the weapon. Other features include a dual-feed mechanism for belted and non-belted ammunition, variable rate of fire and burst length, and a system for preventing misfiring following a switch of ammunition. The Wotan 30 prototype – with a demonstrated rate of fire of 400 rounds per minute – was presented to specialists from all over the world who were particularly impressed by its enhanced performance compared to existing systems. In the year under review, the current design for a rate of fire of 250 rounds per minute has been modified with the aim of reducing both the weight and the size of the weapon.

»Further development of the sMG .50«

As part of studies into new medium-caliber weapon technology, the next stage of development for the externally driven weapon sMG.50 is underway. This design status fulfills all functional requirements of the German armed forces, such as a dual-belt feed system enabling rapid changeover between different ammunition types, capability of firing high-performance ammunition, variable rate of fire and burst length, and sniper mode, in which the weapon can be used as a rifle for snipers. From 2015, once factory trials and qualification are complete, the German armed forces will have at its disposal a 12.7-mm caliber weapon (English: .50 inch) that will significantly soldiers' capabilities at distances of up to 1,500 meters. In parallel, an export version that has the same basic weapon design but, for customers who fire different ammunition types from a single mixed belt, is equipped with a single-belt rather than dual-belt feed system, is also under development.

Rheinmetall Group business trend
Research and development

The focus of research and development undertaken by the **Automotive sector** is systematically geared toward market requirements. “Clean & Lean” refers to all activities aimed at cutting fuel consumption and, in turn, CO_2 emissions as well as all innovations designed to further reduce harmful emissions. In addition, development work is focusing on the industrial application of drive systems with a view to reducing the dependency on cycles in the automotive industry and leveraging additional market potential.

»Research and Technology central department«

The Research and Technology central department, which is divided into Advance Development, Central Development and New Drive Technology, coordinates the development work conducted by Rheinmetall Automotive.

The engineers and technicians in Advance Development specialize in developing new products for the individual business areas in the Automotive sector.

Central Development focused primarily on upgrading and expanding the technology used on test benches in Neuss and Neckarsulm, modularizing hardware and software for electronic systems, networking the simulation technology development sites in Germany and abroad, and pooling expertise for the identification of material properties in materials engineering.

New Drive Technology concentrated its activities on the product basis for future drive systems. To better illustrate the technologically highly advanced range extender principle, KSPG unveiled to customers and representatives of the automotive industry a demonstrator vehicle that will be taken out onto ordinary roads over the next few months, among other things to trial this “bridging technology for electromobility”. Regarding the thermal management of vehicles with hybrid and, in particular, battery-electric drive systems, various approaches to achieving maximum energy efficiency in vehicles were explored. The aim is to conserve the low energy reserves of the battery and to minimize, as far as technically possible, the loss in electrical range caused primarily by vehicle heating and A/C systems.

»Today’s megatrends: downsizing, turbocharging and direct injection«

Today’s megatrends – downsizing, turbocharging and direct injection – once again determine the focus of development work in the Hardparts division, which combines KS Kolbenschmidt, KS Gleitlager and KS Aluminium-Technologie.

KS Kolbenschmidt is responding to the growing demand for compliance with emission thresholds as well as for reduced fuel consumption and CO_2 emissions by developing new types of pistons – comprising the pistons, piston rings, cylinders, pins and connecting rods of existing piston systems – that fulfill criteria regarding reduced friction and weight and a longer service life under extreme stress.

Thanks to an entirely new manufacturing process, the patented STEELTEKS® piston – unlike friction-welded steel pistons – is constructed from just a single forging. This special piston design enables extremely low compression heights. The second generation of this new monoblock steel piston matches the already excellent performance of double-friction-welded pistons in terms of friction, weight, wear and cavitation.

The new nano-reinforced aluminum alloy KS 312, which is much stronger both in the thermal cycle as well as under vibrating loads at high temperatures, was specially developed for the casting of pistons for commercial vehicles.

Steel pistons are developed for future, supercharged passenger car diesel engines with specific engine outputs in excess of 100 kilowatts per liter and ignition pressures in excess of 200 bar. The main reasons for now making pistons out of steel instead of aluminum in particular included, in addition to the resulting performance enhancements, the improved thermodynamic efficiency and the reduced friction losses. Depending on the application, fuel consumption and CO_2 emissions can be reduced by up to 5 %. Production is scheduled to start in 2014.

With the third-generation LITEKS® piston design, the weight of pistons in gasoline engines has been reduced even further compared with the conventional design. This improvement was achieved, among other things, through the new high-performance alloy KS 309. In addition, significantly reduced friction losses in the fired engine were verified by means of a floating-liner measurement.

The NANOFRIKS® shaft coating developed by KS Kolbenschmidt to minimize friction and wear offers increased tribological strength. Tribometer analyses confirm that, compared with standard coatings, NANOFRIKS® reduces both the dry friction coefficient and wear by more than 50%. This means that NANOFRIKS® more than fulfills customer requirements regarding reduced consumption and high reliability in engines.

Over the past few years, the area has gradually expanded its product portfolio for plain engine bearings in response to the latest trends in engine design – in turn derived from the megatrends of today – such as the use of low-viscosity engine oils and hybridization. In the year under review, preparations were made for the series production of the new steel-aluminum antifriction layer alloy KS R53, which is scheduled to start in mid-2013. This involved starting the necessary processes in conveyor and parts manufacturing and investing in plant technology. Compared with existing steel-aluminum antifriction layer alloys, KS R53 is characterized by its much greater strength and wear-resistance, making this material composition ideally suited for more highly loaded connecting rod bearing applications in gasoline engines as well as crankshaft bearing applications with high levels of mixed friction (start/stop) in gasoline and diesel engines. In addition, the new sputtered bearing concept has been brought to market maturity. The end product combines vastly improved mixed-friction behavior with a high level of particle tolerance, making the product highly robust. On top of this, the galvanic bearing KS S703C, which was launched in 2010, has been optimized to make it much stronger yet more wear-resistant. Both of these new products were launched at the start of 2013.

In the Permaglide® bearing range, the year under review also saw systematic developments for further non-engine applications, including in particular refinement of the laser welding technology for new products in defined market segments.

In the market segment for common-rail pumps, development work continued on the new thermoplastic antifriction material, which is also ideal for biofuels and other critical media. The plan is to bring this material to market maturity by mid-2013, which will help KS Gleitlager to safeguard its technological expertise and expand its market position in this segment. In the year under review, the new composite material KS P170 reached market maturity in a range of applications including dual-mass flywheels, belt tensioners and torsional vibration dampers and is currently being successfully trialed by a number of our customers. The components of this material composition are specially harmonized to give a high level of wear-resistance as well as low and constant friction coefficients, even when exposed to high-frequency vibration stress.

Rheinmetall Group business trend
Research and development

In future generations of engines, the increased requirements regarding strength, rigidity and durability that go hand in hand with today's megatrends in the world of drive technology will require an even more efficient drive train design and the consistent use of lightweight materials. With aluminum engine blocks, two distinct trends can be identified: Engine blocks are designed without undercuts and offer a very high level of static and dynamic strength. Here, KS Aluminium-Technologie is employing a die-casting process, which it has refined in house, involving intelligent vacuum systems, casting tool cooling systems and special spray technology.

The second trend is in precisely the opposite direction, at least from a design perspective. The engine blocks are characterized by their high level of functional integration, which means that they are designed with numerous undercuts so that, for example, additional water and oil channels can be integrated in the crankcase. The construction of these blocks requires the use of sand cores, including their manufacture, assembly, handling and de-sanding. The Aluminium-Technologie division employs the sand-core-intensive low-press chill casting process with special gating and feed methods as well as intelligent casting tool cooling systems. These engine blocks are manufactured in specific alloys and have to fulfill extremely stringent static and dynamic strength requirements. This casting technology, which is refined and employed in house, are also ideal for manufacturing coating-ready crankcases required in the future. Prototypes are currently undergoing engine trials in preparation for a customer project with a series start scheduled for 2015. One of the focal points of testing is the refinement of the tribology system, which comprises the pistons, piston rings and cylinder working surface, in order to improve friction and wear. In addition, a number of four-cylinder die-cast crankcases are currently under development. These will be produced for global automotive manufacturers by the Chinese joint venture Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd. in Shanghai.

»Mechatronics division focusing on reducing emissions and consumption«

The Pierburg division continued to focus development activities on products aimed at reducing consumption and emissions. The cooled, external exhaust gas recirculation (EGR) system, which is today found in all diesel passenger car engines and is set to be installed in future generations of supercharged gasoline engines to cut fuel consumption, remains a highly efficient technology for reducing engine emissions. A key focus of development activities in this field of technology was in the application of a new and even more compact electromotive EGR valve, which is scheduled for launch in 2013 with series start-up at a premium German passenger car manufacturer. In addition, a number of refinements and new products for low-pressure exhaust gas recirculation systems have been made, including a new electromotive exhaust gas flap. By raising the exhaust back pressure in the main exhaust line, this flap significantly increases possible exhaust gas recirculation rates, and even actively influences the introduction of particle filter regeneration in diesel engines. In the fast-growing segment for exhaust gas flaps, Pierburg has successfully built on its position as market leader. This trend is set to intensify in the future when these products are used for recycling residual and dissipated heat from combustion engines. The merger of EGR valve and exhaust gas flap technology to create combination valves will help to simplify the EGR low-pressure system, in turn helping to cut costs. The first order for a series application scheduled for 2015 has already been placed.

In addition to exhaust gas recirculation, exhaust aftertreatment – for example with secondary air injection in gasoline engines – is a key component for reducing engine emissions. Here, Pierburg enjoys a tradition of offering high-performance, innovative overall systems comprising blowers and regulators. In addition to the integration of on-board diagnosis functions, a new generation of smaller and more lightweight secondary air blowers offers enhanced dynamics and sets new standards in improved noise levels.

For throttle, control and swirl valves, Pierburg is working in the field of contactless sensor technology to create a cost-effective and high-quality modular concept aimed at optimizing the next generation of products. This modularity will enable it to respond more flexibly to customer requirements. Clear growth has been achieved in the area of actuators for electrical exhaust gas flaps and intake manifold adjustment functions based on the current generation of control valves. In addition to the conventional control valves, combination valves for bypass and throttle applications have been developed for the fresh air side in combustion engines. In response to the general trend toward supercharged engines, the portfolio for turbocharger applications – which already includes linear actuators for wastegate and VTG systems – has been expanded to include rotary systems.

The ongoing trend in Europe toward turbocharged gasoline engines can now also be seen in the USA and China. As a global market leader, Pierburg is currently working on a value- and weight-optimized compact valve for electrical deceleration air valves based on a completely new functional principle. Solenoid valves for engine and vehicle hydraulics – for example, engine oil circuits in thermal management applications and control valves for variable oil pumps – have been successfully launched on the market. Here, Pierburg is working intensively on the development of a value-optimized generation as part of efforts aimed at cutting fuel consumption in this product segment too.

In addition to the already established passenger car segment, Pierburg has also successfully tapped the market for commercial diesel vehicles thanks to its intensive development activities. To ensure compliance with legal emission values in this vehicle sector, exhaust gas recirculation systems are increasingly becoming necessary in addition to existing exhaust aftertreatment systems. In response, Pierburg has developed a broad range of high-performance exhaust gas recirculation valves for both the light- and medium-duty sector based on the linear valves used in passenger cars. For the heavy-duty market, robust “SMART” EGR check valves that are available in single- or twin-flow versions and are characterized by their brushless DC motors in combination with compact gearing and integrated, diagnosis-capable electronics for 12 V and 24 V, are now ready for series production. Exhaust gas flaps used either for supporting the EGR system or optimizing exhaust-gas-side thermal management of the SCR catalytic converters are becoming increasingly important in the commercial diesel segment. In addition, an exhaust flow sensor has been developed that records hot gas flows directly in the exhaust gas. In this way, the system can be integrated in the process of directly and precisely regulating exhaust gas recirculation. Series start-up for this sensor is scheduled for 2013.

Demand-oriented variabilization and electrification of auxiliary combustion engine units is one of the most effective ways to reduce fuel consumption and, in turn, CO_2 emissions. Consequently, electric coolant and vacuum pumps are increasingly being used in hybrid and electric vehicles. This trend can also be seen in the drive train – for example, in automatic transmissions – with electric oil pumps. In 2012, the required technology was developed for different applications as a main or auxiliary pump in automatic transmissions. The main aim was to ensure that the main components – the motor, electronics and pump mechanism – can be used universally thanks to a modular concept. Having spent the past few years launching the mass production of variable oil pumps for customers headquartered in Europe and the USA, Pierburg Pump Technology shifted its attention in the year under review toward establishing the technology among customers in Asia. In parallel with passenger car applications, work continued on the development of a variable oil pump that is designed for heavy-duty engines and is scheduled for launch in mid-2013.

The tandem pump, which combines the oil and vacuum pump, is becoming increasingly important. This concept is designed to minimize power consumption by means of optimized EVO vacuum pump technology and a variable oil pump that can be actively regulated with a solenoid valve. In addition to expanding the product spectrum for electric coolant pumps, Pierburg Pump Technology is focusing on the development of cost-effective switchable and continuously variable mechanical coolant pumps.

Rheinmetall Group business trend Employees

»Success has 23,741 faces at the Rheinmetall Group«

As at the 2012 balance sheet date, Rheinmetall employed 23,741 staff, compared with 23,420 employees on December 31, 2011. The proportion of female employees was 18.8 % (previous year: 19.4 %). Of the Group employees, 44.3 % were employed in the Defence sector (previous year: 44.0 %), 55.4 % in the Automotive sector (previous year: 55.5 %) and 0.3 % at Rheinmetall AG and the service companies (previous year: 0.6 %). The percentage of employees working outside Germany rose by 2.5 percentage points to 49.7 % (previous year: 47.2 %). Of the employees based outside Germany, the largest number were in Europe (3,857 employees; previous year: 4,577) (of which non-EU states: 1,532; previous year: 1,596), while 2,464 employees were based in South America (previous year: 2,327) and 1,469 in North America (previous year: 1,469). 1,299 employees (previous year: 1,320) were based in South Africa and 25 in Australia (previous year: 10). The number of employees in Asia totaled 1,148 (previous year: 979).

»Increasing internationalization of the workforce«

As part of the internationalization strategy systematically pursued over the past few years, the Rheinmetall Group's workforce has become correspondingly more international. In the year under review, the percentage of employees working abroad rose to 49.7 % (2009: 44.3 %). The recruitment of talented management trainees and experienced specialist and managerial staff in countries outside Germany too is an important success factor in the further growth and future viability of the companies in the Rheinmetall Group. HR work, recruitment marketing and staff development measures are increasingly being geared toward this trend in the Rheinmetall Group.

»Rheinmetall – an attractive employer«

Thanks to active recruitment marketing, participation at recruitment fairs and contacts with universities as well as diverse opportunities for gaining hands-on experience in the world of work, Rheinmetall is increasingly positioning itself as an attractive employer for junior staff. The Group-wide consistent presence at university fairs, graduate conferences, recruitment events and online job sites is increasingly bearing fruit. In 2012, the "trendence study" once again looked into the attractiveness of German engineering companies as employers by surveying around 10,000 students at technical schools about to take their final exams. As in previous years, Rheinmetall was once again ranked as one of the 100 most attractive employers in Germany in the "Engineering Edition" in the year under review, coming in 58th place following its 78th-place ranking in the previous year.

In addition to its own training for junior employees, Rheinmetall relies on close contact with universities, technical colleges and student organizations in order to get to know suitable graduates from scientific, technical and business courses of study at an early stage. The Group thus creates a platform for presenting its wide range of business activities and professional opportunities.

In the year under review, Rheinmetall once again significantly increased the number of places open to interns from universities and students taking their diploma, particularly in technical disciplines. While 130 people (previous year: 43) completed internships at Rheinmetall Defence in the year under review as part of their university education or final papers (bachelor's or master's thesis and degree dissertations), the figure in Automotive was 180 (previous year: 51).

With the Rheinmetall Scholarship Program, which began in the year under review, the company is supporting the "Deutschlandstipendium" initiative launched by the German Federal Ministry of Education and Research. Rheinmetall sponsors fifteen students at RWTH Aachen and six at the Leibniz University in Hanover. In addition, Rheinmetall has developed a company-specific companion, support and training program designed to offer even more effective support for the scholarship holders.

For the nonprofit student initiative MARKET TEAM e.V., Rheinmetall organized an application training course specially aimed at female students. In addition, 10 female students and 15 male students on engineering and natural science courses at RWTH Aachen came on a two-day visit to the Rheinmetall sites in Unterlüß and Bremen. Representatives from Combat Systems and Electronic Solutions presented their divisions during company tours, product presentations, lectures, discussions and special demonstrations.

»Potential appraisals and succession planning – building blocks for safeguarding the future«

Future talent is identified and provided with targeted support as part of systematic assessments. This takes place on the basis of the Rheinmetall competence model in which the relevant leadership and management competencies are anchored in five skills areas. As part of a standardized, multi-stage selection and assessment process carried out in all companies of the Rheinmetall Group at regular intervals, the performance and development potential of managers and potential management candidates are identified, analyzed and evaluated. The determination of the status quo allows for open dialog regarding strengths and weaknesses as well as opportunities for development and promotion. Thanks to personalized staff development measures, this helps to improve technical, methodical and social skills. Furthermore, budding managers can get involved in management potential analyses and/or individual assessments in which their skills and competence profile are analyzed in even greater detail.

The potential analysis also ensures forward-looking succession planning. It shows which vacancies are set to arise in the next few years, which of them must be filled as part of strategic HR planning and for which of these posts that must be filled a successor has already been found or internal or external recruitment is required. This ensures that key positions in the Group can be primarily filled from within the Group's own ranks.

»Training as investment in the future«

A range of training opportunities help Rheinmetall employees to achieve their individual learning targets and enable them to expand their skill set to meet the requirements of their current or new position.

Staff development and qualification measures are offered on the basis of regular needs assessments. In addition to statements obtained from the potential analysis and staff development interviews (as per the collective agreement for qualification), other sources for identifying needs include the target agreement process and investment planning. Training opportunities can also be derived from strategic objectives (e.g. through increased internationalization of the Group). Training for the whole Group takes place in the Rheinmetall Academy, at a divisional level in internal and external measures as well as at the individual sites.

The Rheinmetall Group invested around €3.8 million (previous year: €4.2 million) in training programs in Germany alone in 2012. In the year under review, 9,708 employees (previous year: 8,335) benefited from 5,395 qualification measures (previous year: 2,740) over a total of 19,923 days (previous year: 17,006).

Rheinmetall Group business trend
Employees

»Rheinmetall Academy 2012«

Rheinmetall Academy gears the content of its courses and programs strictly toward matters of strategy, management, leadership, methodical competence, project management and internationalization. The development of managerial and junior staff in the Rheinmetall Group is actively promoted through Group-wide initiatives such as the “Young Manager” program and “Managers’ Leadership” program. As part of the ongoing internationalization of the Rheinmetall Group, the “Executive Development” and “Sales Development” program are not only open to German-speaking employees, but also available in English to open them up to employees at the company’s international sites. The content of the “Project Manager” program has been tailored to the tasks and activities performed by employees of the Rheinmetall Group. These supplement the technical and methodical project management skills acquired in certification course by providing, among other things, training in aspects of team leadership. In the year under review, the one-year commercial trainee program was successfully completed for the third time. Following a challenging course program, which also included an assignment abroad lasting several months, the six participants – five of whom were women – have now taken up positions in commercial areas of the Group companies.

In the year under review, 579 employees attended the 61 (previous year: 61) events held over one or several days, compared to 659 employees in the previous year. These training courses, programs and workshops geared toward various hierarchical levels and functions constitute a platform for employees to exchange overall knowledge, ideas, experience and opinions.

»Number of apprentices high«

When it comes to social responsibility, Rheinmetall remains strongly committed to multifaceted, practical training for young people and offers a wide range of training courses in the fields of technology, business and IT, including the option to complete an integrated degree program in a technical or business field. Worldwide, 899 young people (previous year: 801) received vocational training, 577 of whom (previous year: 579) were based in Germany. The apprenticeship ratio for the German locations was 4.8 % of the workforce (previous year: 5.5 %). The percentage of female trainees was 17.7 % (previous year: 18.3%). As in 2011, 2012 saw around €10.1 million of investment in training in Germany.

»A reflection of diversity«

23,741 Rheinmetall employees make up an international community in which a number of cultures, a range of ethnic and social backgrounds and a wide variety of skills, talents and expectations are reflected. With sites in 24 countries spread over five continents, supply relationships in more than 80 countries and 11,794 employees abroad (previous year: 10,682), diversity is already a reality and a factor in the success of global business operations. Daily practice shows that this diversity in languages, education and training, abilities, perspective and ways of thinking and working enriches cooperation and is an asset to the corporate culture. Secondments continue to be encouraged as a means of supporting international business. Assignments outside their home country help employees to not only gain new skills but also strengthen their intercultural competence. This also improves the transfer of knowledge across international borders within the Group. In 2012, 58 German employees (previous year: 62) completed a stay abroad, for which they prepared themselves through seminars dealing with country and culture-specific themes.

»Women at Rheinmetall«

The defence and automotive industries continue to be dominated by men, who primarily choose technical or scientific subjects during their training or studies. The proportion of female graduates from engineering courses of relevance to Rheinmetall remains at around 20 %. The ongoing improvement of attractiveness as an employer pursued by Rheinmetall is just beginning to lead towards the desired effect on the employment market, encouraging more young women in technical professions to choose a career in the Rheinmetall Group.

When selecting staff to fill managerial positions, the Executive Board members and managers focus on the specialist and person requirements for the role in question and look for the person that best meets these requirements. If it is a case of choosing from several female or male candidates with the same level of qualification, it is ensured that women are given due consideration when selecting the person to fill the vacancy. In the year under review, the Rheinmetall Group employed 2,067 managers across its first four levels (previous year: 2,052), of whom 151 or 7.3% were women (previous year: 148 or 7.2%). Of the senior management staff comprising approximately 240 people, 6% are women (previous year: 5%). 8 % of participants in the Young Manager program are women (previous year: 8 %), and 5 % in the Executive Development program are women (previous year: 6 %). In the year under review, 11 % of participants at events organized by the Rheinmetall Academy were women (previous year: 8%).

»Improved work–life balance«

Professional success is dependent on factors including contentment in one's private life. Many employees want to create a more healthy balance between their career and their family and private interests through more flexible working hours. Working hour models with varying weekly working hours and a range of part-time options as well as flexitime on trust allow employees a more flexible timeframe. Rheinmetall also supports mothers and parents with a financial contribution in order for them to find individual childcare solutions for their child or children. The option to obtain parental benefit for a longer period is also utilized in the Rheinmetall companies. As in the previous year, 108 employees were on parental leave in 2012 in the German companies (55 female employees, 53 male employees; previous year: 71 female employees, 37 male employees).

»Performance-related and success-oriented remuneration systems«

Attractive pay is a key component in recruiting and ensuring the retention of capable and dedicated staff at the Company. The contract conditions are geared toward the scope of the employee's duties, responsibilities and services and are market-referenced. In addition to fixed remuneration components, performance- and success-related bonuses and variable salary components are also paid.

In addition to a fixed component as part of "Management by Objectives", managers and employees not covered by collective wage agreements receive a variable remuneration component linked, via personal target agreements, to individual targets and company success. Depending on the extent to which targets have been achieved, the bandwidth of this variable remuneration component is somewhere between 0% and 200% of the variable target income.

Division heads, managers and executives receive a long-term incentive in addition to this short-term component, which is geared towards long-term corporate success and includes payment of 40% of the long-term incentive amount in Rheinmetall shares, which are subject to a four-year lockup period. The number of shares is based on the average price on the last five trading days in February of the subsequent fiscal year. 60% of the long-term incentive is paid in money and is primarily used to pay tax on the Rheinmetall shares immediately.

Rheinmetall Group business trend
Employees

The Company's success benefits employees in two ways, including staff covered by collective wage agreements: First, employees receive an annual bonus subject to the performance of their division or sector and, second, the increase in the value of the Company achieved is paid out in a success-oriented component in the company pension, thus leading to improved support in old age.

»Pensions – an important component of HR policy«

The Rheinmetall Group has been supporting its employees for many years with innovative company pension models in order to financially secure their standard of living in retirement. The pension scheme has an identical structure for staff and managers, but higher incomes are reflected in increased benefits. This system, which applies to all sites in Germany, consists of three components: a reliable basic plan, a performance-related intermediate plan linked to the increase in Company value and a supplementary plan financed by the employee, allowing for various forms of compensation such as deferred compensation, direct insurance or a Riester pension.

»Employees take up Rheinmetall shares«

Since 2008, employees have had the opportunity several times a year to purchase Company shares on preferential terms and thus to participate in the corporate success of their Company as a joint owner. In addition to Rheinmetall Group companies based in Germany, employees of 19 European Group companies are also entitled to subscribe to shares. In the two tranches of April 2012 and November 2012, a total of 1,018 employees (previous year: 1,521) purchased 106,798 Rheinmetall shares (previous year: 169,743), which are subject to a minimum lockup period of two years. Since the share purchase program was launched in 2008, employees have purchased 787,252 Rheinmetall shares.

»Demographic change – A challenge for the future«

On the basis of detailed structural analyses and simulation calculations, interdisciplinary teams are developing new HR programs that take into account the different starting situations and developments at the national and international sites as well as their impact on the employees' age structure. The site-specific measures include the targeted transfer of knowledge and experience from older colleagues to younger employees, the formation of mixed-age teams, the systematic training of junior employees and more intensive, target-group-specific recruiting and HR marketing activities. They also include adjustments to working and organizational processes as well as additional measures and incentives to promote good health. The agreement on health management concluded in 2012 with the European Works Council has created a framework for integrating the promotion of good health at the European sites on a step-by-step basis in routine operational practice. At 43.5 years, the average age of employees (excluding apprentices and interns) in the Rheinmetall Group in 2012 remains unchanged on the previous year's figure. The length of service remained the same as the previous year in the year under review at 14.1 years.

»Further key personnel figures«

Personnel expenses in fiscal 2012 totaled €1,336 million, following €1,260 million in the previous year. Wages and salaries accounted for €1,103 million (previous year: €1,037 million). Social insurance contributions, pension expenses and related employee benefits totaled €233 million (previous year: €223 million). Based on capacity, staff costs per employee amounted to €63,000 (previous year: €62,000). The ratio of personnel expenses to total operating performance remained at 28 %. At €217,000, sales per employee in 2012 remained at almost the same level as the previous year (2011: €218,000).

Rheinmetall Aktiengesellschaft

»Management holding company Rheinmetall AG«

Rheinmetall AG, which is listed on the stock exchange and headquartered in Düsseldorf, is the management company for the Rheinmetall Group with its operating sectors of Defence and Automotive. As the management holding company, it is responsible for the consistent management and economic controlling of the Rheinmetall Group, as well as the overall monitoring and supervision of the Group. It defines the strategies, framework guidelines and objectives for the Group as a whole. Important administrative functions that perform tasks and services for the Group as a whole are combined within Rheinmetall AG. These essentially comprise the overall management of matters concerning strategy, legislation, HR policy and tax, corporate governance and corporate compliance, communication with key stakeholders, particularly the media, the capital market and shareholders, mergers and acquisitions, central finance and liquidity management, Group controlling, Group accounting and the optimization of the investment portfolio. Rheinmetall AG uses standardized planning, management and controlling processes throughout the Group and monitors compliance with laws, guidelines, regulations, standards and procedures within its compliance organization.

In addition to Rheinmetall AG, the consolidated financial statements as at December 31, 2012 included 48 fully consolidated subsidiaries in Germany (previous year: 47) and 92 fully consolidated subsidiaries abroad (previous year: 83). 27 companies (previous year: 27) were carried at equity.

The single-entity financial statements of Rheinmetall AG for fiscal 2012 have been prepared in accordance with the accounting regulations of the German Commercial Code (HGB), with due regard to the additional provisions of the German Stock Corporation Act (AktG), and have been issued with an unqualified auditor's opinion by the auditor, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch.

»Earnings situation of Rheinmetall AG«

In addition to the results of subsidiaries, the earnings situation of Rheinmetall AG is determined to a large extent by expenses and income in central Group financing.

Income statement of Rheinmetall AG in accordance with HGB (summarized version) *€ million*

	2011	2012
Investment income	179	54
Net interest	(32)	(26)
Other operational income	126	137
Personnel expenses	27	28
Other expenses	108	61
EBT	138	76
Taxes on income and revenue	(9)	1
Net profit for the year	129	77
Changes in retained earnings	(60)	(8)
Net earnings	69	69

Rheinmetall Aktiengesellschaft

Net investment income of €54 million was achieved in fiscal 2012, compared with €179 million in the previous year. The Defence sector accounted for €57 million of this (previous year: €133 million). Net investment income from the Defence sector in fiscal 2012 includes a dividend of €32 million from Rheinmetall Air Defence AG, Zurich (previous year: €49 million). The Automotive sector achieved net investment income of €49 million in the previous year. Following the termination of the profit transfer agreement between KSPG AG, the management company for the Automotive sector, and Rheinmetall Verwaltungsgesellschaft mbH, an indirect subsidiary of Rheinmetall AG, with effect from December 31, 2011, no net investment income was achieved in fiscal 2012. KSPG AG recorded net income of €41 million for fiscal 2012, of which €36 million is to be paid out as a dividend.

Net interest from central financing improved by €6 million to €-26 million, compared with €-32 million in the previous year. The result for fiscal 2011 included expenses of €3 million from the conclusion of the new syndicated loan facility.

In connection with the performance of the duties of a holding company, other operating income and expenses were incurred amounting to €76 million (previous year: €18 million), along with personnel expenses of €28 million (previous year: €27 million). The year-on-year improvement in these income and expense items, which totaled €57 million, was largely due to income of €62 million from the sale of subsidiaries in connection with the optimization of the Group structure. The net currency result fell by €4 million year-on-year.

Earnings before taxes amounted to €76 million (previous year: €138 million). Tax income amounted to €1 million (previous year's tax expenses: €9 million). After deduction of taxes, net income of €77 million remained for fiscal 2012 (previous year: €129 million). After appropriations to retained earnings, net earnings of €69 million were reported.

The Executive and Supervisory Boards of Rheinmetall AG are to propose to the Annual General Meeting on May 14, 2013 that the net earnings be used to pay a dividend of €1.80 per share, whereby the treasury shares held by Rheinmetall AG as treasury stock (as at December 31, 2012: 1,881,647) are not entitled to a dividend.

»Asset and financial situation of Rheinmetall AG«

The asset situation of Rheinmetall AG is largely shaped by its holding function, i.e. by the management of investments and the financing of Group activities. This is reflected above all in the amount of the investments held and in the receivables due from and payables owed to Group companies.

The total assets of Rheinmetall AG fell by €148 million to €1,888 million. This was mainly due to a decline of €102 million in financial assets and of €57 million in cash in hand. Of the drop in financial assets, €100 million related to restructuring measures under company law at North American companies.

The financial assets include shares in associated companies in the amount of €1,045 million (previous year: €1,153 million). This represents a share in total assets of 55% (previous year: 57%). Receivables from and liabilities to associated companies amounted to €425 million (previous year: €424 million) and to €621 million (previous year: €709 million) respectively. They account, respectively, for 23% and 33% of total assets.

Of the total assets of €1,888 million as at December 31, 2012 (previous year: €2,036 million), €571 million (previous year: €581 million) is financed from equity. The equity ratio increased from 29 % to 30 %. The net income led to growth of €77 million, which was offset by a reduction of €69 million owing to the dividend payment for 2011 and a drop of €18 million owing to the increase in holdings of treasury shares.

Liabilities fell by €135 million to €1,188 million as at December 31, 2012. Of this decline, €88 million was the result of the reduction in liabilities to subsidiaries and €50 million was due to the early repayment of promissory note loans.

Balance sheet of Rheinmetall AG in accordance with HGB (summarized version) *€ million*

	Dec. 31, 2011	**Dec. 31, 2012**
Fixed assets		
Intangible assets, property, plant and equipment	22	20
Financial assets	1,170	1,068
	1,192	1,088
Current assets		
Receivables from affiliated companies	424	425
Other receivables, other assets	13	25
Cash in hand	407	350
	844	800
Total assets	2,036	1,888

	Dec. 31, 2011	**Dec. 31, 2012**
Equity	581	571
Provisions	132	129
Liabilities		
Bond, liabilities due to banks	586	536
Liabilities to affiliated companies	709	621
Other liabilities	28	31
	1,323	1,188
Total liabilities	2,036	1,888

Corporate Social Responsibility

»Rheinmetall worldwide«
Founded in 1889 as "Rheinische Metallwaaren- und Maschinenfabrik Aktiengesellschaft", today the Company is one of the hundred largest listed corporations in Germany and enjoys international success on the international defence and automotive markets. The national and international companies of the Rheinmetall Group are involved in the economic, ecological and social conditions of the countries and regions in which they are active.

»Social engagement«
Rheinmetall has a long history of social engagement that extends beyond the borders of its factory premises. Entrepreneurial and social responsibility is taken very seriously. Rheinmetall is a successful and reliable partner and an attractive employer. Through its social engagement, Rheinmetall contributes to society at large, which in turn contributes to the acceptance of its companies locally.

»Code of Conduct«
Rheinmetall is committed to global trade and fair competition as well as to acting in a way that is legal and socially and ethically responsible. In the implementation of its corporate objectives, the Group aims to take into account not only the concerns of shareholders, employees and other groups affiliated with the company, but also ecological and social aspects. The fundamentals of social responsibility were set out in the Code of Conduct back in 2003. Areas covered by this Code of Conduct include responsible entrepreneurship in the ongoing process of globalization, observance of human rights and safe working conditions.

»Conservation of natural resources«
The careful utilization of natural resources is a matter of course for the Rheinmetall Group and is embedded in our corporate culture. The economical use of raw materials and energy as well as the avoidance of environmental damage in our business and production processes also form the central entrepreneurial basis for operations conducted by the Group companies, as does the responsible handling of residues and emissions. Of key importance here is that environmental protection is, in keeping with a holistic understanding, seen as integral part of the management system in the Rheinmetall companies.

