Rheinmetall AG

Annual Report | 2013

Key figures 2013 | Rheinmetall Group

		2013	2012	2011	2010	2009	2008	2007
Order Situation								
Order intake	€ million	**5,805**	5,311	4,189	3,974	4,649	3,780	4,040
Order backlog (Dec. 31)	€ million	**6,475**	5,405	4,950	5,136	4,940	3,683	3,239
Sales/Results								
Sales	€ million	**4,613**	4,704	4,454	3,989	3,420	3,869	4,005
of which generated abroad	%	**72**	72	70	69	66	67	67
Operating result	€ million	**213**	268	342	289	153	230	259
Operating result margin	%	**4.6**	5.7	7.7	7.2	4.5	5.9	6.5
EBIT [1]	€ million	**112**	296	354	297	15	245	270
EBIT margin [1]	%	**2,4**	6.3	7.9	7.4	0.4	6.3	6.7
EBT [1]	€ million	**35**	216	295	229	(46)	193	213
Return on capital employed (ROCE) [2]	%	**4.4**	11.5	14.9	14.6	0.8	12.5	14.5
Balance Sheet								
Total equity	€ million	**1,339**	1,465	1,546	1,355	1,134	1,080	1,059
Total assets	€ million	**4,857**	4,899	4,832	4,460	3,835	3,612	3,448
Equity ratio	%	**27.6**	29.9	32.0	30.4	29.6	29.9	30.7
Cash and cash equivalents	€ million	**445**	501	535	629	557	203	163
Total assets less cash and cash equivalents	€ million	**4,412**	4,398	4,297	3,831	3,278	3,409	3,285
Net financial debt [3]	€ million	**138**	98	130	76	(44)	205	236
Leverage ratio [4]	%	**3.1**	2.2	2.9	1.9	(1.3)	6.0	7.2
Net gearing [5]	%	**10.3**	6.7	8.4	5.6	(3.9)	19.0	22.3
Cash Flow								
Cash flow from operating activities	€ million	**195**	359	290	147	331	318	235
Cash flow from investing activities	€ million	**(173)**	(219)	(251)	(258)	(140)	(211)	(190)
Cash flow from financing activities	€ million	**(75)**	(174)	(131)	156	180	(67)	(80)
Cash Flow	€ million	**22**	140	39	(111)	191	107	45
Human Resources								
Employees (Dec. 31) according to capacity		**21,081**	21,767	21,516	19,979	19,766	21,020	19,185
Domestic		**10,568**	10,667	10,708	10,656	10,750	10,962	10,749
Foreign		**10,513**	11,100	10,808	9,323	9,016	10,058	8,436
Defence		**9,193**	9,623	9,833	9,037	9,304	9,217	7,175
Automotive		**11,744**	12,003	11,548	10,816	10,339	11,682	11,895
Holding/service companies		**144**	141	135	126	123	121	115
Share								
Stock price, annual closing	€	**44.85**	36.40	34.24	60.17	44.74	22.90	54.38
Stock price, annual high	€	**46.04**	47.23	66.46	60.17	44.74	53.81	74.12
Stock price, annual low	€	**35.01**	31.36	30.35	42.50	20.41	16.82	48.04
Earnings per share	€	**0.75**	4.55	5.55	4.23	(1.60)	4.09	4.15
Dividend per share	€	**0.40**	1.80	1.80	1.50	0.30	1.30	1.30

[1] IAS 19: 2007 to 2011 not adjusted retroactively
[2] EBIT/average capital employed
[3] Financial liabilities less cash and cash equivalents
[4] Net financial liabilities/total assets adjusted for cash and cash equivalents
[5] Net financial liabilities/equity

SECURITY & MOBILITY

2 CORPORATE SECTORS

6 DIVISIONS

4,613 SALES € MILLION	OPERATING RESULT € MILLION **213**
EMPLOYEES **21,081**	**6.5** € BILLION ORDER BACKLOG
R&D INTENSITY % **4.9**	CAPITAL EXPENDITURE 205 € MILLION

Contents

This annual report was published at the accounts press conference on March 19, 2014

Supervisory Board of Rheinmetall AG

Shareholder representatives	Employee representatives
Klaus Greinert Chairman First appointed: July 10, 1997 Appointed until close of the 2017 Annual General Meeting	**Dr. Rudolf Luz** Vice Chairman First appointed: January 26, 2001 Appointed until close of the 2017 Annual General Meeting
Professor Dr. Andreas Georgi First appointed: June 10, 2002 Appointed until close of the 2017 Annual General Meeting	**Roswitha Armbruster** First appointed: May 15, 2012 Appointed until close of the 2017 Annual General Meeting
Dr. Siegfried Goll First appointed: February 28, 2008 Appointed until close of the 2018 Annual General Meeting	**Julia Cuntz** First appointed: May 15, 2012 Appointed until close of the 2017 Annual General Meeting
Professor Dr. Susanne Hannemann First appointed: May 15, 2012 Appointed until close of the 2017 Annual General Meeting	**Heinrich Kmett** First appointed: November 14, 2002 Appointed until close of the 2017 Annual General Meeting
DDr. Peter Mitterbauer First appointed: October 4, 2006 Appointed until close of the 2017 Annual General Meeting	**Dr. Michael Mielke** First appointed: September 1, 2010 Appointed until close of the 2017 Annual General Meeting
Detlef Moog First appointed: July 8, 2010 Appointed until close of the 2016 Annual General Meeting	**Wolfgang Müller** First appointed: March 25, 2004 Appointed until close of the 2017 Annual General Meeting
Professor Dr. Frank Richter First appointed: January 1, 2006 Appointed until close of the 2017 Annual General Meeting	**Harald Töpfer** First appointed: February 9, 2004 Appointed until close of the 2017 Annual General Meeting
Toni Wicki First appointed: December 6, 2010 Appointed until close of the 2016 Annual General Meeting	**Wolfgang Tretbar** First appointed: July 10, 1997 Appointed until close of the 2017 Annual General Meeting

Permanent committees

Personnel Committee
Klaus Greinert (Chairman)
Toni Wicki
Dr. Rudolf Luz
Wolfgang Tretbar

Audit Committee
Klaus Greinert (Chairman)
Professor Dr. Susanne Hannemann
Dr. Rudolf Luz
Heinrich Kmett

Mediation Committee
Klaus Greinert (Chairman)
Professor Dr. Frank Richter
Dr. Rudolf Luz
Harald Töpfer

Nomination Committee
Klaus Greinert (Chairman)
Professor Dr. Frank Richter

Letter to shareholders
Report of the Supervisory Board

OVERVIEW OF THE ACTIVITIES OF THE SUPERVISORY BOARD DURING THE 2013 FISCAL YEAR

During the 2013 fiscal year, the Supervisory Board of Rheinmetall AG performed with due care the duties and tasks assigned to it in accordance with the law and Company bylaws, and those defined in the German Corporate Governance Code and its rules of procedure. We supervised the Executive Board closely, provided it with support and advice on matters concerning the management of the Company and monitored its management activities.

The Supervisory and Executive Boards worked together in an open atmosphere of trust. The Supervisory Board was directly involved at an early stage in all decisions of key strategic, operational and economic importance to the Group. We examined the Company's situation, challenges and prospects in detail.

During the four regular Supervisory Board meetings held during 2013, the Executive Board reported on matters including the progress of business activities, the current earnings and financial position, general economic conditions, the Company's prospects when faced with competition from abroad, and options, opportunities and risks in regional growth markets. Medium-term strategic and operational targets were discussed, along with their economic significance for Rheinmetall and their expected impact on the Company's financial situation. Aside from the Group's corporate orientation and the structural development of the Defence and Automotive sectors, discussions focused on measures to ensure competitiveness and future viability. In addition to a number of other topics, the implementation status of initiated restructuring measures, employment policy, the risk situation, risk management and the Company's compliance were also discussed. We were provided with a detailed explanation whenever actual business performance deviated from previous plans and targets.

Measures or transactions of the Executive Board requiring approval in accordance with legal and statutory provisions and the rules of procedure were submitted to us in good time for a decision to be made. After thorough analysis and detailed discussions, the Supervisory Board made its decisions and granted its approval for the applications made on the basis of thoroughly informative documents and detailed draft resolutions.

The members of the Supervisory Board again performed their activities with a great sense of dedication and responsibility in the 2013 fiscal year. At the Supervisory Board meetings held in March, May and December, one of the sixteen members of the Supervisory Board was absent in each case. All members attended the Supervisory Board meeting in August. All committee members were present at each committee meeting.

Between meetings, we were informed of the current situation of the Rheinmetall Group and its two sectors in writing on a quarterly basis. In addition to the Supervisory Board meetings, the CEO and I were in close contact. Key developments, pending decisions and significant events were discussed in regular work meetings.

On the basis of extensive reports 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 our intensive work and reviews, we are 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 internal control system, the risk management system and the compliance system.

TOPICS AND RESOLUTIONS DURING THE PLENARY ASSEMBLY OF THE SUPERVISORY BOARD

March 2013 – At the annual accounts meeting on March 19, 2013, the Executive Board provided information on business performance during the first two months of the year under review and gave its outlook on results to be expected in the first quarter of 2013. Export transactions in the Defence sector and the situation with regard to competition and focal areas for capital expenditure at Rheinmetall Automotive were also discussed when considering the business situation.

Another agenda item was discussion of the single-entity and consolidated financial statements of Rheinmetall AG as at December 31, 2012, issued with an unqualified auditor's opinion by PricewaterhouseCoopers (PwC), together with the summarized management report for Rheinmetall AG and the Rheinmetall Group and the Executive Board's proposal for the appropriation of net income for the year. The auditors described the scope of their assignment and audit approach, reported on the material findings and results of their audits and gave details on additional services provided. 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 and after detailed discussion of the advantages and disadvantages, we approved the Executive Board's proposal for appropriation of net income. We also discussed the Supervisory Board's report to the Annual General Meeting and deliberated in detail on the draft proposals to be submitted to the 2013 Annual General Meeting.

The Executive Board presented the "Rheinmetall 2015" strategy program regarding the operational development of the Rheinmetall Group and explained in detail its targets associated with the core themes of internationalization, product innovations and cost efficiency and measures that are to be taken to achieve these targets in the medium term.

The Executive Board informed us of the next steps in the internationalization strategy that has already proved successful for several years now. It is planning to form a joint venture which will enable Rheinmetall to tap into new markets as a system integrator in the defense industry. Its partner in this joint venture has been planning and managing industrial facilities for almost 100 years in regions that promise particular growth opportunities for the future business activities of the Defence sector.

We concluded the meeting by discussing achievement of targets by the Executive Board members and their remuneration.

May 2013 – On May 13, the Executive Board informed us of business performance in the first quarter and the current economic position of the Rheinmetall Group as at April 2013. In this context, answers were provided to questions put forward by the Supervisory Board regarding matters such as the Chinese subsidiaries of the Automotive sector and the status of restructuring measures that had been implemented. The Executive Board also gave an overview of current developments in the field of electromobility. The Supervisory and Executive Boards also used the meeting to make preparations for the Annual General Meeting taking place the following day.

August 2013 – At the meeting held on August 28, the Executive Board reported on the Group's business development in the first six months of 2013 and its expected performance for 2013 as a whole. The Executive Board looked in particular at the development of the order intake, the regional distribution of the order backlog and various large-scale projects. It also informed us of progress made in terms of the restructuring measures including associated staff lay-offs and targets achieved to date.

In a follow-up to the meeting in March 2013, the Executive Board informed us of the formation of the 50:50 joint venture with Ferrostaal Industrieanlagen in the Defence sector which was then planned for January 1, 2014. It stated that the development of local infrastructure would continue to become increasingly important for international clients in the future rather than traditional imports of arms. The Executive Board explained that the skills and capabilities of Rheinmetall Defence and Ferrostaal Industrieanlagen complemented each other well and the new company Rheinmetall International Engineering would combine Rheinmetall's product expertise with Ferrostaal's core expertise in the areas of project management, project development, EPC contracting (EPC – engineering, procurement, construction), and production planning and management. This gives Rheinmetall Defence the opportunity to market its wide product portfolio while developing local production facilities at the same time.

On the recommendation of the Personnel Committee, we appointed Horst Binnig as a member of the Executive Board of Rheinmetall AG for the period from January 1, 2014 to December 31, 2016. He succeeds Dr. Gerd Kleinert who retired as of December 31, 2013.

We also passed various resolutions regarding components of Executive Board remuneration. We are convinced that the structure and amount of remuneration paid to members of the Executive Board meets legal requirements regarding the suitability of Executive Board remuneration and is geared towards sustainable corporate development.

Later in the meeting, we discussed the declaration of conformity according to the German Corporate Governance Code and looked at issues concerning corporate governance and compliance in the Rheinmetall Group.

December 2013 – At the last meeting of the year on December 10, the Executive Board presented its report for the third quarter of 2013. 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.

We then discussed the Executive Board's planning for the 2014 fiscal year and medium-term planning up to 2016. 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. We approved the framework investment plan submitted for the 2014 fiscal year.

We also passed a resolution to mandate PricewaterhouseCoopers Aktiengesellschaft Wirtschafts-prüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch, which was elected at the Annual General Meeting on May 14, 2013, to audit the single-entity and consolidated financial statements together with the summarized management report for Rheinmetall AG and the Rheinmetall Group for the 2013 fiscal year.

The Executive Board presented us with its plans to construct a building on Rheinmetall's former production site in Düsseldorf-Derendorf. When this building project is realized at the end of 2015, this will complete the conversion of the former Defence production site and the related urban development. The plan is to build a two-part building, the south wing of which is to be leased. The employees of Rheinmetall AG and several service companies will move into the north wing, which is where the planned center for project and program management will be integrated. We approved this investment.

We also analyzed and evaluated our activities as part of an internal efficiency review during this meeting. We also noted that the Supervisory Board included an adequate number of independent members, based on our own assessment.

COMMITTEES OF THE SUPERVISORY BOARD

In addition to the Mediation Committee required by law in accordance with Section 27 (3) German Codetermination Act, the Supervisory Board has formed three further committees from its own members whose responsibilities include preparing time-consuming topics requiring extensive discussion relating to specific themes and tasks for plenary assemblies and examining resolutions in advance.

Page 32 of the corporate governance report contains information on the responsibilities of the committees.

In appropriate cases, the Supervisory Board's authority to pass resolutions may be transferred to individual committees where legally possible.

As the Supervisory Board Chairman, I chair all committees and inform the plenary assembly of the content and results of committee meetings during the next meeting of the Supervisory Board.

Personnel Committee – At its meetings in March, August and December 2013, 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 upcoming succession planning for the Executive Board.

Audit Committee – At its meetings in March, May, August, November and December 2013, 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 and semi-annual 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 2013. Other issues discussed at meetings included developments of the risk management and compliance management system.

At the December meeting, Dr. Andreas Beyer, in his role as head of Group auditing, presented Internal Auditing's report on audit activities in the past fiscal year, the results of the 2013 audits and the planning of audits for 2014 as scheduled.

Dr. Andreas Beyer, in his role as Chief Compliance Officer, also presented the compliance report for 2013 and gave an overview of the status of the compliance organization.

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

Nomination Committee – A resolution was passed by way of circulation regarding the recommendation submitted to the Supervisory Board.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

At our meeting on August 28, 2013, we examined the development and implementation of the provisions of the German Corporate Governance Code as amended up to May 13, 2013.

The Executive and Supervisory Boards then issued a new declaration of conformity in accordance with Section 161 AktG, which can be found on page 28. The full wording of the current and previous declarations of conformity is also available on the Company's website.

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 28 to 35.

CONFLICTS OF INTEREST

Indications of conflicts of interest relating to mandates among members of the Supervisory Board or Executive Board were not reported and did not appear in fiscal 2013 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.

EXECUTIVE BOARD PERSONNEL MATTERS

Dr. Gerd Kleinert, who has been a member of Rheinmetall AG's Executive Board since March 2001 and also took on the role of Chairman of KSPG AG in November 2001, retired on December 31, 2013. He played a key role in shaping the Automotive sector over many years and set the course for its future together with his management team. We would like to thank him for his dedicated and successful work in leading the Company.

At our meeting in August 2013, we decided to appoint Horst Binnig as a member of Rheinmetall AG's Executive Board with effect from January 1, 2014 for a period of three years up to December 31, 2016. He will also be the new Chairman of KSPG AG, meaning he will be the Executive Board member responsible for the Automotive sector.

SUPERVISORY BOARD PERSONNEL MATTERS

Dr. Siegfried Goll's membership of the Supervisory Board ended at the close of the Annual General Meeting on May 14, 2013. The Supervisory Board proposed – based on the Nomination Committee's recommendation – to reelect him to the Supervisory Board as a shareholder representative. The Annual General Meeting followed this management proposal. Dr. Siegfried Goll's period of office will run until the end of the Annual General Meeting which will resolve upon the approval of activities for the 2017 fiscal year.

Report of the Supervisory Board

SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2013

In December 2013, in accordance with the resolution of the Annual General Meeting on May 14, 2013, 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 2013. 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, 2013 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 PricewaterhouseCoopers 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).

The members of the Supervisory Board were issued 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. This financial statement documentation was discussed in detail during the Audit Committee's meeting on March 13, 2014 and the Supervisory Board's annual accounts meeting on March 18, 2014 in the presence of the auditors and according to the auditors' report. They provided information on the scope, focal points and results of their audit, answered questions and provided additional information.

We examined the single-entity and consolidated financial statements, the summarized management report and the proposal for the appropriation of net income for the year. There are no objections. We concurred with the results of the audit performed by the auditors.

We approved the single-entity and consolidated financial statements presented by the Executive Board for the 2013 fiscal year. The single-entity financial statements have thus been adopted under the terms of Section 172 AktG. We approved the summarized management report, particularly the assessment of Rheinmetall's further development. We concurred with the Executive Board's proposal for appropriation of net income, which provides for the distribution of a dividend of €0.40 per share that is entitled to a dividend.

We would like to thank the customers and shareholders of the Rheinmetall Group for the confidence they have once again shown in the Company during the past year. We wish to thank the management and employees for their enthusiastic involvement, their high level of personal commitment and their hard work during a fiscal year that has been very challenging overall and difficult at times.

Düsseldorf, March 18, 2014

On behalf of the Supervisory Board
Klaus Greinert
Chairman

Letter to shareholders
Executive Board of Rheinmetall AG

Helmut P. Merch, Armin Papperger, Horst Binnig (from left)

Armin Papperger, engineering graduate
Born in 1963

CEO since January 1, 2013
Member since January 1, 2012
Appointed up to December 31, 2016
Employee of Rheinmetall since 1990

Following his studies, Armin Papperger began his career in quality management in the Defence sector of the Rheinmetall Group. After a couple of other positions in this sector, he then held various managerial roles in subsidiaries of the Defence sector from 2001 onwards. He became head of the Weapons and Ammunition business unit in July 2007. At the start of 2010, he took over the Vehicle Systems and Weapons and Ammunition business units on the Management Board Defence.

Armin Papperger has also been Chairman of Management Board Defence since January 1, 2012.

Helmut P. Merch, business graduate
Born in 1956

Member since January 1, 2013
Appointed up to December 31, 2017
Employee of Rheinmetall since 1982

Helmut P. Merch held various managerial roles at Rheinmetall's subsidiaries from the beginning, including division head and member of the Executive Board of the former engineering subsidiary Jagenberg AG, and Vice Chairman of the Executive Board of the former electronics subsidiary Aditron AG. In August 2001, he assumed the role of CFO for the Management Board Defence.

Helmut P. Merch is CFO of Rheinmetall AG and CFO on the Management Board Defence.

Horst Binnig, engineering graduate
Born in 1959

Member since January 1, 2014
Appointed up to December 31, 2016
Employee of Rheinmetall since 1999

Before joining KSPG AG, Horst Binnig held various management roles for medium-sized plant construction firms. During his career at Rheinmetall, his positions have included managerial and executive positions within companies of KSPG's Hardparts division.

As of January 1, 2013, he was appointed as a member of KSPG AG's Executive Board, before assuming the role of Chairman on January 1, 2014.

Horst Binnig represents the Automotive sector on the Executive Board of Rheinmetall AG.

Dr. Gerd Kleinert left the Company and retired as of December 31, 2013.

Rheinmetall share basic information

	2013
Share class	Bearer shares
Securities identification number (WKN)	703000
International Security Identification Number (ISIN)	DE 0007030009
Stock exchange	All German stock exchanges
Deutsche Börse admission segment	Prime Standard/Regulated Market
Sector	Industrial goods
Indices	MDAX, EURO STOXX 600
Bloomberg ticker symbol	RHM
Reuters ticker symbol	RHMG
Designated sponsor	Commerzbank, Deutsche Bank
Announcements	Electronic Federal Gazette
First listed on the stock exchange	November 14, 1894

Rheinmetall share key figures

		2013	2012	2011	2010	2009
Equity						
Share capital	€ million	101.37	101.37	101.37	101.37	101.37
Issued shares on 12/31	Thousands of shares	39,599	39,599	39,599	39,599	39,599
Free float on 12/31	%	100	100	100	100	100
Rheinmetall AG treasury stock on 12/31	%	3.9	4.8	3.4	3.3	3.5
Share price						
Share price at end of fiscal year (Xetra)	€	44.85	36.40	34.24	60.17	44.74
Performance over the year	%	+23	+6	-43	+34	+95
Highest closing price (Xetra)	€	46.04	47.23	66.46	60.17	44.74
Lowest closing price (Xetra)	€	35.01	31.36	30.35	42.50	20.41
Stock exchange data						
Market capitalization on 12/31	€ billion	1.8	1.4	1.4	2.4	1.8
Average turnover per trading day (Xetra)	€ ’000	215	271	276	234	248
MDAX ranking at year-end						
according to market capitalization		25	27	17	10	13
according to stock exchange turnover		23	12	12	14	14
Key figures						
Earnings per share	€	0.75	4.55	5.55	4.23	-1.60
Equity per share	€	35.30	35.54	36.76	33.12	29.51
Cash flow per share	€	6.09	9.34	10.49	9.00	3.31
Dividend						
Total payout	€ million	15.2	67.9	68.5	57.5	11.5
Payout ratio	%	53	36	32	35	-
Dividend per share entitled to dividends	€	0.40	1.80	1.80	1.50	0.30
Dividend yield	%	0.9	4.9	5.3	2.5	0.7

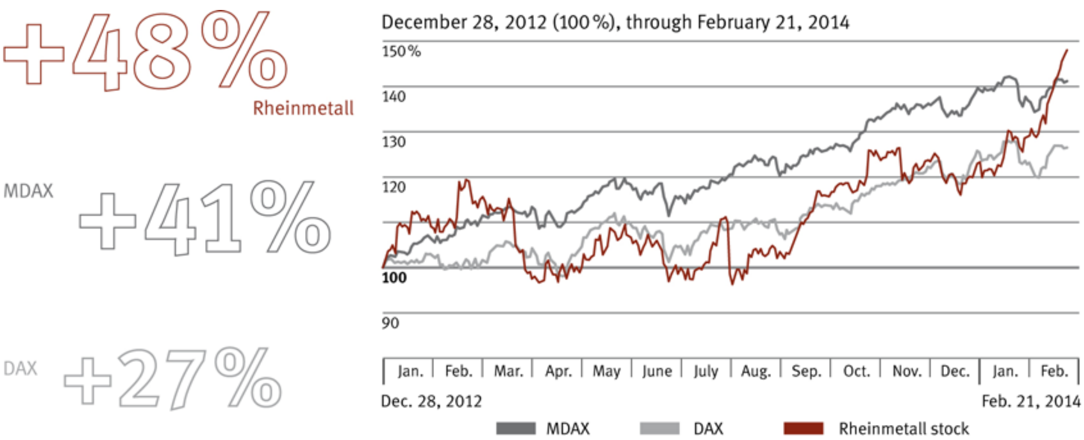
2013 ON THE STOCK MARKETS

2013 was an extremely successful year for German shares. However, the two most important indices, the DAX and MDAX, experienced this positive development differently.

The DAX moved sideways in the first six months of the year as volatility rose. It reached an annual low on April 19, 2013 at 7,460 points. It then surged by 13 % within one month, but then fell back slightly again as early as June. The main factor contributing to this was fears that the US Federal Reserve might relax its expansionary monetary policy. It remained on a stable growth path after that. It exceeded the index value of 8,000 points on July 9 and 9,000 points on October 29. Following a further increase, the index closed the trading year at 9,552 points on December 30, up 25 % on the closing value at the end of the previous year. This represented a stock market value of €810 billion on this date.

Unlike the DAX, the MDAX developed positively on a continuous basis in 2013. Its index value of 12,149 points at the start of the year on January 2 also represented its annual low. The index then went on to exceed several threshold values over the course of the year. It reached 13,000 points on February 13 and 14,000 points on May 15. Share prices fell considerably in June and July, as did share prices on the DAX. However, the second half of the year brought another upturn. The index reached 15,000 points on September 16 and 16,000 points on November 1. It closed the year at 16,575 points. This equates to an increase of 39 % compared with the previous year's closing value of 11,914 points. Its total stock market value stood at €121 billion at the end of 2013.

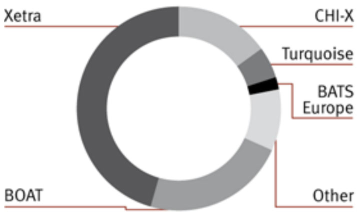
Rheinmetall stock price trend in comparison to development of the DAX and MDAX



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 stock exchanges. In the 2013 fiscal year, the trading volume of Rheinmetall shares was processed via the following trading platforms:

Rheinmetall shares processed via trading platforms %



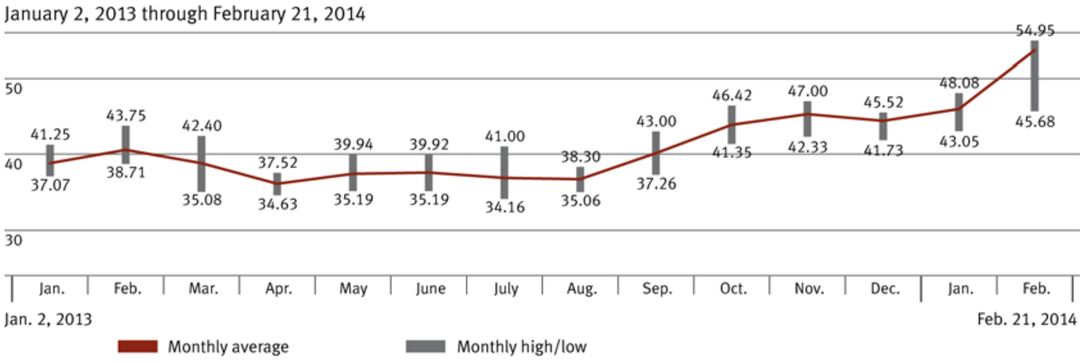
Trading platform	2013	2012
Xetra	45.4	39.2
BOAT	22.7	28.4
Chi-X	15.0	15.1
Turquoise	5.2	3.9
BATS Europe	2.0	3.0
Other	9.7	10.4

RHEINMETALL SHARE PRICE PERFORMANCE DURING THE 2013 FISCAL YEAR

Stock market trading of Rheinmetall shares in 2013 was very successful overall, although it did not contribute to the MDAX's rising trend until September onwards. The start of the year saw an increase in the share price to €43.51 on February 19. However, following publication of provisional figures for fiscal 2012 on February 14, the outlook for 2013 on March 20 and the interim report for the first quarter on May 8, the share price moved sideways within a range of between €35 and €40. The share recorded its annual low of €35.01 on July 31. However, following publication of the Company's figures for the first six months of the year on August 9 and the Capital Market Days on September 12 and 13, the share price rose rapidly and reached its annual high of €46.04 on November 7. At the end of the year, the share price stood at €44.85, up 23 % on the closing share price for 2012.

This positive share price trend continued at the start of 2014. The Rheinmetall share was listed at €53.87 on February 21, 2014.

Rheinmetall share price performance from January 2, 2013 to February 21, 2014



RANKING IN THE MDAX

The Rheinmetall share has been listed in the Mid-Cap-DAX (MDAX) since it was launched in January 1996. It comprises 50 shares which immediately follow the shares contained in the DAX based on rankings of market capitalization of free float and stock exchange turnover. 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 free float of shares issued, measured at the respective share price. The number of shares in Rheinmetall AG remained constant at 39,599,000. The percentage of free float increased from 95.2 % at the end of 2012 to 96.1 % at the end of 2013, resulting in a stock market value of €1.8 billion based on a closing share price of €44.85 for the year.

Ranking in the MDAX by market capitalization

	2013	2012	2011	2010	2009
Number of shares	39.599.000	39.599.000	39.599.000	39.599.000	39.599.000
Free float of shares	96,1%	95,2%	96,6%	96,7%	96,5%
Closing share price	€ 44,85	€ 36,40	€ 34,24	€ 60,17	€ 44,74
Market capitalization	€1.8 billion	€1.4 billion	€1.4 billion	€2.4 billion	€1.8 billion
Ranking	25	25	17	10	13

In terms of stock exchange turnover, Rheinmetall shares achieved a medium ranking among MDAX stocks in Deutsche Börse's index rankings at the end of the year, coming in 23rd place. The average daily trading volume of Rheinmetall shares fell significantly year-on-year in 2013 to around 215,000 shares. However, the fact that an increasing number of shares are being traded on alternative platforms such as BOAT, Chi-X, Turquoise, BATS Europe, etc. must also be taken into account.

Stock exchange turnover – all German stock exchanges

	2013	2012	2011	2010	2009
Trading volume	214.938	271.000	276.172	234.000	248.000
Ranking	23	12	12	14	14

DIVIDEND DISTRIBUTION FOR FISCAL 2013

Rheinmetall allows its shareholders to enjoy a share of the Group's earnings on an ongoing basis, and pays a dividend adjusted to the result for the respective fiscal year. Care is taken to ensure that the dividend is widely accepted by shareholders and that it represents an attractive investment criterion, especially for investors geared towards long-term investment. The dividend amount is based on business performance and a payout ratio geared towards Rheinmetall AG's business results.

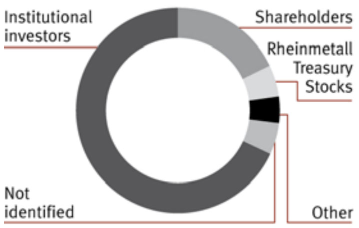
At the Annual General Meeting on May 6, 2014, the Executive Board and Supervisory Board intend to propose a dividend payment of €0.40 per share (2012: €1.80). The total amount paid out will be €15 million (2012: €68 million). Subject to approval by shareholders, the dividend will be paid the following day. Based on the closing price of the shares of €44.85 at the end of 2013 (2012: €36.40), this results in a dividend yield of 0.9 % (2012: 5.0 %). The payout ratio, i.e. the dividend in relation to earnings per share, will stand at 53 % in the reporting year, following 36 % in the previous year.

SHARE CAPITAL WIDELY DISTRIBUTED AROUND THE WORLD

Rheinmetall has a relatively stable and large proportion of institutional investors which has changed only slightly in recent years. We commissioned an external institution to analyze our shareholder structure in December 2013. This involved evaluating publications issued by investment companies and other institutional shareholders and other publicly available information.

The findings show that the proportion of institutional investors from Europe has fallen by approximately 7 percentage points to 28 %. These investors are primarily based in Germany, the UK, France and Scandinavia. However, the proportion of institutional investors from North America – mainly based in the USA – has risen sharply and now stands at 41 %. The other 30% are shares owned by other institutional investors and private investors who were not identified during the survey or shares held by Rheinmetall AG or its management boards and employees. The 50 largest institutional investors hold approximately 62 % of Rheinmetall AG's shares and have therefore increased their shareholdings by 5 percentage points.

Shareholder structure as at December 31, 2013



	2013	2012
Institutional investors	70	68
Europe	28	35
North America	41	32
Rest of world	1	1
Shareholders	17	18
Rheinmetall Treasury Stocks	4	5
Other	3	4
Not identified	6	5

TREASURY STOCK

The Annual General Meeting on May 11, 2010 authorized the Executive Board to acquire treasury shares. 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. Rheinmetall AG did not exercise this right in fiscal 2013.

The proportion of own shares held as treasury stock was 3.9 % or 1,524,233 shares on the balance sheet date for 2013. The Company did not purchase any shares in 2013. Of its treasury stock, 214,557 shares entered the employee share purchase program and 142,857 shares were used for the long-term incentive program. As at February 21, 2014, 1,524,233 shares or 3.8 % were held as treasury stock by Rheinmetall AG.

Purchase and deployment of treasury stock

	2013	2012	2011	2010	2009
Acquisition of shares	0	800,319	333,000	0	0
Used for employee share purchase program	142,857	106,798	169,743	110,338	54,944
Used for long-term incentive program	214,557	162,716	105,638	0	159,048
Portfolio on December 31	1,524,233	1,881,647	1,350,842	1,293,198	1,393,536
Share of treasury stocks in Rheinmetall shares	3.9%	4.8%	3.4%	3.3%	3.5%

ANALYST RECOMMENDATIONS

Studies conducted by national and international investment banks and brokers are important tools in helping institutional and private investors to make decisions. Rheinmetall's coverage is still at a high level and confirms the high level of interest shown by the capital market in our Company.

Twenty-two equity research analysts published their analyses of current development at the Rheinmetall Group and their assessments and recommendations regarding its shares at regular intervals. As at December 31, 2013, nine analysts gave Rheinmetall shares a "buy" rating, while a further 11 recommended holding the shares. Only two analysts came to a negative conclusion and gave the share a "sell" rating.

Investment recommendations for Rheinmetall shares as at December 31, 2013

Institution	Headquarter	Rating
Bankhaus Lampe	Düsseldorf	Buy
Bankhaus Metzler	Frankfurt am Main	Buy
Berenberg Bank	London	Hold
Citigroup	London	Sell
Close Brothers Seydler	Frankfurt am Main	Sell
Commerzbank	Frankfurt am Main	Buy
Deutsche Bank	Frankfurt am Main	Hold
DZ Bank	Frankfurt am Main	Buy
Equinet	Frankfurt am Main	Hold
Exane BNP Paribas	Paris	Buy
Hauck & Aufhäuser	Hamburg	Hold
HSBC	Düsseldorf	Buy
Independent Research	Frankfurt am Main	Hold
JP Morgan Cazenove	London	Hold
Kepler Cheuvreux	Frankfurt am Main	Hold
LBBW	Stuttgart	Hold
MainFirst	London	Buy
Montega	Hamburg	Buy
S&P Capital IQ	London	Buy
Steubing	Frankfurt am Main	Hold
UBS	Frankfurt am Main	Hold
Warburg	Hamburg	Hold

INTENSIVE DIALOG WITH THE CAPITAL MARKET

Providing up-to-date information and ensuring continuity, transparency and credibility when preparing reports form the basis for direct dialog and trusting relationships with shareholders, potential investors, analysts, institutional investors, fund managers and private shareholders. The aim of investor relations work is to provide a realistic estimate of the future development of the Rheinmetall Group and to lay the groundwork for a fair assessment of the Rheinmetall share.

The management and investor relations team stay in close contact with investors. During the period under review, we participated in eleven capital market conferences in Germany and abroad and held seven roadshows. Investor relations work focuses in particular on key European and North American financial centers, including Frankfurt am Main, London, Edinburgh, Paris, Vienna, Zurich, New York, Boston, Chicago and Toronto.

During most meetings, the agenda was dominated by operational development in the Defence and Automotive sectors, the "Rheinmetall 2015" strategy program and progress made with the initiated restructuring measures.

In September 2013, we invited analysts and investors to the Capital Markets Day held at our Defence site in Unterlüß. During this event held over one and a half days, the Executive Board and management representatives from both sectors gave a direct and comprehensive insight into business development, strategy and prospects and were available for in-depth discussions with the many analysts who attended. Questions put forward by analysts and investors were also answered during telephone conferences to report on quarterly results and during a number of individual meetings.

DISCLOSURES REGARDING THE AMOUNT OF THE SHARE OF VOTING RIGHTS

Investors inform Rheinmetall AG that they have 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 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.

Voting rights notifications as at February 21, 2014

Shareholders	Reporting threshold	Total voting rights in %	Publication by Rheinmetall
Harris, Chicago, USA	10 %	10.46	11/9/2011
BlackRock, New York, USA	5 %	5,01	08/08/2013
LSV Asset Management, Wilmington, DE, USA	3 %	3,03	01/29/2014
Rheinmetall AG,Düsseldorf, Germany	3 %	0.00	01/10/2008

ANNUAL GENERAL MEETING FOR 2013

Approximately 350 shareholders and shareholder representatives came to Berlin for Rheinmetall AG's Annual General Meeting on May 14, 2013, representing 54.49% of the share capital (2012: 57.08%) during voting. As such, attendance was once again very high, especially given that Rheinmetall's shares are entirely free float with the exception of treasury stock held by Rheinmetall AG. Shareholders voted in favor of the proposals of management with significant majorities of between 95.6 % and 99.9 %.

MONEY AND CAPITAL MARKET FINANCING

The €500 million bond maturing in 2017 with a coupon of 4 % which was issued in 2010 still represents the main element of long-term corporate financing. It is admitted for trading on various German and international exchanges under the identification number A1EWSC and (ISIN) XS0542369219.

Rheinmetall bond 2010/2017

ISIN	Coupon	Maturing	Volume	Issue price	Price 12/31/2013	Price 12/31/2012
XS0542369219	4%	2017	500	99.122%	107.9%	108.5%

Price performance essentially followed the general market trend, but experienced considerably higher volatility when the earnings forecast was revised and when the rating agency Moody's downgraded the bond in October 2013. Both events initially led to a cautious assessment of Rheinmetall's individual credit risk by bond investors. However, this largely corrected itself within a few weeks and the bond yield once again began to follow the general market trend.

Price development of the Rheinmetall bond in 2013

Since 2002, short-term liquidity requirements have been covered by the €500 million multi-currency commercial paper program. The very high liquidity of market participants observed in 2013 created strong demand for these short-term bonds from Rheinmetall, meaning that the program also proved to be a low-priced source of financing available at all times during the past fiscal year. Despite the rating downgrade, placement conditions were kept virtually stable.

Corporate governance
Structure and business activities

RHEINMETALL – INTERNATIONAL PARTNER FOR SECURITY AND MOBILITY

Rheinmetall AG is a solid technological company with international operations that is successful in the defense technology and automotive supply markets. As a leading European systems supplier for armed forces technology, the Group's Defence sector is a reliable partner to the armed forces of Germany, NATO and friendly nations. The Automotive sector with KSPG AG is one of the world's leading automotive suppliers in the engine systems and modules sectors.

