



RHEINMETALL AG

ANNUAL REPORT | 2015



KEY FIGURES 2015 | RHEINMETALL GROUP

		2015	2014	2013	2012	2011	2010	2009
ORDER SITUATION								
Order intake	€ million	5,314	5,278	5,609	5,311	4,189	3,974	4,649
Order backlog (Dec. 31)	€ million	6,867	6,932	6,442	5,405	4,950	5,136	4,940
SALES/RESULTS								
Sales	€ million	5,183	4,688	4,417	4,704	4,454	3,989	3,420
of which generated abroad	%	74	75	73	72	70	69	66
Operating result	€ million	287	160	211	268	342	289	153
Operating result margin	%	5.5	3.4	4.8	5.7	7.7	7.2	4.5
EBIT	€ million	287	102	121	296	354	297	15
EBIT margin	%	5.5	2.2	2.7	6.3	7.9	7.4	0.4
EBT	€ million	221	22	45	216	295	229	(46)
Return on capital employed (ROCE) ¹	%	10.1	3.9	4.7	11.5	14.9	14.6	0.8
BALANCE SHEET								
Total equity	€ million	1,562	1,197	1,339	1,465	1,546	1,355	1,134
Total assets	€ million	5,730	5,271	4,866	4,899	4,832	4,460	3,835
Equity ratio	%	27.3	22.7	27.5	29.9	32.0	30.4	29.6
Cash and cash equivalents	€ million	691	486	445	501	535	629	557
Total assets less cash and cash equivalents	€ million	5,039	4,785	4,421	4,398	4,297	3,831	3,278
Net financial debt ²	€ million	81	330	147	98	130	76	(44)
Leverage ratio ³	%	1.6	6.9	3.3	2.2	2.9	1.9	(1.3)
Net gearing ⁴	%	5.2	27.6	11.0	6.7	8.4	5.6	(3.9)
CASH FLOW								
Cash flow from operating activities	€ million	339	102	211	359	290	147	331
Cash flow from investing activities	€ million	(353)	(274)	(188)	(219)	(251)	(258)	(140)
Cash flow from financing activities	€ million	218	210	(76)	(174)	(131)	156	180
Cash Flow	€ million	(14)	(172)	23	140	39	(111)	191
HUMAN RESOURCES								
Employees (Dec. 31) according to capacity		20,676	20,166	20,264	21,767	21,516	19,979	19,766
Domestic		10,070	9,827	9,729	10,667	10,708	10,656	10,750
Foreign		10,606	10,339	10,535	11,100	10,808	9,323	9,016
Defence		9,581	9,184	9,193	9,623	9,833	9,037	9,304
Automotive		10,934	10,830	10,927	12,003	11,548	10,816	10,339
Holding/service companies		161	152	144	141	135	126	123
SHARE								
Stock price, annual closing	€	61.48	36.27	44.85	36.40	34.24	60.17	44.74
Stock price, annual high	€	63.19	57.87	46.04	47.23	66.46	60.17	44.74
Stock price, annual low	€	34.60	30.69	35.01	31.36	30.35	42.50	20.41
Earnings per share	€	3.88	0.47	0.75	4.55	5.55	4.23	(1.60)
Dividend per share	€	1.10	0.30	0.40	1.80	1.80	1.50	0.30

¹ EBIT/average capital employed

² Financial liabilities less cash and cash equivalents

³ Net financial liabilities / total assets adjusted for cash and cash equivalents

⁴ Net financial liabilities / equity

SECURITY & MOBILITY 6 DIVISIONS
2 CORPORATE SECTORS

5,183 € million
Sales

287 € million
Operating Result

22,640
Employees

6.9 € billion
Order Backlog

4.6 %
R&D Intensity

291 € million
Capital Expenditure

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LETTER TO SHAREHOLDERS

SUPERVISORY BOARD OF RHEINMETALL AG

Shareholder representatives	Employee representatives	Permanent committees
<p>Klaus Greinert Chairman</p> <p>First appointed: July 10, 1997</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	<p>Dr. Rudolf Luz Vice Chairman</p> <p>First appointed: January 26, 2001</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	<p>Personnel Committee Klaus Greinert (Chairman) Toni Wicki Dr. Rudolf Luz Wolfgang Tretbar</p>
<p>Professor Dr. Andreas Georgi</p> <p>First appointed: June 10, 2002</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	<p>Roswitha Armbruster</p> <p>First appointed: May 15, 2012</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	
<p>Dr. Siegfried Goll</p> <p>First appointed: February 28, 2008</p> <p>Appointed until close of the 2018 Annual General Meeting</p>	<p>Daniel Hay</p> <p>First appointed: May 7, 2014</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	<p>Audit Committee Klaus Greinert (Chairman) Professor Dr. Susanne Hannemann Dr. Rudolf Luz Roswitha Armbruster</p>
<p>Professor Dr. Susanne Hannemann</p> <p>First appointed: May 15, 2012</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	<p>Markus Schaubel</p> <p>First appointed: July 1, 2014</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	
<p>DDr. Peter Mitterbauer</p> <p>First appointed: October 4, 2006</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	<p>Dr. Michael Mielke</p> <p>First appointed: September 1, 2010</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	<p>Mediation Committee Klaus Greinert (Chairman) Professor Dr. Frank Richter Dr. Rudolf Luz Dagmar Muth</p>
<p>Detlef Moog</p> <p>First appointed: July 8, 2010</p> <p>Appointed until close of the 2016 Annual General Meeting</p>	<p>Sven Schmidt</p> <p>First appointed: July 1, 2014</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	
<p>Professor Dr. Frank Richter</p> <p>First appointed: January 1, 2006</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	<p>Dagmar Muth</p> <p>First appointed: July 1, 2015</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	<p>Nomination Committee Klaus Greinert (Chairman) Professor Dr. Frank Richter</p>
<p>Toni Wicki</p> <p>First appointed: December 6, 2010</p> <p>Appointed until close of the 2016 Annual General Meeting</p>	<p>Wolfgang Tretbar</p> <p>First appointed: July 10, 1997</p> <p>Appointed until close of the 2017 Annual General Meeting</p>	

LETTER TO SHAREHOLDERS

REPORT OF THE SUPERVISORY BOARD



Supervisory Board of Rheinmetall AG

From left: Toni Wicki, DDr. Peter Mitterbauer, Dagmar Muth, Klaus Greinert (Chairman), Professor Dr. Susanne Hannemann, Professor Dr. Andreas Georgi, Dr. Siegfried Goll, Sven Schmidt, Daniel Hay, Wolfgang Tretbar, Dr. Michael Mielke, Roswitha Armbruster, Professor Dr. Frank Richter, Detlef Moog, Harald Töpfer (departed), Markus Schaubel, Dr. Rudolf Luz (Vice Chairman)

COOPERATION BETWEEN THE SUPERVISORY BOARD AND EXECUTIVE BOARD

During the year under review, the Supervisory Board of Rheinmetall AG performed the tasks assigned to it in accordance with the law, the Company bylaws and its rules of procedure with commitment, responsibility and conscientiousness. We supervised the Executive Board closely, provided it with support and advice on all matters of importance to the Company and monitored its management activities continuously. Two of the 16 members were not present at the Supervisory Board meeting in August 2015, while one member did not attend the December meeting. All members attended all other Supervisory Board meetings. All committee members were present at each committee meeting.

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.

At the four regular meetings of the Supervisory Board in 2015, the Executive Board reported on matters including the progress of business activities, the current earnings and financial position, general political and 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 opportunities, options and measures to ensure competitiveness and future viability. In addition to a number of other topics and important individual issues, the 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.

LETTER TO SHAREHOLDERS

REPORT OF THE SUPERVISORY BOARD

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.

Between meetings, we were informed of the current situation of the Rheinmetall Group and its two sectors, Defence and Automotive, in writing on a quarterly basis. In addition to the Supervisory Board meetings, the CEO and I engaged in a close exchange of information and ideas. At regular work meetings, for example, we discussed current developments, pending decisions and significant transactions of importance to the assessment of the situation and the Company's development.

On the basis of extensive reports and in-depth 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 management system.

DISCUSSIONS AND DECISIONS OF THE SUPERVISORY BOARD

One agenda item at the annual accounts meeting on **March 18, 2015** was discussion of the single-entity and consolidated financial statements of Rheinmetall AG as at December 31, 2014, 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 Executive Board presented the Company's performance and results for fiscal 2014 in detail and also looked more closely at important individual issues in the Defence and Automotive sectors in this context. The auditors described the scope of their assignment, their audit approach and the focal points of their audit and reported in detail on the material findings and results of their audits. Both the Executive Board and PwC provided comprehensive answers to the Supervisory Board's questions. After considering the Company's financial situation and the expectations of shareholders and the capital market, 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 2015 Annual General Meeting, on which we passed a resolution.

Furthermore, the Executive Board reported on the various factors that it believes will influence the future strategic orientation of the German armaments industry and on scenarios and options that will arise for Rheinmetall Defence as a result.

The Executive Board also 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 2015. It presented its analysis of the shareholder structure as at the end of 2014.

We concluded the meeting by discussing achievement of targets by the Executive Board members and their remuneration for fiscal 2014 and 2015 and by approving further regulations relating to the Executive Board.

LETTER TO SHAREHOLDERS

REPORT OF THE SUPERVISORY BOARD

On the day before the Annual General Meeting, on **May 11, 2015**, the Executive Board gave a presentation at the Supervisory Board meeting on business performance in the Defence and Automotive sectors and in the Rheinmetall Group in the first quarter of 2015. It also looked at developments in connection with possible transactions in this context, and provided information on potential orders in the Defence sector.

The Executive Board also informed us of the current strategy for securing Rheinmetall AG's external financing requirements, which are covered by syndicated loans, bonds and promissory note loans as well as bilateral cash lines. We complied with the Executive Board's proposed resolutions that are intended to secure these financing volumes until 2020 and to fulfill the requirements for issuing convertible bonds in future as well as promissory note loans.

The Supervisory and Executive Boards also used the meeting to make preparations for the Annual General Meeting taking place the following day.

At the Supervisory Board meeting on **August 27, 2015**, the Executive Board reported on the Company's economic situation in the first half of the year and dealt with important individual issues in the Defence sector in connection with this. The Executive Board also informed the Supervisory Board of the positive results of the audit relating to the European Market Infrastructure Regulation for the period from April to December 2014. The independent auditor confirmed that the Company has an appropriate and effective system for ensuring compliance with the requirements under Section 20 (1) of the German Securities Trading Act (WpHG).

With regard to the introduction of statutory quotas for the numbers of women, the Executive Board explained the law that came into force in May 2015 for ensuring that men and women are equally entitled to management positions in the private sector, reported on the status quo at the Rheinmetall Group and outlined planned measures and targets to improve the initial situation. The Supervisory Board passed a resolution stating that the proportion of women on the Executive Board of Rheinmetall AG would be 0% until June 30, 2017. The shareholder representatives on the Supervisory Board informed the plenary assembly of their decision to vote separately for the filing of an objection in accordance with Section 96 (2) Sentence 3 of the German Stock Corporation Act (AktG) against the fulfillment of gender quotas as defined by Section 96 (2) Sentence 2 AktG.

Later in the meeting we dealt with the declaration of conformity with the German Corporate Governance Code and looked in detail at compliance issues and related matters concerning liability. We also approved regulations on remuneration for members of the Executive Board.

At the extraordinary meeting held during a telephone conference on **November 9, 2015**, we dealt with the capital increase planned by the Executive Board in accordance with a resolution passed on November 9, 2015, which the Executive Board is authorized to carry out in accordance with Section 4 (3) of the Company bylaws as amended by a resolution of the Annual General Meeting on May 6, 2014. With the approval of the Supervisory Board, the Executive Board can increase the Company's share capital by up to €50 million on one or several occasions up to May 5, 2019, by issuing new no-par shares in exchange for contributions in cash, and can disapply subscription rights in accordance with the more detailed provisions of the authorization. After discussion and taking into account further instructions, the Supervisory Board approved the increase in the Company's share capital by up to €10,137,216.00 through the issue of up to 3,959,850 no-par value bearer shares at an issuing price of €2.56 per share, each of which represents €2.56 of the share capital, without subscription rights and with entitlement to a share in the profits from January 1, 2015. The Supervisory Board has delegated approval of the specific details of the structuring of the capital increase to the Audit Committee.

At the last meeting of the year on **December 9, 2015**, the Executive Board firstly presented its report for the third quarter of 2015. 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 2016 fiscal year and medium-term planning up to 2018. We also scrutinized the assumptions made by the Executive Board in corporate planning and discussed them in detail with regard to risks to the Company associated with the general economic and regulatory environment.

In addition to the resolutions it passed on financing measures on August 28 and December 10, 2014, the Supervisory Board approved the issuing of one or more promissory note loans and/or one or more bonds in one or more individual tranches in the calendar years 2015, 2016 and/or 2017.

We also dealt with issues relating to liability in connection with the proceedings against Rheinmetall Defence Electronics that were stopped in 2014 in exchange for payment of a fine. Furthermore, a resolution was passed on pensions for active members of the Executive Board, and the updated version of the rules of procedure for the Personnel Committee was approved. The employee representatives on the Supervisory Board also resolved to elect Dagmar Muth as the successor to Harald Töpfer on the Mediation Committee.

We also passed a resolution to mandate PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, Düsseldorf branch, which was elected at the Annual General Meeting on May 12, 2015, to audit the single-entity and consolidated financial statements together with the summarized management report for Rheinmetall AG and the Rheinmetall Group for the 2015 fiscal year. In addition, we used this meeting to look at the work we do and decided to analyze and evaluate the efficiency of our work with the aid of a comprehensive questionnaire, unlike in previous years.

WORK OF THE COMMITTEES IN 2015

The work of the Supervisory Board is supported by four committees, whose tasks include preparing time-consuming topics that require extensive discussion for meetings of the plenary assembly and examining draft proposals in advance. Decision-making powers of the Supervisory Board were transferred to the committees to the extent that this was permitted by law. As the Supervisory Board Chairman, I chair all committees and report in detail to the plenary assembly on the content and results of meetings.

Information on the duties of the committees can be found in the corporate governance report on page 35.

The **Personnel Committee** held two meetings in 2015, at which it dealt mainly with the structure of the remuneration system, the amount of remuneration provided to members of the Executive Board, the targets agreed with Executive Board members and achievement of these targets.

The **Audit Committee** met six times during the last fiscal year. It addressed the single-entity and consolidated financial statements and the Executive Board's proposal for the appropriation of net income and the dividend, as well as 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 2015. Other issues discussed at meetings included the development of the risk management and compliance management system. Details of the structure and implementation of the capital increase were stipulated at the extraordinary meeting of the Audit Committee. At the December meeting, members of the Audit Committee were informed in detail and as scheduled of the auditing activities of Internal Auditing in the past fiscal year, the results of audits in 2015 and the planning of audits for 2016. The Chief Compliance Officer also presented the compliance report for 2015, gave an overview of the status of the compliance organization and informed the committee of planned measures relating to the further development of the compliance management system.

The **Mediation Committee**, formed in accordance with the provisions of Section 27 (3) of the German Codetermination Act, once again did not need to convene during the past fiscal year.

The **Nomination Committee** did not convene during the year under review.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory Board once again dealt with developments in corporate governance in fiscal 2015. In August 2015, the Executive and Supervisory Boards submitted a new declaration of conformity in accordance with Section 161 AktG on compliance with the recommendations of the Corporate Governance Code, which is printed on page 39 of this annual report.

In their joint corporate governance report on pages 33 to 39, the Executive and Supervisory Boards provide information on corporate governance at Rheinmetall in accordance with Item 3.10 of the current German Corporate Governance Code.

CONFLICTS OF INTEREST

There were no indications of conflicts of interest relating to mandates among members of the Supervisory Board or Executive Board in fiscal 2015 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 reported to the Annual General Meeting, nor were any such conflicts of interest reported.

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.

LETTER TO SHAREHOLDERS

REPORT OF THE SUPERVISORY BOARD

CHANGES TO THE COMPOSITION OF THE SUPERVISORY BOARD

Harald Töpfer, who had been a member of the Supervisory Board of Rheinmetall AG since 2004, resigned his seat on June 30, 2015. Dagmar Muth replaced him on the Supervisory Board, having been elected by staff on March 21, 2012. Her period of office will run until the end of the Annual General Meeting that will resolve upon the approval of activities for the 2016 fiscal year. We thanked Harald Töpfer for his good teamwork on our Board and his professional, committed and solution-oriented work in the Company's interests.

SINGLE-ENTITY AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2015

The single-entity financial statements prepared by the Executive Board in accordance with German GAAP as at December 31, 2015 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, Frankfurt am Main, Düsseldorf branch, 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 10, 2016 and the Supervisory Board's annual accounts meeting on March 16, 2016 in the presence of the auditors and following the presentation of the auditors' report. They provided information on the scope, focal points and key results of their audit, answered all questions without reservations and also offered 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 2015 fiscal year. The single-entity financial statements have thus been adopted under the terms of Section 172 AktG. We concurred with the Executive Board's proposal for appropriation of net income, which provides for the distribution of a dividend of €1.10 per share that is entitled to a dividend for the year under review.

Rheinmetall once again held its ground well in 2015 despite challenging market conditions and fierce competition, and closed the fiscal year having successfully met its targets. On behalf of my colleagues on the Supervisory Board, I would like to thank the customers of companies in the Rheinmetall Group and shareholders for the confidence they have shown in us. We wish to express our appreciation to the Executive Board, managers and employees for their active commitment and to thank them for their hard work, without which Rheinmetall AG's success in fiscal 2015 would not have been possible.

Düsseldorf, March 16, 2016

On behalf of the Supervisory Board
Klaus Greinert
Chairman

LETTER TO SHAREHOLDERS

EXECUTIVE BOARD OF RHEINMETALL AG



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

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

Horst Binnig, engineering graduate
Born in 1959

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

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

Horst Binnig has also been Chairman of KSPG AG since January 1, 2014.

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

LETTER TO SHAREHOLDERS

RHEINMETALL ON THE CAPITAL MARKETS

Rheinmetall share basic information

	2015
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

		2015	2014	2013	2012	2011
Equity as at end of the year						
Share capital	€ million	111.51	101.37	101.37	101.37	101.37
Issued shares	Thousands of shares	43,559	39,599	39,599	39,599	39,599
Free float (incl. treasury stocks)	%	100	100	100	100	100
Treasury stock	%	2.4	3.1	3.9	4.8	3.4
Share price						
Share price at end of fiscal year (Xetra)	€	61.48	36.27	44.85	36.40	34.24
Performance over the year	%	+70	-19	+23	+6	-43
Highest closing price (Xetra)	€	63.19	57.87	46.04	47.23	66.46
Lowest closing price (Xetra)	€	34.60	30.69	35.01	31.36	30.35
Stock exchange data						
Stock market value of all shares as at end of the year	€ billion	2.7	1.4	1.8	1.4	1.4
Average turnover per trading day	Thousands of shares	242	227	215	271	276
MDAX ranking at year-end						
according to market capitalization		19	33	25	25	17
according to stock exchange turnover		22	20	23	12	12
Key figures						
Earnings per share	€	3.88	0.47	0.75	4.55	5.55
Equity per share	€	40.07	31.34	35.30	35.54	36.76
Cash flow per share	€	9.39	5.91	6.09	9.34	10.49
Dividend						
Total payout	€ million	46.8	11.5	15.2	67.9	68.5
Payout ratio	%	28	64	53	36	32
Dividend per share entitled to dividends	€	1.10	0.30	0.40	1.80	1.80
Dividend yield	%	1.8	0.8	0.9	4.9	5.3

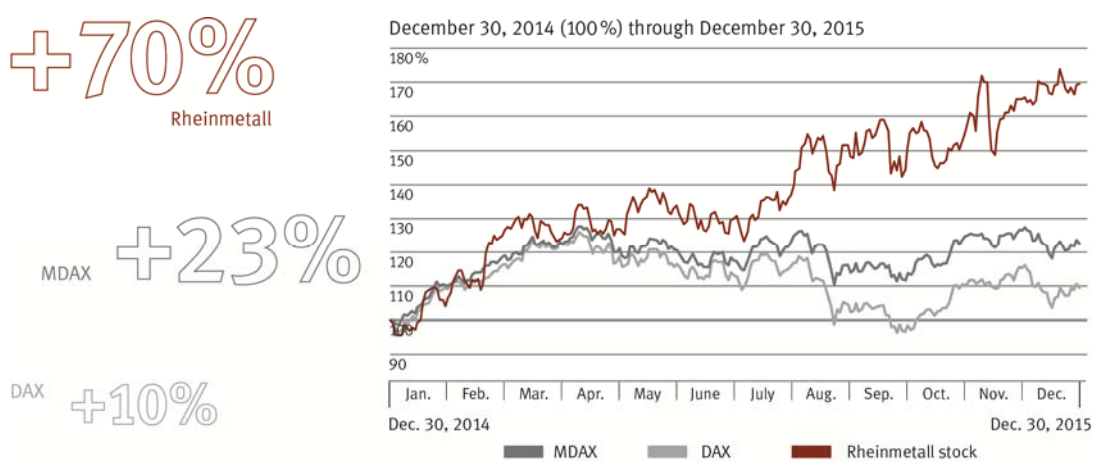
2015 ON THE STOCK MARKETS: A STRONG START, FOLLOWED BY VOLATILE PROGRESS

Having remained at more or less the same levels in 2014, Germany's two major stock market indices, the DAX and MDAX, enjoyed a very dynamic start to 2015. The launch of the ECB's bond-buying program, positive reports on the labor market in the USA and the gradual calming of the situation in Ukraine created a positive climate. The DAX reached an annual high of 12,375 points on April 10, 2015, with the MDAX following suit on April 13, 2015, climbing to 21,623 points.

However, economic forecasts became significantly more gloomy from the second and third quarters of 2015 onwards. Positive economic development in the USA fueled fears of a forthcoming rise in base rates. This was compounded by a fall in the price of crude oil and other commodities, a massive slump in prices on the Chinese stock market and reports of a decline in car sales and sharp drops in currency reserves in this country. Finally, allegations that VW had rigged emissions tests had a negative impact on the automotive sector. These events caused the two leading indices to experience a downturn, even bringing the DAX to an annual low of 9,428 points on September 24, 2015.

A recovery phase began from the end of September, although this was highly volatile and prices declined again from November 2015. The DAX closed the fiscal year on December 30, 2015 at 10,743 points, up 10% compared with the end of the previous year. The MDAX reached 20,775 points at the end of the year, gaining 23% in the same period.

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



A BRILLIANT PERFORMANCE FOR RHEINMETALL SHARES IN FISCAL 2015

In line with the stock market indices, 2015 also began very successfully for Rheinmetall shares. While the DAX and MDAX climbed 22% in the first quarter, Rheinmetall gained 24%. The continuous improvement in earnings that could be seen in the quarterly reports on May 7, 2015 (Q1), August 6, 2015 (H1) and November 5, 2015 (Q3), particularly in Defence business, led to growth in confidence, significantly boosting demand for Rheinmetall shares. The highest price reached in the individual quarters rose progressively, from €47.75 in the first quarter of 2015 (March 13) to €50.51 in the second quarter (May 19), €57.70 in the third quarter (September 17) and €63.19 in the fourth quarter (December 17).

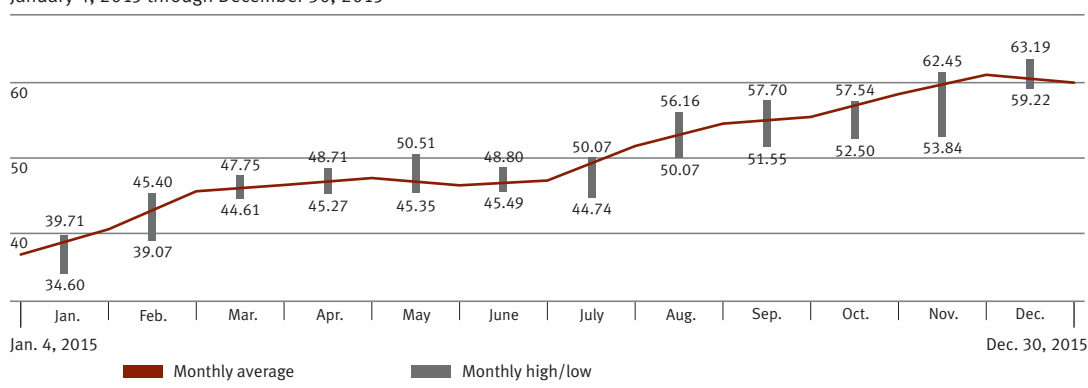
LETTER TO SHAREHOLDERS

RHEINMETALL ON THE CAPITAL MARKETS

One key event relating to the stock markets during the year under review was the successful completion of a capital increase on November 11, 2015. For the first time since 2009, Rheinmetall AG made use of the right granted to it by the Annual General Meeting to carry out a 10 % capital increase without subscription rights. As part of this measure, Rheinmetall AG's equity was increased by €228 million. These additional funds will be used not only to strengthen Rheinmetall's capital base, but also to finance its growth strategy in the Defence and Automotive sectors and the Company's operational development. Owing to the dilution of profit entitlements for existing shares, this measure led to a drop in the share price, as expected. However, this was made up again within a very short time. Rheinmetall shares reached their highest level in 2015 on December 17, 2015, when they climbed to €63.19. The shares were trading at €61.48 at the end of the year. This represented growth of 70 %, the second-highest growth rate among the 80 companies listed on the DAX and MDAX in 2015.

Rheinmetall share price performance in €

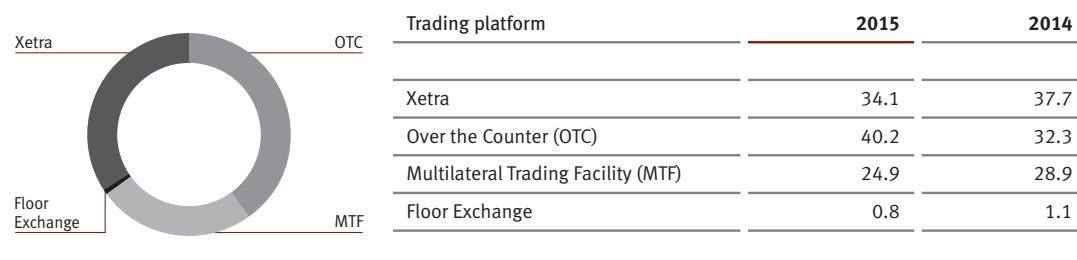
January 4, 2015 through December 30, 2015



RHEINMETALL'S SHARE LISTING

Rheinmetall AG shares are traded via Xetra and all German stock exchanges. Alternative trading systems are playing an increasingly important role. These include multilateral trading facilities (MTF) that are similar to stock exchanges, such as Chi-X and Turquoise, which are governed by rules relating to admission, transparency in pricing, liquidity, transaction processing and certain control mechanisms. However, the shares are also traded off the floor on platforms that are referred to collectively under the term OTC (over the counter). These are not generally subject to stock market regulation and are less transparent than stock exchanges and MTF in terms of pricing and liquidity. Traders benefit from lower costs and are able to carry out larger transactions without other market participants noticing.

Rheinmetall shares processed via trading platforms in %



RANKING IN THE MDAX

The Rheinmetall share has been included in the 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: market capitalization 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 rose from 39,599,000 to 43,558,850 following the capital increase in November 2015. To calculate the free float, holdings of treasury shares at Rheinmetall AG (1,035,785 shares as at December 31, 2015) are deducted from this. Accordingly, the free float rose from 96.9% at the end of 2014 to 97.6% at the end of 2015. With a closing price for the shares of €61.48 at the end of the year, the stock market value was €2.678 billion based on all shares. Based on the free float, the stock market value was €2.614 billion. In the corresponding index ranking of Deutsche Börse, the Rheinmetall share moved up from 33rd to 19th place.

Ranking in the MDAX by market capitalization of the free float

	2015	2014	2013	2012	2011
Number of shares	43,558,850	39,599,000	39,599,000	39,599,000	39,599,000
Free float of shares	97.6 %	96.9 %	96.1 %	95.2 %	96.6 %
Closing share price	€ 61.48	€ 36.27	€ 44.85	€ 36.40	€ 34.24
Market capitalization	€2.7 billion	€1.4 billion	€1.8 billion	1.4 billion	€1.3 billion
Ranking	19	33	25	25	17

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 22nd place (previous year: 20th place). The average daily trading volume of Rheinmetall shares was around 242,000 shares in 2015, well above the previous year's level. The volume of shares traded via OTC platforms each day also rose significantly year on year.

Stock exchange turnover – all German stock exchanges

	2015	2014	2013	2012	2011
Trading volume	241,607	227,256	214,938	271,000	276,172
Ranking	22	20	23	12	12

DIVIDEND DISTRIBUTION FOR FISCAL 2015

Our dividend policy is earnings-oriented and designed to ensure that our shareholders receive an adequate share in the Group's profit on an ongoing basis. The dividend amount is based on business performance and a payout ratio geared towards Rheinmetall AG's business results. 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.

At the Annual General Meeting on May 10, 2016, the Executive Board and Supervisory Board intend to propose a dividend payment of €1.10 per share that is entitled to a dividend (previous year: €0.30). The total amount paid out will thus be €47 million (previous year: €12 million). Subject to approval by shareholders, the dividend will be paid the following day. Based on the closing price of the shares of €61.48 at the end of 2015 (previous year: €36.27), this results in a dividend yield of 1.8% (previous year: 0.8%). The payout ratio, i.e. the dividend in relation to earnings per share, will stand at 28% in the reporting year (previous year: 64%).

LETTER TO SHAREHOLDERS

RHEINMETALL ON THE CAPITAL MARKETS

A BROAD INTERNATIONAL SHAREHOLDER BASE

Rheinmetall has a stable and very large proportion of institutional investors, which has changed only slightly in recent years. We commissioned an external service provider to analyze our shareholder structure in December 2015. This involved evaluating publications issued by investment companies and other institutional shareholders.

The findings show that the proportion of institutional investors from Europe has risen by approximately 9 percentage points to 37 %. These investors are primarily based in Germany, the UK, France and Scandinavia. The proportion of institutional investors from North America – most of whom are based in the USA – has fallen and now stands at 29 %, compared with 41 % in the previous year. A further 34 % of shares (previous year: 30 %) are held by private investors, Rheinmetall AG itself and investors who were not identified during the survey. As in the previous year, the 50 largest institutional investors hold 57 % of shares.

Shareholder structure as at December 31, 2015 in %



TREASURY STOCK

The Annual General Meeting on May 6, 2014 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 current share capital of €101,373,440 up until May 5, 2019. Rheinmetall AG did not exercise this right in fiscal 2015.

The proportion of own shares held as treasury stock was 1,035,785 shares or 2.4 % on the balance sheet date for 2015 (previous year: 1,225,511 shares or 3.1 %). Of the treasury stock, 94,245 shares (previous year: 175,385 shares) entered the employee share purchase program and 95,481 shares (previous year: 123,337 shares) were used for the long-term incentive program in the year under review.

Purchase and deployment of treasury stock

	2015	2014	2013	2012	2011
Acquisition of shares	0	0	0	800,319	333,000
Used for employee share purchase program	94,245	175,385	142,857	106,798	169,743
Used for long-term incentive program	95,481	123,337	214,557	162,716	105,638
Portfolio on December 31	1,035,785	1,225,511	1,524,233	1,881,647	1,350,842
Share of treasury stocks in Rheinmetall shares	2.4 %	3.1 %	3.9 %	4.8 %	3.4 %

RESEARCH COVERAGE OF RHEINMETALL AG

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

20 equity research analysts (previous year: 21) published their analyses of current development at the Rheinmetall Group and their assessments and recommendations regarding its shares at regular intervals in fiscal 2015. As at December 31, 2015, eleven analysts gave Rheinmetall shares a "buy" rating, while a further eight recommended holding the shares. Only one analyst gave the shares a "sell" rating.

Investment recommendations for Rheinmetall shares as at December 31, 2015

	Rating	Institution	Headquarters
Buy		Alpha-Value	London
		Bankhaus Lampe	Düsseldorf
		Bankhaus Metzler	Frankfurt am Main
		Berenberg Bank	London
		DZ Bank	Frankfurt am Main
		Equinet	Frankfurt am Main
		Kepler Cheuvreux	Frankfurt am Main
		LBBW	Stuttgart
		Oddo Seydler	Frankfurt am Main
		Quirin Bank	Frankfurt am Main
		Warburg	Hamburg
Hold		Citigroup	London
		Commerzbank	Frankfurt am Main
		Credit Suisse	London
		Deutsche Bank	Frankfurt am Main
		Exane BNP Paribas	Paris
		HSBC	Düsseldorf
		Independent Research	Frankfurt am Main
		UBS	Frankfurt am Main
Sell		S&P Capital IQ	London



LETTER TO SHAREHOLDERS

RHEINMETALL ON THE CAPITAL MARKETS

REGULAR DIALOG WITH THE CAPITAL MARKET

Providing up-to-date information and ensuring continuity and transparency when preparing reports, as well as credibility and reliability, form the basis for our direct dialog and trusting relationships with institutional investors, private shareholders, potential investors and analysts. The aim of our 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 participants in the capital market. We held around 200 meetings with investors and analysts during the period under review. A large proportion of these took place at a total of 15 investor/analyst conferences and roadshows. We targeted major financial centers in Europe, including Frankfurt am Main, London, Paris and several North American financial centers. Numerous individual meetings were also held during investor visits and telephone conferences. The investor relations team – in many cases with the direct involvement of the Executive Board – not only provided comprehensive information on the economic environment and the current business situation, but also discussed issues such as current trends, the potential of products and technologies, growth opportunities and risks and existing and future challenges for the Rheinmetall Group with national and international business partners.

The invitation to the Capital Markets Day in Vienna was taken up by 22 analysts and investors. At the two-day event, Executive Board members and managers in the Defence and Automotive sectors provided comprehensive information on the operating business, strategy and prospects and were available for detailed talks. One important part of the event was a visit to the production facilities for logistics vehicles at Rheinmetall MAN Military Vehicles in Liesing near Vienna, where participants were able to learn about how military trucks are manufactured.

Other important dates in the investor relations calendar included telephone conferences on the quarterly reports and the accounts press conference and analyst conference on March 19, 2015, at which the results for the 2014 fiscal year were presented.

The Annual General Meeting is an important platform for dialog with private investors, who can also contact the Investor Relations department with questions by telephone, in writing or by e-mail all year round.

DISCLOSURES REGARDING THE AMOUNT OF THE SHARE OF VOTING RIGHTS

The Federal Financial Supervisory Authority (BaFin) not only monitors the reporting thresholds for ownership of shares (Section 21 of the German Securities Trading Act (WpHG)), but also requests notification when financial and other instruments are acquired that entitle the holder to purchase shares (Sections 25 and 25a WpHG). Rheinmetall AG notified the capital markets of this in accordance with Section 26 WpHG and also informed the general public on its website.

Voting rights notifications in accordance with Section 21 WpHG as at December 31, 2015

Shareholders	Reporting threshold	Total voting rights in %	Publication by Rheinmetall
Dimensional, Austin, TX, USA	3 %	3.01 %	8/22/2014
BlackRock, Inc., Wilmington, DE, USA	3 %	3.03 %	12/14/2015
Prudential, London, GB	3 %	3.60 %	09/04/2015

MONEY AND CAPITAL MARKET FINANCING

Rheinmetall did not borrow any external funds from the capital market for the long term in fiscal 2015. The only outstanding bond is therefore still the €500 million bond issued in 2010, which is due to mature in September 2017. It has a coupon of 5.25%, which is reduced to 4% with an investment grade issuer rating. Rheinmetall currently has a non-investment grade rating of Ba1 from Moody's. The Rheinmetall bond is authorized for trading on various German and international stock exchanges with the ISIN XS0542369219.

Rheinmetall bond 2010/2017

ISIN	Coupon	Maturing	Volume	Issue price	Price	Price
					12/31/2015	12/31/2014
XS0542369219	5.25%	2017	€500 million	99.122%	106.7%	109.5%
until 9/21/2014	4.00%					

The price of the bond fell over the course of 2015 from 109.6% at the beginning of the year to 106.7%. The yield dropped from 1.7% to 1.4% in the same period, following the general trend towards a decline in interest rates.

Price development of the Rheinmetall bond in 2015



Rheinmetall benefited from very low interest rates on the money market in 2015 with its €500 million commercial paper program. The bonds issued mainly to cover fluctuations in working capital during the year met with a great deal of interest from investors and were placed at historically low conditions.

SUMMARIZED
MANAGEMENT REPORT

CORPORATE GOVERNANCE STRUCTURE AND BUSINESS ACTIVITIES

BUSINESS ACTIVITIES

Rheinmetall is an international technology group specializing in security and mobility. Urbanization, demographic change, migration flows, globalization, climate change and the increasing frequency and intensity of conflicts and military disputes mean that efforts to improve security and mobility are constantly increasing. With its two sectors, Defence and Automotive, Rheinmetall fulfills these basic key needs of modern society. As a leading European systems supplier for armed forces technology, Rheinmetall Defence is a reliable partner to the armed forces of Germany, NATO and friendly nations. The Automotive sector is one of the world's leading automotive suppliers for engine systems and modules, with products from its well-known brands Kolbenschmidt, Pierburg and Motorservice.

STRUCTURE OF THE RHEINMETALL GROUP

Rheinmetall AG, the most senior management company in the Rheinmetall Group, is a listed stock corporation with its head office in Düsseldorf, which is entered in the commercial register of the District Court of Düsseldorf under the number HRB 39401. The Company bylaws were last amended on November 11, 2015.

The Executive Board of Rheinmetall AG is responsible for the Group's strategic orientation and development and for setting and monitoring corporate targets. Moreover, it is responsible for the introduction and further development of adequate management, control and monitoring processes, including the risk management system, internal control system, internal auditing and compliance management system and the allocation of resources. The respective management bodies of the subsidiaries are responsible for operational management of their units. They are supported in their tasks by the service and support functions that have been set up within the management holding company.

Rheinmetall AG's corporate structure

<i> Holding </i>					
Rheinmetall AG Executive Board					
<i> Central departments and service companies </i>					
Corporate Headquarters					
<i> Corporate sectors </i>			<i> Corporate sectors </i>		
Rheinmetall Defence Management Board Defence			Rheinmetall Automotive Executive Board of KSPG AG		
<i> Divisions </i>					
Combat Systems	Electronic Solutions	Wheeled Vehicles	Hardparts	Mechanics	Aftermarket
<i> Business units </i>					
Combat Platforms	Air Defence & Naval Systems	Logistic Vehicles	Bearings	Actuators	National
Weapon & Munition	Mission Equipment	Tactical Vehicles	Castings	Automotive Emission Systems	International
Protection Systems	Simulation & Training		Large Bore Pistons	Commercial Diesel Systems	
Propulsion Systems			Small Bore Pistons	Pump Technology	
				Solenoid Valves	

As at December 31, 2015

Rheinmetall AG holds direct or indirect stakes in 168 companies in Germany and abroad (previous year: 169) that belong to the Rheinmetall Group. A total of 136 companies (previous year: 139) are fully consolidated in the consolidated financial statements. 31 companies are carried at equity (previous year: 29). One joint operation (previous year: 1) was included in the consolidated financial statements of Rheinmetall AG on a pro rata basis. Details of the scope of consolidation can be found in the Notes to the consolidated financial statements on pages 129 to 130.

OPERATING SEGMENTS

The Rheinmetall Group's operating activities were split into six divisions in the reporting year, which were assigned to the two corporate sectors, Defence and Automotive:

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 Actuators Solenoid valves Water, oil and vacuum pumps
	Hardparts	Pistons Engine blocks and cylinder heads Plain bearings and bushes
	Aftermarket	Global replacement parts business

RHEINMETALL DEFENCE – HIGH-TECH PROTECTION FOR SOLDIERS ON DEPLOYMENT

Our Group's Defence sector is regarded in the defense and security industry as a leading provider of innovative products for German and international armed forces, and offers system and partial system solutions and a wide range of services for capability in the areas of mobility, reconnaissance, management, effectiveness and protection.

Rheinmetall Defence stands for many years of experience and innovation in armored vehicles, weapons and ammunition and in the areas of air defense and electronics – including for the requirements of the navy and air force and for internal security. 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 sector has a wide product portfolio of platforms and components, which are offered as individual and networked system solutions. This makes Rheinmetall Defence a strong and reliable partner to the German armed forces, their allies and friendly armies, along with civil national security forces.

All development, production and service activities are geared towards ensuring the best possible protection for soldiers on deployment. Rheinmetall Defence continuously sets new technological standards here: from vehicle, protection and weapon systems, through infantry equipment and air defense, to the networking of function sequences, electro-optics and simulation.