Correspondingly, the employees' sense of responsibility toward the environment is encouraged at all levels of the value-added chain. Rheinmetall makes every effort to further minimize its environmental load with the best available, economically viable technology. The careful use of natural resources is supported by state-of-the-art technology and processes that minimize emissions and waste. The considerate handling of materials, energy, water and waste not only minimizes environmental damage, but also cuts costs. Efforts to deploy resources even more efficiently and to avoid the generation of hazardous materials are ongoing.

Safe and modern facilities at certified production sites ensure resource-conserving and low-emission production processes. Environmentally relevant procedures in the companies are subject to strict monitoring. Country-specific regulations and the requirements of international standards for quality (ISO 9001, TS 16949 and AQAP 2110-2210) and environmental protection (ISO 14001) are observed and processes certified accordingly. Regular audit reviews create transparency regarding the status quo and provide objective confirmation of the high quality standards.

»Health and safety«
Preventing accidents and safeguarding the health of employees at their place of work are some of the key aims. With regard to health and safety in the workplace and health management, Rheinmetall focuses on identifying and assessing potential risks and on health care in line with requirements, which maintains and supports the personal wellbeing and professional performance of employees. This includes the safety of facilities and production processes, modern equipment, the ergonomic design of work stations and good working conditions, along with company medical services. The pilot project launched in 2011 by KSPG aimed to bundle the previous measures and services offered in occupational health and safety in Automotive. The findings from this project were incorporated in the framework company agreement on health management that was concluded in June 2012 between the Rheinmetall AG Executive Board and the European Works Council and that defines, for all European Group sites, the introduction and further development of company and interplant health management in consideration of aspects concerning occupational health and safety, promotion of good health, addiction management and occupational rehabilitation following illness.

»Nature conservation«
For more than 100 years now, Rheinmetall Defence has been testing its products on heathland near Unterlüß. This land which, apart from a small prohibited area, is company-owned covers 3,400 hectares of woodland and 800 hectares heathland. 90 % of the area is maintained, through hunting, in keeping with the typical, original character of the landscape, fauna and flora by two full-time forest rangers and cultivated in accordance with the strict rules of integrated nature conservation. Active landscaping creates individual habitats for the unique flora and fauna. The result is an unusually rich array of flora, which in turn attracts a rare diversity of insects and birds and also provides a habitat for large wild animal populations. The northern section of this Rheinmetall-owned land – the Ellerndorfer Heide – is open to the public.

»Ecofriendly construction«
Sustainable building is becoming increasingly important. “Green” buildings meet high ecological standards. Their state-of-the-art facilities and equipment help to save energy and so conserve the environment. The Lighthouse and doubleU buildings on the former site of the Rheinmetall AG factory in Düsseldorf-Derendorf have received the silver certificate from the German Society for Sustainable Building. Certification for the casa altra is currently in preparation. In November 2010, the Customer Center at the KSPG site in Neckarsulm received an award for the “Exemplary Construction” architectural competition. The new office building impressed judges with not only its outstanding architecture but also its sustainable ecofriendly solutions.

»Urban development«
As one of the oldest companies in Düsseldorf, Rheinmetall has been an integral part of the city and region for more than 100 years. Since the relocation of its defence technology production facilities from Düsseldorf-Derendorf to Unterlüß on the Südheide in Lower Saxony in 1993, the around nine-hectare site between Ulmenstrasse, Heinrich-Ehrhardt-Strasse and Rather Straße has been the subject of a sustainable urban transformation that Rheinmetall initiated and has been actively supporting over the years. For urban life in the 21st century, a landscape of service and residential buildings has emerged that is gradually consummating the sensitive integration of old building fabric in modern architecture. The lively mix of administrative and commercial buildings with around 170 attractive city apartments and lofts is rounded off with green spaces and services that meet the high expectations regarding the quality of life and living. The district will be completed in 2014 after almost fifteen years of construction.

Corporate Social Responsibility

»Engagement close to home«

Rheinmetall remains steadfast even in times of change and regardless of the markets in which the companies are active. Many sites can look back on a long tradition, which means that the Group companies are strongly rooted in the local community – after all, this is where their customers, employes and business partners live. Social acceptance is an important requirement for economic success. The Rheinmetall Group pursues its commitment to society directly on a local basis. Choosing to support projects, initiatives and organizations is largely at the discretion of the managers of the companies, since requirements vary greatly between the various locations where Rheinmetall operates.

»Invest in knowledge«

Rheinmetall is also committed to promoting interest in technology, science and craft in the areas where it is located. Understand technology and try it out for yourself: This is the slogan under which young people are given the opportunity – as part of school partnerships, for example – to get to know technology through hands-on tasks and develop a better understanding of links between technology and commerce by gaining an early insight into the industry. The companies in the Rheinmetall Group are also involved in nationwide activity days and offer internships in a broad range of disciplines not only for schoolchildren but also for people looking for new directions in their professional life.

In the year under review, Rheinmetall also offered 310 places for interns from universities and students taking their diploma (previous year: 94 places). Furthermore, as part of the “Deutschlandstipendium” initiative launched by the German Federal Ministry of Education and Research, the Group took part in the Rheinmetall Scholarship Program, in which 21 students benefited from scholarships.

Under the auspices of the renowned foundation run by the University of Kaiserslautern, the Rheinmetall Foundation supports young and talented academics in Germany with earmarked financial donations enabling participation in international studies or internship programs. With professorships for lightweight components, automotive power-plant engineering and vehicle engine technology at the renowned Tongji University in Shanghai, China, KSPG is supporting young scientists at international level too.

»Industrial solutions for environmentally friendly engine technology«

The Rheinmetall Group is continuing to align itself toward issues relevant to sustainability. The divisions in the Automotive sector have already been working for a long time on ecofriendly automotive technology solutions and, with their products, are helping to ensure that the ever-growing demand for mobility does not stand in contradiction to environmental protection.

In these times of ever-increasing traffic on the roads and global warming, the trend toward saving fuel, cutting CO_2 emissions and reducing harmful emissions generally – a trend supported through legislation – has progressed at an accelerated rate. As a key development supplier to the national and international automotive industry, Rheinmetall Automotive offers numerous innovative engine technology components, modules and systems that make a significant contribution to reducing harmful emissions, cutting fuel consumption, reducing weight and optimizing performance.

Detailed information about sustainability in the Rheinmetall Group can be found at http://csr.rheinmetall.com.

Board remuneration report

»Remuneration of the Executive Board«

Rheinmetall AG's pay system is geared towards sustainable corporate development. Using an assessment basis spanning several years, incentives are provided for a sustainable corporate management strategy, in particular as part of the long-term incentive program (LTI). The Supervisory Board of Rheinmetall AG resolves upon and regularly reviews the amount of Executive Board remuneration and any significant employment contract elements following preparation work carried out by the Personnel Committee. The Supervisory Board has performed an extensive review of the remuneration system of the Executive Board on the basis of all relevant information, and has looked in particular at whether the total remuneration of Executive Board members is proportionate to the scope of responsibilities of the Executive Board member in question, his personal performance and the economic situation and success of the Company in comparison with industry peers and ensuring that this remuneration does not exceed standard remuneration unless there are special reasons for this. Remuneration is calculated in such a way as to ensure that it is competitive on a national and international scale, thus offering an incentive for dedicated and successful work. The Supervisory Board most recently reviewed the suitability of current Executive Board remuneration at its meeting on March 22, 2011 and determined that it was appropriate.

Total remuneration is performance-based and is made up of various components. These comprise fixed annual remuneration not linked to performance, performance-related variable remuneration comprising a short-term incentive program (STI) and a long-term incentive program (LTI) as well as fringe benefits and pension commitments. The fixed component makes up 60 % and the STI 40 % of the annual target salary.

»Fixed component«

The fixed component is paid out on a monthly basis in twelve equal portions. In addition, Executive Board members receive fringe benefits in the form of non-cash remuneration. This mainly consists of contributions to statutory social pension insurance (or any exempting life insurance in lieu) plus the use of a company car.

»Performance-related variable remuneration«

Performance-related variable remuneration comprises two elements, the STI and the LTI.

The target value (100 %) for the STI is based on planning for the fiscal year. This is subject to the development of two key figures, EBT and return on capital employed (ROCE), which are each weighted at 50 % and used as criteria for determining this figure. The amount paid from the STI ranges between 0 % and 200 % of the target amount. 200 % of the target amount is paid if the planned value is exceeded by 10 %. No payment is made from the STI if target achievement falls 30 % below the planned value. In the case of intermediate target achievement values, a corresponding value within the range is paid out. The target parameters are also used, in combination with others, by managerial staff in order to ensure the uniformity and consistency of the target system in the Group as a whole in this respect.

In order to gear the Executive Board remuneration structure more strongly towards sustainable corporate development, measures taken have also included the introduction of an LTI linked to the share price. The LTI provides for a distribution at the end of the fiscal year in question based on the calculation of the average adjusted EBT from the last three fiscal years. This distribution amount is divided into a cash portion and an equity portion.

Board remuneration report

The number of shares granted is based on a reference share price which corresponds to the average price on the last five trading days in February of the subsequent fiscal year. The shares granted are subject to a four-year lockup period, during which they are subject to all opportunities and risks inherent in capital market performance. As part of the LTI, the figure to be taken into account when calculating the distribution amount (average adjusted EBT from the last three fiscal years) is limited to a maximum of €300 million. This is therefore a cap intrinsic to the system. As such, the LTI is subject to results achieved in the past and the performance of the share price in the future. The cash portion is mainly used to pay the tax bill incurred upon receipt of the shares and the cash portion. At its meeting on December 11, 2012, the Supervisory Board resolved to waive observance of the four-year lockup period for members of the Executive Board who are retiring.

More than 60 % of total variable remuneration relates to the LTI, on the basis of the planned values for 100 % target achievement. The LTI therefore prevails to a great degree. As such, account is taken of this long-term incentive component.

Average adjusted EBT for fiscal 2011 totaled €210 million. On the basis of the reference share price of €45.39 for the end of February 2012, a total of 23,132 shares were transferred to members of the Executive Board of Rheinmetall AG who were in office in fiscal 2011 on April 2, 2012. The CEO, Klaus Eberhardt, received 11,566 shares, while Dr. Gerd Kleinert and Dr. Herbert Müller each received 5,783 shares. The corresponding expenditure is recorded in the remuneration report for the previous year. Average adjusted EBT totaled €248 million for fiscal 2012.

The employment contracts make provision for the ability of the Supervisory Board to grant, in exceptional cases and at its own discretion, a special bonus exclusively for (i) special achievements or specific efforts, (ii) if and to the extent to which the Executive Board member has made a particular difference to the Company through his activities (e.g. restructuring success in a particularly difficult market environment). Executive Board members are not entitled to the granting of this special bonus. Dr. Gerd Kleinert received a special bonus of €175,000 in the last fiscal year.

In addition to salaries, a group accident and invalidity insurance policy and a D&O insurance policy (Directors' and Officers' liability insurance) are also in place, whereby a deductible of 10 % of the loss or one and a half times the annual fixed remuneration has been agreed.

The contracts of Executive Board members provide for a compensation payment in the event that the position on the Executive Board is terminated prematurely without cause. This is limited to a maximum of two years' salary including fringe benefits (compensation cap) and shall not provide any more payment than the remaining term of the employment contract. The members of the Executive Board did not receive any benefits or equivalent entitlements from third parties with regard to their activities as Executive Board members in fiscal 2012 or in the previous year.

»Pensions«

Executive Board members are entitled to defined benefit pension commitments in the form of pension amounts agreed on the basis of individual contracts, based on an average of 27 % of the annual target salary. The retirement age has been fixed at the age of 63 on average. The Company has set up provisions for claims.

»Total remuneration of the Executive Board«

Individual details of the remuneration of the Executive Board in fiscal 2012 and pension commitments attributable to individual members of the Executive Board can be found in the following table, in addition to the respective values for the previous year:

€ ’000

	Fixed remuneration incl. fringe benefits	Performance based remuneration (STI)	LTI	Total	Annual post-retirement pension	Current service cost-pensions
Klaus Eberhardt	775	212	1,364	2,351	400	376
Previous year	840	972	1,155	2,967	400	388
Dr. Gerd Kleinert	546	340	682	1,568	225	428
Previous year	546	680	578	1,804	203	-
Dr. Herbert Müller	425	117	682	1,224	193	420
Previous year	425	518	578	1,521	175	131
Armin Papperger	453	164	682	1,299	100	154
Previous year	-	-	-	-	-	-
Total	**2,199**	**833**	**3,410**	**6,442**		
Previous year	1,811	2,170	2,311	6,292		

»Remuneration of the Supervisory Board«

The remuneration of the Supervisory Board of Rheinmetall AG is regulated in Section 13 of the bylaws, as amended by resolution of the Annual General Meeting on May 15, 2012. According to these, Supervisory Board members receive remuneration comprising a fixed component of €60,000 payable after the end of the fiscal year, in addition to reimbursement of expenses and meeting attendance fees. The Supervisory Board Chairman and Vice-Chairman each receive double this compensation.

Supervisory Board members receive fixed remuneration of €15,000 for any committee membership, which is payable after the end of the fiscal year. The chairman of a committee receives €30,000.

Supervisory Board and committee members who belonged to the Supervisory Board or committee for only part of the fiscal year receive remuneration on a pro rata basis.

The attendance fee for Supervisory Board meetings is €1,000. When attending committee meetings that are not held on the same day as a Supervisory Board meeting, the attendance fee is €500. Total expenditure for meeting attendance fees in the reporting year totaled €104,000 (previous year: €102,000).

Board remuneration report

Members of the Supervisory Board received the following remuneration for fiscal 2012:

€

		Fixed remuneration	Variable remuneration	Fixed committee remuneration	Variable committee remuneration	2012 remuneration
Klaus Greinert		120,000	-	120,000	-	240,000
Previous year		60,000	48,000	30,000	24,000	162,000
Joachim Stöber	up to May 15, 2012	45,000	-	16,875	-	61,875
Previous year		60,000	48,000	15,000	12,000	135,000
Dr. Rudolf Luz		97,833	-	28,250	-	126,083
Previous year		30,000	24,000	-	-	54,000
Prof. Dr. Andreas Georgi		60,000	-	-	-	60,000
Previous year		30,000	24,000	-	-	54,000
Dr. Siegfried Goll		60,000	-	-	-	60,000
Previous year		30,000	24,000	-	-	54,000
Prof. Dr. Susanne Hannemann	from May 15, 2012	37,667	-	9,417	-	47,084
Previous year		-	-	-	-	-
Dr. Peter Mihatsch	up to May 15, 2012	22,500	-	5,625	-	28,125
Previous year		30,000	24,000	7,500	6,000	67,500
DDr. Peter Mitterbauer		60,000	-	-	-	60,000
Previous year		30,000	24,000	-	-	54,000
Detlef Moog		60,000	-	-	-	60,000
Previous year		30,000	24,000	-	-	54,000
Prof. Dr. Frank Richter		60,000	-	35,667	-	95,667
Previous year		30,000	24,000	15,000	12,000	81,000
Toni Wicki		60,000	-	9,417	-	69,417
Previous year		30,000	24,000	-	-	54,000
Roswitha Armbruster	from May 15, 2012	37,667	-	-	-	37,667
Previous year		-	-	-	-	-
Julia Cuntz	from May 15, 2012	37,667	-	-	-	37,667
Previous year		-	-	-	-	-
Heinrich Kmett		60,000	-	15,000	-	75,000
Previous year		30,000	24,000	7,500	6,000	67,500
Dr. Michael Mielke		60,000	-	-	-	60,000
Previous year		30,000	24,000	-	-	54,000
Wolfgang Müller		60,000	-	-	-	60,000
Previous year		30,000	24,000	-	-	54,000
Harald Töpfer		60,000	-	9,417	-	69,417
Previous year		30,000	24,000	-	-	54,000
Wolfgang Tretbar		60,000	-	15,000	-	75,000
Previous year		30,000	24,000	7,500	6,000	67,500
Peter Winter	up to May 15, 2012	22,500	-	5,625	-	28,125
Previous year		30,000	24,000	7,500	6,000	67,500
Total		**1,080,834**	**-**	**270,293**	**-**	**1,351,127**
Previous year		540,000	432,000	90,000	72,000	1,134,000

In addition, Rheinmetall refunds VAT on Supervisory Board remuneration to the members of the Supervisory Board.

Declaration of corporate governance

The confidence of national and international investors, business partners, analysts, the media and employees in the business policy, corporate strategy, management and supervision of Rheinmetall AG is heavily influenced by comprehensible, responsible corporate management and control that is geared towards value creation and profitable growth. Effective corporate governance that protects the interests of shareholders, early reporting, correct accounting and close cooperation between the Executive and Supervisory Boards in the interests of the Company have always played a key part at the Rheinmetall Group. Stock corporation law, capital market law, codetermination law, the Company bylaws and the German Corporate Governance Code based on internationally recognized standards form the basis for the organization of management and monitoring at the Company.

»Declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG)«

Section 161 of the German Stock Corporation Act (AktG) obliges the Executive and Supervisory Boards of a stock corporation listed in Germany to declare once a year that the recommendations of the Commission of the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the Federal Gazette have been and are being complied with, or which recommendations have not been or are not being implemented and why not. On August 30, 2012, the Executive Board and Supervisory Board issued the following updated declaration on the recommendations of the German Corporate Governance Code as amended up to May 15, 2012 in accordance with Section 161 AktG:

“The Executive Board and Supervisory Board of Rheinmetall AG hereby declare,

that Rheinmetall AG has fully carried out the recommendations of the Commission of the German Corporate Governance Code as amended on May 26, 2010, officially communicated in the Federal Gazette on July 2, 2010, since it issued its last declaration of conformity dated December 13, 2011.

that Rheinmetall AG has fully carried out and will continue to fully carry out the recommendations of the Commission of the German Corporate Governance Code as amended on May 15, 2012, officially communicated in the Federal Gazette on June 15, 2012, with one exception.

Chairmanship of the Audit Committee
By way of derogation from Item 5.2 (2) of the German Corporate Governance Code, the Chairman of the Supervisory Board is also the chairman of the Audit Committee. In view of the Supervisory Board Chairman’s expertise in the areas of accounting and auditing, together with his many years of experience at Rheinmetall AG and resulting detailed knowledge of the Company’s corporate sectors, the Executive and Supervisory Boards believe that a deviation from the recommendations of the Code is appropriate and in the interests of good corporate management.

Düsseldorf, August 2012
Rheinmetall Aktiengesellschaft
Supervisory Board Executive Board

The current declaration of conformity, along with the declarations of conformity issued in previous years, has been published on the Company’s website (www.rheinmetall.com) in the section “Group – Corporate Governance”.

Declaration of corporate governance

»Shareholders and the Annual General Meeting«

Shareholders of Rheinmetall AG exercise their rights at the Annual General Meeting, which is convened by the Executive Board or Supervisory Board as prescribed by law, or when it appears necessary in the interest of the Company. The Chairman of the Supervisory Board presides over the meeting in accordance with Section 18 (2) of the Company bylaws. Each share grants one vote in ballots, with the exception of treasury stocks held by the Company, which do not entitle the Company to any rights. The Annual General Meeting is convened at least 38 days prior to the date of the meeting. The agenda items on which a vote will be taken will be announced and explained in the invitation, along with the conditions of participation and rights of shareholders. All documents and reports required by stock corporation law and supplementary information on the Annual General Meeting will be made available on Rheinmetall AG's website, on which any countermotions or nominations from shareholders will also be published.

Shareholders who register in due time and submit proof of shareholder status are entitled to participate in Annual General Meetings, to take the floor on agenda items in these meetings and to ask relevant questions and propose relevant motions. Shareholders who cannot or do not wish to attend in person may appoint a bank, a shareholders' association, a proxy at their discretion or a Rheinmetall-appointed voting proxy to exercise their voting right at the Annual General Meeting, or they may exercise their voting right by means of an absentee ballot.

The Annual General Meeting resolves, with binding effect for shareholders and the Company, on all matters regulated by law, including the appropriation of net income for the year, approval of the activities of members of the Executive and Supervisory Boards, the selection of shareholder representatives on the Supervisory Board and the selection of the auditor. It also decides on amendments to the bylaws, capital measures and affiliation agreements, as well as the remuneration of the Supervisory Board. The Annual General Meeting also has the opportunity to approve the remuneration system for the Executive Board. Subject to other statutory provisions, the resolutions of the Annual General Meeting are adopted by means of a simple majority of votes cast and, where the law prescribes both a voting and shareholding majority, by means of a simple majority of the common stock represented in the passing of the resolution. Shortly after the Annual General Meeting, the Executive Board's presentation, information about attendance and the results of votes can be accessed online.

»Management, control and organization of the Rheinmetall Group«

Rheinmetall AG, which is listed on the MDAX and based in Düsseldorf, is a stock corporation under German law with a dual management and control structure: the Group is managed by the Executive Board as a whole, while the Supervisory Board advises the Executive Board and monitors its management activities. The Executive and Supervisory Boards, which each have separate responsibilities, cooperate closely and constructively and in an atmosphere of trust on the basis of this division of tasks and responsibility, in the best interests of the Company and for the benefit of shareholders and employees, with due regard to the rules of correct corporate management. Rules of procedure are in place for both boards, containing regulations on the composition, tasks, responsibilities and areas subject to approval.

»Structure and function of the Executive Board«

The Executive Board manages the Company on its own responsibility, without any instructions from third parties, in accordance with the law, the bylaws and its rules of procedure and taking into account the resolutions of the Annual General Meeting, with the aim of a sustainable increase in the value of the Company. Among other points, it stipulates the basic strategic focus, corporate goals, corporate policy and the Group structure and organization. The Executive Board ensures that strategic aims and operating tasks are coordinated with each other.

In accordance with Section 6 (1) of the bylaws, the Executive Board of the Company must consist of at least two people. The number of members is determined by the Supervisory Board. In the year under review, the Executive Board consisted of four members. Klaus Eberhardt was simultaneously CEO and Director of Industrial Relations until December 31, 2012. Armin Papperger has represented the Defence sector on the Executive Board since January 1, 2012, and on January 1, 2013 also took on the position of CEO and Director of Industrial Relations. Dr. Gerd Kleinert is responsible for the Automotive sector, while Dr. Herbert Müller headed Finance and Controlling until December 31, 2012. Helmut P. Merch took over this position on January 1, 2013. Resolutions of the Executive Board are passed at meetings, which are generally held once a month.

The Executive Board has adopted rules of procedure for its work pursuant to Section 6 of the bylaws. These govern the work of the Board, the responsibilities of respective members of the Board, matters that are reserved for the Board as a whole and the majority required for resolutions of the Executive Board to be passed. The members of the Executive Board keep each other informed on an ongoing basis of important processes and measures in their areas of responsibility, work together in a spirit of cooperation and ensure that the interests of the Group as a whole always come before the interests of individual companies or divisions.

The specific details of collaboration with the Supervisory Board are based on the rules of procedure for the Supervisory Board of Rheinmetall AG, which govern transactions and measures requiring approval and the information and reporting requirements of the Executive Board. The CEO bears overall responsibility for providing the Supervisory Board with information. He regularly informs the Supervisory Board Chairman of the progress of business activities and the situation of the Company and confers with him on the strategy, business development and risk management. He informs the Supervisory Board Chairman immediately of important events which are of key significance to the assessment of the situation and development as well as to the management of the Company.

The Executive Board of Rheinmetall AG ensures that Defence and Automotive are managed and monitored in line with the Group’s interests. These are independent corporate sectors with full responsibility for the business within the scope of the strategies, goals and guidelines drawn up by the Group’s Executive Board. Defence and Automotive each comprise three divisions, which are responsibly managed by the Management Board Defence and the Executive Board of KSPG AG. The new divisional structure geared toward market segments ensures greater proximity to customers, better coordination of the operating business and further streamlining of operational procedures. It also allows the Group to respond more quickly and in a more targeted way to market developments and technological changes. The division heads report at regular review and strategy meetings to members of the Executive Board of the sectors on developments in the economy, market and sales, the situation with regard to competition, the operating performance of areas of business assigned to the divisions, opportunities and risks, planned capital expenditure and the potential to achieve targets that have been set.

»Structure and function of the Supervisory Board«

The Supervisory Board of Rheinmetall AG consists of 16 members, with an equal number of shareholder and employee representatives. The eight shareholder representatives are elected by the Annual General Meeting and the eight employee representatives by delegates of employees at German production sites in accordance with the German law on codetermination (1976). Supervisory Board members have the same rights and duties and when carrying out their work are committed to Rheinmetall’s best interests, but are not bound by specific orders or instructions. When members of the Supervisory Board are selected, it is ensured that they have the necessary knowledge, skills and professional experience to perform their duties properly at an international technology group. Other criteria include commitment, availability in terms of time and independence.

Declaration of corporate governance

Former Executive Board members of Rheinmetall AG are not currently represented on the Supervisory Board. The normal term of office for members of the Supervisory Board is five years, although re-election of Supervisory Board members is possible. With the exception of Dr. Siegfried Goll, Detlef Moog and Toni Wicki, who have been elected until the close of the Annual General Meeting in 2013 or 2016 respectively, the term of office for the other shareholder and employee representatives terminated at the close of the Annual General Meeting on May 15, 2012.

New elections for the employee representatives on the Supervisory Board were held on March 21, 2012. The term of office of Roswitha Armbruster, Julia Cuntz, Heinrich Kmett, Dr. Rudolf Luz, Dr. Michael Mielke, Wolfgang Müller, Harald Töpfer and Wolfgang Tretbar began immediately after the end of the Annual General Meeting on May 15, 2012 and will end at the close of the ordinary Annual General Meeting in 2017. The shareholders' meeting on May 15, 2012 followed the proposals of management in electing shareholder representatives. Professor Andreas Georgi, Klaus Greinert, Dr. Peter Mitterbauer and Professor Dr. Frank Richter were confirmed in their posts, while Professor Susanne Hannemann was newly elected to the Supervisory Board. The Supervisory Board, which now includes 13 men and three women, held its constitutive meeting immediately after the Annual General Meeting.

The Supervisory Board performs its activities in accordance with statutory provisions, the bylaws of Rheinmetall Aktiengesellschaft and its rules of procedure. It advises and monitors the Executive Board in its management of the Company and supports it based on its expertise and experience. It is involved at an early stage in strategies and planning as well as in all issues of fundamental importance to the Company. In accordance with the rules of procedure for the Executive Board and Supervisory Board, important Executive Board decisions require the prior approval of the Supervisory Board. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs meetings and represents its interests externally. If there is a voting tie when a resolution is to be passed, he has a decisive second voting right.

The Executive Board informs the Supervisory Board promptly and in detail of strategy, planning, significant transactions, business development, the Group's assets, financial situation and earnings and the Company's risk position, including risk management, and compliance issues, both in writing and at regular meetings, i.e. those that are generally held once a quarter. On the basis of these reports, the Supervisory Board monitors the legality, correctness and economic efficiency of management by the Executive Board.

The Supervisory Board has drawn up its own rules of procedure, taking into account the law and Company bylaws. These contain more detailed provisions relating to the composition, duties and responsibilities of the Supervisory Board, the convening, preparation and chairing of meetings, regulations on the committees and the presence of a quorum. The Supervisory Board must meet twice in every six-month period. Additional meetings are convened as required. The shareholder and employee representatives meet separately where necessary to prepare for meetings.

The Supervisory Board Chairman outlines the activities and decisions of the Supervisory Board in the Report of the Supervisory Board published in the annual report and reports on the work of the Board at the Annual General Meeting. He chairs the Annual General Meeting and determines the order in which the agenda items are addressed as well as the form and manner of voting.

The Supervisory Board of Rheinmetall AG periodically reviews the efficiency of its activities, as required by the provisions of the German Corporate Governance Code. Here, the function of the Supervisory Board and its committees, the routing of information from the Executive Board to the Supervisory Board and the interaction of the two boards is discussed and evaluated. The plenary assembly discusses possibilities for improvement and decides on appropriate measures where relevant.

No consultancy agreements or other service or work contracts existed between members of the Supervisory Board and Rheinmetall AG during the period under review.

The Supervisory Board has formed four committees from its members (the Personnel, Audit and Mediation Committees pursuant to Section 27 (3) MitbestG and the Nomination Committee), which prepare and supplement its work. The members of these committees support the Supervisory Board and reduce its workload by preparing time-consuming topics requiring extensive discussion as well as meetings of the Board, and examining resolutions in advance. In individual cases, the committees also have decision-making powers if these have been transferred by the Supervisory Board. With the exception of the Nomination Committee, which consists of two shareholder representatives, the committees are based on joint representation, with two shareholder representatives and two employee representatives. The composition and tasks of committees are set out in the rules of procedure for the respective committees.

Tasks that are the responsibility of the Personnel Committee include selecting suitable candidates to fill Executive Board positions, making preparations for the appointment and withdrawal of Executive Board members and the conclusion, amendment and termination of employment contracts of members of the Executive Board and other agreements with them. It is also responsible for appraising the performance of the Executive Board, regularly examining the amount, suitability and customary level of Executive Board remuneration and overseeing the structure of the Executive Board remuneration system. Klaus Greinert (Chairman), Professor Dr. Frank Richter, Joachim Stöber and Wolfgang Tretbar belonged to the Personnel Committee until the close of the Annual General Meeting on May 15, 2012. Following the constitutive meeting of the Supervisory Board on May 15, 2012, the committee members are Klaus Greinert (Chairman), Toni Wicki, Dr. Rudolf Luz and Wolfgang Tretbar.

It is the job of the Audit Committee to support the Supervisory Board when performing its supervisory functions. It looks in particular at the single-entity financial statements and quarterly accounts and – in addition to the accounting process – the adequacy and effectiveness of the internal control system, the internal auditing system, the risk management system and compliance. Its activities also include monitoring the independence and selection of the auditor and awarding the audit assignment, determining the focal points of the audit and agreeing the fees. As well as Klaus Greinert, who was the chairman, Professor Frank Richter, Joachim Stöber and Heinrich Kmett belonged to the committee until the close of the Annual General Meeting on May 15, 2012. Following the constitutive meeting of the Supervisory Board on May 15, 2012, the committee members are Klaus Greinert (Chairman), Professor Dr. Susanne Hannemann, Dr. Rudolf Luz and Heinrich Kmett.

The Mediation Committee formed according to Section 27 (3) MitbestG submits to the Supervisory Board a slate of candidates for Executive Board membership if these have not received the required two-third majority of Supervisory Board member votes in the first ballot. Klaus Greinert (Chairman), Dr. Peter Mihatsch, Joachim Stöber and Peter Winter belonged to the Mediation Committee until the close of the Annual General Meeting on May 15, 2012. Following the constitutive meeting of the Supervisory Board on May 15, 2012, the committee members are Klaus Greinert (Chairman), Professor Dr. Frank Richter, Dr. Rudolf Luz and Harald Töpfer.

The Nomination Committee submits recommendations to the shareholder representatives on the Supervisory Board for the nomination of shareholder representative candidates for election to the Supervisory Board by the Annual General Meeting. Following the constitutive meeting of the Supervisory Board on May 15, 2012, the members of the Nomination Committee are still Klaus Greinert (Chairman) and Professor Dr. Frank Richter.

The Supervisory Board was regularly informed of the activities of the committees and of the outcome of discussions held in the respective committee meetings in the subsequent plenary meeting.

The offices held by Executive Board and Supervisory Board members are shown on pages 159 to 162.

Declaration of corporate governance

»Avoidance of conflicts of interest«
Any potential conflicts of interest affecting members of the Executive or Supervisory Board must be disclosed to the Supervisory Board immediately. The Supervisory Board shall report at the Annual General Meeting on any conflicts of interest and how they have been dealt with. No conflicts of interest were reported by any members of the Executive or Supervisory Board in the year under review.

»Remuneration of Board members«
Details on the individual remuneration of Executive Board and Supervisory Board members and the respective remuneration structures are presented in the Board remuneration report within the summarized management report on pages 51 et seq. The Supervisory Board Chairman briefed the Annual General Meeting on May 15, 2012 on the basic components of Executive Board remuneration, which have also been disclosed on the Company's homepage.

»Directors' dealings«
In accordance with Section 15a of the German Securities Trading Act (WpHG), members of the Executive Board and Supervisory Board and any related parties, as well as employees with managerial responsibilities as defined by WpHG, are obliged to disclose the acquisition or sale of securities or related financial instruments to the Company if transactions concluded within the calendar year exceed €5,000. This information must also be passed on to the Federal Financial Supervisory Authority (BaFin). Rheinmetall was not informed of any such transactions in 2012. Securities transactions carried out since 2005 are permanently available to view on the internet at www.rheinmetall.com in the Investor Relations section.

»Related parties«
In making decisions and performing their duties, members of the Executive and Supervisory Boards must not pursue their personal interests or take advantage of any business opportunities arising for the Company for their own personal gain, or grant unfair advantages to other persons. Any such transactions or additional work must be disclosed to the Supervisory Board immediately and approved by it. Business relationships exist between a subsidiary of Rheinmetall AG and PL Elektronik GmbH, Lilienthal, whose sole shareholder is Armin Papperger, CEO of Rheinmetall AG, and which is managed by a party related to Armin Papperger. PL Elektronik GmbH provides development services and produces and supplies electric igniters to order. The transactions are carried out on an arm's-length basis. On the recommendation of the Personnel Committee, the Supervisory Board granted Armin Papperger exemption from the ban on additional work within the scope of his contract as a member of the Executive Board at its meeting on March 20, 2012.

»Shares held by the Executive and Supervisory Boards«
Members of the Supervisory Board and Executive Board and related parties together held 460,458 shares or 1.2 % of the common stock as at December 31, 2012 (2011: 437,853 shares or 1.1 %). The Executive Board held 127,858 shares or 0.3 % (2011: 89,313 shares or 0.2 %), the Supervisory Board 332,600 shares or 0.8% (2011: 333,750 shares or 0.9%).