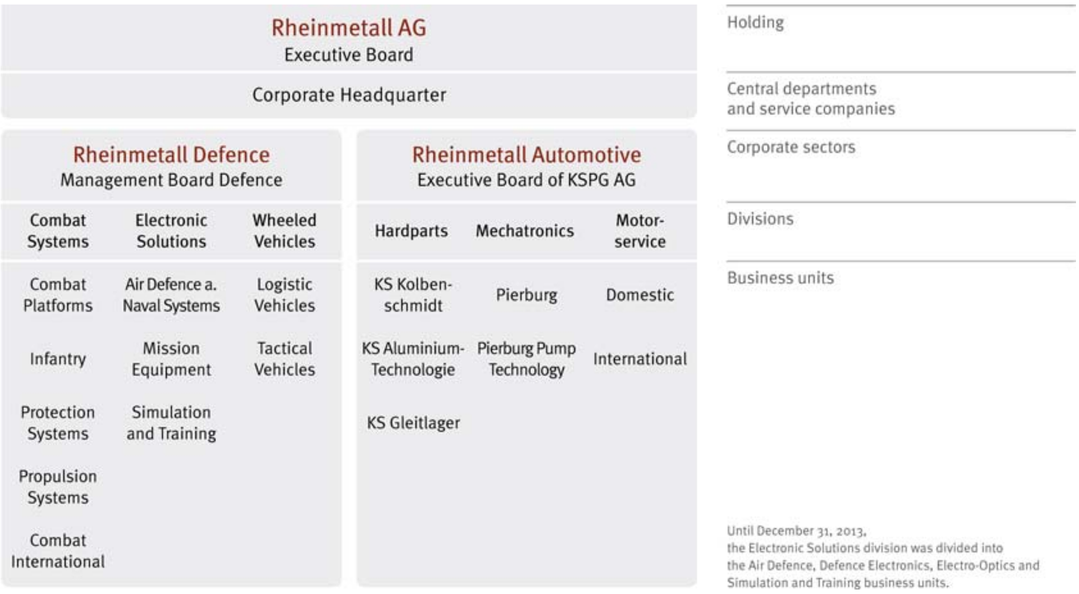
LEGAL STRUCTURE

Rheinmetall AG is a stock corporation under German law. It was founded in 1889 as "Rheinische Metallwaaren- und Maschinenfabrik Aktiengesellschaft" and today is one of the hundred largest listed corporations in Germany. The Company is headquartered in Düsseldorf.

CORPORATE STRUCTURE

Rheinmetall AG is the management company for the Rheinmetall Group with its operating sectors of Defence and Automotive.

Rheinmetall AG's corporate structure



As at February 28, 2014

Rheinmetall AG holds direct and indirect interests in Germany and abroad. In addition to Rheinmetall AG, the consolidated financial statements as at December 31, 2013 included 48 fully consolidated subsidiaries in Germany (previous year: 48) and 92 fully consolidated subsidiaries abroad (previous year: 92). 29 companies (previous year: 27) were carried at equity.

OPERATING SEGMENTS

The Rheinmetall Group's operating activities are distributed across the Defence and Automotive sectors, to which a total of six divisions are assigned:

Corporate sector	Division	Areas of activity
Defence	Combat Systems	Armored tracked vehicles NBC protection systems Turret systems and weapon stations Large and medium caliber weapons and ammunition Protection systems Propellants and powder
	Electronic Solutions	Air defence systems Soldier systems Command, control and reconnaissance systems Fire control systems Sensors Land simulation, flight simulation, maritime and process simulation
	Wheeled Vehicles	Wheeled logistics vehicles Wheeled tactical vehicles
Automotive	Mechatronics	Cutting emissions Air management systems Actuators Solenoid valves Water, oil and vacuum pumps
	Hardparts	Pistons Engine blocks and cylinder heads Plain bearings and bushes
	Motorservice	Aftermarket activities for global replacement parts business

RHEINMETALL DEFENCE – FORCE PROTECTION IS OUR MISSION

Rheinmetall Defence is a leading European systems supplier in the international defense and security industry. Our Group's Defence sector has a wide portfolio of products for use by land forces, but also by marines, the air force and special forces. All development, production and service activities are geared towards ensuring the best possible protection for soldiers on deployment. This also includes improving their mobility, reconnaissance and engagement on an ongoing basis.

With its core competencies, Rheinmetall Defence stands for capability-oriented innovation: New vehicle generations with optimized protection concepts, network-enabled sensor and optronic technology, platform-independent weapons systems, C-RAM-enabled air defense systems and high-performance ammunition both for use on deployment and training purposes.

Whether it is for requirements specific to different branches of the armed forces or overall requirements, whether it is for external or internal security – the ability to integrate components to create complete solutions makes Rheinmetall Defence a strong, reliable partner to the German armed forces, its allies and friendly armies, along with civil national security forces.

Corporate governance
Structure and business activities

RHEINMETALL AUTOMOTIVE – DRIVE TECHNOLOGY FOR ENGINES OF THE FUTURE

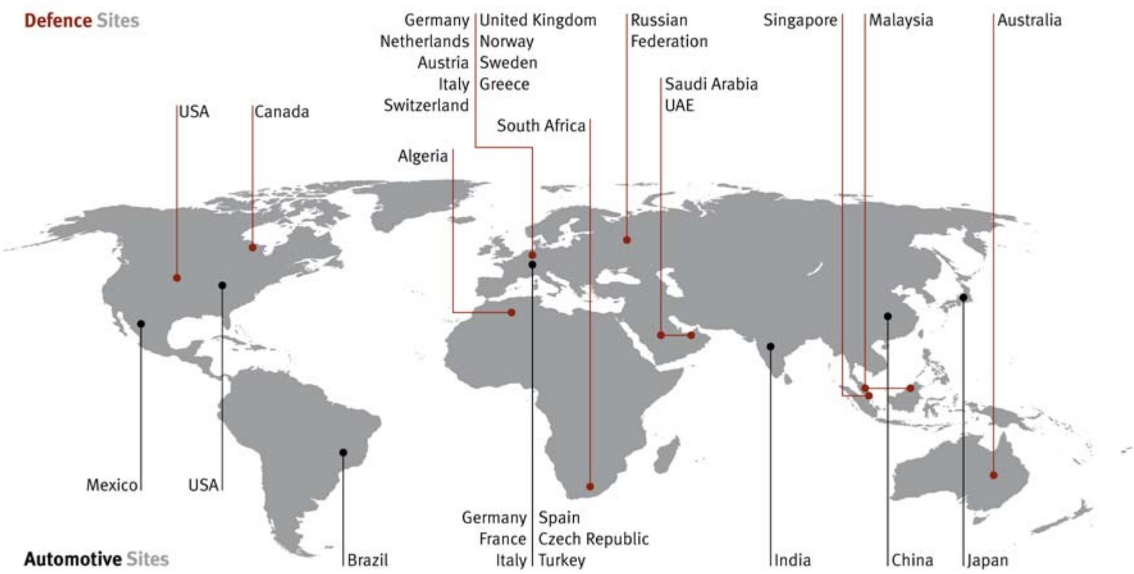
Rheinmetall Automotive is a leading development supplier to the world's most important manufacturers of passenger cars, light commercial vehicles and heavy goods vehicles. The central area of expertise of companies in the Automotive sector lies in reducing emissions, consumption and CO_2, and in making weight savings in and improving the performance of engines and drive components. This applies not only to passenger vehicles, but equally to commercial vehicles and large engines. Rheinmetall Automotive holds a tier 1 position in the value-added chain of automotive production, i.e. we supply most automotive manufacturers (OEM – original equipment manufacturers) directly and not via other suppliers or system integrators.

INTERNATIONAL PRESENCE

Sustainable relationships with our customers have formed the basis of our business activities in the Defence and Automotive sectors for almost 125 years. We are now established all over the world and operate in over 80 countries. Rheinmetall is a strong and reliable partner to its local customers. Local commitment strengthens this trust and lays the foundations for long-standing customer relationships.

The proportion of sales achieved abroad in 2000 was approximately 60 %, whereas it now stands at 72 % in 2013. In addition to 34 production facilities in Germany, Rheinmetall has 47 production sites abroad. As at December 31, 2013, 11,267 people were employed by Rheinmetall abroad.

Key Rheinmetall locations



DEFENCE MARKETS

The range of products and capabilities of Rheinmetall Defence is tailored to central defense technology requirements resulting nationally and internationally from the ongoing need for substantial technical modernization of armed forces and new military deployment scenarios of the 21st century.

A substantial proportion of the market potential for Rheinmetall Defence comes from the defense budgets of customer nations. Rheinmetall Defence is still in an international growth market in the medium term, even though there is increasing fluctuation in national defense budgets.

Budgets trending upward, particularly in Russia, Asian emerging markets in the Middle East and in parts of Africa and the Pacific region, are offset by sinking or stagnating defense spending in North America and Europe. On balance, this led the global defense sector declining in 2013. However, defense analysts from IHS Jane's expect to see a reversal of the trend from as early as 2014 and a return to increasing global defense budgets.

The sector's strategic priority lies in expanding its presence in promising growth regions. We see particular potential in markets outside Europe, such as in the Middle East and North Africa region, Asia and Australia. Rheinmetall Defence will strengthen its local presence in international growth regions and consistently pursue its successful internationalization strategy which it launched several years ago. From today's perspective, around 50% of Defence sales are expected to be generated from customers outside Europe with a balanced mix of highly-profitable component business activities and long-term, large-volume project activities.

In the global rankings of the sector news service "Defense News" from August 2013, Rheinmetall Defence was ranked 31st in 2012 based on sales during the fiscal year, compared with 30th in fiscal 2011.

AUTOMOTIVE MARKETS

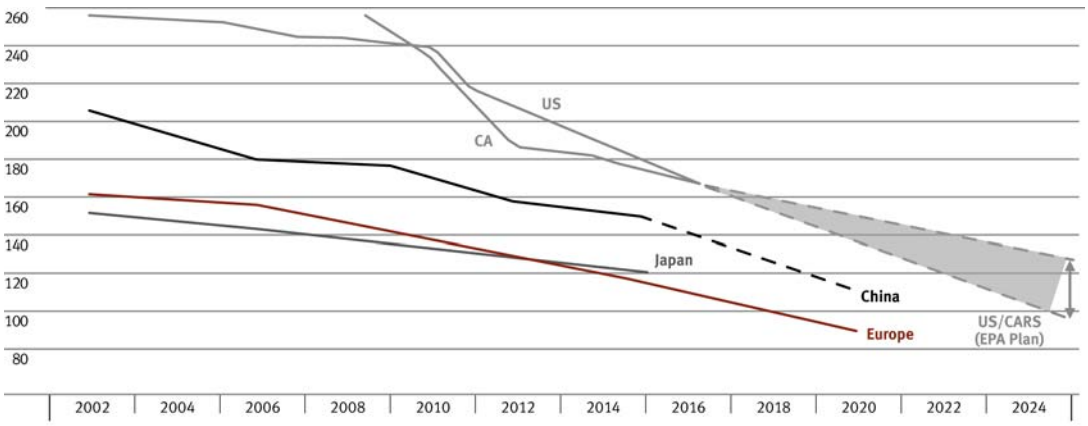
The Automotive sector operates in an industry that is subject to sharp cyclical fluctuations. However, since the global economic crisis of 2008/2009 future economic developments have become even more uncertain and economic cycles are tending to become shorter. Automotive markets in Western Europe are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

The main driver of the automotive supplies industry is the development of passenger car production figures, which are in turn highly dependent on the macroeconomic situation, demographic development, available household income, the degree of state regulation and customer preferences in terms of the form of mobility they use. The level of transport infrastructure development and progress made in expanding this infrastructure also play a role, particularly in developing economies. In addition to these traditional factors, trends towards reducing fuel consumption (CO_2 reduction) and emissions and developing alternative drive technologies have an effect on business development in the Automotive sector.

Corporate governance
Structure and business activities

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. Emissions regulations have a substantial effect on the development of our Automotive business, as we contribute to carmakers' compliance with laws and regulations as a developer and supplier of combustion engine products.

Development of limits for CO_2 emissions in selected countries/regions g CO_2/km



Source: United Nations, Department of Economic and Social Affairs, Commission on Sustainable Development, 19th Session May 2011

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 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 Mechatronics and Hardparts divisions service an international market with a comparatively low number of automotive manufacturers as potential customers. With a global production network including the triad markets (Europe, NAFTA and Japan) and the BIC nations (Brazil, India and China), Rheinmetall Automotive is able to come into contact with virtually all customers at local level and develop appropriate customer relationships according to regional requirements.

In the second "Global Top Automotive Supplier 2012" study produced by Berylls Strategy Advisors in April 2013, the Automotive sector was ranked 77th based on sales during fiscal 2012, compared with 83rd in 2011.

DEFENCE REGULATORY ENVIRONMENT

German military equipment exports are governed by the Basic Law (Grundgesetz - GG), the War Weapons Control Act (Gesetz über die Kontrolle von Kriegswaffen - KWKG) and the Foreign Trade and Payments Act (Außenwirtschaftsgesetz - AWG) in conjunction with the German Foreign Trade and Payments Regulation (Außenwirtschaftsverordnung - AWV).

The "Political Principles Adopted by the Government of the Federal Republic of Germany for the Export of War Weapons and Other Military Equipment" of January 19, 2000 (Political Principles) and the Council Common Position of the EU defining common rules governing control of exports of military technology and equipment of December 8, 2008 (EU Common Position) provide the licensing authorities with guidelines.

The AWG and AWV require the licensing of all military equipment exports. This military equipment has been listed in full in Part I Section A of the Export List. It is broken down into 22 headings, which are then sub-divided further. As with the EU's Common Military List, these headings closely follow the corresponding list of the Wassenaar Arrangement (Munitions List).

Some military equipment as defined by the Export List is also war weapons as defined by Art. 26 (2) of the Basic Law and the KWKG. They are listed under the 62 headings of the War Weapons List. In order to export these weapons, a license must be obtained under the KWKG, and then an export license pursuant to the AWG/AWV. By contrast, in order to export the military items listed in Part I Section A of the Export List which are not war weapons ("other military equipment"), this only requires a license pursuant to the AWG/AWV.

The KWKG stipulates that all activities in connection with war weapons (production, acquisition and transfer of actual control, transport of any kind and procurement transactions) require prior licensing by the German government. The Federal Ministry of Economics and Technology (BMWi) is the licensing agency for commercial transactions; other ministries (Federal Ministry of Finance, Federal Ministry of the Interior and Federal Ministry of Defense) whose activities include the treatment of war weapons are themselves responsible for licenses falling within their area of responsibility.

Under Section 6 KWKG, applicants have no legal right to the issuance of a license for the export of war weapons. Licenses must be denied where there is a risk that war weapons will be used in connection with peace-disturbing acts, that obligations of the Federal Republic of Germany under international law will be impaired, or where the applicant is not sufficiently reliable to perform the action.

In all other cases, the German government decides at its discretion whether to issue export licenses, in due consideration of the EU's Common Position (previously the EU Code of Conduct) and the Political Principles.

Exports of other military equipment are governed by the export regulations given in the AWG/AWV. In accordance with the principle of free foreign trade, on which the systematic approach of the AWG is based, the applicant has a fundamental right to issuance of an export license unless a license can be denied due to a violation of interests protected under Section 4 (1) AWG.

As is also the case for war weapons, the German government exercises its discretion in the issuance of export licenses for other military equipment in accordance with the EU's Common Position and the Political Principles.

The Federal Office of Economics and Export Control (BAFA), which is a subordinate agency operating under the BMWi, is responsible for issuing/denying export licenses under the AWG/AWV. The BAFA submits projects of particular political impact to the German government for its assessment from a political perspective.

An advance enquiry practice has become customary over the course of recent decades. This allows companies such as Rheinmetall to clarify at an early stage whether, upon agreement of a sales contract, the required export license will be granted at a later point in time – assuming the circumstances of the transaction remain unchanged. Decisions on advance enquiries are made according to the same criteria as decisions on export license applications.

Corporate governance
Structure and business activities

Advance enquiries relating to war weapons must be submitted to the Federal Foreign Office; advance enquiries relating to other military equipment must be filed with the BAFA. The procedure corresponds to that of actual license applications. Important projects are also submitted to the German government for its decision. The purpose of advance enquiries is to make the outcome of the subsequent licensing procedure visible at the earliest possible stage in the interest of reliable planning. However, an advance enquiry does not substitute the export license, which is always required.

Germany's Federal Security Council is normally included in deliberations on export projects of particular significance because of the consignee country, the military equipment involved or the volume of the transaction. The Federal Security Council is a Cabinet committee chaired by the Federal Chancellor. Its members also comprise the Head of the Federal Chancellery, together with the Federal Ministers of Foreign Affairs, Finance, the Interior, Justice, Defense, Economics and Technology, and Economic Cooperation and Development.

The KWKG and AWG serve as a framework providing the German government with powers of judgment and discretion. In order to ensure the discretion available to the German government is exercised uniformly and to make key political decision-making criteria transparent, the Political Principles have been in force since 1982 (updated on January 19, 2000). These serve as a basis for decisions in individual cases.

Even under the restrictive licensing practice for third countries, the legitimate security interests of such countries may therefore argue in favor of granting an export license in individual cases. This situation arises in particular when the respective security interests are also internationally significant, such as defense against terrorist attacks and combating international drug trafficking. In connection with the export of naval equipment to third countries, important aspects may be the interests of the community of nations in secure seaways and effective exercise of respective national sovereignty in coastal waters. Alongside the preeminent importance of seaways for the functioning of world trade, increasing threats from piracy, narcotics trafficking, weapons smuggling, human trafficking, pollution and illegal fishing in some regions of the world all play an increasing role here.

Germany's control system for military equipment exports reliably guarantees the final destination of the exported military equipment. The examination of end-use before issuing the export license adheres to the standard system in Europe. It is recognized as an effective control system and enjoys a high reputation around the world. The ex-ante examination ensures right from the start that military equipment is not delivered to recipients if there is a danger that the goods will be diverted. If there are doubts about the recipient's assurance of end-use, export license applications are rejected.

Source: Federal Ministry of Economics and Technology; 2012 Military Equipment Report of the German Government

AUTOMOTIVE REGULATORY ENVIRONMENT

Global guidelines for the automotive industry are becoming more restrictive with regard to limits on emissions and greenhouse gases, with the aim of improving or maintaining air quality. A number of countries have issued laws, ordinances and regulations regarding maximum pollution emissions for new vehicles. Carbon monoxide (CO), nitrous gases (NOx), hydrocarbons and particulates are regulated because they are deemed to be particularly damaging to the human body, while carbon dioxide (CO_2) emissions are regulated because they are considered a key factor in climate change. Emission limits will be made much stricter within the next few years.

Limits for various emission standards

Standard	Hydrocarbon		Nitrous gases		Carbon monoxide		Particulates	
	Gasoline	*Diesel*	*Gasoline*	*Diesel*	*Gasoline*	*Diesel*	*Gasoline*	*Diesel*
	g/km	*g/km*	*g/km*	*g/km*	*g/km*	*g/km*	*g/km*	*g/km*
Euro 2	0.00	0.00	0.00	0.00	2.20	1.00	0.00	0.80
Euro 3	0.20	0.00	0.15	0.50	2.30	0.64	0.00	0.01
Euro 4	0.10	0.00	0.08	0.25	1.00	0.50	0.00	0.03
Euro 5	0.08	0.00	0.06	0.18	0.00	0.00	0.00	0.01
Euro 6	0.04	0.00	0.03	0.09	0.00	0.00	0.00	0.01
Japan '05	0.05	0.02	0.05	0.14	1.15	0.63	0.00	0.01
Japan '09	0.05	0.02	0.05	0.08	1.15	0.63	0.00	0.01
Tier II, Bin 5	0.01	0.01	0.04	0.04	2.61	2.61	0.01	0.01
Tier II, Bin 4	0.01	0.01	0.03	0.03	1.31	1.31	0.01	0.01
Tier II, Bin 2	0.00	0.00	0.01	0.01	1.31	1.31	0.01	0.01

Source: IHS Automotive, Emission Overview, January 2014

In the European Union, the aim is to reduce average CO_2 emissions produced by the entire fleet of new European vehicles from 160g/km in 2006 to 120g/km by 2015. The long-term aim is 95g/km by 2020. If a manufacturer deviates from its limit for average specific emissions produced by its vehicle fleet, it will be required to pay fines that increase according to the amount by which the limit has been exceeded. While additional CO_2 emissions of less than 1g CO_2/km are fined at a rate of €5/g per vehicle, additional emissions of over 3g CO_2/km will attract a fine of €95/g.

In the USA, passenger cars that are comparable to European passenger cars will be required to comply with a figure of 157g CO_2/km from 2015 (2006: 216g CO_2/km), with the aim of reducing this figure further to 140g CO_2/km in 2020.

Guidelines in China that are based on EU regulations provide for a limit of 132g CO_2/km for 2015 – starting from a figure of 187g CO_2/km in 2006.

Based on stricter regulations in Europe and other triad nations, regulations like this are beginning to be adopted by many other countries around the world.

Emission standards up to 2021 in selected countries

Country / region		2013	2014	2015	2016	2017	2018	2019	2020	2021
Europe		Euro 5	Euro 6							
Russian Federation		Euro 4				Euro 5				
USA		Tier II, Bin 5		Tier II, Bin 4					Tier II, Bin 2	
Mexico		Euro 4			Euro 5					
Japan		Japan '09								
China	Beijing	Euro 4	Euro 5							
	Other	Euro 4				Euro 5				
South Korea		Euro 5			Euro 6					
India	Conurbation	Euro 4								
	Other	Euro 3								
Indonesia		Euro 2	Euro 4							
Malaysia		Euro 2	Euro 3							
Thailand		Euro 3	Euro 4							
Brazil		Euro 4	Euro 5							Euro 6

Source: IHS Automotive, Emission Overview, January 2014

Corporate governance
Structure and business activities

"RHEINMETALL 2015" STRATEGY PROGRAM

Further progress was made in the development of Rheinmetall into a strong, international partner for security and mobility. We believe that the Defence and Automotive sectors both still offer huge potential for profitable growth. We have therefore set ourselves ambitious growth and earnings targets. We wish to build on our position in a range of international markets – which are experiencing significant growth in our business areas – on a sustainable basis, but also to continue to assert our leading position on some established markets.

We have taken important steps in order to realize this next growth spurt. The "Rheinmetall 2015" strategy program has been implemented since the start of the year under review, which focuses on internationalization, product innovations and cost efficiency.

INTERNATIONALIZATION
Expansion of business activities outside Europe in the Defence and Automotive sectors

Defence	Automotive
Strengthening local presence in growth markets outside Europe	Strengthening our presence in Chinese and Indian growth markets
Systematic continuation of hub strategy	Expansion of the Mechatronics division's business activities outside Europe

PRODUCT INNOVATIONS
Organic sales growth of 3% to 5% (CAGR) from 2015, assuming normal economic cycle

Defence	Automotive
Extensive innovation pipeline to secure technological leadership further	Realization of growth potential of Mechatronics products, especially in the case of turbo-charged gasoline engines
Expansion of system and service business	

COST EFFICIENCY
Restructuring measures with full savings effect from 2015

Defence	Automotive
Adjustment of capacity and processes to improve profitability and competitiveness	Strengthening the competitiveness of Hardparts division through improved cost structures
Optimization of site structures	Optimization of national and international site structures

The year under review was a year of transition for our Company, during which a range of restructuring measures were continued or initiated according to schedule. In 2013, these measures led to expenditure of €86 million, which is expected to result in annual savings of between €60 million and €75 million from 2015 onwards.

In our Defence sector, we set out to return to organic growth from 2014 onwards. From fiscal 2015, around 50% of Defence sales are expected to be generated from customers outside Europe. While budgets in the USA and Europe are stagnating or even falling, defense sector spending in major emerging countries such as Brazil and Russia and in the Middle East/North Africa region (MENA) is rising. We will concentrate on responsible markets which promise sustainable growth according to industry data and our own assessment. However, we see potential above all in Asia and Australia. Our medium-term target for Rheinmetall Defence's EBIT margin is between 7 % and 9 %.

Global production of cars remains a growth market, yet it is characterized by conflicting development. While a further increase in production figures is forecast for North America and Asia, Western Europe has been in decline since the 2008/2009 crisis. However, initial signs of recovery have been emerging for the Western European crisis nations since the third quarter of 2013.

We wish to participate in the foreseeable expansion of global automotive production and achieve growth at Rheinmetall Automotive that slightly exceeds growth achieved by the market as a whole. With the involvement of our Chinese joint ventures, our growth rate is expected to exceed that of the market as a whole. The plan is to generate more than a third of Rheinmetall Automotive's sales outside Europe from 2015, with particular emphasis placed on the Chinese and Indian markets. With a stable economic and market environment, we are aiming for an EBIT margin of around 8% from 2015.

CORPORATE MANAGEMENT

As the management holding company, Rheinmetall AG is responsible for the consistent management and economic controlling of the Rheinmetall Group, as well as the overall monitoring and supervision of the Group. 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, finance and liquidity management, Group controlling, Group accounting and the optimization of the investment portfolio.

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 or the Executive Board of KSPG AG. The division heads report at regular strategy, target setting and review 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. Further details can be found in the corporate governance report on pages 28 et seq.

CONTROL PARAMETERS: EARNINGS POWER, PROFITABILITY, FINANCIAL SCOPE

The Defence and Automotive sectors of the Rheinmetall Group are controlled by means of sales, operating result (EBIT before special items), EBIT and EBT performance indicators. 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). From 2014, we will also include operating free cash flow in target agreements with managers as an additional control and management parameter.

Central management indicators

		2013	**2012**
Sales	€ million	4,613	4,704
Operating result	€ million	213	268
EBIT	€ million	112	296
EBT	€ million	35	216
Return on capital employed (ROCE)	in %	4.4	11.5

The volume of capital expenditure, research and development expenditure and the headcount represent further indicators that are relevant to management.

Corporate governance

Corporate governance report

In the following chapter, the Executive Board and Supervisory Board will report on corporate governance in the Rheinmetall Group in accordance with Item 3.10 of the German Corporate Governance Code. This chapter also includes the declaration of corporate governance in accordance with Section 289a HGB.

Rheinmetall is committed to a responsible, fair, reliable and transparent corporate policy which is geared towards the expansion and use of entrepreneurial potential, achieving medium-term financial targets and increasing the value of the Company on a systematic and sustainable basis.

DECLARATION BY THE EXECUTIVE BOARD AND SUPERVISORY BOARD IN ACCORDANCE WITH SECTION 161 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 28, 2013, 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 13, 2013 in accordance with Section 161 AktG:

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

(1) that Rheinmetall AG has fully carried out the recommendations of the Commission of the German Corporate Governance Code as amended on May 15, 2012, officially communicated in the electronic Federal Gazette on June 15, 2012, since it issued its last declaration of conformity dated August 30, 2012, with one exception.

(2) 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 13, 2013, officially communicated in the electronic Federal Gazette on June 10, 2013, with one exception.

Exception to 1. and 2.: 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 2013
Rheinmetall Aktiengesellschaft
The Supervisory Board The 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”.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

Shareholders of Rheinmetall AG exercise their rights before or during the Annual General Meeting within the framework of the options provided by law or the Company bylaws, 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. It resolves on all matters regulated by law or the Company bylaws, with binding effect for all shareholders and the Company. The Chairman of the Supervisory Board 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 Annual General Meeting is convened, the agenda items on which a vote will be taken are announced, and the conditions of participation and rights of shareholders are explained within the deadlines prescribed by law and the Company bylaws. All documents and reports required by stock corporation law, supplementary information on the Annual General Meeting and explanations of shareholder rights will be made available on Rheinmetall AG's website, on which any countermotions or nominations from shareholders will also be published.

The Annual General Meeting takes place once a year and must be held in the first eight months of the fiscal year. Here, the Executive and Supervisory Boards give an account of the past fiscal year. The Annual General Meeting resolves on all tasks assigned to it by law or the Company bylaws, such as appropriation of net income, approval of the activities of the Executive and Supervisory Boards, and usually elects shareholder representatives to the Supervisory Board as well as appointing the auditor. The Annual General Meeting also passes resolutions on the bylaws and the objective of the Company, amendments to 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. It can decide whether to approve the remuneration system for Executive Board members.

Each share grants one vote in ballots. This excludes treasury shares held by the Company. The 2013 Annual General Meeting took place in Berlin on May 14, 2013. The Executive Board's presentation, information about attendance and the results of votes were published online after the event.

MANAGEMENT, CONTROL AND ORGANIZATION OF THE RHEINMETALL GROUP

The Rheinmetall Group with its Defence and Automotive sectors is managed by Rheinmetall AG based in Düsseldorf, which decides the Group's long-term strategic orientation and corporate policy as the management holding company. Rheinmetall AG is a listed company under German law and is subject in particular to the provisions of the German Stock Corporation Act (AktG), capital market regulations and provisions given in the Company bylaws.

A fundamental principle of German stock corporation law is the dual management system comprising the Executive and Supervisory Boards, which each have separate responsibilities. The Group is managed by the Executive Board as a whole, while the Supervisory Board's key tasks involve advising the Executive Board and monitoring its management activities. The Executive and Supervisory Boards work closely, constructively and in an atmosphere of trust, with the aim of ensuring the continued existence of the Company and creating sustainable value added. Rules of procedure are in place for both boards, containing regulations on the composition, tasks, responsibilities and areas subject to approval.

Corporate governance
Corporate governance report

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 creating sustainable value added. 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 Armin Papperger, Helmut P. Merch and Dr. Gerd Kleinert, who was succeeded by Horst Binnig as at January 1, 2014.

The members of the Executive Board bear joint responsibility for management of the Company. Their tasks include deciding on corporate targets, strategic orientation and business policy, controlling and monitoring the Defence and Automotive sectors and establishing an effective risk management system. The Executive Board is responsible for preparing annual and multi-annual planning. It also decides on the Group organization, HR policy and Group financing. Furthermore, the Executive Board draws up the quarterly and semi-annual financial statements and the single-entity and consolidated financial statements of Rheinmetall AG. It also ensures that laws, provisions, official regulations and internal corporate guidelines are observed and helps to ensure that subsidiaries comply with these.

The rules of procedure of the Executive Board govern the work 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, as well as the responsibilities of respective members of the Board. The CEO coordinates the work of the Executive Board. Resolutions of the Executive Board are passed at regular Board meetings.

Responsibilities of members of the Executive Board of Rheinmetall AG

	Armin Papperger	Horst Binnig	Helmut P. Merch
Corporate sector	Defence	Automotive	
Central departments	Human Resources		Controlling
	Corporate Communications		Accounting
	Law / Corporate Compliance		Treasury
			Tax
			IT

Notwithstanding the overall responsibility of the Executive Board, individual members manage the areas assigned to them by the schedule of responsibilities on their own responsibility. The members of the Executive Board keep each other informed of important events in their areas of responsibility and vote on all cross-divisional measures. They 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 divisions.

The rules of procedure of the Supervisory Board govern the collaboration of the Executive Board with the Supervisory Board. They 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.

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). Their term of office is five years. Supervisory Board members are committed to Rheinmetall's best interests when carrying out their work, have the same rights and duties, but are not bound by specific orders or instructions. Former Executive Board members of Rheinmetall AG are not represented on the Supervisory Board. The composition of the Supervisory Board and the terms of office of its members are outlined on page 2 of this Annual Report.

The Supervisory Board performs its activities in accordance with statutory provisions, the bylaws of Rheinmetall AG and its rules of procedure. 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. Supervisory Board meetings are held in accordance with the provisions of the German Stock Corporation Act (AktG). The shareholder and employee representatives meet separately where necessary to prepare for meetings.

The Supervisory Board 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 Chairman outlines the activities and decisions of the Supervisory Board in the Report of the Supervisory Board contained in the Annual Report and reports on the work of the Board at the Annual General Meeting.

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.

Corporate governance
Corporate governance report

The Supervisory Board has formed four committees from its members:

Personnel Committee – Tasks that are the responsibility of this 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.

Audit Committee – It is the job of the Audit Committee to support the Supervisory Board when performing its supervisory functions. It looks in particular at the consolidated and single-entity financial statements and quarterly accounts and – in addition to the accounting process – the adequacy and effectiveness of the internal control system, Internal Auditing, the risk management system and compliance.

Its activities also include monitoring the independence and selection of the auditor, determining the focal points of the audit and agreeing the fees.

Mediation Committee – 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.

Nomination Committee – 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.

The members of these committees support the Supervisory Board and reduce its workload by preparing time-consuming topics requiring extensive discussion 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. More information on the composition of the committees can be found on page 2 of this Annual Report.

The Supervisory Board is 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.

TARGETS FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The composition of the Supervisory Board of Rheinmetall AG serves to ensure that qualified individuals advise the Executive Board and monitor its management activities. As a group, the members of the Supervisory Board have the necessary knowledge, skills and professional experience to perform their advisory and monitoring duties properly in an international technology group. They are sufficiently independent and reflect the international activities of Rheinmetall Aktiengesellschaft. Supervisory Board members have in-depth knowledge of areas of operation that are key to the Company, and they have managerial experience in a corporate or operational context. They complement each other in terms of their background, professional career and specialist knowledge. The age limit regulation set out by the Supervisory Board in its rules of procedure is observed.

In 2012, two female employee representatives and one female shareholder representative were elected to the Supervisory Board during the Supervisory Board elections; meaning that the Supervisory Board has exceeded its original aim of having one female shareholder representative and one female employee representative.

The Supervisory Board believes it already has a suitable number of independent members who do not bear a business or personal relationship to the Company or members of the Executive Board that could cause a conflict of interests. In order to prevent potential conflicts of interest further, the Supervisory Board does not include any members who hold board positions or perform advisory activities for key competitors of Rheinmetall AG and its Group companies.

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. The offices held by Executive Board and Supervisory Board members are shown on pages 192 to 195.

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 39 et seq. The Vice Chairman of the Supervisory Board briefed the Annual General Meeting on May 14, 2013 on the basic components of Executive Board remuneration, which have also been disclosed on the Company's homepage under the heading "Corporate Governance – Executive Board".

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 2013. Securities transactions carried out since 2005 are 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.

Corporate governance
Corporate governance report

SHAREHOLDINGS OF BOARD MEMBERS

Members of the Supervisory Board and Executive Board and related parties held the following shareholdings on December 31, 2013:

Shareholdings of Board members

	2013	2013	2012	2012
	Number of shares	%	Number of shares	%
Executive Board	70,341	0.2	127,858	0.3
Supervisory Board	332,600	0.8	332,600	0.8
Total	402,941	1.0	460,458	1.2

D&O INSURANCE

Rheinmetall AG has taken out a D&O insurance policy (Directors' and Officers' liability insurance) for all Executive and Supervisory Board members, whereby a deductible of 10 % of the loss or one and a half times the annual fixed remuneration has been agreed.

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 directives and that conduct in accordance with the law and regulations is assured. Compliance activities focus on corruption prevention, export controls and cartel law. The compliance organization is described in more detail on pages 111 to 113.

RISK MANAGEMENT

A comprehensive, Group-wide reporting and control system is available to the Executive Board and managers of Rheinmetall AG. This is designed to identify risks to which the Company is exposed in the context of its international activities at an early stage and to minimize risk positions. Details of risk management at Rheinmetall AG are presented in the risk report on pages 80 to 95.

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.

ACCOUNTING AND AUDITING

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, which are 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 2013. The audit assignment was awarded by the Supervisory Board following the election of the auditor by the Annual General Meeting on May 14, 2013. The Supervisory Board ensures that no conflicts of interest adversely affect the auditor's work and commits it 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 2013 audit of financial statements has not indicated any such reportable facts.

COMMUNICATION WITH STAKEHOLDERS

Rheinmetall informs private and institutional investors, potential investors, analysts, customers, employees, lenders and interested members of the public of the economic and financial situation, new key developments and significant changes in the Group on a regular, transparent and up-to-date basis on its website at www.rheinmetall.com.

In addition to press releases, annual and quarterly reports and presentations in German, English and other languages, the websites include topical information about the Group and its divisions and companies, 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. Questions about the Company and its products and services are answered via information email addresses.

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.

Corporate Treasury is in direct contact with the financing banks.

Corporate Communications maintains dialog with representatives from the national and international specialist press and economic publications. Rheinmetall 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 and image films 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. In the year under review, the CEO sent five editions of the CEO's letter to employees of the Rheinmetall Group in Germany and abroad and informed them of business development and the situation of the Company.

Corporate governance
Disclosures required by takeover law

Explanatory report by the Executive Board in accordance with Section 176 (1) Sentence 1 AktG regarding disclosures required by takeover law in accordance with Sections 289 (4) and 315 HGB.

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, 2013, 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 do not exist. 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. This excludes treasury shares held by the Company in accordance with Section 71b AktG.

The Annual General Meeting selects shareholder representatives on the Supervisory Board as well as the auditor. It decides 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, 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 2013 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 defense 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 % or more of the shares. This Regulation aims to safeguard material security interests of the Federal Republic of Germany.

SHAREHOLDINGS EXCEEDING 10 % OF VOTING RIGHTS

On February 21, 2014, the investment company Harris Associates L.P., Chicago, USA, held over 10 % of shares in the Company. The Company received notifications from Bankhaus Lampe, Bielefeld, and MorganStanley, Delaware, stating that their shareholdings had risen above the threshold of 10 % in the year under review. These two investors reduced their shareholdings during the year.

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.

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.

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.

Corporate governance
Disclosures required by takeover law

ISSUING NEW SHARES AND REPURCHASING 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.

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.

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, 2013, Rheinmetall AG reported promissory note loans of €15.5 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 OF THE COMPANY

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

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 August 28, 2013 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 REMUNERATION

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.

Corporate governance
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 2012 totaled €248 million. On the basis of the reference share price of €41.69 for the end of February 2013, a total of 37,176 shares were transferred to members of the Executive Board of Rheinmetall AG who were in office in fiscal 2012 on April 2, 2013. The CEO, Klaus Eberhardt, received 14,871 shares, while Armin Papperger, Dr. Gerd Kleinert and Dr. Herbert Müller each received 7,435 shares. The corresponding expenditure is recorded in the remuneration report for the previous year. Average adjusted EBT totaled €206 million for fiscal 2013.

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 previous 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 2013 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 17 % 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 2013 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:

Granted benefits € '000

	Armin Papperger CEO From January 1, 2012		Dr. Gerd Kleinert Member of the Ececutive Board until December 31, 2013		Helmut P. Merch Member of the Ececutive Board from January 1, 2013	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Fixed remuneration	600	420	522	522	420	-
Fringe benefits	23	33	22	24	27	-
Total	**623**	**453**	**544**	**546**	**447**	**-**
One-year variable remuneration (STI)	-	164	329	340	-	-
Multi-annual variable remuneration (LTI)	907	682	566	682	453	-
Total	**1,530**	**1,299**	**1,439**	**1,568**	**900**	**-**
Pension expenses	42	155	-	43	63	-
Total remuneration	**1,572**	**1,454**	**1,439**	**1,611**	**963**	**-**

Inflows € '000

	Armin Papperger CEO From January 1, 2012		Dr. Gerd Kleinert Member of the Ececutive Board until December 31, 2013		Helmut P. Merch Member of the Ececutive Board from January 1, 2013	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Fixed remuneration	598	418	522	522	418	-
Fringe benefits	23	33	22	24	27	-
Total	**621**	**451**	**544**	**546**	**445**	**-**
One-year variable remuneration (STI)	164	-	347	680	-	-
Multi-annual variable remuneration (LTI)	682	-	682	578	-	-
Total	**1,467**	**451**	**1,573**	**1,804**	**445**	**-**
Pension expenses	-	-	-	-	-	-
Total remuneration	**1,467**	**451**	**1,573**	**1,804**	**445**	**-**

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board of Rheinmetall AG is regulated in Section 13 of the bylaws. 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.