CORPORATE GOVERNANCE STRUCTURE AND BUSINESS ACTIVITIES

RHEINMETALL AUTOMOTIVE – INNOVATIVE DRIVE TECHNOLOGY FOR THE ENGINES OF TOMORROW

The Automotive sector with the management company KSPG AG is one of the world's major automotive suppliers, particularly in the areas of air management, emissions reduction and pumps and in the development, production and supply of replacement parts for pistons, engine blocks and plain bearings.

The core areas of expertise of companies in the Automotive sector lie in the reduction of emissions, pollutants and consumption, cooling and thermal management, downsizing and reduction of weight and friction in relation to combustion engines. This applies not only to passenger cars, but equally also to light and heavy commercial vehicles, off-road vehicles and large engines. Rheinmetall Automotive also works on drives for the electric and hybrid vehicles of the future.

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.

GLOBAL PRESENCE

Sustainable relationships with our customers have formed the basis of our business activities in the Defence and Automotive sectors for over a century. Rheinmetall's business activities are consistently aligned toward the three largest economic zones of Europe, the USA and Asia. With over 80 production plants, we are represented on all our major sales markets and have a presence in close proximity to our customers.

The companies in the Rheinmetall Group are strongly geared towards exports. The proportion of sales achieved abroad in 2000 was approximately 60%, whereas it now stands at 74% in 2015. We now employ 11,317 staff abroad (previous year: 11,041 employees), which represents 50% of our total workforce (previous year: 50.0%). This figure still stood at only 38% in 2002.

Key Defence and Automotive locations



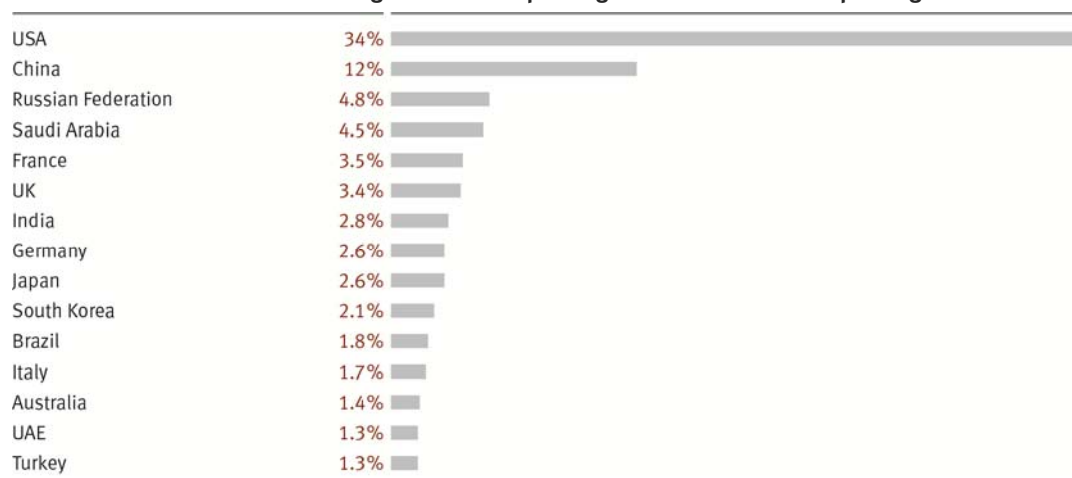
DEFENCE MARKETS

The world of the 21st century is facing a tense security situation and complex threats. Blurred boundaries between peace and war, military intervention, terrorism, streams of refugees on an unknown scale, organized crime and the consequences of the collapse of state structures, together with internal instability in countries in geopolitically sensitive regions, call for new answers to the significantly heightened challenges and constant risks associated with external and internal security and new and/or extended and powerful capabilities for international peace-keeping efforts.

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 many armed forces and new military deployment scenarios, which require armies to have an increased ability to react and to take action as well as increased readiness for duty and deployability, for example in order to ensure the security of allies.

The market potential for Rheinmetall Defence comes mainly from the defense budgets of customer nations. Rheinmetall Defence is still in an international growth market in the medium term, even though fluctuation in national defense budgets is increasing to varying degrees, depending on the security situation. The overall trend towards increased spending is partly due to the fact that the need for modernization in the armed forces remains high in many emerging and developing countries and is partly the result of new and complex challenges in terms of security and defense policy, which are resulting in additional investment in equipment and materials.

Share of the 15 countries with the highest defense spending in worldwide defense spending in 2014



Source: SIPRI World Military Expenditure

We will continue with the internationalization of the Defence sector, which has been successfully pursued for years. The sector's strategic priority still lies in expanding its local presence in promising growth regions. We continue to see particular potential in markets outside Europe, such as in the Middle East/North Africa region (MENA), Asia and Australia. In fiscal 2015 we achieved 68% of Defence sales with customers outside Europe, with a balanced mix of short-term and long-term systems activities.

In the global rankings of the sector news service "Defense News" from July 2015, Rheinmetall Defence was ranked 28th in 2014 based on sales during the fiscal year, as in the previous year.

CORPORATE GOVERNANCE

STRUCTURE AND BUSINESS ACTIVITIES

AUTOMOTIVE MARKETS

Worldwide automotive production of vehicles in the class up to 6.0 t has grown by an average of 3.5% per year since 2011. Despite the robust overall condition of the automotive industry, individual countries have experienced phases of weakness or even a decline in production figures, including some countries that are important to the automotive industry, such as Japan, France and Brazil. We are therefore not facing a homogeneous global market, but are required to respond to varying levels of volatility in demand in different regions.

The key factor influencing business development in the automotive supply industry is the development of production and sales figures of automotive manufacturers. This in turn generally depends on economic factors such as the overall economic situation, employment levels and available household income. However, demographic development, the degree of state regulation and customer preferences with regard to different forms of mobility also play a part. It is also becoming apparent, particularly in emerging economies, that the trend towards urbanization, the level of development and progress in the expansion of transport infrastructure have an impact on sales figures. In particular, ongoing strong trends towards more efficient use of fuels, reductions in emissions and alternative drive technologies have an impact on Rheinmetall Automotive's business activities.

Sales in the Mechatronics and Hardparts divisions primarily involve B2B transactions. We have only a relatively low number of internationally operating automotive manufacturers as potential customers. With production sites in the key economic areas of Western Europe, NAFTA and Asia, we are able to deal with virtually all customers at local level and develop appropriate customer relationships according to regional requirements.

We conclude master agreements on the supply of products with our major automotive customers, which do not generally stipulate defined sales volumes. Customers communicate order quantities to our companies through rolling delivery schedules. They have the option of amending requirements that have already been communicated and can thus adjust order volumes for each order deadline at relatively short notice. Our customers are also striving to minimize their procurement risks, for example by attempting to avoid "single sourcing", whereby a product is purchased from only one supplier. We therefore generally face tough competition, even during ongoing series production.

B2B business also dominates our relationships with buyers of products from our Aftermarket division. Various distribution channels are used for this. These include websites, call centers and catalogs, as well as training for mechanics. In addition to passing on technical expertise with the aim of strengthening customer loyalty, these further training courses also allow us to position ourselves as a provider of customized repair solutions.

In the "Global Top Automotive Supplier 2014" study produced by Berylls Strategy Advisors in May 2015, the Automotive sector was ranked 84th based on sales during fiscal 2014, compared with 82nd in 2013.

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 and the Council Common Position of the EU defining common rules governing control of exports of military technology and equipment of December 8, 2008 provide the licensing authorities with guidelines.

Legal regulations on exports of military equipment – The Federal Republic of Germany has one of the strictest export control systems in the world. These strict rules apply in particular to companies in the security and defense industry.

Export law makes a distinction between the following types of goods, which should be understood to refer not only to products, but also to technology and software:

Purely civilian goods

Goods with two intended uses

(so-called dual-use goods, which can be used for both civil and military purposes)

Military equipment

Purely civilian goods are not generally subject to any export restrictions. With a few exceptions, they can be exported without requiring a license.

The export of dual-use goods has been harmonized at the level of the European Union since 1995. Council Regulation (EC) No. 428/2009 of May 5, 2009 “setting up a Community regime for the control of exports, transfer, brokering and transit of dual-use items” (OJ of May 29, 2009, L 134, P. 1) applies here. A “common list of goods” lists all dual-use items that are subject to uniform control regulations in all EU countries. The transfer of these goods within the EU is free, apart from a few exceptions.

However, with respect to classic military equipment, there are essentially no harmonized regulations within the EU. There is a “Common Military List” for the EU, which more or less matches the corresponding lists of EU member states. However, there are no common legal regulations on exports of military equipment. This is linked to the Treaty on European Union (TEU). According to Art. 346 TEU, all member states can “take measures they consider necessary for the protection of their essential security interests”. In particular, decisions on “the production of weapons, ammunition and war materials or trading in these” are up to the respective national lawmakers. Although there are signs of efforts to harmonize regulations in the “Common Foreign and Security Policy”, these have not yet been implemented on a large scale within the EU. For this reason, exports of military equipment to other EU countries continue to require a license.

German regulations on military equipment – With regard to defense equipment, the Federal Republic of Germany distinguishes between war weapons and other types of military equipment. Switzerland and Austria use a similar classification system. However, the term “war materials” as used there is not synonymous with “war weapons”.

CORPORATE GOVERNANCE

STRUCTURE AND BUSINESS ACTIVITIES

Regulations on war weapons – The War Weapons Control Act (KWKG) lays down particularly strict rules. These are based on Art. 26 (2) of the Basic Law. This states that the manufacture, transportation and marketing of war weapons requires a license from the German government.

Finally, an annex to the KWKG, the War Weapons List, lists all items that are regarded as war weapons. War weapons include not only devices such as battle tanks, armored combat support vehicles and machine guns, but also certain types of ammunition such as tank or artillery ammunition. As well as complete devices and ammunition systems, certain assemblies and components such as the turret and chassis of a battle tank or the projectile, warhead or fuse for certain types of ammunition are defined as war weapons.

The KWKG includes a comprehensive licensing system for war weapons. Almost every activity relating to these goods requires a license. A license is required for the production of war weapons, both during development and in series production. Transfer of the actual control over war weapons also requires a license, as does the purchasing of these weapons. The transportation of war weapons within a country is also subject to licensing. Above all, the importing, exporting and transit of war weapons requires a license. Two licenses are actually necessary for exporting war weapons, one license in accordance with the KWKG and one export license in accordance with the Foreign Trade and Payments Act (AWG)/Foreign Trade and Payments Regulation (AWV). Moreover, the transportation of war weapons using German ships or aircraft outside German territory requires a license. Trading and brokerage transactions involving war weapons that are not intended to affect German territory are also subject to licensing.

Dealings in war weapons are strictly controlled. Each individual movement of war weapons must be entered in the “War Weapons Book”, which must be submitted to the supervisory authority, the Federal Office of Economics and Export Control (BAFA), for checking on a half-yearly basis. In addition, the BAFA conducts an external on-site audit every two years of each company that keeps war weapons, in which it checks not only whether inventories match the entries in the War Weapons Book, but also whether a corresponding receipt is available for each entry.

Regulations on other military equipment – Other types of military equipment are listed in Part I Section A of the Export List, an annex to the AWV. In particular, the export of these goods requires a license. Licenses are also needed for certain types of services and technical support and for some trading and brokerage transactions. It is generally possible to import other types of military equipment without a license.

Decision of the German government on exports of military equipment – The German government makes decisions on exports of military equipment based on its “Political Principles for the Export of War Weapons and Other Military Equipment”. A key component of these principles is the “European Union’s Code of Conduct for Exports of Weapons”. This contains eight test criteria (e.g. observance of human rights, internal situation, compliance with international obligations in the country of receipt) and operational regulations that apply to decisions on which countries military equipment may be exported to.

AUTOMOTIVE REGULATORY ENVIRONMENT

Mobility remains a global megatrend. It is usually associated with the use of combustion engines, which in turn is inextricably linked with emissions of pollutants. Societies and governments are becoming increasingly insistent in their demands for environmentally friendly mobility. Governments around the world have therefore imposed limits on emissions of pollutants and greenhouse gases with the aim of improving or maintaining air quality. In particular, the focus has been on emissions of hydrocarbons, nitrous gas, carbon monoxide, carbon dioxide and particulates caused by traffic.

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	0.05
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 2016

Increasingly stringent standards have gradually been introduced in the past in order to reduce emissions of hazardous substances. However, this process has not yet been concluded. On the contrary, international regulations on the maximum permissible limits for emissions will become even stricter in the next few years. The focus is on a significant reduction in nitrous gases, carbon monoxide and hydrocarbons. The planned standards require a reduction of up to 50% in the corresponding emissions.

Emissions standards up to 2023 in selected regions/countries

Country /region	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Europe	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		Japan '09 with WLTP							
China	Beijing	Euro 5								
	Other	Euro 4			Euro 5					
South Korea	Euro 6									
India	Conurbation	Euro 4			Euro 5			Euro 6		
	Other	Euro 3	Euro 4		Euro 5			Euro 6		
Indonesia	Euro 2		Euro 4							
Malaysia	Euro 2	Euro 3								
Thailand	Euro 4									
Brazil	Euro 5								Euro 6	

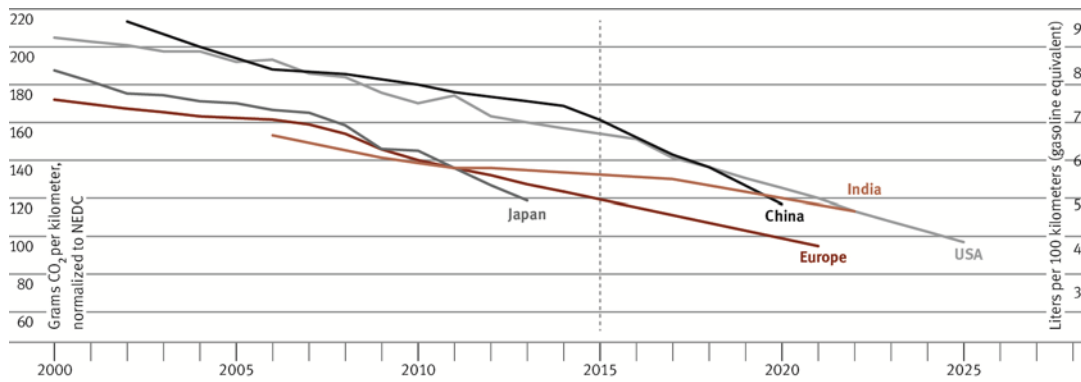
Source: IHS Automotive, Emission Overview, January 2016

CORPORATE GOVERNANCE

STRUCTURE AND BUSINESS ACTIVITIES

For emissions of the greenhouse gas carbon dioxide (CO₂), the strictest limits worldwide currently apply and will continue to apply in future in the European Union. An upper limit of average emissions of 130 g CO₂ per kilometer currently applies to all new cars in Europe, which corresponds to consumption of around 5.6 liters of gasoline per kilometer or 4.9 liters of diesel per kilometer.

Development of limits for CO₂ emissions and fuel consumption of passenger cars in selected countries/regions in g CO₂/km and in liters of gasoline/100 km



Source: The International Council On Clean Transportation, Passenger car CO₂ emissions and fuel consumption, normalized to NEDC, updated September 2015

Automotive manufacturers will be punished for failing to meet this limit with gradually increasing fines per excess gram. For the first gram, €5 must be paid for every car sold; this then increases to €15 for the second gram, €25 for the third gram and €95 per gram from the fourth gram upwards. From 2019, the fine will amount to €95 per excess gram, starting from the first gram.

In the medium term, the European Commission has adopted a target of 95 g CO₂/km by 2021 (consumption of 4.1 liters of gasoline per 100 kilometers or 3.6 liters of diesel per 100 kilometers).

The maximum limit for light commercial vehicles in Europe has been set at 175 g/km or 6.6 liters of diesel per 100 kilometers by 2017. This limit will be reduced by 16 % to 147 g/km by 2020, with a fuel consumption of around 5.6 liters of diesel per 100 kilometers.

The CO₂ limit for the automotive industry in the USA will be 125 g/km in 2020. This will then be reduced to 97 g/km in 2025, the same level as the EU limit for 2021. The maximum limit in Japan will be 122 g/km in 2020, while China is discussing a limit of 117 g/km.

Even before it became known that an automotive manufacturer had been rigging emissions tests for diesel vehicles on a massive scale, EU policy was looking at the obvious discrepancy between the consumption figures obtained in laboratory tests and those obtained when vehicles were used on the road.

At present, EU standard values for fuel consumption and emissions of pollutants and CO₂ must be calculated in accordance with the New European Driving Cycle (NEDC). This laboratory test was introduced in 1996 and is now regarded as outdated, in view of the technical progress that has been made in vehicle construction. The NEDC will therefore be replaced by the Worldwide Harmonized Light Vehicles Test Procedure (WLTP), which is more modern in terms of the standards it sets and the process that is followed, from 2017. The switch will lead to an increase in the figures reported for consumption and the emissions measured. The EU is therefore planning to convert the NEDC-based maximum limit of 95 g/km for 2020 to the new conditions in accordance with the WLTP standard. It plans to avoid tightening the target.

As even the measurements taken according to the new WLTP standard will not correspond to actual conditions on the road in all cases, the EU agreed in May 2015 to supplement laboratory measurements with tests during real use on the road, a "real driving emissions test", from 2017. With regard to emissions of nitrous gases, which are particularly problematic with diesel vehicles, a technical committee of the EU has supplemented the bill submitted to the European Parliament by stating that the values measured will be permitted to be 2.1 times higher than the laboratory values during a two-year transition period lasting until 2019 and that they will still be allowed to be 1.5 times higher than the laboratory values from 2020 onwards. The members of the European Parliament adopted this proposal from the Commission in February 2016.

The continuing trend towards individual mobility – particularly in emerging countries – combined with demands from society and governments to make this more environmentally friendly, taking into account the effects of global climate change, are opening up major growth opportunities for companies in the Automotive sector as developers and suppliers of products relating to combustion engines. With our technical innovations, we will help our customers to comply with standards, regulations and laws on schedule.

CORPORATE GOVERNANCE

STRUCTURE AND BUSINESS ACTIVITIES

STRATEGIC DEVELOPMENT GEARED TOWARDS PROFITABLE GROWTH

We will continue to pursue Rheinmetall's strategic development as a strong international partner for mobility and security with a focus on profitable growth. The two corporate sectors, Automotive and Defence, have potential for organic growth. These growth opportunities result from expected positive developments in the respective markets, which – in relation to our product ranges in both sectors – are supported by the current regulatory and political framework, as well as the innovations we have initiated in our product portfolios in recent years at considerable expense.

Our "Rheinmetall 2015" strategy program, which ran for three years and was intended to improve our internationalization, innovative strength, speed of innovation and cost efficiency, has been implemented and was concluded on schedule in the last fiscal year. One of the main aims of this program was to prepare Rheinmetall for the implementation of growth opportunities for Automotive and Defence and to create an economically stable basis for this.

In the **Defence** sector, the international security situation, which is fraught with uncertainty, and the growing number of conflicts are leading to a turnaround in the development of defense budgets. Experts anticipate a rise in defense spending in the coming years, and not only for countries in the MENA region and the Asia-Pacific region; slight growth in budgets is also expected again in Europe. As part of the continuation of our internationalization strategy, we will focus on markets that we can responsibly supply and that promise sustainable growth according to industry data and our own assessment. These are countries in the MENA region and in Asia, Australia, and selected European countries that we have not yet supplied or have supplied only to a limited extent, such as Poland and Turkey. We will also take advantage in future of opportunities arising from the formation of partnerships with local suppliers.

We expect annual growth of more than 5% in our Defence sector in the medium term. This expectation for growth is based not least on a very high order backlog, which is more than double our current annual sales. This growth, together with the effects of measures implemented in the last few years to improve cost efficiency, are expected to lead to a gradual increase in profitability in the medium term. In the medium term we are aiming for an EBIT margin of up to 7% in Defence business, compared with 3.5% last year.

As well as entering new markets, we will continue to develop our product range in the light of changing threats, for example in the field of armored vehicles and armaments for them, or will incorporate new technologies such as laser technology into our products.



The **Automotive** sector's growth prospects are focused on global expansion of automotive production, and the sector is already present on all the world's major automotive markets – Europe, the USA, China and India. Analysts at IHS Automotive currently anticipate worldwide growth in the light vehicle segment of about 3.2% to around 91 million vehicles in 2016.

We wish to participate in the forecast expansion of automotive production and achieve growth at Rheinmetall Automotive that slightly exceeds growth achieved by the market as a whole. Taking into account the joint ventures in China, around a third of sales at Rheinmetall Automotive currently come from outside Europe. We want to expand this share systematically, primarily by continuing our internationalization strategy in the Mechatronics division. We will continue to focus on the markets in China and India in particular. Assuming that the economy and market environment remain stable, we are aiming to stabilize Rheinmetall Automotive's EBIT margin at around 8%, a figure we achieved for the first time in fiscal 2015.

As well as market growth driven purely by the number of units, our Automotive sector will also benefit from mandatory regulations on gasoline consumption (CO₂ reduction) and emissions of pollutants. These will cause the number, complexity and value of our products that are used per vehicle to increase, which will help automotive manufacturers to comply with legal requirements. We want to increase the proportion of the Automotive sector's total sales achieved with products that help to reduce emissions and gasoline consumption around the drive train to 60% in the current fiscal year. The trend towards hybridization, i.e. a combination of conventional and electric drives, can make an important contribution to this, as it paves the way for the integration of additional products from our portfolio such as electric pumps.

In the medium term, the Automotive sector's research and development strategy is geared towards the minimization of risk with regard to dependence on certain types of drives (drive neutrality). That means that we will tailor our development activities, and consequently also our production capacity, to foreseeable demand for gasoline, diesel, hybrid and electric drives and will continue in future to make our product range less dependent on applications relating purely to engines and on classic automotive applications in general, as we have been doing for the last few years.



CORPORATE GOVERNANCE

STRUCTURE AND BUSINESS ACTIVITIES

CORPORATE MANAGEMENT

The Executive Board of Rheinmetall Aktiengesellschaft, which comprised three members in the year under review, is the governing body of the Rheinmetall Group. The Supervisory Board, which consists of 16 members and is based on joint representation in accordance with the provisions of the 1976 German Codetermination Act, appoints, advises and monitors the Executive Board. The Executive and Supervisory Boards work together 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. Further details can be found in the corporate governance report on pages 33 et seq.

CONTROL PARAMETERS: EARNINGS POWER, PROFITABILITY, FINANCIAL SCOPE

At the Rheinmetall Group, the Defence and Automotive sectors are controlled and the economic success of the operational entities is assessed by means of the key figures of sales, operating result (EBIT before special items), EBIT and EBT.

Profitability is measured 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).

Operating free cash flow is included in target agreements with managers as an additional control and management parameter.

Central management indicators

		2015	2014
Sales	€ million	5,183	4,688
Operating result	€ million	287	160
EBIT	€ million	287	102
EBT	€ million	221	22
Return on capital employed (ROCE)	in %	10.1	3.9

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.

CORPORATE GOVERNANCE AT RHEINMETALL

Rheinmetall has traditionally been committed to a responsible, fair and reliable corporate policy which is geared towards the use and expansion of entrepreneurial potential, achieving medium-term financial targets and increasing the value of the Company on a systematic and sustainable basis. The law on stock corporations, capital market law and the right of co-determination, the Company bylaws and the German Corporate Governance Code, which is based on internationally recognized standards, form the basis for the organization of management and monitoring at the Company, with the aim of making structures transparent and thus strengthening the trust of national and international investors, business partners, analysts, media, employees and the public in Rheinmetall AG's business policy, management and supervision and securing it in the long term.

ANNUAL GENERAL MEETING

Shareholders of Rheinmetall AG exercise their rights within the framework of the options provided by law or the Company bylaws before or during the Annual General Meeting, which is convened by the Executive Board or Supervisory Board as prescribed by law, or when it appears necessary in the interests of the Company.

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 the Company's website, on which any counter-motions or nominations from shareholders will also be published. Each share grants one vote in ballots. This excludes treasury shares held by the Company.

The Company's Annual General Meeting took place on May 12, 2015 in Berlin. During voting, 46.47% of the share capital was represented (previous year: 56.51%). Shareholders and shareholder representatives voted with significant majorities of between 92.8% and 99.9% in favor of the four draft proposals from management on the agenda. Information about attendance and the results of votes were published online on Rheinmetall AG's website after the event.

STRUCTURE AND FUNCTION OF THE EXECUTIVE BOARD

The Executive Board is responsible for the overall management of the Company and bears full responsibility for running its business in accordance with the provisions of the relevant laws, the Company bylaws and the applicable rules of procedure and taking into account the resolutions of the Annual General Meeting. In accordance with the rules of procedure for the Executive Board, each member of the Executive Board manages the area of responsibility assigned to him under the business distribution plan independently and on his own responsibility, whereby the Executive Board as a whole must be informed on an ongoing basis of key processes and developments relating to business and important measures. Any matters that are of fundamental importance or that have far-reaching consequences require a resolution to be passed by the Board as a whole.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

In accordance with the Supervisory Board's decision of August 27, 2015, the Executive Board of Rheinmetall AG, which comprised three members as at December 31, 2015, will not include any women up to June 30, 2017. The Supervisory Board believes that the current members of the Executive Board are the most suitable candidates to fill the respective posts, in terms of both their personal qualities and their professional qualifications. Moreover, the Supervisory Board considers continuity with regard to the Executive Board members who are responsible for individual areas to be a key component in the economic success of Rheinmetall AG.

Responsibilities of members of the Executive Board of Rheinmetall AG

	Armin Papperger	Horst Binnig	Helmut P. Merch
Corporate sector	Defence	Automotive	
Central departments	Personnel		Controlling
	Corporate Communications		Accounting
	Corporate Compliance		Treasury
	Law		Tax
	Internal Auditing		IT

The Executive Board decides on basic issues relating to corporate strategy and business policy and on annual and multi-annual planning. It ensures effective management of opportunities and risks as well as risk controlling at the Company, implements appropriate measures to ensure that laws, provisions, official regulations and internal corporate guidelines are observed and helps to ensure that subsidiaries comply with these. Furthermore, the Executive Board bears in mind diversity when filling management positions at the Company and makes sure that adequate attention is given to women.

Details of cooperation between the Executive and Supervisory Boards can be found in the Company bylaws and the rules of procedure for the Supervisory Board of Rheinmetall AG, which govern transactions and measures requiring approval and the Executive Board's information and reporting requirements. The Executive Board reports to the Supervisory Board regularly, promptly and comprehensively on all matters relating to strategy, planning, business performance, the risk situation, the risk management system and compliance that are relevant to the Company. On the basis of these reports, the Supervisory Board monitors the legality, correctness and economic efficiency of management by the Executive Board.

The Chairman of the Supervisory Board shall be informed immediately by the Executive Board of any important events or business developments that could have a significant influence on the Company's position.

STRUCTURE AND FUNCTION OF THE SUPERVISORY BOARD

In accordance with Sections 96 (1) and (2) and 101 (1) AktG in conjunction with Section 7 (1) No. 2 of the 1976 German Codetermination Act, the Supervisory Board of Rheinmetall AG comprises eight shareholder representatives and eight employee representatives, at least 30% of whom are women and at least 30% of whom are men, who are generally elected for five years. When candidates are proposed for election to the Supervisory Board, attention is paid to their professional qualifications and personal skills as well as to legal regulations on diversity in the composition of the Board and to independence as defined by the German Corporate Governance Code. 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. It advises the Executive Board on the management of the Company and monitors its management activities. Supervisory Board meetings are held in accordance with the provisions of the German Stock Corporation Act (AktG). As a general rule, four Supervisory Board meetings take place each calendar year, which are attended by members of the Executive Board unless otherwise stipulated by the Chairman of the Supervisory Board.

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 debates possible improvements in an open discussion and decides on any measures.

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

COMMITTEES

The members of the four 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 in each case. The composition and tasks of committees are set out in the rules of procedure for the respective committees.

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 the compliance management system. 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 in accordance with Section 27 (3) of the German Codetermination Act (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.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

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 Supervisory Board is regularly informed by the Supervisory Board Chairman in the subsequent plenary meeting of the activities of the committees and of the content and outcome of discussions held in the respective committee meetings.

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 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. To ensure the further prevention of potential conflicts of interest, 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.

Three women belonged to the Supervisory Board in the year under review: two female employee representatives and one female shareholder representative. At the Supervisory Board meeting on August 27, 2015, the shareholder representatives on the Supervisory Board announced their decision to vote separately for the filing of an objection in accordance with Section 96 (2) Sentence 3 of the German Stock Corporation Act (AktG) against the fulfillment of gender quotas as defined by Section 96 (2) Sentence 2 AktG. The nominations for the forthcoming election of shareholder representatives at the Annual General Meeting on May 10, 2016 provide for the appointment of another woman to the Supervisory Board of Rheinmetall AG, which means that the regulation on a minimum quota for women and men on the Supervisory Board, which came into force in May 2015 and must be implemented from January 2016, will be complied with.

REMUNERATION OF BOARD MEMBERS

The basic components of the remuneration system and remuneration for individual members of the Executive and Supervisory Boards are explained on pages 43 et seq. of the remuneration report, which forms part of the summarized management report.

DIRECTORS' DEALINGS

Any transactions involving shares in Rheinmetall AG that have been carried out by members of the Executive and Supervisory Boards or related parties (directors' dealings in accordance with Section 15a WpHG) have been published on the Company's website immediately after Rheinmetall AG became aware of them. Detlef Moog, a member of the Supervisory Board of Rheinmetall AG, informed the Company in July 2015 that he had sold 2,000 Rheinmetall shares at a price of €42.30 per share via the Stuttgart stock exchange.

As at December 31, 2015, members of the Supervisory Board and Executive Board and related parties held 408,113 shares, representing 1% of the share capital (2014: 387,593 shares or 0.9%). The Executive Board held 67,437 shares or 0.2% (2014: 54,993 shares or 0.1%), while the Supervisory Board held 340,676 shares or 0.8% (2014: 332,600 shares or 0.8%).

D&O INSURANCE

A D&O insurance policy (Directors' and Officers' liability insurance) has been taken out for 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 in accordance with Section 93 (2) AktG.

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 113 to 115.

QUOTAS FOR THE NUMBER OF WOMEN

The law on the equal entitlement of women and men to hold management positions in the private sector and in public service, which was passed by the German Bundestag on March 6, 2015, regulates the stipulation of targets for quotas for the number of women on governing bodies and at senior levels of management.

The Rheinmetall Group regards the employment of women, particularly in management positions, as a natural and important component of its diversity and an opportunity for further development. The employment of women in management and in other leadership roles will in future be promoted more strongly and any existing restrictions will be removed. This will lead to a lasting change in the corporate culture. This process will have to take into account better ways of balancing work and family life.

Nevertheless, vacant positions will continue to be filled with the most suitable candidate in terms of professional qualifications and personal qualities, irrespective of their gender. In addition, continuity in terms of the individuals occupying key positions in senior management must be ensured in the Company's interests. It is therefore not possible to change the people holding these positions on the basis of gender alone.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

When filling vacant positions, the selection of primarily internal candidates is also encouraged where possible, as experience has shown that these people have worked for the Rheinmetall Group longer on average and have tended to be more successful, which prevents fluctuations in management positions and the associated temporary destabilization. In the medium and long term, internal talent-fostering programs will therefore concentrate more on preparing suitable women for future management roles. At the same time, the internal manager development program will set ambitious targets for the respective line managers for the participation of suitable women in these programs.

The following targets have been specified for the first two levels of management below the Executive Board for the period up to June 30, 2017, based on the actual situation as at July 1, 2015:

	June 30, 2017	July 1, 2015
Rheinmetall AG		
First management level below the Executive Board	0 %	0 %
Second management level below the Executive Board	8.3 %	8.3 %

For subsidiaries that are subject to codetermination, the targets and deadlines that have been stipulated for raising the proportion of women on supervisory boards, management bodies and the two levels of management below the management body have been published on the Company's homepage.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Responsible handling of opportunities and risks is part of good corporate governance. The risk management system, including the accounting-related internal control system, is presented in the report on opportunities and risks on pages 85 to 99.

ACCOUNTING AND AUDITING

Rheinmetall AG prepares its single-entity financial statements in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act. The Company's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as required in the European Union. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Frankfurt am Main, Düsseldorf branch, was elected by the Annual General Meeting on May 12, 2015 to audit the single-entity and consolidated financial statements for 2015. The Supervisory Board had previously satisfied itself that the auditor was independent.

TRANSPARENT REPORTING

In a time in which markets are interconnected and the flow of information is becoming increasingly globalized, communications and the quality of information are becoming more and more important to the Company's success. Rheinmetall communicates openly, actively and in detail. Investors, potential investors, customers, employees, lenders, business partners, analysts and interested members of the public are informed regularly, promptly and without discrimination of the Company's economic and financial situation, key developments, significant changes in business and any facts of relevance to valuation on the Internet at www.rheinmetall.com. Facts and circumstances that may influence the share price on the stock market are published immediately in ad hoc notifications in accordance with the legal regulations. Rheinmetall publishes securities transactions that are subject to reporting requirements in the media required by law and on its website.

DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 AKTG

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

1. that Rheinmetall AG has carried out the recommendations of the Commission of the German Corporate Governance Code as amended on June 24, 2014, officially communicated in the electronic Federal Gazette on September 30, 2014, since it issued its last declaration of conformity dated August 28, 2014, with one exception.

Exception to 1.: 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.

2. that Rheinmetall AG has carried out and will continue to carry out the recommendations of the Commission of the German Corporate Governance Code as amended on May 5, 2015, officially communicated in the electronic Federal Gazette on June 12, 2015, since it issued its last declaration of conformity dated August 28, 2014, with two exceptions.

Exception to 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.

Exception to 2.: Regulatory limit on membership of the Supervisory Board

The Supervisory Board of Rheinmetall AG has decided not to stipulate any regulatory limit on membership of the Supervisory Board beyond the existing age limit for Supervisory Board members. It is convinced that a rigid regulatory limit on membership of the Supervisory Board, without looking at the respective individual Supervisory Board members, is not a suitable means of ensuring the further improvement and professionalization of the work of the Supervisory Board. Instead, it is hoped that a flexible composition for the Supervisory Board, including members who have belonged to the Board for different periods and have different experience, and a practical focus on a mixed age structure when searching for candidates will better serve the Company's interests. Finally, the Company has for some time published information on the length of time that the respective members have belonged to the Supervisory Board, thus enabling shareholders to decide for themselves whether individual Supervisory Board members are suitable for re-election.

Düsseldorf, August 2015
 Rheinmetall Aktiengesellschaft
 The Supervisory Board The Executive Board"

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

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 amounted to €111,510,656 at the balance sheet date of December 31, 2015 (previous year: €101,373,440), and was divided into 43,558,850 (previous year: 39,559,000) 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, which do not entitle the Company to any rights, particularly any voting rights.

The Annual General Meeting elects 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 at the 2015 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 are subject to a four-year lockup period. However, this does not apply to retired members of the Executive Board. Eligible staff in Germany and other European countries may purchase Rheinmetall AG shares on preferential terms as part of the employee share purchase program. A two-year lockup period applies to these shares.

In the case of acquisition of a defense technology company in Germany, Sections 60 et seq. of the German Foreign Trade and Payments Regulation (AWV) allow the German government to prohibit foreign investors from acquiring 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

The Company did not receive notification from any investors during the reporting year stating that their shareholdings had risen above the threshold of 10 %.

Rheinmetall AG is not aware of any indirect shareholdings as defined by Section 22 of the German Securities Trading Act (WpHG) that exceed 10% of the voting rights.

SHARES WITH SPECIAL RIGHTS CONFERRING CONTROLLING PRIVILEGES

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

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 have 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 6, 2014 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 5, 2019, up to an aggregate €50 million (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.

For the purpose of granting shares 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, a contingent increase of up to €20 million was carried out on the Company's common stock (contingent capital) by way of a resolution of the Annual General Meeting on May 6, 2014. Furthermore, the Executive Board of the Company was authorized by resolution of the Annual General Meeting of May 6, 2014 to issue interest-bearing bearer bonds with warrants and/or convertible bonds with a total nominal value of €800 million with a term of up to 20 years on one or several occasions up to May 5, 2019, 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 purchase of treasury stock is governed by Section 71 AktG. The Annual General Meeting on May 6, 2014 authorized the Executive Board, 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, up to May 5, 2019. 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.

AGREEMENTS TERMINABLE UPON A CHANGE OF CONTROL

In September 2015, 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 person or several persons acting in concert, or if the person or persons acting in concert fulfill the conditions for appointing members of the Supervisory Board, the agreement states that negotiations must be held on the continuation of the credit facility, after which the terms and conditions of the agreement may be terminated in whole or in part.

In September 2010, Rheinmetall AG issued a €500 million bond maturing in September 2017. Upon a change of control, bond holders may call in the bond and request redemption of the bond principal plus interest. In October/November 2014, Rheinmetall issued promissory note loans for a total of €179 million with terms of five, seven and ten years respectively. 39 national and international investors subscribed to these. 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.

CORPORATE GOVERNANCE

REMUNERATION REPORT

REMUNERATION OF THE EXECUTIVE BOARD

Rheinmetall AG's pay system is geared towards sustainable corporate development. Using an assessment basis spanning several years, incentives are provided for a sustainable corporate management strategy, in particular as part of the long-term incentive program (LTI). The Supervisory Board of Rheinmetall AG resolves upon and regularly reviews the amount of Executive Board remuneration and any significant employment contract elements following preparation work carried out by the Personnel Committee. The Supervisory Board has performed an extensive review of the remuneration system of the Executive Board on the basis of all relevant information, and has looked in particular at whether the total remuneration of Executive Board members is proportionate to the scope of responsibilities of the Executive Board member in question, his personal performance and the economic situation and success of the Company in comparison with industry peers and ensuring that this remuneration does not exceed standard remuneration unless there are special reasons for this. Remuneration is calculated in such a way as to ensure that it is competitive on a national and international scale, thus offering an incentive for dedicated and successful work. The Supervisory Board most recently reviewed the suitability of current Executive Board remuneration at its meeting on December 10, 2014 and adjusted it to standard market conditions.

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, an LTI has also been introduced. 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. 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.

CORPORATE GOVERNANCE

REMUNERATION REPORT

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 that is intrinsic to the system. 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.

Average adjusted EBT for fiscal 2014 totaled €140 million. Average adjusted EBT totaled €146 million for fiscal 2015.

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 in the following cases: (i) for 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. Mr. Helmut P. Merch was granted a special bonus of €200,000 in fiscal 2015 for his outstanding performance and his special dedication during the restructuring phase in 2013/2014. His active initiation and support of various restructuring programs in 2013 and 2014 allowed significant savings to be achieved. The extraordinary success of these restructuring measures is reflected in the Company's key ratios.

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 2015 or in the previous year.

TOTAL REMUNERATION OF THE EXECUTIVE BOARD

Individual details of the remuneration of the Executive Board in fiscal 2015 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		Horst Binnig		Helmut P. Merch	
	CEO from January 1, 2013 ¹		Member of the Executive Board from January 1, 2014		Member of the Executive Board from January 1, 2013	
	2015	2014	2015	2014	2015	2014
Fixed remuneration	840	660	510	360	582	462
Fringe benefits	41	23	22	38	28	27
Total	881	683	532	398	610	489
One-year variable remuneration (STI)	1,120	-	659	450	976	-
Multi-annual variable remuneration (LTI)	803	616	402	308	402	308
Total	2,804	1,299	1,593	1,156	1,988	797
Pension expenses	666	1,363	570	836	594	299
Total remuneration	3,470	2,662	2,163	1,992	2,582	1,096

¹ Member since January 1, 2012

There is no minimum amount of variable remuneration, although there is an upper limit. Remuneration from the STI can amount to a maximum of €1,120,000 for the CEO Armin Papperger, €680,000 for Horst Binnig and €776,000 for Helmut P. Merch. Remuneration from the LTI can amount to a maximum of €1,650,000 for the CEO Armin Papperger and a maximum of €825,000 each for Horst Binnig and Helmut P. Merch.

Inflows € '000

	Armin Papperger		Horst Binnig		Helmut P. Merch	
	CEO from January 1, 2013 ¹		Member of the Executive Board from January 1, 2014		Member of the Executive Board from January 1, 2013	
	2015	2014	2015	2014	2015	2014
Fixed remuneration	840	660	510	360	582	462
Fringe benefits	41	23	22	38	28	27
Total	881	683	532	398	610	489
One-year variable remuneration (STI)	1,120	-	659	450	976	-
Multi-annual variable remuneration (LTI)						
Payment	438	336	219	168	219	168
Transfer of shares	365	280	183	140	183	140
Total	2,804	1,299	1,593	1,156	1,988	797
Pension expenses	-	-	-	-	-	-
Total remuneration	2,804	1,299	1,593	1,156	1,988	797

¹ Member since January 1, 2012

On the basis of the reference share price of €45.00 for the end of February 2015, a total of 12,444 shares were transferred to members of the Executive Board of Rheinmetall AG who were in office in fiscal 2014 on April 2, 2015 as part of the LTI for fiscal 2014. The CEO, Armin Papperger, received 6,222 shares, while Horst Binnig and Helmut P. Merch each received 3,111 shares. The transfer of shares for the LTI for fiscal 2015 will take place at the beginning of April 2016 based on the reference share price as at the end of February 2016.