»D&O insurance«
Rheinmetall AG has taken out a D&O policy for its Executive Board and Supervisory Board members. This stipulates a deductible of 10% of the loss or one and a half times the annual fixed remuneration.

»Compliance«

Operating in a way that is sustainable from an economic, ecological and social viewpoint is an essential element of Rheinmetall's corporate culture. This also includes integrity in dealings with employees, business partners, shareholders and the public, which is expressed through exemplary conduct. Compliance includes all instruments, guidelines and measures which ensure that procedures in the companies of the Rheinmetall Group comply with country-specific legislation, general legal conditions, regulatory provisions and the Company's internal guidelines and that law-abiding conduct is assured. The compliance organization is outlined on pages 63 to 67.

»Risk management system«

The Executive Board determines the Group's risk strategy and defines accountabilities, reporting structures, documentation and management of identified risks, and thresholds. The Group-wide reporting and control system is designed to detect, record, analyze and control business and financial risks and risks specific to the Defence and Automotive sectors to which the Company is exposed in the context of its international activities.

The risk management system, which consists of a series of interlinked planning, control and information systems, provides reliable information on the current risk situation and ensures that corporate decisions and ongoing business activities are kept within defined risk limits and comply with legal requirements. Details of risk management at Rheinmetall AG are presented in the risk report on pages 71 to 82. This includes the report on the accounting-related internal control and risk management system required in accordance with the German Accounting Law Modernization Act (BilMoG).

The auditor examines whether the Executive Board has taken the necessary action to set up a suitable early risk identification system as required by Section 91 (2) AktG and ensures that this is able to identify in good time any developments that may jeopardize the Company's continued existence as a going concern. The Executive Board regularly informs the Supervisory Board and in particular the Audit Committee of existing risks and their development. The Group updates the monitoring system on an ongoing basis and adapts it to changing general corporate conditions.

»Annual financial statements«

Rheinmetall AG prepares the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as required in the European Union. The single-entity financial statements of Rheinmetall AG, required by law and decisive for the dividend distribution, are prepared according to the provisions of German law, particularly the German Commercial Code (HGB).

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch, performed the statutory audits for 2012. The audit assignment was awarded by the Supervisory Board following the election of the auditor by the Annual General Meeting on May 15, 2012. The Supervisory Board ensures that no conflicts of interest adversely affect the auditor's work and commits the auditor to promptly disclose any incompatibility with the assignment (e.g. non-eligibility or bias). Moreover, the statutory auditor reports on any material findings and events that contradict the declaration of conformity of the Executive Board and Supervisory Board under the terms of Section 161 AktG. The 2012 audit of financial statements has not indicated any such reportable facts.

Declaration of corporate governance

»Communication with stakeholders«
Interconnected markets and an increasingly globalized flow of information mean that communication is becoming increasingly important to the Company's success. Shareholders, customers, lenders, employees, the media and the general public are informed regularly, openly and quickly of the Company's business and financial position and any significant events and changes, along with the latest news. The annual report, half-yearly report and interim quarterly reports are published within the prescribed deadlines. The online financial calendar provides information on key dates and publications.

Information about the Group and its divisions and companies can be found on the internet in German, English and other languages, along with facts about and pictures of products, systems and services. As well as this extensive material, the websites provide a variety of user-specific offers and download options. The range of internet services is rounded off by numerous links, making it easier to access further information about specialist subjects. More information about corporate social responsibility issues is provided on the Group's CSR website. Rheinmetall has also used Twitter to communicate since April 2012. Questions about the Company and its products and services are answered via information e-mail addresses.

Facts and circumstances that may affect the share price on the stock exchange are immediately published in an ad hoc notification in accordance with statutory provisions. Securities transactions subject to reporting requirements are published by Rheinmetall in media prescribed by law and on its website.

Regular conferences with and road shows for institutional investors and analysts ensure a continuous exchange of information with the financial and capital markets. The aim of investor relations work is to provide information on all developments that are of relevance to the market on a transparent, comprehensive and proactive basis and, in so doing, to lay the groundwork for a fair and realistic assessment of the Rheinmetall share. Important dates in the investor relations calendar included telephone conferences to report on quarterly results and the figures for the 2011 fiscal year, which were presented on March 21, 2012. The related presentations can be downloaded from the "Investor Relations" section of the website. The Annual General Meeting provides the opportunity to discuss matters with private investors, who are also able to approach the Investor Relations department with questions by telephone, in writing or by e-mail.

Rheinmetall continued its successful Capital Markets Days in the year under review. At the Eurosatory defence fair in Paris, for example, Rheinmetall Defence presented the sector and its divisions to interested capital market participants. The Executive Board and managers discussed the business development, strategy, prospects and internationalization of the Defence division with the many analysts who had traveled to the event. Analysts also had the opportunity to build up a detailed picture of the performance of the Combat Systems, Wheeled Vehicles and Electronic Solutions divisions.

Corporate Treasury is in direct contact with the financing banks. Throughout the year, Corporate Communications maintains dialog with representatives from the national and international specialist press and economic publications. Rheinmetall also stays in touch with its customers and makes new contacts by attending a large number of trade fairs. As well as brochures, posters and product and service leaflets, the Defence and Automotive sectors have multimedia presentations, image films and animations available to provide information to customers. Employees are kept informed through meetings with their line managers, works meetings, notices, the Intranet and e-mail newsletters.

Corporate compliance

»Corporate compliance«

Rheinmetall's reputation, its business success and the confidence of customers, investors, employees and the public in the Company depend not only on the quality of its products and services, but also to a large extent on good corporate governance. Rheinmetall firmly believes in sustainable corporate management and commits itself to impeccable conduct that is characterized by responsibility, integrity, respect and fairness, in line with its values and principles. The Company is an honest, loyal and reliable partner to its stakeholders. The members of its Executive Board and its managers, executives and employees have an obligation to conduct themselves correctly in business dealings, to protect Rheinmetall's reputation, to preserve the Company's tangible and intangible assets and to avoid anything that can result in operational or financial disadvantages or damage to the image of individual companies or the Group. It goes without saying that the Company acts in accordance with the law and complies with guidelines and regulations. Rheinmetall AG's Executive Board take a zero-tolerance approach to illegal and/or unethical behavior and to corrupt business practices, no matter what the circumstances. This policy was once again reinforced explicitly and unambiguously at the senior management conference in April 2012, which was attended by around 240 people and dealt in detail with compliance at the Rheinmetall Group.

»International business activities«

Rheinmetall has given its business activities a strong international focus in recent years. The Group therefore needs to take into account different national political and legal systems in its day-to-day business, as well as the traditions, customs, moral values and societal norms of different cultures. In addition to the respective laws of export countries, guidelines of the European Union and anti-corruption laws such as the US Foreign Corrupt Practices Act and the UK Bribery Act, which came into force in the UK in mid-2011, must be strictly observed. Demands on companies have therefore become more diverse. Management and employees need guidance more than ever in national and international business dealings and in contact with business partners, authorities and other government offices, to prevent misconduct and resulting reputational, business and liability risks.

»Compliance organization«

Compliance is taken very seriously at Rheinmetall and has long been an integral part of its corporate culture. The Company set up a compliance organization at an early stage, to provide employees with clear guidelines so that they can be confident that they are acting in accordance with the law and regulations and in an ethically correct and fair manner in day-to-day business.

The central body of the compliance organization is the Compliance team, which is headed by the Chief Compliance Officer, who reports directly to the CEO of Rheinmetall AG. Experienced technical and managerial staff from the Group and the holding company's central departments is represented in this network. Compliance officers are appointed in the Group companies, meaning that employees have a direct point of contact regarding this issue in their immediate work environment and are able to seek help and guidance.

The Chief Compliance Officer, who attends meetings of the Executive and Supervisory Boards, keeps the Executive Board, the Supervisory Board's Audit Committee and the plenary assembly of the Supervisory Board regularly informed of the status and effectiveness of the compliance management system and of the latest developments. In serious cases, the committees are informed immediately.

Corporate compliance

»Compliance management system«

The compliance management system is firmly anchored in Group-wide management and control structures and includes all instruments, processes, guidelines, instructions and measures that are intended to ensure that procedures in the companies of the Rheinmetall Group comply with the applicable country-specific legislation, general legal conditions, regulatory provisions and the Company's own guidelines. It creates an organizational structure that allows the applicable standards to be publicized across the divisions. If binding legal regulations in individual countries deviate from the rules set out in the compliance management system, the stricter regulation shall apply.

Illegal conduct can cause many different types of damage and can have serious consequences, such as the imposition of fines, the absorption of profits, claims for damages and criminal proceedings. There is also the risk of significant and lasting damage to the Group's reputation and thus a detrimental effect on its market position. The Group-wide compliance management system therefore aims to ensure conduct in accordance with the law and regulations, to prevent employees from contravening laws and Company guidelines and to support them in applying the law and Company guidelines correctly and appropriately, by providing comprehensive regulations, up-to-date information on important developments, regular training and personal advice.

Compliance is an important management task. Managers are expected to set an example here and to act honestly and with integrity. To express their commitment, they have been signing a legality declaration since the late 1980s. As line managers, they ensure that their employees have been informed of the compliance management system and that they understand and comply with the regulations. They also take part in the classroom training sessions that are offered, together with their employees, and complete various electronic learning programs. Furthermore, the Chief Compliance Officer advises the Supervisory Board and members of the Executive Board of Rheinmetall AG on matters relating to compliance. Managers receive in-depth training in specific aspects of compliance in accordance with their remit.

All employees – from the Executive Board to managers and executives and employees in the operating and administrative units – are obliged to observe binding regulations in the context of their duties and activities, including the following:

- Compliance guidelines
- Code of Conduct
- Guidelines on weapons of war and export controls for the Federal Republic of Germany
- Guidelines on export control laws of other countries
- Guidelines on the prevention of corruption and other criminal offenses
- Guidelines on managing offset obligations
- Guidelines on IT security
- Guidelines on corporate safety
- Guidelines on weapons legislation in the Federal Republic of Germany
- Guidelines on dealing with gifts
- Guidelines on dealing with hospitality
- Guidelines on dealing with invitations to events
- Guidelines on social media

The documents are stored on the Intranet where they can be accessed easily and located quickly.

All employees are asked to play an active part in implementing and observing the compliance management system in their area of responsibility. The Compliance team adapts the compliance management system to the applicable legal requirements, updates it at regular intervals in the light of new findings and reviews it on an ad-hoc basis if any breach of compliance regulations is suspected or discovered. Implementation of the compliance management system is monitored through reports by compliance officers and reviews by Internal Auditing.

Compliance is taken into account among risk aspects in decision-making processes, not only in considerations relating to the Rheinmetall Group's strategic and operational focus, but also in day-to-day business practices. The appropriate procedure is set out in the guides to the early risk identification system, which are used as the basis for the annual risk inventory and monthly risk reports.

Sales agents and advisers undergo extensive due diligence checks in accordance with defined process steps, in which the level of detail is determined by the current country rating from Transparency International (Corruption Perception Index), among other factors. The division for which the potential business partner is to work must explain to the compliance offer why this sales agent or consultant was chosen and, with the support of the compliance offer, performs a risk analysis and assessment. Meta-search engines and special databases such as Lexis and RepRisk will be used to conduct an initial check, along with lists of sanctions. Potential business partners must also submit documents such as self-declarations, extracts from the commercial register and bank certificates as proof of their business organization. Depending on the results of these initial analyses, a more in-depth investigation may be commenced. Only once all those involved in the check have given their approval for the hiring of the potential business partner as part of a formalized process can contract negotiations begin. Contracts also include provisions stating that the sales agent or adviser must regularly provide proof that his remuneration is in reasonable proportion to the services he has provided.

As part of corporate governance and compliance, extensive and detailed due diligence checks must also be performed when acquisitions or joint venture activities are initiated.

To make employees at all hierarchical levels aware of compliance risks, numerous seminars and workshops are held, some of which are tailored to specific functions such as buyers or sales staff. Legislation and important provisions are explained, further content is provided and, based on case studies, practical advice is given on correct conduct in specific situations during everyday work. These classroom training sessions, which also serve as a practical forum for discussions, are accompanied by interactive online programs. As part of compliance awareness training, up to 1,700 employees at sites in Germany and abroad every year receive instruction not only in general compliance issues, but also in prevention of corruption, export controls and cartel and competition laws. The content of the training is designed by compliance officers with the involvement of the Compliance team, consulting external experts if necessary in individual cases. Depending on the participants, the content is adapted or supplemented with country-specific or regional features.

If an employee has information on questionable activities or potential issues, or suspected or actual misconduct, he or she can approach his or her line manager, the personnel department, the legal department, the Chief Compliance Officer, other compliance officers or other contacts within the Company, for example in Internal Auditing. These officers are also there to advise preventatively on specific questions. The names of the compliance officers responsible and their contact details can be found easily on the Group's Intranet. This information is also included in training documents.

Corporate compliance

Protection is naturally guaranteed for whistleblowers who, in confidential meetings and in good faith, draw attention to possible abuses or irregularities. They do not need to fear any disadvantage. Employees involved in investigations into possible breaches of compliance will be assumed to be innocent until the opposite is proven. Attempts to prevent evidence from being passed on to the relevant authorities will not be tolerated.

After evidence is received, line managers, compliance officers and, if necessary in individual cases, Internal Auditing shall carry out systematic investigations and inquiries on the basis of fixed schedules and shall take appropriate measures to properly clarify the facts that have been reported, involving external specialists if necessary. Proven misconduct is sanctioned and entails organizational measures and consequences under labor law, civil law and criminal law. Isolated cases have been reported in past years in which Rheinmetall's regulations have been breached. These were investigated and measures taken where necessary to stop misconduct.

»Conflicts of interest«

In making decisions and performing their duties, members of the Executive and Supervisory Boards must not pursue their personal interests or take advantage of any business opportunities arising for the Company for their own personal gain, or grant unfair advantages to other persons. In accordance with Section 4.3.4 and Section 5.5.2 of the German Corporate Governance Code, any potential conflicts of interest involving members of the Supervisory Board or Executive Board must be disclosed immediately.

Each employee is committed to the best interests of the Company. Personal interests and Company interests must be kept strictly separate and no personal advantages are permitted. In accordance with the compliance guidelines, employees of the Rheinmetall Group are required to avoid conflicts of interest between their personal and business relationships. In the event of any suspected or actual conflict of interest, they have an obligation to inform their line managers, who will decide on further action together with the compliance officer or Chief Compliance Officer.

»Insider information«

Insider information is information that is not publicly known and that is likely to significantly influence Rheinmetall's share price or securities of a (potential) business partner if it is disclosed. Insider knowledge must not be passed on to unauthorized third parties outside Rheinmetall or used to gain an unfair personal advantage when buying or selling securities. Even within Rheinmetall, insider information may be exchanged only with those employees who require this information in order to perform their duties, on a "need to know" basis. Persons who will typically have access to insider knowledge owing to their function or activities will be informed of their rights and obligations and will sign an insider declaration and be added to the insider directory. Any breaches of insider trading laws may be punished with fines or prison sentences.

»Directors' dealings«

In accordance with Section 15a of the German Securities Trading Act (WpHG), members of the Executive Board and Supervisory Board and any related parties, as well as employees with managerial responsibilities as defined by WpHG, are obliged to disclose the acquisition or sale of securities or related financial instruments to the Company if transactions concluded within the calendar year exceed €5,000. This information must also be passed on to the Federal Financial Supervisory Authority (BaFin).

»Money laundering«

Regulations on money laundering, both in Germany and abroad, must be strictly observed. Transactions involving the transfer of cash must be checked with the legal department, the compliance officer and Corporate Treasury to ensure that they are permissible.

»Corporate citizenship«

Companies in the Rheinmetall Group are strongly connected to their sites and therefore get involved in the areas of science and education, art and culture, as well as providing direct support for various local social projects and charitable organizations. Decisions about which projects to support are made by the management of the respective companies or by the Executive Board of Rheinmetall AG.

»Involvement in associations and networks«

Rheinmetall is involved in associations and networks at both national and international level, including those that look at ethical conduct in business.

In Germany, Rheinmetall is a member of Bundesverband der Deutschen Sicherheits- und Verteidigungsindustrie e.V. [Federal Association of the German Security and Defense Industry] and of Bundesverband der Deutschen Industrie e.V. [Federation of German Industries], the German federal association of in-house lawyers, the legal committee of the Düsseldorf Chamber of Industry and Commerce and Netzwerk Compliance e.V.

Rheinmetall is a founding member of the Aerospace and Defence Industries Association of Europe (ASD). Its Business Ethics Committee, in which Rheinmetall is also represented, developed the "Global Principles of Business Ethics for the Aerospace and Defence Industry" for the organization. Rheinmetall signed the declaration in September 2011. The then CEO of Rheinmetall AG, Klaus Eberhardt, held the position of President of the ASD in the period 2011-2012. Under his leadership, the ASD focused on the preparation of Europe-wide common industry standards (CIS) for the prevention of corruption.

Rheinmetall also attended the annual conference of the International Forum on Business Ethical Conduct (IFBEC) for the Aerospace and Defence Industry in Madrid in September 2012. This organization, whose members include large and well-known companies in the aerospace and defence industry, promotes responsible and ethical conduct in business dealings and is committed to global, industry-wide ethical standards in the aviation and defence industries.

»Representation of Rheinmetall's interests«

The world is subject to constant change, which not only informs the environment in which Rheinmetall and its customers find themselves but also, and in turn, strongly defines the framework conditions for business activities. Rheinmetall is present wherever discussions are held and decisions are made with political, economic or social representatives. The Group represents its own interests and those of its stakeholders on an open and transparent basis and plays a constructive part in finding viable solutions with governments and administrations and representatives of associations and trade unions. Rheinmetall Defence has representative offices in Berlin, Bonn and Koblenz. The Defence sector is also represented at European level in Brussels. Rheinmetall does not dispatch any employees to, or employ any staff at, ministries. Donations to democratic political parties are subject to the law and fall within the scope of responsibility of the Executive Board of Rheinmetall AG, which is restrictive with regard to approval.

Statutory disclosures in accordance with Sections 289 (4) and 315 (4) HGB and explanatory report

»Composition of the subscribed capital«

The subscribed capital (common stock) of Rheinmetall AG remained unchanged on the previous year at the balance sheet date of December 31, 2012, at €101,373,440, and was divided into 39,599,000 ordinary bearer shares with no nominal value (no-par value shares), each of which represented €2.56 of the common stock. The shares are fully paid. Different classes of shares are not in place. According to Section 5 (2) of the bylaws, no shareholder is entitled to a physical share certificate. The Company is authorized to issue bearer share certificates that document several shares.

»Shareholder rights and obligations«

The same rights and obligations are attached to all shares, as set out in the German Stock Corporation Act (AktG), in particular Sections 12, 53a et seq, 118 et seq, and 186 AktG. The shareholder is entitled to asset-related and administrative rights. Asset-related rights primarily include the right to a share in the profits under the terms of Section 58 (4) AktG, the right to net liquidation assets following the dissolution of the Company in accordance with Section 271 AktG and share subscription rights in the event of capital increases according to Section 186 (1) AktG. Administrative rights comprise the right to attend the Annual General Meeting and the right to speak there, ask questions, submit motions and exercise voting rights. Any shareholder may enforce such rights, in particular through actions for information, avoidance or rescission.

Each share in Rheinmetall AG grants one vote at the Annual General Meeting. In accordance with Section 71b AktG, this excludes treasury shares held by the Company, which do not entitle the Company to rights. The Annual General Meeting selects shareholder representatives on the Supervisory Board as well as the auditor. It decides in particular on the appropriation of net income and approval of the activities of the members of the Executive Board and Supervisory Board. The Annual General Meeting passes resolutions on the bylaws and the objective of the Company, amendments to the bylaws and key corporate measures such as affiliation agreements and conversions, the issuing of new shares, convertible bonds and bonds with warrants and authorization to acquire treasury shares, as well as the performance of a special audit, the early removal of Supervisory Board members and the dissolution of the Company. Subject to other overriding legal provisions, the Annual General Meeting adopts its resolutions by means of a simple majority of votes cast and, where the law prescribes both a voting and shareholding majority, by means of a simple majority of the common stock represented in the passing of the resolution.

»Restrictions on voting rights and share transfer«

As of the 2012 balance sheet date, the shares of Rheinmetall AG were not subject to any voting restrictions under the bylaws or legislation. To the extent that Rheinmetall AG issues shares under its long-term incentive program to Executive Board members and other senior management staff, these shares have been subject to a four-year lockup period since 2010. These beneficiaries cannot sell shares transferred this way before the end of the lockup period. This rule does not apply to retired members of the Executive Board. Eligible staff of the Rheinmetall Group in Germany, and in other European countries, may purchase Rheinmetall AG shares on preferential terms as part of the employee share purchase program. There is a lockup period of two years for these shares.

In the case of acquisition of a defence technology company in Germany, Sections 52 et seq. of the German Foreign Trade & Payments Regulation (AWV) require that the Federal Government give its prior approval before any non-resident party can purchase 25 % of the shares. This Regulation aims to safeguard material security interests of the Federal Republic of Germany.

»Type of voting control if employees have shareholdings and do not exercise their rights of control directly«

To the extent that Rheinmetall AG issues shares under its long-term incentive program and employee share purchase program, these shares are directly transferred to these individuals subject to a resale lockup period of four or two years. In the case of retired members of the Executive Board, the four-year lockup period does not apply. As with other shareholders, these beneficiaries are also able to directly exercise the rights of control to which they are entitled based on the transferred shares, subject to the provisions of the law and bylaws.

»Shareholdings exceeding 10 % of voting rights«

On February 22, 2013, the investment company Harris Associates L.P., Chicago, USA, has held 10.46 % of shares in the Company. The Company did not receive any notification in the year under review from investors stating that their shareholdings had risen above the threshold of 10 %. Rheinmetall AG is not aware of any indirect shareholdings as defined by Section 22 of the German Securities Trading Act (WpHG) that exceed 10 % of the voting rights.

»Shares with special rights conferring controlling privileges«

None of the shares issued by Rheinmetall AG vest rights which confer special control privileges on their holders.

»Provisions on the appointment and removal of Executive Board members and amendments to the bylaws«

The appointment and removal of the members of the Executive Board of Rheinmetall AG is based on Sections 84 and 85 AktG and Section 31 MitbestG in conjunction with Section 6 of the bylaws. Executive Board members are appointed by the Supervisory Board for a maximum of five years and may be reappointed or their term of office renewed, for a maximum period of five years in each case. The provisions of Sections 179 et seq. AktG apply to any amendment of the bylaws of Rheinmetall AG. In accordance with Section 12 of the bylaws, amendments that affect only the version or wording of the bylaws with regard to the balance and utilization of authorized capital can be carried out by the Supervisory Board without the passing of a resolution by the Annual General Meeting.

»Executive Board powers to issue new shares and repurchase treasury shares«

According to Section 202 AktG, the Annual General Meeting may authorize the Executive Board for a maximum period of five years to increase the common stock by issuing new shares in return for capital contributions. The Annual General Meeting of May 11, 2010 authorized the Executive Board, with the approval of the Supervisory Board, to increase the common stock of the Company through the issue of new no-par shares in return for contributions in cash and/or in kind on one or several occasions up to May 10, 2015, up to an aggregate €50,000,000.00 (authorized capital). The new shares may also be issued to employees of Rheinmetall AG or any subsidiary it controls. The disapplication of subscription rights upon which the Executive Board may resolve with the approval of the Supervisory Board is governed by Section 4 (3) of the bylaws of Rheinmetall AG.

In accordance with a resolution of the Annual General Meeting on May 11, 2010, a contingent capital increase of up to €20,000,000.00 has been approved for the Company's common stock (contingent capital). The contingent capital increase is to be carried out through the issue of up to 7,812,500 bearer shares or – if the Company's bylaws at the time of issuing the bond also permit the issue of registered shares – new registered shares in accordance with Section 4 (4) of the bylaws of Rheinmetall AG.

Statutory disclosures in accordance with Sections 289 (4) and 315 (4) HGB and explanatory report

The purchase of treasury stock is governed by Section 71 AktG. According to the resolution by the Annual General Meeting of May 11, 2010, the Executive Board of Rheinmetall AG is authorized pursuant to Section 71 (1) No. 8 AktG to repurchase treasury bearer shares of Rheinmetall AG not to exceed 10 % of the current common stock of €101,373,440.00. Such treasury shares may be acquired via the stock exchange or by public bid directed at all shareholders or by public invitation to submit a purchase bid. This authorization is valid until May 10, 2015.

At the end of fiscal 2012, the proportion of own shares held as treasury stock was 4.8 % (1,881,647 shares), compared to 3.4 % or 1,350,842 shares on the previous year's balance sheet date. On 22.02.13, Rheinmetall AG held 1,881,647 shares or 4.8 %.

»Major agreements terminable upon a change of control«

In December 2011, a banking consortium granted Rheinmetall AG a syndicated credit facility of €500 million with a duration of five years. If more than half of the Rheinmetall AG shares are held directly or indirectly by one or several persons (acting either jointly or severally), or if the person or persons acting jointly or severally fulfill the conditions for appointing members of the Supervisory Board, the agreement's terms and conditions must be terminated or renegotiated.

In September 2010, Rheinmetall AG issued a €500 million bond maturing in June 2017. Upon a change of control, bond holders may call in the bonds with between 40 and 60 days' notice as from the publication date of the change of control and request redemption of the bond principal plus interest.

As at December 31, 2012, Rheinmetall AG reported promissory note loans of €35 million which were issued in May 2009 with a duration of five years. In the event of a change of control, the promissory note holders also have an extraordinary right to terminate along the lines of the aforementioned agreements.

The agreement of these types of rights of termination is standard practice, particularly when granting longer-term loans.

No preventive precautions have been taken against a public takeover bid, the successive acquisition of a controlling stake via share purchases on the stock markets, or control being gained by buying blocks of shares.

»Compensation arrangements between the Company and Executive Board members and employees in the event of a takeover bid«

No compensation arrangements have been made with members of the Executive Board or employees.

Risk report and report in accordance with Sections 289 (5), 315 (2) No. 5 HGB

»Using opportunities - Limiting risks«

Thanks to their international orientation and broad range of products and services, the companies in the Rheinmetall Group enjoy a diverse range of economic opportunities in the Defence and Automotive divisions. However, leveraging these opportunities is inextricably linked with the assumption of risks that vary depending on the division, industry and region. Corporate policy is geared toward taking and optimizing any opportunities that present themselves, leveraging and expanding success potential, while at the same time avoiding, minimizing or offsetting associated risks as far as possible. The aim is to maintain entrepreneurial and financial flexibility, to increase the value of the Company on a sustainable basis and thus to ensure the continued existence of the Rheinmetall Group in the long term. In view of more rapid market changes, growing uncertainty, increasing complexity of general conditions that vary widely around the world and major technological progress, corporate decisions are increasingly dependent on the reliable assessment of potential risks.

»Risk management system increases transparency«

The standardized Group-wide risk management system aimed at identifying material risks jeopardizing the continued existence of the Company at an early stage is characterized by the principle of caution. The Executive Board determines the Group's risk strategy and defines accountabilities, management and documentation of identified risks, and thresholds. Risk management, which is geared towards financial resources as well as strategic and operational planning, is considered a primary responsibility of the heads of the divisions and departments as well as process and project managers. The risk management system is intended to ensure that corporate decisions and ongoing business activities are kept within defined risk limits and comply with legal requirements. It supplements the existing planning, management and controlling instruments and is rooted in the organizational structure of the Rheinmetall Group based on fully-defined responsibilities. The principles, definitions and procedures involved in risk management are documented in the guides to the early risk identification system.

To identify and analyze potential risks, a structured risk inventory is conducted every year by the operating units as part of corporate planning. This inventory contains all the most important risks potentially impacting the corporate targets and subtargets, early warning indicators, responsibilities and suitable countermeasures. On this basis, the operating units and central divisions record, manage and report risks associated with the current business situation and future development, along with the probability of their occurrence and the impact on earnings, on a monthly basis in accordance with prescribed standardized parameters.

As part of monthly reporting, risk reports from the divisions and departments of Rheinmetall AG systematically record current business risks and give a structured assessment of these risks according to their probability of occurrence and the level of damage to be expected. These individual risk reports are prepared as part of risk aggregation and the overall risk situation of the Company is defined. Appropriate preventative, safeguarding and corrective measures reduce the probability of occurrence of risks or restrict their potential level of damage. The measures introduced to manage risk are monitored on an ongoing basis and adjusted to a new risk assessment where necessary. If necessary, additional measures are taken in order to further limit and reduce identified potential risks. Group Controlling regularly informs the Executive Board and managers of the development of the overall risk situation in the Rheinmetall Group, the status of – and significant changes to – important ventures subject to reporting requirements, and the status of countermeasures that have already been introduced. Sudden or unexpected risks with significant consequences are reported to the Executive Board on an ad hoc basis.

Risk report and report in accordance with Sections 289 (5), 315 (2) No. 5 HGB

»Business risks«

The companies of the Rheinmetall Group are exposed to the general economic, financial and political risks prevailing in the regions and countries where they operate. In times of advancing globalization and growing competition and market transparency, market risks are becoming more prevalent. Potential outcomes include fluctuations in prices, volumes and margins. Focusing on high-end market segments, product innovations, process improvements, production and capacity adjustments and strict cost management all contribute to strengthening competitiveness in each of the Company's industries and securing and building on the profitability of the Rheinmetall Group.

It is not possible to completely avoid risks that arise due to economic and market cycles, sometimes rapid technological change, capex cycles becoming increasingly short and intensifying competition. A deterioration in general economic conditions or a change in political conditions in the sales regions can negatively impact the sales and earnings situation of the Rheinmetall Group. The consistent alignment of business toward the major economic areas in Europe, the USA and Asia reduces the dependency in certain customer countries, thereby distributing the risk. The diversied product portfolio of the divisions and the continued efforts to internationalize the Defence and Automotive sectors helpt to ensure that temporary economic fluctuations and market cycles running counter to the general trend in regions, countries and industries can be offset in part by more favorable developments in other regions and markets. Furthermore, the risk profile of Rheinmetall can also be affected by structural market risks, such as the presence of new suppliers, product substitution or trends towards consolidation on sales markets.

»Technology and development risks«

Innovative strength is a key success factor. The future earnings situation of the Rheinmetall Group also depends on our ability to identify technological trends in good time and correctly assess their impact on operational business, to develop new, marketable applications, products and systems, as well as to launch and apply state-of-the-art production processes. The sometimes long development lead times, continuously refined technologies and intense competition are key factors contributing to uncertainty regarding the economic success of current or future products. Misjudgments in the development of products, systems or services that are not taken up by the market as expected as well as fundamental changes in customer demand that were not foreseen or responded to adequately can lead to a decline in demand as well as a deterioration in our competitive and economic situation.

But the market presence and customer proximity associated with international distribution structures as well as our supply relationships going back many years make it possible for us to identify trends on the sales markets in good time and to align product strategies consistently toward new requirements. Feasibility studies, profitability analyses, modern project management aimed at reviewing the criteria for technical and economic success, the involvement of customers in the definition, design, development and testing of new products and the safeguarding of our technological position throuth patents reduces potential R&D-specific risks such as mis-developments and budget overruns.

Despite compliance with the processes described and the use of modern project management, monitoring and controlling measures, the development of new products and launching these onto the market as well as changes to the existing product portfolio harbor cost risks. These exist not only in the actual design and development phase, but also during market launch where startup costs may be higher than expected or unscheduled delays arise. Risks also exist following market launch due to the potential need for technical improvements which will only come to light following use in real-life situations or through continuous operation.

»Production risks«

The operation of production and assembly facilities can be compromised by unforeseen events at production sites, unexpected technical disruptions, fire, natural disasters, accidents and human error, even if high technical and safety standards apply. The availability of industrial premises and production plants is ensured through preventative maintenance with ongoing checks, regular inspections and maintenance work, constant modernization and targeted investment. Occupational health and safety and environmental protection as well as contingency and hazard prevention plans should reduce accident hazards and health risks to a minimum for employees and third parties or prevent them completely if possible.

Problems at partner companies' sites or within the supply chain can also lead to disruptions (e.g. in logistics), which can result in detrimental effects or losses. For potential damage and associated disruptions to operations, extended business interruptions, production downtime caused by a lack of plant availability and for other conceivable loss occurrences and liability risks, reasonable insurance cover has been taken out, where available, as is usual in the industry to ensure that the financial consequences of potential risks are contained or completely offset. Although the existing insurance cover is regularly reviewed in terms of covered risks and insured sums and adjusted if necessary, it can prove insufficient in certain cases.

»Procurement risks«

Procurement risks may arise due to the raw materials, parts and components required to manufacture products, applications and systems not being available or not in a sufficient quantity, or due to it not being possible to purchase these in good time and without problems, or at prices that are in line with the market. To prevent potential procurement bottlenecks and to ensure a high level of supply security, the procurement markets are subject to ongoing monitoring to enable a rapid response to impending changes. A significant proportion of the supply of raw materials is covered by long-term supply contracts and issued with cost escalation clauses where possible in contracts with customers. Delivery delays, shortfalls or quality problems can lead to interruptions in production and claims for compensation. Procurement risks can be reduced through the careful selection of suppliers, identication of alternative supply sources, efficient contract management, continuous supplier assessments, quality and reliability checks on suppliers, and the organization of adequate reserve stocks.

An inadequate energy supply for companies of the Rheinmetall Group under cost-efficient conditions constitutes a risk for competitive production at the sites. It is not possible to ensure complete hedging of fluctuations in the price of energy sources or to guarantee that increases in energy prices will be passed onto customers. Rising energy costs are addressed by bundling procurement volumes and through invitations to tender, long contract durations and optimizing the electricity price via the European Energy Exchange in Leipzig.

»Project risks«

The complexity of projects can entail risks, including unexpected technical difficulties or faults, problems with business partners or suppliers and deferred dates of acceptance and settlement. These risks can be minimized, though not excluded altogether, through professional project management, comprehensive quality management measures and the appropriate formulation of contracts.