Corporate governance
Board remuneration report

Members of the Supervisory Board received the following remuneration for fiscal 2013:

€

		2013	2012
Klaus Greinert	Chairman of the Supervisory Board and Chairman of the Personnel, Audit, Mediation and Nomination Committees	240,000	240,000
Dr. Rudolf Luz	Vice Chairman of the Supervisory Board and member of the Personnel, Audit and Mediation Committees	165,000	126,083
Roswitha Armbruster	Member of the Supervisory Board	60,000	37,667
Julia Cuntz	Member of the Supervisory Board	60,000	37,667
Professor Dr. Andreas Georgi	Member of the Supervisory Board	60,000	60,000
Dr. Siegfried Goll	Member of the Supervisory Board	60,000	60,000
Professor Dr. Susanne Hannemann	Member of the Supervisory Board and Member of the Audit Committee	75,000	47,084
Heinrich Kmett	Member of the Supervisory Board and memberof the Audit Committee	75,000	75,000
Dr. Michael Mielke	Member of the Supervisory Board	60,000	60,000
DDr. Peter Mitterbauer	Member of the Supervisory Board	60,000	60,000
Detlef Moog	Member of the Supervisory Board	60,000	60,000
Wolfgang Müller	Member of the Supervisory Board	60,000	60,000
Professor Dr. Frank Richter	Member of the Supervisory Board and member of the Mediation and Nomination Committees	90,000	95,667
Harald Töpfer	Member of the Supervisory Board and member of the Mediation Committee	75,000	69,417
Wolfgang Tretbar	Member of the Supervisory Board and member of the Personnel Committee	75,000	75,000
Toni Wicki	Member of the Supervisory Board and member of the Personnel Committee	75,000	69,417
Total		**1,350,000**	**1,233,002**

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

Economic report

Executive Board statement on the general economic situation

Business development in 2013 was characterized by very different developments on the markets and the Group's realignment as part of the "Rheinmetall 2015" strategy program which will set the Company's course for the next years. A high order intake at Rheinmetall Defence and very stable sales and earnings development at Rheinmetall Automotive was offset by non-recurring charges arising from the strategy program and weak sales development in the Defence sector.

Rheinmetall Group – actual vs. forecast business performance

		2013	Forecast Q3 2013	Forecast Q2 2013	Forecast Q1 2013	Forecast 2013	2012
Sales	€ billion	4,613	4.7–4.8	4.7–4.8	4.8–4.9	4.8–4.9	4,704
Operating result	€ million	213	180–200	180–200	240–260	240–260	268

Following consolidated sales of €4.7 billion in fiscal 2012, in March 2013 we forecast that we would achieve sales of between €4.8 billion and €4.9 billion in the past fiscal year, with a contribution of approximately €2.4 billion from Rheinmetall Defence and between €2.4 billion and €2.5 billion from the Automotive sector. At that time, we planned to generate an operating result of between €240 million and €260 million in the Rheinmetall Group, with a figure of approximately €130 million anticipated for Defence and around €140 million for Rheinmetall Automotive.

At the end of July 2013, we lowered the sales and earnings forecast for 2013 as a whole that we published for the Defence sector in March 2013, but confirmed our outlook for the Automotive sector. Despite a significant improvement in the operating result during the second quarter of 2013 compared to the first quarter, we no longer expected the Defence sector to achieve the operating result before interest and taxes (EBIT before restructuring measures) of €130 million that we had originally anticipated. The forecast for operating EBIT in the Defence sector was lowered to between €60 million and €70 million. A deciding factor here was the annual sales forecast for the Defence sector which had been cut by around €100 million from €2.4 billion to €2.3 billion. The main reasons for this were budget cuts in key customer nations, which especially affected the munitions business where short-term requirements failed to meet expectations. We also anticipated additional acquisition costs for high-volume programs and increased handling costs for individual orders.

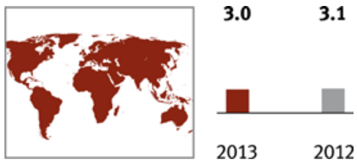
Operating segments – actual vs. forecast business performance

	Sales			Operating result		
	2013	Target 2013	2012	2013	Target 2013	2012
Defence	€2,155 million	approx. €2.4 billion	€2.335 million	€60 million	€130 million	€145 million
Automotive	€2,458 million	approx. 2.4 - 2.5 billion	€2.369 million	€160 million	€140 million	€139 million

ECONOMIC REPORT
GENERAL ECONOMIC CONDITIONS

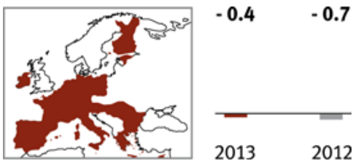
Economic growth 2013 compared to 2012 % | **Key statements on economic development**

WORLD



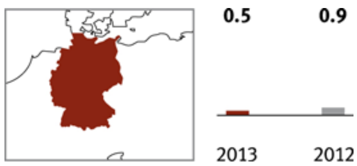
Mixed signals from large economic regions
- Slight reduction in momentum in emerging countries hampers economic upturn (economic output of emerging countries +4.7%, compared to +4.9% in 2012)
- Growth in mature industrialized nations down slightly year-on-year (+1.3%, compared to 1.4% in 2012)
- Surprisingly positive development in the USA
- Signs of recovery in the eurozone
- Strong financial markets as a result of expansionary monetary policies of central banks support global economy

EUROZONE



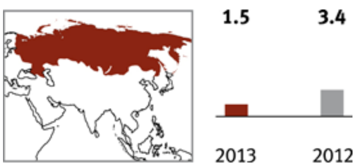
Prospect of recovery after lengthy "lean period"
- Decline in economic output lower than expected at -0.4%
- Subdued rise in prices far below ECB stability target of 2%
- Base rate in the eurozone at record low at 0.25 %
- Ongoing fears relating to the banking sector, but risks mitigated through implementation of the banking union
- Ongoing high unemployment in southern EU nations high risk factor for reform policy (e.g. rate of unemployment in Spain at 26.7% in November).

GERMANY



German economy back on growth track after weak start
- Revival of overall economic output and rise in exports from second quarter of 2013
- Robust labor market (unemployment rate of 6.9%) and considerable wage increases support private consumption
- Moderate rate of inflation of 1.5% (2012: 2.0%)
- ifo business climate index up again at end of 2013

RUSSIA

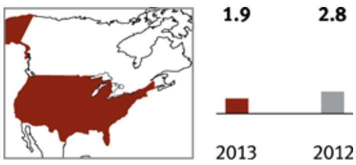


Faltering economy and rising risk of recession
- Russian economic growth fails to meet expectations with increase of 1.5%
- Inflation rises to 6.5%

Economic growth 2013 compared to 2012 %

Key statements on economic development

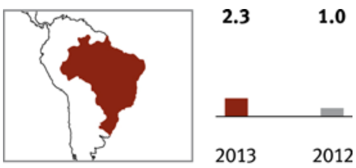
USA



Noticeable economic recovery from 3rd quarter of 2013

- After a cautious start, the US economy achieved surprisingly stronger economic growth in the second half of the year
- Falling unemployment figures (rate in November at 7.0 %), defusing of budget dispute and expansionary monetary policy support upturn
- IMF sees the USA as being on a "sustainable growth path" at the end of 2013

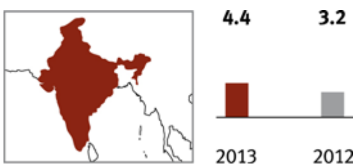
Brazil



Boom country with signs of slowdown

- Comparatively low recovery trend with growth of just 2.5 % after a weak previous year
- No indicators of strong upturn in sight
- Base rate at record level compared with the rest of the world at 10 %
- Inflation at just under 6 %

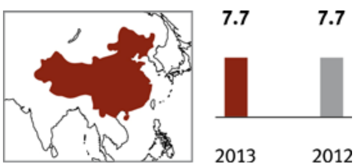
India



India still down on earlier growth momentum

- Growth rate fails to meet original expectations
- Combination of comparatively low growth rates, higher interest rates, rising prices, significant current account deficit and weak currency are indicators of a crisis in the Indian economy
- Additional growing risk of "bad loans": Increase to 4.2 % of overall credit volume

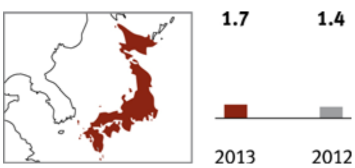
China



China, the driving force behind growth, loses steam

- Chinese economic growth still at high level, but with lowest growth rates in years
- Central government implemented an economic stimulus package to stabilize growth in the third quarter
- Inflation rate of over 3 % stirs up fears of more restrictive monetary policy

Japan



Japan fails to meet expectations in second half of 2013

- Japanese gross domestic product grows by just 1.7 % despite expansionary monetary policy and economic stimulus packages
- Huge imports of fossil fuels due to switched-off nuclear power plants exacerbate trade deficit

GDP figures in percent in accordance with IMF World Economic Outlook 01/2014
Sources: IMF – World Economic Outlook 01/2014; OECD – Economic Outlook No 94, November 2013; "*Gemeinschaftsdiagnose*" – *Herbstgutachten der deutschen Wirtschaftsforschungsinstitute* (fall report of German economic research institutes) dated November 17, 2013; ifo business climate index, December 2013; Rheinmetall AG

Economic report
General economic conditions

WANING MOMENTUM IN EMERGING COUNTRIES SUBDUES GLOBAL ECONOMY

Key national economies exerted differing levels of influence over the world economy in 2013. In particular, the large emerging nations of China, India, Russia and Brazil lost growth momentum and failed to reach the expectations of economic researchers in some cases.

China’s gross domestic product (GDP) grew by 7.7% in 2013 and it continued to be a key driver of the world economy, but was no longer able to replicate its significantly higher growth rates seen in previous years. Against this backdrop, the International Monetary Fund (IMF) calculated growth in global economic output of 3.0 % for the reporting year in its “World Economic Outlook” from January 2014. The global economy grew by 3.1% in 2012.

The USA and Europe delivered relatively positive news just recently. While the outlook for the US economy improved noticeably in the second half of 2013 (1.9 % increase in GDP in 2013), the IMF announced that initial signs of recovery were emerging in the eurozone nations after several years of recession. At 0.4%, the decline in economic output here in 2013 was somewhat lower than originally expected. After a weak start, the economic situation in Germany also improved as the year went on. According to the IMF, German gross domestic product rose by 0.5% and was therefore 0.2 percentage points up on what was forecast in the previous summer.

However, economic development in Japan was disappointing. Despite its expansionary monetary policy and huge government economic stimulus packages, growth in Japanese gross domestic product failed to meet the expectations of economic researchers at 1.7%.

VARIED DEVELOPMENT ON DEFENSE MARKETS IN THE YEAR UNDER REVIEW

2013 was characterized by mixed spending trends on regional Defense markets: Budgets trending upward, particularly in Russia, Asian emerging markets, and in parts of Africa and the Pacific region, were offset by sinking or stagnating defense spending in North America and Europe.

On balance, this led the global defense sector declining in 2013. According to updated calculations by defense analysts at IHS Jane’s from the end of January 2014, global military spending totaled approximately USD 1,538 billion in the year under review after approximately USD 1,594 billion in 2012.

The proportion of sales achieved abroad by Rheinmetall Defence was 68% in the reporting year (2012: 67%). The German defense sector remained the largest individual market in 2013 with a share of 32 %. The NATO nations, especially the USA, Norway, the Netherlands, Poland and Turkey, once again represented further key markets. However, Australia and several emerging nations continued to gain in importance for Rheinmetall Defence. Examples include Russia, South Africa and Indonesia along with countries in the Middle East and North Africa such as the United Arab Emirates and Algeria.

The following table provides an overview of development of defense spending in key markets for Rheinmetall Defence.

Defense budgets of selected countries

Country	Currency	2013	2012	Change in %
Germany	€ billion	33.26	33.51	-0.7
World	USD billion	1,537.57	1,594.19	-3.6
Norway	USD billion	7.35	7.25	+1,3
Sweden	USD billion	6.59	6.52	+1,1
Netherlands	USD billion	10.46	11.06	-5.4
Polen	USD billion	9.15	9.36	-2.2
Russian Federation	USD billion	68.89	64.18	+7,3
UAE	USD billion	6.49	5.67	+14,6
Turkey	USD billion	20.62	20.42	+1,0
Algeria	USD billion	10.78	9.60	+12,3
South Africa	USD billion	4.43	4.35	+1,8
USA	USD billion	582.42	664.31	-12.3
Indonesia	USD billion	7.80	6.86	+13,7
Australia	USD billion	29.44	28.37	+3,8

Sources: Budget Law 2014, German Bundestag, printed matter 17/14300 and IHS Jane's as at January 2014

RHEINMETALL DEFENCE EXPLOITS GROWTH SEGMENTS AND GROWTH REGIONS

In view of stagnating or falling budgets in many European countries and North America, we stepped up our activities in targeted markets in 2013 which are experiencing robust growth and are also compatible with the security policy objectives of the Federal Republic of Germany. For example, the Australian armed forces placed a large order in July 2013 to supply around 2,500 protected and unprotected logistics vehicles. The volume of this contract amounts to approximately AUD 1.6 billion (around €1.1 billion). Other important customer acquisition successes in growth regions included an order placed by the Republic of Indonesia to supply military tracked vehicles together with logistics equipment and ammunition with a combined value of approximately €216 million. This contract was signed back in December 2012 and became legally valid in November 2013 once all formal requirements had been met.

In the year under review, Rheinmetall Defence also demonstrated that new business potential can still be leveraged in stagnating or receding markets due to the ongoing need for substantial modernization of western armed forces. One example is the order placed in January 2013 to supply around 700 premium sensor devices and fire control systems for various vehicle types used by the German armed forces. Rheinmetall Defence is therefore making a key contribution to modernizing electro-optical sensors on a number of the German armed forces' vehicles. The order volume is approximately €55 million. The renewal of a partnership agreement with the Dutch armed forces in January 2013 to supply various ammunition types is also important. The previous contract was extended by a further seven years to the end of 2019.

Economic report
General economic conditions

GROWING AUTOMOTIVE MARKETS IN THE USA AND CHINA – RAY OF HOPE IN EUROPE

The development of global production of passenger cars and light commercial vehicles up to 3.5t is an important business indicator for companies in the Automotive sector. According to calculations by analysts at IHS Automotive, global production rose by 3% in the year under review. This means that 82.1 million vehicles rolled off production lines, compared with 79.7 million units produced in the previous year.

China and the NAFTA region were key growth drivers with increases of 13% and 4.8 % respectively. The Western European market showed initial signs of recovery in 2013 with a decline of 0.1%, although production in Germany continued to far outstrip the European average with growth of 0.8%. In the triad markets of NAFTA, Western Europe, and Japan, vehicle production moved up by 0.9 %. This weak growth is due not least to the weak Japanese market which had to absorb a decline of 4.4 % following the expiration of government incentives to buy at the start of 2013. Disappointing economic development in India was also reflected in the weak Indian automotive market which saw production fall by 3.7%. However, Brazil made a positive contribution. Its production output in 2013 was up 6.8% year-on-year.

In 2013, the Automotive sector generated around 25 % of its sales with German passenger car manufacturers, 19% with the US corporations Ford and General Motors, and 8% with the French/Japanese Renault/Nissan Alliance. The remaining sales were attributable to other passenger car OEMs and commercial vehicle manufacturers, along with non-automotive applications (e.g. ship engines) and the aftermarket business.

Rheinmetall Automotive's balanced customer portfolio is reflected in the regional distribution of its sales. In 2013, 23% of Automotive's business was generated in its German home market, 35% in Western Europe (excluding Germany), 13% in Eastern Europe and 13 % in the NAFTA region. The emerging nations are becoming more important, and especially China as before. However, we currently cover the majority of local needs there via local joint ventures recognized at equity, meaning that their sales are not included in consolidated sales.

Production of passenger cars and light commercial vehicles up to 3.5t in selected countries
Millions of units

Country	2013	2012	Change in %
World	82.13	79.74	+3,0
Western Europe (incl. Germany)	13.57	13.58	-0,1
Germany	5.58	5.53	+0,9
Eastern Europa	5.65	5.67	-0,4
Russian Federation	1.99	2.12	-6,1
NAFTA	16.17	15.43	+4,8
USA	10.87	10.11	+7,5
South America	4.45	4.27	+4,2
Brazil	3.39	3.17	+6,9
Asia (incl. Japan)	41.31	39.86	+3,6
Japan	8.83	9.23	-4,3
China	19.10	16.91	+13,0
India	3.63	3.77	-3,7

Source: IHS Automotive as at January 2014

CHALLENGING MARKET ENVIRONMENT FOR COMMERCIAL VEHICLE SECTOR

In December 2013, the Association of the German Automotive Industry (VDA) described the market environment for the commercial vehicle sector as “challenging”. Although global production of trucks over 6.0 t rose by 5.2% to 2.72 million vehicles in 2013 according to IHS Automotive’s calculations, markets in the mature industrialized nations largely declined. Production of heavy commercial vehicles in the NAFTA region fell by 3.0%, while production in Western Europe and Germany in particular was also clearly in decline at -2.8% and -9.3% respectively. However, according to the VDA, there was a turnaround in the last few months of the reporting year. The investment backlog slowly started to ease thanks to purchasing being brought forward due to the new Euro-6 standard and the general economic recovery. In particular, the VDA confirmed that the situation in France and Spain was stabilizing. Like the passenger car market, markets outside Europe are also on a growth course. According to IHS Automotive, Brazil (+47.4%) and China (+17.8%) posted particularly strong production growth for heavy trucks.

Rheinmetall Automotive is set to promote its business activities involving applications to reduce pollutants and greenhouse gases for heavy commercial vehicles. Expertise gained through the development of advanced drive technologies for passenger cars and light commercial vehicles will form the basis for this. We currently expect to grow faster than the market by transferring our recognized technology in this area.

Production of heavy commercial vehicles over 6.0t in selected countries Millions of units

Country	2013	2012	Change in %
World	2.715	2.581	+5.2
Western Europe (incl. Germany)	0.391	0.402	-2.7
Germany	0.125	0.138	-9.4
NAFTA	0.417	0.429	-2.8
USA	0.278	0.292	-4.8
Brazil	0.196	0.133	-47.4
Asia (incl. Japan)	1.608	1.505	+6.8
Japan	0.306	0.300	+2.0
China	1.030	0.875	+17.7
India	0.233	0.302	-22.8

Source: IHS Automotive as at January 2014

RHEINMETALL AUTOMOTIVE BENEFITS FROM INTERNATIONALIZATION AND REGULATORY TRENDS

Both in the passenger car and light commercial vehicle segment and in the heavy commercial vehicle segment, Rheinmetall Automotive benefited from its strong presence in key growth markets in 2013, especially the NAFTA region, China and Brazil.

The global regulatory trend towards environmentally-friendly mobility also had a positive effect on our Automotive business. Take the NAFTA region for example: Here, we received several large orders in 2013 for innovative mechatronics components aimed at reducing consumption and emissions from renowned American automotive manufacturers. The sales volume of these orders for the Mechatronics division amounts to over €400 million over the entire duration of the contract. The largest stake in this overall volume is held by a combined oil and vacuum pump that brings about consumption advantages, thereby reducing CO_2 emissions. Production of the new pump generation at our new plant in Celaya, Mexico, will be launched at the start of 2015.

Economic report
General economic conditions

Against the backdrop of strong growth momentum on the Chinese market, Rheinmetall Automotive expanded its market presence in China further in 2013. Thanks to three new sales and production sites, we are now present in eleven locations in China. We commissioned a new production plant in Kunshan in the Shanghai region which will mainly manufacture exhaust gas recirculation systems. In modern engines, exhaust gas recirculation constitutes an important component enabling them to meet current and future exhaust gas standards.

We also entered into another partnership agreement with the SAIC Group and formed a joint venture to manufacture and market pumps for automotive applications. Both partners each hold a 50 % stake in the new Shanghai-based company, Pierburg Huayu Pump Technology Co., Ltd. (PHP).

The Large-Bore Pistons product group also formed a new company specifically for the Asian markets. Since the end of 2013, KSLP (China) Co. Ltd. has supplied customers in China, Japan and Korea with large-bore pistons for ship engines, locomotives and stationary generators from its new sales and production site in the Shanghai region. The company is therefore taking account of this market segment's dynamic development in this region: Around 80 % of all seagoing vessels are now built in these countries, followed by Vietnam and India.

DEVELOPMENT OF THE METAL AND ENERGY MARKETS IN 2013

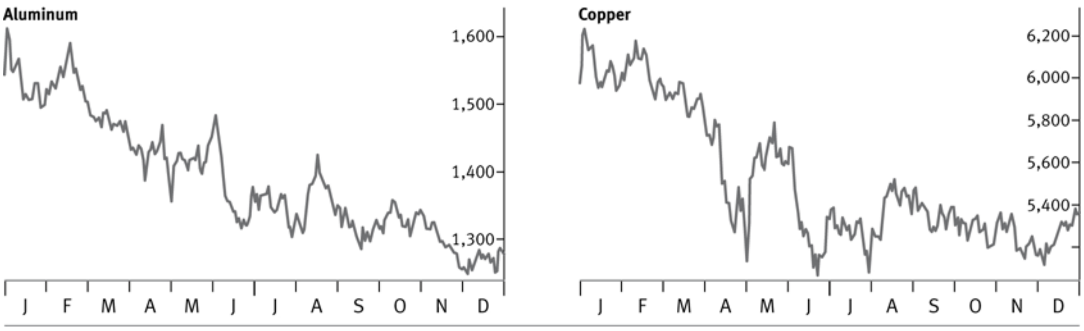
The London Metal Exchange Index fell by 8.5% year-on-year in 2013. This decline was mainly due to falling prices for industrial metals. The price of nickel fell by 19% (in EUR: -22%), aluminum by 14% (in EUR: -18 %), copper by 7% (in EUR: -11%) and tin by 5 % (in EUR: -9%). Increasing mining capacity on the market had a downward effect on these prices. Past price spikes had increased the incentive to develop new mines or even invest in expanding mines. With a time lag of three to five years, additional supply is now entering the market and pushing prices down.

Furthermore, this growing supply was not offset by sharply rising demand for metal. This was especially the case in the first half of 2013 and then led to a sharp increase in metal inventories in London and Shanghai. The price of tin declined the least. This is due to Indonesia's export restrictions which, as the world's largest exporter of tin, decided to restrict its exports with the aim of making money from processing the metal.

Metal prices fell mainly in the first six months of the year. There were two main reasons for this. Firstly, China's weak economic data proved disappointing after the new Chinese government began to focus its future economic policy on sustainability. There were also temporary fears surrounding the Chinese banking system after Chinese interbank interest rates rocketed to over 11% within the space of a few weeks in June 2013. Secondly, there was discussion that the US Federal Reserve may begin to taper its bond-buying program early. The situation brightened in the second half of the year, but this only led to moderate recovery in metal prices, leading to a sideways trend from August 2013 that persisted until the end of 2013. The budget dispute that smoldered in the USA for a long time and the fact that the USA almost reached its debt ceiling prevented an increase in metal prices.

Positive, and in some cases surprisingly good, economic data in China, the USA and Europe only prevented a further decline in metal prices in the second half of 2013 – it barely provided any kind of boost. For example, while the share markets celebrated the announcement in mid-November 2013 of detailed reform plans including those aimed at liberalizing the financial markets and land acquisition, along with the relaxation of the one-child policy in China, metal prices did not respond to these announcements at all.

Aluminum and copper prices 2013 € '000



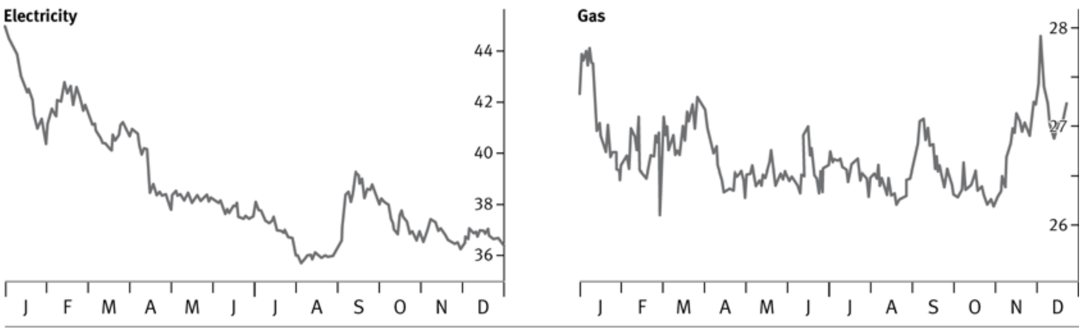
The situation was somewhat different when it came to our own metal purchasing activities in 2013. In contrast to the LME, the purchase price for secondary aluminum increased by 6.5% over the course of the year. This rise was only partly absorbed by our price hedging mechanisms.

In 2013, the international energy markets were characterized by a further decline in spot market prices and forward prices for base-load and peak-load electricity. This was primarily due to excess electricity capacity, which was the result of higher volumes generated from renewable energy sources and was also reflected in extremely volatile price development. Forward prices for base-load electricity for supply in 2014 fell by 18 % over the course of the year.

Within the context of our electricity price hedging strategies, we take action several years in advance based on our medium-term planning, meaning that we could not make full use of the decline in EEX prices in 2013 for our own procurement activities. In addition, the drastic increase in the EEG levy aimed at promoting renewable energies to a record figure of 5.3 cents per kilowatt hour in 2013 compared to 3.6 cents per kilowatt hour in 2012 together with the introduction of the offshore levy led to overcompensation of reduced exchange prices.

However, the EEX price for natural gas stood at €27.31 per MWh at the end of the year, which is just 3 cents down on the start of the year.

Electricity and gas prices 2013 €

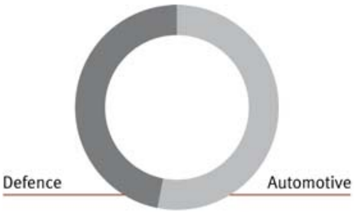


Economic report
Rheinmetall Group

RHEINMETALL GROUP SALES AT €4.6 BILLION

In fiscal 2013, the Rheinmetall Group experienced virtually stable development with consolidated sales of €4,613 million. Sales remained 2 % down on the previous year's figure of €4,704 million, solely due to exchange rate effects. Rheinmetall Defence accounted for 47 % of total sales (previous year: 50 %), while Automotive accounted for 53 % (previous year: 50 %).

Sales € million



	2013	2012
Rheinmetall Group	4,613	4,704
Defence	2,155	2,335
Automotive	2,458	2,369

Rheinmetall Defence achieved sales of €2,155 million in the past fiscal year, which is down €180 million or 8 % on the previous year's figure. After adjustment for currency effects, sales fell by 6%. In 2013, the Automotive sector increased its sales by 4 % to €2,458 million, following €2,369 million in fiscal 2012. The Automotive sector achieved growth of almost 6% after adjustment for currency effects.

At 72 %, the international share of consolidated sales in fiscal 2013 was at the same level as the previous year. Alongside the German market (28 %), the key regions in terms of sales volumes were Europe excluding Germany (39 %), followed by Asia (14 %) and North and Central America (11 %).

ORDER INTAKE IN THE RHEINMETALL GROUP REACHES €5.8 BILLION

Order intake in fiscal 2013 reached €5,805 million, following €5,311 million in the previous year. At €3,339 million, the Defence sector was 14 % or €406 million up on the previous year's figure of €2,933 million. The order intake of the Automotive sector rose from €2,378 million in 2012 to €2,466 million in the year under review.

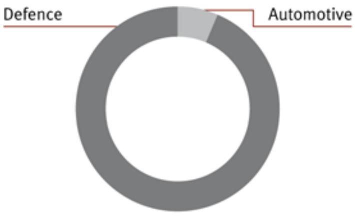
Order intake € million

	2013	2012
Rheinmetall Group	5,805	5,311
Defence	3,339	2,933
Automotive	2,466	2,378

GROUP ORDER BACKLOG OF €6.5 BILLION

At €6,475 million, the Rheinmetall Group had an order backlog that was significantly up on the level of the previous year (€5,405 million). At the end of fiscal 2013, the order backlog in the Defence sector stood at €6,050 million (previous year: €4,987 million). In the Automotive sector, the order backlog as at the balance sheet date totaled €425 million, following €418 million in the previous year.

Order backlog € million



	2013	2012
Rheinmetall Group	6,475	5,405
Defence	6,050	4,987
Automotive	425	418

OPERATING RESULT OVER €200 MILLION

In the past fiscal year, the Rheinmetall Group's operating result (EBIT before special items) was €213 million (previous year: €268 million). The operating margin was 4.6 %, following 5.7 % in the previous year. While the Defence sector fell far short of the previous year's figure (€145 million) with an operating result of €60 million, the Automotive sector increased its earnings by 15 % to €160 million. The operating result for the area Others/Consolidation includes the result for Rheinmetall AG and increased in fiscal 2013 as a result of income from the successful development of a plot of land in Düsseldorf-Derendorf. In the previous year, this also included one-off expenses in connection with the then planned IPO of KSPG AG.

Operating result € million

	2013			2012		
	Operating result	Special items	EBIT	Operating result	Special items	EBIT
Rheinmetall Group	**213**	**(101)**	**112**	**268**	**28**	**296**
Defence	60	(56)	4	145	28	173
Automotive	160	(45)	115	139	-	139
Others/consolidation	(7)	-	(7)	(16)	-	(16)

After including negative non-recurring effects of €101 million (previous year: positive effect of €28 million), EBIT reached €112 million in the year under review and was therefore €184 million down on the previous year's figure of €296 million.

Economic report
Rheinmetall Group

EARNINGS BEFORE TAXES (EBT) TOTALS €35 MILLION

Net interest improved to €-77 million (previous year: €80 million), particularly as a result of lower charges from pension obligations. The Rheinmetall Group's earnings before taxes (EBT) were €35 million compared to €216 million in the previous year.

Earnings after taxes totaled €22 million, following €173 million in the previous year. Following inclusion of earnings attributable to minority interests, this brings earnings per share to €0.75 (previous year: €4.55).

Group net income € million

	2013	2012
EBIT	**112**	**296**
Net interest	(77)	(80)
EBT	**35**	**216**
Income taxes	(13)	(43)
Group net income	**22**	**173**
of which:		
Minority interests	(7)	0
Rheinmetall AG shareholders	29	173
Earnings per share (in €)	**0.75**	**4.55**

CASH FLOW STATEMENT

With a decline of €151 million in earnings after taxes, 2013 saw a cash flow of €231 million (previous year: €356 million). The cash flow from operating activities was €195 million, down €164 million on the previous year.

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 €4 million (previous year: €125 million). After accounting for cash receipts from the disposal of fixed assets and divestments and payments for acquisitions, the free cash flow came to €22 million (previous year: €140 million), which was down €118 million year-on-year.

Cash flow statement € million

	2013	2012
Gross cash flow	**231**	**356**
Changes in working capital and other	(36)	3
Net cash provided by operating activities	**195**	**359**
Investments in intangible assets and property, plant and equipment	(191)	(234)
Operating free cash flow	**4**	**125**
Cash receipts from the disposal of intangible assets, property, plant and equipment and investment property	6	7
Net cash outflow from financial investments in/divestments of consolidated subsidiaries and other financial assets	12	8
Free cash flow	**22**	**140**

ASSET AND CAPITAL STRUCTURE

In fiscal 2013, the Rheinmetall Group's total assets fell by €40 million to €4,857 million (-1 %). Non-current assets represented 48 % of total assets as at December 31, 2013, compared with 49 % in the previous year. They decreased by €37 million to €2,342 million. This decline was mainly the result of a reduction in intangible assets and property, plant and equipment. Current assets fell by €5 million year-on-year. The decline in cash and cash equivalents (€-56 million) and trade receivables (€-50 million) was offset by an increase in inventories (€110 million).

Asset and capital structure € million

	Dec. 31, 2013	%	Dec.31, 2013	%
Noncurrent assets	2,342	48	2,379	49
Current assets	2,515	52	2,520	51
Total assets	**4,857**	**100**	**4,899**	**100**
Equity	1,339	28	1,465	30
Noncurrent liabilities	1,578	32	1,655	34
Current liabilities	1,940	40	1,779	36
Total equity and liabilities	**4,857**	**100**	**4,899**	**100**

The equity ratio is 28 %, following 30 % in the previous year. In fiscal 2013, the equity of the Rheinmetall Group fell by €126 million, or 9 %, to €1,339 million. This decline resulted primarily from differences arising from currency conversion recognized in equity (€84 million) and dividends payouts (€75 million). This was countered by earnings after taxes (EUR 22 million) and actuarial gains from pension provisions (EUR 22 million). The €77 million decline in non-current liabilities to €1,578 million resulted from the decline in pension provisions (€28 million), non-current financial debts (€24 million) and deferred taxes (€12 million). The €161 million rise in current liabilities was attributable almost equally to trade payables (€73 million) and other current liabilities (€76 million), which included a €59 million increase in prepayments received.

In terms of the total assets adjusted for cash and cash equivalents, the equity ratio was 30 % compared to 33 % in the previous year. Financial debts fell by €16 million or 3 % 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 €445 million following €501 million on the balance sheet date of the previous year. The net financial debts for 2013 totaled €138 million, following €98 million in the previous year. The proportion of net financial debts in relation to adjusted total assets was 3 % in the fiscal year 2013, compared to 2 % in the previous year.

Economic report
Rheinmetall Group

Capital structure € million

	Dec. 31, 2013	%	Dec. 31, 2012	%
Equity	**1,339**	**30**	**1,465**	**33**
Current financial debts	51	1	27	1
Noncurrent financial debts	532	12	572	13
Total financial debts	**583**	**13**	**599**	**14**
Cash and cash equivalents/financial resources	(445)	(10)	(501)	(12)
Net financial debts	**138**	**3**	**98**	**2**
Total assets adjusted for cash and cash equivalents	**4,412**	**100**	**4,398**	**100**

IMPROVEMENT IN VALUE ADDED

In fiscal 2013, the Rheinmetall Group generated added value of €1,509 million. The Group's total operating performance came to €4,983 million, compared with €5,092 million in the previous year. At 30 %, the ratio of value added to total operating performance was slightly under the previous year's level of 33 %. Value added per employee amounted to €70,000 (previous year: €77,000). The workforce benefited from the largest share of value added in fiscal 2013 at 92 %. 2 % was apportioned to the Treasury. Interest payable to lenders in the year under review was 5 %. At €15 million, the shareholders of Rheinmetall AG received a 1 % share of value added. €7 million remained within the Rheinmetall Group, following value added of €104 million or 6 % in the previous year.

Source and use of value added € million

	2013	%	2012	%
Source				
Group's total operating performance	4,983	100	5,092	100
Input	(3,262)		(3,223)	
Amortization and depreciation	(212)		(194)	
Value added	**1,509**	30	**1,675**	33
		%		%
Use				
Employees	1,385	92	1,366	82
Treasury	23	2	52	3
Lenders/banks	79	5	84	5
Shareholders	15	1	69	4
Companies	7	0	104	6
Value added	**1,509**	**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.

LIQUIDITY

Cash and cash equivalents declined by €56 million in the reporting year to €445 million. The good liquidity situation over the course of the year was used to repay further high-interest promissory note loans in the amount of €20 million ahead of schedule. There were also significant outflows resulting from restructuring measures and in the Defence sector owing to unforeseeable costs in connection with the acquisition of large projects. Net financial debts increased more or less in parallel from €98 million to €138 million. Rheinmetall's liquidity supply was ensured at all times in the past fiscal year through available liquidity and financing lines.

INCREASED COST EFFICIENCY THANKS TO RESTRUCTURING

As well as internationalization and a focus on innovation, increasing the Company's cost efficiency is a central component of the "Rheinmetall 2015" strategy program aimed at improving Rheinmetall AG's profitability on a sustainable basis. Measures to increase cost efficiency were implemented in the Defence and Automotive sectors in the year under review.

The Defence sector focused on cost efficiency measures aimed at improving project management activities and adjusting cost structures, which will help to minimize future cost overruns and make employment structures more flexible so that they can be adapted more quickly to business development. The cost efficiency measures focused on the tracked and wheeled vehicle business. The impact of the initiation and implementation of operations and personnel measures on earnings in the period under review was €51 million. Around 600 employees will leave the Defence sector by 2015 as part of these measures. Once implemented in full, these measures will lead to annual savings of between €40 million and €50 million. These savings are expected to be fully effective from 2015 onwards.

The implementation of cost efficiency measures in the Automotive sector helped to optimize global cost structures. The measures introduced are geared towards adjusting production capacities in Europe, especially in the Hardparts division, and optimizing global production locations. Automotive also continued to press ahead with the development of service centers around the world. In the period under review, the impact of restructuring costs on earnings in the Automotive sector was approximately €35 million. The measures initiated will lead to the departure of up to 558 employees by the end of 2015. Sustainable cost advantages of between €20 million and €25 million annually are expected from 2015 onwards.

Economic report
Defence sector

ORDER INTAKE FOR RHEINMETALL DEFENCE AT RECORD LEVEL

The Defence sector acquired orders worth €3,339 million in the year under review, compared to €2,933 million in 2012. Thanks to this year-on-year rise of €406 million or 14 %, the order intake achieved in 2013 was at a record level. The Combat Systems and Wheeled Vehicles divisions acquired three important international orders with a combined volume of approximately €1,800 million.

Order intake € million

	2013	2012
Rheinmetall Defence	**3,339**	**2,933**
Combat Systems	1,594	1,560
Electronic Solutions	615	949
Wheeled Vehicles	1,450	524
Other/consolidation	(320)	(100)

The order intake in the Combat Systems division rose to €1,594 million, following €1,560 million in the previous year. While the order intake in the previous year was dominated by a large ongoing order, scheduled to last several years, from the North Africa/Middle East region for various ammunition types, orders from Indonesia and Qatar worth a combined total of €700 million were of central importance in the reporting year. Ammunition orders of between €50 million and €70 million each were also acquired from the North Africa/Middle East region in the period under review. However, most of the order intake in the division was dominated by a number of small and medium-sized orders, such as 40mm ammunition in various configurations, protection components, drive systems and maintenance services for the German armed forces.

The order intake in the Electronic Solutions division amounted to €615 million, which was down significantly on the previous year's figure of €949 million. This decline was due in part to the postponement of various projects, especially air defense system projects. Some of these orders are now expected in 2014. The previous year was also characterized by several larger-volume orders, such as a Norwegian upgrade program for the CV90 tracked vehicle. Furthermore, the order intake in the previous year still included orders received in the Airborne Systems area of €75 million, the majority of which was sold to Cassidian in mid-2012. Key orders received in the reporting year were orders to supply fire control technology and electro-optical components in connection with the order received from Qatar in the Combat Systems division and follow-up orders from the German armed forces for state-of-the-art "Gladius" infantry equipment. Further smaller and medium-sized orders were received to supply electro-optical components and simulators.

The Wheeled Vehicles division posted the second largest individual order in the history of the Rheinmetall Group with Australia's Project Land 121 worth €1.1 billion. Thanks to this order, the division achieved an order intake volume totaling €1,450 million in fiscal 2013 compared to €524 million in the previous year. The Australian armed forces commissioned Rheinmetall MAN Military Vehicles to supply an extensive fleet of trucks. The Australian Defence Force wishes to procure around 2,500 protected and unprotected medium and heavyweight logistics vehicles as part of an extensive modernization program. Over 1,000 of these vehicles will be equipped with a protected compartment developed by Rheinmetall Defence. This large order once again confirms the role played by Rheinmetall MAN Military Vehicles as one of the world's leading suppliers of wheeled military vehicles. Further orders received in 2013 concerned various national and international orders to supply or maintain wheeled tactical or logistics vehicles.

RHEINMETALL DEFENCE FACED WITH CHALLENGES DUE TO DIFFICULT MARKET ENVIRONMENT

Sales in the Defence sector totaled €2,155 million in the period under review. Compared to the previous year's figure of €2,335 million, sales fell by €180 million or 8%, with this decline affecting all three divisions of Rheinmetall Defence. The decline in sales due to currency effects was 6%.

Sales € million

	2013	2012
Rheinmetall Defence	**2,155**	**2,335**
Combat Systems	1,027	1,136
Electronic Solutions	710	748
Wheeled Vehicles	539	567
Others/consolidation	(121)	(116)

In fiscal 2013, the Combat Systems division achieved sales totaling €1,027 million, which is down €109 million on the previous year (€1,136 million). Sales development suffered due to budget cuts in key customer nations which especially affected the munitions business and tracked vehicle business. The main national sales drivers in the period under review included ongoing series production in the Puma infantry fighting vehicle project and invoices for maintenance services. From an international perspective, sales were achieved through tracked vehicles and protection components supplied as part of orders placed by customers in Asia and North America, as well as invoices for ammunition and ammunition components supplied to various customers, including customers from North America and the Middle East. Furthermore, propellant powder for artillery and tank ammunition was supplied and invoiced to the UK and France.