PENSIONS

Since January 1, 2014, the defined benefit pension commitments in the form of pension amounts agreed on the basis of individual contracts have been replaced by modular defined benefits including a transitional arrangement. A transitional arrangement also applies to Executive Board members who are currently in office. The amount of the defined benefits is determined on the basis of a proportion of the annual target salary, which is currently an average of 20%. The retirement age has been fixed at the age of 63. The Company has set up provisions for future claims.

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

REMUNERATION REPORT

Members of the Supervisory Board received the following remuneration for fiscal 2015:

€		2015	2014
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	165,000
Roswitha Armbruster	Member of the Supervisory Board and member of the Audit Committee	75,000	67,562
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	75,000
Daniel Hay	Member of the Supervisory Board	60,000	39,288
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
Dagmar Muth	Member of the Supervisory Board (since July 1, 2015) and member of the Mediation Committee (since December 9, 2015)	31,192	-
Professor Dr. Frank Richter	Member of the Supervisory Board and member of the Mediation and Nomination Committees	90,000	90,000
Markus Schaubel	Member of the Supervisory Board	60,000	30,247
Sven Schmidt	Member of the Supervisory Board	60,000	30,247
Harald Töpfer	Member of the Supervisory Board and member of the Mediation Committee (up to June 30, 2015)	37,192	75,000
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	75,000
Total		1,343,384	1,350,000

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

The Rheinmetall Group grew strongly in fiscal 2015 in terms of sales and earnings. Both the Defence and Automotive sectors posted rising sales and disproportionate improvements in operating earnings.

Rheinmetall Group – actual vs. forecast business performance in 2015

		2015	Forecast Q3/2015	Forecast Q2/2015	Forecast Q1/2015	Forecast 2015	2014
Sales	€ billion	5.2	5.1	5.0	4.8 - 5.0	4.8 - 5.0	4.688
Operating result	%	5.5	Slightly above 5	5	5	5	€160 mill.

Following consolidated sales of €4.7 billion in fiscal 2014, in March 2015 we forecast that we would achieve consolidated sales of between €4.8 billion and €5.0 billion in the year under review, with a contribution of between €2.3 billion and €2.4 billion from Rheinmetall Defence and between €2.5 billion and €2.6 billion from the Automotive sector. At that time, we planned to achieve an operating margin of around 5% for the Group, with a figure of 3% anticipated for Defence and a margin of 8% for Rheinmetall Automotive.

In view of our positive business performance in the first half of 2015, with sales up 12% year on year at €2,394 million, we gave a more specific forecast in August 2015 of consolidated sales of €5.0 billion for 2015, at the upper end of the range of €4.8 billion to €5.0 billion that had been predicted previously. We expected sales for the Defence and Automotive sectors to be at the upper end of the previously forecast ranges in the year under review: €2.4 billion for Defence, compared with the previous forecast of €2.3 billion to €2.4 billion, and around €2.6 billion for Rheinmetall Automotive, following the earlier forecast of €2.5 billion to €2.6 billion. We confirmed our outlook for operating earnings of the Rheinmetall Group and the Defence and Automotive sectors in 2015.

Based on the further positive development of sales in the Defence and Automotive sectors, we raised our forecast for the Rheinmetall Group's sales in 2015 again slightly to €5.1 billion in November 2015. Following the most recent estimate of sales of €2.4 billion at Rheinmetall Defence, we anticipated sales of around €2.5 billion for fiscal 2015 at that time. We confirmed our annual sales forecast for the Automotive sector, which had been raised to €2.6 billion in August 2015. In the Defence sector we expected an operating margin of just over 3%, having previously predicted a margin of 3%. For the Automotive sector, we still expected to achieve the forecast margin of 8%. Taking account of holding costs of approximately €20 million, this resulted in a margin expectation for the Rheinmetall Group of slightly above 5%, compared with the previous forecast of 5%.

Operating segments – actual vs. forecast business performance in 2015

	Sales			Operating result		
	2015	Target 2015	2014	2015	Target 2015	2014
Defence	€2.6 billion	€2.3-2.4 billion	€2,240 million	3.5 %	3 %	(0,4) %
Automotive	€2.6 billion	€2.5-2.6 billion	€2,448 million	8.3 %	8 %	7.5 %

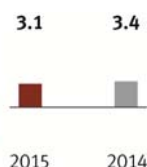
ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

Real economic growth %

Key statements on economic development in 2015

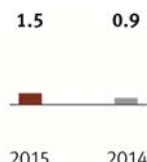
WORLD



Slowdown in expansion of the global economy, but temporary fears of an economic slump are unrealized

- Mature economies achieve moderate growth overall, but widely varying economic momentum in individual industrialized nations (+1.9 %, compared with +1.8 % in 2014)
- Weaker stimuli from emerging countries curb growth of the global economy (+4.0 %, compared with 4.6 % in 2014)
- Robust growth in the USA
- Slight upward trend in the euro zone
- Japanese economy still weak
- Positive stimuli from low oil prices in oil-importing countries are weakened by dampening effects in export countries

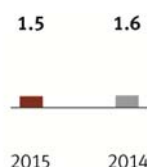
EURO ZONE



Moderate upward trend despite ongoing risks

- Economic output grows by 1.5 %
- Downward trend in the inflation rate stops, consumer prices stagnate but at the same level as in the previous year
- Base rate remains at historic low of 0.05 %
- Significant recovery in Spain (+3.2 %), but only slight economic revival in France, the second-largest economy in the euro zone (+1.1 %)
- Unemployment rate drops to 11 %, although there is still a wide gap between Germany (lowest unemployment) and crisis-hit countries such as Greece and Spain

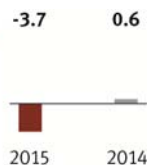
GERMANY



Modest upturn in the German economy

- Upward trend is driven mainly by domestic demand and low oil price
- Short-term positive economic stimulus from additional spending on high numbers of migrating refugees, but long-term effects cannot be foreseen
- After exports temporarily weakened, they are now benefiting from a further depreciation of the effective exchange rate
- Inflation rate is only 0.3 %, its lowest level since the crisis year of 2009
- Ifo business climate index falls slightly in December 2015 but remains at a high level; nevertheless, there is fundamental optimism regarding future business

RUSSIA



Sanctions and low oil prices lead to massive economic slump

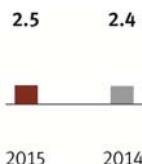
- Russia's gross domestic product down 3.7 % year-on-year
- Despite low oil prices, Russian oil production reaches its highest level since end of the Soviet Union in 1991
- Inflation rate climbs to around 13 %, its highest level since 2008
- Base rates are at 11 %, below the previous year's record level, but still high compared with other countries
- Ongoing weakness of the ruble has a negative impact on imports

Figures for 2015: change in 2015 compared with 2014; figures for 2014: change in 2014 compared with 2013

Real economic growth %

Key statements on economic development in 2015

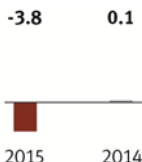
USA



Stable upturn in the US economy

- Robust economic expansion leads to the expected turnaround in interest rates in December 2015
- Low unemployment rate of around 5,5 %
- Private consumption provides ongoing support for the economy
- Core inflation rate is close to inflation target

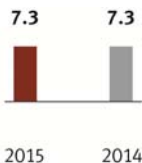
BRAZIL



Brazil in a deep recession

- Instead of the recovery that was hoped for, the recession continues at a fast pace
- A combination of low oil prices, weak consumption, high unemployment and corruption scandals have paralyzed the economy
- Inflation rate rises to almost 9 %
- Base rate climbs to new high of 14.25 %

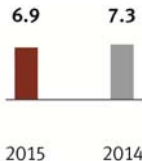
INDIA



India is on a steady growth course

- The Indian economy has stronger growth momentum than China in 2015
- Inflation rate at around 6 %, the same level as in the previous year
- Base rates fall to 6.75 %
- Reforms implemented by the Modi government, which have been successful overall, suffer a blow when reform of land rights is blocked

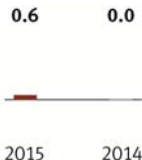
CHINA



Chinese growth engine losing momentum

- After the economy cooled down in the previous year, there is now a marked slowdown in expansion
- Turbulence on the financial markets heightens concerns about the Chinese economy
- Base rates fall to 4.35 %
- Government launches new economic stimulus package in fall 2015 to ensure a better supply of liquidity to the economy

JAPAN



Recovery in Japan makes no progress

- Following a positive start to 2015, the upward trend comes to a standstill later in the year
- Government debt still high and continuing trend towards a "zero interest rate policy"
- Standard & Poor's downgrades Japan's credit standing from AA- to A+

GDP figures in % according to IMF World Economic Outlook Update 01/2016

Sources: IMF - World Economic Outlook Update January 2016; OECD - Economic Outlook No 98, November 2015; "Gemeinschaftsdiagnose" - Herbstgutachten der deutschen Wirtschaftsforschungsinstitute (fall report of German economic research institutes) dated October 8, 2015; Kiel Institute for the World Economy (IfW) - Kiel economic reports Nos. 13 and 14, Q4 2015; ifo business climate index December 2015; Statista.com; Rheinmetall AG

ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

DECLINING MOMENTUM: EXPANSION OF THE GLOBAL ECONOMY SLOWS IN 2015

The global economy lost momentum in 2015, although temporary fears of a slump proved unfounded. While the economy in advanced nations remained robust overall, most of the major emerging countries experienced a slowdown in momentum. In total, global economic output grew by 3.1% in the year under review, according to calculations by the International Monetary Fund (IMF). The IMF had calculated growth of 3.4% for 2014.

The US economy remained in good condition in 2015. Gross domestic product (GDP) in the USA grew by 2.5%, boosted by low unemployment and strong consumer demand. The trend towards a recovery in the euro zone strengthened. Following a long "dry spell" with contractions in economic output or growth of less than 1%, euro zone countries achieved growth of 1.5% in 2015 according to the IMF. Japan continued to tread water in 2015 following weak figures for the previous year, while major emerging countries on the whole saw a decline in growth momentum. Economic research institutions were particularly concerned about China, which until now had been a driver of growth. In addition to turbulence on the financial markets, the Chinese economy experienced a noticeable slowdown in expansion, with growth in GDP of 6.9%. The Russian economy was in a particularly difficult situation in 2015. A combination of low commodity prices, weak domestic demand and ongoing western sanctions intensified the recession and led to a decline of 3.7% in economic output. The economic crisis in Brazil also continued to escalate, with a drop of 3.8% in GDP, while India was a positive exception among the main emerging countries with robust growth of 7.3%.

STABLE DEVELOPMENT: WORLDWIDE DEFENSE SPENDING AT THE PREVIOUS YEAR'S LEVEL

Following a rise in global defense spending in 2014, the defense sector remained stable year-on-year in 2015. According to calculations by analysts at IHS Jane's, defense budgets came to a total volume of USD 1,653 billion, compared with USD 1,655 billion in the previous year. Different regional trends in spending were once again observed, which were partly due to different modernization requirements and to the security policy and military challenges faced by armed forces and were partly the result of the respective national budget restrictions and cost-cutting measures. In the USA, the country with the biggest defense budget, defense spending came to USD 595 billion in 2015 according to IHS Jane's, down on the previous year's level of USD 625 billion, while the NATO partner Poland, for example, invested more in the modernization of its armed forces, not least because of the crisis in Ukraine, and increased military spending from about USD 10 billion in 2014 to over USD 12 billion in the year under review. Germany's defense budget for 2015 was almost €33 billion, up slightly on the previous year's figure of €32.4 billion.

Defense budgets of selected countries

Country	Currency	2015	2014	Change in %
Germany	€ billion	32.97	32.44	1.6
World	USD billion	1,652.47	1,655.31	-0.2
USA	USD billion	595.33	624.96	-4.7
Great Britain	USD billion	66.55	66.54	0.0
France	USD billion	56.47	56.71	-0.4
Saudi Arabia	USD billion	46.28	49.65	-6.8

Defense budgets of selected countries

Country	Currency	2015	2014	Change in %
India	USD billion	49.65	47.08	5.5
Australia	USD billion	34.26	32.97	3.9
UAE United Arab Emirates	USD billion	14.65	15.36	-4.6
Algeria	USD billion	12.43	12.22	1.7
Poland	USD billion	12.17	9.98	21.9
Netherlands	USD billion	10.58	10.39	1.8
Indonesia	USD billion	8.24	7.30	12.9
South Africa	USD billion	4.11	4.10	0.2

Sources: Federal Ministry of Defense – “Detailed plan 14/2015 compared with budget for 2014”; IHS Jane's, as at January 2016

A BALANCED POSITION – RHEINMETALL DEFENCE BENEFITS FROM MODERNIZATION PLANS IN NATO COUNTRIES AND FRIENDLY NATIONS

Taking into account general conditions in terms of foreign policy and security policy as set out by the German government, Rheinmetall Defence made targeted use of market opportunities arising from the ongoing need for significant modernization in many armed forces in 2015. High-tech protection for soldiers on deployment is still in demand in countries whose defense budgets are declining overall or are stagnating, owing to the current geopolitical situation and increasingly complex challenges.

With our comprehensive expertise in vehicle, protection and weapon systems, infantry equipment, air defense and the networking of function sequences and in the areas of electro-optics and simulation, we were once again able to benefit from numerous modernization plans within NATO and friendly nations in 2015. The major international markets included Australia, Canada, the UK, the Netherlands and the Middle East. As part of a key project of the British Ministry of Defence, Rheinmetall Defence was commissioned to begin serial production of the turret structures for the new Scout armored reconnaissance tank. The total volume of the order comes to over €130 million and includes production of up to 245 units.

In Poland, which significantly increased its defense budget in 2015, Rheinmetall MAN Military Vehicles concluded a cooperation agreement with Polish partners to develop a wheeled amphibious vehicle. This allowed Rheinmetall to further expand its strategic position as a leading European provider of military wheeled vehicles.

There was also a major sales success in Canada, when the Canadian government awarded two important contracts relating to equipment for the army. As the main contractor, Rheinmetall Canada will supply the "Medium Range Radar" system and the "Integrated Soldier System" to the Canadian armed forces. Both contracts will run for several years and currently have a total value of around €100 million, with the option of much higher order volumes totaling up to €350 million in the next few years.

Rheinmetall Defence won a contract in Kuwait in 2015, showing that it is also in a strong market position in friendly nations outside NATO. The emirate commissioned Rheinmetall to supply 12 Fuchs NBC armored reconnaissance vehicles of the latest generation. The contract also includes wide-ranging services in the areas of training, service and replacement parts. An accompanying service agreement will run for five years and will begin when the first Fuchs 2 NBC-RS goes into service, which is scheduled for 2017.

ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

DIVERGENT TRENDS: ROBUST GROWTH IN EUROPE, THE USA AND CHINA; MASSIVE DECLINES IN BRAZIL AND RUSSIA

On the basis of its strong market position in the passenger cars segment, Rheinmetall Automotive consistently expanded its commercial vehicles business as well. According to the latest analyses, development of business in the Automotive sector is largely determined by the development of worldwide production of passenger cars and light commercial vehicles up to 6.0 t. This market segment experienced very different trends in different regions in 2015. Massive declines in Brazil and Russia, two emerging countries hit by recession, stood in contrast to robust growth in the three largest automotive markets of China, NAFTA and Western Europe. Overall, worldwide production of vehicles in the class up to 6.0 t grew by 1.0% in 2015 according to IHS Automotive. In absolute figures, this represented growth to 88.3 million units produced, compared with 87.4 million vehicles in the previous year.

Despite slackening overall economic growth momentum, automotive production in China continued to develop positively in 2015. On the basis of strong previous years, Chinese vehicle production grew by a further 3.1%. The NAFTA region recorded growth of 2.6%, while the recovery in Western Europe continued and led to production growth of 6.9%, boosted by catch-up effects. In line with the weak overall economy in Japan, the development of the automotive market was also disappointing, with production declining by 5.4%. Brazil and Russia saw particularly drastic drops in production, which fell by 21.9% and 27.7% respectively.

Production of passenger cars and light commercial vehicles up to 6.0 t in selected countries Millions of units

Country	2015	2014	Change in %
World	88.25	87.40	1.0
Western Europe (incl. Germany)	15.42	14.42	6.9
Germany	5.93	5.83	1.7
Eastern Europa	5.41	5.73	-5.6
Russian Federation	1.28	1.77	-27.7
NAFTA	17.48	17.03	2.6
USA	11.86	11.43	3.8
Brazil	2.32	2.97	-21.9
Asia (incl. Japan)	45.77	45.34	0.9
Japan	8.72	9.22	-5.4
China	23.31	22.61	3.1
India	3.81	3.59	6.1

Source: IHS Automotive as at January 2016

Thanks to its consistent internationalization strategy, Rheinmetall Automotive has a balanced customer portfolio in terms of different regions, which opens up a wide range of growth opportunities and prevents it from becoming dependent on individual markets. In the year under review, 68% of Automotive sales were achieved in Europe (Western and Eastern Europe including Germany) and 16% in the NAFTA region. Business in China accounted for 5% of total sales, compared with 3% for business in Brazil and 2% for business in India.

MARKET FOR TRUCKS IS ALSO MIXED: GROWTH IN WESTERN EUROPE AND IN THE NAFTA REGION, WEAK MARKETS IN ASIA AND BRAZIL

As well as worldwide production of passenger cars and commercial vehicles up to 6.0 t, production of engines for trucks over 6.0 t is an important indicator of the business environment in which Rheinmetall Automotive operates.

Like the passenger car and light commercial vehicle segment, the truck market was also characterized by significant regional differences in 2015. While production of engines for heavy commercial vehicles weighing over 6.0 t grew substantially in the NAFTA region (+6.7%), Western Europe (+10.3%) and Germany (+8.8%), the Brazilian market in particular was very weak (-50.4%). However, the truck market also remained below the previous year's level overall in Asia in 2015. This was above all due to the fact that China's massive commercial vehicle market was unable to sustain the strong growth of previous years and recorded a drop in production of 25.0%.

Production of engines for heavy commercial vehicles over 6.0 t in selected countries Thousands of units

Country	2015	2014	Change in %
World	2,664	2,878	-7.4
Western Europe (incl. Germany)	438	397	10.3
Germany	136	125	8.8
NAFTA	526	493	6.7
USA	342	311	10.0
Brazil	68	137	-50.4
Asia (incl. Japan)	1,546	1,733	-10.8
Japan	330	321	2.8
China	752	1,002	-25.0
India	287	240	19.6

Source: IHS Automotive as at January 2016

MAKING USE OF MARKET TRENDS: RHEINMETALL AUTOMOTIVE ACTIVE IN GROWTH SEGMENTS AND REGIONS

Two factors facilitated Rheinmetall Automotive's business development in 2015. One was its strong roots in the three largest automotive markets of China, NAFTA and Western Europe, which continued to grow. In addition, our decision to focus at an early stage on products that serve and further promote the market trend towards environmentally friendly mobility paid off. By way of example, we received large orders from several renowned automotive manufacturers for innovative components to help reduce emissions in 2015. The total volume of sales for these orders, which have gone to the Mechatronics division with its head office in Neuss, comes to more than €500 million over the entire term. The products that have been ordered include exhaust gas flaps for several European automotive manufacturers and one Japanese manufacturer, as well as exhaust gas recirculation modules for a well-known customer in the USA. The exhaust gas flaps are manufactured in the Czech Republic, while production of the exhaust gas recirculation modules that have been ordered will begin at our Indian site.

ECONOMIC REPORT

GENERAL ECONOMIC CONDITIONS

Rheinmetall Automotive's variable oil pumps have also increased in importance, owing to tightened regulatory requirements for saving fuel and reducing CO₂ emissions. In 2015 we received several large orders for variable oil pumps. The total order volume for units ordered by European, US and Japanese automotive manufacturers, the major advantage of which is that their output can be adapted flexibly to the oil volume flow required, comes to €245 million. The first contract for pumps ordered from Pierburg Pump Technology, which will be supplied to customers by our plants in France, Italy and Mexico, started in 2015.

Our pistons business also achieved a major sales success in 2015, which once again underlines our expertise as a leading supplier of complete piston systems: KSPG received a follow-up contract from a well-known manufacturer of commercial vehicles to supply state-of-the-art steel piston systems. The contract, which will run until 2019, is worth a total of €150 million. The order includes the supply of the entire piston system, comprising pistons, piston pins, locking rings, piston rings and cylinder liners.

DEVELOPMENT OF THE METAL AND ENERGY MARKETS IN 2015

Commodity prices continued the previous year's trend in 2015. The index of listed industrial metals on the London Metal Exchange (LMEX) lost 25 % of its value over the course of the year.

There are various reasons for this decline in prices on the metal markets. A large supply of commodities and metals has met with demand that is weaker than expected. During the last decade, when prices were high, commodity producers had set up large numbers of new projects and opened mines in the expectation of strong growth in the Chinese market. As the Chinese economy is now weakening compared with previous years, a massive excess supply has developed, which has been putting considerable pressure on prices for some time.

This surplus is at its most severe on the global aluminum market. Despite low prices there has been virtually no interruption to the expansion of production, particularly in China. At a global level, this year's production growth is almost entirely attributable to China. Chinese manufacturers are benefiting from low electricity costs, which are subsidized, a significant drop in raw material costs (bauxite, coal) and an incentive system for exports.

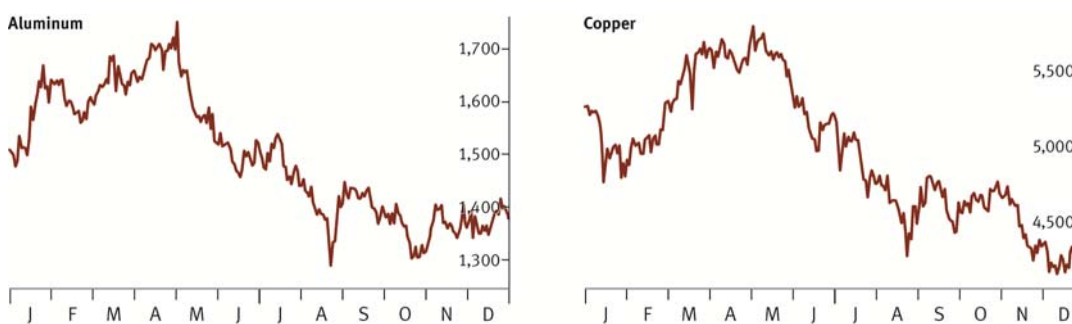
Another factor that has influenced prices on industrial metal markets is the development of the US currency. The US dollar ended 2015 up 10 % against the euro and thus stood in contrast to rising metal prices.

Energy prices also experienced further drops in 2015. However, the largest decline was in the price of crude oil.

Having plunged by almost 50 % to USD 57.33 per barrel in the previous year, the price of Brent crude oil lost a further 35 % to USD 37.06 in 2015. Once again, the imbalance between supply (high stocks) and the low demand for crude oil was the primary factor pushing down prices.

As on other markets, crude oil prices came under pressure throughout the year due to geopolitical issues such as the agreement with Iran, the crisis in Greece and, particularly in July and August, concerns about the state of the Chinese economy. Furthermore, global economic data generally failed to live up to analysts' expectations, which led to ongoing downwards revisions of GDP forecasts. Towards the end of the year the situation was then compounded by the monetary policy of the ECB and the Fed, along with the OPEC meeting on December 4, at which no maximum limit on extraction was agreed. The very mild weather seen to date has also kept prices down.

Aluminum and copper prices 2015 €/t



Source: Thomson Reuters Eikon

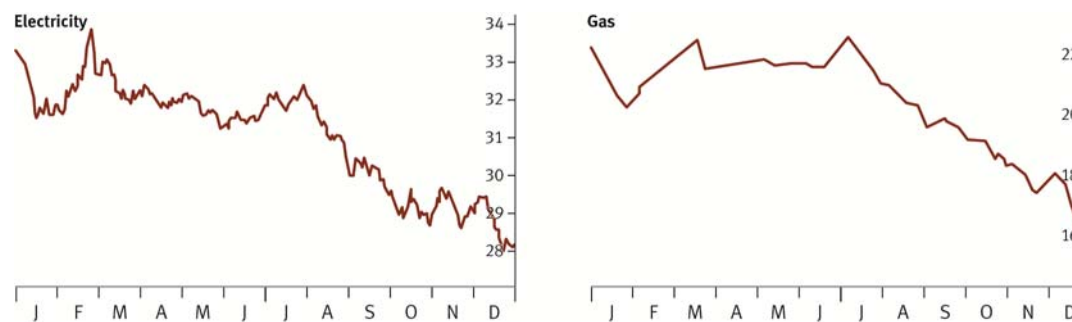
Electricity and gas prices continued to fall on both the spot market and the futures market in 2015, having declined in 2014. This was primarily due to excess electricity capacity, which was the result of higher volumes generated from renewable energy sources and was also reflected in extremely volatile price development.

Forward prices for base-load electricity for supply in 2016 fell by 14% over the course of 2015. The EEX price for supplies of natural gas in 2015 stood at €15.08 per MWh at the end of the year, which was 30% lower than at the start of the year.

Within the context of our electricity and gas 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 2015 for our own procurement activities.

The EEG levy aimed at promoting renewable energies fell slightly for the first time from 6.24 cents per kWh in 2014 to 6.17 cents per kWh in 2015.

Electricity and gas prices 2015 €/MWh



Source: www.eex.com

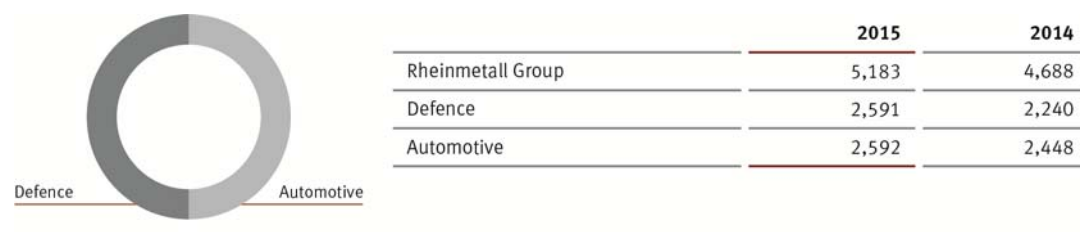
ECONOMIC REPORT

RHEINMETALL GROUP

CONSOLIDATED SALES UP 11% AT €5,183 MILLION

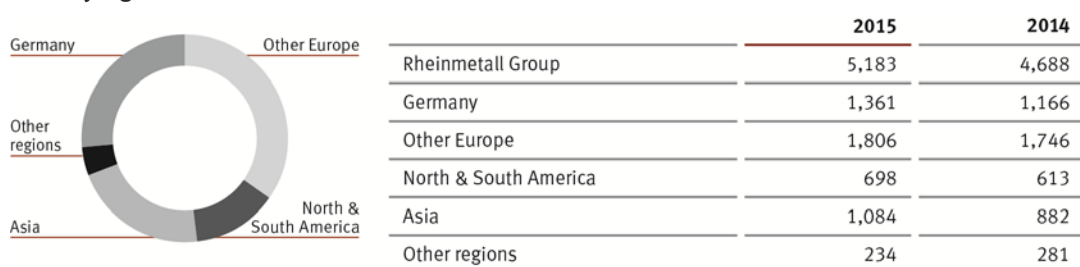
Rheinmetall AG achieved consolidated sales of €5,183 million for fiscal 2015. Sales were thus up 11% compared with the previous year's figure of €4,688 million; with adjustments for currency effects, growth totaled 8%.

Sales € million



Both sectors contributed to the growth in sales at the Group. The Defence sector achieved sales of €2,591 million in the past fiscal year, an increase of 16% on the previous year's figure. The Automotive sector increased its sales by 6% to €2,592 million. At 74%, the international share of consolidated sales in fiscal 2015 was lower than in the previous year (75%). In particular, sales in Asia rose significantly and increased their share from 19% to 21%, while the proportion of sales achieved in the rest of Europe fell from 37% to 35%.

Sales by region € million



OPERATING RESULT FOR THE GROUP AT €287 MILLION

The operating result (EBIT before special items) in the 2015 fiscal year was €287 million (previous year: €160 million). The operating margin was 5.5%, following 3.4% in the previous year. The Defence sector achieved an operating result of €90 million, well above the previous year's figure of €-9 million. The Automotive sector also increased its result by 17% to €216 million. The operating result for "Others/Consolidation" includes the result for Rheinmetall AG.

Operating result € million

	2015			2014		
	Operating result	Special items	EBIT	Operating result	Special items	EBIT
Rheinmetall Group	287	-	287	160	(58)	102
Defence	90	-	90	(9)	(58)	(67)
Automotive	216	-	216	184	-	184
Others/consolidation	(19)	-	(19)	(15)	-	(15)

No non-recurring effects were taken into account in fiscal 2015 (previous year: €58 million). EBIT thus reached €287 million in the year under review and was therefore €185 million higher than the previous year's figure of €102 million.

Net interest was negative at €-66 million, down significantly on the previous year's figure (€-80 million). The Rheinmetall Group's earnings before taxes (EBT) were €221 million, compared with €22 million in the previous year.

Earnings from continuing operations reached €160 million, following €16 million in the previous year. Discontinued operations had generated a profit of €5 million in the previous year (2015: €0 million). Earnings after taxes increased to €160 million (previous year: €21 million). Following inclusion of earnings attributable to minority interests, this brings earnings per share to €3.88 (previous year: €0.47), of which €3.88 related to continuing operations (previous year: €0.34).

Group net income € million

	2015	2014
EBIT	287	102
Net interest	(66)	(80)
EBT	221	22
Income taxes	(61)	(6)
Earnings from continuing operations	160	16
Earnings from discontinued operations	-	5
Group net income	160	21
of which:		
Minority interests	9	3
Rheinmetall AG shareholders	151	18
Earnings per share from continuing operations (€)	3.88	0.34

ORDER INTAKE ONCE AGAIN ABOVE SALES

At €5,314 million (previous year: €5,278 million), the order intake for fiscal 2015 was once again above sales. However, order intake for the Defence sector came to €2,693 million, below the previous year's figure of €2,812 million. The order intake of the Automotive sector rose from €2,466 million in 2014 to €2,621 million in the year under review.

Order intake € million



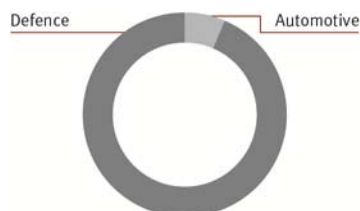
	2015	2014
Rheinmetall Group	5,314	5,278
Defence	2,693	2,812
Automotive	2,621	2,466

ECONOMIC REPORT

RHEINMETALL GROUP

At €6,867 million, the Rheinmetall Group has an order backlog that is at roughly the same level as in the previous year (€6,932 million).

Order backlog € million



	2015	2014
Rheinmetall Group	6,867	6,932
Defence	6,422	6,516
Automotive	445	416

CASH FLOW STATEMENT

In line with higher earnings after taxes, cash flow improved to €366 million in the year under review (previous year: €226 million). The cash flow from operating activities was €339 million, up €237 million on the previous year's figure of €102 million.

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 €29 million (previous year: €-182 million). After accounting for cash receipts from the disposal of fixed assets and divestments and payments for acquisitions, the free cash flow came to €-14 million (previous year: € 172 million), which was up €158 million year-on-year.

Cash flow statement € million

	2015	2014
Gross cash flow	366	226
Changes in working capital and other	(27)	(124)
Net cash provided by operating activities	339	102
Investments in intangible assets and property, plant and equipment	(310)	(284)
Operating free cash flow	29	(182)
Cash receipts from the disposal of intangible assets, property, plant and equipment and investment property	9	18
Net cash outflow from financial investments in/divestments of consolidated subsidiaries and other financial assets	(2)	(8)
Payments for the purchase of short-term commercial papers	(50)	
Free cash flow	(14)	(172)

ASSET AND CAPITAL STRUCTURE

In fiscal 2015, the Rheinmetall Group's total assets rose by €459 million to €5,730 million (9%). As at December 31, 2015, non-current assets represented 46% of total assets, compared with 48% in the previous year. They increased by €144 million to €2,648 million. This increase was mainly due to a rise in property, plant and equipment (€139 million). Current assets increased by €315 million overall year-on-year to €3,082 million. €205 million of this increase was attributable to cash in hand and €69 million to inventories.

Asset and capital structure € million

	Dec. 31, 2015	%	Dec. 31, 2014	%
Non-current assets	2,648	46	2,504	48
Current assets	3,082	54	2,767	52
Total assets	5,730	100	5,271	100
Equity	1,562	27	1,197	23
Non-current liabilities	2,123	37	2,059	39
Current liabilities	2,045	36	2,015	38
Total equity and liabilities	5,730	100	5,271	100

The equity ratio is 27%, following 23% in the previous year. In fiscal 2015, the equity of the Rheinmetall Group rose by €365 million, or 31%, to €1,562 million. This increase resulted mainly from earnings after taxes (€160 million) and the capital increase (€228 million). The €64 million increase in non-current liabilities to €2,123 million resulted from the rise in other provisions (€37 million) and in other non-current liabilities (€20 million). The increase in current liabilities resulted primarily from the rise in current provisions (€50 million). In contrast, other current liabilities decreased by €36 million.

In terms of the total assets adjusted for cash and cash equivalents, the equity ratio was 31%, compared with 25% in the previous year. Financial debts rose by €6 million or 1% year-on-year, to €822 million. As at the balance sheet date, cash and cash equivalents totaled €691 million, following €486 million on the balance sheet date of the previous year. An additional €50 million was held in commercial paper as liquidity reserves. Net financial debts for 2015 totaled €81 million, following €330 million in the previous year. The proportion of net financial debts in relation to adjusted total assets was 2% in the fiscal year, compared to 7% in the previous year.

Capital structure € million

	Dec. 31, 2015	%	Dec. 31, 2014	%
Equity	1,562	31	1,197	25
Current financial debts	63	1	57	1
Non-current financial debts	759	15	759	16
Total financial debts	822	16	816	17
Near-cash assets	(50)	-1	-	-
Cash and cash equivalents/financial resources	(691)	-14	(486)	-10
Net financial debts	81	2	330	7
Total assets adjusted for cash and cash equivalents	5,039	100	4,785	100

ECONOMIC REPORT

RHEINMETALL GROUP

SIGNIFICANT INCREASE IN VALUE ADDED

In fiscal 2015, the Rheinmetall Group generated added value of €1,688 million, significantly surpassing the previous year's figure of €1,400 million. The Group's total operating performance came to €5,546 million, compared with €5,085 million in the previous year. The ratio of added value to the Group's total operating performance was 30%. Value added per employee rose from €69,000 to €82,000. The workforce benefited from the largest share of value added in fiscal 2015 at 82%. 4% was apportioned to the Treasury. Interest payable to lenders in the year under review was 4%. At €47 million, the shareholders of Rheinmetall AG received a 3% share of value added. €113 million remained within the Rheinmetall Group, compared with €4 million in the previous year.

Source and use of value added € million

	2015	%	2014	%
Source				
Group's total operating performance	5,546	100	5,085	100
Input	(3,655)		(3,488)	
Amortization and depreciation	(203)		(197)	
Value added	1,688	30	1,400	28
		%		%
Use				
Employees	1,389	82	1,288	92
Treasury	71	4	14	1
Lenders/banks	68	4	82	6
Shareholders	47	3	12	1
Companies	113	7	4	0
Value added	1,688	100	1,400	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 increased by €205 million in the reporting year to €691 million. Net financial debts were reduced by €249 million from €330 million to €81 million as a result of the capital increase in November 2015.

DEFENCE 3 DIVISIONS
CORPORATE SECTOR

2,591 € million
Sales

90 € million
Operating Result

10,476
Employees

2.7 € billion
Order Income

6.4 € billion
Order Backlog

2.8 %
R&D Intensity

96 € million
Capital Expenditure

ECONOMIC REPORT

DEFENCE SECTOR

RHEINMETALL DEFENCE WITH DOUBLE-DIGIT SALES GROWTH

Sales of the Defence sector amounted to €2,591 million in the period under review, an increase of €351 million or 16% compared with the previous year's figure of €2,240 million. This was mainly due to the considerable increase in sales in the Combat Systems division. The 41% sales increase in the Combat Systems division was achieved thanks to the start of the Puma infantry fighting vehicle program for the German armed forces and the Leopard 2 tanks and armored howitzer 2000 programs for Qatar. The Electronic Solutions division also achieved sales growth of 8%, while sales of the Wheeled Vehicles division were down around 10% year-on-year. After adjustment for exchange rate effects, growth of 14% was achieved in operations.

Sales € million

	2015	2014
Rheinmetall Defence	2,591	2,240
Combat Systems	1,382	977
Electronic Solutions	759	705
Wheeled Vehicles	600	667
Other/consolidation	(150)	(109)

The Defence sector acquired orders worth €2,693 million in the year under review, compared to €2,812 million in the previous year. Despite a slight drop of €119 million or 4% year-on-year, the order intake for 2015 was once again at a very high level. All three divisions received large orders worth several hundred million euros. Combat Systems received an order from the UK for the FRES Scout Vehicle turret structure worth €130 million. Electronic Solutions won a contract to construct a simulation and training center for staff who operate offshore oil production platforms in Mexico, along with a related service contract, with a value of €246 million. The Wheeled Vehicles division received two major orders for tactical vehicles, with wheeled tanks for Germany (€122 million) and "Fuchs" NBC armored reconnaissance vehicles for a customer from the MENA region (€106 million). The book-to-bill ratio was positive once again in 2015, at 1.

Order intake € million

	2015	2014
Rheinmetall Defence	2,693	2,812
Combat Systems	1,180	924
Electronic Solutions	947	807
Wheeled Vehicles	697	1,185
Other/consolidation	(131)	(104)

Based on the high order backlog of €6,516 million as at the end of fiscal 2014 and the acquisition of new large-volume orders in 2015, the order backlog for subsequent years has been maintained at a more or less stable high level of €6,422 million. This represents a slight drop of €94 million or 1.4% compared with the previous year, which was mainly due to currency effects. The high order backlog thus largely covers sales expectations for Rheinmetall Defence for fiscal 2016 and 2017. The biggest individual orders are still the 'Land 121' truck program in Australia and the Puma infantry fighting vehicle for the German armed forces.

DEFENCE'S OPERATING RESULT IS STRONGLY POSITIVE AGAIN

In fiscal 2015, the operating result (EBIT before special items) amounted to €90 million, compared with an operating loss of €9 million in the previous year. The operating EBIT margin rose by 3.9 percentage points from -0.4% to +3.5%.

Derived operating result € million

2015	Operating result	Restructuring	Corporate transactions	Other effects	EBIT
Rheinmetall Defence	90	-	-	-	90
Combat Systems	88	-	-	-	88
Electronic Solutions	26	-	-	-	26
Wheeled Vehicles	(11)	-	-	-	(11)
Others/consolidation	(13)	-	-	-	(13)

2014	Operating result	Restructuring	Corporate transactions	Other effects	EBIT
Rheinmetall Defence	(9)	(9)	(10)	(39)	(67)
Combat Systems	-	(5)	-	-	(5)
Electronic Solutions	1	(4)	(10)	(39)	(52)
Wheeled Vehicles	(9)	-	-	-	(9)
Others/consolidation	(1)	-	-	-	(1)

In particular, this significant turnaround in results was achieved thanks to the business performance of the Combat Systems and Electronic Solutions divisions. This was due, among other factors, to the start of production for large projects in the Combat Platforms unit, a recovery in the ammunition business and the discontinuation of negative one-off effects, particularly in the Electronic Solutions division. Operating losses at a Scandinavian subsidiary were also significantly reduced. The Wheeled Vehicles division offset a decline in sales by improving its cost structure and recorded a negative operating result at about the same level as in the previous year. The restructuring program that was concluded in 2014 also helped to increase profitability in the sector.

NO NEGATIVE IMPACT FROM NON-RECURRING EFFECTS

Earnings before interest and taxes (EBIT) in 2015 totaled €90 million, following €-67 million in the previous year. In contrast to the previous year, non-recurring effects did not have a negative impact in 2015. EBIT thus corresponded to the operating result in the period under review.