Risk report and report in accordance with Sections 289 (5), 315 (2) No. 5 HGB

»Acquisition and integration risks«

As part of their growth and internationalization strategy, the companies of the Rheinmetall Group regularly review the potential for acquisitions, joint ventures or strategic partnerships, for example to strengthen the operating activities of their divisions, improve market positions, round off or expand product ranges, tap into new markets with growth potential or gain innovative technology.

The companies that have been identified through constant analysis of the market and competition are examined – under consideration of various investment criteria – with regard to their strategic relevance, earnings potential and future prospects. They are also subjected to an analysis of opportunities and risks and are assessed on the basis of yield/risk considerations. With the support of external consultants, specialists experienced in M&A transactions examine areas including operational, legal and financial themes by means of systematic due diligence procedures. Following approval proceedings carried out over several stages, the Executive Board – and, if the defined value limits are exceeded, the Supervisory Board too – of Rheinmetall AG decides on whether to implement the plans.

Once the transaction has been approved, the companies are integrated in the relevant division on the basis of structured processes, which are also subject to schedules and milestone planning. However, the integration of employees, processes, technologies and products into the Rheinmetall Group can prove more complex or intensive in terms of time or cost than expected. It is also possible that that objectives, synergy potential and margin or growth expectations aimed at through the transaction may not be achieved or that they may not be achieved to the planned extent. Risks can also arise in connection with the activities of the newly acquired company that were either not previously known, not properly assessed or not considered significant.

»Financial risks«

The key tasks of Rheinmetall AG include ensuring that financial requirements are hedged for both operating activities and capital expenditure. In addition to the optimization of Group financing, the focus here is on limiting financial risks. The liquidity risks of the Rheinmetall Group are hedged on the basis of short-, medium- and long-term liquidity forecasts, by ensuring that the total volume of highly diversified credit facilities available definitely exceeds the Group's foreseeable requirements. Money and capital market products and bilateral and syndicated loans are used as financial instruments. Interest rate risks arise through changes in market interest rates. Interest caps and swaps are used to control these risks.

Currency risks, which result from a large number of payment flows in different currencies, are hedged no later than the time that they arise. Currency forwards and currency swaps are used here. Derivatives are used exclusively for hedging operational risks. Counterparty risks upon conclusion of financial transactions are limited through a creditworthiness-dependent, limit-controlled spread.

Sufficient balance sheet provisions have been recognized for potential losses on long-term contracts or from supply or sourcing agreements, as well as other risks from warranty claims, for example. Given Rheinmetall's customer mix, credit risks are negligible. The Rheinmetall Group is not dependent on any customers or countries that could jeopardize the Group's continued existence as a going concern in the event of negative development.

»IT risks«

Information and data are exposed to various, and in some cases growing, threats with regard to availability, confidentiality and integrity. To ensure the integrated control of business and production processes, ever larger data volumes, short access times and the structured provision of information require high-availability, failsafe and redundant IT systems and IT networks as well as state-of-the-art communication infrastructures. Damage or faults can arise from a variety of sources and can severely impact the business activities of the companies in the Group and have serious ramifications for business: Operational faults or interruptions mean that networks are not ready for use, while data can be tampered with or even destroyed as a result of program/user errors, manipulation or external influences.

As well as high security standards and Group-wide procedural and security guidelines, technical and organizational emergency measures, safeguards and precautions, such as state-of-the-art back-up and recovery procedures, uninterruptible power supply, secure access procedures and daily data reflection and archiving, limit serious disruptions and failures of complex systems and networks. To protect against external attacks, the latest systems including firewalls and virus scanners are used. Through continuous monitoring of the software, functions and applications can be expanded, security vulnerabilities that have been identified can be closed up and errors rectified. This ensures the ongoing, secure coordination of the comprehensive, IT-based business processes. Regular investments are made to ensure that the software and hardware installed is up to date. In cooperation with highly competent service partners certified to ISO 27001, the technical configuration, functional security structures and efficient operation of the IT architecture are periodically reviewed and continuously improved.

»Personnel risks«

At a technology-oriented company like the Rheinmetall Group, the achievement of ambitious corporate targets and sustainable economic success depend, among other factors, on having employees with above-average qualifications and a large number of specialists from a wide range of different fields. Significant fluctuation among managers and employees in key functions can lead to the loss of important specialist knowledge and skills. Problems with not being able to find suitable specialist staff, managers and junior staff with the desired commercial, technical or industry-specific skills for job vacancies, or not being able to find these staff quickly enough, can have just as much of an adverse impact on the Company as insufficient qualifications or a lack of motivation among employees.

These risks are countered by means of various measures ensuring performance-related remuneration that is in line with the market and includes performance-based incentive systems, modern personnel management, qualified staff development and staff recruitment geared towards specific target groups, as well as forward-looking succession planning. Regulations on deputies help to cushion the impact of the departure or loss of key staff. Moreover, age structure analyses are carried out at regular intervals in view of demographic change, and professional groups and functions are identified in which there may be a skills shortage in future.

»Compliance risks«

The compliance organization is designed to ensure proper modes of conduct and behavior on the part of the company and its employees. This is built on proven principles which have governed entrepreneurial activities within the Rheinmetall Group since its formation, and is designed to prevent any liability risks, risks of incurring a penalty or a fine, and reputational risks, as well as other financial disadvantages, loss or damage that the Company may incur as a result of misconduct or violations of the law.

Risk report and report in accordance with Sections 289 (5), 315 (2) No. 5 HGB

For many years now, Rheinmetall has had a comprehensive set of corporate policies in the form of guidelines and organizational and operating instructions aimed at ensuring compliance with legal guidelines at all times and prevent infringements of the applicable laws, in addition to ensuring appropriate actions that are in accordance with respective duties during day-to-day business activities. However, despite multi-level inspection and control mechanisms, the possibility of risks arising from unlawful activities of individual parties cannot be completely ruled out.

Subject to their respective areas of responsibility, employees in Germany and abroad are periodically informed of the relevant rules and regulations and any amendments to these as well as rules of conduct for everyday business activities by means of seminars, workshops, interactive e-learning courses and other communication measures. The Chief Compliance Officer regularly reports to the Executive Board and the Supervisory Board's Audit Committee on current developments as regards compliance.

Persons with insider knowledge as defined by stock corporation legislation are listed in an insider directory and undertake to comply with the associated provisions.

»Legal risks«

Legal disputes with competitors, business partners, customers or other external third parties and changes to the legal and/or regulatory framework at national, European or international level may involve risks. These include, in particular, risks arising from product liability, competition and cartel law, patent law and tax law. In the organization and management of business processes and in making decisions, the Group is not only supported by detailed advice from its own specialists but, in certain cases, also calls in renowned outside experts and specialists. Potential loss, damage and liability resulting from ordinary operations are appropriately covered by insurance policies or accounting provisions.

Following the squeeze-out of external shareholders at Aditron AG, investors have initiated legal proceedings in order to review the adequacy of the cash compensation of €26.50 offered. After the hearing before the 3rd commercial court of the district court of Düsseldorf on July 12, 2012, the court set the amount of cash compensation per share at €36.44 in its decision on August 29, 2012. Rheinmetall immediately lodged an appeal against this decision on October 12, 2012. Proceedings are pending at Düsseldorf Higher Regional Court. It is not known how long the legal dispute will last or what the outcome will be.

The apartheid legal proceedings brought against Rheinmetall in 2009 are currently suspended due to ongoing parallel proceedings brought against other companies affected by the apartheid lawsuit. Rheinmetall maintains its legal opinion. It regards the action as inadmissible and does not regard the US court as having jurisdiction. The claimants are not US citizens, the event did not take place on US territory and prosecutions have already been carried out in Germany for the legal violations upon which the action is based.

Appropriate provisions have been established based on the known facts for the risks arising from the legal proceedings described above and other proceedings as far as is considered necessary. It is very difficult to reliably determine or predict the outcome of pending proceedings or of the threat of proceedings, owing to the uncertainties that are always associated with legal disputes. Costs can arise on the basis of court or official decisions or the conclusion of settlements that are not covered or not fully covered by allowances or insurance policies and thus exceed the provisions that have been made.

»Tax risks«

The results of internal tax audits can lead to charges based on audit findings together with interest and tax payments in arrears derived from these. There is also the risk that the tax burden for the Rheinmetall Group could increase as a result of changes to tax legislation or court decisions.

»Environmental risks«

A large amount of land owned by the Rheinmetall Group has for decades been subject to industrial usage. The possibility cannot be ruled out that pollution has also been generated during this time as a result of production that Rheinmetall is not yet aware of. Rheinmetall operates an active environmental management system. Environmental Officers monitor compliance with statutory requirements at the production locations. The risk potential arising from production processes and environmental protection risks is effectively reduced by means of modern and secure facilities, strict compliance with relevant laws, requirements and regulations, extensive guidelines on quality assurance and stringent quality controls. This includes certification in accordance with international standards for quality (DIN 9001 and TS 16949) and environmental protection (ISO 14001). Regular reviews of these certifications confirm these high standards on an objective basis. Sufficient provisions have been recognized for necessary measures to safeguard against or clean up identified pollution.

It is possible that the relevant authorities may issue regulations that require costly clean up measures. The tightening of safety, quality and environmental protection provisions and standards may lead to additional costs and liability risks over which Rheinmetall would have no influence. In this context, reference is made to the implementation of the EU Regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). In addition to direct costs that may arise owing to additional measures for the fulfillment of these standards, market structures may change to the disadvantage of Rheinmetall.

»Opportunities and risks in the Defence sector«

Foreign deployments of UN and NATO troops, crisis intervention, peace keeping missions: Due to constant changes in national and international security and defence policy, brought about, for example, by geopolitical realignment, political upheaval and new conflict situations, the armed forces of the 21st century are being faced with new challenges in military deployments. Huge threats to external and internal security arise from unstable nations and dictatorial regimes as well as terrorists and radical activists. Rheinmetall Defence is one of the leading European suppliers of defence technology and specializes in arming land forces with armored military vehicles, weapons and munitions as well as electronic equipment and state-of-the-art air defence systems. In the protection of armed forces in particular, Rheinmetall Defence has been treading new paths for years. Effective protection systems are of central importance in the deployment scenarios of today and the future, in order to offer a maximum level of safety to soldiers. The companies in this corporate sector specialize in the development and production of components and systems for the protection of people, vehicles, aircraft, ships and assets. They are a strong partner to the German armed forces, its allies and friendly armies, along with civil national security forces, and protect the forces involved in foreign operations.

Risk report and report in accordance with Sections 289 (5), 315 (2) No. 5 HGB

A substantial proportion of the market potential for Rheinmetall Defence comes from the defence budgets of customer nations. Opportunities for its divisions are tied to the changing military requirements of the German armed forces and other armed forces from around the world. The range of products and capabilities of Rheinmetall Defence is tailored to central defence technology requirements resulting internationally from the ongoing need for substantial modernization of armed forces and new military deployment scenarios. The Defence sector may also benefit from ad hoc procurements triggered by the deployment of forces in crisis regions. Despite pressure on governments to consolidate budgets and carry out spending cuts, defence still remains a growth market – even though it has lost some momentum compared with previous years. Reference projects commissioned by the German armed forces, such as the series contract for the Puma infantry fighting vehicle, the “Gladius” infantry project and the order for the MANTIS® close-range protection system, are just as critical to winning orders abroad as an innovative product range geared toward the latest needs of the armed forces and on a par with international competitors. Other growth opportunities may arise for Rheinmetall Defence as a result of the expected ongoing consolidation process in the European defence market.

Defence’s business areas are not directly dependent on the state of the economy. However, risks lie in dependence on spending patterns for public budgets in Germany and foreign customer nations. In the wake of the government debt crisis and euro crisis, this will lead to shifts and cuts in state budgets, which will also affect defence. Political influences and changes in the defence technology requirements of customer nations, along with budget restrictions or general financing problems on the part of customers, can result in risks in the form of delays in awarding contracts, time extensions or even the cancellation of orders. Risks also arise from increasing transatlantic competition. Those export markets which are accessible are exposed to fierce international competition.

Higher prefinancing due to worsened downpayment conditions and possible financial interests in projects constitute further risks. Additionally, unforeseeable difficulties in project processing can lead to unforeseen burdens. As well as uncertainty in calculations, these also include altered economic and technical terms and conditions following the conclusion of a contract, unexpected technical difficulties or faults, problems with business partners or suppliers and deferred dates of acceptance and settlement. By means of professional project management and comprehensive quality management measures, as well as the appropriate formulation of contracts, it is possible to limit these risks, but not to exclude them altogether.

The expansion of international business activities harbors the risk that, in some regions of the world, due to the industry-specific practices in place in the countries in question, delays may arise in order processing or risks arising from the payment practices of customers or business partners that are customary in these regions may increase. As a matter of principle, Rheinmetall Defence works with contractual parties with good creditworthiness. Risks are limited as far as possible by means of professional project management, comprehensive project controlling and appropriate formulation of contracts. However, despite ongoing monitoring, delayed payments or payment defaults on the part of contractual parties may unexpectedly arise.

»Opportunities and risks in the Automotive sector«

The Automotive sector operates in an industry that is subject to sharp cyclical fluctuations. However, since the global economic crisis of 2008/2009 future economic developments have become even more uncertain and economic cycles are tending to become shorter. Automotive markets in Western Europe are currently being negatively impacted by the euro crisis. As such, the Automotive sector is confronted with a volatile market environment of varying severity in different regions.

Global guidelines for the automotive industry are becoming more restrictive with regard to limits on emissions and greenhouse gases. In Western Europe, NAFTA and Japan, increasingly tight restrictions apply to emissions of pollutants such as nitrous gases (NOx). Some countries have also already set carbon dioxide (CO_2) emissions targets for vehicle fleets. Failure to meet these targets will be sanctioned with a fine per vehicle. The drive system influences over 50 % of carbon dioxide emissions. We are therefore focusing above all on technical innovations that will reduce fuel consumption and thus CO_2 emissions.

The fundamental trend towards low-consumption and, as a rule, smaller passenger car engines has led in recent years to an increase in the percentage of passenger cars with diesel engines. As well as the further development of this type of drive, the focus in future will above all be on reducing consumption levels in gasoline engines. The development departments of automotive manufacturers are already working on designs for minimizing the CO_2 emissions of gasoline engines. For Rheinmetall Automotive, technologies such as charging and downsizing offer opportunities to supply components and systems that are simultaneously innovative and competitive. In addition to these technological fields that are already established, KSPG is developing variable valve control systems that will contribute to technological advancements on the key market for gasoline engine drive systems. The fully variable UniValve system is currently being developed for series production in cooperation with various customers. This system, which is mechanical and therefore very robust, will lead to greater efficiency and improved performance, particularly when used in charged gasoline engines.

As well as technical measures to reduce consumption and emissions in combustion engines that have a direct effect on mixture control and gas exchange, work is increasingly being carried out on applications that will indirectly help to minimize friction losses and utilize auxiliary units according to individual needs. KSPG already offers solutions in these areas, such as variable oil and water pumps, and is thus benefitting from the increase in worldwide demand for these products.

Lightweight construction will be used much more in future as a way to save fuel in addition to measures relating to the drive train. This applies to vehicles with combustion engines but above all to vehicles with a hybrid or fully electric drive. Thanks to its expertise in the fields of aluminum and magnesium technology, KSPG has opportunities here in new applications. For vehicles with battery-electric drive systems, KSPG has presented its customers with a small, compact Range Extender based on a two-cylinder gasoline engine. This drive concept could play a key part in the future market success of electric vehicles, as it can ensure ranges that come close to those of a conventional drive train.

As with passenger cars and light commercial vehicles, emissions targets for pollutants and greenhouse gases also apply to heavy commercial vehicles, meaning that it is necessary to introduce particularly stable, highly developed and innovative drive systems. The ability to use extensive specialist knowledge in the field of advanced drive technologies for passenger cars effectively in heavy commercial vehicles forms the basis for expansion into areas of the market for heavy commercial vehicles and markets outside the automotive industry. The Group's long-standing close relations with manufacturers of heavy commercial vehicles as a supplier of pistons will prove useful here.

Risk report and report in accordance with Sections 289 (5), 315 (2) No. 5 HGB

In recent years, automotive manufacturers have increasingly transferred production to emerging countries such as Brazil, India and China (BIC). From today's perspective, this trend looks set to continue in the medium and long term. Moreover, the regulatory authorities in the BIC markets have issued strict emissions regulations for pollutants and in some cases also greenhouse gases, which – after a delay of a few years – will be in line with regulations in the European Union. This will lead to growth opportunities for automotive suppliers in these markets, not only due to market growth for automotive production, but also due to the need to use increasingly sophisticated drive technologies. As they have their own production sites, KSPG's divisions are well placed to benefit from these developments, as they have already developed appropriate technologies and KSPG is in a position to adapt its products specifically for the BIC markets.

In times of fiercer competition as a result of overcapacity in the triad markets, unexpected changes in regular order placement, shifts in the product range, tighter competition and increasing price pressure are all possibilities. Potential outcomes include fluctuations in prices, volumes and margins.

In parallel to the shorter product life cycles, vehicle manufacturers find themselves exposed to tight competitive, innovative and cost reduction constraints, which they then pass on to their suppliers. KSPG is limiting the impact of these trends by investing in new products, deploying modern manufacturing processes, cost-saving technologies and new materials and realizing potential savings in corporate functions.

Declines in automotive demand in certain countries are countered by the expansion of international presence and by marketing products outside the automotive industry. Advantageous economic parameters for new locations and expanding existing production capacities are exploited. Additionally, the diversified customer structure allows fluctuations in the production figures of individual automotive manufacturers to be balanced out. Thanks to the broad product range and low reliance on individual customers, it is possible to absorb price risks, weak demand and insolvency risks.

Bottlenecks in supply and sharp fluctuations in prices for energy and raw materials involve significant risks. Price risks for raw materials, particularly aluminum, copper and nickel, are countered with cost escalation clauses in contracts on the sales side. When procuring raw materials that are traded on the stock market, the sector's central Commodities Office manages the timing of purchases and the volume purchased in consultation with the operating units, making use of financial hedging instruments.

The potential insolvency of suppliers represents a further risk on the procurement side. This risk is countered by carefully selecting subcontractors, spreading the risk by distributing the purchase volume across further suppliers and supporting suppliers in emergency situations if necessary.

Appropriate insurance cover is in place for warranty, product liability and recall risks, which is reviewed periodically and adjusted where necessary.

Any change with regard to customers, e.g. relocation of production sites, loss of customers, sale of companies, insolvencies, declines in demand and changes in customer requirements, can lead to a decline in operating activities and/or reduce the value of investments.

»Internal accounting-related control and risk management system (disclosures in accordance with Sections 289 (5) and 315 (2) No. 5 HGB)«

The internal control and risk management system (ICS) related to the accounting process at the Rheinmetall Group includes all principles, procedures and measures which ensure, by both organizational and technical means, that all business processes and transactions are recorded in the accounting system promptly, accurately and consistently in accordance with relevant legal requirements and other accounting principles. The ICS also ensures that changes in the economic and legal environment of the Rheinmetall Group and new or amended legal provisions are recognized. These changes are analyzed in order to determine whether adjustments to internal Group organizational, control and monitoring structures or guidelines and systems are necessary. In addition to defined control mechanisms, e.g. manual coordination processes and technical coordination processes for systems, the ICS is based on the separation of administrative, executive, settlement and approval functions and compliance with guidelines and operating instructions. The main Accounting department of Rheinmetall AG is responsible for central management of the (Group) accounting process.

The single-entity financial statements of Rheinmetall AG and of the companies included in consolidation are prepared in accordance with the respective national accounting principles and then transferred to financial statements in accordance with IFRS. Here, the central IFRS accounting guidelines prescribed by Rheinmetall AG are to be strictly observed. These ensure standardized accounting, measurement, calculation of results and reporting obligations for the companies included in the consolidated financial statements of the Rheinmetall Group. A check is carried out every quarter to ensure the completeness of the scope of consolidation. The management of each Group company must monitor compliance with IFRS-compliant accounting guidelines and confirm the correctness of the financial statements in a corresponding declaration. The IFRS accounting guidelines cover all IFRS regulations that are of relevance to Rheinmetall AG. The content of the guidelines is the responsibility of the main Accounting department of Rheinmetall AG. The IFRS accounting guidelines are continually adapted to changes in IFRS and are made available to all companies included in the consolidated financial statements after being reviewed by the auditor.

It is the responsibility of the management of the respective companies to ensure the correctness of the financial statements prepared in accordance with national and international accounting principles. This also includes compliance with Group-wide guidelines and procedural regulations, including compliance with the regulations on the timely execution of accounting-related processes and systems. In principle, the single-entity financial statements of the companies included in consolidation in accordance with IFRS are drawn up in SAP-based accounting systems (SAP-FI). Procedures are implemented in the accounting process to ensure the correctness of the financial statements.

The consolidated financial statements of Rheinmetall AG are drawn up by means of a structured process, with the aid of the consolidation software SAP SEM-BCS. A standardized, binding chart of accounts and standardized consolidation forms are incorporated into this system, which must be completed by all companies included in the consolidated financial statements, taking into account the Group-wide IFRS accounting guidelines, and are summarized in a stringent Group report package. Rheinmetall AG stipulates the schedule for the consolidated financial statements centrally and monitors compliance with deadlines. After the data from the single-entity financial statements in accordance with IFRS have been entered into the SAP consolidation module SAP SEM-BCS, the data are subjected there to automatic plausibility checks and system-based validation. If error or warning messages are displayed during this process, these are to be analyzed and dealt with by the person responsible for the single-entity financial statements before the data are forwarded to the consolidation center. Further technical system checks are monitored centrally by employees in the consolidation department of Rheinmetall AG and supplemented with manual checks. Approval processes are performed throughout the entire accounting process. Generally, the dual control principle applies at every level.

Risk report and report in accordance with Sections 289 (5), 315 (2) No. 5 HGB

As a process-independent authority, Internal Auditing examines workflows, structures and procedures for their suitability, effectiveness, safety and correctness as part of the internal control system on the basis of an audit and project plan coordinated with the Group companies and adopted by the Executive Board. In the year under review, risk-oriented audit activities focused on efficiency, system and regularity audits. The audits are performed by accountancy firms and technical auditors. The use of external specialists ensures that compliance with legal provisions and the application of internal guidelines and organizational specifications is checked, possible undesirable developments and risks are identified and potential improvements are revealed. Risks identified and weaknesses discovered during these audits are promptly eliminated in collaboration with the management responsible. The Executive Board and Audit Committee of the Supervisory Board are also informed of the implementation status of the established improvement measures in a review.

At its meetings, the Audit Committee of Rheinmetall AG regularly deals with the accounting process and the effectiveness of the internal control system, the risk management system and the internal auditing system on the basis of Section 107 (3) AktG. In addition to the suitability, effectiveness, monitoring and management of the processes implemented, potential risks of incorrect statements in financial reporting are discussed.

As part of their audit of the annual financial statements, the auditors of companies included in the consolidated financial statements confirm that the IFRS accounting guidelines have been applied correctly and in full. Moreover, both the single-entity financial statements drawn up by the Group companies and the single-entity and consolidated financial statements of Rheinmetall AG are checked by the respective auditor to ensure compliance with the applicable accounting principles. The audit also includes an assessment of the effectiveness of the accounting-related ICS based on spot checks in subdivisions.

»General risk situation«

Potential risks for companies in the Rheinmetall Group include on the one hand factors that cannot be influenced, such as the national and international economy and the general economic situation, and on the other hand risks that can be influenced directly, which are generally operational risks. These are analyzed through the implemented risk management system at an early stage and countermeasures are initiated if necessary.

The aforementioned risks are not necessarily the only risks to which the Rheinmetall Group is exposed. Risks that have not yet been identified or that are still assessed as insignificant can materialize under altered circumstances, hinder business activities and adversely impact the assets, financial situation and earnings of the Group. The auditor, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, examined the early risk identification system of the Rheinmetall Group to ensure that it complies with the provisions of the Stock Corporation Act as part of its audit of the consolidated annual financial statements and confirmed that it fulfills all legal requirements in accordance with Section 91 (2) AktG and is suitable for identifying developments that could jeopardize the continued existence of the Group at an early stage.

In accordance with the basis outlined for the assessment of risk factors and taking into account the overall risk situation, major asset, financial and earnings risks jeopardizing the Rheinmetall Group on a long-term basis were not identifiable during the past fiscal year. From today’s perspective and in terms of assets and liquidity, no risks exist on an individual basis, in combination with other risks or as a collectivity that may significantly jeopardize the continued existence of Rheinmetall AG and its subsidiaries as a going concern in the foreseeable future.

Prospects

»Dampened growth prospects – ongoing uncertainty due to the euro debt crisis and budget situation in the USA«

The provisional agreement reached in the US budget dispute and the associated defusing of the 'fiscal cliff' led to economic optimism on the financial markets at the start of 2013. Although many economists expressed relief at the agreement in the USA in principle, there was also considerable criticism of the content of the compromise reached between the Democrats and the Republicans. The major rating agencies estimate that the budget situation in the USA remains tense at the beginning of 2013. Moody's and Standard & Poor's spoke out in January, with both urging the US government to step up its efforts in battling the huge budget deficit.

The biggest risks to the global economy at the beginning of 2013 were once again due to the unresolved debt crisis in the euro zone. Pier Carlo Padoan, the OECD's chief economist, believes that the European monetary union remains in a "state of fragility". Against this backdrop, many economic experts have revised their forecasts for 2013 downward or expressed only muted expectations.

At the end of November 2012, the OECD forecast economic growth of only 1.4 % for its 34 member states in 2013. In its May 2012 forecast, it had predicted growth of 2.2 % in 2013. The recovery is progressing particularly slowly in Europe. Experts at the OECD are now forecasting a slight decline of 0.1% for the euro zone in 2013, having assumed in May 2012 that economic output would grow by 0.9%. The OECD has also revised its 2013 forecast for Germany downwards. Having originally anticipated an increase in Germany's gross domestic product of 2.0 %, the OECD predicted only slight growth of 0.6 % in its November forecast.

The OECD is thus on a par with leading German economic research institutes, such as the Munich-based ifo Institute, which predicts an increase in Germany's gross domestic product of 0.7% in 2013. The German government is slightly more pessimistic in its economic forecasts, anticipating growth of 0.4% for 2013 in its annual economic report.

The OECD expects stronger impetus for growth to come from outside Europe. For the USA, economic experts at the OECD are forecasting growth in gross domestic product of 2.0 % in 2013. Although economic output in Japan is expected to grow by only 0.7%, the OECD experts anticipate further high growth levels in emerging countries for 2013. The most powerful driver of growth in the global economy is once again expected to be the Chinese economy, which is set to grow by 8.5% in 2013. The OECD has forecast an increase in gross domestic product of 5.9% for India and 4.0% for Brazil.

Assuming that the situation stabilizes in the euro zone, economic experts at the OECD are anticipating a further increase in global growth in 2014. Economic output in the organization's member states is set to rise by 2.3% in total. China will remain a growth engine and is to achieve growth of 8.9%. Experts at the OECD have forecast growth rates of 7.0 % and 4.1 % respectively for India and Brazil. The US economy is also expected to experience an upturn in 2014, when growth of 2.8 % has been predicted. Even the euro zone, which is set to stagnate in 2013, is to return to growth in 2014 according to the OECD's forecast, increasing its economic output by 1.3 %. The OECD is slightly more optimistic with regard to development in Germany, where growth in 2014 is expected to amount to 1.9 %. Italy and Spain are also expected to achieve slight growth again of 0.6 % and 0.5 % respectively according to the OECD forecast, following two very weak years.

Prospects

»Global defence spending falls slightly in 2013 – budgets set to increase again from 2015«

Cost-cutting measures in many Western nations will take effect in 2013 and 2014 and will lead to a decline in global defence spending. According to calculations made by IHS Jane's, global expenditure in the defence sector will fall from around USD 1,590 billion in 2012 to about USD 1,567 billion in 2013 and USD 1,555 billion in 2014. However, the situation will continue to vary widely between countries. While budgets are being lowered in the USA and in countries particularly affected by the European debt crisis, spending in many major emerging countries, such as Brazil and Russia, for example, is to keep on increasing in 2013 and 2014. IHS Jane's is also anticipating rises in expenditure in some nations in the Middle East and North Africa, particularly Saudi Arabia, the United Arab Emirates, Algeria and Kuwait. Turkey and Indonesia are also expected to increase their defence budgets further in the next two years.

In the USA, meanwhile, the cost-cutting measures initiated in 2011 and later intensified are now beginning to take effect. The US defence budget will drop to around USD 606 billion in 2013 (2012: USD 646 billion). A further reduction to approximately USD 567 billion is scheduled for 2014. It must be borne in mind, however, that these cuts are largely due to the withdrawal of troops from Iraq and Afghanistan. In contrast to the budget for foreign deployments, basic spending in the US defence budget is set to remain comparatively stable.

Developments in Europe are characterized mainly by stagnating or falling budgets. In Germany, however, defence spending is set to increase slightly in 2013, from €31.9 billion to €33.3 billion. A budget of approximately €33.0 billion is planned for 2014, largely owing to the reduction in staffing levels.

With its expertise in the protection and engagement of land forces, Rheinmetall Defence believes it is well prepared for a modernization of the German armed forces that is in line with requirements and at the same time cost-efficient. Furthermore, thanks to its increased international focus – the proportion of sales achieved abroad by Rheinmetall Defence is now 67 % – the Company has laid the best possible foundations for continued involvement in the modernization projects of the armed forces of nations that can be responsibly supplied. The budgets in Australia, India and South Africa, for which significant increases are planned from 2014 onwards, also offer corresponding growth potential.

IHS Jane's expects to see a general reversal of the trend and an increase in global defence budgets from 2015. At approximately USD 1,588 billion, expenditure will return to the level of 2012. For 2016, IHS Jane's is even forecasting a sharp increase in global defence expenditure to around USD 1,629 billion. The background to this is that the need for further extensive modernization in many armed forces will restrict cost-cutting efforts in the longer term. Deployment requirements in the 21st century mean that ongoing investment in the protection and safety of soldiers is needed. Rheinmetall Defence is one of the leading partners to the German armed forces, NATO and its allies in this area.

»Automotive industry growing again – but only a slow recovery in Europe«

Industry analysts expect to see contradictory market trends again in Western Europe and most other major automotive markets in 2013. While a further increase in production figures has been forecast for Asia and North America, the European market is once again expected to go into decline. Although the downward trends in Europe will slow compared with 2012, a turnaround is not anticipated until 2014.

“The year 2013 will be a challenging one for the automotive industry,” the Association of the German Automotive Industry (VDA) declared at the start of the new year. It believes that growth prospects for the German automotive industry can be found on international markets.

Following robust overall growth of 6.2 % in the year under review, experts at IHS Automotive are anticipating a further increase of 1.8% in global production for 2013. For the first time, over 80 million passenger cars and light commercial vehicles are to roll off the lines worldwide. Following the strong growth spurt in 2012, momentum on the North American market is expected to slow down in 2013, when it is predicted that production will increase by only 1.7%. Japan will not be able to replicate its strong figures from the previous year, which was influenced by catch-up effects following the earthquake and tsunami in March 2011. IHS Automotive forecasts a decline of 9.5 % in production for the Japanese market in 2013. On other important Asian markets, however, growth is anticipated. Automotive production in China is set to rise by 9.4% in 2013, while growth of 7.6% has been forecast for India. Despite the temporary weakness of the Japanese market, IHS Automotive expects overall growth in production of 3.0% for Asia.

Europe will be unable to extricate itself from the crisis in 2013. According to forecasts by IHS Automotive, automotive production in Western Europe will decline by 2.1%. Analysts are predicting a similar decline in production in Germany. A noticeable improvement is not expected until 2014, when production in Western Europe is predicted to increase by 3.9 % in total. IHS Automotive predicts that the German market, which has proved comparatively resistant to the crisis in previous years, is to grow by 1.6% in 2014. An increase of 5.8% in worldwide production has been forecast for 2014.

The Automotive sector of Rheinmetall will continue to have good growth opportunities in the coming years. This is due above all to KSPG’s specialization in technologies and products for reducing consumption and pollution. As a development partner to leading automotive manufacturers, KSPG will continue to play an important part in optimizing engine and drive train technology in its market segments in future.

»Slight growth in sales expected«

For the Rheinmetall Group, fiscal 2013 will herald a return to greater profitability over the coming years. Measures to improve structure and increase cost efficiency are planned for both sectors.

In 2013, the Rheinmetall Group expects to achieve sales of between €4.8 billion and €4.9 billion, following €4.7 billion in the previous fiscal year. As things currently stand, this growth will be carried by both sectors. For this growth to be achieved, the international automotive industry has to remain relatively stable in 2013 and all the key large-scale projects in the Defence business have to go ahead as scheduled.

Sales development in the Automotive sector will be determined largely by the global automotive industry. According to current expert forecasts, production on the international automotive markets is expected to fall slightly in the first half of 2013, with only moderate growth to follow in the second half of 2013. Against this background, Rheinmetall is expecting the Automotive sector to see growth of between 3% and 5% in 2013, achieving sales of between €2.4 billion and €2.5 billion.

The Defence sector, whose high order intake over the past few months will not impact sales until 2014 and beyond, is expecting to see sales in the current fiscal year grow by between 2 % and 3 % to around €2.4 billion.

Prospects

»Earnings impacted by restructuring measures aimed at boosting profitability«

Prior to restructuring expenditure, the Rheinmetall Group expects to achieve EBIT in 2013 of between €240 million and €260 million. Before consideration of restructuring expenditure, the Automotive sector is expected to achieve an operating result at the level of the previous year, which stood at approximately €140 million. The Defence sector is anticipated to generate an operating result of around €130 million in 2013.

The total restructuring expenditure in 2013 is expected to be between €60 million and €80 million. Accordingly, Group EBIT for 2013 is forecast at between €170 million and €190 million.

For fiscal 2014, Rheinmetall is assuming further sales growth in both sectors and expects to see a clear improvement in earnings.

Ongoing satisfactory net investment income and net income is expected for the Rheinmetall AG management holding company in 2013 and 2014.

Report on post-balance sheet date events

»Events after the balance sheet date«

There have been no significant events after the balance sheet date.