Sales in the Electronic Solutions division totaled €710 million, compared to €748 million in the previous year. Sales highlights during the 2013 fiscal year were sales achieved through ramped-up series production in the German armed forces' Gladius project, state-of-the-art infantry equipment developed by Rheinmetall, and invoices from the large order to build an army training center in Russia. Relevant sales were also generated thanks to the combat training center for the German armed forces in Letzlingen which has been successfully run by Rheinmetall for several years now and the development and series production deliveries of cargo loading systems for the Airbus A400M. The division achieved further significant sales through invoices submitted to customers in the Middle East for air defense systems.

In the period under review, the Wheeled Vehicles division reported sales totaling €539 million, down €28 million on the previous year (€567 million). This is primarily due to the end to supplies of military trucks for the British vehicle program. In the area of tactical vehicles, significant sales were generated through Fuchs armored transport vehicles supplied as part of a project in North Africa and through the start of full-scale production in the Boxer project of the Netherlands.

RHEINMETALL DEFENCE ORDER BACKLOG REACHES RECORD LEVEL AT OVER €6 BILLION

Based on the high order backlog of €4,987 million in 2012 and the successful acquisition of new large-volume orders in the year under review, the order backlog in the Defence sector reached €6,050 million as at December 31, 2013. Compared to the previous year, this equates to an increase of €1,063 million or 21%. The order backlog includes a number of large-volume projects such as the Puma infantry fighting vehicle and Australia's Project Land 121 that was acquired in the reporting year and will be executed over several years. The large order backlog largely covers sales expectations for Rheinmetall Defence for fiscal 2014.

Economic report
Defence sector

DEFENCE'S OPERATING RESULT DOWN SIGNIFICANTLY YEAR-ON-YEAR

In fiscal 2013, an operating result (EBIT before special items) of €60 million was generated, compared to €145 million in the previous year. The €180 million or 8 % decline in sales compared with the previous year had a negative effect on earnings performance. This fall in earnings is largely due to the weapons and munitions business in the Combat Systems division which was in decline in the reporting year. In addition to this fall in sales, cost overruns for projects in the Combat Systems and Electronic Solutions divisions and unscheduled acquisition costs for potential orders also affected earnings. Finally, the previous year's result still included an earnings contribution of €2 million from the Unmanned Aerial Systems product unit which was sold in mid-2012. Based on the operating result, the margin stands at 2.8 %.

Derived operating result € million

2013	Operating result	Restructuring	Corporate transactions	EBIT
Rheinmetall Defence	**60**	**(51)**	**(5)**	**4**
Combat Systems	47	(15)	(1)	31
Electronic Solutions	29	(44)	(4)	11
Wheeled Vehicles	(13)	(22)	-	(35)
Others/consolidation	(3)	-	-	(3)

2012	Operating result	Restructuring	Corporate transactions	EBIT
Rheinmetall Defence	**145**	**(20)**	**48**	**173**
Combat Systems	119	(17)	-	102
Electronic Solutions	49	(2)	48	95
Wheeled Vehicles	(23)	(1)	-	(24)
Others/consolidation	0	-	-	0

EXTENSIVE RESTRUCTURING PROGRAM UNDERWAY

In the past fiscal year, €51 million was spent on restructuring measures, following €20 million in the previous year. The restructuring program focused on reducing capacity at the Wheeled Vehicles division's truck plant in Vienna, continuing with the realignment of the Land Systems unit within the Combat Systems division and various restructuring measures and capacity adjustments in the Electronic Solutions division. Initial savings are anticipated in fiscal 2014, and the full savings effect should come into force from 2015. As well as the restructuring measures described, income of €48 million was achieved in 2012 through the sale of the Unmanned Aerial Systems product unit (corporate transaction). Expenditure for corporate transactions of €5 million arose mainly from the same transaction in fiscal 2013. In net terms, non-recurring effects therefore increased the previous year's result by €28 million and led to a charge of €56 million in 2013.

EBIT IMPACTED BY FALL IN SALES AND NON-RECURRING EFFECTS

Earnings before interest and taxes (EBIT) including non-recurring effects in 2013 totaled €4 million, following €173 million in the previous year. This significant drop is due to the €85 million decline in the operating result as described above and the €84 million increase in charges arising from non-recurring effects.

SALES GROW BY 4 %

In fiscal 2013, the Automotive sector achieved sales of €2,458 million, an increase of €89 million or 4 % compared to the previous year. After adjustment for currency effects, sales increased by 6 % year-on-year – this is a positive development when compared to the 3 % increase in global production of light vehicles and to European automotive production which remained at the same level as the previous year.

Sales € million

	2013	2012
Rheinmetall Automotive	**2,458**	**2,369**
Mechatronics	1,171	1,091
Hardparts	1,085	1,087
Motorservice	268	264
Others/consolidation	(66)	(73)

Sales in the Chinese joint ventures in which KSPG holds a 50% stake continued to grow at a much better rate than the Chinese automotive market. While production in China grew by 13%, sales in our joint ventures - calculated on a 100% basis - increased by 29 % or €111 million to just under €500 million. As these companies are carried at equity, their sales are not included in consolidated sales. The group of companies that make up the joint ventures in China was expanded in 2013 due to the formation of Pierburg Huayu Pump Technology Co. Ltd, but this company did not generate sales in 2013.

The international share of consolidated sales (based on customer's headquarters) remained the same as the previous year in fiscal 2013 at 77%. The key regions in terms of sales volumes also remained the same. Alongside Western and Eastern Europe excluding Germany (49 %), these were the German market (23 %), followed by North and South America (19 %) and Asia (9 %).

The two OEM divisions of Mechatronics and Hardparts continued to dominate Rheinmetall Automotive's sales in 2013, accounting for 46 % and 43 % of sales respectively. The Motorservice division accounted for 11% of sales. There were no major changes in the share of sales compared to the previous year.

The Mechatronics division achieved year-on-year growth of 7 % in 2013 with sales of €1,171 million. After adjustment for currency effects, sales grew by 9%. This growth is far superior to that of the general market, once again making the division the driver of growth at Rheinmetall Automotive. Rising global demand for products to reduce CO_2 and emissions led to a number of product launches and ramped-up production. The most significant growth was achieved with exhaust gas flaps in the area of exhaust gas recirculation for passenger cars. In addition to new customer projects, this was also attributable to volumes called up in existing projects. Sales achieved with commercial vehicles products increased once again, especially for exhaust gas recirculation valves and exhaust gas flaps. The intake manifold product group is in the process of being phased out as planned. In the solenoid valves product group, sales of electrical versions of switchover valves, divert-air valves and pneumatic converters increased significantly.

In the business with pumps, we differentiate between commodity products which are usually unregulated mechanical products, and technology products which can be controlled using electrics or electronics on a partial or fully variable basis. As part of the drive to reduce CO_2 emissions, we have discerned a clear trend towards increased use of technology products. In particular, new projects with variable oil pumps led to a significant increase in sales compared to the previous year.

Economic report
Automotive sector

Sales in the Hardparts division totaled €1,085 million in 2013 which is around the same level as the previous year. After adjustment for currency effects, growth stood at 3 %. Sales of small-bore pistons developed well, despite falling demand in Western Europe – thanks to positive development of sales to customers in Germany – whereas lower demand for large-bore pistons also led to a fall in sales. Sales from series production of engine blocks were up on the previous year thanks to volume effects. Products manufactured using a low-pressure casting process were once again responsible for this sales trend. Invoiced external tools were once again at a high level in 2013. Higher sales of Permaglide products, which are maintenance-free or low-maintenance non-motor plain bearings, were generated with existing and new customers, with sales up on the previous year.

The Motorservice division recorded growth in sales of 2 % to €268 million in 2013. After adjustment for currency effects, the division achieved growth of 3%. Sales of Pierburg-branded products developed well, especially in Europe, the USA and China. KS-branded products were faced with strong competition in 2013, leading to a slight fall in sales. A change in the distribution structure in the USA led to positive development of the US business.

ORDER INTAKE AND ORDER BACKLOG

Rheinmetall Automotive posted an order intake of €2,466 million in fiscal 2013, following €2,378 million in the previous year. The order backlog, consisting of short-notice call orders under long-term contracts with automotive manufacturers, totaled €425 million as at December 31, 2013, following €418 million in the previous year.

NON-RECURRING EFFECTS IMPACT EARNINGS

The Automotive sector achieved an operating result before interest and taxes (EBIT before special items) of €160 million in fiscal 2013. After accounting for restructuring costs of €35 million and impairment of €10 million due to the strategic review of a business unit, EBIT totaled €115 million, which represents a decline of €24 million or 17% compared to the previous year. The EBIT margin declined by 1.2 percentage points year-on-year to 4.7% in 2013. Based on operating EBIT, the margin stands at 6.5%.

Derived operating result € million

2013	Operating result	Restructuring	Corporate transactions	EBIT
Rheinmetall Automotive	**160**	**(35)**	**(10)**	**115**
Mechatronics	77	(11)	-	66
Hardparts	51	(23)	(10)	18
Motorservice	28	(1)	-	27
Others/consolidation	4	-	-	4

2012	Operating result	Restructuring	Corporate transactions	EBIT
Rheinmetall Automotive	**139**	-	-	**139**
Mechatronics	69	-	-	69
Hardparts	57	-	-	57
Motorservice	25	-	-	25
Others/consolidation	(12)	-	-	(12)

The Mechatronics division's operating result totaled €77 million; up €8 million or 11.6 % year-on-year. The increase in sales achieved in 2013 and the successful negotiation of terms and conditions in purchasing and marketing led to an improvement in earnings. However, this was offset by higher research and development expenses, the expansion of the division's global presence and restructuring costs. The division's restructuring measures were dominated by the project to merge the Nettetal and Neuss locations. By constructing a new site, this will also provide the opportunity to create the best possible design for the production layout including ancillary operations and to achieve significant improvements in cost structures. Merging the two sites will also lead to positive synergy effects. EBIT fell slightly by €3 million or 4.3 % year-on-year to €66 million, while the EBIT margin declined by 0.7 percentage points to 5.6%. The operating EBIT margin rose to 6.6% and was therefore up on the previous year's margin of 6.3%.

The Hardparts division achieved an operating result of €51 million in 2013, down 10 % on the previous year's figure of €57 million. Earnings improvements due to higher sales of small-bore pistons, engine blocks and Permaglide products were overcompensated by factors including sales losses and falling profit contributions from large-bore pistons and metal plain bearings. Measures to safeguard the future of piston plants in Germany, France and Brazil and capacity adjustments for plain bearing operations in Germany and India also had a negative impact on earnings. The restructuring measures initiated or carried out led to costs of €23 million in 2013. Impairment of €10 million was also carried out on property, plant and equipment, meaning that EBIT totaled €18 million in 2013 – a year-on-year decline of 66%. Sales remained virtually unchanged, while the EBIT margin fell by 3.5 percentage points to 1.7 %. At 4.7%, the operating margin was 0.5 percentage points down on the previous year.

The Motorservice division achieved an operating result of €28 million in 2013, up €3 million or 12 % on the previous year. The reported EBIT margin rose by 0.6 percentage points to 10.1 %. The operating margin was 10.5 %. This increase in earnings was mainly due to improved profit contributions and reduced fixed costs. A non-recurring effect also resulted from the reversal of a provision for a tax case. Including restructuring costs of €1 million, EBIT totaled €27 million, a year-on-year improvement of 8 % or €2 million.

As well as the result for KSPG AG, EBIT in the Others/Consolidation area primarily includes results from finance and real estate companies. EBIT in 2012 included Kolbenschmidt Pierburg Innovations GmbH and Mechadyne International Ltd., which developed the pioneering UniValve project. These companies were assigned to the Mechatronics division for economic purposes in 2013.

Economic report
Financing

FINANCING STRATEGY

The Rheinmetall Group traditionally follows a conservative financing policy geared towards sustainability, diversification and internationalization. A balance between utilizing the capital market and borrowing loans from relationship banks represents the cornerstone of this policy. Here, communicating and managing relationships with banks, insurance companies and other financial investors is a key task of Group Treasury based at Rheinmetall AG in Düsseldorf.

FINANCING IN THE RHEINMETALL GROUP

External financing via banks and investors and the allocation of funds within the Rheinmetall Group is performed centrally by Rheinmetall AG. Prepayments and milestone payments also represent a core element of financing in the Defence sector.

Bundling financing requirements within the Rheinmetall Group allows strategic financial management objectives to be implemented. In order to make use of the operational and strategic options available to Rheinmetall on a flexible basis, it is essential that Rheinmetall has access at all times to sufficient liquidity reserves and sources to be able to provide the guarantees that are key to the Defence sector.

Rheinmetall therefore endeavors to ensure the largest possible diversification in terms of instruments, sources and durations in order to remain largely independent of individual lenders and markets. The use of these financing options is kept as balanced as possible, taking into account aspects relating to liquidity, margins and security. With the next major maturities falling due in 2016 (syndicated loan) and 2017 (bond), Rheinmetall is well financed in the medium term and able to cover its cash financing requirements at all times. Extensive, firmly committed credit facilities are available from renowned financial institutions in order to provide guarantees.

Financing instruments € million

	Maturing	Nominal	Financing source
Bond	2017	500	Capital market investors
Promissory notes	2014	16	Banks
Commercial paper	Indefinite	500	Money market investors
Syndicated loan	2016		11 banks (also as a back-up for the commercial paper program)
Bilateral credit facilities (cash and guarantee)	2014/2015	2,612	Banks and insurance companies
Asset-backed security program	2015	80-170	Money market investors and banks

With regard to bilateral financing and, in this context, guarantee lines that are very important for undertaking business operations, the careful selection of financing partners constitutes a key success factor. Rheinmetall maintains good business relations with an adequate number of banks and insurance companies which are confident in Rheinmetall’s business model and support us with their expertise and services in the regions where we operate.

As at December 31, 2013, Rheinmetall utilized bilateral credit facilities of €1,355 million for guarantees and €73 million for cash credits (including mortgage financing), along with €136 million of the ABS program. No drawings were made from the syndicated credit facility or the commercial paper program.

RHEINMETALL'S RATING

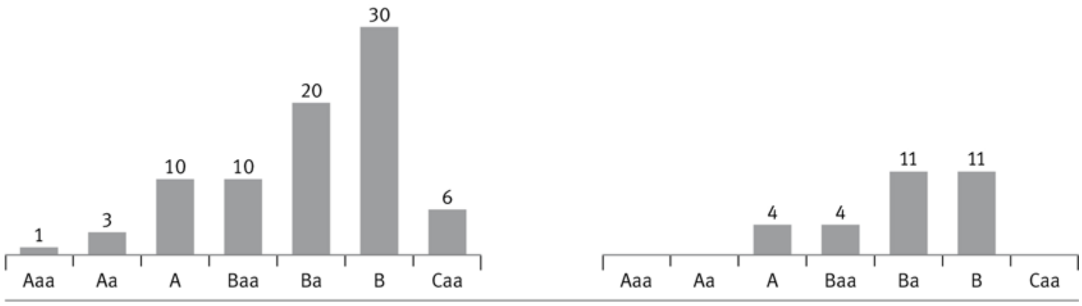
While a direct image of the Company's creditworthiness can usually be obtained based on bilateral contractual relationships with lenders, investors on the money and capital markets use assessments from independent international rating agencies which rate debtor creditworthiness on a regular basis. The agency which we commissioned, Moody's, downgraded Rheinmetall by one category in October 2013 from Baa3 to Ba1. This was mainly due to unsatisfactory operating earnings development in the Defence sector in the 2013 restructuring year.

Rheinmetall's Rating

	2013	2012	2011	2010	2009
Agency	Moody's	Moody's	Moody's	Moody's	Moody's
Long-term rating	Ba1	Baa3	Baa3	Baa3	Baa3
Short-term rating	Not Prime	Prime 3	Prime 3	Prime 3	Prime 3
Outlook	Stable	Negative	Stable	Stable	Negative

Up to October 2013, Rheinmetall was one of the companies at the top of its group of comparable international competitors with an investment grade rating, while now it represents a good average within its peer group.

Ratings of aerospace & defence companies **Ratings of automotive suppliers**



As at Dec. 31, 2013 Source: Société Générale

We do not expect this downgrade to have any direct, serious consequences. Higher expenses may be incurred with regard to the Rheinmetall bond maturing in 2017 with a step-up coupon. Here, investors will receive a higher interest rate from September 2014 onwards, unless an investment grade rating is issued by at least one recognized rating agency. The step-up amounts to 1.25 percentage points and increases interest costs for the bond by €6.25 million p.a. to approximately €26.3 million p.a. in the event of receiving a non-investment grade. As the Company is fully financed in the medium term with staggered maturities and this type of clause does not exist anywhere else, we would expect to incur higher financing costs gradually only if our investment grade rating was lost on a long-term basis.

Assuming that earnings development in the Rheinmetall Group improves considerably in the medium term, we will endeavor to fulfil the relevant criteria for an investment grade rating again as soon as possible and therefore to return to a higher credit rating category (investment grade).

More detailed information on the utilization of financing instruments and further information on the management of financial risks can be found in the risk report on page 88 et seq. and in the Notes to the consolidated financial statements from page 172.

Economic report
Research and development

RESEARCH AND DEVELOPMENT ARE AN IMPORTANT BASIS FOR CORPORATE SUCCESS

For an internationally active technology group like Rheinmetall, technical progress through continuous, practice-oriented research and development is of fundamental importance in order to maintain its innovative prowess. Our research and development activities play a key role in safeguarding our technological competitiveness and future corporate success. Security and mobility will remain major global megatrends in the coming years too. Every year, even during economically difficult periods, we invest heavily in our diverse technological expertise so that we can benefit from the often dynamic developments in these areas.

Rheinmetall enjoys more than 100 years of experience in research and development in the Defence and Automotive sectors. Market, industry and technological trends are systematically observed before being analyzed and assessed in terms of their strategic, operational and economic significance for our business. This enables us to identify growth and development opportunities at an early stage and confront challenges in good time.

Thanks to close interdisciplinary collaboration between Sales, Development, Production, Service and Marketing as well as intense project work in partnership with our 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 support services.

Our own application-related research and development work is enhanced through studies into the latest scientific findings from basic research programs. Another key pillar of our research work is collaboration with industrial partners, renowned scientists and skilled experts who support the transfer of knowledge from research into practice.

Despite sometimes difficult business conditions, €226 million was spent on research and development across the Group in fiscal 2013, following €230 million in the previous year. Of this, €197 million (previous year: €191 million) was immediately billed as expenses and €29 million (previous year: €39 million) capitalized as development costs.

The share of R&D expenditure in the Rheinmetall Group was 4.9 % (previous year: 4.9 %), 6.2 % in Automotive (previous year: 6.2 %) and 3.4 % in Defence (previous year: 3.5 %), whereby this relates solely to the share of self-financed projects.

R&D in the Rheinmetall Group €million

	2013	2012
R&D: Expenses	**226**	**230**
of which capitalized	29	39
R&D: Expenses/sales	4.9	4.9
R&D: Employees	3,060	n/a
R&D: Employees/total workforce	13.3	n/a

The **Defence sector** systematically gears its research and development activities to the mission profiles of 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. In military deployment scenarios, technical superiority and optimal equipment not only can be of life-saving importance but also make a key contribution to improving soldiers' ability to lead as well as their stamina, mobility and effectiveness on deployments.

Rheinmetall Defence is committed to capability-oriented innovation and is continuously setting new technological standards: from vehicle, protection and weapon systems, through infantry equipment and air defense, to the networking of function sequences in simulation and training. The sector 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, NATO and other responsible nations, helps to protect armed forces involved in military operations.

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.

R&D at Rheinmetall Defence €million

	2013	2012
Employees in research and development	2.059	n/a
Employees in research and development as % of total workforce	20.4	n/a
Research and development expenses	74	83
Innovation ratio (research and development expenses in relation to sales)	3.4	3.5

MODERN RECONNAISSANCE TECHNOLOGIES FOR FUTURE VEHICLE MISSION SYSTEMS

Active and passive reconnaissance in the vicinity of military vehicles on deployments makes major demands on future mission systems due to increasingly asymmetric threats. To protect soldiers inside vehicles, permanent 360° close-range reconnaissance and monitoring day and night plays an important role by allowing potentially dangerous situations to be identified earlier and then assessed and combatted more quickly and effectively.

The electro-optical Situational Awareness System, which features automatic object detection and tracking, provides valuable assistance for users and helps to reduce the workload. The 360° view is recorded by color cameras and thermal imaging equipment and shown as a panoramic image. Image sections and alarm regions are visualized in real time. The specially developed image processing method is used both for automatic object detection and tracking while the vehicle is in motion as well as for the optimized classification of detected objects.

Conventional passive identification methods reach their limits in darkness, at night or when visibility is impaired by smoke, haze or fog. Active sensors such as infrared cameras, which as things currently stand regarding our development work will offer a diverse range of potential uses in future applications, are therefore the ideal solution for improving object/target identification. We have integrated an optional change detection system, which identifies changes along a route, in a prototype and tested it to establish the extent to which it can assist operators in the early identification of IEDs (improvised explosive devices) and other hazards.

Economic report
Research and development

HIGH-ENERGY LASER WEAPONS

In the year under review, Rheinmetall Defence has not only continued development of high-energy laser effectors (HEL) but also formulated various integration concepts and realized these in the form of demonstrators.

Laser beams are highly precise and silent, have an enormous range and strong impact, and can be scaled in terms of their intensity. This makes them ideal for defending against many of the threats that arise in today's conventional and asymmetric conflicts.

For a live laser demonstration in 2013, one Skyshield gun turret and three vehicle platforms were equipped with high-energy laser effectors of different power classes and different deployment scenarios were simulated.

With the "Air Defence HEL Effector" in the Skyshield gun turret, Rheinmetall Defence showed in a number of demonstrations just how powerful high-energy laser effectors can be for air defense. The 30 kW laser weapon technology demonstrator took around four seconds to burn away a 82 mm mortar shell 1,000 meters away (deflagration). As part of a Counter-Rocket Artillery Mortar Missile (C-RAM) scenario, the HEL effector also demonstrated its ability to combat extremely small, ballistically fired targets. In addition, the demonstrator discovered, identified, tracked and neutralized five steel balls (82 mm diameter) fired in quick succession by means of air pressure.

In the 5 kW laser class, the "Mobile HEL Effector Track V", which was mounted on the M113 tracked vehicle, demonstrated its potential in ordnance clearance. The crew inside the armored vehicle detected various mines and unconventional explosive charges and lasered them from a safe distance, rendering them completely harmless within seconds.

In the 20 kW laser class, the "Mobile HEL Effector Wheel XX", which was mounted on the Boxer armored transport vehicle, neutralized an extra-heavy machine gun positioned on the bed of a travelling pickup by very quickly and precisely destroying a cartridge in the ammunition belt without endangering the marksman. The effectiveness of lasers against rotary wing drones, which in the field of ground-based air defense belong to the new threat category "low, slow, small", was also demonstrated. Once the hovering Octocopter (drone with eight rotors) had been detected and identified by the Skyguard radar, it was tracked and then destroyed by the effector.

Over distances of up to several thousand meters, high-energy laser effectors can neutralize optronic systems such as telescopic sights on weapons, remote-control cameras, radio antenna, radars, ammunition or the power supply for entire weapons systems without actually destroying them. This was demonstrated by the 50 kW "Mobile HEL Effector Container L" laser, which was mounted on a truck.

Another technological highlight of the live demonstration was the successful combatting of a swarm of jet-propelled drones by a stationary Skyshield air defense system, which also uses a high-energy laser effector. The effector successfully destroyed a round of approaching mortar shells. The effective range of the laser technology demonstrator was this year extended by 1,000 meters to its current range of 3,000 meters.

MULTI-STAGE APPROACH FOR INNOVATIVE PROTECTION SYSTEMS

Rheinmetall Defence's research and development activities in the area of protection focus on, among other things, ballistic protection, protection against mines and IEDs, vehicle interior protection, protection against shaped charges, explosion protection, add-on armoring, decoy flare and camouflage systems, decoy targets, smoke protection systems and active protection systems.

This comprehensive protection concept is based on a multi-stage approach in which active protection systems act as highly effective and innovative first lines of defense for combating approaching projectiles before they even reach their target. As second lines of defense complementing these active systems, passive solutions such as protective plates made from specific materials that offer maximum protection with minimal weight are used. The protection concept is rounded off by high-performance smoke protection systems, which Rheinmetall Defence offers not only for ground vehicles but also for planes, helicopters and ships.

One focus of development is on active protection systems for land operations. The retrofittable 360° smoke protection system Rapid Obscuring System (ROSY), which was developed by Rheinmetall Defence, offers military and civilian vehicles unprecedented protection against unexpected attacks during patrols or when travelling in convoy. ROSY uses 40 mm smoke grenades to create a wall of smoke around 30 meters from the vehicle under attack. This is designed to "camouflage" the vehicle to prevent it from coming under fire. Unlike conventional smoke protection systems, ROSY can generate not only spontaneous, large-area and multispectral interruption of the line of sight within 0.6 seconds but also dynamic smoke screens to provide travelling vehicles with long-lasting protection against multiple attacks.

The Active Defence System (ADS) belongs to a new generation of "standoff active protection technology." It is the world's most advanced and effective systems for protecting military vehicles of every weight class from operational threats, especially handheld antitank weapons, guided missiles and certain IEDs. The ADS sensor system detects an incoming projectile – for example, a shaped charge or antitank missile – as it draws close to the vehicle. Then, in a matter of microseconds, it activates a protection sector, applying directed pyrotechnic energy to destroy the projectile before it strikes the vehicle.

MOBILE BIOLOGICAL WEAPONS RECONNAISSANCE

While the mobile detection and analysis of nuclear and chemical weapons is well established, the technology involved in detecting biological threats still has some gaps. Over the past few years, Rheinmetall Defence has supplied various verification systems, integrated either in containers or in armored wheeled vehicles, for detecting and analyzing hazardous nuclear, biological and chemical substances.

One section of these vehicles acts as a mobile laboratory specially designed for analyzing biological hazards such as bacteria and viruses. In addition to a specially protected pass-through system for the transfer of samples, these vehicles also feature a personnel airlock at the rear. The most recent project involved the development of a reconnaissance vehicles based on an armored truck. In May 2013, the German armed forces took delivery of a demonstrator of this type and are testing it at the Military Science Institute for Defence Technologies in Munster.

Economic report
Research and development

The **Automotive sector** has for a long time now been working on ecofriendly automotive technology solutions. For many years, the reduction of fuel consumption and CO_2 emissions has been among our core competencies. But given the increasing number of vehicles in use all over the world and the global trend toward stricter statutory emission limits, our development activities in 2013 both for the benefit of and in collaboration with our automotive customers is now focused more than ever on our expertise when it comes to cutting emissions, reducing consumption and weight, and optimizing performance.

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.

R&D at Rheinmetall Automotive €million

	2013	2012
Employees in research and development	992	n/a
Employees in research and development as % of total workforce	8.4	n/a
Research and development expenses	152	147
Innovation ratio (research and development expenses in relation to sales)	6.2	6.2

COMBUSTION ENGINES: THE DRIVING FORCE OF INNOVATION

The key driving forces of innovation in modern combustion engines are legally required fuel consumption reductions, emissions reductions, optimization of the combustion engine through downsizing, turbocharging and direct injection as well as greater customer demand for an improved driving experience, greater reliability and longer service lives.

INNOVATIVE PROWESS THANKS TO SYSTEMATIC AND NETWORKED RESEARCH AND DEVELOPMENT

The main precondition for the development of new vehicle drive concepts is a sound fundamental understanding of both the technical and market-relevant relationships coupled with ever-expanding expertise regarding the interdependencies of the individual systems and components in the engine as a whole.

At Rheinmetall Automotive, these cross-company tasks are the responsibility of the Research and Technology central department, which is divided into Central Development and New Drive Technology. Pooling this engineering expertise in one central location allows research and development activities to be controlled in a cost-optimized manner.

In fiscal 2013, predevelopment activities were assigned at a disciplinary level to the Mechatronics and Hardparts divisions so that the planned development work could be aligned even more effectively toward business-unit-specific requirements.

To leverage further cost-cutting potential, Central Development was active in all areas of the business unit in the year under review, working on simulations, test facilities with engine test benches as well as electronics and material development. Highly intensive work took place on leveraging potential synergies in simulation tasks, on modernizing and expanding technology for test benches, on modularizing hardware and software and, in materials engineering, on pooling expert knowledge to characterize material behavior.

Another focus of our research and development work in the Automotive sector involved conducting studies into alternative drive concepts. In the year under review, New Drive Technology tested the range extender, which is designed to help electric vehicles cover longer distances, installed in an electric FIAT 500 as part of various test drives at different automotive manufacturers and tested its suitability for everyday use on the road. The evaluation of the results and the positive customer feedback show that our highly ambitious development goals were achieved.

FLEET CONSUMPTION TARGETS REQUIRE NEW TECHNOLOGY

For passenger cars, the EU Commission has set a fleet consumption target of 95 g CO_2/km for 2020 and 2021. This is an ambitious long-term target, which requires the use of innovative technology for the vehicle as a whole and, specifically, for the drive train. Priorities here include turbocharging and downsizing, dethrottling, demand-based variabilization and electrification of auxiliary units, the enhancement of automatic transmission systems, optimized combustion as well as friction and weight optimization. Further reductions in CO_2 emissions can ultimately be achieved through efficient thermomanagement, although this is also possible through the use of zero-emission electric vehicles fitted with range extenders.

TURBOCHARGING AND DOWNSIZING

Exhaust gas turbocharging in gasoline engines is one of the measures being pursued to help cut CO_2 emissions. When it comes to controlling turbocharger turbines, more and more vehicle manufacturers are using electric wastegate actuators to control the charge pressure quickly and independently of the pressure. With its electric wastegate linear actuator, the Mechatronics division is involved in various market launch projects with customers in this technology segment.

On the compressor side of the exhaust gas turbocharger, the electrical divert-air valve for turbocharged gasoline engines developed by the Mechatronics division back in 2004 is state-of-the-art technology. More than 20 million units have so far been sold to nearly every leading vehicle and turbocharger manufacturer, with 6 million of these sold in 2013 alone – and sales are set to increase. The product is being continuously refined and modified in line with the current technical requirements of automotive manufacturers. The fourth-generation divert-air valve, which is smaller, lighter, more durable and cheaper than its predecessor, is now in series production.

Downsizing – i.e. increasing the specific engine output – is an absolutely essential measure for increasing the efficiency of combustion engines. When it comes to friction, modern engine blocks for highly stressed combustion engines must possess outstanding properties. Friction measurements reveal that iron-coated running surfaces are vastly superior to conventional cylinder contact surfaces. This is why the Hardparts division some time ago developed through to production maturity the Plasma Transferred Wire Arc coating process in combination with a mechanical activation process. Following the successful testing of early coated prototypes in engines with a major customer in the automotive sector, Rheinmetall Automotive has now received a significant order scheduled to enter series production in 2015.

Economic report
Research and development

DETHROTTLING

Valve train variability during gas exchange processes in combustion engines plays a key role when it comes to cutting fuel consumption. In the year under review, the existing UniValve system underwent further refinement and comprehensive testing in naturally aspirated and turbo gasoline engines. The system is currently being readied for series production. A variable valve controller is also beneficial for diesel applications, engines in commercial vehicles and, above all, natural gas applications. The modular valve control system FlexValve, which we developed, offers excellent integration and upgrade capability, even in existing engine platforms. Like UniValve, it is compact and offers a high degree of structural integrity.

DEMAND-BASED VARIABILIZATION AND ELECTRIFICATION OF AUXILIARY UNITS

In modern gasoline engine vehicles, greater efficiency and increasing hybridization often means that there is no permanent vacuum supporting, for example, the hydraulic brake system. To support this function, the Mechatronics division developed an electric vacuum pump that operates independently of the combustion engine. This pump is maintenance-free for the entire service life of the vehicle. Thanks to special airborne noise insulation and specially designed housing, it is also extremely quiet and so meets extremely high standards.

The electric vacuum pump, which can be installed independently of all other units, is an excellent solution to problems associated with installation space. Since it can be installed quickly, easily and therefore cheaply and can be used in several different vehicle types thanks to the automotive manufacturer's common-part strategy, this application offers major benefits on a market that is constantly demanding an ever-greater variety of models.

ENHANCEMENT OF AUTOMATIC TRANSMISSION SYSTEMS

Our Mechatronics division is systematically pursuing the development and production of oil pumps for transmission applications. We have over the years developed an extremely extensive product family designed to meet a wide variety of customer requirements.

Electric oil pumps in transmission systems have a diverse range of uses. In the transmission systems of hybrid vehicles, for example, they help to maintain the hydraulic pressure when the combustion engine is not in operation, above all therefore during start/stop driving. In automatic transmission systems, they can be used as an additional pump, which means that the mechanical pump does not have to be as big. In manual transmission systems with a wet clutch (e.g. dual clutch transmissions), electric oil pumps can be installed for cooling purposes. Regardless of the transmission type, they can also be used as an extraction pump, thereby reducing the hydraulic losses of the transmission gears in the oil sump.

Quite apart from the fact that the electric oil pump meets a variety of new technical requirements, its biggest benefit is that it can help – both directly and indirectly – to cut fuel consumption without compromising vehicle performance. Mechatronics has developed a new generation of electric oil pumps focusing primarily on the low to medium pressure range of less than 15 bar. This range is particularly relevant for the transmission applications described above.

OPTIMIZED COMBUSTION

To comply with the low emission thresholds of Euro 6 diesel engines, for example, additional measures aimed at reducing emissions of nitrous gases (NOX) have to be implemented. One highly efficient and well-established measure is external, cooled exhaust gas recirculation (EGR). In fall 2013, a new generation of an even more compact and weight-saving EGR valve for all diesel engines entered series production at a major German automotive manufacturer.

Similar systems designed for gasoline engines are currently under development. In this case, however, EGR is used not to reduce emissions but instead to improve fuel consumption. And it is precisely for supercharged gasoline engines, which are currently extremely popular, that external, cooled exhaust gas recirculation can help to cut consumption significantly. And it is precisely for supercharged gasoline engines, which are currently extremely popular, that external, cooled exhaust gas recirculation can help to cut consumption significantly.

FRICTION AND WEIGHT OPTIMIZATION

Engine-based concepts for cutting emissions and fuel consumption frequently make greater demands on the lifetime and wear-resistance of the plain bearings. At the same time, however, they also have to be robust and reliable at all times – a conflict that can only be resolved with the help of innovative materials.

At the IAA 2013 international motor show, our Hardparts division showcased two new solutions: the KS S203D galvanic bearing and the KS S203W sputtered bearing. The basis for both bearings is a newly developed steel-bronze composite material as well as two new running surface systems, which have been specially designed for the changed operating conditions in future generations of engines.

In addition to the familiar, piston-specific requirements, issues such as low friction, greater mechanical and thermal strength with lighter pistons, optimized piston transverse motion as well as optimized gas and oil sealing functions can also be derived from the focal points of development work on modern gasoline engines. In response, our Hardparts division launched the LITEKS® piston design for exceptionally lightweight and high-strength pistons and has systematically refined this design over the past few years. Currently, LITEKS® pistons are around 14% lighter than the conventional series piston design. This weight reduction was achieved thanks to the new high-performance alloy KS 309 and by systematically adapting the design in line with the resulting material-specific benefits.

The use of steel instead of aluminum for these new pistons developed by Hardparts for diesel passenger cars improves thermodynamic efficiency and performance. But the main benefit of lower friction loss as a result of a modified piston design depending on the application is an up to 4% reduction in fuel consumption. In 2014, the steel piston developed by Hardparts for passenger cars will enter series production at a renowned automotive manufacturer.

Economic report
Capital expenditures

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 amounted to €205 million in 2013, compared with €238 million in the previous year. This is equivalent to 4.4 % of consolidated sales (previous year: 5.1 %). Capital expenditure was met with amortization and depreciation of €212 million (previous year: €194 million).

Capital expenditure € million

	2013	2012
Rheinmetall Group	**205**	**238**
Defence	62	90
Automotive	142	148
Other/Consolidation	1	0

ONGOING RESERVED INVESTMENT POLICY AT RHEINMETALL DEFENCE

In 2013, the Defence sector invested a total of €62 million in property, plant and equipment and intangible assets, compared with €90 million in the previous year. The investment ratio in 2013 was 2.9 % (previous year: 3.9 %). The reduced capital expenditure volume in 2013 reflects necessary savings in response to the significant decline in earnings on the previous year. Of the capital expenditure volume, €15 million (previous year: €29 million) related to capitalized development costs from ongoing key technology projects.

In fiscal 2013, funds totaling €28 million (previous year: €42 million) were invested in the Combat Systems division. The most significant capital expenditure was the construction of a new hall for production of the Puma infantry fighting vehicle at the Unterlüß site, which is already well underway. As part of the further internationalization of production, production facilities were constructed at the Ede site in the Netherlands to produce vehicle protection components. In Boksburg, South Africa, the modernization program spanning several years was continued with targeted investments in production.

Key capital expenditure in the Combat Systems division

	Country – location	Measure
Combat Systems	Germany – Unterlüß	Construction of a new hall for Puma production
	Netherlands – Ede	Production facilities for new company Rheinmetall Protection Systems Nederland
	South Africa – Boksburg	Measures to modernize infrastructure and production machines for ammunition cases

The total capital expenditure volume of the Electronic Solutions division amounted to €22 million in the period under review (previous year: €25 million). In Bremen, further progress was made in the implementation of a new site concept, whereby Rheinmetall Defence Electronics is being physically separated from the Airborne Systems product area which was spun off in 2012. This concept required the construction of a new building which was commenced in 2012 and the optimization of existing areas. Air Defence Systems in Zurich invested primarily in tools and production plants. In the Norwegian development center in Notterøy, development costs for products in the field of surveillance and fire control were capitalized.

Key capital expenditure in the Electronic Solutions division

	Country – location	Measure
Electronic Solutions	Germany – Bremen	Reconstruction and optimization of existing areas following physical separation from the Airborne Systems product area which was sold in 2012
	Switzerland – Zurich	Tools and production systems in the air defense product area
	Norway – Notterøy	Capitalization of development costs for products in the field of surveillance and fire control

The Wheeled Vehicles division invested €12 million in 2013 (previous year: €23 million). Most of this concerned capitalized costs from the continuation of two significant technological developments: Firstly, series production of a new lightweight armored multipurpose vehicle in cooperation with another German armaments company and, secondly, the development of a new generation of military trucks. Funds were also invested in expanding IT systems.

Key capital expenditure in the Wheeled Vehicles division

	Country – location	Measure
Wheeled Vehicles	Germany – Kassel	Capitalization of development costs for series production of multipurpose vehicle
	Austria – Vienna	Capitalization of development costs for new generation of military trucks
	Germany, Austria, Netherlands	Expansion of IT systems for further integration of RMMV joint venture into Rheinmetall Defence network

HIGH ADVANCE PAYMENTS AT RHEINMETALL AUTOMOTIVE

The Automotive sector invested €142 million or 5.8 % of sales in fiscal 2013, compared with €148 million or 6.2 % in the previous year. The high volume of capital expenditure was mainly due to the construction of a new plant in Neuss, Germany, activities required to introduce technological changes for various product groups, the ongoing internationalization of production sites and efforts to expand capacity.

The Mechatronics division invested €93 million in the year under review, after €66 million in the previous year. This rise was due to commenced construction of a new plant in Germany in 2013, where the production activities of two existing locations will be concentrated. The new building project will be completed in 2014 and is expected to reach a total volume exceeding €50 million, €32 million of which was invested in the reporting year. In terms of operations, i.e. excluding this structural investment, €61 million was invested.