ECONOMIC REPORT

DEFENCE SECTOR

COMBAT SYSTEMS DIVISION

In fiscal 2015, the Combat Systems division achieved sales of €1,382 million, which represents growth of 41% on the previous year (€977 million). This sales growth was primarily attributable to the start of production for large projects in the Combat Platforms unit. Particular emphasis should be given to sales resulting from the Puma infantry fighting vehicle program for the German armed forces and to the large order received from Qatar in 2013. Ongoing programs relating to the modernization of tracked vehicles in Indonesia and the supply of tank dozers in Asia also contributed to the growth in sales.

The division's order intake totaled €1,180 million, exceeding the previous year's figure of €924 million by €256 million. This was mainly due to orders for turret structures for the FRES Scout Vehicle from the UK (€130 million) and for medium-range radar systems for the Canadian armed forces. Combat Systems also noted an increase in demand for drive means and propellants and received several orders for various types of ammunition from Asia and the MENA region.

ELECTRONIC SOLUTIONS DIVISION

Electronic Solutions increased its sales by around 8% to €759 million in 2015, compared with €705 million in the previous year. The key drivers of sales were various small and medium-sized orders for electro-optic components, infantry equipment and simulators. The division also generated substantial sales with the supply of air defense systems to South Africa and Asia and the supply of fire control units to German customers. In addition, the first sales were recorded in connection with the major contract that was obtained in 2015 for a civil simulation and training center in Mexico.

The division recorded a total order intake of €947 million in fiscal 2015, exceeding the previous year's figure of €807 million. In particular, it won a contract to construct and operate a simulation and training center for staff who operate offshore oil production platforms in Mexico, along with a related service contract, with a value of €246 million divided between two part orders. The order intake also included various orders for air defense systems from Asia and the MENA region and equipment for infantry in the MENA region.

WHEELED VEHICLES DIVISION

The division recorded a drop of about 10% in sales to €600 million in 2015 (2014: €667 million). In business with tactical vehicles, a significant volume of sales resulted from the supply of protected wheeled vehicles to Western Europe and the MENA region. The logistics vehicles unit achieved a significant portion of sales from the Land 121 contract in Australia and another order for trucks in Asia.

After 2013 and 2014, which were marked by large orders, the Wheeled Vehicles division achieved an order intake of €697 million in the year under review (previous year: €1,185 million). Key orders received in business with tactical vehicles included wheeled tanks of the Boxer type for the German armed forces (€122 million) and Fuchs NBC armored reconnaissance vehicles for a customer in the MENA region (€106 million). In business with logistics vehicles, orders were received in 2015 for military recovery trucks in Asia and for military troop transport and support vehicles in Latin America. The large Land 121 contract that we have had with an Australian customer since 2013 was also extended.

AUTOMOTIVE 3 DIVISIONS CORPORATE SECTOR

2,592 € million
Sales

216 € million
Operating Result

11,979
Employees

445 € million
Order Backlog

6.4 %
R&D Intensity

167 € million
Capital Expenditure

ECONOMIC REPORT

AUTOMOTIVE SECTOR

SALES GROW BY 6%

The Automotive sector achieved sales of €2,592 million in fiscal 2015. This represented growth of €144 million or 6% year-on-year. In contrast, worldwide production of light vehicles up to 6.0 t grew by only 1% in the year under review. Adjusted for currency effects, sales growth was 4%, which was still well above the performance of the automotive industry.

Sales € million

	2015	2014
Rheinmetall Automotive	2,592	2,448
Mechatronics	1,450	1,322
Hardparts	952	934
Aftermarket	285	269
Others/consolidation	(95)	(77)

Growth stimuli from Chinese production of light vehicles for the global automotive supply industry declined in 2015. The growth rate for vehicles in the class up to 6.0 t was 3.1%, compared with 8.1% in the previous year. In this market environment, the Chinese joint ventures in which we hold a 50% stake held their ground well. Sales of these companies rose by 25% to €785 million. The reported growth was positively influenced by currency effects. After adjusting for these the level of growth was 7.0%, which once again exceeded market growth in China. The increase in sales recorded in 2015 was due partly to the tripling of sales at Pierburg Huayu Pump Technology, which was still starting up, and partly to the very good market position of our two joint ventures for pistons and aluminum casting products, which have been run with a Chinese partner for many years. As these companies are carried at equity, their sales were not included in consolidated sales.

In the year under review, the proportion of sales achieved with customers abroad was 80%, compared with 79% in the previous year.

TARGET MARGIN OF 8% ACHIEVED FOR THE FIRST TIME

Rheinmetall Automotive can look back on a successful fiscal year. Earnings before interest and taxes (EBIT) increased by €32 million year-on-year, to €216 million (+17%). The EBIT margin of 8% that was forecast in the outlook for 2015 was actually exceeded slightly in the year under review, at 8.3%. No non-recurring effects were recorded in 2015, so operating earnings (before special items) corresponded to EBIT.

Operating result € million

	2015	2014
Rheinmetall Automotive	216	184
Mechatronics	119	96
Hardparts	73	72
Aftermarket	27	26
Others/consolidation	(3)	(10)

MECHATRONICS DIVISION

Sales of the Mechatronics division grew by 10% to €1,450 million in 2015. High demand from automotive manufacturers around the world for solutions for the reduction of emissions of CO₂ and other harmful substances made this growth possible, which was well above the 1% growth recorded in global light vehicle production. The division was thus once again the growth driver in the Automotive sector.

Of the products offered by the Automotive Emission Systems business unit, exhaust gas flaps achieved the strongest growth. This was due to higher demand from customers and to the fact that the unit became responsible for further areas of supply as part of ongoing projects. Sales of radiator modules fell year-on-year due to lower delivery figures for a large project with a European customer. The Commercial Diesel Systems business unit also increased sales of exhaust gas flaps significantly. In the solenoid valves business, sales of divert-air valves and pneumatic converters increased in particular.

We divide products in our Pump Technology business into the areas of commodity and technology. Commodity products mainly include unregulated, mechanical products. Technology products can be controlled on a partially or fully variable basis, frequently using an electric motor. Demand for technology products continues to grow in line with the need for reductions in CO₂. This trend in particular led to substantial growth in sales of variable oil pumps, electrical water circulation pumps and electrical water pumps compared with the previous year. The first series contract for an electrical oil pump was received at the end of 2015.

HARDPARTS DIVISION

Sales of the Hardparts division grew by 2% year-on-year to €952 million in 2015. A slight decline in sales was recorded in business with pistons, particularly small-bore pistons, which were impacted by a further market-related decline in Brazil and a weak market for commercial vehicles and off-highway vehicles, which are used in areas such as agriculture and construction, in North America. Year-on-year growth in business with large-bore pistons came mainly from the start-up of the new production company in China. Sales of bearings remained at the same level as the previous year with adjustments for currency effects, with the weak performance of the Brazilian and Indian markets offset by sales growth in other regions.

AFTERMARKET DIVISION

The Aftermarket division achieved year-on-year sales growth of 6% to €285 million in fiscal 2015. Business with Pierburg products was expanded successfully. Business with the KS brand remained under pressure from the markets in 2015, although it achieved slight growth again for the first time since 2012. Looked at by region, business in North America and Europe remained positive. Sales in Eastern Europe and the Far East did not reach the previous year's level, which was mainly due to the tense security situation in some parts of these regions and to military conflicts.

ECONOMIC REPORT

FINANCING

PRINCIPLES AND AIMS OF FINANCIAL MANAGEMENT

The liquidity profile of the Rheinmetall Group is influenced to a large extent by fluctuating cash flows from the project business of the Defence sector. The primary financial aim therefore remains securing access to liquidity at all times. To achieve this, we follow a conservative financial policy that is geared towards sustainability. The cornerstones of this policy are on one hand the maintenance of our own direct access to money and capital market financing and on the other the availability at all times of bank financing in the form of bilateral or syndicated credit facilities. Another key objective of financial management is to control financial risks arising from our operating activities in the form of changes in exchange rates, interest rates and raw material prices.

External financing measures are implemented centrally at Rheinmetall AG and at Group companies in accordance with guidelines that are specified centrally. However, the latter applies only if the Group companies' regulatory environment does not allow central control or allows it only under unfavorable conditions. This ensures on one hand that Rheinmetall deals consistently with banks and capital market operators, which allows central control as well as optimizing financing structures in terms of liquidity, profitability and security. At the same time, the central approach enables monitoring and documentation of important issues of relevance to compliance, in order to fulfill increasingly complex regulatory requirements.

Financing partners are also specified centrally by Rheinmetall AG, which stipulates a portfolio of national and international banks for operating companies. This portfolio of banks is intended to fulfill the companies' local requirements as well as serving the overall interests of the Group. Rheinmetall considers it important to allocate financial transaction business appropriately among core banks while simultaneously avoiding dependence on individual banking partners.

FINANCING IN THE RHEINMETALL GROUP

The Rheinmetall Group ensures its long-term financing through a broadly diversified portfolio of instruments. While money and capital market instruments are used for both long-term strategic and short-term working capital financing, the bilateral bank credit facilities are used almost exclusively to provide guarantees in project business in the Defence sector. As at December 31, 2015, €1,480 million of the bilateral credit facilities had been utilized for guarantees and €88 million for cash loans. The volume of receivables of Rheinmetall companies sold without recourse under the asset-backed securities program came to €139 million.

Financing instruments € million

	Term	Nominal	Financing source
Bond	2017	500	Capital market investors
Promissory notes	2019-2024	179	National and international lenders
Commercial paper (CP)	Indefinite		Money market investors
Syndicated loan	2020	500	13 banks (back-up line for the commercial paper program)
Bilateral credit facilities			
Cash and guarantee credit	2016-2017	3,061	Banks and insurance companies
Asset-backed security program	2017	170	Money market investors and banks

FINANCING ACTIVITIES IN 2015

After promissory note loans due to mature between 2019 and 2024 were issued in 2014, further financing activities were undertaken in the last fiscal year with the aim of further improving the capital structure, extending maturities and creating financial scope for Rheinmetall's growth strategy in all areas of business.

The syndicated credit facility of €500 million, which was not due to expire until 2016, was renewed early in September 2015 in a market environment that was favorable in terms of costs. In addition, improvements were achieved in terms of content and structure that give Rheinmetall more flexibility, with an option to increase the facility by €250 million and two optional extensions to the term of one year in each case.

In November 2015, Rheinmetall AG increased its share capital by 10% through partial utilization of its existing authorized capital. The share capital was increased by a nominal amount of €10,137,216 through the issue of 3,959,850 new bearer shares in Rheinmetall, which are entitled to a share in the profits from January 1, 2015. The new shares were issued in a private placement, in which the shares were offered to international institutional investors in an accelerated placement procedure and were placed at a price of €58.00. The capital increase resulted in gross proceeds of around €230 million and had only a slight short-term negative impact on the share price. The proceeds from the issue will strengthen the capital structure, relieve pressure on existing financing programs and support Rheinmetall in its further growth strategy in both the Defence and the Automotive sector.

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 credit rating calculated by Moody's since 1999 remained unchanged in 2015 after the outlook was adjusted from "stable" to "negative" in December 2014.

Rheinmetall's rating

	2015	2014	2013	2012	2011
Agency	Moody's	Moody's	Moody's	Moody's	Moody's
Long-term rating	Ba1	Ba1	Ba1	Baa3	Baa3
Outlook	Negative	Negative	Stable	Negative	Stable
Since	December 19, 2014	December 19, 2014	October 9, 2013	November 16, 2012	May 18, 2009

In its updated assessment at the end of 2015, Moody's once again emphasizes Rheinmetall's good liquidity profile, which is diversified with regard to the instruments used, acknowledges the improvement in critical financial indicators and rates the capital increase as tending to be "credit positive", but does not change its rating or its outlook. The main reason given by Moody's for this cautious stance is that the developments that have occurred must prove to be sustainable in future.

ECONOMIC REPORT

RESEARCH AND DEVELOPMENT

TECHNOLOGY AND PRODUCT DEVELOPMENTS OPEN UP GROWTH OPPORTUNITIES

Innovative strength and technological competence are key measures of competitiveness in the rapidly changing world of business. Tradition and innovation – the Rheinmetall technology group can draw on more than 125 years of specialist knowledge and industry experience in the Defence and Automotive sectors. Continuous and targeted research and development work is essential if we want to actively help shape technological change and successfully transact business over the long term in a diverse range of technologically demanding markets. Important success factors that will ensure Rheinmetall's further growth and secure its competitiveness in the long term are the consistent development of its current product portfolio and the opening up of related areas of business, as well as forward-looking and user-oriented products that are in line with the market and will ensure more security and environmentally friendly mobility.

Highly qualified engineers and technicians use their expertise, skill and experience to fulfill ambitious customer requirements. Rheinmetall invests large sums year after year in research and development in order to increase its technological expertise, expand its market positions and secure the basis for the Company's future success.

Market, industry and technological trends are systematically observed before being analyzed and assessed in terms of their strategic and economic significance. Thanks to close collaboration between Sales, Development, Production, Service and Marketing as well as intensive project work in partnership with our customers, new requirements of products, systems, processes and applications are quickly identified and acted upon with the shortest possible development periods. Product lines are continuously improved and expanded, while new or associated business areas are gradually developed further thanks to innovative products, future-oriented systems and customized services.

Our own application-related research and development work is supplemented 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. Security and mobility will remain major global megatrends in the coming years too.

€239 million was spent on research and development across the Group in 2015, following €214 million in the previous year. Of this, €215 million (previous year: €190 million) was immediately billed as expenses and €24 million (previous year: €24 million) capitalized as development costs. The share of R&D expenditure in the Rheinmetall Group was 4.6%, as in the previous year, compared with 6.4% in Automotive (previous year: 6.1%) and 2.8% in Defence (previous year: 2.9%), whereby the figure for Defence relates solely to the share of self-financed projects.

R&D in the Rheinmetall Group € million

	2015	2014
R&D: Expenses	239	214
of which capitalized	24	24
R&D: Expenses/sales (%)	4.6	4.6
R&D: Employees	3,126	3,026
R&D: Employees/total workforce (%)	13.8	13.7

RHEINMETALL DEFENCE: PROTECTION OF PEOPLE AND EQUIPMENT IS THE FOREMOST AIM OF DEVELOPMENT

The Defence sector systematically gears its research and development activities to the main areas of national capability stipulated by the German armed forces and to mission requirements profiles of international armies. The armed forces of the 21st century face growing challenges and complex threats. They are often fighting at very great risk to preserve security and freedom. Multinational deployments to prevent crises and deal with conflicts are becoming increasingly common. Modern equipment that uses cutting-edge technology and is adequate to the task can lead to vital improvements in ability to lead, stamina, mobility, effectiveness and ability to survive in the deployment scenarios faced by soldiers.

Rheinmetall Defence specializes in the development and production of components and systems for protecting people, vehicles, aircraft, ships and assets and, in its role as an equipment supplier to the German armed forces, NATO and other responsible nations, helps to protect armed forces involved in military operations. Its portfolio includes over 1,500 products, mainly for equipping ground forces but also for maritime and air forces and special units. The Defence sector 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 and in the areas of simulation and training. Whether it is for requirements specific to different branches of the armed forces or general requirements of the armed forces as a whole, whether it is for external or internal security, the ability to integrate components to create effective overall solutions makes Rheinmetall Defence a strong partner to armies and civil national security forces.

R&D at Rheinmetall Defence € million

	2015	2014
Employees in research and development	2,091	2,038
Employees in research and development as % of total workforce	20.0	20.3
Research and development expenses (self-financed) (w/o product specific developments)	72	65
Innovation ratio (research and development expenses in relation to sales)	2.8	2.9

SMART VISION – MORE SECURITY AT AIRFIELDS

The monitoring and processing of air traffic requires the use of highly qualified technicians and a large number of support staff at airfields for approach and space control, even if the volume of traffic is expected to be low, either temporarily (e.g. at night) or in the long term. Investigations are therefore being conducted to determine the extent to which optronic systems can transmit precise video data in real time to a central control station in a different location ("remote tower") for optical monitoring of air traffic at the airport and for monitoring of aircraft that are taking off and descending. This concept, which is known as "Smart Vision", could also be transferred to airports with runways that are off to one side and are not overlooked by the tower.

Rheinmetall Defence is working on a technical solution to this problem with partners from the field of air traffic management. Rheinmetall's key contribution lies in adapting high-performance optical sensors and intelligent image and information processing procedures used in military applications for their planned use in civil remote towers. As well as technical challenges, there is also a focus on functional and operational safety aspects that must be taken into account in research work.

ECONOMIC REPORT

RESEARCH AND DEVELOPMENT

REMOTE-CONTROLLED VEHICLES

The use of remote-controlled military vehicles allows life-threatening risks and extreme physical stresses affecting crews to be reduced or avoided completely in a wide range of situations. Rheinmetall Defence has for some years been using unmanned platforms, which are sold with extreme explosive charges under armored protection, to detect and eliminate so-called IEDs (improvised explosive devices) or remote-controlled vehicles to detect and clear mines.

The possibility of making the Keiler mine-clearing tank remote-controlled was investigated in 2015. The German armed forces use this vehicle, which weighs around 57 t and currently has a two-man crew, for various tasks such as sweeping mines from a road so that a route will be cleared for forces following behind. Mines in the direct vicinity of the vehicle are detonated by a rotating shaft as the vehicle drives along.

Findings and results from current and previous research projects such as digital driver and crew sights, modular operator workstations, crew compartment designs and drive-by-wire systems have been incorporated in feasibility studies. Based on the positive results obtained, particularly with regard to improved management of the vehicle and extension of the vehicle's possible uses, a first demonstration vehicle is to be retrofitted in 2016 to allow it to be remote-controlled. In the future, this will enable the mine-clearing tank, which is scheduled to remain in use until at least 2030 and has also been used repeatedly in non-military scenarios, to be controlled as an unmanned vehicle in situations where there is a threat.

HIGH-ENERGY LASER EFFECTORS FOR MARINE APPLICATIONS

In the year under review, Rheinmetall Defence continued its research and testing of high-energy laser systems common to all branches of the armed forces. After the diffusion of laser beams across the sea was investigated for the first time in 2014, the focus during the year under review was on research into how laser applications can be used for maritime purposes.

Rheinmetall successfully conducted a comprehensive series of tests on the high seas with a technological demonstrator mounted on a naval vessel. To do this, Rheinmetall adapted a high-energy laser in the 10 kW class to a 27 mm light naval gun.

Automatic optical tracking of potential targets such as unmanned airborne systems was tested on the high seas, sometimes under difficult conditions. In a second test set-up, the use of a high-energy laser at sea against stationary targets on land was also tested.

This research and these experiments demonstrated that a high-energy laser system is suitable for and effective in maritime deployments. This laid the crucial foundations for the subsequent use of this technology in the navy.

DETECTION OF BOMBARDMENT IN A HELICOPTER

Research and development activities conducted in previous years to detect and locate gunmen using optronic and acoustic sensors were resumed during the year under review. After these earlier activities led to the development of protection for dismounted soldiers and for land vehicles, the focus now is on protecting helicopters against gunfire. Since the application of ballistic protection to helicopters is heavily restricted for various reasons, it is very important to warn the crew of bombardment at an early stage.

Sensors are to be used to detect and analyze the opening strike as well as the muzzle blast and the projectile report during the flight. The very loud noise interference from the helicopter constitutes a particular challenge. However, it has already been demonstrated in principle that acoustics are a suitable means of locating bangs in a helicopter, partly through the use of modern techniques for the adaptive suppression of noise interference. For forthcoming flights in 2016 with a transport helicopter of the Sikorsky CH-53 type, which is used by the German armed forces to transport personnel and materials, sensors have been adapted and prepared for installation in the helicopter. Four uncooled infrared cameras and five microphone antennas are also being mounted on the fuselage of the CH-53 for the tests. The measurement data will be recorded locally and analyzed in real time, which means that a warning message is issued instantly, containing the direction of the gunman and, if possible, the distance as well. A first measurement campaign to determine the level of interference from the transport helicopter itself will be followed in fall 2016 by flights in which measurement technology has been installed in the helicopter, which will come under heavy fire. By the time the project is concluded, which is scheduled for 2017, the suitability and performance of the test system is expected to have been demonstrated.

NETWORKED RECONNAISSANCE AND COMBAT GROUP

Research projects in previous years have already dealt with the fitting and upgrading of IT equipment in military land vehicles. The focus to date has been on investigations into key technologies, for example for a generic land vehicle architecture for technological components (NATO Generic Vehicle Architecture – NGVA) within a vehicle and basic research relating to certain operational features in this context.

On behalf of the Federal Ministry of Defense, Rheinmetall Defence deepened these investigations and extended them to include additional aspects in the year under review. One key aspect is the networking of NGVA-compatible land vehicles in a group with the aim of exchanging real-time information and using it jointly. This research work goes beyond the usual scope of the information provided by classic management information systems. The investigation is looking into the extension of capabilities through the joint use of sensor data (e.g. camera signals or position data of objects) and vehicle-wide target recognition processes, extending to the effective combating of enemy units.

Communication between vehicles is another focal point of this research. It places particularly high demands on radio-based vehicle networking. Conventional military radio devices in the HF, UHF and VHF range are designed mainly for voice radio. The next generation of radio devices will have to be able to transmit speech and data in parallel and will need to fulfill increased requirements in terms of bandwidth and latency. The aim is to demonstrate the necessary technical specifications on deployment using a demonstrator by the time the project is expected to end in 2017.

ECONOMIC REPORT

RESEARCH AND DEVELOPMENT

1 FUCHS A8 ARMORED TRANSPORT VEHICLE AS A CARRIER OF TECHNOLOGY

The TPz 1 Fuchs A8 armored transport vehicle has been used by the German armed forces for over 30 years. By upgrading this system to include the latest technology through the replacement of certain assemblies and the technical adaptation of various other system components, the operation and manageability of the armored transport vehicle can be improved significantly.

A study investigated which components and systems in the vehicle are affected and how these would be replaced or modified to ensure not only that the TPz 1 Fuchs A8 can continue to be supplied, but also that security can be improved and mobility increased. Over the years the mobility of the armored transport vehicle had been reduced as a result of product improvements, particularly with regard to protection, and the associated increase in weight.

The results of these investigations were taken into account in the construction of a system demonstrator, which the German armed forces have been testing since December 2015 to ensure the technical compatibility of the system while driving. Research is continuing and is now focusing on the testing of a possible series configuration for system compatibility.

In the next step, investigations will also be conducted into which measures and adjustments can be made to the TPz 1 Fuchs A8 vehicle system to prepare it for the future networking of groups of vehicles. Further steps will be taken here in 2016 in order to be able to offer the NGVA standard (NATO Generic Vehicle Architecture), which Rheinmetall played a key part in developing, in as many Rheinmetall vehicles as possible in the near future.

RHEINMETALL AUTOMOTIVE: MEGATRENDS SHAPE RESEARCH AND DEVELOPMENT

Globalization, industrialization, social and demographic change, urbanization, regional migration and economic development in emerging markets are leading to changes in worldwide requirements of mobility, particularly individual and transport mobility. Although alternative drive systems are increasingly appearing in some segments of the market, the combustion engine is set to remain the main drive system for vehicles for the foreseeable future. In view of debates on environmental policy and the resulting legal standards and limits for vehicle emissions, Rheinmetall Automotive's development activities will continue to focus on the optimization of components for combustion engines.

Along with legal regulations on fuel consumption, the requirement for a further reduction in emissions of substances that are harmful to health is particularly important. Measures to optimize engines are therefore increasingly being supplemented by other technical solutions, for example to reduce the weight of the vehicle. Customers are also becoming more accepting of hybrid solutions in vehicles, not least thanks to incentives such as tax advantages, priority registration procedures and permission to drive in emission-free zones.

R&D at Rheinmetall Automotive € million

	2015	2014
Employees in research and development	1,035	988
Employees in research and development as % of total workforce	8.6	8.4
Research and development expenses	167	149
Innovation ratio (research and development expenses in relation to sales)	6.4	6.1

INNOVATIONS THANKS TO SYSTEMATIC, NETWORKED RESEARCH AND DEVELOPMENT

The main condition for the development of new vehicle drive concepts that are efficient and cause the lowest possible emissions, including their peripheral equipment, 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 vehicle power train.

In addition to product developments in the divisions, Rheinmetall Automotive has a central Research and Technology unit, whose "Engineering Services" department provided further support for the activities of series developers in 2015. The "New Drive Technologies" unit was involved, among other projects, in the development and enhancement of heat pump systems to extend the range of hybrid and electric vehicles. The results under real conditions are currently being investigated with an electric series vehicle.

At the International Motor Show in 2015, Rheinmetall Automotive gave a comprehensive presentation of potential areas for optimization, supported by simulations, as part of the "Road to 95" campaign, based on the example of a mid-range passenger car with a gasoline engine. In accordance with the New European Driving Cycle (NEDC), which has applied in Europe since 1996, potential fuel savings of up to 13% were demonstrated with the use of Rheinmetall Automotive products.

RIGHTSIZING AND TURBOCHARGING

The ongoing global trend toward turbocharged gasoline engines is a good starting point for the Mechatronics division in the Automotive sector, which will enable it to expand on the market with its new range of function- and value-optimized divert-air valves. Development of an electromotive charging system (electric turbocharger) for providing short-duration support for conventional exhaust gas turbochargers began in the year under review on the basis of existing expertise.

The Euro 6 standard must be met for diesel engines in passenger cars in the main market of Europe. While particle emissions are safely managed with closed particle filter systems, safe management of emissions of nitrous gases (NO_x), which are also harmful to health, continues to pose a technical challenge. Discussions about irregularities in diesel vehicles in the USA and Europe have recently also highlighted this.

A highly efficient solution for reducing engine-out emissions of nitrous gases, which remains indispensable, is external, cooled exhaust gas recirculation (EGR), which significantly reduces costs for after-treatment of exhaust gas, e.g. through a system for selective catalytic reduction (SCR). As a technological and market leader, Rheinmetall Automotive has for years been offering its customers function- and value-optimized EGR valves as well as integral EGR systems. One key driver of growth in the passenger car segment is so-called low-pressure EGR technology, in which exhaust gas is extracted after the turbine in the turbocharger or after the diesel particle filter and then returned via a cooled EGR line with an EGR valve upstream of the compressor in the exhaust gas turbocharger. An exhaust gas flap is generally required here for adjusting the counter-pressure from the exhaust gas. Rheinmetall Automotive gained a significant volume of new business in Europe in the year under review with a new generation of function- and value-optimized electric exhaust gas flaps.

ECONOMIC REPORT

RESEARCH AND DEVELOPMENT

CO₂ FLEET CONSUMPTION TARGETS ARE A STRONG TECHNOLOGICAL DRIVER

Following the example set by Europe as a pioneer in the implementation of strict fleet consumption targets, other regions such as NAFTA and states such as China are now also calling for greater use of technology to achieve these ambitious targets. While in Europe a fleet consumption target for 2021 of 95 g CO₂/km has been established by law, the EU Commission is discussing an even stricter limit for 2025 of between 68 g CO₂/km and 78 g CO₂/km. For this reason as well as due to further legislative approval restrictions, the electrification of vehicle drives is set to gain momentum.

Not least as a result of the dramatic deteriorations in air quality that are constantly being noted in urban areas in China, there is speculation that government agencies there will demand the electrification of vehicle drives on a massive scale and will support it with appropriate measures. The first indicators of this are new regulations that strictly control the registration and operation of vehicles that run solely with combustion engines in places such as Beijing and Shanghai, which go as far as a complete driving ban. In contrast, buyers of a state-subsidized New Energy Vehicle (NEV) can use their vehicles without restrictions.

PUMP ON DEMAND – REGULATION OF FLUIDS ACCORDING TO NEED

The need to further increase the efficiency of vehicle drives, in particular to minimize fuel and energy consumption, requires all fluid flows in the combustion engine and throughout the power train as a whole, including any electric drives and energy stores, to be controlled on an operating-point-specific and, in turn, demand-specific basis. One key approach to this is thermal management using intelligent, operating-point-specific coolant control. As well as conventional mechanical coolant pumps, Rheinmetall Automotive has developed a wide range of variable mechanical coolant pumps, which allow the pump drive power to be reduced in line with demand.

With regard to established all-electric coolant pumps, development activities have focused on enhancing value and function in order to facilitate the use of these products in alternative vehicle drive concepts such as hybridized vehicles. In addition to coolant pumps, the Mechatronics division is also developing systems for regulating and controlling the coolant mass flow. These valve units, which are configured either as individual components or in an assembly as multiway systems, allow optimum temperature control of power train systems in combination with the coolant pumps.

Along with product maintenance, products have also been developed that take into account new voltages in the vehicle (48 V or high voltage). At the International Motor Show in 2015, the CWA 950 coolant pump for 48 volts was presented, for example. The development of these products is being driven not only by higher requirements for pump output but also by the increasing numbers of hybridized and electrified vehicles.

Moreover, many customers are interested in a combination of different pump functions with a view to simplifying the overall structure of the engine. For example, Rheinmetall Automotive has designed a tandem pump module involving a combination of a vacuum pump and a variable oil pump, a concept that led it to win a major contract from a customer in the NAFTA region in 2015.

POWER TRAIN OPTIMIZATION – ELECTRIC OIL PUMPS FOR GEARS

Although manual gearboxes still predominate worldwide, automatic gearboxes are on trend and are increasingly being used in vehicles. To ensure a supply of lubricant in automated gearboxes with start-stop technology, which is almost commonplace today, while simultaneously protecting switching functions, for example in the case of dual clutches, demand for electric oil pumps is increasing. Rheinmetall Automotive offers various technical solutions here, which are designed to be integrated in the gearbox but are also available as standalone systems. An electronically controlled pump drive is common to all systems. Thanks to this technology, Rheinmetall Automotive won a new contract from a major European automotive manufacturer in the year under review.

Another development approach to minimizing power loss and thus reducing fuel consumption concerns the way in which the combustion engine is supplied with lubricant. Variable oil pumps are currently used for this, which are increasingly often controlled using an engine map. The necessary electric control operations are usually carried out with electric solenoid valves, which Rheinmetall Automotive also has in its product portfolio and is able to offer customers as a coordinated overall system including a pump.

THE BASE ENGINE – SET TO REMAIN THE DRIVE SYSTEM IN VEHICLES OF THE FUTURE

Irrespective of the current discussions about emissions, fuel consumption and environmental issues, the combustion engine will remain the predominant drive system for individual mobility and in particular for transport mobility for a long time to come.

The core of the combustion engine remains the base engine, which, with very few exceptions, is today generally designed as a piston engine. The main assemblies supplied by Rheinmetall Automotive here are the pistons, the bearings and the engine blocks. Development activities therefore focus in particular on the optimization of function and value.

The switch from aluminum to steel pistons, which has been completed in some passenger car diesel applications, has led to significant improvements in friction performance as well as in the thermodynamics of the pistons. Depending on the engine and the design, customers have measured reductions in fuel consumption of up to 4% for the engine as a whole, according to study results. As well as their advantages in terms of consumption, the one-piece steel pistons, which are manufactured in a special process, also achieve a higher peak output than the aluminum pistons. Rheinmetall Automotive, together with project partners and customers, received the German Steel Prize in 2015 for its innovative design.

Apart from the overall optimization of components, development work for gasoline engines focuses on possible further progress on lightweight construction and on solutions for reducing higher operating loads on the piston. With high-performance pistons, this is achieved, for example, not only through the integration of ring carriers and piston cooling ducts but also through improved quality and processing of materials. The finish on pistons has also been optimized further, which has not only improved intake and friction performance, but also means that components can be even better protected against thermal exposure and corrosive effects.

ECONOMIC REPORT

RESEARCH AND DEVELOPMENT

As well as design optimization, modern simulation and production technologies and the use of high-quality materials, Rheinmetall Automotive relies on precise analytics in combustion engines. This area of development has for some years had a floating liner passenger car test engine, with which the friction performance of pistons is analyzed and assessed in a wide range of configurations. This development expertise was extended to include heavy-duty applications in the year under review. A floating liner commercial vehicle diesel engine was purchased for carrying out tests.

While steel pistons have only recently begun to be used in passenger cars, the use of steel as a material in pistons for commercial vehicles or large-bore pistons (e.g. industrial and naval pistons) is nothing new. The focus of product development is therefore now on the optimization of piston design, taking into account the improvement of performance and compliance with emissions regulations and above all parameters in the manufacturing process.

Rightsizing – increasing the specific engine output where this is useful – is an essential measure for increasing the efficiency of combustion engines. Modern engine blocks for highly stressed engines need to offer outstanding resistance to friction and wear and tear. Friction measurements reveal that iron-coated running surfaces are vastly superior to conventional cylinder contact surfaces, while offering cost advantages at the same time. For this reason, the Hardparts division in the Automotive sector some time ago developed through to production maturity the "Rotating Single Wire" coating process in combination with a mechanical activation process. Large-series production has since started, and further series projects have been launched with this promising technology.

LIGHTWEIGHT STRUCTURES HELP MAKE VEHICLES MORE EFFICIENT

Rheinmetall Automotive has been working intensively for some time on the development of structural components for chassis made from aluminum casting, which can further reduce the weight of the vehicle. These involve complex chassis structures, relating for example to suspension strut support, as well as elements in vehicle axles that not only reduce weight but also offer functional advantages.

In view of developments in platforms for vehicles with conventional as well as alternative drive systems, lightweight vehicle constructions with precisely these types of structural elements are proving to be an interesting, up-and-coming area of business. Aluminum casting technology allows paraxial integration of electric drives, for example, or production of filigree housing structures for electric motors and batteries.

ECONOMIC REPORT

CAPITAL EXPENDITURE

EXPLOITING MARKET OPPORTUNITIES THROUGH HIGHER CAPITAL EXPENDITURE

As in previous years, the Rheinmetall Group made targeted investments in areas offering growth opportunities and enabling it to strengthen its profitability on a sustained basis, to increase its international competitiveness and to secure technological expertise in the business areas. Furthermore, to strengthen operating performance capacity and to improve efficiency, investments were made in the expansion and modernization of infrastructure, facilities, equipment, processes and manufacturing capacity. The Rheinmetall Group's capital expenditure on property, plant and equipment and intangible assets amounted to €291 million in 2015, compared with €245 million in the previous year. This is equivalent to 5.6% of consolidated sales (previous year: 5.2%). Capital expenditure was met with amortization and depreciation of €203 million (previous year: €197 million).

Capital expenditure € million

	2015	2014
Rheinmetall Group	291	245
Defence	96	76
Automotive (Net investments ¹)	167	158
Other/Consolidation	28	11

¹ Total capital expenditure minus payments of €19 million received from customers (previous year: €24 million)

RESPONSIBLE INVESTMENT POLICY CONTINUES AT RHEINMETALL DEFENCE

In 2015, Rheinmetall Defence invested a total of €96 million (previous year: €76 million) in property, plant and equipment and intangible assets. The investment ratio in 2015 was thus 3.7%, compared with 3.4% in the previous year. Of the capital expenditure volume, €15 million (previous year: €16 million) related to capitalized development costs from ongoing key technology projects.

Funds totaling €50 million (previous year: €32 million) were invested in the Combat Systems division. In particular, we completed the construction of a new multi-purpose hall in Neulüß for the production processes of welding, painting and assembly, which began in 2014. Protected compartments for military trucks will be produced in this state-of-the-art production hall. Construction of one of the largest and most modern paper deacidification plants in the world, with three treatment chambers and an annual volume of 120 tons, was completed at Nitrochemie in Aschau. This allows us to offer this civil application for preserving historical documents in accordance with the "Papersave" method in Germany as well, after it was successfully introduced in Switzerland by Nitrochemie Wimmis. In Boksburg, South Africa, the modernization program spanning several years was continued with investments in production and infrastructure facilities. In particular, a large X-ray machine with a linear accelerator was purchased, which will be used for quality assurance, and investments were made in the expansion of capacity for test, qualification and acceptance shelling.

Key capital expenditure in the Combat Systems division

	Country – location	Measure
Combat Systems	Germany – Neulüß	Production hall
	Germany – Aschau	Equipment for paper deacidification in line with the "Papersave" method
	South Africa – Boksburg	Modernization of infrastructure and production, quality assurance and testing capacity

ECONOMIC REPORT

CAPITAL EXPENDITURE

The total capital expenditure volume of the Electronic Solutions division amounted to €29 million in the period under review (previous year: €33 million). At Rheinmetall Defence Electronics, the investment of funds in the development of the Bremen site focused in particular on a new fire protection concept, integration areas and the renovation of buildings. Along with a development project relating to laser-supported single-use simulators for handguns used in field exercises, investment concentrated on the development of infrastructure and components for future mission equipment as advance preparation for future incoming orders. In the Air Defence unit, investments at the Zurich site focused in particular on anti-aircraft guns and naval reference guns for qualification purposes and for demonstrations at trade fairs and for customers. The reference gun for the navy is a light naval gun from the "Remote-Controlled-Gun" range. Its deployment scenarios are geared towards close-range targets at a distance of up to 2,000 meters and are below those of the Millennium gun, which is in a higher range and weight class. This product has been realized in cooperation with a South African partner and is aimed at new customers in particular. Work was also carried out on the further development of the GDF twin gun family. The focus of activities in Rome was on the further development of airspace radar technology to expand the product range.

Key capital expenditure in the Electronic Solutions division

	Country – location	Measure
Electronic Solutions	Germany – Bremen	Site development and development work in the area of mission equipment
	Switzerland – Zurich	Development of the GDF 009; production systems and tools in the air defense product area; reference guns
	Italy – Rome	Development of a radar with greater range

The Wheeled Vehicles division invested a total of €17 million in 2015, compared with €11 million in the previous year. In business with tactical vehicles, investments were made in four demonstration vehicles of the Boxer type, which will be used, among other purposes, for the tender for the Land 400 project in Australia. Another focus was on developing a new generation of military trucks in the HX 2 series in Vienna. At the sites in Kassel, Flensburg, Vienna and Ede, the focus of investment was on the expansion of production equipment and machinery.

Key capital expenditure in the Wheeled Vehicles division

	Country – location	Measure
Wheeled Vehicles	Germany – Kassel and Flensburg	Production facilities
	Austria – Vienna	Development of the new generation of military trucks; small parts store; tools; production facilities
	Netherlands – Ede	Production facilities

HIGH ADVANCE PAYMENTS AT RHEINMETALL AUTOMOTIVE

Net investment at Rheinmetall Automotive came to €167 million in 2015, after €158 million in the previous year (+€9 million). The high volume of capital expenditure in 2015 was due to the expansion of capacity following the acquisition of customer projects, the implementation of changes in technological requirements for various product groups and measures to adapt production sites.

The volume of capital expenditure in the Mechatronics division was €81 million in 2015, down €8 million on the previous year. Both of the division's business units invested mainly in the expansion of capacity for new customer projects. In the Pierburg unit, the focus was on the procurement of machines and systems to produce exhaust gas recirculation valves, truck applications and exhaust gas flaps. At the foundry in the new Lower Rhine plant, new casting cells were purchased and a general overhaul of existing facilities was carried out. Investing activities in the Pump Technology unit were heavily influenced by the trend towards technology products. In particular, the unit invested in production facilities for variable oil pumps and electrical water pumps. Tool costs and development projects were also capitalized in both areas.

Key capital expenditure in the Mechatronics division

Division	Country – location	Measure
	Brazil – Nova Odessa	Assembly facilities and tools to produce a front cover (new project)
	Spain – Abadiano Germany – Neuss	Assembly facilities and tools to produce a module for exhaust gas recirculation (new project)
	Italy – Livorno	Assembly facilities and tools to produce a variable oil pump (new project)
	USA – Fountain Inn	Assembly facilities and tools to produce exhaust gas recirculation systems (new project)

In fiscal 2015, the level of capital expenditure on property, plant and equipment and intangible assets in the Hardparts division was high, at €72 million. When comparing the figures with those for the previous year, it must be taken into account that the figure of €62 million for 2014 included €7 million for KS HUAYU Alu Tech GmbH, which was no longer consolidated as a joint venture in 2015. All areas in the division contributed to the increase of €17 million on a comparable basis. In business with small-bore pistons, the expansion of capacity for steel pistons in Germany and Mexico continued. Further capital expenditure in Mexico related to facilities for the localization of a program for a Japanese customer. In the Czech Republic there was investment in new buildings to extend and develop the site. In business with large-bore pistons, the site in the USA was extended and the construction of the Chinese plant continued as planned. Capital expenditure in business with bearings focused on India, where the sites were restructured. In addition, there were a large number of smaller modernization and rationalization measures typical for this area.

Key capital expenditure in the Hardparts division

Division	Country – location	Measure
	Czech Republic – Ustí	Foundry and production lines for aluminum small-bore pistons (extension)
	Mexico – Celaya	Production line for small-bore pistons (new project)
	India – Supa	Building for production of primary materials (new building)
	Germany – Neckarsulm	Production line for steel pistons for passenger cars (capacity expansion)
	Germany – Neckarsulm	Friction welding plant and processing machines for steel pistons for commercial vehicles (new technology and expansion of capacity)

Capital expenditure in the Aftermarket division of €14 million (previous year: €5 million) related primarily to the development of the production plant in the Czech Republic, an automatic small parts store and the construction of a new store at the Neuenstadt site. In addition, investments were made in software licenses and in factory and office equipment.