Düsseldorf, March 12, 2013

Rheinmetall Aktiengesellschaft
The Executive Board

Armin Papperger   Dr. Gerd Kleinert   Helmut P. Merch

Consolidated financial statements 2012 of Rheinmetall AG

Rheinmetall Group
Consolidated balance sheet as at December 31, 2012

Assets *€ million*

	Note	Dec. 31, 2011	Dec. 31, 2012
Goodwill	(7)	553	560
Intangible assets	(7)	349	344
Property, plant and equipment	(8)	1,135	1,177
Investment property	(9)	20	19
Investments accounted for using the equity method	(10)	111	147
Other non-current financial assets	(13)	11	8
Other non-current assets	(14)	7	7
Deferred taxes	(30)	85	117
Non-current assets		**2,271**	**2,379**
Inventories	(11)	813	826
./. Prepayments received		(28)	(30)
		785	796
Trade receivables	(12)	1,027	1,032
Other current financial assets	(13)	38	34
Other current receivables and assets	(14)	131	124
Income tax receivables		16	33
Cash and cash equivalents	(15)	535	501
Disposal group held for sale	(3)	29	-
Current assets		**2,561**	**2,520**
Total assets		**4,832**	**4,899**

Equity and liabilities *€ million*

	Note	Dec. 31, 2011	Dec. 31, 2012
Share capital		101	101
Additional paid-in capital		307	307
Other reserves		843	824
Net income of Rheinmetall AG shareholders		213	190
Treasury shares		(55)	(72)
Rheinmetall AG shareholders' equity		**1,409**	**1,350**
Minority interests		137	111
Equity	(16)	**1,546**	**1,461**
Provisions for pensions and similar obligations	(17)	729	920
Other non-current provisions	(18)	93	90
Non-current financial debts	(19)	620	572
Other non-current liabilities	(21)	34	30
Deferred taxes	(30)	81	47
Non-current liabilities		**1,557**	**1,659**
Other current provisions	(18)	371	391
Current financial debts	(19)	45	27
Trade liabilities	(20)	667	648
Other current liabilities	(21)	578	663
Income tax liabilities		46	50
Liabilities in connection with disposal groups	(3)	22	-
Current liabilities		**1,729**	**1,779**
Total liabilities		**4,832**	**4,899**

Rheinmetall Group
Consolidated income statement for fiscal 2012

€ million

	Note	2011	2012
Sales		**4,454**	**4,704**
Changes in inventories and work performed by the enterprise and capitalised		51	51
Total operating performance	(22)	**4,505**	**4,755**
Other operating income	(23)	151	210
Cost of materials	(24)	2,291	2,508
Personnel expenses	(25)	1,260	1,336
Amortization, depreciation and impairment	(26)	184	194
Other operating expenses	(27)	585	644
Net operating income		**336**	**283**
Net interest [1)]	(28)	(59)	(62)
Net investment income and other net financial income [2)]	(29)	18	18
Net financial income		**(41)**	**(44)**
Earnings before taxes (EBT)		**295**	**239**
Income taxes	(30)	(70)	(49)
Net income		**225**	**190**
Of which:			
Minority interests	(31)	*12*	*0*
Rheinmetall AG shareholders		*213*	*190*
Earnings per share	(32)	€ 5.55	€ 5.00
EBITDA		538	495
EBIT		354	301

1) Of which interest expense: €66 million (previous year: €65 million)
2) Of which income from investments carried at equity: €25 million (previous year: €18 million)

Rheinmetall Group
Comprehensive income 2012

€ million

	2011	2012
Net income	**225**	**190**
Actuarial gains and losses from pension provisions	(45)	(152)
Amounts not reclassified in the income statement	**(45)**	**(152)**
Change in value of derivative financial instruments (cash flow hedge)	(28)	(1)
Currency conversion difference	(10)	(16)
Income/expenses from investments accounted for using the equity method	(1)	(3)
Amounts reclassified in the income statement	**(39)**	**(20)**
Other comprehensive income (after taxes)	**(84)**	**(172)**
Comprehensive income	**141**	**18**
Of which:		
Minority interests	*0*	*(6)*
Rheinmetall AG shareholders	*141*	*24*

Rheinmetall Group
Consolidated statement of cash flows for fiscal 2012

€ million

	2011	2012
Opening cash and cash equivalents January 1	**629**	**535**
Net income	225	190
Amortization, depreciation and impairments	184	194
Changes in pension provisions	(7)	(12)
Gross cash flows	**402**	**372**
Income from disposition of non-current assets	(7)	(1)
Changes in other provisions	(51)	17
Changes in inventories	(39)	(9)
Changes in receivables, liabilities without financial debts and prepaid & deferred items	17	60
Other non-cash expenses and income	(32)	(80)
Cash flows from operating activities [1]	**290**	**359**
Investments in property, plant and equipment, intangible assets and investment property	(197)	(234)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	14	7
Investments in consolidated companies and financial assets	(71)	(42)
Divestments of consolidated companies and financial assets	3	50
Cash flows from investing activities	**(251)**	**(219)**
Capital contributions by third parties	*2*	0
Dividends paid out by Rheinmetall AG	(58)	(69)
Other profit distributions	(4)	(8)
Purchase of treasury shares	(15)	(29)
Sale of treasury shares	6	3
Borrowing of financial debts	21	50
Repayment of financial debts	(83)	(121)
Cash flows from financing activities	**(131)**	**(174)**
Changes in financial resources	(92)	(34)
Changes in cash and cash equivalents due to exchange rates	(2)	0
Total change in financial resources	**(94)**	**(34)**
Closing cash and cash equivalents December 31	**535**	**501**

For comments on the cash flow statement, see Note (34).

1) including:
Net interest of €-43 million (previous year: €-45 million)
Net income taxes of €-64 million (previous year: €-32 million)

Rheinmetall Group
Statement of changes in equity

€ million

	Share capital	Additional paid-in capital	Retained earnings	*Difference of currency conversion*	*Statement of fair value and other valuations*	Total of fair value changes	Group net income/loss allocated to shareholders of Rheinmetall AG	Treasury shares	**Rheinmetall AG shareholders equity**	Minority interests	**Equity**
Balance as at December 31, 2010 / as at January 1, 2011	**101**	**304**	**592**	*60*	*99*	**159**	**162**	**(52)**	**1,266**	**89**	**1,355**
Net income	-	-	-	-	-	-	213	-	213	12	225
Other comprehensive income	-	-	(46)	*(4)*	*(22)*	(26)	-	-	(72)	(12)	(84)
Comprehensive income	**-**	**-**	**(46)**	***(4)***	***(22)***	**(26)**	**213**	**-**	**141**	**0**	**141**
Dividends payout	-	-	(58)	-	-	-	-	-	(58)	(4)	(62)
Changes in scope of consolidation	-	-	60	-	-	-	-	-	60	52	112
Transfer to/from reserves	-	-	162	-	-	-	(162)	-	-	-	-
Other changes	-	3	-	-	-	-	-	(3)	-	-	-
Balance as at December 31, 2011/ as at January 1, 2012	**101**	**307**	**710**	*56*	*77*	**133**	**213**	**(55)**	**1,409**	**137**	**1,546**
Net income	-	-	-	-	-	-	190	-	190	**0**	190
Other comprehensive income	-	-	(150)	*(15)*	*(1)*	(16)	-	-	(166)	(6)	(172)
Comprehensive income	**-**	**-**	**(150)**	***(15)***	***(1)***	**(16)**	**190**	**-**	**24**	**(6)**	**18**
Dividends payout	-	-	(69)	-	-	-	-	-	(69)	(8)	(77)
Changes in scope of consolidation	-	-	-	-	-	-	-	-	-	-	-
Transfer to/from reserves	-	-	213	-	-	-	(213)	-	-	-	-
Other changes	-	-	3	-	-	-	-	(17)	(14)	(12)	(26)
Balance as at December 31, 2012	**101**	**307**	**707**	*41*	*76*	**117**	**190**	**(72)**	**1,350**	**111**	**1,461**

For comments on equity, see Note (16).

Notes to the consolidated financial statements
Segment reporting

€ million

Corporate sectors		Defence		Automotive		Others / Consolidation		Group	
		2011	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Balance sheet (December 31)									
Equity	(1)	1,063	934	690	617	(207)	(90)	1,546	1,461
Pension provisions	(2)	348	442	290	367	91	111	729	920
Net financial debts	(3)	(156)	(277)	(161)	(41)	447	416	130	98
Capital employed	(1)+(2)+(3)	1,255	1,099	819	943	331	437	2,405	2,479
Additions to capital employed		361	362	169	169	(406)	(410)	124	121
Capital employed December 31		1,616	1,461	988	1,112	(75)	27	2,529	2,600
Average capital employed	(4)	1,529	1,539	958	1,050	(106)	(24)	2,381	2,565
Income statement									
External sales		2,141	2,335	2,313	2,369	-	-	4,454	4,704
Of which domestic (in %)		*36.8*	*32.6*	*23.6*	*23.2*	-	-	*29.9*	*27.8*
Of which foreign (in %)		*63.2*	*67.4*	*76.4*	*76.8*	-	-	*70.1*	*72.2*
Equity income		7	10	11	15	0	0	18	25
EBITDA		303	263	254	247	(19)	(15)	538	495
Amortization, depreciation and impairment		(80)	(89)	(103)	(104)	(1)	(1)	(184)	(194)
Of which impairment		*(3)*	-	*(5)*	*(1)*	0	-	*(8)*	*(1)*
EBIT	(5)	223	174	151	143	(20)	(16)	354	301
Interest income		8	5	5	3	(7)	(4)	6	4
Interest expenses		(24)	(20)	(21)	(20)	(20)	(26)	(65)	(66)
Net interest		(16)	(15)	(16)	(17)	(27)	(30)	(59)	(62)
EBT		207	159	135	126	(47)	(46)	295	239
Income taxes		(46)	(37)	(30)	(23)	6	11	(70)	(49)
Net income		161	122	105	103	(41)	(35)	225	190
EBIT rate of return (in %)		10.4	7.4	6.5	6.0	-	-	7.9	6.4
Other data									
ROCE (in %)	(5) / (4)	14.6	11.3	15.8	13.6	-	-	14.9	11.7
Capital expenditures		102	90	104	148	1	0	207	238
R&D expenditures		82	83	130	147	-	-	212	230
Order intake		1,831	2,933	2,358	2,378	-	-	4,189	5,311
Order backlog December 31		4,541	4,987	409	418	-	-	4,950	5,405
Prepayments received		699	963	9	12	-	-	708	975
Employees as at December 31 (capacities)		9,833	9,623	11,548	12,003	135	141	21,516	21,767

€ million

Regions	Germany		Rest of Europe		North America		Asia		Other regions / Consolidation		Group	
	2011	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
External sales Defence	788	761	612	721	242	196	388	538	111	119	2,141	2,335
External sales Automotive	545	549	1,184	1,142	241	292	152	213	191	173	2,313	2,369
External sales Total	1,333	1,310	1,796	1,863	483	488	540	751	302	292	4,454	4,704
in % of Group sales	30	28	40	40	11	10	12	16	7	6	-	-
Assets	1,175	1,207	609	620	122	129	60	58	91	86	2,057	2,100

For comments on the segment reports, see Note (35).

Notes to the consolidated financial statements
Fixed asset analysis

MioEUR

	Gross values					
2011	Jan.1, 2011	Additions	Disposals	Book transfers/ step-up	Adjustment scope of consolidation	Currency differences
Intangible assets						
Goodwill	448	-	-	-	105	0
Development costs	173	35	3	-	-	1
Concessions, industrial property rights and licenses	120	11	2	10	2	(1)
Other intangible assets	127	1	-	(10)	101	0
Prepayments made	1	1	-	(1)	0	0
	869	**48**	**5**	**(1)**	**208**	**0**
Property, plant and equipment						
Land, equivalent titles, and buildings (incl. buildings on leased land)	1,022	12	7	4	1	5
Production plant and machinery	1,822	47	85	36	39	6
Other plant, factory and office equipment	526	17	39	7	15	(3)
Prepayments made and construction in progress	67	83	1	(53)	0	(2)
	3,437	**159**	**132**	**(6)**	**55**	**6**
Investment property	**42**	**-**	**6**	**0**	**-**	**0**
Total	**4,348**	**207**	**143**	**(7)**	**263**	**6**

2012	Jan.1, 2012	Additions	Disposals	Book transfers	Adjustment scope of consolidation	Currency differences
Intangible assets						
Goodwill	553	-	-	-	5	2
Development costs	206	39	16	-	-	1
Concessions, industrial property rights and licenses	140	10	3	3	7	(1)
Other intangible assets	219	0	0	0	(16)	3
Prepayments made	1	1	-	(1)	-	0
	1,119	**50**	**19**	**2**	**(4)**	**5**
Property, plant and equipment						
Land, equivalent titles, and buildings (incl. buildings on leased land)	1,037	14	8	29	1	(1)
Production plant and machinery	1,865	51	65	46	4	(14)
Other plant, factory and office equipment	523	19	31	9	1	(6)
Prepayments made and construction in progress	94	103	0	(76)	(1)	(2)
	3,519	**187**	**104**	**8**	**5**	**(23)**
Investment property	**36**	**1**	**11**	**-**	**-**	**1**
Total	**4,674**	**238**	**134**	**10**	**1**	**(17)**

	Amortization, depreciation and impairment							Net value
Dec. 31, 2011	Jan.1, 2011	Additions	Disposals	Book transfers	Write-ups	Currency differences	Dec. 31, 2011	Dec. 31, 2011
553	-	-	-	-	-	-	-	553
206	65	14	-	-	-	0	79	127
140	92	13	1	0	-	(1)	103	37
219	18	17	-	(1)	-	1	35	184
1	-	-	-	-	-	-	-	1
1,119	**175**	**44**	**1**	**(1)**	**-**	**0**	**217**	**902**
1,037	523	23	6	(2)	0	7	545	492
1,865	1,391	81	82	22	1	6	1,417	448
523	418	36	38	10	0	(4)	422	101
94	1	-	-	(1)	-	0	0	94
3,519	**2,333**	**140**	**126**	**29**	**1**	**9**	**2,384**	**1,135**
36	**21**	**0**	**6**	**0**	**-**	**1**	**16**	**20**
4,674	**2,529**	**184**	**133**	**28**	**1**	**10**	**2,617**	**2,057**

Dec. 31, 2012	Jan.1, 2012	Additions	Disposals	Book transfers	Write-ups	Currency differences	Dec. 31, 2012	Dec. 31, 2012
560	-	-	-	-	-	-	-	560
230	79	16	16	-	-	0	79	151
156	103	13	3	0	0	0	113	43
206	35	22	-	-	-	0	57	149
1	-	-	-	-	-	-	-	1
1,153	**217**	**51**	**19**	**0**	**0**	**0**	**249**	**904**
1,072	545	22	6	6	-	1	568	504
1,887	1,417	88	65	2	0	(10)	1,432	455
515	422	33	30	(6)	0	(4)	415	100
118	0	-	-	0	-	0	0	118
3,592	**2,384**	**143**	**101**	**2**	**0**	**(13)**	**2,415**	**1,177**
27	**16**	**0**	**8**	**-**	**-**	**-**	**8**	**19**
4,772	**2,617**	**194**	**128**	**2**	**0**	**(13)**	**2,672**	**2,100**

Notes to the consolidated financial statements
Accounting principles

(1) »General information«

The consolidated financial statements of Rheinmetall AG have been prepared in accordance with the regulations of Section 315a (1) German Commercial Code ("HGB") and hence with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). A Group-wide accounting guideline binding on all companies included in the consolidated financial statements ensures that all current rules and principles are consistently applied and interpreted. The consolidated financial statements and the Group management report, which is consolidated with the management report of Rheinmetall AG, are to be submitted to the operator of the Federal Gazette and published in the Federal Gazette.

The amendments to IAS 1 "Presentation of Financial Statements" were applied for the first time in fiscal 2012, earlier than scheduled. These amendments relate to the presentation of amounts recognized directly in equity that are components of comprehensive income, and mean that the items concerned will be allocated according to whether or not they are to be subsequently reclassified to the income statement.

The amendment to IFRS 7 "Financial Instruments: Disclosures" was also applied in fiscal 2012. This results in extended disclosures in the Notes in the event of the transfer of financial assets with regard to corresponding financial liabilities and the risks of a remaining exposure. These amendments will not have a significant impact on the Notes to Rheinmetall's consolidated financial statements.

The transitional provisions have been duly complied with.

The following new or amended standards and interpretations, published by the IASB, became mandatory from fiscal 2013.

Amendment to IAS 12	"Income Taxes"
Amendment to IAS 19	"Employee Benefits"
Amendment to IFRS 7	"Financial Instruments: Disclosures"
IFRS 13	"Fair Value Measurement"
IFRS improvements	"Annual Improvements to IFRSs 2009-2011 Cycle" (Endorsement still pending)
IFRIC 20	"Stripping Costs in the Production Phase of a Surface Mine"

With regard to accounting for pension obligations, the amendments to IAS 19 "Employee Benefits" mainly involve the abolition of the postponed recognition of actuarial gains and losses as part of the corridor method, the restructuring of the pension expense and expanded Notes for defined benefit plans. The abolition of the corridor method has no impact on Rheinmetall's consolidated financial statements. When the pension expense is being calculated, the new regulations specify that a past service cost is to be recognized in full immediately in the period of the planned amendment, and that the interest rate which is decisive for discounting pension obligations is also to be used to calculate interest income from plan assets. There are also amendments to the recognition of obligations from pre-retirement part-time work contracts reported under other provisions, as step-up amounts granted are regarded as other long-term employee benefits and therefore accumulated on a pro rata basis. The retrospective application of the standard from fiscal 2013 means that the balance sheet values as at December 31, 2012 will be amended in comparison with the values reported for the current fiscal year. Equity will increase by €4 million, while other provisions will be reduced by €5 million and pension provisions by €1 million and deferred tax liabilities will rise by €2 million. The change in the recognition of income from plan assets means that in future, there will be a shift from net interest into other income recognized directly in equity in the amount of the actual income from plan assets that deviates from the interest rate.

In relation to the current fiscal year, net interest would have been reduced by €18 million and other income would have been increased by a corresponding amount, adjusted for deferred taxes.

The other new or amended standards and interpretations that are to be applied from fiscal 2013 are not expected to have any significant impact on assets, earnings or the Notes to the consolidated financial statements of the Rheinmetall Group.

The amendment to IAS 12 "Income Taxes" relates to the measurement of deferred taxes for properties held for investment, which are measured at fair value, and for intangible assets and property, plant and equipment, which are measured in accordance with the revaluation model. Until now, the measurement of deferred taxes for these assets has depended on whether the company intends to realize the carrying amount through use or through a sale. The new regulation implies a refutable assumption of realization through the sale of the asset.

The amendments to IFRS 7 "Financial Instruments: Disclosures" involve expanded Notes regarding the offsetting of financial receivables and financial liabilities.

In IFRS 13 "Fair Value Measurement", all fair value measurement regulations formerly contained in different standards are combined together and standardized. This standard regulates how the fair value measurement is to be performed if this measurement is prescribed or permitted in a different standard.

The small amendments to five existing standards published in the form of a collective standard in 2012 relate mainly to the first-time application of IFRS, clarifications to property, plant and equipment and financial instruments and interim reporting.

The following new or amended standards, published by the IASB, are to be applied from fiscal 2014. They are not expected to have any significant impact on assets, earnings or the Notes to the Rheinmetall consolidated financial statements.

Amendment to IAS 27	"Separate Financial Statements"
Amendment to IAS 28	"Investments in Associates and Joint Ventures"
Amendment to IAS 32	"Financial Instruments: Presentation"
IFRS 10	"Consolidated Financial Statements"
IFRS 11	"Joint Arrangements"
IFRS 12	"Disclosure of Interests in Other Entities"

A new concept for determining subsidiaries subject to consolidation has been introduced into IFRS 10 "Consolidated Financial Statements" in the form of an amended definition of the concept of control. In addition to the voting rights, other contractual agreements or constructive patterns can lead to control if the parent company can determine the financial and business activities of another company, achieve variable returns from this and influence the level of the returns.

IFRS 11 "Joint Arrangements" contains the regulations for recognition in the balance sheet of joint arrangements with one or more companies, and thus replaces IAS 31 "Interests in Joint Ventures". The main amendments relate to the abolition of the voting right of the proportionate consolidation of joint ventures, the terminology used and the categorization of joint arrangements.

Notes to the consolidated financial statements
Accounting principles

In IFRS 12 “Disclosure of Interests in Other Entities”, all Notes about companies which are under joint control, joint management or considerable influence of the reporting company are combined together in a standard.

Amendments to the IFRS 10, IFRS 11 and IFRS 12 standards were published in fiscal 2012, which involve specifying and clarifying the transitional provisions for application and simplifying the comparative figures that must be disclosed in the first-time application of the standard. Other published amendments to standards IAS 27, IFRS 10 and IFRS 12 contain special regulations on unit trusts.

The amendments to IAS 32 “Financial Instruments: Presentation” clarify the offsetting of financial receivables and financial liabilities.

IFRS 9 “Financial Instruments”, which replaces IAS 39 “Financial Instruments: Recognition and Measurement”, relates to the classification and measurement of financial assets and liabilities and must be applied from fiscal 2015. The resulting effects on Rheinmetall’s consolidated financial statements are currently deemed to be not significant.

The consolidated financial statements are presented in euro (€). Unless otherwise stated, amounts are indicated throughout in € million (including prior-year comparatives). Non-rounded amounts may differ. The consolidated income statement has been presented in the total-cost format.

The fiscal year of Rheinmetall AG and the financial statements of subsidiaries included in the consolidated financial statements correspond to the calendar year. Rheinmetall AG (Local Court of Registration: Düsseldorf, Commercial Register No. HRB 39401) has its registered office in Düsseldorf at Rheinmetall Platz 1.

Based on the provisions of Section 264 (3) HGB governing companies, the following German enterprises have elected not to disclose their 2012 financial statements:

Rheinmetall Berlin Verwaltungsgesellschaft mbH
Rheinmetall Verwaltungsgesellschaft mbH
Rheinmetall Industrietechnik GmbH
MEG Marine Electronics Holding GmbH
Rheinmetall Insurance Services GmbH
Rheinmetall Immobilien GmbH
Rheinmetall Maschinenbau GmbH
Rheinmetall Bürosysteme GmbH
EMG EuroMarine Electronics GmbH
SUPRENUM Gesellschaft für numerische Superrechner mbH
Rheinmetall Waffe Munition GmbH
Rheinmetall Defence Electronics GmbH
Rheinmetall Dienstleistungszentrum Altmark GmbH
Rheinmetall Technical Publications GmbH
Rheinmetall Landsysteme GmbH
Rheinmetall Ballistic Protection GmbH
Rheinmetall Soldier Electronics GmbH

(2) »Scope of consolidation«

Besides Rheinmetall AG, the consolidated financial statements include all German and foreign subsidiaries in which Rheinmetall AG holds the majority of voting rights (whether directly or indirectly) or whose financial and business policies are otherwise controlled by the Group. Generally, companies are newly consolidated or derecognized when control is transferred. Companies over which Rheinmetall has a controlling influence, which is generally assumed if there is a stake of between 20% and 49% (associated companies) are carried at equity. Companies that are jointly managed (joint ventures) are also carried at equity.

Scope of consolidation – Companies included

	Dec. 31, 2011	Additions	Disposals	**Dec. 31, 2012**
Fully consolidated subsidiaries				
Domestic	47	2	1	48
Foreign	83	10	1	92
	130	**12**	**2**	**140**
Investments accounted for using the equity method				
Domestic	17	1	2	16
Foreign	10	2	1	11
	27	**3**	**3**	**27**

Changes to the scope of consolidation in terms of the fully consolidated companies of the Rheinmetall Group involved the formation of eleven companies, ten of which were abroad, and one acquisition abroad. Disposals from the scope of consolidation resulted from the sale of a majority interest and from an intragroup merger.

The merging of the joint activities of Rheinmetall AG and MAN Truck & Bus AG (MAN) in the area of wheeled military vehicles within Rheinmetall MAN Military Vehicles GmbH, Munich (RMMV), in which Rheinmetall owns a holding of 51% and MAN a stake of 49%, was completed on December 31, 2011. Rheinmetall transferred its business with wheeled military vehicles to RMMV as part of the merger of Rheinmetall Radfahrzeuge with RMMV. In return, MAN contributed its Vienna production site in the form of shares in Rheinmetall MAN Military Vehicles Österreich GesmbH, Vienna (RMMVÖ). The 49% stake held by MAN can be transferred to Rheinmetall by means of an option, whereby MAN can exercise its option only within a four-week period and not before 2017, and only on condition that Rheinmetall decides to exercise its right to a casting vote in the event of an irreconcilable conflict between the shareholders. The purchase price for the acquisition of the wheeled military vehicles division of MAN was €103 million and was composed of the prorated fair value of Rheinmetall Radfahrzeuge GmbH, which has been merged, in which MAN holds 49% of shares via the stake held in RMMV as the absorbing company, plus the €37 million paid in cash at the start of fiscal 2012. The valuation of the non-controlling interests is based on the assumption that the purchase price is proportional to the investment.

Notes to the consolidated financial statements
Accounting principles

The provisional purchase price allocation processed in the previous year's consolidated financial statements was completed and processed on the balance sheet in fiscal 2012. The reconciliation of the provisional values of the assets and liabilities acquired to the final values is shown in the list below.

€ million

	RMMVÖ provisional	RMMVÖ change	RMMVÖ final
Other intangible assets	56	(16)	40
Property, plant and equipment	8	3	11
Other non-current assets	4	(4)	0
Inventories	33	1	34
Receivables	57	-	57
Cash and cash equivalents/Other current assets	12	-	12
Current liabilities	54	5	59
Non-current liabilities	38	(2)	36
Net assets acquired	78	(19)	59
Goodwill	63	10	73
Total	141	(9)	132
Net assets attributable to non-controlling interests	(38)	9	(29)
Fair value of controlling interests	103	-	103
Purchase price	103	-	103

During the purchase price allocations, intangible assets were identified totaling €40 million, the majority of which were attributable to existing technologies for military and civilian vehicles (€30 million), favorable master procurement agreements (€5 million) and trademark rights (€3 million). In addition, hidden reserves were identified among property, plant and equipment (€3 million) and inventories (€1 million). The processing of the order backlog that has been acquired will give rise to future risks, for which a provision has been recognized in the amount of €10 million, of which €5 million is included in current liabilities and €5 million in non-current liabilities. The portion of the purchase price that exceeds the prorated net assets of €30 million (51% of €59 million) leads to goodwill of €73 million, which represents anticipated synergy effects, non-separable workforce expertise and access to future market developments. The fair values of the receivables mainly correspond to the contractually agreed gross amounts.

The changes in relation to the provisional amounts from the purchase price allocation were essentially due to the revaluation of the order backlog, which was necessary in view of the short-term losses at RMMVÖ. Moreover, hidden reserves of €12 million that were provisionally identified in detailed analyses of the acquired assets could not be clearly assigned to individual intangible assets or items of property, plant and equipment. There was a contrasting effect on deferred tax liabilities, which fell by €7 million.

The formerly fully consolidated Rheinmetall Airborne Systems GmbH, Bremen, was excluded from the Rheinmetall Group's consolidated group by the sale of the majority interest (51%) to Cassidian, a division of the EADS Group, as of June 30, 2012. Rheinmetall made a profit of €48 million on this disposal. €17 million of this total profit is attributable to the recognition of the remaining 49% share in Rheinmetall Airborne Systems GmbH at fair value on the date of loss of control, which is likewise reported in other operating income.

The retained interest in Rheinmetall Airborne Systems GmbH will continue as an associated company in the Rheinmetall Group carried at equity. In accordance with the agreement on the sale of the stake, Cassidian has options to purchase the remaining shares in Rheinmetall Airborne Systems GmbH in several tranches, which can be exercised one and five years after the date on which the majority stake was acquired. If it does not exercise these options, Rheinmetall has the option to sell the respective tranches to Cassidian three and six years after the date on which the majority stake was sold.

In the Automotive sector, Kolbenschmidt Pierburg Innovations GmbH acquired all shares in Mechadyne International Limited, Kirtlington/UK on July 27, 2012. The acquisition serves to strengthen activities in the reduction of fuel consumption and CO_2 emissions and rounds off the UniValve technology deployed for variable valve control for small and medium-sized vehicles as well as commercial vehicles. The purchase price of €6 million comprises cash of €4 million and a contingent purchase price payment of €2 million. The contingent purchase price measured at fair value contains additional license fees according to sales and a bonus payment on the conclusion of supply contracts for series production. The first-time inclusion in the Rheinmetall consolidated financial statements occurred on July 31, 2012. The acquired net assets of €5 million, measured at fair values as at the time of acquisition, are accounted for primarily by €6 million of intangible assets for licenses and brand names and liabilities of €1 million. The acquisition resulted in goodwill of €1 million. The acquired company contributed €0 million to sales and €-1 million to EBIT of the Rheinmetall Group in 2012. Supposing the acquisition had been made on January 1, 2012, the Rheinmetall Group's sales would have been €1 million higher and EBIT would have been €1 million lower.

(3) »Assets and associated liabilities held for sale«

The disposal group recognized in the consolidated balance sheet as of December 31, 2011 and the associated liabilities relate to the former Defence sub-division of unmanned aerial systems at the Bremen site, which is being continued in collaboration with Cassidian. The assets and associated liabilities were disposed of when the 51% share in Rheinmetall Airborne Systems GmbH was sold on June 30, 2012.

Notes to the consolidated financial statements
Accounting principles

(4) »Consolidation principles«

Subsidiaries included for the first time are consolidated according to the acquisition method (involving full revaluation) by contrasting the cost of shares acquired against the subsidiaries' prorated equity revalued as of the date of change of control. Cost equals the fair values of the assets given, liabilities assumed, and equity instruments issued by the acquirer, in exchange for the acquisition. Any acquisition-related costs incurred are recognized in expenses.

Goodwill to be recognized at the time of acquisition is calculated from the cost of the subsidiary acquired, the fair value of the prorated net assets attributable to non-controlling interests and the fair value of shares held in the subsidiary prior to the acquisition, minus the revalued net assets acquired.

Any resulting positive difference is capitalized as goodwill within intangible assets. Any residual badwill is reported in other operating income.

The hidden reserves and charges identified in the revaluation of the net assets acquired that relate to non-controlling interests are assigned to the item for minority interests in capital subject to consolidation. When there is a change in holdings in already fully consolidated subsidiaries without loss of control, the difference between the cost and minority interests is reported as an equity measure.

Receivables and payables, expenses and income and intercompany profits/losses among fully consolidated companies are eliminated. Unless allocable to goodwill, taxes are deferred for all temporary differences from the consolidation of receivables/payables, income/expenses, and the elimination of intercompany profits/losses.

Shares in associated affiliates and joint ventures are stated at equity. Taking the historical cost of the shares as of the date of their acquisition, the investment book value is increased or decreased to reflect such changes in the equity of these associated affiliates/joint ventures as are allocable to the Rheinmetall Group. To determine the goodwill (if any) of investees, principles analogous to full consolidation are adopted, capitalized goodwill being mirrored in the investment book value. Consolidation transactions comply with the principles for fully consolidated subsidiaries.

In the case of the gradual acquisition of a company, the difference between the carrying amount of the shares up to now and their fair value is recognized in income when the company is fully consolidated for the first time. In the case of the incomplete disposal of a subsidiary, the result arising from the sale price and the fair value of the remaining shares, less the Group carrying amounts for the subsidiary, is to be recognized in income.

(5) »Currency translation«

In the separate financial statements of consolidated companies, each foreign currency transaction is recognized at the historical rate. Monetary assets and liabilities originally denominated in a foreign currency are translated at the rate on the reporting date. Any currency translation differences that arise are duly recognized in the net financial result. If carried at cost, other assets and liabilities are translated using the historical cost rate and, if carried at fair value, at the rate at the date of measuring the fair value.

The single-entity financial statements of foreign Group companies whose functional currency is not the euro are translated into euro as the Group currency in accordance with the functional currency concept. As a rule, their functional currency corresponds to the local currency as the currency of the primary business environment in which such companies operate. Translation is carried out using the rate on the reporting date, whereby assets and liabilities are translated at the average spot exchange rate as at the reporting date and the income statement at the average annual rate. The translation differences resulting from this are recognized in, and only in, equity as other comprehensive income (OCI).

(6) »Accounting policies«

The key accounting and valuation methods applied on the basis of the Group-wide uniform accounting guideline to Rheinmetall AG's consolidated financial statements are described below.

»Cost«

Purchase cost includes the purchase price and, with the exception of company acquisitions as defined by IFRS 3, all incidental costs that can be directly attributed to the purchase. Where applicable, cost equals the fair value of the asset given in an exchange of assets transaction as at the date of the exchange. Any cash compensation is accounted for accordingly.

The production cost of internally generated assets from which future economic benefits are likely to flow to the Group and whose value can be reliably determined includes the costs directly allocable to the production or conversion process, as well as reasonable portions of production-related overheads, the latter also comprising indirect materials and indirect labor, as well as production-related depreciation and social security expenses, all based on normal workloads. Financing costs are capitalized as costs if they relate to assets which are produced or purchased over a period exceeding one year.

Notes to the consolidated financial statements
Accounting principles

»Subsidies and grants«

Public subsidies and customer grants or allowances which by their nature are considered investment grants are directly offset against the capital expenditures, whereas any grants or allowances for expenses for purposes other than investing activities are deferred as income and amortized to the income statement when the related expenses are incurred.

»Impairment«

If there is an indication that the value of an intangible or tangible asset may be impaired, and if the recoverable amount is below amortized or depreciated cost, a write-down is charged. When the reasons for write-down have ceased to exist, the asset is written up to an amount not exceeding its amortized or depreciated cost excluding write-down.