Economic report
Capital expenditures

Operating capital expenditure was mainly used to expand capacity. This focused on the procurement of machines and systems to produce solenoid valves, exhaust gas recirculation valves and exhaust gas flaps and for electrical water pumps, water circulation pumps and variable oil pumps. The increasingly ramped-up truck business also required capital expenditure. Tool costs and development projects in the division were also capitalized.

Key capital expenditure in the Mechatronics division

Division	Country – location	Measure
Mechatronics	Germany – Neuss	Plot of land and building - new construction
	Germany – Neuss	Machines and systems to produce electropneumatic converters (capacity expansion)
	Germany – Hartha	Assembly facilities and tools to produce an electric coolant pump (capacity expansion)
	Brazil – Nova Odessa	Assembly facilities and tools to produce a variable oil pump (new project)

The Hardparts division invested €47 million in intangible assets and property, plant and equipment in fiscal 2013, considerably less than the previous year's figure of €77 million. Capital expenditure once again focused on the pistons area. As well as developing a facility in China to produce large-bore pistons, the division's capex activities involved efforts to expand capacity for key customer projects in Germany, Japan and the USA. Processing machines used to produce engine blocks were purchased for a key customer project and a replacement casting machine was procured in the die-cast production area. A significant proportion of funds invested in the plain bearings area were used to install a new sinter line in Mexico and to purchase tools.

Key capital expenditure in the Hardparts division

Division	Country – location	Measure
Hardparts	Germany – Neckarsulm	Casting tools and processing machines to produce die-cast engine blocks (new project)
	USA – Marinette	Processing machines and tools to produce a passenger car piston (capacity expansion)
	Mexico – Celaya	Machines and systems to sinter primary materials (capacity expansion)
	Brazil – Nova Odessa	Modernization of machines and systems, e.g. in the areas of processing and coating (procurement of replacements)
	China – Shanghai	Development of production facilities for large-bore pistons in China
	Japan – Hiroshima	Processing line for passenger car pistons (capacity expansion)

Capex in the Motorservice division totaled €4 million (previous year: €4 million) and related to casting and processing tools, software licenses and the procurement of replacement factory and office equipment. Capital expenditure focused on the modernization of the BF-branded product range.

Economic report
Rheinmetall AG

RHEINMETALL AG AS MANAGEMENT HOLDING COMPANY

The Rheinmetall Group with its Defence and Automotive sectors is headed by Rheinmetall Aktiengesellschaft, a listed company based in Düsseldorf, which decides the Group's long-term strategic orientation and corporate policy as the management holding company.

Its key tasks include setting targets and guidelines, optimizing the investment portfolio, central financing, risk management and appointing people to management positions in the Group. Support and service functions such as Finance, HR, Corporate Communications, Law, Internal Auditing and Mergers & Acquisitions are held at Group level. Rheinmetall AG ensures that standardized planning, controlling and management processes are applied throughout the Group and monitors Group-wide implementation of laws, guidelines and regulations according to standard criteria within its compliance system.

The single-entity financial statements of Rheinmetall AG for fiscal 2013 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

	2013	2012
Investment income	41	54
Net interest	(29)	(26)
Other operational income	101	137
Personnel expenses	24	28
Other expenses	69	61
EBT	20	76
Taxes on income and revenue	(1)	1
Net profit for the year	19	77
Changes in retained earnings	(3)	(8)
Net earnings	16	69

Net investment income of €41 million was achieved in fiscal 2013, compared with €54 million in the previous year. The Defence sector accounted for €8 million of this (previous year: €57 million). The Automotive sector achieved net investment income of €32 million (previous year: €0 million). Rheinmetall Berlin Verwaltungsgesellschaft mbH and Rheinmetall Verwaltungsgesellschaft mbH, both indirect subsidiaries of Rheinmetall AG, concluded a profit transfer agreement in the reporting year. A profit transfer agreement was not in place in the previous year.

Net interest from central financing fell by €3 million to €-29 million, compared with €-26 million in the previous year. The deterioration in net interest was mainly the result of a decline in interest income on receivables from associated companies.

Economic report
Rheinmetall AG

In connection with the performance of the duties of a holding company, other operating income and expenses were incurred amounting to €32 million (previous year: €76 million), along with personnel expenses of €24 million (previous year: €28 million). The overall year-on-year reduction in this net balance by €44 million mainly resulted from income received in the previous year from the sale of subsidiaries in connection with the optimization of the Group structure (€62 million). The net balance in the reporting year was also characterized by income from write-ups on financial assets (€13 million), expenses arising from a purchase price adjustment (€4 million) and a €4 million reduction in additions to profit-sharing provisions compared to the previous year.

Earnings before taxes amounted to €20 million (previous year: €76 million). Tax expenses amounted to €1 million in the year under review (previous year's tax expenses: €1 million). After deduction of taxes, net income of €20 million remained for fiscal 2013 (previous year: €77 million). After appropriations to retained earnings, net earnings of €16 million were reported.

PROPOSED DIVIDEND

The Executive and Supervisory Boards of Rheinmetall AG are to propose to the Annual General Meeting on May 6, 2014 that the net earnings be used to pay a dividend of €0.40 per share, whereby the treasury shares held by Rheinmetall AG as treasury stock (as at December 31, 2013: 1,524,233) 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 increased by €157 million to €2,045 million. This was mainly due to a €120 million rise in receivables from associated companies (primarily financing and cash pooling) and a €17 million rise in cash in hand.

The financial assets include shares in associated companies in the amount of €1,058 million (previous year: €1,045 million). This represents a share in total assets of 52 % (previous year: 55 %). Receivables from and liabilities to associated companies amounted to €545 million (previous year: €425 million) and to €851 million (previous year: €621 million) respectively. They account, respectively, for 27 % and 42 % of total assets.

Of the total assets of €2,045 million as at December 31, 2013 (previous year: €1,888 million), €536 million (previous year: €571 million) is financed from equity. The equity ratio fell from 29 % to 26 %. The net income led to growth of €20 million, which was offset by a reduction of €68 million owing to the dividend payment for 2012 and a rise of €13 million owing to the decline in holdings of treasury shares.

Liabilities increased by €197 million year-on-year to €1,385 million as at December 31, 2013. Of this increase, €230 million was the result of a rise in liabilities to subsidiaries. This was countered by the early repayment of promissory note loans in the amount of €20 million and a reduction in tax liabilities by €14 million.

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

	Dec. 31, 2013	Dec. 31, 2012
Fixed assets		
Intangible assets, property, plant and equipment	24	20
Financial assets	1,080	1,068
	1,104	1,088
Current assets		
Receivables from affiliated companies	545	425
Other receivables, other assets	29	25
Cash in hand	367	350
	941	800
Total assets	2,045	1,888

	Dec. 31, 2013	Dec. 31, 2012
Equity	536	571
Provisions	124	129
Liabilities		
Bond, liabilities due to banks	516	536
Liabilities to affiliated companies	851	621
Other liabilities	18	31
	1,385	1,188
Total liabilities	2,045	1,888

Economic report
Risks and opportunities

SEIZING OPPORTUNITIES - CONTROLLING RISKS

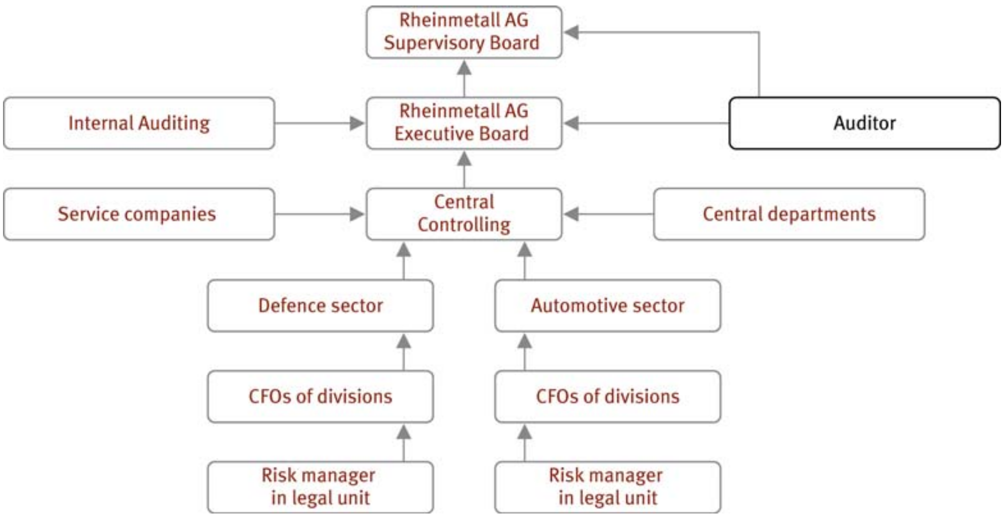
As a technology group with international operations, Rheinmetall is exposed to various risks which vary depending on the division, industry and region. This means that potential risks need to be identified and limited at an early stage in order to prevent the Company being put at danger. Corporate policy 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.

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

Rheinmetall's standardized risk management system aimed at identifying material risks jeopardizing the continued existence of the Company at an early stage forms an integral component of the planning, controlling and reporting systems of the Rheinmetall Group. As well as systematically identifying risks, it also evaluates, controls, documents, communicates and monitors risks. The principles, processes and responsibilities involved in risk management are documented in the guides to the early risk identification system. Risk management, which is geared towards financial resources as well as strategic and operational planning, is considered a primary responsibility of the divisions and departments as well as process and project managers.

Risk organization



IDENTIFICATION OF RISKS

A risk is defined as the possibility of unfavorable future developments with regard to agreed corporate targets. In order to identify and analyze potential risks, the risk inventory is revised once a year during corporate planning. This contains all the most important risks potentially impacting the corporate targets and subtargets, early warning indicators, responsibilities and suitable countermeasures. Identified risks are analyzed in terms of their probability of occurrence and their impact on business performance and the Group's earnings, financial situation and assets.

MATERIAL RISK AREAS

Overview of key corporate risks

Risk type	Probability of occurrence	Level of impact
Strategic risks		
Macroeconomic risks	Possible	Considerable
Market risks	Possible	Considerable
Competition risks	Possible	Moderate
Operational risks		
Technology and development risks	Possible	Considerable
Investment risks	Possible	Considerable
Production risks	Possible	Considerable
Procurement risks	Not very probable	Considerable
Project risks	Possible	Considerable
Quality risks	Possible	Considerable
IT risks	Not very probable	Significant
Personnel risks	Not very probable	Moderate
Pension risks	Not very probable	Low
Acquisition and integration risks	Possible	Considerable
Environmental requirements	Not very probable	Moderate
Legal and compliance risks		
Legal risks	Possible	Moderate
Compliance risks	Possible	Considerable
Regulatory risks	Not very probable	Considerable
Tax risks	Not very probable	Low
Financial risks		
Credit risks	Not very probable	Low
Liquidity risks	Not very probable	Considerable
Currency risks	Probable	Moderate
Interest rate risks	Not very probable	Low
Commodity price risks	Probable	Moderate

Assessment categories in descending order

Probability of occurrence		Level of impact		
› 75%	Very probable	Significant	Damaging impact on business performance and the Group's earnings, financial situation and assets	≥ €50 million
› 50 % to ≤ 75 %	Probable	Considerable	Substantial impact on business performance and the Group's earnings, financial situation and assets	≥ €20 million
› 25 % to ≤ 50 %	Possible	Moderate	Some impact on business performance and the Group's earnings, financial situation and assets	≥ €5 million
≤25 %	Not very probable	Low	Limited impact on business performance and the Group's earnings, financial situation and assets	‹ €5 million

Economic report
Risks and opportunities

CONTROLLING, MONITORING AND REPORTING RISKS

As part of a monthly report, risk reports from the subsidiaries, divisions and central 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.

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. If necessary, additional measures are taken in order to further limit and reduce identified potential risks. Sudden or unexpected risks with significant consequences are reported to the Executive Board on an ad hoc basis. Individual risks involving net material damage exceeding €5 million and at the same time indicating a probability of occurrence of over 50 % are reported to the Supervisory Board.

MACROECONOMIC RISKS

It is not possible to completely avoid risks that arise due to economic cycles. A deterioration in general economic conditions in the sales regions can adversely impact the sales and earnings situation of the Rheinmetall Group. Geopolitical or economic crises can affect regional markets. 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 diversified product portfolio of the divisions and the continued efforts to internationalize the Defence and Automotive sectors help to ensure that temporary economic fluctuations can be offset in part by more favorable developments in other regions and markets.

MARKET RISKS

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. Our product range is also highly diversified. Thanks to our broad international presence, we can respond to market and demand fluctuations and are not dependent on developments in individual regions.

COMPETITION RISKS

The risk profile of Rheinmetall can also be negatively affected by the presence of new suppliers 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 through 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.

INVESTMENT RISKS

We review investment decisions carefully over several stages. Investments that exceed a defined limit are presented to the Executive Board for approval after undergoing a review. Nevertheless, unforeseen changes in general conditions can lead to higher investment costs or cause delays to facilities being commissioned.

PRODUCTION RISKS

Production operations can be compromised by unexpected technical disruptions and unforeseen events such as natural disasters, fire, 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. 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.

Economic report
Risks and opportunities

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 quality and/or 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. Procurement risks can be reduced through the careful selection of suppliers, identification of alternative supply sources, efficient contract management, continuous supplier assessments, quality and reliability checks on suppliers, and the organization of adequate reserve stocks. 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 disruptions in production and claims for compensation.

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.

Germany's energy turnaround is expected to lead to expansion of electricity grids and a significant increase in the share represented by renewable energies. We believe constantly rising electricity prices and the growing EEG levy represent a risk – a development that can jeopardize the ability of energy-intensive industrial companies, like some companies in the Automotive sector, to compete on the international marketplace.

On December 18, 2013, the European Commission initiated proceedings against the Federal Republic of Germany due to suspected inadmissible subsidies. It is accused of largely exempting electricity-intensive companies from financing the expansion of solar, wind and biomass power plants. This could constitute a selective advantage. The Commission will check whether partial exemptions from the EEG levy are justified, whether they are proportionate and whether they may unduly distort competition. At the end of these proceedings, Brussels may demand that the German government amend the Renewable Energy Act (EEG) and ask that industry pay back the EEG levy advantages granted.

PROJECT RISKS

The complexity of projects can entail risks, including unexpected technical problems, uncertainty in calculations, supply bottlenecks and quality problems with business partners or suppliers, unforeseeable developments during assembly and deferred dates of acceptance and settlement. These risks can be minimized, though not excluded altogether, through professional project management, clear project milestones, verification levels for each project stage, comprehensive quality management measures and the appropriate formulation of contracts.

QUALITY RISKS

Methods including Six Sigma, lean management and failure mode and effects analysis (FMEA) are used to prevent quality risks. Our quality management systems have been certified in accordance with ISO 9001 and ISO/TS 16949 for many years now.

IT RISKS

Information and data are exposed to different types of growing threats with regard to availability, confidentiality and integrity. The organizational and IT networking of locations and complex systems involves risks. Impairment of critical IT systems, applications and infrastructural components can severely impact business and production processes and have serious ramifications for business. Networks can malfunction, operational faults and interruptions can arise, and data can be tampered with, destroyed or stolen as a result of program/user errors, manipulation or external influences. Potential risks arising from information technology are limited by means of modern IT infrastructure standards, IT security guidelines and adequate precautions to protect against data losses, unauthorized data access or abuse of data. Funds are regularly invested to ensure that the latest software and hardware is installed. Suitable back-up and recovery procedures are also implemented, as well as virus scanners and firewalls. Together with highly competent service partners certified to ISO 27001, the technical configuration, functional security structures and efficient operation of the IT architecture are regularly reviewed and continuously improved.

PERSONNEL RISKS

The attainment of ambitious corporate targets and the sustainable business success of the Rheinmetall Group depend to a great degree on the qualification, expertise and knowledge of its employees. Turnover of employees in key positions and 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.

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 also help to cushion the impact of the departure or loss of staff in key positions or employees who cannot be replaced automatically. 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.

Economic report
Risks and opportunities

PENSION RISKS

The Rheinmetall Group's companies in Germany, Switzerland and other countries offer their employees defined benefit plans as part of company pension plans. These pension plans grant eligible staff lump sum payments or lifelong pensions, depending on how the plan is designed. Pension amounts are subject to increases that are fixed, variable or linked to inflation. The development of inflation and longevity represent risks. Existing obligations under pension plans are covered by separate assets (e.g. real estate, bonds or shares) to differing degrees. The value of these pension assets is subject to market risks, especially interest rate, spread and share risks. Investment strategies for pension assets as regards value risk and yield expectations are geared towards the maturity structure of the covered obligations.

ACQUISITION AND INTEGRATION RISKS

Acquisitions, joint ventures and strategic partnerships are still a key component of Rheinmetall's ongoing internationalization and growth strategy which are used to improve market positions, add more products to existing business areas, tap into new markets with growth potential and gain innovative technologies. Prior to a potential transaction, companies are examined with regard to their future prospects and earnings potential as part of an extensive, systematic due diligence process. They are also subjected to a careful analysis of opportunities and risks and are assessed on the basis of yield/risk considerations. Following approval proceedings carried out over several stages, the Executive Board and, where necessary, the Supervisory Board, of Rheinmetall AG decides on the acquisition project. Once the transaction has been completed, the companies are integrated in the relevant division on the basis of schedules and milestone planning.

However, objectives, growth and margin expectations and potential synergies aimed at through the transaction may not be achieved or not to the planned extent. The integration process in existing operational structures can also prove more difficult, time-consuming and costly than expected. Risks can arise in connection with the activities of newly acquired companies that were either not previously known or not considered significant.

ENVIRONMENTAL REQUIREMENTS

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 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 such as DIN 9001, TS 16949 and ISO 14001. 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.

LEGAL RISKS

Rheinmetall's objective is to avoid legal disputes as far as is possible. Nevertheless, legal risks can arise due to legal disputes with competitors, business partners or customers or due to changes to the legal framework in relevant markets. These include, in particular, risks arising from product liability, competition and cartel law, patent law and tax law. When making decisions and designing business processes, 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 still pending at Düsseldorf Higher Regional Court. It is still not known how long the legal dispute will last or what the outcome will be.

The apartheid legal proceedings brought against Rheinmetall in 2009 were rejected based on the decision made by the New York District Court on December 26, 2013. The decision is not yet legally binding.

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. However, it is difficult to predict the outcome of pending legal proceedings. 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. However, we believe that the balance sheet provision recognized for ongoing proceedings is sufficient.

COMPLIANCE RISKS

The compliance organization is designed to ensure proper modes of conduct and behavior on the part of a company and its employees and make sure that potential or actual infringements of external or internal regulations are responded to appropriately. It 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.

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 ruled out.

At the end of 2013/beginning of 2014, various regional and national media reported on bribery allegations made against German armaments companies in connection with armaments projects in Greece. The Leopard project managed by Krauss-Maffei Wegmann was at the center of these reports. They also reported on the procurement of submarines (submarine components) and the ASRAD air defense system by the Greek armed forces. Rheinmetall Defence Electronics and ATLAS Elektronik were mentioned in relation to these two projects.

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Rheinmetall did not make any unauthorized payments to Greek government officials. Accusations to this effect are completely unfounded. Notwithstanding this, we are looking into the accusations. We are not able to comment on potential statements from defendants in Greece to whom the media reports relate due to the ongoing proceedings. Rheinmetall is in close contact with the appropriate authorities in order to disprove the allegations. An internal investigation was also launched in order to show the authorities as much transparency and cooperation as possible by means of appropriate documentation and to refute the accusations. This investigation is being led by an independent external specialist.

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.

REGULATORY RISKS

Legislative changes at national or European level may involve risks that could negatively affect our earnings situation. For example, this applies to new laws and other amended legal frameworks, e.g. export controls.

TAX RISKS

A differing assessment of circumstances during audits can lead to claims on the part of the tax authorities. 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.

FINANCIAL RISKS

Rheinmetall is faced with various financial risks as part of its ordinary business activities, e.g. liquidity risks, counterparty risks and market price risks, which can have a significant effect on the Group's earnings and assets.

Liquidity risk, i.e. the risk that existing or future payment obligations will not be met or will not be met when due, is identified and analyzed as part of rolling 12-month planning. The projected net liquidity position is compared with existing financing facilities to identify potential financing gaps at an early stage. Financing requirements are covered directly on the money and capital markets and indirectly via individual or several banks. Care is taken to ensure that adequate reserves for plan deviations are included when planning the dimensions of the financing framework. Prepayments represent a key element in reducing liquidity risks in the Defence sector. Guarantees must be regularly provided for these. In terms of guarantees, requirements are derived from project plans on a regular basis and care is taken to ensure that credit lines are utilized at a rate of between 50 % and 70 % so that there is sufficient scope for additional requirements. Rheinmetall's liquidity requirements are currently covered in the long term by the bond maturing in 2017 and the syndicated credit facility limited up to 2016. The commercial paper program and asset-backed security program together with various bilateral credit facilities used to cover peaks in liquidity throughout the year complete the financing profile.

Counterparty risks exist in connection with deposits, financing commitments and other financial receivables such as positive fair values arising from hedging transactions. Rheinmetall counters these risks by awarding commercial banking business on a broadly diversified basis and subject to creditworthiness. Financial transactions are only performed with banking or insurance partners with an investment grade rating from a recognized rating agency. Given Rheinmetall's customer mix, credit risks arising from operations are negligible. These risks are assessed on an individual basis in connection with long-term orders and reduced or hedged by means of prepayments, credit insurance, guarantees or letters or credit. 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.

The increasing internationalization of Rheinmetall's business in the Defence and Automotive sectors has resulted in a significant increase in cash flows in foreign currencies. In order to estimate the potential earnings effects arising from these cash flows, Rheinmetall performs simple scenario simulations. The structure of currency exposures is arranged differently in the Defence and Automotive sectors, meaning that the control procedures for these exposures are also different. While posted receivables and liabilities and fixed cash flows in foreign currencies are hedged when they arise, highly probable planned cash flows in the Automotive sector are also hedged on a selective basis.

Interest rate risks arise from changes in money and capital market interest rates. In the case of fixed-interest financial instruments, fair values fluctuate as a function of interest rates, whereas variable-interest financial instruments are subject to a cash flow risk as future interest payments can fluctuate in terms of their amount. Interest rate risks are immaterial to Rheinmetall. The bond has a fixed 4 % coupon and cash flow risk from short-term financing via commercial paper, the securitization of receivables (ABS) and bilateral credit facilities was limited back in 2009 via interest rate swaps and caps. Commodity price risks are limited by agreeing price variation clauses in customer and supplier contracts. In cases where this is not possible or only to a limited extent, these risks are hedged financially using derivatives. This is regularly the case for industrial metals and in the energy sector. Hedging decisions are made and documented in regular committee meetings. Only standard instruments such as swaps with counterparties with impeccable credit ratings are used.

RISKS IN THE DEFENCE SECTOR

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. This continues to lead to shifts and cuts in state budgets, which also affect defense. Political influences and changes in the defense 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.

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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 suitable formulation of contracts. However, despite ongoing monitoring, delayed payments or payment defaults on the part of contractual parties may unexpectedly arise.

OPPORTUNITIES IN THE DEFENCE SECTOR

Opportunities thanks to the modernization of armed forces – In most western industrialized nations, there is an ongoing need for extensive modernization of military equipment, especially in terms of armed forces technology. Current threats and foreseeable potential risks in foreign military deployments mean that ongoing investment is still needed in improving equipment and protecting soldiers. Cost-cutting measures are therefore being pushed to their limits.

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.

Opportunities for the business units in the three Defence 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 defense technology requirements resulting internationally from the ongoing need for substantial modernization of armed forces and new military deployment scenarios.

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 critical to winning orders abroad.

Opportunities thanks to political developments – Foreign deployments of UN and NATO troops, crisis intervention, peace keeping missions: Due to constant changes in national and international security and defense 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. 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 Defence sector may benefit from ad hoc procurements triggered by the deployment of forces in crisis regions.

Opportunities thanks to further internationalization – Defence's strategic priority lies in tapping into new growth markets, not least due to cuts to the defense budgets of traditionally important Rheinmetall customers. We believe Asia and the Middle East represent particularly attractive growth opportunities.

We laid further groundwork for the necessary internationalization of Rheinmetall in the reporting year by founding Rheinmetall International Engineering. This joint venture, in which Rheinmetall and Ferrostaal each hold a 50% stake, is expected to open doors into precisely those markets where Rheinmetall has had no access or only limited access up to now. The new company is also expected to accommodate the rapidly growing need for local defense technology infrastructure.

The company will plan and implement turnkey industrial facilities as a general contractor or subcontractor. Under the name "Defence Solutions", the company will offer Rheinmetall Defence's defense technology product expertise in combination with Ferrostaal's core expertise in the areas of project management, project development, EPC contracting (engineering, procurement, construction), and production planning and management. Rheinmetall is participating in a key market trend in this process, as the development of local infrastructure will continue to become increasingly important for international clients in the future rather than traditional imports of arms. Rheinmetall International Engineering will also operate in the international oil and gas industry as a contractor and subcontractor. As well as the MENA states, future target markets are also Asia and South America.

Opportunities thanks to consolidation – Other growth opportunities may arise for us as a result of the expected ongoing consolidation process in the European defense market.

RISKS IN THE AUTOMOTIVE SECTOR

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 fierce competitive, innovative and cost reduction constraints, which they then pass on to their suppliers. Companies in the Automotive sector are 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.

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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 cushion 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.

OPPORTUNITIES IN THE AUTOMOTIVE SECTOR

Technological opportunities – In Western Europe, the USA and Japan, increasingly tight restrictions apply to emissions of pollutants. Countries around the world have also defined fleet emission targets for carbon dioxide. If automotive manufacturers do not adhere to carbon dioxide fleet emission targets, they will have to pay large fines. As drive systems are responsible for over 50 % of the carbon dioxide emissions produced by passenger vehicles, it is essential that automotive manufacturers improve fuel efficiency further and thereby lower carbon dioxide emissions. Rheinmetall Automotive will therefore continue to exploit its capacity for innovation, with the aim of remaining a technological leader in the future and benefiting from developments on the market for drive systems.

Efforts made by engineers to develop low-consumption and, as a rule, smaller passenger car engines have led in recent years to key technological innovations in terms of diesel engines. As well as the further development of this type of drive, the focus in the future will be above all on reducing consumption levels in gasoline engines, as relevant improvements will be achieved more cheaply in gasoline engines than in diesel engines. The development departments of automotive manufacturers are working hard on designs for minimizing the CO_2 emissions of gasoline engines. For the Automotive sector, technologies such as charging and downsizing offer opportunities to supply components and systems that are simultaneously innovative and competitive.

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. Our Automotive sector 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.

In addition to measures aimed at saving fuel in the drive train, lightweight construction will also play a more important role in the future. This applies to vehicles with combustion engines but above all to vehicles with a hybrid or fully electric drives. Thanks to its expertise in aluminum and magnesium casting technology, our Automotive sector has opportunities here in new applications.

Geographical opportunities – Rheinmetall Automotive intends to expand its operations on a geographical basis, especially in the growing automotive markets of Brazil, India and China. These emerging nations are expected to offer automotive manufacturers and their suppliers growth potential in the coming years, due firstly to rising demand for passenger vehicles and light and heavy commercial vehicles, and secondly to the introduction of increasingly strict requirements to reduce fuel and carbon dioxide emissions.

Our aim is to benefit from these megatrends by expanding our existing production capacities in China, India and Brazil and using our expertise from the triad market. In concrete terms, we will build on our market presence in China, for example, in order to benefit from expected medium-term to long-term growth in this region, in particular by expanding our existing 100% subsidiaries and concluding strategic joint ventures. We also wish to increase our market share in India by means of our production facilities in Pune and Ahmednagar.

Opportunities thanks to diversification – As with passenger cars and light commercial vehicles, emissions targets for pollutants and greenhouse gases also apply to heavy commercial vehicles. Particularly stable, highly-developed and innovative drive systems must therefore be introduced for heavy commercial vehicles.

Rheinmetall Automotive has extensive specialist knowledge developed in connection with advanced drive technologies for passenger cars which can be used effectively. We also have long-standing close relations with manufacturers of heavy commercial vehicles which we have developed through our collaboration with these manufacturers in the development of pistons as a key pistons supplier in this segment.

We were therefore also able to market products from the Mechatronics division to these customers and manufacturers of heavy construction site vehicles and agricultural machinery, such as exhaust gas recirculation valves, exhaust gas recirculation cooling modules and exhaust gas mass sensors and believe that there is huge demand for further drive technologies in this segment. We also use our specialist technological knowledge from the Hardparts division for products outside the automotive industry, for example, in order to develop large-bore pistons and plain bearings specifically for electricity generation, heavy construction site vehicles, mining equipment, locomotives, shipbuilding and agricultural machinery.

Opportunities thanks to strong brands– A strong presence on the replacement parts market for automotive drive systems helps to stabilize our business activities, while also providing the opportunity to create further demand for our extensive drive system product portfolio. We believe that we have a strong position on the global replacement parts market for drive systems because we sell well-known brands such as Kolbenschmidt, Pierburg and TRW via the Motorservice division and are able to supply our customers at short notice. The product packages we create for our customers contain our own products and third-party products. This means we can provide our customers with all the parts and tools they require in a “one-stop shop” to cover their drive component requirements. We also offer training schemes for mechanics which increases customer loyalty and strengthens customers’ perception of the Motorservice division as a provider of integrated solutions.

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INTERNAL ACCOUNTING-RELATED CONTROL AND RISK MANAGEMENT SYSTEM

The internal control and risk management system 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 addition to defined control mechanisms, e.g. manual coordination processes and technical coordination processes for systems, this includes the separation of administrative, executive, settlement and approval functions together with guidelines and operating instructions. Changes to the economic, legal and regulatory environment of the Rheinmetall Group are analyzed to determine whether adjustments to the accounting-related control and risk management system are necessary.

Accounting guidelines – The IFRS accounting guidelines cover all IFRS regulations that are of relevance to Rheinmetall AG. They explain the IFRS regulations and specify accounting procedures. The guidelines must be observed by all companies included in the consolidated financial statements, thereby ensuring standardized accounting. The IFRS accounting guidelines are adapted to changes in IFRS at least once a year. Companies are informed about specific changes to guidelines. The content of the guidelines is the responsibility of the main Accounting department of Rheinmetall AG.

Accounting processes in companies included in the consolidated financial statements – It is the responsibility of the management of the respective companies to prepare the financial statements of companies included in the consolidated financial statements. The accounts and financial statements are prepared using SAP-based accounting systems (SAP-FI). Procedures are implemented in the accounting process to ensure the correctness of the accounts and financial statements. The management of each Group company monitors compliance with IFRS accounting guidelines and other guidelines and operating instructions in force across the Group. The management must confirm the correctness of the financial statements in a corresponding declaration.

Consolidation and the Group accounting process – The main Accounting department of Rheinmetall AG is responsible for central management of the Group accounting process. It stipulates the schedule for the consolidated financial statements and monitors compliance with deadlines.

The consolidated financial statements of Rheinmetall AG are drawn up with the aid of the consolidation software SAP SEM-BCS. A standardized, binding chart of accounts is incorporated in this system, which covers virtually all the information required for the IFRS consolidated financial statements of Rheinmetall AG. The individual companies record the financial statements prepared in accordance with IFRS accounting guidelines in the consolidation software. After recording this IFRS single-entity financial statement data, this then undergoes an automatic plausibility check 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. Employees in the main Accounting department then perform additional automatic and manual checks. The consolidation measures undergo system-based checks and automatic plausibility checks.

The consolidated financial statements are also audited on the basis of standardized reports using comparisons of target and actual performance, trend and deviation analyses and detailed evaluations. A check is carried out every quarter to ensure the completeness of the scope of consolidation.

Auditing and monitoring – As a process-independent authority, Internal Auditing examines workflows, structures and procedures for their suitability, effectiveness, safety and correctness on the basis of an audit plan adopted by the Executive Board. The audit plan establishes the focal areas for risk-oriented audit activities and the scope of the audits to be performed. The audits are regularly performed by accountancy firms. 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 informed of the implementation status of improvement measures in a review.

The auditor examines the consolidated financial statements and the summarized management report to determine whether they comply with applicable accounting regulations and other relevant provisions. It checks the IFRS accounting guidelines and makes these available to the auditors of companies included in the consolidated financial statements. The auditors of these companies check whether the IFRS accounting guidelines have been applied in full to the financial statements prepared for consolidation purposes and establishes the correctness of the annual financial statements prepared in accordance with applicable accounting principles. The audits performed by these auditors also include an assessment of the effectiveness of the accounting-related internal control system based on spot checks in subdivisions.

EXECUTIVE BOARD STATEMENT ON THE 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.

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 Wirtschafts-prüfungsgesellschaft, 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. The overall risk situation in the Rheinmetall Group did not change substantially in fiscal 2013 compared to the previous year.

The assessment of the overall risk situation is the product of consolidated consideration of all individual material risks. We are convinced that the risks presented are limited and manageable. In our opinion, no risks exist from today's perspective on an individual basis, in combination with other risks or as a collectivity that may significantly jeopardize the continued existence of Rheinmetall AG and the Rheinmetall Group as a going concern in the foreseeable future.

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GENERAL ECONOMIC CONDITIONS

Forecast economic growth in 2014

		%	Key statements on economic development
World		3.7	**Increase in economic momentum** ▪ Negative factors from recent years become less significant, but upturn remains fraught with risks ▪ IMF warns of heightened risk of deflation ▪ Noticeable upward trend in mature national economies (2014: 2.2 %) ▪ Signs of economy in emerging countries picking up (2014: 5.1 %) ▪ Overall continuation of expansionary monetary policy expected
Eurozone		1.0	**Economic recovery progresses** ▪ Production increases again after one and a half years of recession ▪ Yet economic recovery remains fragile ▪ Necessary reform efforts curb demand within the Eurozone ▪ Ongoing uncertainty in the banking sector hampers transmission of monetary incentives
Germany		1.6	**Economy gathers speed** ▪ Upturn in investment combined with low financing costs stimulate the economy ▪ Ongoing expansionary monetary policy ▪ Ongoing upturn on labor market
Russia		2.0	**Question mark over upward trend** ▪ Slight increase in economic growth ▪ Inflation rate expected to decline gradually from 2014 ▪ Continuing risks, especially due to falling commodity prices
USA		2.8	**Acceleration in upward trend** ▪ Improved general conditions thanks to defusing of budget dispute ▪ US Federal Reserve tapers bond-buying, but sticks with expansionary monetary policy overall ▪ Labor market continues to trend upwards
Brazil		2.3	**Brazilian economy with restrained growth** ▪ Below-average growth in Latin America ▪ Lack of scope for fiscal incentives ▪ Restrictive monetary policy due to upsurge in prices
India		5.4	**Signs of recovery intensify** ▪ Overall economic output rises again ▪ Accelerated implementation of infrastructure projects support economic stabilization ▪ Reduction in high inflation rate will only proceed slowly
China		7.5	**Growth path with curbed momentum** ▪ No noticeable under-utilization of overall economic capacity despite slightly waning economic momentum ▪ Stable rate of inflation between 2 % and just over 3 %
Japan		1.7	**Huge economic stimulus package to support growth** ▪ Another economic stimulus package in the amount of JPY 5.5 billion (approximately €40 billion) agreed at the end of 2013 ▪ Ongoing high trade deficit, especially due to large exports of oil and gas

REVIVAL OF WORLD ECONOMY AND RECOVERY IN THE EUROZONE

At the start of 2014, an optimistic assessment of global economic development is prevalent among leading economic researchers. This confidence is fuelled above all by emerging recovery in the eurozone, economic momentum that is starting to pick up in Germany and improved prospects for the USA. Despite increased uncertainty due to currency risks and outflows of capital, key economic forecasts believe that the major emerging economies will also find themselves on a growth path in 2014. On the basis of strong growth rates seen in previous years, China in particular is continuing to develop at a comparatively high level. The International Monetary Fund (IMF) regards the heightened risk of deflation in mature industrialized nations, above all in the eurozone, as a major risk factor. The IMF anticipates an increase in global economic output of 3.7% in 2014.

GLOBAL DEFENSE SPENDING ON THE UP AGAIN IN 2014

Following a reduction in global defense spending in the year under review, 2014 will be characterized by a return to growth in defense sector spending according to calculations made by defense analysts at IHS Jane's. According to this, the global market is expected to grow from approximately USD 1,538 billion in 2013 to approximately USD 1,546 billion in 2014. The background to this is that the need for extensive modernization in many armed forces will restrict cost-cutting efforts.

Deployment requirements in the 21st century mean that investment in the protection and safety of soldiers is essential if governments want to fulfil their responsibility towards their soldiers. However, some significant differences remain in the development of individual markets. The following table provides an overview of budget planning in selected countries.

Defense budgets of selected countries

Country	Currency	2014	2013	Change in%
Germany	€ billion	32.84	33.26	-1.3
World	USD billion	1,546.17	1,537.57	+0.6
Norway	USD billion	7.32	7.35	-0.4
Sweden	USD billion	6.63	6.59	+0.6
Netherlands	USD billion	10.08	10.46	-3.6
Polen	USD billion	10.50	9.15	+14.8
Russian Federation	USD billion	78.18	68.89	+13.5
UAE	USD billion	6.85	6.49	+5.5
Turkey	USD billion	19.94	20.62	-3.3
Algeria	USD billion	11.95	10.78	+10.9
South Africa	USD billion	4.43	4.43	0.0
USA	USD billion	574.89	582.42	-1.3
Indonesia	USD billion	7.99	7.80	+2.4
Australia	USD billion	31.33	29.44	+6.4

Sources: Budget Law 2014, German Bundestag, printed matter 17/14300 and IHS Jane's as at January 2014

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EXPLOITING OPPORTUNITIES IN DEFENSE MARKETS

Rheinmetall Defence continued to pursue its internationalization strategy – in due consideration of foreign policy and security policy requirements – on a targeted basis in the reporting year. The proportion of sales achieved abroad by Rheinmetall Defence now stands at 68 %. This provides us with a good basis to participate in modernization programs. For example, we believe the Middle East/North Africa (MENA) region, South-East Asia and Australia offer high growth potential. Stabilization of defense spending in the USA will also open up new opportunities again from 2015 at the latest.

AUTOMOTIVE MARKET RECEIVES A BOOST FROM EUROPE AGAIN

At the start of 2014, the Western European automotive market delivered particularly positive news. According to the assessment of the Association of the German Automotive Industry, countries which up to now had been the crisis nations in the eurozone were “in forward gear again”. However, as well as emerging recovery in Europe, robust growth of markets in China, the USA and Brazil also indicate a sustainable upward trend in the automotive sector.

Analysts from IHS Automotive forecast production growth of 3.6% to around 85.1 million vehicles in the segment for passenger cars and light commercial vehicles up to 3.5t in 2014. The following table provides an overview of development in relevant markets.

Production of passenger cars and light commercial vehicles up to 3.5t in selected countries Millions of units

Country	**2014**	**2013**	Change in %
World	85.12	82.13	+3.6
Western Europe (incl. Germany)	13.82	13.57	+1.8
Germany	5.51	5.58	-1.1
Eastern Europe	5.75	5.65	+1.7
NAFTA	16.84	16.17	+4.1
USA	11.34	10.87	+4.3
Brazil	3.53	3.39	+4.2
Asia (incl. Japan)	42.95	41.31	+4.0
Japan	8.05	8.83	-8.9
China	20.93	19.10	+9.6
India	3.85	3.63	+6.3

Source: IHS Automotive as at January 2014

COMMERCIAL VEHICLE MARKET IN FORWARD GEAR AGAIN

The clear recovery trend in the commercial vehicle segment will also reach markets in North America and Europe in 2014. Experts from IHS Automotive predict global production growth of 4.6% to over 2.8 million units for heavy commercial vehicles over 6.0t in 2014. The decline in the Chinese market by 4.9 % is primarily due to extraordinarily strong growth seen in 2013 (17.8%).