ECONOMIC REPORT

RHEINMETALL AG

EARNINGS SITUATION OF RHEINMETALL AG

The single-entity financial statements of Rheinmetall AG for fiscal 2015 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.

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

	2015	2014
Investment income	151	42
Net interest	(28)	(24)
Other operational income	95	101
Personnel expenses	31	25
Other expenses	122	99
EBT	65	(5)
Taxes on income and revenue	(8)	(1)
Net profit for the year (previous year: Net loss)	57	(6)
Changes in retained earnings	(9)	18
Net earnings	48	12

Net investment income of €151 million was achieved in fiscal 2015, compared with €42 million in the previous year. The Defence sector accounted for €65 million of this (previous year: €-78 million). The Automotive sector achieved net investment income of €85 million (previous year: €119 million).

Net interest from central financing declined by €4 million to €-28 million, compared with €-24 million in the previous year. This deterioration in the result is essentially due to increased interest expense for the bond issued (5.25% since September 23, 2014).

In connection with the performance of the duties of a holding company, other operating income and expenses were incurred amounting to a net figure of €-27 million (previous year: €2 million), along with personnel expenses of €31 million (previous year: €25 million). The overall year-on-year reduction in this net balance by €35 million mainly resulted from write-downs on financial assets taken in the fiscal year (€25 million; previous year: €15 million) and the recognition in income of the difference in pensions (€8 million).

Earnings before taxes amounted to €65 million (previous year: €-5 million). Tax expenses amounted to €8 million in the year under review (previous year: €1 million). After deduction of taxes, there was net income of €57 million for fiscal 2015 (previous year: net loss of €6 million). After appropriations to retained earnings, net earnings of €48 million (previous year: €12 million) were reported.

PROPOSED DIVIDEND

The Executive and Supervisory Boards of Rheinmetall AG are to propose to the Annual General Meeting on May 10, 2016 that the net earnings be used to pay a dividend of €1.10 per share, whereby the treasury shares held by Rheinmetall AG as treasury stock (as at December 31, 2015: 1,035,785) 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.

Total assets of Rheinmetall AG rose by €363 million to €2,091 million. This was mainly due to a €158 million increase in securities and a €123 million rise in cash in hand.

The financial assets include shares in associated companies in the amount of €1,048 million (previous year: €1,046 million). This represents a share in total assets of 50% (previous year: 61%). Receivables from and liabilities to associated companies amounted to €431 million (previous year: €334 million) and to €433 million (previous year: €382 million) respectively. They account for 21% and 21% of total assets respectively.

Of the total assets of €2,091 million as at December 31, 2015 (previous year: €1,728 million), €811 million (previous year: €527 million) is financed from equity. The equity ratio increased from 31% to 39%. In equity, the decline of €12 million due to the dividend payment for 2014 and the reduction in holdings of treasury shares by €8 million were offset by a rise of €230 million due to the capital increase and net income for the year of €56 million.

Liabilities as at December 31, 2015 were up €63 million year-on-year at €1,145 million. Of this increase, €51 million was the result of higher liabilities to subsidiaries.

ECONOMIC REPORT

RHEINMETALL AG

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

	12/31/2015	12/31/2014
Fixed assets		
Intangible assets, property, plant and equipment	36	31
Financial assets	1,065	1,064
	1,101	1,095
Current assets		
Receivables from affiliated companies	431	334
Other receivables, other assets	178	41
Cash in hand	381	258
	990	633
Total assets	2,091	1,728
	12/31/2015	12/31/2014
Equity	811	527
Provisions	135	119
Liabilities		
Bond	500	500
Liabilities due to banks	179	179
Liabilities to affiliated companies	433	382
Other liabilities	33	21
	1,145	1,082
Total liabilities	2,091	1,728

ECONOMIC REPORT

RISKS AND OPPORTUNITIES

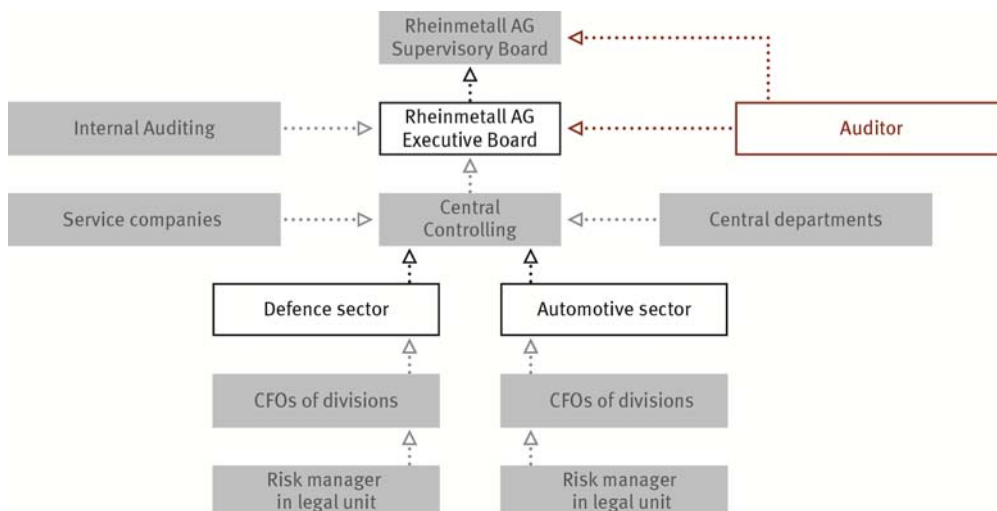
RISK MANAGEMENT SYSTEM

The standardized risk management system that has been introduced throughout the Group for the early recognition of material risks and risks that could jeopardize the continued existence of the Group is based on risk policy principles stipulated by the Executive Board of Rheinmetall AG, which are geared towards financial resources and strategic and operational planning and which specify guidelines, responsibilities and the treatment and documentation of identified risks, as well as thresholds. This ensures that corporate decisions and business activities are monitored on an ongoing basis and are actively managed, and enables any necessary action to be determined as required in order to comply with legal requirements.

In order to identify, analyze and assess 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 sub-targets, probabilities of occurrence, the potential level of damage, early warning indicators, responsibilities and suitable countermeasures. On this basis, the operating units and central functional departments record, process and communicate the risks associated with their current business situation and future development each month in accordance with prescribed standardized parameters, along with the probabilities of occurrence and financial impact of these risks.

These detailed reports, which are an integral part of the integrated planning, management and information process, inform the Executive Board and managers of the status of and significant changes to important ventures subject to reporting requirements, and the status of countermeasures that have already been introduced. The measures introduced to ensure appropriate management of identified risks are monitored on an ongoing basis and adjusted to a new risk assessment where necessary. If necessary, adequate additional measures are taken in order to further limit and reduce identified potential risks. The Executive Board of Rheinmetall AG is regularly informed by Group Controlling of developments in the Group's overall risk situation. Unexpected material risks and undesirable developments with significant consequences are reported to the Executive Board on an ad hoc basis.

Risk organization



ECONOMIC REPORT

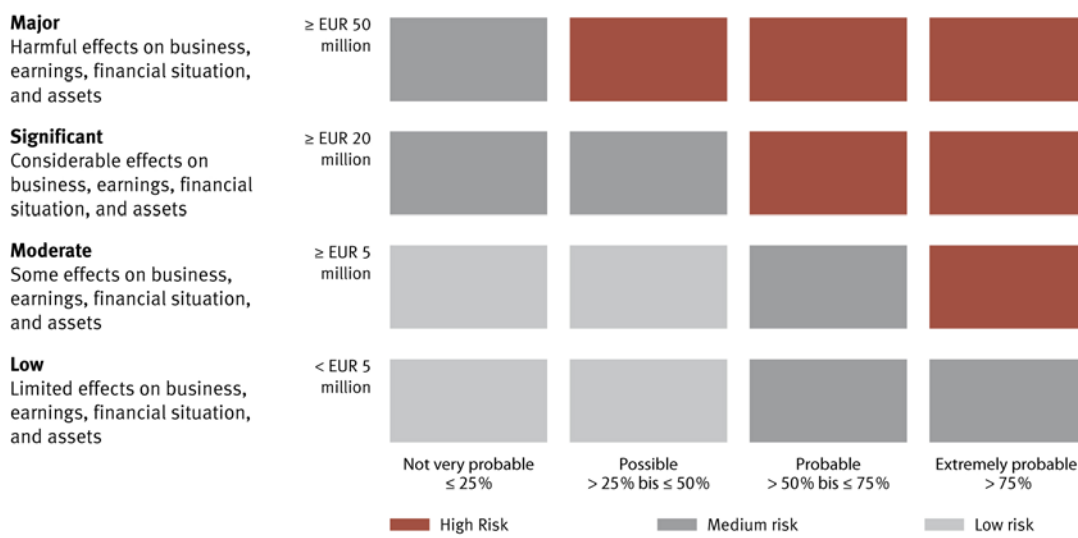
RISKS AND OPPORTUNITIES

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	Possible	Considerable
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	Possible	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

Risk classes



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 dependence on individual 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 balance out 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 the ability to identify technological trends in good time and correctly assess their impact on operational business, to develop new, marketable applications, products and systems and to introduce 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.

However, 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 safeguarding our technological position through patents reduces potential R&D-specific risks such as mis-developments and budget overruns.

ECONOMIC REPORT

RISKS AND OPPORTUNITIES

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 may arise. Risks can also arise 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.

QUALITY RISKS

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

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

We counter potential production risks by applying high technical and safety standards. The availability of production plants is ensured through preventative maintenance with ongoing checks, constant modernization and targeted investment. For potential damage and associated interruptions to operations or production downtime and for other conceivable loss occurrences and liability risks, insurance cover has been taken out as financially reasonable to ensure that the financial consequences of potential risks are contained or completely ruled out. Although the existing insurance cover is regularly reviewed in terms of covered risks and insured sums and adjusted if necessary, it may prove insufficient in individual cases.

PROJECT RISKS

The scope and complexity of projects can entail risks in planning, calculating, implementing and processing. These include not only uncertainty in calculations, but also unexpected technical problems, underestimations of the level of complexity, cost increases, capacity and supply bottlenecks as well as 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, project milestones, verification levels for each project stage, comprehensive quality management measures and the appropriate formulation of contracts.

ACQUISITION AND INTEGRATION RISKS

Acquisitions, strategic alliances and joint ventures remain an important element of the Group's ongoing internationalization and growth strategy, in order to increase its market share, improve its market positions and supplement existing business. Potentially complementary companies are subjected to a careful analysis of opportunities and risks through extensive due diligence procedures, and are assessed on the basis of yield/risk considerations. Following approval proceedings carried out over several stages, the Executive Board and, if applicable, the Supervisory Board of Rheinmetall AG decides on the acquisition project. However, it is possible that the objectives and potential synergies that the Group is pursuing with the acquisition may not be achieved or may not be achieved to the planned extent. The integration process could also prove to be more difficult, time-consuming and cost-intensive than expected. Risks can arise in connection with the activities of newly acquired companies that were either not previously known or not considered significant.

PROCUREMENT RISKS

Risks can arise in connection with the purchasing of raw materials, parts and components in the form of unexpected supply shortages, delays or bottlenecks in delivery, quality problems or price increases. This is countered through ongoing market monitoring, structured procurement concepts and the avoidance of dependence on individual suppliers. International purchasing activities, careful selection of suppliers, annual supplier reviews, quality and reliability checks on suppliers, alternative suppliers, medium- and long-term supply contracts and appropriate safety stocks also reduce potential risk. Cost escalation clauses are also agreed in contracts where possible, to minimize negative effects from increases in purchase prices.

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 on to customers. Rising energy costs are addressed by bundling procurement volumes and through coordinated invitations to tender, long contract durations and optimization of 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 in the international marketplace.

IT RISKS

Information and data are exposed to a range of growing threats with regard to availability, confidentiality and integrity. The networking of sites and complex systems in organizational and IT terms entails risks. Disturbances to IT systems, applications and infrastructure components that are critical to operations can severely compromise the management of business and production processes and cause serious harm to the business. Networks can fail, disturbances and interruptions to operations can occur, and data can be falsified, destroyed or stolen as a result of program or user errors, manipulation or external influences. Potential risks relating to information technology are limited through modern IT infrastructure standards, IT security guidelines and adequate precautions to protect against the loss of data, unauthorized access to data or misuse of data.

ECONOMIC REPORT

RISKS AND OPPORTUNITIES

Networks can fail, disturbances and interruptions to operations can occur, and data can be falsified, destroyed or stolen as a result of program or user errors, manipulation or external influences. Potential risks relating to information technology are limited through modern IT infrastructure standards, IT security guidelines and adequate precautions to protect against the loss of data, unauthorized access to data or misuse of data. Regular investment ensures that the software and hardware installed uses state-of-the-art technology. Appropriate back-up and recovery procedures are also implemented, along with virus scanners and firewalls. Together with competent service partners certified to ISO 27001, the technical configuration, functional security structures and efficient operation of the IT architecture are reviewed on a regular basis and continuously improved.

PERSONNEL RISKS

The achievement of our ambitious corporate targets and the lasting economic success of the Rheinmetall Group depend to a large extent on the qualifications, knowledge, skills and motivation of employees. Fluctuations in personnel and problems recruiting qualified specialist staff and managers with the desired commercial, technical or industry-specific skills could constitute a risk. The Group counters this with attractive remuneration and benefits systems, comprehensive qualification programs, individual development opportunities, early identification and fostering of future talent and consistent management development. In view of demographic change, age structure analyses are carried out and the results are taken into account when organizing work and structuring the organization, as well as in staff planning and qualification measures.

PENSION RISKS

The Rheinmetall Group's companies in Germany, Switzerland and other countries have awarded 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 represents 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.

ENVIRONMENTAL REQUIREMENTS

A large amount of land owned by the Rheinmetall Group has been subject to industrial usage for decades. For this reason, it 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 could lead to additional unplanned costs and liability risks over which Rheinmetall would have no influence.

LEGAL RISKS

Legal risks can arise due to legal disputes with competitors, business partners or customers and as a result of changes to the legal framework in the relevant markets. 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 losses, 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 in 2003, investors initiated legal proceedings in order to review the adequacy of the cash compensation of €26.50 per share 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 lodged an appeal against this decision at the Düsseldorf Higher Regional Court on October 12, 2012. On September 3, 2014, the Higher Regional Court announced that in parallel proceedings the Senate had submitted the question of the valuation standards to be applied, which is also relevant to this case, to the Federal Court of Justice for a decision. The Federal Court of Justice ruled on September 29, 2015 that the valuation standard IDW S1, as amended in 2005, also applies to previous cases, as it rectifies errors and inadequacies in IDW S1 as amended in 2000 and thus comes closer to the "true" value. The Düsseldorf Higher Regional Court has asked the parties to comment on the decision of the Federal Court of Justice and has given Rheinmetall a deadline of March 24, 2016 and the joint representative of the minority shareholders a deadline of April 29, 2016 for this.

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 and economically viable. However, it is naturally 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, after a thorough review, we do not believe this will occur.

COMPLIANCE RISKS

Compliance cases can cause many different types of damage and can have serious consequences, such as the discontinuation of business relationships, exclusion from orders, negative assessments on capital markets, imposition of fines, the absorption of profits, claims for damages as well as civil or 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. In itself, the examination and clarification of alleged cases can result in considerable internal and external costs.

The compliance organization is designed to ensure proper modes of conduct and behavior on the part of a company and its employees and to 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.

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However, despite extensive and multi-level inspection and control mechanisms, the possibility of risks arising from unlawful activities of individual parties cannot be ruled out. Alleged cases are investigated actively. In investigative proceedings we cooperate with the relevant authorities. Proven misconduct results in consequences for those involved as well as adjustments in the organization. However, the financial impact of compliance cases on the Group result is very difficult to estimate. Depending on the case and the circumstances, a not insignificant range is to be assumed.

REGULATORY RISKS

Regulatory and 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

Tax risks can result from changes in the legal or tax structure of the Group or from assessment periods which are still open. The 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 large 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 twelve-month planning. The projected net liquidity position is compared with the available financial scope to identify potential financing gaps at an early stage. Rheinmetall takes care to ensure that adequate reserves are held for potential deviations from planning at all times. Rheinmetall's liquidity requirements are currently financed in the long term by the new syndicated credit facility that is due to run until at least September 2020, the promissory note loans issued in 2014 for five, seven and ten years and the bond that is due to mature in 2017. To cover peaks in liquidity throughout the year, Rheinmetall has direct access to the money market with its commercial paper program and asset-backed security program, as well as various bilateral credit facilities. Financing requirements are therefore covered on a broadly diversified basis, both on the money and capital markets and via individual banks or several banks.

Prepayments represent another key element in managing liquidity risks, particularly in project business in the Defence sector. Guarantees must regularly be provided for these. Once again, requirements are derived here from project plans and care is taken to ensure that the necessary credit lines are generally utilized at a maximum rate of between 50% and 70%, to allow adequate scope for future or unplanned guarantee volumes.

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 of 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.

Rheinmetall reduces risks arising from changes in market prices, such as exchange rates, interest rates or raw materials, as far as possible through appropriate contractual agreements. With regard to currency, this essentially involves cost escalation clauses, in which long-term price agreements refer to specific rates and are adjusted over time. To estimate any additional potential impact on earnings, Rheinmetall simulates simple scenarios and derives hedging strategies on the basis of these, which reflect the different business structures of the corporate sectors. Interest rate risks arise from changes in interest rates on the money and capital markets and occur in two forms: variable-interest financial instruments are subject to a cash flow risk, as future interest payments can fluctuate in terms of their amount; in the case of fixed-interest financial instruments, valuation effects occur that are of relevance to earnings, as a result of fluctuations in fair values depending on interest rates. Both of these effects are of only minor importance to Rheinmetall. Of the long-term financing with the bond and the promissory note loans, over 80% is contractually fixed and the excess portion is fixed through derivatives in the interest rate. As these figures are recognized at amortized cost, fluctuations in fair value affect neither earnings nor equity. The cash flow risk from variable interest on shorter-term money market programs is largely offset by corresponding opposite cash positions in the Group. Commodity price risks are limited by agreeing price variation clauses in customer and supplier contracts. In cases where this is not possible or is possible 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. For the management of all market price risks, hedging decisions are made and documented in regular committee meetings and only standard instruments 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 and economic influences and changes in the armaments 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 the awarding of contracts, time extensions or even the cancellation of orders. Risks also arise from increasing transatlantic competition. Moreover, there is tough international competition on export markets to which the Group has access.

Higher pre-financing due to worsening conditions for prepayments and possible financial investments in projects also constitute risks.

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RISKS AND OPPORTUNITIES

Unforeseen difficulties with the implementation of projects can also lead to unplanned charges. As well as uncertainty in calculations, these include altered economic and technical terms and conditions following the conclusion of a contract, unplanned changes or additional customer requirements, 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 even payment defaults on the part of contractual parties may unexpectedly arise.

Rheinmetall Defence has a strong export orientation. Approximately 68% of sales are achieved with customers outside Germany. New laws or changes to general legal conditions, in procedural matters with existing directives or in the licensing practice for military equipment exports can negatively impact the development of our Defence business and thus the earnings situation at the Rheinmetall Group.

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. 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, their 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 Defence sector, which since January 2016 has been divided into the three divisions of Weapon & Munition, Electronic Solutions and Vehicle Systems, 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 Boxer protected transport vehicle, the Puma infantry fighting vehicle and the Gladius infantry project, are key factors in winning further orders abroad.

Opportunities thanks to political developments – Foreign deployments of UN and NATO troops, crisis intervention, peace keeping missions, as well as the increasing importance of defending alliances: Due to constant changes in national and international security and defense policy, brought about, for example, by geopolitical realignment of economically strong nations, political upheaval, new hot spots and escalating conflicts, the armed forces of the 21st century are facing new challenges in national security, as well as in the planning, implementation and securing of 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 – Despite a recent moderate rise in defense budgets, including those of countries that have traditionally been important Rheinmetall customers, Defence's strategic priority lies in tapping into new growth markets. We believe the Middle East, Asia and Australia represent particularly attractive growth opportunities.

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. This may occur as a result of targeted acquisitions of products and/or technology or on the basis of company acquisitions which allow more rapid regional market access.

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 our international presence and by marketing products outside the automotive industry. Advantageous economic parameters for new locations and the expansion of existing production capacities are exploited.

Additionally, the diversified customer structure allows fluctuations in the production figures of individual automotive manufacturers to be balanced out. Thanks to the broad product range and low reliance on individual customers, it is possible to cushion price risks, weak demand and insolvency risks.

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RISKS AND OPPORTUNITIES

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

From today's perspective, the global automotive market remains a growth market. Experts at IHS Automotive currently forecast growth of an average of 3.1% p.a. in worldwide production of light vehicles in the class up to 6.0 t until 2020. We also see further opportunities in addition to this fundamentally positive development in the global automotive industry.

Technological opportunities – The combustion engine will remain the dominant drive system for individual mobility in the short to medium term. However, the engines used will have to comply with increasingly stringent international regulations with regard to emissions of pollutants, particularly carbon dioxide, which affects the climate.

Development engineers influence consumption and emissions in diesel and gasoline engines both directly, through technical measures relating to mixture control and gas exchange, and through applications that will indirectly help to minimize friction losses and utilize auxiliary units according to individual needs. Rheinmetall Automotive already offers a wide range of innovative and competitive components and systems in both areas. These include divert-air valves, wastegate actuators and pressure control valves for exhaust gas turbochargers as well as specially coated pistons, plain bearings and engine blocks and variable oil, coolant and vacuum pumps. Building on this high level of technological expertise, Rheinmetall Automotive will further exploit its capacity for innovation.

However, the role of the combustion engine is set to change. The proportion of vehicles that rely solely on a combustion engine will decline in the medium to long term, while the use of hybrid vehicles will increase as a bridge technology to electromobility, electromobility and vehicles with fuel cells. The ongoing trend towards alternative drive systems will strengthen the role of lightweight design. Thanks to the expertise it has built up over many years in casting technology, particularly for aluminum, Rheinmetall Automotive has opportunities here in new applications. For partially or fully electric drives, we already have products that can be used in these applications after suitable adaptation.

In addition, as well as a so-called range extender, which can be used to help electric vehicles to travel longer distances, we have developed a thermal management module that ensures that the vehicle battery is cooled and that the passenger compartment is heated and cooled.

Geographical opportunities – Rheinmetall Automotive intends to continue optimizing its business activities from a geographical viewpoint in future, according to the needs of the automotive markets. In particular, the emerging economies of India and China 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 emissions of pollutants and carbon dioxide. Our aim is to benefit from these megatrends through the prudent expansion of our existing production capacities in China and India and the deployment of our expertise from the major automotive markets in NAFTA and Western Europe. In concrete terms, we will build on our market presence in China, for example, in order to exploit 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 with the aid of our production facilities in Pune, Ahmednagar and Supa.

Opportunities through diversification – Policies on pollutants and greenhouse gases set targets not only for passenger cars and light commercial vehicles, but also for heavy commercial vehicles. Particularly stable, highly-developed and innovative drive systems must therefore also be introduced for heavy commercial vehicles. Rheinmetall Automotive uses its extensive specialist knowledge, developed in connection with advanced drive technologies for passenger cars, for these vehicles as well. We also have long-standing close relations with manufacturers of heavy commercial vehicles, which we have developed as a key pistons supplier in this segment. We were therefore also able to supply 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 to win related contracts. We also used our specialist technological expertise 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. We have a strong position on the global replacement parts market for drive systems because we sell well-known premium brands such as Kolbenschmidt, Pierburg and TRW via the Aftermarket division and have a distribution network that we have built up specifically, as well as offering attractive margins. One of our core assets is an efficient IT system, which allows us to deliver the products ordered by our customers at short notice. The product packages we create for our customers contain our own products and third-party products, which helps us to offer our customers a "one-stop shop" for all parts and tools.

ECONOMIC REPORT

RISKS AND OPPORTUNITIES

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 into 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 this IFRS single-entity financial statement data is recorded, it 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 an authority that is independent in terms of instructions and processes in line with a guideline promulgated by the Executive Board, Internal Auditing examines workflows, structures and procedures for their suitability, effectiveness, security and correctness on the basis of an audit plan adopted by the Executive Board. The audit plan establishes the focal areas for the risk-oriented audit activities and the scope of the audits to be performed. These are then implemented by the auditing companies as mandated by Rheinmetall AG. Risks identified and weaknesses discovered during these audits are promptly eliminated by the management responsible. The Executive Board and Audit Committee of the Supervisory Board are informed of the results of the audit and of the implementation status of improvement measures in a review.

The auditors examine the consolidated financial statements and the summarized management report to determine whether they comply with applicable accounting regulations and other relevant provisions. They check the IFRS accounting guidelines and make 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 establish 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 Wirtschaftsprüfungsgesellschaft, examined the early risk identification system of the Rheinmetall Group to ensure that it complies with the provisions of the Stock Corporation Act as part of its audit of the consolidated annual financial statements and confirmed that it fulfills all legal requirements in accordance with Section 91 (2) AktG and is suitable for identifying developments that could jeopardize the continued existence of the Group at an early stage.










In accordance with the basis outlined for the assessment of risk factors and taking into account the overall risk situation, major asset, financial and earnings risks jeopardizing the Rheinmetall Group on a long-term basis were not identifiable during the past fiscal year. The overall risk situation in the Rheinmetall Group did not change substantially in fiscal 2015 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.

ECONOMIC REPORT

PROSPECTS

GENERAL ECONOMIC CONDITIONS

Real economic growth	%	Key statements on forecast economic development in 2016
WORLD		3.4 Muted growth prospects <ul style="list-style-type: none"> IMF lowers its economic forecast from October 2015 by 0.2 percentage points Increased risks from the difficult restructuring of the Chinese economy, the USA's entry into a more restrictive monetary policy, the drop in oil prices and the weakness of major emerging economies Mature economies continue to record moderate growth of 2.1% Recovery in emerging economies progresses more slowly than originally expected, with growth of 4.3% Uncertainty at the beginning of the year due to turbulence on the stock markets and comparatively weak economic data in China
EURO ZONE		1.7 Recovery gradually gains momentum <ul style="list-style-type: none"> Steady but only moderate economic recovery continues IMF raises its growth forecast for 2016 by 0.1 percentage points Upturn in Spain stabilizes (+2.7%), while recovery progresses only slowly in France (+1.3%) and Italy (+1.3%) ECB signals further easing of monetary policy at the beginning of 2016
GERMANY		1.7 German economy still in robust condition <ul style="list-style-type: none"> IMF believes Germany is on a stable growth course and raises its forecast for 2016 by 0.1 percentage points Growth is more strongly driven by the impetus of the domestic economy than in previous upturns ifo business climate index falls in January 2016 for the second consecutive month, due to increasing concerns about the Chinese economy and developments in crude oil prices
RUSSIA		-1.0 Russian economy still in crisis <ul style="list-style-type: none"> Drop in oil prices and western sanctions put a strain on the Russian economy Low revenue from exports of raw materials exacerbates the tense situation with regard to the state budget Russian ruble still in decline at the start of the year
USA		2.6 Ongoing upturn in the US economy <ul style="list-style-type: none"> Private consumer spending continues to point upwards Corporate investments pick up thanks to good sales prospects Experts expect further steps to be taken towards a more restrictive monetary policy
BRAZIL		-3.5 Brazil remains in a recession <ul style="list-style-type: none"> Still no signs of economic recovery at the beginning of 2016 Slowdown in consumption and rising unemployment expected Monetary policy remains restrictive, to curb inflation
INDIA		7.5 India is on the up <ul style="list-style-type: none"> IMF once again expects stronger growth for the Indian economy than for China As it is less strongly integrated into the global economy, India is not yet able to compensate for the declining momentum in the Chinese economy Indian economy is benefiting in particular from state infrastructure measures
CHINA		6.3 Increasing concerns about economic growth <ul style="list-style-type: none"> According to the IMF, the economic slowdown reflects weaker investment and declining momentum in industrial production Turbulence on the stock markets causes market uncertainty worldwide Chinese currency reserves fall due to massive state intervention against falling stock market prices
JAPAN		1.0 Only a weak upward trend in the Japanese economy <ul style="list-style-type: none"> Japanese government decides on record budget for 2016 financial year, amounting to the equivalent of €731 billion Nevertheless, economic experts do not expect a quick boost to growth and an end to deflation

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WEAK ECONOMIC DATA FROM CHINA AND DROP IN OIL PRICES DAMPEN GROWTH PROSPECTS

The global economy had a turbulent start to 2016, with growing uncertainty about further economic recovery. In addition to the slump in oil prices, repeated drops in share prices on China's stock markets and the slowdown in growth in the Chinese economy heightened concerns about the global economy. Accordingly, the International Monetary Fund (IMF) revised its worldwide growth forecast for 2016 downwards by 0.2 percentage points to 3.4% in January. In particular, the IMF referred to the difficult restructuring taking place in the Chinese economy, economic weakness in major emerging countries, the drop in oil prices and the USA's decision to embark on a more restrictive monetary policy. On the other hand, the IMF was more optimistic in its assessment of the situation in euro zone countries than it had been a year previously. Economic experts also consider the German economy to be in comparatively robust condition in their "World Economic Outlook Update". However, the IMF has issued a clear warning with regard to the global economy: If these major challenges cannot be successfully overcome, "global growth could be derailed."

GLOBAL DEFENSE SPENDING SET TO RISE AGAIN

After global defense spending remained more or less constant year on year in 2015, a rising trend is becoming apparent again in 2016. Defense analysts at IHS Jane's expect the global defense sector to grow to a volume of USD 1,680 billion (2015: USD 1,653 billion). Among other factors, this reflects increased investment in defense in the USA in 2016, following a decline in the previous year's budget. The US budget is set to grow from around USD 595 billion in 2015 to USD 614 billion this year. Moreover, as well as major emerging countries such as India and China, some western industrialized nations will also make more funds available again for the modernization of their armed forces.

In view of growing deployment requirements, the German government has announced that it will invest more in the modernization of military equipment. In January 2016, Ursula von der Leyen, Germany's Minister of Defense, presented plans to the defense committee for "task-oriented equipment for the German armed forces". According to these plans, the German armed forces' requirements for military procurement in the next 15 years will total €130 billion. The Minister of Defense is quoted in an official press release as saying that Germany's armed forces have been postponing "an enormous need for modernization". As well as foreign deployments, she says that changes in the challenges faced in terms of security policy will cause national security and the defense of alliances to become more important again, which will have an impact on the material equipment of the German armed forces.

Defense budgets of selected countries

Country	Currency	2016	2015	Change in %
Germany	€ billion	34.37	32.97	4.2
World	USD billion	1,679.92	1,652.47	1.7
USA	USD billion	613.48	595.33	3.0
Great Britain	USD billion	66.94	66.55	0.6
France	USD billion	56.89	56.47	0.7
India	USD billion	54.84	49.65	10.5
Australia	USD billion	32.57	34.26	-4.9
Algeria	USD billion	12.49	12.43	0.5
Poland	USD billion	11.48	12.17	-5.7
Netherlands	USD billion	10.77	10.58	1.8
South Africa	USD billion	4.14	4.11	0.7

Source: IHS Jane's as at January 2016

ECONOMIC REPORT

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WHILE GERMANY REMAINS THE MOST IMPORTANT INDIVIDUAL MARKET, INTERNATIONAL MARKET OPPORTUNITIES HAVE BEEN EXPLOITED IN A RESPONSIBLE WAY

As a leading European systems supplier for armed forces technology and a long-standing industrial partner for large procurement projects of the German armed forces, Rheinmetall Defence is in a good starting position to benefit from the modernization offensive announced by the German government. At the same time, our targeted internationalization strategy has laid the foundations to allow us to participate in military modernization programs outside Germany and NATO as well. As a defense technology company, we are aware of our responsibility and will pursue our international market activities only in accordance with the general conditions of foreign policy and security policy as set out by the government. For Rheinmetall Defence we see appropriate conditions for further international growth in NATO states such as the United Kingdom, Turkey and Poland, for example, as well as in friendly nations such as Australia and the MENA region.

Our civil business activities will also be expanded further. By way of example, we received an order in December 2015 from Mexico, where we won a contract to build and operate a modern training center worth a total of approximately €250 million. The center will be used to train staff who operate production platforms for the Mexican state-owned oil and gas group PEMEX. Following a three-year construction and installation phase, Rheinmetall will run the center in Mexico for a period of 12 years.

MAJOR AUTOMOTIVE MARKETS STILL EXPERIENCING AN UPTURN, WITH POSITIVE PROSPECTS

The automotive industry's strong finish to the year under review gives it "reason to be confident", according to the Association of the German Automotive Industry (VDA). This optimistic assessment is also supported by production forecasts by analysts at IHS Automotive for 2016, which state that the signs point to further growth in the two biggest automotive markets of China and the NAFTA region, while recovery in Western Europe will continue. Of the major automotive markets, only Brazil is showing signs of a significant slowdown, due to the ongoing recession. Looking at all markets collectively, IHS Automotive anticipates growth of 3.2% in production in 2016 in our most important segment of passenger cars and light commercial vehicles up to 6.0 t, to around 91.1 million units.

Production of passenger cars and light commercial vehicles up to 6.0 t in selected countries Millions of units

Country	2016	2015	Change in %
World	91.11	88.25	3.2
Western Europe (incl. Germany)	15.76	15.42	2.2
Germany	5.98	5.93	0.8
Eastern Europe	5.41	5.41	0.0
Russian Federation	1.30	1.28	1.6
NAFTA	18.22	17.48	4.2
USA	12.40	11.86	4.6
Brazil	2.17	2.32	-6.5
Asia (incl. Japan)	47.67	45.77	4.2
Japan	8.92	8.72	2.3
China	24.52	23.31	5.2
India	4.16	3.81	9.2

Source: IHS Automotive as at January 2016

TRUCK MARKET RECOVERING – BRAZIL LOWERS FORECAST FOR HEAVY COMMERCIAL VEHICLES

After the heavy commercial vehicles sector was boosted in fiscal 2015 by catch-up effects in Western Europe in particular, IHS Automotive anticipates a positive trend in almost all the major markets in 2016. As with the passenger car and light commercial vehicle segment, only the crisis-hit Brazilian market is an exception here (-13.2 %). In contrast, production of engines for heavy trucks is expected to experience particularly dynamic growth in India (+11.1 %) and China (+6.4 %). In total, IHS Automotive predicts growth of 4.5 % in worldwide production of engines for heavy commercial vehicles over 6.0 t. This would correspond to production of around 2.78 million units.

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

Country	2016	2015	Change in %
World	2,784	2,664	4.5
Western Europe (incl. Germany)	445	438	1.6
Germany	140	136	2.9
NAFTA	550	526	4.6
USA	358	342	4.7
Brazil	59	68	-13.2
Asia (incl. Japan)	1,634	1,546	5.7
Japan	332	330	0.6
China	800	752	6.4
India	319	287	11.1

Source: IHS Automotive as at January 2016

THE TRENDING ISSUE OF ENVIRONMENTALLY FRIENDLY MOBILITY – AUTOMOTIVE POSITIONS ITSELF ON GROWTH MARKETS

Environmentally friendly mobility has increasingly become a key issue in both the passenger car and the commercial vehicle market. As a globally operating automotive supplier, we provide the right answers to a pivotal megatrend in the automotive industry with our expertise in the areas of emissions reduction, air management and pumps and in the development and production of pistons, engine blocks and plain bearings. Rheinmetall Automotive will continue to make an important contribution to reductions in consumption and emissions in future. Our strong international presence allows us to benefit from regulatory targets for the optimization of combustion engines worldwide. Rheinmetall Automotive underlined this ambition once again at the North American International Auto Show in Detroit in January 2016, when it presented itself as a supplier with a clear focus on the issue of efficient drives. Our highlights of the trade fair included solutions for exhaust gas recirculation and lightweight engine designs, as well as heat pumps for extending the range of hybrid and electric vehicles.

ECONOMIC REPORT PROSPECTS

EXECUTIVE BOARD STATEMENT ON EXPECTED DEVELOPMENT IN 2016

Sales growth in both corporate sectors – We expect the Rheinmetall Group to continue its growth course in fiscal 2016. We anticipate an increase in sales of more than 5% to around €5.5 billion, compared with about €5.2 billion in 2015. As in the previous year, this growth will be driven by both corporate sectors. This positive trend will require stable development in the global automotive sector and the implementation of large projects in the Defence sector according to schedule.

Sales – 2016 forecast

		Forecast 2016		2015
Rheinmetall Group	€ billion	~ 5.5	€ billion	5.2
Defence	€ billion	~ 2.8	€ billion	2.6
Automotive	€ billion	~ 2.7	€ billion	2.6

Based on the relatively high coverage of sales expectations for 2016 on the basis of the existing order backlog at the beginning of the year, including in a multi-year comparison, we expect sales of the Defence sector to grow to around €2.8 billion, compared with just under €2.6 billion in 2015. The development of sales in the Automotive sector will be determined by the performance of the worldwide automotive industry. Experts currently expect automotive production to rise by about 3% this year. We expect Rheinmetall Automotive to grow at a slightly faster rate than the market and therefore predict sales of around €2.7 billion in fiscal 2016.

Improvement in earnings and further increase in profitability at Defence – We anticipate further improvements in earnings in the Group for fiscal 2016. Following a return to a positive result in the last fiscal year and in view of anticipated sales growth in 2016, we expect a further increase in profitability for the Defence sector.

Operating result – 2016 forecast

		Forecast 2016		2015
Rheinmetall Group	%	6	%	5.5
Defence	%	4.5 to 5	%	3.5
Automotive	%	8	%	8.3

In the Defence sector, we forecast a return on sales of between 4.5% and 5.0% based on earnings before interest and tax (EBIT) in fiscal 2016. We expect profitability to remain stable in the Automotive sector in 2016 and thus anticipate a return of about 8%. Taking into account holding costs of around €20 million, this results in an expected return of about 6% for the Rheinmetall Group. With a slight increase in net investment income for the Rheinmetall AG management holding, net income in the low double-digit millions of euros is expected in fiscal 2016.

Group EBT – On the basis of the expected improvement of Group EBIT and an improvement in the net interest result against the previous year, we anticipate a corresponding rise in the EBT margin across the Group.

Return on capital employed (ROCE) – As a result of the forecast growth, we expect a moderate increase in capital employed in the current fiscal year. If Group EBIT increases as assumed, we anticipate a rise in return on capital employed to between 10% and 11%.

CORPORATE RESPONSIBILITY

EMPLOYEES

KEY FIGURES

Employees in the Rheinmetall Group

	2015	2014	2013	2012	2011
Employees	22,640	22,065	23,082	23,471	22,641
Men	18,066	17,636	18,669	19,267	18,250
Women	4,573	4,429	4,413	4,474	4,391
Trainees	822	838	911	899	801
Germany	480	495	561	578	579
Abroad	342	343	350	321	222
Part-time staff	898	813	800	768	773
Interns	380	289	319	309	280
Graduates	127	127	126	178	168
Disabled persons Germany	552	539	625	627	657
Foreign employees in Germany	705	694	895	878	898
Length of service in years	13.7	14.0	14.0	14.1	14.2
Average age in years	43.7	43.7	44.0	43.5	43.5

Employees in Germany and abroad

	2015	2014	2013	2012	2011
Total	22,640	22,065	23,082	23,471	22,641
Germany	11,323	11,024	11,815	11,947	11,959
Abroad	11,317	11,041	11,267	11,794	10,682
Europe excl. Germany	4,102	3,762	3,694	3,857	2,981
Europe Non-EU	1,300	1,293	1,436	1,532	1,596
North America	1,321	1,299	1,363	1,469	1,469
South America	2,176	2,310	2,533	2,464	2,327
Asia	1,167	1,119	1,064	1,148	979
Africa	1,132	1,160	1,121	1,299	1,320
Australia	119	98	56	25	10
Ratio abroad	50	50	48.8	49.7	47.2

Female employees by area

	Defence		Automotive		Holding + Service Companies		Rheinmetall Group	
	Number	%	Number	%	Number	%	Number	%
2015	1,833	17.5	2,662	22.2	78	42.2	4,573	20.2
2014	1,735	17.3	2,619	22.1	75	44.6	4,429	20.1
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

Other key figures

		2015	2014	2013	2012	2011
Personnel expenses	€ million	1,390	1,272	1,308	1,337	1,260
Personnel expenses/employees	€ '000	61	58	57	63	62
Sales/employees	€ '000	229	212	200	217	218
Personnel expenses ratio	%	27	27	28	28	28

CORPORATE RESPONSIBILITY

EMPLOYEES

22,640 EMPLOYEES WORLDWIDE ARE COMMITTED TO RHEINMETALL'S SUCCESS

The Defence and Automotive sectors operate in highly competitive markets that are shaped by rapid change and increasingly complex technologies, processes and products. With their knowledge, skills and dedication, employees of the Rheinmetall Group play an important part in the achievement of corporate targets and in helping to secure and expand the Group's economic success on a sustainable basis in the long term. They identify with a unique corporate culture that emphasizes trust, professional achievements, initiative, personal responsibility, shared values and a common understanding, and work together in a spirit of partnership across functional, divisional and national boundaries.