Within the Rheinmetall Group, goodwill is allocated to the relevant sectors according to its potential benefit. The value of goodwill is tested once annually for impairment, and during the year if impairment is indicated. There was no impairment during the year under review. In the impairment test, the carrying amount is compared with the recoverable amount. The value in use is generally used as a recoverable amount. If this value is below the carrying amount, a check is made as to whether the net fair value (NFV: fair value less costs to sell) is higher. If the carrying amount exceeds the recoverable amount, an impairment loss is then charged on the difference. A cash-generating unit's value in use is calculated according to the DCF method, discounting future cash flows over a three-year corporate planning period. For periods after the detailed planning period, cash flows are extrapolated from the last planning period, taking into account growth allowances.

In the Rheinmetall Group, the corporate plan is prepared on the basis of empirical and current forecast data. Within the Defence sector, planning is substantially predicated – besides on projects and inquiries already included in its order backlog – on national defence budgets of EU nations and NATO, duly allowing for new-market access and cost-paring programs.

Key planning assumptions by Automotive are based on the sector forecasts underlying sales plans and covering the worldwide automotive market trend, the planned engine programs of carmakers, specific customer commitments to individual projects, as well as on Automotive-specific adjustments to allow for planned product innovations and cost savings.

Rheinmetall's WACC (before tax) was used as the discount rate:

Defence sector	8.9%	(Previous year: 8.2%)
Automotive sector	11.5%	(Previous year: 10.9%)

For the period after the last planning year, the following growth allowance is deducted from the risk-specific pretax discount rate:

Defence sector	1.0%	(Previous year: 1.0%)
Automotive sector	1.0%	(Previous year: 1.0%)

Neither the discount rate increase by 0.5 percentage points, nor the growth allowance decrease by 0.5 percentage points impair goodwill. Goodwill impairment losses are immediately recognized as write-downs in the corresponding income statement line. However, any subsequent reversal is prohibited.

»Intangible assets«

Intangible assets are capitalized at cost. Research costs are always recognized in expenses. Development costs are not capitalized unless and until a newly developed product or process can be clearly defined and technologically realized and either it is to be used internally or marketing is planned, and if its costs can be reliably measured and there is reasonable assurance that an economic benefit will be derived in future. Any other development costs are immediately expensed.

Finite-lived intangible assets are amortized by straight-line charges from the date of first use over the economic lives.

The measurement is subject to the following useful lives:

	Years
Concessions and industrial property rights	3-15
Development costs	5-7
Customer relations	5-15
Technology	5-15

Goodwill is not amortized.

Notes to the consolidated financial statements
Accounting principles

»Property, plant and equipment«

Property, plant and equipment are carried at cost less depreciation and impairment. If finite-lived, property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives unless in exceptional cases another method better reflects the pattern of consumption.

Property, plant and equipment are depreciated over the following period of economic life:

	Years
Buildings	20-50
Other structures	8-30
Equivalent titles	5-15
Production plant and machinery	3-20
Other plant, factory and office equipment	3-15

Essential plots of land owned for business purposes are carried according to the revaluation method at fair value, which generally equals market value. Generally accepted valuation techniques are used to determine fair market values, which are in most cases based on the expert reports of an independent appraiser. External appraisal reports are obtained at regular intervals, most recently on the reporting date of December 31, 2008. A review as at December 31, 2012 did not show any significant change in value.

»Leasing«

Agreements which transfer the right to use assets for a specified period of time in return for payment or a series of payments are qualified as leases.

If leasing transactions result in the transfer of virtually all opportunities and risks associated with ownership of an asset to the lessee, these are to be qualified as finance leases. All other leasing transactions are to be reported as operating leases.

Property, plant and equipment used under a finance lease are capitalized at the lower of their fair value or the present value of minimum lease payments and depreciated on a straight-line basis over the shorter of their estimated useful lives or underlying lease terms. At the same time, a financial liability is recognized in the corresponding amount and written down over the term of the lease using the effective interest method. For usage involving operating leases, rent and lease payments are recognized in expenses and distributed over the term of the lease on a straight-line basis.

»Investment property«

These are properties held for investment, i.e. to earn rental income or benefit from long-term capital appreciation, and not for use in production or administration.

Investment properties (unless land) are carried at depreciated cost less any impairment. Depreciation is recognized on a straight-line basis over useful lives of 20 to 50 years. The market value of investment property is stated under Note (9). Generally accepted valuation techniques are used to determine fair market values, in most cases based on regular expert reports by an independent appraiser, the most recent of which was carried out on December 31, 2008. A review as at December 31, 2012 did not show any significant change in value.

»Financial instruments«

A financial instrument is based on a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Key financial assets in the Rheinmetall Group are cash and cash equivalents, trade receivables, loans, securities and derivatives with a positive fair value. Key financial liabilities relate to a bond, promissory note loans, liabilities to banks and from leases, trade payables as well as derivatives with negative market values.

In the Rheinmetall Group, financial instruments are broken down into those measured at market value and those measured at amortized cost.

Financial instruments are generally recognized for the first time at the settlement date. The settlement date is the value date when the financial instrument is supplied or the payment is made. Notwithstanding this, derivatives are recognized for the first time as of the trading date, i.e. the date when the contract is concluded. The first-time measurement of financial instruments occurs at fair value. Acquisition-related costs are recognized in expenses for financial instruments measured at fair value in subsequent periods. For all other financial instruments, acquisition-related costs are to be included in the first-time measurement.

»Cash and cash equivalents«

Cash equivalents comprise any liquid assets with a remaining term of less than three months at the date of their purchase or investment. Cash and cash equivalents are carried at amortized cost.

»Securities«

Securities are assigned to the “available for sale” measurement category in accordance with IAS 39. Measurement is generally at market value. Where such fair market value is not reliably determinable, the assets are carried at amortized cost. Unrealized gains and losses are shown as other comprehensive income and recognized in the surplus from statement at fair value and other remeasurement. If there are substantial indications of impairment before or when selling securities, the cumulated amount recognized in equity is reclassified to the income statement at the level of impairment or the disposal value.

»Loans«

Loans are recognized at amortized cost. Rheinmetall measures fixed and floating-rate receivables taking into account customer credit standing, specific country risks, and the structure of the financing transaction. Taking this approach, expected collection or default risks are duly allowed for. Non-interest receivables are discounted by applying rates that match their maturity.

Notes to the consolidated financial statements
Accounting principles

»Trade receivables«
Customer receivables included in trade receivables are recognized at amortized cost. Account is taken of the default risk with appropriate valuation allowances. Receivables sold under an ABS program are offset against customer receivables. Current financial assets are recognized in the amount of the risk retained, along with other current liabilities in the corresponding amount, for continuing involvement.

Please see the comments on "Construction contracts" for information about receivables from construction contracts, which are also included in trade receivables.

»Liabilities«
Financial liabilities are measured at amortized cost as at the reporting date, using the effective interest method.

Liabilities resulting from finance leases are recognized at the present value of future minimum lease payments.

All other liabilities are measured at amortized cost, which as a rule equals the settlement or repayment amount.

»Derivative financial instruments«
In the Rheinmetall Group, derivatives are used exclusively to hedge against currency, interest rate, commodity price and electricity price risks. Future cash flows from current underlyings or planned transactions are hedged.

Derivatives are measured at fair value. The fair value is determined on the basis of input factors observed directly or indirectly on the market and thus corresponds to level 2 of the designations provided by IFRS 7. In the Rheinmetall Group, the foreign exchange rates applicable on the balance sheet date and yield curves are key input factors in calculating the fair value of derivatives for currency and interest rate hedges. In the case of interest caps, the market value is calculated on the basis of the Black/Scholes model, taking into consideration volatilities. The discounted cash flow method is used for interest rate swaps, currency swaps and currency forwards. The euro yield curve used to measure the interest rate derivatives takes into account basis spreads. The fair value of the commodity futures is derived from the value of all contracts at market as of the valuation date. The forward rates applicable on the balance sheet date (released by the EEX European Energy Exchange) are used to determine the market value of electricity derivatives.

Derivatives with a positive fair value are reported under other financial assets and derivatives with a negative fair value are recorded in other liabilities.

If the conditions for an effective hedge in line with IAS 39 are met (Cash Flow Hedge Accounting), the effective portion of the changes in the fair value of the designated derivative is recorded directly in equity in the surplus from statement at fair value and other remeasurement. If the hedged item is recognized in profit or loss, the cumulated gains or losses previously recognized in equity are recognized in the income statement. Any ineffective portion of changes in the fair value of the hedge is always immediately recognized in the income statement.

The changes in the fair value of derivatives used for hedging purposes, but which are not recorded in hedge accounting in line with IAS 39, are immediately recognized in the income statement. These derivatives are allocated to the “held for trading” measurement category.

»Inventories and prepayments received«

Inventories are recognized at cost. As a rule, this equals weighted average values. Risks inherent in inventories due to reduced utility or to obsolescence are adequately allowed for. If the net realizable value (NRV) of any inventories at the balance sheet date is below their carrying amount, such inventories are written down to net realizable value. The write-down either raises the cost of materials (raw materials and supplies) or reduces the net inventory level of finished products and work in progress. If the net realizable value of inventories previously written down increases, the ensuing reversal is routinely offset against cost of materials (raw materials and supplies) or shown as an increase in inventories of finished products and work in progress.

Prepayments received from customers for contracts which are not manufacturing or construction contracts under the terms of IAS 11 are, if production cost has already been incurred for the respective contract, openly deducted directly from inventories, any other prepayments being recognized as liabilities.

»Construction contracts«

Where the criteria and requirements of IAS 11 “Construction contracts” are met, manufacturing orders or construction contracts from customers are recognized in accordance with their percentage of completion. Sales are recognized in the amount of the percentage of completion, based on the establishment of receivables from construction contracts. Progress billings with and without payments received and advance payments up to a maximum of the performance already provided are deducted directly from receivables on construction contracts. Additional payments are reported under payments received. As a rule, the percentage of completion is determined on a cost-to-cost basis, i.e. at the ratio the contract costs incurred bear to anticipated contract costs. If the construction contracts require more than one year for settlement, contract costs also include allocable borrowing costs if financing is required. If the net result from a percentage of completion contract cannot be reliably estimated, prorated profits are not realized, but instead sales are recognized only at the level of costs actually incurred. Expected losses on contracts are to be recognized in expenses immediately in full through allowances or the creation of provisions.

»Deferred taxes«

Taxes are deferred for temporary differences between the values of assets and liabilities in the IFRS-based balance sheet and those in the individual companies’ tax accounts. Deferred tax assets also include the tax assets receivable from the expected future utilization of tax loss carryovers (if their realization is reasonably certain). Deferred taxes are determined by applying the local tax rates current or announced in each country at the balance sheet date.

For domestic taxes, a tax rate of 30% is used, as was done in the previous year. This rate covers corporate income tax, the solidarity surtax thereon, and municipal trade tax. Taxation rates outside Germany range between 16% and 38%, as in the previous year.

No deferred tax liabilities for temporary differences of shares in subsidiaries and associated affiliates were recognized, since Rheinmetall can control the reversal of such differences and the reversal is not probable in the foreseeable future.

Notes to the consolidated financial statements
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»Provisions«

Provisions for pensions and similar obligations are calculated using the projected unit credit method for defined benefit plans. The calculation of the extent of the obligations is predicated on assumptions such as mortality, expected future pay and pension increases, plan participant turnover rates, interest rate variations, as well as other actuarial parameters. The DBO volume of any existing pension plan assets is deducted from pension accruals. Any excess of plan assets over the DBO volume (a so-called defined benefit asset) is not recognized unless Rheinmetall can actually utilize or realize it. If there are deviations between the actuarial assumptions and the actual development of the underlying parameters to calculate the projected unit credits and the market value of the pension funds, actuarial losses or gains result. These actuarial gains and losses and the effects from the asset cap are recognized immediately in retained earnings in the year they occur.

Payments to defined contribution plans (DCP), under which the company incurs no obligations other than to pay the contributions to earmarked post-employment benefit plans, are recognized in net income in the year they are incurred. In addition, the Rheinmetall Group participates to a minor extent in some multi-employer plans which, although generally based on defined benefit obligations, are accounted for as defined contribution plans under the terms of IAS 19.30 if no information is available that would suffice for defined benefit plan accounting. With one Dutch subsidiary, the defined benefit pension plan is treated as a defined contribution plan as it is not possible to make an exact allocation of the assets of the post-employment benefit fund to the companies involved.

The remaining provisions take into account all identifiable commitments and obligations to third parties if based on past transactions or events and if it is probable that an outflow of resources (which can be reliably estimated) embodying economic benefits results. Non-current provisions are shown, if the effect of discounting is significant, at the settlement amount discounted as of the balance sheet date. The settlement amount also accounts for identifiable future cost increases.

»Recognition of sales«

Sales result primarily from the sale of goods. In addition, sales are generated from services in the context of service and maintenance activities and contracted development work. Sales are measured at the fair value of the consideration received or to be received minus discounts, reductions or other deductions. Sales from supply agreements are realized with the passage of risk to the customer if the sales amount can be reliably estimated and a flow of benefits is probable. Under construction contracts with customers, sales are recognized according to the percentage of completion method. Sales from service contracts and, as a rule, sales from contracted development work are recognized in accordance with the stage of completion, if the result can be reliably estimated. The stage of completion is measured in accordance with the ratio of contract costs incurred so far to the estimated total contract costs.

»Expenses«
Operating expenses are recognized when caused or when the underlying service, etc. is used.

»Interest and dividends«
Interest income and expense are recognized on an accrual basis. Dividends are recognized in income when the legal claim to payment is established.

»Estimates«
Preparing the consolidated financial statements requires certain assumptions and estimates which impact on the application of accounting principles within the Group and the disclosure of assets and liabilities, income and expenses.

When examining the recognition of goodwill, assumptions and estimates on forecasts and discounting future cash flows are made to determine the recoverable amount of the relevant cash-generating units. Details of the parameters used are described in the comments on impairment.

On an annual basis and on other occasions if appropriate, an assessment is made as to whether there are indications of a possible impairment and whether the fair value of intangible assets, property, plant and equipment or properties held for investment is lower than their carrying amount. When calculating the fair values, assumptions and estimates are made on the cash flows from realizable sales prices, costs and the discount rates. The yield curves used in the measurement of derivatives include assumptions about the expected future development of interest rates, taking into account estimated liquidity risks dependent on terms. Moreover, the measurement models used also incorporate parameters that are based on assumptions about volatilities and discount rates.

The measurement of pension provisions and other obligations is based on the determination of actuarial parameters such as the discount rate, salary increases, the expected income from fund assets, the mortality rate and the development of health care costs. Of the parameters assumed, the discount rate in particular has a sensitive impact on the calculation of the present value of the DBO. A change in the discount rate of +/-0.25 percentage points compared with the 3.25% rate as of the balance sheet date for defined benefit pension plans in Germany would lead to a 4% reduction or increase in the present value of the DBO of €778 million. Defined benefit pension plans outside Germany relate primarily to subsidiaries based in Switzerland. A variation of +/-0.25 percentage points in the discount rate of 2.00% for the Swiss pension plans as at the balance sheet date would lead to a 3% decrease or a 2% increase in the present value of the DBO of €1,042 million for these pension plans. Any discrepancy between the parameters assumed at the beginning of the fiscal year and the actual conditions on the balance sheet date has no impact on net income, as actuarial gains and losses resulting from the discrepancy are recognized directly in equity.

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Sales realization for construction contracts is based on estimates regarding the expected total contract costs and contract revenue. Comparing the actual contract costs incurred with expected total costs shows the percentage of completion as at the balance sheet date, on the basis of which the prorated sales for the period are calculated.

The determination of future tax advantages which reflect the recognition of deferred tax assets is based on assumptions and estimates on the development of tax income and the tax legislation in the countries of the Group companies working there.

In the context of business combinations, the fair values of the identifiable assets, liabilities and contingent liabilities may be based on estimates at the time of acquisition. To determine fair values, independent valuation appraisals or internal calculations are implemented on the basis of recognized measurement procedures, generally on the basis of forecast cash flows. In particular, when measuring intangible assets, assumptions and estimates on expected development of business activities, the expected economic lives and the discount rates are to be made.

When assessing and accounting for legal risks, estimates on the possible occurrence and the level of the expected obligations are made. In the process, the management deploys internal legal assessments and evaluations by external attorneys.

The respective assumptions and estimates are based on premises which represent the most recent knowledge. The estimates and the underlying assumptions are examined on an ongoing basis. Actual developments may result in amounts differing from these estimates. Such differences, if impacting on the accounting, are recognized in the period of change where the change affects this period only. If changes in estimates affect both the current period and future periods, these are recognized accordingly in the periods in question.

(7) »Goodwill; other intangible assets«

Breakdown of capitalized goodwill:

€ million

	Dec. 31, 2011	Dec. 31, 2012
Defence sector	382	387
Automotive sector	171	173
	553	**560**

Research and development costs of €230 million were incurred in the fiscal year (previous year: €212 million). Of the total research and development costs incurred, €39 million (previous year: €35 million) were capitalized as development costs.

Impairment of €4 million was carried out on intangible assets in the previous year. €3 million of this impairment related to concessions, industrial property rights and licenses and €1 million to development costs.

(8) »Property, plant and equipment«

Total impairment taken in 2012 was €1 million (previous year: €4 million), all of which related to technical equipment and machinery (previous year: €3 million). In the previous year, €1 million was also charged to other plant, factory and office equipment.

In accordance with the revaluation method, essential plots of land are stated at fair value, which generally equals their market values. The fair value was €223 million (previous year: €211 million), which includes a step-up of €111 million (previous year: €110 million). Regarding the movement of the revaluation reserve, see the comments on total equity in Note (16).

€53 million of property, plant and equipment (previous year: €55 million) is subject to restrictions on disposal in the form of land charges.

On the basis of leases, €12 million in technical equipment and machinery are capitalized (previous year: €12 million). Here, normal restrictions on disposal apply. One Group company concluded a building lease agreement for a plot of land in 2012 (€4 million), which is recognized as a capital lease.

The future lease payments under capital leases, the interest portions included therein, and the present values of future lease payments, which are recognized as financial debts, are shown in the table below:

Capital leases *€ million*

	2011				2012			
	2012	2013-2016	from 2017	Total	2013	2014-2017	from 2018	Total
Lease payments	1	4	7	12	0	6	21	27
Discounts	0	(1)	(1)	(2)	0	(1)	(13)	(14)
Present values	**1**	**3**	**6**	**10**	**0**	**5**	**8**	**13**

The purchasing obligation from firm capital expenditure contracts totals €38 million (up from €30 million).

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(9) »Investment property«

The investment properties have a total fair value of €26 million (previous year: €28 million), largely determined on the basis of external appraisal reports as of December 31, 2008. In the year under review, rental income of €2 million (previous year: €2 million) was earned, contrasting with direct operating expenses of €2 million (previous year: €2 million). No impairment was taken (previous year: €0 million).

(10) »Investments«

The pro-ratable assets, liabilities, income and expenses of joint ventures and associated affiliates break down as follows:

Joint ventures *€ million*

		2011	2012
Assets	(Dec. 31)	348	410
Of which non-current		*126*	*131*
Equity	(Dec. 31)	73	85
Debt	(Dec. 31)	275	325
Of which non-current		*13*	*11*
Income		469	480
Expenses		456	458
Annual income		13	22

Associated companies *€ million*

		2011	2012
Assets	(Dec. 31)	85	84
Equity	(Dec. 31)	22	25
Debt	(Dec. 31)	63	59
Sales		69	64
Annual income		5	3

Development of investments *€ million*

2011	**Book value Jan. 1, 2011**	Addition/ Disposal	Change not affecting Income Statement	Prorated net profit	Dividend payout	**Book value Dec. 31, 2011**
Joint ventures	56	3	(1)	13	(2)	**69**
Associated companies	50	(10)	0	5	(3)	**42**
	106	**(7)**	**(1)**	**18**	**(5)**	**111**

2012	**Book value Jan. 1, 2012**	Addition/ Disposal	Change not affecting Income Statement	Prorated net profit	Dividend payout	**Book value Dec. 31, 2012**
Joint ventures	69	0	1	22	(8)	**84**
Associated companies	42	25	(4)	3	(3)	**63**
	111	**25**	**(3)**	**25**	**(11)**	**147**

The addition of shares in Rheinmetall Airborne Systems GmbH as an associated company had a particularly strong impact on the investment portfolio of the Defence sector. Here, Rheinmetall's activities in the area of unmanned aerial systems are to be continued with Cassidian at the Bremen site. Defence's key joint ventures include PSM Projekt System & Management GmbH and ARTEC GmbH (two project management companies for the PUMA and Boxer contracts). The joint venture HFTS Helicopter Flight Training Services GmbH for the provision and maintenance of flight simulators and an interest in the associated affiliate AIM Infrarot-Module GmbH, a specialist in the development and manufacture of electronic components equipped with infrared technology, also belong to the Defence sector. The joint venture Contraves Advanced Devices Sdn Bhd in Malaysia is strengthening our presence on the market for product technology for the land, naval and air forces of Malaysia and partner countries in the region.

The Automotive sector is further reinforcing its position on the Asian market for pistons and other engine parts through the joint ventures Kolbenschmidt Shanghai Piston Co. Ltd. and Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd. in China and the associated company Shriram Pistons & Rings Ltd. in India.

(11) »Inventories«

€ million

	Dec. 31, 2011	Dec. 31, 2012
Raw materials and supplies	292	305
Work in process	294	290
Finished products	90	78
Merchandise	78	93
Prepayments made	59	60
	813	**826**
./. Prepayments received	(28)	(30)
	785	**796**

Additions to write-downs totaled €20 million as in the previous year. In the year under review, inventories previously written down were written up by €2 million (previous year: €13 million). As in the previous year, inventories do not collateralize any liabilities.

(12) »Trade receivables«

€ million

	Dec. 31, 2011	Dec. 31, 2012
Customer receivables	588	644
Of which with remaining term of more than 1 year	*8*	*1*
Of which from joint ventures and associated companies	*56*	*34*
Receivables from construction contracts	439	388
	1,027	**1,032**

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Breakdown of construction contract receivables

€ million

	Dec. 31, 2011	**Dec. 31, 2012**
Production costs incurred	2,861	3,065
Plus margins (less losses)	463	466
	3,324	**3,531**
Progress billings	(2,885)	(3,143)
Receivables from construction contracts	**439**	**388**

Obligations from construction contracts are included in the sundry other liabilities and break down as follows:

€ million

	Dec. 31, 2011	**Dec. 31, 2012**
Production costs incurred	13	26
Losses incurred by stage of completion	0	0
Anticipated losses	0	0
	13	**26**
Progress billings	(13)	(28)
Payables from construction contracts	**0**	**2**

Sales from construction contracts total €797 million in the fiscal year (previous year: €921 million).

(13) »Other financial assets«

€ million

	Dec. 31, 2011	of which current	of which non-current	**Dec. 31, 2012**	of which current	of which non-current
Derivatives in cash flow hedge	21	18	3	13	10	3
Loans	10	4	6	7	3	4
Derivatives without hedge accounting	9	8	1	8	8	-
Securities	3	3	0	3	2	1
Other	6	5	1	11	11	0
	49	**38**	**11**	**42**	**34**	**8**

Loans of €7 million (previous year: €10 million) and securities of €3 million (previous year: €3 million) are recognized at amortized cost.

(14) »Other receivables and assets«

Other receivables and assets are as follows:

€ million

	Dec. 31, 2011	Of which current	Of which non-current	Dec. 31, 2012	Of which current	Of which non-current
Other taxes	55	55	0	53	53	0
Subsidies/grants receivable	33	33	-	31	31	-
Deferred income	11	10	1	10	9	1
Prepayments made	7	7	0	3	3	0
Compensation claims	6	1	5	6	1	5
Subsidies	6	5	1	4	3	1
Other	20	20	0	24	24	0
	138	**131**	**7**	**131**	**124**	**7**

(15) »Cash and cash equivalents«

€ million

	Dec. 31, 2011	Dec. 31, 2012
Bank balances in credit institutions, checks, cash in hand	535	501

As in the previous year, cash and cash equivalents were not subject to any restrictions on disposal.

(16) »Equity«

The subscribed capital of Rheinmetall AG amounts to €101,373,440.00 (unchanged) and is divided into 39,599,000 shares (with no nominal value).

The Annual General Meeting on May 11, 2010 authorized the Executive Board to acquire treasury shares equivalent to a maximum of 10% of the share capital of €101,373,000 up to May 10, 2015.

By resolution of the Annual General Meeting on May 11, 2010, the Executive Board of the Company was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company up to May 10, 2015 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 €50,000,000.00 (authorized capital). The new shares may also be issued to employees of Rheinmetall AG or any subsidiary it controls. By resolution of the Annual General Meeting on May 11, 2010, the Executive Board was authorized to decide on the further details of the issuing of shares as part of authorized capital, with the approval of the Supervisory Board. The Supervisory Board was authorized to amend the Company bylaws in accordance with the respective holdings and the respective utilization of the authorized capital.

Furthermore, the Executive Board of the Company was authorized by resolution of the Annual General Meeting of May 11, 2010 to issue interest-bearing bearer bonds with warrants and/or convertible bonds up to a total nominal value of €750,000,000.00 with a term of up to 20 years on one or several occasions, with the approval of the Supervisory Board, up to May 10, 2015, 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. The bonds with warrants and/or convertible bonds can also bear variable interest, whereby the interest rate can be wholly or partly dependent on the amount of the Company's dividend, as with an income bond.

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In connection with the above bonds with warrants and/or convertible bonds, the Annual General Meeting resolved on May 11, 2010 to carry out a contingent increase of the Company's common stock by up to €20,000,000.00 through the issue of up to 7,812,500 bearer shares or – if the Company's bylaws at the time of issuing the bond also permit the issue of registered shares – new registered shares (contingent capital). The contingent capital increase is to serve shares granted when options and/or conversion rights are exercised and when option and/or conversion obligations are fulfilled for the holders of bonds with warrants and/or convertible bonds issued on the basis of the authorization granted by the Annual General Meeting on May 11, 2010. The Executive Board was authorized by resolution of the Annual General Meeting of May 11, 2010 to stipulate further details of the implementation of the contingent capital increase, with the approval of the Supervisory Board. The Supervisory Board was authorized to amend Section 4 of the Company bylaws in accordance with the respective utilization of the contingent capital and after the expiry of all option periods and/or conversion periods.

»Treasury shares«

Treasury shares have been acquired in order to increase entrepreneurial scope. Disposals were solely due to the use of treasury shares for the long-term incentive program and the share purchase program. Sales proceeds are used for general financing purposes.

	Costs in € thousand	Shares	Share in share capital in %	Amount of share capital in € thousand
As at Dec. 1, 2004	**21,811**	**589,578**	**1.638**	**1,509**
As at Dec. 1, 2005	**34,087**	**844,981**	**2.347**	**2,163**
As at Dec. 1, 2006	**41,806**	**986,364**	**2.740**	**2,525**
As at Dec. 1, 2007	**46,180**	**1,051,417**	**2.921**	**2,692**
As at Dec. 1, 2008	**66,119**	**1,607,928**	**4.466**	**4,116**
As at Dec. 1, 2009	**56,657**	**1,393,536**	**3.519**	**3,567**
As at Dec. 1, 2010	**52,228**	**1,293,198**	**3.266**	**3,310**
As at Dec. 1, 2011	**54,632**	**1,350,842**	**3.411**	**3,458**
Addition January 2012	5,839	148,278	0.374	380
Addition February 2012	2,094	48,722	0.123	125
Disposal April 2012 Long-Term Incentive	(7,182)	(162,716)	(0.411)	(417)
Addition May 2012	385	10,000	0.025	26
Disposal June 2012 employee shares	(2,466)	(55,884)	(0.141)	(143)
Addition June 2012	4,132	113,000	0.285	289
Addition July 2012	7,231	187,000	0.472	479
Addition November 2012	5,516	168,719	0.426	432
Disposal December 2012 employee shares	(2,247)	(50,914)	(0.129)	(131)
Addition December 2012	4,496	124,600	0.315	318
As at Dec. 1, 2012	**72,430**	**1,881,647**	**4.750**	**4,816**

A breakdown and analysis of OCI from the statement at fair value and other remeasurement are shown below:

€ million

	Reserve for revaluation of properties	Reserve for hedging transaction	Reserve from fair value and other valuations
January 1, 2011	**78**	**21**	**99**
Change in fair value	-	(15)	(15)
Other changes	(1)	(6)	(7)
December 31, 2011/ January 1, 2012	**77**	**0**	**77**
Change in fair value	-	0	0
Other changes	2	(1)	1
December 31, 2012	**79**	**(1)**	**78**

Breakdown of the land revaluation reserve (recognized for essential land capitalized within tangible assets):

€ million

	Dec. 31, 2011	**Dec. 31, 2012**
Gains in property	110	111
Deferred taxes	(33)	(32)
	77	**79**

In fiscal 2012, Rheinmetall AG paid a dividend of €69 million or €1.80 per share (previous year: €58 million or €1.50 per share) to its shareholders.

Minority interests relate to the Defence sector at €109 million (previous year: €135 million), and to Automotive at €2 million (previous year: €2 million). Income and expenses recognized directly in equity and attributable to minority interests resulted mainly from actuarial losses (€-5 million; previous year: €0 million) and derivatives in hedge accounting (€0 million; previous year: €-6 million).

»Capital management«

Rheinmetall's capital management aims at establishing the best possible equity-debt ratio.

In line with the IFRS definition, Rheinmetall's total equity includes minority interests, since these are at the Group's disposal.

For more details, see our statements on the financing strategy as well as on the asset and capital structure in our group management report.

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(17) »Provisions for pensions and similar obligations«

The company pension systems consist of both defined contribution and defined benefit plans. Under the DCPs, Rheinmetall incurs no obligation other than the payment of contributions to earmarked pension funds. These pension expenses are shown within personnel expenses and need not be provisioned. In the year under review, a total of €71 million (previous year: €70 million) was paid to DCPs, specifically the Statutory Social Security Insurance in Germany.

Under its defined benefit plans, Rheinmetall is obligated to meet its confirmed benefit obligations to active and former employees. Pension accruals provide for obligations under vested rights and current pensions payable to eligible active and former employees, retirees and surviving dependents. Such obligations primarily encompass pensions, both basic and supplementary. The individual, confirmed pension obligations entitle employees to benefits that vary according to country and company and, as a rule, are measured according to service years and pensionable pay. Moreover, at the German subsidiaries, a performance-related pension obligation has been incurred whose amount hinges on the achievement of certain benchmarks for the ROCE formula. Being a non-current provision for the accumulated postretirement benefit obligation, the accrued health care obligations to the retirees of some US subsidiaries are also included in the pension accruals recognized hereunder.

Movement analysis of the present value of the DBO and the plan assets (as time series):

€ million

	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012
Present value of DBO	1,405	1,474	1,741	1,778	1,975
Fund assets	828	864	1,064	1,046	1,054
Pension obligations not covered by fund assets	**577**	**610**	**677**	**732**	**921**

The following actuarial parameters have been used:

Parameters *in %*

	Dec. 31, 2011			Dec. 31, 2012		
	Domestic	USA	Switzerland	Domestic	USA	Switzerland
Discount rate	5.25	4.35	2.25-2.30	3.25	3.36	2.00
Salary growth (general)	2.75	0.00	1.50	2.75	0.00	1.50
Salary growth (fixed sums)	1.25	-	-	1.25	-	-
Pension growth	1.75	-	-	1.75	-	-
Expected return on fund assets	-	8.50	3.50-4.00	-	7.50	2.00
Health care expense rise	-	5.20-7.80	-	-	7.70	-

The non-German DBO primarily refer to benefit obligations incurred by Swiss and US subsidiaries, most of which are plan-funded. The plan assets of the Swiss subsidiaries have been transferred to independent pension funds and benefit exclusively the beneficiaries. Any return of income and assets to the contributing companies is excluded. At one Swiss subsidiary, the restructuring of the benefit obligations has led to a reduction in plan assets in the amount of €6 million, which was recognized in equity. Corresponding plan assets have also been taken into account at a Canadian subsidiary for the first time.

Pension provisions *€ million*

	2011			2012		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Development of present value of DBO						
Present value of DBO as at Jan. 1	587	1,154	**1,741**	593	1,185	**1,778**
Currency differences	-	33	**33**	-	6	**6**
Current service cost	12	12	**24**	13	14	**27**
Past service cost	-	3	**3**	1	(10)	**(9)**
Interest cost	30	29	**59**	30	30	**60**
Employee contributions	1	9	**10**	-	9	**9**
Entry payments	-	9	**9**	-	16	**16**
Pension payments	(33)	(81)	**(114)**	(32)	(82)	**(114)**
Curtailments / settlements	-	(57)	**(57)**	-	(27)	**(27)**
Reclassification in accordance with IFRS 5	(5)	-	**(5)**	-	-	**-**
Actuarial gains and losses	1	58	**59**	173	21	**194**
First-time inclusion of pension obligations	-	16	**16**	-	35	**35**
Present value of DBO at Dec. 31	**593**	**1,185**	**1,778**	**778**	**1,197**	**1,975**
Of which funds financed	*10*	*1,144*	***1,154***	*11*	*1,150*	***1,161***
Of which internally funded	*583*	*41*	***624***	*767*	*47*	***814***
Development of fund assets						
Fair value of fund asset at Jan. 1	8	1,056	**1,064**	10	1,036	**1,046**
Currency differences	-	30	**30**	-	5	**5**
Expected return on fund assets	1	43	**44**	1	43	**44**
Employer contributions	-	15	**15**	-	23	**23**
Employee contributions	1	9	**10**	-	9	**9**
Entry payments	-	9	**9**	-	16	**16**
Pensions paid by funds	-	(79)	**(79)**	-	(78)	**(78)**
Curtailments / settlements	-	(51)	**(51)**	-	(32)	**(32)**
Actuarial gains and losses	-	4	**4**	-	(14)	**(14)**
First-time inclusion of fund assets	-	-	**-**	-	35	**35**
Fair value of fund assets at Dec. 31	**10**	**1,036**	**1,046**	**11**	**1,043**	**1,054**
Fund-financed DBOs not covered by fund assets	-	108	**108**	-	107	**107**
Internally funded DBOs	583	41	**624**	767	47	**814**
Pension obligations not covered by fund assets as at Dec. 31	**583**	**149**	**732**	**767**	**154**	**921**
Service costs and income not yet taken into account	0	(3)	(3)	0	(1)	**(1)**
Pension provisions as at Dec. 31	**583**	**146**	**729**	**767**	**153**	**920**

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In the year under review, the plan assets returned a profit of €30 million (previous year: €48 million) before the net currency result recognized in equity. The contributions expected for the following fiscal year will be the same as in the reporting year.