Production of heavy commercial vehicles over 6.0t in selected countries Millions of units

Country	2014	2013	Change in%
World	2.840	2.715	+4.6
Western Europe (incl. Germany)	0.422	0.391	+8.0
Germany	0.135	0.125	+7.5
NAFTA	0.475	0.417	+13.9
USA	0.315	0.278	+13.2
Brazil	0.209	0.196	+6.8
Asia (incl. Japan)	1.617	1.608	+0.6
Japan	0.329	0.306	+7.8
China	0.980	1.030	-4.9
India	0.268	0.233	+15.4

Source: IHS Automotive as at January 2014

RHEINMETALL AUTOMOTIVE BENEFITS FROM GLOBAL FOOTPRINT AND TECHNOLOGY TRENDS

In the past few years, Rheinmetall Automotive has consistently expanded its presence in all key growth markets – especially China and the NAFTA region. We are well equipped for the requirements of global vehicle platforms and for the regulatory trend towards reducing consumption and pollutants. Solutions to enable environmentally-friendly mobility are at the heart of our research and development efforts. As well as our products used to optimize the combustion engine, we also offer our Range Extender, a practical solution for problems posed by range in the electromobility growth segment. Against this backdrop, Rheinmetall Automotive has the best opportunities to benefit hugely from global technology trends as a development partner to leading automotive manufacturers.

EXECUTIVE BOARD STATEMENT ON EXPECTED DEVELOPMENT

Sales growth expected in both sectors – Following a year of transition during 2013 that was dominated by a series of measures to improve structures and increase cost efficiency, we expect a year of recovery in 2014, combined with sales growth and initial improvements in earnings arising from the completion of restructuring programs.

In 2014, we expect the Group to achieve sales of between €4.8 billion and €4.9 billion, following €4.6 billion in the previous fiscal year. Both sectors will contribute to this growth. This will require continued stable development of the global automotive sector and the realization of large projects in the Defence sector according to schedule.

Sales – 2014 forecast

		Forecast 2014		2013
Rheinmetall Group	€ billion	4.8 - 4.9	€ million	4.613
Defence	€ billion	appr. 2.3	€ million	2.155
Automotive	€ billion	2.5 - 2.6	€ million	2.458

The Defence sector, which posted a decline in sales in the previous year, is expected to return to growth on the basis of the high order backlog and – in a difficult market environment – achieve a volume of around €2.3 billion.

Economic report
Prospects

Development in the Automotive sector will be determined largely by the global automotive industry. Experts currently anticipate growth of 3.6 % in international automotive production in 2014. On this basis, we believe that sales in the Automotive sector could grow to between €2.5 billion and €2.6 billion.

Earnings development shows significant recovery – The restructuring measures initiated and carried out in the past few months are expected to lead to initial positive earnings effects in both sectors in fiscal 2014. However, they will not be fully effective until 2015. Sales growth is also expected to contribute to an increase in earnings.

Operating result – 2014 forecast

		Forecast 2014		2013
Rheinmetall Group	€ million	230 - 250	€ million	213
Defence	€ million	85 - 95	€ million	60
Automotive	€ million	165 - 175	€ million	160

We expect the Group to achieve an operating result of between €230 million and €250 million in fiscal 2014. The Defence sector is expected to achieve EBIT of between €85 million and €95 million and the Automotive sector EBIT of between €165 million and €175 million.

A moderate increase in net investment income and a slight rise in net income is expected for the Rheinmetall AG management holding company in fiscal 2014.

Group EBIT – Subsequent expenses arising from non-recurring effects of up to €10 million are expected, meaning that Group EBIT of between €220 million and €240 million is forecast.

Group EBT – From today’s perspective, we expect net interest of approximately €75 million, meaning that we anticipate Group EBT within a range of between €145 million and €165 million.

Return on capital employed (ROCE) – We do not expect a significant rise in capital employed in the current fiscal year. If Group EBIT increases as assumed, we anticipate a significant rise in return on capital employed to between 8% and 9%.

KEY FIGURES

Employees in the Rheinmetall Group

	2013	2012	2011	2010	2009
Employees	23,082	23,471	22,641	21,706	21,508
Men	18.669	19,267	18,250	17,475	17,093
Women	4,413	4,474	4,391	4,231	4,415
Trainees	911	899	801	729	774
Germany	561	578	579	566	585
Abroad	350	321	222	163	189
Part-time staff	800	768	773	690	698
Interns	319	309	280	220	89
Graduates	126	178	168	58	-
Disabled persons Germany	625	627	657	659	664
Foreign employees in Germany	895	878	898	929	984
Length of service in years	14	14.1	14.2	14.2	14.2
Average age in years	44.0	43.5	43.5	43.3	43.3

Employees in Germany and abroad

	2013	2012	2011	2010	2009
Total	23,082	23,471	22,641	21,706	21,508
Germany	11.815	11,947	11,959	11,907	11,979
Abroad	11,267	11,794	10,682	9,791	9,529
Europe excl. Germany	3,694	3,857	2,981	3,006	2,676
Europe Non-EU	1,436	1,532	1,596	1,638	1,477
North America	1,363	1,469	1,469	1,325	1,272
South America	2,533	2,464	2,327	2,192	1,797
Asia	1,064	1,148	979	437	590
Africa	1,121	1,299	1,320	1,193	1,717
Australia	56	25	10	8	0
Ratio abroad	48,8	49,7	47.2	45.1	44.3

Female employees by area

	Defence		Automotive		Holding + Service Companies		Rheinmetall Group	
	Number	%	Number	%	Number	%	Number	%
2013	1,814	18.0	2,524	19.7	75	46.3	4,413	19.1
2012	1,818	17.3	2,580	19.7	76	48.7	4,474	18.9
2011	1,829	18.4	2,488	19.8	74	49.7	4,391	19.4
2010	1729	17.5	2437	20.8	65	45.8	4,231	19.5
2009	2,024	20.0	2,330	20.7	61	43.6	4,415	20.5

Other key figures

		2013	2012	2011	2010	2009
Personnel expenses	€ million	1.308	1,137	1,260	1,181	1,068
Personnel expenses/employees	€ ’000	57	63	62	59	54
Sales/employees	€ ’000	200	217	218	199	170
Personnel expenses ratio	%	28	28	28	29	31

Entrepreneurial responsibility
Employees

EMPLOYEE NUMBERS FALL DUE TO RESTRUCTURING

On December 31, 2013, 23,082 people were employed by the Rheinmetall Group, following 23,741 in the previous year. This decline was mainly the result of restructuring measures associated with the "Rheinmetall 2015" strategy program.

INTERNATIONALITY AND DIVERSITY

In recent years, the Rheinmetall Group's workforce has become much more international. The percentage of employees working abroad in 2009 was 43.3 %, whereas this rose to 49% in the year under review. Today, 23,082 Rheinmetall employees make up a strong community in which a number of nationalities and cultures and a range of ethnic and social backgrounds are reflected. With sites spread across five continents, supply relationships in over 80 countries and 11,267 employees abroad (previous year: 11,794), internationality and diversity are ubiquitous in the Company nowadays. Daily practice shows that this diversity 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 2013, 69 German employees (previous year: 58) undertook a stay abroad, for which they prepared themselves through seminars dealing with country and culture-specific themes.

HR RECRUITMENT

Companies in the Rheinmetall Group are faced with increasingly tough competition from other companies to gain qualified personnel. Acquiring skilled professionals for these companies is therefore a key task in HR work. In addition to performance-based remuneration and progressive social benefits, Rheinmetall focuses especially on ensuring a broad range of professional opportunities in the Defence and Automotive sectors, interdisciplinary career paths, opportunities for secondments to international Group companies and attractive training opportunities to develop employees' specialist and personal skills, as well as diversity and equal opportunities.

In addition to its own training for junior employees, Rheinmetall uses traditional and modern employee selection methods and is also in close contact with universities, colleges and research institutes in order to get to know suitable science, technology and business graduates at an early stage. The Group thus creates a platform for presenting its wide range of business activities and professional opportunities for its employees.

In the year under review, as well as the roll-out of the new Group-wide recruitment concept, initial measures from the new HR marketing strategy developed specifically for Rheinmetall Defence were implemented, including a modern, target-group-specific approach using career websites on the Internet and various projects such as a project involving the student initiative Market Team.

Thanks to active participation at recruitment fairs and contacts with universities as well as a wide range of opportunities for gaining an insight into the world of work, Rheinmetall is increasingly positioning itself as an attractive employer for junior staff. The Group's modern presence at university fairs, graduate conferences, recruitment events and online job sites is increasingly bearing fruit. Our activities also received external recognition in the 2013 reporting year: 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. Rheinmetall was once again ranked as one of the 100 most attractive employers in Germany in the "Engineering Edition", coming in 64th place following its 58th-place ranking in the previous year.

In the year under review, the number of places open to interns from universities and graduates, particularly in technical disciplines, remained high. While 193 people worldwide 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 240 worldwide.

Back in 2012, Rheinmetall joined the "Deutschlandstipendium" initiative launched by the German Federal Ministry of Education and Research. As part of this, we now sponsor 15 students from RWTH Aachen, six from the Leibniz University in Hanover and five from Hochschule Bremen. Rheinmetall developed its own company-specific support and training program for this project in order to provide the scholarship holders with additional support.

PROMOTING TALENT AND SUCCESSION PLANNING

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, managers-to-be 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.

VARIED TRAINING OPPORTUNITIES

The further development of employees, talented management trainees and experienced specialist and managerial staff in line with current and future requirements is a key success factor in the further growth and future viability of the Rheinmetall Group in view of demographic factors and the skills shortage that is expected in many locations. The high level of qualification of our workforce must be secured and expanded on an ongoing basis in order to achieve the economic targets of the Group companies.

A range of training opportunities help Rheinmetall employees to achieve their individual learning targets and 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.

Entrepreneurial responsibility
Employees

In the year under review, the one-year commercial trainee program was successfully completed for the fourth time. In the Mechatronics division's first international trainee program, six trainees demonstrated their skills and knowledge in six international projects. A new training program for managers on the theme of "Management by Objectives" was introduced in 2013.

Rheinmetall invested around €3.7 million (previous year: €3.8 million) in training programs in Germany alone in 2013. In 2013, 6,644 employees (previous year: 9,708) benefited from 2,294 qualification measures (previous year: 5,395) over a total of 13,632 days (previous year: 19,923).

RHEINMETALL ACADEMY 2013

The Rheinmetall Academy is primarily geared towards managers and future talent. We systematically prepare these employees to assume leadership or specialist roles at various stages of their professional careers. The content of its courses and programs is designed strictly for matters of strategy, management, leadership, methodical competence, project management and internationalization. As part of the ongoing internationalization of the Rheinmetall Group, the Executive Development program, Sales Development program and, from 2014, the Young Manager 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 Executive Development program and Manager's Leadership program focus on "Leading my business" and help experienced managers to perform their organizational and managerial duties successfully. In particular, they help them to build on their knowledge of corporate controlling, employee leadership and change management. Junior staff are prepared to take on their first managerial challenges in the Young Manager program. The content of the Project Manager program is 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 view of the wide range of HR projects in the Group, staff from the HR departments were given training in project management for the first time through blended learning.

In the year under review, 650 employees attended the 63 (previous year: 59) events held over one or several days, compared to 579 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.

STRONG COMMITMENT TO QUALIFIED AND PRACTICAL TRAINING

As part of Rheinmetall's social responsibility, its commitment to qualified and practical training for young people in technical, business and IT professions is still a key priority. Worldwide, 911 young people (previous year: 899) received vocational training, 561 of whom (previous year: 577) were based in Germany. Within a wide spectrum of over 30 training courses on offer, industrial mechanic, machining mechanic and industrial business manager represented some of the most important professions at locations within Germany. The percentage of female trainees in Germany was 16.6 % (previous year: 17.7 %). The apprenticeship ratio for the German locations was 5.4 % of the workforce (previous year: 4.8 %). €10.6 million (previous year: €10.3 million) was invested in training at sites in Germany in 2013. In the past fiscal year, 170 young people (previous year: 211) started their training at Rheinmetall companies in Germany, while 202 trainees (previous year: 326) took up temporary or permanent employment after successfully completing their training.

WOMEN IN MANAGERIAL POSITIONS

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.

However, the defense and automotive industries are still traditionally dominated by men, who primarily choose technical or scientific subjects during their training or studies. The proportion of female graduates in Germany from engineering courses of relevance to our Group remains at around 20 %.

In the year under review, the Rheinmetall Group employed 1,988 managers across its first four levels (previous year: 2,067), of whom 142 or 7.1 % were women (previous year: 151 or 7.3 %). Of the senior management staff comprising approximately 260 people, 4 % are women (previous year: 6 %). 8 % of participants in Young Manager modules 1 to 27 which have been undertaken so far were women, 9 % of participants in the Executive Development program are women (previous year: 5 %), 15 % in the Sales Development program and 16% in the Management Leadership/Project Management program. In the year under review, 17 % of participants at events organized by the Rheinmetall Academy were women (previous year: 11 %). In the "Gender Diversity@Rheinmetall" project which was launched in the reporting year, male and female managers attend workshops where they develop measures to promote diversity, after first defining areas and roles where a higher proportion of female staff should be encouraged. The project group focuses on determining which prerequisites and conditions still need to be created and which additional measures to support development are required to allow women in the Rheinmetall Group to assume managerial roles without having to neglect their private or family commitments.

WORK-LIFE BALANCE

Many employees want to create a more healthy balance between their professional goals and their family and private interests. For us, it is important to help our employees to achieve this. Options including 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. In 2013, 126 employees were on parental leave in the German companies (69 female employees, 57 male employees; previous year: 55 female employees, 53 male employees).

ATTRACTIVE REMUNERATION SYSTEMS

Attractive pay is a key aspect in recruiting staff and also an important component in ensuring the retention of capable and dedicated staff at the Company. Pay schemes are based on standard market criteria and are weighted based on the individual's and Company's success subject to the extent of managerial responsibility. In addition to fixed salary components, Rheinmetall offers managers various variable performance incentives and benefits. This remuneration system provides incentives to take on challenges and assume responsibility by means of target-related pay.

Entrepreneurial responsibility
Employees

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.

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.

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.

COMPANY PENSION

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.

EMPLOYEE SHARE OWNERSHIP PROGRAM

Our employees have the opportunity to purchase Company shares on preferential terms twice during the year. 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 2013 and November 2013, a total of 1,251 employees (previous year: 1,018) purchased 142,857 Rheinmetall shares (previous year: 106,798), which are subject to a minimum lockup period of two years. Since the share purchase program was launched in 2008, employees have purchased 930,109 Rheinmetall shares.

THE CHALLENGE OF DEMOGRAPHIC CHANGE

According to current calculations, an estimated 10,000 employees will have left our Company by 2030 due to their age alone. Our challenge therefore involves identifying available potential, recruiting and training junior staff and developing our employees' skills (further) in order to ensure a smooth handover. In this context, we also need to use HR policy and appropriate health and support programs to maintain the ability to work and learn, professional motivation and physical and mental agility of our long-standing employees, who are important to our Company and our ability to compete due to their knowledge, experience and skills.

Entrepreneurial responsibility
Corporate Social Responsibility

RHEINMETALL YESTERDAY AND TODAY

Rheinmetall is one of the hundred largest listed corporations in Germany. The companies of the Rheinmetall Group undertake production operations around the world and are involved in the economic, ecological and social conditions of the different countries and regions where they are active. Tradition, experience and progress go hand-in-hand with our name.

Rheinmetall is committed to fair competition as well as to acting in a way that is upright and legal, socially and ethically responsible. Sustainable business practices have always been an integral part of its business and production processes and serve to secure the long-term future of a company which can look back on a successful 125-year history. As well as continuity, economic growth and compliance with principles of good corporate governance, a responsibility towards shareholders, customers and employees and the careful use of natural resources are a matter of course for the Rheinmetall Group and are embedded in its corporate culture.

CODE OF CONDUCT

The fundamentals of social responsibility are set out in the Code of Conduct which was adopted back in 2003. According to this, Rheinmetall will do everything in its power as part of a corporate development strategy based on sustainable development to combine economic, environmental policy and social objectives with medium-term and long-term strategies and plans and with corporate decisions made on a daily basis. Areas covered by this Code of Conduct include responsible entrepreneurship in the ongoing process of globalization, observance of human rights and safe working conditions.

CORPORATE CITIZENSHIP

Social acceptance is an important requirement for economic success. Many Rheinmetall companies can look back on a long tradition. They have been connected with their sites for many years and are strongly rooted in the local community – after all, this is where their customers, employees and business partners live. Our social engagement extends beyond the borders of our factory premises. We get involved in targeted areas of education, art and culture and provide direct support for 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, since requirements vary greatly between the various locations where Rheinmetall operates.

ENVIRONMENTAL PROTECTION

Environmental protection is of key importance in the companies of the Rheinmetall Group, in keeping with a holistic understanding. The careful use of natural resources, economical use of raw materials and energy and, where possible, the avoidance of environmental damage at every stage – from procurement of raw materials to product development, production, packaging and transport, right up to disposal and recycling – help to improve economic and ecological results within the Group. Employees' sense of responsibility toward the environment is encouraged at all levels of the value-added chain.

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.

Entrepreneurial responsibility
Corporate Social Responsibility

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 and TS 16409) and environmental protection (ISO 14001) are observed and processes certified accordingly. Regular reviews of certifications confirm these high quality standards on an objective basis.

Detailed descriptions of the organization, workflows and responsibility and ongoing quality improvement processes ensure that the requirements imposed on the Company in the form of customer specifications, regulations and other provisions are met in as environmentally friendly a way as possible. Efforts to deploy resources even more efficiently and to avoid the generation of hazardous materials to a large extent are ongoing.

OCCUPATIONAL HEALTH AND SAFETY AND WORKPLACE HEALTH PROMOTION

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. Various companies in the Rheinmetall Group have already been certified in accordance with OHSAS 18001 for a few years.

The framework company agreement on health management that was concluded in June 2012 between the 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 prevention and occupational rehabilitation following illness, was awarded second prize in the "Europa mitbestimmen" category at the German Works Council Day during the reporting year. The reasons the jury gave for awarding this prize included in particular the holistic and sophisticated way in which the complex issue was approached and it also praised the Europe-wide approach taken by the contracting parties. The health management steering committees established at individual sites are responsible for implementing the agreement in practice. These committees include members of the works management and HR department together with employee representatives.

FOJANA: FOREST – HUNTING – NATURE

The Defence sector owns a proving ground near to Unterlüß in Lower Saxony with a total surface area of around 55 km^2. Almost 90 % of this area is used for forestry activities and is maintained, through hunting, by two full-time forest rangers and cultivated in accordance with the strict rules of integrated nature conservation.

With 3,400 hectares of forest, the site is one of the largest continuous forested areas in Lower Saxony. Rheinmetall combines active nature conservation with its commitment to the region, where the company is the largest employer after the German armed forces. The result of this commitment 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 company-owned land – the Ellerndorfer Heide – is open to the public.

LIVING AND WORKING IN DÜSSELDORF'S "UNTERNEHMERSTADT"

As one of the oldest companies in Düsseldorf, Rheinmetall has been an integral part of the city and region for more than 100 years. In the last 15 years – since the relocation of its defense 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 in the new Unternehmerstadt district that has gradually consummated the sensitive integration of old building fabric in modern architecture. The lively mix of administrative and commercial buildings with 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.

At the end of 2015, Group headquarters is set to be relocated to a new building on the last available plot of land in the area. As such, we are sticking with our traditional location in Düsseldorf, but will benefit from the advantages that come with the new building's modern infrastructure, greater space efficiency and improved energy standards. The property is set to be certified according to the guidelines of Deutsche Gesellschaft für nachhaltiges Bauen e.V., which evaluates technical, functional, sociocultural, ecological and economic criteria. The Group will aim to receive certification in the "silver" category, which is issued when at least 65 % of requirements are met.

PROMOTING EDUCATION AND TRAINING

The companies in the Rheinmetall Group are committed to the transfer of knowledge. Cooperations with universities and institutions ensure intensive exchange between business, science and research sectors, from which all sides benefit.

Together with the 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, Rheinmetall Automotive is supporting young scientists at international level too.

Entrepreneurial responsibility
Corporate Social Responsibility

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.

Specialist teachers from across Germany visit the customer service school of the Automotive sector's Motorservice division in Dormagen as part of coordinated advanced teacher training in order to gain detailed information about components, modules and systems used to manage fuel and air, to reduce emissions, to cool engines and to create vacuums in gasoline and diesel engines.

ENVIRONMENTALLY-FRIENDLY MOBILITY

Rheinmetall Automotive has already been working for a long time on ecofriendly automotive technology solutions and, with its products, is 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 increasingly strict 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 can be found on our website at http://csr.rheinmetall.com.

CORPORATE COMPLIANCE

Companies in the Rheinmetall Group have always been geared towards national and international principles, values and customs to ensure good, responsible corporate governance. 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.

It goes without saying that the Company acts in accordance with the law and complies with guidelines and regulations. 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 the Executive Board and 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. 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.

COMPLIANCE MANAGEMENT SYSTEM

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 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.

Group-wide compliance activities focus on the areas of cartel law, corruption prevention and export controls. The Company's compliance program also helps to prevent insider offences and supports industrial and corporate security and IT security.

All corporate bodies, managers and 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.

Entrepreneurial responsibility
Corporate compliance

COMPLIANCE ORGANIZATION

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 experts 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.

COMPLIANCE AS A MANAGERIAL RESPONSIBILITY

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.

TRAINING PROGRAMS

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 trainings, around 1,250 employees at sites in Germany and abroad received instruction not only in general compliance issues, but also in prevention of corruption, export controls and cartel and competition laws during the reporting year. 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.

HANDLING INFORMATION

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.

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.

COMMITMENT TO COMPLIANCE

Rheinmetall joined the Deutsches Institut für Compliance (German institute for compliance – DICO) in the reporting year. DICO is an association of companies and individuals aimed at promoting and developing compliance standards.

Detailed information on our Company's compliance management system is provided on Rheinmetall AG's website in the "Group – Corporate Compliance" section.

Report on post-balance sheet date events

EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events at Rheinmetall AG between the December 31, 2013 balance sheet date and the date the 2013 consolidated financial statements were issued which would have had an impact on the Company's earnings, assets and financial situation.

Düsseldorf, February 28, 2014

Rheinmetall Aktiengesellschaft
The Executive Board

Armin Papperger　　Horst Binnig　　Helmut P. Merch

Consolidated Financial Statements
of Rheinmetall AG

Rheinmetall Group
Balance sheet as at December 31, 2013

Assets € million

	Note	**Dec. 31, 2013**	**Dec. 31, 2012**
Goodwill	(7)	555	560
Intangible assets	(7)	319	344
Property, plant and equipment	(8)	1,156	1,177
Investment property	(9)	14	19
Investments accounted for using the equity method	(10)	157	147
Other non-current financial assets	(13)	6	8
Other non-current assets	(14)	6	7
Deferred taxes	(30)	129	117
Non-current assets		**2,342**	**2,379**
Inventories	(11)	937	826
./. Prepayments received		(31)	(30)
		906	796
Trade receivables	(12)	982	1,032
Other current financial assets	(13)	34	34
Other current receivables and assets	(14)	118	124
Income tax receivables		26	33
Cash and cash equivalents	(15)	445	501
Disposal group held for sale	(3)	4	-
Current assets		**2,515**	**2,520**
Total assets		**4,857**	**4,899**

Rheinmetall Group
Balance sheet as at December 31, 2013

Equity and liabilities € million

	Note	Dec. 31, 2013	31.12.2012 [1]
Share capital		101	101
Additional paid-in capital		307	307
Retained earnings		905	1,018
Treasury shares		(58)	(72)
Rheinmetall AG shareholders' equity		**1,255**	**1,354**
Minority interests		84	111
Equity	(16)	**1,339**	**1,465**
Provisions for pensions and similar obligations	(17)	891	919
Other non-current provisions	(18)	88	86
Non-current financial debts	(19)	532	572
Other non-current liabilities	(21)	31	30
Deferred taxes	(30)	36	48
Non-current liabilities		**1,578**	**1,655**
Other current provisions	(18)	388	391
Current financial debts	(19)	51	27
Trade liabilities	(20)	721	648
Other current liabilities	(21)	739	663
Income tax liabilities		41	50
Current liabilities		**1,940**	**1,779**
Total liabilities		**4,857**	**4,899**

[1] *Figures adjusted due to amendment to IAS 19*

Rheinmetall Group
Income statement for fiscal 2013

€ million

	Note	2013	2012 [1]
Sales		**4,613**	**4,704**
Changes in inventories and work performed by the enterprise and capitalised		141	51
Total operating performance	(22)	**4,754**	**4,755**
Other operating income	(23)	107	210
Cost of materials	(24)	2,573	2,508
Personnel expenses	(25)	1,308	1,337
Amortization, depreciation and impairment	(26)	212	194
Other operating expenses	(27)	687	648
Net operating income		**81**	**278**
Net interest [2]	(28)	(77)	(80)
Net investment income and other net financial income [2]	(29)	31	18
Net financial income		**(46)**	**(62)**
Earnings before taxes (EBT)		**35**	**216**
Income taxes	(30)	(13)	(43)
Net income		**22**	**173**
Of which:			
Minority interests	(31)	*(7)*	*0*
Rheinmetall AG shareholders		*29*	*173*
Earnings per share	(32)	0.75 EUR	4.55 EUR
EBITDA		324	490
EBIT		112	296

[1] Figures adjusted due to amendment to IAS 19
[2] Of which interest expense: €79 million (previous year: €84 million)
[3] Of which income from investments carried at equity: €27 million (previous year: €25 million)

Rheinmetall Group
Comprehensive income for fiscal 2013

€ million

	2013	2012 [1]
Net income	**22**	**173**
Remeasurement of net defined benefit liability from pensions	22	(138)
Revaluation of properties	5	-
Amounts not reclassified in the income statement	**27**	**(138)**
Change in value of derivative financial instruments (cash flow hedge)	(29)	(1)
Currency conversion difference	(84)	(16)
Income/expenses from investments accounted for using the equity method	(5)	(3)
Amounts reclassified in the income statement	**(118)**	**(20)**
Other comprehensive income (after taxes)	**(91)**	**(158)**
Comprehensive income	**(69)**	**15**
Of which:		
Minority interests	*(23)*	*(6)*
Rheinmetall AG shareholders	*(46)*	*21*

[1] *Figures adjusted due to amendment to IAS 19*

Rheinmetall Group
Cash flow statement for fiscal 2013

€ million

	2013	2012 [1]
Opening cash and cash equivalents January 1	**501**	**535**
Net income	22	173
Amortization, depreciation and impairments	212	194
Changes in pension provisions	(3)	(11)
Gross cash flows	**231**	**356**
Income from disposition of non-current assets	(1)	(1)
Changes in other provisions	14	21
Changes in inventories	(132)	(9)
Changes in receivables, liabilities without financial debts and prepaid & deferred items	159	60
Other non-cash expenses and income	(76)	(68)
Cash flows from operating activities [2]	**195**	**359**
Investments in property, plant and equipment, intangible assets and investment property	(191)	(234)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	6	7
Investments in consolidated companies and financial assets	(5)	(42)
Divestments of consolidated companies and financial assets	17	50
Cash flows from investing activities	**(173)**	**(219)**
Capital contributions by third parties	3	0
Changes in scope of consolidation	1	0
Change in equity interest without loss of control	4	0
Dividends paid out by Rheinmetall AG	(68)	(69)
Other profit distributions	(7)	(8)
Purchase of treasury shares	0	(29)
Sale of treasury shares	5	3
Borrowing of financial debts	80	50
Repayment of financial debts	(93)	(121)
Cash flows from financing activities	**(75)**	**(174)**
Changes in financial resources	**(53)**	**(34)**
Changes in cash and cash equivalents due to exchange rates	(3)	0
Total change in financial resources	**(56)**	**(34)**
Closing cash and cash equivalents December 31	**445**	**501**

For comments on the cash flow statement, see Note (34).
[1] Figures adjusted due to amendment to IAS 19
[2] Including:
Net interest of €-47 million (previous year: €-43 million), net income taxes of €-45 million (previous year: €-64 million)

Rheinmetall Group
Statement of changes in equity

€ million

	Share capita	Additional paid-in capital	*Difference of currency conversion*	*Statement of fair value and other valuations*	*Other reserves*	**Retained earnings**	Treasury shares	**Rheinmetall AG shareholders equity**	Minority interests	**Equity**
Balance as at December 31, 2011	**101**	**307**	*56*	*77*	*923*	**1,056**	**(55)**	**1,409**	**137**	**1,546**
Adjustment IAS 19	-	-	-	-	*7*	7	-	7	-	7
Balance as at January 1,2012	**101**	**307**	*56*	*77*	*930*	**1,063**	**(55)**	**1,416**	**137**	**1,553**
Net income	-	-	-	-	*173*	173	-	173	0	173
Other comprehensive income	-	-	*(15)*	*(1)*	*(136)*	(152)	-	(152)	(6)	(158)
Comprehensive income	**-**	**-**	***(15)***	***(1)***	**37**	**21**	**-**	**21**	**(6)**	**15**
Dividends payout	-	-	-	-	(69)	(69)	-	(69)	(8)	(77)
Other changes	-		-	-	*3*	3	(17)	(14)	(12)	(26)
Balance as at December 31, 2012/ as at January 1, 2013	**101**	**307**	*41*	*76*	*901*	**1,018**	**(72)**	**1,354**	**111**	**1,465**
Net income	-	-	-	-	*29*	29	-	29	(7)	22
Other comprehensive income	-	-	*(75)*	*(19)*	*19*	(75)	-	(75)	(16)	(91)
Comprehensive income	**-**	**-**	***(75)***	***(19)***	**48**	**(46)**	**-**	**(46)**	**(23)**	**(69)**
Dividends payout	-	-	-	-	*(68)*	(68)	-	(68)	(7)	(75)
Change in equity interest without loss of control	-	-	-	*(2)*	*4*	2	-	2	2	4
Changes in scope of consolidation	-	-	-	-	-	-	-	-	1	1
Other changes	-	-	-	-	*(1)*	(1)	14	13	-	13
Balance as at December 31, 2013	**101**	**307**	*(34)*	*55*	*884*	**905**	**(58)**	**1,255**	**84**	**1,339**

For comments on equity, see Note (16).

Notes to the consolidated financial statements
Segment reporting

€ million

Corporate sectors		Defence		Automotive		Others / Consolidation		Group	
		2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Balance sheet (December 31)									
Equity	(1)	843	936	626	619	(130)	(90)	1,339	1,465
Pension provisions	(2)	427	441	355	367	109	111	891	919
Net financial debts	(3)	(230)	(277)	(110)	(41)	478	416	138	98
Capital employed	(1)+(2)+(3)	1,040	1,100	871	945	457	437	2,368	2,482
Additions to capital employed		359	362	169	169	(407)	(410)	121	121
Capital employed December 31		1,399	1,462	1,040	1,114	50	27	2,489	2,603
Average capital employed	(4)	1,431	1,539	1,077	1,051	38	(24)	2,546	2,566
Income statement									
External sales		2,155	2,335	2,458	2,369	-	-	4,613	4,704
Of which domestic (in %)		*32.3*	*32.6*	*23.5*	*23.2*	-	-	*27.6*	*27.8*
Of which foreign (in %)		*67.7*	*67.4*	*76.5*	*76.8*	-	-	*72.4*	*72.2*
Equity income		8	10	17	15	2	0	27	25
EBITDA		96	262	234	243	(6)	(15)	324	490
Amortization, depreciation and impairment		(92)	(89)	(119)	(104)	(1)	(1)	(212)	(194)
Of which impairment		*(2)*	-	*(13)*	*(1)*	-	-	*(15)*	*(1)*
EBIT	(5)	4	173	115	139	(7)	(16)	112	296
Interest income		4	5	2	3	(4)	(4)	2	4
Interest expenses		(31)	(36)	(19)	(22)	(29)	(26)	(79)	(84)
Net interest		(27)	(31)	(17)	(19)	(33)	(30)	(77)	(80)
EBT		(23)	142	98	120	(40)	(46)	35	216
Income taxes		(4)	(33)	(17)	(21)	8	11	(13)	(43)
Net income		(27)	109	81	99	(32)	(35)	22	173
Operating result		60	145	160	139	(7)	(16)	213	268
EBIT rate of return (in %)		0.2	7.4	4.7	5.9	-	-	2.4	6.3
Other data									
ROCE (in %)	(5) / (4)	0.3	11.2	10.7	13.2	-	-	4.4	11.5
Capital expenditures		62	90	142	148	1	0	205	238
R&D expenditures		74	83	152	147	-	-	226	230
Order intake		3,339	2,933	2,466	2,378	-	-	5,805	5,311
Order backlog December 31		6,050	4,987	425	418	-	-	6,475	5,405
Prepayments received		1,033	963	23	12	-	-	1,056	975
Employees as at December 31 (capacities)		9,193	9,623	11,744	12,003	144	141	21,081	21,767

€ million

Regions	Germany		Rest of Europe		North America		Asia		Other regions / Consolidation		Group	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
External sales Defence	696	761	604	721	177	196	420	538	258	119	2,155	2,335
External sales Automotive	576	549	1,195	1,142	322	292	211	213	154	173	2,458	2,369
External sales Total	1,272	1,310	1,799	1,863	499	488	631	751	412	292	4,613	4,704
in % of Group sales	28	28	39	40	11	10	14	16	8	6	-	-
Assets	1,213	1,207	571	620	122	129	57	58	81	86	2,044	2,100

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FIXED ASSET ANALYSIS

€ million

	Gross values					
2013	Jan.1, 2013	Additions	Disposals	Book transfers/ increase	Adjustment scope of consolidation	Currency differences
Intangible assets						
Goodwill	560	-	-	-	0	(5)
Development costs	230	29	-	0	-	(2)
Concessions, industrial property rights and licenses	156	6	1	5	(4)	(2)
Other intangible assets	206	0	-	-	2	(9)
Prepayments made	1	1	-	(1)	-	0
	1,153	**36**	**1**	**4**	**(2)**	**(18)**
Property, plant and equipment						
Land, equivalent titles, and buildings (incl. buildings on leased land)	1,072	6	6	16	-	(19)
Production plant and machinery	1,887	46	55	76	(1)	(52)
Other plant, factory and office equipment	515	14	19	19	0	(12)
Prepayments made and construction in progress	118	103	1	(107)	0	(5)
	3,592	**169**	**81**	**4**	**(1)**	**(88)**
Investment property	**27**	**0**	**6**	**-**	**-**	**0**
Total	**4,772**	**205**	**88**	**8**	**(3)**	**(106)**
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	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)**

The book transfers/increase column for 2013 includes an increase in the fair values of essential plots of land owned for business purposes in the amount of €8 million.

Notes to the consolidated financial statements
Fixed asset analysis

	Amortization, depreciation and impairment							Net value
Dec. 31, 2013	Jan.1, 2013	Additions	Disposals	Book transfers	Write-ups	Currency differences	**Dec. 31, 2013**	**Dec. 31, 2013**
555	-	-	-	-	-	-	-	555
257	79	23	-	-	-	(1)	101	156
160	113	13	1	0	-	(3)	122	38
199	57	20	0	-	-	(2)	75	124
1	-	-	-	-	-	-	-	1
1,172	**249**	**56**	**1**	**0**	**-**	**(6)**	**298**	**874**
1,069	568	22	4	0	1	(10)	575	494
1,901	1,432	99	54	0	0	(35)	1,442	459
517	415	34	18	0	0	(9)	422	95
108	-	-	-	-	-	-	-	108
3,595	**2,415**	**155**	**76**	**0**	**1**	**(54)**	**2,439**	**1,156**
21	**8**	**1**	**2**	**-**	**-**	**-**	**7**	**14**
4,788	**2,672**	**212**	**79**	**0**	**1**	**(60)**	**2,744**	**2,044**

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 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.

In fiscal 2013, the following new or amended standards were applied for the first time, because their application is mandatory from January 1, 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	"2009-2011 cycle"

The amendments to IAS 19 "Employee Benefits" affect the recognition and measurement of pension obligations and obligations arising from partial retirement. Within the context of pension accounting, the past service cost is now to be recognized in full immediately in the period of the plan amendment, and the interest rate which is specified for discounting pension obligations is also to be used to calculate interest income from plan assets that is recognized in the income statement. Step-up amounts granted from preretirement part-time work contracts are now to be accumulated on a pro rata basis during the active phase, including any minimum service periods, as these constitute other long-term employee benefits. The retrospective application of the standard from fiscal 2013 means that the balance sheet values as at December 31, 2012, have been amended in comparison with the values reported in the 2012 Annual Report. Amendments to affected items in the balance sheet and statement of comprehensive income are presented below.

€ million

	Jan.1, 2012	Dec. 31, 2012		
Balance sheet	**adjusted**	**reported**	**Change**	**adjusted**
Equity	1,553	1,461	4	1,465
Provisions for pensions and similar obligations	730	920	(1)	919
Other provisions	456	481	(4)	477
Deferred taxes	81	47	1	48
Other liabilities	2,012	1,990	-	1,990
	4,832	**4,899**	**0**	**4,899**

€ million

	2012		
Statement of comprehensive income	**reported**	**Change**	**adjusted**
Earnings before taxes (EBT)	239	-23	216
of which personnel expenses	*1,336*	*1*	*1,337*
of which other operating expenses	*644*	*4*	*648*
of which net interest	*(62)*	*(18)*	*(80)*
Income taxes	(49)	6	(43)
Net income	**190**	**(17)**	**173**
Other comprehensive income	(172)	14	(158)
Comprehensive income	**18**	**(3)**	**15**
of which			
Minority interests	*(6)*	*0*	*(6)*
Rheinmetall AG shareholders	*24*	*(3)*	*21*
Earnings per Share	€5.00	€(0.45)	€4.55

Amounts included in comprehensive income which are recognized directly in equity comprise the reclassification of interest income from plan assets in the amount of €18 million and deferred taxes of €4 million, which have the reverse effect.

The continuation of IAS 19 unchanged would particularly affect net interest as expected income from fund assets of the Swiss subsidiaries would have had to be included here.

IFRS 13 “Fair Value Measurement” regulates the method for measuring fair value when this measurement approach is prescribed or permitted in another standard. The new standard did not result in any quantitative changes. However, additional disclosures must be included in the Notes with regard to the calculation of recognized fair values.

The other new or amended standards that are to be applied from fiscal 2013 have not had any 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. The new regulation implies a refutable assumption of realization of earnings through the sale of the asset.

The amendments to IFRS 7 “Financial Instruments: Disclosures” result in expanded Notes regarding the offsetting of financial receivables and financial liabilities.

The improvements to IFRS standards in the 2009-2011 cycle relate mainly to clarifications and corrections regarding the first-time application of IFRS, property, plant and equipment, financial instruments and the presentation of financial statements and interim reporting.

Notes to the consolidated financial statements
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The amendments to IAS 36 “Impairment of Assets” were applied early and result in, for example, changed disclosures in the Notes on the calculation of the recoverable amount of impaired assets if this amount is based on the fair value less costs of disposal.

In fiscal 2013, amendments to the following standards and a new interpretation were published:

Amendment to IFRS 9	“Financial instruments”
Amendment to IAS 19	“Employee Benefits”
IFRIC 21	“Levies”
IFRS improvements	“2010-2012 cycle”
IFRS improvements	“2011-2013 cycle”

Endorsement in EU law is still pending. According to the current assessment, this will not have a significant impact on the net assets, financial position and results of operations of the Rheinmetall Group.