A total of 22,640 employees worked for Rheinmetall as at the 2015 balance sheet date, compared with 22,065 as at December 31, 2014. 20.2% of the workforce was female (previous year: 20.1%). Of the total workforce, 46.3% were employed in the Defence sector (previous year: 45.6%), 52.9% in the Automotive sector (previous year: 53.7%) and 0.8% at Rheinmetall AG and the service companies (previous year: 0.7%). The percentage of employees working abroad was 50.0%, as in the previous year. The bulk of those working abroad were based in Europe, at 5,402 people (previous year: 5,062) (of which non-EU countries: 1,300, previous year: 1,300), while 2,176 employees were based in South America (previous year: 2,310) and 1,321 in North America (previous year: 1,299). 1,132 employees were in Africa (previous year: 1,160) and 119 in Australia (previous year: 98). The number of employees in Asia rose to 1,167 (previous year: 1,112).

The Defence and Automotive sectors have traditionally been dominated by men, who predominantly tend to choose technical or scientific subjects for study and professional training. On top of that, men also tend to prefer the defense and automotive industries. Moreover, while the proportion of female students on engineering courses that are of relevance to Rheinmetall stands at around 25% overall, only one in ten mechanical engineering students was a woman, for example, while for automotive engineering and mechatronics the percentage of women was even lower (6% and 7% respectively). For these reasons, the percentage of women occupying management positions in our technology group is lower than in other industries. In the year under review, the Rheinmetall Group employed 2,112 managers across its first four levels (previous year: 2,028), of whom 166 or 7.9% were women (previous year: 146 or 7.2%). Of the senior management staff comprising approximately 285 people in the year under review (previous year: 254), 3.5% are women (previous year: 3.9%).

DEMOGRAPHIC DEVELOPMENT

In Germany and other developed countries, the companies are facing new challenges in response to the changing age structure. The population structure is changing as birth rates decrease and life expectancy rises to unprecedented levels. This trend also impacts the composition of workforces. 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. Through detailed structural analyses and simulations, interdisciplinary teams are developing new personnel programs that take into account the different existing situations and trends at the national and international sites as well as their impact on the age structure of the employees. These site-specific measures include the targeted transfer of knowledge and experience from older colleagues to their younger counterparts, the creation of mixed-age teams, the systematic training of junior employees as well as a more intensive, target-group-specific recruiting and HR marketing drive. This strategy also includes adapting work and organizational processes as well as additional measures and offerings aimed at promoting good health. In the year under review, 7,679 employees (33.9% of the workforce) were aged 50 years or more, with the previous year's figure at 7,432 (33.7%).

FURTHER TRAINING AS AN INVESTMENT IN THE FUTURE

In the face of tough international competition, the development of employees, talented management trainees and experienced specialist and managerial staff in line with current and future requirements is a key factor in the successful achievement of the Rheinmetall Group's ambitious growth targets. A range of training opportunities allow Rheinmetall employees to improve their performance in their field of work and expand their knowledge beyond the requirements of their current position. Specific demand for staff development measures is determined at regular intervals on the basis of the Rheinmetall competence model, broken down according to employees paid in line with collective pay scales, managers and employees not covered by collective wage agreements, either in accordance with a collective agreement for qualification or as part of management potential analyses, potential analyses or the "Management by Objectives" program. Training opportunities can also be derived from strategic objectives (e.g. through increased internationalization of the Group).

Managers must be adequately prepared for strategic and operational tasks and must be able to adapt quickly to new challenges and respond flexibly to changes. This is not just about professional qualifications, but also calls for first-class leadership qualities and management skills. The Rheinmetall Academy, which replaced the Rheinmetall College in the year under review and was founded in order to ensure a stronger focus on entrepreneurship and leadership in the development of managers, successively prepares employees at various stages in their careers for assuming leadership or specialist roles. Along with external seminars and events, high-quality in-house training and qualification events were offered in the year under review in the areas of strategy, leadership, innovation, negotiation and change management. In the year under review, 797 employees (previous year: 700) attended 70 single- or multi-day events (previous year: 62). 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. In 2015, Rheinmetall invested €4.7 million (previous year: €4.3 million) in training programs in Germany alone. 9,451 employees (previous year: 7,287) benefited from 3,392 qualification measures in 2015 (previous year: 3,195) over a total of 17,273 days (previous year: 15,062).

The ideas contest launched in 2015 to encourage more innovation and entrepreneurship attracted 186 proposals from all parts of the Group. A jury comprising representatives from throughout the Group and from various disciplines will assess the entries and decide which ideas will be developed to maturity when the Rheinmetall Intrapreneur Awards are distributed in spring 2016.

A STRONG COMMITMENT TO PROFESSIONAL TRAINING

As well as university graduates, the operational units need qualified skilled workers. In view of this and as part of our social responsibility, we continue to emphasize our strong commitment to multifaceted training comprising qualifications and practical experience, that includes the opportunity to complete a dual course of study with a technical or commercial focus. The companies in the Rheinmetall Group continue to take their responsibilities with regard to training very seriously. They have maintained the number of places for trainees at a high level for years and train more employees than they actually need. Worldwide, 822 young people (previous year: 838) received vocational training, 480 of whom (previous year: 495) were based in Germany. Within a wide spectrum of 35 training courses and dual courses of study on offer, industrial mechanic, mechatronics engineer, machining mechanic and industrial business manager represented some of the most important professions at locations within Germany, as in the previous year. The percentage of female trainees in Germany was 15.8% (previous year: 11.2%). The apprenticeship ratio for the German locations was 4.9% of the workforce (previous year: 5.2%). Rheinmetall invested €11.1 million (previous year: €10.2 million) in training at sites in Germany in 2015. In 2015, 146 people (previous year: 133) started their training at Rheinmetall companies in Germany, while 96 trainees (previous year: 95) took up temporary or permanent employment after successfully completing their training.

CORPORATE RESPONSIBILITY

EMPLOYEES

RECRUITING

In an environment characterized by dynamic development, growing requirements and increasingly complex technologies, products and processes, experienced managers, qualified specialist workers and focused junior staff play an important part in helping the Group to achieve its corporate targets with their knowledge, skills, experience and motivation. 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. The Rheinmetall Group offers fair, performance-based remuneration that is in line with the market, extensive fringe benefits and pension schemes, diverse opportunities for continuing professional development and interesting opportunities for promotion.

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 attractive employer profile and target-group-specific appearances at university fairs, graduate conferences, recruitment events and online job sites are increasingly bearing fruit. The "trendence study" has once again calculated the attractiveness of German engineering companies as employers. Rheinmetall was again rated as one of Germany's 100 most attractive employers in the "Engineering Edition", coming in 55th place (previous year: 82nd). In the Universum rankings (Germany Top 100 Ideal Employers) in the field of engineering, Rheinmetall came 55th in the year under review, moving up from 58th place in the previous year.

ATTRACTIVE REMUNERATION SYSTEMS

Attractive and transparent pay systems are a key aspect in recruiting and retaining dedicated staff at the Company. Rheinmetall offers attractive contractual terms. These are based on the scope of activities, responsibility and performance and are linked to market rates. In addition to fixed remuneration components, performance-related bonuses and variable salary components are also paid.

The "Management by Objectives" concept is linked to variable salary components for managers and employees not covered by collective wage agreements. An individual variable portion of income is paid in accordance with the achievement of individually agreed targets and depending on the Company's performance. Depending on the extent to which targets are achieved, this amounts to between 0% and 200% of variable target income. The fact that these income components are based on targets provides incentives for employees to act independently and to take on challenges.

Division heads, managers and executives receive a long-term incentive in addition to this short-term component. This 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 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. 60% of the long-term incentive is paid in cash and is used to pay tax on the Rheinmetall shares immediately.

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 business unit 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.

We have also for many years been supporting our employees with company pensions 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.

A BETTER WORK-LIFE BALANCE

Career success depends, among other things, on how content an employee is outside of their working hours. With more flexible working hours, 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 support our employees with a family-friendly HR policy. 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 and, in turn, greater personal freedom. Rheinmetall also offers parents financial support in helping 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 2015, 151 employees (previous year: 157) were on parental leave in the German companies (84 female employees, 67 male employees; previous year: 84 female employees, 73 male employees).

EQUAL OPPORTUNITIES FOR ALL

Whether young or old, a new employee at Rheinmetall or a long-standing one, our corporate culture is designed to ensure that each and every employee can incorporate their personal qualities, skills, expertise and commitment and contribute to the long-term achievement of our corporate goals. In 2015, the average age of employees (excluding trainees and interns) in the Rheinmetall Group was 43.7, as in the previous year. In the year under review, the average tenure with the company was 13.7 years, slightly down on the previous year's level (14.0 years).

Rheinmetall employees with disabilities or health problems are integrated into the working life of the company and are able to bring their skills and ideas to the table. Once again, the focus here is on developing existing strengths and potential. An important prerequisite for this is individually adapted work stations that offer good opportunities for development and allow the employees concerned to achieve work of the same quality as that of colleagues without disabilities. In the year under review, the German-based Rheinmetall companies employed 552 severely disabled people (previous year: 539).

OCCUPATIONAL HEALTH AND SAFETY AND WORKPLACE HEALTH PROMOTION

Preventing accidents and safeguarding the health of employees at their place of work are some of our 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. During the year, employees benefit from a range of prevention programs in addition to medical checkups. The programs cover free vaccinations and regular preventive checkups, in-house and external sporting activities as well as support services and medically coordinated occupational rehabilitation following lengthy illness.

CORPORATE RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

RESPONSIBILITY, SUSTAINABILITY, SUCCESS

The public's interest in corporate governance, compliance, sustainability, environmental protection, conservation and corporate responsibility is increasing. More and more people from all areas of society are demanding to know more about our business. Expectations regarding transparency and requirements in terms of comparability are growing. Investors are looking for sustainable investments. Employees want a secure job, but at the same time increasingly want to create a healthier balance between their professional goals and their family and private interests. Eco-friendly products are in ever greater demand. Legislators, authorities and also nongovernmental stakeholders are demanding compliance with ever more stringent regulations and limits. People living close to industrial sites worry about impairments to their quality of life. Meanwhile, communities, associations and aid organizations value the support provided by companies to their social, cultural and sporting activities.

Rheinmetall is one of the 100 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. Our name is associated with tradition, experience and progress. The Company is committed to fair competition as well as to acting in a way that is upright and legal, and 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. In the pursuit of its business targets, the Rheinmetall Group has for a long time striven to take account as far as possible of the concerns of its shareholders, employees and other stakeholders as well as ecological and social aspects. The Code of Conduct, which was adopted back in 2003, stipulates the principles of social responsibility, including responsible entrepreneurship in the ongoing process of globalization, observance of human rights and safe working conditions. Between the priorities of economic efficiency, social responsibility and sustainability, Rheinmetall will do everything in its power, as part of a sustainable corporate development strategy, to combine economic, ecological and social objectives with medium-term and long-term strategies and plans and with corporate decisions made on a daily basis, and to continue to develop successfully as a company.

CORPORATE RESPONSIBILITY PANEL

The Corporate Responsibility Panel, which was set up in 2014 and in which managers from all the divisions and the management holding company are represented, continued its work in several meetings at various levels in 2015 and pressed ahead with the expansion of sustainability-related activities in the Rheinmetall Group. At the International Motor Show in 2015, the Automotive sector put together segment-specific themes and projects relating to corporate social responsibility and presented them in a target group-specific report. The Rheinmetall Group will publish its first corporate social responsibility report in the first half of 2016.

INDUSTRIAL SOLUTIONS FOR ENVIRONMENTALLY FRIENDLY ENGINE TECHNOLOGY

Companies in the Automotive sector are working on eco-friendly automotive technology solutions and, with their products, are helping to ensure that the ever-growing demand for mobility does not come into conflict with environmental protection. In these times of ever-increasing traffic on the roads and global warming, the trend toward saving fuel, cutting CO₂ emissions and reducing harmful emissions generally – a trend supported through increasingly strict legislation – has over the past few years progressed at an accelerated rate.

Declining fossil fuel resources, the obvious effects of climate change and, not least, demographic developments are reasons to rethink mobility concepts. Major levers for new, modern solutions are increasing the efficiency of conventional combustion engines and developing alternative drives that use renewable energy.

As a key development partner to the national and international automotive industry, Rheinmetall Automotive offers numerous innovative and technologically sophisticated engine technology components, modules and systems that make a significant contribution to reducing harmful emissions, cutting fuel consumption, reducing weight and optimizing performance.

ENVIRONMENTAL PROTECTION

Environmental protection is of key importance in the companies of the Rheinmetall Group, in keeping with a holistic approach. 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. Rheinmetall makes every effort to further minimize its environmental load with the best available, economically viable technology.

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. In the Defence sector, eight companies/sites are currently certified in accordance with ISO 14001, one in accordance with ISO 50001 and two in accordance with OHSAS 18001. In Rheinmetall Automotive, 20 companies/sites are certified in accordance with ISO 14001 and three in accordance with ISO 50001.

FOJANA – FOREST, HUNTING, CONSERVATION

Rheinmetall Defence tests its products at a site covering approximately 55 km² on heathland near Unterlüß in Lower Saxony. The site encompasses 3,400 hectares of forest and 800 hectares of heathland and, apart from one small area, has been a restricted zone for over 115 years. With Fojana – a one-stop philosophy for the management of forests, hunting and conservation that is geared towards sustainability – and with active landscape maintenance and design, the test site has over decades been turned into a natural paradise that is unparalleled in Germany. It has an extraordinarily 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.

CORPORATE RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE CITIZENSHIP

As one of the oldest companies in Düsseldorf, Rheinmetall has been closely linked to the city for over 125 years. As part of the relocation of defense technology production from Düsseldorf-Derendorf to Unterlüß in 1993, a sustainable town planning development has taken place in the area between Ulmen-Straße, Heinrich-Ehrhardt-Straße and Rather Straße, which covers approximately nine hectares. Rheinmetall initiated this development and has actively monitored it over the years. A service and residential development for urban living in the 21st century – the "entrepreneur city" – has been created, in which the existing building stock has gradually been sensitively integrated into a modern architecture. The lively mix of office and commercial space with attractive city apartments and lofts is rounded off with green areas and services. The Lighthouse, doubleU and casa alra buildings also have a silver certificate from the German Sustainable Building Council (DGNB), which takes into account technical, functional, sociocultural, ecological and economic criteria and is awarded when at least 65% of the requirements are fulfilled. The development of the site will finally be completed after 15 years when the Group headquarters is relocated to a new building on the last available plot of land in the "entrepreneur city" in spring 2016.

INVESTING IN KNOWLEDGE

Rheinmetall is also committed to promoting interest in technology, science and craft in the areas where it is located. Understand technology and try it out for yourself. This is the slogan under which young people are given the opportunity – as part of school partnerships, for example – to get to know technology through hands-on tasks and develop a better understanding of links between technology and commerce by gaining an early insight into the industry.

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. Rheinmetall Automotive also endowed a junior professorship at RWTH Aachen in 2014 for research and development of mechatronic systems in combustion engines. The increasing electrification of the drive train leads to diverse possibilities for increasing efficiency and further reducing emissions from combustion engines. This professorship also conducts research into virtual engine development and the development of hybrid drives.

COMMITMENT TO THE LOCAL COMMUNITY

Social acceptance is an important requirement for economic success. Rheinmetall is a living, breathing part of society and an enduring presence even in times of change, regardless of the markets and countries in which our companies operate. 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, for example, in sport and education as well as providing 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.

CORPORATE RESPONSIBILITY

CORPORATE COMPLIANCE

CORPORATE COMPLIANCE

In the day-to-day business of an international company, the different national political and legal systems as well as traditions, customs, moral concepts and societal norms of different cultural groups have to be taken into account. In addition to the applicable legislation of the countries of exportation, European Union regulations as well as anti-corruption laws such as the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act must be strictly observed. The requirements that our companies have to fulfill are therefore many and varied. More than ever, management and employees need guidance when it comes to national and international business and in relations with business partners, office holders, authorities and other state bodies in order to avoid potential errors and any resulting reputational, business or liability risks.

The companies of the Rheinmetall Group have always been guided by national and international policies, values and conventions relating to good and responsible corporate management. Rheinmetall stands for clean business. We would rather not do business than breach the law. Compliance serves to safeguard our business success on a lasting basis. The members of the Executive Board and managers, executives and employees have an obligation to comply at all times with all the applicable laws, guidelines and regulations, to conduct themselves correctly in business dealings, 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 takes a zero-tolerance approach to illegal and/or unethical behavior and to corrupt business practices, no matter what the circumstances.

COMPLIANCE ORGANIZATION

Compliance at Rheinmetall is taken very seriously and has for a long time been an integral part of the corporate culture. To provide its employees with guidance and allow them to conduct business with confidence, the company took a holistic approach and set up a compliance organization very early on providing standardized general conditions and clear guidelines for legal and rule-compliant, ethically correct and fair conduct in day-to-day business.

In addition to three direct employees at holding level in the Defence sector, the Compliance Officers from the three divisions and, in the Automotive sector, the six Regional Compliance Officers for Europe, Brazil, India, China, Japan and the NAFTA sales region are assigned to the Chief Compliance Officer, who reports directly to the CEO of Rheinmetall AG. In addition, Compliance Officers in the Rheinmetall Defence and Rheinmetall Automotive companies undertake preliminary work for the six aforementioned Regional Compliance Officers. This ensures that employees have a direct point of contact in their immediate work environment for all matters concerning compliance and can seek help and guidance.

The Chief Compliance Officer, who regularly reports to Executive Board meetings on the latest compliance issues, keeps the Executive Board and Supervisory Board's Audit Committee constantly 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 MANAGEMENT SYSTEM

Compliance is taken into account as an aspect of risk in decision-making processes, not only when it comes to considerations regarding the strategic and operational alignment of the Rheinmetall Group, but also in day-to-day business. The relevant procedure is defined in the early risk detection system manuals, on which the annual risk inventory and monthly risk notifications are based.

CORPORATE RESPONSIBILITY

CORPORATE COMPLIANCE

The central compliance management system, which focuses on the protection of fair competition, corruption prevention and export control, is firmly anchored in Group-wide management and control structures and includes all instruments, processes, guidelines, instructions and extensive measures 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 also 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.

The compliance management system is updated at regular intervals, not only in line with the applicable legal requirements but also in the light of new findings from reporting, comparisons with other compliance systems and the assessment of external specialists. It is also reviewed on an ad-hoc basis if any breach of compliance regulations is suspected or discovered. Implementation of the compliance management system is monitored through monthly reports prepared by the Compliance Officer for the Corporate Compliance Office as well as through routine and special audits conducted by Internal Auditing and the compliance organization.

TRAINING AND ADVICE

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 regulations are explained, further content is provided, attention is drawn to internal compliance requirements, risks and possible sanctions 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.

Compliance Officers also monitor important transactions in the companies, such as mergers and acquisitions, the establishment of joint ventures and the integration of sales brokers, thereby supporting the respective departments in their work. In addition, Compliance Officers advise the people responsible in the operational units on how to take compliance into account in operational business processes.

HANDLING INFORMATION

If employees have information about questionable activities that have been observed, breaches of regulations or business practices that may be prohibited, they can either contact their line managers or various other offices within the Company directly or they can contact an independent, external ombudsman who is a lawyer by profession. Protection is guaranteed for all whistleblowers, who need not fear reprisals. Employees involved in investigations into possible breaches of compliance will be assumed to be innocent until proven otherwise. Any information that is received will be systematically analyzed. Systematic follow-up checks will be carried out on the basis of established schedules and appropriate measures will be taken to properly clarify the facts that have been reported, with the involvement of external specialists if necessary. Confidentiality and discretion take top priority here. If necessary, we will involve the relevant authorities and cooperate with them to resolve the matter. Proven misconduct is sanctioned and entails organizational measures and, for the employees who committed the offense(s), consequences under labor law, civil law and criminal law.

PROCEDURES AT SUBSIDIARIES

Illegal conduct can cause many different types of damage and can have serious consequences such as the loss of business relationships, exclusion from contracts, negative ratings on the capital market, the imposition of fines, the absorption of profits, claims for damages and civil or 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.

In March 2012, Rheinmetall Air Defence was blacklisted, in our opinion unfairly, by the Indian Ministry of Defence. In September 2012, Rheinmetall Air Defence went before the Delhi High Court to contest this order and its consequent exclusion from the Indian market. Proceedings are ongoing.

Rheinmetall Defence Electronics received a fine of €37 million in December 2014. These proceedings related to an administrative offense and came about following allegations of inadequate safeguarding measures in connection with the payment of commission to Greek consultants within the company. Whether Rheinmetall Defence Electronics will have to answer to the Greek authorities following the conclusion of proceedings in Germany, and if so what form these proceedings may take, is still unclear.

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. No conflicts of interest were reported by any members of the Executive or Supervisory Board in the year under review.

Each employee is committed to the best interests of the Company. Personal interests and Company interests must be kept strictly separate. In accordance with the compliance guidelines, employees of the Rheinmetall Group are required to avoid conflicts of interest between their personal and business relationships. Only objective criteria shall count in business relationships and HR-related decisions. In the event of suspected or actual conflicts of interest, employees are obligated to inform their line managers.

INSIDER INFORMATION

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

REPORT ON POST-BALANCE SHEET DATE EVENTS

Between the December 31, 2015 balance sheet date and the date on which the 2015 consolidated financial statements were issued, no significant events occurred at Rheinmetall AG that would have had an impact on the Company's earnings, assets and financial situation.

Rheinmetall is bringing together its extensive activities in the field of military vehicles within the new Vehicle Systems division. In a first step, the two management companies, Rheinmetall Landsysteme and Rheinmetall MAN Military Vehicles, were placed under joint control with effect from January 1, 2016, while maintaining their legal independence and their sites. This has led to the creation of a complete service provider in the field of vehicle construction, which is able to convincingly present Rheinmetall's entire range of wheeled and tracked vehicles and turret solutions for combat vehicles on the global markets. Since January 1, 2016, Rheinmetall Defence's activities have thus been divided into the Weapon and Ammunition, Electronic Solutions and Vehicle Systems divisions.

Düsseldorf, February 26, 2016

Rheinmetall Aktiengesellschaft
The Executive Board

Armin Papperger

Horst Binnig

Helmut P. Merch

CONSOLIDATED
FINANCIAL STATEMENTS

RHEINMETALL GROUP

BALANCE SHEET AS AT DECEMBER 31, 2015

Assets € million

	Note	Dec. 31, 2015	Dec. 31, 2014
Goodwill	(6)	552	552
Other intangible assets	(6)	275	295
Property, plant and equipment	(7)	1,314	1,175
Investment property	(8)	35	37
Investments carried at equity	(9)	203	177
Other non-current financial assets	(12)	4	8
Other non-current assets	(13)	21	21
Deferred tax assets	(26)	244	239
Non-current assets		2,648	2,504
Inventories	(10)	1,052	1,017
./. Prepayments received		(26)	(60)
		1,026	957
Trade receivables	(11)	1,127	1,144
Other financial assets	(12)	99	35
Other receivables and assets	(13)	111	106
Income tax receivables		28	39
Cash and cash equivalents	(14)	691	486
Current assets		3,082	2,767
Total assets		5,730	5,271

RHEINMETALL GROUP

BALANCE SHEET AS AT DECEMBER 31, 2015

Equity and liabilities € million

	Note	Dec. 31, 2015	Dec. 31, 2014
Share capital		112	101
Additional paid-in capital		528	310
Retained earnings		891	756
Treasury shares		(39)	(48)
Rheinmetall AG shareholders' equity		1,492	1,119
Minority interests		70	78
Equity	(15)	1,562	1,197
Provisions for pensions and similar obligations	(16)	1,128	1,121
Other provisions	(17)	138	101
Financial debts	(18)	759	759
Other liabilities	(19)	67	47
Deferred tax liabilities	(26)	31	31
Non-current liabilities		2,123	2,059
Other provisions	(17)	454	404
Financial debts	(18)	63	57
Trade liabilities		718	714
Other liabilities	(19)	764	800
Income tax liabilities		46	40
Current liabilities		2,045	2,015
Total liabilities		5,730	5,271

RHEINMETALL GROUP

INCOME STATEMENT FOR FISCAL 2015

€ million

	Note	2015	2014
Sales		5,183	4,688
Changes in inventories and work performed by the enterprise and capitalised		(1)	126
Total operating performance	(20)	5,182	4,814
Other operating income	(21)	170	145
Cost of materials	(22)	2,783	2,671
Personnel expenses	(23)	1,390	1,288
Amortization, depreciation and impairment	(24)	203	197
Other operating expenses	(25)	701	726
Net operating income		275	77
Net interest income		3	2
Interest expenses		(69)	(82)
Income from investments carried at equity		31	30
Other net financial income		(19)	(5)
Net financial income		(54)	(55)
Earnings before taxes (EBT)		221	22
Income taxes	(26)	(61)	(6)
Earnings from continuing operations		160	16
Earnings from discontinued operations		-	5
Net income		160	21
Of which:			
<i>Minority interests</i>		9	3
<i>Rheinmetall AG shareholders</i>		151	18
Earnings per share from continuing operations	(27)	€3.88	€0.34
Earnings per share from discontinued operations	(27)	-	€0.13
EBITDA		490	299
EBIT		287	102

¹⁾ Relates to the disposal of the Aluminium-Technologie business unit, which previously belonged to the Automotive sector, as of December 1, 2014.

RHEINMETALL GROUP

STATEMENT OF COMPREHENSIVE INCOME FOR FISCAL 2015

€ million

	2015	2014
Net income	160	21
Remeasurement of net defined benefit liability from pensions	(14)	(204)
Revaluation of properties	1	(1)
Amounts not reclassified in the income statement	(13)	(205)
Change in value of derivative financial instruments (cash flow hedge)	(25)	3
Currency conversion difference	17	36
Other income from investments carried at equity	6	7
Amounts reclassified in the income statement	(2)	46
Other comprehensive income (after taxes)	(15)	(159)
Comprehensive income	145	(138)
Of which:		
<i>Minority interests</i>	(2)	(1)
<i>Rheinmetall AG shareholders</i>	147	(137)

RHEINMETALL GROUP

STATEMENT OF CHANGES IN EQUITY

€ million

	Shared capital	Additional paid-in capital	Difference of currency conversion	Re-measurement of net defined benefit liability from pensions	Land revaluation reserve	Hedge reserve
Balance as at January 1, 2014	101	307	(34)	(263)	84	(22)
Net income	-	-	-	-	-	-
Other comprehensive income	-	-	35	(197)	(1)	2
Comprehensive income	-	-	35	(197)	(1)	2
Dividends payout	-	-	-	-	-	-
Changes in scope of consolidation	-	-	-	12	-	1
Disposal of treasury shares	-	-	-	-	-	-
Capital increases	-	-	-	-	-	-
Other changes	-	3	-	-	-	-
Balance as at December 31, 2014/ as at January 1, 2015	101	310	1	(448)	83	(19)
Net income	-	-	-	-	-	-
Other comprehensive income	-	-	20	(13)	1	(19)
Comprehensive income	-	-	20	(13)	1	(19)
Dividends payout	-	-	-	-	-	-
Changes in shares in subsidiaries	-	-	-	(3)	-	-
Disposal of treasury shares	-	-	-	-	-	-
Capital increases	11	217	-	-	-	-
Other changes	-	1	-	-	-	-
Balance as at December 31, 2015	112	528	21	(464)	84	(38)

<i>Other income from investments carried at equity</i>	<i>Other reserves</i>	Retained earnings	Treasury shares	Rheinmetall AG shareholders equity	Minority interests	Equity
(7)	1,147	905	(58)	1,255	84	1,339
-	18	18	-	18	3	21
6	-	(155)	-	(155)	(4)	(159)
6	18	(137)	-	(137)	(1)	(138)
-	(15)	(15)	-	(15)	(9)	(24)
1	(12)	2	-	2	-	2
-	-	-	10	10	-	10
-	-	-	-	-	4	4
-	1	1	-	4	-	4
-	1,139	756	(48)	1,119	78	1,197
-	151	151	-	151	9	160
7	-	(4)	-	(4)	(11)	(15)
7	151	147	-	147	(2)	145
-	(12)	(12)	-	(12)	(6)	(18)
-	2	(1)	-	(1)	(1)	(2)
-	-	-	9	9	-	9
-	-	-	-	228	-	228
-	1	1	-	2	1	3
7	1,281	891	(39)	1,492	70	1,562

RHEINMETALL GROUP

CASH FLOW STATEMENT FOR FISCAL 2015

€ million

	2015	2014
Net income	160	21
Amortization, depreciation and impairments	203	208
Changes in pension provisions	3	(3)
Income from disposition of non-current assets	(3)	(11)
Changes in other provisions	34	39
Changes in inventories	(69)	(83)
Changes in receivables, liabilities (without financial debts) and prepaid & deferred items	30	(56)
Pro rata income from investments carried at equity	(31)	(30)
Dividends received from investments carried at equity	11	31
Other non-cash expenses and income	1	(14)
Cash flows from operating activities ¹⁾	339	102
Investments in property, plant and equipment, intangible assets and investment property	(310)	(284)
Cash receipts from the disposal of property, plant and equipment, intangible assets and investment property	9	18
Investments in consolidated companies and other financial assets	(2)	(6)
Payments for the purchase of short-term commercial papers	(50)	-
Change in divestments of consolidated companies and financial assets	-	(2)
Cash flows from investing activities	(353)	(274)
Capital increase Rheinmetall AG	228	-
Capital payment to/capital contributions by non-controlling interests	(1)	5
Increase in shares in consolidated subsidiaries	(1)	-
Dividends paid out by Rheinmetall AG	(12)	(15)
Other profit distributions	(6)	(9)
Shares issued to employees	4	13
Borrowing of financial debts	69	687
Repayment of financial debts	(63)	(471)
Cash flows from financing activities	218	210
Changes in financial resources	204	38
Changes in cash and cash equivalents due to exchange rates	1	3
Total change in financial resources	205	41
Opening cash and cash equivalents January 1	486	445
Closing cash and cash equivalents December 31	691	486

¹⁾ Including:

Net interest of €-35 million (previous year: €-51 million), net income taxes of €-39 million (previous year: €-57 million)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEGMENT REPORTING

€ million

Corporate sectors	Defence		Automotive		Other/ Consolidation		Group		
	2015	2014	2015	2014	2015	2014	2015	2014	
Income statement									
External sales	2,591	2,240	2,592	2,448	-	-	5,183	4,688	
At Equity income	6	9	24	21	1	-	31	30	
Amortization, depreciation and impairment	85	85	116	111	2	1	203	197	
<i>Of which impairment</i>	-	1	3	6	1	-	4	7	
EBIT	(1)	90	(67)	216	184	(19)	(15)	287	102
Interest income	1	2	3	1	(1)	(1)	3	2	
Interest expenses	(26)	(30)	(16)	(18)	(27)	(34)	(69)	(82)	
Net interest	(25)	(28)	(13)	(17)	(28)	(35)	(66)	(80)	
EBT	65	(95)	203	167	(47)	(50)	221	22	
Operating result	90	(9)	216	184	(19)	(15)	287	160	
Special items	-	(58)	-	-	-	-	-	(58)	
Other data									
Operating free cash flow	(38)	(132)	96	34	(29)	(84)	29	(182)	
Order intake	2,693	2,812	2,621	2,466	-	-	5,314	5,278	
Order backlog December 31	6,422	6,516	445	416	-	-	6,867	6,932	
Employees as at December 31 (capacities)	9,581	9,184	10,934	10,830	161	152	20,676	20,166	
Net financial debts	(2)	(69)	(151)	(80)	(41)	230	522	81	330
Pension provisions	(3)	627	605	381	391	120	125	1,128	1,121
Equity	(4)	664	685	741	642	157	(130)	1,562	1,197
Capital Employed	(2)+(3)+(4)	1,222	1,139	1,042	992	507	517	2,771	2,648
Additions to capital employed	357	358	168	168	(404)	(405)	121	121	
Capital employed December 31	1,579	1,497	1,210	1,160	103	112	2,892	2,769	
Average capital employed	(5)	1,538	1,448	1,185	1,105	108	81	2,831	2,634
ROCE (in %)	(1) / (5)	5.9	(4.6)	18.2	16.7	-	-	10.1	3.9

RHEINMETALL GROUP SEGMENT REPORTING

€ million

Regions	Germany		Rest of Europe		North America		Asia		Other regions / Consolidation		Group	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
External sales Defence	833	643	568	555	176	121	777	641	237	280	2,591	2,240
External sales Automotive	528	523	1,238	1,191	416	364	307	241	103	129	2,592	2,448
External sales Total	1,361	1,166	1,806	1,746	592	485	1,084	882	340	409	5,183	4,688
in % of Group sales	26	25	35	37	11	10	21	19	7	9	-	-
Assets	1,236	1,189	627	589	152	131	87	68	74	82	2,176	2,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

(1) GENERAL DISCLOSURES

Rheinmetall AG is the parent company of the Rheinmetall Group and has its registered office in Düsseldorf at Rheinmetall Platz 1 (Düsseldorf Commercial Register, HRB 39401). 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). 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 fiscal year of Rheinmetall AG and the financial statements of subsidiaries included in the consolidated financial statements correspond to the calendar year. 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.

Accounting standards applied for the first time in fiscal 2015 – In fiscal 2015, the following new or amended standards were applied for the first time, because their application was mandatory.

IFRS improvements	“2011-2013 cycle”
IFRIC 21	“Levies”

The IFRS 2011-2013 improvements cycle mainly involved clarifications and corrections regarding business combinations, fair-value measurement and investment property.

IFRIC 21 regulates the recognition of levies imposed by government institutions and specifies accounting for obligations in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets.”

The application of the amended and new standards had no effect on the earnings, assets or financial situation in Rheinmetall’s consolidated financial statements.

Accounting standards issued but not yet applied in fiscal 2015 – The following standards and interpretations have been issued but do not yet have to be applied.

Standard	Name	Endorsement in EU law
IFRS 9	“Financial Instruments”	Outstanding
Amendment to IFRS 10	“Consolidated Financial Statements”	Outstanding
Amendment to IFRS 11	“Joint Arrangements”	Complete
IFRS 15	“Revenue from Contracts with Customers”	Outstanding
IFRS 16	“Leases”	Outstanding
Amendment to IAS 1	“Presentation of Financial Statements”	Complete
Amendment to IAS 7	“Statement of Cash Flows”	Outstanding
Amendment to IAS 12	“Income Taxes”	Outstanding
Amendment to IAS 16	“Property, Plant and Equipment”	Complete
Amendment to IAS 19	“Employee Benefits”	Complete
Amendment to IAS 28	“Investments in Associates and Joint Ventures”	Outstanding

RHEINMETALL GROUP

ACCOUNTING PRINCIPLES

Standard	Name	Endorsement in EU law
Amendment to IAS 38	“Intangible Assets”	Complete
IFRS improvements	“2010-2012 cycle”	Complete
IFRS improvements	“2012-2014 cycle”	Complete

IFRS 9 was published as a complete standard in 2014, bringing together all previously published regulations and the new regulations on the recognition of impairment and limited amendments to the classification and measurement of financial assets. At the same time, the date of first application was postponed to fiscal years from 2018 onwards. The effects of the application of IFRS 9 on the consolidated financial statements of Rheinmetall AG are still being examined.

With the amendments to IAS 28 and IFRS 10, inconsistencies between the two standards with respect to an entity’s transactions with associates and joint ventures were eliminated. If the subject of the transaction is a business as defined by IFRS 3, the seller must recognize the resulting gain or loss in full. If only individual assets are sold in a transaction, the gain or loss need only be recognized proportionally. The application of the amended rules was originally scheduled for fiscal years from January 1, 2016, onwards. Due to a new amendment to both standards in 2015, the date of first application was postponed for an indefinite period. The changes will not affect the net assets and results of operations of the Rheinmetall Group.

The amendments to IFRS 11 “Joint Arrangements” contain guidance on accounting for acquisitions of interests in joint operations. This clarifies that the acquirer must apply the regulations of IFRS 3 “Business Combinations” and other relevant standards on accounting and disclosures and that interests already held shall not be remeasured upon acquisition. This amendment is to be applied prospectively for fiscal years from 2016 onwards. As Rheinmetall already accounts for the affected items according to the clarified regulations, there will be no impact on the net assets and results of operations or the Notes of the Rheinmetall Group.

The new standard IFRS 15 “Revenue from Contracts with Customers” specifies when or during what period sales are to be recognized from contracts with customers and in what amount. This replaces all previous standards and interpretations on the recognition of sales. The new standard is to be applied from fiscal 2018 onwards. The changes to the Rheinmetall Group’s net assets and results of operations arising from the new standard are currently being investigated by means of a contract analysis, among other things.

IFRS 16 is a new standard on leases. It amends the lessee’s accounting such that, for all leases, assets must be recognized for obtained rights of use and liabilities for resulting payment obligations. There are recognition exemptions for low-value and short-term leases. Accounting by lessors is largely unchanged compared to the previous standard IAS 17 in conjunction with IFRIC 4. Mandatory first-time application is scheduled for fiscal years from 2019 onwards. At Rheinmetall, the changed accounting results in the capitalization of the right of use for all assets that were previously covered by the “operating lease” classification and the recognition of a corresponding liability in the consolidated balance sheet. This balance sheet extension approximates the amount of discounted leasing obligations, which amounted to €179 million as of December 31, 2015.

The amendment to IAS 1 “Presentation of Financial Statements” includes in particular clarifications on assessing the materiality of notes to the financial statements, on presenting additional line items in the statement of financial position and statement of comprehensive income, on presenting other comprehensive income from equity-accounted associates and joint ventures, and on the structure of the notes to the financial statements. The clarifications must be applied from fiscal 2016 onward. Changes are expected for the disclosures in the notes to Rheinmetall’s consolidated financial statements.

IAS 7 Statement of Cash Flows was amended with regard to disclosures on changes to liabilities from an entity’s financing activities. Application of the amended standard is mandatory from 2017 onwards. Amended disclosures are expected.

The amendments to IAS 12 Income Taxes clarify the recognition of deferred tax assets for unrealized losses that arise from the change in the fair value of debt instruments and are recognized in other income. Application of the amended standard is mandatory from 2017 onwards. No effects are currently expected for the net assets or results of operations of the Rheinmetall Group.

The amendments to IAS 16 and IAS 38 primarily relate to the clarification that a sales-based method is not an appropriate depreciation method for property, plant and equipment and intangible assets as this method does not reflect the consumption of an asset’s future economic benefits. This amendment is to be applied prospectively for fiscal years from 2016 onwards. Rheinmetall does not apply this method, so there will be no impact on the net assets and results of operations of the Rheinmetall Group.

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 2016. This change will not affect the net assets and results of operations of the Rheinmetall Group.

The improvements to IFRS standards in the 2010-2012 cycle 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 standards are to be applied from fiscal 2016 onwards. The changes do not affect the net assets and results of operations of the Rheinmetall Group.

The improvements to IFRS standards in the 2012-2014 cycle are to be applied from fiscal 2016 onwards and include clarifications and specifications regarding the calculation of the discount rate for post-retirement benefits, interim reporting and Notes on financial instruments. Separate guidelines have also been incorporated for cases in which a company reclassifies an asset from the “held for sale” category to the “held for distribution” category and vice versa and for cases in which recognition as “held for distribution” is discontinued. No material impact is expected on the net assets and results of operations of the Rheinmetall Group.

(2) SCOPE OF CONSOLIDATION

Besides Rheinmetall AG, the consolidated financial statements include all German and foreign subsidiaries over which Rheinmetall AG can directly or indirectly exercise a controlling influence. Rheinmetall AG controls an entity if it holds the majority of voting rights or other rights and is therefore able to steer the significant activities of the investee, is exposed to the risk of variable returns from the investment and can use its power over the investee to influence its returns. Entities over which Rheinmetall AG exercises joint control are included pro rata in the Rheinmetall consolidated financial statements if Rheinmetall AG has rights to assets attributable to it and obligations for the investee’s liabilities (joint operations). Jointly controlled entities, whereby Rheinmetall AG has rights to the net

RHEINMETALL GROUP

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assets of the investee, are included in the consolidated financial statements using the equity method. Entities over which Rheinmetall AG can exert significant influence (associates) are also carried at equity.