Net cumulative actuarial gains and losses in equity (before taxes) totaled €437 million on December 31, 2012 (previous year: €229 million). Those of the current year total €208 million (previous year: €55 million).

Plan asset structure:

in %

	2011	2012
Real estate and property investment funds	42	41
Equities	23	25
Treasuries and corporates/securities	15	10
Other	20	24
Total	**100**	**100**

Development of empirical adjustments *in %*

	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012
Present value of DBO	1.2	(1.1)	(0.8)	(0.5)	0.4
Fund assets	(16.3)	1.2	2.8	0.0	(1.8)

The long-term return on fund assets is determined by the investment strategy defined for each asset class.

Breakdown of pension expense:

€ million

	2011			2012		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Service cost	12	12	**24**	13	14	**27**
Past service cost	-	-	**-**	1	(10)	**(9)**
Accrual of expected pension obligations	30	29	**59**	30	30	**60**
Curtailments/settlements	-	(6)	**(6)**	-	(1)	**(1)**
Expected return on fund assets	(1)	(43)	**(44)**	(1)	(43)	**(44)**
Total	**41**	**(8)**	**33**	**43**	**(10)**	**33**

The service cost and the result from curtailments/settlements are reported under personnel expenses. The accrual of expected pension obligations and the expected return on fund assets are contained in interest expenses on a netted basis.

(18) »Other provisions«

Statement of changes in provisions *€ million*

2011	Personnel	Structural measures	Guarantees	Noticeable losses	Contract-related costs	Other provisions	Total
As at January 1, 2011	**164**	**78**	**59**	**30**	**89**	**87**	**507**
Utilization	130	17	17	11	50	35	260
Reversal	3	11	13	4	12	12	55
Added / provided for	140	8	22	7	41	44	262
Accrual	1	1	0	1	0	1	4
Changes in scope of consolidation	8	1	1	0	2	0	12
Currency differences / Other	(8)	4	1	(1)	(1)	(1)	(6)
As at December 31, 2011	**172**	**64**	**53**	**22**	**69**	**84**	**464**
Cash outflows							
Short term (‹ 1 year)	**148**	**28**	**44**	**16**	**65**	**70**	**371**
Long term	**24**	**36**	**9**	**6**	**4**	**14**	**93**
Of which 1 - 5 years	*18*	*36*	*8*	*6*	*4*	*13*	*85*
Of which › 5 years	*6*	*0*	*1*	*-*	*0*	*1*	*8*

2012	Personnel	Structural measures	Guarantees	Noticeable losses	Contract-related costs	Other provisions	Total
As at January 1, 2012	**172**	**64**	**53**	**22**	**69**	**84**	**464**
Utilization	148	13	17	7	25	28	238
Reversal	8	18	10	8	3	17	64
Added / provided for	146	24	25	4	42	64	305
Accrual	1	1	0	0	1	0	3
Changes in scope of consolidation	0	1	0	10	0	(1)	10
Currency differences / Other	0	0	0	1	1	(1)	1
As at December 31, 2012	**163**	**59**	**51**	**22**	**85**	**101**	**481**
Cash outflows							
Short term (‹ 1 year)	**139**	**33**	**40**	**21**	**81**	**77**	**391**
Long term	**24**	**26**	**11**	**1**	**4**	**24**	**90**
Of which 1 - 5 years	*16*	*25*	*9*	*1*	*4*	*13*	*68*
Of which › 5 years	*8*	*1*	*2*	*-*	0	*11*	*22*

Provisions for restructuring mainly cover the reduction in the workforce that is planned in order to adjust capacity (including termination settlements, pre-retirement part-time work and redundancy plans). Other provisions relate primarily to €6 million of legal, consulting and audit fees (previous year: €7 million), €13 million of discounts and bonuses (previous year: €12 million), and €8 million for environmental risks (previous year: €5 million).

Notes to the consolidated financial statements
Notes on the balance sheet

(19) »Financial debts«

€ million

	Dec. 31, 2011	Of which current	Of which non-current	**Dec. 31, 2012**	Of which current	Of which non-current
Bond	494	-	494	495	-	495
Promissory notes	85	-	85	35	-	35
Bank liabilities	54	26	28	47	22	25
Leasing	10	1	9	13	0	13
Other	22	18	4	9	5	4
	665	**45**	**620**	**599**	**27**	**572**

Amounts to banks of €26 million (previous year: €28 million) are secured by land charges and similar rights.

The analyses below reflect the terms and conditions, and book and fair values, of financial debts, the fair values being determined on the basis of interest rates current at the balance sheet date for corresponding maturities/redemption patterns:

€ million

Interest terms	Weighted interest rate (in %)	Currency (ISO code)	Maturing in	Dec. 31, 2011 Book value	Dec. 31, 2011 Fair value	Dec. 31, 2012 Book value	Dec. 31, 2012 Fair value
Bond							
Fixed	4.0	EUR	2017	494	508	495	540
				494	**508**	**495**	**540**
Promissory notes							
Fixed	6.8	EUR	2014	35	40	35	40
Variable		EUR	2012	50	50	-	-
				85	**90**	**35**	**40**
Bank liabilities							
Fixed	8.0	ZAR	2012	8	8	-	-
Fixed	3.7	EUR	2016	3	3	2	2
Fixed	4.4	EUR	2020	9	8	9	8
Fixed	3.8	EUR	2021	3	2	3	2
Fixed	3.7	EUR	2025	4	3	4	3
Variable		INR	2012/2013	6	6	8	8
Variable		CNY	2012/2013	2	2	6	6
Variable		EUR	2012/2013	10	10	7	7
Variable		EUR	2023	9	9	8	8
				54	**51**	**47**	**44**
Leases							
Fixed	2.4	EUR	2026	10	7	9	8
Fixed	4.0	EUR	2111	-	-	4	4
				10	**7**	**13**	**12**
Other financial debts							
Fixed	7.2	ZAR	2012/2013	8	8	4	3
Fixed	1.1	EUR	2012	9	9	-	-
Fixed	7.0	ZAR	2013	2	2	1	1
Variable		ZAR	2013	-	-	1	1
Variable		EUR	sundry until 2026	3	3	3	3
				22	**22**	**9**	**8**
Total				**665**	**678**	**599**	**644**

Notes to the consolidated financial statements
Notes on the balance sheet

(20) »Trade payables«

€ million

	Dec. 31, 2011	Dec. 31, 2012
Trade liabilities	667	648
Of which from joint ventures and associated companies	*10*	*9*

€0 million of trade payables have a remaining term of more than one year (previous year: €1 million). The carrying amount of trade payables roughly equals their fair value.

(21) »Other liabilities«

The other liabilities break down as follows:

€ million

	Dec. 31, 2011	Of which current	Of which non-current	Dec. 31, 2012	Of which current	Of which non-current
Advance payments received	325	325	-	432	432	-
Monies in transit from debt collection	82	82	-	80	80	-
Liabilities from other taxes	54	44	10	72	62	10
Purchase price liability	37	37	-	2	2	-
Derivatives in cash flow hedge	24	15	9	17	15	2
Derivatives without hedge accounting	22	12	10	22	8	14
Liabilities from social security	16	15	1	16	15	1
Deferred income	12	10	2	10	8	2
Liabilities due to employees	11	11	-	10	10	-
Other	29	27	2	32	31	1
	612	**578**	**34**	**693**	**663**	**30**
of which financial liabilities as defined by IFRS 7	*183*	*164*	*19*	*151*	*134*	*17*

As in the previous year, all of the advance payments received on orders have a remaining term of up to one year. The payables for derivatives have been marked to market, the carrying amount of the remaining liabilities approximating their fair value.

Liabilities resulting from derivative financial instruments largely relate to negative market values of currency and interest rate hedging transactions, as in the previous year. These fair values would only be realized if the derivatives were terminated early, which is unlikely at present. See Note “Additional information on financial instruments” for details of the Rheinmetall Group’s hedging strategies.

Notes to the consolidated financial statements
Notes on the income statement

(22) »Total operating performance«

€ million

	2011	2012
Sales		
from sale of products	4,005	4,294
from services	261	220
from development contracts	188	190
Total sales	**4,454**	**4,704**
Increase/decrease in inventory of finished products and services and WIP	0	4
Other work performed by the enterprise and capitalized	51	47
	4,505	**4,755**

(23) »Other operating income«

€ million

	2011	2012
Reversal of provisions	55	64
Disposal of assets/divestments	8	53
Refunds	8	14
Credit notes for previous years	9	12
Grants and subsidies	6	9
Income from canteens and ancillary operations	4	7
Sundry rental agreements and leases	7	5
Income from residue utilization	3	4
Income from reversal of value adjustments	5	2
Income from the transition from the equity approach to full consolidation	11	-
Badwill	1	-
Other secondary income	34	40
	151	**210**

(24) »Cost of materials«

€ million

	2011	2012
Cost of raw materials, supplies, and merchandise purchased	2,012	2,205
Cost of services purchased	279	303
	2,291	**2,508**

Notes to the consolidated financial statements
Notes on the income statement

(25) »Personnel expenses«

€ million

	2011	2012
Wages and salaries	1,037	1,103
Social security and related employee benefits	135	145
Pension expenses	88	88
	1,260	**1,336**

Annual average head count (FTE)

	2011	2012
Automotive sector	11,079	11,820
Defence sector	9,204	9,756
Rheinmetall AG / Other	120	141
	20,403	**21,717**

(26) »Amortization/depreciation«

For the allocation of these charges to intangible assets, property, plant and equipment and investment property, see the statement of changes in assets.

Impairments break down as follows:

€ million

	2011	2012
Intangible assets	4	-
Property, plant and equipment	4	1
Investment property	0	-
	8	**1**

Impairments relate to the Automotive sector. In the previous year, impairment of €5 million was taken in the Automotive sector and impairment of €3 million in the Defence sector.

(27) »Other operating expenses«

€ million

	2011	2012
Administrative costs	165	176
Repairs and maintenance	81	86
Distribution costs	69	69
Rents, leases	47	52
Audit, legal and consultancy fees	47	50
Additions to provisions	37	45
Incidental staff costs	33	39
Expenses for redundancy plans, termination indemnities, partial retirement	8	25
Promotion and advertising expenses	22	22
Services purchased	14	18
Facility cleaning and security/surveillance	12	13
Other taxes	7	9
Write-down of receivables	3	2
Losses on disposal of fixed assets/divestments	1	2
Other	39	36
	585	**644**

General administrative costs primarily comprise IT costs, travel costs and insurance fees.

(28) »Net interest«

€ million

	2011	2012
Other interest and similar income	6	4
Interest income	**6**	**4**
Net Interest expense for pension obligations	15	16
Accrual of other non-current provisions	4	3
Other interest and similar expenses	46	47
Interest expenses	**65**	**66**
Net interest	**(59)**	**(62)**

Notes to the consolidated financial statements
Notes on the income statement

(29) »Net investment income and other net financial income«

€ million

	2011	2012
Investment income		
Defence Sector	7	10
Automotive Sector	11	15
	18	**25**
Other financial results		
Currency result	11	(3)
Guarantee commissions	(1)	(2)
Profit from derivative financial instruments	(9)	(1)
Other	(1)	(1)
	0	**(7)**
Investment profit and other financial results	**18**	**18**

The result from derivatives of €-1 million (previous year: €-9 million) primarily includes the net hedging result, against which the provisions on hedge accounting in accordance with IAS 39 are not applied, and mainly relates to currency and interest rate hedges.

(30) »Income taxes«

€ million

	2011	2012
Current income tax expense	59	50
Earlier-period income taxes	(3)	6
Deferred taxes	14	(7)
	70	**49**

The tax effect on income and expenses recognized directly in equity is presented in the following overview:

€ million

	2011			2012		
	Gross amount	Tax effect	Net amount	Gross amount	Tax effect	Net amount
Actuarial gains and losses from pensions	(55)	(10)	(45)	(208)	(56)	(152)
Currency conversion	(10)	-	(10)	(16)	-	(16)
Cash flow hedges	(39)	(11)	(28)	(1)	0	(1)
Income/expenses from investments accounted for using the equity method	(1)	-	(1)	(3)	-	(3)
	(105)	**(21)**	**(84)**	**(228)**	**(56)**	**(172)**

The table below presents a reconciliation of expected tax expense to recognized actual tax expense. A tax rate of 30% is applied to earnings before taxes in order to calculate the expected tax expense. This rate covers German corporate income tax, the solidarity surtax thereon and municipal trade tax.

€ million

	2011	2012
EBT	295	239
Expected income tax expense (tax rate of 30%; previous year: 30%)	**89**	**72**
Foreign tax rate differentials	(6)	(2)
Effects of loss carryforwards and change in value adjustment	6	(4)
Reduction of tax expense due to previously unrecognized loss carryovers and temporary differences	(11)	(8)
Tax-exempt income	(6)	(23)
Non-deductible expenses	7	9
Earlier-period income taxes	(3)	6
Other	(6)	(1)
Actual income tax expense	**70**	**49**

Deferred taxes can be allocated to the following balance sheet items:

€ million

	Dec. 31, 2011		Dec. 31, 2012	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryforwards and tax credits	63	-	62	-
Fixed assets	21	173	18	157
Inventories and receivables	48	63	52	47
Pension provisions	72	1	131	2
Other provisions	33	3	26	5
Liabilities	29	23	23	28
Other	8	7	8	11
	274	**270**	**320**	**250**
Set off	(189)	(189)	(203)	(203)
	85	**81**	**117**	**47**
Of which noncurrent	*68*	*49*	*106*	*32*
Deferred taxes recognized directly in equity	60	39	120	34
of which land revaluation	-	*33*	-	*32*
of which pensions	*55*	-	*116*	-
of which hedges	*5*	*6*	*4*	*2*

Notes to the consolidated financial statements
Notes on the income statement

In addition to capitalized deferred tax assets from loss carryovers and tax credits, further tax loss carryovers and tax credits exist in Germany and abroad totaling €494 million (previous year: €453 million) which cannot be utilized or whose deferred tax assets were adjusted by value adjustments. Of this, €283 million (previous year: €280 million) is allocable to German loss carryovers, €205 million (previous year: €170 million) to foreign loss carryovers and another €6 million (previous year: €3 million) to tax credits. The German loss carryovers, and €5 million of the foreign loss carryovers (previous year: €0 million), are not subject to expiration. Most of the foreign loss carryovers subject to expiration can still be utilized for more than 9 years, as in the previous year. Write-downs of deferred tax assets changed by €-3 million in 2012 (previous year: €1 million). Outside Germany, companies have capitalized deferred tax assets of €1 million (previous year: €2 million) which have posted ongoing losses due to realigned business operations. No deferred tax liabilities have been recognized for temporary differences in connection with shares in subsidiaries, as the Group is able to manage the progress of reversal over time and the temporary differences will not be reversed in the foreseeable future. Taxes of €7 million (previous year: €7 million) relate to the main differences.

(31) »Minority interests«

Minority interests in profit came to €13 million (previous year: €13 million) and minority interests reporting a loss to €13 million (previous year: €1 million).

(32) »Earnings per share«

Earnings per share are calculated as a ratio of the consolidated result of the shareholders of Rheinmetall AG and the weighted average number of shares in circulation during the fiscal year. Since there were no shares, options or similar instruments outstanding as of December 31, 2012 or December 31, 2011 that could dilute earnings per share, basic and diluted earnings per share are identical. The repurchase of treasury shares is included in the weighted number of shares.

€ million

	2011	2012
Consolidated net profit/loss for the year for shareholders of Rheinmetall AG	213	190
Weighted number of shares *million*	38.33	38.10
Earnings per share	**€5.55**	**€5.00**

(33) »Adjusted EBIT«

	2011	2012
EBIT	**354**	**301**
One-off expenses and income in connection with:		
Investments	1	(44)
Properties	(6)	(4)
Restructuring	(3)	14
EBIT (adjusted)	**346**	**267**

Notes to the consolidated financial statements
Notes on the cash flow statement

(34) »Cash flow statement«

Other non-cash expenses and income relate in particular to income of €48 million from the derecognition of Rheinmetall Airborne Systems GmbH following the sale of the majority interest and a step-up in the remaining 49% stake to the fair value.

Of the net interest included in the cash flow from operating activities, €4 million (previous year: €7 million) related to interest payments received and €47 million (previous year: €52 million) to interest payments made.

The cash outflow of €42 million (previous year: €71 million) for the acquisition of consolidated companies essentially related to a payment of €37 million in connection with the takeover of the wheeled military vehicles division of MAN in the previous year and to the balance of the purchase price paid minus additional cash and cash equivalents obtained from the acquisition of Mechadyne International Limited. Cash and cash equivalents of €0 million (previous year: €5 million) were assumed as part of company acquisitions.

The cash flow from the disposal of consolidated companies relates to the sale of shares in Rheinmetall Airborne Systems GmbH and comprises the purchase price received minus cash and cash equivalents disposed of in connection with derecognition (€7 million).

The dividends received from joint ventures and associated companies are included in cash receipts from financial assets and are listed under Note (10).

Notes on segment reporting

(35) »Segment reporting«

The Group bundles its activities in two sectors, Defence and Automotive, which are organized and run as independent segments where the respective products, services and customer profiles are grouped accordingly. Reporting on these reportable segments is in accordance with the Rheinmetall Group's internal organizational and reporting structures.

The Defence sector brings together all activities in the defence technology market. As a systems supplier, Rheinmetall Defence develops and supplies armed forces technology, including vehicle, protection and weapon systems, air defence systems, infantry equipment, networking of function sequences and simulation.

The activities of the Rheinmetall Group relating to automotive supplies are pooled in the Automotive sector. As well as the focus on products such as engines, plain bearings and large-bore and small-bore pistons, emissions reduction and air management systems are developed and manufactured in the field of engine technology, in order to implement customer-specific solutions for combustion engines. As well as supplying automotive manufacturers, the Automotive sector operates in the aftermarket business, supplying wholesalers, engine repair shops and independent garages with replacement parts through a global distribution network.

As well as the Group holding company (Rheinmetall AG), "Other/Consolidation" includes Group service companies and other non-operating companies, plus consolidation transactions.

Notes to the consolidated financial statements
Notes on segment reporting

The sectors of the Rheinmetall Group are controlled by means of EBIT and EBT performance indicators and sales. Furthermore, the management also uses key figures for order intake, order backlog and net financial liabilities to monitor and control the sectors. Profitability is assessed by the management on the basis of ROCE calculated on an annual basis, which represents the ratio of EBIT to average capital employed (average of values as at the December 31 balance sheet date of the previous year and the year under review). Owing to the change in internal reporting for the Defence sector in fiscal 2012, the balance sheet figures and key figures for the previous year based on them have been adjusted in segment reporting.

Net financial debts reflect financial debts less cash and cash equivalents. Inter-segment loans within the Group are assigned to cash and cash equivalents. Capital employed is calculated as the sum of equity, pension provisions and net financial debts. Additions to capital employed include amortization of goodwill accumulated in the past.

Capital expenditure relates to intangible assets, property, plant and equipment and investment properties. Goodwill or assets resulting from acquisition price allocation are not counted towards capex.

The indicators for internal controlling and reporting purposes are based on the accounting principles described in Note (6) to the IFRS consolidated financial statements.

The following reconciles the net financial debts of the sectors to those of the Group and the operating result of the sectors to consolidated EBT:

€ million

	Dec. 31, 2011	Dec. 31, 2012
Net financial debts		
Net financial debts of sectors	(317)	(318)
Others	453	435
Consolidation	(6)	(19)
Net financial debts of Group	**130**	**98**
	2011	**2012**
EBIT		
EBIT of sectors	374	317
Others	209	74
Consolidation	(229)	(90)
Group EBIT	**354**	**301**
Group net interest	(59)	(62)
Group EBT	**295**	**239**

When presenting segment information by geographical region, foreign sales in the Defence sector are reported based on the country of destination, while those of the Automotive sector are reported according to where the customer is based. Segment assets include intangible assets, property, plant and equipment and investment properties according to the respective location of the company.

Notes to the consolidated financial statements
Other notes

(36) »Contingent liabilities«

Surety bonds and guarantees exist in connection with the divestment of former business activities. This primarily relates to rental loss sureties and performance bonds for sold companies. These companies regularly and duly perform their obligations and there are no signs of any future enforcement of such guarantees or bonds.

Furthermore, several guarantees have been issued in favor of non-consolidated interests as part of joint projects, which are primarily carried out in the form of joint ventures. Performance bonds exist whereby Rheinmetall may also be held liable for the performance of the other joint venture partners in its relations with third parties. However, in internal relations, it is only liable for its own share of products and services by virtue of corresponding rights of recourse. Moreover, a letter of comfort involving a joint and several liability has been issued to secure the financing of the capex costs for a joint venture. No cash outflows are expected.

In addition, guarantees exist in favor of joint ventures and associated affiliates for credit facilities granted to the affiliated companies. Rheinmetall's liability is equal to the equity interest held. No cash outflows are expected here.

Legal proceedings have been brought by external shareholders regarding the merger of Aditron AG with Rheinmetall AG in 2003 and the squeeze-out in connection with this, with a view to reviewing the adequacy of the cash compensation offered. The district court of Düsseldorf issued a ruling in favor of the other party in 2012, which exceeds the amount of cash compensation demanded by the claimants. Rheinmetall immediately lodged an appeal against this decision. Proceedings are pending at Düsseldorf Higher Regional Court, and the outcome is still uncertain.

(37) »Other financial obligations«

Various financial commitments in line with customary business standards exist under master agreements with suppliers, as well as under contracts for services. For the purchasing obligations for capital expenditure projects, refer to the comments in the Note "Property, plant and equipment".

In the reporting year, €53 million was posted as expenses for operating leasing (up from €47 million). Apart from business property leases, the other standard contracts cover the rental of vehicles and business, factory and office equipment, which includes hardware and software.

The following discounted cash outflows under leases are expected in future periods:

€ million

	2011				2012			
	2012	2013-2016	from 2017	**Total**	2013	2014-2017	from 2018	**Total**
Buildings	23	66	45	**134**	25	75	49	**149**
Other leases	13	23	1	**37**	14	21	0	**35**
	36	**89**	**46**	**171**	**39**	**96**	**49**	**184**

Notes to the consolidated financial statements
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In addition, under an agreement on the divestment of a business segment in earlier years, Rheinmetall committed itself to assume the lease for a partially let property with a term to the end of 2014. The future (unrecognized) accumulated obligations under this assumed lease totaled €0 million (previous year: €0 million). Provisions of €5 million were established for subleasing risks (previous year: €8 million).

€5 million was generated in the period from subleasing further properties leased by Rheinmetall (up from €0 million). The future income expected during the non-cancelable lease term totals €3 million (up from €1 million).

(38) »Additional information on financial instruments«

Financial assets and financial liabilities are broken down below, based on carrying values according to the valuation categories as defined by IAS 39, and summarized under the two classes "Measured at amortized cost" and "Measured at fair value".

Financial instruments *€ million*

2011		Book value Dec. 31	Recognition in balance sheet		Fair value Dec. 31
			Amortized costs	Fair value	
Financial assets					
Loans and receivables					
Trade receivables	(12)	1,027	1,027	-	1,027
Other financial assets	(13)	16	16	-	16
Cash and cash equivalents	(15)	535	535	-	535
Available for sale					
Other financial assets	(13)	3	3	-	3
Held for trading purposes					
Derivatives without hedge accounting	(13)	9	-	9	9
Derivatives with cash flow hedge 1)	(13)	21	-	21	21
Total		**1,611**	**1,581**	**30**	**1,611**
Financial liabilities					
Liabilities					
Financial debts excl. leases	(19)	655	655	-	671
Trade liabilities	(20)	667	667	-	667
Other liabilities	(21)	137	137	-	137
Held for trading purposes					
Derivatives without hedge accounting	(21)	22	-	22	22
Derivatives with cash flow hedge 1)	(21)	24	-	24	24
Total		**1,505**	**1,459**	**46**	**1,521**

1) *Not a valuation category as defined by IAS 39*

Financial instruments *€ million*

2012		Book value Dec. 31	Recognition in balance sheet: Amortized costs	Recognition in balance sheet: Fair value	Fair value Dec. 31
Financial assets					
Loans and receivables					
Trade receivables	(12)	1,032	1,032	-	1,032
Other financial assets	(13)	18	18	-	18
Cash and cash equivalents	(15)	501	501	-	501
Available for sale					
Other financial assets	(13)	3	3	-	3
Held for trading purposes					
Derivatives without hedge accounting	(13)	8	-	8	8
Derivatives with cash flow hedge [1)]	(13)	13	-	13	13
Total		**1,575**	**1,554**	**21**	**1,575**
Financial liabilities					
Liabilities					
Financial debts excl. leases	(19)	586	586	-	632
Trade liabilities	(20)	648	648	-	648
Other liabilities	(21)	112	112	-	112
Held for trading purposes					
Derivatives without hedge accounting	(21)	22	-	22	22
Derivatives with cash flow hedge [1)]	(21)	17	-	17	17
Total		**1,385**	**1,346**	**39**	**1,431**

1) *Not a valuation category as defined by IAS 39*

Given the short term to maturity of such instruments, the fair value of cash, cash equivalents, current receivables, trade payables and other financial liabilities largely corresponds to book value.

Rheinmetall measures non-current fixed and floating-rate receivables taking into account customer credit standing, specific country risks, and the structure of the financing transaction. Taking this approach, expected collection or default risks are duly allowed for. Non-interest receivables are discounted by applying rates that match their maturity. The current book values of such receivables (less any allowances) will then substantially correspond to their fair values.

The exchange-listed bond issue is marked to market as of the balance sheet date. The fair value of liabilities to banks and other financial debts, payables under capital leases, as well as of other non-current financial payables was determined by discounting the associated future cash flows at rates that match the time to maturity of similar debts.

Notes to the consolidated financial statements
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»Further balance sheet disclosures«

»Derecognition«
Under an asset-backed securities program, the Rheinmetall Group sells customer receivables each month on a revolving basis. The maximum volume in 2012 was €148 million (previous year: €170 million). As at December 31, 2012, the nominal value of receivables sold came to €129 million (previous year: €170 million).

In line with IAS 39, sales of receivables apply as disposal. The remaining risks are insignificant for the Group. An asset item of €1 million is established for the maximum continuing involvement (previous year: €3 million), along with a corresponding liability item for the associated liabilities.

»Collateral provided«
Liens of €2 million (previous year: €2 million) rest on financial assets to protect employees from insolvency risks in connection with pension systems.

»Other disclosures on the income statement«
Financial instruments gave rise to the following income and expenses, broken down according to valuation categories as defined by IAS 39.

€ million

	2011	**2012**
Loans and receivables / liabilities		
Interest income	6	4
Interest expenses	(45)	(47)
Currency result	11	(3)
Income from valuation allowances	(3)	(2)
Write-ups	5	2
Other financial results	(4)	(1)
	(30)	**(47)**
Available for sale	1	0
Held for trading purposes	(9)	(1)
Net result from financial instruments (included in income statement)	**(38)**	**(48)**

»Finance market risks«

The operations and financing transactions of the Rheinmetall Group as an international group are exposed to financial market risks, mainly from liquidity, counterparty default, electricity and commodity prices, exchange rate volatility and interest rate changes. In accordance with the Group-wide risk management system of Rheinmetall AG, such risks are not only identified, analyzed and measured, but also managed by taking actions to avoid, contain or limit such risks. Inherent financial risks are proactively managed to ensure that at the balance sheet date, no significant risks emanate from financial instruments.

»Derivative financial instruments«

Derivative financial instruments are used to reduce currency, interest rate and commodity price risks. Such instruments are acquired only for underlying transactions that are planned or already recognized on the balance sheet; no such derivatives may be acquired for speculation. All transactions involving derivatives are subject to stringent monitoring, which is particularly ensured through the strict separation of the contracting, settlement and control functions. Provided that the necessary criteria are met and automatic offsetting of the hedged item and the hedging instrument is not possible, changes in the fair value of hedging transactions are recognized in the hedge reserve in the context of cash flow hedge accounting. The effectiveness of these transactions is subject to ongoing monitoring, using the critical terms match method prospectively and the dollar offset testing method retrospectively.

The table below shows the nominal volume, time to maturity and fair value of all hedges at December 31.

€ million

	Nominal volume		**Nominal volume**		**Fair value**	
	Remaining term < 1 year		**Remaining term > 1 year**			
	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012
Without hedge accounting						
Currency hedges	633	693	23	113	(2)	0
Interest rate hedges	385	50	383	383	(11)	(12)
Commodity hedges	2	7	-	0	0	0
Electricity price hedges	0	5	0	0	0	(2)
	1,020	**755**	**406**	**496**	**(13)**	**(14)**
With hedge accounting						
Currency hedges	612	625	248	546	(3)	0
Interest rate hedges	50	-	50	-	(1)	-
Commodity hedges	52	26	26	20	2	(1)
Electricity price hedges	12	-	12	3	(1)	(3)
	726	**651**	**336**	**569**	**(3)**	**(4)**

In the year under review, fair value changes in derivatives of €0 million before deduction of deferred taxes (previous year: €21 million) were recognized in the hedge reserve, while €1 million (previous year: €5 million) of this was reclassified to sales and €0 million (previous year: €5 million) was reclassified to the cost of materials.

There were only immaterial ineffective portions.

Notes to the consolidated financial statements
Other notes

»Foreign currency risk«
Due to the international nature of the Rheinmetall Group's business, certain operational currency risks arise from the fluctuating exchange rates between the functional currencies of Group companies and other currencies. Open positions exposed to a currency risk are hedged through derivatives, generally currency forwards, as well as currency swaps. In the Defence sector, in the context of central financing, Rheinmetall AG has begun assuming the foreign exchange management for subsidiaries. Here, currency hedge transactions are concluded with subsidiaries and the relevant counter-transactions with banks. In the Automotive sector, these transactions are concluded on a central basis via KSPG AG. The most important currency hedges contracted by German companies refer to US dollar, Swiss franc, Canadian dollar and South African rand sales transactions, while the foreign companies mostly hedge euro-based purchasing and sales transactions. These hedges are measured as of the balance sheet date and recognized at a fair value which is determined according to the DCF method.

»Interest rate risk«
As part of the Group-wide management of interest rate risks, Rheinmetall AG uses interest rate hedging instruments (interest rate swaps and interest rate caps). The interest rate swaps essentially serve to hedge variable interest on promissory note loans and future variable interest payments. The interest rate caps were concluded to hedge future interest payments from floating-rate loans.

»Commodity price risk«
The Rheinmetall Group is exposed to price volatility risks from commodity buying, such as metals. By means of materials cost escalator agreements with customers, the major part of these risks from volatile metal prices is shifted to customers, albeit with a time lag. Moreover, the Automotive sector (where most of these risks exist) has also used derivative financial instruments for risk management, mainly exchange-traded commodity futures contracted on the basis of a financial settlement.

»Electricity price risk«
Owing to volatile prices on the energy market, derivative financial instruments have been concluded to secure the price of electricity for the consumption volumes planned for the period from 2013 to 2015.

»Sensitivity analysis«
As part of sensitivity analyses as defined by IFRS 7 for the risk variables concerned, the effects that a change in the respective values as at the balance sheet date would have on other net financial income and the hedge reserve, before taking into account deferred taxes, are examined. With regard to foreign currency risk, a change of -/+ 10% in all exchange rates between the local currency used by the Company and the hedged currency is assumed as at the balance sheet date. Analysis of interest rates assumes a change in the yield curve of -/+ 100 basis points (bp) as at the balance sheet date. For the analysis of commodity price risks, a change of -/+ 10% in the price curve for material prices for the respective hedged metals and of -/+ 10% in the forward curve for electricity prices is assumed.

Sensitivity analyses *€ million*

	Other financial results		Cash flow hedge reserve	
	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012
Currency hedges				
Exchange rates -10% / +10%	8 / (8)	8 / (8)	(3) / 3	(4) / 4
Interest rate hedges				
Yield curve -100 BP / +100 BP	(6) / 6	(4) / 4	(1) / 1	-
Commodity hedges				
Price curve for material prices -10% / +10%	0 / 0	0 / 0	(3) / 3	(1) / 1
Electricity price hedges				
Forward curve for electricity prices -10% / +10%	0 / 0	0 / 0	(1) / 1	(1) / 1

»Default risk (credit risk) «

The default risk from financial assets is that the other contractual party does not fulfill his obligations. For loans granted and customer receivables, the maximum risk is at the level of the values carried in the balance sheet. The default risk from derivative finance instruments is limited to the amount of the positive fair value of the derivatives carried on the balance sheet. In order to minimize the default risk with derivative financial instrument contracts, the Rheinmetall Group sets high requirements in respect of its counterparties, restricting itself exclusively to German and foreign banks with impeccable ratings.

In the Rheinmetall Group, the monitoring and the recognition of default risk from customer receivables takes place on a decentralized basis in the operating units. However, there are corporate policies for proper debtor management. Individual assessments (where appropriate, based on current trends and qualitative information) may be used in addition to database-supported rating and default data on an external data supplier. Current del credere risks are covered by valuation allowances.

There are no significant valuation allowances for customer receivables included in trade receivables at the Rheinmetall Group. Due to the type of transaction and the customer structure, non-payment rarely occurs and there is only the need to post defaults. As of the balance sheet date, there were no indications that any unimpaired and overdue receivables of the A/R portfolio would remain unpaid.

Notes to the consolidated financial statements
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Aged analysis of customer receivables past due *€ million*

	Dec. 31, 2011	Dec. 31, 2012
Trade receivables unimpaired but past due		
for up to 30 days	67	67
for up to 180 days	30	60
for more than 180 days	39	27
	136	154
Impaired	13	15
Neither impaired nor past due	451	487
	600	**656**
Individual value adjustments	(12)	(12)
	588	**644**

To a small extent, companies in the Rheinmetall Group have made financial commitments by granting loans to associates. Over and above this scope, the Rheinmetall Group has no important credit concentrations.