The amended version of IFRS 9 “Financial Instruments” now includes new regulations on hedge accounting. As well as the expanded option to designate underlying transactions and to extend permitted hedging instruments to all financial instruments that are recognized in income at fair value, the requirements to determine the effectiveness of a hedging instrument as a prerequisite for the application of hedge accounting have also changed. There are also additional disclosure requirements. When IFRS 9 is applied for the first time, which is scheduled for fiscal 2015, there will be the option to recognize all hedging instruments according to existing regulations under IAS 39 or in accordance with IFRS 9. The resulting effects on Rheinmetall’s consolidated financial statements when the regulations under IFRS 9 are applied are currently deemed to be not significant.

The amendment to IAS 19 “Employee Benefits” clarifies the accounting recognition of contributions to defined benefit plans paid by employees or third parties. In certain circumstances, these amounts can reduce the service cost during the period when the service was rendered. This amendment is to be applied from fiscal 2015.

IFRIC 21 regulates the recognition of levies imposed by government institutions and thus specifies accounting for obligations in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. This interpretation is to be applied from fiscal 2014.

The improvements to IFRS standards in the 2010-2012 and 2011-2013 cycles are to be applied from fiscal 2015 and relate mainly to clarifications and corrections to share-based remuneration, business combinations, disclosures on reportable segments, property, plant and equipment, related parties, and fair value measurement.

The following new or amended standards, published by the IASB, are to be applied from fiscal 2014.

Amendment to IAS 27	“Separate Financial Statements”
Amendment to IAS 28	“Investments in Associates and Joint Ventures”
Amendment to IAS 32	“Financial Instruments: Presentation”
Amendment to IAS 39	“Financial Instruments: Recognition and Measurement”
IFRS 10	“Consolidated Financial Statements”
IFRS 11	“Joint Arrangements”
IFRS 12	“Disclosure of Interests in Other Entities”

IFRS 11 is not expected to have an impact on assets, earnings or the Notes to Rheinmetall’s consolidated financial statements. All other amended standards are not expected to result in significant changes to assets, earnings or the Notes.

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. IAS 27 “Separate Financial Statements” is only relevant to separate financial statements as new regulations have been included in the provisions of IFRS 10 relating to the consolidated financial statements.

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. A review of activities in the Rheinmetall Group that are performed jointly with other companies found that, on the basis of information currently available, two joint ventures qualify as joint operations. As of December 31, 2013, these companies were carried at equity in the consolidated financial statements with an investment book value of €7 million. In future, these companies are to be included in the consolidated financial statements together with pro-ratable assets, liabilities, expenses and income. The two companies’ net assets on a 100 % basis totaled €14 million as at December 31, 2013, while sales totaled €31 million. These figures do not include any consolidation effects.

In IFRS 12 “Disclosure of Interests in Other Entities”, all Notes about companies which are under the control, joint management or controlling influence of the reporting company are combined together in a standard (included in IAS 27, IAS 28 and IAS 31 to date).

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

Notes to the consolidated financial statements
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The amendments to IAS 39 “Financial Instruments: Recognition and Measurement” deal with the transfer of derivatives to central transaction partners when certain size criteria are exceeded and relate primarily to banks. A similar transfer to central regulatory bodies does not result in the discontinuation of hedge accounting.

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 and Section 264b HGB governing partnerships, the following German enterprises have elected not to disclose their 2013 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
GVH Grundstücksverwaltung Hamburg GmbH & Co. KG

(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, 2012	Additions	Disposals	Dec. 31, 2013
Fully consolidated subsidiaries				
Domestic	48	1	1	48
Foreign	92	1	1	92
	140	**2**	**2**	**140**
Investments accounted for using the equity method				
Domestic	16	1	-	17
Foreign	11	1	-	12
	27	**2**	**-**	**29**

In fiscal 2013, the consolidated group of fully consolidated subsidiaries was altered by means of two company formations, one liquidation and one sale. The impact of the sale was immaterial to the Rheinmetall Group.

As part of an asset deal of the Australian subsidiary Rheinmetall Simulation Australia Pty. Ltd., net assets were acquired in the amount of their €2 million purchase price, which primarily relate to customer relationships and the order backlog. The purchase price consisted solely of cash.

The Rheinmetall International Engineering GmbH joint venture was formed in the year under review, in which Rheinmetall and Ferrostaal each hold a 50 % stake. The joint venture is expected to strengthen Defence's business activities by opening up access to further international markets. The joint venture's operations will commence once their respective business activities are contributed at the start of fiscal 2014.

(3) ASSETS HELD FOR SALE

Property assets totaling €4 million which are assigned to the Defence sector were reclassified from investment property to assets held for sale.

(4) CONSOLIDATION PRINCIPLES

Subsidiaries included for the first time are consolidated according to the acquisition method by showing the cost of shares acquired against the subsidiaries' prorated equity remeasured 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.

At the time of acquisition, the total of 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 is compared against the remeasured net assets acquired. Any resulting positive difference is capitalized as goodwill within intangible assets. Any badwill is reported in other operating income.

Notes to the consolidated financial statements
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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. Goodwill of investees is determined to the same principles as full consolidation. Any resulting goodwill is included 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 event of the sale of shares in a subsidiary in which non-controlling interests are retained, the result arising from the sale price plus the fair value of the remaining shares, less the Group carrying amounts for the subsidiary, is to be recognized in income.

(5) CURRENCY CONVERSION

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. Other assets and liabilities are either translated using the historical cost rate if carried at cost, or, if carried at fair value, are recognized 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 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.

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, impairment is recognized. If indications for impairment no longer exist, impairment losses are reversed. The reversal cannot exceed the value what would have resulted for amortized cost that would have resulted if no impairment had been charged.

Within the Rheinmetall Group, goodwill from business combinations is allocated to the cash-generating units when it arises according to its potential benefit. At this level, the management is responsible for monitoring goodwill. The main cash-generating units that are monitored are the Defence and Automotive sectors and, in individual cases, units identified below this level. The value of goodwill is tested at least once a year for impairment, and during the year if impairment is indicated. 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, which is recognized as a write-down. Subsequent reversal is inadmissible.

Notes to the consolidated financial statements
Accounting principles

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 predicated on projects already included in its order backlog, on customer enquiries and, most importantly, on national defense 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	8.3%	(previous year: 8.9 %)
Automotive sector	10.4%	(previous year: 11.5 %)

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 %)

There was no impairment during the year under review. Neither the discount rate increase by 0.5 percentage points, nor the growth allowance decrease by 0.5 percentage points impair goodwill.

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	5-10
Customer relations	5-15
Technology	5-15

Goodwill is not amortized.

Property, plant and equipment – Property, plant and equipment are carried at cost less accumulated depreciation and any 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.

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 over the term of the lease on a straight-line basis.

Notes to the consolidated financial statements
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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 cost less accumulated depreciation and any impairment. Depreciation is recognized on a straight-line basis over useful lives of 20 to 50 years.

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.

The first-time recognition of financial instruments occurs at fair value. Acquisition-related costs are to be included here, unless the financial instrument is measured at fair value in subsequent periods. Financial instruments are recognized for the first time on the settlement date, i.e. the date when the financial instrument is delivered or the payment is made. Notwithstanding this, derivatives are recognized for the first time as of the date when the contract is concluded or the trading date.

Subsequent measurement of financial instruments is based on the respective measurement category as defined by IAS 39. The “Loans and receivables” category includes loans, trade receivables and cash and cash equivalents. “Available-for-sale” includes equity instruments and securities. “Held for trading” financial assets and liabilities relates to derivatives. “Financial liabilities” relate to the bond, promissory note loans, liabilities to banks and trade payables.

Loans – Loans are recognized at amortized cost. Valuation allowances are formed for expected default risks, taking into account customer credit rating, specific country risks and the structure of the financing transaction. Non-interest receivables are discounted by applying rates that match their maturity upon first-time recognition and written down using the effective interest method.

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.

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 nominal value.

Securities – Securities are generally measured at market value. Where such fair market value is not reliably determinable, they 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 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.

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

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 (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.

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

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

Notes to the consolidated financial statements
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Inventories and prepayments received – Inventories are recognized at cost. As a rule, this equals weighted average values. Inherent risks 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, they are written down to net realizable value. The write-down either raises the cost of materials (raw materials and supplies) or changes 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 a change 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 openly deducted directly from inventories if production cost has already been incurred for the respective contract, 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 and sales are realized in accordance with their percentage of completion. If the result from a construction contract can be reliably determined, sales are recognized in the amount of contract costs incurred during the period plus a prorated margin and a receivable from construction contracts is recognized in the same amount. 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. 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 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.

Pensions – 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 fair value of the plan assets is deducted from the DBO volume. 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 underlying parameters used to calculate the projected unit credits and the market value of the pension assets, gains and losses arise from remeasurement of the net defined benefit liability. These effects arising from remeasurement and the asset cap are recognized directly in equity under 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.

The Rheinmetall Group also participates in multi-employer pension plans which are accounted for according to rules for defined benefit plans.

Provisions – 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 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 costs incurred for work performed so far to the estimated total contract costs, or on a pro rata basis in the case of service contracts.

Notes to the consolidated financial statements
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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.

Summary of main measurement methods:

Assets	
Goodwill	Cost (subsequent measurement: impairment test)
Other intangible assets	(Amortized) cost
Property, plant and equipment	
Essential plots of land owned for business purposes	Cost Subsequent measurement: Remeasurement at fair value
Other	(Amortized) cost
Investment property	(Amortized) cost
Investments accounted for using the equity method	Equity method
Financial assets	
Loans and receivables	(Amortized) cost
Held for trading purposes	Recognized in income at fair value
Inventories	Lower of cost and net realizable value
Trade receivables	(Amortized) cost
Cash and cash equivalents	Nominal value

Equity and liabilities	
Provisions for pensions and similar obligations	Present value of DBO
Other provisions	Discounted settlement amount
Financial debts	(Amortized) cost
Trade liabilities	(Amortized) cost
Other liabilities	
Financial liabilities held for trading	Recognized in income at fair value
Miscellaneous	(Amortized) cost

Estimates – Preparing the consolidated financial statements required 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 of €555 million as at December 31, 2013 (previous year: €560 million), assumptions and estimates relating to forecasts and discounting future cash flows were 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, the carrying amounts as at December 31, 2013 of other intangible assets of €319 million (previous year: €344 million), property, plant and equipment of €1,156 million (previous year: €1,177 million) and properties held for investment of €14 million (previous year: €19 million) are assessed to determine whether there are indications of a possible impairment and whether the fair value 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 similar obligations of €891 million as at December 31, 2013 (previous year: €919 million) is based on the determination of actuarial parameters such as the discount rate, salary increases, the mortality rate and the development of health care costs. The impact of changes in parameters applied as of the balance sheet date on the present value of the DBO is presented in the corresponding item in the Notes. 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 earnings after taxes, as gains and losses resulting from the discrepancy based on the remeasurement of the net defined benefit liability are recognized directly in equity.

Sales realization for construction contracts totaling €662 million in 2013 (previous year: €797 million) 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 (€129 million as at December 31, 2013; previous year: €117 million) is based on assumptions and estimates on the development of tax income and tax legislation in the countries of the Group companies working there.

Notes to the consolidated financial statements
Notes on the balance sheet

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, 2013	Dec. 31, 2012
Defence sector	382	387
Automotive sector	173	173
	555	**560**

Research and development costs of €226 million were incurred in the fiscal year (previous year: €230 million). Of the total research and development costs incurred, €29 million (previous year: €39 million) were capitalized as development costs.

(8) PROPERTY, PLANT AND EQUIPMENT

Essential plots of land owned for business purposes are measured at fair value. Generally accepted valuation techniques are used to determine fair value, 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, 2013. Based on indicative land values for the relevant plot of land and additional analyses of transactions involving comparable properties, appropriate premiums or discounts are determined, taking into account the characteristics of the land and the specific use of the property. These indications are reviewed regularly, which could result in a change to fair values. The measurement method is attributed to level 3 of the measurement hierarchy in IFRS 13.

The fair value of essential plots of land owned for business purposes was €228 million (previous year: €223 million), which includes a step-up of €118 million (previous year: €111 million). A 10 % change in indicative land values would lead to an equivalent change in fair values, assuming that premiums and discounts remain the same. Regarding the movement of the revaluation reserve, see the comments on total equity in Note (16).

Total impairment taken in 2013 was €15 million (previous year: €1 million), which related to plots of land and buildings (€3 million), technical equipment and machinery (€8 million; previous year: €1 million) and factory and office equipment (€4 million).

€40 million of property, plant and equipment (previous year: €53 million) is subject to restrictions on disposal in the form of land charges.

On the basis of leases, €11 million in technical equipment and machinery are capitalized (previous year: €12 million). Here, normal restrictions on disposal apply. In addition, one Group company's building lease agreement for a plot of land is recognized as a capital lease in the amount of €4 million (previous year: €4 million).

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

	2013				**2012**			
	2014	2015-2018	from 2019	Total	2013	2014-2017	from 2018	Total
Lease payments	1	5	20	26	0	6	21	27
Discounts	0	(1)	(13)	(14)	0	(1)	(13)	(14)
Present values	**1**	**4**	**7**	**12**	**0**	**5**	**8**	**13**

The purchasing obligation from firm capital expenditure contracts totals €25 million (previous year: €38 million).

(9) INVESTMENT PROPERTY

The investment properties have a total fair value of €23 million (previous year: €26 million), largely determined on the basis of independent external appraisal reports (last reporting date for regularly prepared reports: December 31, 2013). Generally accepted valuation techniques are used to determine the fair value – a combination of the discounted cash flow method and the sales comparison approach. Both methods come under level 3 of the measurement hierarchy in IFRS 13. The discounted cash flow method is used to discount annual cash flows of leased properties and to determine the fair value. A standard market discount rate is used in addition to market rents, which reflects the specific country's local property market and the features of the property. The sales comparison approach is used for land that cannot be rented on a long-term basis and is based on indicative land values or transactions involving similar plots of land.

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In the year under review, rental income of €1 million (previous year: €2 million) was earned, contrasting with direct operating expenses of €1 million (previous year: €2 million). No impairment was taken, as in the previous year.

(10) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

Joint ventures € million

		2013	2012
Assets	(Dec. 31)	440	410
Of which non-current		*156*	*131*
Equity	(Dec. 31)	96	85
Debt	(Dec. 31)	344	325
Of which non-current		*41*	*11*
Income		508	480
Expenses		486	458
Net income		22	22

Associated companies € million

		2013	2012
Assets	(Dec. 31)	70	84
Equity	(Dec. 31)	20	25
Debt	(Dec. 31)	50	59
Sales		74	64
Net income		5	3

Development of investments € million

2013	**Book value Jan. 1, 2013**	Addition/ Disposal	Change not affecting Income Statement	Prorated net profit	Dividend payout	**Book value Dec. 31, 2013**
Joint ventures	84	3	(2)	22	(11)	**96**
Associated companies	63	-	(3)	5	(4)	**61**
	147	**3**	**(5)**	**27**	**(15)**	**157**

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**

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 strengthening 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. In order to expand this market position further, the Automotive sector founded the Pierburg Huayu Pump Technology Co. Ltd. joint venture in China, specializing in the production and marketing of pumps for automotive applications.

(11) INVENTORIES

€ million

	Dec. 31, 2013	**Dec. 31, 2012**
Raw materials and supplies	313	305
Work in process	358	290
Finished products	89	78
Merchandise	88	93
Prepayments made	89	60
	937	**826**
./. Prepayments received	(31)	(30)
	906	**796**

Additions to write-downs totaled €32 million (previous year: €20 million). In the year under review, inventories previously written down were written up by €2 million as in the previous year. Inventories are not used to collateralize liabilities, as in the previous year.

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(12) TRADE RECEIVABLES

€ million

	Dec. 31, 2013	Dec. 31, 2012
Customer receivables	568	644
Of which with remaining term of more than 1 year	*0*	*1*
Of which from joint ventures and associated companies	*19*	*34*
Receivables from construction contracts	414	388
	982	**1,032**

Breakdown of construction contract receivables

€ million

	Dec. 31, 2013	Dec. 31, 2012
Production costs incurred	3,403	3,065
Plus margins (less losses)	455	466
	3,858	**3,531**
Progress billings	(3,444)	(3,143)
Receivables from construction contracts	**414**	**388**

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

€ million

	Dec. 31, 2013	Dec. 31, 2012
Production costs incurred	10	26
Losses incurred by stage of completion	0	0
Anticipated losses	0	0
	10	**26**
Progress billings	(10)	(28)
Payables from construction contracts	**0**	**2**

Sales from construction contracts totaled €662 million in fiscal 2013 (previous year: €797 million).

(13) OTHER FINANCIAL ASSETS

€ million

	Dec. 31, 2013	of which current	of which non-current	**Dec. 31, 2012**	of which current	of which non-current
Derivatives in cash flow hedge	5	5	0	13	10	3
Derivatives without hedge accounting	7	7	0	8	8	-
Loans	5	0	5	7	3	4
Securities	3	2	1	3	2	1
Other	20	20	0	11	11	0
	40	**34**	**6**	**42**	**34**	**8**

Securities in the amount of €3 million (previous year: €3 million) are recognized at amortized cost. Significant individual items in other financial assets relate to creditors with debit balances of €6 million (previous year: €3 million) and claims to compensation of €4 million (previous year: €1 million).

(14) OTHER RECEIVABLES AND ASSETS

€ million

	Dec. 31, 2013	of which current	of which non-current	**Dec. 31, 2012**	of which current	of which non-current
Other taxes	48	48	0	53	53	0
Subsidies/grants receivable	25	25	-	35	34	1
Deferred income	9	8	1	10	9	1
Prepayments made	7	7	0	3	3	0
Compensation claims	6	1	5	6	1	5
Other	29	29	0	24	24	0
	124	**118**	**6**	**131**	**124**	**7**

(15) CASH AND CASH EQUIVALENTS

€ million

	Dec. 31, 2013	**Dec. 31, 2012**
Bank balances in credit institutions, checks, cash in hand	445	501

Of cash and cash equivalents, €1 million is subject to restrictions on disposal (previous year: no restriction on disposal).

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(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).

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.

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 – 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.

The acquisition of treasury shares helps to increase entrepreneurial scope and to provide shares for employees and members of the Executive Board. No treasury shares were acquired in the reporting year (previous year: 800,319 shares). Disposals related to the long-term incentive program (214,557 shares; previous year: 162,716 shares) and the share purchase program for employees (142,857 shares; previous year: 106,798 shares). Sales proceeds are used for general financing purposes. As of December 31, 2013, the portfolio of treasury shares amounted to 1,524,233 shares with acquisition costs of €58 million. The amount of subscribed capital attributable to treasury shares totaled €3,902,000. This represents a share in subscribed capital of 3.85 %.

Reserves – A breakdown and analysis of the reserve from fair value and other valuations are shown below (including amounts attributable to minority interests):

€ million

	Reserve for revaluation of properties	Reserve for hedging transaction	Result from companies carried at equity	Reserve from fair value and other valuations
January 1, 2012	**77**	**0**	**0**	**77**
Change in fair value	-	0	0	0
Other changes	2	(1)	-	1
December 31, 2012/ January 1, 2013	**79**	**(1)**	**0**	**78**
Change in fair value	5	(37)	(6)	(38)
Other changes	0	8	-	8
Dec. 31, 2013	**84**	**(30)**	**(6)**	**48**

The change in the reserve for revaluation of properties in fiscal 2013 comprised reversals of impairment of €12 million and impairment of €7 million.

In fiscal 2013, Rheinmetall AG paid a dividend of €68 million or €1.80 per share (previous year: €69 million or €1.80 per share) to its shareholders from its reserves.

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Minority interests – Minority interests relate to the Defence sector at €84 million (previous year: €109 million), and to Automotive at €0 million (previous year: €2 million). Income and expenses recognized directly in equity and attributable to minority interests resulted from the remeasurement of the net defined benefit liability from pensions (€3 million; previous year: €-5 million), currency effects (€-9 million; previous year: €-1 million) and derivatives in hedge accounting (€-10 million; previous year: €0 million).

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

According to Rheinmetall's definition, equity is composed of interests attributable to its own shareholders and to other shareholders, as both are available to the Group.

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

(17) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Rheinmetall's company pension systems consist of both defined contribution and defined benefit plans.

Defined contribution plans – Under defined contribution plans, the relevant company pays contributions to earmarked pension institutions, which are recognized in personnel expenses. The company does not enter into any further obligations; a provision is not recognized.

Defined benefit plans – 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, taking into account any plan assets.

Rheinmetall has implemented a Group-wide defined benefit plan for its subsidiaries based in Germany, which consists of three levels: a basic plan and a corporate performance-related intermediate plan, each of which are financed by the employer, and a supplementary plan financed through deferred compensation. The agreed retirement benefits comprise old-age pensions as well as invalidity pensions and pensions for surviving dependents. The annual pension contribution or the amount of deferred compensation for each beneficiary in accordance with actuarial principles is converted into a capital component. The total pension capital when benefits become due is based on the sum of all capital components. In the case of the basic plan and intermediate plan, pension capital is paid out in the form of a life-long pension that increases annually in accordance with an agreement. In the case of the supplementary plan financed solely by the employee, the pension capital is paid out as a lump sum when benefits become due.

Other pension plans exist in Germany, but these are no longer available to new employees joining the Group. The agreed retirement benefits comprise old-age pensions as well as invalidity pensions and pensions for surviving dependents. Depending on the plan, these are based on agreed fixed amounts per year of service or on a percentage of the employee's final salary before leaving the Rheinmetall Group. Ongoing retirement benefits are subject to compensation for inflation.

Other significant pension plans in the Rheinmetall Group exist in the Swiss subsidiaries, each of which are managed via pension funds for several companies (multi-employer plans). These are defined benefit plans used to cover pensions and risks arising from invalidity and death for former employees, their relatives and surviving dependents. Upon retirement, the pension is based on the available retirement assets multiplied by conversion rates determined by pension fund regulations, whereby payment can take place monthly or in certain cases as a lump sum. Pension plans are financed by contributions made by the employer and employee, primarily at a rate of 50 % each, which are paid into pension funds. The pension funds are independent foundations that do not belong to the Rheinmetall Group, whose funds are due solely to pension beneficiaries. Any return of assets and income to the contributing companies is excluded. The top bodies in the foundations comprise equal numbers of employer and employee representatives of the relevant companies. The foundations are responsible for investments. Principles of security, risk distribution, yield and liquidity must be observed in this process in order to be able to render the agreed benefits from the foundation's assets when due. Both contributions paid into the pension funds and future benefits arising from these are reviewed regularly by the foundation's bodies and may be changed after taking into account the foundation's financial options. In the event of a shortage of cover, the pension funds can levy remedial contributions from all associated employers if other measures do not lead to the desired result. Liability of the Swiss subsidiaries towards the companies belonging to the pension funds is excluded. At one Swiss subsidiary, benefits from the pension fund provided for in accordance with the pension plan are also covered by an insurance policy.

The following provides an overview of the financing status of pension obligations:

€ million

	Dec. 31, 2013				Dec. 31, 2012			
	Germany	Switzerland	Others	**Total**	Germany	Switzerland	Others	**Total**
Present value of DBO	783	991	148	**1,922**	778	1,032	162	**1,972**
Plan assets	10	920	103	**1,033**	11	945	98	**1,054**
Asset cap	-	(2)	-	**(2)**	-	(1)	-	**(1)**
Pension provision	**773**	**73**	**45**	**891**	**767**	**88**	**64**	**919**

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Pension provisions developed as follows:

€ million

	2013				2012			
	Gemany	Switzerland	Other	**Total**	Gemany	Switzerland	Other	**Total**
As at Jan. 1	767	88	64	**919**	583	82	65	**730**
Pension payments	(35)	-	(4)	**(39)**	(32)	-	(4)	**(36)**
Employer contributions paid into funds	(1)	(10)	(8)	**(19)**	-	(10)	(13)	**(23)**
Pension cost	42	7	5	**54**	43	3	6	**52**
Amounts recognized directly in equity	(1)	(11)	(11)	**(23)**	173	11	11	**195**
Currency differences/ other	1	(1)	(1)	**(1)**	-	2	(1)	**1**
Pension provisions	**773**	**73**	**45**	**891**	**767**	**88**	**64**	**919**

The following presents changes in the present value of the DBO:

€ million

	2013				2012			
	Gemany	Switzerland	Other	**Total**	Gemany	Switzerland	Other	**Total**
As at Jan. 1	778	1,032	162	**1,972**	593	1,066	117	**1,776**
Current service cost	18	10	3	**31**	13	11	3	**27**
Past service cost	-	(5)	-	**(5)**	1	(10)	-	**(9)**
Interest cost	25	20	5	**50**	30	23	7	**60**
Actuarial gains and losses								**-**
from change in financial assumptions	-	(35)	(5)	**(40)**	174	17	11	**202**
from change in demographic assumptions	-	48	-	**48**	-	-	-	**-**
from empirical adjustments	(1)	25	1	**25**	(1)	(13)	4	**(10)**
Employee contributions	1	8	1	**10**	-	9	-	**9**
Entry payments	-	15	-	**15**	-	16	-	**16**
Pension payments	(37)	(110)	(11)	**(158)**	(32)	(69)	(13)	**(114)**
Curtailments	(1)	-	-	**(1)**	-	(27)	-	**(27)**
Administrative costs	-	-	-	**-**	-	1	-	**1**
First-time inclusion of pension obligations	-	-	-	**-**	-	-	35	**35**
Currency differences	-	(17)	(8)	**(25)**	-	8	(2)	**6**
Present value of DBO at Dec. 31	**783**	**991**	**148**	**1,922**	**778**	**1,032**	**162**	**1,972**

Pension plans in Germany and Switzerland relate to the following beneficiaries:

Number of people

	Dec. 31, 2013		Dec. 31, 2012	
	Germany	Switzerland	Germany	Switzerland
Active employees	9,947	1,219	9,945	1,342
Vested rights of former employees not subject to expiration	2,519	-	2,421	-
Pensioner	10,967	2,034	10,639	2,008
Total	**23,433**	**3,253**	**23,005**	**3,350**

The average duration of pension obligations is 15 years at the German companies and 11 years at companies based in Switzerland.

In order to determine the present value of the DBO in due consideration of actuarial factors, measurement assumptions were made according to standard principles and per country, taking into account the respective economic circumstances. Discount rates are derived from yields on fixed-interest corporate bonds with a suitable duration and currency which are rated “AA” or better. The discount rate for Germany is determined using a standard procedure specified by the Group actuary on the basis of market data as of December 31, 2013 and the duration for a mixture of active employees and retirees. The following table presents the key underlying actuarial parameters:

Parameters in %

	Dec. 31, 2013		Dec. 31, 2012	
	Germany	Switzerland	Gemany	Switzerland
Discount rate	3.25	2.30	3.25	2.00
Salary growth (general)	2.75	1.00	2.75	1.50
Salary growth (fixed sums)	1.25	-	1.25	-
Pension growth	1.75	-	1.75	-

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The following table shows the parameters where a change in values determined as of the balance sheet date would have a significant impact on the present value of the DBO. Pension commitments in Switzerland are excluded from changes in the present value of the DBO based on assumptions on pension development, as the pension funds' regulations do not stipulate ongoing adjustment to future pensions. Instead, the foundation board decides on any adjustments. The impact of changes in wage and salary development is immaterial to the German pension plans, so an analysis was not performed. The potential impact of a change in mortality expectations was analyzed by increasing the individual statistical life expectancy of each employee by one year. Calculations at German Group companies are based on the "*Richttafeln 2005 G*" mortality tables produced by Professor Klaus Heubeck, while foreign Group companies use country-specific mortality tables.

Change in present value of DBO in € million

	Germany	Switzerland
Discount rate - 0.25 %	29	26
Discount rate + 0.25 %	(27)	(26)
Pension development - 0.50 %	(31)	-
Pension development + 0.50 %	33	-
Wages and salary growth - 0.25%	-	(2)
Wages and salary growth + 0.25%	-	1
Increase in life expectancy by 1 year	35	38

The Rheinmetall Group is exposed to various risks as a result of defined benefit pension commitments. As well as general actuarial risks arising from the measurement of pension obligations, the plan assets harbor investment risks.

The investment strategy and composition of assets managed by pension funds are geared towards yield targets, risk tolerance and short-term and medium-term liquidity requirements. Internally financed pension commitments are financed from the cash flow from operating activities of the Rheinmetall Group.

The fair value of the plan assets is attributable to the following items:

in %

	Dec. 31, 2013	**Dec. 31, 2012**
Real estate	42	41
Equities, Funds	29	25
Fixed-interest securities	13	10
Other	16	24
Total	**100**	**100**

The fair values of shares, funds, fixed-interest securities and other investments are determined based on market prices in an active market. The fair values of property are not based on market prices in an active market.

The fair value of the plan assets developed as follows:

€ million

	2013				2012			
	Gemany	Switzerland	Other	**Total**	Gemany	Switzerland	Other	**Total**
As at Jan. 1	11	945	98	**1,054**	10	984	52	**1,046**
Interest income from plan assets	1	18	3	**22**	1	21	4	**26**
Income from plan assets excluding interest income	-	50	7	**57**	-	(6)	4	**(2)**
Employer contributions	1	10	8	**19**	-	10	13	**23**
Employee contributions	-	8	1	**9**	-	9	-	**9**
Entry payments	-	15	-	**15**	-	16	-	**16**
Pension payments from plan assets	(2)	(110)	(7)	**(119)**	-	(69)	(9)	**(78)**
Settlements	(1)	-	-	**(1)**	-	(26)	-	**(26)**
First-time inclusion of plan assets	-	-	-	**-**	-	-	35	**35**
Currency differences	-	(16)	(7)	**(23)**	-	6	(1)	**5**
Plan assets as at Dec. 31	**10**	**920**	**103**	**1,033**	**11**	**945**	**98**	**1,054**

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Items from pensions (before taxes) included in comprehensive income are presented below.

€ million

	2013				2012			
	Gemany	Switzerland	Other	**Total**	Gemany	Switzerland	Other	**Total**
Current service cost	18	10	3	**31**	13	11	3	**27**
Past service cost	-	(5)	-	**(5)**	1	(9)	-	**(8)**
Curtailments	-	-	-	**-**	-	(1)	-	**(1)**
Net interest expense	24	2	2	**28**	29	2	3	**34**
Amounts recognized in the income statement	**42**	**7**	**5**	**54**	**43**	**3**	**6**	**52**
Income from plan assets excluding interest income	-	(50)	(7)	**(57)**	-	6	(4)	**2**
Change in asset cap	-	1	-	**1**	-	1	-	**1**
Actuarial gains (-) / losses (+) from present value of DBO	(1)	38	(4)	**33**	173	4	15	**192**
Amounts recognized directly in equity from remeasurement of net defined benefit liability	**(1)**	**(11)**	**(11)**	**(23)**	**173**	**11**	**11**	**195**
Total included in comprehensive income	**41**	**(4)**	**(6)**	**31**	**216**	**14**	**17**	**247**

The service cost and the result from settlements are reported under personnel expenses. Net interest expense is included in net interest.

€19 million (previous year: €15 million) of the service cost is attributable to internally financed pension plans and €7 million (previous year: €4 million) to externally financed pension plans.

In the reporting year, benefits from a Swiss pension fund were adjusted by lowering the conversion rate and redefining the insured benefits. This adjustment to the pension plan resulted in a past service cost of €-5 million (income).

Personnel expenses of €69 million (previous year: €71 million) were also incurred in the year under review for defined contribution pension commitments, which mainly related to payments to statutory pension institutions in Germany.

Cash outflows of €39 million (previous year: €36 million) arose as a result of pension payments in connection with internally financed pension plans. Payments of €19 million (€23 million) were made to pension funds for externally financed pension plans.

The following cash outflows are expected in fiscal 2014 as a result of pension obligations:

Estimated cash outflows in 2014 € million

	2014
Employer contributions to fund-financed pension plans	11
Employee contributions to fund-financed pension plans	8
Employer's pension payments to internally financed pension plans	37

(18) OTHER PROVISIONS

Statement of changes in provisions € million

2013	Personnel	Structural measures	Guarantees	Noticeable losses	Contract-related costs	Other provisions	Total
As at January 1	**163**	**55**	**51**	**22**	**85**	**101**	**477**
Utilization	135	28	11	10	49	30	263
Reversal	6	4	8	3	3	11	35
Added / provided for	124	58	23	9	39	49	302
Accrual	1	1	0	0	0	0	2
Currency differences / Other	0	(5)	(1)	0	(1)	0	(7)
As at December 31	**147**	**77**	**54**	**18**	**71**	**109**	**476**
Cash outflows							
Short term (< 1 year)	**120**	**60**	**42**	**16**	**68**	**82**	**388**
Long term	**27**	**17**	**12**	**2**	**3**	**27**	**88**
Of which 1 - 5 years	*20*	*17*	*11*	*2*	*3*	*17*	*70*
Of which > 5 years	*7*	*0*	*1*	*-*	*0*	*10*	*18*

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2012	Personnel	Structural measures	Guarantees	Noticeable losses	Contract-related costs	Other provisions	Total
As at January 1	**172**	**56**	**53**	**22**	**69**	**84**	**456**
Utilization	148	13	17	7	25	28	238
Reversal	8	18	10	8	3	17	64
Added / provided for	146	28	25	4	42	64	309
Accrual	1	1	0	0	1	0	3
Currency differences / Other	0	1	0	10	0	(1)	10
As at December 31	0	0	0	1	1	(1)	1
	163	**55**	**51**	**22**	**85**	**101**	**477**
Cash outflows							
Short term (< 1 year)	**139**	**33**	**40**	**21**	**81**	**77**	**391**
Long term	**24**	**22**	**11**	**1**	**4**	**24**	**86**
Of which 1 - 5 years	*16*	*21*	*9*	*1*	*4*	*13*	*64*
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 €10 million of discounts and bonuses (previous year: €13 million), €9 million for environmental risks (previous year: €8 million), and €6 million of legal, consulting and audit fees, as in the previous year.

(19) FINANCIAL DEBTS

€ million	**Dec. 31, 2013**	Of which current	Of which non-current	**Dec. 31, 2012**	Of which current	Of which non-current
Bond	496	-	496	495	-	495
Promissory notes	15	15	-	35	-	35
Bank liabilities	54	31	23	47	22	25
Leasing	12	1	11	13	0	13
Other	6	4	2	9	5	4
	583	**51**	**532**	**599**	**27**	**572**

Amounts to banks of €24 million (previous year: €26 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, 2013 Book value	Dec. 31, 2013 Fair value	Dec. 31, 2012 Book value	Dec. 31, 2012 Fair value
Bond							
Fixed	4.0	EUR	2017	496	540	495	540
				496	**540**	**495**	**540**
Promissory notes							
Fixed	6.8	EUR	2014	15	15	35	40
				15	**15**	**35**	**40**
Bank liabilities							
Fixed	3.7	EUR	2016	2	2	2	2
Fixed	4.4	EUR	2020	9	10	9	8
Fixed	3.8	EUR	2021	3	3	3	2
Fixed	3.7	EUR	2025	4	4	4	3
Variable		INR	2013/2014	7	7	8	8
Variable		CNY	2013/2014	14	14	6	6
Variable		EUR	2013/2014	8	8	7	7
Variable		EUR	2023	7	7	8	8
				54	**55**	**47**	**44**
Leases							
Fixed	2.4	EUR	2026	8	8	9	8
Fixed	4.0	EUR	2111	4	4	4	4
				12	**12**	**13**	**12**
Other financial debts							
Fixed	7.2	ZAR	2013	-	-	4	3
Fixed	7.0	ZAR	2014	3	3	1	1
Variable		ZAR	2013	-	-	1	1
Variable		EUR	sundry until 2026	3	3	3	3
				6	**6**	**9**	**8**
Total				**583**	**628**	**599**	**644**

Notes to the consolidated financial statements
Notes on the balance sheet

(20) TRADE LIABILITIES

€ million

	Dec. 31, 2013	Dec. 31, 2012
Trade liabilities	721	648
Of which from joint ventures and associated companies	*6*	*9*

As in the previous year, €o million of trade payables have a remaining term of more than one year. The carrying amount of trade payables roughly equals their fair value.

(21) OTHER LIABILITIES

€ million

	Dec. 31, 2013	Of which current	Of which non-current	Dec. 31, 2012	Of which current	Of which non-current
Advance payments received	491	491	-	432	432	-
Monies in transit from debt collection (ABS program)	87	87	-	80	80	-
Liabilities from other taxes	44	44	0	72	62	10
Purchase price liability	3	0	3	2	2	-
Derivatives in cash flow hedge	46	26	20	17	15	2
Derivatives without hedge accounting	16	10	6	22	8	14
Liabilities from social security	13	12	1	16	15	1
Deferred income	12	11	1	10	8	2
Liabilities due to employees	11	11	-	10	10	-
Other	47	47	0	32	31	1
	770	**739**	**31**	**693**	**663**	**30**
Of which financial liabilities as defined by IFRS 7	*191*	*162*	*29*	*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 approximates their fair value.

(22) TOTAL OPERATING PERFORMANCE

€ million

	2013	2012
Sales		
from sale of products	4,220	4,294
from services	204	220
from development contracts	189	190
Total sales	**4,613**	**4,704**
Increase/decrease in inventory of finished products and services and WIP	97	4
Other work performed by the enterprise and capitalized	44	47
	4,754	**4,755**

(23) OTHER OPERATING INCOME

€ million

	2013	2012
Reversal of provisions	35	64
Refunds	14	14
Credit notes for previous years	6	12
Sundry rental agreements and leases	6	5
Grants and subsidies	4	9
Income from canteens and ancillary operations	4	7
Income from residue utilization	4	4
Disposal of assets/divestments	3	53
Income from reversal of value adjustments	1	2
Other secondary income	30	40
	107	**210**

(24) COST OF MATERIALS

€ million

	2013	2012
Cost of raw materials, supplies, and merchandise purchased	2,284	2,205
Cost of services purchased	289	303
	2,573	**2,508**

Notes to the consolidated financial statements
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(25) PERSONNEL EXPENSES

€ million

	2013	2012
Wages and salaries	1,073	1,103
Social security and related employee benefits	140	145
Pension expenses	95	89
	1,308	**1,337**

Annual average head count (FTE)

	2013	2012
Automotive sector	11,976	11,820
Defence sector	9,422	9,756
Rheinmetall AG / Other	135	141
	21,533	**21,717**

(26) AMORTIZATION AND 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

	2013	2012
Intangible assets	0	-
Property, plant and equipment	15	1
	15	**1**

€13 million of impairments (previous year: €1 million) relates to property, plant and equipment in the Automotive sector, which were written down as part of the strategic review of a business unit. €2 million of impairment was also taken in the Defence sector.