Scope of consolidation – companies included

	Dec. 31, 2014	Additions	Disposals	Dec. 31, 2015
Fully consolidated subsidiaries				
Domestic	45	-	1	44
Foreign	94	3	5	92
	139	3	6	136
Joint operations				
Foreign	1	-	-	1
Investments carried at equity				
Domestic	17	1	-	18
Foreign	12	2	1	13
	29	3	1	31

In fiscal 2015, six fully consolidated companies were disposed of, primarily due to internal mergers and liquidations. In contrast, there were two company formations and one acquisition. The addition due to an acquisition involved the purchase of all shares in Logistic Solutions Australasia Pty. Ltd., Melbourne/Australia, on January 1, 2015, at a price of €2 million (cash). The company strengthens Rheinmetall's presence on the Australian market for the preparation of documentation for military products. The net assets acquired amounted to less than €1 million, so the acquisition resulted in goodwill of €2 million. The goodwill reflects the expected synergies from the business of document creation and product description in conjunction with Rheinmetall's other activities on the Australian defense market. The newly acquired company contributed sales of €1 million to consolidated sales in 2015.

(3) CONSOLIDATION PRINCIPLES

First-time consolidation occurs on the date of the transfer of control according to the acquisition method. 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 positive difference resulting from first-time consolidation, provided it is attributable to the shares in the acquired company, is capitalized as goodwill within intangible assets. Any badwill is reported in other operating income.

The cost of the acquired subsidiary 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 as other operating expenses.

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

In the case of joint operations, all consolidation measures are prorated according to the shareholdings.

Shares in associates 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 the associate or joint venture as are allocable to the Rheinmetall Group. Goodwill of investees is determined according to the same principles as full consolidation. Any resulting goodwill is included in the investment book value. If profits arise from transactions between the Rheinmetall Group and the associate or joint venture, these are corrected on a pro rata basis.

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. When holdings in fully consolidated subsidiaries are sold without loss of control, the difference between the cost and minority interests is recognized in equity. When holdings in fully consolidated subsidiaries are sold with loss of control, the result arising from the sale price plus the fair value of the remaining shares and less the carrying amounts for the subsidiary is recognized in income.

(4) 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. 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. Any currency translation differences that arise are duly recognized in the net financial result.

The single-entity financial statements of Group companies whose functional currency is not the euro are translated into euro as the Group currency. 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).

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(5) ACCOUNTING POLICIES

The key accounting and valuation methods applied to Rheinmetall AG's consolidated financial statements are described below.

Cost – Purchase cost includes the purchase price and all incidental costs that can be directly attributed to the purchase (with the exception of company acquisitions as defined by IFRS 3 and financial instruments measured at fair value). In the event of an exchange, cost equals the fair value of the asset given in an exchange of assets transaction as at the date of the exchange, whereby 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. Overheads are allocated to production costs on the basis of the production facilities' normal capacity utilization.

Financing costs are capitalized as costs if they relate to assets which are produced or purchased over a period exceeding one year.

Grants and allowances – Government grants provided for the acquisition of an asset are directly offset against the capital expenditures. Any government grants for expenses for purposes other than investment activities are recognized as deferred income and amortized to profit via other operating income when the related expenses are incurred. Private investment-related grants from customers are also recognized as deferred income and amortized to profit over the contract term. If the grant involves the transfer of economic ownership of the capital good to the customer, the revenue is recognized on the date of the transfer.

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 cease to exist, impairment losses are reversed, with the exception of goodwill. The reversal cannot exceed the value what would have resulted for amortized cost that would have resulted if no impairment had been charged.

Goodwill 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. Goodwill is tested 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, which is calculated using the discounted cash flow method based on the current corporate planning, 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 recognized in the amount of the difference, which is recognized as a write-down. Subsequent write-up is inadmissible.

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. Depreciation is recognized on a straight-line basis over expected useful lives.

Property, plant and equipment are depreciated over the following periods 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.

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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. Standard market purchases and sales of financial assets are recognized for the first time on the settlement date. This is 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. “Held for trading” financial assets and liabilities relates to derivatives. “Financial liabilities” relate to the bond, promissory note loans, liabilities to banks, trade payables and other financial liabilities.

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.

Customer receivables are recognized at amortized cost. Account is taken of the default risk with appropriate valuation allowances. Customer receivables sold in the asset-backed securities program are considered disposals under IAS 39. A current financial asset is only recognized in the amount of the immaterial risk retained, along with a current financial liability in the corresponding amount for continuing involvement under “other.”

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

Securities are generally measured at fair value. Unrealized gains and losses are recognized directly in equity in other income. Where the fair value is not reliably determinable, the securities are carried at amortized cost. Fixed-interest and held-to-maturity securities are carried at amortized cost.

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

Derivative financial instruments 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 of cash flows in line with IAS 39 are met, they are accounted for as cash flow hedges. The effective portion of the changes in the fair value of the designated derivative is recorded directly in equity in the hedge reserve. The cumulative changes in fair value are reclassified from equity to the income statement if the hedged item is recognized in the income statement. Changes in the fair value attributable to the ineffective portion of the hedge are always 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.

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

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 is recognized either as cost of materials (raw materials and supplies) or a change in inventories 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 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 – Construction contracts from customers are accounted for in accordance with their percentage of completion. Sales are recognized on the basis of percentage of completion, which is determined on a cost-to-cost basis, i.e. at the ratio the contract costs incurred bear to anticipated contract costs. A receivable from construction contracts is recognized in the same amount as sales in the period. Progress billings with and without payments received and advance payments are deducted from receivables from construction contracts. Any resulting negative balances are recognized as liabilities from construction contracts. Expected losses on contracts are recognized in expenses immediately in full. 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 (zero profit method).

Deferred taxes – Taxes are deferred for temporary differences between the values of balance sheet items according to IFRS and according to the local tax law of the individual companies. 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 Germany, 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. The tax rates in other countries range from 16% to 39% (previous year: 16% to 38%).

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For obligations to the respective national tax authorities that are uncertain in terms of amount and probability of occurrence, tax provisions are recognized on the basis of appropriate estimates. The company-specific tax rate applicable on the balance sheet date is applied. Other factors are also considered, such as experience from previous tax audits and different legal interpretations between taxpayers and fiscal authorities with regard to the relevant issue. Uncertain income tax items are recognized at the most probable value.

No deferred tax liabilities for temporary differences of shares in subsidiaries 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, the discount rate and 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.

Under defined contribution plans (DCP), the company incurs no obligations other than to pay the contributions to earmarked post-employment benefit plans. The payments incurred are recognized in net income.

The Rheinmetall Group also participates in multi-employer pension plans. As these are defined benefit plans, they are accounted for accordingly.

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. 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.

Expenses – Operating expenses are recognized when caused or when the underlying service is used. Expenses for redundancy plans, termination indemnities, and partial retirement are reported under personnel expenses. A change was made to reporting compared to the previous year, as these items were previously shown in other operating expenses. The change resulted in a €14 million increase in personnel expenses (previous year: €16 million) and a corresponding decrease in other operating expenses. The disclosures for the comparative period were adjusted.

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	At fair value
Inventories	(Amortized) cost
Trade receivables	(Amortized) cost
Cash and cash equivalents	(Amortized) cost
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	At fair value
Miscellaneous	(Amortized) cost

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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 €552 million as at December 31, 2015 (previous year: €552 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 provided under Note (6).

On an annual basis and on other occasions if appropriate, the carrying amounts as at December 31, 2015, of other intangible assets of €275 million (previous year: €295 million), property, plant and equipment of €1,314 million (previous year: €1,175 million) and properties held for investment of €35 million (previous year: €37 million) are assessed to determine whether there are indications of a possible impairment and whether the recoverable amount is lower than their carrying amount. When calculating the recoverable amounts, 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 €1,128 million as at December 31, 2015 (previous year: €1,121 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 Note (16). 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 €1,313 million in fiscal 2015 (previous year: €548 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 (€244 million as at December 31, 2015; previous year: €239 million) is based on assumptions and estimates on the development of tax income over a planning period usually of five years and tax legislation in the countries of the Group companies working there.

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

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

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

(6) GOODWILL, OTHER INTANGIBLE ASSETS

€ million

	Goodwill	Development costs	Other intangible assets	Total
Cost				
Jan. 1, 2014	555	257	360	1,172
Additions	-	24	10	34
Disposals	(2)	-	(2)	(4)
Book transfers	-	-	1	1
Adjustment in scope of consolidation	-	(2)	(1)	(3)
Currency differences	(1)	-	(3)	(4)
Dec. 31, 2014	552	279	365	1,196
Additions	-	24	10	34
Disposals	-	(2)	(5)	(7)
Book transfers	-	(1)	1	-
Adjustment in scope of consolidation	2	-	1	3
Currency differences	(2)	5	(2)	1
Dec. 31, 2015	552	305	370	1,227

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	Goodwill	Development costs	Other intangible assets	Total
Amortization and depreciation/impairment				
Jan. 1, 2014	-	101	197	298
Amortization and depreciation	2	27	30	59
Disposals	(2)	-	(2)	(4)
Adjustment in scope of consolidation	-	(2)	(1)	(3)
Currency differences	-	-	(1)	(1)
Dec. 31, 2014	-	126	223	349
Amortization and depreciation	-	27	27	54
Disposals	-	-	(5)	(5)
Currency differences	-	2	-	2
Dec. 31, 2015	-	155	245	400
Book value as of 12/31/2014	552	153	142	847
Book value as of 12/31/2015	552	150	125	827

Goodwill was tested for impairment as at December 31, 2015. No impairment was revealed. The impairment test uses the value in use of the cash-generating unit, which is calculated using the discounted cash flow method based generally on a three-year detailed planning period. For periods after the detailed planning phase, cash flows are extrapolated from the last planning period, taking into account growth rates based on the long-term inflation forecast.

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 inquiries and, most importantly, on national defense budgets of relevant customers.

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.

The allocation of goodwill to both corporate sectors and the discount rate used are shown below.

€ million

	Dec. 31, 2015			Dec. 31, 2014		
	Book value	WACC before taxes	WACC after taxes	Book value	WACC before taxes	WACC after taxes
Defence	382	9.4%	6.6%	381	8.4%	5.8%
Automotive	170	10.8%	7.6%	171	10.2%	7.1%
	552			552		

For the period after the last planning year, a growth rate of 1.0% (previous year: also 1.0%) was deducted from the risk-specific pretax discount rate.

In addition to the impairment test, each cash-generating unit was subjected to sensitivity analyses. These analyses assumed scenarios based firstly on a 0.5 percentage point higher discount rate and

secondly on a 0.5 percentage point lower growth rate. For further sensitivity, the cash flows used to calculate the terminal value were reduced by a flat rate of 10%. None of the sensitivity analyses resulted in impairment of the recognized goodwill.

Research and development costs of €239 million (previous year: €214 million) were incurred in the fiscal year, of which €24 million (previous year: €24 million) were capitalized as development costs.

(7) PROPERTY, PLANT AND EQUIPMENT

€ million

	Land, equivalent titles, and buildings	Production plant and machinery	Other plant, factory and office equipment	Prepayments made and construction in progress	Total
Cost					
Jan. 1, 2014	1,069	1,918	517	108	3,612
Additions	30	46	40	119	235
Disposals	(7)	(47)	(29)	-	(83)
Book transfers	9	48	13	(107)	(37)
Adjustment in scope of consolidation	(51)	(175)	(16)	(2)	(244)
Currency differences	13	39	4	2	58
Dec. 31, 2014	1,063	1,829	529	120	3,541
Additions	14	63	42	157	276
Disposals	(3)	(58)	(29)	(1)	(91)
Change from revaluation	3	-	-	-	3
Book transfers	28	69	19	(118)	(2)
Adjustment in scope of consolidation	(14)	-	-	-	(14)
Currency differences	25	46	(2)	1	70
Dec. 31, 2015	1,116	1,949	559	159	3,783

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€ million

	Land, equivalent titles, and buildings	Production plant and machinery	Other plant, factory and office equipment	Prepayments made and construction in progress	Total
Amortization and depreciation/impairment					
Jan. 1, 2014	575	1,448	422	-	2,445
Amortization and depreciation	20	94	34	-	148
Disposals	(7)	(45)	(27)	-	(79)
Book transfers	(11)	-	-	-	(11)
Adjustment in scope of consolidation	(36)	(129)	(15)	-	(180)
Currency differences	9	31	3	-	43
Dec. 31, 2014	550	1,399	417	-	2,366
Amortization and depreciation	19	94	35	-	148
Disposals	(3)	(58)	(28)	-	(89)
Adjustment in scope of consolidation	(14)	-	-	-	(14)
Currency differences	21	38	(1)	-	58
Dec. 31, 2015	573	1,473	423	-	2,469
Book value as of 12/31/2014	513	430	112	120	1,175
Book value as of 12/31/2015	543	476	136	159	1,314

The fair value of essential plots of land owned for business purposes included in the item land, equivalent titles, and buildings amounted to €224 million as of December 31, 2015 (previous year: €222 million). As in the previous year, the step-up amounted to €117 million. 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. A 10% change in indicative land values would lead to an equivalent change in fair values, assuming that premiums and discounts remain the same. Indications that could result in a change to fair values are checked for regularly. The measurement method is attributed to level 3 of the measurement hierarchy in IFRS 13.

€109 million of property, plant and equipment (previous year: €115 million) is subject to restrictions on disposal in the form of land charges.

On the basis of leases, €8 million in technical equipment and machinery are capitalized (previous year: €7 million). Here, normal restrictions on disposal apply. In addition, one building lease agreement for a plot of land was 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

	2015				2014			
	2016	2017-2020	from 2021	Total	2015	2016-2019	from 2020	Total
Lease payments	1	4	19	24	1	4	20	25
Discounts	-	-	(12)	(12)	-	(1)	(13)	(14)
Present values	1	4	7	12	1	3	7	11

(8) INVESTMENT PROPERTY**€ million**

	2015	2014
Cost		
Jan. 01	55	21
Disposals	(12)	(2)
Book transfers	2	36
Dec. 31	45	55
Amortization and depreciation/impairment		
Jan. 01	18	7
Amortization and depreciation	1	1
Disposals	(8)	(1)
Book transfers	-	11
Currency differences	(1)	-
Dec. 31	10	18
Book value as of 12/31	35	37

The investment properties have a total fair value of €42 million (previous year: €47 million), partially determined on the basis of independent external appraisal reports (last reporting date for regularly prepared reports: December 31, 2013) and partially on the basis of own calculations. 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.

In the year under review, rental income of €4 million (previous year: €4 million) was earned, contrasting with direct operating expenses of €2 million (previous year: €1 million).

(9) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The major investments carried at equity are firstly the joint ventures Kolbenschmidt Shanghai Piston Co. Ltd., Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd. and Pierburg Huayu Pump Technology Co. Ltd. (together China Joint Ventures), which are based in Shanghai and operated with the Chinese SAIC Group, and with which the Automotive sector is strengthening its position on the Chinese

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market for pistons, pumps for automotive applications and other engine parts. Secondly, the joint venture KS HUAYU AluTech GmbH (KS HUAYU), Neckarsulm, likewise conducted with the SAIC Group and active in the Aluminium-Technologie business unit, is also significant.

The joint venture Rheinmetall International Engineering GmbH, Geisenheim (RIE), operated with Ferrostaal GmbH, Essen, is allocated to the Defence sector. This joint venture operates as a general contractor or subcontractor in the field of project planning and implementation for industrial facilities and serves the further internationalization of the Defence business in new markets.

Financial information (100% basis) of the major investments carried at equity € million

	China Joint Ventures		KS HUAYU		RIE	
	2015	2014	2015	2014	2015	2014
Current assets (Dec. 31)						
Non-current	335	249	77	72	18	12
Cash and cash equivalent	57	35	14	25	27	16
Other current	234	215	85	79	83	110
Financial debts (Dec. 31)						
Non-current	-	1	4	5	-	9
Current	91	25	1	1	-	-
Other liabilities (Dec. 31)						
Non-current	-	-	43	45	8	19
Current	349	321	88	95	120	98
Sales	785	628	261	220	234	238
Amortization and depreciation	43	30	9	5	5	2
Net interest	(5)	(3)	(1)	(1)	(1)	-
Income taxes	9	11	2	2	7	2
Net income	35	37	9	7	(10)	3

Development of the major investments carried at equity € million

	China Joint Ventures		KS HUAYU		RIE	
	2015	2014	2015	2014	2015	2014
Net assets Jan. 1	152	134	30	31	12	-
Capital contribution from shareholders	-	-	-	-	-	10
Comprehensive income	44	53	10	(1)	(12)	2
<i>Net income</i>	35	37	9	7	(10)	3
<i>Other income</i>	9	16	1	(8)	(2)	(1)
Dividend	(10)	(35)	-	-	-	-
Net assets Dec. 31	186	152	40	30	-	12
Investment in %	50	50	50	50	50	50
Carrying amount of investment Dec. 31	93	76	20	15	-	6
Dividend received	5	19	-	-	-	-

The following table shows the financial information for the investments carried at equity that, considered individually, are immaterial for the Rheinmetall consolidated financial statements. The amounts given all relate to the share held by Rheinmetall:

€ million

	2015		2014	
	Joint Venture	Associated companies	Joint Venture	Associated companies
Carrying amount of shares	24	66	18	62
Net income	10	4	6	3
Other income	-	1	1	2
Comprehensive income	10	5	7	5

(10) INVENTORIES
€ million

	Dec. 31, 2015	Dec. 31, 2014
Raw materials and supplies	391	313
Work in process	394	420
Finished products	88	102
Merchandise	89	88
Prepayments made	90	94
	1,052	1,017
./. Prepayments received	(26)	(60)
	1,026	957

Additions to write-downs totaled €21 million (previous year: €39 million). In the year under review, inventories previously written down were written up by €2 million as in the previous year.

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(11) TRADE RECEIVABLES

€ million

	Dec. 31, 2015	Dec. 31, 2014
Customer receivables	765	774
<i>Of which with remaining term of more than 1 year</i>	1	2
<i>Of which from joint ventures and associated companies</i>	69	52
Receivables from construction contracts	362	370
	1,127	1,144

Receivables and liabilities from construction contracts € million

	Dec. 31, 2015	Dec. 31, 2014
Production costs incurred	4,725	3,902
Plus margins / less anticipated losses	656	505
Progress billings / payments received	(5,140)	(4,131)
Total	241	276
<i>Of which receivables from construction contracts</i>	362	370
<i>Of which liabilities from construction contracts</i>	(121)	(94)

Sales from construction contracts totaled €1,313 million in fiscal 2015 (previous year: €548 million).

(12) OTHER FINANCIAL ASSETS

€ million

	Dec. 31, 2015	Of which current	Of which non-current	Dec. 31, 2014	Of which current	Of which non-current
Derivatives in cash flow hedge	2	2	-	9	5	4
Derivatives without hedge accounting	24	23	1	13	12	1
Near-cash assets	50	50	-	-	-	-
Loans	4	3	1	4	3	1
Securities	4	2	2	4	2	2
Other	19	19	-	13	13	-
	103	99	4	43	35	8

Liquid financial assets comprise commercial papers with a maturity between two and five months issued by companies with short-term investment grade ratings of A1 to A2 (S&P) or P1 to P2 (Moody's).

(13) OTHER RECEIVABLES AND ASSETS

€ million

	Dec. 31, 2015	Of which current	Of which non-current	Dec. 31, 2014	Of which current	Of which non-current
Other taxes	56	56	-	47	47	-
Subsidies/grants receivable	19	7	12	22	9	13
Deferred income	14	11	3	13	10	3
Prepayments made	18	18	-	11	11	-
Other	25	19	6	34	29	5
	132	111	21	127	106	21

The subsidies/grants receivable relate chiefly to grants paid by public administrative bodies to subsidize the in-house development of new technologies.

(14) CASH AND CASH EQUIVALENTS

€ million

	Dec. 31, 2015	Dec. 31, 2014
Bank balances in credit institutions, checks, cash in hand	583	486
Short term investments (up to 3 months to maturity)	108	-
	691	486

(15) EQUITY

Subscribed capital – On the basis of the authorization of May 6, 2014, the Executive Board, with the Supervisory Board's consent, resolved to increase the share capital by €10,137,216 from €101,373,440 to €111,510,656 on November 10, 2015. The resolution regarding the placement was passed on November 11, 2015. The 3,959,850 newly issued bearer shares (no-par value shares) were transferred to institutional investors at a price of €58.00/share in an accelerated placement procedure. The shares therefore numbered 43,558,850 on December 31, 2015.

Authorized capital – By resolution of the Annual General Meeting of May 6, 2014, the Executive Board was authorized, with the approval of the Supervisory Board, to increase the share capital of the Company up to May 5, 2019, 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. The new shares may also be issued to employees of Rheinmetall AG or any subsidiary it controls. 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 is authorized to amend the Company bylaws in accordance with the respective holdings and the respective utilization of the authorized capital.

As a result of the capital increase performed in 2015, the remaining authorized capital amounts to €39,862,784. The Company bylaws were amended accordingly.

Contingent capital – Furthermore, the Executive Board of the Company was authorized by resolution of the Annual General Meeting of May 6, 2014 to issue interest-bearing bearer bonds with warrants and/or convertible bonds up to a total nominal value of €800,000,000 with a term of up to 20 years on one or several occasions, with the approval of the Supervisory Board, up to May 5, 2019, and to grant the

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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 6, 2014 to carry out a contingent increase of the Company's common stock by up to €20,000,000 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 6, 2014. The Executive Board was authorized 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.

Additional paid-in capital – The €219 million premium from the capital increase was contributed to additional paid-in capital. Additional paid-in capital was reduced by transaction costs of €2 million.

Retained earnings – The retained earnings include earnings generated by the Rheinmetall Group in the past less profit distributed.

Effects from the currency translation of subsidiaries' financial statements not prepared in euro, from the remeasurement of pension plans and essential plots of land owned for business purposes recognized directly in equity, from the measurement of derivatives in cash flow hedges and other income from investments carried at equity (other income) are also included here.

Treasury shares – By resolution of the Annual General Meeting of May 6, 2014, the Executive Board of the Company is authorized to acquire treasury bearer shares equivalent to a maximum of 10% of the share capital existing on this date of €101,373,440. The acquisition may be via the stock exchange or by public bid directed at all shareholders or by public invitation to submit a purchase bid.

The Executive Board is authorized to retire the treasury shares acquired on the basis of this authorization or earlier authorizations without further Annual General Meeting resolutions, in full or in part, or with the approval of the Supervisory Board to

- sell the treasury shares to shareholders with subscription rights via offer,
- sell the treasury shares without shareholder subscription rights via the stock exchange or otherwise, for example to investors, if the relevant treasury shares are sold at a price not significantly below the stock market price of shares in the Company of the same class on the date of the sale. This authorization applies only if the shares issued without subscription rights for authorized capital do not exceed a total of 10% of the share capital either on the effective date or the exercise date of this authorization.
- use the treasury shares without shareholder subscription rights for the purpose of acquiring a company, parts of a company or holdings in companies. This applies only if the total of the shares issued without subscription rights in return for contributions in cash and in kind do not exceed a total of 20% of the share capital either on the effective date or the exercise date of this authorization.

- use the treasury shares to meet settlement claims of creditors of bonds with warrants and/or convertible bonds, or
- transfer the treasury shares without subscription rights to members of management and employees of the Company and of dependent Group companies.

As in the previous year, no treasury shares were acquired in the reporting year. Disposals related to the long-term incentive program and the share purchase program for employees, which are described in Note (34). Sales proceeds from the disposals are used for general financing purposes. As of December 31, 2015, the portfolio of treasury shares amounted to 1,035,785 shares with acquisition costs of €39 million. The amount of subscribed capital attributable to treasury shares totaled €2,652,000. This represents a share in subscribed capital of 2.38%.

Other income € million

	2015			2014		
	Gross amount	Tax effect	Net amount	Gross amount	Tax effect	Net amount
Remeasurement of net defined benefit liability from pensions	(18)	(4)	(14)	(266)	(62)	(204)
Currency conversion	17	-	17	36	-	36
Change in value of derivatives (Cash flow hedges)	(36)	(11)	(25)	5	2	3
Land revaluation	1	-	1	(2)	(1)	(1)
Other income from investments carried at equity	6	-	6	7	-	7
	(30)	(15)	(15)	(220)	(61)	(159)

In fiscal 2015, Rheinmetall AG paid a dividend of €12 million or €0.30 per share (previous year: €15 million or €0.40 per share) to its shareholders from its retained earnings.

At the Annual General Meeting on May 10, 2016, the Executive Board and Supervisory Board intend to propose a dividend payment of €1.10 per share. The total amount paid out will be €47 million.

Minority interests – Major non-controlling interests are held by other shareholders in the subgroup of Rheinmetall MAN Military Vehicles GmbH, Munich, amounting to 49%. The Group's financial information is shown below.

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€ million

	2015	2014
Minority interests included in equity (Dec. 31)	(11)	(2)
Assets (Dec.31)	445	537
<i>Of which non-current</i>	150	151
<i>Of which inventories</i>	120	109
Liabilities (Dec. 31)	468	541
<i>Of which non-current</i>	95	78
External sales	592	657
Internal sales	7	10
Net income	(20)	(14)
<i>Of which from minority interests</i>	(10)	(7)
Comprehensive income	(22)	(18)
<i>Of which from minority interests</i>	(11)	(9)
Cash flows from operating activities	67	(44)

Capital management – Capital management is aimed at sustainably increasing the enterprise value, securing sufficient liquidity, and preserving the Rheinmetall Group's credit standing. The Group manages and monitors its capital structure in order to achieve its business targets regarding operations, necessary capital expenditure and strategic acquisitions and to optimize capital costs. In 2015, capital management involved the implementation of a capital increase. This generated a net inflow of €228 million, which serves to finance the growth strategy in the Defence and Automotive sectors and to strengthen the capital base for operations. Debt management pursues a diversified financing strategy to guarantee continual access to liquid funds both via money and capital markets and via bank financing.

The important key figures for capital management in the Rheinmetall Group are the equity ratio and the ratio of net financial debts to equity (gearing).

€ million

	Dec. 31, 2015	Dec. 31, 2014
Cash and cash equivalents	691	486
Near-cash assets	50	-
Financial liabilities	(822)	(816)
Net financial liabilities	(81)	(330)
Equity	1,562	1,197
Equity ratio	27.3%	22.7%
Net Gearing	5.2%	27.6%

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

(16) 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 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. There are material pension plans at the Rheinmetall Group's German and Swiss companies.

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.

There are pension plans at 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.

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

€ million

	Dec. 31, 2015				Dec. 31, 2014			
	Germany	Switzerland	Others	Total	Germany	Switzerland	Others	Total
Present value of DBO	878	1,269	161	2,308	902	1,130	163	2,195
Plan assets	13	1,062	105	1,180	11	954	109	1,074
Pension provision	865	207	56	1,128	891	176	54	1,121

Pension provisions developed as follows:

€ million

	2015				2014			
	Germany	Switzerland	Others	Total	Germany	Switzerland	Others	Total
As at Jan. 1	891	176	54	1,121	773	73	45	891
Pension payments	(35)	-	(2)	(37)	(36)	-	(4)	(40)
Employer contributions paid into funds	-	(10)	(4)	(14)	(1)	(9)	(2)	(12)
Pension cost	36	14	5	55	40	9	1	50
Remeasurement of net defined liability	(27)	12	3	(12)	152	102	12	266
Currency differences/Other	-	15	-	15	(37)	1	2	(34)
Pension provisions	865	207	56	1,128	891	176	54	1,121

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

€ million

	2015				2014			
	Germany	Switzerland	Other	Total	Germany	Switzerland	Other	Total
As at Jan. 1	902	1,130	163	2,195	783	991	148	1,922
Current service cost	18	12	3	33	16	9	3	28
Past service cost	-	-	-	-	-	-	(3)	(3)
Interest cost	18	9	6	33	24	22	6	52
Actuarial gains (-)/losses (+)								
from change in financial assumptions	(22)	46	-	24	148	116	11	275
from change in demographic assumptions	-	(12)	-	(12)	-	8	4	12
from empirical adjustments	(5)	(5)	1	(9)	4	4	-	8
Employee contributions	1	8	-	9	1	8	1	10
Entry benefits ¹⁾	-	6	-	6	-	6	-	6
Leaving benefit ¹⁾	-	(7)	-	(7)	-	(9)	-	(9)
Pension payments	(35)	(39)	(16)	(90)	(36)	(47)	(18)	(101)
Disposals from the scope of consolidation	-	-	-	-	(38)	-	-	(38)
Currency differences/ other	1	121	4	126	-	22	11	33
Present value of DBO at Dec. 31	878	1,269	161	2,308	902	1,130	163	2,195

¹⁾ Results from employees at the Swiss subsidiaries changing employer

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

Number of people

	Dec. 31, 2015		Dec. 31, 2014	
	Germany	Switzerland	Germany	Switzerland
Active employees	9,398	1,148	9,155	1,141
Vested rights of former employees not subject to expiration	2,267	-	2,240	-
Pensioner	10,828	1,970	11,191	2,018
Total	22,493	3,118	22,586	3,159

As in the previous year, the average durations of pension obligations are 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, 2015, and the duration for a mixture of active employees and retirees. The following table presents the key underlying actuarial parameters:

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Parameters in %

	Dec. 31, 2015		Dec. 31, 2014	
	Germany	Switzerland	Germany	Switzerland
Discount rate	2.21	0.80	2.04	1.20
Pension growth	1.75	-	1.75	-

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 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

	Dec. 31, 2015		Dec. 31, 2014	
	Germany	Switzerland	Germany	Switzerland
Discount rate - 0.25 %	33	37	35	32
Discount rate + 0.25 %	(31)	(35)	(33)	(30)
Pension development - 0.50 %	32	-	(35)	-
Pension development + 0.50 %	35	-	37	-
Increase in life expectancy by 1 year	42	57	44	47

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.

Fair value of the plan assets in %

	Dec. 31, 2015	Dec. 31, 2014
Real estate	39	40
Equities, Funds	33	34
Corporate bonds	12	12
Other	16	14
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.

Development of the fair value of the plan assets in € million

	2015				2014			
	Germany	Switzerland	Other	Total	Germany	Switzerland	Other	Total
As at Jan. 1	11	954	109	1,074	10	920	103	1,033
Interest income from plan assets	-	8	4	12	-	21	5	26
Income from plan assets excluding interest income	-	17	(2)	15	-	25	3	28
Employer contributions	1	10	4	15	1	9	2	12
Employee contributions	1	8	-	9	-	8	1	9
Entry benefits ¹⁾	-	6	-	6	-	6	-	6
Leaving benefits ¹⁾	-	-7	-	(7)	-	(8)	-	(8)
Pension payments	-	(39)	(14)	(53)	-	(47)	(14)	(61)
Currency differences/Other	-	105	4	109	-	20	9	29
Plan assets as at Dec. 31	13	1,062	105	1,180	11	954	109	1,074

¹⁾ Results from employees at the Swiss subsidiaries changing employer

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

€ million

	2015				2014			
	Germany	Switzerland	Other	Total	Germany	Switzerland	Other	Total
Current service cost	18	12	3	33	16	9	3	28
Past service cost	-	-	-	-	-	-	(3)	(3)
Balance of entry/leaving benefits	-	1	-	1	-	(1)	-	(1)
Interest cost	18	1	2	21	24	1	1	26
Amounts recognized in the income statement	36	14	5	55	40	9	1	50
Income from plan assets excluding interest income	-	(17)	2	(15)	-	(25)	(3)	(28)
Change in asset cap	-	-	-	-	-	(1)	-	(1)
Actuarial gains (-) / losses (+) from present value of DBO	(27)	29	1	3	152	128	15	295
Amounts recognized directly in equity from remeasurement of net defined benefit liability	(27)	12	3	(12)	152	102	12	266
Total included in comprehensive income	9	26	8	43	192	111	13	316

The service cost and the balance of entry/leaving benefits are reported under personnel expenses. Net interest expense is included in net interest.

€18 million (previous year: €14 million) of the service cost is attributable to internally financed pension plans and €15 million (previous year: €13 million) to externally financed pension plans.

Personnel expenses of €70 million (previous year: €66 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.

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Cash outflows of €36 million (previous year: €38 million) arose as a result of pension payments in connection with internally financed pension plans. Payments from employers and employees totaling €24 million (previous year: €21 million) were made to pension funds for externally financed pension plans.

The following cash outflows are expected in fiscal 2015 as a result of pension obligations:

Estimated cash outflows in the subsequent year € million

	2016
Employer contributions to fund-financed pension plans	9
Employee contributions to fund-financed pension plans	8
Employer's pension payments to internally financed pension plans	39

(17) OTHER PROVISIONS

€ million

	Personnel	Structural measures	Guarantees	Notice-able losses	Contract related costs	Other provisions	Total
As at December 31, 2014	151	42	94	20	88	110	505
Utilization	120	14	22	3	33	42	234
Reversal	4	8	7	-	8	14	41
Added / provided for	145	11	35	12	96	52	351
Currency differences / Other	1	-	(1)	(5)	8	8	11
As at December 31, 2015	173	31	99	24	151	114	592
<i>short term</i>	141	12	80	23	128	70	454
<i>long term</i>	32	19	19	1	23	44	138

Personnel provisions are primarily attributable to bonuses of €80 million (previous year: €63 million) and obligations from vacation/overtime/flexitime accounts of €47 million (previous year: €44 million).

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 €14 million of discounts and bonuses (previous year: €12 million), €11 million for environmental risks (previous year: €12 million), and €5 million of legal, consulting and audit fees (previous year: €5 million).

(18) FINANCIAL DEBTS

€ million

	Dec. 31, 2015	Of which current	Of which non-current	Dec. 31, 2014	Of which current	Of which non-current
Bond	508	-	508	508	-	508
Promissory notes	179	-	179	179	-	179
Bank liabilities	120	60	60	114	54	60
Leasing	12	1	11	12	1	11
Other	3	2	1	3	2	1
	822	63	759	816	57	759

The €500 million bond issued in September 2010 will mature in September 2017. Since September 2014, the original coupon of 4.0% p.a. has been subject to a step up of 1.25 percentage points and thus totals 5.25% p.a.

As of the reporting date, there are various promissory note loans totaling €179 million, which serve the Group's general corporate financing.

Promissory note loans € million

			Dec. 31, 2015	Dec. 31, 2014
Maturing in	Interest terms	Currency	Nominal value	Nominal value
October 2019	1,83 %	EUR	28	28
October 2019	6-months-EURIBOR + 1,40 %	EUR	77	77
November 2019	1,91 %	EUR	10	10
October 2021	2,35 %	EUR	19	19
October 2021	6-months-EURIBOR + 1,65 %	EUR	16	16
October 2024	3,00 %	EUR	25	25
October 2024	6-months-EURIBOR + 1,90 %	EUR	4	4
			179	179

The liabilities to banks of €53 million (previous year: €58 million) are secured by land charges and similar rights.

Information on lease liabilities is given in Note (7).

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(19) OTHER LIABILITIES

€ million

	Dec. 31, 2015	Of which current	Of which non-current	Dec. 31, 2014	Of which current	Of which non-current
Advance payments received	337	337	-	421	421	-
Monies in transit from debt collection (ABS program)	86	86	-	96	96	-
Liabilities from other taxes	40	40	-	44	44	-
Liabilities from construction contracts	121	121	-	94	94	-
Derivatives in cash flow hedge	78	46	32	41	27	14
Derivatives without hedge accounting	17	12	5	15	9	6
Liabilities from social security	14	13	1	12	11	1
Other	138	109	29	124	98	26
	831	764	67	847	800	47
<i>Of which financial liabilities</i>	<i>212</i>	<i>173</i>	<i>39</i>	<i>171</i>	<i>140</i>	<i>31</i>

As in the previous year, all advance payments received on orders have a remaining term of up to one year.

(20) TOTAL OPERATING PERFORMANCE

€ million

	2015	2014
Sales		
from sale of products	4,781	4,115
from services	181	182
from development contracts	221	391
Total sales	5,183	4,688
Increase/decrease in inventory of finished products and services and WIP	(43)	88
Other work performed by the enterprise and capitalized	42	38
	5,182	4,814

(21) OTHER OPERATING INCOME

€ million

	2015	2014
Reversal of provisions	41	29
Disposal of assets/divestments	5	14
Sundry rental agreements and leases	10	11
Refunds	45	9
Other secondary income	69	82
	170	145

(22) COST OF MATERIALS

€ million

	2015	2014
Cost of raw materials, supplies, and merchandise purchased	2,536	2,428
Cost of services purchased	247	243
	2,783	2,671

(23) PERSONNEL EXPENSES

€ million

	2015	2014
Wages and salaries	1,130	1,052
Social security and related employee benefits	143	132
Pension expenses	103	88
Expenses for redundancy plans, termination indemnities, partial retirement	14	16
	1,390	1,288

Annual average head count (FTE)

	2015	2014
Automotive sector	10,969	10,918
Defence sector	9,442	9,226
Rheinmetall AG / Other	154	145
	20,565	20,289

(24) AMORTIZATION, DEPRECIATION AND IMPAIRMENT

€ million

	2015	2014
Intangible assets	54	55
Property, plant and equipment	148	141
Investment property	1	1
	203	197

Total impairment taken in 2015 was €4 million (previous year: €8 million). €3 million related to capitalized development costs in the Automotive sector (previous year: €5 million) and €1 million to investment property under “other.”

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(25) OTHER OPERATING EXPENSES

€ million

	2015	2014
Distribution and advertising costs	95	99
Repairs and maintenance	89	88
Administrative costs	69	40
IT costs	63	60
Rents, leases	61	55
Warranty	59	41
Travel expenses	53	48
Audit, legal and consultancy fees	52	45
Incidental staff costs	48	49
Other	112	201
	701	726

The “other” item primarily contains building operating expenses, research and development costs and licensing costs. In the previous year, the “other” item also showed the expense from profit absorption and fines totaling €37 million from the concluded criminal proceedings relating to unlawful payments in connection with an order in Greece.

(26) INCOME TAXES

€ million

	2015	2014
Current income tax expense	56	49
Earlier-period income taxes	-	(3)
Deferred taxes	5	(40)
	61	6

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

	2015	2014
Earnings from continuing operations before taxes	221	22
Expected income tax expense (tax rate of 30%; previous year: 30%)	66	7
Foreign tax rate differentials	(2)	(3)
Effects of loss carryforwards and change in value adjustment	12	13
Reduction of tax expense due to previously unrecognized loss carryovers and temporary differences	(13)	(12)
Tax-exempt income	(6)	(5)
Non-deductible expenses	7	8
Earlier-period income taxes	-	(3)
Taxes on entities carried at equity	(8)	(6)
Taxes on dividend and other withholding taxes	7	5
Other	(2)	2
Actual income tax expense	61	6

Allocation of deferred taxes to balance sheet items € million

	Dec. 31, 2015		Dec. 31, 2014	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryforwards and tax credits	82	-	85	-
Interest barrier carried forward	9	-	13	-
Fixed assets	13	138	21	143
Inventories and receivables	40	49	71	41
Pension provisions	185	-	184	1
Other provisions	32	8	28	5
Liabilities	65	18	37	44
Other	7	7	6	3
	433	220	445	237
Set off	(189)	(189)	(206)	(206)
	244	31	239	31
<i>Of which noncurrent</i>	212	28	209	26

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 €534 million (previous year: €498 million), which cannot be utilized or whose deferred tax assets were adjusted by value adjustments. Of this, €236 million (previous year: €238 million) is allocable to German loss carryovers, €293 million (previous year: €257 million) to foreign loss carryovers and another €5 million (previous year: €3 million) to tax credits. The German loss carryovers, and €157 million of the foreign loss carryovers (previous year: €103 million), are not subject to expiration. Most of the foreign loss carryovers subject to expiration can still be utilized for more than 9 years, as in the previous year. Write-downs of deferred tax assets changed by €3 million (previous year: €1 million). Within the Group, €37 million (previous year: €33 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

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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. Unrecognized deferred tax liabilities of €6 million (previous year: €7 million) relate to the main differences.

(27) 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, 2015, or December 31, 2014, 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

	2015	2014
Weighted number of shares <i>million</i>	38.98	38.21
Consolidated net profit/loss for the year for shareholders of Rheinmetall AG – continuing operations	151	13
Earnings per share from continuing operations	€3.88	€0.34
Consolidated net profit/loss for the year for shareholders of Rheinmetall AG – discontinued operations	-	5
Earnings per share from discontinued operations	-	€0.13
Consolidated net profit for the year for shareholders of Rheinmetall AG – total	151	18
Earnings per share – total	€3.88	€0.47

(28) ADJUSTED EBIT

€ million

	2015	2014
EBIT	287	102
One-off expenses and income in connection with:		
Investments	-	1
Properties	(3)	(12)
Restructuring	7	13
Other	-	65
EBIT (adjusted)	291	169

(29) STATEMENT OF CASH FLOWS

Of the net interest included in the cash flow from operating activities, €3 million (previous year: €2 million) related to interest payments received and €38 million (previous year: €53 million) to interest payments made.