»Liquidity risk«

Sufficient liquidity at all times is ensured by the Rheinmetall Group especially by a cash budget and forecast over a specified time horizon, as well as through existing, partly unutilized finance facilities, including credit lines granted by banks on a syndicated basis, a commercial paper (CP) program and an asset-backed securities program. For further details of such credit facilities, see the “Financing” section of the management report.

The table below shows as of December 31 all undiscounted contractually agreed payments for recognized financial debts, as well as the derivative financial instruments.

Cash outflows *€ million*

	Dec. 31, 2011			Dec. 31, 2012		
	2012	2013-2016	from 2017	2013	2014-2017	from 2018
Bond	20	80	514	20	570	-
Promissory notes	4	90	-	2	40	-
Other bank liabilities	28	13	23	23	11	21
Capital lease liabilities	1	4	6	1	5	22
Other financial debts	18	3	1	7	1	1
	71	**190**	**544**	**53**	**627**	**44**
Financial derivatives with						
negative fair value	27	19	-	23	16	-
positive fair value	26	4	-	18	3	-

The fair values of derivatives on the reporting date should be seen in the context of the associated underlyings, whose values generally show an opposite trend to those of the derivatives, irrespective of whether these have already been accounted for or are pending. The derivatives would only produce a cash outflow at the amount shown above if they were terminated early.

The Rheinmetall Group's financial resources comprise cash and cash equivalents, financial current assets available for sale, and the cash provided by operating activities. In contrast, the capital requirements cover the redemption of financial debts (principal and interest), capital expenditure, and the funds needed for operating activities.

(39) »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. The number of shares granted is based on the average price on the last five trading days in February of the subsequent fiscal year. The expense recognized in 2012 for share-based remuneration totaled €10 million (previous year: €7 million). A provision was recognized in the corresponding amount.

As part of the Rheinmetall Group's share purchase program, eligible staff of the Rheinmetall Group in Germany and other European countries may purchase Rheinmetall AG shares on preferential conditions. Such shares are subject to a lock-up period of 2 years. Within specified subscription periods, employees are given the opportunity to acquire a limited number of shares at a discount of 30% on the applicable share price. In fiscal 2012, Rheinmetall Group employees purchased 106,798 shares in total (previous year: 169,743) for €3 million (previous year: €6 million). Expenses of €1 million (previous year: €2 million) were incurred for this program, recognized as personnel expenses.

Subscription window	Share price in €	Discount per share in €	No. of shares purchased by staff	Sales proceeds from shares purchased by employees in € million
April 27 - May 10, 2012	40.71	12.22	55,884	2
Oct. 26 - Nov 8, 2012	37.15	11.15	50,914	1

(40) »Other information on related parties«

For the Rheinmetall Group, corporate related parties are the joint ventures and associated companies carried at equity. The joint ventures, in particular, contribute to the expansion of operations in the Defence and Automotive sectors. The volume of products/services provided to corporate related parties primarily relates - as in the previous year - to sales proceeds from the sale of finished and unfinished goods to project companies, services performed as part of construction contracts with project companies of the Defence sector and sales proceeds from army maintenance services under a public-private partnership model in the Defence sector. As well as customer receivables and trade payables, the volume of unpaid items also includes prepayments received and made and loans to joint ventures and associated companies of €4 million (previous year: €6 million). The interest income from such loans amounts to an unchanged €0 million. The scope of related-party transactions is shown in the table below.

€ million

	Volume of products/ services provided		Volume of products/ services received		Volume of open items	
	2011	**2012**	**2011**	**2012**	**2011**	**2012**
Joint ventures	191	194	21	12	(16)	(67)
Associated companies	18	5	10	20	32	1
	209	**199**	**31**	**32**	**16**	**(66)**

Notes to the consolidated financial statements
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Please see the comments under Note (36) “Contingent liabilities” for details of the Rheinmetall Group’s contingent liabilities in connection with joint ventures.

Business relationships exist between a subsidiary of Rheinmetall AG and PL Elektronik GmbH, Lilienthal, whose sole shareholder is Mr. Armin Papperger, a member of the Rheinmetall AG Executive Board, and which is managed by a party related to Mr. Armin Papperger. PL Elektronik GmbH provides development services and produces and supplies electric igniters to order. The transactions are carried out on an arm’s-length basis. The volume of products/services received in fiscal 2012 amounted to €1 million.

»Remuneration of the Executive Board and the Supervisory Board«

The reportable compensation of senior management within the Group comprises that paid to active Executive Board and Supervisory Board members.

The expenses for compensation paid or payable to active members of the Executive Board break down as follows:

€ ’000

	2011	2012
Short-term payments due	6,272	6,365
Deferred compensation	76	77
	6,348	**6,442**
Additional post-retirement benefits	519	1,377

The post-retirement benefit amounts reflect the service cost for pension entitlements. The net present value of pension commitments, which corresponds to the amount of provisions, totals €16,915,000 for members of the Executive Board (previous year: €10,841,000) and relates to Klaus Eberhardt (€7,841,000; previous year: €5,612,000), Dr. Gerd Kleinert (€4,410,000; previous year: €3,225,000), Dr. Herbert Müller (€3,715,000; previous year: €2,004,000) and Armin Papperger (€949,000).

Supervisory Board fees amounted to €1,455,000 in the year under review (previous year: €1,236,000) and are all due in the short term. Costs in the amount of €44,000 (previous year: €46,000) were also refunded. In addition to Supervisory Board remuneration, those employee representatives who are employees of the Rheinmetall Group also receive compensation unrelated to their service on the Supervisory Board. The employee representatives received a total of €613,000 (previous year: €615,000) from these services.

For further details and itemization of each member’s remuneration, see the Board remuneration report within the Group management report.

€1,503,000 (previous year: €1,532,000) was paid to former members of the Executive Board or their surviving dependents. Pension provisions for these persons total €16,223,000 (previous year: €14,573,000). €565,000 (previous year: €484,000) was paid to former Executive Board members of Rheinmetall DeTec AG (merged with Rheinmetall AG in 2005) or their surviving dependents. Pension provisions for these persons total €8,492,000 (previous year: €5,506,000).

(41) »Auditor's fees«

In fiscal 2012 and 2011, the following fees of the statutory auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) were expensed in Germany:

€ '000

	2011	2012
End-of-year auditing services	2,248	2,872
Other verification services	1,152	1,071
Tax consultancy services	11	25
Other services	226	276
	3,637	**4,244**

The auditing fees cover Rheinmetall AG's single-entity and consolidated financial statements and the accounts of all subsidiaries audited by PwC in Germany. Of other verification services, €1,053,000 (previous year: €1,152,000) related to services in connection with the planned IPO of the Automotive sector, which was called off in September 2012. Tax consultancy fees primarily comprised fees for project-related consultancy services. Fees for other services mainly relate to activities in the context of audits accompanying projects and due diligence services. All services not related to the audit of the financial statements were approved by the Audit Committee.

(42) »Corporate governance«

In August 2012, Rheinmetall AG published its declaration of conformity according to the German Corporate Governance Code pursuant to Section 161 AktG on the internet at www.rheinmetall.com in the section "Group – Corporate Governance", thus making it available to shareholders.

Düsseldorf, March 12, 2013

Rheinmetall Aktiengesellschaft
The Executive Board

Armin Papperger Dr. Gerd Kleinert Helmut P. Merch

Notes to the consolidated financial statements
Shareholdings

Company	Direct share of capital in %	Indirect share of capital in %
Fully consolidated subsidiaries		
Holding companies / service companies/ other		
EMG EuroMarine Electronics GmbH, Neckarsulm / Germany		100
MEG Marine Electronics Holding GmbH, Bremen / Germany		100
Rheinmetall Berlin Verwaltungsgesellschaft mbH, Berlin / Germany	100	
Rheinmetall Bürosysteme GmbH, Düsseldorf / Germany	100	
Rheinmetall Immobilien GmbH, Düsseldorf / Germany	100	
Rheinmetall Industrietechnik GmbH, Düsseldorf / Germany	100	
Rheinmetall Maschinenbau GmbH, Düsseldorf / Germany	100	
Rheinmetall Insurance Services GmbH, Düsseldorf / Germany	100	
Rheinmetall Verwaltungsgesellschaft mbH, Düsseldorf / Germany		100
SUPRENUM Gesellschaft für numerische Superrechner mbH, Bremen / Germany		100
Defence sector		
ADS Gesellschaft für aktive Schutzsysteme mbH, Lohmar / Germany		74
American Rheinmetall Munition Inc., Stafford, Virginia / USA		100
Benntec Systemtechnik GmbH, Bremen / Germany (1)		49
BIL Industriemetalle GmbH & Co. 886 KG, Grünwald / Germany	94	
Eurometaal Holding N.V., Hengelo / Netherlands		100
Eurometaal N.V., Hengelo / Netherlands		100
I.L.E.E. AG, Urdorf / Switzerland		100
Laser 2000 (Schweiz) AG, Urdorf / Switzerland		80
LDT Laser Display Technology GmbH, Jena / Germany		100
MarineSoft Entwicklungs- und Logistikgesellschaft mbH, Rostock / Germany (1)		49
Nitrochemie AG, Wimmis / Switzerland		51
Nitrochemie Aschau GmbH, Aschau / Germany		55
Nitrochemie Wimmis AG, Wimmis / Switzerland		55
Oerlikon Contraves GmbH, Zurich / Switzerland	100	
Oerlikon Contraves Pte Ltd., Singapore / Singapore		100
RD Investment AG, Zurich / Switzerland		100
RFEL LTD, Newport, Isle of Wight / Great Britain		100
Rheinmetall Advanced Stabilised Platforms Ltd., London / Great Britain		51
Rheinmetall Air Defence AG, Zurich / Switzerland	100	
Rheinmetall Canada Inc., St.-Jean-sur-Richelieu / Canada	100	
Rheinmetall Chempro GmbH, Bonn / Germany		51
Rheinmetall Combat Platforms North America Inc, Wilmington, Delaware / USA		100
Rheinmetall Defence Australia Pty Ltd., Deakin West / Australia	100	
Rheinmetall Defence Electronics GmbH, Bremen / Germany	100	
Rheinmetall Defence UK Limited, London / Great Britain	100	
Rheinmetall Denel Munition Pty. Ltd., Somerset West / South Africa		51

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Company		Direct share of capital in %	Indirect share of capital in %
Rheinmetall Dienstleistungszentrum Altmark GmbH, Letzlingen / Germany		100	
Rheinmetall Eastern Markets GmbH, Düsseldorf / Germany		100	
Rheinmetall Hellas S.A., Athen / Greece		100	
Rheinmetall Italia S.p.A., Rom / Italy			100
Rheinmetall Laingsdale (Pty) Ltd., Cape Town / South Africa			76
Rheinmetall Landsysteme GmbH, Kiel / Germany		100	
Rheinmetall MAN Military Vehicle Systems RSA (Pty) Ltd., Pretoria / South Africa	(1)		36
Rheinmetall MAN Military Vehicles Australia Pty Ltd., Canberra / Australia			51
Rheinmetall MAN Military Vehicles Canada Ltd., Ottawa / Canada			51
Rheinmetall MAN Military Vehicles GmbH, Munich/ Germany		51	
Rheinmetall MAN Military Vehicles Nederland B.V., Ede / Netherlands			51
Rheinmetall MAN Military Vehicles Österreich GesmbH, Vienna / Austria			51
Rheinmetall MAN Military Vehicles Österreich Holding GesmbH, Vienna / Austria			51
Rheinmetall Nordic AS, Nøtterøy / Norway		100	
Rheinmetall Protection Systems Nederland B.V., Ede / Netherlands			100
Rheinmetall Schweiz AG, Zurich / Switzerland			100
Rheinmetall Simulation Australia Pty. Ltd., Deakin West / Australia			100
Rheinmetall Simulation International AG, Muri / Switzerland			100
Rheinmetall Soldier Electronics GmbH, Stockach / Germany		100	
Rheinmetall Technical Publications GmbH, Bremen / Germany		100	
Rheinmetall Ballistic Protection GmbH, Krefeld / Germany			100
Rheinmetall Waffe Munition ARGES GmbH, Schwanenstadt / Austria			100
Rheinmetall Waffe Munition GmbH, Unterlüß / Germany		100	
Rheinmetall Waffe Munition South Africa (Pty) Ltd., Somerset West / South Africa			100
RM Euro B.V., Hengelo / Netherlands		100	
RTP-UK Ltd., Bristol / Great Britain			100
RWM Beteiligungsverwaltung Austria GmbH, Schwanenstadt / Austria			100
RWM Italia S.p.A., Ghedi / Italy			100
RWM Schweiz AG, Zürich / Switzerland			100
RWM Zaugg AG, Lohn-Ammannsegg / Switzerland			100
Servo Kontroll AS, Oslo / Norway			100
Swiss SIMTEC AG, Thun / Switzerland			100
Vinghøg AS, Nøtterøy / Norway			100
Vingtech Australia Pty. Ltd., Alphington, Victoria / Australia			55
Vingtech Corp., Biddeford, Maine / USA			100
VingTech Holding Inc., Biddeford, Maine / USA		100	

Company	Direct share of capital in %	Indirect share of capital in %
Automotive sector		
BF Engine Parts LLC, Istanbul / Turkey		100
BF Germany GmbH, Asperg / Germany		100
GVG Grundstücksverwaltung Gleitlager GmbH & Co. KG, Neckarsulm / Germany		100
GVH Grundstücksverwaltung Hamburg GmbH & Co. KG, Neckarsulm / Germany		100
GVMS Grundstücksverwaltung Service GmbH & Co. KG, Neckarsulm / Germany		100
GVN Grundstücksverwaltung Neckarsulm GmbH & Co. KG, Neckarsulm / Germany		100
Intec France S.A.S., Meyzieu / France		100
Karl Schmidt Trading Company S. de R.L. de C.V., Celaya / Mexico		100
Kolbenschmidt de México S. de R.L. de C.V., Celaya / Mexico		100
Kolbenschmidt K.K., Yokohama / Japan		100
Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin, Neckarsulm / Germany		100
Kolbenschmidt Pierburg Innovations GmbH, Neckarsulm / Germany		100
Kolbenschmidt USA Inc., Marinette / USA		100
KS Aluminium-Technologie GmbH, Neckarsulm / Germany		100
KS ATAG Beteiligungsgesellschaft m.b.H., Neckarsulm / Germany		100
KS ATAG GmbH, Neckarsulm / Germany		100
KS ATAG Romania S.R.L. , Bukarest / Romania		100
KS CZ Motor Services s.r.o., Usti / Czech Republic		100
KS France S.A.S., Basse-Ham (Thionville) / France		100
KS Gleitlager de México S. de R.L. de C.V., Celaya / Mexico		100
KS Gleitlager GmbH, St. Leon-Rot / Germany		100
KS Gleitlager North America LLC, Marinette / USA		100
KS Grundstücksverwaltung Beteiligungs GmbH, Neckarsulm / Germany		100
KS Grundstücksverwaltung GmbH & Co. KG, Neckarsulm / Germany		100
KS Kolbenschmidt Czech Rebublic a.s., Usti / Czech Republic		100
KS Kolbenschmidt France S.A.S., Basse-Ham (Thionville) / France		100
KS Kolbenschmidt GmbH, Neckarsulm / Germany		100
KS Kolbenschmidt US Inc., Marinette / USA		92
KS Large Bore Pistons Inc., Marinette / USA		100
KS Personaldienstleistungsgesellschaft mbH i.L., Neckarsulm / Germany		100
KS Produtos Automotivos Ltda., Nova Odessa / Brazil		100
KSLP (China) Co. Ltd., Kunshan / China		100
KSPG AG, Neckarsulm / Germany		100
KSPG Automotive Brazil Ltda., Nova Odessa / Brazil		100
KSPG Automotive India Private Ltd., Mumbai Maharashtra/India		100
KSPG Finance & Service Ltd., St. Julians / Malta		100
KSPG Holding USA Inc., Southfield / USA		100
KSPG Malta Holding Ltd., St. Julians / Malta	21	79
KSPG Netherlands Holding B.V., Amsterdam / Netherlands		100
KSUS International LLC., Marinette / USA		100
KUS Canada Inc., Leamington / Canada		92

Notes to the consolidated financial statements
Shareholdings

Company	Direct share of capital in %	Indirect share of capital in %
Mechadyne International Ltd., Oxfordshire / Great Britain		100
MS Motor Service Aftermarket Iberica S.L., Abadiano / Spain		100
MS Motor Service Asia Pacific Co., Ltd., Shanghai / China		100
MS Motor Service Deutschland GmbH, Weinstadt / Germany		100
MS Motor Service France S.A.S., Villepinte/ France		100
MS Motor Service International GmbH, Neuenstadt / Germany		100
MS Motor Service Istanbul Dis Ticaret ve Pazarlama A.S., Istanbul / Turkey		51
Pierburg China Ltd., Kunshan City / China		100
Pierburg Gestion S.L., Abadiano / Spain		100
Pierburg GmbH, Neuss / Germany		100
Pierburg Grundstücksverwaltung GmbH & Co. KG, Neuss / Germany		100
Pierburg Inc., Fountain Inn (Greenville) / USA		100
Pierburg Mexico S.A. de C.V., Chihuahua / Mexico		100
Pierburg Mikuni Pump Technology (Shanghai) Corp., Shanghai / China		51
Pierburg Mikuni Pump Technology Corporation, Odawara / Japan		51
Pierburg Pump Technology France S.à r.l., Basse-Ham (Thionville) / France		100
Pierburg Pump Technology GmbH, Neuss / Germany		100
Pierburg Pump Technology India Private Limited, Mumbai Maharashtra / India		100
Pierburg Pump Technology Italy S.p.A., Lanciano / Italiy		100
Pierburg Pump Technology Mexico S.A. de C.V., Mexico City / Mexico		100
Pierburg Pump Technology UK Ltd., London / Great Britain		100
Pierburg Pump Technology US LLC., Marinette / USA		100
Pierburg S.A., Abadiano / Spain		100
Pierburg s.r.o., Usti / Czech Republic		100
Pierburg Systems S.L., Abadiano / Spain		100
Société Mosellane de Services S.C.I., Basse-Ham (Thionville) / France		100
Werkzeugbau Walldürn GmbH, Walldürn / Germany		100

Company		Direct share of capital in %	Indirect share of capital in %
Investments carried at equity			
Holding companies / service companies/ other			
casa altra development GmbH, Düsseldorf / Germany			35
LIGHTHOUSE Development GmbH, Düsseldorf / Germany	(2)		10
Unternehmerstadt GmbH, Düsseldorf / Germany	(3)		50
Defence sector			
Advanced Pyrotechnic Materials Pte Ltd, Singapore / Singapore	(3)		49
AIM Infrarot-Module GmbH, Heilbronn / Germany			50
ARGE RDE/CAE (GbR), Bremen / Germany	(3)		50
ARTEC GmbH, Munich / Germany	(3)		64
Cassidian Airborne Solutions GmbH, Bremen / Germany		49	
Contraves Advanced Devices Sdn Bhd, Malaka / Malaysia	(3)		49
Defense Munitions International, LLC, Wilmington, Delaware / USA	(3)		50
DynITEC GmbH, Troisdorf / Germany			35
EuroSpike GmbH, Röthenbach/Peg / Germany	(3)		40
GIWS Gesellschaft für Intelligente Wirksysteme mbH, Nürnberg / Germany	(3)		50
Hartchrom Defense Technology AG, Steinach / Switzerland			38
HFTS Helicopter Flight Training Services GmbH, Hallbergmoos / Germany	(3)		25
HIL Industrie-Holding GmbH, Bonn / Germany	(3)		33
LOG GmbH, Bonn / Germany			25
N2 Defense LLC, Arlington, Virginia / USA	(3)		50
ORR Training Systems LLC, Moskau / Russian Federation	(3)		25
Oy Finnish Defence Powersystems Ab, Helsinki / Finland			30
PSM Projekt System & Managment GmbH, Kassel / Germany	(3)		50
Werk Aschau Lagerverwaltungsgesellschaft mbH, Aschau / Germany	(3)		28
Automotive sector			
Advanced Bearing Materials LLC., Greensburg / USA	(3)		50
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., Shanghai / China	(3)		50
Kolbenschmidt Shanghai Piston Co. Ltd., Shanghai / China	(3)		50
KS ATAG TRIMET Guss GmbH, Harzgerode / Germany	(3)		50
Shriram Pistons & Rings Ltd., Neu Delhi / India			20

(1) Full consolidation due to majority of voting rights
(2) Controlling influence owing to distribution of voting rights
(3) Joint Venture

Responsibility statement

We represent that, to the best of our knowledge and in accordance with applicable accounting principles, the consolidated 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 management report, which is consolidated with the management report of Rheinmetall AG, describes fairly, in all material respects, the Group's business trend and performance, the Group's position and the significant risks and opportunities of the Group's expected future development.

Düsseldorf, March 12, 2013

Rheinmetall Aktiengesellschaft
The Executive Board

Armin Papperger   Dr. Gerd Kleinert   Helmut P. Merch

Auditors's Report and Opinion

»Rheinmetall AG, Düsseldorf, Independent Auditor's Report and Opinion«

We have audited the consolidated financial statements prepared by the Rheinmetall AG, Düsseldorf, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the Rheinmetall AG, Düsseldorf, for the business year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and in the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Düsseldorf, March 4, 2013 / March 12, 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Gerd Bovensiepen
Wirtschaftsprüfer
(German Public Auditor)

Uwe Schwalm
Wirtschaftsprüfer
(German Public Auditor)

Balance sheet of Rheinmetall Aktiengesellschaft as of December 31, 2012

Assets *€ '000*

	Dec. 31, 2011	Dec. 31, 2012
Fixed assets		
Intangible assets	429	466
Property, plant and equipment	21,744	20,032
Finacial assets	1,170,053	1,068,008
	1,192,226	**1,088,506**
Current assets		
Receivables and other assets	432,157	446,662
Cash in hand	407,444	349,910
	839,601	**796,572**
Deferred income	**4,184**	**3,285**
Total assets	**2,036,011**	**1,888,363**

Equity and Liabilities *€ '000*

	Dec. 31, 2011	Dec. 31, 2012
Share capital	101,373	101,373
Treasury stock (notional value relating to the share capital)	(3,458)	(4,817)
	97,915	96,556
Capital reserves	306,699	306,759
Retained earnings	107,596	98,872
Net earnings	69,000	69,000
Equity	**581,210**	**571,187**
Provisions	**131,507**	**129,594**
Liabilities		
Bond	500,000	500,000
Liabilities due to banks	85,500	35,500
Other liabilities	737,794	652,082
	1,323,294	**1,187,582**
Total liabilities	**2,036,011**	**1,888,363**

Income statement of Rheinmetall Aktiengesellschaft for fiscal 2012

€ '000

	2011	2012
Investment income	178,707	53,643
Net interest	(31,879)	(25,952)
Net financial income	**146,828**	**27,691**
Other operational income	126,471	137,728
Staff costs	26,548	28,044
Amortization of intangible and depreciation of tangible assets (incl. write-down)	1,584	1,892
Other operating expenses	106,040	58,403
Extraordinary expenses	922	922
Earnings before taxes (EBT)	**138,205**	**76,158**
Taxes on income and revenue	(9,508)	835
Net profit for the year	**128,697**	**76,993**
Appropriation to retained earnings	59,697	7,993
Net earnings	**69,000**	**69,000**

Supervisory Board

Klaus Greinert
Mannheim
Businessman
Chairman

Membership in Supervisory Boards

DURAVIT AG
(Vice Chairman)
DURAVIT S.A.

Joachim Stöber *)
Biebergemünd
Vice Chairman
(up to May 15, 2012)

Dr. Rudolf Luz *)
Weinsberg
1st delegate of the German Metalworkers' Union Vice
Chairman
(from May 15, 2012)

Membership in Supervisory Boards

KSPG AG
(Vice Chairman)

Roswitha Armbruster *)
Schramberg
(from May 15, 2012)
Chairwoman of Works Council of
Corporate Sector Defence of Rheinmetall AG

Chairwoman of Works Council
Rheinmetall Waffe Munition GmbH
Branch Mauser Oberndorf

Vice Chairwoman of the Group's Works Council
Rheinmetall AG

Membership in Supervisory Boards

Rheinmetall Waffe Munition GmbH

Julia Cuntz *)
Berlin
(from May 15, 2012)
Member of the German Metalworkers' Union
General Secretariat

Membership in Supervisory Boards

euro engineering AG
Siemens Enterprise Communications Management GmbH
(up to December 17, 2012)

Professor Dr. Andreas Georgi
Starnberg
Professor of Leadership and Control Problems
in Enterprise
Ludwig-Maximilians-Universität Munich
Consultant

Membership in Supervisory Boards

Asea Brown Boveri Aktiengesellschaft
Felix Schoeller Holding GmbH & Co. KG
Oldenburgische Landesbank AG

Dr. Siegfried Goll
Markdorf
Consulting Engineer
Former CEO of ZF Friedrichshafen AG

Membership in Supervisory Boards

Leuze Geschäftsführungs-GmbH
(up to June 30, 2012)
Voss Holding GmbH & Co. KG
Witzenmann GmbH
KSPG AG
(from April 18, 2012)

Professor Dr. Susanne Hannemann
Bochum
(from May 15, 2012)
Professor of Applied Business Administration,
in particular company taxation and auditing
Bochum University of Applied Sciences

Heinrich Kmett *)
Fahrenbach/Robern
Chairman of Location Works Council of
KSPG AG
KS Kolbenschmidt GmbH
KS ATAG GmbH
KS Aluminium-Technologie GmbH
MS Motor Service International GmbH

Membership in Supervisory Boards

KSPG AG

Dr. Michael Mielke *)
Berlin
Head of Product Division Actuators
Pierburg GmbH, Berlin Plant

*) *Selected by employees*

Supervisory Board

Dr. Peter Mihatsch
Sindelfingen
(up to May 15, 2012)
Consulting engineer

DDr. Peter Mitterbauer
Gmunden, Österreich
CEO of Miba AG

Membership in Supervisory Boards

Andritz AG
Erste Österreichische Spar-Casse Privatstiftung
Oberbank AG
ÖIAG Österreichische Industrieholding AG
(Chairman)
KSPG AG
(from April 18, 2012)

Detlef Moog
Mülheim an der Ruhr
Consulting engineer

Wolfgang Müller *)
Bad Rappenau
Chairman of Works Council of
KS Aluminium-Technologie GmbH and
Werkzeugbau Walldürn GmbH

Vice Chairman of Location Works Council of
KSPG AG
KS Kolbenschmidt GmbH
KS ATAG GmbH
KS Aluminium-Technologie GmbH
MS Motor Service International GmbH

Membership in Supervisory Boards

KS Aluminium-Technologie GmbH
KS ATAG GmbH

Professor Dr. Frank Richter
Ulm
CEO of DURAVIT AG

Membership in Supervisory Boards

Beirat Gebr. Röchling KG
Beirat Duralog Duravit Logistik GmbH
(Chairman)
Duravit Egypt S.A.E.
(Chairman)
Duravit (China) Sanitaryware Co. Ltd.
(Chairman)
Duravit Yapi Ürünleri San. Ve. Tic. A.S.
(President)
Duravit Tunisia S.A.
(President)
Duravit India Pvt. Ltd.
(Chairman)

Harald Töpfer *)
Kassel
Chairman of Works Council of
Rheinmetall MAN Military Vehicles GmbH,
Kassel operation

Membership in Supervisory Boards

Rheinmetall MAN Military Vehicles GmbH
(Vice Chairman)

Wolfgang Tretbar *)
Nettetal
Chairman of Works Council of
Pierburg GmbH, Nettetal plant

Toni Wicki
Oberrohrdorf, Schweiz
Consulting engineer

Mitgliedschaft in Aufsichtsgremien

Implenia AG
(up to April 4, 2012)

Peter Winter *)
Achim
(up to May 15, 2012)
Member of Works Council of
Rheinmetall Defence Electronics GmbH

Membership in Supervisory Boards

Rheinmetall Defence Electronics GmbH

*) *Selected by employees*

Executive Board Rheinmetall AG

Klaus Eberhardt
Düsseldorf

Chairman (CEO)
(up to December 31, 2012)

Director of Industrial Relations
(up to December 31, 2012)

Membership in Supervisory Boards

KSPG AG
(Chairman)

Rheinmetall MAN Military Vehicles GmbH
(Chairman)
(up to December 31, 2012)

Hirschmann Automotive GmbH
(up to December 31, 2012)

MTU Aero Engines Holding AG
(Chairman)

MTU Aero Engines GmbH
(Chairman)

Dürr AG
(from April 27, 2012)

Familienstiftungen Dietrich und Eckart Wälzholz

Armin Papperger
Düsseldorf

Chairman (CEO)
(from January 1, 2013)

Director of Industrial Relations
(from January 1, 2013)

Chairman of Management Board Defence
(from January 1, 2012)

Membership in Supervisory Boards

Rheinmetall Landsysteme GmbH
(Chairman)

Rheinmetall MAN Military Vehicles GmbH

Rheinmetall Waffe Munition GmbH
(from January 1, 2012)
Chairman
(from March 28, 2012)

Rheinmetall Defence Electronics GmbH

Rheinmetall Defence UK Limited
(Chairman)

Rheinmetall Waffe Munition ARGES GmbH
(Chairman)

RWM Schweiz AG
(President)
(up to November 27, 2012)

RWM Zaugg AG
(Chairman)
(up to June 5,. 2012)

Nitrochemie Aschau GmbH
(Chairman)

Nitrochemie AG
(President)

Nitrochemie Wimmis AG
(President)

Rheinmetall Canada Inc.
(Chairman)
(up to June 1, 2012)

American Rheinmetall Munition Inc.
(Chairman)
(up to June 24, 2012)

Rheinmetall Denel Munition (Pty) Ltd
(Chairman)

Rheinmetall Waffe Munition South Africa (Pty) Ltd
(Chairman)

Rheinmetall Laingsdale (Pty) Ltd
(Chairman)

PSM Projekt System & Management GmbH

Executive Board Rheinmetall AG

Dr. Gerd Kleinert
Gottmadingen

Chairman of KSPG AG

Membership in Supervisory Boards

Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd.
(Vice Chairman)

KS Shanghai Piston Co. Ltd.
(Chairman)

KSGP Holding USA, Inc.
(Director)

KS Aluminium-Technologie GmbH
(Chairman)

KS ATAG GmbH
(Chairman)

KS Gleitlager GmbH
(Chairman)

KS Kolbenschmidt GmbH
(Chairman)

Läpple AG
(Chairman)

Pierburg GmbH
(Chairman)

Advisory Board Gebr. Röchling KG

Shareholders' Committee Hella KGaA Hueck & Co.

Dr. Herbert Müller
Bonn

Finance and Controlling
(up to December 31, 2012)

Membership in Supervisory Boards

KSPG AG
(up to May 7, 2012)

Helmut P. Merch
Erkrath

Finance and Controlling
(from January 1, 2013)

Membership in Supervisory Boards

KSPG AG

Rheinmetall Waffe Munition GmbH
(from January 1, 2012)

Rheinmetall Landsysteme GmbH
(Vice Chairman)

Rheinmetall Defence Electronics GmbH

Nitrochemie Aschau GmbH

Nitrochemie AG

Nitrochemie Wimmis AG

Rheinmetall Defence UK Limited
(up to December 18, 2012)

Rheinmetall Nordic AS
(up to December 17, 2012)

American Rheinmetall Munition Inc.
(up to June 24, 2012)

Rheinmetall North America Inc.
(up to October 1, 2012)

Rheinmetall Canada Inc.
(up to June 1, 2012)

Rheinmetall Denel Munition (Pty) Ltd

Rheinmetall Waffe Munition South Africa (Pty) Ltd

Senior Executive Officers

Dr. Andreas Beyer, LL.M.
Sindelfingen
Law, Internal Auditing, Merger & Acquisitions,
Chief Compliance Officer

Ingo Hecke
Meerbusch
Human Resources and Senior Management

Executive Board Automotive

Dr. Gerd Kleinert
Gottmadingen
Chairman
Strategy, Marketing, Operations

Horst Binnig
Bad Friedrichshall
(from January 1, 2012)
Operations

Peter-Sebastian Krause
Erkrath
Human Resources, Law

Dr. Peter P. Merten
Herrsching
Finance and Controlling, IT

Management Board Defence

Armin Papperger
Düsseldorf
Chairman
(from January 1, 2012)
Division Combat Systems
(up to August 31, 2012)

Helmut P. Merch
Erkrath
Finance and Controlling, IT

Dr. Andreas Schwer
Düsseldorf
(from September 1, 2012)
Division Combat Systems

Bodo Garbe
Zurich
Division Electronic Solutions

Pietro Borgo
München
(from February 1, 2012)
Division Wheeled Vehicles

Ingo Hecke
Meerbusch
Human Resources

Heinz Dresia
Krefeld
(up to December 31, 2012)
Management Board Projects

Legal Information

Contacts

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This report was published on March 20, 2013. The annual report of Rheinmetall AG is available in German (original version) and English (non-binding translation). Both versions are available to download at **www.rheinmetall.com.**

This 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. A number of factors, many of which are beyond Rheinmetall's control, influence the business activities, success, business strategy and results of the Company. Statements regarding the future are based on current plans, targets, estimates and forecasts and only take into account findings made up to and including the date this report was produced. If the underlying assumptions do not materialize, the actual figures may differ from such estimates. Uncertain factors include changes in the political and economic environment, changes to national and international laws and regulations, market fluctuations, the development of global market prices for commodities, exchange rate and interest rate fluctuations, the impact of rival products and competitive prices, the acceptance of and demand for new products, the effect of changes to customer structures and changes to the business strategy. Rheinmetall does not intend, nor does it undertake a particular commitment, to update statements referring to the future or to adjust these to events or developments following the publication of this annual report.

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