(27) OTHER OPERATING EXPENSES

€ million

	2013	2012
Repairs and maintenance	82	86
Expenses for redundancy plans, termination indemnities, partial retirement	77	29
Distribution costs	63	69
Data processing	62	62
Rents, leases	53	52
Administrative costs	47	49
Travel expenses	46	47
Audit, legal and consultancy fees	41	50
Additions to provisions	38	45
Incidental staff costs	38	39
Promotion and advertising expenses	19	22
Insurance	18	18
Services purchased	15	18
Facility cleaning and security/surveillance	13	13
Other taxes	10	9
Write-down of receivables	5	2
Losses on disposal of fixed assets/divestments and consolidated companies	6	2
Other	54	36
	687	**648**

(28) NET INTEREST

€ million

	2013	2012
Other interest and similar income	2	4
Interest income	**2**	**4**
Net Interest expense for pension obligations	28	34
Accrual of other non-current provisions	2	3
Other interest and similar expenses	49	47
Interest expenses	**79**	**84**
Net interest	**-77**	**-80**

Notes to the consolidated financial statements
Notes on the income statement

(29) INVESTMENT PROFIT AND OTHER FINANCIAL RESULTS

€ million

	2013	2012
Investment income		
Defence Sector	8	10
Automotive Sector	16	15
Other	3	0
	27	**25**
Other financial results		
Currency result	2	(3)
Guarantee commissions	(2)	(2)
Profit from derivative financial instruments	4	(1)
Other	0	(1)
	4	**(7)**
Investment profit and other financial results	**31**	**18**

The result from derivatives of €4 million (previous year: €-1 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

	2013	2012
Current income tax expense	52	50
Earlier-period income taxes	(8)	6
Deferred taxes	(31)	(13)
	13	**43**

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

€ million

	2013			2012		
	Gross amount	Tax effect	Net amount	Gross amount	Tax effect	Net amount
Remeasurement of net defined benefit liability from pensions	23	1	22	(191)	(53)	(138)
Currency conversion	(84)	-	(84)	(16)	-	(16)
Cash flow hedges	(40)	(11)	(29)	(1)	0	(1)
Land revaluation	8	3	5	-	-	-
Income/expenses recognized in equity from companies measured at equity	(5)	-	(5)	(3)	-	(3)
	(98)	**(7)**	**(91)**	**(211)**	**(53)**	**(158)**

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

	2013	2012
EBT	35	216
Expected income tax expense (tax rate of 30%; previous year: 30%)	**11**	**65**
Foreign tax rate differentials	3	(1)
Effects of loss carryforwards and change in value adjustment	8	(4)
Reduction of tax expense due to previously unrecognized loss carryovers and temporary differences	(7)	(8)
Tax-exempt income	(5)	(23)
Non-deductible expenses	9	9
Earlier-period income taxes	(8)	6
Other	2	(1)
Actual income tax expense	**13**	**43**

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

€ million

	Dec. 31, 2013		Dec. 31, 2012	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryforwards and tax credits	81	-	62	-
Fixed assets	10	149	18	157
Inventories and receivables	85	67	52	47
Pension provisions	123	1	131	2
Other provisions	26	3	26	6
Liabilities	27	39	23	28
Other	7	7	8	11
	359	**266**	**320**	**251**
Set off	(230)	(230)	(203)	(203)
	129	**36**	**117**	**48**
Of which noncurrent	*112*	*20*	*106*	*33*
Deferred taxes recognized directly in equity	118	37	115	34
Of which land revaluation	*0*	*35*	*-*	*32*
Of which pensions	*105*	*0*	*111*	*-*
Of which hedges	*13*	*2*	*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 €518 million (previous year: €494 million) which cannot be utilized or whose deferred tax assets were adjusted by value adjustments. Of this, €284 million (previous year: €283 million) is allocable to German loss carryovers, €230 million (previous year: €205 million) to foreign loss carryovers and another €4 million (previous year: €6 million) to tax credits. The German loss carryovers, and €79 million of the foreign loss carryovers (previous year: €25 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 €-1 million in 2013 (previous year: €-3 million). Within the Group, €30 million (previous year: €1 million) in deferred tax assets were recognized at companies with ongoing tax losses due to positive corporate planning. 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 after taxes came to €14 million (previous year: €13 million) and minority interests reporting a loss to €21 million (previous year: €13 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, 2013 or December 31, 2012 that could dilute earnings per share, basic and diluted earnings per share are identical. The portfolio of treasury shares is included in the weighted number of shares.

€ million

	2013	2012
Consolidated net profit/loss for the year for shareholders of Rheinmetall AG	29	173
Weighted number of shares *million*	37.93	38.10
Earnings per share	**€0.75**	**€4.55**

(33) ADJUSTED EBIT

€ million

	2013	2012
EBIT	**112**	**296**
One-off expenses and income in connection with:		
Investments	3	(44)
Properties	2	(4)
Restructuring	85	18
EBIT (adjusted)	**202**	**266**

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

(34) CASH FLOW STATEMENT

Of the net interest included in the cash flow from operating activities, €2 million (previous year: €4 million) related to interest payments received and €49 million (previous year: €47 million) to interest payments made.

The cash outflow of €5 million (previous year: €42 million) for the acquisition of consolidated companies essentially related to a payment of €2 million in connection with the formation of the Pierburg Huayu Pump Technology Co. Ltd. joint venture in Shanghai in China, while €2 million related to the asset deal at Rheinmetall Simulation Australia Pty. Ltd. in Deakin in Australia.

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 defense technology market. As a systems supplier, Rheinmetall Defence develops and supplies armed forces technology, including vehicle, protection and weapon systems, air defense 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. Transactions between the sectors take place on an arm's length basis.

Notes to the consolidated financial statements

Notes on segment reporting

The sectors of the Rheinmetall Group are controlled by means of sales, operating result (EBIT before special items), EBIT and EBT performance indicators. 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). From 2014, operating free cash flow will be included in target agreements with managers as an additional control and management parameter.

Capital employed is calculated as the sum of equity, pension provisions and net financial debts. Net financial debts reflect financial debts less cash and cash equivalents. Inter-segment loans within the Group are assigned to cash and cash equivalents. 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. Assets acquired as part of a company acquisition are not included here.

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 EBIT of the sectors to consolidated EBT:

€ million

	Dec. 31, 2013	Dec. 31, 2012
Net financial debts		
Net financial debts of sectors	(340)	(318)
Others	479	435
Consolidation	(1)	(19)
Net financial debts of Group	**138**	**98**

	2013	2012
EBIT		
EBIT of sectors	119	312
Others	62	79
Consolidation	(69)	(95)
Group EBIT	**112**	**296**
Group net interest	(77)	(80)
Group EBT	**35**	**216**

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.

(36) CONTINGENT LIABILITIES

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 and guarantee 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

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 (previous year: €53 million). Apart from leases predominantly involving business property, 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

	2013				2012			
	2014	2015-2018	from 2019	**Total**	2013	2014-2017	from 2018	**Total**
Buildings	25	69	42	**136**	25	75	49	**149**
Other leases	15	12	0	**27**	14	21	0	**35**
	40	**81**	**42**	**163**	**39**	**96**	**49**	**184**

Notes to the consolidated financial statements
Other notes

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. Provisions of €2 million were established for subleasing risks (previous year: €5 million).

€2 million was generated in the period from subleasing further properties leased by Rheinmetall (previous year: €2 million). The future income expected during the non-cancelable lease term totals €3 million (down from €5 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

2013			Recognition in balance sheet		
		Book value Dec. 31	Amortized costs	Fair value	Fair value Dec. 31
Financial assets					
Loans and receivables					
Trade receivables	(12)	982	982	-	982
Other financial assets	(13)	28	28	-	28
Cash and cash equivalents	(15)	445	445	-	445
Held for trading purposes					
Derivatives without hedge accounting	(13)	7	-	7	7
Derivatives with cash flow hedge [1)]	(13)	5	-	5	5
Total		**1,467**	**1,455**	**12**	**1,467**
Financial liabilities					
Liabilities					
Financial debts excl. leases	(19)	571	571	-	616
Trade liabilities	(20)	721	721	-	721
Other liabilities excl. Derivatives	(21)	129	129	-	129
Held for trading purposes					
Derivatives without hedge accounting	(21)	16	-	16	16
Derivatives with cash flow hedge [1)]	(21)	46	-	46	46
Total		**1,483**	**1,421**	**62**	**1,528**

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

Financial instruments € million

2012		Recognition in balance sheet			
		Book value Dec. 31	Amortized costs	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 excl. derivatives	(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*

The determination of fair values of financial assets and liabilities in the Rheinmetall Group is attributed to the following measurement hierarchies under IFRS 13 and IFRS 7:

Level 1
The exchange-listed bond issue is marked to market as of the balance sheet date.

Level 2
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.

Notes to the consolidated financial statements
Other notes

Derivatives are measured at fair value. The fair value is determined on the basis of input factors observed directly or indirectly on the market. 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.

The fair value of liabilities to banks and other financial debts, payables under capital leases, as well as of other noncurrent financial payables was determined by discounting the associated future cash flows at rates that match the time to maturity of similar debts.

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 2013 was €136 million (previous year: €148 million). As at December 31, 2013, the nominal value of receivables sold came to €136 million (previous year: €129 million).

In line with IAS 39, sales of receivables apply as disposal. The remaining risks are insignificant for the Group. An asset item of €2 million is established for the maximum continuing involvement (previous year: €1 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 in 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

	2013	**2012**
Loans and receivables / liabilities		
Interest income	2	4
Interest expenses	(49)	(47)
Currency result	2	(3)
Income from valuation allowances	(6)	(2)
Write-ups	1	2
Other financial results	(2)	(1)
	(52)	**(47)**
Available for sale	0	0
Held for trading purposes	4	(1)
Net result from financial instruments (included in income statement)	**(48)**	**(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.

Notes to the consolidated financial statements

Other notes

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

€ million

	Nominal volume				Fair value	
	Remaining term < 1 year		Remaining term > 1 year			
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Without hedge accounting						
Currency hedges	492	693	91	113	0	0
Interest rate hedges	273	50	107	383	(6)	(12)
Commodity hedges	5	7	-	0	0	0
Electricity price hedges	8	5	-	0	(3)	(2)
	778	**755**	**198**	**496**	**(9)**	**(14)**
With hedge accounting						
Currency hedges	331	625	170	546	(32)	0
Interest rate hedges	-	-	7	7	(1)	0
Commodity hedges	24	26	18	20	(5)	(1)
Electricity price hedges	6	-	6	3	(3)	(3)
	361	**651**	**201**	**576**	**(41)**	**(4)**

In the year under review, fair value changes in derivatives of €50 million before deduction of deferred taxes (previous year: €0 million) were recognized in the hedge reserve, while €6 million (previous year: €1 million) of this was reclassified to sales and €6 million (previous year: €0 million) was reclassified to the cost of materials.

There were only immaterial ineffective portions.

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. Foreign exchange trading in the Defence sector is contracted almost exclusively with Rheinmetall AG. 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 transactions, while the foreign companies mostly hedge euro-based and US dollar-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 2014 to 2016.

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, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Currency hedges				
Exchange rates -10% / +10%	5 / (5)	8 / (8)	(5) / 5	(4) / 4
Interest rate hedges				
Yield curve -100 BP / +100 BP	(2) / 2	(4) / 4	0 / 0	0 / 0
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	(2) / 2	(1) / 1

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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.

Aged analysis of customer receivables past due € million

	Dec. 31, 2013	Dec. 31, 2012
Trade receivables unimpaired but past due		
for up to 30 days	66	67
for up to 180 days	47	60
for more than 180 days	36	27
	149	**154**
Impaired	9	15
Neither impaired nor past due	419	487
	577	**656**
Individual value adjustments	(9)	(12)
	568	**644**

No important credit concentrations exist in the Rheinmetall Group.

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 from repayment and interest components for recognized financial debts, as well as the derivative financial instruments.

Cash outflows € million

	Dec. 31, 2013			Dec. 31, 2012		
	2014	2015-2018	from 2019	2013	2014-2017	from 2018
Bond	20	551	-	20	570	-
Promissory notes	17	-	-	2	40	-
Other bank liabilities	32	10	17	23	11	21
Capital lease liabilities	1	4	22	1	5	22
Other financial debts	4	1	1	7	1	1
	74	**566**	**40**	**53**	**627**	**44**
Financial derivatives with						
negative fair value	36	26	-	23	16	-
positive fair value	12	0	-	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 2013 for share-based remuneration totaled €12 million (previous year: €10 million). A provision was recognized in the corresponding amount.

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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 2013, Rheinmetall Group employees purchased 142,857 shares in total (previous year: 106,798) for €4 million (previous year: €3 million). Expenses of €2 million (previous year: €1 million) were incurred for this program, recognized as personnel expenses. The sales proceeds from the sale of treasury shares to employees totaled €0 million, as in the previous year.

Subscription period	Share price in €	Discount per share in €	No. of shares purchased by staff
April 26 - May 13, 2013	36.400	10.92	89,142
Oct. 25 - Nov 7, 2013	43.075	12.92	53,715

(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 and to services performed as part of construction contracts with project companies of 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 €2 million (previous year: €4 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	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Joint ventures	175	194	11	12	(38)	(67)
Associated companies	5	5	34	20	(2)	1
	180	**199**	**45**	**32**	**(40)**	**(66)**

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 2013 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

	2013	2012
Fixed remuneration incl. fringe benefits	1,614	2,199
Performance based remuneration	329	833
LTI	1,926	3,410
	3,869	**6,442**

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 €7,280,000 for members of the Executive Board (previous year: €16,915,000)

Supervisory Board fees including attendance fees amounted to €1,425,000 (previous year: €1,455,000). 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 €624,000 (previous year: €613,000) from these services.

For further details and itemization of each member’s remuneration, see the Board remuneration report within the combined management report of the Rheinmetall Group and Rheinmetall AG.

€1,822,000 (previous year: €1,503,000) was paid to former members of the Executive Board or their surviving dependents. Pension provisions for these persons total €26,122,000 (previous year: €16,223,000). €569,000 (previous year: €565,000) 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 €8,262,000 (previous year: €8,492,000).

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(41) AUDITOR'S FEES

In fiscal 2013 and 2012, the following fees of the statutory auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) were expensed in Germany:

€ '000

	2013	2012
End-of-year auditing services	2,257	2,872
Other verification services	16	1,071
Tax consultancy services	3	25
Other services	362	276
	2,638	**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. 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 2013, 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, February 28, 2014

Rheinmetall Aktiengesellschaft
The Executive Board

Armin Papperger Horst Binnig Helmut P. Merch

Shareholdings

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € '000	Net income for the year in € '000
Fully consolidated subsidiaries					
Holding companies / service companies / other					
EMG EuroMarine Electronics GmbH, Neckarsulm / Germany			100	31,720	80
GVH Grundstücksverwaltung Hamburg GmbH & Co. KG, Neckarsulm / Germany			100	1,972	1,320
MEG Marine Electronics Holding GmbH, Bremen / Germany	(2)		100	5,000	0
Rheinmetall Berlin Verwaltungsgesellschaft mbH, Berlin / Germany	(2)	100		213,750	0
Rheinmetall Bürosysteme GmbH, Düsseldorf / Germany		100		1,680	6
Rheinmetall Immobilien GmbH, Düsseldorf / Germany		100		207,631	2,383
Rheinmetall Industrietechnik GmbH, Düsseldorf / Germany	(2)	100		26	0
Rheinmetall Maschinenbau GmbH, Düsseldorf / Germany		100		(5,929)	73
Rheinmetall Insurance Services GmbH, Düsseldorf / Germany	(2)	100		352	3
Rheinmetall Verwaltungsgesellschaft mbH, Düsseldorf / Germany	(2)		100	733,843	18
SUPRENUM Gesellschaft für numerische Superrechner mbH, Bremen / Germany			100	(1,397)	0
Defence sector					
ADS Gesellschaft für aktive Schutzsysteme mbH, Lohmar / Germany			74	24,304	(2,935)
American Rheinmetall Defense, Inc., Biddeford, Maine / USA		100		31,558	(23)
American Rheinmetall Munition Inc., Stafford, Virginia / USA			100	(5,724)	(4,641)
Benntec Systemtechnik GmbH, Bremen / Germany	(1)		49	2,571	356
BIL Industriemetalle GmbH & Co. 886 KG, Grünwald / Germany		94		(282)	100
Eurometaal Holding N.V., Hengelo / Netherlands			100	47,976	1,100
Eurometaal N.V., Hengelo / Netherlands			100	10,529	(78)
I.L.E.E. AG, Urdorf / Switzerland			100	5,283	2,009
Laser 2000 AG, Urdorf / Switzerland			80	0	0
LDT Laser Display Technology GmbH, Jena / Germany			100	1,050	266
MarineSoft Entwicklungs- und Logistikgesellschaft mbH, Rostock / Germany	(1)		49	1,292	13
Nitrochemie AG, Wimmis / Switzerland			51	824	0
Nitrochemie Aschau GmbH, Aschau / Germany			55	18,411	5,292
Nitrochemie Wimmis AG, Wimmis / Switzerland			55	46,835	2,505
Oerlikon Contraves GmbH, Zurich / Switzerland		100		16	0
Oerlikon Contraves Pte Ltd., Singapore / Singapore			100	2,038	61
RD Investment AG, Zürich / Switzerland			69	714	0
RFEL LTD, Newport, Isle of Wight / Great Britain			100	1,734	(579)
Rheinmetall Air Defence AG, Zürich / Switzerland		100		84,419	(9,428)
Rheinmetall Ballistic Protection GmbH, Krefeld / Germany	(2)		100	5,112	(562)
Rheinmetall Canada Inc., St.-Jean-sur-Richelieu / Canada		100		81,703	4,420
Rheinmetall Chempro GmbH, Bonn / Germany			51	35,052	11,413

Notes to the consolidated financial statements

Shareholdings

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € '000	Net income for the year in € '000
Rheinmetall Combat Platforms North America Inc, Wilmington, Delaware / USA			100	4	0
Rheinmetall Defence Australia Pty Ltd., Deakin West / Australia		100		0	0
Rheinmetall Defence Electronics GmbH, Bremen / Germany	(2)	100		40,750	6,720
Rheinmetall Defence UK Limited, London / Great Britain		100		8,080	147
Rheinmetall Denel Munition Pty. Ltd., Somerset West / South Africa			51	41,923	6,892
Rheinmetall Dienstleistungszentrum Altmark GmbH, Letzlingen / Germany	(2)	100		30	(19)
Rheinmetall Eastern Markets GmbH, Düsseldorf / Germany		100		257	232
Rheinmetall Hellas S.A. i.L., Athen / Greece		100		371	(4)
Rheinmetall Italia S.p.A., Rom / Italy			100	94,479	10,981
Rheinmetall Laingsdale (Pty) Ltd., Kapstadt / South Africa			76	2,031	(308)
Rheinmetall Landsysteme GmbH, Unterlüß / Germany	(2)	100		36,976	(1,436)
Rheinmetall Ltd, Moskau / Russian Federation			100	95	7
Rheinmetall MAN Military Vehicle Systems RSA (Pty) Ltd., Pretoria / South Africa	(1)		36	(52)	(68)
Rheinmetall MAN Military Vehicles Australia Pty Ltd., Canberra / Australia			51	383	315
Rheinmetall MAN Military Vehicles Canada Ltd., Ottawa / Canada			51	818	5
Rheinmetall MAN Military Vehicles GmbH, München / Germany		51		63,957	3,441
Rheinmetall MAN Military Vehicles Nederland B.V., Ede / Netherlands			51	(4,366)	(3,297)
Rheinmetall MAN Military Vehicles Österreich GesmbH, Vienna / Austria			51	40,629	(41,628)
Rheinmetall MAN Military Vehicles Österreich Holding GesmbH, Vienna / Austria			51	100,135	(17)
Rheinmetall Nordic AS, Nøtterøy / Norway		100		71,148	(1,623)
Rheinmetall Protection Systems Nederland B.V., Ede / Netherlands			100	11	(6)
Rheinmetall Schweiz AG, Zürich / Switzerland			100	273	17
Rheinmetall Simulation Australia Pty. Ltd., Deakin West / Australia			100	326	(417)
Rheinmetall Simulation International AG, Muri / Switzerland			100	101	(31)
Rheinmetall Soldier Electronics GmbH, Stockach / Germany	(2)	100		2,615	184
Rheinmetall Technical Assistance GmbH, Kassel / Germany			51	23	(2)
Rheinmetall Technical Publications GmbH, Bremen / Germany	(2)	100		2,200	541
Rheinmetall Waffe Munition ARGES GmbH, Schwanenstadt / Austria	(2)		100	1,631	(38)
Rheinmetall Waffe Munition GmbH, Unterlüß / Germany	(2)	100		109,270	931
Rheinmetall Waffe Munition South Africa (Pty) Ltd., Somerset West / South Africa			100	(21)	(7)
RM Euro B.V., Hengelo / Netherlands		100		52,787	1,156
RTP-UK Ltd., Bristol / Great Britain			100	2,623	1,107
RWM Beteiligungsverwaltung Austria GmbH, Schwanenstadt / Austria			100	13,905	(1,541)
RWM Italia S.p.A., Ghedi / Italy			100	13,657	2,134
RWM Schweiz AG, Zurich / Switzerland			100	38,587	6,014
RWM Zaugg AG, Lohn-Ammannsegg / Switzerland			100	10,641	1,598
Servo Kontroll AS, Oslo / Norwegen			100	1,500	129
Swiss SIMTEC AG, Thun / Switzerland			100	1,887	292
Vinghøg AS, Nøtterøy / Norway			100	20,750	1,015
Vingtech Australia Pty. Ltd., Alphington, Victoria / Australia			55	49	1
Vingtech Corp., Biddeford, Maine / USA			100	18,821	2,642

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € '000	Net income for the year in € '000
Automotive sector					
BF Engine Parts LLC, Istanbul / Turkey			100	513	66
BF Germany GmbH, Asperg / Germany	(2)		100	11,319	213
GVG Grundstücksverwaltung Gleitlager GmbH & Co. KG, Neckarsulm / Germany			100	6,546	157
GVMS Grundstücksverwaltung Service GmbH & Co. KG, Neckarsulm / Germany			100	39	(16)
GVN Grundstücksverwaltung Neckarsulm GmbH & Co. KG, Neckarsulm / Germany			100	4,699	269
Intec France S.A.S., Meyzieu/France			100	868	(129)
Karl Schmidt Trading Company S. de R.L. de C.V. Celaya / Mexico			100	120	106
Kolbenschmidt de México, S. de R.L. de C.V., Celaya / Mexiko			100	6,164	713
Kolbenschmidt K.K., Yokohama / Japan			100	22,897	3,416
Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin, Neckarsulm / Germany	(2)		100	6,551	13
Kolbenschmidt Pierburg Innovations GmbH, Neckarsulm / Germany	(2)		100	(1,655)	0
Kolbenschmidt USA Inc., Marinette / USA			100	0	0
KS Aluminium-Technologie GmbH, Neckarsulm / Germany	(2)		100	38,956	1,466
KS ATAG Beteiligungsgesellschaft m.b.H., Neckarsulm / Germany	(2)		100	10,263	0
KS ATAG GmbH, Neckarsulm / Germany	(2)		100	24,931	38
KS ATAG Romania S.R.L., Bukarest / Romania			100	4,802	(65)
KS CZ Motor Service s.r.o., Usti / Czech Republic			100	765	(110)
KS France S.A.S, Basse-Ham (Thionville) / France			100	23,995	2,312
KS Gleitlager de México S. de R.L. de C.V., Celaya / Mexico			100	(66)	(3,064)
KS Gleitlager GmbH, St. Leon-Rot / Germany	(2)		100	17,231	29
KS Gleitlager North America LLC, Marinette / USA			100	(1,293)	(1,841)
KS Grundstücksverwaltung Beteiligungs GmbH, Neckarsulm / Germany	(2)		100	98	9
KS Grundstücksverwaltung GmbH & Co. KG, Neckarsulm / Germany			100	24,433	616
KS Kolbenschmidt Czech Rebublic a.s., Usti / Czech Republic			100	34,118	2,329
KS Kolbenschmidt France S.A.S., Basse-Ham (Thionville) / France			100	12,377	(1,444)
KS Kolbenschmidt GmbH, Neckarsulm / Germany	(2)		100	59,678	(167)
KS Kolbenschmidt US Inc., Marinette / USA			92	(208)	6,335
KS Large Bore Pistons LLC., Marinette / USA			100	23,515	3,974
KS Produtos Automotivos Ltda., Nova Odessa / Brazil			100	4,923	(409)
KSLP (China) Co. Ltd., Kunshan / China			100	4,379	(2,129)
KSPG AG, Neckarsulm / Germany			100	371,968	29,778
KSPG Automotive Brazil Ltda., Nova Odessa / Brazil			100	61,068	3,839
KSPG Automotive India Private Ltd., Mumbai Maharashtra / India			100	21,125	(835)
KSPG Finance & Service Ltd., St. Julians / Malta			79	161,772	1,681
KSPG Holding USA Inc., Southfield / USA			100	208,082	13,433
KSPG Malta Holding Ltd., St. Julians / Malta		21	79	164,170	2,453
KSPG Netherlands Holding B.V., Amsterdam / Netherlands			100	75,611	(3)
KSUS International, LLC., Marinette / USA			100	12,623	9,328
KUS Canada Inc., Leamington / Canada			92	(26)	1,197

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Notes to the consolidated financial statements
Shareholdings

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € 'ooo	Net income for the year in € 'ooo
Mechadyne International Ltd., Kirtlington / Great Britain			100	1,013	2,105
MS Motor Service Aftermarket Iberica S.L., Abadiano / Spanien			100	2,039	727
MS Motor Service Asia Pacific Co. Ltd., Shanghai / China			100	2,642	454
MS Motor Service Deutschland GmbH, Asperg / Germany	(2)		100	3,589	(59)
MS Motor Service France S.A.S., Villepinte / France			100	11,946	1,888
MS Motor Service International GmbH, Neuenstadt / Germany	(2)		100	34,045	(142)
MS Motor Service Istanbul Dis Ticaret ve Pazarlama A.S., Istanbul / Turkey			51	2,876	279
Pierburg China Ltd., Kunshan City / China			100	(16)	(1,176)
Pierburg Gestion S.L., Abadiano / Spain			100	13,583	18,976
Pierburg GmbH, Neuss / Germany	(2)		100	120,664	5,219
Pierburg Grundstücksverwaltung GmbH & Co. KG, Neuss / Germany			100	5,979	(19)
Pierburg Mexico S.A. de C.V., Chihuahua / Mexico			100	0	0
Pierburg Mikuni Pump Technology (Shanghai) Corp., Shanghai / China			51	(2,027)	(3,079)
Pierburg Mikuni Pump Technology Corporation, Odawara / Japan			51	2,285	707
Pierburg Pump Technology France S.à r.l., Basse-Ham (Thionville) / France			100	39,968	5,471
Pierburg Pump Technology GmbH, Neuss / Germany	(2)		100	34,231	676
Pierburg Pump Technology India Private Limited, Mumbai Maharashtra / India			100	2	(1)
Pierburg Pump Technology Italy S.p.A., Lanciano / Italy			100	20,731	3,998
Pierburg Pump Technology Mexico S.A.de C.V., Mexico City / Mexico			100	5,826	179
Pierburg Pump Technology UK Ltd., London / Großbritannien			100	1	137
Pierburg Pump Technology US LLC., Marinette / USA			100	(3,927)	(1,956)
Pierburg S.A., Abadiano/Spanien			100	27,475	16,675
Pierburg s.r.o., Usti / Czech Republic			100	31,530	17,230
Pierburg Systems S.L., Abadiano / Spain			100	(19)	(1)
Pierburg US, LLC , Fountain Inn (Greenville) / USA			100	4,711	(21)
Société Mosellane de Services S.C.I., Basse-Ham (Thionville) / France			100	10,159	(36)
Werkzeugbau Walldürn GmbH, Walldürn / Germany	(2)		100	175	(4)

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € 'ooo	Net income for the year in € 'ooo
Investments carried at equity					
Holding companies / service companies / other					
casa altra development GmbH, Düsseldorf / Germany	(5)		35	(1,352)	30
LIGHTHOUSE Development GmbH, Düsseldorf / Germany	(3), (5)		10	25	102
Unternehmerstadt GmbH, Düsseldorf / Germany	(4)		50	15	(5)
Defence sector					
Advanced Pyrotechnic Materials Pte Ltd, Singapore / Singapore	(4)		49	4,686	1,587
AIM Infrarot-Module GmbH, Heilbronn / Germany			50	6,687	1,616
ARGE RDE/CAE (GbR), Bremen / Germany	(4)		50	68	(1)
ARTEC GmbH, München / Germany	(4)		64	1,102	77
Cassidian Airborne Solutions GmbH, Bremen / Germany	(5)	49		3,330	3,550
Contraves Advanced Devices Sdn Bhd, Malaka / Malaysia	(4)		49	19,002	5,427
Defense Munitions International, LLC, Wilmington, Delaware / USA	(4)		50	7	0
DynITEC GmbH, Troisdorf / Germany	(5)		35	3,349	1,189
EuroSpike GmbH, Röthenbach/Peg / Germany	(4)		40	45	171
GIWS Gesellschaft für Intelligente Wirksysteme mbH, Nürnberg / Germany	(4)		50	1,267	(16)
Hartchrom Defense Technology AG, Steinach / Switzerland	(5)		38	1,658	53
HFTS Helicopter Flight Training Services GmbH, Hallbergmoos / Germany	(4)		25	35,086	10,948
HIL Industrie-Holding GmbH, Bonn / Germany	(4)		33	65	6,205
LOG GmbH, Bonn / Germany	(5)		25	1,128	(183)
N2 Defense LLC, Arlington, Virginia / USA	(4), (5)		50	(45)	(1)
ORR Training Systems LLC, Moscow / Russian Federation	(4)		25	26	38
Oy Finnish Defence Powersystems Ab, Helsinki / Finland			30	337	(51)
PSM Projekt System & Managment GmbH, Kassel / Germany	(4)		50	1,092	230
Rheinmetall International Engineering GmbH, Düsseldorf / Germany	(4)	50		25	0
Werk Aschau Lagerverwaltungsgesellschaft mbH, Aschau / Germany	(4)		28	25	0
Automotive sector					
Advanced Bearing Materials LLC., Greensburg / USA	(4)		50	3,219	0
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., Shanghai / China	(4)		50	84,525	22,263
Kolbenschmidt Shanghai Piston Co. Ltd., Shanghai / China	(4)		50	47,110	10,613
KS ATAG TRIMET Guss GmbH, Harzgerode / Germany	(4)		50	10,999	373
Pierburg Huayu Pump Technology Co. Ltd., Shanghai / China	(4)		50	2,268	(2,576)
Shriram Pistons & Rings Ltd., New Delhi / India			20	63,852	8,869

(1) Full consolidation due to majority of voting rights
(2) Profit transfer agreement
(3) Controlling influence owing to distribution of voting rights
(4) Joint ventures
(5) Equity and result from previous years

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, February 28, 2014

Rheinmetall Aktiengesellschaft
The Executive Board

Armin Papperger Horst Binnig Helmut P. Merch

Auditors’ 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, 2013. 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, February 28, 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Gerd Bovensiepen
Wirtschaftsprüfer (German Public Auditor)

Norbert Klütsch
Wirtschaftsprüfer (German Public Auditor)

Balance sheet of Rheinmetall AG
as of December 31, 2013

Assets € '000

	Note	Dec.31, 2013	Dec. 31, 2012
Fixed assets	(1)		
Intangible assets		417	466
Property, plant and equipment		24,054	20,032
Finacial assets		1,080,352	1,068,008
		1,104,823	**1,088,506**
Current assets			
Receivables and other assets	(2)	570,723	446,662
Cash in hand	(3)	367,281	349,910
		938,004	**796,572**
Deferred income	(4)	**2,548**	**3,285**
Total assets		**2,045,375**	**1,888,363**

Equity and Liabilities € '000

	Note	Dec.31, 2013	Dec. 31, 2012
Share capital		101,373	101,373
Treasury stock (notional value relating to the share capital)		(3,902)	(4,817)
		97,471	96,556
Capital reserves		307,234	306,759
Retained earnings		114,856	98,872
Net earnings		16,000	69,000
Equity		**535,561**	**571,187**
Provisions	(6)	**123,871**	**129,594**
Liabilities	(7)		
Bond		500,000	500,000
Liabilities due to banks		15,606	35,500
Other liabilities		870,337	652,082
		1,385,943	**1,187,582**
Total liabilities		**2,045,375**	**1,888,363**

Income statement of Rheinmetall AG
for fiscal 2013

€ '000

	Note	2013	2012
Investment income	(11)	41,086	53,643
Net interest	(12)	(29,497)	(25,952)
Net financial income		**11,589**	**27,691**
Other operational income		101,778	137,728
Staff costs		23,906	28,044
Amortization of intangible and depreciation of tangible assets (incl. write-down)		1,274	1,892
Other operating expenses		67,136	58,403
Extraordinary expenses		922	922
Earnings before taxes (EBT)		**20,129**	**76,158**
Taxes on income and revenue	(17)	(593)	835
Net profit for the year		**19,536**	**76,993**
Appropriation to retained earnings		3,536	7,993
Net earnings		**16,000**	**69,000**

Supervisory Board

Klaus Greinert
Mannheim
Businessman
Chairman

Membership in Supervisory Boards

DURAVIT AG
(Vice Chairman)
DURAVIT S.A.

Dr. Rudolf Luz *)
Weinsberg
1st delegate of the
German Metalworkers' Union
Vice Chairman

Membership in Supervisory Boards

KSPG AG (Vice Chairman)

Roswitha Armbruster *)
Schramberg
Chairwoman of Works Council of the
Defence sector 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
Member of the German Metalworkers' Union
General Secretariat

Membership in Supervisory Boards

euro engineering AG

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

Voss Holding GmbH & Co. KG
Witzenmann GmbH
KSPG AG

Professor Dr. Susanne Hannemann
Bochum
Professor of Applied Business Administration,
in particular company taxation and auditing
Bochum University of Applied Sciences

Heinrich Kmett *)
Fahrenbach/Robern
Chairman of the 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

*) *Elected by the employees*

Supervisory Board

DDr. Peter Mitterbauer
Gmunden, Austria

Member of the Executive Board
Mitterbauer Beteiligungs-AG

Membership in Supervisory Boards

Miba AG
Andritz AG
Erste Österreichische Spar-Casse Privatstiftung
Oberbank AG
ÖIAG Österreichische Industrieholding AG
(Chairman)
KSPG AG
(up to December 31, 2013)

Detlef Moog
Mülheim an der Ruhr

Consulting engineer

Wolfgang Müller *)
Bad Rappenau

Chairman of the Works Council of
KS Aluminium-Technologie GmbH and
Werkzeugbau Walldürn GmbH

Vice Chairman of the 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 ATAG GmbH

Professor Dr. Frank Richter
Ulm

Chairman of the Management Board
DURAVIT AG

Membership in Supervisory Boards

Advisory Board Gebr. Röchling KG
Advisory Board 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, Switzerland

Consulting engineer

*) *Elected by the employees*

Rheinmetall AG Executive Board

Armin Papperger
Düsseldorf

Chairman
(from January 1, 2013)

Director of Industrial Relations
(from January 1, 2013)

Chairman of Management Board Defence

Membership in Supervisory Boards

Rheinmetall Landsysteme GmbH
(Chairman)
(up to April 30, 2013)

Rheinmetall MAN Military Vehicles GmbH
(Chairman)
(from May 3, 2013)

Rheinmetall Waffe Munition GmbH
Chairman
(up to April 30, 2013)

Rheinmetall Defence Electronics GmbH
(up to April 30, 2013)

Rheinmetall Defence UK Limited
(Chairman Board of Directors)

Rheinmetall Waffe Munition ARGES GmbH
(Managing Director)

Nitrochemie Aschau GmbH
(Chairman)

Nitrochemie AG
(President)

Nitrochemie Wimmis AG
(President)

Rheinmetall Denel Munition (Pty) Ltd
(Chairman)

Rheinmetall Waffe Munition South Africa (Pty) Ltd
(Chairman)

Rheinmetall Laingsdale (Pty) Ltd
(Chairman)

PSM Projekt System & Management GmbH
(up to April 16, 2013)

Helmut P. Merch
Erkrath

Finance and Controlling
(from January 1, 2013)

Membership in Supervisory Boards

KSPG AG

Rheinmetall Waffe Munition GmbH
(up to December 31, 2013)

Rheinmetall Landsysteme GmbH
Vice Chairman
(up to December 31, 2013)

Rheinmetall Defence Electronics GmbH
(up to December 31, 2013)

Rheinmetall MAN Military Vehicles GmbH
(from April 4, 2013)

Nitrochemie Aschau GmbH

Nitrochemie AG

Nitrochemie Wimmis AG

Rheinmetall Denel Munition (Pty) Ltd

Rheinmetall Waffe Munition South Africa (Pty) Ltd

Rheinmetall AG Executive Board

Dr. Gerd Kleinert

Gottmadingen

(up to December 31, 2013)

Chairman of the Executive Board
of KSPG AG

Membership in Supervisory Boards

Kolbenschmidt Pierburg Shanghai
Nonferrous Components Co. Ltd.
(Chairman)

KS Shanghai Piston Co. Ltd.
(Chairman)

KSGP Holding USA, Inc.
(Director)

KS Aluminium-Technologie GmbH
(Chairman up to March 14, 2013)
(member up to December 31, 2013)

KS ATAG GmbH
(Chairman)
(up to December 31, 2013)

KS Gleitlager GmbH
(Chairman up to November 28, 2013)
(member up to December 31, 2013)

KS Kolbenschmidt GmbH
(Chairman up to November 28, 2013)
(member up to December 31, 2013)

Läpple AG
(Chairman)

Pierburg GmbH
(Chairman up to March 11, 2013)
(member up to December 31, 2013)

Advisory Board Gebr. Röchling KG

Shareholders' Committee Hella KGaA Hueck & Co.

Pierburg US LLC
(Board of Managers)

Horst Binnig

Bad Friedrichshall
(from January 1, 2014)

Chairman of the Executive Board
of KSPG AG
(from January 1, 2014)

Membership in Supervisory Boards

Pierburg GmbH
(Chairman)
(member from March 11, 2013)
(Chairman from November 26, 2013)

KS Kolbenschmidt GmbH
(Chairman)
(from November 28, 2013)

KS Aluminium-Technologie GmbH
(Chairman)
(from March 14, 2013)

KS ATAG GmbH
(from January 1, 2014)

KS Gleitlager GmbH
(Chairman)
(from November 28, 2013)

Kolbenschmidt Pierburg Shanghai
Nonferrous Components Co. Ltd.
(Director)

Kolbenschmidt Shanghai Piston Co., Ltd.
(Director)

KSLP (China) Co. Ltd.
(Director)

Pierburg HUAYU Pump Technology Co., Ltd.
(Vice Chairman Board of Directors)

KS Kolbenschmidt US, Inc.
(Director)

Kolbenschmidt USA, Inc.
(Director)

Kolbenschmidt de Mexico S. de R.L. de C.V.
(Director)

MS Motor Service Istanbul Dis Ticaret Ve Pazarlama A.S.
(Director)

Pierburg Gestión S.L.
(member of the Administrative Board)

Pierburg S.A.
(Chairman of the Administrative Board)

Pierburg Systems S.L.
(Chairman of the Administrative Board)

Pierburg US, LLC
(Chairman Board of Managers)

Bertrandt AG

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
(up to December 31, 2013)

Peter-Sebastian Krause
Erkrath
Human Resources and Senior Management
(from January 01, 2014)

Executive Board Automotive

Dr. Gerd Kleinert
Gottmadingen
Chairman
Strategy, Marketing, Operations
(up to December 31, 2013)

Horst Binnig
Bad Friedrichshall
Chairman
Strategy, Marketing, Operations
(from January 1, 2014)

Peter-Sebastian Krause
Erkrath
Human Resources, Law

Dr. Peter P. Merten
Herrsching
Finance and Controlling, IT

Management Board Defence

Armin Papperger
Düsseldorf
Chairman

Helmut P. Merch
Erkrath
Finance and Controlling, IT

Dr. Andreas Schwer
Düsseldorf
Division Combat Systems

Bodo Garbe
Düsseldorf
Division Electronic Solutions

Pietro Borgo
Munich
Division Wheeled Vehicles

Ingo Hecke
Meerbusch
Human Resources
(up to December 31, 2013)

Peter Sebastian Krause
Erkrath
(from January 1, 2014)
Human Resources

Legal information and contact

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This report was published on March 19, 2014. 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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