The cash outflow for investments in consolidated entities and financial assets related mainly to the €2 million acquisition of the consolidated entity Logistic Solutions Australasia Pty. Ltd., Melbourne/Australia. In the previous year, €3 million was reported here for the capital contributions to the joint venture Rheinmetall International Engineering GmbH, Geisenheim, and €2 million for the capital increase of the joint venture Pierburg Huayu Pump Technology Co. Ltd., Shanghai/China.

(30) SEGMENT REPORTING

The Group bundles its operations 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 for the defense and security industry. The service range covers development, manufacturing and service provision and is aimed at German and international armed forces. The product portfolio comprises system and partial system solutions and covers capability in the areas of mobility, reconnaissance, management, effectiveness and protection. Specifically, the product range includes vehicle, protection and weapon systems, air defense systems, function sequence networking, simulation hardware and software, and infantry equipment.

The Automotive sector comprises the activities of the Rheinmetall Group for automotive supplies. The focus is on reducing emissions, consumption and CO₂, making weight savings, and improving the performance of engines and drive components. Rheinmetall mainly supplies automotive manufacturers directly without intermediate suppliers or system integrators. The product range especially includes pistons, engine blocks and plain bearings. 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 Defence and Automotive sectors are of minor significance and are made at arm's length.

The sectors of the Rheinmetall Group are controlled by means of sales, operating result (EBIT before special items), EBIT, EBT and operating free cash flow performance indicators. Operating free cash flow comprises the cash flow from operating activities and capital expenditure on property, plant and equipment, intangible assets, and investment property.

Profitability is also assessed for management purposes 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). 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 and liquid financial assets. 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.

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The indicators for internal controlling and reporting purposes are based on the accounting principles described in Note (5).

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, 2015	Dec. 31, 2014
Net financial debts		
Net financial debts of sectors	(149)	(192)
Others	230	520
Consolidation	-	2
Net financial debts of Group	81	330
	2015	2014
EBIT		
EBIT of sectors	306	117
Others	81	25
Consolidation	(100)	(40)
Group EBIT	287	102
Group net interest	(66)	(80)
Group EBT	221	22

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.

(31) 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. There are letters of comfort for the purposes of contract performance, 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, commitments 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.

Contingent liabilities € million

	Dec. 31, 2015	Dec. 31, 2014
Letters of comfort	2,760	2,754
Credit enhancement	15	13
Contract performance	28	3
Advance payment guarantees	9	14
Other	4	9
	2,816	2,793

The purchasing obligation from firm capital expenditure contracts totals €32 million (previous year: €29 million).

(32) 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 Note (7).

In the reporting year, €54 million was posted as expenses for operating leasing (previous year: €55 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

	2015				2014			
	2016	2017-2020	from 2021	Total	2015	2016-2019	from 2020	Total
Buildings	26	70	47	143	27	74	53	154
Other leases	14	15	7	36	13	11	-	24
	40	85	54	179	40	85	53	178

(33) 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.”

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Financial instruments € million

	Dec. 31, 2015		Dec. 31, 2014	
	Measurement at amortized cost	Measurement at fair value (Level 2)	Measurement at amortized cost	Measurement at fair value (Level 2)
Loans and receivables				
Trade receivables	1,127	-	1,144	-
Other financial assets	27	-	21	-
Cash and cash equivalents	691	-	486	-
Assets held to maturity				
Near-cash assets	50	-	-	-
Held for trading purposes				
Derivatives without hedge accounting	-	24	-	13
Derivatives with cash flow hedge ¹⁾	-	2	-	9
Financial assets	1,895	26	1,651	22
Liabilities				
Bond, promissory notes	687	-	687	-
Financial debts excl. leases	123	-	117	-
Trade liabilities	718	-	714	-
Other liabilities excl. Derivatives	117	-	115	-
Held for trading purposes				
Derivatives without hedge accounting	-	17	-	15
Derivatives with cash flow hedge ¹⁾	-	78	-	41
Financial liabilities	1,645	95	1,633	56

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

The market value of financial assets and financial liabilities measured at fair value is determined on the basis of input factors observed directly or indirectly on the market. 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. 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 market price as of the valuation date. The forward rates applicable on the balance sheet date are used to determine the market value of energy derivatives (electricity and gas derivatives).

The carrying amounts and fair values of financial assets and liabilities that are measured at amortized cost and whose carrying amounts do not approximate fair value are shown below.

€ million

		Dec. 31, 2015		Dec. 31, 2014	
		Book value	Fair value	Book value	Fair value
Bond	Level 1	508	533	508	547
Promissory notes	Level 2	179	184	179	197
Other financial debts excl. leases	Level 2	124	125	117	87

The fair value of the bond, the promissory note loans and the other financial liabilities was determined by discounting the associated future cash flows at rates that match the time to maturity of similar debts.

Given the short term to maturity of such instruments, the fair value of current financial assets and liabilities carried at amortized cost largely corresponds to carrying amount. The values of non-current fixed and floating-rate receivables at amortized cost are adjusted taking into account customer credit standing, specific country risks, and the structure of the financing transaction. Non-interest receivables are discounted by applying rates that match their maturity. The carrying amounts of these financial assets therefore approximate their fair values.

Sale of customer receivables – Under an asset-backed securities program, the Rheinmetall Group sells customer receivables to a special-purpose entity each month on a revolving basis. The business objective of this entity is the purchase of receivables from Rheinmetall and other non-Group companies. According to IFRS 10, the entity is not consolidated because Rheinmetall cannot exercise control over it. In 2015, the maximum volume of the program was €148 million (previous year: €170 million). As at December 31, 2015, the nominal value of receivables sold came to €139 million (previous year: €101 million).

The retained 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.

Net result from financial instruments – Financial instruments gave rise to the following income and expenses recognized in the income statement, broken down according to valuation categories as defined by IAS 39.

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€ million

	2015	2014
Loans and receivables / liabilities		
Interest income	2	2
Interest expenses	(46)	(53)
Currency result	3	-
Income from valuation allowances	(6)	(14)
Write-ups	1	1
Other financial results	(2)	(4)
	(48)	(68)
Held for trading purposes	-	2
Net result from financial instruments	(48)	(66)

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, gas and commodity prices, exchange rate volatility and interest rate changes. In accordance with the Group-wide risk management system of Rheinmetall AG, such risks are not only identified, analyzed and measured, but also managed by taking actions to avoid, contain or limit such risks. Inherent financial risks are proactively managed to ensure that at the balance sheet date, no significant risks emanate from financial instruments.

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

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

€ million

	Nominal volume				Fair value	
	Remaining term < 1 year		Remaining term > 1 year		Dec. 31, 2015	Dec. 31, 2014
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014		
Without hedge accounting						
Currency hedges	348	432	82	75	7	1
Interest rate hedges	-	100	-	-	-	(3)
Commodity hedges	9	11	2	2	-	-
Electricity price hedges	4	12	4	6	-	(1)
	361	555	88	83	7	(3)
With hedge accounting						
Currency hedges	468	376	242	162	(67)	(29)
Interest rate hedges	-	-	103	104	(2)	(1)
Commodity hedges	16	20	23	17	(4)	-
Electricity price hedges	4	7	3	6	(3)	(1)
	488	403	371	289	(76)	(31)

In the year under review, fair value changes in derivatives of €32 million before deduction of deferred taxes (previous year: €10 million) were recognized in the hedge reserve, while €-3 million (previous year: €9 million) of this was reclassified to sales and €0 million (previous year: €6 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 squared either directly or in a portfolio approach via 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 Norwegian krone 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). The interest rate swaps essentially serve to hedge variable interest on promissory note loans and future variable interest payments.

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 commodity futures contracted on the basis of a financial settlement.

Energy price risk (electricity and gas price) – Owing to volatile prices on the energy market, derivative financial instruments have been concluded to secure the price of electricity for the consumption

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volumes planned for the years up to and including 2018. The gas price was secured for the consumption volumes planned for 2016 and 2017.

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 energy prices (electricity and gas) is assumed.

Sensitivity analyses € million

	Other financial results		Cash flow hedge reserve	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Currency hedges				
Exchange rates (total) -10% / +10%	2 / -2	13 / -13	-10 / 10	-6 / 6
of which USD - 10% / + 10%	6 / -6	8 / -8	7 / -7	4 / -4
of which CHF - 10% / + 10%	-7 / 7	-1 / 1	0 / 0	1 / -1
of which NOK - 10% / + 10%	3 / -3	2 / -2	-4 / 4	-2 / 2
of which CAD - 10% / + 10%	1 / -1	3 / -3	-2 / 2	-5 / 5
Interest rate hedges				
Yield curve -100 BP / +100 BP	0 / 0	-1 / 1	-4 / 4	-5 / 5
Commodity hedges				
Price curve for material prices -10% / +10%	0 / 0	0 / 0	-4 / 4	-4 / 4
Electricity price hedges				
Forward curve for electricity prices -10% / +10%	0 / 0	0 / 0	-1 / 1	-1 / 1

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

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

There are no significant valuation allowances for customer 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, 2015	Dec. 31, 2014
Trade receivables unimpaired but past due		
for up to 30 days	92	78
for up to 180 days	65	66
for more than 180 days	71	66
	228	210
Impaired	6	6
Neither impaired nor past due	536	564
	770	780
Individual value adjustments	(5)	(6)
	765	774

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 undiscounted contractually agreed payments from repayment and interest components in connection with financial liabilities and derivative financial instruments are listed below as of the balance sheet date.

Cash outflows € million

	Dec. 31, 2015			Dec. 31, 2014		
	2016	2017-2020	ab 2021	2015	2016-2019	ab 2020
Bond	26	526	-	26	549	-
Promissory notes	3	125	69	4	129	70
Other bank liabilities	62	43	21	57	33	33
Capital lease liabilities	1	5	21	1	4	21
Other financial debts	2	1	1	1	1	1
	94	700	112	89	716	125
Financial derivatives with						
negative fair value	58	37	-	36	20	-
positive fair value	25	1	-	5	17	-

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.

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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.

(34) SHARE PROGRAMS

Long-term-incentive program – There is a long-term incentive remuneration program (LTI) for the Executive Board and the managers of the Rheinmetall Group in order to involve management in the Company's long-term development. Under this program, the beneficiaries are paid performance-related remuneration for the past fiscal year in the subsequent year. The basis of the calculation of the remuneration amount is the average adjusted EBT of the Rheinmetall Group of the last three fiscal years. The remuneration for fiscal 2015 is based on the average adjusted EBT for the years 2013 to 2015, limited to a maximum of €300 million. Average adjusted EBT for LTI remuneration totaled €146 million for fiscal 2015. This is multiplied by a personal factor according to individual commitment.

The remuneration for members of the Executive Board comprises a component settled in shares of 50% of the assessment basis and a cash component of 60% of the assessment basis. The remuneration for German managers is measured according to the respective assessment basis, with 40% and 60% being settled in shares and cash respectively. Managers working outside Germany receive remuneration of 50% of the determined assessment basis in shares.

The number of shares granted is determined in the subsequent year on the basis of the average price on the last five trading days in February of a year (reference price), with a deduction of 20% in the case of managers (relevant share value). The portion of the assessment basis to be granted in shares is divided by the relevant share value to determine the number of shares to be granted. The shares granted are subject to a lock-up period of four years. If employment is terminated by the employer, the Executive Board member or manager receives remuneration pro rata for each completed calendar month of employment.

An expense totaling €9 million (previous year: €8 million) was reported for the LTI program in fiscal 2015.

The reference price in February 2015 was €45.00. For fiscal 2014, a total of 95,481 shares were transferred to the entitled participants of the LTI program on April 2, 2015 (previous year: a total of 123,337 shares were transferred for fiscal 2013 on April 2, 2014).

The shares attributable to the Executive Board members are presented in the remuneration report included in the management report.

Share purchase program – 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 2015, Rheinmetall Group employees purchased 94,245 shares in total (previous year: 175,385) for €5 million (previous year: €6 million). Expenses of €1 million (previous year: less than €1 million) were incurred for this program, recognized as personnel expenses. The loss on disposal from the sale of treasury shares to employees totaled €1 million (previous year: gain on disposal of €3 million).

Subscription period	Share price in €	Discount per share in €	No. of shares purchased by staff
April 24 - May 7, 2015	45.04	13.51	67,095
September 24 - 7. October 7, 2015	56.14	16.84	27,150

(35) OTHER INFORMATION ON RELATED PARTIES

For the Rheinmetall Group, corporate related parties are the joint ventures and associated companies carried at equity. As in the previous year, the volume of products/services provided to corporate related parties primarily relates to sales proceeds from the sale of finished and unfinished goods and from services rendered under construction contracts to 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 corporate related parties of €1 million, as in the previous year. 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	
	2015	2014	2015	2014	2015	2014
Joint ventures	376	262	8	7	62	20
Associated companies	4	3	16	19	(2)	(3)
	380	265	24	26	60	17

Please see the comments under Note (31) “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 2015 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:

RHEINMETALL GROUP

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€ '000

	2015	2014
Fixed remuneration incl. fringe benefits	2,023	1,570
Performance based remuneration	2,755	450
LTI	1,607	1,232
	6,385	3,252

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 €9,383,000 for members of the Executive Board active at year-end (previous year: €7,712,000).

Supervisory Board compensation including attendance fees amounted to €1,355,000 (previous year: €1,410,000). 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 €658,000 (previous year: €608,000) 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.

€2,041,000 (previous year: €2,074,000) was paid to former members of the Executive Board or their surviving dependents. Pension provisions for these persons totaled €31,938,000 (previous year: €33,722,000). €549,000 (previous year: €580,000) 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 totaled €8,800,000 (previous year: €8,901,000).

(36) AUDITOR'S FEES

In fiscal 2015, the following fees of the statutory auditor PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) were expensed in Germany:

€ '000

	2015	2014
End-of-year auditing services	2,160	2,317
Other verification services	185	52
Tax consultancy services	64	3
Other services	193	115
	2,602	2,487

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.

(37) EXERCISE OF EXEMPTION PROVISIONS UNDER HGB

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 prepare notes or management reports or to disclose their 2015 financial statements:

BF Germany GmbH
 EMG EuroMarine Electronics GmbH
 GVG Grundstücksverwaltung Gleitlager GmbH & Co. KG
 GVMS Grundstücksverwaltung Service GmbH & Co. KG
 GVN Grundstücksverwaltung Neckarsulm GmbH & Co. KG
 Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin
 Kolbenschmidt Pierburg Innovations GmbH
 KS ATAG Beteiligungsgesellschaft m.b.H
 KS Gleitlager GmbH
 KS Grundstücksverwaltung Beteiligungs GmbH
 KS Grundstücksverwaltung GmbH & Co. KG
 KS Kolbenschmidt GmbH
 KSPG AG
 LDT Laser Display Technology GmbH
 MEG Marine Electronics Holding GmbH
 MS Motorservice Deutschland GmbH
 MS Motorservice International GmbH
 Pierburg GmbH
 Pierburg Grundstücksverwaltung GmbH & Co. KG
 Pierburg Pump Technology GmbH
 Rheinmetall Ballistic Protection GmbH
 Rheinmetall Berlin Verwaltungsgesellschaft mbH
 Rheinmetall Defence Electronics GmbH
 Rheinmetall Dienstleistungszentrum Altmark GmbH
 Rheinmetall Eastern Markets GmbH
 Rheinmetall Immobilien GmbH
 Rheinmetall Immobilien Hamburg GmbH
 Rheinmetall Immobilien Hamburg Objekt Friedensallee GmbH & Co. KG
 Rheinmetall Industrietechnik GmbH
 Rheinmetall Insurance Services GmbH

RHEINMETALL GROUP

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Rheinmetall Landsysteme GmbH
Rheinmetall Maschinenbau GmbH
Rheinmetall Soldier Electronics GmbH
Rheinmetall Technical Publications GmbH
Rheinmetall Verwaltungsgesellschaft mbH
Rheinmetall Waffe Munition GmbH
SUPRENUM Gesellschaft für numerische Superrechner mbH

(38) CORPORATE GOVERNANCE

In August 2015, 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 26, 2016

Rheinmetall Aktiengesellschaft
The Executive Board

Armin Papperger

Horst Binnig

Helmut P. Merch

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	31,742	111
MEG Marine Electronics Holding GmbH, Düsseldorf/Germany	(1)		100	5,000	0
Rheinmetall Berlin Verwaltungsgesellschaft mbH, Berlin/Germany	(1)	100		213,750	0
Rheinmetall Immobilien GmbH, Düsseldorf/Germany		100		209,544	1,980
Rheinmetall Immobilien Hamburg GmbH, Düsseldorf/Germany		100		1,684	1
Rheinmetall Immobilien Hamburg Objekt Friedensallee GmbH & Co. KG, Düsseldorf/Germany			100	11,727	(600)
Rheinmetall Industrietechnik GmbH, Düsseldorf/Germany	(1)	100		26	0
Rheinmetall Insurance Services GmbH, Düsseldorf/Germany	(1)	100		334	37
Rheinmetall Maschinenbau GmbH, Düsseldorf/Germany		100		(5,899)	165
Rheinmetall Verwaltungsgesellschaft mbH, Düsseldorf/Germany	(1)		100	733,843	0
SUPRENUM Gesellschaft für numerische Superrechner mbH, Bremen/Germany			100	(1,397)	0
Defence sector					
ADS Gesellschaft für aktive Schutzsysteme mbH, Lohmar/Germany			74	15,138	(5,258)
American Rheinmetall Defense, Inc., Biddeford, Maine/USA		100		42,517	564
American Rheinmetall Munition Inc., Stafford, Virginia/USA			100	(11,063)	(1,265)
Benntec Systemtechnik GmbH, Bremen/Germany	(2)		49	4,170	558
BIL Industriemetalle GmbH & Co. 886 KG, Grünwald/Germany	(3)	94		(21)	160
Eurometaal N.V., Hengelo/Netherlands			100	10,408	(36)
I.L.E.E. AG, Urdorf/Switzerland			100	2,262	(240)
Laser 2000 AG, Urdorf/Switzerland			80	0	0
LDT Laser Display Technology GmbH, Jena/Germany	(1)		100	1,475	(3)
Logistic Solutions Australasia Pty. Ltd., Melbourne/Australia			100	899	236
Nitrochemie AG, Wimmis/Switzerland			51	935	0
Nitrochemie Aschau GmbH, Aschau/Germany			55	23,132	13,899
Nitrochemie Wimmis AG, Wimmis/Switzerland			55	53,681	2,018
Oerlikon Contraves GmbH, Zurich/Switzerland		100		18	0
Oerlikon Contraves Pte Ltd., Singapore/Singapore			100	2,569	229
RD Investment AG, Zurich/Switzerland			69	1,022	(45)
RFEL LTD, Newport, Isle of Wight/Great Britain			100	1,779	(284)
Rheinmetall Air Defence AG, Zürich/Switzerland		100		15,994	37,433
Rheinmetall Ballistic Protection GmbH, Krefeld/Germany	(1)		100	4,215	(375)
Rheinmetall Canada Inc., St.-Jean-sur-Richelieu/Canada		100		52,077	431
Rheinmetall Chempro GmbH, Bonn/Germany			51	32,841	7,440
Rheinmetall Combat Platforms North America Inc, Wilmington, Delaware/USA			100	2	(2)

RHEINMETALL GROUP OTHER NOTES

Company	Direct share of capital in %	Indirect share of capital in %	Equity in € '000	Net income for the year in € '000
Rheinmetall Communication and Simulation Technologies plc, Singapore/Singapore		100	162	(51)
Rheinmetall Defence Australia Pty Ltd., Deakin West/Australia	100		0	0
Rheinmetall Defence Electronics GmbH, Bremen/Germany	(1) 100		39,106	11,461
Rheinmetall Defence UK Limited, London/Great Britain	100		7,245	(596)
Rheinmetall Denel Munition Pty. Ltd., Somerset West/South Africa		51	35,206	10,624
Rheinmetall Dienstleistungszentrum Altmark GmbH, Letzlingen/Germany	(1) 100		27	1
Rheinmetall Eastern Markets GmbH, Düsseldorf/Germany	(1) 100		720	4
Rheinmetall Hellas S.A. i.L., Athens/Greece	100		148	(39)
Rheinmetall International Holding AG, Zurich/Switzerland		100	208	(113)
Rheinmetall Italia S.p.A., Rome/Italy		100	95,933	3,324
Rheinmetall Laingsdale (Pty) Ltd., Cape Town/South Africa		76	1,298	(326)
Rheinmetall Landsysteme GmbH, Südheide/Germany	(1) 100		26,762	(6,244)
Rheinmetall Ltd, Moscow/Russian Federation		100	401	43
Rheinmetall MAN Military Vehicle Systems RSA (Pty) Ltd., Pretoria/South Africa	(2) 100	36	17	0
Rheinmetall MAN Military Vehicles Australia Pty Ltd., Melbourne/Australia		51	2,019	1,594
Rheinmetall MAN Military Vehicles Canada Ltd., Ottawa/Canada		51	404	-414
Rheinmetall MAN Military Vehicles GmbH, Munich/Germany	51		72,204	2,416
Rheinmetall MAN Military Vehicles Nederland B.V., Ede/Netherlands		51	(9,671)	(999)
Rheinmetall MAN Military Vehicles Österreich GesmbH, Vienna/Austria		51	5,540	(18,640)
Rheinmetall MAN Military Vehicles Österreich Holding GesmbH, Vienna/Austria		51	100,110	(13)
Rheinmetall MAN Military Vehicles UK Ltd., Swindon/Great Britain		51	(289)	(291)
Rheinmetall Mexico Simulation and Training S.A. de C.V., Mexico City/Mexico		100	1,404	(625)
Rheinmetall Netherlands B.V., Hengelo/Netherlands		100	53,650	1,020
Rheinmetall Nordic AS, Nøtterøy/Norway	100		31,542	(33,097)
Rheinmetall Projects Development Consultancy LLC, Abu Dhabi/UAE	(2) 49		(133)	(130)
Rheinmetall Protection Systems Nederland B.V., Ede/Netherlands		100	390	492
Rheinmetall Simulation Australia Pty. Ltd., Adelaide/Australia		100	1,493	177
Rheinmetall Simulation International AG, Muri/Switzerland		100	631	(17)
Rheinmetall Soldier Electronics GmbH, Stockach/Germany	(1) 100		2,573	1,273
Rheinmetall Swiss SIMTEC AG, Thun/Switzerland		100	3,126	622
Rheinmetall Technical Assistance GmbH, Kassel/Germany	(1) 100	51	25	2
Rheinmetall Technical Publications GmbH, Bremen/Germany	(1) 100		2,404	1,340
Rheinmetall Technical Publications Schweiz AG, Zürich/Switzerland		100	(386)	(199)
Rheinmetall Waffe Munition ARGES GmbH, Schwanenstadt/Austria	(1) 100	100	1,661	28
Rheinmetall Waffe Munition GmbH, Südheide/Germany	(1) 100		108,121	3,886
Rheinmetall Waffe Munition South Africa (Pty) Ltd., Somerset West/South Africa		100	(29)	(7)
RM Euro B.V., Hengelo/Netherlands	100		54,233	987
RTP-UK Ltd., Bristol/Great Britain		100	7,159	2,619
RWM Beteiligungsverwaltung Austria GmbH, Schwanenstadt/Austria		100	14,984	740
RWM Italia S.p.A., Ghedi/Italy		100	28,232	3,537
RWM Schweiz AG, Zurich/Switzerland		100	15,715	566

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € '000	Net income for the year in € '000
RWM Zaugg AG, Lohn-Ammannsegg/Switzerland			100	11,566	1,049
Vinghøg AS, Nøtterøy/Norway			100	7,421	(17,225)
Vingtech LLC, Biddeford, Maine/USA			100	30,117	3,735
Automotive sector					
BF Engine Parts LLC, Istanbul/Turkey			100	842	270
BF Germany GmbH, Asperg /Germany	(1)		100	10,144	(13)
GVG Grundstücksverwaltung Gleitlager GmbH & Co. KG, Neckarsulm/Germany			100	6,550	138
GVMS Grundstücksverwaltung Service GmbH & Co. KG, Neckarsulm/Germany			100	45	(29)
GVN Grundstücksverwaltung Neckarsulm GmbH & Co. KG, Neckarsulm/Germany			100	5,315	311
Intec France S.A.S., Meyzieu/France			100	875	26
Karl Schmidt Trading Company S. de R.L. de C.V. Celaya/Mexico			100	(153)	(88)
Kolbenschmidt de México, S. de R.L. de C.V., Celaya/Mexico			100	9,224	1,075
Kolbenschmidt K.K., Yokohama/Japan			100	30,187	4,436
Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin, Neckarsulm/Germany	(1)		100	6,859	117
Kolbenschmidt Pierburg Innovations GmbH, Neckarsulm/Germany	(1)		100	985	2,220
Kolbenschmidt USA Inc., Marinette/USA			100	0	0
KS ATAG Beteiligungsgesellschaft m.b.H., Neckarsulm/Germany	(1)		100	10,263	0
KS ATAG Romania S.R.L., Bukarest/Romania			100	3,763	(33)
KS CZ Motorservice s.r.o., Usti/Czech Republic			100	9,069	606
KS France S.A.S, Basse-Ham (Thionville)/France			100	27,404	2,202
KS Gleitlager de México S. de R.L. de C.V., Celaya/Mexico			100	3,316	(747)
KS Gleitlager GmbH, St. Leon-Rot/Germany	(1)		100	14,085	2,666
KS Gleitlager North America LLC, Marinette/USA			100	(6,552)	(2,057)
KS Grundstücksverwaltung Beteiligungs GmbH, Neckarsulm/Germany	(1)		100	113	7
KS Grundstücksverwaltung GmbH & Co. KG, Neckarsulm/Germany			100	22,953	3,743
KS Kolbenschmidt Czech Republic a.s., Usti/Czech Republic			100	35,778	6,522
KS Kolbenschmidt France S.A.S., Basse-Ham (Thionville)/France			100	17,004	1,930
KS Kolbenschmidt GmbH, Neckarsulm/Germany	(1)		100	60,135	3,576
KS Kolbenschmidt US Inc., Marinette/USA			100	1,898	270
KS Large Bore Pistons LLC., Marinette/USA			100	30,259	4,449
KSLP (China) Co. Ltd., Kunshan/China			100	1,063	(2,164)
KSPG (China) Investment Co. Ltd., Shanghai/China			79	13,932	0
KSPG AG, Neckarsulm/Germany	(1)		100	337,951	4,484
KSPG Automotive Brazil Ltda., Nova Odessa/Brazil			100	46,000	1,220
KSPG Automotive India Private Ltd., Mumbai Maharashtra/India			100	23,853	(1,733)
KSPG Finance & Service Ltd., St. Julians/Malta			79	164,249	2,057
KSPG Holding USA Inc., Delaware/USA			100	281,195	12,654
KSPG Malta Holding Ltd., St. Julians/Malta		21	79	169,480	2,982

RHEINMETALL GROUP OTHER NOTES

Company	Direct share of capital in %	Indirect share of capital in %	Equity in € '000	Net income for the year in € '000
KSPG Netherlands Holding B.V., Amsterdam/Netherlands		100	81,582	(25)
KSUS International, LLC., Marinette/USA		100	37,550	13,103
Mechadyne International Ltd., Kirtlington/Great Britain		100	3,532	1,229
MS Motorservice Aftermarket Iberica S.L., Abadiano/Spain		100	4,420	1,268
MS Motorservice Asia Pacific Co. Ltd., Shanghai/China		100	2,367	(959)
MS Motorservice Deutschland GmbH, Asperg/Germany	(1)	100	3,347	(1)
MS Motorservice France S.A.S., Villepinte/France		100	15,994	2,012
MS Motorservice International GmbH, Neuenstadt/Germany	(1)	100	44,346	2,286
MS Motorservice Istanbul Dis Ticaret ve Pazarlama A.S., Istanbul/Turkey		51	3,072	302
Pierburg China Ltd., Kunshan City/China		100	9,949	2,239
Pierburg Gestion S.L., Abadiano/Spain		100	42,857	21,103
Pierburg GmbH, Neuss/Germany	(1)	100	110,981	7,656
Pierburg Grundstücksverwaltung GmbH & Co. KG, Neuss/Germany		100	5,758	(96)
Pierburg Mikuni Pump Technology (Shanghai) Corp., Shanghai/China		51	8,621	3,525
Pierburg Mikuni Pump Technology Corporation, Odawara/Japan		51	1,415	154
Pierburg Pump Technology France S.à r.l., Basse-Ham (Thionville)/France		100	33,095	(2,464)
Pierburg Pump Technology GmbH, Neuss/Germany	(1)	100	32,428	302
Pierburg Pump Technology Italy S.p.A., Lanciano/Italy		100	31,112	5,462
Pierburg Pump Technology Mexico S.A.de C.V., Mexico City/Mexico		100	6,219	458
Pierburg Pump Technology US LLC., Marinette/USA		100	(3,414)	1,591
Pierburg S.A., Abadiano/Spain		100	20,085	8,407
Pierburg s.r.o., Usti/Czech Republic		100	48,412	30,716
Pierburg Systems S.L., Abadiano/Spain		100	103	37
Pierburg US, LLC , Fountain Inn (Greenville)/USA		100	13,164	4,023
Société Mosellane de Services S.C.I., Basse-Ham (Thionville)/France		100	10,167	(29)
Joint Operations				
Automotive sector				
Advanced Bearing Materials LLC., Greensburg/USA		50	4,170	34
Investments carried at equity				
Holding companies / service companies / other				
casa altra development GmbH, Düsseldorf/Germany		35	382	(593)
LIGHTHOUSE Development GmbH, Düsseldorf/Germany	(4)	10	52	(55)
Unternehmerstadt GmbH, Düsseldorf/Germany	(5)	50	24	(18)

Company		Direct share of capital in %	Indirect share of capital in %	Equity in € '000	Net income for the year in € '000
Defence sector					
Advanced Pyrotechnic Materials Pte Ltd, Singapore/Singapore	(5)		49	3,996	982
AIM Infrarot-Module GmbH, Heilbronn/Germany			50	6,543	2,132
Airbus DS Airborne Solutions GmbH, Bremen/Germany	(6)	49		3,330	3,550
ARGE RDE/CAE (Gbr), Bremen/Germany	(5)		50	68	959
ARGE TATM, Bonn/Germany	(5), (7)		50		
ARTEC GmbH, Munich/Germany	(5)		64	336	91
Contraves Advanced Devices Sdn Bhd, Malacca/Malaysia	(5)		49	17,645	9,127
Defense Munitions International, LLC, Wilmington, Delaware/USA	(5), (6)		50	9	0
DynITEC GmbH, Troisdorf/Germany			35	3,484	1,324
EuroSpike GmbH, Röthenbach/Pegnitz/Germany	(5)		40	1,793	1,634
GIWS Gesellschaft für Intelligente Wirksysteme mbH, Nürnberg/Germany	(5), (6)		50	1,236	(66)
Hartchrom Defense Technology AG, Steinach/Switzerland	(6)		38	1,971	52
HFTS Helicopter Flight Training Services GmbH, Hallbergmoos/Germany	(5)		25	46,850	13,269
HIL Industrie-Holding GmbH, Bonn/Germany	(5), (6)		33	57	(5)
KBR Rheinmetall Holdings Limited, Leeds/Great Britain	(5), (6)		50	0	0
LOG GmbH, Bonn/Germany	(6)		25	539	(589)
ORR Training Systems LLC, Moskau/Russian Federation	(5)		25	(113)	(6)
Oy Finnish Defence Powersystems Ab, Helsinki/Finland			30	81	(4)
PSM Projekt System & Managment GmbH, Kassel/Germany	(5)		50	548	23
Rheinmetall Arabia Simulation and Training LLC, Riyadh/Saudi Arabia	(5), (7)		40		
Rheinmetall International Engineering GmbH, Geisenheim/Germany	(5)	50		196	(9,616)
Rheinmetall International Saudi Arabia LLC, Riyadh/Saudi Arabia	(7)		25		
Werk Aschau Lagerverwaltungsgesellschaft mbH, Aschau/Germany	(5)		50	25	0
Automotive sector					
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., Shanghai/China	(5)		50	120,490	33,264
Kolbenschmidt Shanghai Piston Co. Ltd., Shanghai/China	(5)		50	66,507	7,190
KS HUAYU AluTech GmbH, Neckarsulm/Germany	(5)		50	39,519	8,620
Pierburg Huayu Pump Technology Co. Ltd., Shanghai/China	(5)		50	(1,153)	(4,894)
Shriram Pistons & Rings Ltd., Neu Delhi/India			20	92,837	11,909

(1) Profit transfer agreement

(2) Full consolidation due to majority of voting rights

(3) Structured entity (real estate management company)

(4) Controlling influence owing to distribution of voting rights

(5) Joint ventures

(6) Equity and result from previous years

(7) Equity and result not available (new company)

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 26, 2016

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, 2015. 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 29, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Gerd Bovensiepen
Wirtschaftsprüfer (German Public Auditor)

Norbert Linscheidt
Wirtschaftsprüfer (German Public Auditor)

ADDITIONAL INFORMATION

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BALANCE SHEET OF RHEINMETALL AG AS OF DECEMBER 31, 2015

Assets € '000

	Note	Dec. 31, 2015	Dec. 31, 2014
Fixed assets	(1)		
Intangible assets		5,510	3,799
Property, plant and equipment		30,497	27,332
Financial assets		1,065,301	1,063,541
		1,101,308	1,094,672
Current assets			
Inventories	(2)	141	-
Receivables and other assets	(3)	447,499	369,694
Bonds	(4)	157,500	-
Cash in hand	(5)	381,083	258,009
		986,223	627,703
Deferred income	(6)	3,726	5,271
Total assets		2,091,257	1,727,646

Equity and Liabilities € '000

	Note	Dec. 31, 2015	Dec. 31, 2014
Share capital		111,511	101,373
Treasury stock (notional value relating to the share capital)		(2,652)	(3,137)
		108,859	98,236
Capital reserves		530,535	309,844
Retained earnings		123,416	107,307
Net earnings		48,000	12,000
Equity		810,810	527,387
Provisions	(6)	135,392	119,016
Liabilities	(7)		
Bond		500,000	500,000
Liabilities due to banks		178,500	178,500
Other liabilities		466,074	402,318
		1,144,574	1,080,818
Deferred income		481	425
Total liabilities		2,091,257	1,727,646

INCOME STATEMENT OF RHEINMETALL AG FOR FISCAL 2015

€ '000

	Note	2015	2014
Investment income	(13)	151,274	41,997
Net interest	(14)	(28,248)	(24,091)
Net financial income		123,026	17,906
Other operational income		94,884	101,385
Staff costs		31,140	25,238
Amortization of intangible and depreciation of tangible assets (incl. write-down)		2,115	2,032
Depreciation of financial assets	(15)	25,000	15,045
Other operating expenses	(16)	85,720	81,336
Extraordinary expenses	(17)	9,223	922
Earnings before taxes (EBT)		64,712	(5,282)
Taxes on income and revenue	(18)	(8,262)	(537)
Net profit for the year		56,450	(5,819)
Appropriations to retained earnings		8,450	-
Appropriations of retained earnings		-	17,819
Net earnings		48,000	12,000

SUPERVISORY BOARD

Klaus Greinert

Mannheim
Businessman
Chairman

Membership in Supervisory Boards

DURAVIT AG
Vice Chairman
DURAVIT S.A.

Dr. Rudolf Luz ^{*)}

Weinsberg
Board of Directors / Head of operating policies
of 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

Professor Dr. Andreas Georgi

Starnberg
Professor of Leadership and Control Problems
in Enterprises
Ludwig-Maximilians-Universität Munich
Executive Advisor

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

Professor Dr. Susanne Hannemann

Bochum
Professor of Applied Business Administration,
in particular company taxation and auditing
Bochum University of Applied Sciences

Daniel Hay

Velbert
Trade union secretary of
German Metalworkers' Union

Dr. Michael Mielke ^{*)}

Berlin
Head of Product Division Actuators
Pierburg GmbH, Berlin Plant

DDr. Peter Mitterbauer

Gmunden, Austria
Member of the Executive Board
Mitterbauer Beteiligungs-AG

Membership in Supervisory Boards

Miba AG
Erste Österreichische Spar-Casse Privatstiftung
Oberbank AG

Detlef Moog

Mülheim an der Ruhr
Consulting engineer

^{*)} Elected by the employees

Dagmar Muth

Bremen
(from July 1, 2015)

Chairwoman of Works Council of
Rheinmetall Defence Electronics GmbH

Membership in Supervisory Boards

Rheinmetall Defence Electronics GmbH
Vice Chairwoman

Professor Dr. Frank Richter

Ulm
Chairman of the Executive Board
DURAVIT AG

Membership in Supervisory Boards

Advisory Board Röchling SE & Co. 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

Markus Schaubel^{*)}

Lauffen am Neckar
Chairman of the Works Council of
KSPG AG
KS Kolbenschmidt GmbH
MS Motorservice International GmbH
Chairman of the Sub-Works Council of
KSPG AG
Vice Chairman of the Group's Works Council
Rheinmetall AG

Membership in Supervisory Boards

KSPG AG
KS Kolbenschmidt GmbH
Vice Chairman

Sven Schmidt^{*)}

Wiesloch
Chairman of the Works Council of
KS Gleitlager GmbH
Chairman of the General Works Council of
KS Gleitlager GmbH
Vice Chairman of the Sub-Works council of
KSPG AG
Member the Group's Works Council
Rheinmetall AG

Membership in Supervisory Boards

KSPG AG

Harald Töpfer^{*)}

Kassel
Chairman of Works Council of
Rheinmetall MAN Military Vehicles GmbH,
Kassel Operation
(up to June 30, 2015)

Membership in Supervisory Boards

Rheinmetall MAN Military Vehicles GmbH
Vice Chairman

Wolfgang Tretbar^{*)}

Nettetal
Member 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

Director of Industrial Relations

Chairman of Management Board Defence

Membership in Supervisory Boards

Nitrochemie AG
President

Nitrochemie Aschau GmbH
Chairman

Nitrochemie Wimmis AG
President

Rheinmetall Defence UK Limited
Chairman Board of Directors
(up to November 30, 2015)

Rheinmetall Denel Munition (Pty) Ltd
Chairman

Rheinmetall Laingsdale (Pty) Ltd
Chairman

Rheinmetall MAN Military Vehicles GmbH
Chairman

Rheinmetall Waffe Munition South Africa (Pty) Ltd
Chairman

Helmut P. Merch

Erkrath

Finance and Controlling

CFO of Management Board Defence

Membership in Supervisory Boards

KSPG AG

Nitrochemie AG

Nitrochemie Aschau GmbH

Nitrochemie Wimmis AG

Rheinmetall Denel Munition (Pty) Ltd

Rheinmetall MAN Military Vehicles GmbH
(up to December 31, 2015)

Rheinmetall Waffe Munition South Africa (Pty) Ltd
(up to January 31, 2016)

Horst Binnig

Bad Friedrichshall

Chairman of the Executive of Board
KSPG AG

Membership in Supervisory Boards

Kolbenschmidt Pierburg Shanghai
Nonferrous Components Co. Ltd.
Chairman

Kolbenschmidt Shanghai Piston Co., Ltd.
Vice Chairman

KS Aluminium-Technologie GmbH
Chairman
(up to January 28, 2015)

KS HUAYU Alu Tech GmbH
(from January 28, 2015)
Chairman
(up to May 4, 2015)
Vice Chairman
(from May 4, 2015)

KS Gleitlager GmbH
Chairman

KS Kolbenschmidt GmbH
Chairman

KSPG Holding USA, Inc.
Director

MS Motor Service Istanbul Dis Ticaret Ve Pazarlama A.S.
(up to February 18, 2015)

Pierburg GmbH
Chairman

Pierburg HUAYU Pump Technology Co., Ltd.
Vice Chairman Board of Directors

Pierburg Pump Technology GmbH
Chairman

Bertrandt AG

SENIOR EXECUTIVE OFFICERS

Peter Sebastian Krause

Erkrath
Human Resources and Senior Management

CHIEF COMPLIANCE OFFICER

Michael Salzmann

Düsseldorf

EXECUTIVE BOARD AUTOMOTIVE

Horst Binnig

Bad Friedrichshall
Chairman
Strategy, Marketing, Operations

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
Rheinmetall International

Ben Hudson

Hannover
Division Vehicle Systems
(from January 1, 2016)

Bodo Garbe

Düsseldorf
Division Electronic Solutions
(up to September 30, 2015)
(up to December 31, 2015)

Gordon Hargreave

Düsseldorf
Division Electronic Solutions
(from October 1, 2015)

Pietro Borgo

Munich
Division Wheeled Vehicles
(up to December 31, 2015)

Peter Sebastian Krause

Erkrath

Human Resources

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